

# Bosideng (3998 HK)

## Early winter, and the sinking market continues to release its consumption power

Hong Kong | Consumer (Apparel) | Update Report

15 January 2021

### Investment summary

The company announced on January 5 the retail performance of the first three quarters of the FY21 (April to December 2020). In the branded down apparel business, based on GMV, the core brand Bosideng increased by 25% YOY, while other brands a YOY increase of 40%+.

#### The company's brand down income increased while other business income decreased

The company's main down apparel business GMV has grown faster than we expected. Under the influence of the epidemic at the beginning of the year, potential problems such as inventory backlogs have made us more reserved for the company's annual revenue. However, many places across the country entered the winter earlier this year, and the company's discount management controlled appropriately, the adverse effects of the epidemic have been digested in the first half of the fiscal year. In the Q3, the growth rate was significantly higher than that in the 1H21. The company's interim performance report showed that Bosideng/other brand down jacket revenue growth rates in the 1H of the fiscal year were 19.7%/ 2.58%. Based on this calculation, the company's revenue growth rate from down jackets in the Q3 increased significantly.

#### Double 11 event combined with live broadcast to show the brand new image of the products

In the Q3, the company's online omni-channel sales during the "Double 11" event reached RMB 1.5 billion, ranking second among the apparel brands and first among Chinese apparel brands. During the "Double 11" period, the online retail sales of the company's branded down jackets increased by more than 35% year-on-year. Among them, the online sales of the core brand-Bosideng increased by more than 25% year-on-year. During the event, the company made good use of new promotion methods such as e-commerce live broadcasts, and cooperated with Li Jiaqi, a well-known Taobao e-commercial livestreaming KOL. On October 20, November 2 and November 11, the company entered Li Jiaqi's live broadcast room to meet the target customers and communicate directly. The duration of the live broadcast ranked first in the industry in the live broadcast of Tmall apparel merchants, with a single-day live broadcast viewing volume of 3.56 million. In recent years, the company's main brand has focused on brand rebranding, combining fashion elements with down jackets. During the live broadcast, the company showed consumers a new down series—Light Down Apparel Collection, Outdoor City Collection, and Designer Collaboration Collection, etc., combining fashion and quality Down jackets, refreshing young consumers' inherent image of Bosideng products.

#### Sinking market consumption power continues to release

Another noteworthy item in the Q3 was the company's other brands of down jacket GMV growth of more than 40%. Since 2018, the company has proposed a strategy of focusing on the main brand, focusing on reforming the main brand, enhancing the brand positioning and filling the blank position in the domestic down market in the middle and high-end market. The blank market after the main brand improved is replaced by the other two brands—Snow Flying and Bengen. Snow Flying is positioned in the mid-end market, with product styles focused on sports and fashion, and its main sales targets are young consumer groups. Bengen is targeting the 25-35-year-old customer group in second- and third-tier cities. In the company's fiscal year 19/20, the revenue of down jackets from other brands accounted for 11.7% of the revenue of branded down jackets and 9.1% of the total revenue. According to statistics conducted by the China Report Hall in 2019, the down penetration rate in China is about 10%, which is lower than the 30%-70% in European and American countries. In recent years, China's sinking market has continued to release its consumption power, which is expected to become another source of company revenue growth in the future.

### Accumulate (Downgrade)

CMP HKD 4.05  
(Closing price as at 13 January)  
Target HKD 4.50 (+11.1%)

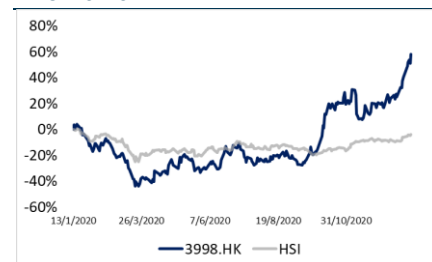
#### COMPANY DATA

O/S SHARES (MN) :	10,795
MARKET CAP (HKD MN) :	43,721
52 - WK HI/LO (HKD):	4.55/1.45

#### SHARE HOLDING PATTERN, %

Gao De Kang	70.98
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#### PRICE VS. HSI



Source: Wind, PSHK

#### KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	10,383	12,191	14,236	18,265
Net Profit	981	1,203	1,528	1,895
EPS, CNY cent	9.32	11.27	14.19	17.55
P/E, x	36.95	30.55	24.32	19.62
BVPS, CNY	0.93	0.95	1.01	1.06
P/BV, x	3.70	3.62	3.42	3.25
DPS (HKD cent)	8.0	9.0	11.7	14.5
Div. Yield (%)	1.9	2.1	2.9	3.6

Source: Company reports, PSHK Est.

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### Valuation and investment advice

Affected by the La Niña phenomenon this year, the country generally enters the winter earlier, and this year's Lunar New Year's date is later, the entire winter consumption period has been longer than before. In the first half of the year, the company developed self-operated channels under the epidemic situation, and this year's branded down sales started earlier. During the Double 11 event, the company made good use of publicity methods to showcase the brand new Bosideng to the target customer group, and continued to move forward on the road to brand upgrade. Taking the right time and place, Bosideng's operating performance this year has continued to beat market expectations. It is expected that under the cold winter environment this year, the company will continue to grow in the Q4. We further increase the company's FY21E revenue growth forecast of the down apparel business to 25% (previously 20%). The company's FY21E/FY22E EPS is expected to be RMB14.19/17.59 cent. The target price is maintained at HKD\$4.50, corresponding to 28.54x/23.00x P/E in FY21E/FY22E. Considering the current price level, downgrade the rating to Accumulate.

### Risk

- The development of women's clothing business is not as expected
- Increased industry competition

## Financials

### Consolidated Statement of Profit or Loss

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	10,383	12,191	14,236	18,265	21,721
COGS	(4,870)	(5,482)	(5,848)	(7,549)	(8,961)
<b>Gross Profit</b>	5,514	6,709	8,388	10,716	12,761
S&D expense	(3,440)	(4,276)	(5,410)	(6,941)	(8,254)
Admin expense	(729)	(853)	(1,210)	(1,279)	(1,520)
Other operating gain/(loss)	26	19	323	149	174
<b>Operating Profit</b>	1,371	1,599	2,092	2,646	3,160
Net finance income	24	1	19	19	19
<b>Profit before tax</b>	1,394	1,600	2,110	2,665	3,179
Tax	(389)	(405)	(591)	(746)	(890)
NCI	(24)	8	9	(24)	(24)
<b>Profit for the year</b>	981	1,203	1,528	1,895	2,265
<b>EPS</b>	9.32	11.27	14.16	17.55	20.98

### Key Financial Data

Mar Y/E	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation Ratio</b>					
P/E ratio, x	36.95	30.55	24.32	19.62	16.41
P/B ratio, x	3.70	3.62	3.42	3.25	3.06
Dividend Yield, %	1.98%	2.22%	2.88%	3.57%	4.27%

### Per share data (RMB cent)

EPS	9.32	11.27	14.16	17.55	20.98
BVPS	93.00	95.00	100.53	106.02	112.53
DPS (HKD cent)	8.00	9.00	11.66	14.45	17.28

### Growth & Margin

<b>Growth</b>					
Revenue Growth	17%	17%	17%	28%	19%
Operating income Growth	48%	17%	31%	26%	19%
Net income Growth	59%	23%	27%	24%	20%
<b>Margin</b>					
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 13 January)

### Consolidated Statement of Financial Position

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Non Current Asset</b>					
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
<b>Total Non Current Assets</b>	3,945	4,909	4,496	4,249	4,037
<b>Current Asset</b>					
T/R	1,035	1,197	2,340	3,002	3,571
Inventories	1,931	2,726	2,003	2,585	3,069
Restricted Bank deposits	902	568	568	568	568
Cash and cash equivalents	1,754	3,639	4,338	4,390	4,649
Others	5,515	4,340	3,273	3,273	3,273
<b>Total Current Assets</b>	11,138	12,470	12,522	13,818	15,129
<b>Total Assets</b>	15,083	17,379	17,017	18,068	19,166
<b>Non Current Liabilities</b>					
Loan	-	-	-	-	-
Bond Payable	-	1,671	1,671	1,671	1,671
Others	178	615	615	615	615
<b>Total Non Current Liabilities</b>	178	2,286	2,286	2,286	2,286
<b>Current Liabilities</b>					
Loan	1,628	818	818	818	818
T/P	1,216	1,818	1,041	1,344	1,596
Tax Payable	463	365	591	746	890
Others	1,490	1,689	1,429	1,429	1,429
<b>Total Current Liabilities</b>	4,796	4,690	3,879	4,337	4,732
<b>Equity</b>					
Share capital	1	1	1	1	1
Reserve	9,898	10,213	10,671	11,240	11,919
Non controlling interest	210	189	180	204	228
<b>Total Equity</b>	10,109	10,403	10,852	11,445	12,148
<b>Total Liabilities and Equity</b>	15,083	17,379	17,017	18,068	19,166

### Consolidated Statement of Cash Flow

Mar Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>EBITDA</b>	1,584	2,156	2,828	3,279	3,731
Chg in working cap	264	(487)	(390)	(942)	(800)
Others	50	61	-	-	-
Tax	(389)	(497)	(365)	(591)	(746)
<b>CFO</b>	1,509	1,233	2,073	1,746	2,185
Capex	(311)	(714)	(130)	(194)	(166)
Others	58	1,326	-	-	-
<b>CFI</b>	(253)	612	(130)	(194)	(166)
Issue of Bond	-	1,898	-	-	-
Dividends paid	(739)	(863)	(1,070)	(1,326)	(1,585)
Others	(617)	(1,043)	(174)	(174)	(174)
<b>CFF</b>	(1,356)	(8)	(1,244)	(1,500)	(1,759)
<b>Net Change in Cash</b>	(99)	1,837	699	52	259
Foreign exchange	60	47	-	-	-
<b>Cash and CE at Y/E</b>	1,754	3,639	4,338	4,390	4,649

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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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