CMB International Securities | Equity Research | Company Initiation

Baozun Inc. (BZUN US)

TAM expansion with new channels and M&A

As a brand e-commerce service leader in China, we expect Baozun to surf the growing retail digitalization tailwinds while benefiting from COVID-19. We forecast its revenue/ adj. net profit will grow at 28%/ 28% in FY20-23E, backed by a solid partner pipeline, new channels expansion (e.g. mini program), growing brand coverage and cost optimization. Initiate with BUY with DCF-based TP of US$50.

■ **One-stop shop for e-commerce solutions.** Baozun is China's Top1 brand e-commerce service provider in 2019, according to iResearch, and we expect it to strengthen leadership with all-category, full-service, omni-channel solution capabilities. We forecast Baozun to deliver 29%/28%/28% GMV/ rev/earnings CAGR during FY20-23E, thanks to new channels expansion, growing brands and M&A synergies.

■ **Prioritizing new channels expansion in medium-term plan.** Mgmt guided its new 3-5 year target at RMB150bn GMV (+22%-39% CAGR) and non-GAAP operating profit of RMB2bn. Baozun will prioritize on its new strategic plan with: 1) "customer-first" to drive growth; 2) new business expansion; and 3) cost structure optimization. We see high visibility for Baozun to explore new channels (e.g. Wechat, Douyin, JD, etc.) to unlock its TAM. We are bullish on private domain opportunities, and expect ICLK investment to: 1) create synergy with Baozun's SaaS+ solutions in WeChat ecosystem, 2) cross-selling effect; and 3) strengthening digital marketing. We expect its topline to accelerate in FY21E, and surge at 28% CAGR in FY20-23E.

■ **Growing brands with category optimization.** We expect Baozun to continue high-quality brand expansion with category optimization. Currently, we estimate its apparels/electronics/FMCG to account for 55%/20%/10% of total GMV in 2020. Going forward, we see growing opportunities in luxury brands, beauties and health care products, backed by 1) Baozun's acquisition of Full Jet, and 2) the accelerated digitalization of FMCG post-COVID. Short-term margin dilution from reinvestment would be manageable, and we expect long-term margin improvement from operating leverage and cost optimization.

■ **Initiate with BUY.** We set our DCF-based TP at US$50 (implying 37x/ 28x FY21/22E P/E), in line with industry average. Key market concerns lie in short-term margin dilution from heightened competition and reinvestment but have been well priced in, in our view. Further catalysts: 1) WeChat traffic to unlock; 2) premium brands penetration; and 3) M&A synergies.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,278	8,852	12,142	15,144	18,413
YoY growth (%)	35.0	21.6	37.2	24.7	21.6
Adj. net income (RMB mn)	357	535	649	892	1,130
Adj. EPS (RMB)	6.0	8.4	8.9	11.6	14.0
YoY growth (%)	3.4	40.4	5.4	30.9	20.6
Consensus EPS (RMB)	NA	NA	8.8	12.3	16.2
P/E (x)	40.1	28.6	27.1	20.7	17.2
P/S (x)	5.9	5.2	4.3	3.7	3.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.7	8.7	9.6	11.6	12.8
Net gearing (%)	12.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	US$50
Up/Downside	+44.9%
Current Price	US$34.5

China Internet Sector

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Stock Data

Mkt Cap (US$ mn)	2,875
Avg 3 mths t/o (US$ mn)	53.98
52w High/Low (US$)	57.00/ 25.69
Total Issued Shares (mn)	74

Source: Bloomberg

Shareholding Structure

Federated Hermes	13.6%
FIL	4.8%
Vontobel Holding	3.9%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-17.4%	-22.1%
3-mth	4.9%	0.1%
6-mth	14.7%	-4.7%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Auditor: PwC

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Investment Thesis

One-stop shop for e-commerce solutions.

Baozun is China's Top1 brand e-commerce service provider in 2019, according to iResearch, and we expect it to strengthen leadership with all-category, full-service, omni-channel solution capabilities. We forecast Baozun to deliver 29%/28%/28% GMV/ rev/earnings CAGR during FY20-23E, thanks to new channels expansion, growing brands and M&A synergies.

Prioritizing new channels expansion in medium-term plan.

Mgmt guided its new 3-5 year target at RMB150bn GMV (+22%-39% CAGR) and non-GAAP operating profit of RMB2bn. Baozun will prioritize on its new strategic plan with: 1) "customer-first" to drive growth; 2) new business expansion; and 3) cost structure optimization. We see high visibility for Baozun to explore new channels (e.g. Wechat, Douyin, JD, etc.) to unlock its TAM. We are bullish on private domain opportunities, and expect ICLK investment to: 1) create synergy with Baozun's SaaS+ solutions in WeChat ecosystem, 2) cross-selling effect; and 3) strengthening digital marketing. We expect its topline to accelerate in FY21E, and surge at 28% CAGR in FY20-23E.

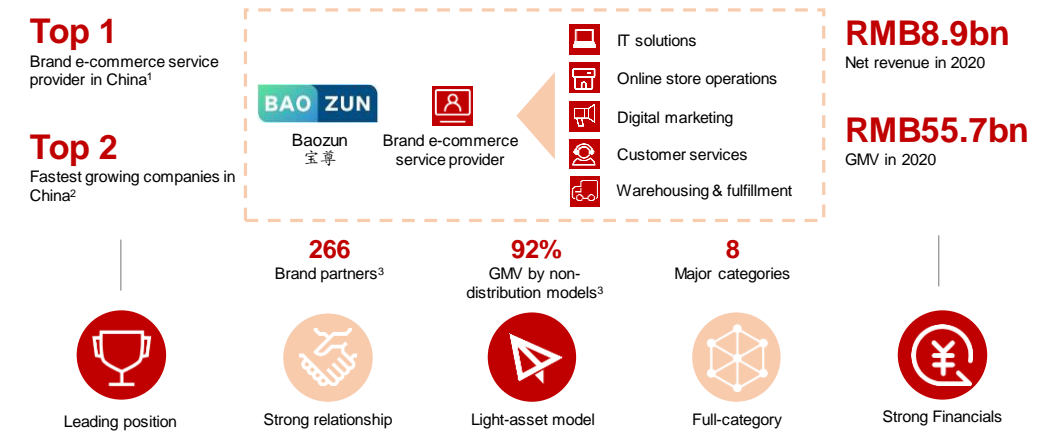**Growing brands with category optimization.**

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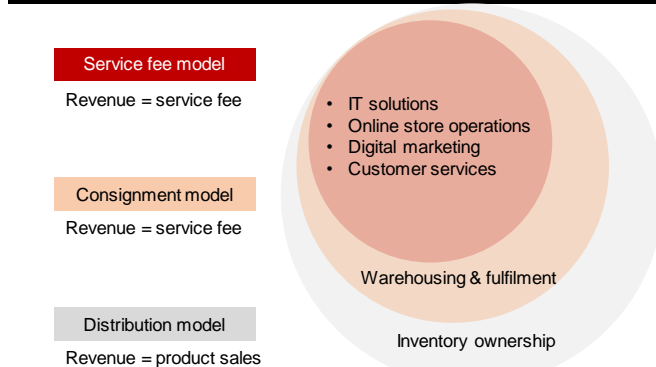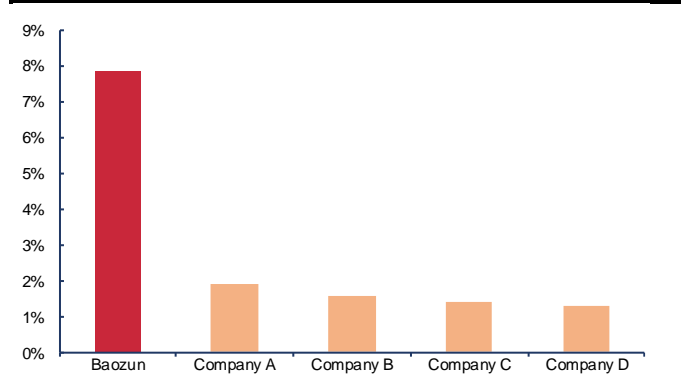
Focus Charts

Figure 1: Overview of Baozun

Top 1
Brand e-commerce service provider in China[1]

Top 2
Fastest growing companies in China[2]

Baozun 宝尊 → Brand e-commerce service provider →
- IT solutions
- Online store operations
- Digital marketing
- Customer services
- Warehousing & fulfillment

RMB8.9bn
Net revenue in 2020

RMB55.7bn
GMV in 2020

266 Brand partners[3]　**92%** GMV by non-distribution models[3]　**8** Major categories

Leading position　Strong relationship　Light-asset model　Full-category　Strong Financials

Source: Company data, iResearch, Fortune. Notes refer to Figure 6

Figure 2: Baozun's three models

Service fee model
Revenue = service fee

Consignment model
Revenue = service fee

Distribution model
Revenue = product sales

- IT solutions
- Online store operations
- Digital marketing
- Customer services

Warehousing & fulfilment
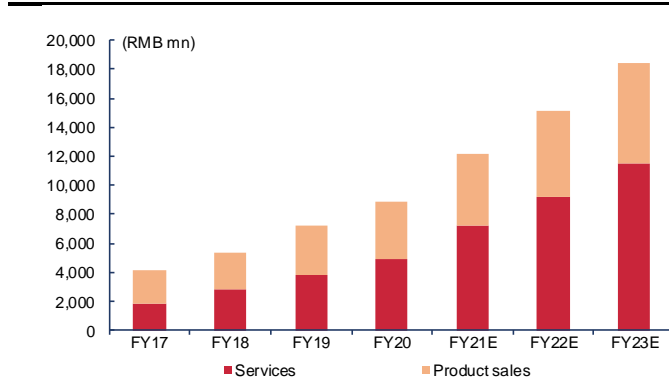
Inventory ownership

Source: Company data

Figure 3: Baozun is Top1 in brand e-commerce service
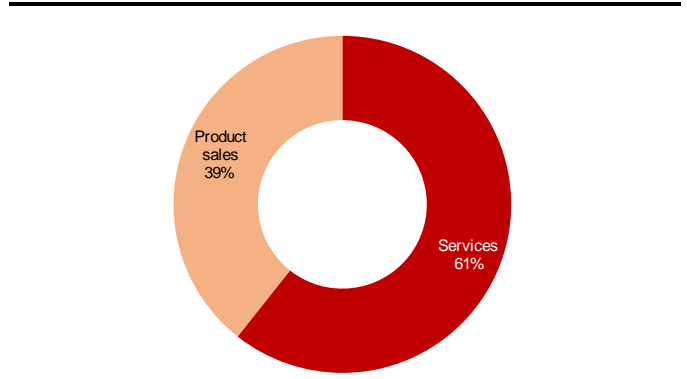

Source: iResearch, in 2019

Figure 4: 28% total revenue CAGR in FY20-23E

Source: Company data, CMBIS estimates

Figure 5: FY22E revenue breakdown

Product sales 39%　Services 61%

Source: CMBIS estimates

# Company Overview

Go-to e-commerce solutions provider

A fast-growing market leader with expanding partner network

Founded in 2007, Baozun is China's leading brand e-commerce service provider, offering all-category, end-to-end, omni-channel services. Its fully-fledged services cover IT solutions, online store operations, digital marketing, customer services, and warehousing and fulfilment. With China's e-commerce tailwinds, Baozun's revenue grew 21.6% in 2020.

With established technology and supply chain advantages, Baozun is a fast-growing market leader. According to iResearch, Baozun is China's Top1 brand e-commerce service provider in 2019 with 7.9% market share in GMV. Fortune ranked Baozun as the 2nd fast-growing Chinese company in Apr 2020 (or the 27th fast-growing company worldwide).

Baozun boasts its expanding network with high-quality brand partners, cooperating with 266 brands as of 2020 (+35 YoY). As of Dec 2019, it served 15 of the Top50 most valuable global brands in the non-public service sector, according to BrandZ.
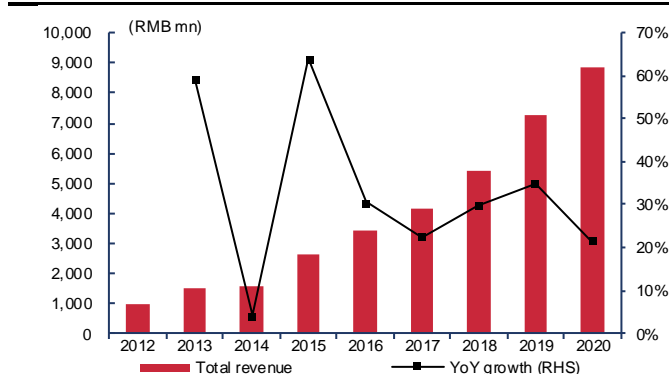
Figure 6: Overview of Baozun
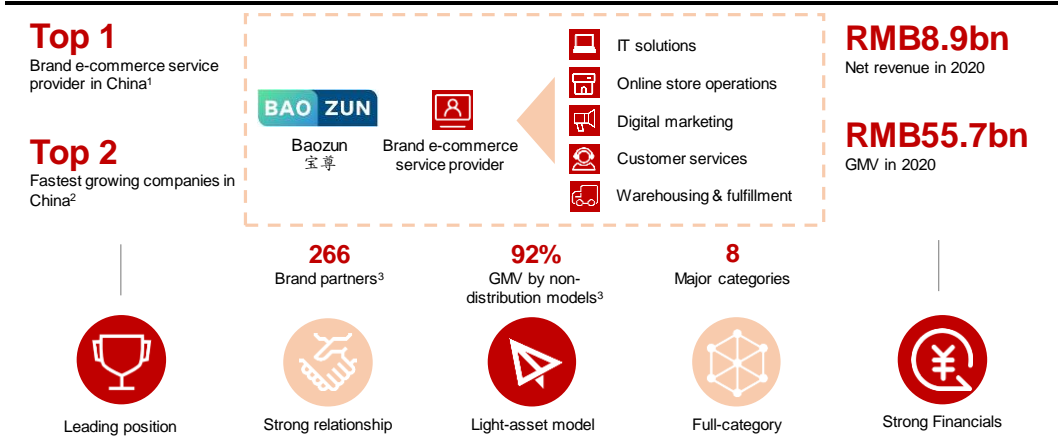
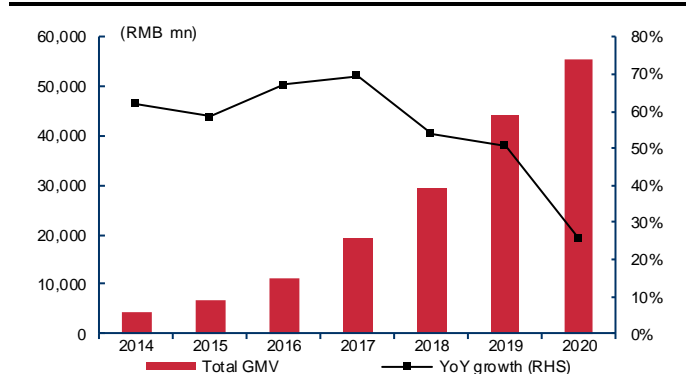Source: Company data, iResearch, Fortune.
Note: 1) according to iResearch, in GMV, in 2019; 2) according to Fortune, for Apr 2019 – Apr 2020; 3) as of 2020
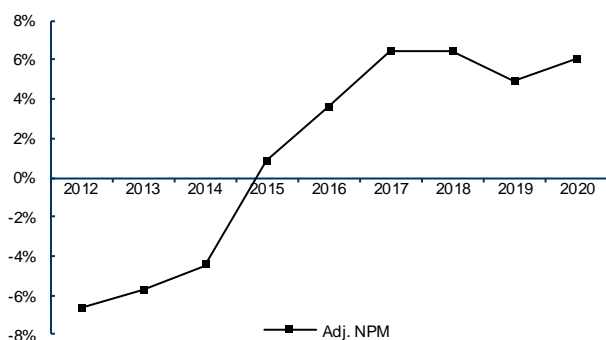
Figure 7: Baozun's revenue growth
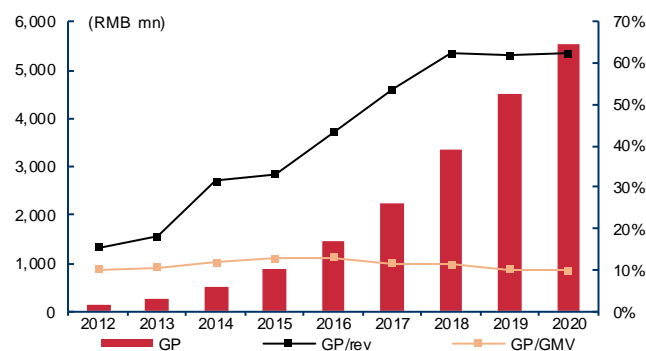

Source: Company data

Figure 8: Baozun's GMV growth

Source: Company data

Figure 9: Baozun's adj. NPM

Source: Company data

Figure 10: Baozun GP margins

Source: Company data

All-category, full-service, omni-channel solution capabilities

While most competitors focus on their respective verticals, Baozun has exposure to eight categories (fashion, 3C, beauty & FMCG, food & health, home & construction, insurance, appliance, and auto). The all-category coverage enables Baozun to build know-how across and fully capture brand e-commerce tailwinds. To achieve high-quality GMV growth, Baozun actively shifts away from categories with a lower take rate (e.g., 3C).

Baozun offers holistic e-commerce solutions spanning across the entire value chain, backed by 1) proprietary technology accumulated through constant investment; 2) directly-operated warehouses and fully-owned logistics subsidiary; and 3) dedicated front-end team of 3,876 employees.

Baozun achieves omni-channel capabilities through constant technology investment and strategic cooperation. With its long-lasting relationship with Alibaba and recent investment in ICLK, Baozun is well poised to capture GMV from Tmall and WeChat. As a technology-driven company, Baozun also built up structures that can be cost-efficiently replicated to emerging channels.

Figure 11: Baozun's fully-fledged e-commerce service offerings

Services	Service scope	Core competitiveness
Online store operation	Content traffic management, crowd lifecycle operation, merchandising strategy, integrated data analysis	• End-to-end one-stop solutions • Omni-channel expanding operation • Lead prospective trend investment
Digital marketing	Media planning, media buying, social and content marketing, creative development, big data marketing, Baozun AI Copy Writer	• A first comprehensive content agency accredited by Alibaba • A first service provider accredited by data bank
Technology service	Customized user experience design, self-owned online stores and touch-point development, supply chain management of all channels, tools and services development of offline stores, business intelligence and data visualization services	• Stability • Security • Scalability • Flexibility
Customer service	Dedicated customer service (shopping communication guide, timely information and consultation, collaborative order tracking, one-stop after-sales support), unified management system (Systematic performance management, standardized and professional training, service quality tracking and monitoring, upgraded customer complaints management).	• CRM & CEM Data analysis • VOC – Voice of Consumer
Supply chain management service	Online order fulfilment (including warehousing and express delivery), offline retail storage and distribution service, supply chain network layout and inventory optimization	• Flexible, fast, efficient, reliable

Source: Company data

Figure 12: Baozun's omni-channel operation model

| Channel	Platform	Operation model
Official marketplace stores	Tmall, JD.com, Pinduoduo	• Enter into annual platform service agreements with online marketplaces • Typically pay online marketplaces based on a pre-determined percentage (0.5%-5%) of GMV for transactions settled that varies by product category • Pay annual upfront service fees to marketplaces, up to 100% of which may be refunded depending on Baozun's sales volume • Pay upfront security deposits for potential disputes
Official brand stores		• Set up and operate brand partners' standalone official brand stores
Social media channels	WeChat Mini Programs, Weibo, RED	• Set up accounts and design homepage, regular update stories, monitor and reply comments, and sustain user engagement • Integrate WeChat public accounts with brand partners' back-end system across all marketplace platforms to enable flash sale or routine sale
Other emerging channels	Douyin, Kuaishou	• Offer digital marketing solutions that help brand partners promote products and increase sales on live streaming and short video platforms
O2O/ new retail solutions		• Integrate brand partners' online/ offline retail space and customer data to optimize sales opportunities and enhance customer experience

Source: Company data

A pioneer to shift to non-distribution models

Baozun operates three models. In the distribution model, Baozun buys out the products and recognizes sales as revenue. In non-distribution models (i.e., consignment and service), Baozun records service fees as revenue. The consignment model contains all solutions in the service model and logistics and warehousing services.

Baozun is a pioneer to shift to non-distribution models. From 2014 to 2020, its distribution GMV/ rev dropped from 75%/ 32% to 44%/ 8% (vs. Lily & Beauty/ Ruoyuchen/ Onechance's 97%/ 81%/ 77% rev share in 2019). Baozun's model mix became relatively more stable since 2018, as the Company carefully manages its distribution portfolio to protect margins.

Figure 13: Revenue and GMV breakdown transition
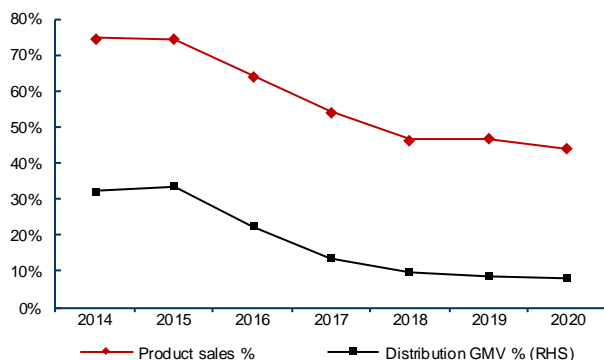
Source: Company data

Figure 14: Baozun's three models
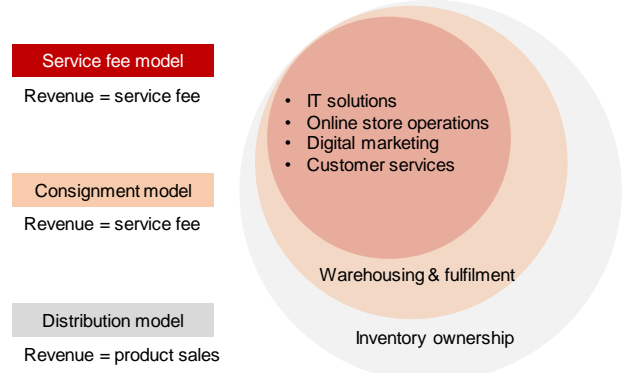
Source: Company data

Figure 15: Difference between consignment model and distribution model

|	Consignment model	Distribution model
Operation model	Service providers sell products on behalf of the brands without owning the inventory	Service providers buy out the inventory
Suitable brands	Brands with complete e-commerce teams in China	Brands that recently enter the Chinese market or are driven by sales
Advantages	• Better brand and channel management • Store operation and data management • Better user experience	• Higher flexibility, especially in large-scale promotion campaigns • Lower inventory risks
Disadvantages	• Less flexibility	• Detail sales data may be unavailable • Less control on price

Source: Tmall partner official website

Leveraging the strong relationship with Alibaba

Baozun has a long-running relationship with Alibaba, whose Tmall is China's leading B2C e-commerce platform. Alibaba invested in Baozun's A-round funding in 2010 and was its largest shareholder (15.3% stake) in Dec 2019. As of Apr 2020, Tmall had introduced 25,000 international brands into China, a primary source for Baozun's brand partners.

Baozun and Tmall's relationship is interwoven and mutual-beneficial. As of 4Q20, 75% of Baozun's GMV came from Tmall stores. Tmall consecutively rated Baozun as a six-star (top-rated) service partner in 2012-1H20, making it the only partner with such a track record.

As new e-commerce scenarios emerge, Baozun also diversifies its GMV sources by venturing into WeChat Mini Programs and other platforms. We expect Baozun's strong relationship with Alibaba to underpin its GMV and rev growth while the Company starts to bear initial fruits in rising channels.

Figure 16: Baozun shareholder structure
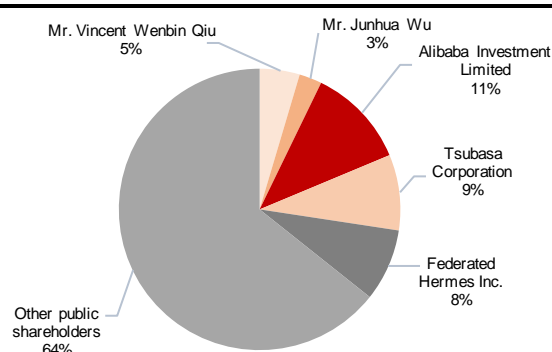
Source: Company data, immediately upon HK listing

Figure 17: Tmall GMV and growth rate
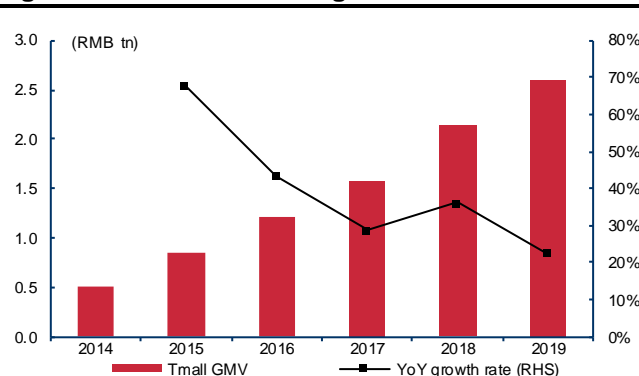
Source: Tmall

Figure 18: Six-star service provider on Tmall

2016	2017	2018	2019	1H20
Baozun	Baozun	Baozun	Baozun	Baozun
Leqee (乐其电商)	Leqee	Buy Quickly (百秋电商)	BC E-commerce	BC E-commerce
		Keying (凯诘电商)	Buy Quickly	Buy Quickly
		Qingmu (青木科技)	Keying	Keying
		XCXD (兴长信达)	Lily & Beauty (丽人丽妆)	Lily & Beauty
		BC E-commerce (碧橙电商)	Onechance (壹网壹创)	Onechance
		The Lian (上海联恩)	Qingmu	Qingmu
			Sune (上佰电商)	Sune
			XCXD	XCXD

Source: Tmall Partner official website, CMBIS

Investment Summary

Exploring new channels by leveraging tech and supply chain edges

Surfing on retail digitalization and market consolidation tailwinds
Retail digitalization accelerates in China post-COVID as customers develop online shopping habits with stronger health awareness. NBS data suggests the e-commerce penetration rate increased to 24.9% in 2020 (vs. 20.7% in 2019), and iResearch forecasted that China's e-commerce market would grow at a CAGR of 18% in 2019-25E.

We expect to see solid momentum in China's brand e-commerce service market. According to iResearch, B2C is expected to take up stable c. 55% of China's e-commerce market in 2019-21E. As e-commerce in China becomes increasingly complex and fast-evolving, brand e-commerce service is expected to outpace the B2C and overall e-commerce market at 39% CAGR in 2019-25E, driven by deeper penetration.

Figure 19: Online sales penetration
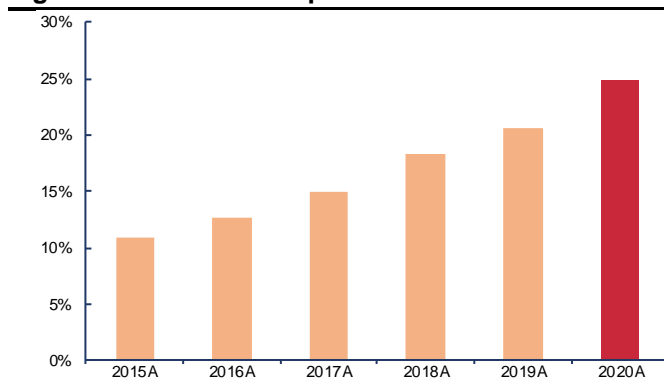
Source: NBS
Note: Penetration = online physical goods sales/ total retail sales

Figure 20: China e-commerce market growth
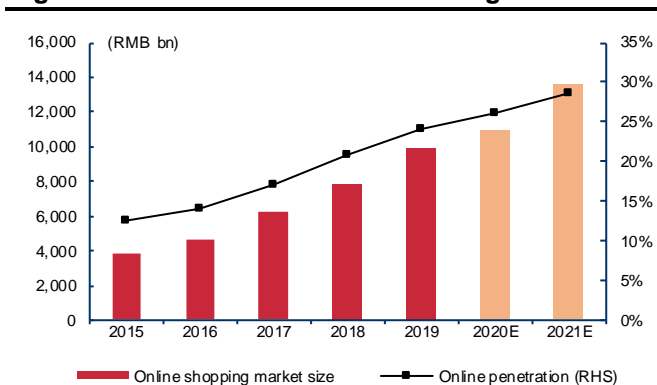
Source: iResearch
Note: Penetration = online shopping/ retail sales of consumer goods

Figure 21: China's B2C/C2C e-commerce share
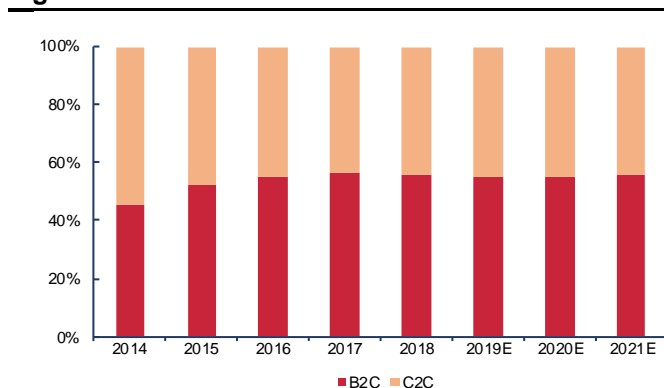
Source: iResearch

Figure 22: China brand e-commerce market growth
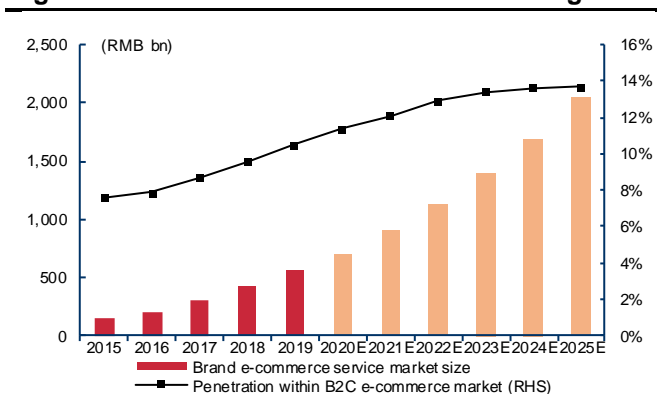
Source: iResearch

Baozun is poised to capture brand e-commerce wave with one-stop shop offerings.
Compared to peers, Baozun focuses more on non-distribution models, positioning itself more as a service provider than a distributor. Baozun's market share in GMV (estimated by iResearch) increased from 4.5% in 2015 to 7.9% in 2019, despite more competitors. We expect Baozun to continuously strengthen its leadership, in this fragmented market (Top5 with 14.1% share).

Figure 23: Baozun's market share in GMV, 2019
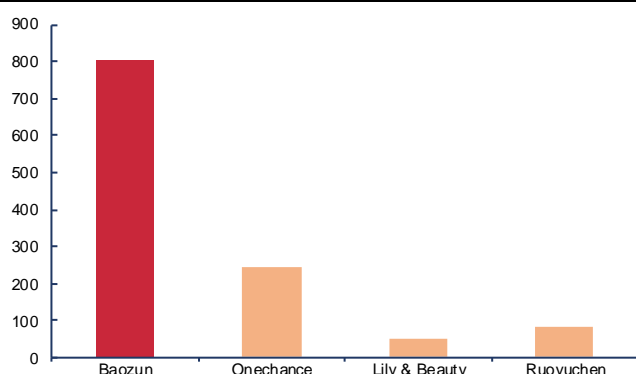
Source: iResearch

Figure 24: Baozun's market share growth

Source: iResearch, CMBIS
Note: Mkt share = Baozun GMV/ e-commerce service market size

Figure 25: Comparison of leading Chinese brand e-commerce service providers

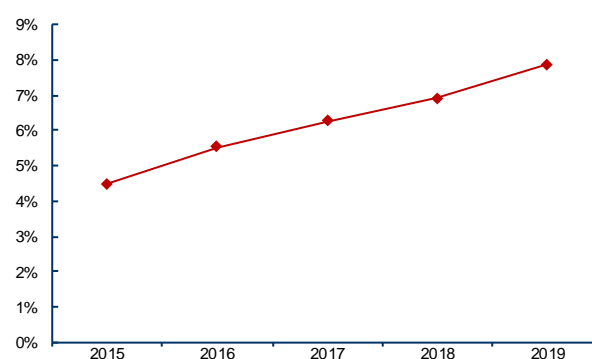| Company	Founded	Category	Channels	Operation model	2020 Financials or estimates
Baozun	2007	All-category	Omni-channel, Alibaba investee, strategic investment in ICLK	Distribution model (47% of 2019 rev), non-distribution model (53%)	Rev: RMB8.9bn (+21.6%) Adj. net profit: RMB535mn (+49.9%)
Onechance (壹网壹创) (300792 CN)	2012	Vertical: FMCG	Strategic cooperation with Tmall, VIPS, RED, JD	Distribution model (77%), non-distribution model (23%)	Est. rev[4]: RMB1.6bn (+8.6%) Est. adj. net profit[4]: RMB331mn (+51.9%)
Lily & Beauty (丽人丽妆) (605136 CN)	2007	Vertical: Beauty	Tmall (99.94% of the distribution model) and other platforms	Distribution model (97%), non-distribution model (3%)	Rev: RMB4.6bn (+18.7%) Adj. net profit: RMB339mn (+24.0%)
Ruoyuchen (若羽臣) (003010 CN)	2009	Vertical: FMCG	Tmall, JD, VIPS	Distribution model (81%), non-distribution (19%)	Est. rev[4]: RMB1.2bn (+23.9%) Est. adj. net profit[4]: RMB105mn (+21.0%)

Source: iiMedia, iResearch, company announcements, CMBIS
Note: 1) Onechance's distribution models include brand online marketing services and online distribution; 2) Lily & Beauty's distribution models include e-commerce retail business and other services; 3) Ruoyuchen's distribution models include retail consignment and channel distribution; 4) market consensus provided by Bloomberg.

Proprietary technology & IT structure to build barrier

Baozun supports its fully-fledged services with advanced technology covering the entire value chain. Its proprietary technology stretches across front-end (cloud-based system, ROSS, O2O), middle-end (CRM, OMS, IOSP, WMS, LMIS), and back-end (Baozun Cloud, data warehousing and reporting system) systems. Baozun strengthens its tech edge with above-industry R&D spending and headcounts.

With stepping-up investment, Baozun's IT structure can react to spikes in high-traffic e-commerce events like 618 or Singles' Day. During the 2020 Single's Day promotion period, Baozun processed RMB16.5bn GMV (+54.8% YoY). The tech edge makes Baozun the go-to partner for domestic and international brands.

Baozun's fully-fledged IT solutions also support its omni-channel strategy. The Company started covering WeChat Mini Programs in 2018 and generated profit sequentially in 2Q20-4Q20. With strong IT capabilities and rich sector knowledge, it can readily and cost-efficiently grow business on emerging platforms beyond Tmall.

Figure 26: R&D spending comparison, in 2019
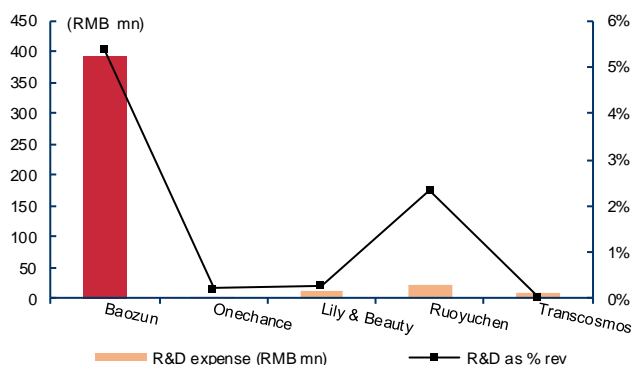
Source: Bloomberg
Note: Transcosmos uses FY20 data (year end 31 Mar 2020)

Figure 27: R&D headcount comparison, in 2019

Source: Company data

Figure 28: Proprietary technology

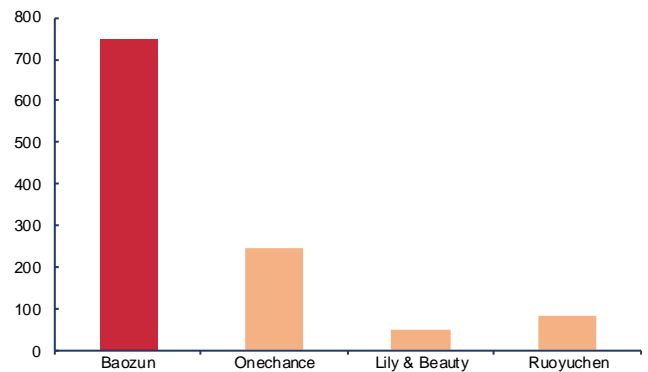| Technology	Details
CASABA+	Cloud-based front-end system offering Individual e-commerce solutions to brands; part of Baozun's front-end, omni-channel sales solutions
SHOPDOG	Intelligent O2O management
SHOPCAT	Baozun's CRM system, providing omni-marketing guidance for companies
BAOZUN OMS4.0	Middle-end management of all channels
BAOZUN WMS4.0	State-of-the-art warehouse management system
LMIS (Logistics Management Information System)	Coordinate the goods flow between Baozun's warehouses and the final address. Baozun's LMIS is well integrated with third-party couriers' systems to offer same-day delivery and real-time tracking
ROSS (Retail Operation Support System)	Maximize operational efficiency with reduced costs, ROSS processed **5mn+ pictures** and registered **c. 300 stores** for promotion campaigns in the 2020 "6.18", and processed **5mn+ orders per hour** during the 2020 Singles' Day promotion period
BI platform	Intelligent business data platform
IOSP (Inventory and Order Service Platform)	Designed for omni-channel e-commerce and O2O initiatives, consisting of Inventory Management and Order Routing
Data Warehouse and Reporting System	Collect and Organize data relating to product information, transaction, information, consumers' geographic location, and purchase history
Data Exchange Platform	Manage all data integration requirements from external parties
Yunbian (云辨)	Digital marketing efficiency tool that enhances marketing precision and efficiency through smart placement on Taobao
Yunzhuan (云撰)	AI-driven smart writer generating tailor-made, high-quality marketing content on a large scale and within a short period
Baozun Hybrid Cloud (宝尊云)	Flexible cloud platform expandable internally or through public clouds (e.g., AliCloud). Baozun Hybrid Cloud supported single-day GMV of **RMB10bn** in 2019 Singles' Day promotion.

Source: Company data

Scalable business backed by well-established warehousing & logistics

Baozun is one of the few e-commerce service providers that directly operate sizable warehouses. As of 2019, Baozun operated 15 warehouses of 500,000sqm GFA, covering delivery in 500 cities and next-day delivery in 200 cities. Coupled with its proprietary WPS, Baozun achieved high warehouse processing capacity. As of 1H20, Baozun could fulfil 7.6mn inbound pieces and 12.4mn outbound pieces daily, +170%/ +397% YoY.

Baozun offered uninterrupted fulfilment services during the COVID-19 pandemic with its well-established and expanding logistics capabilities, albeit with slightly higher fulfilment expenses. Thanks to its logistics capabilities, more brands raised demand about consignment model, directly driving its revenue growth. We expect Baozun to enjoy fruits from higher warehouse utilization and fulfilment efficiency with scale effect.

Figure 29: Warehouse volume and GFA
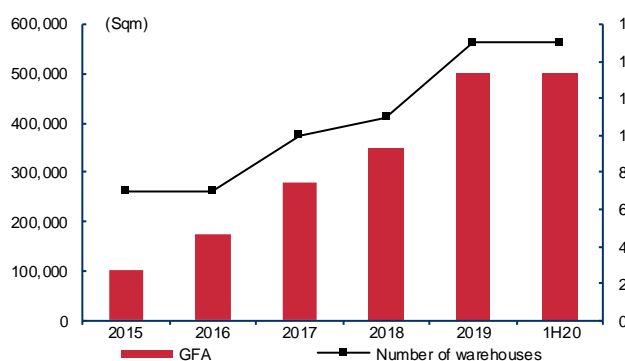
Source: Company data

Figure 30: Daily inbound/outbound pieces fulfilled
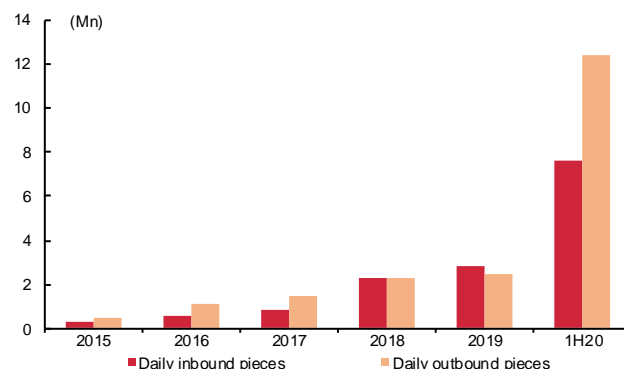
Source: Company data

Figure 31: GMV per warehouse GFA

Source: Company data

Figure 32: Order fulfilled by directly-operated warehouses and fulfilment expense per order

Source: Company data

Figure 33: Warehousing and logistics capabilities comparison

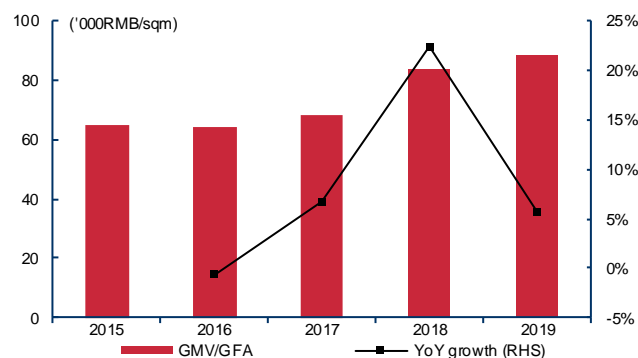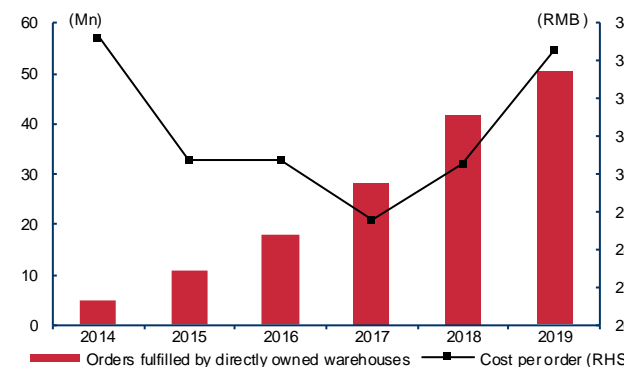| Company	Capabilities
Baozun	• As of 2019, Baozun directly operated **15 warehouses** of **500,000sqm GFA** in eight cities (owning 1 warehouse of c. 100,000sqm in Suzhou, and leasing 14 in Shenzhen, Tianjin, Guangzhou, Langfang, Chengdu, Wuxi, and HK) • Baozun covers **500 cities** and has next-day delivery capacity in **200 cities** • Baozun offers **VAS**, including anti-counterfeit code, customized packaging, B2B offline store delivery, and O2O integrated inventory management • Baozun's timely order processing rate/ timely shipping rate/ inventory accuracy rate reached **99.50%+/ 99.50%+/ 99.95%**
Onechance	Self-owned warehouses coupled with outsourcing; proprietary Cube (魔方) WMS;
Lily & Beauty	Warehousing and logistics services outsourced since May 2016
Buy Quickly	120,000sqm of proprietary warehouses; including 50,000sqm dust-proof warehouses and 20,000sqm constant-temperature warehouses for luxury products
Ruoyuchen	Warehousing and logistics services outsourced since 2017

Source: Tmall operation service provider platform, iiMedia, iResearch, CMBIS

New channels expansion to bring further upside

We see high visibility for Baozun to explore new channels (e.g. Wechat, Douyin, JD, etc.) to unlock its TAM. We are surprised to see that Baozun's 2020 non-Tmall channels accounted for over 25% of total GMV. In which, non-baozun.com GMV also surpassed 10% for the first time.

On the one hand, brands tend to emphasize on private domain (e.g. mini program, official website) expansion with improving consumer experience, membership and sales management after CNY and COVID-19. Going forward, mgmt expects this trend to continue, and brands would allocate more resources to explore new channels.

On the other hand, as livestreaming ecommerce gains traction, short video platforms (e.g. Douyin) also performed well in promotion and marketing for brands. Accordingly, Baozun's new initiatives and omni channel-driven solutions play important role, like data application and CRM. Baozun would continuously expand its presence in Wechat, Douyin, JD in 2021. We are bullish on new channels' potential, and expect Baozun to leverage its omni-channel capability to ride on the wave of private domain and livestreaming ecommerce.

Capturing WeChat's private domain with investment in ICLK

We expect Baozun's strategic investment (4% stake and 10% voting right) in iClick Interactive (US: ICLK) to accelerate Baozun's penetration in the WeChat ecosystem. ICLK is China's leading online marketing and digital operation solution provider. It invested in Changyi (畅移) in 2019, which provides WeChat-based smart retail and CRM solutions.

As China's traditional e-commerce market steps into stable growth stage, tapping into private traffic in social platforms can be vital to unlock the TAM. WeChat Mini Programs' DAU reached 400mn in 2020, while its physical goods retail GMV grew 154% YoY. According to iResearch, the social e-commerce market is expected to grow at a CAGR of 61.3% in 2019-21E to RMB3.6tn. Before investing in ICLK, Baozun ventured into WeChat Mini Programs in 2018 and achieved profitability consecutively in 2Q20-4Q20.

We expect the cooperation to: 1) create synergy with Baozun's SaaS+ operation strategy (IT support, OMS operations, etc) in the WeChat system, 2) cross-selling opportunities with clients/brand; and 3) strengthening digital marketing.

Figure 34: Cooperation between Baozun and ICLK
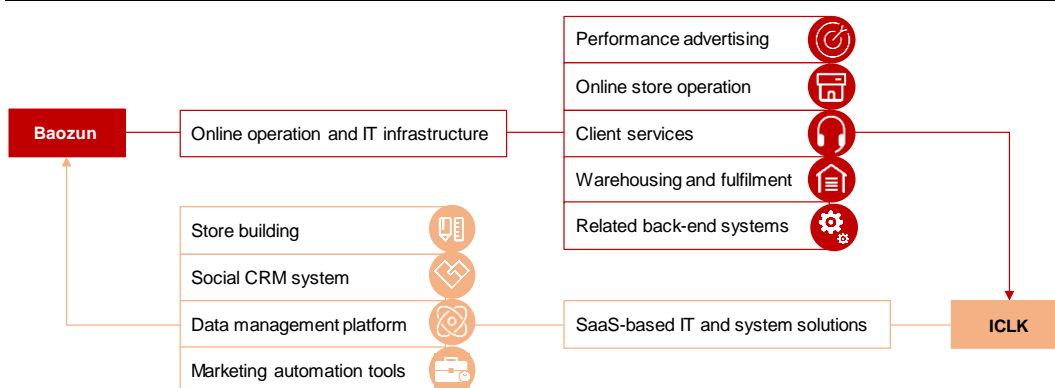
Source: Company announcement

Figure 35: China's traditional e-commerce platform S&M expense/ net user increase
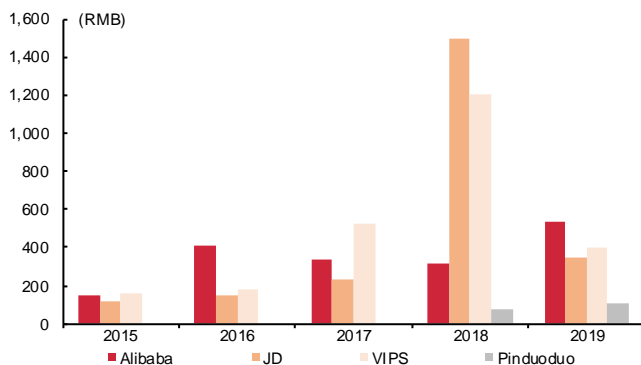
Source: iResearch

Figure 36: China's social e-commerce market size
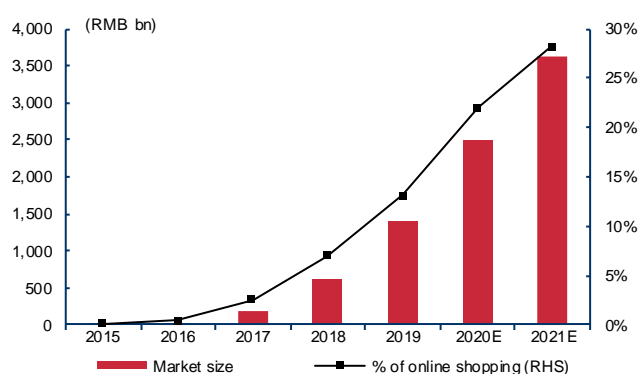
Source: iResearch

Targeting RMB150bn GMV in next 3-5 years.
Mgmt guided its new 3-5 year target at RMB150bn GMV (+22%-39% CAGR) and non-GAAP operating profit of RMB2bn. Baozun will prioritize on its new strategic plan with: 1) "customer-first" to drive growth; 2) new business expansion; and 3) cost structure optimization. We expect its GMV to grow at **29%** CAGR in FY20-23E.

Figure 37: Baozun's GMV estimates
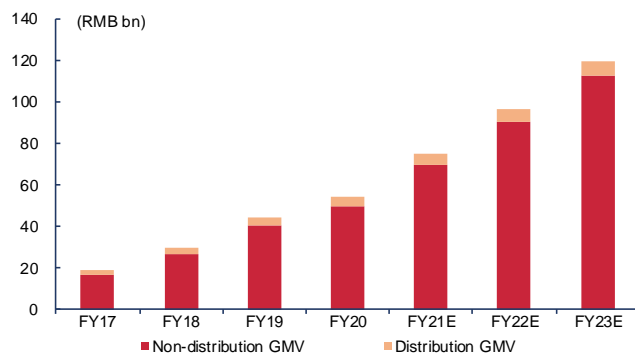
Source: Company data, CMBIS estimates

Figure 38: GMV breakdown estimates
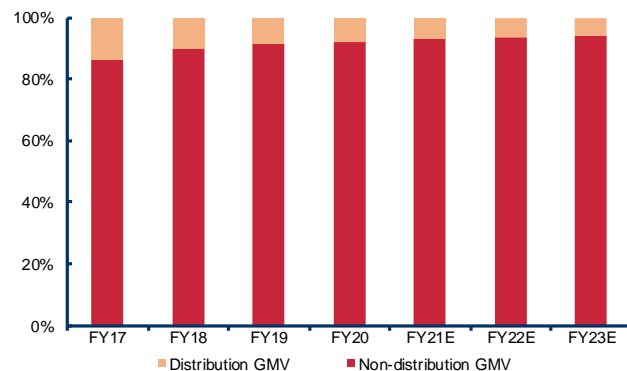
Source: Company data, CMBIS estimates

Growing brand coverage to expand TAM

Long-established cooperation underpinning organic growth

With its fully-fledged offerings, Baozun is the go-to partner for large international brands seeking China entry. As of 2020, Baozun has a solid network of 266 high-quality brand partners, a number significantly higher than its peers.

Baozun retains brand partners with its best-in-class solutions. Its cooperation with some brands spans over a decade (e.g., Philips since 2008 and Nike since 2010). Baozun also retained almost all of its Top20 brand partners under non-distribution models from 2018 to 2019, which contributed 68.8%/ 65.1% of rev and 75.2%/59.2% of GMV in the two years.

We expect the same-store sales to boost Baozun's GMV growth, as it generally takes a few quarters for sales to ramp up after the Tmall store opening. New stores opened within twelve months contributed over 10% GMV at the end of 2019, and same-store sales grew 49% in 2Q20.

Figure 39: Key partners in 2019

Source: Company website

Figure 40: Brand partner volume comparison
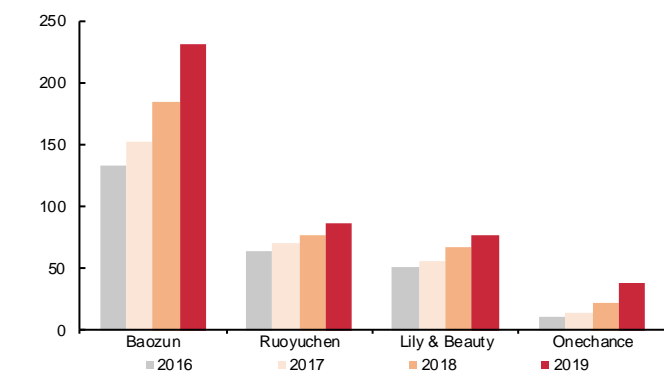
Source: Company data

Figure 41: Brands e-commerce solutions demand
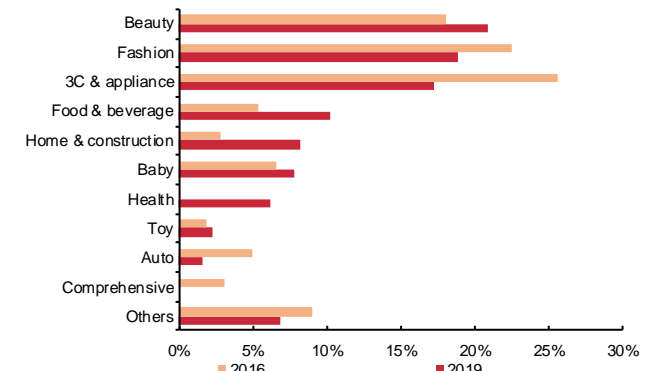
Source: iResearch
Note: health/ comprehensive was not listed individually in 2016/2019

Solid brand partner pipeline with expanding TAM

Baozun leverages its experience with premium international partners to serve more domestic and emerging brands, unlocking its TAM. Baozun's brand partner expansion accelerated to +46/ +35 YoY in 2019/ 2020. The partner network expansion makes it more resilient to macro slow down under the pandemic.

Baozun enhances its solutions with technology innovation and team restructuring. It launched Business Operation Center (BOC) with implemented ROSS to enhance the economies of scale for middle-size brands, and established the Growth Brands Operating Center (GBO) to serve domestic and emerging brands.

Focusing on luxury brands, beauties and health care products. Looking ahead, we expect Baozun to continue high-quality brand expansion with category optimization with decent take rate. Currently, we estimate its apparels/electronics/FMCG to account for 55%/20%/10% of total GMV. Going forward, we see growing opportunities in international **luxury brands, beauties and health care products**, backed by 1) Baozun's acquisition of Full Jet, and 2) the accelerated digitalization of FMCG post-COVID.

Figure 42: Baozun brand partner growth
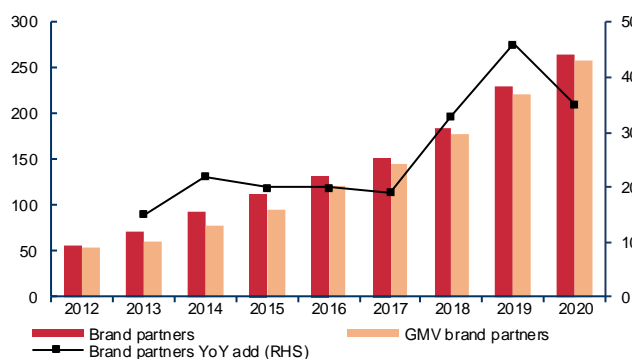
Source: Company data
Note: GMV brand partners are partners contributing to Baozun's GMV

Figure 43: Customer concentration
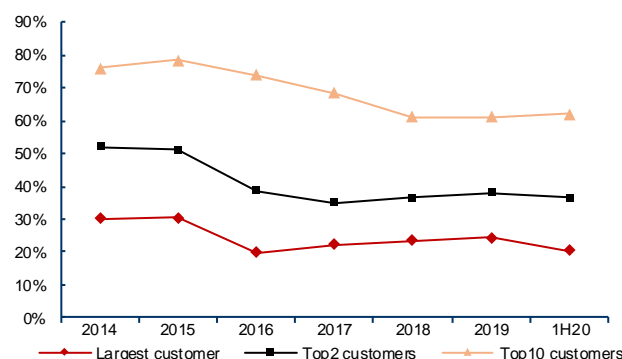
Source: Company data

Figure 44: Strategy focus for different brand partners

Brand partner	Strategy focus
Luxury brands	• Premium customer service in fulfilment (as some brand partners' supply chain is outside China) • Technology (e.g., CRM) to acquire new users and serve existing users
Local brands	• Technology and automation • Digital marketing

Source: Baozun 3Q20 earnings call

**Accelerating cooperation with premium brands with Full Jet acquisition**

We expect Baozun's Full Jet acquisition in Feb 2020 to accelerate its penetration in luxury market. Full Jet is a brand service provider focusing on China market entry for international premium brands. Baozun guided the acquisition to generate RMB20bn GMV in the next three to five years. Currently, Baozun's luxury contribute ~15% GMV of apparels, with GMV doubled in 2020. We expect luxury's strong momentum to continue, with high-double digit growth in 2021, in our estimate.

We believe Baozun and Full Jet can capture China's luxury tailwinds. According to Bain and Tmall, China nearly doubled its share in global luxury goods in 2020 and is expected to be the largest luxury market by 2025E. With a climbing penetration rate (23% in 2020 vs. 13% in 2019), China's luxury e-commerce is estimated to grow at 153% CAGR in 2019-20E, outpacing the overall e-commerce market.

Figure 45: China's personal luxury goods market
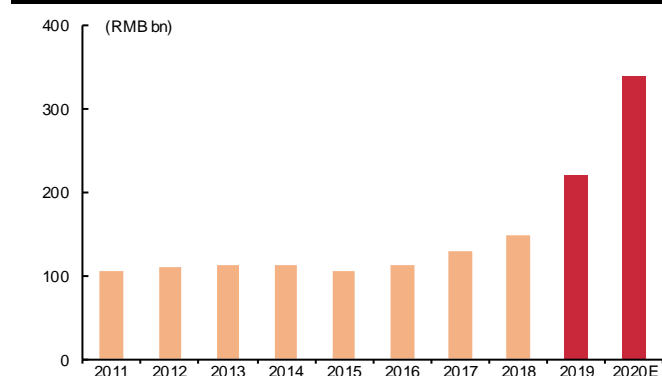
Source: Bain, Tmall

Figure 46: China luxury sales by channel
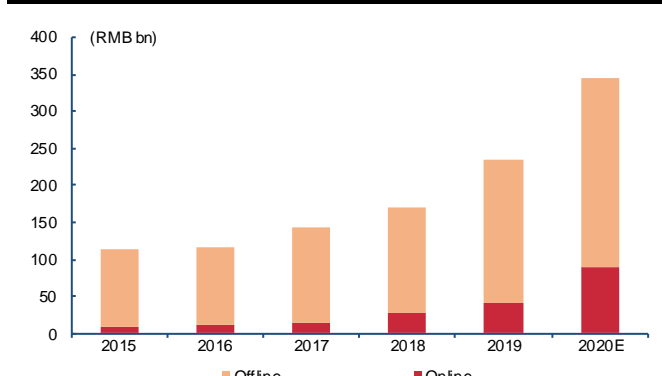
Source: Bain, Tmall

Figure 47: Full Jet's service scope

Consulting services	E-commerce services	Digital marketing services
China visibility assessment	Operational strategy & planning	Coms and execution plan
Brand positioning and communication strategy	Performance marketing & media	Paid social media campaign
Targeted audience identification and needs	Store design and page development	Digital activations
E-commerce & digital China launch	Product strategy to price management	KOL expertise
Full Jet's integrated approach to marketing	Campaign and Tmall mechanism management	Social media content and community
	Store performance analysis	
	Customer care	

Source: Full Jet official website

Figure 48: Selected Full Jet brand partners and cooperation scope

Brand partner	Category	Services
Adidas Group	Fashion	Analysis of customer portfolio and recommendation for a more balanced portfolio.
Anta	Fashion	Exploration of opportunities for development outside of the China market.
BoomCloud360	Software	Assistance to develop and execute China market entry strategy, focusing on JD e-commerce platform.
Brooks	Fashion	One-stop solution for China market entry and China operations.
Cahill+	Fashion	Opening and management of the JD flagship store.
Club Med	Travel	Analysis of the existing Sales Organization of Club Med China.
Dr. Martens	Fashion	Assistance to the mainland China re-entry strategy; online service provider for e-commerce and digital marketing activities (including Dr. Martens vertical website).
Ekornes	Furniture	Benchmark analysis on competitors; recommendations for the best entry strategy into China market.
Esprit	Fashion	Re-engineering of organization design; retail and wholesale expansion strategy; new business model development; tactical initiatives implementation.
Fossil	Fashion	A 5-year business plan for Fossil in China.

Source: Full Jet official website

Expecting brands/ARPU to grow at 11%/16% CAGR in FY20-23E

After aggressive brand expansion in the past two years, we believe Baozun would prioritize more on high-quality GMV expansion. Accordingly, brands target would not be the key. We expect upside from category optimization, especially from **luxury brands, beauties and health care products**. In the long run, we believe Baozun's enriched VAS and deepening cooperation to be further driver. Backed by Baozun's deep know-how, IT capabilities, and data analysis, we expect Baozun to unlock TAM and top line to accelerate in FY21E.

Figure 49: Baozun brand partner growth
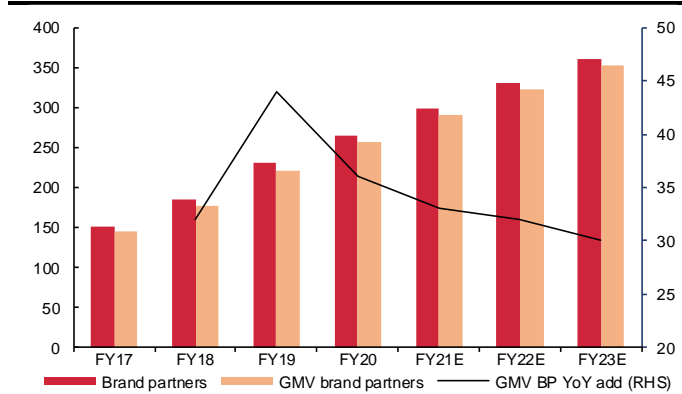
Source: Company data, CMBIS estimates

Figure 50: GMV/brand estimates
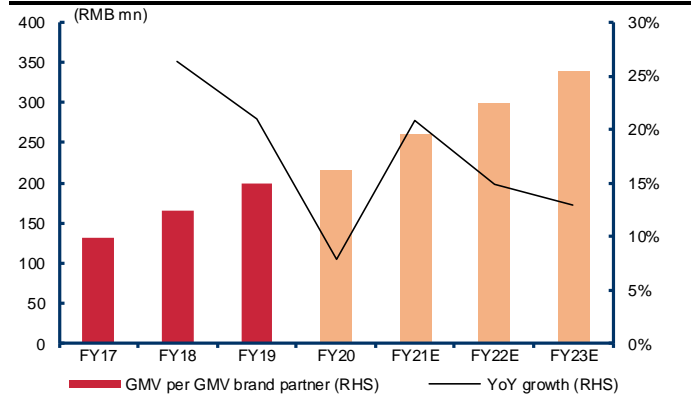
Source: Company data, CMBIS estimates

Improving margin with operation optimization and scale effect

Short-term blended take rate dilution with new channels, despite category mix optimization

Baozun pursues quality GMV growth partly through brand category optimization towards decent take rates. For instance, Baozun prioritizes on Apparels, Beauty (with higher take rate) category expansion than 3C. We see initial fruits as Baozun's take rate recovered to 9.6% in 2020 (+0.1pct YoY). We keep positive on the take rate's long term outlook, but it takes time for take rate to ramp up after new partner acquisition.

In the short term, we think blended take rate might be diluted by new channels expansion, while take rates by segment trend well. Non-Tmall channels are still at early growing stage, with lower take rate. Thus, we expect GMV to be primary driver, while take rate not as key metric in recent years.

Figure 51: Implied take rate
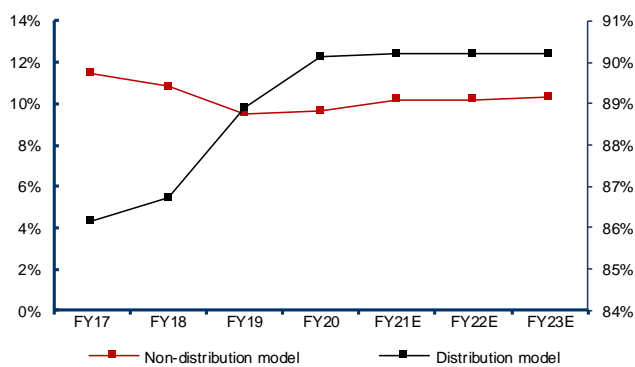
Source: Company data, CMBIS forecast

Figure 52: Category take rate
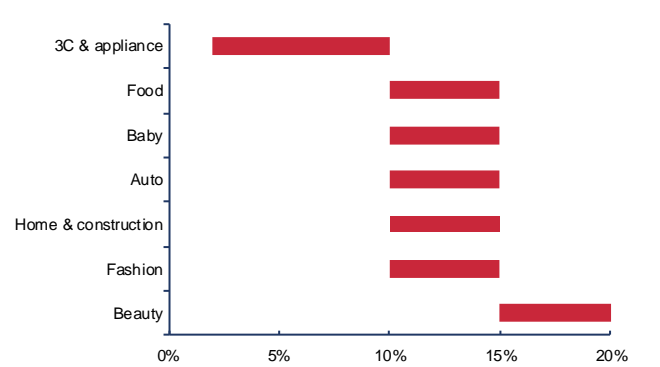
Source: iResearch, Qianzhan

Figure 53: FMCG brands' share of RMB10mn+ ads
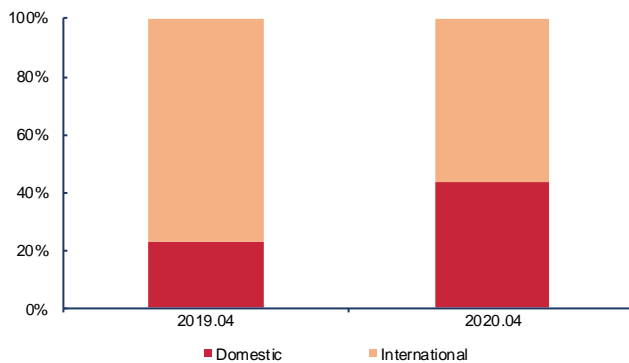
Source: QuestMobile

Figure 54: FMCG sales channels in cities
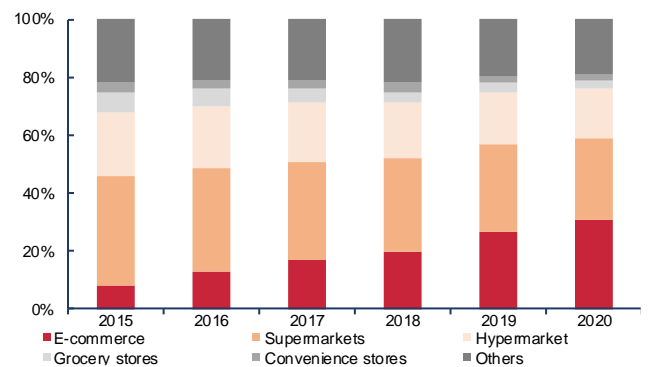
Source: CBN Data, Bain

Margin still see upside, compared to peers.

We believe the GPM/ NPM differences between Baozun and peers are mainly driven by its higher focus of non-distribution models. We expect non-distribution models to continue to be Baozun's primary GMV/ rev driver, thus delivering improving GPM. In terms of net margin, Baozun still lagged behind peers, suggesting ample room to improve in the long run.

Figure 55: GPM peer comparison
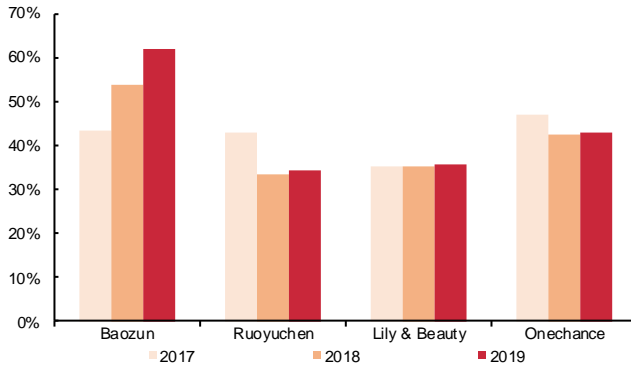
Source: Company data

Figure 56: NPM peer comparison
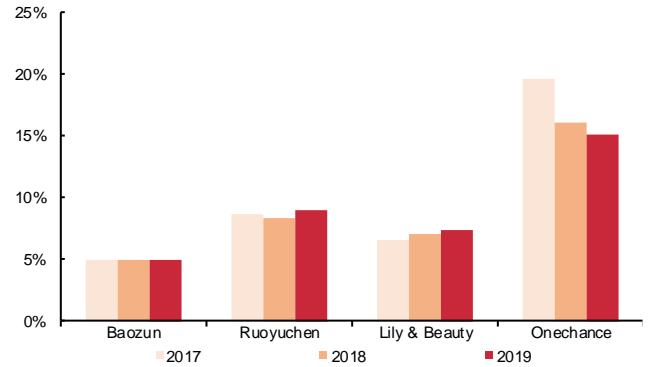
Source: Company data

Operating leverage on the back of GMV acceleration and cost optimization

Given M&A and new channels expansion in 2021E, we expect its 2021E margin to be partly diluted. However, in the long run, we expect to see strong leverage effect on Baozun's fulfilment, marketing expenses and synergies from M&A.

Baozun builds up competitive advantage in fulfilment thanks to early investment in warehousing and logistics. We expect Baozun's fulfilment expense ratio to decrease with economies of scale, after the temporary rise due to COVID-19.

We expect Baozun's R&D,G&A ratio to decrease in the long term, with scale effect. As Baozun cooperates with more brand partners, it will also create a virtuous cycle where partners' data will be fed back into the system to enable better services.

Figure 57: Expense ratio forecast (% rev)
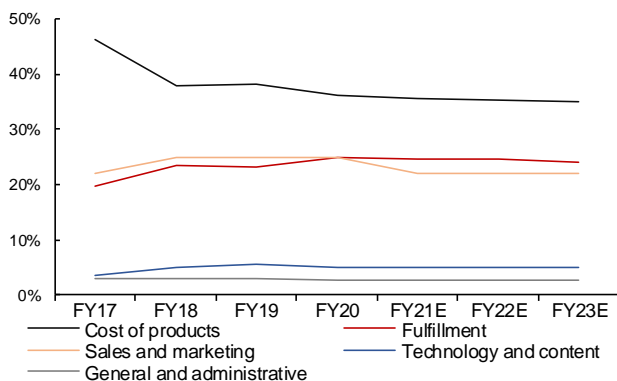
Source: Company data, CMBIS estimates

Figure 58: Fulfilment expense ratio comparison
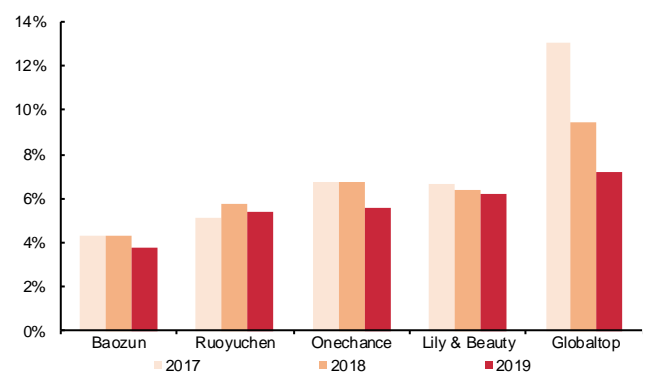
Source: Company data, BBG

Figure 59: Margin forecast
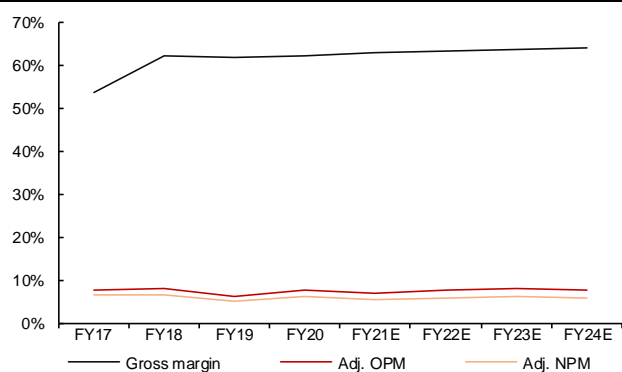
Source: Company data, CMBIS estimates

Financial Analysis

Revenue Breakdown

We expect Baozun revenue to grow at 37%/ 25%/22% YoY, GMV to grow at 36%/ 27%/ 24% in FY21/22/23E, in which services continue to be the primary contributor in the long run. By segment, we forecast service/ product sales rev to grow at CAGR 32%/ 21% in FY20-23E.

1) **Services:** forecasting 30% GMV CAGR in FY20-23E (93% mix in FY22E), mainly supported by accelerated retail digitalization, ramping-up GMV with brands expansion and diversified channels. We are also positive on its long-term take rate with category optimization and deepening cooperation. We expect services rev mix up to 61% in FY22E from 56% in FY20.

2) **Product sales:** 21% GMV CAGR in FY20-23E, which accounts for 7% in FY22E (vs. 8% in FY20).

Figure 60: GMV estimates
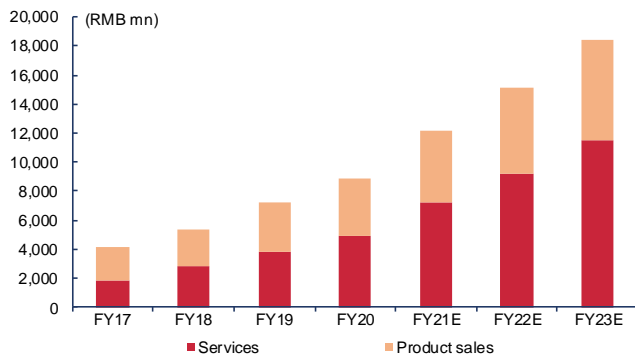
Source: Company data, CMBIS estimates

Figure 61: Rev estimates
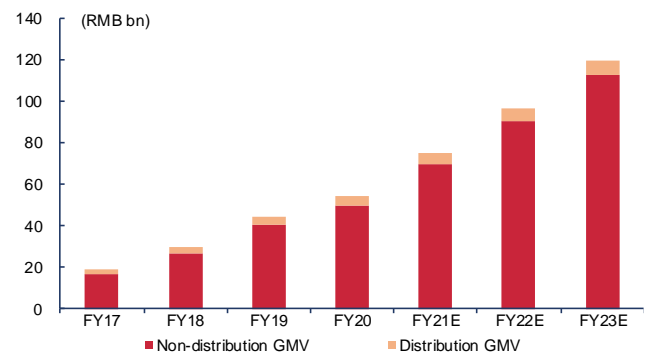
Source: Company data, CMBIS estimates

Figure 62: Rev and GMV growth breakdown
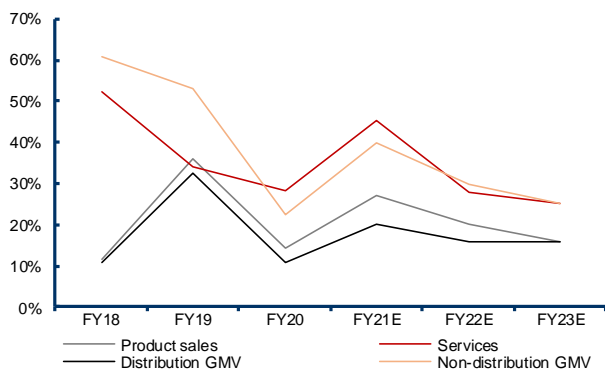
Source: Company data, CMBIS estimates

Figure 63: Service model rev and GMV contribution
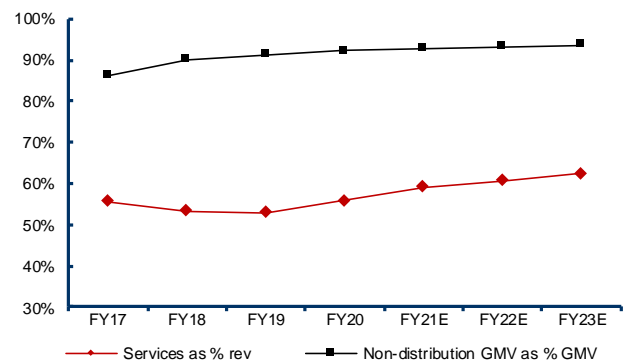
Source: Company data, CMBIS estimates

Figure 64: Take rate estimates
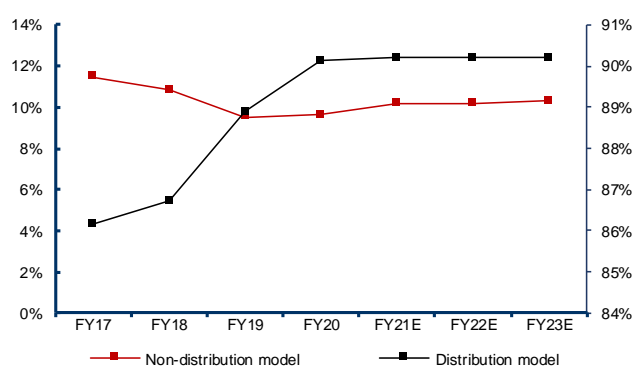
Source: Company data, CMBIS estimates

Figure 65: FY22E revenue breakdown
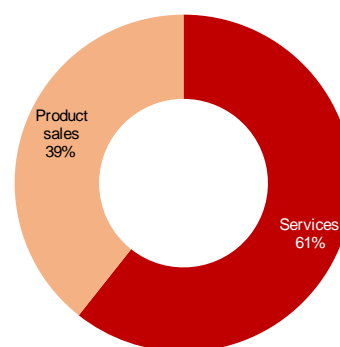
Source: Company data, CMBIS estimates

Income Statement

We expect Baozun to deliver better margin outlook in the long run, mainly driven by 28% revenue CAGR in FY20-23E and improving operating leverage (non-GAAP OPM at 7.8% in FY23E, vs. 7.6% in FY20).

Gross margin would improve to 62.9%/ 63.4%/63.7% in FY21/22/23E, with higher rev mix of services. We forecast opex ratio at 57.2% in FY22E, and expect further upside from: 1) scale effect; 2) enhanced warehouse utilization; and 3) cost optimization with remote service center; and 4) better marketing with higher ROI. Margin might see short-term dilution in FY21E for reinvestment, but would pick up in the long run, in our view.

As a result, we forecast its adj. net profit to reach RMB649mn/ RMB892mn in FY21/22E, with adj. net margin up to 5.9% in FY22E.

Figure 66: Income statement

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	**5,393**	**7,278**	**8,852**	**12,142**	**15,144**	**18,413**
Cost of revenue	(2,035)	(2,774)	(3,326)	(4,502)	(5,539)	(6,689)
Gross profit	**3,358**	**4,504**	**5,525**	**7,640**	**9,605**	**11,724**
Fulfilment	(1,262)	(1,678)	(2,259)	(3,034)	(3,866)	(4,773)
S&M	(1,339)	(1,816)	(2,131)	(2,956)	(3,635)	(4,419)
R&D	(269)	(393)	(410)	(583)	(697)	(792)
Admin.Exp.	(155)	(216)	(224)	(413)	(469)	(534)
Other gains	23	(18)	57	0	0	0
Operationg (loss)/profit	**356**	**384**	**559**	**653**	**938**	**1,206**
Other expenses	(20)	(35)	(10)	(25)	(30)	(30)
Non-GAAP operating profit	**433**	**460**	**669**	**826**	**1,141**	**1,444**
(Loss)/profit before income tax	**336**	**348**	**549**	**629**	**908**	**1,176**
Income taxes (expense)/credit	(65)	(71)	(128)	(151)	(218)	(282)
(Loss)/profit for the year	**209**	**270**	**426**	**477**	**689**	**893**
Adj. net profit	**346**	**357**	**535**	**649**	**892**	**1,130**
Margin Analysis						
Gross margin	62%	62%	62%	63%	63%	64%
Adj. operating margin	8%	6%	8%	7%	8%	8%
Adj. net margin	6%	5%	6%	5%	6%	6%
Growth Analysis						
Revenue	30%	35%	22%	37%	25%	22%
Gross profit	51%	34%	23%	38%	26%	22%
Adj. operating profit	37%	6%	45%	23%	38%	27%
Adj. net profit	29%	3%	50%	21%	37%	27%

Source: Company data, CMBIS estimates

Balance Sheet

Healthy balance sheet with net cash position in FY21/22/23E

According to our estimates of profit before taxation and change in working capital, Baozun has strong operating cash inflow in supporting CAPEX in the next three years. Therefore, we believe Baozun can stay in net cash position in FY20/21/22E. We expect Baozun to hold RMB4.9bn/ RMB4.5bn cash and restricted cash as of 31 Dec of 2021E and 2022E.

Figure 67: Balance Sheet

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Non-current assets	**763**	**1,406**	**1,316**	**1,310**	**1,287**	**1,249**
Property and equipment	403	416	430	442	450	455
Right-of-use assets	0	441	525	525	525	525
Intangible assets	132	151	146	129	98	54
Others	228	399	215	215	215	215
Current assets	**3,252**	**5,690**	**9,159**	**11,549**	**12,204**	**14,946**
Cash and restricted cash	513	1,527	3,731	4,858	4,467	5,775
Short-term investments	57	844	1,449	1,449	1,449	1,449
Accounts receivable, net	1,548	1,801	2,189	3,130	3,504	4,562
Inventories, net	650	897	1,026	1,129	1,559	1,709
Prepayments and other current assets	484	622	764	984	1,226	1,451
Current liabilities	**1,749**	**2,324**	**2,196**	**3,932**	**3,672**	**5,245**
Accounts payables	886	877	422	1,829	1,248	2,468
Other payables and accruals	412	874	1,565	1,892	2,214	2,566
Short-term loan	436	428	0	0	0	0
Others	14	145	210	210	210	210
Non-current liabilities	**72**	**2,173**	**2,136**	**2,136**	**2,136**	**2,136**
Long-term loan	69	1,860	1,763	1,763	1,763	1,763
Deferred tax liability	3	3	3	3	3	3
Long-term operating lease liabilities	0	310	370	370	370	370
MI	17	31	32	32	33	34
Total Equity	2,178	2,569	6,111	6,759	7,651	8,780
Shareholders' equity	**2,195**	**2,600**	**6,143**	**6,791**	**7,684**	**8,814**

Source: Company data, CMBIS estimates

Cash Flow and Working Capital

High visibility with solid and expanding brand partner network
Backed by its ramping up GMV and brand partner network, we expect Baozun to maintain its strong operating cash inflow trend and record RMB1,273mn of operating cash inflow in FY21E, respectively.

Figure 68: Operating cash flow projections
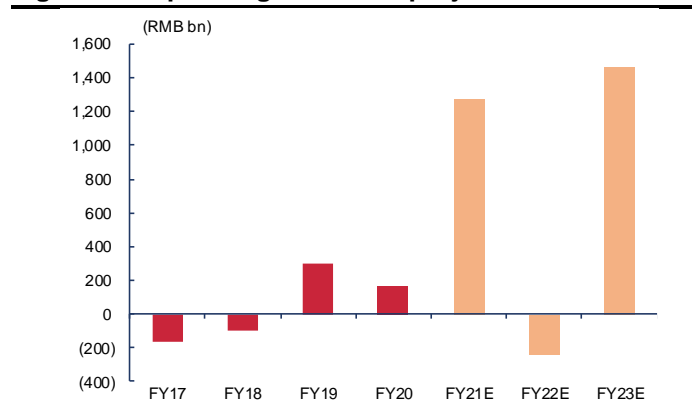
Source: Company data, CMBIS estimates

Figure 69: Cash flow and working capital analysis

RMB mn, Dec-YE	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow						
Operating cash flow	**(99)**	**301**	**165**	**1,273**	**(239)**	**1,466**
CAPEX	(123)	(1,623)	(683)	(83)	(88)	(93)
Others	161	490	137	(63)	(64)	(64)
Investing cash flow	**38**	**(1,133)**	**(546)**	**(146)**	**(152)**	**(158)**
Proceeds from share issuance	0	0	3,085	0	0	0
Change of debts	328	(77)	(428)	0	0	0
Others	4	1,854	(97)	0	0	0
Financing cash flow	**331**	**1,777**	**2,559**	**0**	**0**	**0**
Cash at period end	**583**	**1,527**	**3,731**	**4,858**	**4,467**	**5,775**

Source: Company data, CMBIS estimates

Valuation

Investment Thesis

We initiate BUY with DCF-based TP of US$50, implying 37x/28x FY21/22E P/E. We keep bullish on Baozun's secular growth and see high visibility for Baozun to deliver topline acceleration and long-term better margin outlook. Baozun's positive price drivers and catalysts originate from: 1) WeChat traffic to unlock TAM; 2) accelerated penetration in luxury; and 3) synergies from M&A.

Initiate with BUY

We use DCF valuation as our primary method since it is suitable to apply DCF valuation to internet companies with healthy cash flows in the long run. Assuming a WACC of 14% and a terminal growth rate of 3%, our estimated TP is US$50, representing 37x/28x FY21/22E P/E, in line with industry average.

Figure 70: DCF valuation

DCF valuation (RMB mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	653	938	1,206	1,498	1,843	2,246	2,713	3,248	3,857	4,544
Tax	(151)	(218)	(282)	(352)	(434)	(528)	(638)	(764)	(907)	(1,069)
D&A	152	174	197	220	246	274	302	332	365	402
Working capital	452	(1,339)	114	(72)	(74)	(75)	(76)	(78)	(80)	(81)
CAPEX	(83)	(88)	(93)	(99)	(104)	(108)	(111)	(114)	(116)	(118)
FCF	**1,023**	**(533)**	**1,141**	**1,195**	**1,478**	**1,810**	**2,189**	**2,624**	**3,119**	**3,678**
FCF Growth		-152%	-314%	5%	24%	22%	21%	20%	19%	18%
Terminal Value										34,640
PV (FCF+ Terminal Value)	**1,023**	**(468)**	**879**	**808**	**877**	**943**	**1,001**	**1,053**	**1,098**	**11,843**

Assumptions	
WACC	**14%**
Tax rate	-24.0%
Risk free rate	3.6%
Cost of debt	0.0%
Beta	1.10
Market risk return	13.0%
Cost of equity	13.9%
Debt/Assets	0.0%
Terminal growth rate	**3.0%**
Debt value	**0**

Equity Value	
PV	**19,057**
minus：Net cash	(4,858)
minus：Minority Interest	32
Equity Value	23,883
FX	6.51
TP (US$) based on DCF	**50**

		WACC				
		12%	13%	14%	15%	16%
Growth	1.5%	56	51	47	43	40
	2.0%	58	52	48	44	41
	2.5%	59	54	49	45	41
	3.0%	61	55	**50**	46	42
	3.5%	63	56	51	47	43
	4.0%	66	58	53	48	44
	4.5%	68	60	54	49	45

Source: Company data, Bloomberg, CMBIS estimates

Peers comparison

Our DCF-based multiple of 37x/28x FY21/22E P/E, is largely in line with industry average. We think our targeted multiple is not demanding, since 1) Major China ecommerce service provider comps (e.g. Lily & Beauty, Onechance) lag behind Baozun in terms of warehousing & logisitic, omni channels; 2) with 28% FY20-23E earnings CAGR, Baozun deserves higher P/E multiple than most of peers (with 22% earnings CARG on average), in our view; and 3) new channels expansion and M&A synergies to unlock its valuation, if executed well.

Key market concern might lie in the short-term margin pressure from reinvestment. However, we think its ROI-driven marketing strategy, cross selling and GMV mix optimization might make its margin more manageable. Despite competition from sub-segment peers, Baozun has its advantage that brands prioritize, including all-category, full-service, omni-channel solutions, and well-established warehousing & logistics.

Figure 71: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBITDA			FY21-23 EPS CAGR
							FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
EC Service Provider																
Baozun	BZUN US	2,875	USD	37	BUY	50	27.1	20.7	17.2	4.3	3.7	3.2	16.8	12.5	9.3	35%
Lily & Beauty	605136 CH	1,802	CNY	29	NA	NA	29.1	23.9	21.3	2.2	1.8	1.9	NA	NA	NA	17%
Ruoyuchen	003010 CH	577	CNY	31	NA	NA	30.0	22.9	23.9	2.6	2.1	1.8	NA	NA	NA	12%
Onechance	300792 CH	1,981	CNY	90	NA	NA	27.8	20.1	NA	6.8	5.1	NA	19.5	13.9	NA	40%
Transcosmos	9715 JP	1,324	JPY	2,978	NA	NA	11.6	11.2	10.3	0.4	0.4	0.4	6.2	5.8	5.7	6%
Average							25.1	19.8	18.2	3.3	2.6	1.8	14.2	10.7	7.5	22%
China Ecommerce																
Pinduoduo	PDD US	169,692	USD	138	BUY	175	NA	174.2	69.6	9.9	7.1	5.6	NA	188.7	49.0	NA
Alibaba	BABA US	611,140	USD	225	BUY	338	19.2	15.5	13.0	4.3	3.7	3.0	14.3	11.3	9.4	19%
JD.com	JD US	127,148	USD	81	NA	NA	40.0	29.7	21.7	0.9	0.7	0.6	28.6	19.5	14.3	36%
Vipshop	VIPS US	20,028	USD	30	NA	NA	17.3	14.4	12.4	1.1	0.9	0.8	11.9	9.6	8.4	18%
Suning.com	002024 CH	9,839	CNY	7	NA	NA	80.5	33.6	NA	0.2	0.2	NA	16.4	13.0	NA	NA
Meituan	3690 HK	244,665	HKD	323	BUY	401	NA	178.8	68.8	9.0	6.5	4.9	NA	102.8	43.5	NA
Yatsen	YSG US	6,796	USD	11	NA	NA	NA	NA	338.7	4.8	3.2	2.7	NA	266.3	130.0	NA
Average							39.3	23.3	15.7	4.3	3.2	3.0	17.8	13.3	10.7	24%
Global Ecommerce																
Amazon	AMZN US	1,651,385	USD	3,279	NA	NA	53.8	41.1	30.7	3.5	3.0	2.6	23.0	18.6	14.9	32%
eBay	EBAY US	42,024	USD	62	NA	NA	15.2	13.4	12.0	3.5	3.3	3.1	11.0	10.1	9.5	13%
Groupon	GRPN US	1,453	USD	50	NA	NA	143.6	13.6	12.5	1.5	1.4	1.4	9.9	5.4	5.6	239%
Average							34.5	22.7	18.4	2.8	2.6	2.3	14.6	11.3	10.0	95%
SaaS																
Youzan	8083 HK	5,632	HKD	3	NA	NA	NA	NA	NA	13.2	8.9	6.3	NA	NA	NA	NA
Weimob	2013 HK	5,368	HKD	18	NA	NA	234.0	111.1	52.5	11.7	8.9	7.1	107.5	56.7	29.4	111%
Average							234.0	111.1	52.5	12.5	8.9	6.7	107.5	56.7	29.4	111%
Total Average							48.8	28.6	20.7	4.7	3.6	3.0	15.8	12.0	9.6	48%

Source: Bloomberg

Note: 1) Data updated by 8 Apr 2021; 2) Alibaba and Transcosmos' multiples refer to forward +1 year; and 3) PDD, Meituan, Yatsen, Groupon, and Weimob's PE and EV/EBITDA multiples are excluded.

Key Investment Risks

Key investment risks may derive from: 1) intensified competition landscape; 2) macro risk and COVID-19 new wave; 3) general downturn of consumption sentiment; 4) unexpected margin drag with M&A consolidation.

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net revenues	**7,278**	**8,852**	**12,142**	**15,144**	**18,413**	**Net income**	**270**	**426**	**477**	**689**	**893**
Product sales	3,422	3,907	4,965	5,959	6,912	D&A	120	131	152	174	197
Services	3,856	4,945	7,176	9,185	11,501	Change in WC	(279)	(403)	452	(1,339)	114
						Others	191	10	192	236	263
COGS	**(2,774)**	**(3,326)**	**(4,502)**	**(5,539)**	**(6,689)**	**Operating CF**	**301**	**165**	**1,273**	**(239)**	**1,466**
Gross profit	**4,504**	**5,525**	**7,640**	**9,605**	**11,724**						
						Capex	(1,623)	(683)	(83)	(88)	(93)
Fulfilment	(1,678)	(2,259)	(3,034)	(3,866)	(4,773)	Purchase of investments	(212)	209	-	-	-
S&M	(1,816)	(2,131)	(2,956)	(3,635)	(4,419)	Others	701	(72)	(63)	(64)	(64)
R&D	(393)	(410)	(583)	(697)	(792)	**Investing CF**	**(1,133)**	**(546)**	**(146)**	**(152)**	**(158)**
Admin.Exp.	(216)	(224)	(413)	(469)	(534)						
Other gains	(18)	57	-	-	-	Equity raised	-	3,085	-	-	-
Operating profit	**384**	**559**	**653**	**938**	**1,206**	Change of debts	(77)	(428)	-	-	-
						Cash from CB raised	1,848	(97)	-	-	-
Other income, net	(35)	(10)	(25)	(30)	(30)	Others	6	0	-	-	-
Pre-tax Income	**348**	**549**	**629**	**908**	**1,176**	**Financing CF**	**1,777**	**2,559**	**-**	**-**	**-**
Income Tax	(71)	(128)	(151)	(218)	(282)	**Net change in cash**	**945**	**2,178**	**1,127**	**(391)**	**1,308**
Net profit	281	426	477	689	893	Cash (beg of yr)	583	1,527	3,731	4,858	4,467
Adj. net profit	**357**	**535**	**649**	**892**	**1,130**	FX	(1)	26	-	-	-
						Cash (end of yr)	**1,527**	**3,731**	**4,858**	**4,467**	**5,775**

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**1,406**	**1,316**	**1,310**	**1,287**	**1,249**	Sales mix (%)					
Property and equipment	416	430	442	450	455	Product sales	47.0	44.1	40.9	39.3	37.5
Right-of-use assets	441	525	525	525	525	Services	53.0	55.9	59.1	60.7	62.5
Intangible assets	151	146	129	98	54	Total	100.0	100.0	100.0	100.0	100.0
Others	399	215	215	215	215						
						Growth rate (%)					
Current assets	**5,690**	**9,159**	**11,549**	**12,204**	**14,946**	Revenue	35.0	21.6	37.2	24.7	21.6
Cash & restricted cash	1,527	3,731	4,858	4,467	5,775	Gross profit	34.1	22.7	38.3	25.7	22.1
Short-term investments	844	1,449	1,449	1,449	1,449	EBIT	7.8	45.6	16.9	43.5	28.6
Accounts receivable	1,801	2,189	3,130	3,504	4,562	Adj. net profit	3.2	49.9	21.3	37.5	26.7
Inventories	897	1,026	1,129	1,559	1,709						
Prepayments and other current assets	622	764	984	1,226	1,451						
						P&L ratios (%)					
Current liabilities	**2,324**	**2,196**	**3,932**	**3,672**	**5,245**	Operating margin	5.3	6.3	5.4	6.2	6.6
Accounts payables	877	422	1,829	1,248	2,468	Pre-tax margin	4.8	6.2	5.2	6.0	6.4
Other payables and accruals	874	1,565	1,892	2,214	2,566	Adj. net margin	4.9	6.0	5.3	5.9	6.1
Short-term loan	428	-	-	-	-	Effective tax rate	(20.4)	(23.3)	(24.0)	(24.0)	(24.0)
Others	145	210	210	210	210						
						Returns (%)					
Non-current liabilities	**2,173**	**2,136**	**2,136**	**2,136**	**2,136**	ROE	13.7	8.7	9.6	11.6	12.8
Long-term loan	1,860	1,763	1,763	1,763	1,763	ROA	5.0	5.1	5.0	6.6	7.0
Deferred tax liability	3	3	3	3	3						
Long-term operating lease liabilities	310	370	370	370	370	**Per share**					
						EPS (RMB)	6.0	8.4	8.9	11.6	14.0
MI	31	32	32	33	34	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Total Equity	2,600	6,143	6,791	7,684	8,814	BVPS (RMB)	14.5	32.2	30.9	33.3	36.4
Shareholders' equity	**2,569**	**6,111**	**6,759**	**7,651**	**8,780**						

Source: Company data, CMBIS estimates

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