

JNBY Design (3306 HK)

Eyes on the recovery and risk-reward

We do think the market should have certain expectation about the miss in earnings and cut in guidance, and would focus more on the recovery. Supported by: 1) decent rebound in Jan 2023, 2) JNBY's competitive edges and 3) industry leading dividend yield, we still find its risk-reward attractive.

■ **1H6/23 result dragged by the pandemic in late 2022.** For 1H23, JNBY's sales has declined by 5% YoY to RMB 2.4bn, and net profit has dropped by 16% YoY to RMB 372mn, missing CMBI's est. by ~12% and 18%. But this is totally understandable given the pandemic during Oct-Dec 2022. However, we believe the result is resilient enough, as SSS drop was only 3.9%, already better than the 4.4% SSS drop in 2H22 (CMBI est.), helped by 43% YoY surge in digital and social retail channel sales. Even though GP margin was better than expected at 64.7% in 1H23, but it was offset by surge in staff costs and A&P expenses. Based on the HK\$ 0.3 dividend proposed and the historical ratio between 1H and 2H, the implied FY6/23E yield could be at ~9%. Inventory days have increased to 191 days in 1H23, compared to 147 days in 1H22, still within a comfortable range.

■ **Revising down the FY6/23E guidance and extending the long-term target to FY26E.** After the three-year-long pandemic, management believes the consumption behavior have already changed in many aspects and would like to stay conservative about the customer traffic resumption. Therefore, they are expecting a bumpy recovery ahead and revising down the FY6/23E guidance (LSD sales growth and low-teens net profit drop). In fact, this cut is not surprising at all to us. Moreover, they are also shifting their long-term target (RMB 10bn retail sales, RMB 6.0bn listed co sales, 65%+ GP margin and RMB 0.9 listed co net profit) from FY25E to FY26E.

■ **But we are more positive given recovery in Jan 2023 and various initiatives.** Despite the conservative outlook, we tend to be more positive about FY6/23E, thanks to decent rebound lately (SSSG already turned positive and retail sales growth reached 20%+ in Jan 2023). Moreover, we are certainly encouraged by various positive factors and growth drivers such as: 1) low base in FY22E, 2) revamp of store images (done for most stores), 3) product and brands upgrades through more collaboration with different artworks and creative marketing, 4) further improvement in members management and customer experience and 5) further penetration into to various social media platforms such as Tik Tok and XiaohongShu, etc..

■ **Maintain BUY but trim TP to HK\$11.76.** We are revising down FY23E/24E/25E net profit forecasts by 15%/17%/14%, to factor in: 1) drags in late 2022, 2) delay in store opening, 3) slower than expected recovery but 4) better GP margin. However, we still maintain BUY and remain positive given the turnaround and attractive valuation of 9x FY6/23E P/E and 9.0% yield.

Earnings Summary

(YE 30 Jun)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,126	4,086	4,220	4,606	4,923
YoY growth (%)	33.1	(1.0)	3.3	9.1	6.9
Operating profit (RMB mn)	884	776	679	804	943
Net profit (RMB mn)	647.2	558.9	495.1	588.8	694.4
EPS (Reported) (RMB)	1.29	1.11	0.98	1.16	1.37
YoY growth (%)	91.0	(13.6)	(12.1)	18.9	17.9
P/E (x)	8.9	6.8	8.9	7.5	6.4
P/B (x)	3.5	2.3	2.6	2.4	2.2
Yield (%)	9.5	11.4	9.0	10.7	12.6
ROE (%)	40.4	32.9	28.9	32.3	34.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$11.76
(Previous TP HK\$12.76)
Up/Downside 19.8%
Current Price HK\$9.82

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn) 5,094.1
Avg 3 mths t/o (HK\$ mn) 9.8
52w High/Low (HK\$) 11.30/6.10
Total Issued Shares (mn) 518.8
Source: FactSet

Shareholding Structure

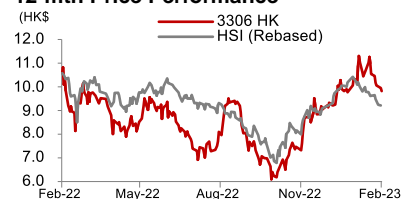
Mr. Wu Jian & Family 61.8%
TCT (BVI) Limited 6.8%
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.5%	6.5%
3-mth	21.5%	14.2%
6-mth	14.5%	15.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Results summary

Figure 1: Results review – Half Year

Half yearly (RMB mn)	1H21	1H21	1H22	2H22	1H23	2H23E	1H22 YoY	2H22 YoY	1H23 YoY	2H23E YoY
Revenue	2,315	1,812	2,485	1,601	2,360	1,860	7%	-12%	-5%	16%
COGS	-890	-639	-911	-568	-834	-672				
Gross profit	1,425	1,172	1,574	1,034	1,526	1,188	10%	-12%	-3%	15%
GP margins	61.6%	64.7%	63.3%	64.5%	64.7%	63.9%				
Other income & gains	28	16	28	29	20	30				
S & D expenses	-671	-758	-798	-713	-817	-874	19%	-6%	2%	22%
S & D exp / sales	-29.0%	-41.8%	-32.1%	-44.6%	-34.6%	-47.0%				
Admin expenses	-140	-188	-191	-187	-211	-183	36%	-1%	11%	-2%
Admin exp / sales	-6.0%	-10.4%	-7.7%	-11.7%	-8.9%	-9.8%				
Other opex	0	0	0	0	0	0				
Operating profit (EBIT)	642	242	614	162	518	161	-4%	-33%	-16%	-1%
OP margins	27.7%	13.4%	24.7%	10.1%	22.0%	8.6%				
Other items	0	0	0	0	0	0				
Net finance income	1	2	1	-1	-3	2				
Net finance income / sales	0.0%	0.1%	0.0%	-0.1%	-0.1%	0.1%				
Profit after financing costs	643	244	615	161	515	163				
Associated coms	0	0	0	0	0	0				
Jointly controlled coms	0	0	0	0	0	0				
Pre-tax profit	643	244	615	161	515	163	-4%	-34%	-16%	1%
Tax	-179	-60	-171	-46	-143	-40				
Tax / sales	-7.7%	-3.3%	-6.9%	-2.9%	-6.1%	-2.2%				
Effective tax rate	-27.9%	-24.7%	-27.8%	-28.6%	-27.7%	-24.7%				
Minority interests	0	0	0	0	0	0				
Net profit att.	464	184	444	115	372	123	-4%	-37%	-16%	7%
NP margins	20.0%	10.1%	17.9%	7.2%	15.8%	6.6%				

Source: Company data, CMBIGM estimates

Figure 2: Results review - Full Year

Full yearly (RMB mn)	FY22	FY23E	FY24E	FY25E	FY23 E YoY	FY24E YoY	FY25E YoY
Revenue	4,086	4,220	4,606	4,923	3%	9%	7%
COGS	-1,478	-1,506	-1,627	-1,716			
Gross profit	2,607	2,714	2,979	3,208	4%	10%	8%
GP margins	63.8%	64.3%	64.7%	65.2%			
Other income & gains	57	50	54	58			
S & D expenses	-1,511	-1,691	-1,812	-1,895	12%	7%	5%
S & D exp / sales	-37.0%	-40.1%	-39.4%	-38.5%			
Admin expenses	-377	-394	-417	-427			
Admin exp / sales	-9.2%	-9.3%	-9.1%	-8.7%			
Other opex	0	0	0	0			
Operating profit (EBIT)	776	679	804	943	-13%	18%	17%
OP margins	19.0%	16.1%	17.5%	19.2%			
Other items	0	0	0	0			
Net finance income	-0	-1	3	8			
Net finance income / sales	0.0%	0.0%	0.1%	0.2%			
Profit after financing costs	776	678	807	951			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	776	678	807	951	-13%	19%	18%
Tax	-217	-183	-218	-257			
Tax / sales	-5.3%	-4.3%	-4.7%	-5.2%			
Effective tax rate	-27.9%	-27.0%	-27.0%	-27.0%			
Minority interests	0	0	0	0			
Net profit att.	559	495	589	694	-11%	19%	18%
NP margins	13.7%	11.7%	12.8%	14.1%			

Source: Company data, CMBIGM estimates

Earnings revision

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,220	4,606	4,923	4,561	5,021	5,368	-7.5%	-8.3%	-8.3%
Gross profit	2,714	2,979	3,208	2,910	3,238	3,487	-6.7%	-8.0%	-8.0%
EBIT	679	804	943	800	965	1,098	-15.1%	-16.7%	-14.1%
Net profit att.	495	589	694	585	709	810	-15.3%	-16.9%	-14.3%
Diluted EPS (RMB)	0.978	1.163	1.372	1.155	1.400	2	-15.3%	-16.9%	-14.3%
Gross margin	64.3%	64.7%	65.2%	63.8%	64.5%	65.0%	0.5ppt	0.2ppt	0.2ppt
EBIT margin	16.1%	17.5%	19.2%	17.5%	19.2%	20.5%	-1.5ppt	-1.8ppt	-1.3ppt
Net profit att. margin	11.7%	12.8%	14.1%	12.8%	14.1%	15.1%	-1.1ppt	-1.3ppt	-1ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,220	4,606	4,923	4,558	5,179	5,847	-7.4%	-11.1%	-15.8%
Gross profit	2,714	2,979	3,208	2,896	3,312	3,757	-6.3%	-10.1%	-14.6%
EBIT	679	804	943	820	970	1,128	-17.2%	-17.1%	-16.4%
Net profit att.	495	589	694	594	706	820	-16.6%	-16.5%	-15.3%
Diluted EPS (RMB)	0.978	1.163	1.372	1.183	1.393	1.628	-17.3%	-16.5%	-15.7%
Gross margin	64.3%	64.7%	65.2%	63.5%	64.0%	64.2%	0.8ppt	0.7ppt	0.9ppt
EBIT margin	16.1%	17.5%	19.2%	18.0%	18.7%	19.3%	-1.9ppt	-1.3ppt	-0.1ppt
Net profit att. margin	11.7%	12.8%	14.1%	13.0%	13.6%	14.0%	-1.3ppt	-0.8ppt	0.1ppt

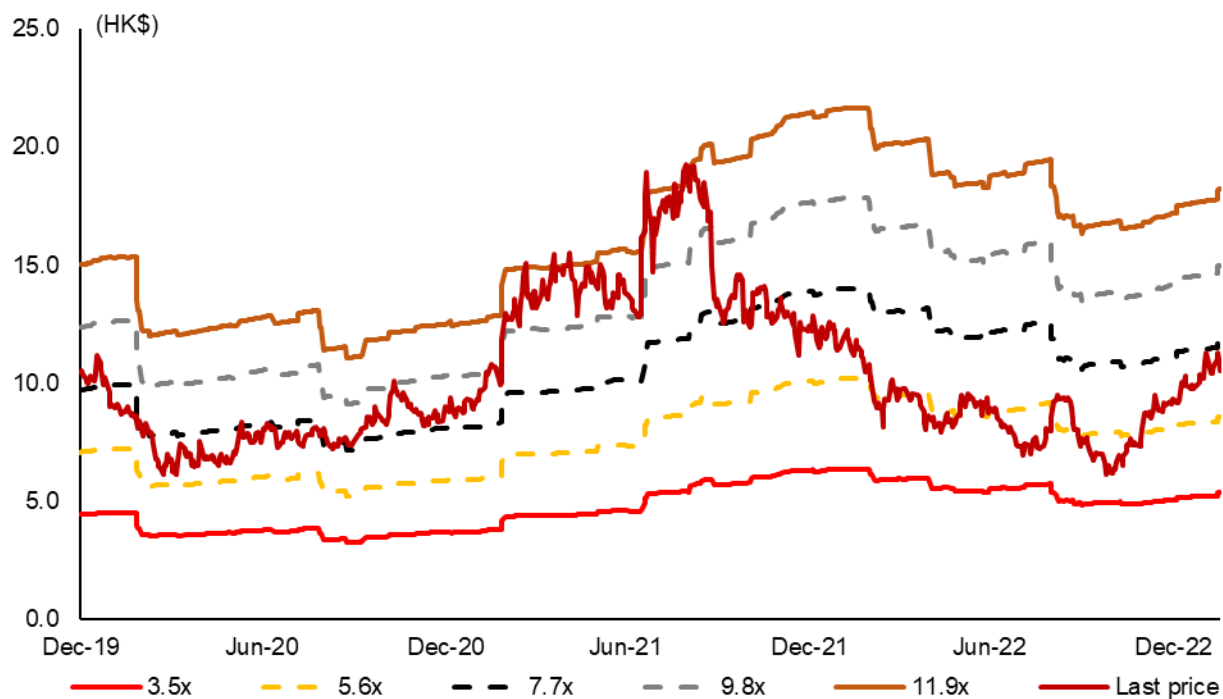
Source: Company data, CMBIGM estimates

Valuation

Figure 5: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Apparel														
Jnby Design	3306 HK	BUY	11.76	9.82	20%	5,094	Jun-22	8.9	7.5	2.4	2.2	27.6	1.2	9.0
Bosideng Int'l	3998 HK	BUY	4.10	4.35	-6%	47,420	Mar-22	17.5	14.8	3.2	2.8	19.0	1.3	4.0
China Lilang	1234 HK	BUY	4.94	4.00	24%	4,790	Dec-21	7.0	6.1	1.1	1.0	12.2	0.5	9.5
Cosmo Lady	2298 HK	NR	n/a	0.44	n/a	979	Dec-21	38.4	12.8	0.4	0.4	(23.3)	(0.2)	n/a
Giordano Int'l	709 HK	NR	n/a	1.91	n/a	3,017	Dec-21	14.7	11.2	n/a	n/a	9.7	0.8	6.3
Eeka Fashion	3709 HK	NR	n/a	10.60	n/a	7,463	Dec-21	8.6	7.3	1.5	1.3	14.4	0.5	4.7
Esprit	330 HK	NR	n/a	0.74	n/a	2,095	Dec-21	n/a	n/a	n/a	n/a	5.5	0.0	n/a
Bauhaus Intl	483 HK	NR	n/a	0.52	n/a	191	Mar-22	n/a	n/a	n/a	n/a	57.6	0.0	n/a
Avg.								15.9	10.0	1.7	1.6	15.4	0.5	6.7
Med.								11.8	9.4	1.5	1.3	13.3	0.5	6.3
A-shares Apparel														
Dazzle Fashion	603587 CH	NR	n/a	17.11	n/a	9,315	Dec-21	14.6	11.6	2.1	1.9	14.1	7.5	4.6
Anzheng Fashion	603839 CH	NR	n/a	7.59	n/a	3,436	Dec-21	n/a	n/a	n/a	n/a	(0.1)	0.0	n/a
Ellassay Fashion	603808 CH	NR	n/a	11.08	n/a	4,628	Dec-21	28.9	13.4	1.4	1.3	5.1	6.1	0.7
Jinhong Fashion	603518 CH	NR	n/a	9.02	n/a	3,544	Dec-21	43.0	11.3	1.0	0.9	5.6	11.6	n/a
Xin Hee	003016 CH	NR	n/a	12.77	n/a	6,238	Dec-21	n/a	n/a	n/a	n/a	6.7	0.0	n/a
Shenzhen Huijie	002763 CH	NR	n/a	8.42	n/a	3,906	Dec-21	n/a	n/a	n/a	n/a	9.1	0.0	n/a
Peacebird Fashion	603877 CH	NR	n/a	22.17	n/a	11,953	Dec-21	34.7	17.5	2.4	2.3	6.7	39.2	1.1
Fujian Septwolves	002029 CH	NR	n/a	6.07	n/a	5,191	Dec-21	18.4	15.7	0.7	0.7	4.0	3.3	n/a
Baoxiniao	002154 CH	NR	n/a	5.44	n/a	8,984	Dec-21	15.0	12.6	1.8	1.7	13.4	1.7	1.5
Joeone	601566 CH	NR	n/a	11.45	n/a	7,445	Dec-21	n/a	26.0	1.7	1.6	0.7	0.0	0.4
Hla Group	600398 CH	NR	n/a	6.20	n/a	30,306	Dec-21	12.1	10.4	1.6	1.5	15.0	3.8	4.1
Jiangsu Hongdou	600400 CH	NR	n/a	4.04	n/a	10,529	Dec-21	115.4	67.3	2.8	2.7	1.5	3.0	n/a
Avg.								35.3	20.6	1.7	1.6	6.8	6.4	2.1
Med.								23.7	13.4	1.7	1.6	6.1	3.2	1.3
International Apparel														
Hugo Boss	BOSS GR	NR	n/a	64.54	n/a	37,852	Dec-21	21.5	19.3	4.2	3.7	21.9	1.0	1.8
Next	NXT LN	NR	n/a	6830.00	n/a	83,602	Jan-22	12.4	13.6	6.7	5.9	76.3	(3.6)	2.9
Hennes & Mauritz	HMB SS	NR	n/a	130.90	n/a	163,272	Nov-21	25.4	18.4	4.4	4.3	6.4	0.5	5.0
Industria De Diseno	ITX SM	NR	n/a	29.03	n/a	753,739	Jan-22	21.6	21.0	5.4	5.2	24.8	2.4	4.0
Ovs Spa	OVS IM	NR	n/a	2.57	n/a	6,238	Jan-22	11.2	10.5	0.8	1.0	6.3	1.0	2.4
Pvh Corp	PVH US	NR	n/a	79.19	n/a	39,392	Jan-22	9.5	8.8	1.0	0.9	9.1	(1.4)	0.2
Vf Corp	VFC US	NR	n/a	24.32	n/a	74,195	Apr-22	11.7	10.8	2.8	2.6	11.9	(1.2)	7.4
Marks & Spencer	MKS LN	NR	n/a	156.40	n/a	29,149	Apr-22	9.7	11.0	1.0	1.0	11.3	(5.2)	1.9
Avg.								15.4	14.2	3.3	3.1	21.0	(0.8)	3.2
Med.								12.0	12.3	3.5	3.1	11.6	(0.4)	2.6

Source: Bloomberg, CMBIGM estimates

Figure 6: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun (RMB mn)						
Revenue	3,099	4,126	4,086	4,220	4,606	4,923
Cost of goods sold	(1,250)	(1,529)	(1,478)	(1,506)	(1,627)	(1,716)
Gross profit	1,850	2,597	2,607	2,714	2,979	3,208
Operating expenses	(1,421)	(1,757)	(1,889)	(2,085)	(2,229)	(2,323)
Selling expense	(1,145)	(1,429)	(1,511)	(1,691)	(1,812)	(1,895)
Admin expense	(276)	(328)	(377)	(394)	(417)	(427)
R&D expense	0	0	0	0	0	0
Others	0	0	0	0	0	0
Operating profit	485	884	776	679	804	943
Other income	56	44	57	50	54	58
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	548	955	872	791	932	1,071
Depreciation	(61)	(69)	(93)	(108)	(125)	(125)
Other amortisation	(2)	(3)	(3)	(4)	(4)	(3)
Interest income	18	32	38	34	37	42
Interest expense	(16)	(29)	(38)	(34)	(34)	(34)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	486	887	776	678	807	951
Income tax	(140)	(239)	(217)	(183)	(218)	(257)
After tax profit	347	647	559	495	589	694
Minority interest	0	0	0	0	0	0
Net profit	347	647	559	495	589	694

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun (RMB mn)						
Current assets	2,106	2,489	2,180	2,251	2,504	2,749
Cash & equivalents	337	549	592	635	786	952
Restricted cash	252	739	384	384	384	384
Account receivables	97	119	104	107	117	125
Inventories	904	707	829	844	912	962
Prepayment	253	241	269	278	303	324
Other current assets	263	134	2	2	2	2
Non-current assets	924	1,970	2,440	2,467	2,490	2,524
PP&E	324	398	451	482	509	546
Right-of-use assets	196	640	720	720	720	720
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	14	16	19	16	13	10
Other non-current assets	390	916	1,250	1,250	1,249	1,249
Total assets	3,030	4,459	4,620	4,718	4,994	5,273
Current liabilities	1,374	1,758	1,923	1,962	2,081	2,178
Short-term borrowings	188	244	149	149	149	149
Account payables	182	256	289	295	318	336
Tax payable	0	0	0	0	0	0
Other current liabilities	887	1,136	1,311	1,344	1,440	1,519
Lease liabilities	117	122	175	175	175	175
Non-current liabilities	92	466	466	466	466	466
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	92	466	466	466	466	466
Total liabilities	1,465	2,224	2,389	2,428	2,548	2,644
Share capital	498	509	333	333	333	333
Retained earnings	766	1,016	1,123	915	1,021	1,146
Other reserves	222	192	229	497	548	606
Total shareholders equity	1,486	1,716	1,685	1,745	1,902	2,084
Minority interest	0	0	0	0	0	0
Total equity and liabilities	1,486	1,716	1,685	1,745	1,902	2,084

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun (RMB mn)						
Operating						
Profit before taxation	486	887	776	678	807	951
Depreciation & amortization	(63)	(71)	(96)	(112)	(128)	(128)
Tax paid	(205)	(209)	(238)	(183)	(218)	(257)
Change in working capital	(73)	280	(149)	11	17	17
Others	524	450	560	258	291	291
Net cash from operations	669	1,337	853	652	768	874
Investing						
Capital expenditure	(117)	(124)	(134)	(139)	(152)	(162)
Acquisition of subsidiaries/ investments	(4)	(4)	(6)	0	0	0
Others	(136)	(408)	330	0	0	0
Net cash from investing	(257)	(536)	190	(139)	(152)	(162)
Financing						
Dividend paid	(220)	(396)	(612)	(436)	(432)	(512)
Net borrowings	20	(187)	(371)	0	0	0
Proceeds from share issues	1	8	3	0	0	0
Share repurchases	(95)	(6)	(23)	0	0	0
Others	0	0	0	(34)	(34)	(34)
Net cash from financing	(294)	(581)	(1,002)	(470)	(466)	(546)
Net change in cash						
Cash at the beginning of the year	216	337	549	592	635	786
Exchange difference	3	(7)	2	0	0	0
Others	118	220	41	44	150	166
Cash at the end of the year	337	549	592	635	786	952
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun						
Revenue	(7.7%)	33.1%	(1.0%)	3.3%	9.1%	6.9%
Gross profit	(10.0%)	40.4%	0.4%	4.1%	9.8%	7.7%
Operating profit	(24.8%)	82.2%	(12.2%)	(12.5%)	18.4%	17.3%
EBITDA	(20.9%)	74.2%	(8.7%)	(9.3%)	17.9%	14.9%
Net profit	(28.5%)	86.7%	(13.6%)	(11.4%)	18.9%	17.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun						
Gross profit margin	59.7%	62.9%	63.8%	64.3%	64.7%	65.2%
Operating margin	15.6%	21.4%	19.0%	16.1%	17.5%	19.2%
EBITDA margin	17.7%	23.2%	21.3%	18.7%	20.2%	21.8%
Return on equity (ROE)	23.9%	40.4%	32.9%	28.9%	32.3%	34.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun						
Net debt to equity (x)	0.3	0.4	0.3	0.3	0.4	0.4
Current ratio (x)	1.5	1.4	1.1	1.1	1.2	1.3
Receivable turnover days	11.5	10.5	9.3	9.3	9.3	9.3
Inventory turnover days	264.1	168.7	204.6	204.6	204.6	204.6
Payable turnover days	53.1	61.2	71.4	71.4	71.4	71.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 30 Jun						
P/E	10.5	8.9	6.8	8.9	7.5	6.4
P/E (diluted)	10.5	8.9	6.8	8.9	7.5	6.4
P/B	2.5	3.5	2.3	2.6	2.4	2.2
P/CFPS	5.5	4.3	4.5	6.8	5.7	5.0
Div yield (%)	6.0	9.5	11.4	9.0	10.7	12.6
EV	4,706.1	4,412.4	4,605.6	4,562.0	4,411.8	4,245.8
EV/Sales	1.5	1.1	1.1	1.1	1.0	0.9
EV/EBITDA	8.6	4.6	5.3	5.8	4.7	4.0

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

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