Cosmo Lady | 2298.HK

Under pressure in the short-term

Rating	**Not Rated**
Current price	**HK$1.31**

1H19 results in line with profit warning

Revenue fell 5.5% YoY to RMB 2,210 mn, of which franchise/retail/e-commerce channels changed by -14.3%/-8.1%/6.9% YoY respectively. The decline was due to the weakness in the retail and apparel industry, company's strategic adjustment and poor execution capabilities. The gross profit margin fell 2.6 ppts YoY to 41.1% due to 1) higher raw material costs; 2) decline in revenue of the higher gross-profit-margin bra and thermal cloth products; 3) higher discount being offered to customers as a result of keen competition. SG&A ratio rose 2.3 ppts YoY to 39.7% as the opening of larger self-managed retail stores in shopping malls and the increase in advertising and promotion activities. Net profit fell 79.7% YoY to RMB 35 mn.

GM under pressure in 2H19；rising inventory turnover days

The group's gross profit margin was lower than that of the same period of last year, which was mainly dragged by the underpants/sleepwear and loungewear business, which fell by 0.3/4.7 ppts to 38.3%/26.7%. The average inventory turnover days rose by 30.1 days to 169.9 days from last year end, mainly due to poor sales in 1H19 and the arrival of new designer products. It is expected that gross profit margin will continue to be under pressure in 2H19.

New CEO took office to reform

The group appointed Mr. Xiao Jiale, the former Senior Vice President of the Adidas in Greater China, as the Chief Executive Officer in Aug. His major duty is to manage the intimate wear business and to implement the strategic development. Mr. Xiao also said that he will focus on the basic products and study the business problems in the past two years and carry out reforms. We expect results to take time.

Fair valuation; reform takes time to pay off

The stock is trading at 14.9x/12.4x FY19E/FY20E PE and industry average 14.1x/12.6x FY19E/FY20E PE according to Bloomberg consensus. we view that the group's reform still takes time and will be under pressure in 2H19.

RMB mn (YE Dec)	FY16A	FY17A	FY18A	FY19E	FY20E
Revenue	4,512	4,542	5,096	4,935	5,171
Operating EBIT	305	420	484	155	234
Net profit	242	317	380	142	195
PE (x)	8.8	7.3	6.4	14.9	12.4
Dividend yield (%)	4.9	2.9	3.4	2.0	2.7

Sources: Bloomberg

Results takeaways

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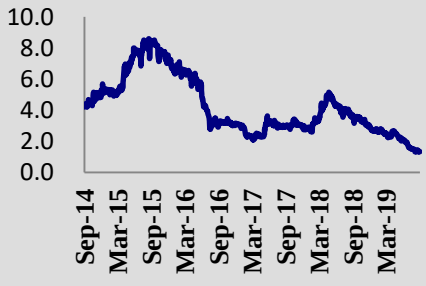
Trading data

52-Week Range (HK$)	3.63/1.30
3 Mth Avg Daily Vol (m)	1.0
No of Shares (m)	2,249
Market Cap (HK$m)	2,947
Major Shareholders (%)	Zheng Yaonan&Asso. (52.4%)
	Fosun Ruizhe (10.6%)
Auditors	PWC
Result Due	FY19: March 2020

Company description

Founded in 1998, the group is a modern large-scale underwear brand operation group integrating R&D, production, warehousing, logistics, sales and operation. It owns well-known brands such as "Cosmo Lady", "Ordifen" and "Freeday". The products cover nearly 10,000 different types of bras, underwear, home clothes, corsets, warm clothing, socks and underwear accessories

Price chart



Sources: Bloomberg, CIRL

Exhibit 1: Income statement

Year to Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A	1H18A	1H19A
Revenue	**4,008**	**4,953**	**4,512**	**4,542**	**5,096**	**2,339**	**2,210**
Cost of sales	(2,440)	(2,839)	(2,510)	(2,578)	(2,973)	(1,317)	(1,303)
Gross profit	**1,568**	**2,115**	**2,002**	**1,965**	**2,124**	**1,022**	**908**
Distribution costs	(890)	(1,307)	(1,435)	(1,338)	(1,471)	(695)	(733)
Administrative expenses	(186)	(197)	(313)	(262)	(265)	(133)	(144)
Net impairment losses on financial assets	0	0	0	0	0	0	(7)
Other income	79	77	50	55	91	35	31
Other (losses) and gains-net	5	2	1	(1)	6	5	(11)
Profit from operations	**575**	**689**	**305**	**420**	**484**	**234**	**43**
Finance income-net	12	22	18	7	10	6	(6)
Share of profit of an associate	0	0	0	(1)	8	(2)	(5)
Profit before taxation	**587**	**711**	**324**	**425**	**502**	**238**	**32**
Income tax expense	(162)	(171)	(82)	(108)	(123)	(63)	8
Net profit	**425**	**540**	**242**	**317**	**380**	**175**	**40**
Owners of the Company	425	540	242	317	378	**175**	**36**
Non-controlling interests	0	0	0	0	2	0	**4**

Source: The Company, CIRL

Exhibit 2: Balance sheet

Year to Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A	1H18A	1H19A
Other property, plant and equipment	271	449	546	565	564	551	557
Land use rights	94	91	89	87	85	86	0
Right-of-use assets	0	0	0	0	0	0	200
Intangible assets	25	40	39	45	45	46	44
Investment in a joint venture	0	2	2	20	165	22	275
Available-for-sale financial assets	0	16	19	23	0	0	0
Investment in an associate	0	0	0	3	0	1	0
Deferred tax assets	24	30	39	55	80	65	87
Deposits, prepayments and other receivables	30	33	26	9	14	10	65
Third party loans receivable - non-current assets	0	105	0	0	0	0	0
Financial assets at fair value through profit or loss	0	0	0	0	106	53	96
Financial assets at fair value through other comprehensive income	0	0	0	0	60	23	64
Total non-current assets	**444**	**766**	**760**	**807**	**1,121**	**857**	**1,389**
Inventories	639	800	1,151	1,112	1,165	1,096	1,295
Trade receivables	281	518	451	554	826	677	784
Deposits, prepayments and other receivables	325	438	503	540	790	609	931
Term deposits and restricted bank deposits	0	0	0	110	10	10	0
Loan to third party	0	0	105	0	0	0	0
Available-for-sale financial assets - current assets	0	0	0	0	0	0	0
Financial asset at fair value through profit or loss	0	0	0	8	8	14	7
Cash and cash equivalents	1,081	960	809	1,405	1,496	1,814	896
Total current assets	**2,325**	**2,716**	**3,019**	**3,729**	**4,295**	**4,220**	**3,913**
TOTAL ASSETS	**2,769**	**3,483**	**3,779**	**4,536**	**5,416**	**5,077**	**5,302**
Share capital	117	117	117	134	141	141	140
Share premium	1,432	1,432	1,255	1,603	1,866	1,937	1,657
Other reserves	232	244	261	275	416	301	416
Retained earnings	457	845	1,061	1,344	1,624	1,519	1,659
Non-controling interest	0	0	0	0	15	9	21
TOTAL EQUITY	**2,238**	**2,639**	**2,694**	**3,356**	**4,063**	**3,907**	**3,893**
Non-current liabilities	0	2	202	228	14	194	315
Current liabilities	531	842	884	952	1,340	977	1,094
TOTAL LIABILITY	**531**	**844**	**1,085**	**1,180**	**1,353**	**1,170**	**1,409**

Source: Bloomberg, CIRL

Tiker	Company	Mkt cap	Price	P/E(x)		P/B(x)		Dividend yield(%)	
		(HKD mn)	(HKD)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
2199 HK Equity	REGINA MIRACLE I	6,207	5.07	21.9	16.1	2.1	1.9	1.5	2.1
1234 HK Equity	CHINA LILANG LTD	7,664	6.40	7.9	7.0	1.8	1.7	9.1	10.3
6116 HK Equity	SHANGHAI LA CH-H	2,533	2.78	(4.3)	(5.6)	0.4	0.5	18.3	15.9
2331 HK Equity	LI NING CO LTD	55,990	24.25	39.9	33.3	7.6	6.4	0.8	1.0
3818 HK Equity	CHINA DONGXIANG	4,885	0.83	N/A	6.8	0.4	0.4	N/A	13.7
2020 HK Equity	ANTA SPORTS PROD	174,771	64.70	28.5	22.9	7.9	6.4	1.2	1.5
1368 HK Equity	XTEP INTL	10,974	4.39	12.5	10.4	1.5	1.4	4.7	5.6
999 HK Equity	I.T LTD	2,380	1.99	5.4	4.2	0.7	0.6	9.0	12.3
483 HK Equity	BAUHAUS INTL HLD	408	1.11	(6.6)	N/A	0.5	N/A	5.4	N/A
709 HK Equity	GIORDANO INTL	3,820	2.42	11.0	10.0	1.4	1.4	10.7	11.8
3998 HK Equity	BOSIDENG INTL	28,603	2.67	24.5	20.5	2.5	2.4	3.5	3.3
AVERAGE				**14.1**	**12.6**	**2.5**	**2.3**	**6.4**	**7.7**
2298 HK Equity	COSMO LADY CHINA	2,947	1.31	14.9	12.4	0.6	0.6	2.0	2.7
002269 CH Equity	METERSBONWE -A	6,180	2.46	23.4	15.6	1.7	1.5	N/A	N/A
002563 CH Equity	ZHEJIANG SEMIR-A	34,899	12.93	16.5	14.1	2.6	2.4	3.2	3.8
603877 CH Equity	NINGBO PEACEBI-A	7,421	15.44	10.5	9.1	1.7	1.5	6.8	7.9
002029 CH Equity	FUJIAN SEPTWOL-A	4,907	6.49	11.8	10.6	0.7	0.7	1.7	1.9
600398 CH Equity	HEILAN HOME CO-A	40,540	9.17	10.1	9.4	2.5	2.2	6.1	6.6
600177 CH Equity	YOUNGOR GROUP-A	34,368	6.85	7.4	6.8	1.0	0.9	3.9	4.4
002154 CH Equity	BAOXINIAO HOLD-A	3,980	3.27	24.8	18.1	1.3	1.2	1.0	1.5
CATO US Equity	CATO CORP-A	3,327	134.3	13.9	N/A	1.3	N/A	7.7	N/A
LB US Equity	L BRANDS INC	35,777	129.5	7.1	6.6	(5.2)	(8.4)	14.5	7.3
CHS US Equity	CHICO'S FAS INC	2,884	24.5	11.1	(27.0)	0.6	0.6	10.9	11.9
ASNA US Equity	ASCENA RETAIL GR	386	2.0	N/A	(0.7)	N/A	N/A	N/A	N/A
FRAN US Equity	FRANCESCAS HOLDI	101	34.1	(0.3)	N/A	0.2	N/A	N/A	N/A
NWY US Equity	NEW YORK & CO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CBK US Equity	CHRISTOPHER & B	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BEBE US Equity	BEBE STORES INC	531	47.1	N/A	N/A	N/A	N/A	N/A	N/A

Source: Bloomberg, CIRL

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

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