

Yonghui Superstores

Bloomberg: 601933 CH Equity | Reuters: 601933.SS

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DBS Group Research . Equity

6 Nov 2023

HOLD (Downgrade from BUY)

Last Traded Price (3 Nov 2023): RMB3.06 (CSI300 Index : 3,584)

Price Target 12-mth: RMB3.16 (3% upside) (Prev RMB4.27)

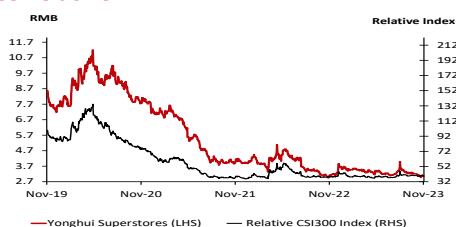
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What's New

- Sales pressure to linger with consumption changes; expect c.10% decline in top line in FY23
- Efficiency gain remains the key driver for margin improvement
- FY23 earnings revised to loss of RMB263m; FY24 earnings slashed by 74%; downgrade to HOLD with revised TP of RMB3.16

Price Relative**Forecasts and Valuation**

FY Dec (RMBm)	2022F	2023F	2024F	2025F
Turnover	90,091	80,811	82,428	84,901
EBITDA	1,799	3,143	3,656	3,938
Pre-tax Profit	(3,128)	(407)	266	902
Net Profit	(2,672)	(263)	292	786
Net Pft (Pre Ex) (core profit)	(2,474)	(763)	292	786
Net Profit Gth (Pre-ex) (%)	35.5	69.2	N/A	168.8
EPS (RMB)	(0.29)	(0.03)	0.03	0.09
EPS (RMB)	(0.29)	(0.03)	0.03	0.09
Core EPS (RMB)	(0.27)	(0.08)	0.03	0.09
Core EPS (RMB)	(0.27)	(0.08)	0.03	0.09
EPS Gth (%)	30.5	90.2	N/A	168.8
Core EPS Gth (%)	33.8	69.2	N/A	168.8
Diluted EPS (RMB)	(0.30)	(0.03)	0.03	0.09
DPS (RMB)	0.00	0.00	0.02	0.06
BV Per Share (RMB)	0.82	1.44	1.90	2.33
PE (X)	nm	nm	95.0	35.3
CorePE (X)	nm	nm	95.0	35.3
P/Cash Flow (X)	4.7	12.6	7.9	8.1
P/Free CF (X)	6.0	27.8	12.1	12.5
EV/EBITDA (X)	16.7	8.6	6.3	4.9
Net Div Yield (%)	0.0	0.0	0.7	2.0
P/Book Value (X)	3.7	2.1	1.6	1.3
Net Debt/Equity (X)	0.3	CASH	CASH	CASH
ROAE (%)	(29.5)	(2.6)	1.9	4.1
Earnings Rev (%)		nm	(73)	New
Consensus EPS (RMB)		0.03	0.06	0.10
Other Broker Recs:		B:14	S:4	H:3

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

Await better sales momentum**Investment Thesis**

Lingering sales pressure. The change in consumption habits post-Covid impacted Yonghui's sales, with a 12.4% contraction in its top line during 9M23. The company continues its store upgrade to attract customer traffic while closing certain loss-making stores. Sales pressure could linger in the near term under the current operating environment and FY23 sales could drop by c.10% in our view.

Cost control is the focus. While its gross profit margin improved by 1.7ppt during 9M23, its SG&A expense ratio expanded by 1.3ppt amid contracted sales. We believe Yonghui will continue to focus on cost-control measures, including digitalisation throughout the value chain as well as the closure of certain loss-making stores, to support a better earnings recovery over the medium term.

Online business remains the growth driver. Yonghui continues to strengthen its online business, with revenue from this segment growing 8% in 3Q23 to RMB4.3bn, accounting for c.22% of group revenue (3Q22: 18%). With the support of Yonghui's store warehouses, online business should be able to see margin improvements and may contribute profit over the next two to three years.

Downgrade to HOLD, TP RMB3.16. We downgrade to HOLD and revised FY23 earnings to loss of RMB263m in view of lingering sales pressure, while staying hopeful about an earnings recovery over the medium term. Our revised TP of RMB3.16 (previous TP: RMB4.27) is pegged to 37x FY25 PE (0.5 S.D. below its pre-pandemic average) to reflect its longer-term valuation.

Key Risks

Slower-than-expected consumption growth, market competition, etc.

At A Glance

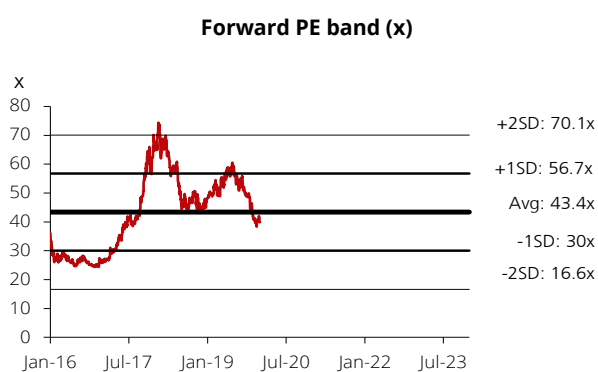
Issued Capital (m shrs)	8,989
Mkt Cap (RMBm/US\$m)	27,506 / 3,767
Major Shareholders (%)	
The Dairy Farm Company Limited	21.1
Zhang (Xuan Song)	8.7
Zhang (Xuan Ning)	8.2
Beijing Jingdong Century Trading Co., Ltd.	8.1
Linzi Tencent Technology Co., Ltd.	5.3
Free Float (%)	48.6
3m Avg. Daily Val. (US\$m)	0.0
GICS Industry: Consumer Staples / Food & Staples Retailing	

Yonghui Superstores

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.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Yonghui Superstores

Income Statement (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Revenue	91,062	90,091	80,811	82,428	84,901
Cost of Goods Sold	(74,027)	(72,361)	(63,560)	(64,215)	(65,825)
Gross Profit	17,035	17,730	17,251	18,212	19,076
Other Opng (Exp)/Inc	(20,203)	(19,218)	(16,880)	(17,171)	(17,603)
Operating Profit	(3,168)	(1,487)	371	1,041	1,473
Other Non Opng (Exp)/Inc	47	(143)	462	342	342
Associates & JV Inc	(49)	(50)	80	88	97
Net Interest (Exp)/Inc	(1,552)	(1,447)	(1,320)	(1,205)	(1,009)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(4,722)	(3,128)	(407)	266	902
Tax	227	219	61	(64)	(217)
Minority Interest	551	237	83	90	100
Preference Dividend	0	0	0	0	0
Net Profit	(3,944)	(2,672)	(263)	292	786
Net Profit before Except.	(3,833)	(2,474)	(763)	292	786
EBITDA	277	1,799	3,143	3,656	3,938
Growth					
Revenue Gth (%)	(2.3)	(1.1)	(10.3)	2.0	3.0
EBITDA Gth (%)	(87.8)	549.0	74.7	16.3	7.7
Opg Profit Gth (%)	(348.8)	(53.1)	(125.0)	180.4	41.5
Net Profit Gth (%)	N/A	32.2	90.2	N/A	168.8
Margins & Ratio					
Gross Margins (%)	18.7	19.7	21.3	22.1	22.5
Opg Profit Margin (%)	(3.5)	(1.7)	0.5	1.3	1.7
Net Profit Margin (%)	(4.3)	(3.0)	(0.3)	0.4	0.9
ROAE (%)	(26.3)	(29.5)	(2.6)	1.9	4.1
ROA (%)	(6.2)	(4.0)	(0.4)	0.5	1.3
ROCE (%)	(7.4)	(3.2)	0.9	1.9	2.6
Div Payout Ratio (%)	N/A	N/A	N/A	70.0	70.0
Net Interest Cover (x)	(2.0)	(1.0)	0.3	0.9	1.5

Source: Company, DBS HK

Yonghui Superstores

Balance Sheet (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Net Fixed Assets	26,613	23,532	21,945	20,529	19,262
Invt in Associates & JVs	4,774	3,640	3,640	3,640	3,640
Other LT Assets	11,210	10,434	10,266	10,112	9,969
Cash & ST Invt	10,724	8,507	8,030	11,247	14,353
Inventory	10,791	10,467	9,389	9,576	9,864
Debtors	477	531	476	485	500
Other Current Assets	6,722	5,033	4,890	4,915	4,953
Total Assets	71,312	62,143	58,636	60,504	62,540
ST Debt	13,017	8,540	6,248	5,623	5,061
Creditors	12,552	12,155	10,903	11,121	11,455
Other Current Liab	8,523	8,372	7,513	7,646	7,848
LT Debt	1,021	2,070	1,000	1,000	1,000
Other LT Liabilities	25,121	23,349	19,785	17,830	16,070
Shareholder's Equity	10,659	7,466	13,078	17,265	21,187
Minority Interests	419	191	108	18	(82)
Total Cap. & Liab.	71,312	62,143	58,636	60,504	62,540
Non-Cash Wkg. Capital	(3,084)	(4,496)	(3,662)	(3,790)	(3,986)
Net Cash/(Debt)	(3,314)	(2,104)	782	4,623	8,292
Debtors Turn (avg days)	1.9	2.0	2.3	2.1	2.1
Creditors Turn (avg days)	64.8	65.3	69.2	65.3	65.0
Inventory Turn (avg days)	56.0	56.2	59.6	56.2	56.0
Asset Turnover (x)	1.4	1.4	1.3	1.4	1.4
Current Ratio (x)	0.8	0.8	0.9	1.1	1.2
Quick Ratio (x)	0.3	0.3	0.3	0.5	0.6
Net Debt/Equity (X)	0.3	0.3	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.3	0.3	CASH	CASH	CASH
Capex to Debt (%)	14.3	11.3	16.6	18.2	19.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

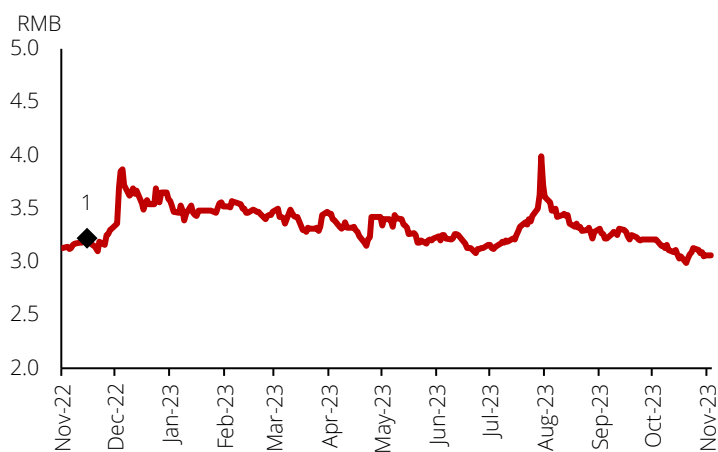
Cash Flow Statement (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Pre-Tax Profit	(4,722)	(3,218)	(407)	266	902
Dep. & Amort.	3,446	3,286	2,771	2,615	2,465
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	(49)	(50)	80	88	97
(Pft)/ Loss on disposal of FAs	325	259	0	0	0
Chg in Wkg.Cap.	3,659	2,349	(1,045)	128	196
Other Operating CF	3,169	3,237	805	408	(241)
Net Operating CF	5,827	5,864	2,204	3,505	3,419
Capital Exp.(net)	(2,004)	(1,204)	(1,204)	(1,204)	(1,204)
Other Invt.(net)	521	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	509	1,086	1,195	1,314	1,446
Other Investing CF	58	30	100	100	100
Net Investing CF	(915)	(87)	91	211	342
Div Paid	(555)	(482)	0	0	(205)
Chg in Gross Debt	(1,911)	(3,241)	(2,599)	(500)	(450)
Capital Issues	0	0	0	0	0
Other Financing CF	(4,390)	(3,259)	0	0	0
Net Financing CF	(6,856)	(6,982)	(2,599)	(500)	(655)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,944)	(1,205)	(303)	3,216	3,107
Opg CFPS (RMB)	0.23	0.39	0.36	0.37	0.36
Free CFPS (RMB)	0.41	0.51	0.11	0.25	0.24

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	18-Nov-22	RMB3.23	RMB4.27	BUY

Source: DBS HK

Analyst: Mavis Hui
Clement Xu

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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

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