

Bosideng (3998 HK)

Actively expand self-operating channel off-season performance beat expectations

Hong Kong | Consumer (Apparel) | Update Report

8 December 2020

BUY (maintain)

CMP HKD 3.40

(Closing price as at 3 December)

Target HKD 4.50 (+32.4%)

COMPANY DATA

O/S SHARES (MN) :	10,769
MARKET CAP (HKD MN) :	36,615.8
52 - WK HI/LO (HKD):	3.86/1.48

Investment Summary

The company announced its interim results for the six months ended September 30. During the period, the company's revenue rose 5.1% YoY to RMB 4.66 billion, and revenue from branded down jackets rose 18% from the same period last year to RMB 2.99 billion; gross profit also increased by 15.4% YoY. Net profit attributable to the parent increased by 41.8% YoY to RMB 486 million. Earnings per share were RMB 4.54 cents, a YoY increase of 40.6%. The interim dividend per share is RMB 3.5 cents.

The company's brand down apparel income increased, and other business income decreased

The increase in revenue during the period was mainly due to the company's branded down apparel business. Its development in brand, product, channel and information digital management has brought positive growth to the company's revenue. In terms of business segments, the company's branded down apparel revenue for the six months ended September 30 increased by 18.0% YoY to RMB 2.99 billion, accounting for 64.1% of the revenue in 1H21, an increase of 7.0 ppts from the same period last year. However, for OEM, women's clothing and diversified business, the revenue decreased by 8.9%/18.5%/35.6% respectively, and the proportion of revenue in 1H21 decreased by 4.0 ppts/2.6 ppts/0.4 ppts respectively.

Active expansion during the epidemic, the proportion of direct sales increased

With a closer look to the sale channel, the company's branded down business's revenue from direct operations increased during the period. Direct revenue (including online and offline) increased by approximately 144.3% from the same period last year to RMB 1.11 billion. The revenue structure changed during the period. The proportion of direct sales revenue increased by 19.2 ppts. Mainly because the company adjusted its strategy during the epidemic, maintaining revenue growth under prudent risk management was the company's main development strategy in the first half of the year. During this period, the company continued to optimize and upgrade its channels and upgrade its store image. Most of the new stores are large and located in large commercial districts, new stores are mainly directly operated by the company. As of September 30, the sales points of the company's brand down jackets decreased by 202 HoH to 4,664, but the number of self-operated sales points increased by 19 HoH to 1,880, and the proportion of self-operated sales channels rose to approximately 40.3%.

The cash conversion cycle day has been improved, and the strategic cooperation and destocking has a significant effect

In terms of operating, the company's inventory level has eased. The average inventory turnover days during the period was 200 days, an increase of 28 days compared to the same period last year. This was mainly due to the company's high initial inventory level. The company's de-stocking action have a significant effect during the period. The level fell to RMB 2.60 billion HoH, a decrease of 4.4%, of which the inventory of finished products decreased by approximately RMB 340 million. The company's accounts receivable turnover days during the period increased by 12 days to 98 days YoY, mainly due to the company's support for third-party distributors' payment collection during the epidemic and the appropriate extension of the payment cycle. During the period, the company also introduced supply chain finance solution and reduced the use of cash payments. The accounts payable turnover days were 188 days, an increase of 78 days YoY. The cash conversion cycle decreased by 38 days YoY to 110 days.

SHARE HOLDING PATTERN, %

Gao De Kang	71.37
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PRICE VS. HSI



Source: Wind, PSHK

Key Financial

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	10,383	12,191	13,760	18,265
Net Profit	981	1,203	1,467	1,895
EPS, CNY cent	9.32	11.27	13.62	17.59
P/E, x	32.85	27.16	22.47	17.39
BVPS, CNY	0.93	0.95	1.21	1.53
P/BV, x	3.29	3.22	2.53	2.00
DPS (HKD cent)	8.0	9.0	10.6	13.7
Div. Yield (%)	2.4	2.7	3.1	4.0

Source: Company reports, Phillip Securities Est.

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Expense-to-sales ratio increased due to increased direct sales ratio and newly granted share options

On the expense side, the company's distribution expenses and administrative expenses in the first half of fiscal year 20/21 both increased. Sale & distribution costs increased by RMB 90 million to 1.21 billion from the same period last year, accounted for 25.9% of revenue, an increase of 0.7 ppts. Mainly due to the expenses incurred by the company in branding and channel construction of branded down jackets during the period, including rent, store decoration expenses and sales and employee costs. Administrative costs increased by approximately RMB 50 million compared with the same period last year, accounting for a YoY increase of 0.8 ppts to 8.4% of revenue, mainly due to the costs incurred by the newly granted share options during the period.

New retail operation strategy is beginning to shine

In the first half of the 2020/21 fiscal year, the company actively expanded its online business and established a more convenient communication bridge with customers through corporate WeChat. During this period, the number of new corporate WeChat friends reached 8 million, and the company's WeChat public account fans totaled more than 5.5 million, increased by more than 50% HoH, and the number of registered members reached 19.65 million. From the perspective of customer structure, the company's young consumers under 30 have a significant increase compared with last year, accounting for about 20% of the consumption. In terms of new retail digital innovation, the company uses Alibaba data center to establish customer labels, cooperate with high-quality digital content to reach consumers, and sales through mini programs. At the same time, it also establishes a corporate WeChat shopping guide marketing assistant for each shopping guide, and uses the data center to match interactive content templates for terminal shopping guides to assist shopping guides in maintaining good customer relationships.

Acquire logistics business and build logistics park

During the period, the company announced the acquisition of 100% of the shares of Suzhou Bosideng Logistics for RMB 560 million. The purpose of the target company is to hold properties in Changshu, Jiangsu Province. The land area is 221,000 square meters and the total construction area is approximately 192,000 square meters. Meter. After the acquisition, the company can build a logistics park system on these properties, which will help the company integrate logistics resources and establish its own smart central distribution center. We believe that in the future, combined the company's new retail development, the company can allocate resources in logistics more effectively. On the other hand, it can also serve the company's down jacket business and OEM processing management business, providing the company with a more stable operation.

Valuation model update

The sales revenue of branded down beat our expectations. We expected that the company would increase discounts due to inventory pressure. However, 1H21 showed the company's self-operating capabilities and the effectiveness of the brand re-branding strategy. The revenue of other businesses decreased as we expected. Among them, the impact of the OEM business was lighter than we expected. We re-adjusted our valuation model and revised up the company's revenue from branded down apparel business. The expected annual growth rate was 20% year-on-year (previously -5%), while the OEM business is adjusted to -15% (previously -20%). Administrative expenses during the period were also increased due to the cost incurred by the company's newly granted share options.

Valuation and Investment Recommendation

In 1H, the company developed self-operated channels under the epidemic situation, and this year's branded down sales started earlier. As we expected, the company's revenue will be able to quickly recover after the epidemic. The company's performance in 1H21 has increased significantly YoY. However, with the company past record, the revenue in the first half of the year was only accounted for a low proportion, and as the base of last year is low, the percentage growth is higher. It is expected that the YoY growth in net profit for the year will be difficult to maintain the high level in the first half of the year. In other words, the company's first-half performance was better than our previous expectations. We raised the company's EPS forecast, and expected the company's FY21E/FY22E EPS to be CNY 13.62/17.59 cent. Given a new target price of HKD 4.50, based on 23.00x FY22E P/E (rolled over from 23.36x FY21E P/E), the new target price corresponds to the P/E of FY21E/FY22E 29.74x/23.00x.

Risk

- The development of women's clothing business is not as expected
- The company failed to reform effectively and consumers failed to accept the new brand positioning
- Increased industry competition

Financials

Consolidated Statement of Profit or Loss

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10,383	12,191	13,760	18,265	21,721
COGS	(4,870)	(5,482)	(5,667)	(7,549)	(8,961)
Gross Profit	5,514	6,709	8,093	10,716	12,761
S&D expense	(3,440)	(4,276)	(5,229)	(6,941)	(8,254)
Admin expense	(729)	(853)	(1,170)	(1,279)	(1,520)
Other operating gain/(loss)	26	19	311	149	174
Operating Profit	1,371	1,599	2,006	2,646	3,160
Net finance income	24	1	19	19	19
Profit before tax	1,394	1,600	2,025	2,665	3,179
Tax	(389)	(405)	(567)	(746)	(890)
NCI	(24)	8	9	(24)	(24)
Profit for the year	981	1,203	1,467	1,895	2,265
EPS	9.32	11.27	13.62	17.59	21.03

Key Financial Data

Mar Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	32.85	27.16	22.47	17.39	14.55
P/B ratio, x	3.29	3.22	3.04	2.88	2.72
Dividend Yield, %	2.35%	2.65%	3.12%	4.02%	4.81%

Per share data (RMB cent)

EPS	9.32	11.27	13.62	17.59	21.03
BVPS	93.00	95.00	100.60	106.10	112.63
DPS (HKD cent)	8.00	9.00	10.59	13.68	16.36

Growth & Margin

	17% FY19	FY20	FY21E	FY22E	
Growth					
Revenue Growth					
Operating income Growth	48%	17%	25%	32%	19%
Net income Growth	59%	23%	22%	29%	20%
Margin					
Gross Profit Margin	53%	55%	59%	59%	59%
Operating profit Margin	13%	13%	15%	14%	15%
Net Profit Margin	9%	10%	11%	10%	10%

Key Ratios

ROE	10%	12%	11%	13%	16%
ROA	7%	7%	7%	8%	11%

Source: Phillip Securities Research

(Closing price as at 3 December)

Consolidated Statement of Financial Position

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	1,024	2,173	1,759	1,513	1,301
GoodWill	1,800	1,654	1,654	1,654	1,654
LT investment	285	271	271	271	271
Other	835	811	811	811	811
Total Non Current Assets	3,945	4,909	4,496	4,249	4,037
Current Asset					
T/R	1,035	1,197	2,262	3,002	3,571
Inventories	1,931	2,726	1,941	2,585	3,069
Restricted Bank deposits	902	568	568	568	568
Cash and cash equivalents	1,754	3,639	4,404	4,372	4,631
Others	5,515	4,340	3,273	3,273	3,273
Total Current Assets	11,138	12,470	12,447	13,800	15,110
Total Assets	15,083	17,379	16,942	18,049	19,148
Non Current Liabilities					
Loan	-	-	-	-	-
Bond Payable	-	1,671	1,671	1,671	1,671
Others	178	615	615	615	615
Total Non Current Liabilities	178	2,286	2,286	2,286	2,286
Current Liabilities					
Loan	1,628	818	818	818	818
T/P	1,216	1,818	1,009	1,344	1,596
Tax Payable	463	365	567	746	890
Others	1,490	1,689	1,429	1,429	1,429
Total Current Liabilities	4,796	4,690	3,823	4,337	4,732
Equity					
Share capital	1	1	1	1	1
Reserve	9,898	10,213	10,653	11,221	11,900
Non controlling interest	210	189	180	204	228
Total Equity	10,109	10,403	10,834	11,426	12,130
Total Liabilities and Equity	15,083	17,379	16,942	18,049	19,148

Consolidated Statement of Financial Position

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	1,584	2,156	2,742	3,279	3,731
Chg in working cap	264	(487)	(282)	(1,050)	(800)
Others	50	61	-	-	-
Tax	(389)	(497)	(365)	(567)	(746)
CFO	1,509	1,233	2,095	1,662	2,185
Capex	(311)	(714)	(130)	(194)	(166)
Others	58	1,326	-	-	-
CFI	(253)	612	(130)	(194)	(166)
Issue of Bond	-	1,898	-	-	-
Dividends paid	(739)	(863)	(1,027)	(1,326)	(1,585)
Others	(617)	(1,043)	(174)	(174)	(174)
CFF	(1,356)	(8)	(1,201)	(1,500)	(1,759)
Net Change in Cash	(99)	1,837	765	(32)	259
Foreign exchange	60	47	-	-	-
Cash and CE at Y/E	1,754	3,639	4,404	4,372	4,631

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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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