

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Gome Electrical (493 HK)

Sales through third parties to soar

■ Profit surges due to product mix improvement and effective cost control

■ Sales through third parties will soar and reach RMB10 bn in 2017

■ 2014-15E earnings revised up by 18%/25%, considering management's guidance on doubling sales and net profit from 2013-2017, TP raised to HK\$1.8 based on 16.5x2015E P/E, in line with HK peers, reiterate BUY rating.

What's new

Gome announced positive profit alert: SSS expected to grow by 7% in 1H14 with increase in net profit by more than 80% YoY and if including one-off non-operating income RMB100 mn, net profit is expected to grow by more than 110%. Gross margin is well protected to be above 18% and net margin is to be above 2%.

Implications

1Q14 net profit surged by 251% due to a lower base in 1Q13 (RMB76 mn), 2Q14 net profit grew over 36%. 1Q and 2Q SSSGs were 8.1% and 6.5%, growth trend well maintained. High-margin differentiated products (GM: 23%-27%) contributed over 30% of total sales and would continue to improve to 50% in 2017.

Catalyst

Home appliance sales kept a good momentum from 2013-1H14, but may be affected by the slowdown of property investment in 2H14. The target of doubling sales and net profit from 2013 to 2017 equal to a CAGR of 18.7%, much higher than sector's growth rate of around 5%. The company would grow on: 30-50 net new stores per year, sales through third parties soar to RMB10 bn in 2017; and e-commerce contribution to total sales will be reaching 15% in 2017.

Valuation

We apply 16.5x2015E P/E to the company, +1 STD of its historical average P/E, but in line with HK home appliance retailers, we revise up 2014-15E earnings by 18%/25%, considering with company's guidance on doubling sales and net profit from 2013 to 2017E, reiterate BUY on the stock.

Financials

RMB mn	2012	2013	2014E	2015E	2016E
Revenue	47,867	56,401	63,914	72,203	82,990
Growth (%)	-20%	18%	13%	13%	15%
Net profit	-597	892	1,278	1,530	1,780
Growth (%)	0%	0%	43%	20%	16%
EPS (RMB)	-0.04	0.05	0.08	0.09	0.11
DPS (RMB)	0	0.03	0.03	0.04	0.04
P/E (x)	-	20.3	14.3	11.9	10.3
P/B (x)	1.3	1.2	1.2	1.1	1.0
ROE (%)	-5.5%	4.4%	7.2%	9.0%	9.8%

Source: Company data, CMS (HK) estimates

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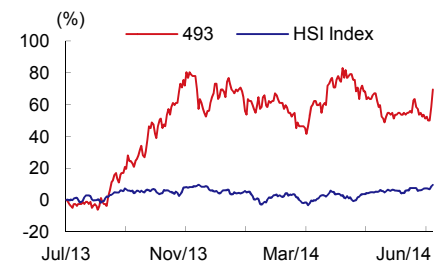
WHAT'S NEW

TP/estimate changes

BUY

Previous	Buy
Price	HK\$1.39
12-month Target Price (Potential upside)	HK\$1.8 (+29%)
Previous	HK\$1.64

Price Performance



Source: Bigdata

%	1m	6m	12m
493 HK	9.4	7.2	94.6
HSI	5.1	5.4	9.4

Industry: Retail

Hang Seng Index	23972
HSCEI	10821

Key Data

52-week range (HK\$)	0.76-1.52
Market cap (HK\$ mn)	23573
Avg. daily volume(mn)	10189.09
BVPS (HK\$)	1.3

Shareholdings Structure

Guangyu Huang	30.5%
Bain Capital	9.9%
Carmignac Gestion	5%
Blackrock	4.6%
No. of shares outstanding (mn)	16969
Free float	68%

Related Research

- 1) Gome Electrical: Starting a new journey 2013/11/25
- 2) Expanding new sales channel , 2014/1/21

国美电器 (493 HK)

第三方销售将发力

- 上半年净利润大幅增加主要是产品结构优化以及成本控制有效
- 第三方销售未来将发力, 公司预计2017年销售额达到100亿
- 上调2014-15年盈利预测18%/25%, 基于2013年-2017年收入和盈利翻倍的目标, 目标价上调到1.8港元, 相当于16.5x2015E P/E, 和香港上市家电零售同行相当, 维持买入评级。

上半年盈利高速增长

公司发布2014年上半年盈喜, 预计上半年同店收入增加超过7%, 经营性净利润增加超过80%, 加上非经营性一次性损益1亿人民币(大股东补偿), 上半年净利润同比增加超过110%。净利润大幅增长主要是产品差异化带来毛利率高于18%, 以及费用控制得力带来净利润率超过2%。

我们的解读

国美电器第一季度净利润增加251%, 第二季度净利润增加超过36%。两个季度同店增加分别8.1%和6.5%, 第一季度是基于1Q13净利润的低基数7600万的大幅增长。上半年高毛利率差异化产品(23%-27%)收入占比超过30%, 公司计划2017年提升到50%。

催化剂

家电销售从2013年到2014年上半年维持较好的景气度, 不过年初以来房地产投资减速对2014年下半年可能有不明确的影响。公司计划2013-2017年收入利润翻倍, 相当于年复合增长18.7%, 远远好于家电行业5%左右的增长。公司目前策略是做全渠道的供应链管理, 从三个方面提高收入: 每年净增加30-50家门店; 第三方渠道销售将发力, 预计在2014年销售达到人民币8-10亿元, 在2017年达到100亿元; 电子商务销售2014年上半年同比增加50%, 预计对收入贡献也将在2017年提升到15%。

估值

我们给予公司16.5 x2015E P/E 估值, 相当于公司一倍标准差历史平均估值水平, 和香港上市家电同行估值水平相当, 我们提高公司目标价到HK\$1.8, 重申公司股票买入评级。

盈利预测及估值

人民币百万元	2012	2013	2014E	2015E	2016E
营业额	47,867	56,401	63,914	72,203	82,990
同比增长(%)	-20%	18%	13%	13%	15%
净利润	-597	892	1,278	1,530	1,780
同比增长(%)	0%	0%	43%	20%	16%
每股盈利(元)	-0.04	0.05	0.08	0.09	0.11
每股股息(元)	0	0.03	0.03	0.04	0.04
市盈率(X)	-	20.3	14.3	11.9	10.3
市净率(X)	1.3	1.2	1.2	1.1	1.0
ROE(%)	-5.5%	4.4%	7.2%	9.0%	9.8%

资料来源: 公司资料, 招商证券(香港)预测

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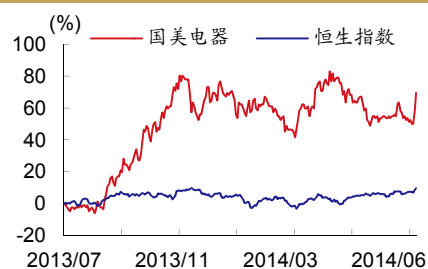
最新变动

目标价/EPS估值变动上调

买入

前次评级	买入
股价	HK\$1.39
12个月目标价 (上涨空间)	HK\$ 1.8 (+29%)
前次目标价:	HK\$1.64

股价表现



资料来源: 贝格数据

%	1m	6m	12m
493 HK	9.4	7.2	94.6
HSI	5.1	5.4	9.4

行业: 零售	
恒生指数	23972
国企指数	10821

重要数据	
52周股价区间(港元)	0.76-1.52
港股市值(百万港元)	23573
日均成交量(百万股)	10189.09
每股净资产(港元)	1.3

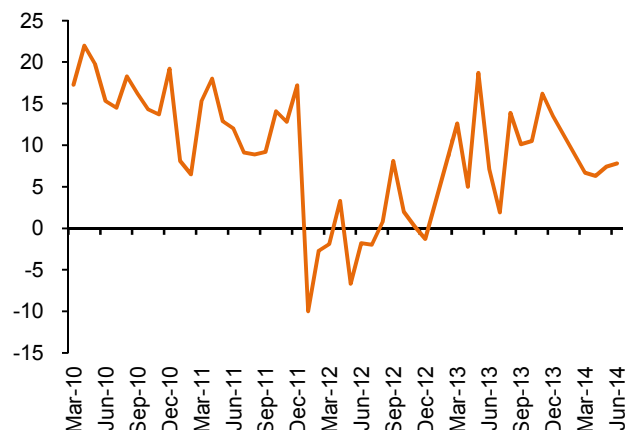
主要股东	
黄光裕	30.5%
Bain Capital	9.9%
Carmignac Gestion	5%
Blackrock	4.6%
总股数(百万股)	16969
自由流通量	68%

相关报告

- 1) 《国美电器, 盈利反转, 重新起航》2013/11/25
- 2) 积极拓展新的销售渠道 2014/1/21

Focus charts

Figure 1: Home appliance sales grew by 7.8% YoY in June



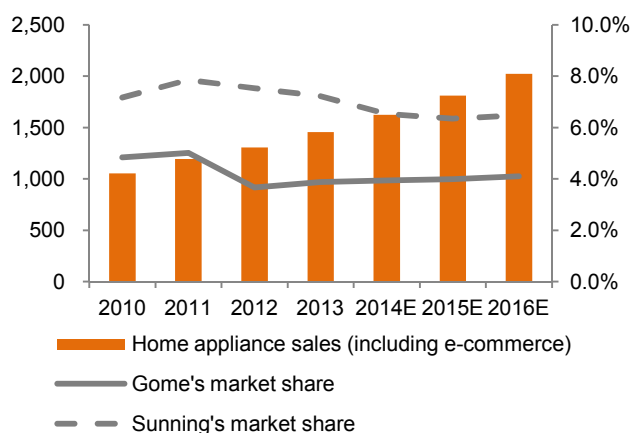
Source: CMS (HK), National Bureau of Statistics of China

Figure 2: Home appliance YTD sales growth recorded 5.3%



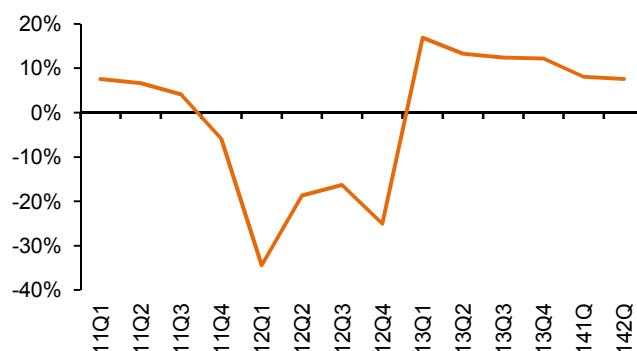
Source: CMS (HK), National Bureau of Statistics of China

Figure 3: Gome targets to increase its market share



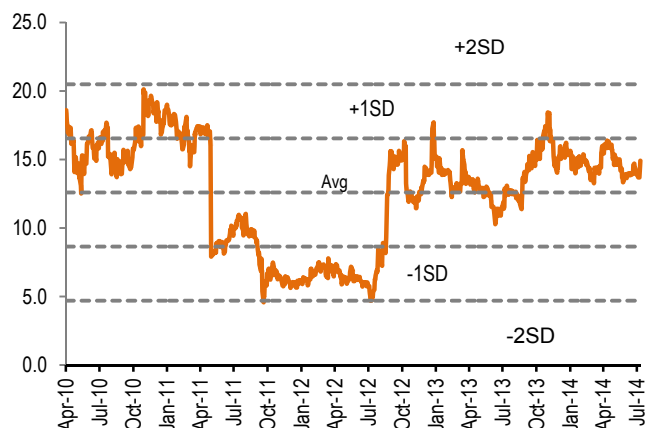
Source: CMS (HK) estimates, company

Figure 4: SSSG keeps its momentum



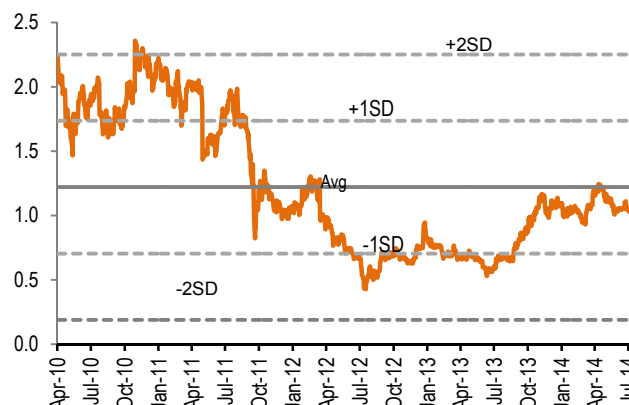
Source: CMS (HK) estimates, company

Figure 5: PE Band



Source: CMS (HK), Bloomberg

Figure 6: PB Band



Source: CMS (HK), Bloomberg

1H14 results surges due to gross margin expansion and effective costs control

Gome announced positive profit alert: 1H14 net profit of ordinary business grew over 80%, implying that 1Q grow by 251% and 2Q grow by 36%. With 8.1% and 6.5% SSSGs in 1Q and 2Q14 according to our estimates, good growth trend is maintained, besides, we believe that margin expansion and effective costs control were the major reasons for the good results.

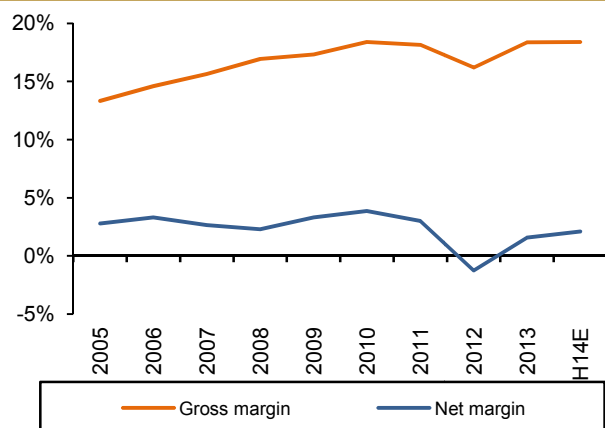
By launching high-margin differentiated products, Gome enjoys higher gross margin than its peers; its exclusive differentiated products enjoy 23%-27% gross margin vs. regular products' 15%-18%. The company targets to increase its differentiated products sales in total sales from 30% in 2013 to 50% in 2017E. In addition, the management keeps to maintain a relative stable ratio of labour costs and rental costs ratio by signing 3-year contracts with large developers across the country. As a result, the company's gross margin is to be expanded to above 18% and net margin to be above 2% in 1H14.

Figure7: Products gross margin and sales mix (2013)

	Gross margin	of total sales
High gross margin products	23%-27%	22%
Regular products	15%-18%	70%
Mass products	10%-13%	8%

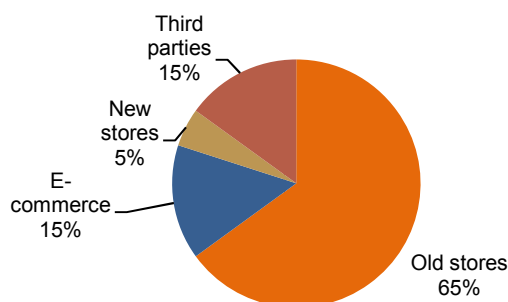
Source: Company, CMS (HK)

Figure 8: Improved gross margin and net margin



Source: CMS (HK), company

Figure 9: Sales to third parties will climb to 15% in 2017



Source: CMS (HK), company

An omni-channel operator to enjoy scale advantage

We believe that Gome enjoys cost advantage comparing with peers as it positioned as a supply chain service provider. It has more regional warehouses to support its offline stores, online sales and third-party sales channels. It believes that in 2017, 65% of sales will be coming from old stores, 15%, 15% and 5% will be coming from e-commerce, third parties and new stores respectively.

Wide network of regional logistics centers The company is keen to establish its supply chain, with 428 warehouses built in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Xi'an, Wuhan and Shenyang. The products sold online, offline and through third party channels - supermarkets and department stores could be easily delivered to customers in the nearby areas, thus enjoying scale advantage.

Fast and precise delivery The strategy of 3 deliveries (morning, noon and evening) per day will cover 200 cities by the end of 2014, and cover 400 cities at the end of 2016. Consumers can specify time of delivery and Gome also provides installation of appliances upon delivery.

Third-party sales could be another growth driver It targeted that sales through third parties will amount to RMB0.8-1 bn in 2014 and will further expand to RMB10 bn in 2017. The company cooperated with Wumart in

Beijing and Tianjin, and Mopark, Guangzhou to sell home appliances and in the future it will build business relationship with other retailers.

Establishment of offline stores in third- and fourth-tier cities: A net of 30-50 stores will be opened in 2014 in China's third and fourth-tier cities, where competition is less fierce and markets still have potential.

E-commerce is well on track E-commerce sales is expected to reach RMB5-6 bn in 2014, 1H14 e-commerce grew by 50% with gross margin at 7%. E-commerce will break even in 2015.

Earnings revision and valuation

Management's guidance on sales and net profit of doubling from 2013 to 2017, which is equivalent to a CAGR of 18.7%. The growth rate is higher than the industry growth rate of around 5% in the next few years. We believe that sales through third parties would be the major driver. Cooperation with third parties such as supermarkets and department stores has begun since the end of 2013, and 1Q14 recorded sales of RMB250 mn and expected to reach RMB0.8-1 bn at the end of 2014, and will further expand to RMB10 bn in 2017.

Thus, 2014E/2015E earnings are revised up by 18%/25%, in line with market consensus as we factor in 5%/5% SSSG and gross margin around 18% in 2014-15.

We assign 16.5x2015E P/E to arrive at TP HK\$1.8, +1 STD of its historical average P/E. We reiterate BUY on the stock.

Figure10: Sales forecast

	2011	2012	2013	2014E	2015E	2016E
Number of stores	1,142	1,108	1,075	1,125	1,175	1,225
Operating area (1000 sqm)	3,772	3,613	3,592	3,759	3,926	4,093
Average operating area (1000 sqm)	3,302	3,701	3,603	3,676	3,843	4,010
Sales per store (RMB mn)	52.4	43.2	49.3	51.7	54.1	56.7
SSS (%)	3.1%	-24.5%	13.7%	5.0%	5.0%	5.0%
E-commerce (RMB mn)			3,401	5,000	7,000	9000
Third-party sales				800	1,600	4500
Sales (RMB mn)	59,821	47,867	56,401	63,914	72,203	82,990

Source: CMS (HK), company

Figure: Net profit forecasts

RMB mn	2011	2012	2013	2014E	2015E	2016E
Sales	59,821	47,867	56,401	63,914	72,203	82,990
YoY	17.5%	-20.0%	17.8%	13.3%	13.0%	14.9%
COGS	52,264	41,664	47,899	54,199	61,156	70,292
Gross profit	7,557	6,203	8,502	9,715	11,047	12,697
Gross margin	12.6%	13.0%	15.1%	15.2%	15.3%	15.3%
Other revenue	3,302	1,541	1,852	1,900	2,000	2,200
Comprehensive gross margin	18.2%	16.2%	18.4%	18.2%	18.1%	18.0%
Selling expenses	6,904	6,804	7,153	8,053	8,881	9,959
% of sales	11.5%	14.2%	12.7%	12.6%	12.3%	12.0%
Administrative expenses	1,219	1,423	1,564	1,662	1,805	2,158
% of sales	2.0%	3.0%	2.8%	2.6%	2.5%	2.6%
Other expenses	413	419	623	575	578	747
% sales	0.7%	0.9%	1.1%	0.9%	0.8%	0.9%
Operating profit	2,323	-902	1,015	1,325	1,783	2,034
Operating margin	3.9%	-1.9%	1.8%	2.1%	2.5%	2.5%
Finance costs	242	228	61	70	60	60
Finance income	400	441	241	249	290	369
Gain from CB	(7.3)	0.0	0.0	0.0	0.0	0.0
Gain from value change of CB	0.0	34.0	0.0	0.0	0.0	0.0
Income before tax	2,475	-654	1,195	1,504	2,013	2,343
Taxation	673	156	517	346	483	562
Effective tax rate	27.2%	-23.9%	43.3%	23.0%	24.0%	24.0%
Profit	1,801	-810	677	1,158	1,530	1,780
Minority interests	-39	-213	-215	-120	-	-
Attributable to equity holders	1,801	-597	892	1,278	1,530	1,780
Net margin	3.0%	-1.2%	1.6%	2.0%	2.1%	2.1%
YoY	-	-	-	43.2%	19.7%	16.4%

Source: CMS (HK) estimates, company

Figure 10: Peer valuation

Company	Market cap	Share price	P/E 13	P/E 14E	P/E 15E	P/B 14E	P/B 15E	EV/EBITDA (x) 14E	ROE 14E	ROA 14E	Dividend yield 14E	P/S 14E
	(US\$ m)		(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(X)
HK												
Gome Electrical	2,997	1.4	20.7	15.0	12.4	1.2	1.1	14.3	6.9	2.6	2.6	0.3
Haier Electrical	7,675	22.2	22.2	19.4	16.1	5.6	4.4	12.5	25.8	9.8	0.5	0.7
China												
Suning Commerce	7,682	7.1	6.0	8.4	7.2	0.9	0.8	8.7	10.4	3.0	3.6	0.7
US												
Target	37,629	6.5	N.A	N.A	N.A	1.7	1.7	134.1	(2.4)	(1.2)	0.7	0.4
Bestbuy	10,771	59.4	17.0	16.1	13.8	2.2	2.2	7.7	14.1	5.3	3.1	0.5
Amazon	166,047	30.9	12.9	13.5	11.9	2.3	2.3	4.5	19.2	6.0	2.2	0.3
Walmart	247,057	360.8	15.5	14.8	13.7	3.0	2.7	8.1	7.9	2.2	2.3	1.8

Source: CMS (HK), Bloomberg

Financial Summary

Balance Sheet

RMB million	2012	2013	2014E	2015E	2016E
Current Assets	24324	26345	28779	32589	37470
Inventory	7779	8221	9377	10580	12161
Trading investments	0	0	0	0	0
ST bank deposits	6240	6407	6407	6407	6407
Trade receivables	3046	2579	2768	2803	2850
Other receivables	191	123	123	123	123
Cash	7067	892	676	656	783
Other current assets	0	0	0	0	0
Non-current assets	13389	12978	13109	13226	13332
Investment property	918	949	949	949	949
Property, Plant & Eqt.	4379	4095	4225	4343	4448
Intangible assets	437	424	424	424	424
Other non-current assets	618	501	501	501	501
Total assets	37713	39324	41888	45815	50803
Current liabilities	22868	23834	25682	28590	32409
Bank loans	2434	2683	2000	2000	2000
Trade payables	18017	18077	20325	22934	26360
Prepaid accounts	1722	2047	2331	2630	3023
Other liquid liabilities	694	1027	1027	1027	1027
Long term Liabilities	176	172	172	172	172
Loans	0	0	0	0	0
Others	176	172	172	172	172
Total Liabilities	23043	24007	25854	28762	32581
Issued capital	422	422	422	422	422
Others	0	0	0	0	0
Reserves	14643	15064	15831	16749	17817
Minority interests	(395)	(610)	(730)	(730)	(730)
Dividends	0	441	511	612	712
Total equity and liabilities	37713	39324	41888	45815	50803

Cash Flow Statement

RMB million	2012	2013	2014E	2015E	2016E
Operating cash flow	4137	1702	2616	3231	3915
Profit before tax	(654)	1195	1504	2013	2343
Deprec & Amort.	451	553	469	483	494
Finance costs	(214)	(180)	(179)	(230)	(309)
Working capital chg	4277	411	1186	1670	2192
Others	276	(277)	(364)	(704)	(806)
CF from IA	(721)	(430)	(600)	(600)	(600)
Capital expenditure	(783)	(430)	(600)	(600)	(600)
Other investments	62	0	0	0	0
Others	0	(1828)	39	33	36
CF from FA	(2666)	188	(753)	(60)	(60)
Borrowings	(34)	249	(683)	0	0
Share capital	422	422	422	422	422
Changes of reserves	(884)	422	767	918	1068
Dividends	0	(441)	(511)	(612)	(712)
Others	(2170)	(462)	(747)	(788)	(838)
Net cash flow	750	1460	1262	2571	3255

Profit & Loss Statement

RMB million	2012	2013	2014E	2015E	2016E
Revenue	47867	56401	63914	72203	82990
Other income	1541	1852	1900	2000	2200
COGS	(41664)	(47899)	(54199)	(61156)	(70292)
Labour costs	(1541)	(1852)	(1900)	(2000)	(2200)
D&A	(1423)	(1564)	(1662)	(1805)	(2158)
Rental costs	0	0	0	0	0
Other expenses	(419)	(623)	(575)	(578)	(747)
Op profit	(902)	1015	1325	1783	2034
Finance costs	(228)	(61)	(70)	(60)	(60)
Other income	(441)	(241)	(249)	(290)	(369)
Non-operating income	0	0	0	0	0
Associates	34	0	0	0	0
PBT	(654)	1195	1504	2013	2343
Taxation	(156)	(517)	(346)	(483)	(562)
PAT	(810)	677	1158	1530	1780
Minority interests	(213)	(215)	(120)	0	0
Net profit	(597)	892	1278	1530	1780
EPS (HKD)	-0.04	0.05	0.08	0.09	0.11

Financial Ratios

	2012	2013	2014E	2015E	2016E
YoY growth rate					
Revenue	-20%	18%	13%	13%	15%
Op profit	-139%	-213%	31%	35%	14%
Net profit	-133%	-250%	43%	20%	16%
Profitability					
Gross margin	16%	18%	18%	18%	18%
NP margin	-1.2%	1.6%	2.0%	2.1%	2.1%
ROE	-5.5%	4.4%	7.2%	9.0%	9.8%
ROIC	-5.5%	2.7%	4.0%	5.4%	5.9%
Liquidity					
Debt to asset	164%	164%	162%	159%	156%
Net debt to equity	0	0	0	0	0
Liquid ratio	1.1	1.1	1.1	1.1	1.2
Quick ratio	1.5	1.5	1.5	1.4	1.4
Operating efficiency					
Asset turnover	1.3	1.4	1.5	1.6	1.6
Inventory turnover	1.2	1.5	1.5	1.5	1.5
AR turnover	0.02	0.02	0.02	0.02	0.02
AP turnover	1.69	1.51	1.42	1.41	1.40
Per share ratios (RMB)					
EPS	-0.04	0.05	0.08	0.09	0.11
CFPS	0.24	0.10	0.15	0.19	0.23
BPVS	0.86	0.90	0.95	1.01	1.08
DPS	0.00	0.03	0.03	0.04	0.04
Valuation ratios					
P/E	-	20.3	14.3	11.9	10.3
P/B	1.3	1.2	1.2	1.1	1.0
EV/EBITDA	-	15.8	14.7	11.8	10.8

Source: Company data, CMS (HK) estimates

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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