

Hong Kong

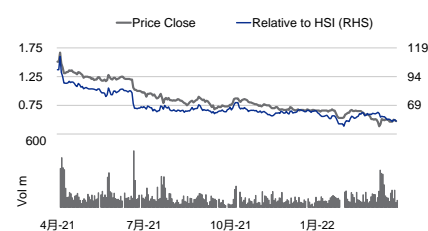
**HOLD** (no change)

Consensus ratings\*: Buy 0 Hold 3 Sell 2

Current price:	HK\$0.48
Target price:	HK\$0.51
Previous target:	HK\$0.70
Up/downside:	7.1%
CGI / Consensus:	-29.8%
Reuters:	0493.HK
Bloomberg:	493 HK
Market cap:	US\$2,046m
	HK\$16,034m
Average daily turnover:	US\$6.55m
	HK\$51.16m
Current shares o/s:	24,694m
Free float:	34.4%
*Source: Bloomberg	

**Key changes in this note**

- FY22F earnings decreased by 45%.
- FY23F earnings decreased by 21%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-19.5	-28	-68.6
Relative (%)	-16.3	-22.2	-44.7

Major shareholders	% held
Wong Kwong Yu	65.5

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# GOME Retail Holdings

## Transformation requires more time

- Gome reported FY21 revenue of Rmb46bn, up 5.4% yoy, the first yoy revenue increase in the past five years. The net loss for the year was Rmb4.4bn, narrowing from a net loss of Rmb7.0bn in FY20, but still below our expectation, because of slower revenue growth and less effective cost control.
- In FY22F, Gome expects its offline retail sector to turn profitable and the net loss of the online platform FUN to be limited to Rmb1.5bn, resulting in a net loss of less than Rmb1bn for the Group.
- Gome plans to start the IPO process of Anxun Logistics in 2H22F.
- Reiterate Hold with a new DCF-based TP of HK\$0.51, since Gome is still in the transformation period. We expect the Company to turn to profitable in FY24F.

### Slower revenue growth in 2H21 due to Covid volatility

Gome reported FY21 revenue of Rmb46bn, up 5.4% yoy, below our expectation because of a slower 2H21 sales recovery, with sales dropping of 18.4% yoy, affected by Covid volatility. FY21 total GMV reached Rmb146bn, up 30.4% yoy, with Rmb80–85bn from the FUN online platform. Its FY21 gross margin was 11.6%, down by 0.2% pts, slightly above our expectation, driven by a higher revenue contribution of high-margin products, such as AVs, refrigerators, washing machines and small white appliances. The FY21 selling expenses ratio was up 1.2% pts yoy to 15.8%, driven mainly by an 18.0%, 211%, and 41.2% yoy increase in staff costs, advertising expenses and delivery costs, respectively. The FY21 administrative expenses ratio was up 1.3% pts yoy to 5.5%, driven mainly by a 23.7% yoy increase in staff costs. The operating loss of Rmb3.4bn narrowed from an Rmb5.7bn loss in FY20. The net loss for the period was Rmb4.4bn (FY20: Rmb7.0bn), below our expectation, because of slower revenue growth in 2H21. In FY22F, Gome expects its offline retail business to become profitable and the net loss of the online platform to be limited to Rmb1.5bn, resulting in a less than Rmb1bn net loss for the Group.

### Expanding product categories and attracting more 3P merchants

In FY21, Gome's online platform FUN attracted 16.8m AACs, up 433% yoy and 6k merchants, up 728% yoy. In 4Q21, it had 54.16m MAUs, up 282% yoy and 23.2% qoq, and about 3m DAUs, indicating large room for user sickness to grow. But with a limited number of product categories and SKUs, the conversion rate in FY21 was not very high, at 3.8%, up 1.7% pts yoy. Since about 75% of FUN's GMV was contributed by durable goods, such as home appliances and home decor, the average order value was high, at Rmb1.3k, but user frequency was still a bit low. Therefore, management aims to increase the GMV of its 3P business and attract more merchants. Currently, the 3P take rate is still below 2%, and Gome expects this low take rate to continue for a while. In FY22F, Gome plans to increase its genuine product SKUs by 100k and 3P merchants by 5k to support a target GMV of over Rmb200bn. Gome will also launch more social and entertainment functions on its FUN platform in April, like KOL live broadcasts in its offline stores.

### Offline transformation still in progress

Gome's offline stores are still undergoing store optimization and renovation. It plans to close 500–600 underperforming offline stores to improve profitability in FY22F. The new store format is more of a show case room, with merchants paying a show case fee of about 8% of product value. Another 8% gross margin will be achieved from sales of goods. Over 60% of suppliers have adopted this new sales model. With the completion of store renovations, Gome expects its offline stores to return to profitability in FY22F with an expected margin of 15–25%. Gome also introduced an online live shopping guide in its offline stores to reduce labor costs and transform the original in-store shopping guide to have their small online shops sell Gome products.

### Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	44,119	46,484	53,456	59,871	67,056
Operating EBITDA (Rmbm)	-5,017	-2,727	660	1,426	2,223
Net Profit (Rmbm)	-6,994	-4,402	-954	-330	425
Normalised EPS (Rmb)	-0.35	-0.18	-0.04	-0.01	0.02
Normalised EPS Growth	170%	(49%)	(78%)	(65%)	
FD Normalised P/E (x)	NA	NA	NA	NA	22.43
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	25.90	12.55	8.10
P/FCFE (x)	3.49	NA	7.84	NA	NA
Net Gearing	693%	58%	73%	83%	84%
P/BV (x)	1.58	0.44	0.46	0.47	0.46
ROE	(84.7%)	(33.2%)	(4.5%)	(1.6%)	2.1%
% Change In Normalised EPS Estimates			(98.7%)	(66.1%)	
Normalised EPS/consensus EPS (x)			1.07	0.79	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Transformation requires more time

## Reiterate Hold with a new DCF-based TP of HK\$0.51

We cut our FY22–23F earnings forecasts by 45% and 21%, respectively, since we expect Gome's transformation progress to continue. A positive catalyst is faster sales growth recovery. The risks include an unsuccessful roll-out of further reforms and a higher-than-expected financial burden.

**Figure 1: Gome earnings results**

(Rmb m)	2H20	2H20	yoy	FY20	FY21	yoy
Revenue	25,044	20,444	-18.4%	44,119	46,484	5.4%
COGS	-22,206	-18,069	-18.6%	-39,569	-40,977	3.6%
Gross profit	2,838	2,375	-16.3%	4,550	5,507	21.0%
Gross margin (%)	11.33%	11.62%	0.3ppt	10.31%	11.85%	1.5ppt
Other operating income	307	608	98.0%	816	1,188	45.5%
Consolidated gross profit	3,145	2,983	-5.1%	5,367	6,695	24.7%
Consolidated gross margin (%)	12.56%	14.59%	2.0ppt	12.16%	14.40%	2.2ppt
Selling & distribution expenses	-3,384	-3,623	7.1%	-6,419	-7,337	14.3%
Administrative expenses	-938	-1,507	60.7%	-1,837	-2,568	39.8%
Other operating expenses, net	-2,522	24	-100.9%	-2,807	-174	-93.8%
Operating profit	-3,699	-2,124	-42.6%	-5,697	-3,385	-40.6%
Operating margin (%)	-14.77%	-10.39%	4.4ppt	-12.91%	-7.28%	5.6ppt
Interest expense	-963	-932	-3.3%	-1,966	-1,946	-1.0%
Interest income	208	360	73.2%	501	619	23.7%
Pretax profit	-4,454	-2,709	-39.2%	-7,169	-4,728	-34.0%
Taxation	6	5	-21.7%	-35	-44	27.7%
Minority interests	76	276	261.0%	210	371	76.8%
Reported net profit	-4,371	-2,428	-44.5%	-6,994	-4,402	-37.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Gome earnings revisions**

	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Total sales (Rmbm)	65,958	53,456	-18.95%	73,873	59,871	-18.95%	N/A	67,056	N/A
Combined gross margin	13.8%	15.6%	1.81 pts	14.0%	16.1%	2.16 pts	N/A	16.4%	N/A
Operating margin	0.5%	-0.1%	-0.54 pts	1.1%	1.2%	0.08 pts	N/A	2.2%	N/A
Net margin	-1.00%	-1.79%	-0.79 pts	-0.37%	-0.55%	-0.18 pts	N/A	0.63%	N/A
Net profit (Rmbm)	-658	-954	-45.01%	-272	-330	-21.20%	N/A	425	N/A
Reported EPS (Rmb)	-0.019	-0.039	-98.73%	-0.008	-0.013	-66.11%	N/A	0.017	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

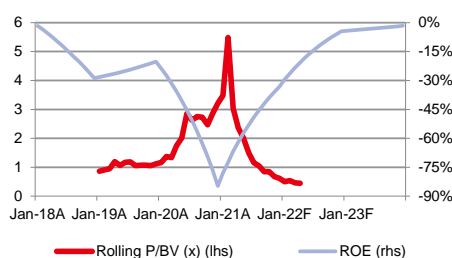
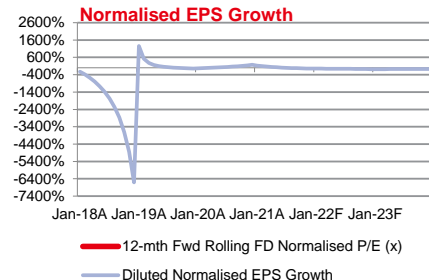
**Figure 3: Gome DCF valuation**

FCF computation (Rmb m)	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY31F	FY32F
EBIT	-3,384.7	-40.1	691.2	1,452.9	1,743.5	2,092.2	2,510.7	2,987.7	3,435.8	3,951.2	4,543.9	5,225.5	6,009.3
Taxes	-44.4	12.4	5.5	-1.7	-2.0	-2.4	-2.9	-3.4	-3.9	-4.5	-5.2	-6.0	-6.8
NOPAT	-3,429.1	-27.7	696.7	1,451.3	1,741.5	2,089.8	2,507.8	2,984.3	3,431.9	3,946.7	4,538.7	5,219.5	6,002.5
NOPAT growth		nm	-2613.7%	108.3%	20.0%	20.0%	20.0%	19.0%	15.0%	15.0%	15.0%	15.0%	15.0%
D&A	657.5	700.0	734.9	769.9	777.6	785.3	793.2	801.1	809.1	817.2	825.4	833.7	842.0
Funds from operation	-2,771.6	672.3	1,431.7	2,221.1	2,519.1	2,875.2	3,301.0	3,785.4	4,241.1	4,764.0	5,364.1	6,053.2	6,844.5
Change in net working Capital	449.2	-380.9	-413.1	-492.2	-497.1	-502.1	-507.1	-512.2	-517.3	-522.5	-527.7	-533.0	-538.3
Cash flow from operation	-2,322.4	291.4	1,018.6	1,728.9	2,022.0	2,373.1	2,793.9	3,273.2	3,723.8	4,241.5	4,836.4	5,520.2	6,306.1
Capex	-1,076.8	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0	-750.0
Free cash flow from operation	-3,399.2	-458.6	268.6	978.9	1,272.0	1,623.1	2,043.9	2,523.2	2,973.8	3,491.5	4,086.4	4,770.2	5,556.1
FCF growth		nm	-158.6%	264.5%	29.9%	27.6%	25.9%	23.5%	17.9%	17.4%	17.0%	16.7%	16.5%
Terminal free cash flow		72,335.4											
Total discounted free cash flow		16,241.2											
Present value of terminal free cash flow		24,202.6											
<b>Total present value of forecasted free cash flows</b>		<b>40,443.8</b>											
Less: Minorities		4,369.6											
Less: Net Debt		25,606.8											
<b>Equity Value</b>		<b>10,467.4</b>											
No. Shares (m)		24,694.1											
<b>Per Share Equity Value (Rmb)</b>		<b>0.42</b>											
Exchange rate		0.83											
<b>Target price (HK\$)</b>		<b>0.51</b>											

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-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>44,119</b>	<b>46,484</b>	<b>53,456</b>	<b>59,871</b>	<b>67,056</b>
<b>Gross Profit</b>	<b>4,550</b>	<b>5,507</b>	<b>6,953</b>	<b>7,997</b>	<b>9,091</b>
<b>Operating EBITDA</b>	<b>-5,017</b>	<b>-2,727</b>	<b>660</b>	<b>1,426</b>	<b>2,223</b>
Depreciation And Amortisation	-680	-657	-700	-735	-770
<b>Operating EBIT</b>	<b>-5,697</b>	<b>-3,385</b>	<b>-40</b>	<b>691</b>	<b>1,453</b>
Financial Income/(Expense)	-1,465	-1,327	-1,327	-1,327	-1,327
Pretax Income/(Loss) from Assoc.	-6	-17	50	50	50
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>-7,169</b>	<b>-4,728</b>	<b>-1,317</b>	<b>-586</b>	<b>176</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>-7,169</b>	<b>-4,728</b>	<b>-1,317</b>	<b>-586</b>	<b>176</b>
Taxation	-35	-44	12	6	-2
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>-7,204</b>	<b>-4,773</b>	<b>-1,304</b>	<b>-580</b>	<b>175</b>
Minority Interests	210	371	350	250	250
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
<b>Net Profit</b>	<b>-6,994</b>	<b>-4,402</b>	<b>-954</b>	<b>-330</b>	<b>425</b>
Normalised Net Profit	-7,204	-4,773	-1,304	-580	175
<b>Fully Diluted Normalised Profit</b>	<b>-6,994</b>	<b>-4,402</b>	<b>-954</b>	<b>-330</b>	<b>425</b>

### Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>-5,017</b>	<b>-2,727</b>	<b>660</b>	<b>1,426</b>	<b>2,223</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,844	449	-381	-413	-492
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	6,644	7,983	50	50	50
Net Interest (Paid)/Received	-1,641	-1,327	-1,327	-1,327	-1,327
Tax Paid	20	-44	12	6	-2
<b>Cashflow From Operations</b>	<b>1,851</b>	<b>4,334</b>	<b>-985</b>	<b>-258</b>	<b>452</b>
Capex	-1,403	-1,077	-750	-750	-750
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	425	-8,168	-50	-50	-50
<b>Cash Flow From Investing</b>	<b>-978</b>	<b>-9,245</b>	<b>-800</b>	<b>-800</b>	<b>-800</b>
Debt Raised/(repaid)	1,346	-4,727	3,000	0	0
Proceeds From Issue Of Shares	0	254	0	0	0
Shares Repurchased					
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	-753	4,165	0	0	0
<b>Cash Flow From Financing</b>	<b>593</b>	<b>-308</b>	<b>3,000</b>	<b>0</b>	<b>0</b>
Total Cash Generated	1,466	-5,219	1,215	-1,058	-348
<b>Free Cashflow To Equity</b>	<b>2,219</b>	<b>-9,638</b>	<b>1,215</b>	<b>-1,058</b>	<b>-348</b>
<b>Free Cashflow To Firm</b>	<b>2,839</b>	<b>-2,965</b>	<b>161</b>	<b>888</b>	<b>1,598</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	24,142	18,047	19,262	18,204	17,856
Total Debtors	4,031	4,819	5,132	5,430	5,755
Inventories	8,368	6,352	6,987	7,686	8,454
Total Other Current Assets	417	1,583	1,583	1,583	1,583
<b>Total Current Assets</b>	<b>36,959</b>	<b>30,801</b>	<b>32,963</b>	<b>32,902</b>	<b>33,648</b>
Fixed Assets	6,296	6,715	6,765	6,781	6,761
Total Investments	0	0	0	0	0
Intangible Assets	10,455	10,323	10,323	10,323	10,323
Total Other Non-Current Assets	16,784	33,084	33,134	33,184	33,234
<b>Total Non-current Assets</b>	<b>33,535</b>	<b>50,122</b>	<b>50,222</b>	<b>50,287</b>	<b>50,317</b>
Short-term Debt	23,310	22,061	22,061	22,061	22,061
Current Portion of Long-Term Debt					
Total Creditors	25,408	24,844	25,411	25,995	26,596
Other Current Liabilities	4,225	5,245	5,245	5,245	5,245
<b>Total Current Liabilities</b>	<b>52,943</b>	<b>52,150</b>	<b>52,717</b>	<b>53,300</b>	<b>53,902</b>
Total Long-term Debt	9,617	6,139	9,139	9,140	9,140
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,666	5,049	5,049	5,049	5,049
<b>Total Non-current Liabilities</b>	<b>16,283</b>	<b>11,188</b>	<b>14,188</b>	<b>14,188</b>	<b>14,188</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>69,227</b>	<b>63,338</b>	<b>66,905</b>	<b>67,489</b>	<b>68,090</b>
Shareholders' Equity	4,916	21,604	20,650	20,320	20,744
Minority Interests	-3,649	-4,020	-4,370	-4,620	-4,870
<b>Total Equity</b>	<b>1,268</b>	<b>17,585</b>	<b>16,280</b>	<b>15,700</b>	<b>15,875</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(25.8%)	5.4%	15.0%	12.0%	12.0%
Operating EBITDA Growth	1524%	(46%)	N/A	116%	56%
Operating EBITDA Margin	(11.4%)	(5.9%)	1.2%	2.4%	3.3%
Net Cash Per Share (Rmb)	-0.44	-0.41	-0.48	-0.53	-0.54
BVPS (Rmb)	0.24	0.87	0.84	0.82	0.84
Gross Interest Cover	-2.90	-1.74	-0.02	0.36	0.75
Effective Tax Rate	0.00%	0.00%	0.00%	0.00%	0.94%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	2.77	7.32	10.55	10.68	10.71
Inventory Days	74.26	65.56	52.35	51.62	50.96
Accounts Payables Days	187.5	175.1	150.5	139.0	128.4
ROIC (%)	(25.1%)	(20.2%)	(0.1%)	2.1%	4.3%
ROCE (%)	(15.0%)	(6.9%)	1.2%	2.8%	4.4%
Return On Average Assets	(8.06%)	(4.55%)	0.03%	0.90%	1.80%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue growth for audio visual (%)	-29.0%	5.4%	15.0%	12.0%	12.0%
Revenue growth for refrigerators and washing machi	(0.3)	0.1	0.2	0.1	0.1
Revenue growth for air conditioners (%)	-36.8%	5.4%	15.0%	12.0%	12.0%
Revenue growth for telecommunication (%)	-15.4%	5.4%	15.0%	12.0%	12.0%
Revenue growth for IT products (%)	-15.8%	5.4%	15.0%	12.0%	12.0%
Revenue growth for small electrical appliances (%)	-24.8%	5.4%	15.0%	12.0%	12.0%
Revenue growth for digital (%)	-20.9%	5.4%	15.0%	12.0%	12.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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### Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

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

### Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

## Analyst Certification

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

#11