

Baozun (BZUN US)

2Q loss reduction trend better than expectation

Baozun delivered better-than-feared 2Q24 results: total revenue was RMB2.4bn, up 3% YoY, driven by a 9% YoY increase in services revenue, and was 2% better than consensus; non-GAAP net loss attributable to ordinary shareholders of Baozun came in at RMB3.9mn, narrowed from RMB4.4mn in 2Q23, and was better than consensus of RMB16.6mn in loss. Baozun E-commerce's (BEC) top line growth has turned around to YoY positive growth after 10 consecutive quarters of YoY contraction, and management believes this is sustainable trending into 2H24 aided by strong growth of Douyin related business (which has accounted for c.5% of BEC revenue but with triple-digit YoY growth), and the introduction of exclusive distribution services. Although the overall softened offline traffic is likely to weigh on loss reduction trajectory of Baozun Brand Management (BBM), management has noted signs of improvement as YoY revenue growth of GAP business has turned positive in Aug 2024, and the likely better-than-expected OP generated from BEC should buffer a potentially wider-than-expected loss from BBM. Baozun is still on track to achieve full-year operating loss reduction for 2024. We are transferring coverage with a BUY rating and a new SOTP-based TP of US\$3.2.

■ **Loss reduction of BBM drove an improvement in overall OP in 2Q.** By segment, product sales revenue was down 6% YoY to RMB870.3mn, and services revenue was up 9% YoY (1Q24: 5% YoY) to RMB1.5bn. Within product sales, revenue generated from BEC declined by 4.4% YoY to RMB579.2mn due to Baozun's optimization of its product portfolio in distribution model (especially in electronics and FMCG categories), and revenue generated from BBM declined 9.8% YoY due to weak offline traffic. Within services revenue, online store operations/warehousing and fulfilment/digital marketing and IT solutions achieved 14/3/17% YoY growth. Within online store operations services revenue, sportswear/other apparel category delivered solid 23%/59% YoY growth, offset by -1% YoY growth in luxury. In terms of non-GAAP OP, group-level non-GAAP OP reached RMB10.0mn (up from RMB0.7mn in 2Q23), in which loss from BBM narrowed to RMB50.0mn from RMB60.1mn in 2Q23, while BEC generated OP of RMB60.2mn, down 1% YoY.

■ **2024 outlook: better-than-expected OP generated from BEC should buffer likely wider-than-expected operating loss from BBM.** For 2024E, we expect total revenue +10%/4.5% YoY for BBM/BEC business. We forecast non-GAAP OP loss generated from BBM to narrow to RMB170mn in 2024 (2023: RMB188mn), wider than our previous expectation of RMB160mn, due to macro headwinds which have reduced offline activity. However, we think this could be buffered by a slightly better outlook for the profitability growth of BEC business, aided by strong growth of Douyin related business, as well as the wearing off of business adjustment impact. We forecast Baozun's non-GAAP operating loss to narrow to RMB2.8mn in 2024E (2023: loss of RMB23.7mn).

■ **Maintain BUY with SOTP-based target price at US\$3.2.** We maintain BUY rating. Our SOTP-based valuation consists of: 1) RMB501mn for BEC, based on 3.0x 2024E EV/EBIT; 2) RMB139mn for BBM, based on 0.1x 2024E EV/sales; and 3) RMB2.9bn in net cash. We have applied a 60% holding discount to group-level valuation, but expect the enhancement of shareholder returns to unlock net cash value held on balance sheet.

BUY (Maintain)

Target Price **US\$3.20**
 (Previous TP US\$4.93)
Up/Downside **44.1%**
Current Price **US\$2.22**

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Stock Data

Mkt Cap (US\$ mn)	132.9
Avg 3 mths t/o (US\$ mn)	0.2
52w High/Low (US\$)	4.07/1.97
Total Issued Shares (mn)	59.9

Source: FactSet

Shareholding Structure

Schroders	5.6%
TIAA	4.5%

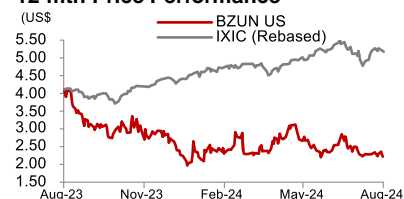
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.8%	-11.8%
3-mth	-18.4%	-21.3%
6-mth	-5.9%	-13.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	8,401	8,812	9,352	9,734	10,060
YoY growth (%)	(10.6)	4.9	6.1	4.1	3.4
Adjusted net profit (RMB mn)	132.2	(65.1)	(68.3)	55.6	154.4
Diluted EPS (RMB cents)	71.13	(36.45)	(38.03)	30.78	84.93
YoY growth (%)	(21.6)	na	na	na	175.9
P/E (x)	21.9	ns	ns	51.4	18.6
ROE (%)	(10.0)	(3.9)	(1.8)	0.2	1.8

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Baozun: SOTP valuation

(RMBmn)	Metrics		Valuation methodology	Target multiple	Shareholding	Valuation
	2024E Non-GAAP					
BEC	EBIT	167	EV/EBIT	3.0	100%	501
BBM	2024E Revenue	1,391	EV/sales	0.1	100%	139
Total						640
	Net cash					2,857
	Holding discount					60%
	Equity Value (US\$mn)					194
	No. of ADS outstanding (mn)					60
	Target price (US\$)					3.2

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	9,396	8,401	8,812	9,352	9,734	10,060
Cost of goods sold	(3,277)	(2,256)	(2,409)	(2,591)	(2,686)	(2,777)
Gross profit	6,120	6,145	6,403	6,761	7,047	7,284
Operating expenses	(3,524)	(3,474)	(4,190)	(4,017)	(4,082)	(4,111)
Selling expense	(2,550)	(2,674)	(2,829)	(2,754)	(2,797)	(2,803)
Admin expense	(526)	(371)	(856)	(795)	(818)	(825)
R&D expense	(448)	(428)	(505)	(468)	(467)	(483)
Operating profit	7	33	(206)	(102)	14	105
Other income	63	46	82	74	74	74
Other expense	(57)	(57)	(41)	(40)	(40)	(40)
Gain/loss on financial assets at FVTPL	46	(32)	(9)	0	0	0
Investment gain/loss	(3)	(108)	1	(4)	(4)	(3)
Pre-tax profit	(154)	(580)	(217)	(102)	14	106
Income tax	(55)	(26)	(12)	(6)	1	6
Net profit	(206)	(610)	(223)	(107)	14	112
Adjusted net profit	200	132	(65)	(68)	56	154

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	9,204	7,397	7,291	7,579	7,090	8,119
Cash & equivalents	4,607	2,150	2,406	3,252	2,494	3,554
Restricted cash	93	102	203	0	0	0
Account receivables	2,261	2,293	2,185	1,988	2,313	2,132
Inventories	1,074	943	1,045	900	825	958
Prepayment	573	554	590	404	414	424
ST bank deposits	0	895	721	721	721	721
Non-current assets	3,115	2,725	3,184	2,723	2,695	2,653
PP&E	653	694	851	551	569	581
Investment in JVs & assos	41	39	38	38	38	38
Intangibles	395	311	306	46	0	(54)
Goodwill	398	336	312	312	312	312
Other non-current assets	1,628	1,344	1,675	1,775	1,775	1,775
Total assets	12,319	10,122	10,474	10,302	9,785	10,773
Current liabilities	4,777	3,682	3,758	4,460	3,828	4,601
Short-term borrowings	2,288	1,016	1,116	1,116	1,116	1,116
Account payables	494	475	564	1,307	633	1,372
Tax payable	658	535	525	525	525	525
Other current liabilities	352	631	365	365	365	365
Accrued expenses	985	1,026	1,188	1,146	1,189	1,222
Non-current liabilities	1,061	764	865	824	824	824
Long-term borrowings	0	0	0	0	0	0
Total liabilities	5,838	4,446	4,623	5,284	4,652	5,425
Capital surplus	4,960	5,129	4,571	4,670	4,773	4,875
Retained earnings	425	(228)	(507)	(614)	(599)	(487)
Total shareholders equity	6,481	5,676	5,852	5,843	5,960	6,175
Minority interest	163	154	170	170	170	170
Total equity and liabilities	12,319	10,122	10,474	11,127	10,612	11,600

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(154)	(580)	(217)	(102)	14	106
Depreciation & amortization	207	197	179	200	222	245
Tax paid	(54)	(54)	(54)	(54)	(54)	(54)
Others	(95)	821	246	988	(745)	966
Net cash from operations	(96)	383	154	1,032	(564)	1,263
Investing						
Capital expenditure	(286)	(207)	(128)	(136)	(144)	(152)
Net proceeds from disposal of short-term investments	1,433	(898)	175	0	0	0
Net cash from investing	376	(1,307)	(85)	(186)	(194)	(203)
Financing						
Net borrowings	548	468	100	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	201	(2,118)	0	0	0	0
Net cash from financing	750	(1,650)	100	0	0	0
Net change in cash						
Cash at the beginning of the year	3,731	4,700	2,246	2,406	3,252	2,494
Exchange difference	(61)	120	(9)	0	0	0
Cash at the end of the year	4,700	2,246	2,406	3,252	2,494	3,554
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	6.2%	(10.6%)	4.9%	6.1%	4.1%	3.4%
Gross profit	10.8%	0.4%	4.2%	5.6%	4.2%	3.4%
Operating profit	(98.7%)	374.1%	na	na	na	659.8%
Net profit	na	na	na	na	na	676.3%
Adj. net profit	(62.7%)	(33.8%)	na	na	na	177.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	65.1%	73.1%	72.7%	72.3%	72.4%	72.4%
Operating margin	0.1%	0.4%	(2.3%)	(1.1%)	0.1%	1.0%
Adj. net profit margin	2.1%	1.6%	(0.7%)	(0.7%)	0.6%	1.5%
Return on equity (ROE)	(3.3%)	(10.0%)	(3.9%)	(1.8%)	0.2%	1.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.2)	(0.2)	(0.4)	(0.2)	(0.4)
Current ratio (x)	1.9	2.0	1.9	1.7	1.9	1.8
Receivable turnover days	86.4	98.9	92.7	81.4	80.6	80.6
Inventory turnover days	116.9	163.1	150.6	137.0	117.2	117.2
Payable turnover days	51.0	78.4	78.7	131.8	131.8	131.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	17.2	21.9	ns	ns	51.4	18.6
P/E (diluted)	17.4	22.2	ns	ns	51.4	18.6
P/B	0.5	0.5	0.5	0.5	0.5	0.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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