Cosmo Lady | 2298.HK

Reform needs time to pay off

Rating	**Not Rated**
Current price	**HK$2.64**

FY18 results in line with market expectation

Revenue rose 12.2% YoY to RMB 5,096 mn, of which franchise/retail/e-commerce channels grew 15.1%/-4.6%/31.2% YoY respectively. The decline in retail sales was due to the group adjusted sales and distribution channels proactively in FY17 by closing loss-making retail stores and hence the average number of self-managed stores in 2018 was lower than that of FY17. The gross profit margin fell 1.5 ppt YoY to 41.7% (vs Bloomberg consensus: 42.6%) due to keen competition in e-commerce channel and the group stepped up of promotion efforts to sell aged inventories. Net profit rose 19.3% YoY to RMB 378 mn (vs Bloomberg consensus: 365mn).

Operation began to revive

Sales from bras/underpants/sleepwear and loungewear/thermal clothes achieved RMB 2,504 mn/820 mn/652 mn/529 mn respectively, an increase of 9.5%/0.1%/22.3%/15.7% YoY. Sales of sleepwear and loungewear outperformed the group thanks to the increased sales and marketing promotion and the optimization of product design and style. The group has 1,406 self-operated stores and 5,899 franchise stores including 124 net-opening stores in FY18, comparing with 362 net-closing stores in FY17 and 958 net-closing stores in FY16. 954 franchised stores and 267 self-operated stores have been renovated during the period. The total area of stores in FY18 was about a mid-single digit higher than that of FY17.

Effective cost control; inventory turnover days decreased

Selling and marketing expenses increased by 10.0% YoY to RMB 1,471 mn, mainly due to the gradual business recovery. However, management strictly controlled admin expenses and the operating expense ratio fell by 1.1 ppt YoY to 34.1%. The inventory balance remained fairly stable as more new products designed by new designers were purchased in FY18, which offset the efforts for clearing aged inventories. The drop in average inventory turnover days (from 160.2 days to 139.8 days) was mainly due to the continual improvement in stock management. Management expected inventory turnover days to improve further in FY19. The increase in accounts receivable turnover days (from 40.4 days to 49.4 days) was mainly due to the group gave large franchisees one-off longer credit periods to encourage them to open larger size stores. Trade payables turnover days remained stable at 79.5 days. Overall, cash conversion cycle improved to 109.7 days from 120.1 days.

Trading at discount, but reform still takes time to pay off

The group is pushing up investment spending, including staff costs, brands promotion and channel expansion, we expect operating expenses will remain high in the near-term. Management stated that operation expenses as a percentage of sales will not change significantly. The stock is trading at 11.6x/10.2x FY19E/FY20E PE according to Bloomberg consensus as compared with average 12.4x P/E since its IPO and industry average 17.5x/13.9x FY19E/FY20E PE. We view that the group's promising reform will benefit future development and still take time to show results.

RMB mn (YE Dec)	FY15A	FY16A	FY17A	FY18	FY19E
Revenue	4,953	4,512	4,542	5,096	5,618
Operating EBIT	689	305	420	484	529
Net profit	540	242	317	380	428
PE (x)	19.2	21.1	15.3	13.1	11.6
Dividend yield (%)	3.2	1.8	1.1	1.7	3.0

Sources: Bloomberg, CIRL

Results takeaways

16 April 2019

Farica Li
farica.li@cinda.com.hk
(852) 2235 7617

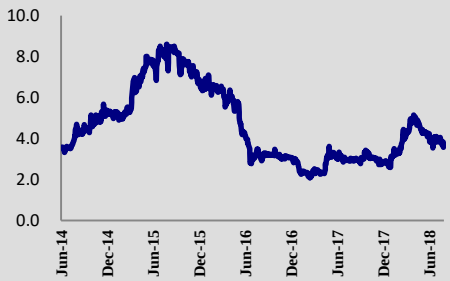
Trading data

52-Week Range (HK$)	5.25/2.2
3 Mth Avg Daily Vol (m)	1.2
No of Shares (m)	2,255.1
Market Cap (HK$m)	5,998.5
Major Shareholders (%)	Zheng Yaonan&Asso. (52.8%)
	Fosun Ruizhe (10.6%)
Auditors	PWC
Result Due	1H19: Aug 2019

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
Revenue	**4,008**	**4,953**	**4,512**	**4,542**	**5,096**
Cost of sales	(2,440)	(2,839)	(2,510)	(2,578)	(2,973)
Gross profit	**1,568**	**2,115**	**2,002**	**1,965**	**2,124**
Distribution costs	(890)	(1,307)	(1,435)	(1,338)	(1,471)
Administrative expenses	(186)	(197)	(313)	(262)	(265)
Other income	79	77	50	55	91
Other (losses) and gains-net	5	2	1	(1)	6
Profit from operations	**575**	**689**	**305**	**420**	**484**
Finance income-net	12	22	18	7	10
Share of profit of an associate	0	0	0	(1)	8
Profit before taxation	**587**	**711**	**324**	**425**	**502**
Income tax expense	(162)	(171)	(82)	(108)	(123)
Net profit	**425**	**540**	**242**	**317**	**380**
Owners of the Company	425	540	242	317	378
Non-controlling interests	0	0	0	0	2

Source: The Company, CIRL

Exhibit 2: Balance sheet

Year to Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A
Other property, plant and equipment	271	449	546	565	564
Land use rights	94	91	89	87	85
Intangible assets	25	40	39	45	45
Investment in a joint venture	0	2	2	20	165
Available-for-sale financial assets	0	16	19	23	0
Investment in an associate	0	0	0	3	0
Deferred tax assets	24	30	39	55	80
Deposits, prepayments and other receivables	30	33	26	9	14
Third party loans receivable - non-current assets	0	105	0	0	0
Financial assets at fair value through profit or loss	0	0	0	0	106
Financial assets at fair value through other comprehensive income	0	0	0	0	60
Total non-current assets	**444**	**766**	**760**	**807**	**1,121**
Inventories	639	800	1,151	1,112	1,165
Trade receivables	281	518	451	554	826
Deposits, prepayments and other receivables	325	438	503	540	790
Term deposits and restricted bank deposits	0	0	0	110	10
Loan to third party	0	0	105	0	0
Available-for-sale financial assets - current assets	0	0	0	0	0
Financial asset at fair value through profit or loss	0	0	0	8	8
Cash and cash equivalents	1,081	960	809	1,405	1,496
Total current assets	**2,325**	**2,716**	**3,019**	**3,729**	**4,295**
TOTAL ASSETS	**2,769**	**3,483**	**3,779**	**4,536**	**5,416**
Share capital	117	117	117	134	141
Share premium	1,432	1,432	1,255	1,603	1,866
Other reserves	232	244	261	275	416
Retained earnings	457	845	1,061	1,344	1,624
Non-controling interest	0	0	0	0	15
TOTAL EQUITY	**2,238**	**2,639**	**2,694**	**3,356**	**4,063**
Non-current liabilities	0	2	202	228	14
Borrowings	0	0	200	211	0
Deferred income tax liabilities	0	2	2	1	1
Deferred income	0	0	0	15	12
Current liabilities	531	842	884	952	1,340
Trade payables	270	495	554	584	711
Accruals and other payables	210	284	306	305	284
Contract liabilities	0	0	0	0	86
Current income tax liabilities	52	63	24	49	72
Borrowings	0	0	0	12	184
Deferred income	0	0	0	3	3
TOTAL LIABILITY	**531**	**844**	**1,086**	**1,180**	**1,354**

Source: The Company, CIRL

Exhibit 3: Peers comparison

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	7,529	6.15	24.4	16.5	2.5	2.2	1.3	2.0
1234 HK Equity	CHINA LILANG LTD	10,741	8.97	10.4	9.0	2.3	2.1	7.0	8.1
6116 HK Equity	SHANGHAI LA CH-H	4,600	4.57	20.6	12.2	0.5	0.5	2.8	5.1
2331 HK Equity	LI NING CO LTD	29,471	13.44	28.5	22.4	4.1	3.6	1.1	1.5
3818 HK Equity	CHINA DONGXIANG	7,004	1.19	9.0	9.2	0.6	0.6	7.7	8.1
2020 HK Equity	ANTA SPORTS PROD	148,626	55.35	24.8	20.5	6.6	5.4	1.5	1.8
1368 HK Equity	XTEP INTL	12,324	4.94	12.6	10.9	1.6	1.5	4.8	5.4
999 HK Equity	I.T LTD	4,544	3.80	8.1	7.1	1.2	1.1	5.7	6.7
483 HK Equity	BAUHAUS INTL HLD	485	1.32	N/A	N/A	N/A	N/A	N/A	N/A
709 HK Equity	GIORDANO INTL	6,188	3.92	12.6	11.6	2.3	2.3	8.4	9.2
3998 HK Equity	BOSIDENG INTL	23,728	2.22	24.1	19.0	2.0	1.9	2.9	3.9
AVERAGE				**17.5**	**13.9**	**2.4**	**2.1**	**4.3**	**5.2**
2298 HK Equity	COSMO LADY CHINA	5,976	2.64	11.6	10.2	1.1	1.0	3.0	3.5
002269 CH Equity	METERSBONWE -A	9,662	3.85	36.6	24.3	2.7	2.4	N/A	N/A
002563 CH Equity	ZHEJIANG SEMIR-A	37,365	13.84	16.6	14.2	2.7	2.4	3.2	3.6
603877 CH Equity	NINGBO PEACEBI-A	11,885	24.72	13.8	11.9	2.5	2.2	4.8	5.5
002029 CH Equity	FUJIAN SEPTWOL-A	6,792	8.99	15.0	13.4	1.0	0.9	1.4	1.6
600398 CH Equity	HEILAN HOME CO-A	50,362	11.21	11.5	8.7	2.8	2.5	5.3	5.8
600177 CH Equity	YOUNGOR GROUP-A	38,891	10.86	8.1	7.6	1.1	1.0	4.3	4.6
002154 CH Equity	BAOXINIAO HOLD-A	5,764	4.73	N/A	N/A	N/A	N/A	N/A	N/A
CATO US Equity	CATO CORP-A	2,643	108.0	11.2	N/A	1.1	N/A	9.6	N/A
LB US Equity	L BRANDS INC	54,429	197.8	10.8	10.4	(8.0)	(13.3)	9.5	4.8
CHS US Equity	CHICO'S FAS INC	3,370	28.9	13.2	39.6	0.7	0.7	9.2	9.9
ASNA US Equity	ASCENA RETAIL GR	1,797	9.1	(2.8)	(4.4)	0.3	0.4	N/A	N/A
FRAN US Equity	FRANCESCAS HOLDI	187	5.2	N/A	N/A	N/A	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	112	2.9	(0.4)	(0.8)	0.7	N/A	N/A	N/A
BEBE US Equity	BEBE STORES INC	530	47.0	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%

Analysts List

Hayman Chiu	Research Director	(852) 2235 7677	hayman.chiu@cinda.com.hk
Lewis Pang	Associate Director	(852) 2235 7619	lewis.pang@cinda.com.hk
Kenneth Li	Associate Director	(852) 2235 7847	kenneth.li@cinda.com.hk
Farica Li	Research Analyst	(852) 2235 7617	farica.li@cinda.com.hk
Leanna Xiao	Research Analyst	(852) 2235 7719	Leanna.xiao@cinda.com.hk
Chloe Chan	Research Analyst	(852) 2235 7170	chloe.chan@cinda.com.hk
Edith Li	Research Analyst	(852) 2235 7515	edith.li@cinda.com.hk

Analyst Certification

I, Farica Li hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

Disclaimer

This report has been prepared by the Cinda International Research Limited. Although the information and opinions contained in this report have been compiled or arrived at from sources believed to be reliable, Cinda International cannot and does not warrant the accuracy or completeness of any such information and analysis. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Recipients should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision. The report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Any opinions expressed in this report are subject to change without notice. The report is published solely for information purposes, it does not constitute any advertisement and should not be construed as an offer to buy or sell securities. Cinda International will not accept any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report. This document is for the use of intended recipients only, the whole or a part of this report should not be reproduced to others.