

COMPANY NEWS

Cogobuy Group [0400.HK; HK\$4.25 Not Rated] - A leading transaction-based E-commerce platform

Market Cap: US\$739m; Free Float: 25%; 3-months Average Daily Turnover: US\$2.8m
Analyst: Mark Po

The Company. Cogobuy Group (Cogobuy) operates the largest e-commerce platform for integrated circuits (IC) and electronic components distribution in China by transaction value in 2013.

Business model. Cogobuy operates a direct sales platform and an online marketplace. On direct sales platform, Cogobuy sources high quality ICs and other electronic components from leading suppliers and sells them to electronics manufacturers in China through its online platform and dedicated sales representatives. Cogobuy also operates an online marketplace that allows third-party merchants to sell their products to its customers through e-commerce platform. Cogobuy's direct sales platform and online marketplace platform accounted for 99% and 1% of its total turnover respectively in 2013. The group's customers can access both direct sales platform and the marketplace platform through cogobuy.com, mobile application (Cogobuy Cloud) and dedicated team of sales representatives.

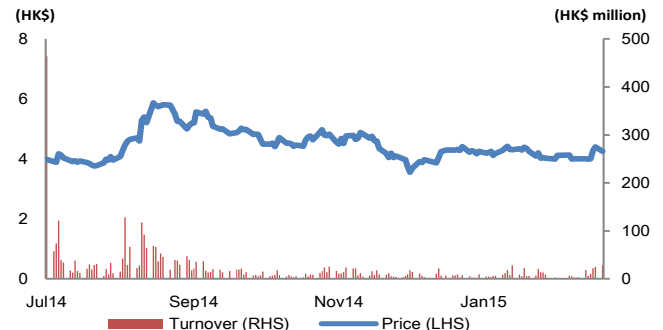
Substantial room for growth. Cogobuy's customers are mainly electronics manufacturers (mobile devices, consumer electronics and household appliances) based in China. China is now the world's largest market for of electronic components with consumption of over RMB2trn in 2013. Room for Cogobuy to grow is significant. China has about 3m electronics manufacturers, of which 3,000 are large, blue-chip companies. As of end of 3Q 2014, Cogobuy has 4,200 paid customers, of which 3% are blue chips (with annual turnover of over RMB400m) and the rest are SMEs. Cogobuy.com has 28,107 registered users as of end of 3Q 2014, up from 19,089 as of end of 2013.

Rising average purchases per customers. Apart from increasing number of customers, Cogobuy can cross-sell products and offer value-added services to increase purchase per customer. Cogobuy's value-added services included integration of information on new products, supply chain management and after-sales support which are valuable to the under-served SMEs customers. Average GMV per online customer of Cogobuy.com increased from RMB1.4m 2013 to Rmb1.7m in the 12 months ended 30 Sep 2014. Cogobuy operates an online community, Hardegg, an idea and knowledge exchange platform among electronics designers and engineers, and popular among the WeChat community and Inddan.com. The Hardegg enables Cogobuy to build up its own ecosystem and increase stickiness of its customers.

Other growth drivers. Cogobuy offers a wide range of IC and electronic components and the number of SKUs (Stock Keeping Unit) offered increased to 48,000 in 2013, up from 20,200 in 2012. The group will broaden the products offering to drive sales growth. With access to cheaper capital, Cogobuy started offering supply-chain financing to SME customers with good track records in 3Q 2014.

Cogobuy raised HK\$1.3bn in Jul 2014 by offering 343.8m shares at HK\$4.0. Since Dec 2014, Cogobuy bought back 25.65m shares with an average price of about HK\$4.22.

[Cogobuy Group]



Key Financials (in RMBm)	2012	2013	2014E	2015E
Revenue	n.a.	2,417.3	6,761.4	9,797.4
Gross Profit	n.a.	202.1	n.a.	n.a.
Gross Margin %	n.a.	8.4	7.8	8.0
Net Profit	n.a.	82.1	239.3	361.5
Net Margin %	n.a.	3.4	3.5	3.7
EPS (Basic)	n.a.	0.09	0.18	0.27
ROE (%)	n.a.	44.0	38.2	28.7
Dividend Yield (%)	n.a.	n.a.	n.a.	n.a.
PER (x)	n.a.	39.63	18.81	12.73
PBR (x)	76.16	10.85	2.73	2.36
Capex (m)	n.a.	(0.6)	(1.2)	(1.8)
Free cash flow (m)	n.a.	(46.5)	191.0	216.0
Net cash/(net debt)	(391.5)	(647.8)	n.a.	n.a.

Source: Bloomberg, Company Data.

Our View. Cogobuy has distinguished itself from peers through a niche and specialized focus in electronic components, a proven transaction-based business model, and a young and energetic management. Cogobuy is well-positioned to capture the growth potential from new businesses with underserved SME customers and increasing penetration into blue chip customers. According to market consensus, the group is now trading at 18.7x 2014 PER and 12.9x 2015 PER, which looks reasonable comparing with HK listed TMT plays. The recent share price weakness offers an opportunity of revisit.

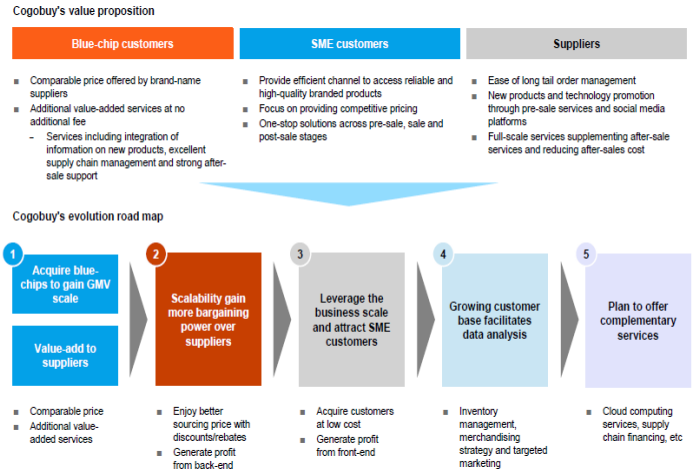
Catalysts. 2014 results announcement, news flow on co-operation with HC International [2280.HK] and potential acquisitions.

Figure 1: Cogobuy's Business Model



Source: Company Data

Figure 2: Cogobuy's Value Proposition To Customers



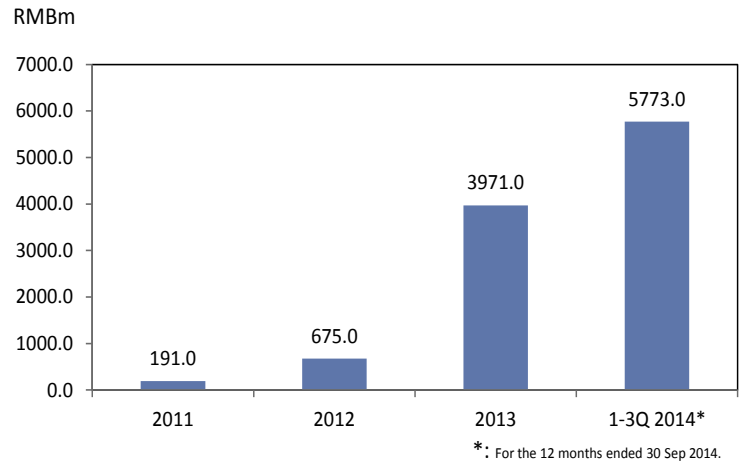
Source: Company Data

Figure 3: Cogobuy's Fulfillment Facilities



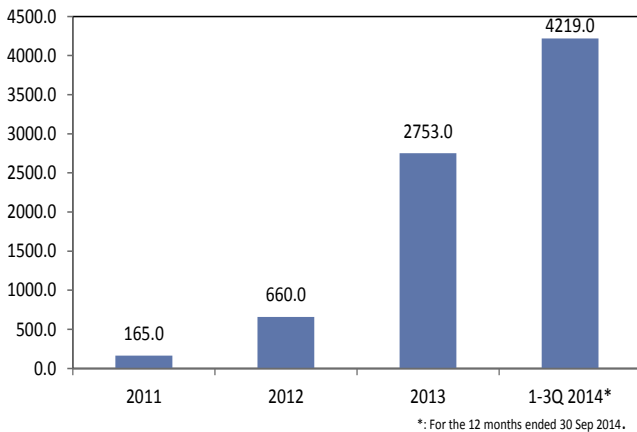
Source: Company Data

Figure 4: Cogobuy.com GMV Growth



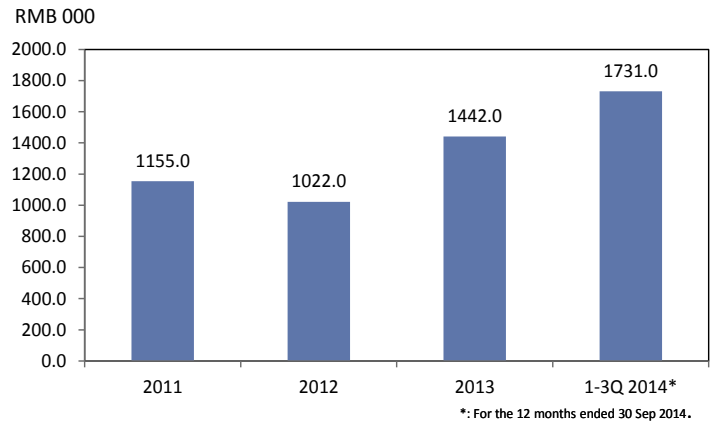
Source: Company Data, CGIH

Figure 5: Number of Online Customers of Cogobuy.com



Source: Company Data, CGIH

Figure 6: Average GMV Per Online Customer



Source: Company Data, CGIH

Figure 7: Peer Comparisons

Ticker	Company	Price Ccy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield	
				2014F x	2015F x	2016F x	2014F x	2015F x	2016F x	2013 x	2014F x	2013 %	2014F %	2013 %	2014F %	2013 %	2014F %
HK Listed TMT plays																	
400 HK	Cogobuy Group	4.25	739	18.7	12.9	9.1	19.2	12.2	9.3	8.3	2.7	44.0	38.2	n.a.	7.9	n.a.	n.a.
1297 HK	Sinosoft Technology	3.20	426	18.6	14.9	12.4	12.0	9.4	7.7	4.3	3.9	23.6	18.8	17.9	16.8	0.6	1.4
354 HK	Chinasoft International	2.41	582	18.4	13.5	10.4	10.4	8.4	6.7	2.4	1.5	7.1	8.6	4.6	4.4	0.0	n.a.
268 HK	Kingdee International	2.69	894	27.1	21.7	17.7	9.7	8.6	7.5	3.0	2.9	7.6	12.1	4.9	6.0	0.0	0.4
1588 HK	Chanjet Information	14.38	403	16.6	13.6	11.4	22.2	16.4	n.a.	2.1	2.1	22.4	14.9	n.a.	12.8	n.a.	3.6
861 HK	Digital China	7.32	1,032	9.3	8.0	7.4	11.1	9.7	8.7	1.0	0.9	3.9	9.8	0.4	3.1	2.4	3.0
2280 HK	HC International	7.30	628	17.8	12.3	8.4	9.8	6.7	5.1	n.a.	3.2	24.7	22.1	n.a.	10.4	0.0	n.a.
856 HK	VST Holdings	2.55	501	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	n.a.	15.7	n.a.	4.8	n.a.	3.1	n.a.
1184 HK	SAS Dragon	1.90	153	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4	n.a.	24.7	n.a.	5.3	n.a.	6.8	n.a.
Average				18.0	14.0	11.3	12.5	9.9	7.1	2.2	2.4	16.2	14.4	6.3	8.9	1.9	2.1
Overseas Listed Distributors																	
AVT US	Avnet Inc	45.68	6,230	9.9	9.3	8.8	6.7	6.4	6.0	1.3	1.3	11.0	11.6	5.2	5.6	1.4	1.4
ARW US	Arrow Electronics Inc	61.61	5,893	9.8	9.2	9.0	7.1	6.7	6.4	1.4	1.3	9.8	12.9	4.1	4.8	0.0	0.0
3702 TT	Wpg Holdings Ltd	40.70	2,139	10.4	9.8	n.a.	12.5	11.6	n.a.	1.6	1.5	12.2	14.8	3.7	4.1	n.a.	6.6
ECM LN	Electrocomponents Plc	246.00	1,634	19.2	17.8	16.1	10.6	9.9	9.2	3.0	2.9	15.9	15.6	9.6	n.a.	4.8	4.8
3036 TT	Wt Microelectronics Co Ltd	49.50	639	10.1	9.3	8.7	12.0	9.9	9.4	1.3	1.4	11.4	14.0	4.4	4.6	n.a.	6.3
Average				11.9	11.1	10.6	9.8	8.9	7.7	1.7	1.7	12.1	13.8	5.4	4.8	2.0	3.8
US Listed TMT Plays																	
BABA US	Alibaba Group	84.40	208,047	39.0	29.9	22.4	33.6	24.3	17.9	9.6	9.9	n.a.	32.2	14.3	17.6	0.0	0.0
JD US	JD.Com	28.62	39,549	499.4	91.6	45.1	n.a.	106.9	29.3	6.5	8.4	-165.4	-0.8	n.a.	-1.4	n.a.	0.0
DANG US	Dang Dang.com	9.35	755	45.6	20.1	10.2	21.7	9.8	5.3	7.4	7.0	-21.8	15.2	1.9	1.8	0.0	0.0
LITB US	Lightinthebox	5.95	303	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.3	n.a.	n.a.	n.a.	-23.2	n.a.	0.0	n.a.
JMEI US	Jumei International	13.88	1,987	25.2	19.2	13.3	17.7	12.4	8.0	18.8	3.6	52.1	23.3	18.8	18.9	0.0	0.0
GSOL US	Global Sources	5.45	163	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	17.7	n.a.	4.1	n.a.	0.0	n.a.
Average				152.3	40.2	22.8	24.3	38.3	15.1	8.1	7.2	-29.4	17.5	3.2	9.2	0.0	0.0

Source: Bloomberg, CGIH

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- SELL : share price will decrease by >20% within 12 months in absolute terms
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Room 3501-3507, 35/F, Cosco Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.