

# 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

1 Apr 2022

### HOLD

Last Traded Price (31 Mar 2022): HK\$0.490 (HSI : 21,997)  
Price Target 12-mth: HK\$0.55 (12% upside) (Prev HK\$0.75)

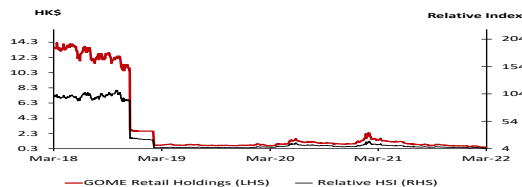
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#### What's New

- Higher sales with narrowing losses amid deployment in online & offline channels and better supply chain controls
- Ongoing expansion into county regions is a potential earnings driver
- Uncertainties still exist amid intense competition and low market visibility. Maintain HOLD with new TP to HK\$0.55

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	44,119	46,484	58,040	66,300
EBITDA	(2,408)	(2,424)	54	1,086
Pre-tax Profit	(7,169)	(4,728)	(2,367)	(1,237)
Net Profit	(6,994)	(4,402)	(1,969)	(829)
Net Pft (Pre Ex) (core profit)	(6,994)	(4,402)	(1,969)	(829)
Net Profit Gth (Pre-ex) (%)	(170.0)	37.1	55.3	57.9
EPS (RMB)	(0.35)	(0.15)	(0.07)	(0.03)
EPS (HK\$)	(0.43)	(0.18)	(0.08)	(0.03)
Core EPS (RMB)	(0.35)	(0.15)	(0.07)	(0.03)
Core EPS (HK\$)	(0.43)	(0.18)	(0.08)	(0.03)
EPS Gth (%)	(169.8)	57.1	56.1	57.9
Core EPS Gth (%)	(169.8)	57.1	56.1	57.9
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\$)	0.08	0.74	0.56	0.65
PE (X)	nm	nm	nm	nm
CorePE (X)	nm	nm	nm	nm
P/Cash Flow (X)	4.3	18.0	2.2	1.9
P/Free CF (X)	122.7	nm	2.8	2.2
EV/EBITDA (X)	nm	nm	595.8	27.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	6.3	0.7	0.9	0.8
Net Debt/Equity (X)	20.2	1.5	1.8	1.5
ROAE (%)	(84.7)	(33.2)	(9.9)	(4.3)
Earnings Rev (%)			(121)	(232)
Consensus EPS (RMB)			(0.04)	(0.02)
Other Broker Recs:		B:0	S:1	H:3

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

### Narrowing losses

#### Investment Thesis

**Strategic third-party cooperation.** GOME's proactive move in channel collaboration with competent partners, including JD.com and PinDuoDuo, should improve overall supply chain and sales growth prospects to achieve a win-win situation.

**Consumer experience upgrade.** The company is putting in more efforts to enhance its product offerings and service quality, with an aim to develop itself as an one-stop retailer that focuses on overall home solutions and better consumer experience, hence improving customer stickiness and loyalty.

**New retail strategy.** More efforts on the deployment of GOME's newer omnichannel strategies should support business expansion and safeguard its long-term prospects.

#### Valuation:

In view of its lower-than-expected bottom-line performance for 2021 amid intense competition, we revise up our projected losses by 121%/232% for FY22/FY23. Our new target price is HK\$0.55, pegged to 1x FY22F P/BV amid a more volatile operating environment from rising costs and COVID-19 impacts (previous TP: HK\$0.75 based on 2x P/BV).

#### Where we differ:

We stay conservative on the stock given intense market competition and uncertainties related to the implementation of its plans. However, we believe FY22-23 could see better traction from its newer strategies, as GOME continues to transform its business model and hopes to return to the black in one to two years. We see room to lift our estimates once solid income starts to flow in.

#### Key Risks to Our View:

**Upside risks:** Earlier-than-expected earnings turnaround

**Downside risks:** Slow execution of new retail strategies; COVID-19 affects consumer sentiment; new home demand remains slow.

#### At A Glance

Issued Capital (m shrs)	33,757
Mkt Cap (HK\$/US\$m)	16,541 / 2,112
Major Shareholders (%)	
Wong (Kwong Yu)	59.2
Free Float (%)	40.8
3m Avg. Daily Val. (US\$m)	6.75
GICS Industry: Consumer Discretionary / Retailing	



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## GOME Retail Holdings

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### WHAT'S NEW

#### FY21 Results Briefing Takeaways

**FY21 losses were slightly bigger than expectations.** GOME released its FY21 results, posting 5.4% y-o-y increase in the top line to RMB46.5bn. Total GMV grew by 30.4% to RMB146.8bn. Gross profit increased by 24.7% to RMB6.7bn, and GP margin recorded a 2.2ppt increase to 14.4%. Operating loss narrowed by 40.4% to RMB3.4bn with an operating margin of -7.3% (2020: -12.9%). Net loss shrunk by 37.1% to RMB4.4bn (vs. consensus estimates of a RMB3bn loss), at net margin of -9.5% (2020: -15.9%).

**Online platform – ‘FUN’ App - gradually gaining market attention.** The annual visits to GOME’s online platform reached 442.6mn, up by 196%, with the total number of buyers expanded by 433% to 16.8mn, on a 1.7ppt increase in conversion rate to 3.8%. The new APP is gradually gaining market attention, in view of rising number of new visitors and registered members. Average MAU (monthly active users) jumped by 282% to around 42.4mn during 2021.

**Offline channels.** The store network further expanded with an opening of 774 new stores during 2021, while GOME plans to shut around 500-600 stores ahead that have high costs and poor performance to optimize resource utilization. In order to capture more opportunities in the lower-tier markets of China, GOME also set up around 141 stores in those regions, seeing revenue contribution from county-level stores being increased from 8.7% in 2020 to around 12.8% in 2021.

**Supply chain and logistics.** GOME continues to expand its product-mix to offer non-appliance merchandises. Its

overall SKU has reached 2.4m across over 8,000 brands, of which non-appliance categories account for around 95% of the total. Anxun, the logistics service platform of GOME, covers 99% of 4th-tier areas and over 80% of rural areas. The proportion of third-party business of Anxun also reached 48% via effective business cooperation.

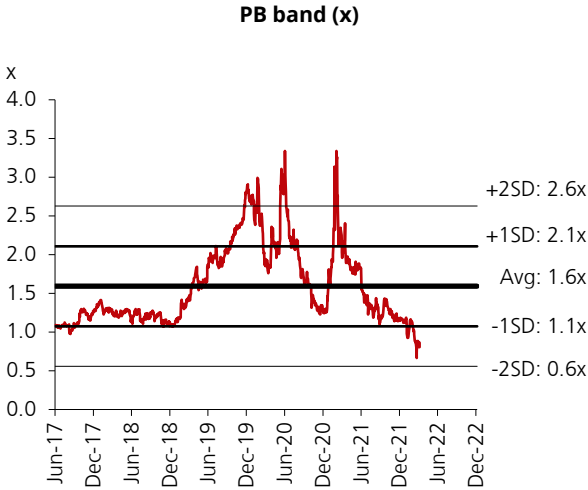
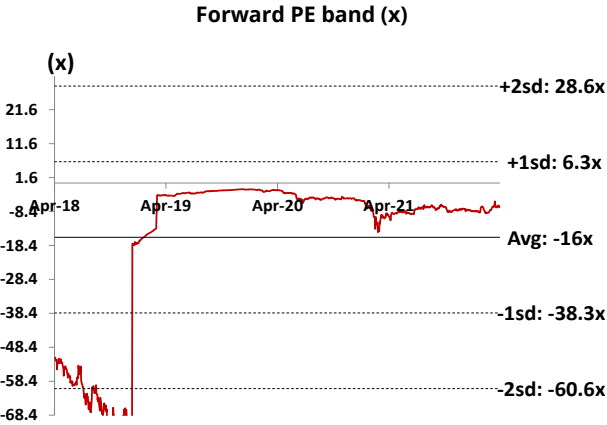
**Overall Outlook.** On the back of continuous improvement in consumption powers and living standards across the county markets of China, coupled with strong logistics support and the strengthening of online and offline channels, GOME should be in a good position to capture growth potentials across the lower-tier cities. While the company has accomplished some positive performances during 2M22, intense market competition and the uncertainties associated with its strategy implementation could impact GOME’s growth momentum and sustainability. We maintain HOLD on the counter and await better financial performance ahead.

#### 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.

### GOME Retail Holdings

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## GOME Retail Holdings

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Store number	2,735.0	3,421.0	3,956.0	4,496.0	5,036.0
Offline sales (RMB)	57,427.0	40,619.1	42,983.8	52,790.1	58,162.7
Online Revenue (RMB m)	2,055.8	3,500.0	3,500.0	5,250.0	8,137.5
Net gearing (%)	223.6	2,018.1	146.1	181.2	146.7
Gross profit margin (%)	15.3	10.3	11.8	14.5	15.1

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Online Revenue (RMB)	2,056	3,500	3,500	5,250	8,138
Offline Revenue (RMB)	57,427	40,619	42,984	52,790	58,163
<b>Total</b>	<b>59,483</b>	<b>44,119</b>	<b>46,484</b>	<b>58,040</b>	<b>66,300</b>
<b>Gross Profit (RMB m)</b>					
Online Revenue (RMB)	31	35	35	79	122
Offline Revenue (RMB)	9,080	4,515	5,472	8,341	9,888
<b>Total</b>	<b>9,111</b>	<b>4,550</b>	<b>5,507</b>	<b>8,420</b>	<b>10,010</b>
<b>Gross Profit Margins (%)</b>					
Online Revenue (RMB)	1.5	1.0	1.0	1.5	1.5
Offline Revenue (RMB)	15.8	11.1	12.7	15.8	17.0
<b>Total</b>	<b>15.3</b>	<b>10.3</b>	<b>11.8</b>	<b>14.5</b>	<b>15.1</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	59,483	44,119	46,484	58,040	66,300
Cost of Goods Sold	(50,372)	(39,569)	(40,977)	(49,621)	(56,290)
<b>Gross Profit</b>	<b>9,111</b>	<b>4,550</b>	<b>5,507</b>	<b>8,420</b>	<b>10,010</b>
Other Opg (Exp)/Inc	(10,239)	(10,248)	(8,892)	(9,285)	(9,812)
<b>Operating Profit</b>	<b>(1,129)</b>	<b>(5,697)</b>	<b>(3,385)</b>	<b>(865)</b>	<b>198</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(105)	(6)	(17)	(6)	(6)
Net Interest (Exp)/Inc	(1,662)	(1,465)	(1,327)	(1,496)	(1,429)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(2,896)</b>	<b>(7,169)</b>	<b>(4,728)</b>	<b>(2,367)</b>	<b>(1,237)</b>
Tax	(72)	(35)	(44)	(21)	(11)
Minority Interest	379	210	371	419	419
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>(2,590)</b>	<b>(6,994)</b>	<b>(4,402)</b>	<b>(1,969)</b>	<b>(829)</b>
Net Profit before Except.	(2,590)	(6,994)	(4,402)	(1,969)	(829)
EBITDA	2,728	(2,408)	(2,424)	54	1,086

### Growth

Revenue Gth (%)	(7.6)	(25.8)	5.4	24.9	14.2
EBITDA Gth (%)	N/A	N/A	(0.7)	N/A	1,906.0
Opg Profit Gth (%)	(75.9)	404.7	(40.6)	(74.4)	(122.8)
Net Profit Gth (%)	47.0	(170.0)	37.1	55.3	57.9

### Margins & Ratio

Gross Margins (%)	15.3	10.3	11.8	14.5	15.1
Opg Profit Margin (%)	(1.9)	(12.9)	(7.3)	(1.5)	0.3
Net Profit Margin (%)	(4.4)	(15.9)	(9.5)	(3.4)	(1.3)
ROAE (%)	(20.2)	(84.7)	(33.2)	(9.9)	(4.3)
ROA (%)	(3.9)	(9.8)	(5.8)	(2.4)	(1.0)
ROCE (%)	(2.9)	(13.0)	(7.0)	(1.7)	0.4
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Interest Cover (x)	NM	NM	NM	NM	0.1

Source: Company, DBS HK

## GOME Retail Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	6,733	6,296	6,715	6,303	5,932
Invt in Associates & JVs	180	176	634	176	634
Other LT Assets	31,615	27,063	42,773	43,445	42,450
Cash & ST Invt	8,776	10,015	5,320	6,225	7,767
Inventory	7,688	8,368	6,352	7,472	10,024
Debtors	3,448	3,662	4,666	6,286	6,489
Other Current Assets	13,431	14,914	14,463	12,894	15,061
<b>Total Assets</b>	<b>71,872</b>	<b>70,494</b>	<b>80,923</b>	<b>82,802</b>	<b>88,356</b>
ST Debt	18,445	25,858	24,554	24,126	24,126
Creditors	23,685	25,408	24,844	30,291	33,389
Other Current Liab	4,282	1,677	2,751	2,920	3,208
LT Debt	8,581	9,739	6,451	6,885	6,885
Other LT Liabilities	8,717	6,544	4,737	4,900	4,904
Shareholder's Equity	11,600	4,916	21,604	18,118	20,702
Minority Interests	(3,439)	(3,649)	(4,020)	(4,439)	(4,858)
<b>Total Cap. &amp; Liab.</b>	<b>71,872</b>	<b>70,494</b>	<b>80,923</b>	<b>82,802</b>	<b>88,356</b>
Non-Cash Wkg. Capital	(3,400)	(141)	(2,115)	(6,558)	(5,023)
Net Cash/(Debt)	(18,250)	(25,583)	(25,685)	(24,786)	(23,244)
Debtors Turn (avg days)	28.8	29.4	32.7	34.4	35.2
Creditors Turn (avg days)	175.0	226.4	223.8	202.8	206.5
Inventory Turn (avg days)	57.6	74.1	65.6	50.8	56.7
Asset Turnover (x)	0.9	0.6	0.6	0.7	0.8
Current Ratio (x)	0.7	0.7	0.6	0.6	0.6
Quick Ratio (x)	0.3	0.3	0.2	0.2	0.2
Net Debt/Equity (X)	2.2	20.2	1.5	1.8	1.5
Net Debt/Equity ex MI (X)	1.6	5.2	1.2	1.4	1.1
Capex to Debt (%)	5.0	5.0	13.5	3.2	3.0
Z-Score (X)	0.9	1.0	1.1	1.3	1.3

Source: Company, DBS HK

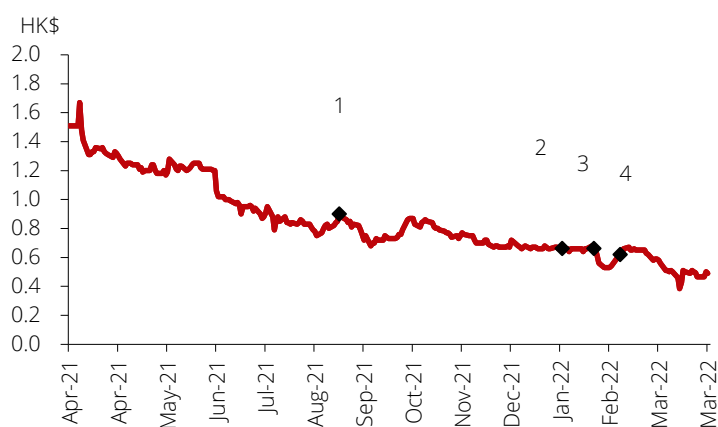
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(2,896)	(7,169)	(4,728)	(2,367)	(1,237)
Dep. & Amort.	3,962	3,296	2,326	4,976	4,944
Tax Paid	(125)	20	(44)	(21)	(11)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	386	2,179	(46)	294	277
Chg in Wkg.Cap.	(406)	2,215	580	580	743
Other Operating CF	1,480	1,311	2,562	1,841	1,640
<b>Net Operating CF</b>	<b>2,401</b>	<b>1,851</b>	<b>649</b>	<b>5,302</b>	<b>6,356</b>
Capital Exp.(net)	(1,341)	(1,786)	(4,180)	(998)	(940)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(199)	(1)	(329)	(165)	(247)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	439	810	3,040	1,312	1,092
<b>Net Investing CF</b>	<b>(1,100)</b>	<b>(978)</b>	<b>(1,469)</b>	<b>149</b>	<b>(95)</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	5,946	8,301	285	285	285
Capital Issues	0	(16)	0	0	0
Other Financing CF	(9,217)	(7,692)	(4,663)	(4,251)	(5,174)
<b>Net Financing CF</b>	<b>(3,271)</b>	<b>593</b>	<b>(4,378)</b>	<b>(3,966)</b>	<b>(4,889)</b>
Currency Adjustments	14	(55)	(21)	(38)	(29)
Chg in Cash	(1,957)	1,411	(5,219)	1,447	1,342
Opg CFPS (RMB)	0.14	(0.02)	0.00	0.16	0.19
Free CFPS (RMB)	0.05	0.00	(0.12)	0.14	0.18

Source: Company, DBS HK

**GOME Retail Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Sep-21	HK\$0.90	HK\$0.71	Fully Valued
2:	7-Jan-22	HK\$0.66	HK\$0.75	Hold
3:	25-Jan-22	HK\$0.68	HK\$0.75	Hold
4:	9-Feb-22	HK\$0.59	HK\$0.75	Hold

Source: DBS HK

Analyst: Mavis Hui,  
Kay Tan

## 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: 1 Apr 2022 11:15:48 (HKT)

Dissemination Date: 1 Apr 2022 14:24:30 (HKT)

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**GOME Retail Holdings**

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