



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  
30 March 2015

Company Update

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

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## Key takeaways from analyst briefing - deepening reform

**Jan/Feb 2015 sssg still negative but slightly better than 4Q14.** The decline in prepaid card has been slowing down, -5% in CNY 2015, vs. -20% in CNY 2014. In 2014, it sold RMB9.2bn in prepaid cards and the redemption amount was RMB10.4bn. The prepaid card balance was RMB8.7bn, vs RMB9.9bn in 2013.

**SOE reform.** Shanghai government has introduced some measures and policies to support the company. Lianhua's reform focuses on three aspects - profitability model, operation structure being horizontal, and incentive scheme to front line staff.

**GPM/CGPM improvement remains the focus in 2015.** Loss in 4Q14 narrowed thanks to GPM improvement. In 2015, it targets +0.5ppt improvement in CGPM through further direct purchase and set up of farm bases.

**Opex control.** 1) Staff cost - it optimized staff allocation, such as having one manager in charge of two stores. 2) Rental - they didn't renew stores with high rentals and negotiated lower rental with landlords on weak retail environment. 3) Utilities & promotion expense - improve in budgeting and good control

**Ecommerce.** Controlling shareholder Bailian Group has set up the ecommerce platform. It plans to leverage on its retail subsidiaries' network and scale, more specifically in terms of merchandising, prepaid cards, membership and delivery.

**Prudent store opening & closure.** In 2015, it plans to open 250-300 stores (vs. 275 addition in 2014), including 5-8 hypermarkets. The company did not proactively close stores but due to high rentals, it lost some of its mature stores. Mgmt also mentioned its landlords' reluctance to lease to supermarket and CVS nowadays.

**Fresh food is edge.** It accounts for 28.2% vs. 25.5% in 2013. Its GPM improved to 23.4% from 19.9%. The non-fresh food mix declined to 41.2% from 46.2% due to weak sales in high end sprits. The company thinks food especially fresh food will continue to key traffic driver therefore their mix will continue to grow. The progress in fresh operation is gradual. There are three ways to improve, 1) set up farm base to ensure freshness and competitive pricing, 2) direct purchase 3) strict measure on fresh staff, targeting better GPM.

**Partner with Gome.** For non food session, it focuses on consignment and look for local partners. It partnered with Gome in CE session since late 2014. The details of partnership are, 1) sales staff is hired by Gome. 2) target sales agreement based on 30% increase from its past sales; 3) GPM sharing and be at least better than past.

**Zhejiang is most profitable region,** followed by Henan (over RMB1bn sales and RMB50m profit) and Shanghai (EBITM down to 2.5% from 4% previously). Beijing is loss making. In Oct 2014, it assigned more autonomy to regional stores in Jiangsu to improve efficiency, with headquarters only focusing on centralized sourcing. In some regions, they look for local partners to turnaround the situation.

**Carrefour associate.** Sales grew in 2014 due to one store opening. NP declined to RMB140m, down by 20%. NPM is relatively better than Lianhua. SSSG was negative but better than Lianhua. Carrefour has 28 stores in Shanghai and they still has new openings plan. It expects the associate will record revenue growth in 2015 but earnings remain under pressure.

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

Deutsche Bank AG/Hong Kong

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