

Intime Retail Group (1833 HK)

Buy

Target price (HKD)	6.60
Share price (HKD)	4.68
Upside/Downside (%)	41

Dec	2014 a	2015 e	2016 e
HSBC EPS	0.35	0.31	0.34
HSBC PE	10.8	12.2	11.1
Performance	1M	3M	12M
Absolute (%)	8.8	-17.9	-48.5
Relative ^a (%)	10.4	-21.4	-53.9

26 March 2015

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Buy: REIT spin-off to help crystallise asset value

- **Core profit in 2014 disappointed on larger-than-expected new store losses**
- **Deeply undervalued on assets; REIT spin-off to be a catalyst**
- **We establish a Buy rating and set a fair value TP of HKD6.6 based on PB**

Core profit missed guidance. Core profit in 2014 (excluding disposal gains and fair value changes) came in at RMB756m, down 20% y-o-y, behind management guidance of a 10% decline. The miss was due to larger-than-expected losses from new stores. New store losses totalled RMB320m in 2014 (2013: RMB120m) vs. management's estimate of RMB200m. Consequently, retail OP fell 26% on 2% revenue growth and a 3.3% decline in same store sales growth (SSSG). After it opened 8 shopping malls and 1 department store in 2014, its total retail GFA grew 46% y-o-y, rental income grew 55% y-o-y to RMB544m, and gross sales proceeds (GSP) were only flat due to limited concessionaire sales from new malls. Reported profit fell 30% to RMB1,121m, after a decline in both non-operating gains and extra gains from property sales. A final dividend of RMB0.12 per share was declared, bring the full-year payout to 43% against reported profit and 60% against recurring profit. Net debt was up slightly to RMB3,781m at end-2014, while net gearing was flat at 35% (vs the restated 2013 balance sheet).

Deeply undervalued on assets and REIT spin-off a catalyst. Intime's share price fell more than 40% over the last 12 months with deteriorating earnings' outlook. However, as an asset rich company, it now only trades at 0.84x BVPS, at the bottom of the historical PB range 0.7-2.3 (average 1.5) since 2012, and a 40% discount to its Net Asset Value. In 2015, it plans to spin off some of its property assets (about RMB4-5bn in size, out of a total RMB11.7bn of property assets on its balance sheet) into REIT. We think this will help crystallise its asset value and drive the re-rating of its share.

We revise down 2015 core profit by 15%. Due to the bigger-than-expected loss from its new stores, we increase our estimate of new store losses from RMB200m to RMB300m in 2015. Partially offset by higher rental income from shopping malls, our 2015 core profit estimate is lowered by 15%. We now look for core profit to grow 2% y-o-y on 2% SSSG.

Establish a Buy rating. Our fair value TP of HKD6.6 (25% lower than our TP of HKD8.0 under our old ratings system) is based on target PB of 1.1x, which is 1SD below its 1.5x average PB, its target PB. Our fair value TP implies a 15x PE on 2015 normalised EPS. Under our old rating system, we used SOTP to value Intime's department stores/shopping business and the O2O JV separately, and had an equivalent target PE of 14x on reported 2014 EPS. Given the high volatility in its earnings and uncertainty in its O2O JV, we switch to PB to reflect the value of its assets. **Downside risks:** worse-than-expected SSSG; bigger losses from new stores.

Index ^a	HANG SENG INDEX
Index level	24,400
RIC	1833.HK
Bloomberg	1833 HK

Source: HSBC

Enterprise value (CNYm)	8,677
Free float (%)	100
Market cap (USDm)	1,311
Market cap (HKDm)	10,167

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (CNYm)				
Revenue	5,698	6,029	6,424	6,276
EBITDA	1,485	984	1,037	837
Depreciation & amortisation	-456	-521	-554	-578
Operating profit/EBIT	1,029	984	1,037	837
Net interest	48	52	65	83
PBT	1,805	1,466	1,573	1,419
HSBC PBT	1,385	1,366	1,473	1,319
Taxation	-692	-633	-663	-442
Net profit	1,071	792	863	927
HSBC net profit	807	717	788	852

Cash flow summary (CNYm)

Cash flow from operations	1,002	1,144	1,367	1,813
Capex	-880	-1,300	-1,000	-1,000
Cash flow from investment	-1,279	-614	-323	-324
Dividends	-221	-484	-317	-345
Change in net debt	162	-46	-727	-1,144
FCF equity	322	-532	-406	-13

Balance sheet summary (CNYm)

Intangible fixed assets	589	589	589	589
Tangible fixed assets	15,278	15,605	15,702	15,774
Current assets	7,606	7,053	7,395	8,638
Cash & others	2,394	1,840	2,222	3,594
Total assets	27,794	27,568	28,006	29,321
Operating liabilities	9,124	9,000	9,266	9,797
Gross debt	6,176	5,576	5,230	5,458
Net debt	3,781	3,736	3,009	1,864
Shareholders funds	10,695	11,151	11,623	12,129
Invested capital	14,837	15,290	15,080	14,492

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	15.0	5.8	6.6	-2.3
EBITDA	1.1	-33.7	5.3	-19.3
Operating profit	-5.0	-4.3	5.3	-19.3
PBT	-23.4	-18.8	7.3	-9.8
HSBC EPS	-20.2	-11.1	10.0	8.0

Ratios (%)

Revenue/IC (x)	0.5	0.4	0.4	0.4
ROIC	5.1	1.7	1.8	1.2
ROE	8.2	6.6	6.9	7.2
ROA	4.7	3.2	3.5	3.6
EBITDA margin	26.1	16.3	16.1	13.3
Operating profit margin	18.1	16.3	16.1	13.3
EBITDA/net interest (x)				
Net debt/equity	32.1	30.4	23.5	14.0
Net debt/EBITDA (x)	2.5	3.8	2.9	2.2
CF from operations/net debt	26.5	30.6	45.4	97.3

Per share data (CNY)

EPS reported (fully diluted)	0.46	0.34	0.37	0.40
HSBC EPS (fully diluted)	0.35	0.31	0.34	0.36
DPS	0.17	0.14	0.15	0.16
Book value	5.09	5.31	5.53	5.77

Key forecast drivers

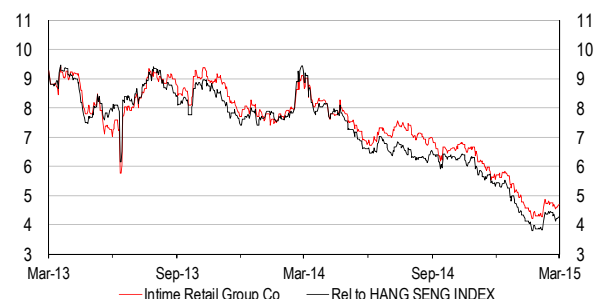
Year to	12/2014a	12/2015e	12/2016e	12/2017e
Effective OFA growth %	17	8	8	6
SSS %	-3	2	2	2
Direct sales margin %	16	16	16	17
Commission rate %	17	17	17	17
Effective tax rate %	29	29	29	29
Dividend payout ratio %	43	40	40	40

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	1.5	1.4	1.2	1.1
EV/EBITDA	5.8	8.8	7.7	8.2
EV/IC	0.6	0.6	0.5	0.5
PE*	10.8	12.2	11.1	10.3
P/Book value	0.7	0.7	0.7	0.6
FCF yield (%)	6.6	-10.8	-8.1	-0.3
Dividend yield (%)	4.4	3.6	4.0	4.3

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 24 Mar 2015

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REIT spin-off to help crystallise its asset value

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Intime Retail – Changes to our earnings forecasts

Year-end Dec (RMBm)	2H14e	2H14a	% diff	2014e	2014a	% diff	2015e - old	2015e - new	% diff	2016e - old	2016e - new	% diff	2017e
Gross sales proceeds (GSP)	8,583	7,897	-8.0%	16,508	15,799	-4.3%	17,828	16,782	-5.9%	18,805	17,749	-5.6%	18,643
Yoy %	9%	0%		5%	1%		8%	6%		5%	6%		5%
Operating Revenue	2,723	2,480	-8.9%	5,287	5,698	7.8%	5,817	6,029	3.6%	6,265	6,424	2.6%	6,276
Yoy %	8%	-2%		7%	15%		10%	6%		8%	7%		-2%
Consolidated gross profit	1,944	1,538	-20.8%	3,755	4,012	6.9%	4,101	4,298	4.8%	4,401	4,622	5.0%	4,617
Yoy %	12%	-11%		10%	18%		9%	7%		7%	8%		0%
SGA	-1,627	-1,623	-0.3%	-2,988	-2,984	-0.1%	-3,350	-3,314	-1.1%	-3,624	-3,586	-1.1%	-3,781
Yoy %	29%	28%		25%	29%		12%	11%		8%	8%		5%
Net finance income (cost)	75	6	-91.6%	117	48	-59.1%	123	52	-58.0%	129	65	-49.8%	83
Non-operating gain (loss)	213	333	56.2%	300	420	39.9%	600	100	-83.3%	300	100	-66.7%	100
Share of profit from JCEs and associates	108	177	64.0%	240	309	28.8%	255	330	29.5%	266	371	39.6%	399
Profit before tax	713	1,095	53.5%	1,424	1,805	26.8%	1,730	1,466	-15.3%	1,472	1,573	6.8%	1,419
Net profit	516	614	19.1%	1,023	1,121	9.6%	1,256	792	-37.0%	1,057	863	-18.3%	927
Yoy %	55%	85%		-4%	-30%		23%	-29%		-16%	9%		7%
Reported Core profit (Reported excl. disposal gains after tax)	356	229	-35.7%	798	671	-15.9%	806	684	-15.2%	832	755	-9.3%	846
Yoy %	3%	-34%		-7%	-23%		1%	2%		3%	10%		12%
Key drivers			Ppt diff			Ppt diff			Ppt diff			Ppt diff	
Effective OFA growth Yoy %	16.6%	11.1%	-5.5%	20.1%	17.2%	-3.0%	13.3%	8.0%	-5.2%	5.7%	7.9%	2.3%	6.1%
SSSG %	0.8%	-4.2%	-5.0%	-1.5%	-3.3%	-1.8%	2.8%	2.0%	-0.8%	2.9%	1.6%	-1.3%	1.7%
Commission rate	17.1%	16.7%	-0.4%	17.4%	17.2%	-0.2%	17.4%	17.3%	-0.1%	17.4%	17.3%	-0.1%	17.4%
Consolidated gross margin	16.7%	16.6%	-0.2%	17.2%	17.1%	-0.1%	17.1%	17.1%	0.0%	17.3%	17.2%	0.0%	17.3%
Staff costs / GSP	5.0%	5.0%	0.1%	4.9%	5.0%	0.0%	5.4%	5.4%	0.0%	5.6%	5.9%	0.3%	6.5%
DA+Lease / Rev	21.8%	19.8%	-2.0%	21.2%	17.9%	-3.4%	22.4%	19.0%	-3.4%	23.1%	19.1%	-4.0%	20.8%
Operating margin (/ Rev)	11.6%	23.3%	11.7%	14.5%	18.1%	3.5%	12.9%	16.3%	3.4%	12.4%	16.1%	3.7%	13.3%
Net finance income (cost) / Rev	2.8%	0.3%	-2.5%	2.2%	0.8%	-1.4%	2.1%	0.9%	-1.3%	2.1%	1.0%	-1.0%	1.3%
Effective tax rate	25.4%	42.1%	16.7%	25.5%	29.0%	3.5%	25.5%	29.0%	3.5%	25.5%	29.0%	3.5%	29.0%
Dividend payout	36.1%	42.4%	6.3%	40.0%	43.1%	3.1%	40.0%	40.0%	0.0%	40.0%	40.0%	0.0%	40.0%
Reported net profit margin (/ Rev)	18.9%	24.8%	5.8%	19.4%	19.7%	0.3%	21.6%	13.1%	-8.5%	16.9%	13.4%	-3.4%	14.8%

Source: Company Data. HSBC estimates

Earning revisions

We revised down 2015 GSP by 6% as we lower the space growth on department store concessionaire area. Correspondingly, we increased the space growth on lease-out area, which raised our rental income in 2015 to RMB679m from 608m before. We also newly included RMB600m sales from sales of non-core properties in 2015 forecasts. Altogether, we revised up 2014 operating revenue by 7.8%.

Due to the bigger loss from new stores, we increase the estimated new store loss from RMB200m to 300m in 2015. Partially offset by higher rental income from shopping malls, we revised down 2015 core profit by 15%. Now we look core profit to grow 2% y-o-y on 2% SSSG.

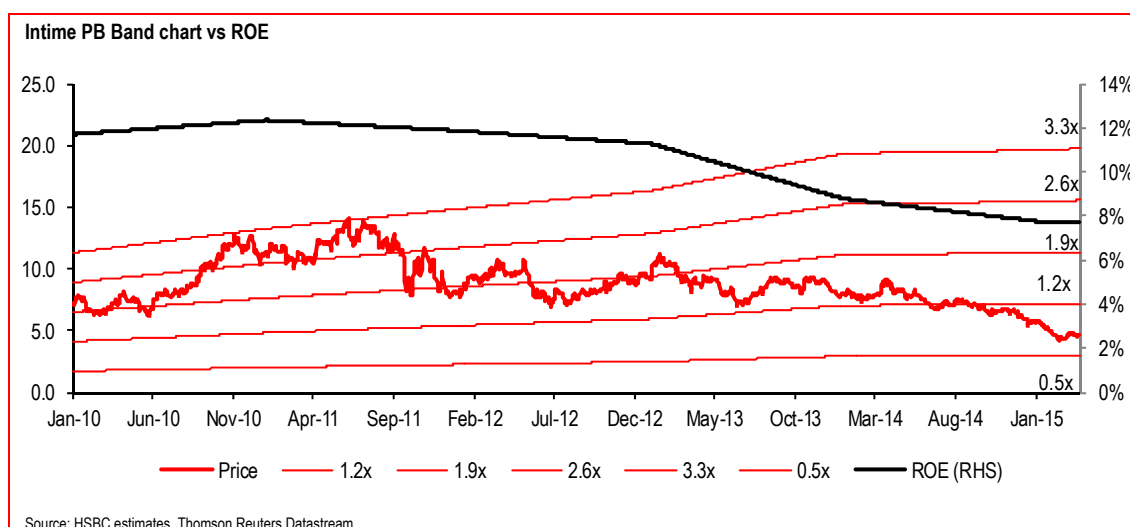
Reported net profit was revised down by 37% to RMB792m, after we significantly reduced non-operating gains to RMB100m from RMB600m before.

Valuation and risks

We establish a Buy rating and set a fair value TP HKD6.6. The target price is based on target PB of 1.1, which is set at 1 standard deviation below its average PB of 1.5x. The target price implies a 15x PE on 2015 normalised EPS. We think using a target PE set at 1 standard deviation below the historical average PB multiple is appropriate given we expect ROE will trough in 2015 before recovering in 2016.

Under our old rating system, we had an SOTP target price of HKD8.00, valuing Intime's department stores/shopping business and the O2O JV separately. For the department stores, we used Gordon growth model and a one-year forward ROE to set the target PE of 12.8x. For O2O JV with Alibaba, the value is based on 1x PS. However, because of the high volatility in its earnings and uncertainty in its O2O JV, we now use PB to better reflect the value of its assets. Our rating under our old ratings system was Overweight.

Downside risks include: worse-than-expected SSSG; larger-than-expected losses from new stores.



Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

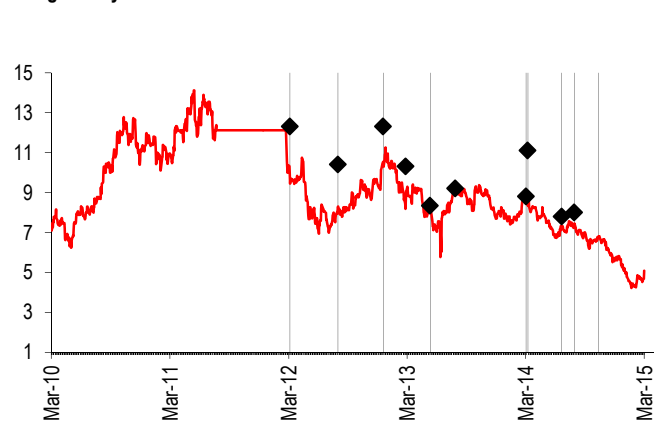
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Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Intime Retail Group Co (1833.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Neutral	Overweight	28 March 2012
Overweight	Overweight (V)	23 August 2012
Overweight (V)	Overweight	10 January 2013
Overweight	Neutral	03 June 2013
Neutral	Neutral (V)	26 March 2014
Neutral (V)	Overweight (V)	31 March 2014
Overweight (V)	Neutral (V)	13 July 2014
Neutral (V)	Neutral	21 August 2014
Neutral	Overweight	04 November 2014
Target Price	Value	Date
Price 1	12.30	28 March 2012
Price 2	10.40	23 August 2012
Price 3	12.30	10 January 2013
Price 4	10.30	20 March 2013
Price 5	8.34	03 June 2013
Price 6	9.20	20 August 2013
Price 7	8.80	26 March 2014
Price 8	11.10	31 March 2014
Price 9	7.80	13 July 2014
Price 10	8.00	21 August 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
INTIME RETAIL GROUP CO	1833.HK	5.08	25-Mar-2015	6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
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