

# Bosideng (3998.HK)

high-end fashion transformation helping GPM expansion, e-commerce business with fast growing

China | Consumer | Company report

15 July 2019

## Investment Summary

Bosideng's annual revenue for FY 2018 increased by 16.9% y.o.y., slightly higher than our expectation. The revenue of the largest business branded down apparel increased by 35.5% y.o.y., mainly due to the increase of the proportion of medium and high-end products in the product mix, which led to the increase in ASP. There is not much growth in sales volume. The management team's goal this year is to make both sales volume and ASP to be the drivers of revenue growth. Medium to high-end products with a price exceeding \$1800 accounted for 25% of the branded down apparel business last year, and this proportion is expected to increase further this year.

The OEM business grew by 46.1% y.o.y. last year, and the management team's earlier guidance was over 20%. Facing the Sino-US trade wars, it says that the impact is limited and customers are more concerned about the global business. Revenue of ladieswear business increased by 4.19%, which is lower than the medium to high single digits of the guidelines. This year is expected to maintain steady growth and achieve low single-digit growth.

GPM of FY2018 improved by 6.7 ppt y.o.y. to 53.1%, reflecting the increase in the proportion of medium to high-end products. Distribution and administration increased by 35.3% y.o.y., and the percentage share to revenue also increased by 5.4 ppt to 40.1%, mainly due to the company's efforts in brand building and channel optimization for the branded down apparel business and strategic transformation.

For the e-commerce business, the revenue of brand down apparel and ladieswaer business increased by 55.6% and 11.8% y.o.y. respectively, accounting for 23.1% and 5.6% of the revenue from the branded down apparel business and ladieswear business. The company plans to introduce more products which are exclusively offered online, gradually diversify the features of online goods and expand the product portfolio, while increase the sales proportion of the age group of 25-35. We expect the e-commerce business will maintain rapid growth, and the percentage share of brand down apparel online business is expected to rise to one-third.

As at March 31, 2019, the total number of selling points of the company's down apparel business (net) increased by 162 to 4,628 compared to that of last year. Last year, 40% of the shops were remodeled, and the rest are expected to be rebuilt in the next two years. This year the company plans to open about 1,000 stores, but it will also shut down 600 to 700 inefficient stores.

Short-selling agency Bonitas Research has recently released reports. Alleging Bosideng that insiders conducted fake inter-company transactions through a maze of direct and indirect subsidiaries, overpayment for multiple acquisitions to undisclosed insiders, and disposal of assets without receipt of payment.

Bosideng has issued clarification announcements, and the share price has since rebounded. During the annual result announcement conference, the management team also states that the chairman owns a number of asset businesses outside the listed company and will consider selling these off-balance sheet assets, including factories, to the listed company. It will also continue to pay attention to M&A opportunities, and the targeted items will contain outdoor functional, fashionable and technological elements. We give target price-earnings ratio 21 times, with target price HKD2.7. (current price as of July 11, 2019)

## Accumulate

CMP HKD2.58

(Closing price at 11 July 2019)

TARGET HKD2.7 (+5.2%)

### COMPANY DATA

O/S SHARES (MN) :	10700
MARKET CAP (HKDBN) :	27607
52 - WK HI/LO (HKD):	0.94/2.61

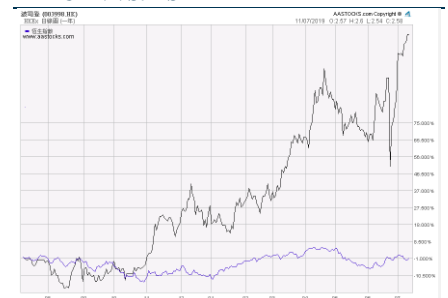
### SHARE HOLDING PATTERN , %

Gao Dekang	71.59
------------	-------

### PRICE PERFORMANCE , %

	1 個月	3 個月	1 年
Bosideng	17.27	91	119.76
HSI	2.31	6.62	0.42

### RETURN VS. HSI



Source: Aastocks, Phillip Securities

### KEY FINANCIALS

RMB mn	FY18	FY19	FY20E	FY21E
Net Sales	8,881	10,383	12,502	14,606
Net Profit	615	981	1,218	1,469
EPS, RMB	0.06	0.09	0.11	0.14
PER, x	39.05	24.39	19.95	16.55
BVPS, RMB	0.92	0.96	0.98	1.03
P/BV, x	2.46	2.37	2.31	2.21
ROE, %	6.54%	9.95%	11.87%	13.66%

Source: Company, Phillip Securities Est.

Research Analyst  
**Tracy Ku** (2277 6516)  
 tracyku@phillip.com.hk

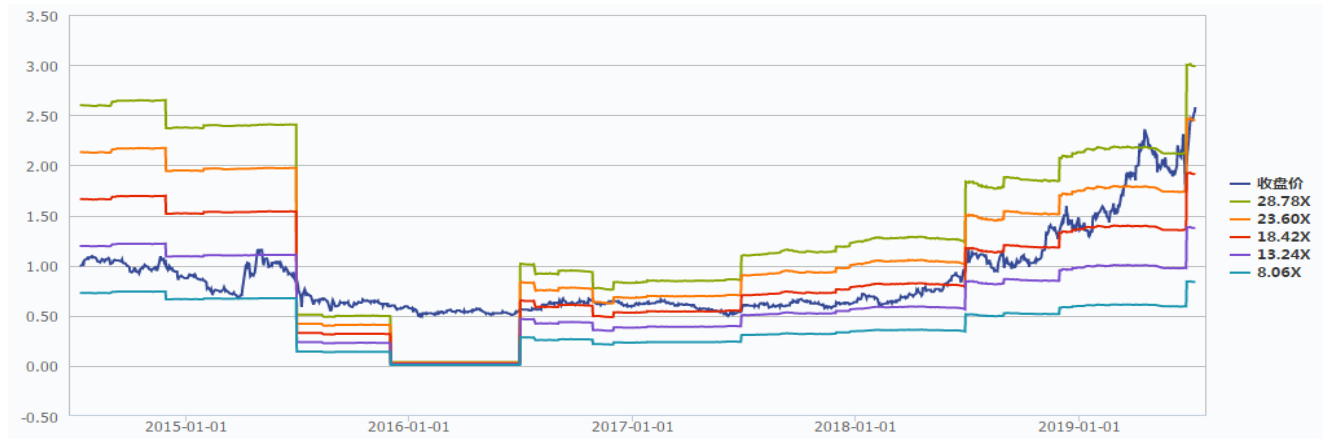
### Investment Thesis & Valuation

We give accumulate rating, target price-earnings ratio 21 times, with target price HKD2.7. Potential investment risks include revenue growth or channel expansion missing expectation, raw material cost with huge volatility. (current price as of July 11, 2019)

Figure: Historical PE Ratio

波司登[3998.HK] - PE/PB-Band

📄 使用说明



Source: Bloomberg, Phillip Securities

## Financials

FYE	2017	2018	2019	2020E	2021E
<b>Valuation Ratios</b>					
Price to Earnings (P/E)	53.86	39.05	24.39	19.95	16.55
Price to Book (P/B)	2.26	2.46	2.37	2.31	2.21
<b>Per Share Data (RMB)</b>					
EPS	0.04	0.06	0.09	0.11	0.14
Book Value Per Share	1.01	0.92	0.96	0.98	1.03
Dividend Per Share	0.02	0.06	0.06	0.08	0.09
<b>Growth (%)</b>					
Revenue	17.79%	30.28%	16.92%	20.41%	16.82%
Operating Income	95.45%	39.91%	48.45%	24.58%	20.84%
Net Profit	39.48%	57.07%	59.44%	24.16%	20.56%
<b>Margins (%)</b>					
Gross Profit Margin	46.40%	46.38%	53.10%	53.60%	54.10%
Operating Profit Margin	9.68%	10.40%	13.20%	13.66%	14.13%
Net Profit Margin	5.42%	7.20%	9.68%	9.99%	10.31%
<b>Key Ratios</b>					
ROE (%)	3.95%	6.54%	9.95%	11.87%	13.66%
ROA (%)	2.61%	4.53%	6.67%	7.95%	9.16%
<b>Income Statement (RMB, M)</b>					
<b>Revenue</b>	6,817	8,881	10,383	12,502	14,606
- Cost of Goods Sold	-3,653	-4,762	-4,870	-4,870	-4,870
<b>Gross Income</b>	3,163	4,119	5,514	6,701	7,901
-SG&A expenses	-2,560	-3,082	-4,169	-5,020	-5,864
<b>Operating Income</b>	660	923	1,371	1,708	2,064
<b>Pretax Income</b>	573	888	1,394	1,731	2,087
- Minority Interest	-23	24	24	30	36
<b>Net Profit</b>	392	615	981	1,218	1,469

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate (0.8806) is one year HKD/CNY forward contract price on 11th July from Wind  
(Financial figures as at 11th July 2019)



**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

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website: [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96188238  
Fax (613) 92002272  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005