

Baozun (BZUN US)

BBM on good progress

Baozun delivered mixed 2Q23 results on soft topline but upbeat margin. Looking into 3Q23E, we forecast rev at single-digit YoY growth, on solid BBM offset by declining BEC (forecasting -15% YoY), while the loss of Gap China is narrowing. Soft BEC is mainly on slower-than-expected GMV recovery in Jul & Aug, although some verticals (e.g. luxury, jewelry, outdoors) grew at double-digit YoY. We maintain our estimate on Gap China's rev (RMB1.5bn) while turn positive on its narrowing loss (-RMB200mn vs. prior -RMB250mn) in FY23E. Further strategic synergy will be brought from the acquisition of Hunter. We trimmed its non-GAAP OP by 3%-36% in FY23-25E to reflect soft BEC, with TP at US\$7.6 (implying 11x FY24 EV/EBIT).

- **2Q23 beat on margin surprise despite soft BEC.** 2Q23 rev +9% YoY, 3.7% below consensus, while bottom line was -RMB4mn above consensus of -RMB19mn. By segment, product sales +34.1% YoY driven by solid BBM business (+65% QoQ) consolidated in 1Q23, while offset by BEC softness (-13% YoY) on declining appliance and electronics, as well as optimization of product distribution model. Services -2.7% YoY mainly due to an one-time disposal from warehousing and fulfillment (+0.5% YoY, if excluding disposal factor). Non-GAAP OP was RMB0.7mn, due to less fulfillment cost and narrowing loss from Gap Shanghai.
- **GAP on good progress, BEC under near-term pressure.** BEC would see -15% YoY in 3Q23E given slower-than-expected GMV recovery in Jul & Aug, although some verticals such as luxury, jewelry, outdoors, and suitcase grew at double-digit YoY. Mgmt. guided BEC will achieve positive YoY growth in 4Q23E thanks to an optimized distribution channel and ramp-up on demand for high-quality services for brands. For BBM business, we maintain our estimate on Gap China's rev (at RMB1.5bn), while turn positive on its narrowing loss at RMB200mn (vs. prior -RMB250mn) in FY23E. Gap China's same store growth was 11% YoY in 2Q23, attributable to higher conversation rates and scaling back discounts. Mgmt. stated that the growth accelerated in Aug, along with new product initiatives and marketing campaigns. We forecast non-GAAP OP at -RMB100mn in 3Q23E, in which BBM at -RMB60mn.
- **Acquisition of Hunter to bring strategic synergy.** Hunter, as a premium lifestyle brand, delivered solid growth with profitability. After 51% acquisition, Baozun would help Hunter to expand in China and SEA, and create more opportunities to cooperate with ABG Group, who owns 50+ brands. As Hunter is a boutique brand, the financial impact would be limited.
- **Maintain BUY.** We trimmed its non-GAAP OP by 3%-36% in FY23-25E to reflect soft BEC, with TP at US\$7.6 (implying 11x FY24 EV/EBIT of BEC, or 21x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	9,396	8,401	9,149	9,753	10,241
YoY growth (%)	6.2	(11)	8.9	6.6	5.0
Adj. net income (RMB mn)	200	132	(78)	151	400
Adj. EPS (RMB)	2.7	2.1	(1.2)	2.3	6.2
YoY growth (%)	(68)	(22)	NA	NA	163.5
Consensus EPS (RMB)	NA	NA	1.5	5.0	7.5
P/E (x)	11.1	14.2	NA	11.9	4.5
P/S (x)	0.2	0.2	0.2	0.2	0.2
ROE (%)	9,396	8,401	9,149	9,753	10,241
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$7.6
(Previous TP	US\$8.4)
Up/Downside	+78%
Current Price	US\$4.27

China Entertainment Sector

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Stock Data

Mkt Cap (US\$ mn)	219
Avg 3 mths t/o (US\$ mn)	1.77
52w High/Low (US\$)	9.04/3.41
Total Issued Shares (mn)	55

Source: Bloomberg

Shareholding Structure

Schroders	5.71%
TIAA	5.37%
Franklin	3.82%

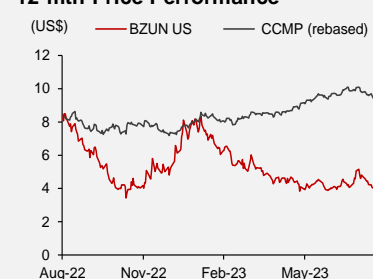
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.1%	-17.0%
3-mth	-10.0%	-14.1%
6-mth	-38.9%	-48.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: 2Q23 financial review

RMB mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY	Consensus	Diff %
Revenue	1,899	3,173	1,984	2,122	1,741	2,553	1,888	2,320	23%	9%	2,409	-3.7%
Operating profit	(157)	4	(41)	(23)	(26)	18	(41)	(36)	10%	NA	(30)	NA
Net profit	(293)	(8)	(122)	(78)	(157)	(284)	(84)	(20)	76%	NA	(57)	NA
Adj. net profit	(88)	76	1	1	(13)	138	(13)	(4)	67%	NA	(19)	NA
EPS (RMB)	(1.21)	1.11	0.02	0.02	(0.22)	2.32	(0.22)	(0.07)	68%	NA	(0.22)	NA
Margin (%)												
Gross margin	68.6%	67.1%	70.0%	71.6%	76.2%	74.8%	73.2%	70.9%			73.1%	
Operating margin	-8.2%	0.1%	-2.1%	-1.1%	-1.5%	0.7%	-2.2%	-1.6%			-1.3%	
Adj. net margin	-4.6%	2.4%	0.1%	0.1%	-0.8%	5.4%	-0.7%	-0.2%			-0.8%	
Growth (%)												
Revenue (YoY)	3.8%	-5.2%	-1.8%	-7.9%	-8.3%	-19.5%	-4.9%	9.3%				
Revenue (QoQ)	-17.6%	67.1%	-37.5%	6.9%	-17.9%	46.6%	-26.1%	22.9%				
Operating profit	NA	-98.7%	-177.8%	NA	NA	2.2%	-2.9%	0.6%				
Adj. net profit	NA	-72.1%	-98.1%	-99.2%	NA	6.2%	-6.1%	0.5%				

Source: Company data, Bloomberg

Figure 2: 2Q23 revenue breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ	YoY
Revenue (RMB mn)	1,899	3,173	1,984	2,122	1,741	2,553	1,888	2,320	22.9%	9.3%
Product sales	700	1,230	681	694	497	772	666	930	39.7%	34.1%
Services	1,199	1,943	1,303	1,428	1,244	1,781	1,222	1,390	13.8%	-2.7%
			1Q22	2Q22			1Q23	2Q23	QoQ	YoY
Revenue (RMB mn)			1,984	2,122			1,888	2,320	22.9%	9.3%
Product Sales			681	694			673	930	38%	34%
E-Commerce (BEC)			681	694			477	606	27%	-13%
Appliances			351	363			225	276	23%	-24%
Electronics			132	89			44	50	15%	-43%
Beauty and cosmetics			63	80			67	104	57%	30%
Others			134	162			142	175	24%	8%
Brand Management (BBM)			0	0			196	324	65%	NA
Services revenue			1,303	1,428			1,215	1,390	14%	-3%
Online store operations			392	370			357	379	6%	3%
Apparel and accessories			265	244			256	258	1%	6%
Sportswear			88	84			89	98	10%	16%
Other apparel			89	67			68	65	-3%	-2%
Luxury			89	93			99	98	-1%	5%
Others			127	126			109	130	20%	3%
Inter-segment eliminations								-9	NA	NA
Warehouse and fulfillment			525	611			487	571	17%	-7%
Digital marketing and IT solutions			386	447			377	446	18%	0%
Inter-segment eliminations			0	0			-7	-6	14%	NA

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	9,149	9,753	10,241	9,976	10,890	11,855	-8.3%	-10.4%	-13.6%
Gross profit	6,523	7,003	7,415	7,007	7,643	8,583	-6.9%	-8.4%	-13.6%
Non-GAAP OP	11	281	593	31	303	539	-64.1%	-7.2%	10.0%
Adj. net profit	(78)	151	400	81	310	476	NA	-51.3%	-15.9%
EPS (RMB)	(1.22)	2.34	6.16	1.48	5.03	7.50	NA	-53.5%	-17.9%
Gross margin	71.3%	71.8%	72.4%	70.2%	70.2%	72.4%	+1.1ppts	+1.6ppts	+0.0ppts
Operating margin	0.1%	2.9%	5.8%	0.3%	2.8%	4.5%	-0.2ppts	+0.1ppts	+1.2ppts
Net margin	-0.9%	1.5%	3.9%	0.8%	2.8%	4.0%	-1.7ppts	-1.3ppts	-0.1ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	9,149	9,753	10,241	10,472	11,483	12,351	-12.6%	-15.1%	-17.1%
Gross profit	6,523	7,003	7,415	7,644	8,612	9,449	-14.7%	-18.7%	-21.5%
Non GAAP OP	11	281	593	11	441	866	-2.8%	-36.3%	-31.6%
Adj. net profit	(78)	151	400	(82)	276	617	NA	-45.4%	-35.2%
EPS (RMB)	(1.22)	2.34	6.16	(1.28)	4.28	9.50	NA	-45.4%	-35.2%
Gross margin	9,149	9,753	10,241	10,472	11,483	12,351	-12.6%	-15.1%	-17.1%
Operating margin	6,523	7,003	7,415	7,644	8,612	9,449	-14.7%	-18.7%	-21.5%
Net margin	11	281	593	11	441	866	-2.8%	-36.3%	-31.6%

Source: Company data, CMBIGM estimates

Figure 5: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	CAGR
Baozun	BZUN US	219	USD	4	BUY	7.6	NA	11.9	4.5	0.2	0.2	0.2	NA
EC Service Provider													
Lily & Beauty	605136 CH	579	CNY	11	NA	NA	21.3	18.2	NA	1.2	1.1	NA	NA
Ruoyuchen	003010 CH	325	CNY	19	NA	NA	61.9	39.4	29.3	1.7	1.5	1.4	45%
Onechance	300792 CH	788	CNY	24	NA	NA	21.9	18.4	15.6	3.2	2.8	2.4	17%
Transcosmos	9715 JP	1,065	JPY	3,195	NA	NA	11.4	10.3	9.6	0.4	0.4	0.4	12%
Average							18.2	15.6	12.6	1.1	1.0	0.9	25%
China Ecommerce													
Pinduoduo	PDD US	101,037	USD	80	BUY	109	16.0	12.5	10.0	4.1	3.3	2.8	22%
Alibaba	BABA US	228,450	USD	90	BUY	157	9.8	9.3	8.5	1.7	1.6	1.4	11%
JD.com	JD US	58,214	USD	33	BUY	62	13.2	11.2	9.4	0.4	0.4	0.3	18%
Vipshop	VIPS US	8,516	USD	16	NA	NA	7.5	7.3	6.9	0.6	0.5	0.5	18%
Suning.com	002024 CH	2,465	CNY	2	NA	NA	NA	30.6	11.4	0.2	0.2	0.1	NA
Meituan	3690 HK	107,575	HKD	135	BUY	178	36.5	23.9	16.3	2.8	2.3	1.9	47%
Yatsen	YSG US	562	USD	1	NA	NA	NA	19.1	16.5	1.0	0.9	0.9	NA
Average							11.6	16.3	11.3	1.1	1.0	0.9	17%
Global Ecommerce													
Amazon	AMZN US	1,374,943	USD	133	NA	NA	44.0	33.6	24.0	2.4	2.2	1.9	29%
eBay	EBAY US	23,197	USD	44	NA	NA	10.4	10.3	9.8	2.3	2.2	2.1	8%
Groupon	GRPN US	406	USD	13	NA	NA	NA	26.9	9.3	0.8	0.8	0.7	NA
Average							10.4	18.6	9.6	1.8	1.7	1.6	18%
SaaS													
Youzan	8083 HK	319	HKD	0	NA	NA	NA	NA	NA	1.5	1.4	1.3	NA
Weimob	2013 HK	1,436	HKD	4	NA	NA	NA	NA	33.4	4.2	3.5	3.0	NA
Average							NA	NA	33.4	2.9	2.5	2.2	NA
Average							16.5	15.2	13.6	1.4	1.3	1.1	20%

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net revenues	9,396	8,401	9,149	9,753	10,241	Net income	(220)	(653)	(197)	29	276
Product sales	3,874	2,644	3,724	3,962	4,160	D&A	207	197	179	200	222
Services	5,523	5,756	5,425	5,791	6,081	Change in WC	(653)	(59)	393	163	(431)
COGS	(3,277)	(2,256)	(2,626)	(2,750)	(2,827)	Others	570	899	178	194	187
Gross profit	6,120	6,145	6,523	7,003	7,415	Operating CF	(96)	383	552	586	253
Fulfillment	(2,661)	(2,720)	(2,821)	(2,905)	(2,961)	Capex	(1,240)	(1,115)	(128)	(136)	(144)
S&M	(2,550)	(2,674)	(2,653)	(2,731)	(2,765)	Purchase of investments	-	-	-	-	-
R&D	(448)	(428)	(485)	(488)	(492)	Others	1,616	(192)	(49)	(50)	(50)
Admin.Exp.	(526)	(371)	(823)	(829)	(840)	Investing CF	376	(1,307)	(177)	(186)	(194)
Other gains	73	82	91	49	51	Equity raised	-	-	-	-	-
Operating profit	7	33	(168)	99	409	Change of debts	548	468	-	-	-
Other income, net	(161)	(614)	(79)	(63)	(64)	Cash from CB raised	-	-	-	-	-
Pre-tax Income	(154)	(580)	(247)	36	345	Others	201	(2,118)	-	-	-
Income Tax	(55)	(26)	49	(7)	(69)	Financing CF	749	(1,650)	-	-	-
Net profit	(220)	(653)	(197)	29	276	Net change in cash	1,030	(2,574)	375	401	59
Adj. net profit	200	132	(78)	151	400	Cash (beg of yr)	3,731	4,700	2,246	2,621	3,021
						FX	(61)	120	-	-	-
						Cash (end of yr)	4,700	2,246	2,621	3,021	3,080

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E	YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	3,115	2,725	2,331	2,317	2,289	Sales mix (%)					
Property and equipment	653	694	527	551	569	Product sales	41.2	31.5	40.7	40.6	40.6
Right-of-use assets	1,096	847	847	847	847	Services	58.8	68.5	59.3	59.4	59.4
Intangible assets	395	311	84	46	0	Total	100.0	100.0	100.0	100.0	100.0
Others	971	873	873	873	873						
Current assets	9,204	7,397	7,303	7,594	8,153	Growth rate (%)					
Cash & restricted cash	4,700	2,246	2,621	3,021	3,080	Revenue	6.2	(10.6)	8.9	6.6	5.0
Short-term investments	-	895	895	895	895	Gross profit	10.8	0.4	6.2	7.4	5.9
Accounts receivable	2,261	2,293	2,293	2,016	2,509	EBIT	(98.7)	374.1	NA	NA	312.8
Inventories	1,074	943	768	911	904	Adj. net profit	(62.7)	(33.8)	NA	NA	165.0
Prepayments and other current assets	1,170	1,020	726	750	765						
Current liabilities	4,777	3,682	3,920	3,985	4,057	P&L ratios (%)					
Accounts payables	494	475	984	1,002	1,039	Operating margin	0.1	0.4	(1.8)	1.0	4.0
Other payables and accruals	1,642	1,560	1,654	1,701	1,736	Pre-tax margin	(1.6)	(6.9)	(2.7)	0.4	3.4
Short-term loan	2,288	1,016	1,016	1,016	1,016	Adj. net margin	2.1	1.6	(0.9)	1.5	3.9
Others	352	631	266	266	266	Effective tax rate	35.9	4.6	(20.0)	(20.0)	(20.0)
Non-current liabilities	1,061	764	702	702	702	Returns (%)					
Long-term loan	-	-	-	-	-	ROE	3.1	2.3	(1.2)	2.3	5.7
Deferred tax liability	52	28	28	28	28	ROA	1.6	1.3	(0.8)	1.5	3.8
Long-term operating lease liabilities	883	674	674	674	674	Per share					
MI	1,585	1,592	1,592	1,592	1,592	EPS (RMB)	0.9	0.7	(0.4)	0.8	2.1
Total Equity	6,481	5,676	6,490	6,701	6,977	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	4,896	4,084	4,898	5,109	5,385	BVPS (RMB)	29.5	31.0	33.7	34.6	35.8

Source: Company data, CMBIGM estimates

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