

Bosideng (3998 HK)

Our view on three major investors' concerns

We recently held an investor call with Bosideng and accessed several concerns on its FY3/23E outlook. To conclude, thanks to Bosideng's ability to: 1) innovate, 2) manage inventory and 3) boost staff efficiency, we believe it can certainly deliver a better-than-peers performance in FY3/23E, but still remains highly subjective to: 1) Covid-19 outbreaks and 2) macro-economic status in China.

- **1) How can Bosideng drive its volume growth in FY3/23E?** Bosideng's track record was excellent, but it was mostly driven by ASP than volume. While the five-year sales CAGR was 19% during FY17-22, ASP/ volume CAGR were only at 13%/ 6%, based on CMBIGM's estimates. Hence, investors are questioning on its 10%+ volume growth target in FY3/23E. We do find it challenging but reachable, supported by the followings: 1) product innovations, Bosideng will upgrade and renew the designs for its existing hot-selling series (GT/ Extreme Cold collections), 2) new categories, such as the light down apparel (target to drive 10-15% of sales in FY23E) which is less sensitive to weather and regional difference, hence may penetrate into a wider group of customers. It will also have more crossovers, high-tech (winning the red dot design awards) products (noted that new products usually account for 30-40% of annual sales), 3) store productivity improvement, Bosideng revamped a huge amount of stores in the past few years and since those were not fully mature, their same store volume growth could still be fast in FY23E (store and employee-level KPIs were refined to provide better incentives), and 4) stores expansion to resume, expecting ~300/100 new stores for distributors/ self-operation. Moreover, it is still aiming for better inventory days of ~130 vs ~150 last year.
- **2) Would there be any margin improvements in FY3/23E?** There are some obvious headwinds for Bosideng's GP margin in FY3/23E, namely: 1) rising raw material costs, 2) potentially less ASP increases vs the past few years, 3) relative less room for retail discounts to improve (as it is already in a fairly industry leading level), and 4) slightly more favorable rebates and wholesale discounts in orders to motivate its distributors to open more stores. However, since Bosideng is still targeting to have MSD increases in ASP and enjoy an improved bargaining power over its raw material suppliers and marketing agencies, we are not surprised to see some leverage in its COGS and A&P expenses, hence leading to OP margin expansions in FY3/23E.
- **Maintain BUY and keep TP at HK\$ 5.89.** We reiterate BUY and maintain TP at HK\$ 5.89, based on 18x FY24E P/E (unchanged). Current valuation of 14x FY24E P/E with a 20% FY22-25E NP CAGR is undemanding, vs 5-year average of 16x and GOOS's 14x, MONC's 23x and Li Ning's 25x.

Earnings Summary

(YE 31 Mar)	FY20A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	13,517	16,214	18,862	21,114	23,277
YoY growth (%)	10.9	20.0	16.3	11.9	10.2
Net income (RMB mn)	1,710	2,062	2,538	3,067	3,606
Diluted EPS (RMB)	0.151	0.183	0.225	0.272	0.319
YoY growth (%)	48.1	22.8	23.1	20.8	17.6
Consensus EPS (RMB)	n/a	n/a	0.231	0.273	0.353
P/E (x)	25.9	21.1	17.1	14.2	12.1
P/B (x)	3.8	3.5	3.3	3.0	2.7
Yield (%)	2.9	4.0	4.1	4.9	5.8
ROE (%)	15.4	17.4	20.0	21.9	23.3
Net gearing (%)	1.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.89
(Previous TP	HK\$5.89)
Up/Downside	+27.0%
Current Price	HK\$4.64

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Stock Data

Mkt Cap (HK\$ mn)	50,514
Avg 3 mths t/o (HK\$ mn)	102.68
52w High/Low (HK\$)	6.93/3.11
Total Issued Shares (mn)	10,886.6

Source: Bloomberg

Shareholding Structure

Mr Gao Dekang & Family	70.49%
Employee incentive scheme	6.81%
Free Float	22.70%

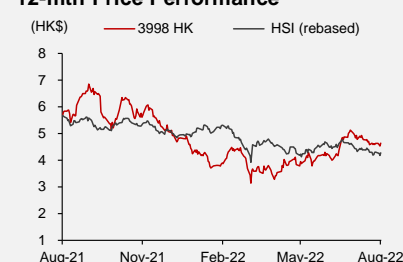
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.2%	-1.6%
3-mth	19.5%	19.7%
6-mth	16.5%	48.0%
12-mth	-21.6%	6.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. Bosideng (3998 HK, BUY) – Healthy inventory with an upbeat guidance – 27 Jun 2022
2. Bosideng (3998 HK, BUY) – The negatives should have priced in – 15 Feb 2022

- **3) Would there be any potential cannibalization between newly launched light and traditional heavy down apparel?** We cannot rule out this possibility as some consumers may purchase only one down apparel during the winter. However, Bosideng would make certain differentiation to avoid this issue. For example, time of product launches for light down apparel will be in Sep to Oct while heavy down apparel will be in Nov to Jan. Also, regions will be different. Light down apparel is a suitable product for its recent expansion in southern China (e.g. Shenzhen and Guangzhou), which usually has a much shorter winter. Lastly, some investors may worried about its relatively lower ASP, at around RMB 900-1500 (vs RMB 1800+ heavy down apparel). But in fact, similar products sold by Bosideng in the past were only priced at RMB 500-800, and the GP margin for these light down apparel is at least at par with Company's average.

Assumption

Figure 1: CMBIGM's major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)					
Down apparels	10,889	13,223	15,557	17,650	19,656
OEM management	1,536	1,901	2,129	2,236	2,348
Ladieswear	947	904	953	994	1,028
Diversified apparels	145	186	223	234	246
Total	13,517	16,214	18,862	21,114	23,277
Sales by segment growth (%)					
Down apparels	14.5%	21.4%	17.7%	13.5%	11.4%
OEM management	-4.7%	23.8%	12.0%	5.0%	5.0%
Ladieswear	-3.7%	-4.5%	5.4%	4.4%	3.4%
Diversified apparels	72.6%	28.3%	20.0%	5.0%	5.0%
Total	10.9%	20.0%	16.3%	11.9%	10.2%
Sales by channel growth (%)					
Down Apparels - offline	2.1%	25.6%	16.7%	8.4%	7.0%
Down Apparels - online	54.3%	12.7%	20.0%	25.0%	20.0%
OEM management	-4.7%	23.8%	12.0%	5.0%	5.0%
Non-down apparels - offline	1.1%	-1.1%	7.3%	4.5%	3.9%
Non-down apparels - online	21.8%	11.3%	15.0%	5.0%	2.0%
Total	10.9%	20.0%	16.3%	11.9%	10.2%
Sales network by segment					
Down apparel	4,150	3,809	4,218	4,333	4,452
Non - down apparel	477	462	476	490	505
Total	4,627	4,271	4,694	4,823	4,956
Sales network by channel type					
Self-operated	2,161	2,090	2,212	2,286	2,362
Third party distributors	2,466	2,181	2,481	2,537	2,595
Total	4,627	4,271	4,694	4,823	4,956
GP margins by segment					
Down apparels	63.7%	65.7%	66.0%	66.4%	67.0%
OEM management	19.6%	18.6%	19.0%	18.5%	18.5%
Ladieswear	72.6%	72.4%	70.0%	65.0%	65.0%
Diversified apparels	0.1%	25.7%	15.0%	10.0%	10.0%
Total	58.6%	60.1%	60.3%	60.6%	61.4%
Opex breakdown					
D&A/ sales	3.6%	3.0%	2.4%	2.1%	1.9%
Rental/ sales	13.3%	14.2%	13.9%	14.0%	14.0%
Labor/ sales	11.9%	10.6%	10.6%	10.4%	10.4%
A&P/ sales	6.5%	7.5%	5.0%	5.0%	5.0%
Others/ sales	7.7%	10.2%	10.5%	10.3%	10.2%
OP margins	16.5%	15.8%	18.5%	19.4%	20.5%
Effective tax rate	24.0%	23.0%	25.0%	25.0%	25.0%
NP att. margins	12.6%	12.7%	13.5%	14.5%	15.5%
NP att. growth (%)	42.1%	20.6%	23.1%	20.8%	17.6%

Source: Company data, CMBIGM estimates

Valuation

Figure 2: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H-shares Apparel														
Bosideng Intl	3998 HK	BUY	5.89	4.64	27%	50,514	Mar-22	17.1	14.2	3.3	3.0	17.7	0.8	4.2
China Lilang	1234 HK	BUY	4.94	3.77	31%	4,515	Dec-21	6.1	5.2	1.0	0.9	12.8	0.3	11.7
Jnby Design	3306 HK	BUY	14.51	7.35	97%	3,813	Jun-21	5.5	4.6	1.8	1.6	37.1	0.8	13.1
Cosmo Lady	2298 HK	NR	n/a	0.22	n/a	484	Dec-21	9.2	3.1	0.2	0.2	(23.2)	0.0	0.0
Mulsanne Group	709 HK	NR	n/a	1.85	n/a	2,923	Dec-21	15.4	11.6	n/a	n/a	7.8	0.9	n/a
Giordano	1817 HK	NR	n/a	4.12	n/a	3,914	Dec-21	n/a	n/a	n/a	n/a	(11.6)	0.0	n/a
Koradior	3709 HK	NR	n/a	11.10	n/a	7,815	Dec-21	9.1	8.2	1.5	1.4	15.3	0.7	4.9
Avg.								10.4	7.8	1.5	1.4	8.0	0.5	6.8
Med.								9.2	6.7	1.5	1.4	12.8	0.7	4.9
A-shares Apparel														
Ningbo Peacebird	603877 CH	NR	n/a	19.52	n/a	10,821	Dec-21	12.0	9.9	2.0	1.8	15.5	0.8	4.1
Joeone Co Ltd	601566 CH	NR	n/a	8.26	n/a	5,520	Dec-21	19.9	12.8	1.2	1.1	0.9	0.7	5.2
Fujian Septwolves	002029 CH	NR	n/a	5.34	n/a	4,693	Dec-21	12.4	11.4	n/a	n/a	3.5	0.0	n/a
Hla Corp Ltd	600398 CH	NR	n/a	4.53	n/a	22,755	Dec-21	7.2	6.3	1.2	1.1	15.7	0.7	7.7
Jiangsu Hongdou	600400 CH	NR	n/a	5.22	n/a	13,980	Dec-21	111.1	87.0	3.7	3.5	1.7	3.6	n/a
Dazzle Fashion	603587 CH	NR	n/a	14.25	n/a	7,973	Dec-21	9.1	7.7	1.6	1.5	17.1	0.8	7.2
Anzheng Fashion	603839 CH	NR	n/a	6.85	n/a	3,187	Dec-21	22.8	19.0	1.0	0.9	0.4	0.7	n/a
Lancy Co Ltd	002612 CH	NR	n/a	31.07	n/a	15,986	Dec-21	85.1	57.6	4.5	4.2	5.0	5.9	0.6
Shenzhen Huijie	002763 CH	NR	n/a	8.68	n/a	4,138	Dec-21	n/a	n/a	n/a	n/a	12.4	0.0	n/a
Ellassay Fashion	603808 CH	NR	n/a	9.21	n/a	3,953	Dec-21	10.7	8.3	1.1	1.0	9.9	0.8	2.5
Bobaolon Co	002776 CH	NR	n/a	2.71	n/a	1,695	Dec-21	n/a	n/a	n/a	n/a	(135.0)	0.0	n/a
Avg.								32.3	24.5	2.0	1.9	(4.8)	1.3	4.6
Med.								12.4	11.4	1.4	1.3	5.0	0.7	4.6
International Apparel														
Canada Goose	GOOS US	NR	n/a	22.18	n/a	18,375	Apr-22	17.5	14.1	4.8	3.4	18.9	0.0	n/a
Moncler Spa	MONC IM	NR	n/a	49.76	n/a	110,372	Dec-21	25.1	22.6	4.7	4.1	n/a	1.9	1.6
Hugo Boss	BOSS GR	NR	n/a	57.76	n/a	32,956	Dec-21	20.4	17.4	3.8	3.2	23.1	1.0	1.8
Ted Baker	TED LN	NR	n/a	86.60	n/a	1,532	Jan-22	n/a	86.6	n/a	n/a	(26.1)	0.0	n/a
Next	NXT LN	NR	n/a	6420.0	n/a	79,534	Jan-22	11.7	11.9	7.0	5.9	81.1	(8.0)	3.2
Hennes & Mauritz	HMB SS	NR	n/a	133.00	n/a	171,891	Nov-21	19.0	16.3	3.7	3.6	23.6	3.3	5.2
Industria De Diseno	ITX SM	NR	n/a	25.37	n/a	640,825	Jan-22	20.3	19.0	4.8	4.7	24.7	3.3	4.4
Ovs Spa	OVS IM	NR	n/a	1.64	n/a	3,862	Jan-22	7.5	6.6	0.5	0.4	5.8	0.5	2.9
Pvh Corp	PVH US	NR	n/a	67.80	n/a	35,608	Jan-22	7.8	6.8	0.8	0.7	19.5	17.8	0.1
Vf Corp	VFC US	NR	n/a	47.24	n/a	143,949	Apr-22	15.5	13.9	4.8	4.5	30.4	8.0	4.3
Marks & Spencer	MKS LN	NR	n/a	136.25	n/a	25,646	Apr-22	8.5	8.3	0.9	0.9	11.8	19.9	4.3
Avg.								15.3	20.3	3.6	3.1	21.3	4.3	3.1
Med.								16.5	14.1	4.2	3.5	21.3	1.9	3.2

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	13,517	16,214	18,862	21,114	23,277
Down apparels	10,889	13,223	15,557	17,650	19,656
OEM management	1,536	1,901	2,129	2,236	2,348
Ladieswear	947	904	953	994	1,028
Diversified apparels	145	186	223	234	246
Cost of goods sold	(5,592)	(6,476)	(7,484)	(8,311)	(8,986)
Gross profit	7,924	9,737	11,378	12,803	14,291
Other income	204	274	189	232	256
Operating expenses	(5,903)	(7,442)	(8,084)	(8,939)	(9,773)
D & A	(177)	(148)	(150)	(149)	(149)
Staff costs	(1,633)	(1,735)	(2,011)	(2,221)	(2,433)
S & D costs (ex-staff, D&A)	(3,155)	(4,301)	(4,737)	(5,289)	(5,835)
Admin exp. (ex-staff, D&A)	(523)	(669)	(621)	(662)	(694)
Other operating expenses	(416)	(589)	(565)	(618)	(661)
EBIT	2,225	2,569	3,482	4,096	4,775
Finance costs, net	18	117	114	206	324
JVs & associates	-	(14)	(199)	(199)	(199)
Exceptional	-	-	-	-	-
Pre-tax profit	2,242	2,672	3,397	4,103	4,900
Income tax	(537)	(613)	(849)	(1,026)	(1,225)
Less: Minority interests	(5)	(4)	9	11	70
Net profit	1,710	2,062	2,538	3,067	3,605

Cash flow summary

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	2,225	2,569	3,482	4,096	4,775
D & A	564	358	375	370	370
Change in working capital	425	62	(102)	(88)	(87)
Income tax paid	(348)	(613)	(849)	(1,026)	(1,225)
Others	267	316	312	404	522
Net cash from operating	3,133	2,691	3,218	3,756	4,354
Capex & investments	(437)	(524)	(609)	(682)	(752)
Associated companies	(3,193)	-	-	-	-
Interest received	153	-	-	-	-
Others	(386)	-	-	-	-
Net cash from investing	(3,863)	(524)	(609)	(682)	(752)
Equity raised	-	-	-	-	-
Net change in bank loans	148	-	-	-	-
Dividend paid	(880)	(1,295)	(1,667)	(1,780)	(2,134)
Others	(361)	(199)	(199)	(199)	(199)
Net cash from financing	(1,092)	(1,494)	(1,866)	(1,978)	(2,333)
Net change in cash	(1,822)	673	743	1,096	1,270
Beginning cash balance	3,639	1,771	2,445	3,188	4,283
Exchange difference	(46)	-	-	-	-
Cash at the end of the year	1,771	2,445	3,188	4,283	5,553
	2,225	2,569	3,482	4,096	4,775

Balance sheet

YE 31 Mar (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	6,080	6,232	6,267	6,381	6,565
Fixed asset	1,762	2,041	2,388	2,813	3,308
Intangible assets & goodwill	1,572	1,459	1,346	1,234	1,121
Prepaid lease payments	912	912	912	912	912
Interest in joint ventures	-	-14	-213	-411	-610
Other non-current assets	1,833	1,833	1,833	1,833	1,833
Current assets	12,877	14,166	15,756	17,559	19,459
Cash and cash equivalents	1,771	2,445	3,188	4,283	5,553
Inventories	2,646	2,662	3,076	3,416	3,693
Trade and other receivables	876	1,244	1,447	1,620	1,786
Prepayments	1,168	1,401	1,630	1,825	2,012
Other current assets	6,415	6,415	6,415	6,415	6,415
Current liabilities	5,442	6,120	6,865	7,484	8,027
Bank loans	671	671	671	671	671
Trade payables	2,469	2,839	3,281	3,643	3,939
Accruals & other payables	1,543	1,851	2,154	2,411	2,658
Tax payables	520	520	520	520	520
Others	239	239	239	239	239
Non-current liabilities	2,263	2,263	2,263	2,263	2,263
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	174	174	174	174	174
Others	2,089	2,089	2,089	2,089	2,089
Minority Interest	182	178	187	198	268
Total net assets	11,069	11,836	12,707	13,994	15,465
Shareholders' equity	11,069	11,836	12,707	13,994	15,465

Key ratios

YE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Down apparels	80.6	81.6	82.5	83.6	84.4
OEM management	11.4	11.7	11.3	10.6	10.1
Ladieswear	7.0	5.6	5.0	4.7	4.4
Diversified apparels	1.1	1.1	1.2	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	58.6	60.1	60.3	60.6	61.4
Operating margin	16.5	15.8	18.5	19.4	20.5
Pre-tax margin	16.6	16.5	18.0	19.4	21.0
Net margin	12.6	12.7	13.5	14.5	15.5
Effective tax rate	24.0	22.8	23.6	23.8	24.0
Balance sheet ratios					
Current ratio (x)	2.4	2.3	2.3	2.3	2.4
Quick ratio (x)	1.9	1.9	1.8	1.9	2.0
Cash ratio (x)	0.3	0.4	0.5	0.6	0.7
Inventory turnover days	173	150	150	150	150
Trade receivables days	24	28	28	28	28
Trade payables days	161	160	160	160	160
Total debt / total equity ratio (%)	21	19	18	16	15
Net debt / equity ratio (%)	2	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	15.4	17.4	20.0	21.9	23.3
ROA	9.0	10.1	11.5	12.8	13.9
Per share					
Diluted EPS (RMB)	0.15	0.18	0.22	0.27	0.32
DPS (RMB)	0.11	0.15	0.16	0.19	0.22
BVPS (RMB)	1.03	1.10	1.18	1.30	1.44

Source: Company data, CMBIGM estimates

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

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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