

Golden Eagle



Not Rated

Flying high

Key points:

- Premium department store chain in second and third-tier cities in China
- Expanding outside Jiangsu province.
- Two new stores to open in 2008.
- Plans to acquire assets from Shanghai-listed Nanjing Xinjiekou Department Stores.
- Targets +30.0% bottom line growth in FY12/08F.

Background. Golden Eagle Retail Group (GERG) operates a premium department store chain in China. With the first store opened in 1996, it now owns 10 (including two in trial), seven in Jiangsu, two in Shannxi and one in Yunnan.

Development strategy. The company positions itself as a mid to high-end department store operator in second and third-tier cities, with focus on owning its premises rather than leasing. We view GERG as a prudent player with promising mid-term prospects backed by high economic potential of those lesser-developed regions.

Recent plans. The company will officially launch its Kunming store on 30 April. Two new stores, Huai An and Yancheng, will be put into operation in 2H 2008. Its managed store in Shanghai will close for renovation from May and re-open by year-end. The company also plans to acquire assets, including Oriental Department Store, from Shanghai-listed Nanjing Xinjiekou Department Stores (600682 CH).

FY12/07A results. Gross sales proceeds (GSP) increased 35.8% to RMB4,858.1m (same-store sales growth 25.8% YoY) while operating revenue increased 23.1% to RMB1,107.5m. The concessionaire rate dropped 1.3pcp to 20.6% due to new store launches, merchandise upgrades and increased sales of gold / jewelry / timepieces. Other income topped RMB188.0m (RMB76.5m last year), comprising RMB48.9m in government grants and RMB41.4m in foreign exchange gains, boosting net profit to RMB385.7m, up 66.3% YoY.

FY12/08F guidance. The company expects +20.0% same-store growth and +30.0% GSP growth in FY12/08. Its effective tax rate will drop to around 25.0% from 35.5% in FY12/07A. Net profit should increase +30.0%, according to the management.

China Retail

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Stock data

Price	HK\$7.10
12 mth range	HK\$4.93-9.43
Market cap.	US\$1,695.6m
No. shares o/s	1,658.3m
Daily t/o, 3 mth	US\$2.4m
Free float %	27.4%
Major shareholder	Wang Hung – 72.6%
Ticker	3308.HK/3308 HK

Financial summary

Year to Dec	07A
Yield (%)	0.7
ROE (%)	33.8
Net gearing (%)	Cash
Net debt/sh. (RMB)	Cash
BV/sh. (RMB)	0.74
Consensus EPS (RMB)	
- 12/08F	0.282
- 12/09F	0.370

Price Chart



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Corporate governance. GERG listed in Mar 2006 via a global offering at HK\$3.15 each. In Oct 2006, it issued a HK\$1,000.0m convertible bond, with an initial conversion price of HK\$6.42. The company's substantial shareholder, Mr. Wang Hung (72.6%), is its chairman. Other institutional investors include JP Morgan (4.9%) and Fidelity (1.5%).

Valuation. According to consensus estimates, the company's EPS will increase 32.8% in FY12/8F to RMB0.282 and then 31.2% to RMB0.370 in FY12/09F. The counter now is trading at 25.7x FY12/08F P/E, which is roughly in line with industry average.

Table 1: Strategy

Strategy	Advantage	Disadvantage
Focus on second and third-tier cities	First-mover advantage (e.g. prime location, brand recognition, etc) in less developed regions	Lesser contribution to brand image, which reduces the company's attractiveness when seeking international concessionaires
Cross-regional development	Ample growth room	Higher time cost to build up local connections and reputation
Self-owned property	Property appreciation	More capex required, which may slow down the company's expansion

Source: SBI E2-Capital

Table 2: Summary of the company's stores

	Years into Operation	FY12/07A sales (RMBm)	YoY sales growth (%)	Owned / Leased	GFA (sq.m)
Nanjing Xinjiekou	11.5	2,282.6	26.9	Owned	33,447
Nantong	7.0	250.4	3.7	Owned	8,795
Yangzhou	6.0	784.6	29.4	Owned / leased	37,562 / 3,450
Suzhou	5.0	191.8	10.9	Leased	51,266
Xuzhou	4.0	802.7	38.2	Owned	14,960
Xi'an Guomao	2.0	91.4	-9.3	Leased	10,029
Xi'an Gaoxin	1.5	208.8	n.a.	Owned	25,476
Taizhou	1.0	201.2	n.a.	Owned	47,327
Kunming	Opened in Aug 07	40.5	n.a.	Owned	33,702
Nanjing Zhujiang	Opened in Dec 07	1.9	n.a.	Leased	22,780
Huai An	To open in 2H 08	n.a.	n.a.	Owned	48,000
Yancheng	To open in 2H 08	n.a.	n.a.	Owned	50,000

Source: Company data

Table 3: Valuation comparison

Company	Ticker	Fiscal Year End	Mkt Cap (US\$m)	Consensus P/E (x)	
				1-Yr forward	2-Yr forward
New World Department Store	825 HK	06/2007	1,781.3	33.8	24.4
AEON	984 HK	12/2007	531.3	15.6	12.8
Lifestyle	1212 HK	12/2007	3,583.4	24.6	22.4
Intime	1833 HK	12/2006	1,295.5	19.2	14.8
Golden Eagle	3308 HK	12/2007	1,658.3	25.0	19.0
Parkson	3368 HK	12/2007	4,573.4	33.3	25.1
Hefei Department Store	000417 CH	12/2006	485.1	37.6	29.3
Beijing Hualia	000882 CH	12/2006	318.0	n.a.	n.a.
Guangzhou Friend	000987 CH	12/2007	1,040.7	30.3	24.7
Shanghai Bailian	600631 CH	12/2007	2,190.0	33.7	25.5
Dashang Group	600694 CH	12/2007	1,774.9	29.2	22.9
Yinzuobohai	600858 CH	12/2007	737.4	38.6	30.4
Beijing Wang Fu Jing	600859 CH	12/2006	2,073.7	59.0	39.3
Average				31.7	24.2
HK				25.3	19.8
China				38.1	28.7

Source: Bloomberg

Table 4: P&L

Year to Dec (RMBm)	05A*	06A	07A
Gross sales	2,858.7	3,577.0	4,858.1
Direct sales	250.1	282.1	303.1
Commission from concessionaire sales	483.3	604.0	788.6
Rental income	6.4	13.7	15.8
Total operating revenues	739.8	899.8	1,107.5
Cost of sales	(207.0)	(229.1)	(242.4)
Gross profit	532.7	670.7	865.1
Other income	30.3	76.5	188.0
Selling expenses	(115.1)	(174.1)	(228.2)
Administrative expenses	(82.9)	(146.0)	(131.4)
Finance costs	(35.4)	(40.3)	(80.5)
Changes in fair value of derivative financial instruments	(24.8)	(14.9)	
Profit before income tax	329.6	361.9	598.1
Income tax expense	(102.1)	(132.3)	(212.4)
Profit for the year	227.5	229.6	385.7
Attributable to:			
Equity holders of the company	226.0	232.0	385.7
Minority interests	1.6	(2.4)	
EPS - basic (RMB)	0.13	0.13	0.21
EPS - diluted (RMB)			0.21

Source: Company data

Note: * results from continuing operation.