

Bosideng (3998 HK)

The negatives should have been priced in

After recent share price retreat (declined by 26% since Dec), we believe the negatives (e.g. warm weather in Dec and Jan, COVID-19 outbreaks) should mostly be priced in. Also, even though Canada Goose result was a miss, its performance in China was not disappointing, hence giving us more confidence on Bosideng's sales trend. The valuation of the stock is not demanding at 15x FY23E P/E, vs 5-year average of 17x. Maintain BUY but fine-tuned TP to HK\$ 5.31.

- Canada Goose's 3Q22 result missed but China sales was resilient, hence positive to Bosideng.** Canada Goose reported its 3Q22 results. Sales grew by 24% YoY, inline with BBG est., while net profit was up 42%, missed BBG est. by 16%. Management also revised down its FY22E sales/net profit guidance by 5%/ 14% to CAD ~11.0bn/ ~170mn and attributed this cut to new COVID-19 outbreaks in APAC and EMEA. More importantly, Canada Goose's China DTC sales growth had slowed down to 35% in 3Q22 (ending Dec 2021), from 86% in the last quarter, but we still think that was a decent number, esp. when online sales can still grow by 60%.
- We believe Bosideng's sales was soft during Dec and Jan.** We believe Bosideng's sales growth should have slowed down in Dec 2021 and Jan 2022 (vs Nov 2021), where Canada Goose had a similar observation, perhaps due to warmer weather (1.5/ 1.7 degrees hotter than last year during Dec/ Jan in BJ, SH and SZ on average) and slower economic growth. Moreover, ASP increases should also be less than expected, together with a widened level of retail discounts. Hence, we revised down Bosideng's down apparel sales growth to 11% (from 21%) in 2H22E (slower than 16% in 1H22) with a lower GP margin.
- However, an improving Feb 2022 and recent price retreat should have priced in the negatives.** According to our research, Bosideng's sales growth should have accelerated since Feb 2022, thanks to better weather and more promotions, which is cheerful as it is presumably facing a higher base (due to early CNY this year). Together with the share price retreat of 26% since Dec 2021, it is not that demanding.
- Maintain BUY but cut TP to HK\$ 5.31.** We revised down our diluted EPS by 10%/ 9%/ 9% in FY22E/ 23E/ 24E to factor in slower sales growth and lower GP margin. Reiterate BUY but cut TP to HK\$ 5.31, based on 20x FY23E P/E (revised down from 23x, to factor in de-rating). Current valuation of 15x FY23E P/E with a 21% FY21-24E NP CAGR is undemanding, vs 5 years average of 17x and GOOS's 21x, MONC's 30x and Li Ning's 36x.

Earnings Summary

(YE 31 Mar)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	12,191	13,517	15,094	17,202	19,291
YoY growth (%)	17.4	10.9	11.7	14.0	12.1
Net income (RMB mn)	1,203	1,710	2,026	2,486	3,010
Diluted EPS (RMB)	0.111	0.151	0.180	0.220	0.267
YoY growth (%)	12.8	48.1	20.7	22.7	21.1
Consensus EPS (RMB)	n/a	n/a	0.215	0.256	0.301
P/E (x)	33.4	22.5	18.7	15.2	12.6
P/B (x)	3.8	3.3	3.0	2.8	2.5
Yield (%)	2.2	3.3	3.7	4.6	5.6
ROE (%)	12.0	16.1	17.7	20.1	22.2
Net gearing (%)	Net cash	1.8	2.5	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.31
(Previous TP)	HK\$6.69
Up/Downside	+31.4%
Current Price	HK\$4.04

China Apparel Sector

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Stock Data

Mkt Cap (HK\$ mn)	43,972
Avg 3 mths t/o (HK\$ mn)	139.91
52w High/Low (HK\$)	6.93/2.99
Total Issued Shares (mn)	10,884.2

Source: Bloomberg

Shareholding Structure

Mr Gao Dekang & Family	70.49%
Employee incentive scheme	6.81%
Free Float	22.70%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.5%	-10.3%
3-mth	-33.0%	-31.9%
6-mth	-33.7%	-29.8%
12-mth	6.0%	28.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- Bosideng (3998 HK, BUY) – Bosideng and BOGNER to co-develop the Greater China market – 3 Dec 2021
- Bosideng (3998 HK, BUY) – Successful new product and premiumization – 29 Nov 2021
- Bosideng (3998 HK, BUY) – Outstanding double 11 and e-commerce sales - 15 Nov 2021

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,094	17,202	19,291	15,904	18,137	20,352	-5.1%	-5.2%	-5.2%
Gross profit	9,060	10,511	11,918	9,694	11,128	12,623	-6.5%	-5.5%	-5.6%
EBIT	2,716	3,303	3,933	3,024	3,612	4,292	-10.2%	-8.6%	-8.3%
Net profit att.	2,026	2,486	3,010	2,261	2,726	3,290	-10.4%	-8.8%	-8.5%
Diluted EPS (RMB)	0.180	0.220	0.267	0.200	0.241	0.291	-10.4%	-8.8%	-8.5%
Gross margin	60.0%	61.1%	61.8%	61.0%	61.4%	62.0%	-0.9ppt	-0.3ppt	-0.2ppt
EBIT margin	18.0%	19.2%	20.4%	19.0%	19.9%	21.1%	-1ppt	-0.7ppt	-0.7ppt
Net profit att. margin	13.4%	14.5%	15.6%	14.2%	15.0%	16.2%	-0.8ppt	-0.6ppt	-0.6ppt

Source: Company data, CMBIS estimates

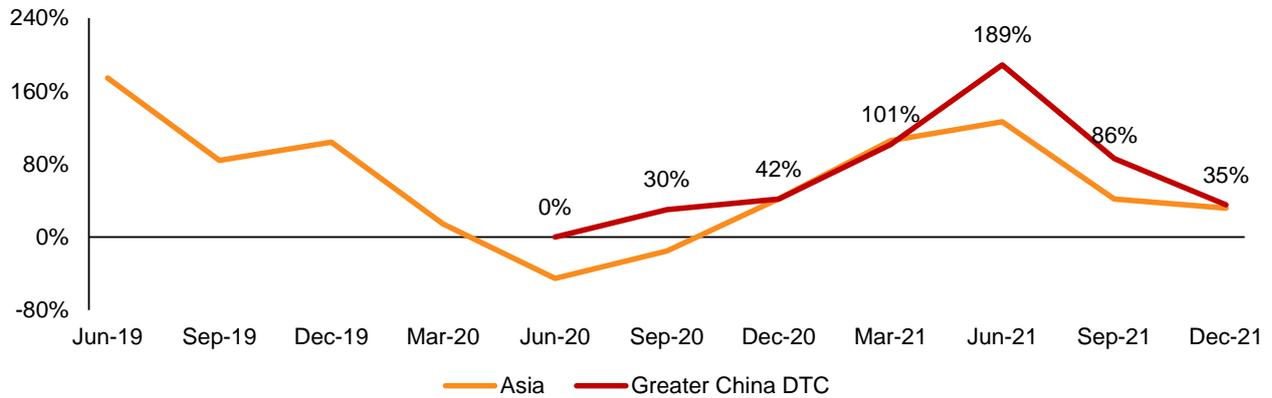
Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,094	17,202	19,291	16,164	19,190	22,466	-6.6%	-10.4%	-14.1%
Gross profit	9,060	10,511	11,918	9,751	11,722	13,870	-7.1%	-10.3%	-14.1%
EBIT	2,716	3,303	3,933	2,869	3,549	4,264	-5.3%	-6.9%	-7.8%
Net profit att.	2,026	2,486	3,010	2,189	2,691	3,287	-7.4%	-7.6%	-8.4%
Diluted EPS (RMB)	0.180	0.220	0.267	0.215	0.256	0.301	-16.4%	-13.9%	-11.5%
Gross margin	60.0%	61.1%	61.8%	60.3%	61.1%	61.7%	-0.3ppt	0ppt	0ppt
EBIT margin	18.0%	19.2%	20.4%	17.8%	18.5%	19.0%	0.2ppt	0.7ppt	1.4ppt
Net profit att. margin	13.4%	14.5%	15.6%	13.5%	14.0%	14.6%	-0.1ppt	0.4ppt	1ppt

Source: Company data, CMBIS estimates

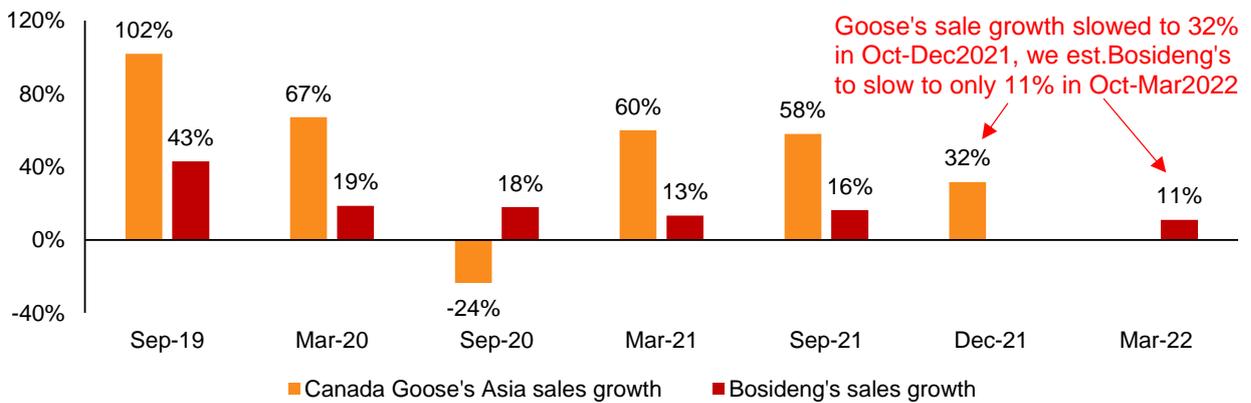
Focus Charts

Figure 3: Canada Goose's sales growth by region



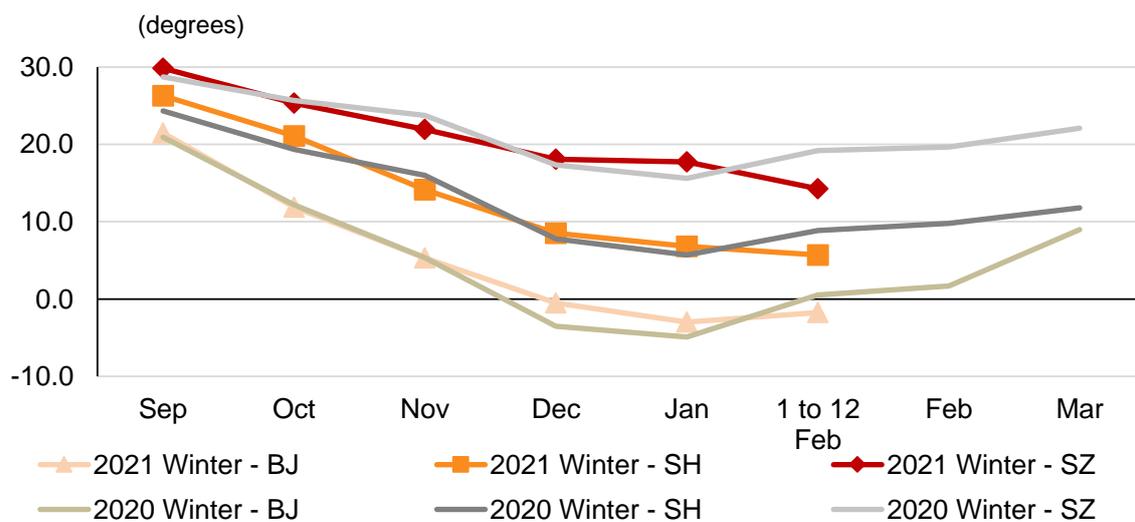
Source: Company data, CMBIS estimates

Figure 4: Canada goose Asia and Bosideng's sales growth



Source: Company data, CMBIS estimates

Figure 5: Temperature in Beijing, Shanghai and Shenzhen in 2021 Winter vs last year



Source: Bloomberg, CMBIS estimates

Assumption

Figure 6: CMBIS estimates vs consensus

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
Down apparels	9,513	10,889	12,242	14,203	16,149
OEM management	1,611	1,536	1,705	1,790	1,880
Ladieswear	983	947	966	1,018	1,063
Diversified apparels	84	145	181	190	199
Total	12,191	13,517	15,094	17,202	19,291
Sales by segment growth (%)					
Down apparels	24.2%	14.5%	12.4%	16.0%	13.7%
OEM management	17.8%	-4.7%	11.0%	5.0%	5.0%
Ladieswear	-17.7%	-3.7%	2.0%	5.4%	4.4%
Diversified apparels	-48.9%	72.6%	25.0%	5.0%	5.0%
Total	17.4%	10.9%	11.7%	14.0%	12.1%
Sales by channel growth (%)					
Down Apparels - offline	23.1%	2.1%	1.3%	7.2%	5.0%
Down Apparels - online	28.0%	54.3%	36.0%	30.0%	25.0%
OEM management	17.8%	-4.7%	11.0%	5.0%	5.0%
Non-down apparels - offline	-22.3%	1.1%	5.1%	4.6%	4.5%
Non-down apparels - online	-6.1%	21.8%	5.0%	15.0%	5.0%
Total	17.4%	10.9%	11.7%	14.0%	12.1%
Sales network by segment					
Down apparel	4,866	4,150	4,060	4,170	4,284
Non - down apparel	525	477	469	483	497
Total	5,391	4,627	4,528	4,653	4,781
Sales network by channel type					
Self-operated	2,267	2,161	2,154	2,228	2,304
Third party distributors	3,131	2,466	2,374	2,425	2,476
Total	5,398	4,627	4,528	4,653	4,781
GP margins by segment					
Down apparels	59.8%	63.7%	66.0%	67.3%	67.7%
OEM management	18.5%	19.6%	19.0%	17.0%	17.0%
Ladieswear	74.4%	72.6%	67.0%	63.0%	63.0%
Diversified apparels	-16.4%	0.1%	2.0%	2.0%	2.0%
Total	55.0%	58.6%	60.0%	61.1%	61.8%
Opex breakdown					
D&A/ sales	2.8%	3.6%	2.8%	2.6%	2.3%
Rental/ sales	11.6%	13.3%	12.9%	13.0%	13.1%
Labor/ sales	10.7%	11.9%	11.7%	10.9%	10.7%
A&P/ sales	7.0%	6.5%	7.5%	8.0%	8.0%
Others/ sales	9.9%	7.7%	8.1%	8.3%	8.1%
OP margins	13.1%	16.5%	18.0%	19.2%	20.4%
Effective tax rate	25.3%	24.0%	25.0%	25.0%	25.0%
NP att. margins	9.9%	12.6%	13.4%	14.5%	15.6%
NP att. growth (%)	22.6%	42.1%	18.5%	22.7%	21.1%

Source: Company data, CMBIS estimates

Valuation

Figure 7: Peers' valuation

Company	Ticker	Rating	12m	Price	Up/	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE	3yrs	Yield	
			TP	(LC)	Down-			(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	(%)	PEG (x)
H-shares Apparel															
Bosideng Intl	3998 HK	BUY	5.31	4.04	31%	43,972	Mar-21	18.7	15.2	3.0	2.8	17.5	0.9	4.4	
China Lilang	1234 HK	BUY	6.27	4.45	41%	5,329	Dec-20	6.3	5.4	1.1	1.0	15.6	0.3	10.8	
Jnby Design	3306 HK	BUY	22.84	11.16	105%	5,789	Jun-21	6.8	5.9	2.6	2.3	40.4	1.1	10.3	
Cosmo Lady	2298 HK	NR	n/a	0.50	n/a	1,125	Dec-20	n/a	8.7	0.4	0.4	1.2	0.0	1.5	
Mulsanne Group	709 HK	NR	n/a	1.64	n/a	2,589	Dec-20	14.9	11.7	n/a	n/a	5.2	(0.1)	n/a	
Giordano	1817 HK	NR	n/a	4.45	n/a	4,228	Dec-20	n/a	n/a	n/a	n/a	(13.6)	0.0	n/a	
Koradior	3709 HK	NR	n/a	12.48	n/a	8,787	Dec-20	11.4	9.2	1.8	1.6	17.2	0.4	4.3	
								Avg.	11.6	9.3	1.8	1.6	11.9	0.4	6.3
								Med.	11.4	8.9	1.8	1.6	15.6	0.3	4.4
A-shares Apparel															
Ningbo Peacebird	603877 CH	NR	n/a	24.38	n/a	14,258	Dec-20	12.8	10.5	2.6	2.3	25.1	0.5	4.1	
Joeone Co Ltd	601566 CH	NR	n/a	12.02	n/a	8,473	Dec-20	29.1	19.2	1.7	1.6	3.6	6.0	3.3	
Fujian Septwolves	002029 CH	NR	n/a	5.89	n/a	5,460	Dec-20	17.8	13.6	0.7	0.7	4.1	0.8	2.0	
Hla Corp Ltd	600398 CH	NR	n/a	6.20	n/a	32,855	Dec-20	9.4	8.0	1.7	1.5	18.2	0.3	7.4	
Jiangsu Hongdou	600400 CH	NR	n/a	3.29	n/a	9,248	Dec-20	62.1	49.1	2.2	2.2	2.7	4.2	n/a	
Dazzle Fashion	603587 CH	NR	n/a	18.03	n/a	10,643	Dec-20	11.9	10.2	2.3	2.1	20.4	0.6	5.4	
Anzheng Fashion	603839 CH	NR	n/a	8.95	n/a	4,393	Dec-20	16.9	15.4	n/a	n/a	6.7	1.7	n/a	
Lancy Co Ltd	002612 CH	NR	n/a	26.15	n/a	14,194	Dec-20	46.9	33.2	3.7	3.3	8.4	0.9	n/a	
Shenzhen Huijie	002763 CH	NR	n/a	9.35	n/a	4,703	Dec-20	n/a	n/a	n/a	n/a	15.7	0.0	n/a	
Ellassay Fashion	603808 CH	NR	n/a	12.62	n/a	5,714	Dec-20	12.8	10.8	1.6	1.5	14.0	2.5	3.3	
Bobaolon Co	002776 CH	NR	n/a	2.63	n/a	1,736	Dec-20	n/a	n/a	n/a	n/a	(22.0)	0.0	n/a	
								Avg.	24.4	18.9	2.1	1.9	8.8	1.6	4.3
								Med.	16.9	13.6	1.9	1.8	8.4	0.8	3.7
International Apparel															
Canada Goose	GOOS US	NR	n/a	26.90	n/a	22,386	Mar-21	31.9	21.0	7.4	5.5	19.0	0.0	n/a	
Moncler Spa	MONC IM	NR	n/a	53.40	n/a	128,912	Dec-20	36.5	29.6	6.3	5.6	22.3	1.8	1.1	
Hugo Boss	BOSS GR	NR	n/a	55.42	n/a	34,415	Dec-20	30.2	21.1	4.3	3.7	6.3	(0.2)	1.5	
Ted Baker	TED LN	NR	n/a	87.60	n/a	1,705	Jan-21	n/a	17.9	n/a	n/a	(21.7)	0.0	0.0	
Next	NXT LN	NR	n/a	7180.0	n/a	100,134	Jan-21	13.7	12.9	9.7	7.9	88.3	0.3	3.4	
Hennes & Mauritz	HMB SS	NR	n/a	176.96	n/a	242,396	Nov-21	19.3	16.8	4.7	4.4	19.2	1.1	4.6	
Industria De Diseno	ITX SM	NR	n/a	24.98	n/a	686,727	Jan-21	21.4	18.9	4.9	4.6	20.2	0.4	4.0	
Ovs Spa	OVS IM	NR	n/a	2.29	n/a	5,887	Jan-21	11.9	9.7	0.7	0.7	16.9	0.5	0.0	
Pvh Corp	PVH US	NR	n/a	98.13	n/a	53,569	Jan-21	10.5	9.7	1.4	1.2	10.2	(0.1)	0.1	
Vf Corp	VFC US	NR	n/a	60.74	n/a	184,277	Apr-21	19.0	16.7	6.6	6.4	41.1	0.3	3.2	
Marks & Spencer	MKS LN	NR	n/a	193.50	n/a	39,964	Apr-21	9.1	10.3	1.5	1.4	1.1	(0.0)	0.3	
								Avg.	20.3	16.8	4.7	4.2	20.3	0.4	1.8
								Med.	19.1	16.8	4.8	4.5	19.0	0.3	1.3

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	12,191	13,517	15,094	17,202	19,291	EBIT	1,599	2,225	2,716	3,303	3,933
Down apparels	9,513	10,889	12,242	14,203	16,149	D & A	400	564	356	372	367
OEM management	1,611	1,536	1,705	1,790	1,880	Change in working capital	(487)	425	(752)	(173)	(176)
Ladieswear	983	947	966	1,018	1,063	Income tax paid	(497)	(348)	(678)	(832)	(1,007)
Diversified apparels	84	145	181	190	199	Others	218	267	183	210	280
Cost of goods sold	(5,482)	(5,592)	(6,034)	(6,691)	(7,373)	Net cash from operating	1,233	3,133	1,825	2,881	3,398
Gross profit	6,709	7,924	9,060	10,511	11,918	Capex & investments	(714)	(437)	(488)	(556)	(623)
Other income	187	204	196	206	212	Associated companies	1,118	(3,193)	-	-	-
Operating expenses	(5,297)	(5,903)	(6,540)	(7,414)	(8,197)	Interest received	129	153	-	-	-
D & A	(151)	(177)	(148)	(150)	(149)	Others	79	(386)	-	-	-
Staff costs	(1,365)	(1,633)	(1,783)	(1,888)	(2,078)	Net cash from investing	612	(3,863)	(488)	(556)	(623)
S & D costs (ex-staff, D&A)	(2,957)	(3,155)	(3,600)	(4,206)	(4,650)	Equity raised	-	-	-	-	-
Admin exp. (ex-staff, D&A)	(404)	(523)	(555)	(634)	(705)	Net change in bank loans	(552)	148	-	-	-
Other operating expenses	(419)	(416)	(453)	(536)	(614)	Dividend paid	(863)	(880)	(1,248)	(1,426)	(1,745)
EBIT	1,599	2,225	2,716	3,303	3,933	Others	1,408	(361)	(187)	(187)	(187)
Finance costs, net	1	18	(4)	23	93	Net cash from financing	(8)	(1,092)	(1,435)	(1,613)	(1,932)
JVs & associates	-	-	-	-	-	Net change in cash	1,837	(1,822)	(98)	713	842
Exceptional	-	-	-	-	-	Beginning cash balance	1,754	3,639	1,771	1,673	2,386
Pre-tax profit	1,600	2,242	2,712	3,326	4,026	Exchange difference	47	(46)	-	-	-
Income tax	(405)	(537)	(678)	(832)	(1,007)	Cash at the end of the year	3,639	1,771	1,673	2,386	3,228
Less: Minority interests	(8)	(5)	8	9	10						
Net profit	1,203	1,710	2,026	2,486	3,010						

Balance sheet						Key ratios					
YE 31 Mar (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,909	6,080	6,211	6,394	6,650	Sales mix (%)					
Fixed asset	1,390	1,762	2,006	2,302	2,671	Down apparels	78.0	80.6	81.1	82.6	83.7
Intangible assets & goodwill	1,654	1,572	1,459	1,346	1,234	OEM management	13.2	11.4	11.3	10.4	9.7
Prepaid lease payments	99	912	912	912	912	Ladieswear	8.1	7.0	6.4	5.9	5.5
Interest in joint ventures	-	-	-	-	-	Diversified apparels	0.7	1.1	1.2	1.1	1.0
Other non-current assets	1,765	1,833	1,833	1,833	1,833	Total	100.0	100.0	100.0	100.0	100.0
Current assets	12,470	12,877	13,226	14,568	16,049	P&L ratios (%)					
Cash and cash equivalents	3,639	1,771	1,673	2,386	3,228	Gross margin	55.0	58.6	60.0	61.1	61.8
Inventories	2,726	2,646	2,855	3,166	3,488	Operating margin	13.1	16.5	18.0	19.2	20.4
Trade and other receivables	1,197	876	978	1,115	1,250	Pre-tax margin	13.1	16.6	18.0	19.3	20.9
Prepayments	971	1,168	1,305	1,487	1,667	Net margin	9.9	12.6	13.4	14.5	15.6
Other current assets	3,937	6,415	6,415	6,415	6,415	Effective tax rate	25.3	24.0	25.0	25.0	25.0
Current liabilities	4,690	5,442	5,138	5,594	6,057	Balance sheet ratios					
Bank loans	818	671	671	671	671	Current ratio (x)	2.7	2.4	2.6	2.6	2.6
Trade payables	1,830	2,469	1,984	2,200	2,424	Quick ratio (x)	2.1	1.9	2.0	2.0	2.1
Accruals & other payables	1,412	1,543	1,724	1,964	2,203	Cash ratio (x)	0.8	0.3	0.3	0.4	0.5
Tax payables	365	520	520	520	520	Inventory turnover days	181	173	173	173	173
others	266	239	239	239	239	Trade receivables days	36	24	24	24	24
Non-current liabilities	2,286	2,263	2,263	2,263	2,263	Trade payables days	122	161	120	120	120
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	24	21	19	18	16
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash	2	2	Net cash	Net cash
Deferred tax	140	174	174	174	174	Returns (%)					
Others	2,146	2,089	2,089	2,089	2,089	ROE	11.8	15.4	17.1	19.3	21.2
Minority Interest	189	182	189	198	207	ROA	6.9	9.0	10.4	11.9	13.3
Total net assets	10,214	11,069	11,847	12,907	14,172	Per share					
Shareholders' equity	10,214	11,069	11,847	12,907	14,172	Diluted EPS (RMB)	0.11	0.15	0.18	0.22	0.27
						DPS (RMB)	0.08	0.11	0.13	0.15	0.19
						BVPS (RMB)	0.96	1.03	1.11	1.20	1.32

Source: Company data, CMBIS estimates

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