

Outperform

(Maintained)

Commerce & Retail

Yonghui Superstores Co., Ltd.

(601933.SH)

Reduce holdings of Yunchuang while add investment in Wanda to reorganize

12/06/2018

Key Data

Dec. 4, 2018

Closing Price	7.34
Total Shares (Mn)	9570.46
Shares Outstanding (Mn)	7975.94
Market Cap(CNY/Mn)	70247.19
Market Float(CNY/Mn)	58543.42
Net Assets (CNY/Mn)	18740.55
Total Assets (CNY/Mn)	38009.77
BVPS	1.96

Analyst

Wang Junjie

wangjunjie@xyzq.com.cn
S0190518080003

Group Member

Jin Qiu

jinqiu@xyzq.com.cn

Key Financial Indicators

FY	2017A	2018E	2019E	2020E
Revenue (Mn/CNY)	58591	71181	87434	106465
YoY (%)	19.0%	21.5%	22.8%	21.8%
Net Profit (Mn/CNY)	1817	1415	2172	2853
YoY (%)	46.3%	-22.1%	53.4%	31.4%
Gross Margin (%)	20.8%	22.6%	23.6%	24.1%
Net Profit Margin (%)	3.1%	2.0%	2.5%	2.7%
ROE (%)	9.1%	7.1%	10.2%	12.3%
EPS (CNY)	0.19	0.15	0.23	0.30
OCFPS (CNY)	0.28	0.19	0.26	0.32

Company Profile

Yonghui Superstores Company Limited operates supermarket franchises. The Company mainly operates hypermarkets, marketplace and supermarkets. (Source: Bloomberg)

Comments

Yonghui (the company) shall reduce holdings of Yunchuang to 26.6%.

The company plans to transfer 20% of its Yunchuang stake to Mr. Zhang Xuanning at the price of CNY 394 mn, which increases Mr. Zhang's holdings of Yunchuang from 9.6% to 29.6% (making him Yunchuang's largest shareholder) and shrinks Yonghui's from 46.6% to 26.6% (turning the company into the second largest shareholder.).

Cutting holdings of innovative business reduces operation risks.

The company has introduced strategic investment to Yunchuang and lowered its own holdings to 35% previously. The latest transaction further decreased its Yunchuang stake as well as related losses that had dragged down its earnings by CNY 306 mn in the first three quarters of 2018. Yonghui cuts its holdings to 26.6%, in order to ease earnings woes without losing option in determining Yunchuang's new businesses as the second largest shareholder.

Yonghui invested in Wanda Commercial Management Group to consolidate cooperation and to support its business expansion.

The company acquired 1.5% (or 68 mn shares) of Wanda Commercial Management Group at the price of CNY 52 per share (or CNY 3.53 bn in total). Given a net profit of CNY 21.9 bn in 2017, the acquisition P/E ratio of Wanda Commercial Management Group was 10.7x. The deepening cooperation with Wanda through equity acquisition shall facilitate new openings of the company's stores. The company can be given priority to using the store resources of newly opened and original Wanda Plaza, partly without the process of site selection and early negotiation. Besides, the company benefits from Wanda's core locations and enjoys more customer flow brought by property resources. The two brands shall hold stronger attraction for customers.

The company lifted the concerted action and introduced the rotating chairman to avoid the risk of horizontal competition.

Mr. Zhang Xuansong and Mr. Zhang Xuanning signed the agreement on the termination of the concerted action on December 4, 2018. After the signing of the agreement, the company currently has no controlling shareholders and actual controllers. The company set up the system of rotating chairman and recommended Benjamin Keswick as a member of the fourth board of directors. We

reckon that the founder brothers (Mr. Zhang Xuansong and Mr. Zhang Xuanning) are much likely to avoid legal risks of horizontal competition between listed enterprises and Yunchuang by lifting the concerted action and setting up the system of rotating chairman. Mr. Zhang Xuansong and Mr. Zhang Xuanning owns 14.7% and 7.77% of Yonghui (according to Q3 reports), respectively. Mr. Zhang Xuanning shall own 29.6% of Yunchuang (making him Yunchuang's largest shareholder). The change of the board of directors can avoid the controllers of Yunchuang (who are engaged in similar retail business to the company) to become the controlling shareholders and actual controllers of the company.

Besides, the company signed a framework agreement with Yunchuang to make agreements on trademark and brand authorization, IT systems, logistics, finance, personnel, related parties and related transactions. The agreement targets to prevent controlling shareholders and actual controllers from using the company's existing assets, procurement and sales distributions to benefit Yunchuang and lead to legal risks.

Earnings forecast and investment recommendation: we estimate an EPS of CNY 0.15/0.23/0.30, implying a P/E ratio of 48.9x/31.9x/24.5x for year 18/19/20 (based on the closing price of December 4th, 2018). We maintain 'Outperform' rating for the company.

Potential risks: store expansion may fail expectation; Yunchuang may report over-expected losses

Appendix

Balance Sheet					Income Statement				
	Mn/CNY					Mn/CNY			
FY	2017A	2018E	2019E	2020E	FY	2017A	2018E	2019E	2020E
Current Assets	20337	21688	23239	26066	Operating Income	58591	71181	87434	106465
Cash and Cash Equivalent	4608	5069	5598	7220	Operating Expense	46383	55059	66795	80820
Trading Financial Assets	1870	1800	1800	1800	Business Tax and Surcharges	209	242	297	362
Account Receivables	980	1497	1511	1666	Selling Expense	8452	11247	14427	18312
Other Receivables	812	1143	1154	1388	Administration Expense	1781	3132	3497	3726
Inventory	5582	6129	6558	7017	Financial Expense	-83	-84	-99	-109
Non-current Asset	12534	12715	12943	13222	Asset Impairment	23	23	23	23
Available-for-sale Financial Assets	664	664	664	664	Change in Fair Value	-81	65	65	65
Long-term Equity Investment	3659	4025	4427	4870	Investment Income	145	250	300	350
Investment Real Estate	357	350	350	350	Operating Profit	1941	1877	2860	3745
Fixed Assets	3676	3905	3700	3495	Non-business Income	167	50	50	50
Construction in Progress	423	0	0	0	Non-business Expense	74	90	90	90
Oil and Gas Assets	0	0	0	0	Total Profit	2033	1837	2820	3705
Intangible Assets	638	605	565	529	Income Tax	348	423	649	852
Total Assets	32870	34403	36182	39288	Net Profit	1685	1415	2171	2853
Current Liabilities	12311	13810	14304	15449	Minority Interest Income	-132	0	0	0
Short-term Loans	0	517	0	0	Net Profit Attributable to Parent Company	1817	1415	2172	2853
Notes Payable	0	0	0	0	EPS(CNY)	0.19	0.15	0.23	0.30
Account Payable	7591	8351	9186	10104					
Others	4720	4943	5119	5345	Key Financial Ratios				
Non-current Liabilities	151	140	146	146	FY	2017A	2018E	2019E	2020E
Long-term Loans	0	0	0	0	Growth				
Others	151	140	146	146	Increase Rate of Business Revenue	19.0%	21.5%	22.8%	21.8%
Total Liabilities	12462	13950	14451	15595	Increase Rate of Business Profit	34.1%	-3.3%	52.3%	31.0%
Share Capital	9570	9570	9570	9570	Net Profit Growth Rate	46.3%	-22.1%	53.4%	31.4%
Capital Reserve	6639	6639	6639	6639	Profitability				
Undistributed Profit	3241	3121	4182	5875	Gross Margin Rate	20.8%	22.6%	23.6%	24.1%
Minority Interest	413	413	413	413	Net Profit Margin	3.1%	2.0%	2.5%	2.7%
Total Shareholders' Equity	20408	20452	21732	23693	ROE	9.1%	7.1%	10.2%	12.3%
Total Liabilities and Equity	32870	34403	36182	39288					
					Solvency				
Cash Flow Statement	Mn/CNY				Asset-liability Ratio	37.9%	40.6%	39.9%	39.7%
FY	2017A	2018E	2019E	2020E	Current Ratio	1.65	1.57	1.62	1.69
Net Profit	1685	1415	2172	2853	Quick Ratio	1.20	1.13	1.17	1.23
Depreciation and Amortization	547	720	732	731	Operation Capacity				
Property Depreciation Preparation	23	7	4	1	Asset Turnover Ratio	1.88	2.12	2.48	2.82
Amortization of Intangible Assets	528	526	527	526	AR Turnover Ratio	76.17	55.63	56.66	65.38
Loss from Fair Value Change	81	65	65	65	Stock Info(CNY)				
Financial Expense	-103	-84	-99	-109	EPS	0.19	0.15	0.23	0.30
Investment Loss	-145	-250	-300	-350	OCFPS	0.28	0.19	0.26	0.32
Minority Interest Income	-132	0	0	0	NAVPS	2.09	2.09	2.23	2.43
Change in Working Capitals	72	42	66	112	Valuation Ratio				
Cash Flows from Operating Activities	2641	1822	2493	3054	PE	38.67	49.64	32.35	24.62
Cash Flows from Investment Activities	-5782	-526	-589	-584	PB	3.51	3.51	3.30	3.02
Cash Flows from Financing Activities	-631	-835	-1375	-848					
Net Change in Cash	-3776	461	529	1622					
Beginning Balance of Cash	8067	4608	5069	5598					
Ending Balance of Cash	4291	5069	5598	7220					

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.

Information Disclosure

The Industrial Securities Co., Ltd. fulfills its duty of disclosure within its sphere of knowledge. The clients may visit the column of Insider Trading Prevention and Control at www.xyq.com.cn for the arrangement of the quiet period and the affiliates' shareholdings.

Important statement

The information contained in this report is derived from public information. We do not warrant the accuracy and completeness of such information, nor do we guarantee that the information and recommendations contained will never change. We have tried our best to be objective and fair about the content of this report. The opinions, conclusions and recommendations in the article do not constitute any bid or offer price for the target securities. Our company and the author are not responsible for any investment decision made by the investor.

Analyst Certification

We are conferred the Professional Quality of Securities Investment Consultant Industry by the Securities Association of China and have registered as the Securities Analysts. We hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. We hereby certify that the views expressed in this report accurately reflect our personal views about any or all of the subject securities or issuers referred to herein. We have never been, are not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclaimer

Industrial Securities Co., Ltd. (hereinafter referred to as the 'Company') is a qualified securities investment consulting institute approved by the China Securities Regulatory Commission.

The report is to be used solely by the clients of the Company. The Company will not treat unauthorized receivers of this report as its clients. The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of research opinions, which are subject to the complete report released on the Company's website (<http://www.xyq.com.cn>). The clients may ask for follow-up explanations if they so wish.

Based on different assumptions or standards and with different analytical approaches, the Company's salespersons, traders and other professionals may express views, written or oral, towards market trend and securities trading which are inconsistent with opinions and recommendations contained herein. The views in this report are subject to change, and the

Company has no obligation to update its information with all receivers of the report.

The Company's asset management department, proprietary business department and other investment-related departments may make independent investment decisions based on investment that are inconsistent with opinions and recommendations contained herein.

The report is based on public information; however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any securities. The clients should make investment decisions independently and solely at their own risks.

Under the legal framework, the Company may take positions in and trade stocks of the companies referred to herein, which may receive investment banking services from the Company. The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on the report.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report and reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. No one shall have the right to redistribute the report at any circumstances without the prior consent of the Company.