

Outperform

(Maintained)

Retail & Commerce

Suning.com Co., Ltd.

(002024.SZ)

Revenue sustained rapid growth, while expense rate picked up during Q119

16-May-19

Key Data

Apr. 30, 2019

Closing Price	12.62
Total Shares (Mn)	9310.04
Shares Outstanding (Mn)	5836.18
Market Cap(CNY/Mn)	117492.70
Market Float(CNY/Mn)	73652.57
Net Assets (CNY/Mn)	80941.17
Total Assets (CNY/Mn)	209496.29
BVPS	8.69

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Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	244957	306196	373559	429593
YoY (%)	30.4%	25.0%	22.0%	15.0%
Net Profit (Mn/CNY)	13328	16300	3800	4408
YoY (%)	216.4%	22.3%	-76.7%	16.0%
Gross Margin (%)	15.0%	14.9%	15.3%	15.3%
Net Profit Margin (%)	5.4%	5.3%	1.0%	1.0%
ROE (%)	16.5%	16.6%	3.8%	4.4%
EPS (CNY)	1.43	1.75	0.41	0.47
OCFPS (CNY)	-1.49	3.13	-1.32	0.34

Company Profile

Suning.Com Co.,Ltd. operates consumer electronic products and appliances sales stores. The Company provides telecommunication equipment, telecommunication components, household appliances, digital equipment, refrigerators, washing machines, and other products. Suning.Com also provides equipment installation and repairing services. (Source: Bloomberg)

Comments

Suning.com (the company) achieved an operating income of CNY 62.24 bn (up 25.44% yoy) in Q119, of which income from its primary business increased by 25.63% yoy. The net profit attributable to shareholders was CNY 0.14 bn (up 22.16% yoy). There were CNY 423 mn from fair value change of Vanda investment and CNY 448 mn non-operating income from the difference between the fair value and book value of identifiable net assets. The company's net profit attributable to shareholders was CNY 991 mn, after deducting these non-recurring items.

Continuous high growth of online business and steady expansion of offline business drove an 25.38% uptick in overall GMV.

Company's booked Q119 sales is CNY 8.69 bn, of which online business and offline business accounted for 62.26% (+36.09%) and 37.74% (+10.98%) respectively. The company has committed to the strategy of "one central plaza, two direct-sale stores, multi-specialized stores" in offline store expansion. During the reporting period, Suning.com reports 9758 self-owned stores and 2499 e-retail franchise stores, enjoying consumption momentum of China's counties, towns and villages. The revenue from self-operated online retail stores and public open platform accounted for respectively 70.04% (+40.87%) and 29.96% (+26.08%) of the company's total.

"Logistics + Finance" accelerate the company's expansion.

The company continued to expand self-built logistics and warehousing during Q119. By the end of the reporting period, Suning has 96.44 mn sqm (+37.71%) of warehousing area. Company expands its distribution network and retail stores simultaneously in these markets. For the same reporting period, the company's consumer finance and supply chain finance business grew 229.66% and 78.01% yoy respectively. Suning Finance raised CNY 10 bn of capitals in December 2018 via private placement. The estimated contribution to its investment gains will be around CNY 16.13 bn.

Business development has led to an increase in expense rate.

The overall expense rate largely increased by 1.9 PP during Q119. After management expenditure ratio rose 0.19pp to 3.33%, after being combined with R&D fees. mainly due to the increase of R&D fees and the amortization of equity incentive fees. In terms of SG&A, in order to support the rapid

expansion of Suning's small store business, the labor costs and warehousing costs increase rapidly during Q119, resulting in a 1.30 PP increase in selling expense ratio, which will return to normal with the release of future small store business. As the company's retail and financial business accelerated, operating capital demand and interest increased, raising the financial rate by 0.41pp.

The company's channels penetrated the market along with the high growth rate of online business.

Offline: Companies implements the "one central plaza, two direct-sale stores, multi-specialized stores" strategy to promote its store layout of stores and grasps county and township consuming advantages during the Spring Festival to expand its channels.

Online: Open platform continues to release, strengthens online operations, and establishes price advantages through the scale effects.

Online and offline integration advantages continue to stand out.

Derivative business: Logistics facilities meet self-supporting needs; the distribution network is improved; social income increases; financial business forms a closed ecological loop, which will contribute a large amount of investment returns after the announcement of 2019 financial report.

Earnings Forecast

Considering the company's continuous online business release and offline penetration rate improvement, we expect that the operating income for year 2019/2020/2021 will be CNY 306.2/373.56/429.6 bn respectively. Take into account the investment earnings from Suning Finance, we estimate that the net profit attributable to shareholders will be CNY 16.3/3.8/4.41 bn for year 2019/2020/2021, implying an EPS of CNY 1.75/0.41/0.47 and a P/E ratio of 7.2/30.9/26.7 (calculated at the closing price on April 30, 2019). We maintain 'Outperform' rating for the company.

Potential risks: third and four-tier cities market expansion may fail expectation; the decline of online growth may exceed expectation; sales of household appliances may fail expectation.

Appendix

Balance Sheet					Income Statement				
Mn/CNY					Mn/CNY				
FY	2018A	2019E	2020E	2021E	FY	2018A	2019E	2020E	2021E
Current Assets	131743	172296	170247	173705	Operating Income	244957	306196	373559	429593
Cash and Cash Equivalent	48042	123058	106138	104306	Operating Expense	208217	260576	316486	363793
Trading Financial Assets	15720	0	0	0	Business Tax and Surcharges	894	1118	1364	1568
Account Receivables	0	114	144	208	Selling Expense	26067	32487	39224	45236
Other Receivables	2875	3321	3654	4021	Administration Expense	5201	9400	11431	13017
Inventory	22263	24437	26909	29584	Financial Expense	1235	325	-256	-68
Non-current Asset	67725	35681	39017	40019	Asset Impairment	2059	2059	2059	2059
Available-for-sale Financial Assets	6937	0	0	0	Change in Fair Value	292	0	0	0
Long-term Equity Investment	17675	0	0	0	Investment Income	13991	17000	900	800
Investment Real Estate	3362	24	24	24	Operating Profit	13659	17230	4151	4787
Fixed Assets	15199	15852	16289	16771	Non-business Income	506	44	44	44
Construction in Progress	2063	1724	2104	2370	Non-business Expense	219	219	219	219
Oil and Gas Assets	0	0	0	0	Total Profit	13945	17056	3977	4612
Intangible Assets	9654	9743	9881	10122	Income Tax	1303	1593	372	431
Total Assets	199467	207977	209265	213724	Net Profit	12643	15462	3605	4181
Current Liabilities	93697	95940	96337	99410	Minority Interest Income	-685	-838	-195	-227
Short-term Loans	24314	24314	24314	24314	Net Profit Attributable to Parent Company	13328	16300	3800	4408
Notes Payable	0	0	0	0	EPS(CNY)	1.43	1.75	0.41	0.47
Account Payable	47071	49425	51896	54491	Key Financial Ratios				
Others	22311	22201	20127	20606	FY	2018A	2019E	2020E	2021E
Non-current Liabilities	17560	7365	7443	7440	Growth				
Long-term Loans	4814	4814	4814	4814	Increase Rate of Business Revenue	30.4%	25.0%	22.0%	15.0%
Others	12746	2551	2629	2627	Increase Rate of Business Profit	235.1%	26.2%	-75.9%	15.3%
Total Liabilities	111256	103304	103780	106851	Net Profit Growth Rate	216.4%	22.3%	-76.7%	16.0%
Share Capital	9310	9310	9310	9310	Profitability				
Capital Reserve	38288	38288	38288	38288	Gross Margin Rate	15.0%	14.9%	15.3%	15.3%
Undistributed Profit	32170	48892	49848	51404	Net Profit Margin	5.4%	5.3%	1.0%	1.0%
Minority Interest	7294	6456	6261	6034	ROE	16.5%	16.6%	3.8%	4.4%
Total Shareholders' Equity	88211	104673	105485	106873	Solvency				
Total Liabilities and Equity	199467	207977	209265	213724	Asset-liability Ratio	55.8%	49.7%	49.6%	50.0%
Cash Flow Statement					Current Ratio	1.41	1.80	1.77	1.75
Mn/CNY					Quick Ratio	1.16	1.54	1.48	1.44
FY	2018A	2019E	2020E	2021E	Operation Capacity				
Net Profit	12643	16300	3800	4408	Asset Turnover Ratio	137.3%	150.3%	179.1%	203.1%
Depreciation and Amortization	1195	1973	2037	2104	AR Turnover Ratio	65713.1%	61683.3%	68412.4%	71522.0%
Property Depreciation Preparation	2059	-997	42	60	Stock Info(CNY)				
Amortization of Intangible Assets	1177	1169	1172	1171	EPS	1.43	1.75	0.41	0.47
Loss from Fair Value Change	-292	0	0	0	OCFPS	-1.49	3.13	-1.32	0.34
Financial Expense	1186	325	-256	-68	NAVPS	8.69	10.55	10.66	10.83
Investment Loss	-13991	-17000	-900	-800	Valuation Ratio				
Minority Interest Income	-685	-838	-195	-227	PE	8.8	7.2	30.9	26.7
Change in Working Capitals	-17087	-25419	14642	2402	PB	1.5	1.2	1.2	1.2
Cash Flows from Operating Activities	-13874	29131	-12292	3188					
Cash Flows from Investment Activities	-3010	58725	-2091	-2295					
Cash Flows from Financing Activities	22534	-12840	-2537	-2725					
Net Change in Cash	6666	75017	-16920	-1832					
Beginning Balance of Cash	-23555	48042	123058	106138					
Ending Balance of Cash	30221	123058	106138	104306					

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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