

Baozun (BZUN US)

A solid start with steady transition

Baozun's 1Q24 results were better-than-feared, in which revenue +5% YoY (4% above consensus) and bottom line came in at -RMB15mn (vs. consensus of -RMB45mn). Ecommerce segment achieved positive OCF for the first time since 2019. Despite macro uncertainty, we expect BEC to bottom out in 2Q24E (forecasting revenue flat YoY, vs. -17% in 1Q24), supported by cooperation with new clients in beauty & cosmetics and beverage. BBM revitalization was on good progress, with continuous narrowing of loss. We are positive on BBM's double-digit YoY growth in FY24E, and BBM might resume positive growth from 2Q24E & 3Q24E. New stores expansion might be slightly slower given offline business challenges, but would be acceptable and positive to margin trend. We keep our full-year forecast unchanged, with TP at US\$4.93.

- **1Q24 beat all round.** Baozun delivered an upbeat quarter, with revenue +5% YoY (4% above consensus) and bottom line at -RMB15mn (vs. consensus of -RMB45mn). By segment, product sales revenue +6% YoY, in which BBM (revenue +66% YoY) offset BEC softness. As Baozun optimized the distribution model (e.g. FMCG), BEC's revenue declined 17% YoY. Services revenue resumed growth in 1Q24, at +5% YoY, in which sportswear category surged 26% YoY. Non-GAAP OP was -RMB17.5mn, in which loss from BBM narrowed to RMB29.3mn from RMB34.9mn in 1Q23, while BEC generated OP of RMB11.8mn. Moreover, ecommerce segment achieved positive OCF for the first time since 2019.
- **Expect 2Q24E topline to keep stable YoY.** Looking into 2Q24E, we expect total revenue +0% YoY, in which BEC would recover to flat or positive YoY growth. After FMCG adjustment, BEC segment would benefit from cooperation with new clients in beauty & cosmetics and beverage, despite macro uncertainty. We forecast BEC OPM to be stable YoY. BBM would continue its margin improvement in 2Q24E, backed by disciplined COGS, selective stores expansion and operating leverage. Given soft offline business amid macro challenges, we are relatively conservative on BBM's new stores expansion. Mgmt stated that GAP plans to open five stores in 2Q24E (vs. two in 1Q24), and would prefer franchise model in lower tier cities in 2H24E. We expect BBM revenue to be flat YoY in 2Q24E, and keep positive on its double-digit growth in FY24E.
- **Maintain BUY.** We keep our FY24-26E financials forecast unchanged, with 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 cents)	2.1	(1.1)	0.1	2.4	2.8
YoY growth (%)	(21.6)	NA	NA	1,578.2	15.4
Consensus EPS (RMB)	NA	NA	0.3	2.8	4.2
P/S (x)	0.1	0.1	0.1	0.1	0.1
P/E (x)	9.1	NA	137.9	8.2	7.0
ROE (%)	(10.0)	(3.9)	(0.5)	1.7	2.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$4.93**
Up/Downside **85.3%**
Current Price **US\$2.66**

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Stock Data

Mkt Cap (US\$ mn)	163.0
Avg 3 mths t/o (US\$ mn)	0.7
52w High/Low (US\$)	5.16/1.97
Total Issued Shares (mn)	61.36

Source: FactSet

Shareholding Structure

Alibaba	14.6%
Wenbin Qiu	9.3%

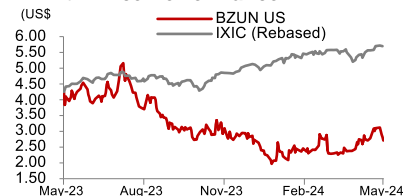
Source: Factset

Share Performance

	Absolute	Relative
1-mth	1.9%	-5.4%
3-mth	12.4%	6.3%
6-mth	-12.3%	-26.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

RMB mn	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %
Revenue	1,741	2,553	1,888	2,320	1,824	2,780	1,980	-29%	5%	1,898	4.3%
Operating profit	(26)	18	(41)	(36)	(136)	6	(55)	NA	NA	(41)	NA
Net profit	(157)	(284)	(84)	(20)	(130)	(47)	(67)	NA	NA	(65)	NA
Adj. net profit	(13)	138	(13)	(4)	(76)	29	(15)	NA	NA	(45)	NA
EPS (RMB)	(0.22)	2.32	(0.22)	(0.07)	(1.28)	0.47	(0.25)	NA	NA	(0.60)	NA
Margin (%)											
Gross margin	76.2%	74.8%	73.2%	70.9%	73.1%	73.5%	75.4%			72.0%	
Operating margin	-1.5%	0.7%	-2.2%	-1.6%	-7.4%	0.2%	-2.8%			-2.2%	
Adj. net margin	-0.8%	5.4%	-0.7%	-0.2%	-4.2%	1.0%	-0.8%			-2.4%	
Growth (%)											
Revenue (YoY)	-8.3%	-19.5%	-4.9%	9.3%	4.7%	8.9%	4.9%				
Revenue (QoQ)	-17.9%	46.6%	-26.1%	22.9%	-21.4%	52.5%	-28.8%				
Operating profit	NA	NA	NA	NA	NA	NA	NA				
Adj. net profit	NA	NA	NA	NA	NA	NA	NA				

Source: Company data, Bloomberg

Figure 2: 1Q24 revenue breakdown

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (RMB mn)	1,741	2,553	1,888	2,320	1,824	2,780	1,980	-28.8%	4.9%
Product sales	497	772	666	930	708	1,053	708	-32.8%	6.2%
Services	1,244	1,781	1,222	1,390	1,116	1,727	1,272	-26.3%	4.1%
	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (RMB mn)	1,741	2,553	1,888	2,320	1,824	2,780	1,980	-28.8%	4.9%
Product Sales	497	772	666	930	708	1,053	708	-33%	6%
E-Commerce (BEC)	497	772	477	606	412	598	395	-34%	-17%
Appliances	212	387	225	276	180	256	191	-25%	-15%
Beauty and cosmetics	76	93	67	104	76	131	69	-47%	4%
FMCG		81	67			46	33	-30%	-51%
Others	158	128	119	175	130	118	102	-14%	-14%
Brand Management (BBM)	0	0	189	324	296	456	313	-31%	66%
Services revenue	1,244	1,781	1,222	1,390	1,116	1,727	1,272	-26%	4%
Online store operations	348	514	359	379	330	512	359	-30%	0%
Apparel and accessories	232	367	256	258	248	373	277	-26%	8%
Sportswear	80	122	89	98	101	134	112	-17%	26%
Other apparel	59	113	68	65	61	116	69	-40%	2%
Luxury	93	133	99	98	86	123	96	-22%	-3%
Others	116	148	109	130	92	139	89	-36%	-18%
Inter-segment eliminations	0	0	-5	-9	-11	-19	-8	NA	NA
Warehouse and fulfillment	492	753	487	571	432	705	462	-34%	-5%
Digital marketing and IT solution	404	514	377	446	363	549	462	-16%	22%
Inter-segment eliminations	0	0	-7	-6	-19	-19	-19	NA	NA

Source: Company data

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	9,123	9,674	10,171	-0.6%	-1.6%	-2.3%
Gross profit	6,554	6,891	7,194	6,635	7,080	7,469	-1.2%	-2.7%	-3.7%
Non-GAAP OP	130	259	279	20	139	256	536.6%	86.5%	9.2%
Adj. net profit	9	144	167	15	173	261	-44.1%	-17.0%	-36.2%
EPS (RMB)	0.14	2.39	2.75	0.29	2.83	4.16	-50.9%	-15.8%	-33.8%
Gross margin	72.3%	72.4%	72.4%	72.7%	73.2%	73.4%	-0.4ppts	-0.8ppts	-1.0ppts
Operating margin	1.4%	2.7%	2.8%	0.2%	1.4%	2.5%	+1.2ppts	+1.3ppts	+0.3ppts
Net margin	0.1%	1.5%	1.7%	0.2%	1.8%	2.6%	-0.1ppts	-0.3ppts	-0.9ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: SOTP valuation

SOTP	Metrics	Methodology	Multiple	Shareholding	Valuation
(RMB mn)					Valuation
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 and soft consumption sentiment; 2) intensified competition; 3) slower-than-expected recovery of BEC; 4) lower-than-expected result from GAP synergies; and 5) heavy investment in GAP revitalization and content.

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 (diluted)	7.2	9.1	NA	137.9	8.2	7.0
P/B	0.7	0.6	0.6	0.6	0.6	0.6

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

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