

# Baozun (BZUN US)

## Looking into 2H21E after BCI one-off impact

Baozun delivered solid 1Q21 results with topline/bottom line +33%/136% YoY, 0%/6% above consensus. We are impressed by its GMV growth (+44% YoY) and margin trend (non-GAAP OP +106% YoY). Non-Tmall channels saw rising contribution, and luxury continued its momentum (GMV +50% YoY). Market concern lies in "cotton incident" (BCI). Mgmt expect BCI to pose one-off negative impact in 2Q21E (if BCI stop simmering), while 2H21E will be intact. Upcoming 618 might support the sales rebound. We forecast 2Q21E GMV/rev +17%/21% YoY and non-GAAP OP at RMB170mn, factoring in 10% GMV impact from BCI. Mgmt reiterated their confidence on 30%+ YoY GMV & rev growth in FY21E. We trimmed FY21E earnings by 6%, but keep FY22/23E forecast intact. Maintain BUY with TP of US\$50.

- **1Q21 beat with strong GMV.** 1Q21 GMV +44% YoY (vs. our estimate of +39% YoY), in which non-distribution/distribution GMV +44%/37% YoY. Non-GAAP OP + 106% YoY, 2% above our estimates, mainly on effective cost control on fulfillment & marketing. No. of brands reached 281, with 15 net adds.
- **New channel expansion and luxury momentum to continue.** 1Q21 non-Tmall channels saw rising GMV contribution (35%, vs. 25% in FY20), and the overlap of multi-channels was only 10%, suggesting still ample upside and healthy growth. Mgmt. expected recent anti-trust law to boost new channels opportunity, and Bzun would surf on the trend through deeper cooperation with mini program (SaaS enhancement), Douyin (live streaming initiatives), and JD. Moreover, we are delighted to see Bzun's rising exposure in luxury brands, with GMV +50% YoY (15% of apparels) and brands expansion from Full Jet. Going forward, we see growing opportunities in luxury brands, beauties and health care products.
- **One-off impact from BCI.** We believe BCI has been partly priced in recent soft stock price. Despite Apr sales decline of affected brands, mgmt. expected moderate rebound in next few months, especially considering upcoming 618 promotions. We estimate BCI to pose 10% impact on 2Q21E GMV, and OP with RMB41mn impact.
- **Maintain BUY.** Given our already-conservative estimate, we trimmed FY21E earnings by 6%, but keep FY22/23E forecast intact. We believe its new channel expansion and luxury opportunities will bring upside in the long run. Maintain BUY with TP of US\$50 (implying 28x FY22E P/E).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,278	8,852	11,755	14,777	17,961
YoY growth (%)	35.0	21.6	32.8	25.7	21.5
Adj. net income (RMB mn)	357	535	608	889	1,126
Adj. EPS (RMB)	2.0	2.8	2.8	3.9	4.6
YoY growth (%)	3.4	40.4	(1.1)	39.1	20.7
Consensus EPS (RMB)	NA	NA	3.0	4.1	5.4
P/E (x)	38.1	27.2	27.5	19.8	16.4
P/S (x)	5.6	4.9	4.3	3.6	3.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.7	8.7	9.0	11.6	12.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	US\$50
(Previous TP	US\$50)
Up/Downside	+23.4%
Current Price	US\$35.3

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### Stock Data

Mkt Cap (US\$ mn)	2,513
Avg 3 mths t/o (US\$ mn)	32.11
52w High/Low (US\$)	57.00/ 25.69
Total Issued Shares (mn)	74

Source: Bloomberg

### Shareholding Structure

Federated Hermes	13.94%
FIL Ltd	5.47%
Vontobel Holding	3.79%

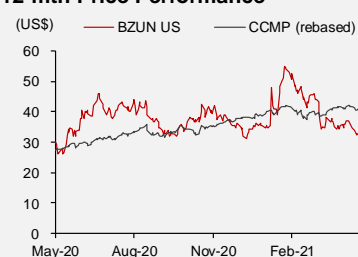
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-9.7%	-5.1%
3-mth	-38.2%	-35.5%
6-mth	-20.7%	-29.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Deloitte**

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**Figure 1: 1Q21 financial review**

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Revenue	1,524	2,152	1,829	3,347	2,020	-39.6%	32.6%	2,032	-0.5%
Operating profit	13	161	85	301	53	-82.4%	313.4%	62	-15.2%
Net profit	2	120	65	239	1	-99.5%	-43.9%	28	-95.6%
Adj. net profit	26	147	92	272	61	-77.5%	135.5%	58	6.4%
EPS (RMB)	0.15	0.82	0.51	1.19	0.27	-77.1%	88.0%	0.22	26.6%
<b>Margin (%)</b>									
Gross margin	61.3%	64.0%	63.2%	61.6%	59.3%			62.8%	
Operating margin	0.8%	7.5%	4.6%	9.0%	2.6%			3.1%	
Adj. net margin	1.7%	6.8%	5.0%	8.1%	3.0%			2.8%	
<b>Growth (%)</b>									
Revenue (YoY)	18.4%	26.3%	21.7%	20.2%	32.6%			33.3%	
Revenue (QoQ)	-45.3%	41.2%	-15.0%	83.0%	-39.6%			-39.3%	
Operating profit	-72.1%	87.2%	50.9%	53.4%	313.4%			387.3%	
Adj. net profit	-50.6%	74.2%	55.3%	68.4%	135.5%			121.4%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 2: 1Q21 revenue breakdown**

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Revenue (RMB mn)	2,202	1,287	1,704	1,503	2,784	1,524	2,152	1,829	3,347	2,020	-39.6%	32.6%
Product sales	975	618	849	662	1,293	701	928	803	1,474	972	-34.1%	38.6%
Services	1,227	669	855	841	1,491	823	1,224	1,026	1,872	1,049	-44.0%	27.5%

Source: Company data

**Figure 3: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,755	14,777	17,961	12,089	15,377	18,669	-2.8%	-3.9%	-3.8%
Gross Profit	7,342	9,369	11,432	7,639	9,785	11,767	-3.9%	-4.3%	-2.8%
Operating Profit	766	1,133	1,432	766	1,112	1,448	0.1%	1.8%	-1.1%
Adj. net profit	608	889	1,126	703	970	1,279	-13.5%	-8.4%	-11.9%
EPS (RMB)	2.77	3.85	4.65	2.97	4.14	5.40	-6.7%	-7.0%	-13.8%
Gross Margin	62.5%	63.4%	63.7%	63.2%	63.6%	63.0%	-0.7ppts	-0.2ppts	+0.6ppts
Operating Margin	6.5%	7.7%	8.0%	6.3%	7.2%	7.8%	+0.2ppts	+0.4ppts	+0.2ppts
Net Margin	5.2%	6.0%	6.3%	5.8%	6.3%	6.8%	-0.6ppts	-0.3ppts	-0.6ppts

Source: Company data, Bloomberg, CMBIS estimates

**Figure 4: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,755	14,777	17,961	12,142	15,144	18,413	-3.2%	-2.4%	-2.5%
Gross Profit	7,342	9,369	11,432	7,640	9,605	11,724	-3.9%	-2.5%	-2.5%
Operating Profit	766	1,133	1,432	826	1,142	1,444	-7.2%	-0.8%	-0.8%
Adj. net profit	608	889	1,126	649	892	1,130	-6.2%	-0.4%	-0.4%
EPS (RMB)	2.77	3.85	4.65	2.95	3.87	4.67	-6.2%	-0.4%	-0.4%
Gross Margin	62.5%	63.4%	63.7%	62.9%	63.4%	63.7%	-0.5ppts	-0.0ppts	-0.0ppts
Operating Margin	6.5%	7.7%	8.0%	5.4%	6.2%	6.6%	+1.1ppts	+1.5ppts	+1.4ppts
Net Margin	5.2%	6.0%	6.3%	5.3%	5.9%	6.1%	-0.2ppts	+0.1ppts	+0.1ppts

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net revenues</b>	<b>7,278</b>	<b>8,852</b>	<b>11,755</b>	<b>14,777</b>	<b>17,961</b>
Product sales	3,422	3,907	4,947	5,887	6,829
Services	3,856	4,945	6,808	8,891	11,132
<b>COGS</b>	<b>(2,774)</b>	<b>(3,326)</b>	<b>(4,413)</b>	<b>(5,408)</b>	<b>(6,529)</b>
<b>Gross profit</b>	<b>4,504</b>	<b>5,525</b>	<b>7,342</b>	<b>9,369</b>	<b>11,432</b>
Fulfillment	(1,678)	(2,259)	(2,943)	(3,720)	(4,592)
S&M	(1,816)	(2,131)	(2,829)	(3,554)	(4,320)
R&D	(393)	(410)	(560)	(695)	(790)
Admin.Exp.	(216)	(224)	(411)	(458)	(521)
Other gains	(18)	57	6	-	-
<b>Operating profit</b>	<b>384</b>	<b>559</b>	<b>606</b>	<b>942</b>	<b>1,209</b>
Other income, net	(35)	(10)	(14)	(22)	(18)
<b>Pre-tax Income</b>	<b>348</b>	<b>549</b>	<b>591</b>	<b>921</b>	<b>1,191</b>
Income Tax	(71)	(128)	(142)	(221)	(286)
Net profit	281	426	449	699	904
<b>Adj. net profit</b>	<b>357</b>	<b>535</b>	<b>608</b>	<b>889</b>	<b>1,126</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>270</b>	<b>426</b>	<b>449</b>	<b>699</b>	<b>904</b>
D&A	120	131	138	158	179
Change in WC	(279)	(403)	592	(1,499)	288
Others	191	10	168	235	239
<b>Operating CF</b>	<b>301</b>	<b>165</b>	<b>1,347</b>	<b>(407)</b>	<b>1,610</b>
Capex	(1,623)	(683)	(114)	(121)	(128)
Purchase of investments	(212)	209	-	-	-
Others	701	(72)	(48)	(49)	(49)
<b>Investing CF</b>	<b>(1,133)</b>	<b>(546)</b>	<b>(162)</b>	<b>(170)</b>	<b>(177)</b>
Equity raised	-	3,085	-	-	-
Change of debts	(77)	(428)	-	-	-
Cash from CB raised	1,848	(97)	-	-	-
Others	6	0	-	-	-
<b>Financing CF</b>	<b>1,777</b>	<b>2,559</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>945</b>	<b>2,178</b>	<b>1,185</b>	<b>(577)</b>	<b>1,432</b>
Cash (beg of yr)	583	1,527	3,731	4,916	4,339
FX	(1)	26	-	-	-
<b>Cash (end of yr)</b>	<b>1,527</b>	<b>3,731</b>	<b>4,916</b>	<b>4,339</b>	<b>5,772</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>1,406</b>	<b>1,316</b>	<b>1,340</b>	<b>1,352</b>	<b>1,350</b>
Property and equipment	416	430	467	499	527
Right-of-use assets	441	525	525	525	525
Intangible assets	151	146	134	113	84
Others	399	215	215	215	215
<b>Current assets</b>	<b>5,690</b>	<b>9,159</b>	<b>11,389</b>	<b>12,017</b>	<b>14,674</b>
Cash & restricted cash	1,527	3,731	4,916	4,339	5,772
Short-term investments	844	1,449	1,449	1,449	1,449
Accounts receivable	1,801	2,189	3,005	3,524	4,411
Inventories	897	1,026	1,058	1,487	1,606
Prepayments and other current assets	622	764	961	1,218	1,437
<b>Current liabilities</b>	<b>2,324</b>	<b>2,196</b>	<b>3,841</b>	<b>3,592</b>	<b>5,122</b>
Accounts payables	877	422	1,785	1,220	2,407
Other payables and accruals	874	1,565	1,846	2,162	2,505
Short-term loan	428	-	-	-	-
Others	145	210	210	210	210
<b>Non-current liabilities</b>	<b>2,173</b>	<b>2,136</b>	<b>2,136</b>	<b>2,136</b>	<b>2,136</b>
Long-term loan	1,860	1,763	1,763	1,763	1,763
Deferred tax liability	3	3	3	3	3
Long-term operating lease liabilities	310	370	370	370	370
MI	31	32	33	34	35
Total Equity	2,600	6,143	6,752	7,641	8,767
<b>Shareholders' equity</b>	<b>2,569</b>	<b>6,111</b>	<b>6,719</b>	<b>7,607</b>	<b>8,732</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Product sales	47.0	44.1	42.1	39.8	38.0
Services	53.0	55.9	57.9	60.2	62.0
Total	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	35.0	21.6	32.8	25.7	21.5
Gross profit	34.1	22.7	32.9	27.6	22.0
EBIT	7.8	45.6	8.4	55.6	28.3
Adj. net profit	3.2	49.9	13.7	46.1	26.7
<b>P&amp;L ratios (%)</b>					
Operating margin	5.3	6.3	5.2	6.4	6.7
Pre-tax margin	4.8	6.2	5.0	6.2	6.6
Adj. net margin	4.9	6.0	5.2	6.0	6.3
Effective tax rate	(20.4)	(23.3)	(24.0)	(24.0)	(24.0)
<b>Returns (%)</b>					
ROE	13.7	8.7	9.0	11.6	12.8
ROA	5.0	5.1	4.8	6.6	7.0
<b>Per share</b>					
EPS (RMB)	2.0	2.8	2.8	3.9	4.6
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	14.5	32.2	30.7	33.1	36.2

Source: Company data, CMBIS estimates

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