



Wuhan Department Store Group Co., Ltd.-WDS

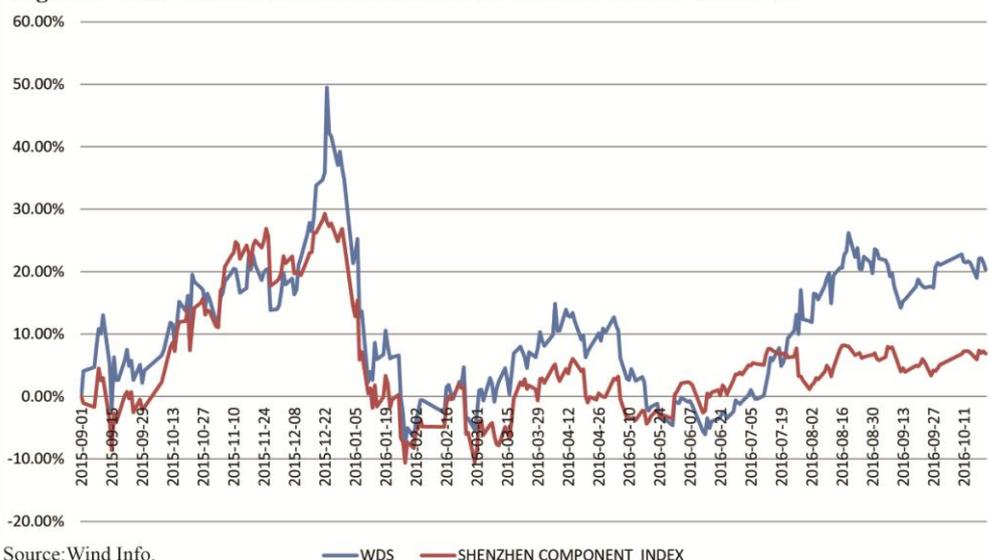
- Dominating Retailing Market in Central China
- Market Value of Properties Increasing Substantially
- Net Profit Growing rapidly
- Business Structure Optimized to Satisfy Customers' Demands
- Proper Equity Structure and Creative Incentives Boosting Efficiency

Figure 1: WDS vs RETAIL INDUSTRY P/B RATIO



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
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%

Figure 2: WDS vs SHENZHEN COMPONENT INDEX RATIO CHANGE



Team Members

Yan, CUI

Di, GU

Chunxiao, HAO

Xin, PENG

Jianghao, WANG

Haidong, ZHAO

HIGHLIGHTS



As a bellwether in retail industry in Hubei Province and even in China, WDS enjoys unparalleled competitive edge over its competitors. Located in core areas of the most developed province in central China, WDS dominates the market of retailing and supermarket. The company provides its high-and-mid-end consumers with rich fashionability and exquisiteness, thus enjoying high prestige among the customers.

Due to soaring real estate price, the market value of WDS's properties has been increasing dramatically. The company owns over 1.2 million square meters commercial real estate in core business areas in Wuhan, the value of which has risen by approximately 40% for the last few years and the trend is expected to continue. Moreover, the increasingly popularity of asset securitization makes the huge potential values of real estate gradually emerge.

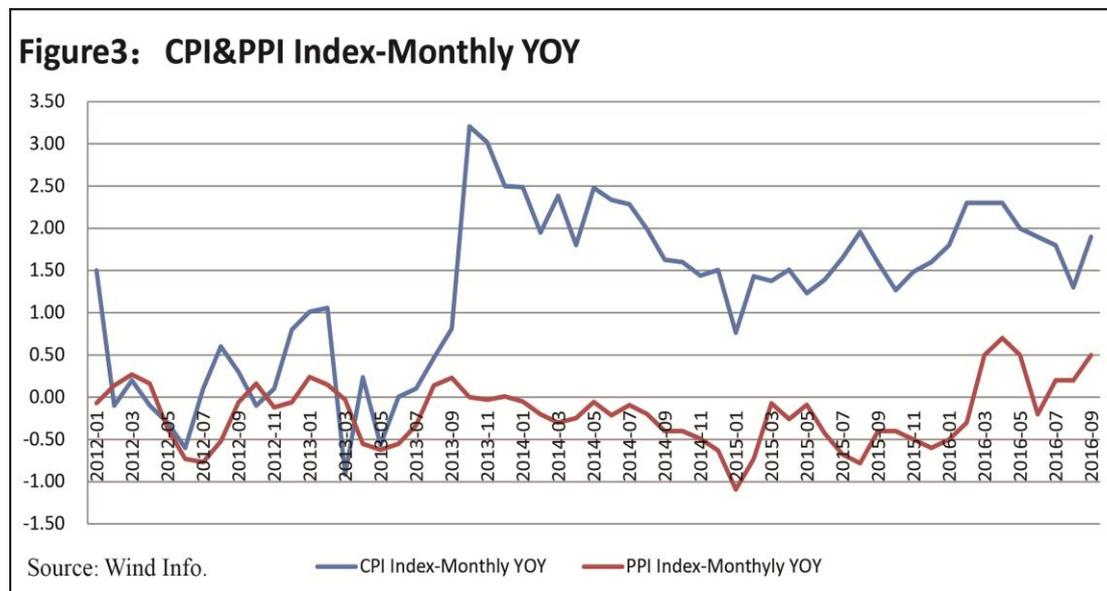
The net profit of WDS maintains high growth rate, while the stock price is undervalued. The company's net profit has grown by over 10% for at least 10 consecutive years. ROE and ROA remain higher than the average of the industry while P/E, P/B, P/S, P/CF are lower than the average, indicating that the company worth investing.

WDS's business structure has been optimized by starting online business as a supplement, achieving mutual promotion of online and offline business. It is worth mentioning that the company invested CNY 8.4bn in building the most luxurious retail complex in central China called Dream Times Plaza, which is expected to earn CNY 2.8bn in the first operating year in 2019, creating great competitive advantages.

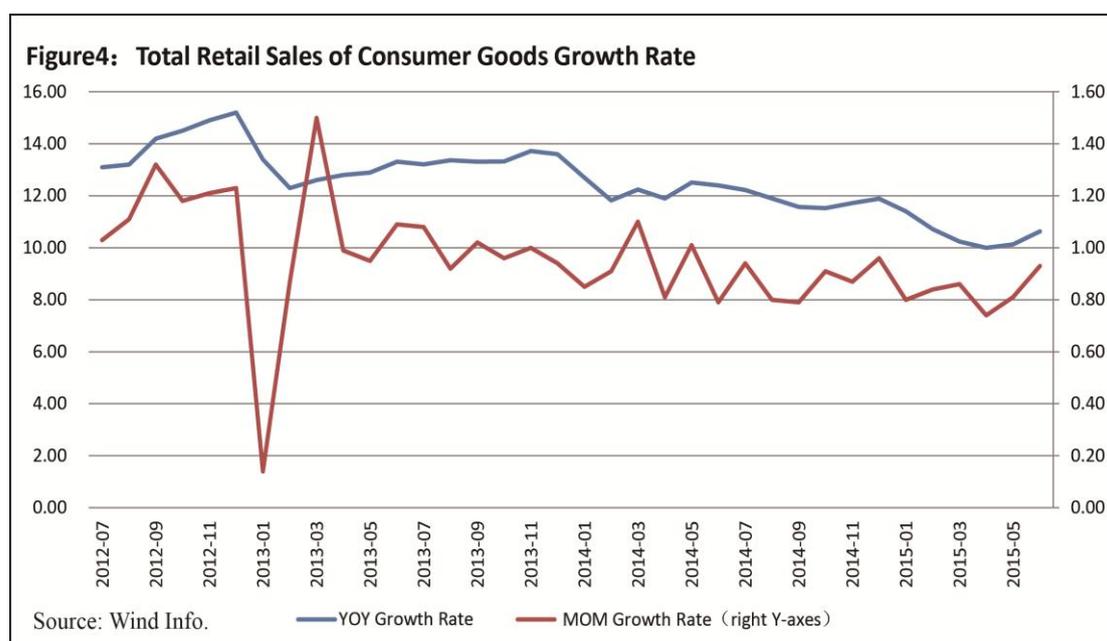
Proper equity structure and creative incentives arouses the enthusiasm of the management and employees, and thus improves the company's operating efficiency substantially. With the steady promotion of reform of state-owned enterprises, WDS took the lead in using stock equity as an incentive among not only the management but also employees. As a result, the main management personnel and the core staff share the same goals and interests with the company, which promotes the company's long-term development.

THE OVERALL ECONOMIC ENVIRONMENT of CHINA

Consumption Bottomed Out and Obvious Signs of Economic Recovery



In September this year, CPI rose by 0.7% month-on-month and 1.9% year-on-year, with the growth rate expanding 0.6 points than the previous month. In September, PPI rose by 0.5%, putting an end to the trend of 54-months year-on-year decline. 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. It is expected that in the next two years, the economy will maintain a steady development.

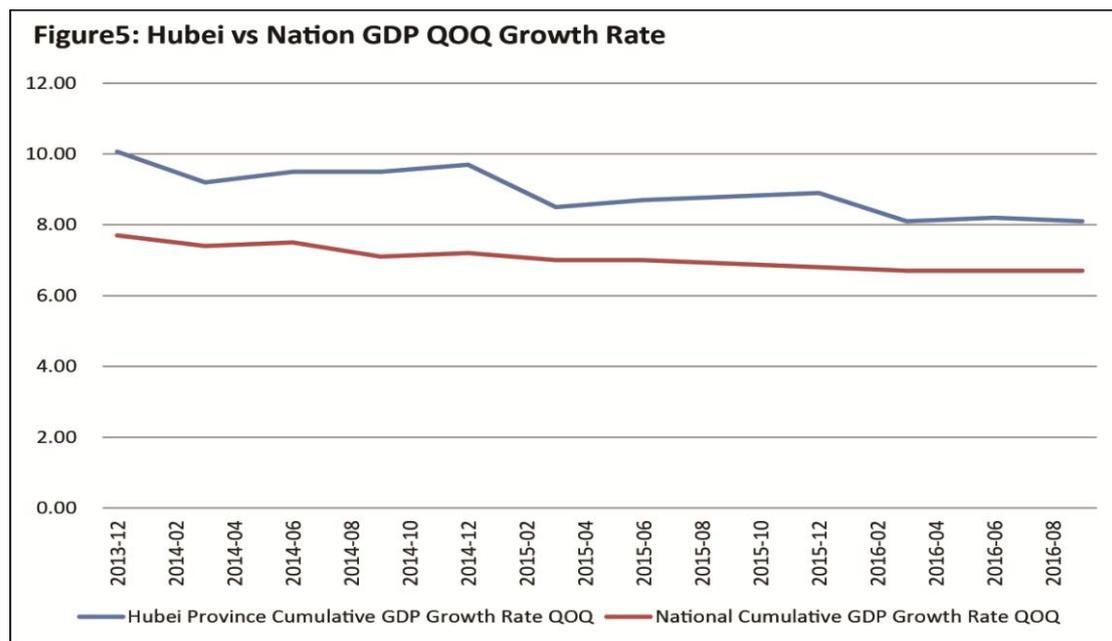


Overall consumption growth rallied after hitting bottom and will maintain a moderate increase rate as the 'new normal'. Since the overall consumption center moved down in 2012, the overall growth rate in 2015 and 2016 has been in a trend of bottoming

and stabilizing and the retail sales growth rate of social consumption goods has remained a tightly defined range bound between 10%-11%. With the boost from real estate market recovery in 2016, the sales volume of periodic consumption goods has gone up again, driving the retail sales growth rate of social consumption goods to rise with fluctuation from the beginning of 2016 till now.

THE OVERALL ECONOMIC ENVIRONMENT of HUBEI PROVINCE

Economy Stepping into the Fast Lane and Consumption Power Taking the Lead in Midwest



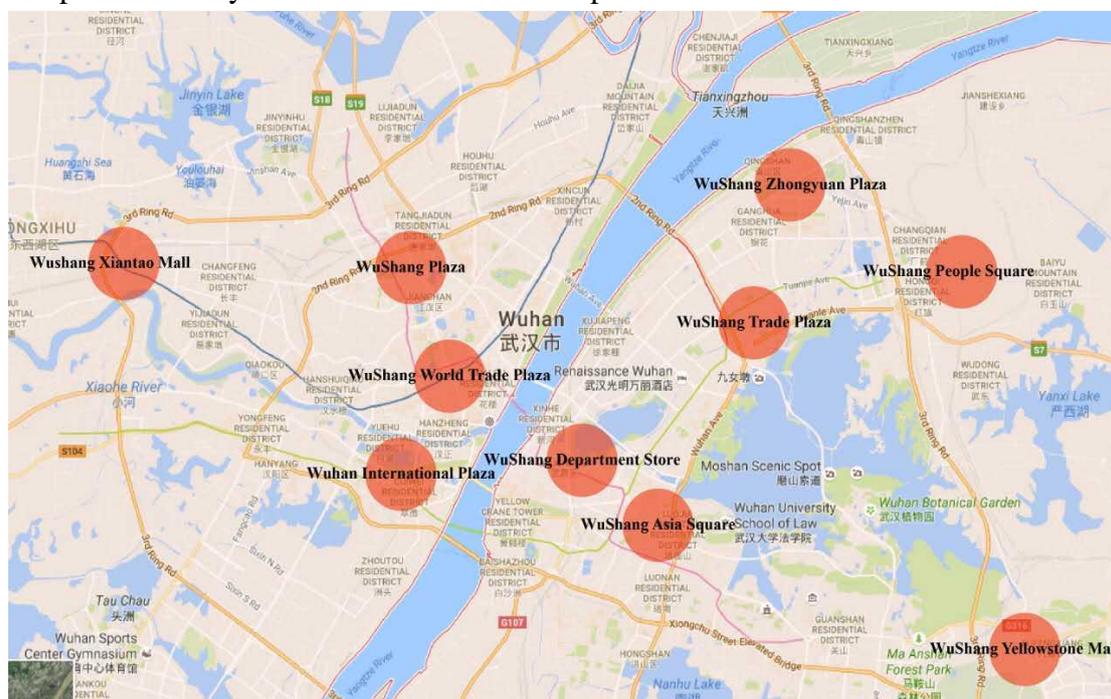
The economic development of Hubei Province is in the lead in China. With the implementation of China's strategic plan to vigorously develop the Yangtze River Economic Zone, the urban agglomeration of the middle and lower reaches of Yangtze River, which is represented by Hubei Province, has become the fourth pole of China's economic growth. Hubei Province has witnessed a higher GDP growth rate than the national level for 9 consecutive years. As the original driving force for consumption, the economic growth has been continuously driving the retail sales of social consumption goods of Hubei Province to be higher than the national level.

The consumption kinetic energy of Hubei Province comes first on the list in the Midwest. In 2015, total retail sales of social consumption goods in Hubei reached CNY 1,397.8bn, making it rank the 6th nationwide. In the aspect of retail sales of social consumption goods per capita, Hubei Province consistently ranked the first in the Midwest. In recent years, as the economic growth in coastal area slows down, the Yangtze River Economic Zone has gradually manifested its vitality. The permanent resident population of Hubei Province has reversed its negative growth and demonstrated a trend of accelerated growth. Therefore, its foundation for consumption has been constantly consolidated.

THE STORY OF WDS

One of the Leaders in Retail and Supermarket Business

WUHAN DEPARTMENT STORE GROUP CO., LTD (WDS) is a large-scale comprehensive business enterprise group headquartered in Hubei province. It was listed on the Shenzhen Stock Exchange in 1992. The company is mainly engaged in general merchandise retail business and supermarket business. Currently, it has 11 shopping malls and 79 supermarkets, among which the shopping malls are the core of its business development. The malls are located in core business districts and target at mid-to-high customers. Wuguang Business District, where the anchor stores are located in, is a business district with the richest business formats, the widest radiation scope and extremely high traffic accessibility. With the properties of an approximate value of CNY 20bn, WDS dominates the market of Hubei Province so that its competitors nearly stand no chance to catch up with it.



Finding the Way out Through Differentiation

Located in prosperous areas, the shopping centers are offering a unique opportunity for world-renowned brands to set up their exclusive stores and counters in downtown Wuhan. It aims at offering superb purchasing experience to middle-class customers, satisfying their demands for classy commodities as well as entertainment. Besides, it boasts its strong brand operation abilities including maintaining customer loyalty and developing potential brands. It never fails to fascinate women customers with its large varieties of luxury brands. For the past few years, the company has ranked the top of China in the total sales of cosmetics and women clothing.

In addition, Management is far-sighted. Since the transformation from department stores to shopping centers in 2011, the company has been implementing its strategy

explicitly and steadily. By introducing rare luxury brands to anchor stores in Wuhan, the stores level has been upgraded. In 2016, the company invested CNY 8.4bn to construct the Dream Times Plaza, which has a construction area of 600,000 square meters and is planned to open in 2019 with a market positioning of being the largest commercial retail complex in China. The construction of this plaza will further strengthen the regional business advantages and bring in large amount of revenue expectation. It is estimated that in its first year of business, its revenue will be CNY 2.8bn, which will help the company to maintain a growth rate that is higher than that of the industry.



Excellent Shareholding Structure-

-with state-owned assets' share-controlling & private assets' share-holding

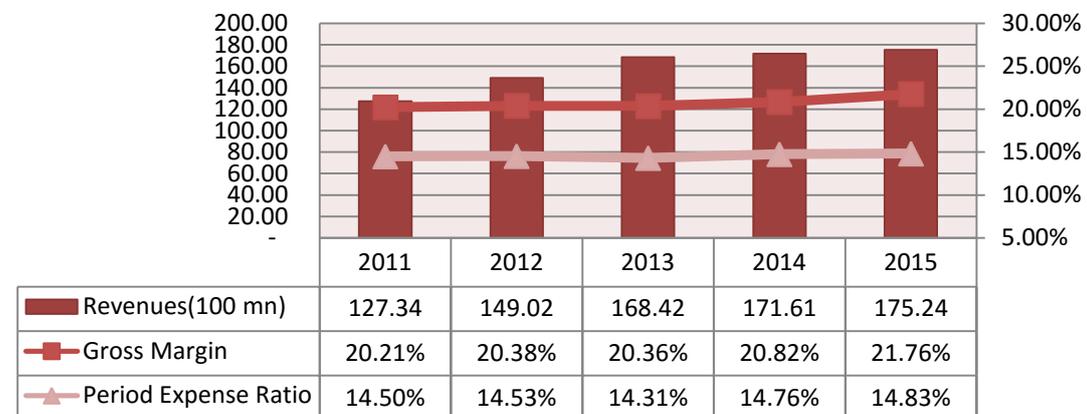
By 2016, Wuhan State-owned Assets Supervision and Administration Commission owns 28.71% of WDS's shares in total as the ultimate controlling owner of the company; Yintai Business Group Co., Ltd. owns 15.94% of the company's shares in total, which makes it the second-largest shareholder. In April, 2016, employees' stock accounted for 7.3% of the company's capital stock, manifesting the management's confidence in company's future development and the interests of employees being aligned with those of the company. This will be helpful for the company to improve its operational efficiency and develop in a medium and long term.

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

From 2011 to 2015, compound growth rate of the company's operating revenue approached 7%, and the gross margin remained stable in recent years which exceeded 21% in 2015. The company has a good control over costs, with the proportion of

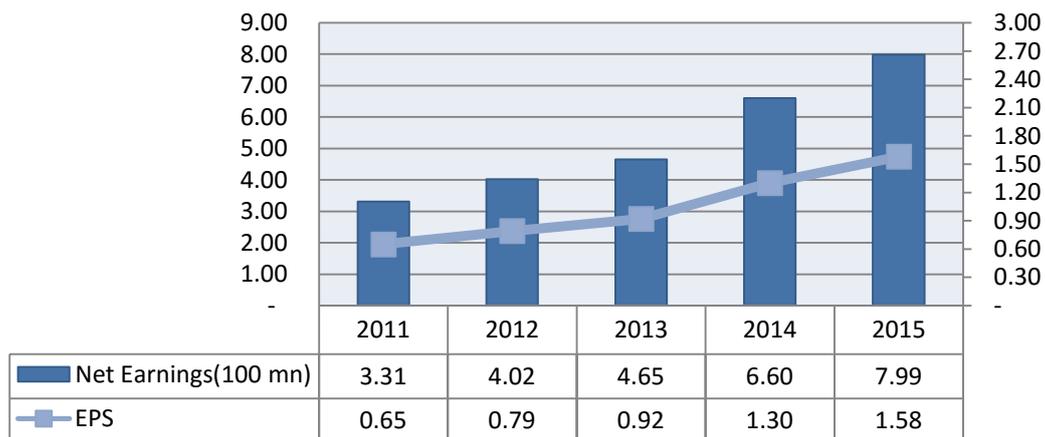
period expense between 14-15%, which expanded its profitable space to some extent in the past two years. From 2011 to 2015, this company's compound growth rate of profits outnumbered 19%, and EPS remained a sustainable growth.

Figure 6: Revenues, Gross Margin & Period Expense Ratio



Source: Wind Info.

Figure 7: Net Earnings & EPS



Source: Wind Info.

During the first half year of 2016, the company acquired net profits of CNY 515mn, increasing by 18% YOY; the basic earnings per share was CNY 0.96, increasing by 10% YOY; the amount of cash flow brought by operating activities was CNY 365mn, increasing by 10% YOY. The overall performance was better than expectations.

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

The company has also demonstrated itself competent when it comes to P/E and P/B, which is far lower than the industry average. It has been underestimated considering of its nearly perfect financial indicators. Besides, it ranks among the top-ranking ROE and EPS of the industry. Therefore, it is the best time for value investors to invest in WDS.

VALUATION

To confirm the intrinsic value of WDS, we select three valuation models including RNAV(revaluation of the net asset value)Method, DCF Model and Relative Valuation. We compare the results of the three methods and choose the most prudent one.

RNAV Method

Due to the soaring of real estate market in China for the past sixteen years, the market value of the properties of WDS has multiplied. Currently, the company owns 8 shopping centers with 1.2 million square meters area which revaluates CNY 19.9bn in total.

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

WDS is closed at CNY 19.11 on October 28th, with total market value as CNY 11.33bn. This is 43.1% of its property value revaluated as CNY 19.92bn. In the respect of the company's debt status, WDS has CNY 1.91bn long-term loan, CNY 2.12bn short-term debt and CNY 2mn non-current liabilities due within one year. For current asset, WDS has CNY 2.07bn assets under the name of cash or cash equivalent and CNY 430mn under available-for-sale financial assets. Based on the figures mentioned above, NAV value is calculated:

$NAV=19.92+2.07+0.43-0.002-2.12-1.91=CNY\ 18.38bn.$

Taking into account that the real estate market may be confronted with liquidity discount, we choose to take 80% of property value when calculating target stock price. Therefore, target stock price of WDS evaluation will be $18.38*0.8/0.592=CNY\ 24.84.$

To ensure the result is reasonable, the sensitive test works out as follows:

RNAV Sensitive Test of Target Price unit:CNY yuan						
	Property price change rate					
		-30.00%	-15.00%	0.00%	15.00%	30.00%
Net debt change rate	-30.00%	17.38	21.42	25.46	29.50	33.53
	-15.00%	17.07	21.11	25.15	29.18	33.22
	0.00%	16.76	20.80	24.84	28.87	32.91
	15.00%	16.45	20.49	24.52	28.56	32.60
	30.00%	16.14	20.17	24.21	28.25	32.29

DCF Method

We choose the FCFE discount method to determine the intrinsic value. The value of the company equals to FCFE/ (Return of equity - perpetual growth rate) .

FCFE= Net Income + Non-cash cost - Fixed capital investment - Working capital investment + Net borrowing.

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

The cost of equity is calculated based on the CAPM model. The beta is 1.06 to stock market index through regression analysis. Risk free rate adopts 10-year government bond interest rate, which is 2.67%. The yearly compound return of stock market from 1994 to 2016 is 12%. $Re = Rf + \beta * (Rm - Rf) = 2.67\% + 1.06 * (12\% - 2.67\%) = 12.56\%$. Enterprise value = FCFE/(Re-g). The two stage growth model is used to calculate the enterprise value. The assumption of FCFE growth rate in the next five years is from 6% to 2%, and the year after that is estimated at 1% perpetually.

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							

To ensure the result is reasonable, the sensitive test works out as follows:

5X5 Sensitive Test Matrix to Target Price Unit: CNY					
perpetual growth rate/ return of equity	re=10%	re=11%	re=12%	re=13%	re=14%
g=-1%	25.80	26.73	24.47	22.55	20.90
g=0%	29.65	26.90	24.76	22.68	21.01
g=1%	31.92	28.71	26.07	23.86	22.00
g=2%	34.84	30.94	27.83	25.28	23.15
g=3%	38.51	33.71	29.97	26.97	24.52

We choose an extreme perpetual growth rate to check the result .The target price range is CNY 20.90 to CNY 38.51, which gives a 9.31% to 101.40% upside. To come to a safe conclusion, we assume that the perpetual growth rate is 1%. The target price is 26.07 with a 36.35% upside.

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. 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 Risks

The government may regulate the price of real estate which will lead to the decline of properties' value, thus the revaluation value may change. However, 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 Risks

China may have a weaker economic growth in the future, resulting in lack of purchasing power. Nevertheless, 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 Risks

New projects may behind schedule which affects the future profitability of the company. Besides, market share of physical stores may be affected by the rising of e-Commerce in China. But, 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.

Other 4 Investment Ideas

Guirenniao Co., Ltd. (Code: 603555.SH)



GRN, Founded in 1987, is a comprehensive enterprise that combines the research, development, manufacture and marketing of sports shoes, sports clothes and accessory products. It is the national sports brand with the rapidest growth in China in recent years.

For the past few years, based on the development goal of 'fully satisfying everyone's sports demand', the company has made significant arrangements to participate in sports projects with huge numbers of participants, great consumption potentiality and tremendous development space. By involving in the three aspects of sports goods, sports operation and sports activities, the company has thus built the big sports ecosystem. The front end of the company attracts and leads traffic through sports activities, while the back end turns the traffic into profit through the content of sports operation and the consumption of sports goods. The company has a huge potential for future growth. According to the company's performance commitment of acquisition target, the company is expected to be able to realize a net profit over 450 million yuan in 2017.

The company's last close was 29.39 yuan, with the price range 20.27-40.75 yuan for the last 52-wk.

Jiangsu Jiuding New Material Co.,Ltd (Code:002201.SZ)



JJNM Company was founded in 1994 and is mainly engaged in the manufacture, processing and sales of glass fibers. In recent years, the company has been actively making arrangements in products of high-tech sectors. Especially it is expected to make advancements in multiple varieties of products in the military fields. The unique product of the company is special glass fiber cloth (the melting point of which is 1200 °C).

As the production enterprise of special aerospace glass fiber cloth designated by China Aerospace Industry Company, it has had its products successfully applied in rocket launching for many times and are mainly used in the field of aerospace and aviation, including as rockets, satellites, missiles and so on (for parts such as air deflectors, igniters and propellers). We believe that with the rapid development in China's military fields, such as aerospace and aviation, the demand for high-performance products will also increase. As the only private enterprise in China that supplies commodity for military fields, such as aerospace and aviation, this company has a huge space for future growth.

The company's last close was 17.98 yuan, with the price range 11.30-18.78 yuan for the last 52-wk.

Leaguer Stock Co., Ltd. (Code :000532.SZ)



LSC is the core platform for the industrial investment of Zhuhai, which is a special economic zone adjacent to Hongkong and Macao. In virtue of regional advantage, it enjoys prosperous development. Its controlling shareholder of LSC is Zhuhai Financial Holding Group, which belongs to Zhuhai SASAC.

The company holds over 20 venture capital companies, which have raised funds more than 5 billion yuan. With the reform of the capital market system, equity investment has entered a period of vigorous development. As the employee equity ownership platform inspires the motivation of employees, the company's three major industrial subsidiaries also maintain the good reputation and market competitiveness. By relying on its two-wheeled driving model of "Industrial + Venture Capital Investment", the company accelerates its pace in industrial transformation and upgrading.

The company is the beneficiary in Zhuhai's reform of state-owned enterprises, with 12 financial institutions that either take part in or control holdings, and 9 non-financial institutions. Deploying across core financial cities of China, the company manages its assets of over 35 billion. Meanwhile, its construction of local financial holdings platforms will make effective use of internal resources so as to bring about advantages like resource synergy, convenience of financing and brand effects.

The company's last close was 19.68 yuan, with the price range 13.66-28.73 yuan for the last 52-wk.

Ningbo Ligong Environment And Energy Technology Co.,Ltd

(Code :002322.SZ)



NLEE is a famous high-tech company in the fields of online monitoring, environmental monitoring and power informatization, with a number of technologies leading in the industries. Over recent years, on account of business structural adjustments such as mergers and acquisitions, as well as good control over costs, the company's revenue increased by 85% YOY and profits increased by 180% YOY in 2015.

Benefited from the development of the governmental PPP Project (Public-Private-Partnership), the company's subsidiaries occupy 50% market shares in surface water quality automatic monitoring market and take up 18% proportion in wholly trusted operating water stations, with a No. 1 place in terms of long-term market share. The company has established a subsidiary to build a 'R&D center for big data of environmental protection', which will provide effective referential schemes for the Group Company to enter the whole process of constructing environment fields. As a service provider of power engineering information, the company is under transformation to become a software service provider for Internet of Energy.

The company's last close was 20.52 yuan, with the price range 13.33-27.05 yuan for the last 52-wk.