

Yonghui Superstores

Bloomberg: 601933 CH Equity | Reuters: 601933.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Sep 2022

BUY (Upgrade from HOLD)

Last Traded Price (14 Sep 2022): RMB3.46 (CSI300 Index : 4,065)

Price Target 12-mth: RMB4.25 (23% upside) (Prev RMB4.55)

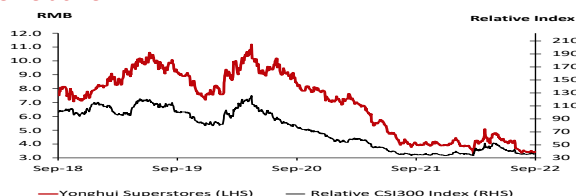
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What's New

- Sales and margins continue to recover with easing competition from CGB platforms
- Online sales to see double digit growth, with long-term target to contribute 30% of group revenue
- Upgrade to BUY with revised TP of RMB4.25, given a more attractive valuation (trading at c.30x FY23 P/E vs. historical average of c.40x) and ongoing sales and margin recovery

Price Relative**Forecasts and Valuation**

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	93,199	91,062	96,443	103,089
EBITDA	2,281	277	3,808	4,679
Pre-tax Profit	2,174	(4,722)	2	1,130
Net Profit	1,794	(3,944)	201	1,070
Net Pft (Pre Ex) (core profit)	580	(3,833)	351	1,070
Net Profit Gth (Pre-ex) (%)	(45.4)	N/A	N/A	204.8
EPS (RMB)	0.19	(0.42)	0.02	0.11
Core EPS (RMB)	0.06	(0.41)	0.04	0.11
EPS Gth (%)	17.3	N/A	N/A	432.0
Core EPS Gth (%)	(44.2)	N/A	N/A	204.8
Diluted EPS (RMB)	0.19	(0.42)	0.02	0.11
DPS (RMB)	0.19	0.02	0.02	0.08
BV Per Share (RMB)	2.08	1.14	1.76	2.27
PE (X)	18.0	nm	160.2	30.1
CorePE (X)	55.5	nm	91.8	30.1
P/Cash Flow (X)	5.2	5.5	7.8	7.5
P/Free CF (X)	7.9	8.4	12.2	11.5
EV/EBITDA (X)	15.3	129.7	8.5	6.1
Net Div Yield (%)	5.3	0.6	0.4	2.3
P/Book Value (X)	1.7	3.0	2.0	1.5
Net Debt/Equity (X)	0.1	0.3	CASH	CASH
ROAE(%)	9.1	(26.3)	1.5	5.7
Earnings Rev (%):			(66)	(6)
Consensus EPS (RMB)			0.05	0.11
Other Broker Recs:		B:16	S:2	H:6

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

On track for a firm recovery**Investment Thesis**

Ongoing sales recovery. Yonghui scored same-store sales growth (SSSG) of 4.2% y-o-y in 1H22, followed by positive SSSG in 3Q22 so far, amid easing competition from community group buying (CGB) players. With the ongoing CGB consolidation, we expect sales recovery to continue, with 6%/7% revenue growth in FY22/FY23 while gross margin could also improve by 1.5/0.7ppt in FY22/FY23.

Online sales to be a strong growth opportunity. We expect Yonghui to continue with its expansion of online channels to sustain double-digit online sales growth, aiming for 30% online revenue contribution in the longer run. While net loss margin from the online business has also narrowed to 1.6% in 1H22 (1H21: 7.9%), riding on Yonghui's integration of the warehouses and stores, its online business should continue to see margin improvements as sales grow and could potentially contribute profit over the medium-term.

Ongoing efficiency improvements. Yonghui should continue to invest in its omni-channel operating system "YHDOS", which could enable further integration of its supply chain and store sales to improve operating efficiency and save costs. As such, we believe Yonghui's net profit margin should also recover gradually towards a normalised level of 3% or higher over the medium-term.

Valuation:

We revised our TP to RMB4.25, pegged to 37x FY23 PE, equivalent to its pre-pandemic average to reflect its longer-term valuation.

Where we differ:

We cut FY22/FY23 earnings by 66%/6%. We are more prudent on FY22 earnings than consensus given the 1H22 net loss, while we expect a faster margin recovery in FY23 amid easing market competition.

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)	31,400 / 4,510
Major Shareholders (%)	
The Dairy Farm Company Limited	21.1
Zhang (Xuan Song)	11.7
Zhang (Xuan Ning)	8.2
Jiangsu Jingdong Bangneng Investment Mgmt Co., Ltd.	8.1
Linzi Tencent Technology Co., Ltd.	5.3
Free Float (%)	45.6
3m Avg. Daily Val. (US\$m)	34.34
GICS Industry: Consumer Staples / Food & Staples Retailing	



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Yonghui Superstores

WHAT'S NEW

Sales recovery amid easing competition from CGB players.

The CGB sector continues to consolidate as certain e-platforms experienced financial difficulties and reduced their coverage while leading players (e.g., Meituan and Pinduoduo) have also cut subsidies and commissions to save costs. We believe the worst of the impact from CGB competition should be over and the business environment should continue to normalise. Yonghui's sales are recovering with revenue growth of 4.1%/4.9% y-o-y in 1H22/2Q22. Given the easing market competition, we also believe that overall SSSG in 3Q22 would stay positive. In the meantime, Yonghui's gross margin has also seen decent recovery with 1.5/2.1ppt expansion during 1H22/2Q22. In particular, the gross margin of fresh products/other FMCGs grew by c.2.4/1.0ppts in 1H22. We believe margin improvements should continue in 2H22 while FY22 gross margin may still be lower than pre-pandemic level of 21%+ and should recover towards this normalised level in the medium-term. Yonghui is taking steps to streamline its SKUs to improve product-mix and further support margin recovery. Yonghui also plans to open 50 new stores this year to leverage on the market recovery (1H22: 19 new stores).

COVID-19 impact to be limited. Going forward, given the Chinese government's experience in previous lockdowns in and its determination to guarantee the supply of daily necessities in affected areas, we believe the impact of future COVID-19 control measures on Yonghui's store operations should be manageable. For example, despite the recent COVID-19 resurgence in Chengdu, the supply of fresh products was stable as the local government continues to support the operations of supermarkets.

Warehouse stores seeing progress. Faced with the competition from CGB players, Yonghui launched its transition of traditional hypermarkets to warehouse stores since May 2021 in order to attract more customer traffic with more affordable prices and fewer total SKUs. In 1H22, Yonghui scored a SSSG of 20%+ at its warehouse stores while the net loss from this segment also narrowed significantly to RMB16m (1H21: loss of c.RMB60m), thanks to easing market competition as well as Yonghui's ongoing efforts in efficiency improvements. Going forward, we believe Yonghui would focus more on its self-owned brands that could potentially have a gross margin that is 5-10ppts higher than the other SKUs, riding on the integration of supply chain and stores. Yonghui also targets

to achieve 20%+ revenue contribution from its self-owned brands over the long run.

Online business. Yonghui continues to expand its online business to attract additional customer traffic to support sales growth. During 1H22, Yonghui's online sales grew by 11.5% to RMB7.6bn, accounting for c.16% of total revenue, while its revenue contribution continued to grow, in Jul and Aug this year to 17%+, supported by the ongoing expansion in both self-operated e-platform Yonghui Shenghuo (average daily orders reaching 292,000) and third-party platforms (e.g., JD, Meituan and Ele.me). In the meantime, net loss margin of online business had also narrowed from 7.9% to 1.6% y-o-y in 1H22, given easing competition among e-commerce platforms. Looking ahead, we believe the gross profit margin of online business could improve to be 2-3ppts higher than offline business in the longer term, along with Yonghui's model of combining warehouses and stores that could potentially offer better synergies in fresh product sales.

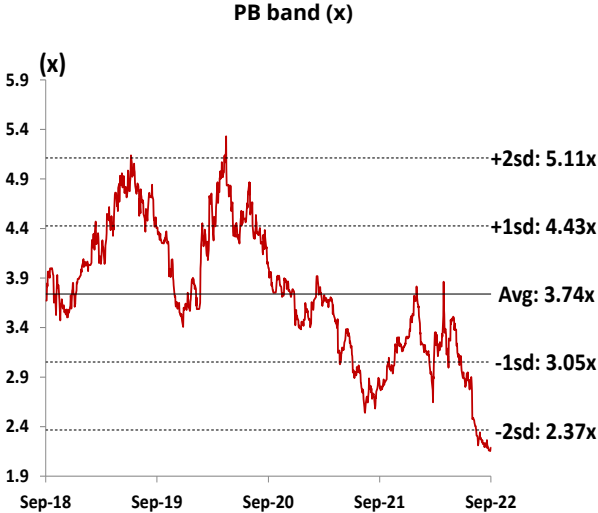
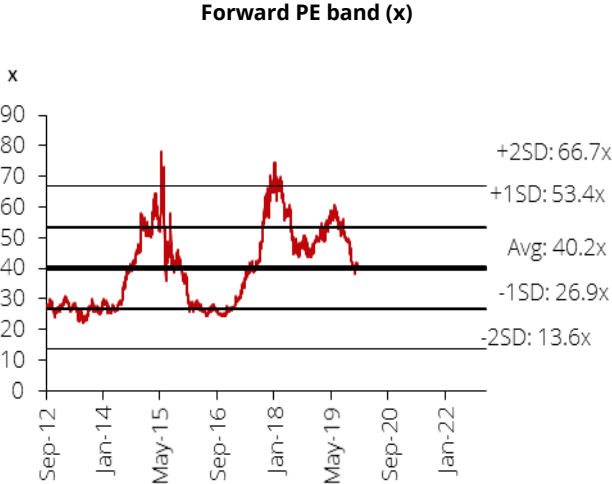
Ongoing efficiency improvements. While Yonghui has seen decent sales recovery in 1H22, it continued to focus on efficiency improvements and cost control, with SG&A cost ratio down 1.2ppts in 1H22. This should continue in 2H22/FY23, thus leading to improving operating margins. Going forward, Yonghui would continue to invest in its omni-channel operating system "YHDOS" that currently covers 1000+ stores, which has helped Yonghui lower its annualised inventory turnover days to 43 days in 1H22. This would also help to improve margins with its centralised data processing system and warehouse store format going forward.

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.

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

Yonghui Superstores

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Fujian, Jiangxi	13,648	14,563	14,659	15,392	16,469
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	20,416	21,641
Chongqing, Hunan, Hubei, Guizhou, Yunnan	17,594	19,071	17,744	18,631	20,122
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	12,067	12,911	12,963	14,000	14,840
Guangdong, Guangxi, Hainan, Henan, Shanxi, Hebei, Shandong	9,498	11,713	11,331	11,812	12,757
Others	6,307	6,414	6,104	6,470	6,859
Total	84,877	93,199	91,062	96,443	103,089
(RMB m)					
Fujian, Jiangxi	2,270	2,345	1,551	2,309	2,635
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	3,062	3,463
Chongqing, Hunan, Hubei, Guizhou, Yunnan	2,929	3,111	2,424	2,608	3,058
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	1,943	2,174	1,948	2,170	2,389
Guangdong, Guangxi, Hainan, Henan, Shanxi, Hebei, Shandong	1,508	1,857	1,498	1,816	2,015
Others	5,638	5,751	5,666	6,017	6,378
Total	18,303	19,918	17,035	19,441	21,551
Margins (%)					
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	15.0	16.0
Chongqing, Hunan, Hubei, Guizhou, Yunnan	16.7	16.3	13.7	14.0	15.2
Sichuan, Shaanxi, Gansu, Ningxia, Tibet, Qinghai	16.1	16.8	15.0	15.5	16.1
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
Total	21.6	21.4	18.7	20.2	20.9

Source: Company, DBS HK

Yonghui Superstores

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	84,877	93,199	91,062	96,443	103,089
Cost of Goods Sold	(66,574)	(73,281)	(74,027)	(77,002)	(81,538)
Gross Profit	18,303	19,918	17,035	19,441	21,551
Other Opng (Exp)/Inc	(16,368)	(18,644)	(20,203)	(18,728)	(19,809)
Operating Profit	1,935	1,274	(3,168)	713	1,742
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)	(1,231)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,777	2,174	(4,722)	2	1,130
Tax	(324)	(521)	227	0	(260)
Minority Interest	111	141	551	200	200
Preference Dividend	0	0	0	0	0
Net Profit	1,564	1,794	(3,944)	201	1,070
Net Profit before Except.	1,061	580	(3,833)	351	1,070
EBITDA	2,786	2,281	277	3,808	4,679
Growth					
Revenue Gth (%)	20.4	9.8	(2.3)	5.9	6.9
EBITDA Gth (%)	86.6	(18.1)	(87.8)	1,274.0	22.8
Opg Profit Gth (%)	156.9	(34.2)	(348.8)	(122.5)	144.5
Net Profit Gth (%)	5.6	14.8	N/A	N/A	432.0
Margins & Ratio					
Gross Margins (%)	21.6	21.4	18.7	20.2	20.9
Opg Profit Margin (%)	2.3	1.4	(3.5)	0.7	1.7
Net Profit Margin (%)	1.8	1.9	(4.3)	0.2	1.0
ROAE (%)	7.9	9.1	(26.3)	1.5	5.7
ROA (%)	3.4	3.3	(6.2)	0.3	1.5
ROCE (%)	5.7	2.9	(7.4)	1.1	2.6
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	1.4

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	12,505	16,016
Inventory	12,333	10,882	10,791	11,429	12,217
Debtors	993	447	477	505	540
Other Current Assets	9,587	9,603	6,722	6,838	6,982
Total Assets	52,353	56,158	71,312	72,222	75,202
ST Debt	10,813	13,890	13,017	11,320	11,140
Creditors	12,983	12,514	12,552	13,293	14,209
Other Current Liab	7,690	8,490	8,523	8,997	9,556
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	16,437	21,142
Minority Interests	348	1,042	419	219	19
Total Cap. & Liab.	52,353	56,158	71,312	72,222	75,202
Non-Cash Wkg. Capital	2,240	(72)	(3,084)	(3,517)	(4,026)
Net Cash/(Debt)	(2,661)	(1,643)	(3,314)	185	3,876
Debtors Turn (avg days)	6.6	2.8	1.9	1.9	1.9
Creditors Turn (avg days)	63.0	64.4	64.8	63.8	63.9
Inventory Turn (avg days)	56.8	58.6	56.0	54.9	54.9
Asset Turnover (x)	1.8	1.7	1.4	1.3	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

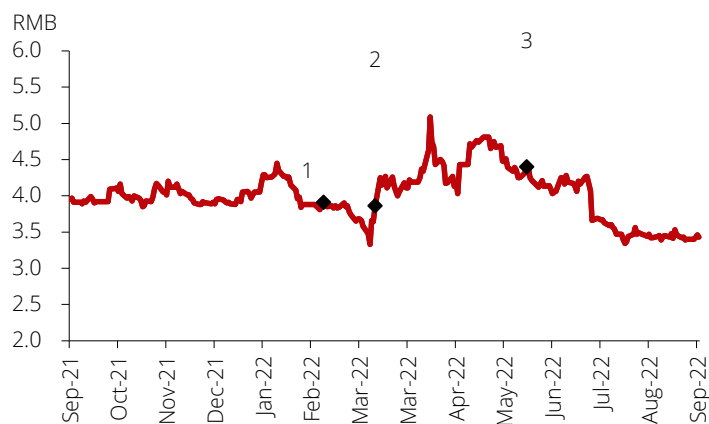
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,777	2,174	(4,722)	2	1,130
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	196	508
Other Operating CF	1,413	2,179	3,169	916	(204)
Net Operating CF	416	6,140	5,827	4,149	4,294
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
Net Investing CF	(4,501)	(2,171)	(915)	(698)	(642)
Div Paid	(1,338)	(1,562)	(555)	(182)	(141)
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
Net Financing CF	5,900	106	(6,856)	(1,150)	(141)
Currency Adjustments	0	0	0	0	0
Chg in Cash	1,815	4,074	(1,944)	2,300	3,511
Opg CFPS (RMB)	0.38	0.42	0.23	0.42	0.41
Free CFPS (RMB)	(0.28)	0.44	0.41	0.28	0.30

Source: Company, DBS HK

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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
3:	7-Jun-22	RMB4.31	RMB4.55	Hold

Source: DBS HK

Analyst: Mavis Hui
Clement Xu

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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

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

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