

Analyst: Vincent Leung

GEM-Board H-share Listing - Research

北京物美商業集團股份有限公司 Wumart Stores, Inc. [Stock Code: 8277]

Global Co-ordinator, Sole Bookrunner and Joint Sponsor : Cazenove Asia Limited
Joint Sponsor : Tai Fook Capital Limited

Sector : Retail

Business : Operation and management of hypermarkets, supermarkets and convenience stores

<p>Total share offer: <u>76,480,000</u> shares (30% of the enlarged share capital)</p> <p>IPO: 7,648,000 shares (10%) Placement: 68,832,000 shares (90%) Greenshoe: 11,472,000 shares</p>	<p><u>Business of Wumart</u></p> <p>Wumart is a non-state-owned enterprise and principally engaged in the operation and management of supermarkets and convenience stores in Beijing, Tianjin and Hebei province as well as a hypermarket in Beijing.</p> <p>As of 4th November 2003, the Company and its associated companies owned, operated, and/or managed a retail-chain network consisting of 1 hypermarket in Beijing, 25 supermarkets (23 in Beijing and 2 in Hebei province), 141 convenience stores (127 in Beijing and 14 in Tianjin) and 7 drug stores in Beijing (Note). In addition, there were also 52 franchise convenience stores in Beijing. All the hypermarkets, supermarkets and convenience stores are under the unified “物美” brandname and logo.</p> <p><i>Note: The hypermarket in Beijing, the 2 supermarkets in Hebei province and 30 convenience stores (16 in Beijing and 14 in Tianjin) are operated by the Company through the management agreement. Wumart's associated companies own 1 supermarket, 8 convenience stores and the 7 drug stores in Beijing. The Company directly owns the remaining 22 supermarkets and 103 convenience stores in Beijing.</i></p>
<p>Price: HK\$4.92 – HK\$6.22 per share H-share Market Cap. : HK\$376.3 million – HK\$475.7 million</p> <p>Prospective 2003 P/E: 19x – 24x (pro forma fully diluted)</p> <p>Adjusted NTA per share: HK\$2.22 – HK\$2.59 (before the over-allotment option is exercised)</p> <p>Staffing: 4,138</p>	
<p>Book opens: 4th November, 2003 Book closes: 14th November, 2003</p> <p>IPO commences: 11th November, 2003 IPO closes: 14th November, 2003</p> <p>Receiving bank: Standard Chartered Bank Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 21st November, 2003</p>	

Major Shareholder after Listing

(Assuming the over-allotment option is not exercised)

*Dr. ZHANG Wen-zhong (aged 41; the chairman, president and an executive director of the Company)	31.14%
*Dr. WU Jian-zhong (aged 46; a vice chairman and an executive director of the Company)	12.97%
*Mr. WANG Jian-ping (aged 40; a non-executive director of the Company)	2.61%
*Dr. MENG Jin-xian (aged 47; a vice president and an executive director of the Company)	1.40%
*Independent 3 rd parties	21.18%
Beijing Shuangchen Express Company Limited (an independent 3 rd party)	0.70%
	<u>70.00%</u>

*- these shareholders are subject to a 12-month lock-up period

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$336.0 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$4.92, being the low-end of the stated range of issue prices of HK\$4.92 and HK\$6.22 per offer share)

	HK\$ million
To expand the Company's retail network in the PRC	280.4
To improve and develop the Company's operating, information and logistics systems	30.6
To promote and strengthen the “物美” brandname	6.3
To improve staff training	0.8
To serve as general working capital	17.9

Financial Highlights

	5 months ended 31 st May 2003 RMB '000	Year ended 31 st December 2002 RMB '000	2001 RMB '000
Turnover (Note)			
Supermarket	441,879	854,570	683,947
Convenience Store	191,523	242,956	5,825
	<u>633,402</u>	<u>1,097,526</u>	<u>689,772</u>
Operating profit	<u>39,428</u>	<u>38,579</u>	<u>27,455</u>
Share of results of associates	3,665	6,963	-
Net profit	<u>27,312</u>	<u>27,436</u>	<u>15,613</u>
Dividend	-	3	-
EPS – basic	<u>RMB0.153</u>	<u>RMB0.154</u>	<u>RMB0.087</u>

Note: Turnover represents net value of goods sold, rental income from leasing of shops premises plus service income, net of business tax.

Strengths

- ✓ Beijing's retail sales of consumer goods rose at a CAGR of 11.26% from 1995 to 2002, against China's national average of 10.28%.
- ✓ Wumart, together with its parent Wumei Holdings, was ranked 2nd among the retail-chain operators in Beijing in terms of sales in 2002, following Beijing Hualian Group. In fact, Wumart has already built a strong foothold in Beijing with an established network of retail-outlet and a good brandname.
- ✓ Net-profit margin of Wumart has been improving from 2.26% in 2001 to 2.50% in 2002 and further to 4.31% for the first 5 months ended 31st May 2003, attributable to the stringent cost controls and its low-cost expansion strategy through collaboration with state-owned entities and 3rd-party enterprises. This compared favourably with its Hong Kong-listed peer Lianhua Supermarket (Stock code: 0980), whose net-profit margin was 2.2% in 2002.
- ✓ Wumart has been efficient in managing its inventory, with its average inventory turnover declining steadily from 27 days for 2001 to 18 days for the 5 months ended 31st May 2003, compared with Lianhua Supermarket's 32 days for the 6 months ended 30th June 2003.
- ✓ Wumart has maintained a healthy balance sheet, with cash-on-hand of RMB167.5 million, short-term bank borrowings of RMB40.0 million and no long-term borrowings as of 30th September 2003.



Weaknesses

- × Shares of Wumart being offered are priced at an estimated FY2003E P/E range of 19x-24x on a pro-forma fully-diluted basis. Given its smaller size in terms of the store network and turnover when compared with Lianhua Supermarket, valuation of Wumart's shares looks a bit demanding. Lianhua Supermarket, which has a nationwide network, is now trading at a FY2003E P/E of 25.0x and a FY2004E P/E of 20.8x.
- × Whilst Wumart has been able to achieve outstanding profit margins, intensifying price competitions would add pressure on them.
- × With an initial focus in Beijing and surrounding area, Wumart aims to expand its retail network first into the northern region, followed by the eastern region and ultimately across the other regions of the PRC. There is no assurance that its expansion strategy in Beijing can be successfully replicated in other areas of the PRC.
- × The Company has no dividend plan for the time being as its management indicated that Wumart is in an expansion and high-growth stage.

Recommendation: Trading Buy