



December 19, 2023

Non-US Internet | Chinese New Economy | • Target Price Change

China Internet • E-commerce

Vipshop Holdings Limited (NYSE: VIPS)

Discount offerings remain hot given cold consumption

- Amid demand by consumers for cost effective items, we expect that demand for discounted apparel will sustain into 2024. We expect that VIPS will be the continued beneficiary of this trend despite growth of Douyin and PDD;
- Industry apparel sales grew 18% yoy in November, per NBS. We expect high levels of apparel sales continued in December, as VIPS reported double-digit GMV growth for various types of winter related apparel items during 12/12;
- China's cost-conscious spending environment favors VIPS, in our view. We maintain BUY and raise TP to US\$ 18.1, implying 7x FY24 non-GAAP P/E;

Cost-effective offerings still have a niche despite competitors

We estimate VIPS GMV will grow 17% this year, faster than the apparel industry's 11%. Given the weak economy, China consumers are increasingly cost-conscious but would rather not sacrifice product quality. In our view, VIPS is best positioned to capture this demand trend, as Douyin apparel lacks cost-effectiveness while PDD's is inconsistent on apparel quality. Given the lack of consumer confidence catalyst, we expect demand for cost-effective products will persist. Thus, we expect VIPS' will maintain outperformance in 2024, with GMV growing 12% vs 7% growth for the apparel industry.

November apparel demand should persist in December

NBS reported November apparel sales grew 18% yoy vs. just 5% in October. We expect that apparel sales remained strong in December based on Douyin and VIPS data for the 12/12 sales event. Both platforms highlighted winter apparel, including higher ASP items such as domestic down jackets, which is also positive to domestic brands such as Bosideng (3998 HK, NR). Our 4Q23 revenue and net profit estimate are 3% and 16% higher than consensus mean.

Shein-esque branding in China is an untapped opportunity

In addition to being positioned to grow in the current consumption downgrade environment, VIPS is also a value play. VIPS has US\$ 2.66 bn in net cash on its books (29% of market cap) and a 12.2% TTM FCF, trading 3.8x FY24 EV/Earnings. In our view, VIPS next growth opportunity will be to emulate Shein's model domestically but given the management's gradual approach to investment we believe VIPS won't build such a business in the near-term.

Summary financial data

| Highlights | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------------|---------|---------|---------|---------|---------|
| Revenues (RMB mn) | 117,059 | 103,152 | 112,325 | 120,101 | 124,458 |
| Non-GAAP operating profit (RMB mn) | 6,603 | 7,405 | 9,611 | 10,787 | 10,718 |
| Non-GAAP net profit (RMB mn) | 6,011 | 6,837 | 8,855 | 9,603 | 9,814 |
| Non-GAAP EPADS (RMB) | 8.7 | 10.7 | 15.8 | 18.3 | 19.9 |
| GAAP EPADS (RMB) | 6.8 | 9.9 | 14.0 | 16.3 | 17.8 |
| P/E (non-GAAP) | 13.8 | 11.2 | 7.6 | 6.6 | 6.0 |
| Free cash flow yield (%) | 3.1% | 9.6% | 12.8% | 14.9% | 15.3% |

Source: Bloomberg, Blue Lotus (as of December 19, 2023)

See the last page of the report for important disclosures.

Blue Lotus Capital Advisors Limited

BUY

UR

SELL

| | |
|--------------------------------|----------------------------------|
| Target Price: US\$ 18.1 | Current Price: US\$ 16.79 |
| RIC: (NYSE: VIPS) | BBG: VIPS US |
| Market cap (US\$ mn) | 9,096.0 |
| Average daily volume (US\$ mn) | 64.7 |
| Shares out/float (m) | 463.9/NA |

Source: Bloomberg, Blue Lotus (as of December 19, 2023)

Key Changes

| | New | Old | Diff |
|--------------------------|------|------|-------|
| BLRI Recommendation | BUY | BUY | - |
| BLRI Target Price (US\$) | 18.1 | 16.3 | 11.0% |
| 2023E EPADS (US\$) | 2.21 | 2.00 | 10.3% |
| 2024E EPADS (US\$) | 2.56 | 2.33 | 9.6% |
| 2025E EPADS (US\$) | 2.78 | 2.64 | 5.4% |

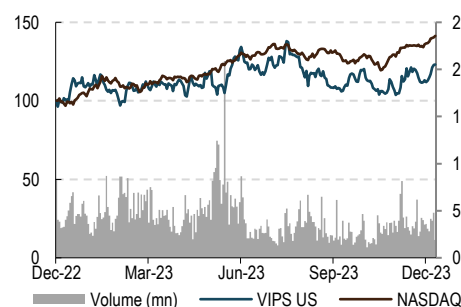
Source: Blue Lotus (as of December 19, 2023) Note: Prior EPS estimates rebased for FX rate of USD/RMB = 7.145.

BLRI vs. The Street

| | |
|-----------------------------------|--------|
| No. of Bloomberg Recommendations | 28 |
| Target price vs. Bloomberg mean | (1.8%) |
| 1-year-fwd EPS vs. Bloomberg mean | (3.0%) |
| Bloomberg recommendation | 4.54 |

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of December 19, 2023)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of December 19, 2023)

Research team



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Vipshop Holdings Limited: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

| (RMB mn) | 2022A | 2023E | 2024E |
|-----------------------------|----------|----------|----------|
| Net revenues | 103,152 | 112,325 | 120,101 |
| Cost of revenues | (81,536) | (86,943) | (92,682) |
| Gross profit | 21,616 | 25,382 | 27,419 |
| Fulfillment cost | (7,247) | (8,097) | (8,594) |
| Sales marketing cost | (2,831) | (3,526) | (3,848) |
| Tech & content cost | (1,605) | (1,693) | (1,734) |
| G&A cost | (4,460) | (4,316) | (4,422) |
| Other income/cost | 725 | 736 | 841 |
| Operating profit GAAP | 6,197 | 8,486 | 9,662 |
| Share based compensation | 1,208 | 1,125 | 1,125 |
| Operating profit non-GAAP | 7,405 | 9,611 | 10,787 |
| Finance income (cost) | 740 | 753 | 735 |
| Other income/cost | 1,140 | 219 | 30 |
| Pre-tax profit | 8,077 | 9,457 | 10,427 |
| Income tax | (1,759) | (1,744) | (1,981) |
| Net income, GAAP | 6,312 | 7,860 | 8,593 |
| Net income, non-GAAP | 6,837 | 8,855 | 9,603 |
| Number of ADS, diluted (mn) | 641 | 561 | 526 |
| EPADS, GAAP (RMB) | 9.85 | 14.01 | 16.34 |
| EPADS, non-GAAP (RMB) | 10.67 | 15.79 | 18.26 |
| Net margin, non-GAAP | 6.6% | 7.9% | 8.0% |

Source: Vipshop Holdings Limited, Blue Lotus (as of December 19, 2023)

Exhibit 2. Balance sheet

| (RMB mn) | 2022A | 2023E | 2024E |
|------------------------------|--------|--------|--------|
| Cash and cash equivalent | 23,103 | 31,904 | 41,850 |
| Account receivable | 568 | 613 | 653 |
| Inventory | 5,516 | 5,959 | 6,036 |
| Other receivables | 4,548 | 4,956 | 5,173 |
| Total current assets | 33,734 | 43,432 | 53,711 |
| Property and equipment | 16,226 | 19,109 | 21,044 |
| Deposit for PPE | 297 | 857 | 932 |
| Land use rights | 7,639 | 7,659 | 7,679 |
| Intangible assets | 337 | 115 | 107 |
| Other long-term assets | 7,244 | 7,887 | 8,752 |
| Total assets | 65,476 | 79,058 | 92,224 |
| Account payables | 15,018 | 16,014 | 17,071 |
| Advance from customers | 1,737 | 1,853 | 1,721 |
| Accrued liabilities | 8,395 | 8,713 | 9,034 |
| Short-term debt and others | 3,376 | 3,412 | 3,451 |
| Total current liabilities | 28,526 | 29,992 | 31,278 |
| Long-term convertible debt | - | - | - |
| Additional paid in capital | 13,092 | 13,092 | 13,092 |
| Retained earnings | 28,720 | 35,251 | 47,421 |
| Accumulative deficit/loss | (708) | (708) | (708) |
| Total equity | 34,073 | 46,189 | 58,070 |
| Total liabilities and equity | 65,476 | 79,058 | 92,224 |

Source: Vipshop Holdings Limited, Blue Lotus (as of December 19, 2023)

Company Description

Vipshop (VIPS) is China's leading online discount retailer and largest flash sale retail operator, occupying more than 50% market share in the flash sale market. The active customers of Vipshop reached 84.8 million in 2022. More than 20,000 brands have sold their discounted products on Vipshop.

Industry View

We estimate China's eCommerce market to grow by 13% in 2023, following ~10% growth in 2022. We estimate traditional eCommerce and social eCommerce sub-sectors to grow at 3-year CAGR of 10% and 50%, respectively, and we expect the total online retail market to grow at 11%-12% CAGR from 2022 to 2024.

Exhibit 3. Cash flow statement

| (RMB mn) | 2022A | 2023E | 2024E |
|--|---------|---------|---------|
| Net income | 6,312 | 7,860 | 8,593 |
| Adjusted for | | | |
| Share based compensation | 1,208 | 1,125 | 1,125 |
| Depreciation | 1,231 | 1,274 | 1,283 |
| Amortization | - | 818 | 1,008 |
| Inventory write off | 201 | 318 | 334 |
| Changes in | | | |
| Account receivable | (99) | (46) | (40) |
| Other receivables and prepayments, net | (263) | (212) | (161) |
| Inventory | 1,455 | (443) | (78) |
| Account payables | 983 | 996 | 1,057 |
| Advance from customers | (95) | 115 | (132) |
| Accrued liabilities and others | (413) | 192 | 339 |
| Cash from operations | 10,520 | 11,998 | 13,329 |
| Capex | (2,431) | (2,893) | (3,080) |
| Cash paid for land | (672) | (20) | (20) |
| Purchase of AFS investment and others | 4,152 | (284) | (284) |
| Cash from investing | 1,049 | (3,197) | (3,383) |
| Change in cash | 5,932 | 8,801 | 9,946 |
| Cash at beginning | 17,171 | 23,103 | 31,904 |
| Cash at end | 23,103 | 31,904 | 41,850 |

Source: Vipshop Holdings Limited, Blue Lotus (as of December 19, 2023)

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