

China / Hong Kong Company Update

GOME Retail Holdings

Bloomberg: 493 HK Equity | Reuters: 0493.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Oct 2020

SELL

Last Traded Price (12 Oct 2020): HK\$1.06 (HSI : 24,650)

Price Target 12-mth: HK\$0.79 (26% downside) (Prev HK\$0.62)

Analyst

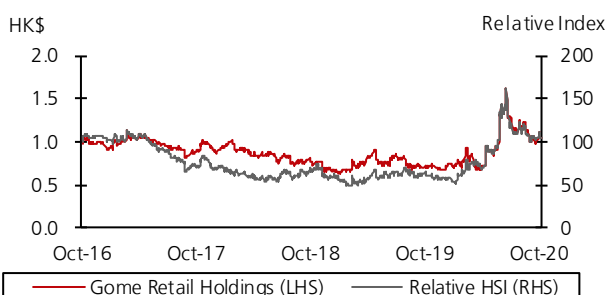
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What's New

- Expect high-single-digit SSSG in 3Q20F; possible to achieve EBIT breakeven in 2H20F
- Expect bottomline to be loss-making till FY22F on rising financial expenses
- Strategic cooperation with JD and PDD progressing well, but benefits unlikely in the near term
- Maintain SELL with new TP of HKD0.79

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2019A	2020F	2021F	2022F
Turnover	59,483	47,665	51,850	54,282
EBITDA	(414)	(1,013)	1,305	2,112
Pre-tax Profit	(2,896)	(3,412)	(1,103)	(227)
Net Profit	(2,590)	(3,172)	(903)	(67)
Net Pft (Pre Ex) (core profit)	(2,590)	(3,172)	(903)	(67)
Net Profit Gth (Pre-ex) (%)	47.0	(22.5)	71.5	92.5
EPS (RMB)	(0.13)	(0.15)	(0.04)	0.00
EPS (HK\$)	(0.14)	(0.18)	(0.05)	0.00
EPS Gth (%)	47.0	(22.5)	71.5	92.5
Diluted EPS (HK\$)	0.00	0.00	0.00	0.00
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	0.45	0.46	0.54	0.65
PE (X)	nm	nm	nm	nm
P/Cash Flow (X)	7.9	379.3	nm	7.1
P/Free CF (X)	15.7	nm	nm	9.6
EV/EBITDA (X)	nm	nm	24.6	13.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	2.3	2.3	2.0	1.6
Net Debt/Equity (X)	2.2	2.0	1.8	1.2
ROAE (%)	(20.2)	(27.1)	(7.1)	(0.5)
Earnings Rev (%):		nm	nm	nm
Consensus EPS (RMB)		(0.10)	(0.05)	(0.03)
Other Broker Recs:		B: 0	S: 4	H: 1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Better 2H20F in sight, yet loss-making

Investment Thesis

Expect losses till FY22F. Despite near-term improvement in pent-up demand, near term prospects remain weak

SSSG to decline in FY20F. SSSG should see negative growth in FY20F, despite achieving high-single digit SSSG in 3Q20E

Strategic cooperation with JD and PDD progressing well. A long-term win-win arrangement, but limited sales and earnings contribution in the near term.

Valuation:

We peg our valuation to an unchanged 1.5x FY21F P/BV (3-year average) to derive a new TP of HK\$0.79.

Where we differ:

Our FY20F/21F earnings estimates are 51%/11% lower than consensus on lower revenue forecasts and operating deleveraging.

Key Risks to Our View:

Upside risks: Better-than-expected SSSG, earlier-than-expected earnings turnaround, easing online and offline competition, significant improvement in home appliance/electronics sales.

At A Glance

Issued Capital (m shrs)	21,558
Mkt Cap (HK\$m/US\$m)	22,851 / 2,949
Major Shareholders (%)	
Wong (Kwong Yu)	49.1
ARK Trust (Hong Kong) Ltd.	6.9
Free Float (%)	44.0
3m Avg. Daily Val. (US\$m)	12.29
GICS Industry: Consumer Discretionary / Retailing	



Live more, Bank less

GOME Retail Holdings

WHAT'S NEW

Recovery in 3Q20F. We understand that offline stores should record high-single-digit SSSG in both July and August, driven by sales volume recovery despite softer average selling prices of home appliances compared to previous years. The company plans to open 800-1,000 county-level franchise stores in 2H20H. Online sales should also deliver double-digit-growth in 3Q20F from live broadcast sales campaigns in partnership with China Central Television (CCTV). Overall, major appliances including ACs, washing machines and refrigerators as well as TVs have seen decent recovery, thanks to pent-up demand. We also believe 2H20F GP margin should return to the similar level in 2H19 (16.4%). GOME is likely to achieve EBIT breakeven in 2H20F, but mounting financial expenses is projected to drag its earnings into the red at the bottomline. Going forward, we expect GOME may still be loss-making in FY21F/22F.

Strategic partnership with JD and PDD: icing on the cake. GOME targets to achieve RMB6-8bn sales (12%-17% of GOME's FY20F sales) from JD and PDD's ecommerce platforms in 2H20F. We believe GOME had registered sales of RMB1.3-1.5bn from PDD and RMB500-600m from JD during July and August. The gross margin for GOME's sales on JD is close to GOME's own gross margin, while gross margin on

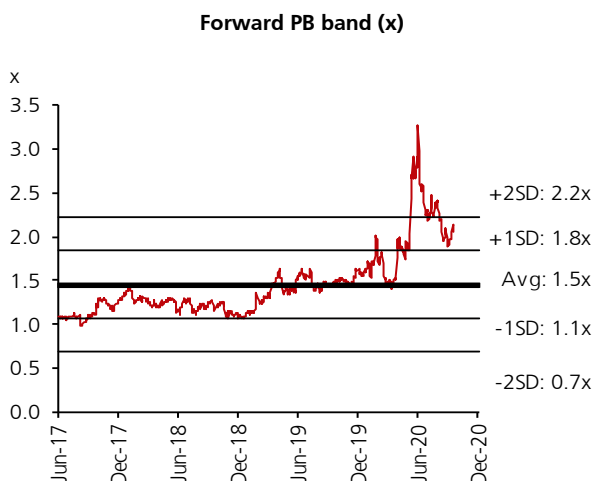
PDD is still low given the lower ticker size. We understand that sales on JD and PDD are growing fast, but could potentially drag GOME's margins going forward.

Maintain SELL on continued net losses. We have widened our net loss forecast for FY20F to RMB3.2bn to reflect a difficult 1H20 (1H20 net loss: RMB2.6bn). Despite positive signs of an improvement in its operations, we remain cautious on its long-term prospects on market share gains in home appliance retailing space as well as product categories expansion. We believe home appliance retailing is undergoing a structural shift from offline stores to online marketplace, and we await for more concrete evidence of GOME's successful strategic reform.

Company Background

GOME is one of the leading retailers of appliances and electronics in China. The company was renamed from "GOME Electrical Appliances Holding" to "GOME Retail Holdings" in 2017 to reflect its repositioning as a general retailer.

Historical PB band



Source: Thomson Reuters, DBS HK

GOME Retail Holdings

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Store number	2,122.0	2,639.0	3,165.0	3,700.0	4,240.0
Offline sales (RMB)	60,412.1	57,427.0	44,165.2	47,649.8	49,451.7
Online Revenue (RMB m)	3,944.0	2,055.8	3,500.0	4,200.0	4,830.0
Net gearing (%)	100.3	221.5	202.4	176.7	120.7
Gross profit margin (%)	15.1	15.3	13.3	14.9	14.8

Source: Company, DBS HK

FY Dec	2019A	2020F	2021F	2022F
Revenues (RMB m)				
Online Revenue (RMB)	2,056	3,500	4,200	4,830
Offline Revenue (RMB)	57,427	44,165	47,650	49,452
Flagship stores	N/A	N/A	N/A	N/A
Total	59,483	47,665	51,850	54,282
Gross Profit (RMB m)				
Online Revenue (RMB)	31	35	84	145
Offline Revenue (RMB)	9,080	6,316	7,624	7,912
Flagship stores	N/A	N/A	N/A	N/A
Total	9,111	6,351	7,708	8,057
Gross Margins (%)				
Online Revenue (RMB)	1.5	1.0	2.0	3.0
Offline Revenue (RMB)	15.8	14.3	16.0	16.0
Flagship stores	N/A	N/A	N/A	N/A
Total	15.3	13.3	14.9	14.8

GOME Retail Holdings
Income Statement (RMB m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	64,356	59,483	47,665	51,850	54,282
Cost of Goods Sold	(54,617)	(50,372)	(41,315)	(44,142)	(46,225)
Gross Profit	9,739	9,111	6,351	7,708	8,057
Other Opng (Exp)/Inc	(14,416)	(10,239)	(8,106)	(7,137)	(6,675)
Operating Profit	(4,677)	(1,129)	(1,755)	571	1,383
Other Non Op (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(217)	(105)	(20)	(20)	(20)
Net Interest (Exp)/Inc	(520)	(1,662)	(1,636)	(1,654)	(1,590)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(5,414)	(2,896)	(3,412)	(1,103)	(227)
Tax	(80)	(72)	(80)	(80)	(80)
Minority Interest	607	379	320	280	240
Preference Dividend	0	0	0	0	0
Net Profit	(4,887)	(2,590)	(3,172)	(903)	(67)
Net Profit before Except.	(4,887)	(2,590)	(3,172)	(903)	(67)
EBITDA	(4,141)	(414)	(1,013)	1,305	2,112
Growth					
Revenue Gth (%)	(10.1)	(7.6)	(19.9)	8.8	4.7
EBITDA Gth (%)	N/A	90.0	(144.6)	N/A	61.9
Opg Profit Gth (%)	1,124.9	(75.9)	55.5	(132.5)	142.2
Net Profit Gth (%)	(986.2)	47.0	(22.5)	71.5	92.5
Margins & Ratio					
Gross Margins (%)	15.1	15.3	13.3	14.9	14.8
Opg Profit Margin (%)	(7.3)	(1.9)	(3.7)	1.1	2.5
Net Profit Margin (%)	(7.6)	(4.4)	(6.7)	(1.7)	(0.1)
ROAE (%)	(28.8)	(20.2)	(27.1)	(7.1)	(0.5)
ROA (%)	(7.9)	(3.9)	(4.4)	(1.3)	(0.1)
ROCE (%)	(13.5)	(2.9)	(4.0)	1.3	3.3
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	NM	NM	NM	0.3	0.9

Source: Company, DBS HK

GOME Retail Holdings

Balance Sheet (RMB m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	6,542	7,256	7,246	7,245	7,248
Invt in Associates & JVs	286	180	200	200	200
Other LT Assets	16,706	31,092	28,642	26,959	25,493
Cash & ST Invt	11,606	8,776	11,947	11,042	12,083
Inventory	8,221	7,688	6,565	7,014	7,345
Debtors	5,953	3,448	3,968	4,427	4,518
Other Current Assets	11,428	13,430	13,825	12,907	12,427
Total Assets	60,742	71,872	72,393	69,794	69,314
ST Debt	14,124	18,445	17,837	17,495	15,508
Creditors	24,615	23,685	23,204	21,164	22,162
Other Current Liab	1,865	4,282	5,789	5,858	5,899
LT Debt	8,604	8,407	10,642	10,642	10,642
Other LT Liabilities	450	8,892	6,755	4,959	3,451
Shareholder's Equity	14,078	11,534	11,859	13,648	15,864
Minority Interests	(2,994)	(3,373)	(3,693)	(3,973)	(4,213)
Total Cap. & Liab.	60,742	71,872	72,393	69,794	69,314
Non-Cash Wkg. Capital	(878)	(3,400)	(4,635)	(2,673)	(3,771)
Net Cash/(Debt)	(11,122)	(18,076)	(16,532)	(17,096)	(14,067)
Debtors Turn (avg days)	31.7	28.8	28.4	29.5	30.1
Creditors Turn (avg days)	172.9	175.0	207.1	183.4	171.1
Inventory Turn (avg days)	65.1	57.6	63.0	56.1	56.7
Asset Turnover (x)	1.0	0.9	0.7	0.7	0.8
Current Ratio (x)	0.9	0.7	0.8	0.8	0.8
Quick Ratio (x)	0.4	0.3	0.3	0.3	0.4
Net Debt/Equity (X)	1.0	2.2	2.0	1.8	1.2
Net Debt/Equity ex MI (X)	0.8	1.6	1.4	1.3	0.9
Capex to Debt (%)	N/A	4.4	2.5	2.5	2.7
Z-Score (X)	1.2	0.9	1.0	1.1	1.3

Source: Company, DBS HK

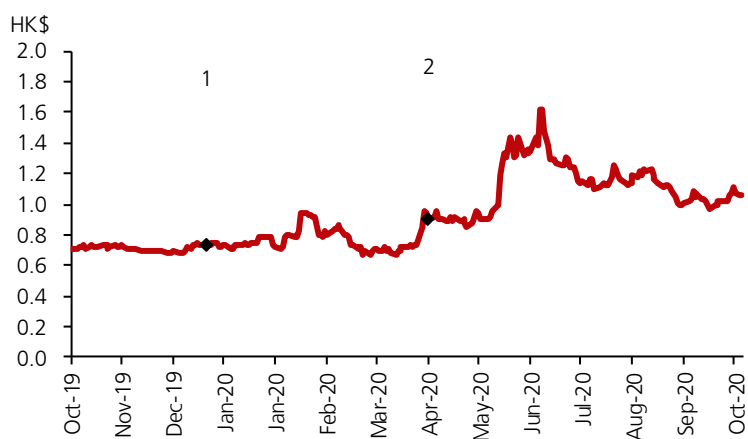
Cash Flow Statement (RMB m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	(5,414)	(2,896)	(3,412)	(1,103)	(227)
Dep. & Amort.	835	(2,186)	2,969	2,619	2,327
Tax Paid	(80)	(72)	(80)	(80)	(80)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	2,272	46	48	48	48
Chg in Wkg.Cap.	(68)	1,398	205	(2,031)	377
Other Operating CF	1,387	6,111	320	280	240
Net Operating CF	(1,068)	2,401	50	(268)	2,685
Capital Exp.(net)	1,637	(1,190)	(700)	(700)	(700)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(331)	90	0	0	0
Net Investing CF	1,306	(1,100)	(700)	(700)	(700)
Div Paid	0	0	0	0	0
Chg in Gross Debt	(3,400)	0	1,123	0	0
Capital Issues	(952)	0	0	0	0
Other Financing CF	4,867	(3,271)	2,607	0	(1,020)
Net Financing CF	515	(3,271)	3,730	0	(1,020)
Currency Adjustments	146	34	90	62	76
Chg in Cash	899	(1,936)	3,170	(906)	1,041
Opg CFPS (RMB)	(0.05)	0.05	(0.01)	0.09	0.11
Free CFPS (RMB)	0.03	0.06	(0.03)	(0.05)	0.10

Source: Company, DBS HK

GOME Retail Holdings

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Dec-19	HK\$0.740	HK\$0.59	Sell
2:	24-Apr-20	HK\$0.94	HK\$0.62	Sell

Source: DBS HK

Analyst: Vincent YANG

Mavis HUI

GOME Retail Holdings

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 14 Oct 2020 12:29:38 (HKT)

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