



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
CRE Alert

Reuters 0291.HK	Bloomberg 291 HK	Exchange HSI	Ticker 0291
ADR Ticker CRHKY	ISIN US16940R1095		

Date
25 March 2015

Company Update

Price at 25 Mar 2015 (HKD)	14.98
Price target - 12mth (HKD)	18.00
52-week range (HKD)	24.20 - 14.22
HANG SENG INDEX	24,400

Key takeaways from NDR

We hosted a two-day roadshow with CRE's management. In the meetings, 90% of the time was spent discussing its retail operation and 10% its beer segment. Management mapped out the below-mentioned areas to improve its retail JV with Tesco (TSCO.L, Buy), which was announced during its results analyst meeting. Management emphasized that this a key project for top management of both the companies.

- **Private label.** Private label from Korea (Home plus) was introduced to HK and some China stores. CRE's management will gradually transfer the skills (supply chain and technology) to China, and it hopes to launch its own products. Private labels and imported products are areas where it wants to differentiate itself in its e-commerce platforms and offline stores.
- **Centralized sourcing** commenced in 4Q13. Since then, there were some quarters of GP improvement with selected suppliers. However, due to anti-frugality, e-commerce competition and others, the company passed on some margins to customers. FY2014 full year GP maintained similar as FY2013 at 22%. Central procurement is between 20%-25%, lower than some listed peers. The company aims to increase the proportion to approximately 30% within the next 12 to 18 months. This is to be achieved with enhanced bargaining power with Tesco's China operation. An exercise was also carried out to compare each other's merchandising cost for identical products.
- **It will launch e-commerce platform in 2H15.** Currently, CRE is testing its e-commerce platform internally. It will be launched in Shenzhen and then rolled out city by city. With the knowhow from Tesco's experience, it believes it will cap its investment and losses.
- **Tesco is also strong in data mining.** To utilize this system, CRE started by consolidating all its memberships from a regional basis to a nationwide basis in 2014. It has 25m memberships, and will work on data analysis with Tesco's system. This is expected to help improve its store productivity.

Management maintains its target to achieve breakeven in 1H17. To recap, it plans to close 36 stores in 2015 with most of the closings in 1H15. This would reduce operating losses by HK\$200-300m. For Jan-Feb, SSSG for CRE stores (ex Tesco) was -2.6%, an improvement from its 4Q14 trend. Pre-paid card sales declined by single digit vs. a 20-30% drop in 2014. For Tesco, as mentioned in the analyst meeting, losses in 4Q14 were in fact smaller than in the previous four months. Tesco's SSSG performance was better than that of CRE; however, the better performance may have been due to a low base, and a few more months would be required to confirm the trend.

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Stock data	
Market cap (HKDm)	35,907
Market cap (USDm)	4,630
Shares outstanding (m)	2,397.0
Major shareholders	China Resources Hldg (51.46%)
Free float (%)	48
Avg daily value traded (USDm)	11.886

Source: Deutsche Bank

Key data			
FYE 12/31	2014A	2015E	2016E
Sales (HKDm)	168,864	188,830	203,167
Net Profit (HKDm)	-161.0	463.1	1,233.6
DB EPS (HKD)	-0.07	0.19	0.51
PER (x)	-	77.9	29.2
Yield (net) (%)	1.3	0.4	1.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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