

BUY

(Initial)

Textile and Apparel

Key Data

May. 09, 2019

Closing Price (HKD)	14.68
Total Shares (Mn)	518.7
Market Cap (HKD/Mn)	7,620
Net Assets (CNY/Mn)	129
Total Assets (CNY/Mn)	212
BVPS(CNY)	0.25

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JNBY (3306.HK)

Better Design, Better Life

Stock Connect (SH/SZ)

09/05/2019

Key Financial Indicators

FY	FY2018A	FY2019E	FY2020E	FY2021E
Revenue (Mn/CNY)	2,864	3,365	3,964	4,704
YoY (%)	22.8	17.5	17.8	18.7
Net Profit (Mn/CNY)	410	467	535	616
YoY (%)	23.8	13.9	14.5	15.1
Gross Margin (%)	63.7	64.0	64.5	64.8
Net Profit Margin (%)	14.3	13.9	13.5	13.1
ROE (%)	32.2	35.2	38.4	42.7
EPS (CNY)	0.80	0.92	1.07	1.24

Highlights

- Initial cover is rated by "buy", target price is 18.71HKD. Projected FY2019/20/21 the company will achieve revenue 3.37/3.96/4.70 Bn CNY respectively, YoY+17.5%/17.8%/18.7%; net profit attribute to shareholder are 0.47/0.54/0.62 Bn CNY respectively, YoY+ 13.9%/14.5%/15.1%. We think highly in multi-brand operations to achieve sustainable growth, "fans economy" strategy nurtured by omni-channels, sustainable design and R&D, and develop in and out market of the nation. The comprehensive advantages of the company will enhance observably, and its market share will improve gradually. We give target price 18.71HKD, which FY2019 PE is 20.3x. The target price which compared with closing price increased by 27.0%, initial coverage gives "buy" rating.
- Outstanding design, good products. On the one hand, stable matured design team is the key reason for the company to produce innovative products. On the other hand, the company consists "design drives" strategy, and creates unique JNBY group. Clothing design and arts are the two elements to output more and more products. In every season the company will design 3-4 series, which is over 3,000 SKU and 10,000 SKC. Fabric quality and material are the crucial elements of the new products. Thus, the company build lab to develop 10 advanced and customized fabric.
- Sub-segments with prospect and profitability: multi-brand operations, expand revenue increase in the future. Firstly, main brands JNBY grow gradually, and brand images are popular. Brands expansion rapidly, and brands matrix develop well. FY 2018 JNBY brand achieve revenue 1.62 Bn CNY, YoY +18.7%. Gross profit increase from 56.3% to 63.6% from FY2014 to FY2018. Secondly, the allocation of diverse brands accelerates largely, the company will cover many sub-segments. FY 2018 main brand JNBY and other brands achieve revenue 1.62 Bn CNY and 1.24 Bn CNY, others account for around from 25.6% to 43.4% from FY2014 to FY2018.
- Omni-channel grow sustainably, and e-commerce strategy improve the stickiness of fans. "Fans economy" is the core platform to build omni-channel. Offline stores expand gradually, online channel improve its profits obviously. Social media press platforms to change and get same store revenue increase. Payout ratio is around 75% which performs well began in public to now, which means the company has enough cash flow to pay for it.

Potential risks: Consumer preference, Industrial competition increase, offline channels below expectation, business expansion below expectation, brands A&D below projection, overstocked products.

This English translation of the original Chinese version <更好的设计，更好的生活> issued by Industrial Securities on 2019.5.8 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.



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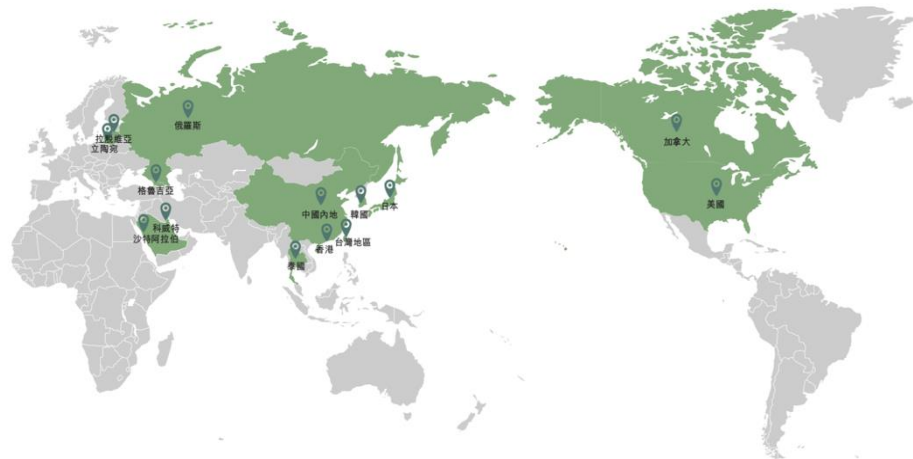
Report Content

1、JNBY Design Limited: Not only a clothing manufacturer, but also an outstanding designer

1.1、Company Introduction: A leading designer brand fashion house in China

JNBY Design Limited was founded in 1994 and listed on the Hong Kong Stock Exchange in 2016. With the multi-brand strategy and an Omni-channel platform, the company designs, promotes and sells contemporary apparel, footwear, accessories as well as household products. As of December 2018, the company operated 1,994 independent physical retail stores globally, and its sales network covers 18 countries and regions. The company has become a leading designer brand fashion house in China.

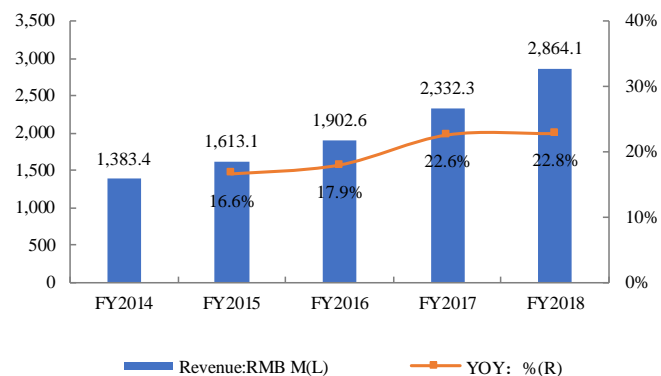
Fig1、 Global Sales network of JNBY



Source: Company Annual Reports, Industrial Securities collects

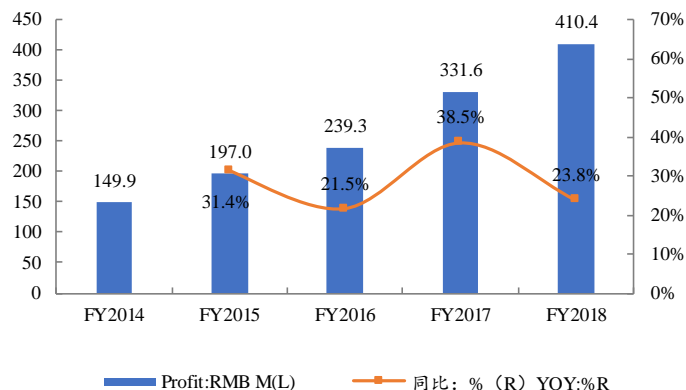
The performance is impressive, profits grow steadily Benefiting from the sales network expansion and the comparable store sales growth, JNBY's revenue increased from 1.38 billion yuan in FY2014 to 2.86 billion yuan in FY2018, during which the CAGR was 20.0%. The profit attributable to shareholders of the company increased from 150 million yuan in FY2014 to 410 million yuan in FY2018, during which the CAGR was 28.6%. In FY2019H1 JNBY's revenue was 2.03 billion yuan, up 23% year-on-year; gross profit was 1.24 billion yuan, up 20% year-on-year; net profit was 525 million yuan, up 19% year-on-year.

Fig2、 In FY2018, revenue of company was 2.86 billion yuan, YoY+22.8%



Source: Wind, Industrial Securities collects

Fig3、 In FY2018, profit of company was 410 million yuan, YoY+23.8%



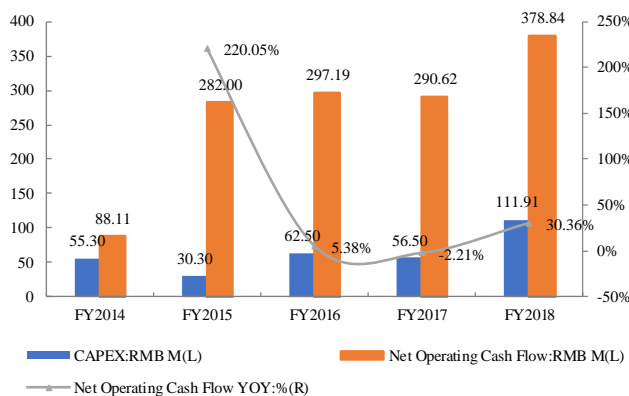
Source: Wind, Industrial Securities collects

1.2、 JNBY has an ideal dividend payout ratio, with sufficient cash flow to support the expected annual dividend rate of 75%

Developing steadily, the company maintains good cash flow and dividend rate for a long time.

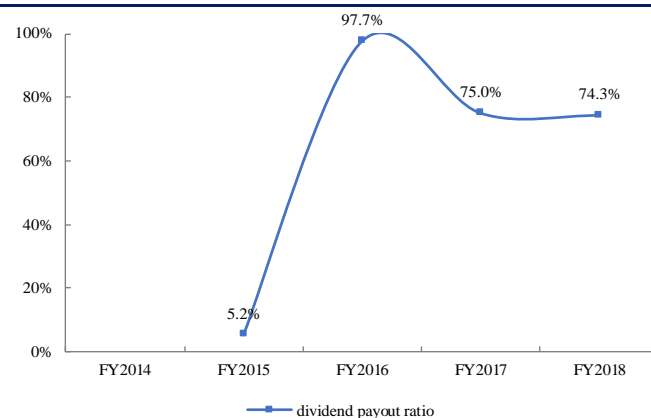
- The company's net cash flow from operations was strong. Except for FY2017, the net cash flow from operations kept rising year after year. In addition, it cover the CAPEX from year to year, which can meet the cash needs of investment activities. In FY2018, the company's operating net cash flow reached ¥ 379 million, up 30.4% year on year.
- The company has a rich annual dividend rate. In FY2016, the dividend payout ratio reached 97.7% because the company raised funds from IPO. In the following fiscal year, the company's dividend payout ratio was stable and remained at around 75.0%.

Fig4、 The company's net operating cash flow is greater than CAPEX



Source: Company Annual Reports, Industrial Securities collects

Fig5、 The company has a high dividend payout ratio



Source: Company Annual Reports, Industrial Securities collects

1.3、 Company History: Started the business since 1994, JNBY has become a leading designer brand in China

Since JNBY was founded, the company always focused on designer brand fashion. From the initial JNBY women's apparel brand to the continuous expansion of brand portfolio and product categories, the company's development path can be roughly divided into three stages.

- **Stage one (1994-2005): A Start-up designer brand with unique style**

Founder Li Lin started her clothing store in 1994. In 1997, she established the JNBY brand in Hangzhou, China. She registered the "JNBY" trademark with the concept of "Nature, Self" in 1999. The designer brand JNBY was then born.

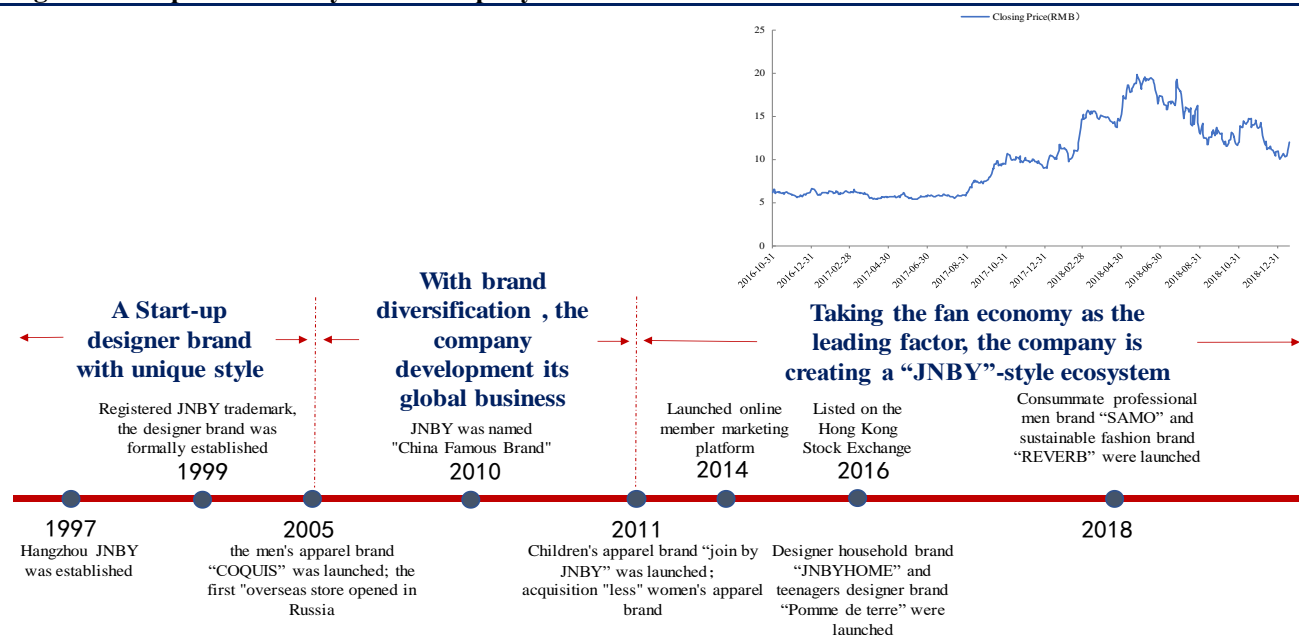
- **Stage two (2005-2011): With brand diversification, the company development its global business**

With the development of JNBY women's apparel brand, the company has expanded its brand to men's and children's apparel. During 2005-2011, the company continued to expand its brand portfolio to include men's apparel brand "COQUIS", children's apparel brand "join by JNBY" and professional women's apparel brand "less". At the same time, the company's retail network has developed to the international market. Its physical retail stores have expanded to countries such as Russia and Japan.

- **Stage three (2011-now): Taking the fan economy as the leading factor, the company is creating a "JNBY"-style ecosystem**

The company actively promotes the "fan effect" and fosters loyal customers of the brand. In 2014, the company launched the online member marketing platform as the main online portal, and the number of member accounts exceeded 1 million in 2016. As of June 2018, the number of member accounts has reached 2.5 million. In addition, the company continued to develop its sub-segment and launched the designer household brand "JNBYHOME", teenagers designer brand "Pomme de terre", the consummate professional men brand "SAMO", and the sustainable fashion brand "REVERB". At present, the company has developed into a multi-brand, all-category fashion group.

Fig6. Development History of the company

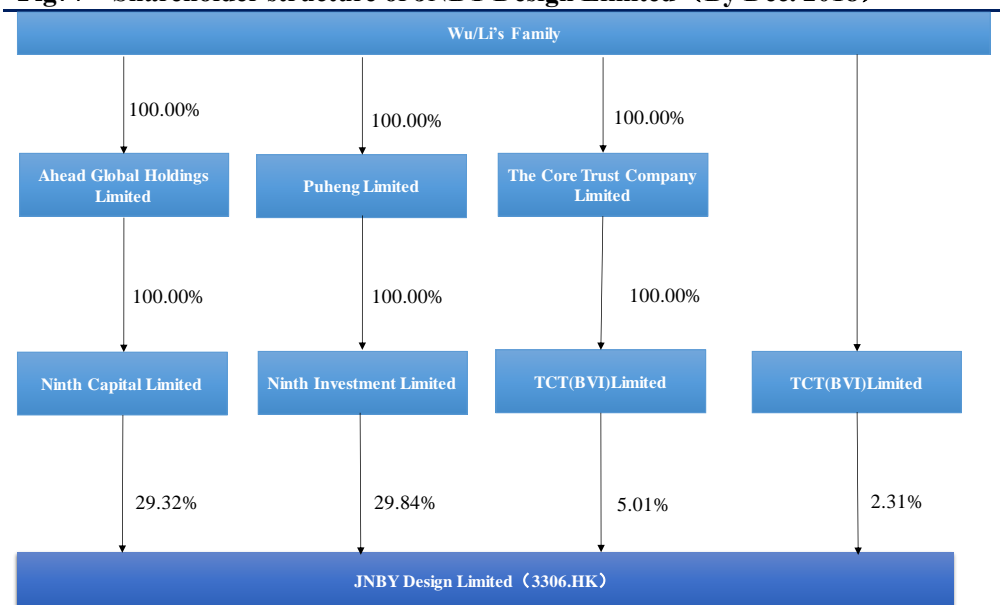


Source: Company Information, Industrial Securities collects

1.4、 Ownership Structure: the creator holds a large proportion of shares, the company operates steadily

The creator holds a large proportion of shares. A stable management team is conducive to the company's sustainable development. The founders Wu Jian and Li Lin's family indirectly controlled 29.32%, 29.84%, 5.01% and 2.31% of the company's shares through Ninth Global Limited, Ninth Investment Limited, TCT (BVI) Limited and Lee's Private Trust, respectively. They collectively own 66.48% of the company's equity, and the shareholding structure is relatively concentrated. At present, Wu Jian and Li Lin's family are the executive directors of the board of directors. The stable management structure of the JNBY is conducive to the company's consistent business strategy and plays an important role in the company's sustainable and stable development.

Fig7、 Shareholder structure of JNBY Design Limited (By Dec. 2018)



Source: Company Annual Report, Industrial Securities collects

2、 With nearly 100 billion unexplored new market, China's designer brands have great development opportunities

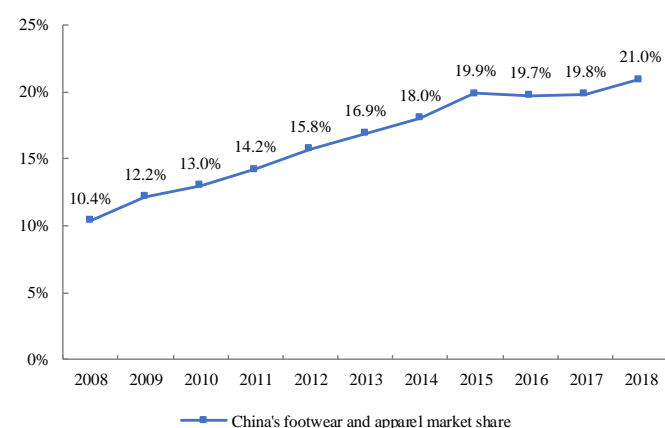
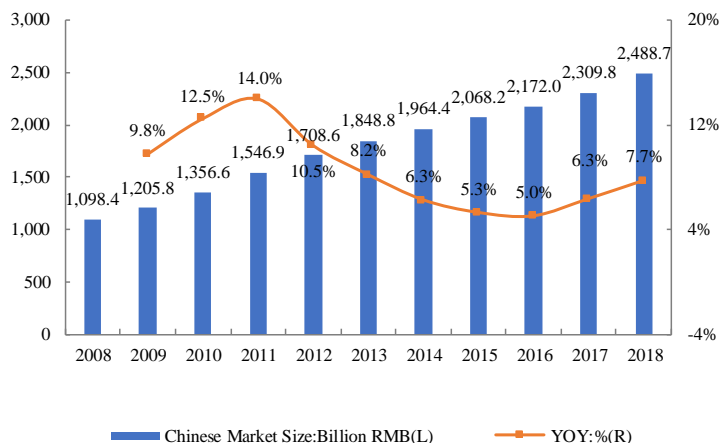
2.1、 As the market demand was strong, the rise of domestic designer brands is at the right time

2.1.1、 The industry is booming, and China has become a major consumer of shoes and apparel.

The market size of China's footwear and apparel industry is increasing in recent years. According to Euromonitor, the total sales of apparel and footwear in China increased from ¥109.84 billion to ¥2,488.7 billion in 2008-2018, and the CAGR of the decade was 8.5%. Benefiting from the huge consumer population, China's footwear and apparel market accounted for 21.0% of the total size of the global market, rising from 10.4% in 2008. China now becomes a big clothing consumer.

Fig8. China's overall footwear and apparel market has grown at a stable rate in the past 10 years

Fig9. China's footwear and apparel market share increased rapidly in the past 10 years



Source: Euromonitor, Industrial Securities collects

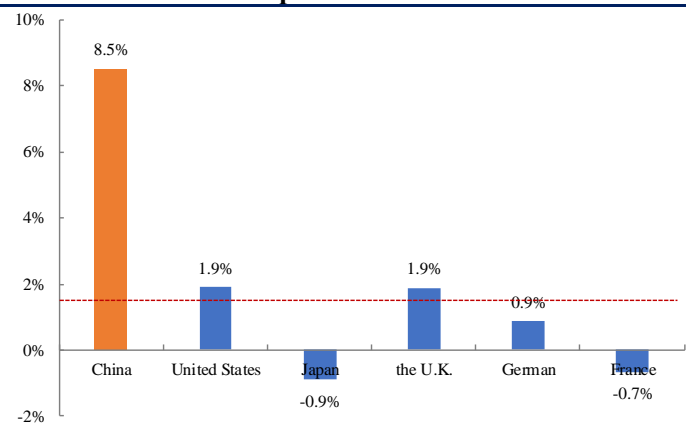
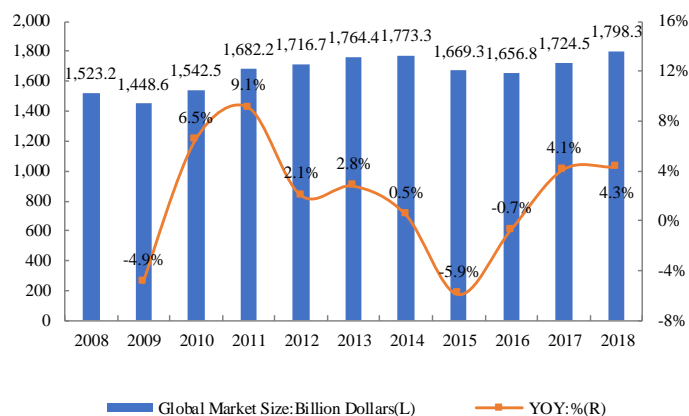
Source: Euromonitor, Industrial Securities collects

Note: China's footwear and apparel market size is converted to US dollars at historical exchange rates

Compared with the footwear industry of global market and developed countries, the domestic footwear industry has a fast growth rate. The market size of global footwear and apparel industry has grown from \$1,223.2 billion in 2008 to \$1,793.8 billion in 2018, with a CAGR of 1.7%. During this period, the CAGR of United States, Japan, the United Kingdom, Germany and France were 1.9%, -0.9%, 1.9%, 0.9% and 0.7%, respectively. Compared to these developed companies, China maintained a fast growth rate.

Fig10. Global footwear and apparel industry market size (Billion US dollars) and growth rate(%)

Fig11. China's footwear and apparel industry grew faster than developed countries from 2008 to 2018



Source: Euromonitor, Industrial Securities collects

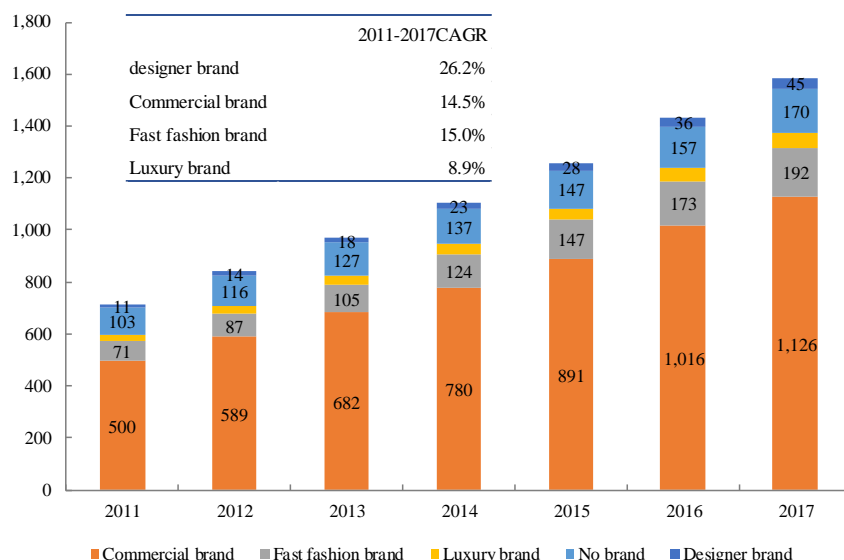
Source: Euromonitor, Industrial Securities collects

2.1.2. Designer brands are becoming more and more popular; the growth rate leads various sub-industries of footwear and apparel market.

Since 2011, China's designer brand market has expanded rapidly. The domestic footwear and apparel market consist of four sub-industries: designer brands, commercial brands, fast fashion brands, and luxury brands. In 2017, the designer brand market accounted for only 2.8% of the Chinese footwear and apparel market. However, **the designer brand has been increasingly popular due to its unique design style and high recognition.** The market size of designer brand has increased from ¥ 11.1 billion

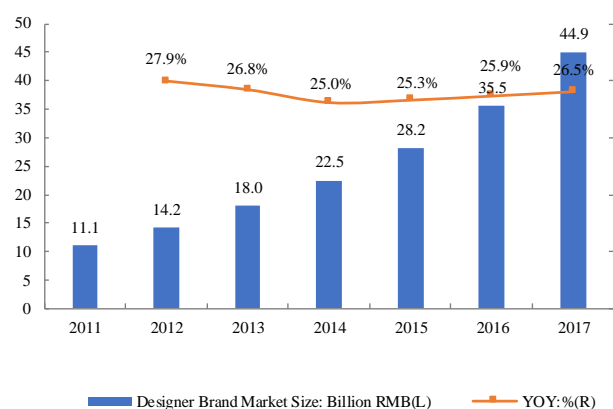
in 2011 to ¥44.9 billion in 2017, with a CAGR of 26.2%. Its growth rate ranked first in all segments of the footwear and apparel industry.

Fig12、 Designer brands are increasingly popular



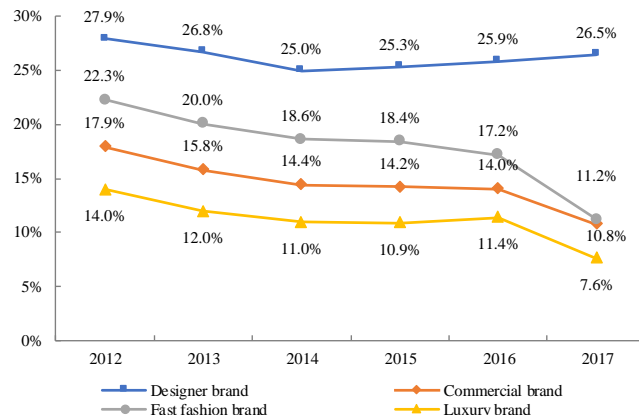
Source: CIC, Industrial Securities collects

Fig13、 China’s footwear and apparel industry market size (Billion RMB) and growth rate(%)



Source: CIC, Industrial Securities collects

Fig14、 Designer brands grow faster than various sub-industries of footwear and apparel market

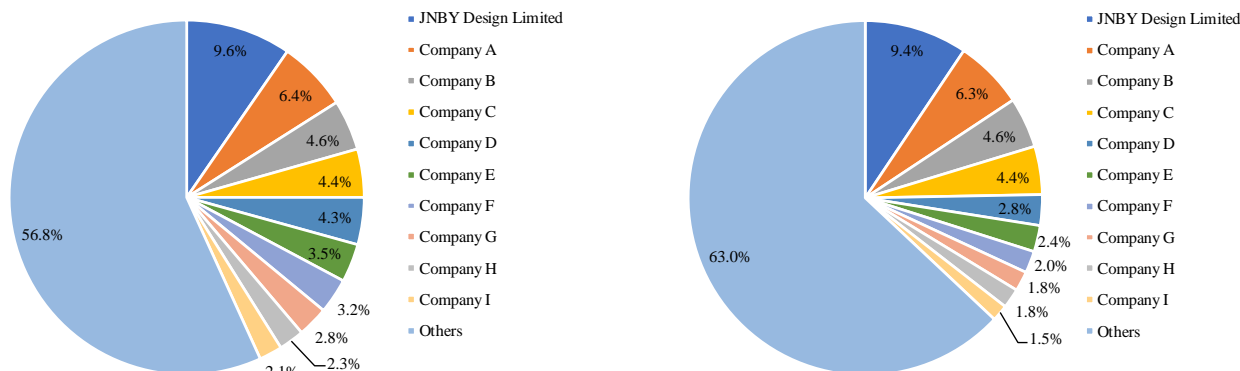


Source: CIC, Industrial Securities collects

2.2、 The competitive landscape of domestic market is relatively scattered; the scale expansion is difficult

The designer brand market is highly competition and the industry concentration are relatively low. Designer brands industry has attracted amounts of industrial competitors due to its broad growth space and low barriers to entry, but most brands are still independent designer brands that target niche markets. According to CIC data, there are more than 300 practitioners in the domestic designer brand fashion industry. In 2017, the CR5 of the designer brand market was only 27.5%, and the CR10 was 37.0%. Among them, JNBY has an absolute scale advantage with a market share of 9.4%.







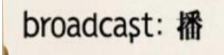

Fig15、China’s designer brand market share in 2015 **Fig16、China’s designer brand market share in 2017**



Source: China Insights Consultancy, Industrial Securities collects Source: China Insights Consultancy, Industrial Securities collects

Constrained by the double bottleneck of upstream and downstream resource channels, influential large-scale domestic designer brands are still scarce. In 15 years of development of the industry, not many designer brands can truly scale up and achieve lasting profitability. Very few designer brands are currently familiar to domestic consumers. Those brands include JNBY, CHI ZHANG, Sankuanz, CHICTOPIA, EXCEPTION, and ZUCZUG.

Table1、 Review of famous designer brands

			
Brand: JNBY Release: 1997 Advocating a "natural, healthy and perfect" lifestyle	Brand: EXCEPTION Release: 1996 Create a style that is simple, subtle, comfortable, and practical, with both cultural and artistic qualities	Brand: ZUCZUG Release: 2002 A life-rich, clear, unique and humorous apparel	Brand: CHI ZHANG Release: 2007 Each piece reflects the luxury style and has a dramatic tension
			
Brand: Sankuanz Release: 2006 Maintain a simple and practical style, paying attention to the texture of the fabric	Brand: CHICTOPIA Release: 2009 Elegant and avant design, focusing on the original spirit of fashion design	Brand: broadcast Release: 1997 Implicit, generous, unobtrusive, and slightly neutral romance	Brand: Tangy Release: 1995 Advocating pure and natural, with a beautiful appearance and a beautiful charm

Source: online resources, Industrial Securities collects

The main reason why domestic designer brands are difficult to scale are:

- **It is difficult to obtain support from upstream supply chain.** The high degree of personalization of the designer brand leads to a small number of target consumer groups. The designer brand is thus difficult to form mass productions, and lacks bargaining power for apparel manufacturers; On the other hand, the high degree of personalization reflected in the design elements of color, printed embroidery and surface accessories makes it difficult for the general upstream garment manufacturers to provide relevant technical support. The high cost and high requirements make the designer brands difficult in the expansion stage.

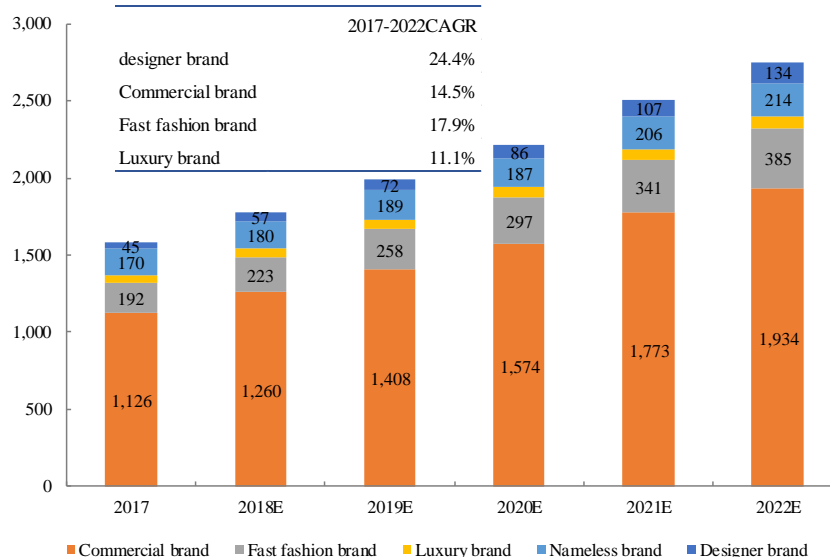
- **The downstream marketing channels are scarce.** The newly established designer brand generally takes 3 to 5 years of incubation time to form a relatively positive capital flow. During this period, limited by funds, the marketing methods of designer brands are relatively simple, including word of mouth marketing and show activities. It is difficult to establish a profound brand image through these methods.

2.3、 Both the supply and demand sides are favorable; the designer brand industry has great growing potential

2.3.1、 Potential market space of 134 bn CNY, CAGR up to 24.4% in the next five years

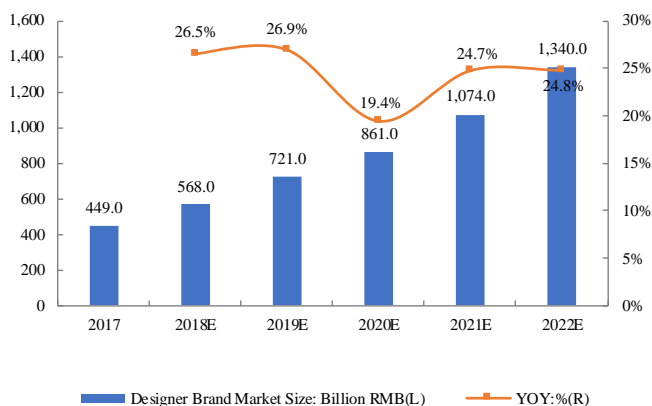
Domestic designer brands will maintain rapid growth. According to CIC data, the size of the domestic designer brand fashion industry is expected to grow from ¥44.9 billion in 2017 to ¥134 billion in 2022, with a CAGR of 24.4% during the period, much higher than the growth rate of other sub-categories. Benefiting from rapid growth, the proportion of designer brand apparel in the overall apparel market will increase by 3.32 pts from 1.55% in 2011 to 4.87% in 2022.

Fig17、 Domestic designer brands will maintain rapid growth (Billion RMB)



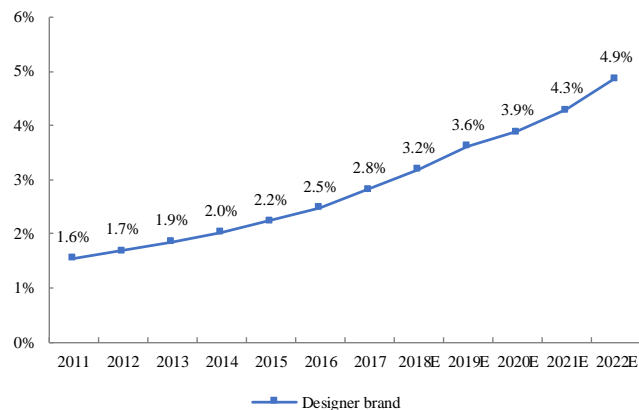
Source: CIC, Industrial Securities collects

Fig18、 Designer brand future market size (Bn CNY) and growth rate (%)



Source: CIC, Industrial Securities collects

Fig19、 Proportion of designer brand apparel in the overall apparel market increased steadily



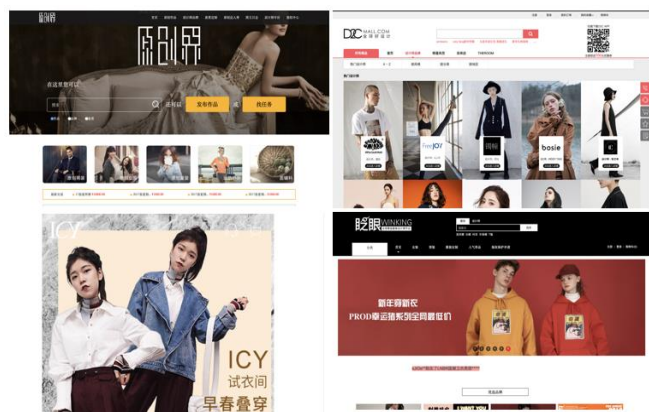
Source: CIC, Industrial Securities collects

2.3.2、 Designer brand incubation platforms help channels upgrade, thus opening the industry imagination space

To solve the pain points of the industry, the designer brand incubation platforms are booming. At present, according to different service scopes, there are two types of designer brand incubation platforms in China. One is a designer platform that integrates resources to solve production problems and provide sales channel services for designer brands, similar to the winking.com, ICY and some integrated stores; The other is a designer brand integrated store model that helps achieve channels landing. The data shows that the number of local buyer stores increased from 1,636 in 2015 to 3,781 in 2017, an average annual increase of more than 52.0%.

- **The designer brand incubation platform is favored by the capital market.** Since 2015, in addition to individual designer brands, more and more designer brand platforms have received assistance from VC and PE investment institutions. In 2018, Magmode received a \$30 million Series C round of funding led by IDG Capital; AnyShopStyle received a \$10 million series A round of funding led by Ventech China.

Fig20、 Designer original clothing e-commerce



Source: Online information, Industrial Securities collects

Fig21、 Designer brand integration store



Source: Online information, Industrial Securities collects

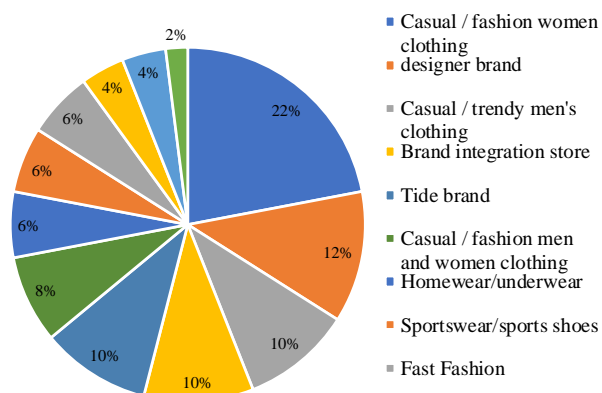
Table2. Review of capital in designer brands market

Designer Platform	Amount	Round	Year	Investment Company
Magmode	¥ 10 million	Angel round	2015	N/A
Magmode	¥ 30 million	Pre-A round	2016	Led by China Growth Capital, co-invested by IDG Capital
Magmode	\$10 million	A round	2016	Led by Ventech China, co-invested by Sinovation Ventures, China Growth Capital, and IDG capital
Magmode	¥ 50 million	B1 round	2017	Led by IDG Capital, co-invested by Sinovation Ventures and Ventech China
Magmode	\$15 million	B2 round	2017	Led by Cathay Capital
Magmode	\$30 million	C round	2018	Led by IDG Capital, co-invested by Cathay Capital
AnyShopStyle	¥ 1.5 million	Angel round	2015	Rafting Capital
AnyShopStyle	¥ 1 million	Pre-A round	2016	Crsytal stream Capital, Entertainment Works
AnyShopStyle	¥ 1 million	A round	2018	Led byVentech China, co-invested by K2VC
Winking	¥ 15 million	A round	2016	HORUS Capital
Winking	¥ 6 million	N/A	2017	BOBAOLON
i.CY	¥ 100 million	Around	2018	Led by FOSUN RZ Capital, co-invested by 36Kr
INXX	¥ 100 million	B round	2018	Led by Legend Capital, co-invested by K2 Venture Partners
D2C	¥ 10 million	B round	2015	Led by IDG Capital

Source: online resources, Industrial Securities collects

- Shopping centers enter the designer brand market.** In recent years, domestic large shopping malls have actively invited designer brand to settle in and actively tilt some production and membership resources. According to the data, in the first quarter of 2018, designer brands and brand-integrated stores were ranked second and fourth respectively in the top 50 apparel brands. On the other hand, large shopping malls have opened designer brand integration stores. Yintai Center, Beijing SKP, Reel Department Store and Bailian Group have successively opened multi-brand boutique in recent years.

Fig22. Clothing categories that are concerned by shopping centers in 2018Q1



Source: Win Business Big Data, Industrial Securities collects

Fig23. Bailian's designer brand integration store "The Balancing"



Source: Online information, Industrial Securities collects

Fig24、 Reel's designer brand integration store “Assemble by Reel”



Source: Online information, Industrial Securities collects

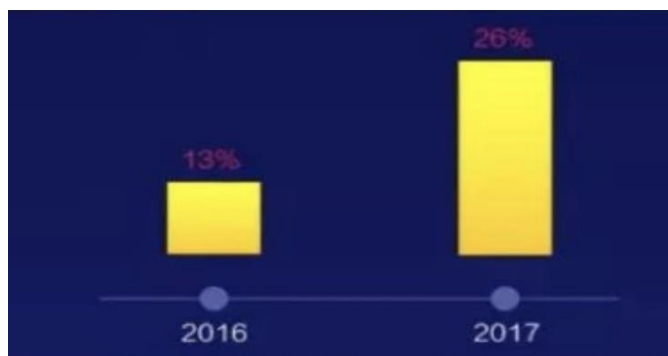
Fig25、 SKP's designer brand integration store “SKP Select”



Source: Online information, Industrial Securities collects

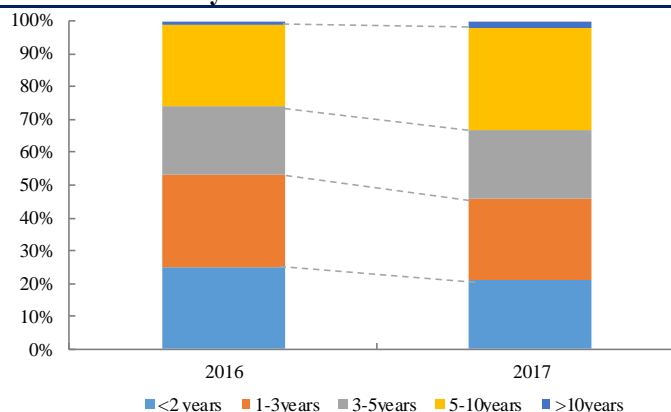
- Integrated e-commerce may become the next original designer incubation platform.** In order to promote the development of local designer brand industry, e-commerce giants have been active in recent years. In 2015, JD.com and China Fashion Designers Association reached a strategic cooperation agreement. The two sides cooperated to establish an online support platform for outstanding designer brands, providing original designers with online traffic resources and full operational support. In 2018, T-mall launched the "Designer DT Innovation Program" and plans to cultivate five billion-level brands in the design apparel field within one year. According to Alibaba, the number of newly opened original designer online stores increased by 26% year-on-year in 2017, and the number of mature stores with more than five years history accounted for more than 30%.

Fig26、 The number of new online design store increased by 26% in 2017



Source: Alibaba Data, Industrial Securities collects

Fig27、 The number of original stores opened online for more than 5 years exceeded 30% in 2017



Source: Alibaba Data, Industrial Securities collects

2.3.3. With the rise of the middle class, China's per capita clothing consumption still has room for improvement

The consumption power of residents has increased steadily, and the proportion of middle-to-high-end income groups has increased. In 2018, China's per capita disposable income reached 28,000 CNY, an increase of 8.7% year-on-year. According to the Economist's forecast, based on 2015, China's the proportion of mid-to-high-end income groups will increase from 10% in 2015 to 35% in 2030. For the designer brands that target high-income people in China, the increase in spending power and the number

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of middle-class people provides a good foundation for the industry.

Table3、 Pricing Range of designer brands

Company Name	Target Group	Price Range
JNBY	Mid-to-high-end	¥ 160 ~ ¥ 11800
broadcast	Mid-to-high-end	¥ 800 ~ ¥ 4000
DAZZLE Fashion	Mid-to-high-end	¥ 200 ~ ¥ 7000
icicle	Mid-to-high-end	¥ 195 ~ ¥ 6000
TANGY	Mid-to-high-end	¥ 400 ~ ¥ 4000
ZUCZUG	Mid-to-high-end	¥ 500 ~ ¥ 3500
OMNIALUO	Mid-to-high-end	¥ 800 ~ ¥ 15000
Mo&Co.	Mid-to-high-end	¥ 150 ~ ¥ 3500

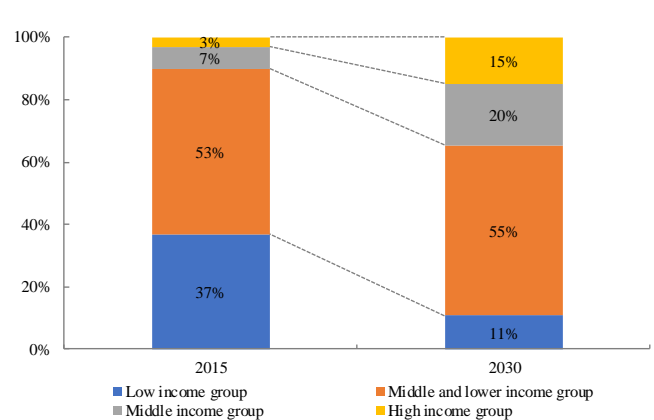
Source: online resources, Industrial Securities collects

Fig28、 China's per capita disposable income



Source: National Bureau of Statistics, Industrial Securities collects

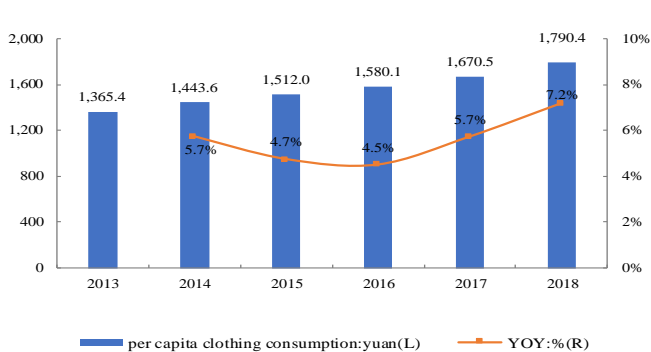
Fig29、 China's income class



Source: The Economists, Industrial Securities collects

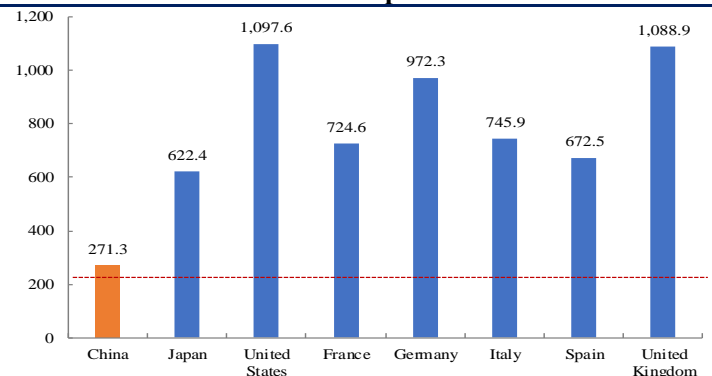
There is still much room for improvement in the per capita consumption of shoes and clothing in China. With the increase of residents' spending power, China's per capita consumption of shoes and clothing increased from ¥1,365 in 2013 to ¥1,790 in 2018, and the five-year CAGR was 5.6%. Despite the rapid growth, compared with developed countries, China's per capita consumption of shoes and clothing is significantly lower than that of developed countries such as Japan, the United Kingdom, the United States, and Germany. There is still room for improvement in the future.

Fig30、 China's per capita clothing consumption (yuan / person)



Source: Euromonitor, Industrial Securities collects

Fig31、 China's per capita clothing consumption is still smaller than that of developed countries

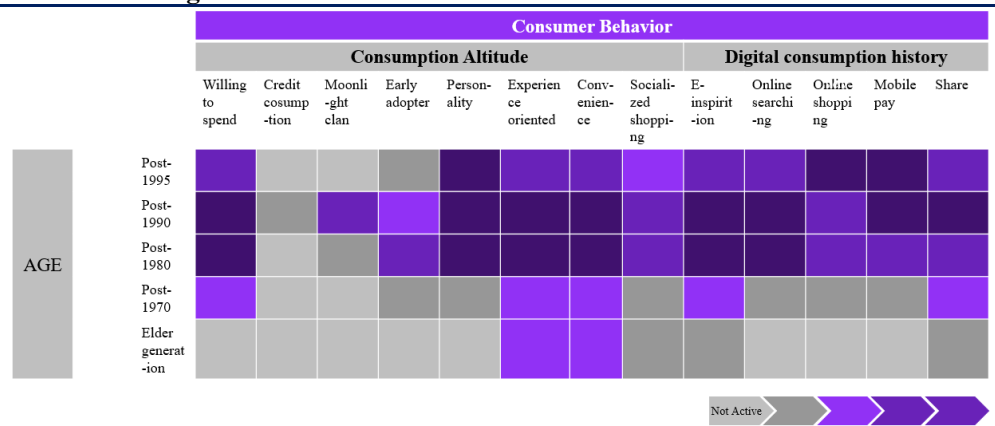


Source: Euromonitor, Industrial Securities collects

2.3.4. Consumer demand is moving towards “self”, designer brands gain growth opportunities

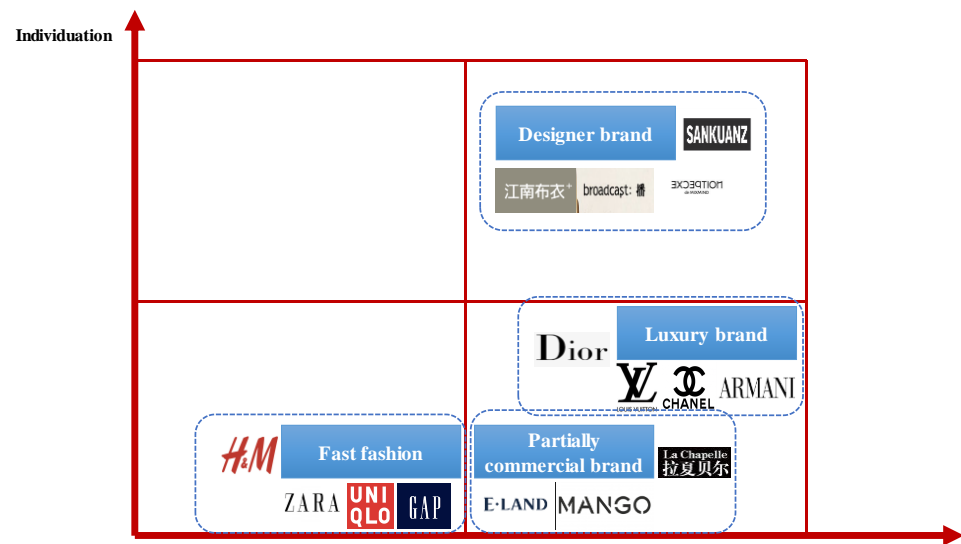
Consumer demand changes from “mass” to “self”. The designer's brand industry featuring unique products benefits the most. With the “millennials” and the rising middle class becoming the main consumer groups of clothing, clothing is no longer an item just to meet the basic needs of life, but also to be the carrier of individuality. Design style and quality have become major purchase considerations. Designer brands will be increasingly popular with their uniqueness and differentiated products.

Fig32、 post-1980 and post-1990 generations focus more on individuality when consuming



Source: Accenture, Industrial Securities collects

Fig33、 Designer brand is highly personalized



Source: Industry association information, Industrial Securities collects

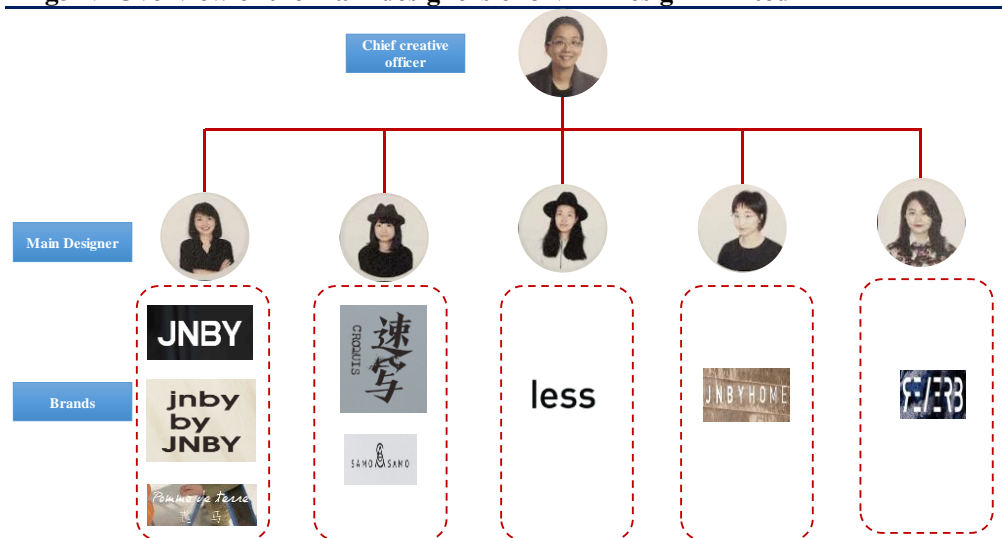
3、 Design-driven products, fan economy and multi-brand strategy are the three competitive advantages of the company.

3.1、 Outstanding design and R&D capabilities make the brand stand out

3.1.1、 A stable and mature design team is the key reason for the company's continuous innovation

The company built a design team with the founder Li Lin as the core, which makes the design concept come down in one continuous line. At present, the company's design and development team has more than 60 designers, of which the main brand master designers have been in business for more than 15 years. Founder Li Lin, the chief creative officer of the R&D team, was honored by Forbes as “the 25 most influential Chinese in the global fashion industry” in 2010 and was elected to the Board of Directors of the Beijing Museum of Contemporary Art at the Vancouver Art Gallery. Under the guidance and control of Ms. Li Lin, the design style of JNBY system is highly consistent. JNBY is regarded by Forbes China as one of the top six brands that most likely go international in China.

Fig34、 Overview of the main designers of JNBY Design Limited



Source: Company information, Industrial Securities collects

The design team is very important, and the designers have the freedom to design. In order to ensure the design team's freedom to design, the company adopts a design-led retail model, enabling designers to make full use of their aesthetic and professional experience to pursue artistic beauty rather than catering to the latest trends in the market. At the same time, the company's compensation incentives are in place to provide designers with stable and attractive remuneration packages (including restricted shares). The design team is stable and only five designers have left in the past two decades.

Experienced design teams are gradually gaining recognition in the international market. Under the efforts of the design team, JNBY's design style has been internationally recognized, and the works have been shown on the Fashion Week in Japan, Toronto and New York. At the same time, the company's sales network gradually expanded to international market. In FY2018, the company's business covers 17 countries and regions except mainland China. 45 overseas stores achieved revenue of

¥ 27.82 million, an increase of 61% year-on-year.

Fig35、 JNBY2014 Spring/Summer Collection Showcased at Tokyo Fashion Week



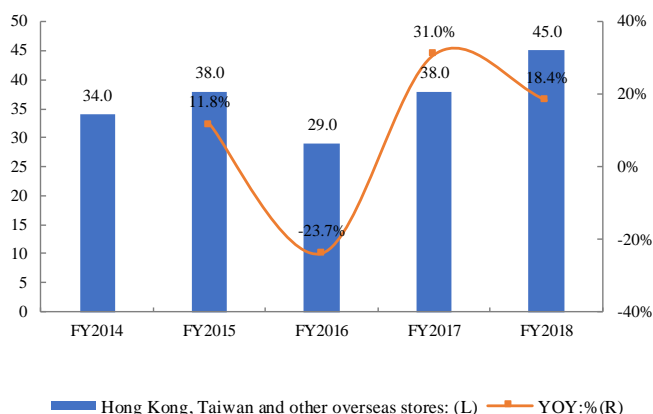
Source: Company information, Industrial Securities collects

Fig36、 JNBY2019 Spring/Summer Collection Showcased at New York Fashion Week



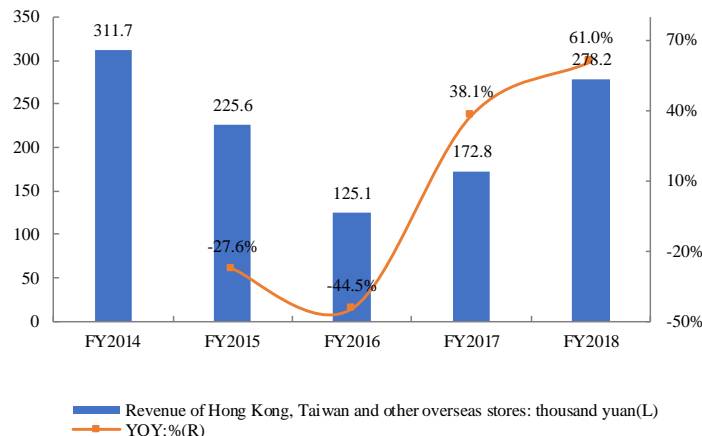
Source: Company information, Industrial Securities collects

Fig37、 In FY2017, JNBY added 7 overseas Stores



Source: Company Annual Reports, Industrial Securities collects

Fig38、 Overseas store revenue was 27.82 million yuan in FY2018, +61.0% yoy

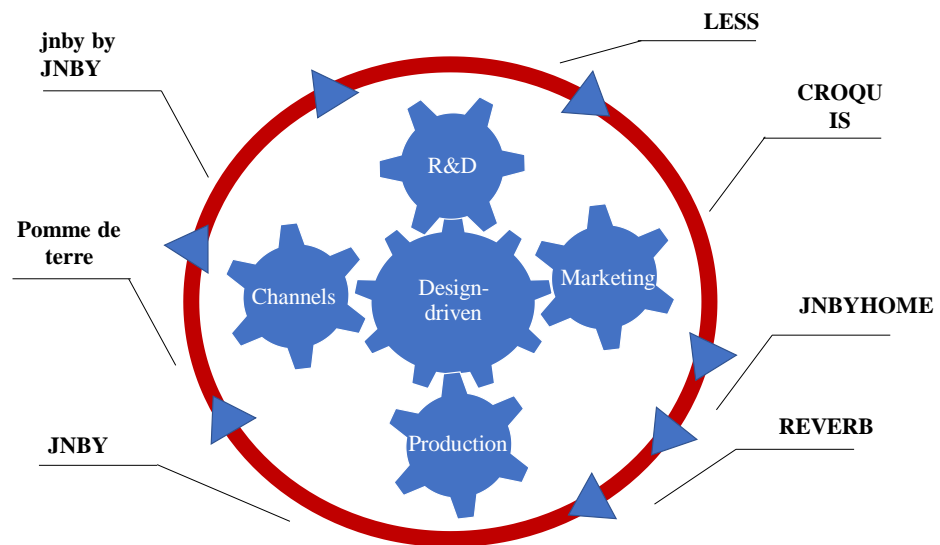


Source: Company Annual Reports, Industrial Securities collects

3.1.2、 Adhere to the "design-driven" strategy to become a unique JNBY

The company's "design-driven" strategy is mainly reflected in the differentiation of clothing style design and the quality-oriented fabric material selection. Since the company's inception, the design team has adhered to the "design-driven" concept, not blindly following the market trend but focusing on the originality and uniqueness of the product. The simple and elegant clothing style and exquisite fabric reflect the purest life attitude and give the brand a unique design image.

Fig39、JNBY’s design-driven model



Source: Company information, Industrial Securities collects

Clothing style design: linked with art, innovative products continue to flow. Under the concept of “Incorporating Art into Life”, the design team draws design inspiration from the art. In order meeting of each season, the design team will arrange small design groups to specialize in innovative design. Each season, 3 to 4 theme series will be launched for individual brands, and the total design will exceed 3,000 models (SKU), about 10,000 products (SKC). In 2017, in the ranking of “the first Chinese women's designer brand to be thought of by consumers” and “the most recognizable Chinese women's designer brand”, the company’s main brand JNBY ranked first in both rankings, highlighting the company's strong design capabilities.

Fig40、 Examples of product and art combination



Source: Company information, Industrial Securities collects

Fig41、2019 Spring and Summer "Unlimited" series



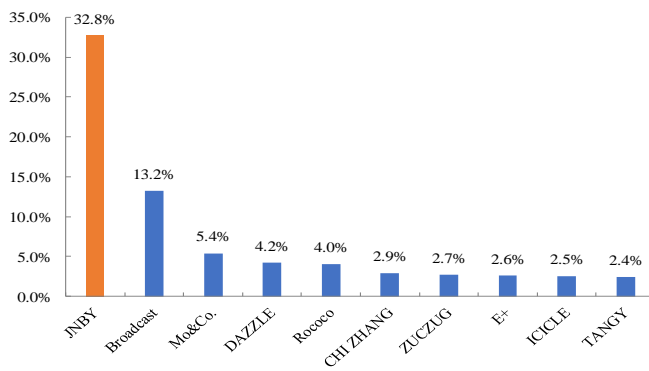
Source: Company information, Industrial Securities collects

Fig42、2019 Spring and Summer "Informal" series



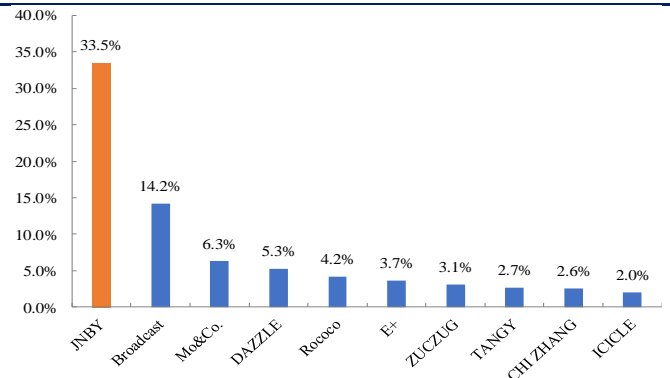
Source: Company information, Industrial Securities collects

Fig43、JNBY ranked first in the “first Chinese women's designer brand to be thought of by consumers”



Source: CIC, Industrial Securities collects

Fig44、JNBY ranked first in the “the most recognizable Chinese women's designer brand”



Source: CIC, Industrial Securities collects

Fabric Material Design: diverse design is the key to distinguish products' uniqueness. Since the founding of JNBY, the diversification and quality of fabrics has always been the focus of the company's attention. The company has not only set up a special team responsible for fabric research, but also set up a JNBY Fabric Laboratory focusing on fabric development in 2014. At present, it has successfully developed 10 kinds of first-class custom fabrics. At the same time, the company is committed to discovering and using high-quality fabrics to interpret the “close to natural” design concepts, such as excellent high-sensitivity Japanese ueyama cotton, waterproof and oil-resistant reverse calendared all-different canvas and linen denim and sustainable raw materials such as organic cotton, recycled polyester, sustainable wool and VITA fabrics.

Fig45、JNBY’s Fabric Laboratory



Source: Company information, Industrial Securities collects

Fig46、Part of the company's fabric



Source: Company information, Industrial Securities collects

Fig47、Products from JNBY fabric Lab



Source: Company information, Industrial Securities collects

Fig48、Display of fabrics used by the company in recent years



Source: Company information, Industrial Securities collects

3.2、Sub-segments with prospect and profitability

3.2.1、Accelerating the process of brand diversification and comprehensive coverage of market segments

The brand expansion speed is accelerated, and the brand matrix forms a revenue growth baton. In order to gain business opportunities in the fast-growing designer brand fashion, from 2014 to now, the company has launched four new brands, and the brand layout has obviously accelerated. In FY2018, revenue of main brand JNBY and non-main brands was 1.62 and 1.24 billion respectively. The proportion of non-primary brand revenues to total revenue increased by 17.8pcts from 25.6% in FY2014 to 43.4% in FY2018.

The main brand JNBY is the company's largest source of revenue. Since the establishment of the brand, the company has actively promoted the multi-brand development strategy based on the “natural and self” design concept to deeply explore different market segments. The products are positioned in middle- and high-level-income customers to realize the coverage of different market segment such as women's wear, men's wear, children's wear and household products, etc.

According to the brand incubation time, the company brands are divided into three categories:

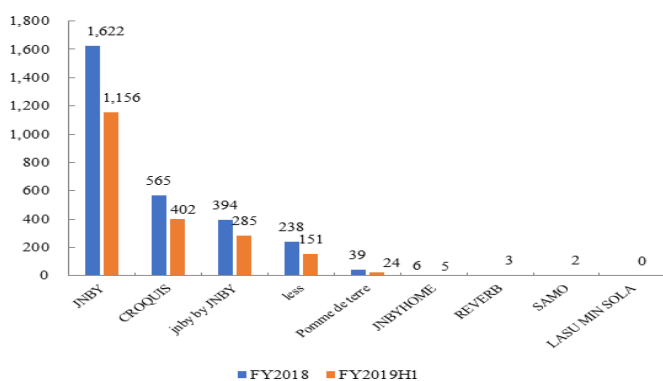
The first category is mature brand: JNBY;

The second category is the growing brand: CROQUIS, jnby by JNBY, less;

The second category is the nascent brand: Pengma, JNBYHOME, REVERB, SAMO, LASU MIN SOLO, APN.

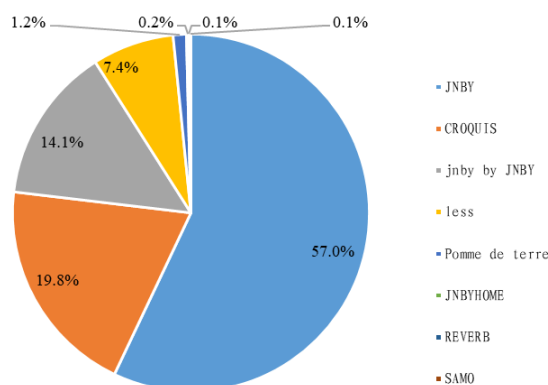
In FY2018, mature brands, growth brands and nascent brand revenues accounted for 58.6%, 40% and 1.4% of total revenue respectively.; FY2019H1 was 57%, 31.7% and 1.7% respectively.

Fig49、 Revenue of each brand in FY18 and FY19H1 (million yuan)



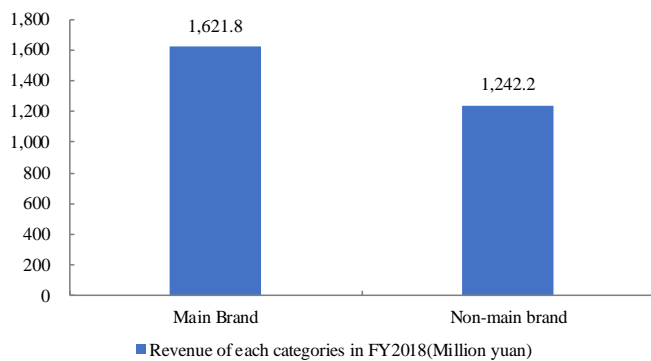
Source: Company Annual Reports, Industrial Securities collects

Fig50、 The proportion of revenue of each brand of the company (%)



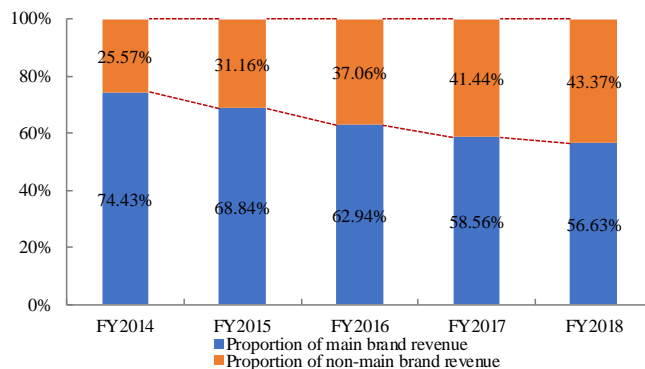
Source: Company Annual Reports, Industrial Securities collects

Fig51、 Revenue of each categories in (Million yuan)



Source: Company Annual Reports, Industrial Securities collects

Fig52、 Proportion of non-main brand revenue gradually increased in FY2018



Source: Company Annual Reports, Industrial Securities collects

Table4. Products Matrix of JNBY Design Limited

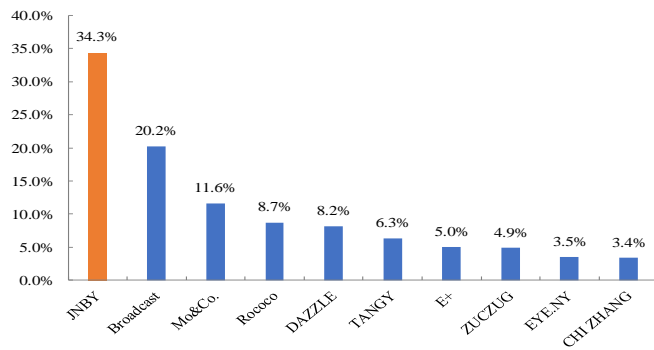
Brand Name	JNBY	CROQUIS	jnby by JNBY	Less
Sample				
Brand Concept	Just Naturally Be Yourself	Follow Your Heart	Free Imagination	Less is More
Target	women between 25-40	men between 25-40	kids between 3-10	Professional women between 30-45
Design Concept	Modern, energetic, interesting and calm	Contemporary, textured, playful and elegant	Freedom, imagination, happiness and truth	Simplicity, sophistication, independence and rationality
Brand Name	pengma	JNBYHOME	SAMO	REVERB
Sample				
Brand Concept	Don't be Serious	Live Lively	Simplified, but better	Circular Fashion
Target	teenagers between 8-14	People who have a positive and free mind, and pursue a high quality of life	Pioneer professional men	Trendy youth
Design Concept	Texture, playful, ghost horse and elegant	Diversity, comfort, self, curiosity	Elegant, simple, fun, practical	Athleisure, no gender, regeneration, smart

Source: Company information, Industrial Securities collects

3.2.2. Main brand JNBY: Well growing; brand image is deeply rooted

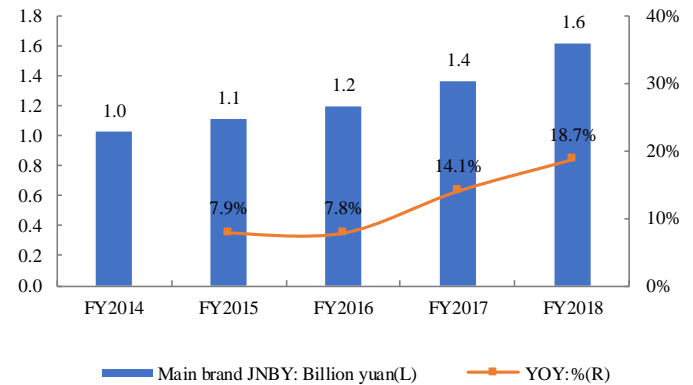
The main brand JNBY has become one of the leading designer brands in China. The company's main brand JNBY was founded in 1999. After more than 20 years of development, JNBY has grown into a top domestic designer brand. According to CIC's data, according to the number of customers who purchase repeatedly, JNBY enjoys the highest brand loyalty among the top ten women's fashion designer brands in China. Benefiting from the increase in consumer viscous, the brand's profitability has steadily increased. In FY2018, JNBY achieved revenue of 1.622 billion yuan, an increase of 18.7% year-on-year. The brand's gross profit margin increased year by year, from 56.3% in FY2014 to 63.6% in FY2018.

Fig53、 Main brand JNBY's customer loyalty ranked first



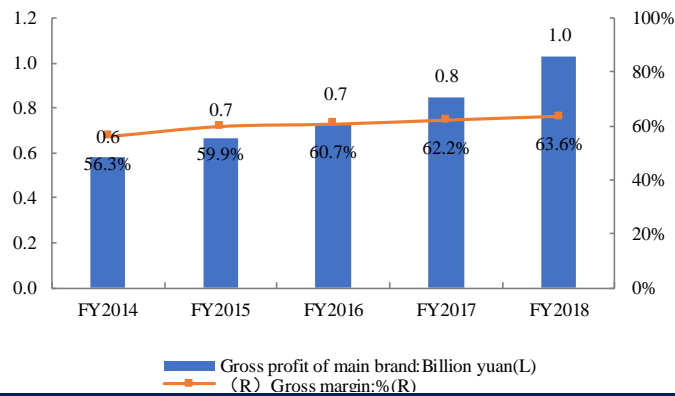
Source: Company Annual Reports, Industrial Securities collects

Fig54、 Revenue(billion yuan) and growth rate(%) of main brand JNBY



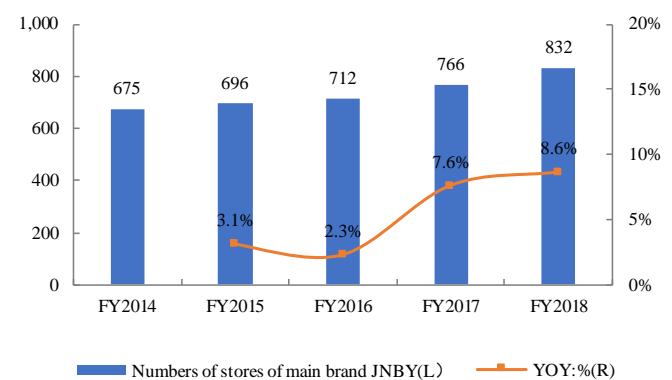
Source: Company Annual Reports, Industrial Securities collects

Fig55、 Gross profit(billion yuan) and gross profit margin(%) of main brand JNBY



Source: Company Annual Reports, Industrial Securities collects

Fig56、 The main brand JNBY has accelerated its stores opening since FY2017



Source: Company Annual Reports, Industrial Securities collects

Relying on the wildness of product lines to accelerate the expansion on sales channel.

In 2017, the main brand began to arrange sports products, and the jogging, yoga and cycling sportswear launched in the same year were well received by consumers. At present, the company has established PEU A PEU Apparel Co., Ltd., which independently develops sportswear series products, to create the concept of “sports fashion”. Relying on the rich product line, JNBY accelerated its channel expansion in FY2017. As of FY2018, JNBY had 832 independent tangible retail stores, a net increase of 66 stores compared with FY2017.

Fig57、 JNBY sports series yoga products



Source: Company information, Industrial Securities collects

Fig58、 JNBY sports series jogging products



Source: Company information, Industrial Securities collects

3.2.3. Present product matrix: Endogenously and extensively developing, Intensive on designer brand segment

Advance the brand strategy; multi-dimensional, all-round penetration of the designer brand market.

- Women’s apparel sector:** In 2011, the company acquired the women's apparel brand Less and repositioned the brand, forming a differentiated supplement to the main brand JNBY for mature professional women aged 30-45. In FY2018, the revenue of the Less brand was 238 million yuan, an increase of 40.5% year-on-year, and the gross profit margin is as high as 69.4%. At the same time, the sales channels have expanded steadily, and the number of stores has increased from 35 to 150 in FY2018.

Fig59、“Less” achieves high revenue and high gross margin

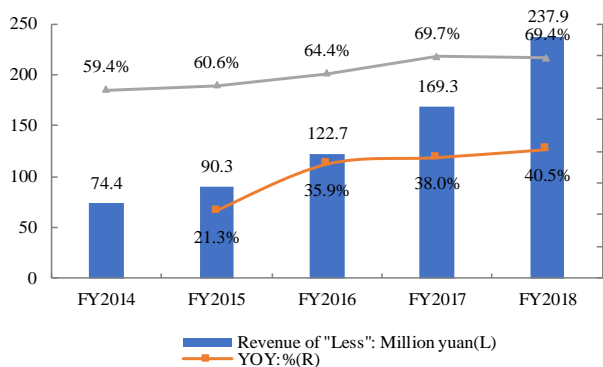
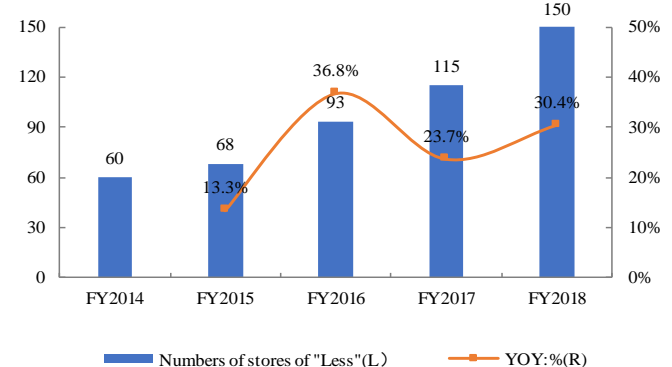


Fig60、Sales channels of “Less” expanded steadily



Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

- Men’s apparel sector:** In 2005, the company launched CROQUIS to achieve coverage of designer brand on men's fashion. After decades of development, the CROQUIS was awarded the “Best Trending Men's Wear Brand of the Year” in 2016. The brand revenue of CROQUIS has increased from 238 million yuan in FY2014 to 565 million yuan in FY2018, and a four-year CAGR of 24.4%. While revenue has grown rapidly, the brand gross profit has remained at a high level with an average gross profit margin of 67.3%. In terms of sales channels, in FY2018, the number of CROQUIS brand stores increased from 30 to 308. With the maturity of the CROQUIS brand, in 2018, the company launched the SAMO Pioneer Menswear brand, and the first offline store entered Shanghai Jiuguang Department Store in September.

Fig61、In FY2018, CROQUIS’s revenue was 565 million, YOY+15.6%

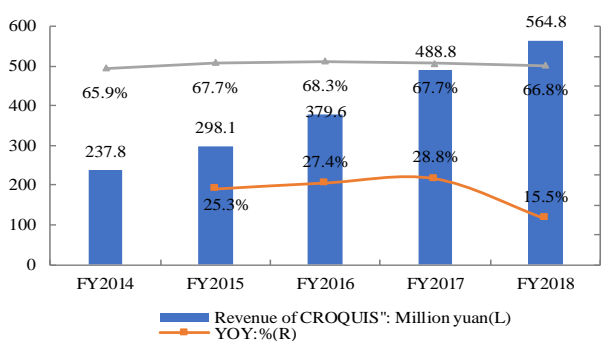
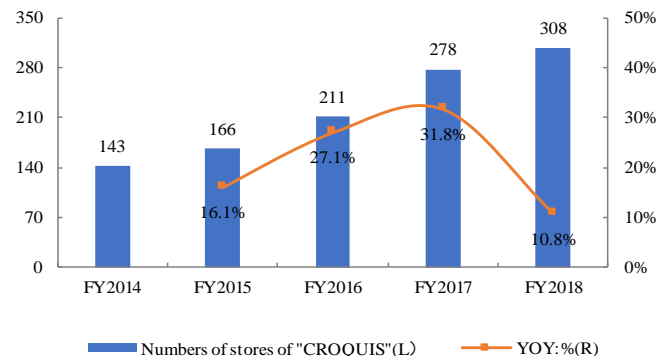


Fig62、The number of CROQUIS stores has increased by 30 in FY2018



Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

- Children's apparel and teenager apparel sector:** The company launched the children's wear brand jnby by JNBY and the teenager brand Pengma in 2011 and 2016. Among them, jnby by JNBY has nearly six times the number of stores compare to four years ago, reaching 461 retail stores in FY2018. With the rapid expansion of sales channels, brand sales increased from 41.2 million yuan to 394 million yuan, with a CAGR of 75.5% and an average gross profit margin of 58.6%. Another children's apparel brand, Pongma, showed strong growth in the past two years. FY2018's operating income was 39 million yuan, up 198.6% year-on-year.

Fig63、 The high base effect of early expansion has caused the growth rate of “jnby by JNBY” to decline.

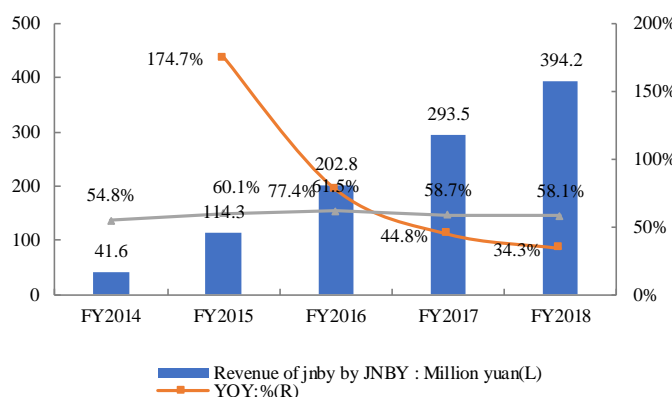
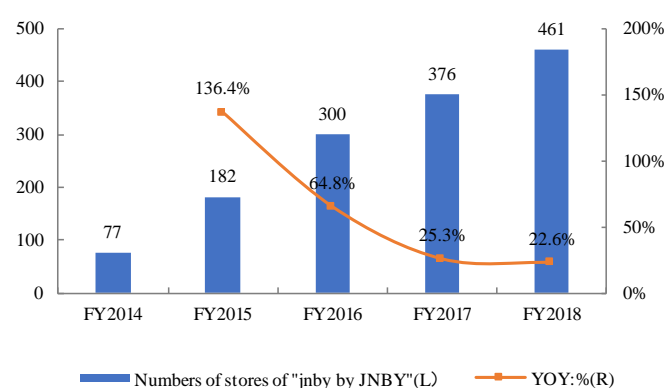
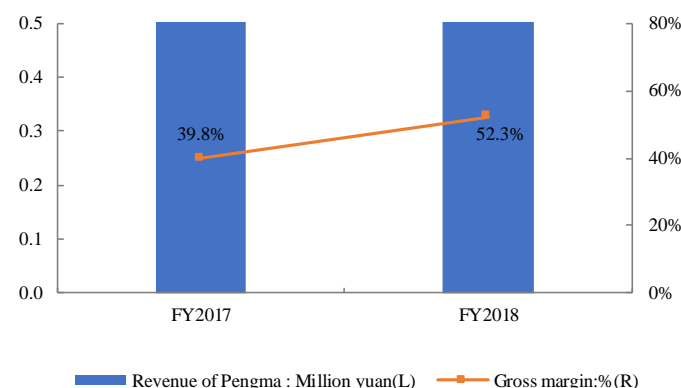


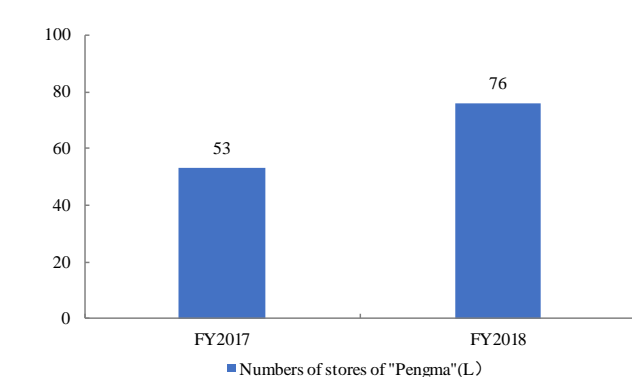
Fig64、 “jnby by JNBY” stores reached 461 in FY2018



Source: Company Annual Reports, Industrial Securities collects
Fig65、 In FY2018,Pengma’s revenue was 39 million, YOY+15.6%



Source: Company Annual Reports, Industrial Securities collects
Fig66、 “Pengma” stores reached 76 in FY2018



Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

- Designer household sector and sustainable fashion sector:** In 2016, the company launched the JNBYHOME brand and achieved profitability in FY2018. The company achieved revenue of 604 million yuan, a year-on-year increase of 269.2% and a gross profit margin of 45.9%. At the same time, the company took advantage of brand awareness and launched a new sustainable fashion brand “REVERB” in 2018. With the strengthening of nationwide environmental protection awareness, the brand will add momentum to future company revenue growth.

Fig67、 In FY2018, JNBYHOME achieved a revenue of 600 million yuan and a gross profit margin of 45.9%.

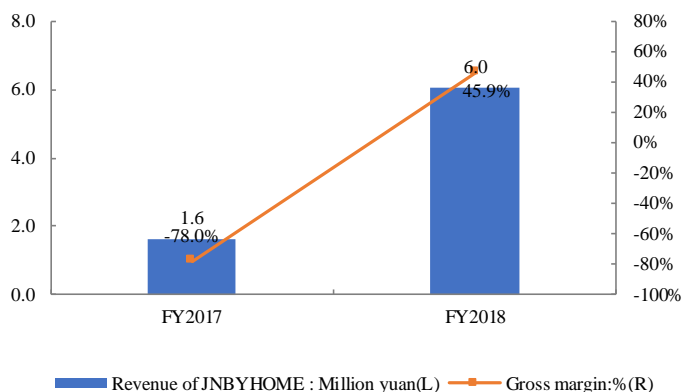
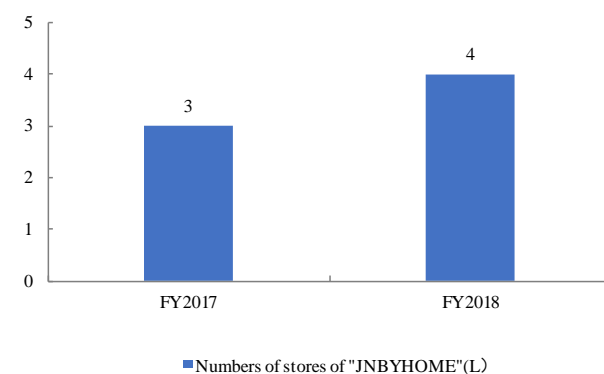


Fig68、“JNBYHOME” stores reached 4 in FY2018



Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

Open designer brand collection store to further expand the influence in the designer brand industry. In 2018, the company launched the designer brand collection store “LASUMINSOLA”, which is not only an important measure of the company's brand diversification strategy, but also uses the company's supply chain and ready-to-wear design advantages to help incubate domestic designer brands and further expand the company's own influence. At present, the collection store has established cooperation intentions with Reformed by Samuel Drira, spazzapan, and WANGREVOGEL. By the end of 2018, three “LASUMINSOLA” collection stores have been established in Wuhan, Hangzhou and Xi'an.

Fig69、 Appearance of Wuhan LASUMINSOLA collection store



Source: Online information, Industrial Securities collects

Fig70、 In-store scene of Wuhan LASUMINSOLA collection store



Source: Online information, Industrial Securities collects

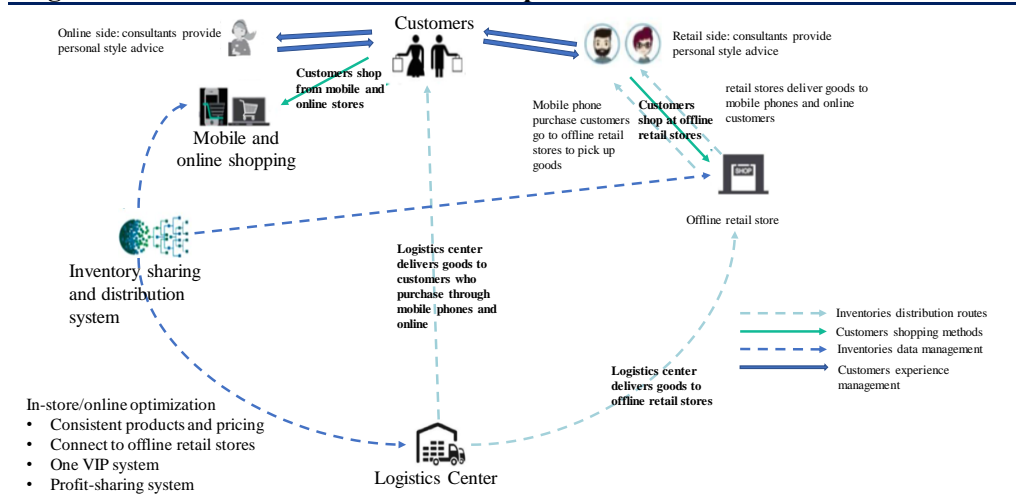
3.3、 Omni-channel sustainably growing; e-membership strategy to increase fan loyalty

3.3.1、 Based on “fan economy” to build an omni-channel interactive platform

In order to implement the “fan economy” strategy, the company built an omni-channel interactive platform around offline retail stores, online platforms and WeChat interactive marketing service platforms. By incorporating the customer's buying model and information needs into the channel layout considerations, the customer can be effectively transformed into loyal fans.

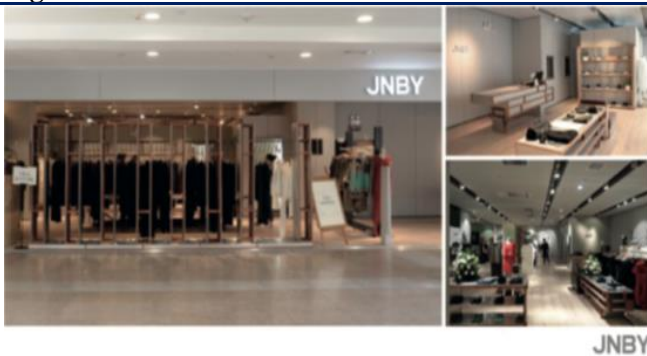
- **Offline stores:** As the designer brand is highly experience based consumption, offline stores are still the main experience channel. At the same time, in order to better convey the brand concept, the design appearance and merchandise display of the physical store are uniformly guided.
- **Online platform:** The company uses a third-party platform such as Tmall and Vipshop to achieve 24-hour convenience service to enhance the customer shopping experience. At the same time, the online platform has become an important source for the company to obtain consumer evaluation opinions. Through rapid feedback mechanism, product design and planning can be appropriately adjusted to enhance the market competitiveness of products.
- **WeChat marketing interactive platform:** WeChat interactive platform further maintains brand loyalty by constructing personalized interactive contacts with consumers.

Fig71、JNBY’s omni-channel interactive platform



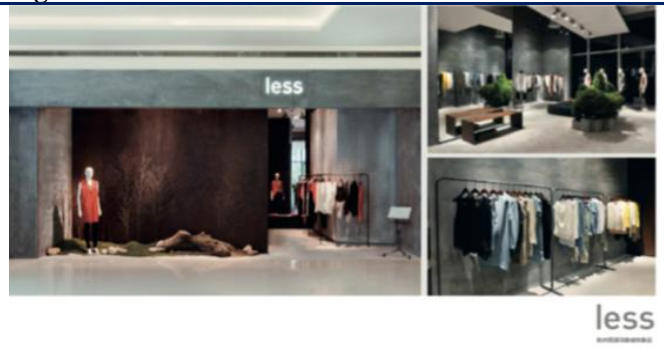
Source: Company prospectus, Industrial Securities collects

Fig72、JNBY’s offline retail store



Source: Company information, Industrial Securities collects

Fig73、LESS’s offline retail store

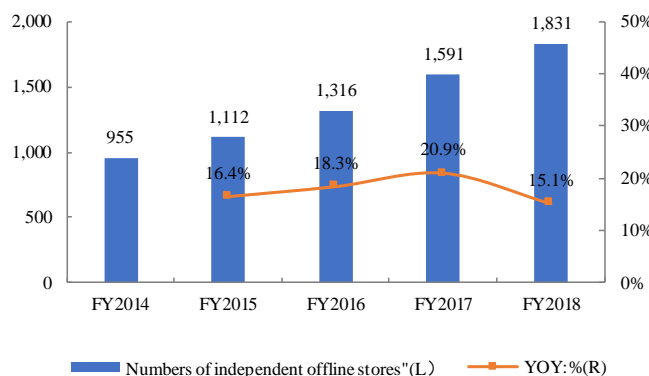


Source: Company information, Industrial Securities collects

3.3.2、Offline channels ensure stable growth of income while rational expanding

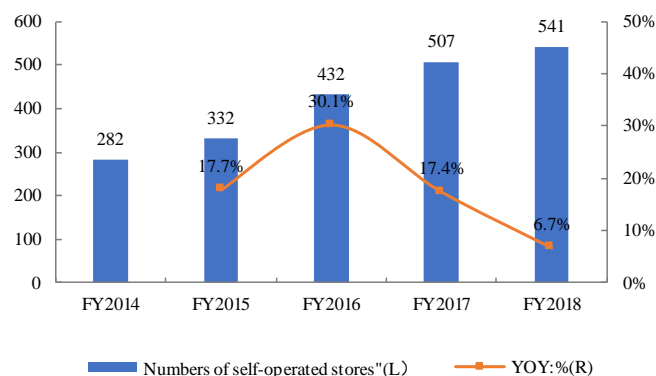
Offline channels are expanding steadily. In order to ensure the quality of service, the company adopted a stable expansion strategy. In FY2018, there were 1831 independent retail outlets, a net increase of 240 from FY2017. Among them, the number of newly-opened self-operated stores and dealer stores were 34 and 206 respectively. There were 541 self-operated stores and 206 dealer stores at the end of 2018.

Fig74、 Number of independent offline stores and growth rate



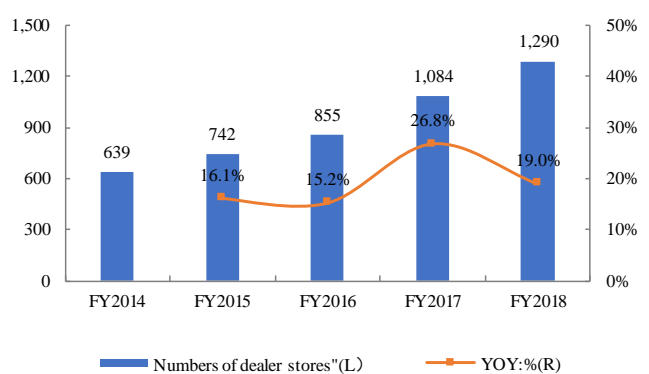
Source: Company Annual Reports, Industrial Securities collects

Fig75、 Number of self-operated stores and growth rate



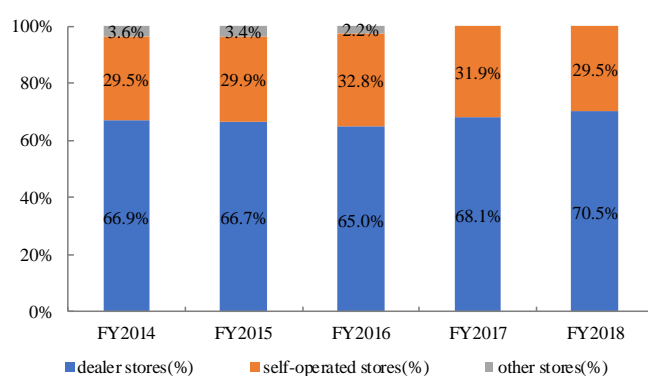
Source: Company Annual Reports, Industrial Securities collects

Fig76、 Number of dealer stores and growth rate



Source: Company Annual Reports, Industrial Securities collects

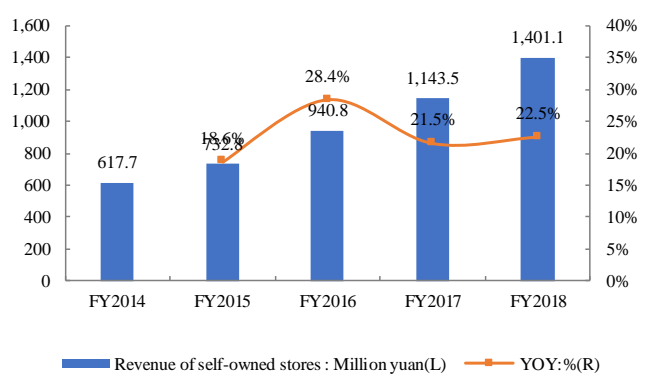
Fig77、 Proportion of different types of stores



Source: Company Annual Reports, Industrial Securities collects

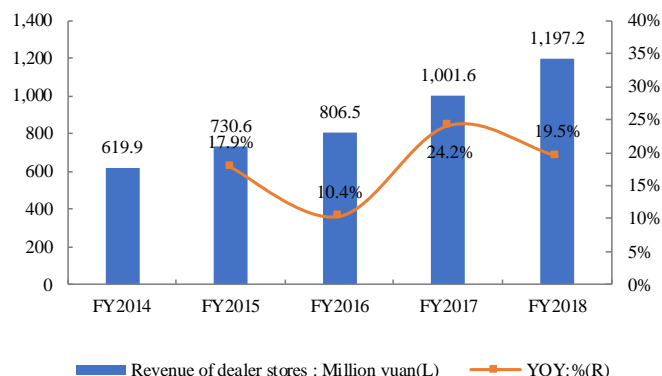
Channel profitability has grown steadily. In FY2018, self-operated stores and dealer stores achieved operating income of 14.01 and 1.197 billion yuan, a year-on-year growth rate of 22.53% and 19.53%. While ensuring high revenue growth, channel gross margin remained at a high level. In FY2018, self-operated stores and dealerships achieved gross margins of 73.01% and 53.11%, respectively.

Fig78、 Revenue and growth rate of self-operated stores



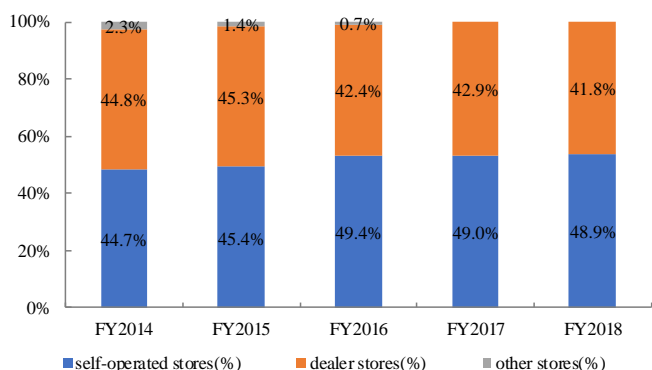
Source: Company Annual Reports, Industrial Securities collects

Fig79、 Revenue and growth rate of dealer stores



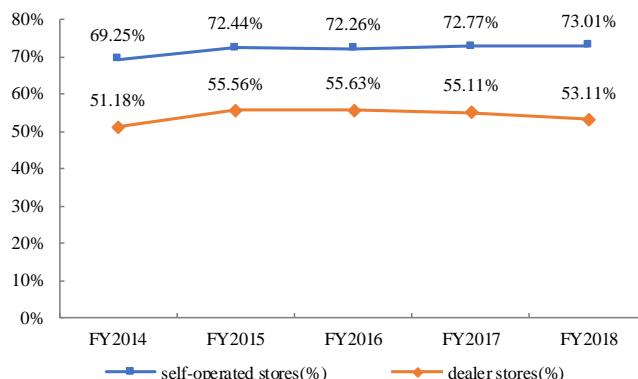
Source: Company Annual Reports, Industrial Securities collects

Fig80、 Proportion of revenue of different offline channels



Source: Company Annual Reports, Industrial Securities collects

Fig81、 Gross margin of offline channels

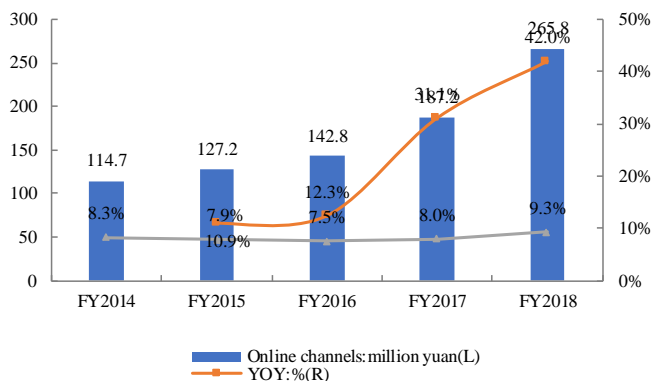


Source: Company Annual Reports, Industrial Securities collects

3.3.3. Online sales rapidly accelerating, channel income contribution increase significantly

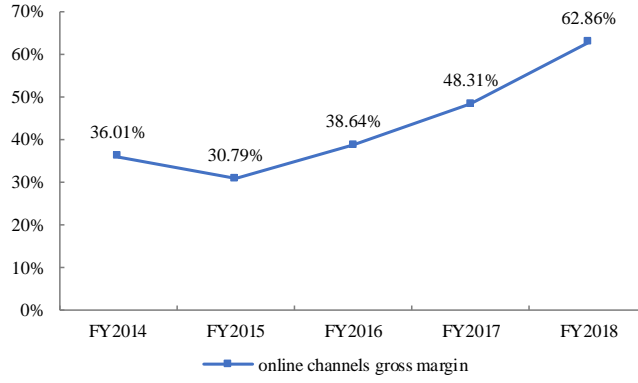
Online channel profitability has improved significantly. The company's online platform revenue increased from 115 million in FY2014 to 266 million in FY2018, and the four-year CAGR was 23.4%. At the same time, online gross profit increased significantly, in FY2018 online gross margin was 62.86%, an increase of 26.85pcts compared with FY2014.

Fig82、 Revenue and growth rate of online stores



Source: Company Annual Reports, Industrial Securities collects

Fig83、 Gross margin of online stores

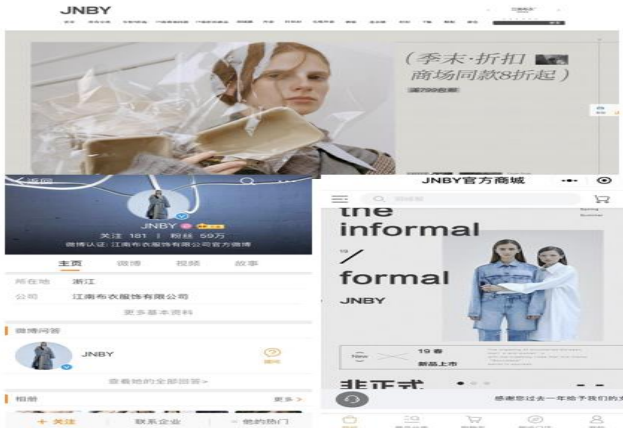


Source: Company Annual Reports, Industrial Securities collects

3.3.4. Social media catalytic product liquidation and promote sustainable growth in same-store sales

Diversified social medias—mainly WeChat—build bridges between brands and fans. Up to now, the company has formed a diversified interactive social platform centered on WeChat, including Weibo and T-mall. In FY2018, the number of offline member accounts, electronic WeChat member accounts, Weibo fans, and T-mall stores members reached 2.5, 2.1, 1.2, and 2.9 million respectively. Among them, the number of active members and WeChat active members exceeded 360,000 and 340,000 respectively, with a year-on-year growth rate of 38.5% and 42.9% respectively.

Fig84、 Main social media accounts of JNBY



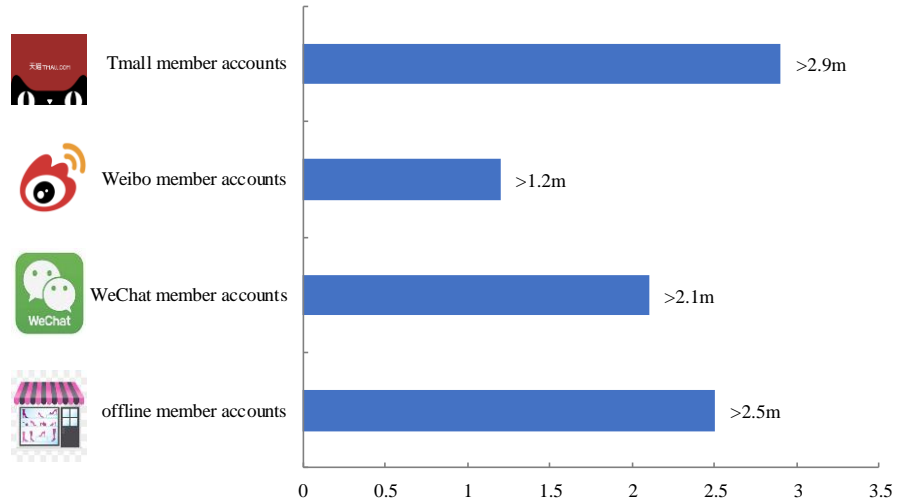
Source: Company information, Industrial Securities collects

Fig85、 Multiple functions of WeChat interactive platform



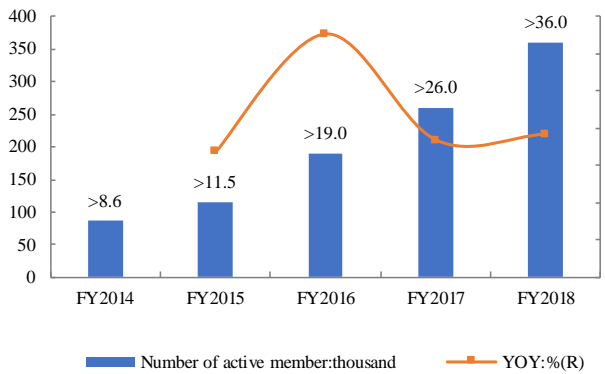
Source: Company information, Industrial Securities collects

Fig86、 Number of fans on the company's main social media accounts



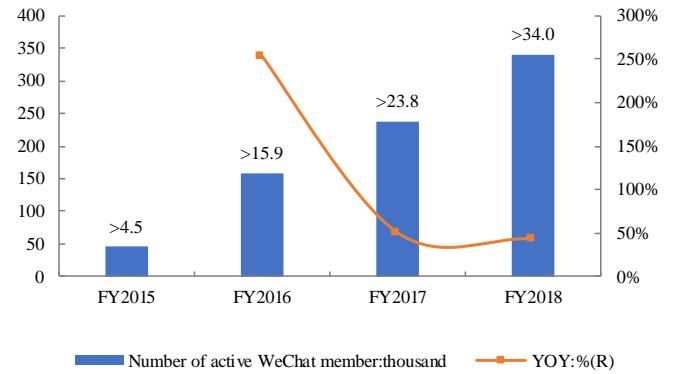
Source: Company information, Industrial Securities collects

Fig87、 Number of active member(thousand) and growth rate (%)



Source: Company information, Industrial Securities collects

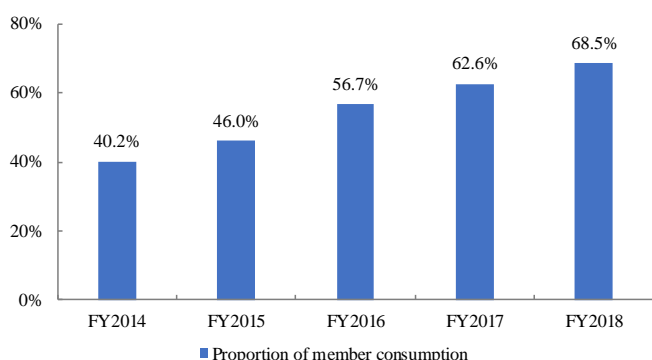
Fig88、 Number of active Wechat member(thousand) and growth rate (%)



Source: Company information, Industrial Securities collects

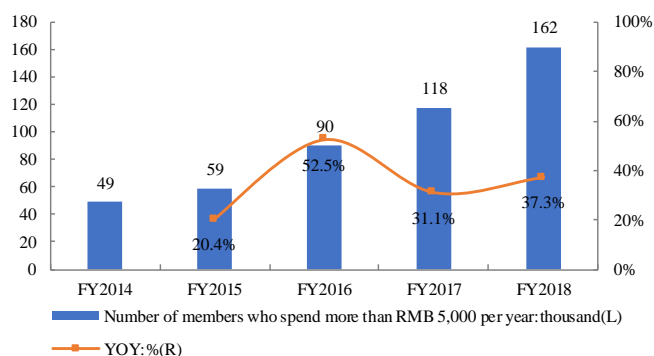
“Fan economy” catalytic products liquidation, and member consumption continues to grow. Since the launch of the member interactive platform, member consumption has increased year by year, and the proportion of total retail sales has increased by 28.3% from 40.2% in FY2014 to 68.5% in FY2018. Among them, the number of members who spent more than 5,000 CNY per year reached 162,000 in FY2018, an increase of 37.3% year-on-year; the annual consumption of more than 5,000 CNY on the main social platform WeChat increased more obviously, with a CAGR of 68.2% for three years, exceeding 15.7 million members in FY2018.

Fig89、 Proportion of member consumption continue to rise



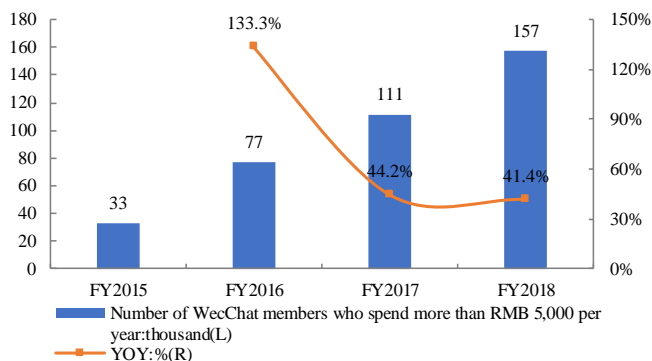
Source: Company information, Industrial Securities collects

Fig90、 Number of members who spend more than RMB 5,000 per year continues to rise



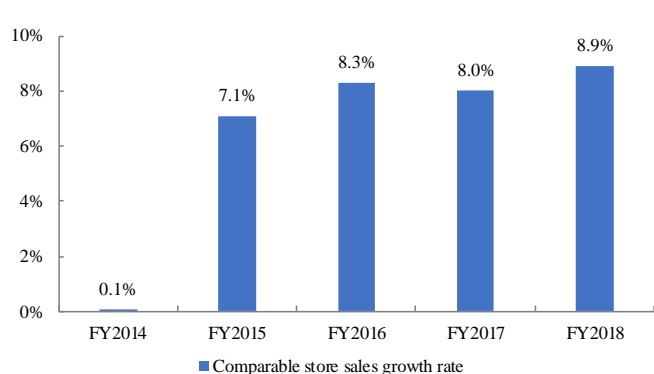
Source: Company information, Industrial Securities collects

Fig91、 Number of WeChat members who spend more than RMB 5,000 per year grew fast



Source: Company information, Industrial Securities collects

Fig92、 Comparable store sales growth rate is 8.9% in FY2018



Source: Company information, Industrial Securities collects

The high viscosity of the fans led to the same store sales growth. Benefiting from the improvement of brand loyalty, the comparable stores sales has grown rapidly. In FY2018, the sales growth rate of comparable stores was 8.9%, 0.9 ppt higher than that of FY2017. The result of "fan economy" was initially verified.

4、Financial analysis

- Revenue:** Since FY2014, benefiting from the consumption upgrade and horizontal expansion of the brand, the growth of JNBY's revenue has gradually accelerated. In FY2018, the company achieved revenue of 2.864 billion yuan, +22.8% year-on-year, the rapid growth is mainly due to the increased stickiness of fans of each brand. Among all these brands, the main brand JNBY revenue growth accelerated, up 18.7% year-on-year to 1.62 billion yuan.
- Gross profit margin:** Due to the expansion of retail network, the change of gross profit of each brand after brand expansion, and the continuous increase of new products at online channels, from FY2014 to FY2018, the company's gross profit margin increased by 5.71ppt to 63.75% from 58.04%.

Fig93、Revenue of JNBY

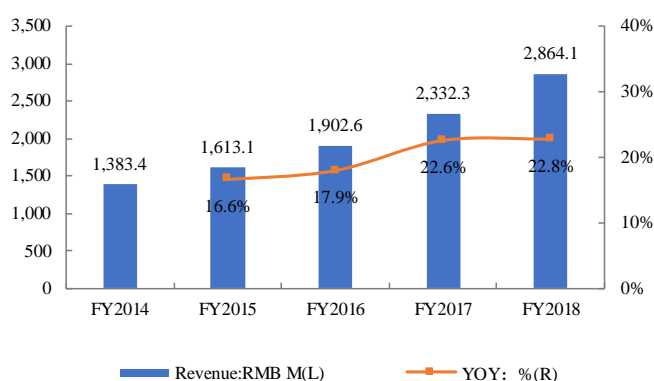
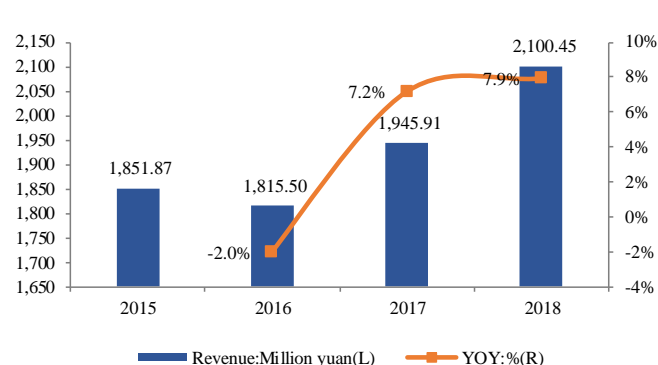


Fig94、Revenue of DAZZLE (Mn CNY)



Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

Fig95、Gross profit margin of JNBY (%)

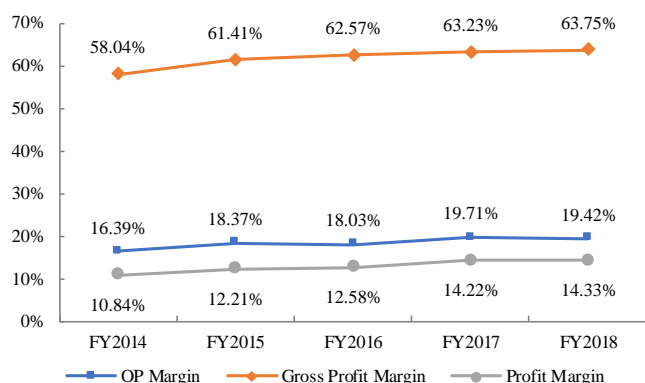
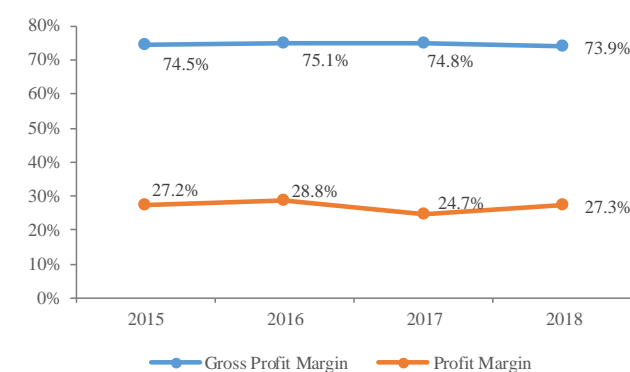


Fig96、Gross profit margin of DAZZLE (%)



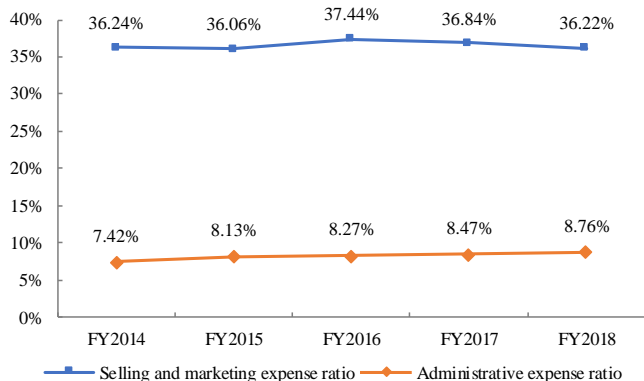
Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

- Selling and marketing expense ratio and administrative expense ratio:** From FY2015 to FY2016, in order to utilize the passenger flow of department stores, the company increased the proportion of counters in self-operated stores in the sales channels, resulting in a substantial increase in the fees paid to department stores. Therefore, the selling and marketing expense ratio increased by 1.39ppt from 36.06% to 36.44%; from FY2017 to FY2018, benefiting from the improvement of operating efficiency of self-operated stores, the company's selling and marketing expense rate gradually decreased. In FY2018, the ratio was 36.22%.

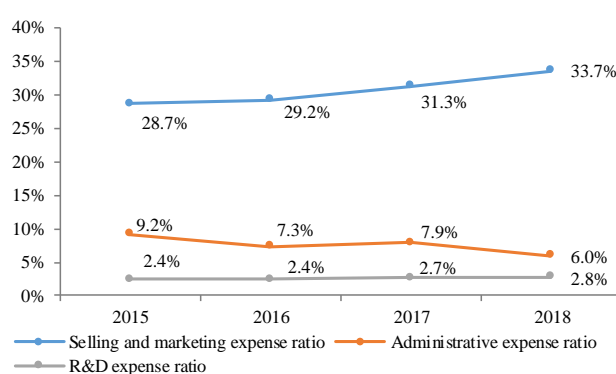
From FY2014 to FY2016, the company's administrative expense ratio increased by 0.82ppt from 7.42% to 8.27%, mainly due to the significantly increasing product development outsourcing fee caused by employment of Hangzhou JNBY to produce samples. From FY2017 to FY2018, due to the increase in design and R&D investment, the administrative expense rate further increased. In FY2018, the administrative expense ratio is 8.76%.

Fig97、Expense ratios of JNBY(%)



Source: Company Annual Reports, Industrial Securities collects

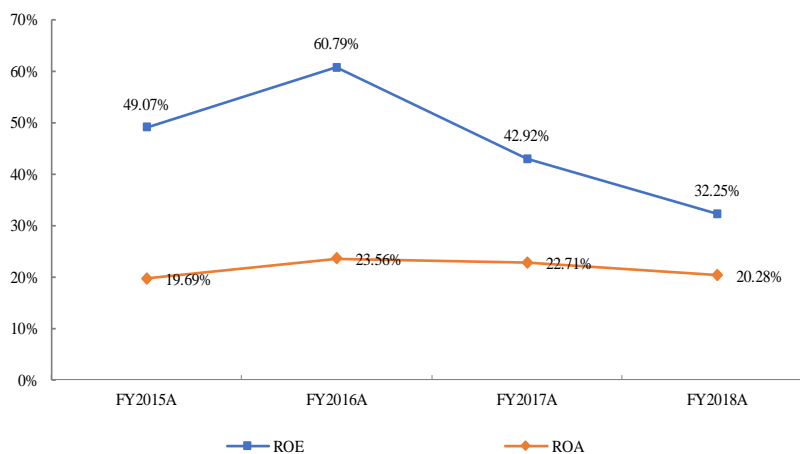
Fig98、Expense ratios of DAZZLE(%)



Source: Company Annual Reports, Industrial Securities collects

• **ROE and ROA:** Since FY2017, the company's ROE continued to fall due to the share premium and the abundant retained earnings brought about by the company's listing in 2016. In FY2018, the company's ROE was 32.25%, down 10.67 ppt year-on-year. As the company retained amounts of cash for future development, the company's ROA fell slightly by 2.43 ppt to 20.28% in FY2018.

Fig99、ROE and ROA of the company



Source: Wind, Industrial Securities collects

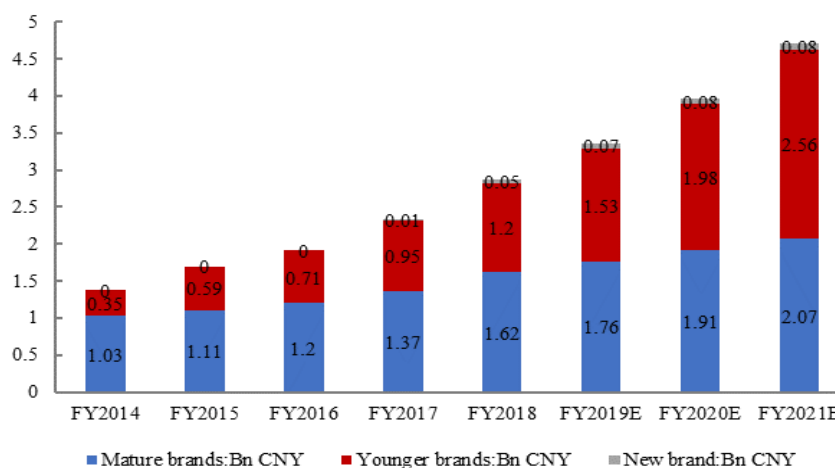
5、Earnings forecast and valuation

5.1、Earnings forecast

- Revenue forecast

According to the company's brand development time and maturity, all brands are divided into three categories: mature brand, younger brand and new brand. We then forecast the revenue of the company's three types of brands. From the perspective of revenue, the company has grown from the original JNBY main brand to the current diversified brand portfolio. We believe that the company's main brand JNBY will be a mature brand in the next three years and will maintain a steady growth rate of 7-8% per year. Younger brands will become the main source of future performance growth, and it is expected to maintain a rapid increase rate of 20-30% per year. New brands are expected to maintain a relatively stable growth rate because this category includes large number of new brands. The revenue from nascent brands will contribute less to the total revenue. Overall, from FY2019 to FY2021E, company's revenue will rise steadily.

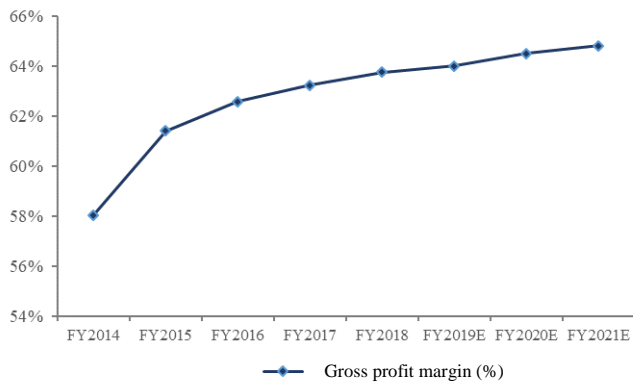
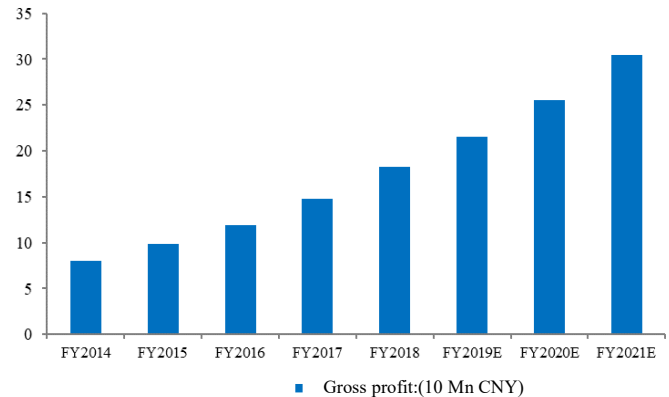
Fig100、 Revenue forecast of three brand categories from FY2019 to 2021E (Bn CNY)



Source: Company Annual Reports, Industrial Securities collects

- Gross Profit Margin Forecast

Overall, the company's gross profit grew rapidly from FY2014 to 2016 and showed a steady growth trend in FY2017. This is because the company gradually adjusted its development strategy after listing. The company aimed to maintain stable revenue and profit growth. We expect gross profit margin in FY2019 to increase by 4pcts compared with the same period of last year, mainly due to the company's growing brand size from FY2019 to 2020 and the rapid growth of sales volume. We predict that the gross profit margin of the mature brand of JNBY will maintain at current level. The growing brands will make a greater contribution to the profit side of the company. We forecast the company's gross profit margin for the next three years. We believe it will grow steadily.

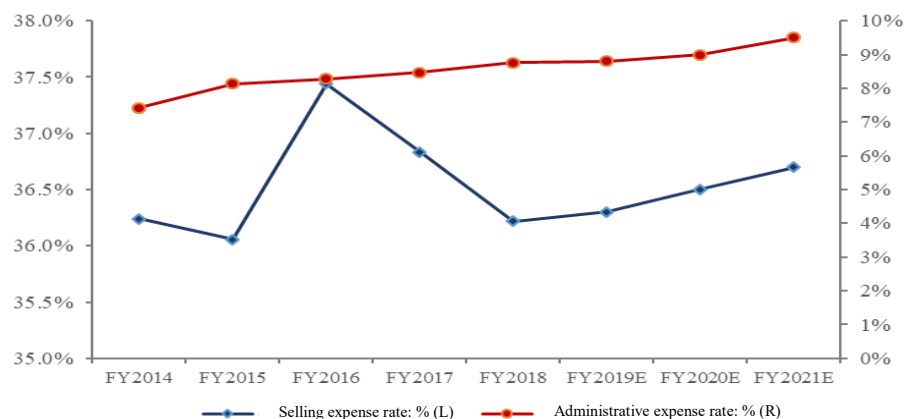
Fig101、Gross profit margin is expected to grow steadily from FY2019 to FY2021E**Fig102、Gross profit (10 Mn CNY) is expected to grow steadily from FY2019 to FY2021E**

Source: Company Annual Reports, Industrial Securities collects

Source: Company Annual Reports, Industrial Securities collects

- Main Expense ratios forecast

According to company's annual reports data, due to the increasing number of company brands, the company's selling and marketing expense rate and administrative expense rate have increased slightly. We expect that the company's main expense ratios will increase by 2-3pcts and maintain a relatively stable trend from FY2019 to FY2021E.

Fig103、Trend for company's major expense ratios from FY2019 to FY2021E

Source: Company Annual Reports, Industrial Securities collects

- Results of earnings forecast

Table5、Results of earnings forecast

Fiscal year	2018A	2019E	2020E	2021E
Revenue (Mn CNY)	2,864	3,365	3,964	4,704
YOY (%)	22.8	17.5	17.8	18.7
Net Profit (Mn CNY)	410	467	535	616
YOY (%)	23.8	13.9	14.5	15.1
Gross profit margin (%)	63.7	64.0	64.5	64.8
Net profit margin (%)	14.3	13.9	13.5	13.1
ROE (%)	32.2	35.2	38.4	42.7
EPS (CNY)	0.80	0.92	1.07	1.24

Source: Industrials Securities

5.2、 Valuation and rating

We use the absolute valuation and relative valuation methods for JNBY Design Limited.

Absolute valuation: We use free cash flow to the firm (FCFF) discount method. In the calculation of WACC, 10-year bond yield is chosen to be 3.5% as the risk-free rate. The average market yield is 10%. The company has a three-year-average beta of 0.87. The calculated WACC is 8.18%. We believe that the company PE is 20.3x/17.5x for FY2019/20.

Table6、 Calculation of WACC

WACC	
Beta	0.87
Risk-free rate	3.50%
Average market yield	10.00%
Cost of equity	9.16%
Cost of debt	0.00%
Debt to total Capital	39.30%
Equity to total Capital	60.70%
WACC	8.18%

Source: Industrial Securities collects

Relative valuation: Comparing to industry's peers, we get the industry PE valuation as shown below. We believe that JNBY Design Limited is a leading company in China's designer brand apparel industry and has similarities and comparability with women's fashion apparel brand companies listed at Shenzhen and Shanghai Exchange. The FY2018/19 PE is 13.4x/11.4x respectively.

Table7、 Valuation of major women's apparel companies in China

Company	Ticker	Currency	Closing price	Market Value	PE		
			2019-5-9		Bn Currency	2018A	2019E
DZZLE Fashion	603587.SH	CNY	23.00	9.22	14.83	14.13	12.45
LANCY	002612.SZ	CNY	8.70	3.48	17.15	14.22	12.26
ELLASSAY	603808.SH	CNY	15.69	5.22	13.96	11.78	9.78
Average					15.31	13.38	11.50
JNYB	3306.HK	HKD	14.68	7.62	18.58	13.35	11.38

Source: Wind forecasts, Industrial Securities collects

In conclusion, we give target price 18.71HKD, which FY2019 PE is 20.3x. The target price which compared with closing price increased by 27.0%, initial cover is rated by "buy".

6、 Risk implications

- Consumer preferences
- Industrial competition increases
- Business advancement below expectation
- Offline channels below expectation
- Brands A&D below projection
- Overstocked products

Balance sheet		Mn CNY			
Fiscal year	2018A	2019E	2020E	2021E	
Current Assets	1,804	1,940	2,172	2,334	
Cash and cash equivalents	333	229	224	246	
Accounts Receivable	95	116	131	161	
Inventories	764	799	1,017	1,120	
Others	612	796	801	807	
Non-current Assets	307	414	515	582	
Fixed Assets	142	242	336	395	
Intangible Assets	9	12	16	20	
Prepaid rents	48	48	48	48	
Others	109	112	115	118	
Total Assets	2,111	2,353	2,687	2,915	
Current Liabilities	823	967	1,247	1,414	
Short-term payables	0	0	0	0	
Accounts payable	204	334	407	465	
Others	619	633	841	949	
Non-current Liabilities	11	18	21	33	
Long term liabilities	0	0	0	0	
Others	11	18	21	33	
Total Liabilities	834	985	1,269	1,447	
Share Capital	5	5	5	5	
Retained earnings	801	821	841	861	
Profit attribute to Shareholders of the company	482	543	573	603	
Total Equity	1,288	1,369	1,419	1,469	
Total equity and liabilities	2,122	2,353	2,687	2,915	

Statement of cash flow		Mn CNY			
Fiscal year	2018A	2019E	2020E	2021E	
Pre-tax profit	569	636	753	875	
Depreciation and Amortization	39	65	150	254	
Net cash generated from operating activities	558	636	753	875	
Net cash generated from investing activities	(149)	(254)	(252)	(336)	
Net cash generated from financing activities	(379)	(318)	(288)	(258)	
Net increase in cash and cash equivalents	(161)	(105)	(5)	22	
Cash and cash equivalents at beginning of the period	494	333	229	224	
Cash and cash equivalents at the end of the period	333	229	224	246	

Income Statement		Mn CNY			
Fiscal Year	2018A	2019E	2020E	2021E	
Revenue	2,864	3,365	3,964	4,704	
Cost of goods sold	(1,038)	(1,211)	(1,407)	(1,656)	
Gross profit	1,826	2,154	2,557	3,048	
Other income	18	0	0	0	
Selling and marketing expense	(1,037)	(1,222)	(1,447)	(1,726)	
Administrative expense	(251)	(296)	(357)	(447)	
Financing expense	(1)	-	-	-	
Pre-tax profit	569	636	753	875	
Tax	(159)	(168)	(218)	(259)	
Net profit	410	467	535	616	
Non-controlling interests	0	0	0	0	
Profit attribute to shareholders of the company	410	467	535	616	
EPS(yuan)	0.80	0.92	1.07	1.24	

Financial ratios		Mn CNY			
Fiscal year	2018A	2019E	2020E	2021E	
Growth					
Revenue growth rate	22.8%	17.5%	17.8%	18.7%	
Gross profit growth rate	23.8%	18.0%	18.7%	19.2%	
Net profit growth rate	23.8%	13.9%	14.5%	15.1%	
Profitability					
Gross profit margin	63.7%	64.0%	64.5%	64.8%	
Net profit margin	14.3%	13.9%	13.5%	13.1%	
ROE	32.2%	35.2%	38.4%	42.7%	
Solvency					
Leverage ratio	39.5%	41.8%	47.2%	49.6%	
Current ratio	2.2	2.0	1.7	1.7	
Operation					
Inventory turnover	1.56	1.55	1.55	1.55	
Stock					
EPS (CNY)	0.80	0.92	1.07	1.24	
BVPS (CNY)	2.48	2.64	2.73	2.83	
Valuation					
PE	23.5	20.3	17.5	15.0	
PB	7.5	7.1	6.8	6.6	

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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