



Rating
Hold

Asia
China

Consumer
Retail / Wholesale Trade

Company
**Lianhua
Supermarket Alert**

Reuters 0980.HK Bloomberg 980 HK Exchange HKG Ticker 0980
ADR Ticker LHUAY ISIN US52989V1070

Date
29 March 2015

Results

Price at 27 Mar 2015 (HKD)	3.87
Price target - 12mth (HKD)	3.90
52-week range (HKD)	5.32 - 3.45
HANG SENG INDEX	24,486

FY14 results; first take

Lydia Ling Anne Ling
Research Analyst Research Analyst
(+852) 2203 6181 (+852) 2203 6177
lydia.ling@db.com anne.ling@db.com

Stock data	
Market cap (HKDm)	4,333
Market cap (USDm)	559
Shares outstanding (m)	1,119.6
Major shareholders	Shanghai Friendship (34%)
Free float (%)	30
Avg daily value traded (USDm)	1.001
Source: Deutsche Bank	

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	30,383	30,959	33,160
Net Profit (CNYm)	53.0	152.9	206.3
DB EPS (CNY)	0.05	0.14	0.18
PER (x)	90.5	22.7	16.8
Yield (net) (%)	0.0	1.8	2.5
Source: Deutsche Bank			

Lianhua announced FY14 results. Net profit declined 41% to RMB31m, in line with guidance in the Jan 2015 profit warning. Sales dropped 4.1% to RMB29.1bn. In 2H14, the company made a loss of RMB67m (loss of RMB50m in 3Q14 and loss of RMB17m in 4Q14). No dividend was declared, same as in FY13. Net cash declined to RMB9.5bn vs. RMB10.2bn in FY13.

Key highlights of the results

SSSG was -5.52% due to economic slowdown, significant decline in institutional group consumption and ecommerce. Specifically, sssg was -7.14% for hypermarket, -4.88% for supermarket and +11.93% for CVS.

Total store count was cut by 239 to a total of 4291 stores by end 2014. During the period, it opened 275 stores, including 4 hypermarkets, 158 supermarkets, and 113 CVSs.

GPM improved by 0.19ppt to 14.55% on lower purchasing cost. CGPM improved by 0.44ppt to 24.46%. Supplier income declined 5%.

Total opex declined 2% on decreased promotion costs and utility expenses. Rental and labor remained rising trends on a full-year basis. In 2HFY14, labor cost declined 2% through optimizing staff structure, reducing redundant employees and promoting store contracting.

ETR declined to 59.7% from 61.5% in FY13 thanks to local government funding. But the ratio remains high as the company has to pay taxes separately by individual outlet.

By segment,

- Hypermarket sales declined 4% in a challenging operation environment especially in first tier and second tier cities where the company concentrates. GPM improved by 0.66ppt to 14.46%. CGPM rose 0.78ppt to 24.41%. Segment profit declined 0.5%.
- Supermarket sales declined 6%. GPM dropped 0.61ppt to 14.48%. CGPM improved 0.05ppt to 23.33%. Segment profit edged down 23%.
- CVS sales rose 4.1%. GPM dropped 0.08ppt to 16.05%. CGPM dropped a further 0.95ppt to 22.97%. Segment loss narrowed to RMB84m vs. RMB86m in FY13.

Outlook

SOE reform has entered into an implementation phase, which may benefit Lianhua's development.

E-commerce. The ecommerce platform set up by controlling shareholder Bailian Group should provide a new source of profit for Lianhua in 2015. Bailian plans to establish a five-step business model including introduction, transfer, transaction, delivery and after-sale service leveraging on the store network. Trial operation will be at certain stores to promote the ecommerce operation such as online sales, on-site experience, online ordering and store pickup and deliveries.

The company will hold a group conf call at 9:30am on 30 March.

Deutsche Bank AG/Hong Kong

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT
<http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=0980.HK> MCI (P) 148/04/2014.