

# Yonghui Superstores

Bloomberg: 601933 CH Equity | Reuters: 601933.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jun 2022

**HOLD** (Downgrade from BUY)

Last Traded Price (6 Jun 2022): RMB4.31 (CSI300 Index : 4,166)

Price Target 12-mth: RMB4.55 (5% upside) (Prev RMB4.18)

**Analyst**

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**What's New**

- We project sales growth of 9%/7% in FY22/FY23F amid CGB consolidation. Digitalisation strategy could also support gradual margin rebound
- Online sales to grow by double digits, with long-term goal to contribute 30% of group revenue
- Share price already up c.18% since our last rating in Mar 2022. Trading at 35.1x FY23 PE, downgrade to HOLD

## Near-term recovery largely in the price

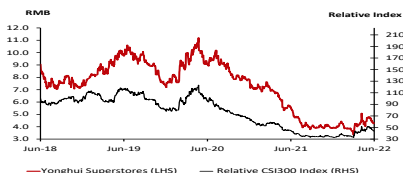
**Investment Thesis**

**Sequential sales recovery.** Yonghui has seen same-store sales growth (SSSG) of 6%/12% y-o-y in Mar/Apr this year, amid easing competition from community group buying (CGB) players and the COVID-19 resurgence driving demand for food and groceries to some extent. With the ongoing CGB consolidation and the lockdown of selected cities (e.g., Shanghai) coming to an end, we expect Yonghui to see better sales recovery starting from 2Q22, achieving 9%/7% revenue growth in FY22/FY23.

**Online fuels a growth opportunity.** We expect Yonghui to continue with its expansion of online channels to sustain double-digit online growth, while aiming for a 30% online revenue contribution in the longer run. We believe its integration of the warehouse and store in its hypermarkets could also help to narrow the current losses of its online segment and lead to margin expansion.

**Ongoing efficiency improvements.** Yonghui's omni-channel digital platform "YHDOS" could enable further integration of its supply chain and store operations while also deriving better staff efficiency to save costs. Yet, in view of lingering near-term competitive pressure from CGB players, it may take two to three years for Yonghui's net profit margin to recover gradually to c.2% or higher.

**Price Relative**



**Forecasts and Valuation**

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	93,199	91,062	99,413	106,273
EBITDA	2,281	277	3,864	4,303
Pre-tax Profit	2,174	(4,722)	57	771
Net Profit	1,794	(3,944)	595	1,144
Net Pft (Pre Ex) (core profit)	580	(3,833)	595	1,144
Net Profit Gth (Pre-ex) (%)	(45.4)	N/A	N/A	92.4
EPS (RMB)	0.19	(0.42)	0.06	0.12
Core EPS (RMB)	0.06	(0.41)	0.06	0.12
EPS Gth (%)	17.3	N/A	N/A	92.4
Core EPS Gth (%)	(44.2)	N/A	N/A	92.4
Diluted EPS (RMB)	0.19	(0.42)	0.06	0.12
DPS (RMB)	0.19	0.02	0.04	0.09
BV Per Share (RMB)	2.08	1.14	1.85	2.40
PE (X)	22.4	nm	67.5	35.1
CorePE (X)	69.2	nm	67.5	35.1
P/Cash Flow (X)	6.5	6.9	8.4	8.5
P/Free CF (X)	9.9	10.5	12.2	12.6
EV/EBITDA (X)	18.8	158.3	10.1	8.1
Net Div Yield (%)	4.3	0.5	1.0	2.0
P/Book Value (X)	2.1	3.8	2.3	1.8
Net Debt/Equity (X)	0.1	0.3	CASH	CASH
ROAE (%)	9.1	(26.3)	4.3	5.8
Earnings Rev (%)			38	9
Consensus EPS (RMB)			0.08	0.14
Other Broker Recs:		B:19	S:2	H:5

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

**Valuation:**

We revised our TP to RMB4.55 as we continue to base on a 37x FY23 PE, equivalent to its pre-pandemic average to reflect its longer-term valuation.

**Where we differ:**

We revised up FY22/FY23 earnings by 38%/9% in view of improving YTD performance. We are more prudent on FY22/FY23 earnings than consensus as we expect a slower earnings recovery due to competition and potential COVID uncertainties.

**Key Risks to Our View:**

Slower-than-expected CGB consolidation; COVID-19 resurgence

**At A Glance**

Issued Capital (m shrs)	9,075
Mkt Cap (RMBm/US\$m)	39,113 / 5,878
Major Shareholders (%)	
The Dairy Farm Company Limited	21.1
Zhang (Xuan Song)	11.7
Zhang (Xuan Ning)	8.2
Jiangsu Jingdong Bangneng Inv Mgt Co., Ltd.	8.1
Linzhi Tencent Technology Co., Ltd.	5.3
Free Float (%)	45.6
3m Avg. Daily Val. (US\$m)	92.19
GICS Industry: Consumer Staples / Food & Staples Retailing	



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## Yonghui Superstores

### WHAT'S NEW

**Ongoing CGB consolidation.** The latest round of CGB consolidation is evidenced by the financial difficulties and bankruptcy of certain e-platforms, despite the recent surge in industry sales amid stringent lockdowns and social restrictions in selected areas (e.g., Shanghai, Jilin, and Beijing). Yonghui was able to see positive SSSG since Jan this year, and we believe SSSG reached 12% y-o-y in April. The company is also committed to upgrading its product-mix with enhanced SKUs to better attract younger generations, while the contribution from FMCGs has also increased, supporting margin improvements.

In order to leverage on the CGB consolidation and increase customer traffic, we believe Yonghui will stick to the "combination of warehouse and store" for hypermarket operations, which could also integrate both online and offline operations and generate synergies for sales expansion and cost savings. In the meantime, with pressure from CGB players easing, Yonghui may slow the pace of warehouse store openings in order to minimise new store losses while continuing to improve operating efficiency (e.g., increasing focus on house brand products). Overall, we expect Yonghui to see 9%/7% revenue growth in FY22/FY23.

**COVID-19 resurgence: a double-edged sword.** The recent COVID-19 resurgence has affected Yonghui's operations in areas that were under severe lockdown, resulting in a significant sales contraction in its 30+ stores in Shanghai. Meanwhile, the stores in cities with smaller outbreaks, such as Shenzhen, have benefited from a higher demand for food and groceries due to tightened social restrictions. With the COVID-19 situation improving and the gradual relaxation of lockdown in Shanghai, Yonghui has seen decent sales recovery since late-April and has attained daily sales performance comparable to pre-resurgence. Overall, we believe the easing COVID-19 situation in China should provide stable support for Yonghui's performance ahead.

**Online business to be a key growth driver.** To cope with competition from e-grocery players, Yonghui continues to double down on its online business via its self-operated app Yonghui Shenghuo (永辉生活) serving 1,000+ stores, and third-party e-platforms covering 900+ stores thus far. As the recent COVID-19 disruptions also drove a higher demand for e-groceries, Yonghui was able to record a teen's growth in online revenue during May. Riding on its strong position in online sales among most food retail

chains, we believe Yonghui should continue to score double-digit growth in its online revenue in FY22, and target at 30% online revenue contribution in the longer run. Its ongoing efforts in the standardisation of warehouse management and delivery services has also enabled Yonghui to achieve c.96% on-time delivery. With nearly 86m registered members, the increasing revenue contribution from self-owned e-platform (c.60% so far) could also support Yonghui's gross margin expansion in online sales.

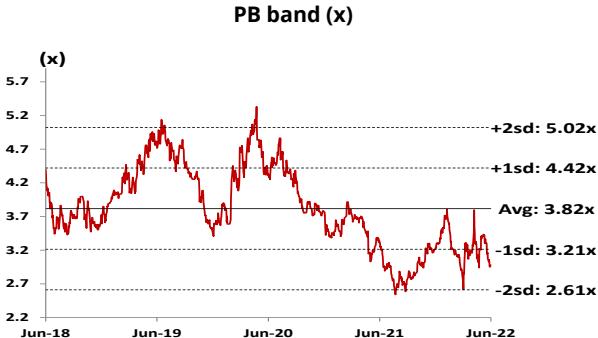
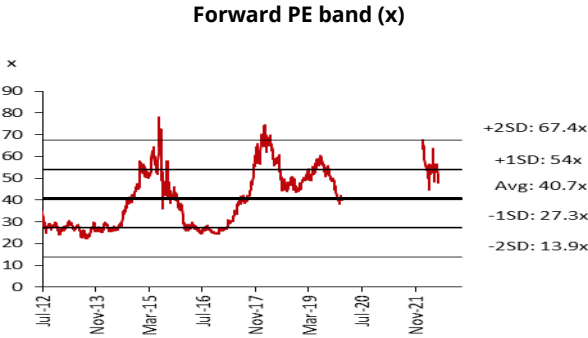
**Digitalisation to support efficiency improvement.** To facilitate its long-term development prospects, Yonghui has created its own omni-channel operating system "YHDOS", enabling it to integrate information from supply chains to front-end stores, thereby improving the transparency of logistics and store inventory. The platform is also capable of SKU analysis for the best recommendations to streamline slow-moving goods. Yonghui was thus able to lower its annualised inventory turnover days by three days in 1Q22 vs. 1Q21. In terms of staff cost, "YHDOS" could also help to reduce labour reliance and improve human resource efficiency through attendance scheduling and management. We believe the above measures could help Yonghui maintain competitive prices while achieving higher sales and cost efficiencies. Yonghui should also be able to limit its operating cost ratio to <19% in FY22/FY23 (FY21: 21%). While the worst should be over, fierce competition may linger in the near-term, and it may take Yonghui two to three years to gradually recover towards a net profit margin of 2%+ or higher.

### Company Background

Yonghui is the third largest hypermarket chain operator in China. The company is headquartered in Fujian and runs a total of 1,057 hypermarkets across China as of the end of FY21, predominantly under its flagship "Yonghui" brand. The company's main operations are in grocery food retail, complemented by non-food product offerings. Its venture into the O2O service should pave the way for better medium-term prospects.

### Yonghui Superstores

#### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Yonghui Superstores

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Fujian, Jiangxi	13,648	14,563	14,659	16,125	17,253
Beijing, Tianjin, Liaoning, Jilin, Heilongjiang, Inner Mongolia	8,285	9,256	9,001	9,721	10,401
Jiangsu, Zhejiang, Shanghai, Anhui	17,479	19,270	19,260	21,186	22,458
Chongqing, Hunan, Hubei, Guizhou, Yunnan	17,594	19,071	17,744	19,518	21,080
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	12,067	12,911	12,963	13,948	14,785
Guangdong, Guangxi, hainan, Henan, Shanxi, Hebei, Shandong	9,498	11,713	11,331	12,322	13,308
Others	6,307	6,414	6,104	6,592	6,988
<b>Total</b>	<b>84,877</b>	<b>93,199</b>	<b>91,062</b>	<b>99,413</b>	<b>106,273</b>
<b>Gross Profit (RMB m)</b>					
Fujian, Jiangxi	2,270	2,345	1,551	2,419	2,761
Beijing, Tianjin, Liaoning, Jilin, Heilongjiang, Inner Mongolia	1,299	1,568	1,236	1,458	1,612
Jiangsu, Zhejiang, Shanghai, Anhui	2,716	3,112	2,712	3,284	3,593
Chongqing, Hunan, Hubei, Guizhou, Yunnan	2,929	3,111	2,424	3,018	3,204
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	1,943	2,174	1,948	2,176	2,395
Guangdong, Guangxi, hainan, Henan, Shanxi, Hebei, Shandong	1,508	1,857	1,498	1,895	2,103
Others	5,638	5,751	5,666	6,131	6,499
<b>Total</b>	<b>18,303</b>	<b>19,918</b>	<b>17,035</b>	<b>20,380</b>	<b>22,167</b>
<b>Gross Profit Margins (%)</b>					
Fujian, Jiangxi	16.6	16.1	10.6	15.0	16.0
Beijing, Tianjin, Liaoning, Jilin, Heilongjiang, Inner Mongolia	15.7	16.9	13.7	15.0	15.5
Jiangsu, Zhejiang, Shanghai, Anhui	15.5	16.2	14.1	15.5	16.0
Chongqing, Hunan, Hubei, Guizhou, Yunnan	16.7	16.3	13.7	15.5	15.2
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	16.1	16.8	15.0	15.6	16.2
Guangdong, Guangxi, hainan, Henan, Shanxi, Hebei, Shandong	15.9	15.9	13.2	15.4	15.8
Others	89.4	89.7	92.8	93.0	93.0
<b>Total</b>	<b>21.6</b>	<b>21.4</b>	<b>18.7</b>	<b>20.5</b>	<b>20.9</b>

Source: Company, DBS HK

## Yonghui Superstores

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	84,877	93,199	91,062	99,413	106,273
Cost of Goods Sold	(66,574)	(73,281)	(74,027)	(79,033)	(84,106)
<b>Gross Profit</b>	<b>18,303</b>	<b>19,918</b>	<b>17,035</b>	<b>20,380</b>	<b>22,167</b>
Other Opg (Exp)/Inc	(16,368)	(18,644)	(20,203)	(19,612)	(20,800)
<b>Operating Profit</b>	<b>1,935</b>	<b>1,274</b>	<b>(3,168)</b>	<b>768</b>	<b>1,367</b>
Other Non Opg (Exp)/Inc	615	1,409	47	777	696
Associates & JV Inc	(422)	(285)	(49)	(61)	(77)
Net Interest (Exp)/Inc	(351)	(223)	(1,552)	(1,427)	(1,215)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,777</b>	<b>2,174</b>	<b>(4,722)</b>	<b>57</b>	<b>771</b>
Tax	(324)	(521)	227	(13)	(177)
Minority Interest	111	141	551	551	551
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,564</b>	<b>1,794</b>	<b>(3,944)</b>	<b>595</b>	<b>1,144</b>
Net Profit before Except.	1,061	580	(3,833)	595	1,144
EBITDA	2,786	2,281	277	3,864	4,303
<b>Growth</b>					
Revenue Gth (%)	20.4	9.8	(2.3)	9.2	6.9
EBITDA Gth (%)	86.6	(18.1)	(87.8)	1,294.1	11.4
Opg Profit Gth (%)	156.9	(34.2)	(348.8)	(124.2)	77.9
Net Profit Gth (%)	5.6	14.8	N/A	N/A	92.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	21.6	21.4	18.7	20.5	20.9
Opg Profit Margin (%)	2.3	1.4	(3.5)	0.8	1.3
Net Profit Margin (%)	1.8	1.9	(4.3)	0.6	1.1
ROAE (%)	7.9	9.1	(26.3)	4.3	5.8
ROA (%)	3.4	3.3	(6.2)	0.8	1.5
ROCE (%)	5.7	2.9	(7.4)	1.2	2.1
Div Payout Ratio (%)	79.1	96.0	N/A	70.0	70.0
Net Interest Cover (x)	5.5	5.7	(2.0)	0.5	1.1

Source: Company, DBS HK

## Yonghui Superstores

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	5,128	5,310	26,613	25,101	23,732
Invt in Associates & JVs	5,886	5,410	4,774	4,774	4,774
Other LT Assets	10,272	12,259	11,210	11,070	10,941
Cash & ST Invt	8,152	12,247	10,724	13,137	16,774
Inventory	12,333	10,882	10,791	11,781	12,594
Debtors	993	447	477	521	557
Other Current Assets	9,587	9,603	6,722	6,903	7,051
<b>Total Assets</b>	<b>52,353</b>	<b>56,158</b>	<b>71,312</b>	<b>73,287</b>	<b>76,424</b>
ST Debt	10,813	13,890	13,017	11,320	11,140
Creditors	12,983	12,514	12,552	13,703	14,648
Other Current Liab	7,690	8,490	8,523	9,247	9,823
LT Debt	0	0	1,021	1,000	1,000
Other LT Liabilities	412	871	25,121	20,957	18,137
Shareholder's Equity	20,106	19,351	10,659	17,193	22,358
Minority Interests	348	1,042	419	(132)	(683)
<b>Total Cap. &amp; Liab.</b>	<b>52,353</b>	<b>56,158</b>	<b>71,312</b>	<b>73,287</b>	<b>76,424</b>
Non-Cash Wkg. Capital	2,240	(72)	(3,084)	(3,745)	(4,269)
Net Cash/(Debt)	(2,661)	(1,643)	(3,314)	817	4,634
Debtors Turn (avg days)	6.6	2.8	1.9	1.8	1.9
Creditors Turn (avg days)	63.0	64.4	64.8	63.1	63.7
Inventory Turn (avg days)	56.8	58.6	56.0	54.2	54.8
Asset Turnover (x)	1.8	1.7	1.4	1.4	1.4
Current Ratio (x)	1.0	1.0	0.8	0.9	1.0
Quick Ratio (x)	0.3	0.4	0.3	0.4	0.5
Net Debt/Equity (X)	0.1	0.1	0.3	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.1	0.3	CASH	CASH
Capex to Debt (%)	28.7	15.0	14.3	12.2	12.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

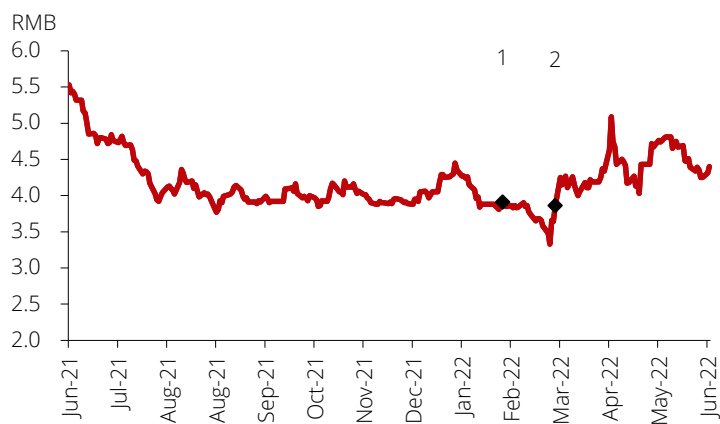
## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,777	2,174	(4,722)	57	771
Dep. & Amort.	851	1,007	3,446	3,096	2,937
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	(422)	(285)	(49)	(61)	(77)
(Pft)/ Loss on disposal of FAs	(38)	(1,143)	325	0	0
Chg in Wkg.Cap.	(3,165)	2,208	3,659	424	525
Other Operating CF	1,413	2,179	3,169	1,266	540
<b>Net Operating CF</b>	<b>416</b>	<b>6,140</b>	<b>5,827</b>	<b>4,781</b>	<b>4,696</b>
Capital Exp.(net)	(3,099)	(2,080)	(2,004)	(1,500)	(1,500)
Other Invt.(net)	(1,576)	(623)	521	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	136	317	509	560	616
Other Investing CF	38	215	58	241	241
<b>Net Investing CF</b>	<b>(4,501)</b>	<b>(2,171)</b>	<b>(915)</b>	<b>(698)</b>	<b>(642)</b>
Div Paid	(1,338)	(1,562)	(555)	(182)	(416)
Chg in Gross Debt	7,107	3,084	(1,911)	(969)	0
Capital Issues	0	0	0	0	0
Other Financing CF	131	(1,416)	(4,390)	0	0
<b>Net Financing CF</b>	<b>5,900</b>	<b>106</b>	<b>(6,856)</b>	<b>(1,150)</b>	<b>(416)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	1,815	4,074	(1,944)	2,933	3,637
Opg CFPS (RMB)	0.38	0.42	0.23	0.47	0.45
Free CFPS (RMB)	(0.28)	0.44	0.41	0.35	0.34

Source: Company, DBS HK

## Yonghui Superstores

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	9-Feb-22	RMB3.81	RMB3.97	Hold
2:	11-Mar-22	RMB3.64	RMB4.18	Buy

Source: DBS HK

Analyst: *Mavis Hui*  
*Clement Xu*

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: 7 Jun 2022 18:05:38 (HKT)

Dissemination Date: 7 Jun 2022 18:20:13 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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## Yonghui Superstores

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