

Zhongmin Baihui Retail Group

Nanjing store closed; Return to home ground

SINGAPORE | CONSUMER | RESULTS

- 1H16 Revenue/PATMI met 55%/148% of our FY16 expectations; excluding impact from Nanjing store closure, PATMI met 60% of our FY16 forecast
- Two new stores by 2H16; expect new stores to continue to support topline growth
- Minimal impact from Nanjing Nanzhan store closure, financial gains are majorly non-cash in nature, while termination compensation costs should be manageable
- Declared an interim dividend of 1.0 Singapore cents per share (same as 2Q15)

Results at a glance

(RMB mn)	2Q16	2Q15	yoy	Comments
Direct sales	147.0	141.6	3.8%	
Commission from concessionaire sales	32.4	31.2	3.8%	Higher commission rate due to favourable mix
Rental income	14.7	16.5	-11.0%	Due to closure of Nanjing store and portfolio management (conversion from rental areas and managed rental to concessionaires)
Managed rental	6.9	10.1	-32.3%	
Revenue	200.9	199.4	0.8%	Contributions from two new stores, offset by Nanjing store
Gross Profit	72.8	76.4	-4.7%	Lower imputed direct sales margin (12.8% vs 13.1%)
EBITDA	98.3	21.8	351.7%	
Profit before tax	82.3	19.7	318.4%	
Net profit, reported	54.0	13.2	308.6%	
Net profit, adj.	10.3	13.2	-22.5%	Excluding one-off gain from Nanjing store closure
DPS (SGD)	0.010	0.010		

Source: Company, Phillip Securities Research (Singapore)

Margins	2Q16	2Q15	Comments
Gross	36.2%	38.3%	
Imputed direct sales margin	12.8%	13.1%	Clearance sales in Nanjing store
% Commission from concessionaire sales	23.1%	22.8%	Highest since listed; favourable tenant mix
EBITDA	48.9%	10.9%	
PBT, adj	41.0%	9.9%	
Net, reported	26.9%	6.6%	
Net, adj	5.1%	6.6%	In line with lower gross margin

Source: Company, Phillip Securities Research (Singapore)

1H16 revenue growth at -0.4% year-on-year (yoy), dragged by soft 1Q16 and Nanjing Nanzhan store. Topline growth turnaround to 0.8% yoy in 2Q16 from -1.5% yoy in 1Q16. The two new stores, Putian Xianyou store (opened in December 2015) and Quanzhou Wanxiang (opened in January 2016) contributed about 3% to 4% yoy growth in 1H16; but were offset by slower turnover in Nanjing Nanzhan store at -2% yoy as it was in the process of ceasing its operation.

We expect minimal impact from closure of underperforming Nanjing Nanzhan store

- Cutting losses and redeploying resources to increase shareholders value.** Nanjing store is the second underperforming store shuttered, after Xiamen Zhongshan store last year. The store has remained unprofitable since its opening in September 2012 due to the slow development of its surrounding area. Nanjing store recorded RMB6.9mn losses in 1H16, c.7% lower yoy from its restructuring measures. 2H16 should see a better bottom line without Nanjing store losses weighing against it. The store-closing sales have ended around end-May 2016. The department store and supermarket sections of the store have ceased operation with the remaining tenants in the process of moving out.

26 August 2016

Neutral (Maintained)

CLOSING PRICE	SGD 1.44
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 1.44
TOTAL RETURN	3.2%

COMPANY DATA

O/S SHARES (MN):	196
MARKET CAP (USD mn / SGD mn):	209 / 283
52 - WK HI/LO (SGD):	181 / 125
3M Average Daily T/O (mn):	0.00

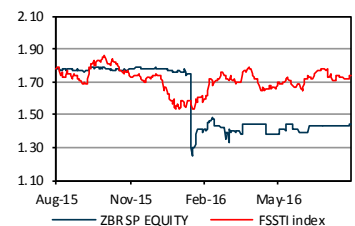
MAJOR SHAREHOLDERS (%)

LEE SWEE KENG	24.57%
CHEN KAITONG	22.72%
SU CAIYE	11.48%
LIM KOK TONG	11.01%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.7	2.1	(19.6)
STIRETURN	(0.22)	5.69	3.62

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 14	FY 15	FY 16 F	FY 17 F
Revenue (RMB mn)	882	830	783	732
EBITDA (RMB mn)	60	87	78	75
NPAT, adj. (RMB mn)	36	53	48	46
EPS, adj. (RMB)	0.18	0.27	0.24	0.23
PER, adj. (x)	45.1	29.7	28.5	29.9
P/BV (x)	15.8	13.8	11.3	11.0
DPS (S-Cents)	2.50	4.50	4.50	4.50
Div Yield, %	1.4%	2.5%	3.1%	3.1%
ROE, %	37.2%	49.3%	40.6%	37.5%

Source: Company Data, PSR est.

Valuation Method

DCF (WACC:8.3%; Terminal g: 2.5%)

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- **Expect minimal termination compensation paid to landlord, tenants and staff.** Management shared that compensation to landlord is still under negotiation, but the amount should be negligible as it was a termination by mutual consent. Meanwhile, only a small group of tenants are eligible for compensation – most of the tenants either have violated their lease agreements due to untimely rent payments, or have short term leases. Retrenchment cost are contained, as (i) the Group has been rightsizing manpower, and (ii) some of the staff could be redeployed to the new stores. Under Chinese law, severance pay amounts to one month's pay per year of service and the number of employees in Nanjing store stood at 300 in 2Q16 (c.70% lesser compared to 2012's).
- **Back to physical-stores-only model.** Nanjing store was the only store that rolled out e-commerce services. Management will consider re-including online channel but not in near term. Nonetheless, the sales from e-commerce has been immaterial as it was still in gestation stage.

Redirect focus back to Fujian, expect two new stores by end-FY2016

- **One new self-owned store (16,900 sqm) to replace its existing managed store (4,000 sqm) in Quanzhou Quangang**
The new store is expected to commence business in end-September 2016, a year earlier than expected (*initial targeted date to open: by 2017/18*). The new store is in line with its effort to wind down managed stores. It will be replacing the managed store in vicinity, with about a week's transition period. The staff from the existing store will be redeployed to the new store.
- **Quanzhou Anxi new store (3,700 sqm)**
A slight delay in store opening (*initial targeted date to open: June 2016*) as it is still undergoing renovation and pending government's approval.

Total store count of 14 (11 self-owned stores and 3 managed stores) with GFA over 180,000 sqm (c. -8% yoy) by end-FY2016.

Maintain "Neutral" rating with unchanged TP of S\$1.44, this implied a forward P/E multiple of 28.5x over 0.24 Singapore cents EPS.

Financials

Income Statement

Y/E Dec, RMB mn	FY13	FY14	FY15	FY16F	FY17F
Revenue	879	882	830	783	732
Gross profit	268	312	313	293	271
EBITDA	35	60	87	78	75
Depreciation & Amortisation	(6)	(8)	(8)	(9)	(8)
EBIT	29	51	78	69	67
Net Finance Inc/(Exp)	0	1	0	1	1
Profit Before Tax	28	50	77	68	66
Taxation	(18)	(18)	(25)	(21)	(20)
Net profit, reported	10	32	53	48	46
Net profit, adj.	10	36	53	48	46

Per share data (RMB)

Y/E Dec	FY13	FY14	FY15	FY16F	FY17F
EPS, reported	0.05	0.16	0.27	0.24	0.23
EPS, adj.	0.05	0.18	0.27	0.24	0.23
DPS (SGD)	0.01	0.03	0.05	0.05	0.05
BVPS	0.46	0.52	0.58	0.61	0.63
Exchange rate (SGDCNY)	4.79	4.69	4.57	4.80	4.85

Cash Flow

Y/E Dec, RMB mn	FY13	FY14	FY15	FY16F	FY17F
CFO					
Profit Before Tax	28	50	77	68	66
Depreciation & Amortisation	6	8	8	9	8
WC changes	42	64	14	(10)	(5)
Net finance inc/(exp)	0	1	0	1	1
Tax paid	(22)	(27)	(27)	(21)	(20)
Others	23	27	29	23	20
Cashflow from ops	77	125	103	70	70
CFI					
CAPEX, net	(11)	(14)	(7)	(8)	(7)
Others	(26)	(8)	(1)	0	0
Cashflow from investments	(27)	(23)	(8)	(8)	(7)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(11)	0	0	0	0
Dividends	0	(19)	(40)	(42)	(43)
Others	0	(18)	(1)	0	0
Cashflow from financing	(11)	(37)	(41)	(42)	(43)
Net change in cash	39	64	54	19	20
Effects of exchange rates	1	(0)	0	0	0
CCE, end	150	214	268	288	307

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, RMB mn	FY13	FY14	FY15	FY16F	FY17F
ASSETS					
PPE	46	51	50	50	50
Others	42	59	68	66	65
Total non-current assets	88	110	118	116	116
Accounts receivables	70	39	32	34	32
Cash	150	214	268	288	307
Inventories	137	116	101	103	97
Others	18	26	24	24	22
Total current assets	375	396	426	448	458
Total Assets	463	506	544	564	574

LIABILITIES

Accounts payables	240	274	259	252	238
Short term loans	0	0	0	0	0
Others	56	49	59	59	59
Total current liabilities	296	323	318	311	296
Long term loans	0	0	0	0	0
Others	78	81	112	134	154
Total non-current liabilities	78	81	112	134	154
Total Liabilities	373	404	429	444	450

EQUITY

Non-controlling interests	0	0	0	0	0
Shareholder Equity	89	102	115	120	124

Valuation Ratios

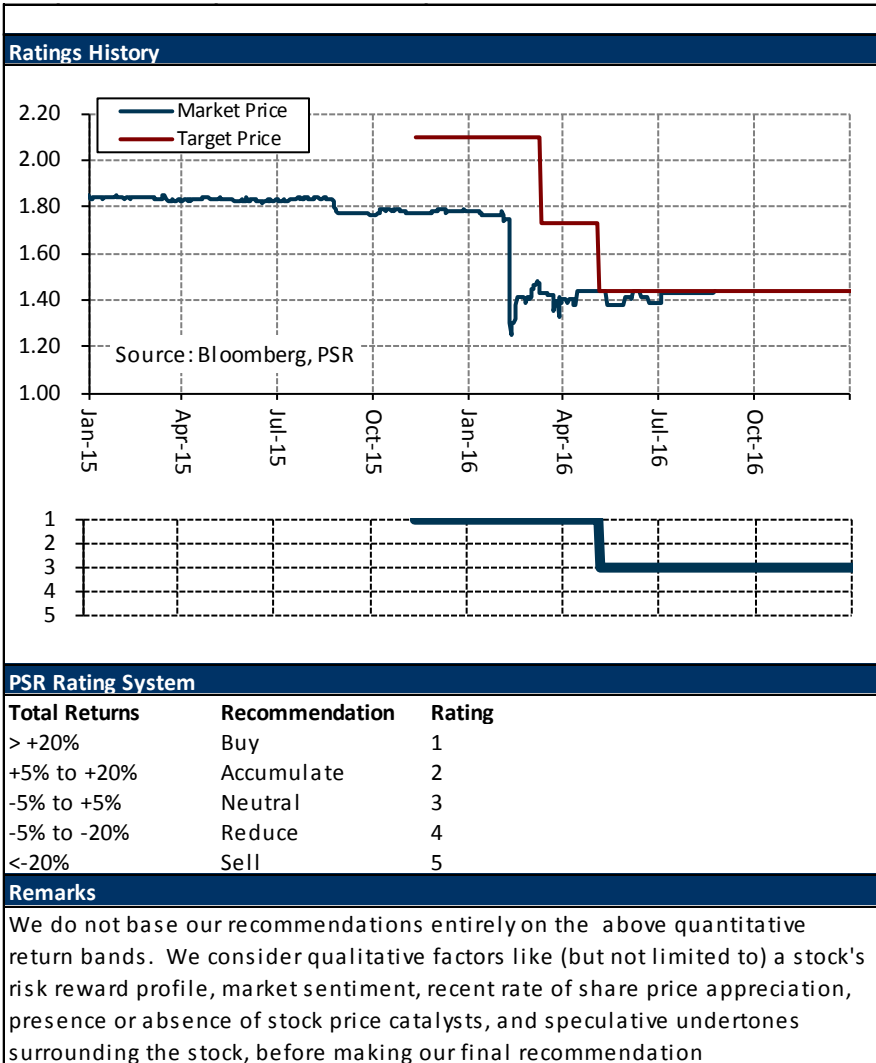
Y/E Dec	FY13	FY14	FY15	FY16F	FY17F
P/E (X), adj.	146.4	45.1	29.7	28.5	29.9
P/B (X)	16.3	15.8	13.8	11.3	11.0
EV/EBITDA (X), adj.	37.6	23.3	15.2	13.7	14.3
Dividend Yield (%)	0.6%	1.4%	2.5%	3.1%	3.1%

Growth & Margins (%)

Growth					
Revenue	207.6%	0.4%	-5.9%	-5.7%	-6.4%
EBITDA	31.3%	71.7%	44.7%	-10.0%	-4.2%
EBIT	102.1%	76.9%	51.9%	-11.5%	-3.9%
Net profit, adj.	-12.5%	256.7%	50.2%	-10.9%	-3.9%
Margins					
Gross margin	30.4%	35.4%	37.7%	37.5%	37.0%
EBITDA margin	4.0%	6.8%	10.4%	9.9%	10.2%
EBIT margin	3.3%	5.8%	9.4%	8.9%	9.1%
Net profit margin	1.1%	4.0%	6.4%	6.1%	6.3%

Key Ratios

ROE (%)	11.9%	37.2%	49.3%	40.6%	37.5%
ROA (%)	2.8%	7.4%	10.2%	8.6%	8.0%
Net Debt/(Cash)	(150)	(214)	(268)	(288)	(307)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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