



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
**SUN ART RETAIL
GROUP Alert**

Reuters 6808.HK	Bloomberg 6808 HK	Exchange HSI	Ticker 6808
ADR Ticker SURRY	ISIN US8666331009		

Date
29 February 2016

Company Update

Price at 26 Feb 2016 (HKD)	4.44
Price target - 12mth (HKD)	6.33
52-week range (HKD)	8.97 - 4.15
HANG SENG INDEX	19,364

FY15 results in line; NP declined 16% yoy

FY15 NP declined by 16% to RMB2.4bn on 5% growth in sales to RMB96bn
Net profit and sales were in line with market and our forecast (RMB2.4bn and RMB95bn). For 4Q15, sales were up 3.4% yoy to RMB22bn, while net profit declined 29% due to operating de-leverage. The company declared a full-year dividend of RMB0.16, equivalent to a 62% payout vs. 42% in FY14.

Key highlights from the results

SSSg declined 3.6% yoy (a decline of 3.4%/3% in 1H/3Q15). The decrease was mainly due to the weak consumer market, the diversified retail channels and the intensified competition.

Newly added 38 stores (49 in 2014) to a total of 409 stores, with one closure.

Rental income rose 16% yoy (12%/19% in 1H/2H15) to RMB3.1bn, due to the increase in rentable area and better management of tenant mix.

GP margin improved by 0.4 ppts to 23.3%, thanks to the improved product category mix and the economies of scale.

SG&A expense as a % of sales increased 1.2 ppts to 17.3%, mainly due to the increase in the staff ratio (+0.7 ppts). Staff costs rose 15% yoy, due to the recruit of new staff for the store expansion and the e-commerce development.

MI was RMB21m, vs. RMB124m in 2014. The non-controlling interests include interests in 1) employee Trust Benefit Scheme; 2) Feiniu and Fields; and 3) Oney Accord, a newly combined consumer financial services provider.

Capex was RMB4.6bn, mainly on the opening/upgrade of stores (RMB5.8bn in 2014). **Net cash increased to RMB6.0bn** from RMB5.5bn as of end-2014.

Richard Rui-Huang, CFA

Research Analyst
(+852) 2203 6202
richard.rui-huang@db.com

Anne Ling

Research Analyst
(+852) 2203 6177
anne.ling@db.com

Stock data

Market cap (HKDm)	42,358
Market cap (USDm)	5,452
Shares outstanding (m)	9,540.0
Major shareholders	Ruextex Group (41.29%)
Free float (%)	23
Avg daily value traded (USDm)	4.558

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	91,855	95,379	100,592
Net Profit (CNYm)	2,908.0	2,381.6	2,565.0
DB EPS (CNY)	0.30	0.25	0.27
PER (x)	24.2	15.0	13.9
Yield (net) (%)	1.8	2.7	2.9

Source: Deutsche Bank

Figure 1: Sun Art half-year P&L

YE Dec RMBm	1HFY13	2HFY13	1HFY14	2HFY14	1HFY15	2HFY15
Turnover	44,515	41,680	48,038	43,817	50,708	45,706
YOY % Growth	12.9%	8.4%	7.9%	5.1%	5.6%	4.3%
Gross Profit	9,231	9,382	10,523	10,475	11,425	11,038
GPM	20.7%	22.5%	21.9%	23.9%	22.5%	24.2%
EBIT	2,115	1,680	2,304	1,655	2,036	1,268
EBITM	4.8%	4.0%	4.8%	3.8%	4.0%	2.8%
Net Profit	1,576	1,199	1,710	1,230	1,476	967
NPM	3.5%	2.9%	3.6%	2.8%	2.9%	2.1%
YOY % Growth	14.8%	15.7%	8.5%	2.6%	-13.7%	-21.4%

Source: Deutsche Bank, company data

The company will hold an analyst meeting at 9:00 am on 29 February.

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. Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=6808.HK> MCI (P) 124/04/2015.