

# Baozun (BZUN US)

## Focus on enhancing brand management

Baozun delivered in-line 3Q22 results. With priority on cost optimization and working capital efficiency, we expect BZUN to see margin improvement ahead (forecasting Non-GAAP OP at double digit YoY growth in FY23E), despite muted topline. Epidemic resurgence would dampen 4Q22E momentum (forecasting GMV/rev +0%/-13% YoY), but the negative impact has been almost priced in. Leveraging its strong brand mgmt capability and omni-channel advantage, we think BZUN is well-positioned to benefit from: 1) more synergies with M&A and brands; and 2) potential Covid control relaxation. To reflect epidemic impact, we trimmed FY22-24 non-GAAP OP forecast by 5%-8%, with DCF-based TP of US\$8.4 (implying 11x FY23 EV/EBIT).

- **3Q22 largely in-line.** 3Q22 GMV +16% YoY (non-distribution GMV+18% YoY, distribution GMV -29% YoY), 2% above our estimate. Rev -8% YoY, in line with consensus/ our estimate. By category, Luxury and FMCG led the growth (rev +23%/20% YoY), while Appliances soft at -41% YoY. Non-GAAP OP of RMB16.9mn was 5% ahead of our estimates for higher GPM, even though adj. net profit of -RMB13mn missed consensus (at RMB14mn) on unrealized investment loss and FX.
- **Prioritizing on brand management and cost discipline.** We expect 4Q22E to be a mixed quarter, with GMV/revenue +0%/-13% YoY, primarily on epidemic resurgence. Baozun delivered decent GMV growth for 11.11 promotion (+12% YoY), but Covid outbreak and rising return rate with logistics disruptions would dampen Nov & Dec momentum. Mgmt emphasized on cost optimization and working capital efficiency, and expects FY22E non-GAAP OP to be resilient. As the focus is shifting to margin with quality growth, we expect FY23E rev to be stable YoY, in which solid non-distribution GMV may offset distribution GMV decline. Non-GAAP OP would see double digit YoY growth in FY23E, backed by improving GPM and continuous operating leverage.
- **Acquisition of Gap Greater China to bring further synergies.** Mgmt. expects Gap Greater China's net loss to narrow ahead (targeting breakeven in 2025), by leveraging BZUN's strong brand mgmt capability and omni-channel advantage. We see high visibility for BZUN to empower Gap with high caliber and value-added services, and further boost its organic growth.
- **Maintain BUY.** We trimmed non-GAAP OP by 5%-8% in FY22-24E to reflect macro uncertainty and epidemic impact, with DCF-based TP of US\$8.4 (implying 11x FY23 EV/EBIT). Despite short-term external headwinds, we believe in-depth brand management and luxury opportunities will bring upside in the long run.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,852	9,396	8,611	8,629	9,628
YoY growth (%)	21.6	6.2	(8)	0.2	11.6
Adj. net income (RMB mn)	535	200	126	229	506
Adj. EPS (RMB)	8.4	2.7	1.6	2.8	6.2
YoY growth (%)	40.4	(68)	(40)	73.2	119.3
Consensus EPS (RMB)	NA	NA	3.1	5.7	8.4
P/E (x)	3.7	11.6	19.2	11.1	5.1
P/S (x)	0.7	0.7	0.8	0.9	0.8
ROE (%)	8.7	3.3	2.1	3.6	7.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	US\$8.4
(Previous TP	US\$9.2)
Up/Downside	+90.9%
Current Price	US\$4.4

### China Internet Sector

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### Stock Data

Mkt Cap (US\$ mn)	237
Avg 3 mths t/o (US\$ mn)	3.30
52w High/Low (US\$)	15.40/3.41
Total Issued Shares (mn)	54

Source: Bloomberg

### Shareholding Structure

Credit Suisse Group	5.26%
Vontobel Holding	4.11%
TIAA	3.26%

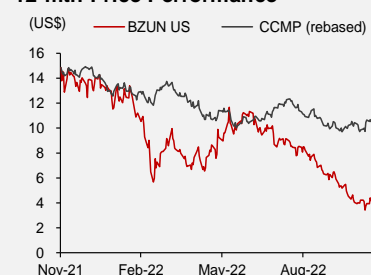
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-5.2%	-8.8%
3-mth	-52.8%	-48.9%
6-mth	-56.5%	-53.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: 3Q22 financial review

RMB mn	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY	Consensus	Diff %
Revenue	1,829	3,347	2,020	2,304	1,899	3,173	1,984	2,122	1,741	-17.9%	-8.3%	1,746	-0.3%
Operating profit	85	301	53	107	(157)	4	(41)	(23)	(26)	NA	NA	14	NA
Net profit	65	239	1	80	(293)	(8)	(122)	(78)	(157)	NA	NA	(51)	NA
Adj. net profit	92	272	61	151	(88)	76	1	1	(13)	NA	NA	14	NA
EPS (RMB)	1.52	3.58	0.82	2.01	(1.21)	1.11	0.02	0.02	(0.22)	NA	NA	0.20	NA
<b>Margin (%)</b>													
Gross margin	63.2%	61.6%	59.3%	64.6%	68.6%	67.1%	70.0%	71.6%	76.2%			73.3%	
Operating margin	4.6%	9.0%	2.6%	4.6%	-8.2%	0.1%	-2.1%	-1.1%	-1.5%			0.8%	
Adj. net margin	5.0%	8.1%	3.0%	6.5%	-4.6%	2.4%	0.1%	0.1%	-0.8%			0.8%	
<b>Growth (%)</b>													
Revenue (YoY)	21.7%	20.2%	32.6%	7.1%	3.8%	-5.2%	-1.8%	-7.9%	-8.3%			-13.6%	
Revenue (QoQ)	-15.0%	83.0%	-39.6%	14.0%	-17.6%	67.1%	-37.5%	6.9%	-17.9%			-45.0%	
Operating profit	50.9%	53.4%	313.4%	-33.6%	NA	-98.7%	-177.8%	NA	NA			-73.5%	
Adj. net profit	55.3%	68.4%	135.5%	2.9%	NA	-72.1%	-98.1%	-99.2%	NA			-77.8%	

Source: Company data, Bloomberg

Figure 2: 3Q22 revenue breakdown

	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	QoQ	YoY
<b>Revenue (RMB mn)</b>	<b>2,020</b>	<b>2,304</b>	<b>1,899</b>	<b>1,984</b>	<b>2,122</b>	<b>1,741</b>	<b>-18%</b>	<b>-8%</b>
<b>Online store operations</b>	<b>1,325</b>	<b>1,329</b>	<b>1,040</b>	<b>1,073</b>	<b>1,064</b>	<b>845</b>	<b>-21%</b>	<b>-19%</b>
Appliances	382	501	373	358	372	219	-41%	-41%
Apparel and accessories	250	242	208	265	244	234	-4%	12%
Sportswear	118	99	78	88	84	80	-5%	3%
Others	75	72	54	103	67	61	-9%	12%
Luxury	57	71	76	74	93	93	0%	23%
Electronics	240	227	na	151	109	NA	NA	NA
FMCG	na	na	77	NA	NA	92	NA	20%
Beauty and cosmetics	88	128	94	90	103	100	-3%	6%
Others	366	232	288	209	235	199	-15%	-31%
<b>Warehouse and fulfillment</b>	<b>418</b>	<b>511</b>	<b>528</b>	<b>525</b>	<b>611</b>	<b>492</b>	<b>-19%</b>	<b>-7%</b>
<b>Digital marketing and IT solutions</b>	<b>277</b>	<b>464</b>	<b>330</b>	<b>386</b>	<b>447</b>	<b>404</b>	<b>-10%</b>	<b>22%</b>

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,611	8,629	9,628	9,076	10,408	11,629	-5.1%	-17.1%	-17.2%
Gross profit	6,174	6,635	7,683	6,474	7,627	8,466	-4.6%	-13.0%	-9.2%
Non GAAP OP	275	327	670	250	426	677	9.9%	-23.3%	-1.0%
Adj. net profit	126	229	506	204	434	622	-38.0%	-47.2%	-18.6%
EPS (RMB)	1.64	2.84	6.23	3.09	5.73	8.35	-46.9%	-50.5%	-25.5%
Gross margin	71.7%	76.9%	79.8%	71.3%	73.3%	72.8%	+0.4ppts	+3.6ppts	+7.0ppts
Operating margin	3.2%	3.8%	7.0%	2.8%	4.1%	5.8%	+0.4ppts	-0.3ppts	+1.1ppts
Net margin	1.5%	2.7%	5.3%	2.2%	4.2%	5.3%	-0.8ppts	-1.5ppts	-0.1ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	8,611	8,629	9,628	8,676	8,846	10,116	-0.7%	-2.5%	-4.8%
Gross profit	6,174	6,635	7,683	6,221	6,803	8,072	-0.7%	-2.5%	-4.8%
Non GAAP OP	275	327	670	294	344	731	-6.5%	-5.0%	-8.4%
Adj. net profit	126	229	506	204	290	586	-38.2%	-21.0%	-13.6%
EPS (RMB)	1.64	2.84	6.23	2.65	3.59	7.21	-38.2%	-21.0%	-13.6%
Gross margin	71.7%	76.9%	79.8%	71.7%	76.9%	79.8%	0.0ppts	0.0ppts	0.0ppts
Operating margin	3.2%	3.8%	7.0%	3.4%	3.9%	7.2%	-0.2ppts	-0.1ppts	-0.3ppts
Net margin	1.5%	2.7%	5.3%	2.4%	3.3%	5.8%	-0.9ppts	-0.6ppts	-0.5ppts

Source: Company data, CMBIGM estimates

**Figure 5: Valuation comps**

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT		
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
<b>Baozun</b>	<b>BZUN US</b>	<b>255</b>	<b>USD</b>	<b>4</b>	<b>BUY</b>	<b>8</b>	<b>9.4</b>	<b>4.6</b>	<b>3.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>14.9</b>	<b>7.6</b>	<b>4.3</b>
<b>EC Service Provider</b>															
Lily & Beauty	605136 CH	672	CNY	12	NA	NA	22.9	15.9	11.8	1.2	1.1	0.8	14.5	10.0	7.4
Ruoyuchen	003010 CH	284	CNY	16	NA	NA	94.1	51.9	32.8	1.7	1.5	1.3	76.1	40.7	25.6
Onechance	300792 CH	926	CNY	27	NA	NA	21.9	17.6	15.1	4.8	4.0	3.4	14.0	11.2	9.5
Transcosmos	9715 JP	1,175	JPY	3,290	NA	NA	9.5	10.0	9.4	0.4	0.4	0.4	5.1	5.4	5.1
Average							18.1	14.5	12.1	2.0	1.7	1.5	27.4	16.8	11.9
<b>China Ecommerce</b>															
Pinduoduo	PDD US	103,730	USD	82	BUY	93	21.6	18.6	14.8	5.7	4.6	3.9	19.9	15.8	12.2
Alibaba	BABA US	231,818	USD	88	BUY	159	11.8	10.3	9.2	1.9	1.7	1.5	12.5	10.5	8.9
JD.com	JD US	89,301	USD	57	BUY	80	25.1	20.1	15.7	0.6	0.5	0.5	32.1	20.8	15.0
Vipshop	VIPS US	6,804	USD	11	NA	NA	7.4	7.3	6.8	0.5	0.4	0.4	5.5	5.2	4.8
Suning.com	002024 CH	3,255	CNY	2	NA	NA	NA	NA	71.1	0.3	0.2	0.2	NA	NA	42.7
Meituan	3690 HK	134,416	HKD	169	BUY	216	NA	71.0	33.0	4.4	3.5	2.8	NA	NA	40.4
Yatsen	YSG US	682	USD	1	NA	NA	NA	NA	NA	1.3	1.2	0.9	NA	NA	NA
Average							16.5	14.1	11.6	2.1	1.7	1.5	17.5	13.1	20.7
<b>Global Ecommerce</b>															
Amazon	AMZN US	984,868	USD	97	NA	NA	56.7	30.3	21.2	1.9	1.7	1.5	82.4	44.9	26.2
eBay	EBAY US	24,658	USD	45	NA	NA	11.6	11.3	10.6	2.5	2.6	2.5	9.7	10.2	9.8
Groupon	GRPN US	254	USD	8	NA	NA	NA	8.0	4.9	0.4	0.4	0.3	NA	NA	20.3
Average							11.6	9.7	7.8	1.6	1.6	1.4	46.1	27.6	18.8
<b>SaaS</b>															
Youzan	8083 HK	444	HKD	0	NA	NA	NA	NA	NA	2.1	1.8	1.5	NA	NA	NA
Weimob	2013 HK	1,648	HKD	5	NA	NA	NA	NA	NA	5.6	4.4	3.7	NA	NA	NA
Average							NA	NA	NA	3.8	3.1	2.6	NA	NA	NA
<b>Average</b>							<b>16.5</b>	<b>13.2</b>	<b>10.9</b>	<b>2.2</b>	<b>1.9</b>	<b>1.6</b>	<b>27.2</b>	<b>17.5</b>	<b>17.5</b>

Source: Bloomberg, CMBIGM estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net revenues</b>	8,852	9,396	8,611	8,629	9,628	<b>Net income</b>	426	(220)	(166)	58	318
Product sales	3,907	3,874	2,863	2,176	2,220	D&A	152	138	158	179	200
Services	4,945	5,523	5,748	6,452	7,408	Change in WC	(526)	1,562	(1,081)	1,125	(1,118)
<b>COGS</b>	(3,326)	(3,277)	(2,437)	(1,993)	(1,945)	Others	259	71	223	153	227
<b>Gross profit</b>	5,525	6,120	6,174	6,635	7,683	<b>Operating CF</b>	310	1,551	(866)	1,514	(374)
Fulfillment	(2,259)	(2,661)	(2,747)	(3,478)	(3,900)	Capex	(2,089)	(114)	(121)	(128)	(136)
S&M	(2,131)	(2,550)	(2,647)	(2,287)	(2,503)	Purchase of investments	-	-	-	-	-
R&D	(410)	(448)	(415)	(414)	(443)	Others	1,473	(45)	(49)	(49)	(50)
Admin.Exp.	(224)	(526)	(379)	(345)	(385)	<b>Investing CF</b>	(616)	(159)	(170)	(177)	(186)
Other gains	57	73	86	43	29	Equity raised	3,127	-	-	-	-
<b>Operating profit</b>	559	7	72	155	481	Change of debts	(428)	548	-	-	-
Other income, net	(10)	(161)	(200)	(79)	(63)	Cash from CB raised	(1)	-	-	-	-
<b>Pre-tax Income</b>	549	(154)	(128)	76	419	Others	(31)	201	-	-	-
Income Tax	(128)	(55)	(38)	(18)	(100)	<b>Financing CF</b>	2,667	749	-	-	-
Net profit	426	(220)	(166)	58	318	<b>Net change in cash</b>	2,360	1,392	(1,035)	1,337	(559)
<b>Adj. net profit</b>	535	200	126	229	506	Cash (beg of yr)	1,527	3,731	5,170	4,113	5,450
						FX	(156)	46	(21)	-	-
						<b>Cash (end of yr)</b>	3,731	5,170	4,113	5,450	4,891

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	1,316	1,340	1,352	1,350	1,336	<b>Sales mix (%)</b>					
Property and equipment	430	467	499	527	551	Product sales	44.1	41.2	33.3	25.2	23.1
Right-of-use assets	525	525	525	525	525	Services	55.9	58.8	66.7	74.8	76.9
Intangible assets	146	134	113	84	46	Total	100.0	100.0	100.0	100.0	100.0
Others	215	215	215	215	215						
<b>Current assets</b>	9,159	9,975	8,884	10,061	10,179	<b>Growth rate (%)</b>					
Cash & restricted cash	3,731	5,170	4,113	5,450	4,891	Revenue	21.6	6.2	(8.4)	0.2	11.6
Short-term investments	1,449	1,449	1,449	1,449	1,449	Gross profit	22.7	10.8	0.9	7.5	15.8
Accounts receivable	2,189	1,963	1,842	1,970	2,284	EBIT	45.6	(98.7)	924.5	115.5	210.5
Inventories	1,026	639	843	642	1,015	Adj. net profit	49.8	(62.7)	(36.8)	81.9	120.6
Prepayments and other current assets	764	755	636	550	540						
<b>Current liabilities</b>	2,196	3,098	2,001	2,947	2,545	<b>P&amp;L ratios (%)</b>					
Accounts payables	422	1,217	137	970	435	Operating margin	6.3	0.1	0.8	1.8	5.0
Other payables and accruals	1,565	1,671	1,654	1,767	1,900	Pre-tax margin	6.2	(1.6)	(1.5)	0.9	4.3
Short-term loan	-	-	-	-	-	Adj. net margin	6.0	2.1	1.5	2.7	5.3
Others	210	210	210	210	210	Effective tax rate	(23.3)	35.9	30.0	(24.0)	(24.0)
<b>Non-current liabilities</b>	2,136	2,136	2,136	2,136	2,136	<b>Returns (%)</b>					
Long-term loan	1,763	1,763	1,763	1,763	1,763	ROE	8.7	3.3	2.1	3.6	7.4
Deferred tax liability	3	3	3	3	3	ROA	5.1	1.8	1.2	2.0	4.4
Long-term operating lease liabilities	370	370	370	370	370	<b>Per share</b>					
MI	22	45	45	45	46	EPS (RMB)	2.8	0.9	0.5	0.9	2.1
Total Equity	6,133	6,082	6,099	6,328	6,835	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity</b>	6,111	6,036	6,054	6,283	6,789	BVPS (RMB)	32.2	27.7	26.4	26.1	28.0

Source: Company data, CMBIGM estimates

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<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
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