

Zhongmin Baihui Retail Group

The wait is over

SINGAPORE | CONSUMER | RESULTS

- We are ceasing coverage on Zhongmin Baihui Retail Group ("ZBR") due to our investment thesis did not materialise and internal resource reallocation. Our rating and forecasts on ZBR can no longer be relied upon.

Results at a glance

(RMB mn)	3Q16	3Q15	yoy	Comments
Direct sales	164.3	152.5	7.7%	
Commission from concessionaire sales	25.5	26.4	-3.5%	Lower percentage commission from concessionaire sales at 20.1% to 21.1%
Rental income	11.8	15.6	-24.3%	
Managed rental	5.2	8.0	-35.5%	
Revenue	206.8	202.6	2.1%	Contributions from new stores, offset by Nanjing store closure
Gross Profit	64.2	70.3	-8.6%	Flattish imputed direct sales margin at 13.2% in 3Q16 vs 13.3% in 3Q15
EBITDA	20.5	19.6	4.6%	Lower operating expenses
Profit before tax	18.7	17.4	7.8%	Lower depreciation & amortisation
Net profit, reported	12.3	12.6	-2.3%	Higher tax
DPS (SGD Cents)	1.0	1.0		

Source: Company, Phillip Securities Research (Singapore)

Update on recent developments

1. Clearer corporate governance by cutting off recurring interested party transactions

On 27 Sep 2016, the Group proposed to acquire the currently leased retail premises located at Hui'an County, Quanzhou Street, Quanzhou City, Fujian Province, the People's Republic of China (a.k.a. Quanzhou Hui'an Chengnan Store). The premises consist of five levels, including a basement, with an aggregate gross floor area ("GFA") of c.25,466 sqm. The aggregate consideration for the proposed acquisition is RMB 122,236,128 (or RMB 4,800/sqm), c.11% discount to its market value derived by an independent valuer. The purchase will be funded internally and paid in three instalments over 1.25 years until Mar 2018.

The premises are owned by Hui'an Hongyi Property Development Co., Ltd. ("Hui'an Hongyi"), which is deemed as an associate of Mr Chen Kaitong (CEO and Executive Director of ZBR) and Mr Su Caiye (Non-Executive Director of ZBR). Hui'an Hongyi leases the premises to ZBR for its operation of a department store since 2013. ZBR's recurring interested party transactions with Hui'an Hongyi will be terminated post-acquisition.

2. Two new self-owned stores opened; Closed a managed store; Total store count of 14 (11 self-owned stores and 3 managed stores) with GFA over 180,000 sqm (c. -8% yoy)

(a) Opened Quanzhou Quangang Zhongxing Store on 30 Sep 2016

The store has six levels with a GFA of 16,884 sqm. Supermarket occupies the basement floor, the top floor features food and beverage ("F&B") outlets and the rest of the store forms the department store.

It is about 800 metres from the old Quangang Store. The old Quangang Store, a managed store, has ceased operations a day earlier to make way for the new Quangang Store, which is a self-owned store.

(b) Opened Quanzhou Anxi (Anxi Station) Store on 18 Nov 2016

The store has three levels with a GFA of 3,700 sqm. It features supermarket products, F&B outlets and department store products.

23 November 2016

Ceasing Coverage

CLOSING PRICE	SGD 1.23
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN):	195
MARKET CAP (USD mn / SGD mn):	169 / 240
52 - WK HI/LO (SGD):	179 / 101
3M Average Daily T/O (mn):	0.08

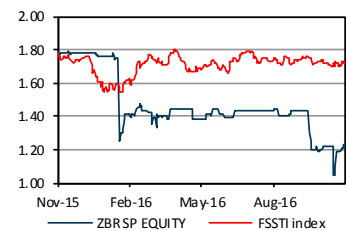
MAJOR SHAREHOLDERS (%)

LEE SWEE KENG	24.72%
CHEN KAITONG	22.85%
SU CAIYE	11.55%
LIM KOK TONG	11.08%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	2.1	(4.6)	(30.7)
STIRETURN	(0.41)	(0.77)	0.25

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 12	FY 13	FY 14	FY 15
Revenue (RMB mn)	286	879	882	830
EBITDA (RMB mn)	27	35	60	87
NPAT, adj. (RMB mn)	11	10	35	53
EPS, adj. (RMB Cents)	5.81	5.08	17.68	27.13
PER, adj. (x)	1.3	146.4	50.3	30.1
P/BV (x)	18.2	16.3	15.8	13.8
DPS (SGD Cents)	0.00	1.00	2.50	4.50
Div Yield, %		0.6%	1.4%	2.5%
ROE, %	15.6%	11.9%	36.2%	49.1%

Source: Company Data

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3. First-owned store in Zhangzhou slated to open in 2019

The Group has recently signed a 15-year lease for a four-level store with a GFA of 15,152 sqm in the Zhangzhou prefecture in Fujian. It has a managed store in another part of this prefecture since 2003.

Ceasing of coverage

We are ceasing coverage on ZBR due to our investment thesis did not materialise and internal resource reallocation.

- Previously, we thought ZBR would be a potential turnaround story after the restructuring of its loss-making Nanjing Nanzhan Store.

However, China's lack of centralised city planning and bureaucracy lead to poor customer footfall, high vacancies and slow progress in development works.

Nanjing Nanzhan Store recorded RMB6.9mn losses in 1H 2016. ZBR had to close this underperforming store to cut losses due to the slow development of its surrounding area. Closing Nanjing Nanzhan Store also means losing its online channel as it is the only store which hosts its pilot project of e-commerce.

Meanwhile, new store openings have/had been delayed:

- (a) Quanzhou Quangang Zhongxing was expected to open in 1Q16 but opened in 3Q16;
 - (b) The two small-format stores, namely Quanzhou Wanxiang and Quanzhou Anxi (Anxi Station) were targeted to open in 1Q16 but opened in 3Q16 and 4Q16 respectively;
 - (c) Quanzhou Anxi Xincheng Store (initially expected to open by 2016) has yet to open; and
 - (d) Yet to receive any update on Zhangzhou Longwen and Xiamen Haicang stores.
- Increasing competition in China and economic slowdown dampened consumer sentiment as we see retail sales growth decelerating.

Compounded by the intensified macro headwinds in China, ZBR logged a marginal 0.4% year-on-year ("yoy") revenue growth in 9M16. Excluding the one-off non-cash gain from Nanjing Nanzhan Store closure, 9M16 net profit was down 12% yoy.

Notwithstanding that, renminbi (RMB) has weakened c.5.5% against Singapore Dollar year-to-date.

Nonetheless, we wish Management success in its expansion strategy to reach its targeted GFA of 300,000 sqm and riding through the tough market environment.

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