

Bosideng (3998 HK)

Beautifully executed the solid strategies

A results beat is good, but positive outlook with solid growth drivers (new products, new categories, ASP hike, solid plan of advertising and channel upgrades) is even better. Together with the attractive 6% FY25E yield and a 13x FY25E P/E, we maintain BUY, based on a 15x FY25E P/E.

- FY24 result was a strong beat.** In FY24 (ending Mar), Bosideng's sales has surged by 38% YoY to RMB 23.2bn, better than BBG/ CMBI est. by 6% while its net profit also rocketed by 44% YoY to RMB 3.1bn, beating BBG/ CMBI est. by 7%. We attribute this significantly fast sales growth to macro reasons: 1) massive demand for casual clothing after the re-opening in 2023 and the favourable winter and company specific reasons such as 2) successful category expansion (e.g. sun-protective clothing, which had 300%+ sales growth to around RMB 500mn in FY24), 3) well received new products (ultra down apparel had 70%+ sales growth to around RMB 30bn in FY24, the 3-in-1 windbreaker was very hot-selling, so as the Extreme Cold collection in the winter down apparel), and 4) robust growth from wholesale business as the Company had raised the rebate and incentive to order and open new stores. Moreover, we do think quality of this result is high because of the unusually low other income, interest income and high tax rate, as well as the extremely low inventory days at 115 days (down 29 days vs last year and level below 120 days should be considered as highly healthy for Bosideng). Noted that a final DPS of HK\$ 20 cents was also proposed, plus HK\$ 5 cents in 1H24, historical yield now is not low, at 6%.
- The company is guiding for a mid-teen sales CAGR during FY25E-26E.** Management is now aiming for a roughly RMB 30.0bn listed co level sales by FY26E, which is implying a mid-teens sales CAGR during FY25E-26E. Moreover, they are also foreseeing a stable GP margin but improvement in NP margin is likely.
- We do think the targets (for both sales and margin) are comfortably achievable.** The macro environment in China is certainly worrying (weak jobs creation, high saving rate, falling house prices etc.) but we are still confident on Bosideng as it had proven its competitiveness for so many times. We are now forecasting 15% sales growth and 23% net profit growth in FY25E, and these should be completed easily, thanks to: 1) roughly 10% ASP hike, by upgrading the function and designs of many product series (e.g. new version of high-end outdoor, 3-in-1 windbreaks, puff collections and other crossovers, etc.), 2) volume growth by expanding categories (management is still aiming to achieve RMB 1.0bn/ 4.0bn sales for sun-protective clothing/ ultra light down apparel, about 100%+/ 30%+ growth in FY25E, non-down apparel could make up 10% to 20% of total sales in the 3 to 5 years) and 3) reasonably fast orders growth from the distributors, boosted by the low level of channel inventory (sell through rate was as high as 80% in FY24) and favourable ordering polices.

Earnings Summary

(YE 31 Mar)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	16,774	23,214	26,657	29,654	31,584
YoY growth (%)	3.5	38.4	14.8	11.2	6.5
Operating profit (RMB mn)	2,826.4	4,397.6	5,096.2	5,908.4	6,368.9
Net profit (RMB mn)	2,156.4	3,120.1	3,889.5	4,597.0	4,992.7
EPS (Reported) (RMB)	0.19	0.27	0.33	0.39	0.43
YoY growth (%)	2.9	43.7	23.1	18.4	8.7
P/E (x)	22.7	15.8	12.8	10.8	10.0
P/B (x)	3.7	3.3	3.1	2.8	2.5
Yield (%)	3.9	5.4	6.0	7.1	7.7
ROE (%)	17.4	23.7	27.0	29.1	28.7
Net gearing (%)	25.2	29.1	32.8	36.9	39.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.98
(Previous TP)	HK\$5.34
Up/Downside	31.1%
Current Price	HK\$4.56

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	49,314.1
Avg 3 mths t/o (HK\$ mn)	100.1
52w High/Low (HK\$)	4.83/2.89
Total Issued Shares (mn)	10814.5

Source: FactSet

Shareholding Structure

Mr. Gao De Kang & Family	70.3%
Orient Securities Asset Management	1.9%

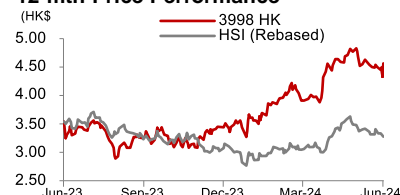
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.6%	0.3%
3-mth	16.6%	7.9%
6-mth	32.6%	24.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- On top of Bosideng's hard work of product innovations, it is going to double down on other areas like brand building/ marketing, channel efficiency and customer engagements.** For marketing, we like to see more meaningful storytelling. For example, the product launching campaign of ultra light down apparel in Sep 2024 and the function apparel series equipped with advanced technology in Nov 2024 and the opening of the Qomolangma flagship store in Beijing in Nov 2024. For channel upgrades, Bosideng is implementing the segmentation, to pair the best store format and SKUs in each region and tier cities to capture the demand from different types of customers. It is also boosting the efficiency of each single store by reiterating its TOP strategy (The TOP SKUs and TOP stores can make up around 60% to 70% of total sales, 200+ stores had generated annual sales greater than RMB 10mn). Also, the Company has started to open more 6-th generation stores (where store image level is benchmarking Descente). For customer engagement, Bosideng is going to set up a new department of consumer insight and analytics, to better understand the customer group, in order to refine the effectiveness of product design and advertising. It will also focus on the top 10% customers and the 40mn members, to better serve them. More improvements will be made for the WeChat mini-program, in order to drive up sale (registered about RMB 200mn sales in FY24, rapid growth should be expected in FY25E). Margin wise, we do concur with the management's view of a stable GP margin, because the boost from ASP hike could be offset by the higher sales from the lower GP margin business like the sun-protective apparel sales and wholesale. However, thanks to operating leverage from the TOP strategy and normalized tax rate, we think a NP margin improvement is likely.
- Maintain BUY and raise TP to HK\$ 5.98.** We revise up FY25E- 26E net profit by 12%- 16%, to factor in: 1) results beat, 2) higher-than-expected ASP hike, 3) smoother-than-expected new product sales and product categories expansion. We do think Bosideng's growth drivers are relatively certain vs many peers in the consumer industry, plus the decent valuation (13x FY25E P/E and 6% FY25 yield). We maintain BUY, based on a 15x FY25E P/E (unchanged), not demanding given a 11%/ 17% sales/ NP CAGR during FY25E-27E.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	26,657	29,654	31,584	25,074	27,739	n/a	6.3%	6.9%	n/a
Gross profit	15,942	17,833	19,054	15,150	16,872	n/a	5.2%	5.7%	n/a
EBIT	5,096	5,908	6,369	4,402	5,014	n/a	15.8%	17.8%	n/a
Net profit att.	3,783	4,478	4,866	3,377	3,868	n/a	12.0%	15.8%	n/a
Diluted EPS (RMB)	0.331	0.392	0.426	0.295	0.338	n/a	12.0%	15.8%	n/a
Gross margin	59.8%	60.1%	60.3%	60.4%	60.8%	n/a	-0.6ppt	-0.7ppt	n/a
EBIT margin	19.1%	19.9%	20.2%	17.6%	18.1%	n/a	1.6ppt	1.8ppt	n/a
Net profit att. margin	14.2%	15.1%	15.4%	13.5%	13.9%	n/a	0.7ppt	1.2ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	26,657	29,654	31,584	24,427	27,855	n/a	9.1%	6.5%	n/a
Gross profit	15,942	17,833	19,054	14,639	16,723	n/a	8.9%	6.6%	n/a
EBIT	5,096	5,908	6,369	4,310	4,946	n/a	18.2%	19.5%	n/a
Net profit att.	3,783	4,478	4,866	3,313	3,826	n/a	14.2%	17.1%	n/a
Diluted EPS (RMB)	0.331	0.392	0.426	0.305	0.349	n/a	8.5%	12.1%	n/a
Gross margin	59.8%	60.1%	60.3%	59.9%	60.0%	n/a	-0.1ppt	0.1ppt	n/a
EBIT margin	19.1%	19.9%	20.2%	17.6%	17.8%	n/a	1.5ppt	2.2ppt	n/a
Net profit att. margin	14.2%	15.1%	15.4%	13.6%	13.7%	n/a	0.6ppt	1.4ppt	n/a

Source: Company data, Bloomberg, CMBIGM estimates

Results review

Figure 3: Earnings review - Half Year

Half yearly - (Mar year-end) (RMB mn)	1H23	2H23	1H24	2H24	1H23 YoY	2H23 YoY	1H24 YoY	2H24 YoY	2H24E CMBIGM	Actual vs CMBGM
Revenue	6,180	10,594	7,472	15,742	14%	-2%	21%	49%	14,468	9%
COGS	(3,091)	(3,707)	(3,738)	(5,642)					(5,033)	
Gross profit	3,089	6,887	3,733	10,100	12%	-1%	21%	47%	9,435	7%
GP margin	50.0%	65.0%	50.0%	64.2%					65.2%	
Other income & gains	105	205	110	106					197	-46%
S&D expenses	(1,623)	(4,502)	(2,030)	(6,025)	1%	-1%	25%	34%	(6,083)	-1%
S&D exp / sales	26.3%	-42.5%	-27.2%	-38.3%					42.0%	
Admin expenses	(525)	(679)	(582)	(925)	16%	-10%	11%	36%	(978)	-5%
Admin exp / sales	-8.5%	-6.4%	-7.8%	-5.9%					-6.8%	
Other opex	-3	-10	-0	-19					-43	
Operating profit (EBIT)	1,043	1,901	1,231	3,237	31%	5%	18%	70%	2,528	28%
OP margin	16.9%	17.9%	16.5%	20.6%					17.5%	
Other items	(98)	(20)	0	(70)					(66)	
Net finance income	69	14	82	76					116	-34%
Net finance income / sales	1.1%	0.1%	1.1%	0.5%					0.8%	
Profit after financing costs	1,014	1,895	1,312	3,243					2,579	
Associated coms	(7)	(15)	(12)	(2)					(32)	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	1,007	1,880	1,301	3,241	22%	2%	29%	72%	2,547	27%
Tax	(283)	(448)	(384)	(1,037)					(577)	80%
Tax / sales	-4.6%	-4.2%	-5.1%	-6.6%					-4.0%	
Effective tax rate	28.1%	-23.8%	-29.6%	-32.0%					22.7%	
Minority interests	(10)	28	(2)	49					13	
Net profit att.	734	1,404	919	2,155	15%	-1%	25%	53%	1,956	10%
NP margin	11.9%	13.3%	12.3%	13.7%					13.5%	

Source: Company data, CMBIGM estimates

Figure 4: Earnings review - Full Year

Full yearly - (Mar year-end) (RMB mn)	FY23	FY24	FY25E	FY24 YoY	FY25E YoY	FY24E	Actual vs CMBI
Revenue	16,774	23,214	26,657	38%	15%	21,939	6%
COGS	(6,798)	(9,380)	(10,715)			(8,771)	
Gross profit	9,976	13,834	15,942	39%	15%	13,168	5%
GP margin	59.5%	59.6%	59.8%			60.0%	
Other income & gains	310	216	240			307	-30%
S&D expenses	(6,125)	(8,055)	(9,258)	32%	15%	(8,113)	-1%
S&D exp / sales	-36.5%	-34.7%	-34.7%			37.0%	
Admin expenses	(1,204)	(1,508)	(1,694)	25%	12%	(1,560)	-3%
Admin exp / sales	-7.2%	-6.5%	-6.4%			-7.1%	
Other opex	-12	-19	-53			-44	
Operating profit (EBIT)	2,944	4,468	5,177	52%	16%	3,759	19%
OP margin	17.6%	19.2%	19.4%			17.1%	
Other items	(118)	(70)	(80)			(66)	
Net finance income	83	158	213			198	-20%
Net finance income / sales	0.5%	0.7%	0.8%			0.9%	
Profit after financing costs	2,910	4,555	5,309			3,891	
Associated coms	(22)	(14)	(53)			(44)	
Jointly controlled coms	0	0	0			0	
Pre-tax profit	2,887	4,541	5,256	57%	16%	3,847	18%
Tax	(731)	(1,421)	(1,367)			(962)	
Tax / sales	-4.4%	-6.1%	-5.1%			-4.4%	
Effective tax rate	-25.3%	-31.3%	-26.0%			25.0%	
Minority interests	18	46	107			11	
Net profit att.	2,139	3,074	3,783	44%	23%	2,874	7%
NP margin	12.7%	13.2%	14.2%			13.1%	

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Revenue	16,214	16,774	23,214	26,657	29,654	31,584
Cost of goods sold	(6,476)	(6,798)	(9,380)	(10,715)	(11,821)	(12,529)
Gross profit	9,737	9,976	13,834	15,942	17,833	19,054
Operating expenses	(7,442)	(7,459)	(9,652)	(11,086)	(12,191)	(12,970)
Selling expense	(6,171)	(6,125)	(8,055)	(9,258)	(10,216)	(10,907)
Admin expense	(1,203)	(1,204)	(1,508)	(1,694)	(1,827)	(1,905)
Others	(68)	(130)	(89)	(134)	(149)	(158)
Operating profit	2,569	2,826	4,398	5,096	5,908	6,369
Other income	274	310	216	240	267	284
Share of (losses)/profits of associates/JV	(14)	(22)	(14)	(53)	(59)	(63)
EBITDA	3,119	3,413	4,892	5,564	6,338	6,718
Depreciation	(437)	(474)	(381)	(355)	(317)	(268)
Other amortisation	(113)	(113)	(113)	(113)	(113)	(82)
Interest income	316	293	374	430	497	568
Interest expense	(199)	(210)	(216)	(216)	(216)	(216)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	2,672	2,887	4,541	5,256	6,129	6,657
Income tax	(613)	(731)	(1,421)	(1,367)	(1,532)	(1,664)
Minority interest	4	(18)	(46)	(107)	(119)	(126)
Net profit	2,059	2,156	3,120	3,890	4,597	4,993
BALANCE SHEET						
YE 31 Mar (RMB mn)						
Current assets	14,737	14,722	17,456	19,378	21,433	23,025
Cash & equivalents	2,503	3,718	4,556	5,482	6,693	7,743
Account receivables	1,237	923	1,277	1,467	1,632	1,738
Inventories	2,688	2,689	3,711	4,239	4,676	4,956
Prepayment	1,281	1,355	1,876	2,154	2,396	2,552
ST bank deposits	306	1,824	1,824	1,824	1,824	1,824
Other current assets	6,722	4,212	4,212	4,212	4,212	4,212
Non-current assets	6,547	6,221	6,416	6,702	7,111	7,656
PP&E	1,758	1,728	2,050	2,502	3,083	3,773
Investment in JVs & assos	136	236	221	168	109	46
Intangibles	1,496	1,342	1,229	1,117	1,004	922
Other non-current assets	3,157	2,915	2,915	2,915	2,915	2,915
Total assets	21,284	20,943	23,872	26,079	28,544	30,681
Current liabilities	6,610	6,054	7,710	8,574	9,302	9,768
Short-term borrowings	934	770	770	770	770	770
Account payables	3,283	3,097	4,274	4,882	5,386	5,708
Tax payable	620	669	669	669	669	669
Other current liabilities	1,773	1,517	1,997	2,253	2,476	2,620
Non-current liabilities	2,447	2,284	2,284	2,284	2,284	2,284
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	2,447	2,284	2,284	2,284	2,284	2,284
Total liabilities	9,057	8,338	9,994	10,859	11,586	12,052
Share capital	1	1	1	1	1	1
Retained earnings	0	0	(774)	249	1,462	2,779
Other reserves	12,192	12,546	14,548	14,760	15,167	15,395
Total shareholders equity	12,193	12,547	13,774	15,011	16,630	18,174
Minority interest	33	57	103	210	329	455
Total equity and liabilities	21,284	20,943	23,872	26,079	28,544	30,681

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	2,672	2,887	4,541	5,256	6,129	6,657
Depreciation & amortization	550	587	494	468	430	349
Tax paid	(593)	(738)	(1,421)	(1,367)	(1,532)	(1,664)
Change in working capital	(162)	26	(240)	(131)	(117)	(76)
Others	202	289	231	270	276	280
Net cash from operations	2,670	3,051	3,605	4,496	5,185	5,546
Investing						
Capital expenditure	(577)	(508)	(703)	(808)	(898)	(957)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(109)	1,125	0	0	0	0
Net cash from investing	(686)	617	(703)	(808)	(898)	(957)
Financing						
Dividend paid	(1,309)	(1,722)	(1,847)	(2,546)	(2,859)	(3,322)
Net borrowings	360	(210)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(14)	0	0	0	0	0
Others	(269)	(561)	0	0	0	0
Net cash from financing	(1,232)	(2,493)	(1,847)	(2,546)	(2,859)	(3,322)
Net change in cash						
Cash at the beginning of the year	1,771	2,503	3,718	4,556	5,482	6,693
Exchange difference	(21)	41	0	0	0	0
Others	752	1,174	838	926	1,211	1,050
Cash at the end of the year	2,503	3,718	4,556	5,482	6,693	7,743
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Revenue	20.0%	3.5%	38.4%	14.8%	11.2%	6.5%
Gross profit	22.9%	2.5%	38.7%	15.2%	11.9%	6.9%
Operating profit	15.5%	10.0%	55.6%	15.9%	15.9%	7.8%
EBITDA	11.9%	9.4%	43.3%	13.8%	13.9%	6.0%
Net profit	20.8%	4.7%	44.7%	24.7%	18.2%	8.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Gross profit margin	60.1%	59.5%	59.6%	59.8%	60.1%	60.3%
Operating margin	15.8%	16.8%	18.9%	19.1%	19.9%	20.2%
EBITDA margin	19.2%	20.3%	21.1%	20.9%	21.4%	21.3%
Return on equity (ROE)	17.7%	17.4%	23.7%	27.0%	29.1%	28.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
Net debt to equity (x)	0.0	0.3	0.3	0.3	0.4	0.4
Current ratio (x)	2.2	2.4	2.3	2.3	2.3	2.4
Receivable turnover days	27.8	20.1	20.1	20.1	20.1	20.1
Inventory turnover days	151.5	144.4	144.4	144.4	144.4	144.4
Payable turnover days	185.0	166.3	166.3	166.3	166.3	166.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Mar						
P/E	23.3	22.7	15.8	12.8	10.8	10.0
P/E (diluted)	23.3	22.7	15.8	12.8	10.8	10.0
P/B	3.7	3.7	3.3	3.1	2.8	2.5
P/CFPS	18.0	15.9	13.5	10.8	9.4	8.8
Div yield (%)	3.7	3.9	5.4	6.0	7.1	7.7
EV	48,562.2	46,149.2	45,311.2	44,385.4	43,174.5	42,124.3
EV/Sales	3.0	2.8	2.0	1.7	1.5	1.3
EV/EBITDA	15.6	13.5	9.3	8.0	6.8	6.3

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

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

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

CMB International Global Markets Limited

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