

Cogobuy (400 HK)

1Q15 Beat on Lower Opex

HOLD

Price target HK\$5.00

Price HK\$13.96

Key Takeaway

1Q15 beat largely on less-than-expected expenses, partly due to smaller share-based compensation. Cogobuy plans to continue to add SKUs, grow its SME customer base and expand its financing business to drive growth.

Lower opex drove better 1Q15. Revenue of RMB1.91bn, down 7% q/q, was 1% below JEFfe. However, total GMV of RMB2.49bn, down 4% q/q, was 2% above JEFfe. While Direct Sales GMV was 1% below JEFfe, Marketplace and Financing GMV was 14% above JEFfe. With a more favorable revenue mix relative to JEFfe, GM of 8.0% was slightly above JEFfe at 7.8%. Opex of RMB65mn, down 16% q/q, was 10% below JEFfe, partly due to less share-based compensation. Therefore, OP of RMB87.5mn was 12% above JEFfe. GAAP net profit of RMB71.5mn was 9% above JEFfe.

Continue to focus on SKU expansion and customer acquisition. The number of transaction customers reached 6K at end-1Q15, +92% Y/Y and 19% q/q. Cogobuy aims to expand its transaction customer base to over 10K by the end of 2015. To cater to a greater variety of demands, the company will expand its SKUs by introducing tier-2/3 suppliers, which is expected to increase the average revenue per blue-chip customer and the number of SME customers.

Supply chain finance ventures into full-scale development. After two quarters of testing, the supply chain finance business generated RMB191.2mn GMV in 1Q15, accounting for 7.7% of the total. Management reiterated 10% GMV contribution from supply chain finance in 2015 with cheap credit facilities from HK banks.

Hardeggs serves as a stepping stone into Internet of Things (IoT). With the first IngDan Experience Center introduced in Shenzhen in April 2015, Cogobuy accelerated the development pace of the Hardeggs platform. The number of followers reached 2mn by 1Q15 vs. 1mn at end-2014. 3K IoT projects have been nurtured on the platform in 1Q15.

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Table 1: 1Q15 results

RMBmn	Actual	Jefferies
Revenue	1,906.4	1,930.9
Bluechip - Direct Sales	852.8	1,082.7
SME - Direct Sales	1,042.3	838.3
Marketplace and Financing	11.4	9.9
Cost of Goods Sold	1,753.9	1,780.3
Gross Profit	152.5	150.6
Gross Margin	8.0%	7.8%
Operating Expenses	65.0	72.6
R&D	12.5	13.9
S&M	28.2	31.5
G&A	24.3	27.2
Operating Profit	87.5	78.0
Operating Margin	4.6%	4.0%
Other	(0.7)	(1.0)
Profit before Tax	86.8	77.0
Tax Expense	11.3	7.7
Minority Interest	4.0	3.7
Net Income GAAP	71.5	65.6
GMV RMBmn		
Direct Sales	1,895.0	1,921.0
<i>Bluechip</i>	852.8	1,082.7
<i>SME</i>	1,042.3	838.3
Marketplace and Financing	596.0	521.1
<i>Bluechip</i>	442.6	270.7
<i>SME</i>	153.4	250.4
Total	2,491.0	2,442.1

Source: company data, Jefferies estimates

Company Description

With a leading e-commerce platform, Cogobuy is in the business of IC and electronic component distribution in China, including a direct sales platform, an online marketplace and a dedicated team of technical consultants and professional sales representatives. It provides customers with comprehensive online and offline services across the pre-sale, sale and post-sale stages.

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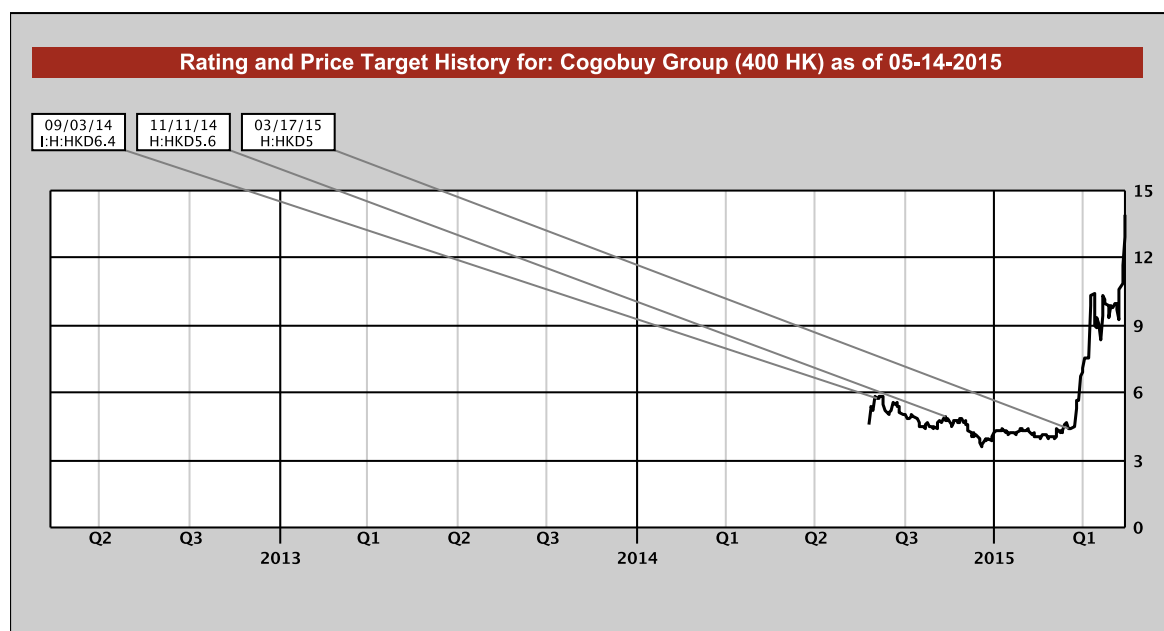
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