

# JNBY (3306 HK)

## Steady Growth with Attractive Dividend Policy

Hong Kong | Consumer | Company report

13 April 2017

### Investment Summary

- The total revenue in 1HFY17 was RMB1,310.4 million, representing a YoY increase of 22.4%. The net profit in 1HFY17 was RMB227.9 million, representing a YoY increase of 24.0%.
- The total number of retail stores globally increased to 1,498 as of 31 December 2016. JNBY is developing well globally.
- Same store sales growth rate of the retail stores reached 11.3% in 1HFY17. In FY2014, FY2015 and FY2016 the retail stores achieved same store sales growth of 0.1%, 7.1% and 8.3% respectively.
- The company upholds the natural concept when choosing materials and the products are differentiated and have high brand recognition and customer viscosity. The company puts a lot of emphasis on "Fans Economy". The company is also building a multi-brand and multi-category lifestyle platform, with expansion and imaginary potential.
- The dividend policy is attractive. The company has adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 75% of the total net profit attributable to the Group for any particular fiscal year.

### Company Business

JNBY is a designer brand fashion house based in China. The company designs, promotes and sells contemporary apparel, footwear and accessories for women, men, children and teenagers as well as household products.

Designer brand fashion products usually feature strong designer characteristics and iconic styles that can be easily identified. China's designer brand fashion market expanded rapidly, increasing from RMB11.1 billion in 2011 to RMB28.2 billion in 2015, representing a CAGR of 26.2%.

According to CIC, there were over 300 market players in the designer brand fashion industry in China, with the top five players accounting for 29.3% of market share in terms of retail sales, including online and offline sales, in 2015. JNBY had the highest retail sales and a market share of 9.6% in 2015 among designer brand fashion companies in China.

The brand portfolio currently comprises six brands — (i) JNBY, (ii) CROQUIS, (iii) jnby by JNBY, (iv) less, (v) Pomme de terre and (vi) JNBYHOME, each targeting at a distinct customer segment and having a uniquely defined design identity based on the Group's universal brand philosophy — "Just Naturally Be Yourself".

The following table shows the description of the six brands.

### Accumulate

CMP HKD5.95  
(Closing price as at 11 Apr 2017)  
TARGET HKD6.60(+10.92%)

#### COMPANY DATA

O/S SHARES (MN) :	518.8
MARKET CAP (HKDMN) :	3,087
52 - WK HI/LO (HKD):	7.60/5.88

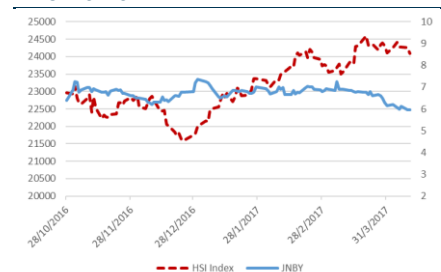
#### SHARE HOLDING PATTERN, %

Wu Jian	61.05
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#### PRICE PERFORMANCE, %

	1M	3M	1Y
JNBY	-13.77	-9.30	N/A
HSI	+2.21	+5.03	+17.84

#### PRICE VS. HSI



Source: Bloomberg, Phillip Securities (HK) Research


#### KEY FINANCIALS

RMB mn	FY15	FY16	FY17E	FY18E
Sales	1,613	1,903	2,264	2,656
Net Profit	197	239	304	360
EPS, CNY	--	--	0.59	0.69
PER, x	--	--	9.0	7.6
BVPS, CNY	--	--	1.93	2.12
P/BV, x	--	--	2.7	2.5
ROE, %	48.9	60.8	46.9	34.0

Source: Company reports, Phillip Securities Est.

#### Research Analyst

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	Year of Launch	Slogan	Target Customers	Design Concepts
<b>JNBY</b>	1999	Just Naturally Be Yourself	Women between 25 and 40	Modern, vigorous, charming, and serene
	2005	Follow your heart	Men between 30 and 45	Modern, textured, thoughtful and elegant
<b>jnby by JNBY</b>	2011	Free Imagination	Children between 3 and 10	Freedom, imagination, joyful and sincerity
<b>less</b>	2003	Less is more	Professional women between 30 and 45	Simplified, refined, independent and rational
<i>Pomme de terre</i> 蓬 马	2016	Don't be serious	Children and teenagers between 6 and 14	Texture, nifty, quirky and yuppy
<b>J N B Y H O M E</b>	2016	Live Lively	People who pursue a high quality of life with a proactive and free attitude	Diversity, comfort, individuality and curiosity

Source: Company reports, Phillip Securities (HK) Research

The omni-channel interactive platform is important to JNBY. The omni-channel interactive platform includes retail stores, online platforms and social network platform on WeChat.

## The Revenue

The revenue increased from RMB1,383.4 million in FY2014 to RMB1,902.6 million in FY2016, representing a CAGR of 17.3%. The net profit increased from RMB149.9 million in FY2014 to RMB239.3 million in FY2016, representing a CAGR of 26.5%.

The total revenue in 1HFY17 was RMB1,310.4 million, representing a YoY increase of 22.4%. The net profit in 1HFY17 was RMB227.9 million, representing a YoY increase of 24.0%.

The company gradually reduced dependence on the women's segment. The ratio to revenue was 79.8%、74.4% and 69.3% respectively in FY2014, FY2015 and FY2016. Men and Children's segments accounts for higher percentage gradually.

Revenue from online channels accounts for 7.4% in 1HFY17. Revenue from online channels accounts for 8.3%, 7.9% and 7.5% respectively in FY2014, FY2015 and FY2016.

## Retail Network and Internationalization

The total number of retail stores operated by JNBY globally increased from 1,316 as of 30 June 2016 to 1,498 as of 31 December 2016.

	As of 31 December 2016	As of 30 June 2016
JNBY	744	712
jnby by JNBY	343	300
CROQUIS	259	211
less	111	93
Pomme de terre	41	–
JNBYHOME	–	–
<b>Total</b>	<b>1,498</b>	<b>1,316</b>

Source: Company reports, Phillip Securities (HK) Research

The following map shows the geographic distribution of the retail stores (including distributor-operated and self-operated stores) across China and Hong Kong as of 31 December 2016 as well as the distribution of stores by city tiers across China:



Source: Company reports, Phillip Securities (HK) Research

According to the prospectus, JNBY's sales also extended to 12 countries or regions overseas. JNBY operates a store in Hong Kong. In addition, the company sells their products to third parties that operate stores in 11 other countries and regions, including Japan, Russia, Taiwan, the United Arab Emirates, Canada, Georgia, Kuwait, New Zealand, Thailand, the United States and South Korea, in order to leverage the local contacts and retail experience of these third parties. As of 30 June 2014, 2015 and 2016, there were 34, 38 and 29 such overseas stores respectively.

## Same Store Sales Growth

Same store sales growth rate of the retail stores reached 11.3% in 1HFY17. In FY2014, FY2015 and FY2016, the retail stores achieved same store sales growth of 0.1%, 7.1% and 8.3% respectively.

The Group's overall gross profit margin improved from 62.6% in 1HFY16 to 64.4% in 1HFY17, which was primarily attributable to the continuous increase in the sales of products of CROQUIS, jnby by JNBY and less brands and the generally higher profit margins of those products.

## Advantages of the Company

The company upholds the natural concept when choosing materials and the products are differentiated and have high brand recognition and customer viscosity. The company puts a lot of emphasis on "Fans Economy". The company will also build a multi-brand and multi-category lifestyle platform, with expansion and imaginary potential. JNBYHOME is a new brand launched in 2016 with expansion potential.

As a noticeable indicator for successfully translating customer loyalty into revenue, the revenue contributed by the members as a percentage of the total retail sales increased from 40.2% in FY2014 to 46.0% in FY2015 and further to 56.7% in FY2016.

As of 31 December 2016, JNBY had over 1.6 million members (as of 30 June 2016: over 1.2 million) with more than 1.1 million WeChat accounts (as of 30 June 2016: over 720,000). The number of active members for the year 2016 was over 230,000 (FY2016: over 190,000).

The cash flow is healthy and the company has sufficient cash on hand. The dividend policy is attractive. The company has adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 75% of the total net profit attributable to the Group for any particular fiscal year.

## Valuation

Accumulate Rating is given with TP of HK\$6.60. We expect net profit growth of 27.1%/18.4% in FY2017/FY2018, driven by 19.0%/17.3% revenue growth. Our TP of HK\$6.60 represents 10.0/8.4x FY2017E/FY2018E P/E. (Closing price as at 11 April)

## Risk

The inventory level gets higher;  
The apparel industry faces intense competition.

## Financials

Year-end June	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
P/E	--	--	--	9.0	7.6
P/B	--	--	--	2.7	2.5
<b>Per Share Data(RMB)</b>					
EPS	--	--	--	0.59	0.69
Book Value Per Share	--	--	--	1.93	2.12
Dividend Per Share	--	--	--	0.44	0.52
<b>Growth &amp; Margins(%)</b>					
<b>Growth Rates</b>					
Revenue	--	16.6%	17.9%	19.0%	17.3%
Operating profit	--	30.1%	22.3%	25.7%	18.2%
Net Profit	--	31.7%	21.6%	27.1%	18.4%
<b>Margins</b>					
Gross profit margin	58.0%	61.4%	62.6%	64.0%	64.5%
Operating profit margin	15.6%	17.4%	18.1%	19.1%	19.3%
Net profit margin	10.8%	12.2%	12.6%	13.4%	13.6%
<b>Key Ratios</b>					
ROE(%)	64.8	48.9	60.8	46.9	34.0
ROA(%)	17.6	19.7	23.6	20.7	19.8
<b>Income Statement(RMB mn)</b>					
Revenue	1,383	1,613	1,903	2,264	2,656
Gross profit	803	991	1,190	1,449	1,713
Operating profit	216	281	344	433	511
EBT	211	282	342	435	514
Net Income	149	197	239	304	360

Source: Company, Bloomberg, Phillip Securities (HK) Research Estimates  
 (Financial figures as at 11 Apr 2017)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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