



GNAM Investment Competition

RENMIN UNIVERSITY OF CHINA

WUHAN DEPARTMENT STORE GROUP(WDS)

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Yan, CUI

Di, GU

Chunxiao, HAO

Xin, PENG

Jianghao, Wang

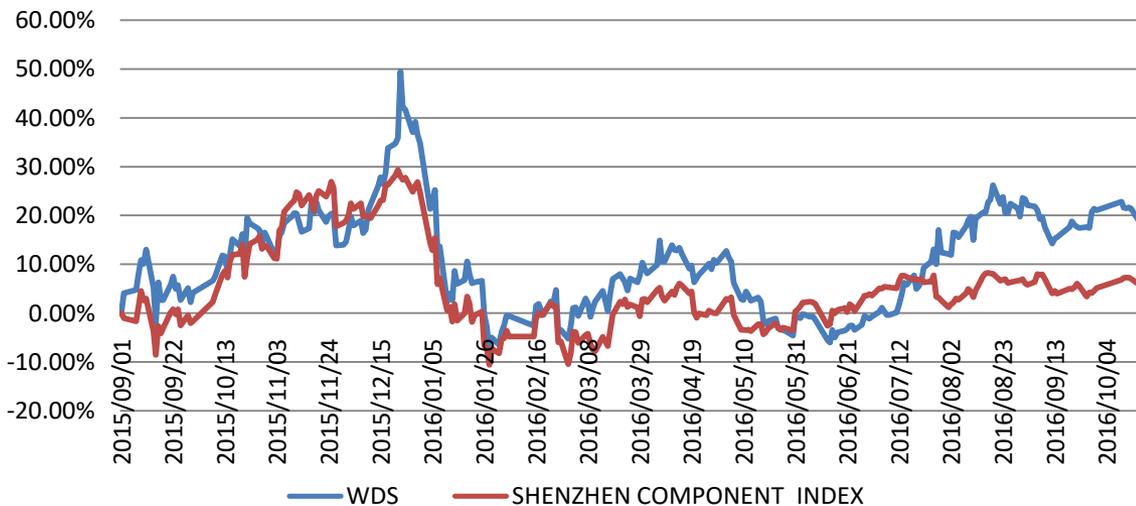
Haidong, ZHAO



OVERVIEW

- Dominating Retailing Market in Central China
- Market Value of Properties Increasing Substantially
- Net Profit Growing Rapidly
- Business Structure Optimized to Satisfy Customers' Demands
- Proper Equity Structure and Creative Incentives Boosting Efficiency

WDS vs SHENZHEN COMPONENT INDEX RATIO CHANGE



WDS Summary	
Stock Exchange	China Shenzhen Stock Exchange
Code	000501.SZ
Last Close	CNY 19.11
Target Price	CNY 24.60
Upside	28.72%
52-wk Range	CNY14.39-23.74
Business Sector	Retail Sales& Commercial Chains
Market Cap	CNY 11.31bn
Share Outstanding	592mn
Major Shareholder	Wuhan Selline Group Co.,Ltd(21.54%)
Free Float	85.7%(507mn)
P/B Ratio	2.05x
Revenue	CNY 17.52bn
Net Profit	CNY 799.31mn
EPS	CNY 1.58
BPS	CNY 9.32
CPS	CNY 1.61
P/CF	11.85
ROE	20.73%
ROA	4.79%

HIGHLIGHTS

- As a bellwether in retail industry in Hubei Province and even in China, WDS enjoys unparalleled competitive edge over its competitors.
- Due to soaring real estate price, the market value of WDS's properties has been increasing dramatically.
- The net profit of WDS maintains high growth rate, while the stock price is undervalued.
- Proper equity structure and creative incentives arouses the enthusiasm of the management and employees, and thus improves the company's operating efficiency substantially.
- WDS's business structure has been optimized by starting online business as a supplement, achieving mutual promotion of online and offline business.

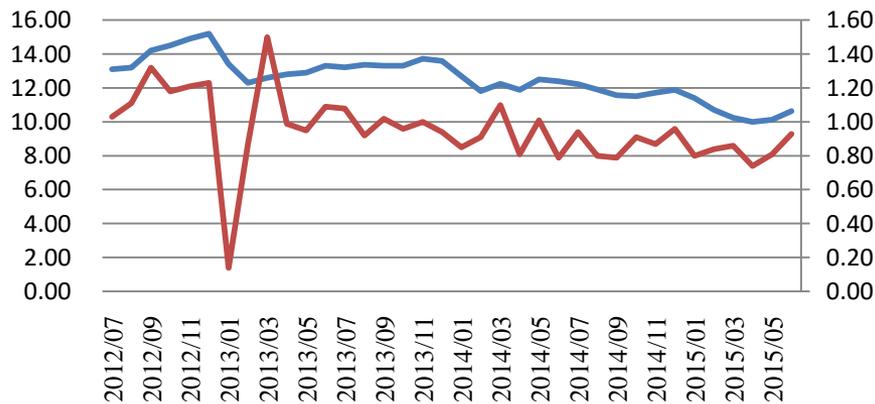




THE OVERALL ECONOMIC ENVIRONMENT

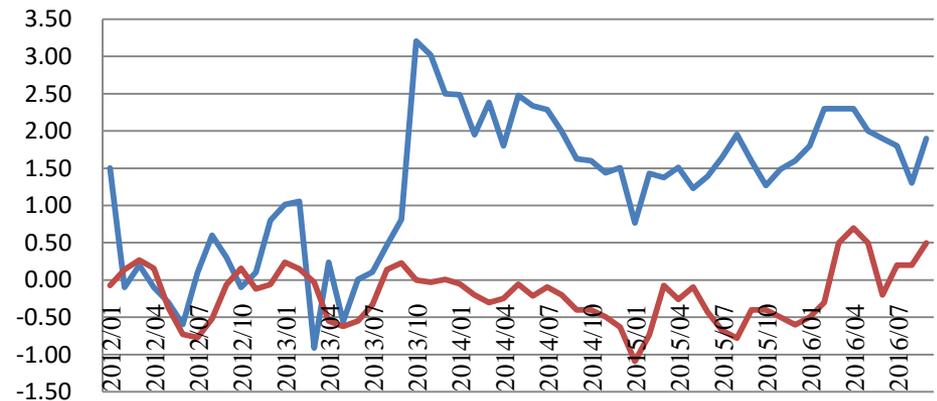
- **Consumption has bottomed out and there are obvious signs of economic recovery.**
- As PPI turned from negative to positive for the first time since March, 2012, enterprises and the whole market are expected to be more confident and the downward pressure of economy has been greatly released.
- Overall consumption growth rallied after hitting bottom and will maintain a moderate increase rate as the 'new normal'.

Total Retail Sales of Consumer Goods Growth Rate



— YOY Growth Rate — MOM Growth Rate (right Y-axes)

CPI&PPI Index-Monthly YOY



— CPI Index-Monthly YOY — PPI Index-Monthly YOY



THE STORY OF WDS

One of the Leaders in Retail and Supermarket Business

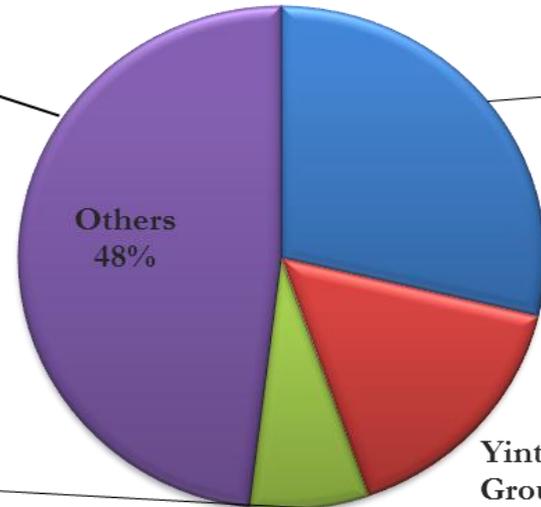
Finding the Way out Through Differentiation

Excellent Shareholding Structure



Equity ratio

The proportion of each shareholder is less than 6%



Wuhan State-owned Assets Supervision and Administration Commission
29%

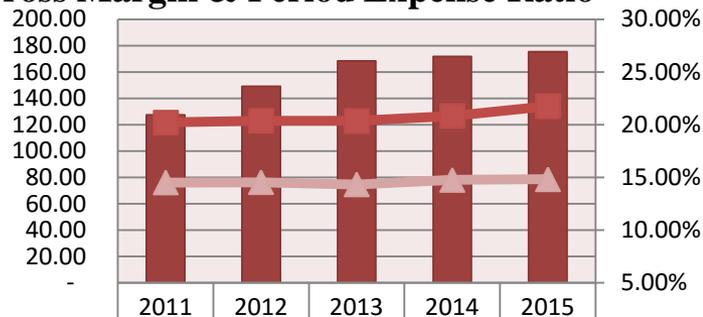
Yintai Business Group Co., Ltd.
16%

Employees' stocks
7%

THE STORY OF WDS

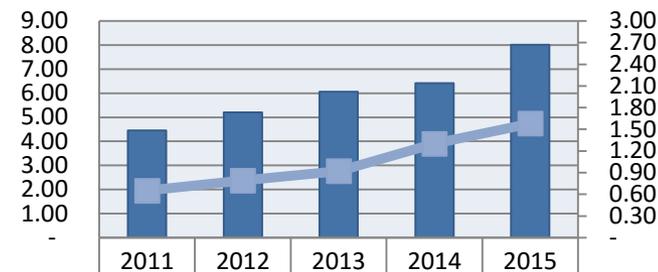
- Stable Growth in Performance, with Values and Returns to be Expected

Revenues, Gross Margin & Period Expense Ratio



	2011	2012	2013	2014	2015
Revenues(100 mn)	127.34	149.02	168.42	171.61	175.24
Gross Margin	20.21%	20.38%	20.36%	20.82%	21.76%
Period Expense Ratio	14.50%	14.53%	14.31%	14.76%	14.83%

Net Earnings & EPS



	2011	2012	2013	2014	2015
Net Earnings(100 mn)	4.45	5.21	6.06	6.41	8.01
EPS	0.65	0.79	0.92	1.30	1.58

- Share Price Substantially Undervalued to be Worth Investing

Name	Mkt Cap (CNY bn)	Net Asset (CNY bn)	P/E	P/B	ROE (%)	EPS (CNY)
Average	11.50	4.45	38.58	2.64	7.55	N/A
Wuhan Department Store Group	11.31	5.74	11.82	2.05	20.73	1.58
Chongqing Department Store Co.LTD	10.60	4.74	28.98	2.30	7.88	0.90
Haining China Leather Market Co.,Ltd	11.93	5.42	21.73	2.25	11.58	0.49
Yonghui Superstores Co., Ltd.	42.97	18.83	28.06	2.29	5.65	0.16
Lanzhou Minbai Shareholding(Group)	3.44	1.24	40.57	2.78	7.42	0.23

VALUATION

RNAV Method

•NAV=19.92+2.07+ 0.43-0.002-2.12-1.91=CNY 18.38bn

•Target stock price =18.38*0.8/0.592= **CNY 24.84** (considering liquidity discount)

Name	Opening date	Area(sqm)	% Owned	Location	Unit-price (CNY/sqm)	Re-appraised value (Thousand CNY)
International Plaza(phase1)	2007.9	55,000	100%	Hankou	25,000	1,375,000
International Plaza(phase2)	2011.9	265,000	100%	Hankou	25,000	6,625,000
Wushang Plaza	1996.8	74,300	100%	Hankou	25,000	1,857,500
Wushang World Trade Plaza	1999.9	80,000	100%	Hankou	25,000	2,000,000
Wushang People Square	2011.12	100,000	100%	Shiyan	10,000	1,000,000
Wushang Xiantao Mall	2013.9	140,000	100%	Xiantao	7,000	980,000
Wushang Yellowstone Mall	2014.9	170,000	100%	Huangshi	10,000	1,700,000
Wushang Zhongyuan Plaza	2014.11	270,000	100%	Qingshan	15,000	4,050,000
Laoheke Shopping Mall	2015.9	46,900	100%	Laohekou	7,000	328,300
Jingmen Shopping Center	expect 2017	226,000	100%	Jingmen		
Dream Times Plaza	expect 2019	600,000	100%	Wuchang		
Total(opening)		1,201,200				19,915,800

VALUATION

DCF Method

FCFE calculation unit: CNY mn	
Net Income	799.31
Non-cash cost	406.02
Fixed capital investment	2,429.07
Working capital investment	-464.42
Net Borrowing	2,237.76
FCFE	1,478.45

$$\begin{aligned}
 Re &= Rf + \text{beta} * (Rm - Rf) \\
 &= 2.67\% + 1.06 * (12\% - 2.67\%) \\
 &= 12.56\%
 \end{aligned}$$

Enterprise value at discount rate=Re=12.56%							unit: CNY mn
	2015A	2016E	2017E	2018E	2019E	2020E	perpetual growth discount value
Growth Rate	N/A	6%	5%	4%	3%	2%	1%
FCFE	1,478.45	1,567.15	1,645.51	1,711.33	1,762.67	1,797.92	16,499.72
Enterprise Value=CNY 15,443.42mn							
Target Price= CNY 26.07							



VALUATION

Relative Valuation

The company has CNY 1.68 EPS in the year of 2016 and the target stock price is CNY 36.96 if we use 22 as P/E ratio, which is the average level retail industry. That means the stock has potential of 95% increase in the near future. BPS of WDS is CNY 9.32 and target price is CNY 24.60 based on average industry P/B ratio which is 2.64. The stock has 28.72% upside potentials even we take the conservative result.



Conclusion

The target price is CNY 24.84, CNY 26.07 and CNY 24.60 respectively using the method of RNAV, DCF and Relative Valuation. Following the principles of prudence, we determine WDS's target price to be **CNY 24.60** with a **28.72% upside**.

POTENTIAL RISKS

Political

- The government may regulate the price of real estate which will lead to the decline of properties' value, thus the revaluation value may change.
- Since most of the company's anchor stores are located in core business areas, government regulations will have little impact on WDS's properties' value.

Economic

- China may have a weaker economic growth in the future, resulting in lack of purchasing power.
- Considering that Wuhan is one of the most developed city in terms of economy in central China, the total retailing consumption can still be higher than average.

Market

- New projects may behind schedule which affects the future profitability of the company.
- Market share of physical stores may be affected by the rising of e-Commerce in China.
- Given that the business is targeting at mid-to-high-end customers who attach great importance to shopping experience, online stores will not be a potent substitute for physical stores.