Tencent to invest 5% in Yonghui and 15% in Yonghui Yunchuang

Update on its Tencent deal
On 11 December, Yonghui announced to sell 5% stake to Tencent (0700.HK, last closing price: HKD394). The details are yet to be confirmed.

Tencent will also invest in Yonghui Yunchuang, a subsidiary of Yonghui listco that mainly includes Super Species and Yonghui Life. With this investment, Tencent expects to own a 15% stake in Yonghui Yunchuang.

Given that the discussion is still at an early stage and uncertainties remain, Yonghui will remain suspended from trading from 12 December; however, the company has assured to confirm the details and resume trading before 18 December 2017.

Deutsche Bank view
The deal implies Tencent’s plans to further explore both online and offline retail markets, apart from the partnership with Jingdong; despite that the details of the partnership are yet to be formed.

Yonghui’s Super Species and Yonghui Life can also leverage Tencent’s large online customer base to extend their online and O2O presence. Please refer to our report Sun Art and Yonghui - A new wave of partner-seeking in a new retail environment published on 8 December 2017 for further details. Currently, Yonghui owns 52%, CTGEI under Capital Toady owns 12%, Chairman Mr Zhang Xuanning owns 12% and co-founder Mr Peng Huasheng owns 24% of Yonghui Yunchuang. After the investment, we believe Yonghui Yunchuang will potentially become an associate of Yonghui listco (owning <50% stake).
### Forecasts and ratios

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<tbody>
<tr>
<td>Sales (CNYm)</td>
<td>41,938.3</td>
<td>49,012.7</td>
<td>58,192.9</td>
<td>70,104.9</td>
<td>81,887.1</td>
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<tr>
<td>EBITDA (CNYm)</td>
<td>1,671.4</td>
<td>2,537.6</td>
<td>3,001.2</td>
<td>4,064.3</td>
<td>5,075.6</td>
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<tr>
<td>Reported NPAT (CNYm)</td>
<td>605.3</td>
<td>1,242.0</td>
<td>1,827.2</td>
<td>2,638.2</td>
<td>3,405.7</td>
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<tr>
<td>Reported EPS FD(CNY)</td>
<td>0.08</td>
<td>0.14</td>
<td>0.19</td>
<td>0.28</td>
<td>0.36</td>
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<tr>
<td>DB EPS FD(CNY)</td>
<td>0.08</td>
<td>0.14</td>
<td>0.19</td>
<td>0.28</td>
<td>0.36</td>
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<tr>
<td>DB EPS growth (%)</td>
<td>-40.1</td>
<td>81.8</td>
<td>34.0</td>
<td>44.4</td>
<td>29.1</td>
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<tr>
<td>PER (x)</td>
<td>67.3</td>
<td>30.7</td>
<td>51.2</td>
<td>35.5</td>
<td>27.5</td>
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<tr>
<td>EV/EBITDA (x)</td>
<td>21.8</td>
<td>11.2</td>
<td>27.4</td>
<td>19.8</td>
<td>15.4</td>
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<tr>
<td>DPS (net) (CNY)</td>
<td>0.08</td>
<td>0.13</td>
<td>0.10</td>
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<td>0.18</td>
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<td>Yield (net) (%)</td>
<td>1.5</td>
<td>3.0</td>
<td>1.0</td>
<td>1.4</td>
<td>1.8</td>
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</table>

*Source: Deutsche Bank estimates, company data*
Appendix 1

Important Disclosures
*Other information available upon request

Disclosure checklist

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Recent price*</th>
<th>Disclosure</th>
</tr>
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<tbody>
<tr>
<td>Yonghui Superstores</td>
<td>601933.SS</td>
<td>9.78 (CNY)</td>
<td>NA</td>
</tr>
</tbody>
</table>

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Historical recommendations and target price. Yonghui Superstores (601933.SS) (as of 12/11/2017)

<table>
<thead>
<tr>
<th>Date</th>
<th>Security price</th>
<th>Current Recommendations</th>
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<tr>
<td>Jan ’16</td>
<td>0.00</td>
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<tr>
<td>May ’16</td>
<td>2.50</td>
<td>Buy</td>
</tr>
<tr>
<td>Sep ’16</td>
<td>5.00</td>
<td>Buy</td>
</tr>
<tr>
<td>Jan ’17</td>
<td>7.50</td>
<td>Buy</td>
</tr>
<tr>
<td>May ’17</td>
<td>10.00</td>
<td>Buy</td>
</tr>
<tr>
<td>Sep ’17</td>
<td>12.50</td>
<td>Buy</td>
</tr>
</tbody>
</table>

1. 04/28/2016 Buy, Target Price Change CNY 11,60 Richard Rui-Huang**
2. 06/03/2016 Buy, Target Price Change CNY 5,80 Richard Rui-Huang**
3. 08/28/2016 Buy, Target Price Change CNY 5,70 Richard Rui-Huang**
4. 04/14/2017 Buy, Target Price Change CNY 6,50 Mark Yuan
5. 07/18/2017 Buy, Target Price Change CNY 8,20 Anne Ling
6. 10/09/2017 Buy, Target Price Change CNY 8,90 Anne Ling
7. 11/01/2017 Buy, Target Price Change CNY 10,14 Anne Ling

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