

Baozun (BZUN US)

Reorganizing to capture LT opportunities

Baozun delivered mixed 4Q22 results on soft electronics. It restructured into three biz lines, to capture ecommerce recovery and LT opportunities. Looking into 2023, we expect BEC rev to grow 7% YoY, with strong sports & luxury to offset electronics softness. After consolidating GAP Shanghai, group rev would grow 25% YoY in FY23E, with non-GAAP OP at RMB11mn (in which BEC Non-GAAP OP at RMB263mn). Leveraging its strong brand mgmt capability and omni-channel advantage, we think BZUN is well-positioned to benefit from China's reopening and more synergies with M&A and overseas opportunities. To factor in GAP consolidation, we lifted rev by 19-21% in FY23-34E, but trimmed non-GAAP OPM by 3-4ppts. Our TP was unchanged at US\$8.4 (implying 11x FY23 EV/EBIT of BEC).

■ **4Q22 slightly missed.** 4Q22 GMV -1.7% YoY (non-distribution GMV +0% YoY, distribution GMV -37.2% YoY). Rev -19.5% YoY, 6% below consensus, in which product sales/Services -37.2%/-8.3% YoY. By category, Appliances and Electronics dragged rev growth with -37%/-76% YoY (for soft consumption sentiment and Foxconn issue), while resilient FMCG and Luxury grew at +30%/27% YoY. Non-GAAP OP was RMB183mn, slightly below consensus of RMB193mn. Adj. net profit of RMB138mn missed consensus (at RMB185mn) on unrealized investment loss and FX.

■ **Reorganizing to capture recovery and overseas opportunity.** Baozun restructured into three biz lines, including core e-commerce business (BEC), brand management (BBM) and international business (BZI). We expect core ecommerce to see single digit YoY growth in FY23E, with strong sports & luxury to offset soft electronics. Market focus lies on the potential stabilization of several top electronics brands. Baozun has enhanced operation & marketing with those brands (e.g. SKUs selection and co-branding), improving their performance gradually. Baozun is well-positioned to capture international opportunities with M&A (e.g. investment in *Brand Lifestyle*) and cooperation, although BZI rev contribution may not be meaningful in the next three years.

■ **GAP consolidation to boost topline, despite ST margin dilution.** GAP Shanghai was consolidated to BZUN from 1 Feb, while GAP Taiwan yet to come in. We expect GAP to contribute rev of RMB1.5bn in FY23E, with OP of -RMB252mn, thus resulting in slightly positive non-GAAP OP of group. We see high visibility for BZUN to empower GAP with strong brand mgmt capability and omni-channel advantage, boosting organic growth and improving margin.

■ **Maintain BUY.** To factor in GAP consolidation, we adjusted rev by 19-21% in FY23-34E, but trimmed non-GAAP OPM by 3-4ppts. Our TP was unchanged at US\$8.4 (implying 11x FY23 EV/EBIT of BEC, or 13x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	9,396	8,401	10,472	11,483	12,351
YoY growth (%)	6.2	(11)	24.7	9.7	7.6
Adj. net income (RMB mn)	200	132	(82)	276	617
Adj. EPS (RMB)	2.7	2.1	(1.3)	4.3	9.5
YoY growth (%)	(68)	(22)	NA	NA	121.9
Consensus EPS (RMB)	NA	NA	4.1	6.8	9.5
P/E (x)	13.7	17.4	NA	8.7	3.9
P/S (x)	0.9	0.8	0.7	0.6	0.6
ROE (%)	3.3	2.4	(1.5)	4.8	9.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$8.4
(Previous TP) US\$8.4)
Up/Downside +52.7%
Current Price US\$5.5

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	338
Avg 3 mths t/o (US\$ mn)	5.12
52w High/Low (US\$)	12.09/3.41
Total Issued Shares (mn)	54

Source: Bloomberg

Shareholding Structure

TIAA	4.30%
Schroders	3.63%
Morgan Stanley	2.96%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-10.3%	-13.1%
3-mth	5.1%	-5.1%
6-mth	-13.7%	-18.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: 4Q22 financial review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	Consensus	Diff %
Revenue	2,020	2,304	1,899	3,173	1,984	2,122	1,741	2,553	47%	-20%	2,706	-5.7%
Operating profit	53	107	(157)	4	(41)	(23)	(26)	18	246%	350%	193	-90.7%
Net profit	1	80	(293)	(8)	(122)	(78)	(157)	(284)	NA	NA	110	NA
Adj. net profit	61	151	(88)	76	1	1	(13)	138	110%	83%	185	-25.1%
EPS (RMB)	0.82	2.01	(1.21)	1.11	0.02	0.02	(0.22)	2.32	109%	110%	3.08	-24.6%
Margin (%)												
Gross margin	59.3%	64.6%	68.6%	67.1%	70.0%	71.6%	76.2%	74.8%			70.6%	
Operating margin	2.6%	4.6%	-8.2%	0.1%	-2.1%	-1.1%	-1.5%	0.7%			7.1%	
Adj. net margin	3.0%	6.5%	-4.6%	2.4%	0.1%	0.1%	-0.8%	5.4%			6.8%	
Growth (%)												
Revenue (YoY)	32.6%	7.1%	3.8%	-5.2%	-1.8%	-7.9%	-8.3%	-19.5%				
Revenue (QoQ)	-39.6%	14.0%	-17.6%	67.1%	-37.5%	6.9%	-17.9%	46.6%				
Operating profit	313.4%	-33.6%	NA	-98.7%	-177.8%	NA	NA	2.2%				
Adj. net profit	135.5%	2.9%	NA	-72.1%	-98.1%	-99.2%	NA	6.2%				

Source: Company data, Bloomberg

Figure 2: 4Q22 revenue breakdown

Figure 2: 4Q22 Revenue Breakdown

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Revenue (RMB mn)	2,020	2,304	1,899	3,173	1,984	2,122	1,741	2,553	46.6%	-19.5%
Product sales	972	972	700	1,230	681	694	497	772	55.4%	-37.2%
Services	1,049	1,332	1,199	1,943	1,303	1,428	1,244	1,781	43.1%	-8.3%

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Revenue (RMB mn)	2,020	2,304	1,899	3,173	1,984	2,122	1,741	2,553	47%	-20%
Online store operations	1,325	1,329	1,040	1,759	1,073	1,064	845	1,287	52%	-27%
Appliances	382	501	373	614	358	372	219	387	76%	-37%
Apparel and accessories	250	242	208	364	265	244	234	367	57%	1%
Sportswear	118	99	78	121	88	84	80	122	51%	0%
Others	75	72	54	139	103	67	61	113	85%	-19%
Luxury	57	71	76	105	74	93	93	133	43%	27%
Electronics	240	227	na	252	151	109	na	61	NA	-76%
Home and furnishing				76				84		10%
FMCG	na	na	77	62	NA	NA	92	81	-12%	30%
Beauty and cosmetics	88	128	94	122	90	103	100	93	-7%	-24%
Others	366	232	288	269	209	235	199	215	8%	-20%
Warehouse and fulfillment	418	511	528	864	525	611	492	753	53%	-13%
Digital marketing and IT solutions	277	464	330	550	386	447	404	514	27%	-7%

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	10,472	11,483	12,351	8,902	9,760	10,448	17.6%	17.7%	18.2%
Gross profit	7,644	8,612	9,449	6,593	7,254	7,963	15.9%	18.7%	18.7%
Non GAAP OP	11	441	866	340	506	723	-96.7%	-12.9%	19.9%
Adj. net profit	(82)	276	617	257	442	945	NA	-37.5%	-34.7%
EPS (RMB)	(1.28)	4.28	9.50	4.13	6.77	9.47	NA	-36.8%	0.4%
Gross margin	73.0%	75.0%	76.5%	74.1%	74.3%	76.2%	-1.1ppts	+0.7ppts	+0.3ppts
Operating margin	0.1%	3.8%	7.0%	3.8%	5.2%	6.9%	-3.7ppts	-1.3ppts	+0.1ppts
Net margin	-0.8%	2.4%	5.0%	2.9%	4.5%	9.0%	-3.7ppts	-2.1ppts	-4.0ppts

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	10,472	11,483	12,351	8,629	9,628	NA	21.4%	19.3%	NA
Gross profit	7,644	8,612	9,449	6,635	7,683	NA	15.2%	12.1%	NA
Non GAAP OP	11	441	866	327	670	NA	-96.5%	-34.2%	NA
Adj. net profit	(82)	276	617	229	506	NA	NA	-45.4%	NA
EPS (RMB)	(1.28)	4.28	9.50	2.84	6.23	NA	NA	-31.2%	NA
Gross margin	73.0%	75.0%	76.5%	76.9%	79.8%	NA	-3.9ppts	-4.8ppts	NA
Operating margin	0.1%	3.8%	7.0%	3.8%	7.0%	NA	-3.7ppts	-3.1ppts	NA
Net margin	-0.8%	2.4%	5.0%	2.7%	5.3%	NA	-3.4ppts	-2.9ppts	NA

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 CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Baozun	BZUN US	306	USD	5	BUY	8	NA	8.7	3.9	0.7	0.6	0.6	NA
EC Service Provider													
Lily & Beauty	605136 CH	925	CNY	16	NA	NA	29.3	20.2	16.2	1.6	1.4	1.1	21%
Ruoyuchen	003010 CH	372	CNY	21	NA	NA	NA	68.0	43.0	2.2	2.0	1.7	69%
Onechance	300792 CH	1,292	CNY	37	NA	NA	30.8	24.1	21.3	6.7	5.5	4.7	24%
Transcosmos	9715 JP	1,136	JPY	3,055	NA	NA	9.6	10.3	9.7	0.4	0.4	0.4	0%
Average							23.2	18.2	22.5	2.7	2.3	2.0	29%
China Ecommerce													
Pinduoduo	PDD US	95,562	USD	76	BUY	106	15.6	12.2	9.9	4.0	3.3	2.8	23%
Alibaba	BABA US	216,444	USD	84	BUY	156	10.7	9.4	8.2	1.7	1.5	1.4	13%
JD.com	JD US	60,817	USD	39	BUY	74	13.3	10.6	8.8	0.4	0.3	0.3	21%
Vipshop	VIPS US	8,736	USD	15	NA	NA	8.5	8.1	7.6	0.5	0.5	0.5	6%
Suning.com	002024 CH	2,988	CNY	2	NA	NA	NA	NA	65.3	0.3	0.2	0.2	NA
Meituan	3690 HK	111,327	HKD	141	BUY	216	NA	54.2	26.8	3.5	2.8	2.2	228%
Yatsen	YSG US	788	USD	1	NA	NA	NA	59.8	28.5	1.4	1.2	1.1	NA
Average							12.0	25.7	22.2	1.7	1.4	1.2	16%
Global Ecommerce													
Amazon	AMZN US	1,011,405	USD	99	NA	NA	36.4	24.9	18.4	1.8	1.6	1.4	43%
eBay	EBAY US	23,011	USD	43	NA	NA	10.6	10.1	9.3	2.3	2.3	2.1	10%
Groupon	GRPN US	121	USD	4	NA	NA	7.9	4.3	2.7	0.2	0.2	0.2	NA
Average							18.3	13.1	10.1	1.5	1.4	1.3	27%
SaaS													
Youzan	8083 HK	552	HKD	0	NA	NA	NA	NA	NA	2.5	2.2	1.8	NA
Weimob	2013 HK	1,973	HKD	6	NA	NA	NA	NA	NA	6.7	5.3	4.4	NA
Average							NA	NA	NA	4.6	3.8	3.1	NA
Average							17.3	13.4	12.6	2.3	1.9	1.7	23%

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	10,472	11,483	12,351	Net income	(220)	(653)	(182)	166	501
Product sales	3,874	2,644	2,248	2,293	2,338	D&A	138	158	179	200	222
Services	5,523	5,756	6,724	7,585	8,344	Change in WC	1,562	(1,026)	362	(200)	(267)
Others	-	-	1,500	1,605	1,669	Others	71	236	185	165	205
COGS	(3,277)	(2,256)	(2,827)	(2,871)	(2,903)	Operating CF	1,551	(1,285)	543	331	661
Gross profit	6,120	6,145	7,644	8,612	9,449	Capex	(114)	(121)	(128)	(136)	(144)
Fulfillment	(2,661)	(2,720)	(3,872)	(4,116)	(4,386)	Purchase of investments	-	-	-	-	-
S&M	(2,550)	(2,674)	(3,000)	(3,215)	(3,335)	Others	(45)	(53)	(49)	(50)	(50)
R&D	(448)	(428)	(555)	(586)	(593)	Investing CF	(159)	(173)	(177)	(186)	(194)
Admin.Exp.	(526)	(371)	(471)	(494)	(506)	Equity raised	-	-	-	-	-
Other gains	73	82	105	69	62	Change of debts	548	-	-	-	-
Operating profit	7	33	(149)	271	691	Cash from CB raised	-	-	-	-	-
Other income, net	(161)	(614)	(79)	(63)	(64)	Others	201	-	-	-	-
Pre-tax Income	(154)	(580)	(228)	208	627	Financing CF	749	-	-	-	-
Income Tax	(55)	(26)	46	(42)	(125)	Net change in cash	1,392	(1,458)	366	146	467
Net profit	(220)	(653)	(182)	166	501	Cash (beg of yr)	3,731	5,170	3,679	4,045	4,190
Adj. net profit	200	132	(82)	276	617	FX	46	(32)	-	-	-
						Cash (end of yr)	5,170	3,679	4,045	4,190	4,657

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	1,340	1,352	1,350	1,336	1,308	Sales mix (%)					
Property and equipment	467	499	527	551	569	Product sales	41.2	31.5	21.5	20.0	18.9
Right-of-use assets	525	525	525	525	525	Services	58.8	68.5	64.2	66.1	67.6
Intangible assets	134	113	84	46	0	Others	0.0	0.0	14.3	14.0	13.5
Others	215	215	215	215	215	Total	100.0	100.0	100.0	100.0	100.0
Current assets	9,975	8,285	10,080	9,537	11,355	Growth rate (%)					
Cash & restricted cash	5,170	3,679	4,045	4,190	4,710	Revenue	6.2	(10.6)	24.7	9.7	7.6
Short-term investments	1,449	1,449	1,449	1,449	1,449	Gross profit	10.8	0.4	24.4	12.7	9.7
Accounts receivable	1,963	1,749	2,878	2,196	3,261	EBIT	(98.7)	374.1	NA	NA	155.2
Inventories	639	807	996	981	1,208	Adj. net profit	(62.7)	(33.8)	NA	NA	123.3
Prepayments and other current assets	755	601	713	721	727						
Current liabilities	3,098	1,887	3,703	2,809	3,922	P&L ratios (%)					
Accounts payables	1,217	37	1,534	539	1,557	Operating margin	0.1	0.4	(1.4)	2.4	5.6
Other payables and accruals	1,671	1,640	1,959	2,060	2,155	Pre-tax margin	(1.6)	(6.9)	(2.2)	1.8	5.1
Short-term loan	-	-	-	-	-	Adj. net margin	2.1	1.6	(0.8)	2.4	5.0
Others	210	210	210	210	210	Effective tax rate	35.9	4.6	(20.0)	(20.0)	(20.0)
Non-current liabilities	2,136	2,136	2,136	2,136	2,136	Returns (%)					
Long-term loan	1,763	1,763	1,763	1,763	1,763	ROE	3.3	2.4	(1.5)	4.7	9.6
Deferred tax liability	3	3	3	3	3	ROA	1.8	1.4	(0.7)	2.5	4.9
Long-term operating lease liabilities	370	370	370	370	370	Per share					
MI	45	88	88	88	89	EPS (RMB)	0.9	0.7	-0.4	1.4	3.2
Total Equity	6,082	5,614	5,592	5,928	6,430	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	6,036	5,525	5,504	5,840	6,341	BVPS (RMB)	27.7	30.6	29.1	30.6	33.0

Source: Company data, CMBIGM estimates

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