

Company Visit

Not rated

Baozun Inc

Sector: Information Technology

Industry: Internet Software & Services

Sub-industry: Internet Software & Services

Key data

Price (Rmb)	20.53
52wk High (Rmb)	22.78
52wk Low (Rmb)	6.16
Market Cap (Rmbm)	1,095
Market Cap (US\$m)	49
Shares outstanding (m)	-
Free float (%)	12.1
1M relative return	36.6
6M relative return	122.1
YTD relative return	5,878
CSI 300	0.0
Dividend yield (FY15)	-
US\$:Rmb	6.797

Inst Ownership (Top 5, %)

GOLDMAN SACHS GROUP	5.42
MATTHEWS INTL CAPITA	3.85
MACQUARIE GROUP	3.12
MANULIFE FINANCIAL C	2.00
TAIREN CAPITAL LTD	1.87

Source: Bloomberg

Analyst

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宝尊电商 (BZUN:US)

跨越移动端数据割裂局限的电商代运营龙头

宝尊电商是中国领先电子商务服务提供商，据 2015 年第三方统计数据市场份额为 22%。公司拥有全渠道服务管理经验，可帮助品牌商完成多渠道运营销售管理，包括但不限于品牌线下直营店，线上天猫或京东网上旗舰店，还有社交媒体频台销售渠道如微博和微信商城。商业模式主要为非经销模式（服务模式+代销模式）和经销模式。截止 2017 年 1 季度宝尊合作品牌客户达到 136 家，分布在主要 8 个品类领域。宝尊可为品牌商提供的服务宝货商铺运营管理，IT 服务，数字化营销，客户服务，仓储分拣和库存物流服务。

品牌持续扩充。根据 iResearch 数据，国内电商品牌服务市场 15-17 年 cagr 为 43%，超过了网上购物 GMV cagr 30% 的增速。处于行业领先地位的宝尊 2016 年 GMV 增速达 67%，比行业平均高 24 个百分点，比网上购物 GMV 增速高 37 个百分点。公司指引每年新增约 20 个品牌商，2017 年 GMV 增速超过 50%。

站在巨头的肩膀上。阿里巴巴（增持）是宝尊的大股东，持股比例 2016 年末达 16.5%（对应 9.5% 的投票权），宝尊在 2016 年下半年天猫星际服务商评选中荣列两家最高六星评级之一的服务商。

数据端优势。宝尊商业模式是为品牌商提供全渠道解决方案，有多渠道经验，同时可以从品牌端出发看到割裂数据中的趋势和分析结果，并作出最好的判断。移动互联网的发展使得 app 之间数据容易割裂而无法共享，电商平台之间的竞争趋势也使得阿里·京东·亚马逊·微信商城，包括线下，难以共享数据资源。宝尊的模式为互联网数据的割裂局面提供了难能可贵的全渠道视角。

商业模式转型中。宝尊正在把战略重心向非经销模式上转移，非经销模式包含服务费模式和代销模式。几种区别在于，除了传统的 IT 服务，电商运营服务，数字化营销和客户服务，代销模式增加了仓储和物流服务，而经销模式又增加库存管理（多余库存可退回或跟品牌商置换）。经销模式按总收入而非净收入入账，已从 2014-15 年的 75% 的收入比例下降至 2016 年的 64%。经销 GMV 贡献也从之前的约 33% 下降至 22%，2016 年经销模式下毛利在 12%。公司仍在持续向非经销模式上转移，非经销模式按净收入入账，GMV 混合转化率（服务费+代销）2016 年在 14%，1Q17 服务费模式 GMV 转化率在 16-17%，代销模式 GMV 转化率在个位数。我们可以看到随着模式的转变，公司毛利从 2014 年的 31% 提升至 2015 年的 33% 到 2016 年 43%，non-gaap 净利率（主要调整了股权相关薪酬）从 2014 年的 1.6% 上升至 2016 年的 3.5%。

估值。公司 2016 年实现 GMV 113 亿人民币（同比增加 67%），收入达 34 亿人民币（同比增加 30%），调整后净利达 1.2 亿（同比增加 118%）。公司市值在 10 亿美元左右，相当于 PE TTM 75 倍，4.1 倍静态 PB。



Source: Bloomberg

Financial Table

	2013	2014	2015	2016
Revenue (Rmbm)	1,522	1,584	2,598	3,390
YoY (%)	-	4.1	64.0	30.5
Net income (Rmbm)	- 38	- 60	23	87
YoY (%)	-	-58.4	137.8	283.0
Diluted EPS (Rmb)	-3.31	-5.31	-0.08	1.59
YoY (%)	-	-60.4	98.5	2087.5
ROE (%)	-	-	-	6.2
Dividend yield (%)	-	-	0.0	0.0
Free cash flow/shr (Rmb)	-0.60	-2.94	-1.29	-1.25
PE (x)	-	-	-	52.7
PB (x)	-	-	2.2	2.6
EV/Ebitda	-	-	59.6	25.7
Debt/equity	0.0	3.5	2.5	7.3

Source: SWS Research, Bloomberg

Marketplace marketer

Online brand marketing services provider Baozun helps firms market and sell products online and integrate their online and offline strategies. The firm's service offerings range from store operations to warehousing, from digital marketing on search and social media platforms to site content management, while the company generates income from a combination of services fees, consignment and distribution models. Baozun counts 136 brand partners as of 1Q17, and was the largest brand e-commerce services provider in China in 2015, with a c.22% market share according to iResearch.

Up-and-coming brand. The domestic brand e-commerce market will expand at a 43% Cagr from 15-17E, according to iResearch forecasts, surpassing a c.30% Cagr in e-commerce retail gross merchandise value (GMV). Baozun recorded 67% YoY growth in GMV in 2016, 24ppts faster than industry growth, and 37ppts above growth in the e-commerce market as a whole. The company targets adding c.20 new brand partners each year and guides 50%-plus GMV growth in 2017.

Shoulders of giants. Alibaba (BABA:US – Outperform) is Baozun's largest shareholder with a 16.5% stake at end-2016 and 9.5% of the voting power. Baozun was ranked as one of only two six-star (highest-ranked) service providers on Alibaba platform Tmall in 2H16.

Data advantages. Baozun provides brands with end-to-end solutions. Traditional data from Tmall, JD, Amazon, offline and WeChat are separated due to competition, while Baozun's omni-channel approach gives the company incomparable advantage in looking at data from all channels and optimizing results-oriented operation and sales.

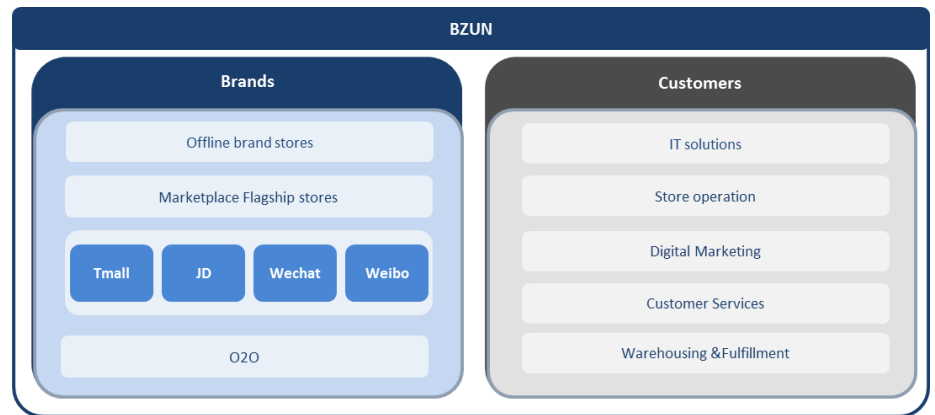
Transformational story. Baozun is shifting its strategic focus from a distribution model to non-distribution model. Its non-distribution model consists of a services fee model as well as a consignment model. Besides traditional services like IT solutions, e-store operation, digital marketing and customer services, the consignment model includes warehousing fulfilment, while the distribution model takes ownership of inventory (which could be returned or exchanged with the brands). The distribution model contributed 64% of the firm's gross revenue in 2016, down from c.75% in 2014-15, while in terms of GMV contribution, it decreased from c.33% to 22% in 2016. Gross margin under distribution model was 12% in 2016, while non-distribution model recorded net revenue and its blended take rate over GMV (service fee+ consignment) was 14%. Baozun guides continuous effort in this strategic shift. Accompanying the shift to a non-distribution model, the company's gross margin has risen from 31% in 2014 to 33% in 2015 to 43% in 2016; its non-GAAP net margin (adjusted for share-based compensation) rose from 1.6% in 2014 to 3.5% in 2016.

Valuation. Baozun reported 67% YoY growth in GMV to Rmb11.3bn in 2016, while revenue hit Rmb3.4bn (+30% YoY) and non-GAAP net profit of Rmb120m (+118% YoY). Managements use non-GAAP measures in evaluating operating performance as they believe non-GAAP provides a better assessment of their operating results avoiding any impact from share-based compensation expenses. The company's stock trades at a 75x TTM PE multiple and 4.1x PB multiple.

Online brand marketing services provider Baozun helps firms market and sell content online and integrate their online and offline strategies. Service offerings range from store operations to warehousing, from digital marketing on search and social media platforms to site content management, while the company generates income from a combination of services fees, consignment and distribution model. Baozun counts 136 brand partners as of 1Q17, and was the largest brand e-commerce services provider in China in 2015, with a c.22% market share according to iResearch.

We note the firm's data advantages, as few firms offer such a range of access to data from Alibaba's Tmall, JD.com (JD:US – N-R), Amazon (AMZN:US – N-R), or Tencent's (700:HK – BUY) WeChat instant messaging service, as well as offline data, to help optimise sales.

Fig 1: Baozun customer and services model



Source: Company, SWS Research

Fig 2: Leading brands in 8 categories (current cooperating brands examples)

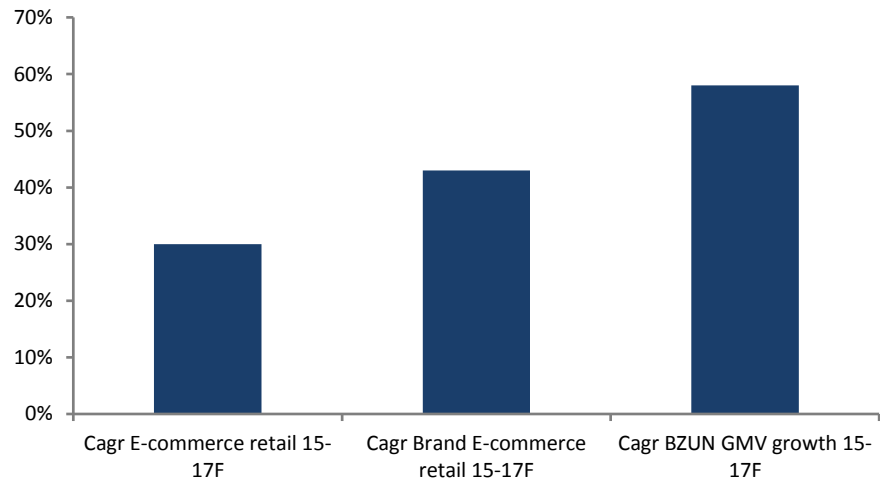
Leading brands in 8 categories (current cooperating brands examples)

Apparel	Electronics	Appliances	Home & furnishings	Food & Health	Cosmetics & FMCG	Insurance	Auto

Source: Company, SWS Research

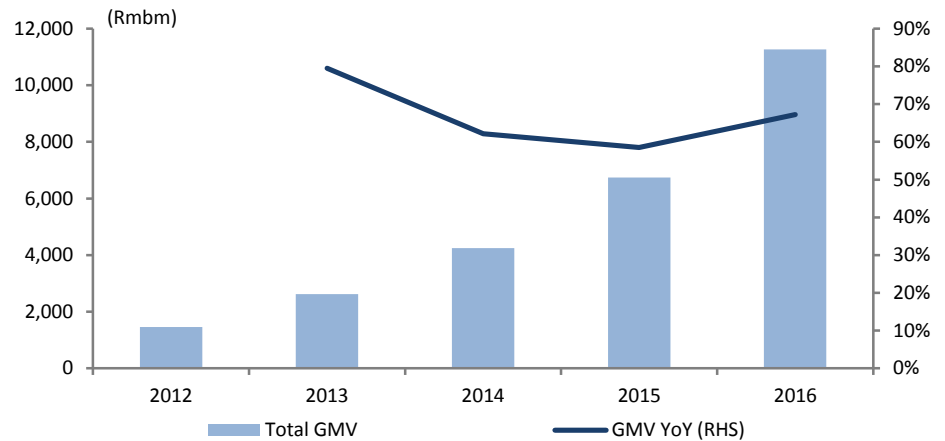
The domestic brand e-commerce market will expand at a 43% Cagr from 15-17E, according to iResearch forecasts, surpassing a c.30% Cagr in e-commerce retail gross merchandise value (GMV). Baozun recorded 67% YoY growth in GMV in 2016, 24ppts faster than industry growth, and 37ppts above growth in the e-commerce market as a whole. The company targets adding c.20 new brand partners each year and guides 50%-plus GMV growth in 2017.

Fig 3: Baozun GMV vs brand e-commerce and e-commerce markets



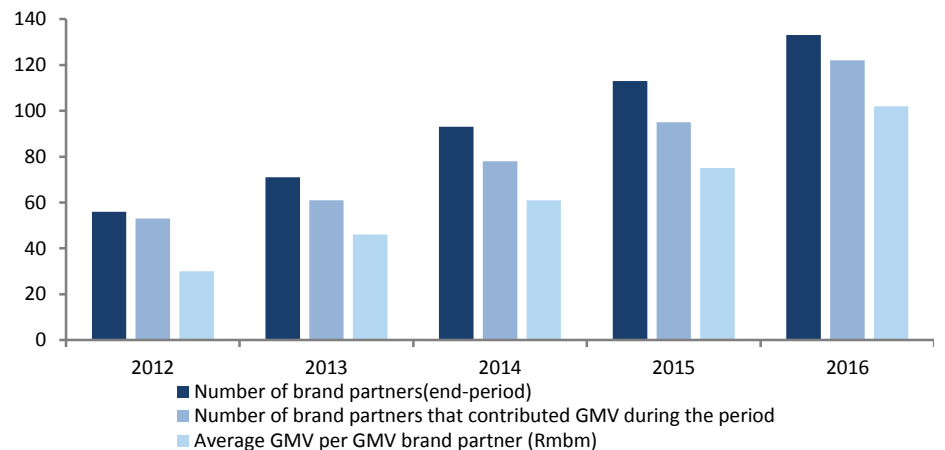
Source: Company, SWS Research

Fig 4: BZUN GMV growth



Source: Company, SWS Research

Fig 5: Baozun GMV, customer base



Source: Company, SWS Research

Alibaba is the largest shareholder of Baozun, taking 16.5% stakes by end-2016 with 9.5% voting power. Baozun is ranked as one of two six-star (the highest ranking) Tmall service provider in 2H16.

Fig 6: Tmall service provider star ranking in 2H16

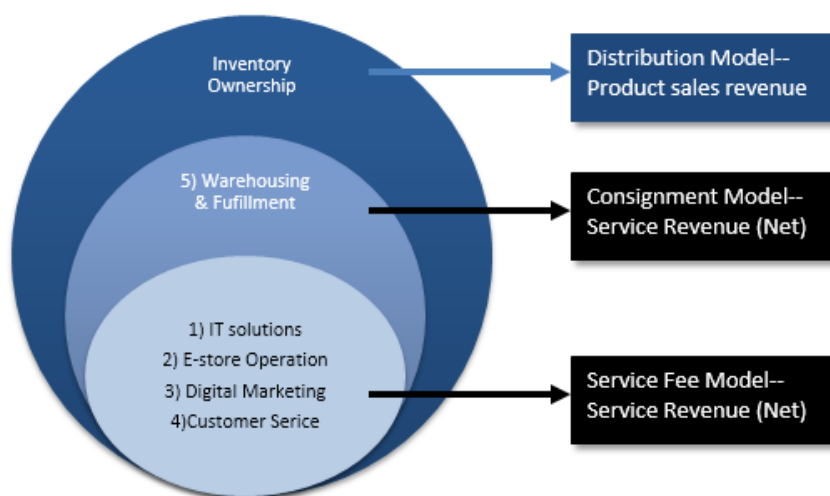
Service provider	Star	Industry
BZUN	Six	Sports;Apparel;3C;Appliance;Auto;Decorates;Shoes;Digital;Cosmetic;Local service;Health care;Baby&Mother;Jewery;Watch;FMCG; Bags;Underwear
LEQEE	Six	Baby&Mother; FMCG; Cosmetic;Health care;Pats;Flower;Digital
LILI&BEAUTY	Five	Cosmetic; Health care
QINGMUTEC	Five	Shoes; Sports; Bags; Apparel; Baby&Mother
GALAXEED	Five	Sports; Shoes; Baby&Mother
Others	Five or lower	

Source: Tmall, SWS research

Baozun is shifting its strategic focus from a distribution model to non-distribution model. Its non-distribution model consists of a services fee model as well as a consignment model. Besides traditional services like IT solutions, e-store operation, digital marketing and customer services, the consignment model includes warehousing fulfilment, while the distribution model takes ownership of inventory (which could be returned or exchanged with the brands). The distribution model contributed 64% of the firm's gross revenue in 2016, down from c.75% in 2014-15, while in terms of GMV contribution, it decreased from c.33% to 22% in 2016. Baozun guides continuous effort in this strategic shift. Accompanying the shift to a non-distribution model, the company's gross margin has risen from 31% in 2014 to 33% in 2015 to 43% in 2016; its non-GAAP net margin (adjusted for share-based compensation) rose from 1.6% in 2014 to 3.5% in 2016.

Baozun generate service fee and consignment revenue from three layers, one-time set-up fee, monthly mark-up fee and GMV-related commissions. The blended take-rate from service fee and consignment model is 14% in 2016. Separately, service fee take-rate was recorded as 16-17% in 1Q17, and consignment model recorded single digit take-rate. Distribution model recognized gross revenue through product sales and generate profit by deducting product costs, which recorded 12% gross margin in 2016.

Fig 7: Three business models of BZUN



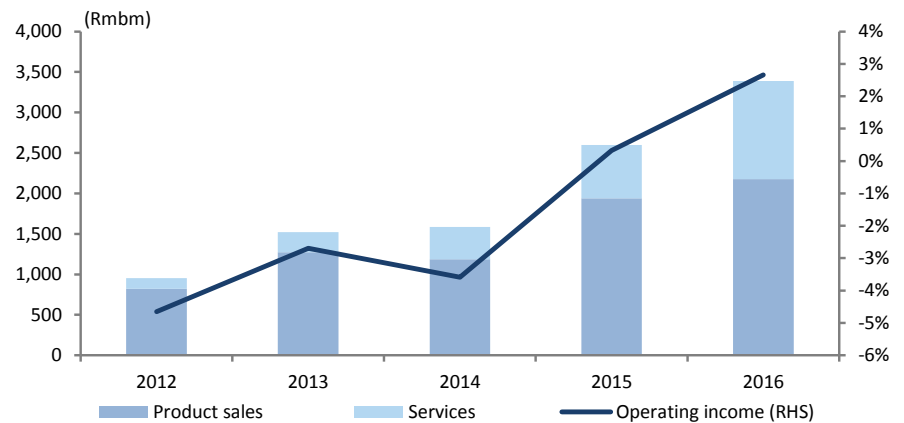
Source: Company, SWS Research

Fig 8: Baozun software used for services provided

Warehouse	BZUN & Third party
Warehouse management system	Baozun
Enterprise resource planning	Baozun
Customer relationship management	Baozun

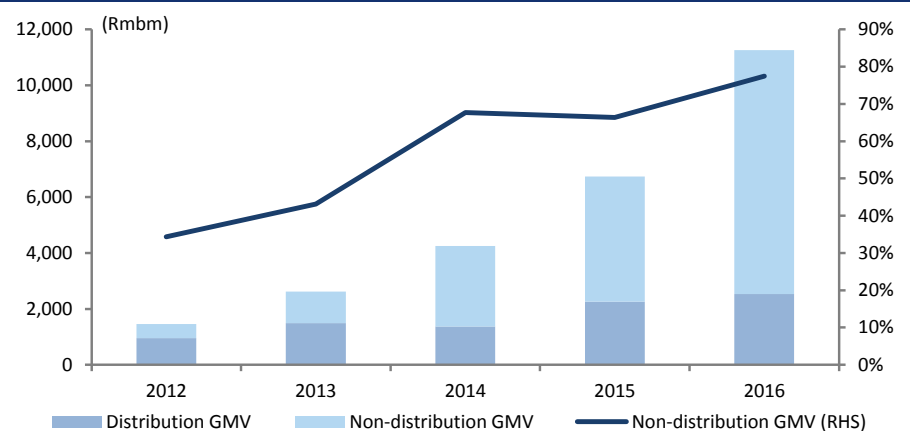
Source: Tmall, SWS Research

Fig 9: Revenue (of which: services fees) and operating margin



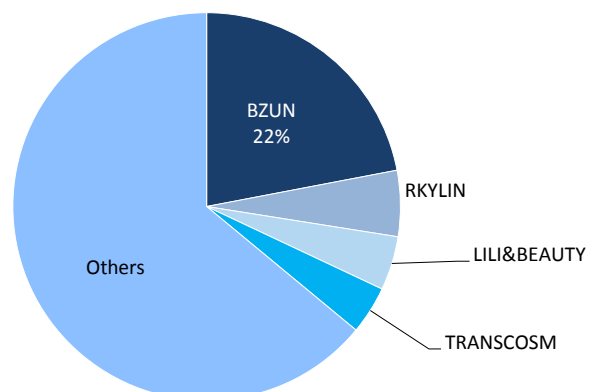
Source: Company, SWS Research

Fig 10: GMV (of which: distribution GMV)



Source: Company, SWS Research

Fig 11: BZUN market share



Source: iResearch 2014, SWS Research

Note: BZUN's 22% market share is 2015 data, the rest only statistically recorded in 2014.

Baozun also provides a channel to partner brands to sell leftover stock or flash sale of seasonal goods through its own online retail platform, Maikefeng (MKF). Majority products sold on MKF are through marketplace platform with few 1P supplies. Products sold on MKF are sold at high discounts, typically 70%. Unlike online branded goods discount sales platform VIPShop (VIPS:US – N-R), MKF mainly sources its goods directly from brand partners, ensuring quality at the lowest price possible.

MKF launched in March 2014, but has incurred heavy losses since then. Company management indicates they have no intention to close MKF and guide a narrowed loss in the year ahead. Maikefeng boasts 2m users with a monthly average user (MAU) base of c.500k as of early 2017. Maikefeng accounted for 1.4% of the firm's overall GMV in 2016.

Fig 12: Baozun's Maikefeng segment revenue and operating profit

	2014	2015	2016
Maikefeng-revenue (in product sales, Rmbm)	29	69	25
Maikefeng operating income	-17	-55	-54

Source: Company, SWS Research

Management and Shareholding structure

Fig 13: Management team

Directors and Executive Officers	Age	Position/Title
Vincent Wenbin Qiu	49	Director and Chief Executive Officer
Junhua Wu	38	Director and Chief Operating Officer
Satoshi Okada	58	Director
Qian Wu	43	Director
David McKee Hand	43	Independent Director
Yiu Pong Chan	44	Independent Director
Bin Yu	47	Independent Director
Steve Hsien-Chieng Hsia	53	Independent Director
Benjamin Changqing Ye	46	Independent Director
Beck Zhaoming Chen	34	Chief Financial Officer
Tony Yongjun Wu	52	Chief Technology Officer
Frank Lie Ma	40	Chief Strategy Officer
Aaron Kwok Yuen Lung	52	Vice president
Peter Tao Liang	29	Vice president

Source: Company, SWS Research

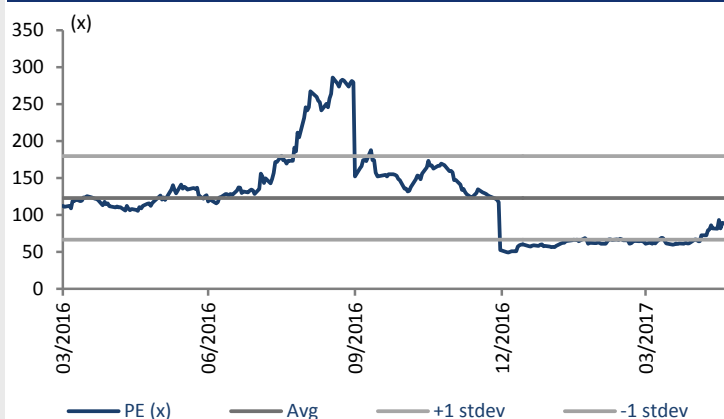
Fig 14: Share issue impact on shareholding structure

Directors and Executive Officers:	Class A	Class B	Percentage of ordinary shares (%)	Percentage of voting power (%)
Vincent Wenbin Qiu	2,244,614	9,410,369	7.20	34.20
Junhua Wu	2,342,542	3,890,369	3.80	14.60
Satoshi Okada	20,029,611		12.50	7.20
Qian Wu	26,469,422		16.50	9.50
David McKee Hand	17,608,196		11.00	6.30
Yiu Pong Chan	*		*	*
Bin Yu	*		*	*
Steve Hsien-Chieng Hsia	*		*	*
Benjamin Changqing Ye	*		*	*
Beck Zhaoming Chen	*		*	*
Tony Yongjun Wu	*		*	*
Frank Lie Ma	*		*	*
Aaron Kwok Yuen Lung	*		*	*
Peter Tao Liang	*		*	*
All our Directors and Executive Officers as a group	69,643,264	13,300,738	50.10	71.10

Principal Shareholders:				
Alibaba Investment Limited	26,469,422		16.50	9.50
Crescent Castle Holdings Ltd	17,608,196		11.00	6.30
Tsubasa Corporation	20,029,611		12.50	7.20
Jesvinco Holdings Limited	6	9,410,369	5.90	33.60
GS Entities	7,946,985		5.00	2.80
Casvendino Holdings Limited		3,890,369	2.40	13.90

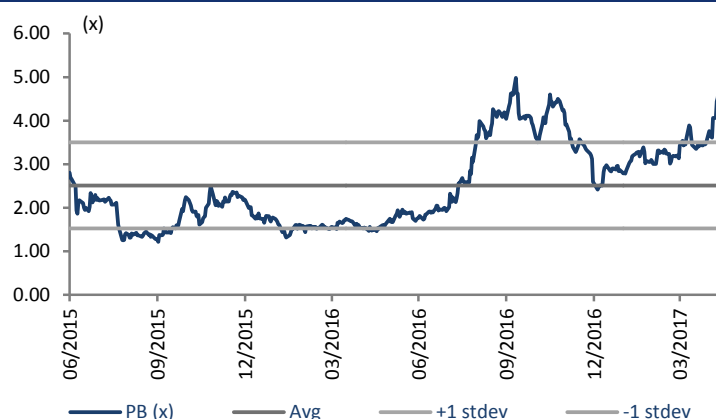
Source: Company data, SWS research

Fig 15: PE band charts



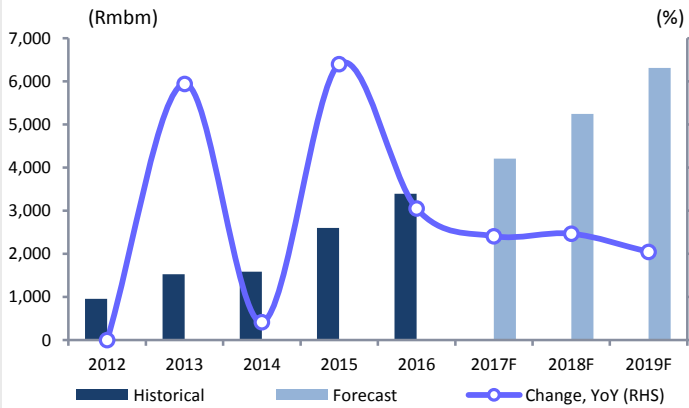
Source: SWS Research & Bloomberg

Fig 16: PB band charts



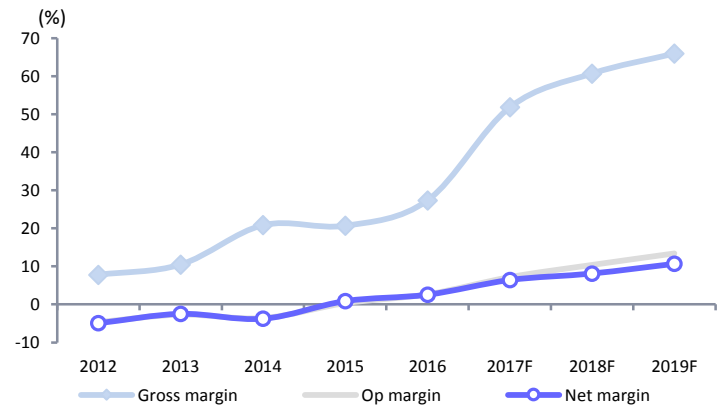
Source: SWS Research & Bloomberg

Fig 17: Revenue



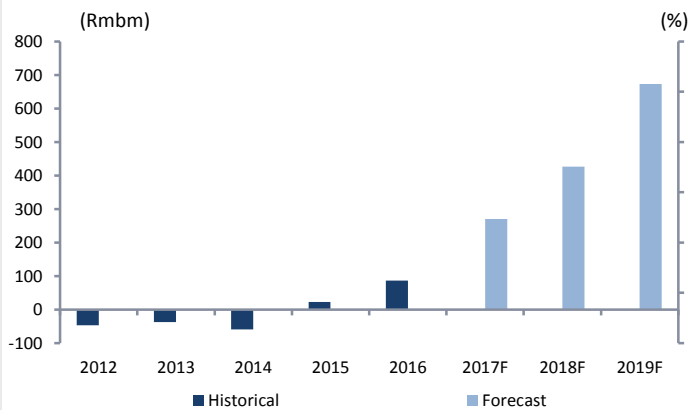
Source: SWS Research & Bloomberg

Fig 18: Margins



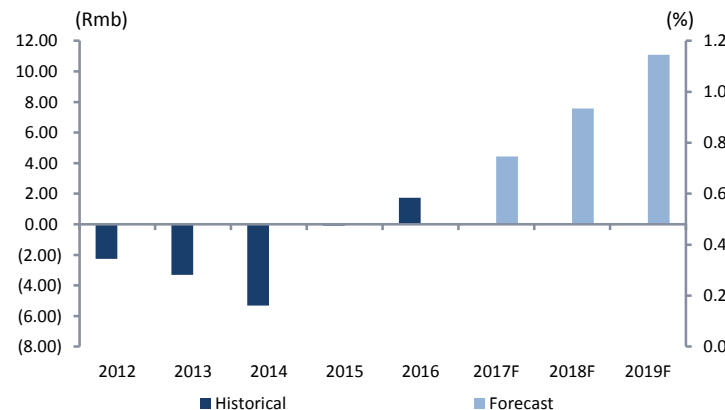
Source: SWS Research & Bloomberg

Fig 19: Net profit



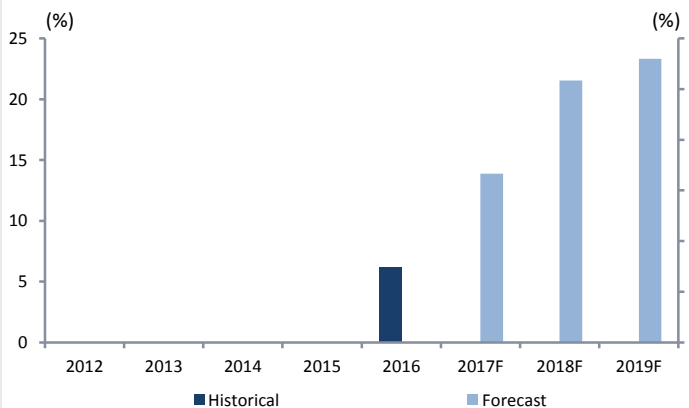
Source: SWS Research & Bloomberg

Fig 20: EPS



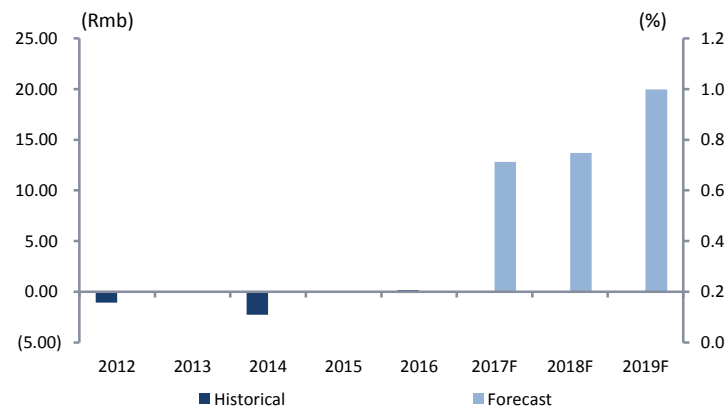
Source: SWS Research & Bloomberg

Fig 21: ROE



Source: SWS Research & Bloomberg

Fig 22: Cash flow per share



Source: SWS Research & Bloomberg

Appendix

Income Statement

(Rmb)	2013	2014	2015	2016
Revenue (m)	1,522	1,584	2,598	3,390
Operating income (m)	-41	-57	8	90
Pretax income (m)	-37	-58	27	102
Income bef XO items (m)	-38	-60	23	85
Net income (m)	-38	-60	23	87
Basic EPS before XO items	-3.31	-5.31	-0.29	1.74
Basic EPS	-3.31	-5.31	-0.08	1.74
Diluted EPS before XO items	-3.31	-5.31	-0.29	1.59
Diluted EPS	-3.31	-5.31	-0.08	1.59
Dividends per share	0.00	0.00	0.00	0.00
Ebitda (m)	-34	-44	32	126
ROE (%)	-	-	-	6.2

Source: Bloomberg

Balance Sheet

(Rmb)	2013	2014	2015	2016
Total current assets (m)	495	820	1,783	2,168
Total long-term assets (m)	36	53	106	200
Total assets (m)	531	873	1,889	2,368
Total current liabilities (m)	225	393	655	796
Total long-term liabilities (m)	-	-	-	-
Total liabilities (m)	225	393	655	796
Total shareholders' equity (m)	306	479	1,234	1,572
Shares outstanding (m)	30	28	50	49
Book value per share	-11.48	-15.10	24.45	32.28
Tangible book value per share	-11.81	-15.62	24.05	31.72
Equity to total liabilities	58	55	65	66

Source: Bloomberg

Cash Flow Statement

(Rmb)	2013	2014	2015	2016
Net income (m)	-37.8	-59.8	22.6	86.6
Depreciation and amortisation (m)	7.2	13.3	23.1	35.9
Change in working capital (m)	-34.5	156.0	701.9	243.8
Cash from operating activities (m)	-3.3	-66.5	2.2	13.4
Capital expenditures (m)	-14.8	-19.8	-46.5	-76.1
Cash from investing activities (m)	-63.5	-30.5	-126.9	-119.4
Cash from financing activities (m)	-49.2	149.3	705.6	236.1
Net changes in cash (m)	-115.9	52.2	580.9	130.1
Free cash flow (m)	-18.1	-86.2	-44.3	-62.7
FCF per share (basic)	-0.60	-2.94	-1.29	-1.25
FCF per share (diluted)	-0.60	-2.94	-1.29	-1.15
Cash flow per share	-0.11	-2.27	0.06	0.27

Source: Bloomberg

Information Disclosure :

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Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

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