

Analyst: Anita Hwang

## **Main Board Listing – Research**

**Bosideng International Holdings Limited [Stock Code: 3998] 波司登國際控股有限公司**

**Joint global coordinators, joint bookrunners, joint lead managers and joint sponsors** : Goldman Sachs Morgan Stanley

**Sector** : Consumer Durables & Apparel

**Business** : Design, marketing and distribution of down apparel

<p><b>Total share offer:</b> <u>1,988,000,000</u> shares (25% of the enlarged share capital)</p> <p><b>Placing:</b> *1,789,200,000 shares (90%)</p> <p><b>Public Offer:</b> 198,800,000 shares (10%)</p> <p><b>Greenshoe:</b> 280,500,000 shares</p> <p><i>*Comprising 1,671,200,000 New Shares and 118,000,000 Sale Shares</i></p>	<p><b><u>Business of Bosideng</u></b></p> <p>Bosideng is a leading down apparel company in the PRC. It primarily focuses on developing and managing the portfolio of down apparel brands, which includes research, design and development, raw materials procurement, outsourced manufacturing, and marketing and distribution of branded down apparel products. The core brands are “Bosideng”, “Snow Flying” and “Kangbo”, and other brands comprise “Bingjie”, “Shuangyu” and “Shangyu”.</p> <p>“Bosideng” has been the leading down apparel brand in the PRC for 12 consecutive years from 1995 to 2006, according to the CIIC and National Bureau of Statistics of China. In 2006, “Bosideng”, “Snow Flying” and “Kangbo” down apparel products achieved a combined market share of 36.1% among the 30 largest down apparel brands in the PRC based on sales, according to the CIIC. Bosideng also engages in the OEM management business through which it procures raw materials and manages the outsourced manufacturing process on behalf of OEM customers, as well as coordinate the export of down and non-down apparel to the OEM customers.</p> <p>Bosideng provided FY08E consolidated attributable profit forecast to be no less than RMB950 million, equivalent to a pro forma fully diluted EPS of RMB0.121.</p>
<p><b>Price:</b> HK\$2.56– HK\$3.28 per share</p> <p><b>Market Cap:</b> HK\$20.147 billion – HK\$25.814 billion</p> <p><b>Pro-forma fully diluted FY08 PER:</b> 20.47X – 26.23X</p> <p><b>Adjusted NTA per share:</b> HK\$0.65 – HK\$0.82</p> <p><b>Staffing:</b> 1,034</p>	
<p><b>HK Public Offer period:</b> 27<sup>th</sup> September 07 – 3<sup>rd</sup> October 07 noon</p> <p><b>Receiving bank:</b> HSBC Hang Seng Bank Bank of Communications</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 11<sup>th</sup> October 2007</p>	

### **Major Shareholders after Listing (Assuming the over-allotment option is not exercised)**

Mr. Gao Dekang (the chairman & CEO) & Mr. Gao Xiaodong (the son of Mr. Gao Dekang) through Kong Bo Investment	65.36%
Ms. Mei Dong (executive director) through Kong Bo Investment	0.67 %
HSBC Private Equity, through Olympics Investment	7.83 %
HSBC Trustee (HK) Ltd. on behalf of the beneficiaries of the Share Scheme (to attract, retain and motivate key personnel of Bosideng)	0.88%
Other shareholders*	25.26%
	<u>100.0%</u>

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Remarks: \* Bosideng and the joint global coordinators have entered into placing agreements with several corporate investors. Each of the following investors will subscribe for US\$25 million worth of shares (some 66.672 million shares at the mid-point offer price)

- **Dr. Lee Shau Kee, through** Cenwise Investment Ltd.
- **China Life Insurance Company Ltd.**
- **Dr. Cheng Yu Tung** through Chow Tai Fook Nominee Ltd.
- **The Dickson Poon family** through Equity Advantage Ltd.
- **Li Ka Shing Foundation Ltd.**

### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$5,225 million. (Assuming an offer price of HK\$2.92, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For expansion plans, both domestically and in overseas markets such as Russia, Canada and the United States	30%-40%
To strengthen and expand retail distribution network	15%-20%
For the continual implementation of branding strategies	5%
To repay existing bank borrowings	20%-30%
For working capital purposes and other general corporate purposes	balance

### **Financial Highlights**

RMB million	Period from 1 June 2004 to 31 March 2005	Year ended 31 March	
		2006	2007
Revenue	2,509	3,699	5,633
Gross profit	806	1,417	1,987
Operating profit	433	764	855
<b>Net profit</b>	<b>257</b>	<b>507</b>	<b>614</b>
Gross margin	32.1%	38.3%	35.3%
Operating margin	17.3%	20.7%	15.2%
Net margin	10.2%	13.7%	10.9%

### **Breakdown of turnover by activities**

	Period from 1 June 2004 to 31 March 2005		Year ended 31 March 2005		Year ended 31 March 2006	
	RMB million	%	RMB million	%	RMB million	%
<b>Branded down apparel</b>						
Outright sales	1,287.6	51.3%	2,298.4	62.1%	3,487.1	61.9%
Including:						
Third party distributors	1,274.7	50.8%	2,258.4	61.1%	3,474.7	61.7%
Direct retail sales	13.0	0.5%	40.0	1.1%	12.4	0.2%
Consignment sales	670.3	26.7%	773.3	20.9%	1,431.9	25.4%
Others	16.8	0.7%	30.4	0.8%	61.5	1.1%
<b>OEM</b>	<b>534.6</b>	<b>21.3%</b>	<b>596.5</b>	<b>16.2%</b>	<b>652.4</b>	<b>11.6%</b>
<b>Total</b>	<b>2,509.3</b>	<b>100.0%</b>	<b>3,698.6</b>	<b>100.0%</b>	<b>5,633.0</b>	<b>100.0%</b>



## **Strengths/Opportunities**

- ✓ **Large distribution network** Bosideng has nationwide distribution network with 6,844 points of sales. This is significantly ahead of most its comparables, such as Li Ning (2331.HK) and ANTA (2020.HK), which have just over 4,000.
- ✓ **Asset-light model** Bosideng outsources all manufacturing to 331 contract manufacturers in the PRC. From an investment return point of view, this model is preferred as factory utilization would be low for much of the year due to the high seasonality of the products.
- ✓ The IPO price range of Bosideng is at a FY08E pro-forma fully diluted PER range of 20.47X – 26.23X. HK-listed apparel retailers, Li Ning and ANTA, trade at FY07E PER of 48X and 45X respectively. Bosideng is priced at about 44%-56% discount to the peers, which we think is reasonable accounting for Bosideng's different product portfolio to the comparables.

## **Weaknesses/Threats**

- × **Vulnerable product portfolio** Bosideng is a pure down player whose sales of down apparel can be severely affected by weather. For instance, due to an unexpectedly warm winter, Bosideng took back unsold inventories from distributors and booked RMB256.6 million of inventory provision. That was the main reason behind the drop in gross margin in FY07.
- × Bosideng needs a better supply chain management system to closely monitor the inventory level. It expects to establish ERP system and complete within 3 years.
- × One of the raw materials of down apparel is down. The outbreak of avian flu could adversely affect the sales of down apparel and lead to a decline in the availability of down.

**Recommendation:    Neutral**



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