

Baozun (BZUN US)

GAP revitalization making good progress

Baozun delivered mixed 4Q23 results with in-line revenue (+9% YoY) but soft bottom line. For 1Q24E, we expect a low-single-digit YoY decline in revenue, with a net loss position, for slower BEC (Baozun E-commerce) recovery with soft consumption sentiment. Despite that, BBM (Baozun Brand Management) was making good progress, and we expect BBM to see 20% YoY revenue growth in FY24E, backed by brand revitalization, new store opening and scaling back of discounts. BEC should stay stable YoY in terms of revenue and margin in FY24E, in our view. We trim our adj. NPM forecast by 1.9-3.3ppts in FY24-25E to reflect soft BEC and BBM & livestreaming ecommerce investment, with a lower TP at US\$4.93.

■ **Mixed 4Q23 with in-line top line but soft margin.** 4Q23 revenue rose 9% YoY, largely in line with consensus, while bottom line (RMB29mn) missed consensus (RMB52mn). By segment, product sales grew 36% YoY thanks to incremental contribution from BBM. BEC revenue declined 23% YoY for soft appliances, home and furnishing, and FMCGs with challenging macro. Omni-channel expansion was well on track, with 45% of brand partners engaged with at least two channels. Services revenue dropped 3% YoY. Non-GAAP OP was RMB75.7mn, with loss from BBM narrowing to RMB42.5mn from RMB50.1mn in 3Q23, while BEC generated OP of RMB118mn.

■ **Expect solid GAP growth with margin improvement, and BEC to remain stable in FY24E.** We expect revenue to rise 2.9% YoY in FY24E, with BEC to stay stable YoY, and BBM to deliver 20% YoY growth. Given soft consumption sentiment, BEC would need more time to see meaningful recovery, and solid luxury and sports will likely be offset by weak appliances. BEC margin would be flat YoY, in our view. GAP would see continued progress in brand revitalization and store opening as well as improved same-store sales. We forecast BBM revenue to rise 20% YoY in FY24E, with non-GAAP operating loss narrowing to RMB150mn.

■ **Moderate 1Q24E on soft seasonality.** Given consumption sentiment and seasonality, we expect BEC revenue to decline by a high single digit YoY in 1Q24E. Coupled with contribution of BBM, 1Q24E group top line should see a low-single-digit decrease YoY. Considering new store expansion and content investment in BEC, 1Q24E might still be in a net loss position, in our view.

■ **Maintain BUY.** We trim our earnings forecast by 60%-97% in FY24-25E to reflect slower BEC recovery and BBM & livestreaming ecommerce investment, with a lower SOTP-based TP at US\$4.93.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	8,401	8,812	9,065	9,519	9,937
YoY growth (%)	(10.6)	4.9	2.9	5.0	4.4
Adjusted net profit (RMB mn)	132.2	(65.1)	8.5	143.7	166.7
Diluted EPS (RMB)	2.1	(1.1)	0.1	2.4	2.8
YoY growth (%)	(21.6)	NA	NA	1,578.2	15.4
P/S (x)	0.1	0.1	0.1	0.1	0.1
P/E (x)	8.1	NA	117.6	7.0	6.0
ROE (%)	(10.0)	(3.9)	(0.5)	1.7	2.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$4.93
(Previous TP)	US\$6.90)
Up/Downside	113.0%
Current Price	US\$2.30

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Stock Data

Mkt Cap (US\$ mn)	139.0
Avg 3 mths t/o (US\$ mn)	1.7
52w High/Low (US\$)	6.02/1.97
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Schroders	5.6%
TIAA	4.5%

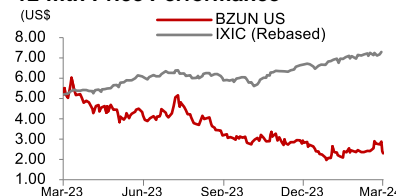
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.5%	-8.7%
3-mth	-18.4%	-25.6%
6-mth	-29.7%	-43.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 4Q23 financial review

RMB mn	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %
Revenue	1,741	2,553	1,888	2,320	1,824	2,780	52%	9%	2,814	-1.2%
Operating profit	(26)	18	(41)	(36)	(136)	6	NA	NA	55	-88.3%
Net profit	(157)	(284)	(84)	(20)	(130)	(47)	NA	NA	40	NA
Adj. net profit	(13)	138	(13)	(4)	(76)	29	NA	NA	52	-44.5%
EPS (RMB)	(0.22)	2.32	(0.22)	(0.07)	(1.28)	0.47	NA	NA	0.99	-52.7%
Margin (%)										
Gross margin	76.2%	74.8%	73.2%	70.9%	73.1%	73.5%			73.7%	
Operating margin	-1.5%	0.7%	-2.2%	-1.6%	-7.4%	0.2%			1.9%	
Adj. net margin	-0.8%	5.4%	-0.7%	-0.2%	-4.2%	1.0%			1.8%	
Growth (%)										
Revenue (YoY)	-8.3%	-19.5%	-4.9%	9.3%	4.7%	8.9%				
Revenue (QoQ)	-17.9%	46.6%	-26.1%	22.9%	-21.4%	52.5%				
Operating profit	NA	2.2%	-2.9%	0.6%	-5.9%	7.7%				
Adj. net profit	NA	6.2%	-6.1%	0.5%	-4.0%	5.2%				

Source: Company data, Bloomberg, CMBIGM

Figure 2: 4Q23 revenue breakdown

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY
Revenue (RMB mn)	1,741	2,553	1,888	2,320	1,824	2,780	52.5%	8.9%
Product sales	497	772	666	930	708	1,053	48.8%	36.3%
Services	1,244	1,781	1,222	1,390	1,116	1,727	54.8%	-3.0%
Revenue (RMB mn)								
Product Sales	497	772	673	930	708	1,053	49%	36%
E-Commerce (BEC)	497	772	477	606	412	598	45%	-23%
Appliances	212	387	225	276	180	256	42%	-34%
Beauty and cosmetics	76	93	67	104	76	131	72%	41%
Home and furnishing		84				46		-45%
FMCG		81				46		-43%
Electronics	51		44	50	26			
Others	158	128	142	175	130	118	-9%	-7%
Brand Management (BBM)	0	0	196	324	296	456	54%	NA
Services revenue	1,244	1,781	1,215	1,390	1,116	1,727	55%	-3%
Online store operations	348	514	357	379	330	512	55%	-1%
Apparel and accessories	232	367	256	258	248	373	50%	2%
Sportswear	80	122	89	98	101	134	32%	10%
Other apparel	59	113	68	65	61	116	90%	2%
Luxury	93	133	99	98	86	123	43%	-7%
Others	116	148	109	130	92	139	51%	-6%
Inter-segment eliminations	0	0		-9	-11	-19	66%	NA
Warehouse and fulfillment	492	753	487	571	432	705	63%	-6%
Digital marketing and IT solutions	404	514	377	446	363	549	51%	7%
Inter-segment eliminations	0	0	-7	-6	-19	-19	0%	NA

Source: Company data, CMBIGM

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	9,065	9,519	9,937	9,529	10,106	8,191	-4.9%	-5.8%	21.3%
Gross profit	6,554	6,891	7,194	7,010	7,465	3,574	-6.5%	-7.7%	101.3%
Non-GAAP OP	130	259	279	111	271	(682)	17.2%	-4.4%	-141.0%
Adj. net profit	9	144	167	135	291	(357)	-93.7%	-50.6%	-146.7%
EPS (RMB)	0.14	2.39	2.75	2.32	4.73	4.07	-93.9%	-49.6%	-32.4%
Gross margin	72.3%	72.4%	72.4%	73.6%	73.9%	43.6%	-1.3ppts	-1.5ppts	+28.8ppts
Operating margin	1.4%	2.7%	2.8%	1.2%	2.7%	-8.3%	+0.3ppts	+0.0ppts	+11.1ppts
Net margin	0.1%	1.5%	1.7%	1.4%	2.9%	-4.4%	-1.3ppts	-1.4ppts	+6.0ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	9,065	9,519	9,937	10,051	10,554	NA	-9.8%	-9.8%	NA
Gross profit	6,554	6,891	7,194	7,277	7,641	NA	-9.9%	-9.8%	NA
Non GAAP OP	130	259	279	518	544	NA	-74.9%	-52.4%	NA
Adj. net profit	9	144	167	340	363	NA	-97.5%	-60.4%	NA
EPS (RMB)	0.14	2.39	2.75	5.23	5.55	NA	-97.3%	-57.0%	NA
Gross margin	72.3%	72.4%	72.4%	72.4%	72.4%	NA	-0.1ppts	0.0ppts	NA
Operating margin	1.4%	2.7%	2.8%	5.2%	5.2%	NA	-3.7ppts	-2.4ppts	NA
Net margin	0.1%	1.5%	1.7%	3.4%	3.4%	NA	-3.3ppts	-1.9ppts	NA

Source: Company data, CMBIGM estimates

Our new TP was derived from: 1) BEC business with valuation of RMB640mn, by assigning 4x FY24E EV/EBIT (a 50% discount to industry average, for relatively lower growth and liquidity); 2) BBM business with valuation of RMB160mn, by assigning 0.1x FY24E EV/sales (at around 60% discount to 1P ecommerce and service provider peers, for the net loss position). As such, our SOTP valuation yields a TP of US\$4.93, which is not demanding, in our view.

Figure 5: SOTP valuation

SOTP	Metrics	Methodology	Multiple	Shareholding	Valuation
(RMB mn)					
BEC	FY24E Non-GAAP OP	160 EV/EBIT	4.0	100%	640
BBM	FY24E Revenue	1,595 EV/Sales	0.1	100%	160
Total					800
Net cash					(3,073)
Holding discount					45%
Equity Value (US\$ mn)					296
Target Price (US\$)					4.93

Source: Bloomberg, CMBIGM estimates

Risks

1) Macro uncertainty on consumption sentiment; 2) heavier-than-expected investment in BBM and livestreaming ecommerce channel; and 3) slower recovery in brand promotion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	9,396	8,401	8,812	9,065	9,519	9,937
Cost of goods sold	(3,277)	(2,256)	(2,409)	(2,511)	(2,627)	(2,743)
Gross profit	6,120	6,145	6,403	6,554	6,891	7,194
Operating expenses	(3,524)	(3,474)	(4,190)	(3,844)	(3,969)	(4,124)
Selling expense	(2,550)	(2,674)	(2,829)	(2,620)	(2,713)	(2,832)
Admin expense	(526)	(371)	(856)	(771)	(800)	(815)
R&D expense	(448)	(428)	(505)	(453)	(457)	(477)
Operating profit	7	33	(206)	35	160	178
Other income	63	46	82	51	51	51
Other expense	(57)	(57)	(41)	(77)	(77)	(77)
Gain/loss on financial assets at FVTPL	46	(32)	(9)	0	0	0
Investment gain/loss	(3)	(108)	1	(4)	(4)	(3)
Pre-tax profit	(154)	(580)	(217)	(25)	100	119
Income tax	(55)	(26)	(12)	(1)	6	7
Net profit	(206)	(610)	(223)	(27)	105	125
Adjusted net profit	200	132	(65)	9	144	167

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,204	7,397	7,291	7,548	7,222	8,222
Cash & equivalents	4,607	2,150	2,406	3,412	2,594	3,782
Restricted cash	93	102	203	0	0	0
Account receivables	2,261	2,293	2,185	1,861	2,345	2,046
Inventories	1,074	943	1,045	851	837	925
Prepayment	573	554	590	395	408	420
ST bank deposits	0	895	721	721	721	721
Non-current assets	3,115	2,725	3,184	2,723	2,695	2,653
PP&E	653	694	851	551	569	581
Investment in JVs & assos	41	39	38	38	38	38
Intangibles	395	311	306	46	0	(54)
Goodwill	398	336	312	312	312	312
Other non-current assets	1,628	1,344	1,675	1,775	1,775	1,775
Total assets	12,319	10,122	10,474	10,270	9,917	10,875
Current liabilities	4,777	3,682	3,758	4,352	3,794	4,526
Short-term borrowings	2,288	1,016	1,116	1,116	1,116	1,116
Account payables	494	475	564	1,250	647	1,333
Tax payable	658	535	525	525	525	525
Other current liabilities	352	631	365	365	365	365
Accrued expenses	985	1,026	1,188	1,096	1,141	1,187
Non-current liabilities	1,061	764	865	824	824	824
Long-term borrowings	0	0	0	0	0	0
Total liabilities	5,838	4,446	4,623	5,176	4,618	5,350
Capital surplus	4,960	5,129	4,571	4,667	4,768	4,870
Retained earnings	425	(228)	(507)	(533)	(428)	(303)
Total shareholders equity	6,481	5,676	5,852	5,920	6,127	6,354
Minority interest	163	154	170	170	170	170
Total equity and liabilities	12,319	10,122	10,474	11,096	10,746	11,704

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(154)	(580)	(217)	(25)	100	119
Depreciation & amortization	207	197	179	200	222	245
Tax paid	(54)	(54)	(54)	(54)	(54)	(54)
Others	(95)	821	246	1,072	(892)	1,082
Net cash from operations	(96)	383	154	1,192	(624)	1,392
Investing						
Capital expenditure	(286)	(207)	(128)	(136)	(144)	(152)
Net proceeds from disposal of short-term investments	1,433	(898)	175	0	0	0
Net cash from investing	376	(1,307)	(85)	(186)	(194)	(203)
Financing						
Net borrowings	548	468	100	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	201	(2,118)	0	0	0	0
Net cash from financing	750	(1,650)	100	0	0	0
Net change in cash						
Cash at the beginning of the year	3,731	4,700	2,246	2,406	3,412	2,594
Exchange difference	(61)	120	(9)	0	0	0
Cash at the end of the year	4,700	2,246	2,406	3,412	2,594	3,782
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	6.2%	(10.6%)	4.9%	2.9%	5.0%	4.4%
Gross profit	10.8%	0.4%	4.2%	2.4%	5.1%	4.4%
Operating profit	(98.7%)	374.1%	na	na	357.7%	10.9%
Net profit	na	na	na	na	na	18.9%
Adj. net profit	(62.7%)	(33.8%)	na	na	1,588.3%	16.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	65.1%	73.1%	72.7%	72.3%	72.4%	72.4%
Operating margin	0.1%	0.4%	(2.3%)	0.4%	1.7%	1.8%
Adj. net profit margin	2.1%	1.6%	(0.7%)	0.1%	1.5%	1.7%
Return on equity (ROE)	(3.3%)	(10.0%)	(3.9%)	(0.5%)	1.7%	2.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.2)	(0.2)	(0.4)	(0.2)	(0.4)
Current ratio (x)	1.9	2.0	1.9	1.7	1.9	1.8
Receivable turnover days	86.4	98.9	92.7	81.4	80.6	80.6
Inventory turnover days	116.9	163.1	150.6	137.8	117.2	117.2
Payable turnover days	51.0	78.4	78.7	131.8	131.8	131.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	6.3	8.1	NA	117.6	7.0	6.0
P/S	0.1	0.1	0.1	0.1	0.1	0.1
P/B	6.5	1.8	1.0	0.5	0.5	0.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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