

Hong Kong

HOLD (previously REDUCE)

Consensus ratings*: Buy 0 Hold 2 Sell 3

Current price: HK\$0.66
 Target price: HK\$0.70
 Previous target: HK\$0.44
 Up/downside: 6.3%
 CGI / Consensus: -6.5%

Reuters: 0493.HK
 Bloomberg: 493 HK
 Market cap: US\$2,856m
 HK\$22,279m

Average daily turnover: US\$5.65m
 HK\$44.05m

Current shares o/s: 20,085m
 Free float: 34.4%

*Source: Bloomberg

Key changes in this note

- FY21F net profit decreased by 45.2%.
- FY22F net profit increased by 16.5%.
- FY23F net profit increased by 12.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	-14.3	-60.7
Relative (%)	-1.8	-12.9	-43.2

Major shareholders	% held
Wong Kwong Yu	65.5

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GOME Retail Holdings

Ambitious long-term target

- GOME had about 2m SKUs at the end of Jan, and it plans to increase this to 5m by the end of 2022 and 10m in the next three years through quickly expanding its 3P business and becoming a full product profile online platform.
- GOME added more experience spaces in its offline stores to attract customers. GOME's long-term aim is a 5% market share of the Rmb30tr "Home • Living" market.
- Management expects the government to announce more stimulus policies to promote domestic consumption in 2022.
- Upgrade to Hold with a new DCF-based TP of HK\$0.7, as we believe GOME has developed an important growth strategy and built up the related facilities, but the reforms still need time to bear fruit.

Jan 2022 operation updates

In Jan 2022, GOME achieved over 40% yoy sales growth and upgraded its offline stores to experience stores and integrated showcases with interactive functions. So far, 35 stores have completed the upgrade, and GOME plans to upgrade 65 stores in total at current stage, with total store area of about 1m sqm. Currently, over 60% of suppliers of these new stores have adopted the contract for the new sales model. The Jan MAUs of GOME's online platform "Fun" reached 70m, with average DAUs of 3.5m. GOME had about 2m SKUs at the end of Jan, and it plans to increase this number to 5m by the end of 2022 and 10m in the next three years. The third-party business of GOME's Anxun Logistics accounted for over 48% of its overall business, and Anxun owns over 5m sqm of storage space in total. GOME is planning to launch an IPO for Anxun Logistics in the next two years. GOME's supply chain platform has attracted 4k manufacturers and 6k channel distributors, and its consumer traffic platform has attracted over 2k KOL/KOCs.

Ambitious long-term targets

In Mar, GOME will launch a family shopping campaign as a major promotion event under its "Home • Living" strategy. Management expects GOME to return to profitability in 1Q22F. In its online platform, GOME promoted a special selection series to drive up the sales of high-value and high-quality domestic brands. GOME plans to serve 50–100m families by the end of 2022, with average time spent of 8–10 hours per month and average spending of Rmb600–1,000 per month, resulting in expected annual spending by families of Rmb360–1,200bn. Gome's long-term is over a 5% market share of the Rmb30tr "Home • Living" market.

Gov policy to stimulate consumption and support offline economy

The Chinese government announced 10 measures to stimulate consumption, with a couple of measures that are expected to benefit GOME. Government media has proposed rebooting the offline economy. GOME's "Home • Living" strategy is in line with government proposals, and it expects the strategy to help it attract more consumers. At the current stage, some of GOME's transformation efforts, such as offering an interactive shopping experience in its offline stores and a real-time video shopping guide for its online platform, are unique among its peers. We believe GOME has developed an important growth strategy and built up related facilities, but the reforms still need time to bear fruit.

Upgrade to Hold with a new DCF-based TP of HK\$0.7

We cut our FY21F earnings forecast by 45.2%, since 2H21F is a transitional period for GOME to build up its new strategy and related facilities. But we raised our earnings forecasts for FY22–23F by 16.5% and 12.6%, to reflect stronger revenue growth and better expenses control. A positive catalyst is faster sales growth. The risks include the unsuccessful roll-out of further reforms and a higher-than-expected financial burden.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rmbm)	59,483	44,119	57,355	65,958	73,873
Operating EBITDA (Rmbm)	(309)	(5,017)	(688)	991	1,514
Net Profit (Rmbm)	(2,590)	(6,994)	(2,530)	(658)	(272)
Normalised EPS (Rmb)	(0.13)	(0.35)	(0.07)	(0.02)	(0.01)
Normalised EPS Growth	(46%)	170%	(79%)	(74%)	(59%)
FD Normalised P/E (x)	NA	NA	NA	NA	NA
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	27.91	18.86
P/FCFE (x)	4.03	4.87	NA	NA	NA
Net Gearing	69%	693%	75%	90%	101%
P/BV (x)	0.93	2.20	0.91	0.94	0.96
ROE	(20.2%)	(84.7%)	(20.3%)	(3.4%)	(1.4%)
% Change In Normalised EPS Estimates			(45.2%)	16.5%	12.6%
Normalised EPS/consensus EPS (x)			0.79	0.49	0.42

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

for

Ambitious long-term target

Figure 1: Gome earnings revisions

	FY21F			FY22F			FY23F		
	Old	New	% change	Old	New	% change	Old	New	% change
Total sales (Rmbm)	57,355	57,355	0.00%	63,090	65,958	4.55%	70,661	73,873	4.55%
Combined gross margin	14.6%	13.4%	-1.20 pts	14.8%	13.8%	-1.00 pts	15.0%	14.0%	-1.00 pts
Operating margin	-1.1%	-2.3%	-1.20 pts	0.1%	0.5%	0.34 pts	0.8%	1.1%	0.29 pts
Net margin	-3.03%	-4.41%	-1.38 pts	-1.25%	-1.00%	0.25 pts	-0.44%	-0.37%	0.07 pts
Net profit (Rmbm)	-1,738	-2,530	-45.58%	-787	-658	16.33%	-311	-272	12.37%
Reported EPS (Rmb)	-0.051	-0.075	-45.20%	-0.023	-0.019	16.55%	-0.009	-0.008	12.59%

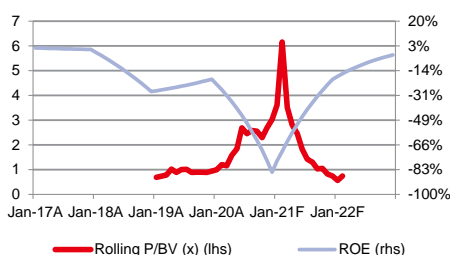
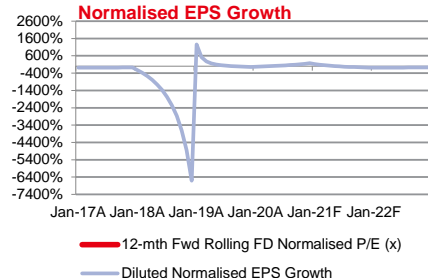
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Gome DCF valuation

FCF computation (Rmb m)	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY31F	FY32F
EBIT	-1,337.4	306.3	794.6	1,032.9	1,342.8	1,745.7	2,269.4	2,950.2	3,835.2	4,985.8	6,481.5	8,426.0	10,532.5
Taxes	-13.2	4.9	2.5	3.3	4.3	5.6	7.3	9.5	12.3	16.0	20.8	27.0	33.8
NOPAT	-1,350.6	311.2	797.1	1,036.2	1,347.1	1,751.3	2,276.6	2,959.6	3,847.5	5,001.8	6,502.3	8,453.0	10,566.2
NOPAT growth		nm	156.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	25.0%
D&A	649.9	684.8	719.7	741.3	763.6	786.5	810.1	834.4	859.4	885.2	911.7	939.1	967.2
Funds from operation	-700.7	996.0	1,516.8	1,777.6	2,110.7	2,537.7	3,086.7	3,794.0	4,706.9	5,886.9	7,414.0	9,392.1	11,533.5
Change in net working Capital	-449.7	-473.0	-542.5	-558.7	-575.5	-592.8	-610.6	-628.9	-647.7	-667.2	-687.2	-707.8	-729.0
Cash flow from operation	-1,150.4	523.0	974.4	1,218.8	1,535.2	1,944.9	2,476.1	3,165.1	4,059.2	5,219.8	6,726.8	8,684.3	10,804.4
Capex	-750.0	-750.0	-750.0	-772.5	-795.7	-819.5	-844.1	-869.5	-895.5	-922.4	-950.1	-978.6	-1,007.9
Free cash flow from operation	-1,900.4	-227.0	224.4	446.3	739.5	1,125.4	1,632.0	2,295.7	3,163.6	4,297.4	5,776.8	7,705.7	9,796.5
FCF growth		nm	-198.8%	98.9%	65.7%	52.2%	45.0%	40.7%	37.8%	35.8%	34.4%	33.4%	27.1%
Terminal free cash flow	109,703.2			Assumptions									
Total discounted free cash flow	13,524.2			Cost of equity 10.9%									
Present value of terminal free cash flow	36,705.5			Risk free 4.5%									
				Market Risk Premium 6.8%									
Total present value of forecasted free cash flows	50,229.8			Beta 0.94									
Less: Minorities	3,848.7			Cost of debt 4.7%									
Less: Net Debt	26,600.0			KD (after tax) 3.5%									
Equity Value	19,781.1			Target Debt / (Debt + Equity) 20.0%									
No. Shares (m)	33,843.5			WACC 9.4%									
Per Share Equity Value (Rmb)	0.58			Terminal growth 3.0%									
Exchange rate	0.83												
Target price (HK\$)	0.70												

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth


Profit & Loss

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	59,483	44,119	57,355	65,958	73,873
Gross Profit	9,111	4,550	6,485	7,656	8,575
Operating EBITDA	(309)	(5,017)	(688)	991	1,514
Depreciation And Amortisation	(820)	(680)	(650)	(685)	(720)
Operating EBIT	(1,129)	(5,697)	(1,337)	306	795
Financial Income/(Expense)	(1,662)	(1,465)	(1,369)	(1,369)	(1,369)
Pretax Income/(Loss) from Assoc.	(105)	(6)	(10)	50	50
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	(2,896)	(7,169)	(2,717)	(1,013)	(525)
Exceptional Items					
Pre-tax Profit	(2,896)	(7,169)	(2,717)	(1,013)	(525)
Taxation	(72)	(35)	(13)	5	3
Exceptional Income - post-tax					
Profit After Tax	(2,969)	(7,204)	(2,730)	(1,008)	(522)
Minority Interests	379	210	200	350	250
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	(2,590)	(6,994)	(2,530)	(658)	(272)
Normalised Net Profit	(2,969)	(7,204)	(2,730)	(1,008)	(522)
Fully Diluted Normalised Profit	(2,590)	(6,994)	(2,530)	(658)	(272)

Cash Flow

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	(309)	(5,017)	(688)	991	1,514
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(249)	1,844	(450)	(473)	(542)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,925	6,644	(10)	50	50
Net Interest (Paid)/Received	(1,841)	(1,641)	(1,369)	(1,369)	(1,369)
Tax Paid	(125)	20	(13)	5	3
Cashflow From Operations	2,401	1,851	(2,530)	(796)	(345)
Capex	(1,190)	(1,403)	(750)	(750)	(750)
Disposals Of FAs/subsidiaries	(301)	0	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	391	425	(17,566)	(50)	(50)
Cash Flow From Investing	(1,100)	(978)	(18,316)	(800)	(800)
Debt Raised/(repaid)	1,378	1,346	0	0	0
Proceeds From Issue Of Shares	0	0	17,576	0	0
Shares Repurchased					
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(4,650)	(753)	0	0	0
Cash Flow From Financing	(3,271)	593	17,576	0	0
Total Cash Generated	(1,971)	1,466	(3,270)	(1,596)	(1,145)
Free Cashflow To Equity	2,679	2,219	(20,845)	(1,596)	(1,145)
Free Cashflow To Firm	3,391	2,839	(19,076)	173	624

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	21,222	24,142	20,872	19,276	18,131
Total Debtors	3,693	4,031	4,257	4,440	4,620
Inventories	7,688	8,368	9,205	10,126	11,138
Total Other Current Assets	740	417	417	417	417
Total Current Assets	33,343	36,959	34,752	34,259	34,306
Fixed Assets	6,733	6,296	6,396	6,461	6,492
Total Investments	0	0	0	0	0
Intangible Assets	12,322	10,455	10,455	10,455	10,455
Total Other Non-Current Assets	19,474	16,784	34,350	34,400	34,450
Total Non-current Assets	38,529	33,535	51,201	51,316	51,396
Short-term Debt	18,445	23,310	23,310	23,310	23,310
Current Portion of Long-Term Debt					
Total Creditors	23,685	25,408	26,020	26,651	27,301
Other Current Liabilities	4,282	4,225	4,225	4,225	4,225
Total Current Liabilities	46,412	52,943	53,556	54,187	54,837
Total Long-term Debt	8,407	9,617	9,618	9,618	9,618
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8,892	6,666	6,666	6,666	6,666
Total Non-current Liabilities	17,299	16,283	16,283	16,283	16,283
Total Provisions	0	0	0	0	0
Total Liabilities	63,711	69,227	69,839	70,470	71,120
Shareholders' Equity	11,600	4,916	19,962	19,304	19,031
Minority Interests	(3,439)	(3,649)	(3,849)	(4,199)	(4,449)
Total Equity	8,161	1,268	16,113	15,105	14,583

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	(7.6%)	(25.8%)	30.0%	15.0%	12.0%
Operating EBITDA Growth	(92%)	1524%	(86%)	N/A	53%
Operating EBITDA Margin	(0.5%)	(11.4%)	(1.2%)	1.5%	2.0%
Net Cash Per Share (Rmb)	(0.28)	(0.44)	(0.36)	(0.40)	(0.44)
BVPS (Rmb)	0.58	0.24	0.59	0.57	0.56
Gross Interest Cover	(0.54)	(2.90)	(0.76)	0.17	0.45
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	1.19	2.77	3.13	3.31	3.35
Inventory Days	57.64	74.26	63.05	60.51	59.43
Accounts Payables Days	150.2	187.5	148.7	133.6	122.9
ROIC (%)	(8.5%)	(25.1%)	(8.0%)	0.9%	2.2%
ROCE (%)	(2.1%)	(15.0%)	(2.3%)	1.5%	2.5%
Return On Average Assets	(1.97%)	(8.06%)	(1.74%)	0.42%	0.99%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue growth for audio visual (%)	-17.6%	-29.0%	30.0%	15.0%	12.0%
Revenue growth for refrigerators and washing machi	(0.1)	(0.3)	0.3	0.2	0.1
Revenue growth for air conditioners (%)	-10.1%	-36.8%	30.0%	15.0%	12.0%
Revenue growth for telecommunication (%)	-7.1%	-15.4%	30.0%	15.0%	12.0%
Revenue growth for IT products (%)	-20.4%	-15.8%	30.0%	15.0%	12.0%
Revenue growth for small electrical appliances (%)	-8.8%	-24.8%	30.0%	15.0%	12.0%
Revenue growth for digital (%)	77.0%	-20.9%	30.0%	15.0%	12.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

GOME Retail Holdings (493 HK)

RECOMMENDATION FRAMEWORK

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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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