

Equity Research | China | E-Commerce

23 March 2016

## Riding China's flourishing IC market

- Cogobuy reported a remarkable set of FY15 results, with 38.0% YoY revenue growth and 76.6% YoY profit growth.
- Riding the flourishing IC and e-commerce market in China, Cogobuy's integrated service offerings have become increasingly appealing for the SMEs in the IC and electronic industry in China.
- We reinstate coverage on Cogobuy with an Outperform rating and price target of HKD12.0, pegging on 2016E 30.0x PER.

**A remarkable set of FY15 results.** Cogobuy delivered a remarkable set of FY15 results, meeting market expectations. Bucking the slowing economic growth, China's IC (integrated circuit) industry continued to flourish, posting 19.7% YoY growth in IC revenue, 5.6% YoY growth in IC imports and 13.4% YoY growth in IC exports. In contrast, Cogobuy's much stronger 38.0% YoY revenue growth (on 36.0% growth in direct sales GMV) suggests huge market demand and growth potential of e-commerce in China's IC industry.

**Fostering new revenue streams.** Though still small in terms of revenue and profit contribution, Cogobuy's marketplace and supply chain financing are of great long-term growth potential, in our view. Still in its early development stage, supply chain financing could well meet SMEs' increasing funding needs, as a bulk majority of Chinese banks' lending has been absorbed by SOEs. Launched in Jul-13, Cogobuy's marketplace has seen remarkable growth with GMV surging from RMB1,275mn in 2014 to RMB3,016mn in 2015.

**INGDAN creates a unique IOT platform.** As of end-15, there were over 7.4mn registered followers and 9,700 project entities. While ING DAN will not bring any revenue in the medium-term, the platform has helped Cogobuy expand its customer base. Leveraging on its industry expertise and strong customer base, ING DAN will enable Cogobuy to capture any growth opportunities brought about by the entire IoT (Internet of Things) ecosystem in China, in our view.

**Reinstate coverage with Outperform rating.** We reinstate our coverage on Cogobuy with an Outperform rating and price target of HKD13.0, pegging on 2016E 30.0x PER, which is undemanding for an e-commerce company that is still in its strong growth stage (29.3% CAGR in net profit from 2015 to 2017), in our view. Based on our earnings forecasts, though 9.5%/10.5% below consensus for 2016E/17E reflect our concern over slowing economic growth in China, Cogobuy trades at 2016E 26.0x PER and 2017E 19.8x PER, which looks attractive compared with major US-listed Chinese e-commerce companies.

## Cogobuy Group (400 HK)

### Outperform

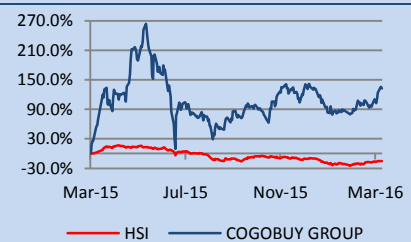
(reinstate coverage)

**Price Target** **HK\$12.0**

Close price	HKD10.4
Market cap.	USD1,821mn
Free float	26.2%
52-week range	HKD4.39 – HKD16.8
3-mth ave. T/O	HKD30.9mn

Price as of 23 Mar 2016

#### Stock rel HSI performance (%)



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**Figure 1: Cogobuy summary FY15 results**

FY Dec (RMB mn)	2014	2015	YoY
Direct sales	6,820	9,390	37.7%
Marketplace	27	46	72.8%
Supply chain financing	2	18	772.2%
<b>Total revenue</b>	<b>6,848</b>	<b>9,453</b>	<b>38.0%</b>
Cost of revenue	(6,315)	(8,689)	37.6%
<b>Gross profit</b>	<b>533</b>	<b>765</b>	<b>43.4%</b>
Gross margin	7.8%	8.1%	3.9%
Selling and distribution	(98)	(152)	54.9%
R&D expenses	(42)	(56)	33.6%
Admin and other operating expenses	(132)	(130)	-1.5%
Bank interest income	6	25	288.7%
Other net income (loss)	(0)	1	-52250.0%
<b>Profit from operations/EBIT</b>	<b>268</b>	<b>453</b>	<b>69.1%</b>
Finance costs	(31)	(30)	-3.5%
Profit before tax	237	423	78.6%
Income tax	(27)	(57)	110.4%
<b>Net profit</b>	<b>210</b>	<b>366</b>	<b>74.5%</b>
Non-controlling interests	16	24	48.9%
<b>Attrib profit</b>	<b>194</b>	<b>343</b>	<b>76.6%</b>
Direct sales	6,899	9,382	36.0%
Marketplace	1,275	3,016	136.5%
Supply chain financing	270	1,501	455.5%
<b>Total GMV</b>	<b>8,444</b>	<b>13,899</b>	<b>64.6%</b>
INGDAN GMV (since 2Q15)	-	1,065	

Source: Company

## Appendix – Company profile

### Leading transaction-based B2B platform

Cogobuy is a leading e-commerce company which initiated the transaction-based B2B e-commerce platform dedicated to serving the complex and fast-growing procurement market for IC and other electronic components in China. Compared with the information-based B2B peers, Cogobuy plays a more active role in the procurement process in that it provides the customers with more comprehensive online and offline services. Leveraging on a strong supplier network and high entry barrier built on deep industry know-how, the group has continued to expand its SME customer base. Cogobuy has also developed an innovative e-commerce model that provides value-added pre-sales and post-sales services to both the customers and suppliers that traditional offline distributors do not offer and difficult to be replicated by information-based peers. In addition, through its online and offline ecosystem, Cogobuy builds interactive relationships with key personnel of Chinese electronics manufacturers to leverage on the user data base for better customer insights.

### Extending business into marketplace and supply chain financing

Cogobuy's online B2B e-commerce platform consists of a direct sales platform, an online marketplace and supply chain financing, which contributed 70.4%, 19.5% and 10.0% of total GMV respectively during 1Q-3Q15. In the direct sales model, Cogobuy purchases IC and other electronic components from the suppliers, hold the inventory and then sell them to the customers, earning a profit from the price difference. In the marketplace model, which was launched in July 2013, the platform facilitates third party suppliers to complete transactions with customers and charges a commission fee based on the sales value without the need to hold any inventory. In Sep 2014, Cogobuy further launched its supply chain financing business, providing loans to quality customers for procurement of IC components. Its financing business has achieved robust growth since launch, with GMV soaring 64.6% YoY to RMB13.9bn in 2015.

**Figure 2: Cogobuy Online B2B transaction business**

	Direct sales	Marketplace	Supply chain financing
<b>Revenue</b>	Electronic components sales	1-2% service commission fee of transaction value	6-8% interest income on payment terms of receivable days financing
<b>Inventory</b>	Hold inventory	No inventory	Not applicable
<b>Supplier</b>	Mainly first tier	Smaller supplier	Not applicable
<b>Customers</b>	Both blue chips and SME	Mainly SMEs	Serve both direct and marketplace transactions
<b>GMV</b>	RMB9,382mn	RMB3,16mn	RMB1,501mn
2015	(67.5% of total GMV)	(21.7%)	(10.8%)
<b>Gross Margin</b>	5-10%	c.100%	60-80%

Source: Company, CSC Research

### INGDAN platform positioned as future catalyst

With the aim of establishing an online community in the IoT (Internet of Things) ecosystem, Cogobuy launched its ING DAN platform in Sep 2013, which has since grown its presence in Southeast Asian, European and US markets. With their localised sales and service teams, the ING DAN platform offers an interactive and engaging online community for electronics designers and engineers to exchange ideas, and provides supply chain knowledge and connection services to hardware innovators. As of end-15, ING DAN made a remarkable achievement of attracting 7.4mn followers, with the number of IoT project entries reaching 9,700. Since launch, ING DAN has drawn rapidly growing market attention, which together with the company's strong marketing campaigns, it has substantially driven new customer growth, SME customers in particular.

In future development, the company will enhance the ING DAN platform with enriched software technology output and cloud services. In addition, Cogobuy has partnered with Baidu in a wide scope of fields including solutions development, commercialisation of the IoT industry, R&D collaboration and marketing. In Nov 2015, Cogobuy appointed Dr. Shipeng Li, former Vice President of Microsoft Research Asia, as its CTO (Chief Technology Officer), to lead the goal of building business relationships with China's startups and innovators, and top research teams around the world.

#### **Customer conversion the priority**

A bulk majority of Cogobuy's customers are domestic electronics manufacturers, engaged in the manufacturing of a wide variety of electronic products including mobile devices, consumer electronics, household electronics, medical devices, automotive electronics, telecommunication devices, energy control systems, industrial control systems and surveillance systems. As of end-15, the number of online transaction customers on its cogobuy.com e-commerce platform reached 10,000, which is expected to grow to over 18,000 by end-16 according to the company.

#### **Overview of Cogobuy's history**

Cogobuy has established its e-commerce model of IC and other electronic components distribution through several reorganisations and acquisitions. Cogobuy was incorporated in the Cayman Islands on February 1, 2012. In the same year on November 15, Cogobuy acquired the Predecessor Entities, whose major operations included offline IC distribution and which has maintained good relationships with several large electronic components manufacturers in China. On February 1, 2013, Cogobuy acquired Total Dynamic Entities, which contributed the e-commerce platforms, including cogobuy.com and other websites, to its business. Later in November 2013, Cogobuy acquired Envision Global Entities, a complementary business, which contributed logistics, warehouse and ancillary support infrastructure to its business.

Well-positioned to offer more valued-added services, Cogobuy commenced a new supply chain finance business in September 2014 whereby it charges a service fee for providing financial services to its customers. Cogobuy also develops ING DAN.com platform to incubate the Internet of Things (IoT) ecosystem and builds the consumer fan base through cooperation with large-scale technology and internet companies and different IoT events; in February, 2015, the followers of ING DAN.com hit the one million mark.

**Figure 2: History and major events**

Date	Events
Jul 2000	Comtech International (HK), the first operating subsidiary of the Group, was incorporated in Hong Kong to engage in the sale of electronic components and related products
Jun 2011	Cogobuy's Predecessor Entities started to provide customers with online services through websites owned by Total Dynamic Limited
Feb 2012	Cogobuy was incorporated in the Cayman Islands
Nov 2012	Acquired the Predecessor Entities from Viewtran
Feb 2013	Acquired the Total Dynamic Entities, which contributed the cogobuy.com and other websites
Jul 2013	Started to operate online marketplace on the e-commerce platform
Sep 2013	Launched INGDAN.com, an interactive and engaging online community promoting idea exchanges among smart device designers and engineers in China
Nov 2013	Acquired the Envision Global Entities, which contributed logistics, warehouse and ancillary support infrastructure
Dec 2013	Sold entire interest in Comtech China to Brilliant
Sep 2014	Commenced supply chain financing business, providing loans to quality customers for procurement of IC components through Cogobuy
Dec 2014	Established partnership with large-scale technology and internet companies such as Microsoft, JD.com and WeChat, held the first nationwide WeChat IoT Innovation Contest across 8 cities around China and hosted a multinational IoT conference in the Silicon Valley in the US in Jan 2015
Feb 2015	Followers of INGDAN.com hit the 1-million mark
Nov 2015	Appointed Dr. Shipeng Li, former Microsoft Executive, as Chief Technology Officer to lead the development of Cogobuy's Internet of Things (IoT) platform
Dec 2015	Added as a constituent to the Hang Seng Shenzhen Hong Kong Index (SZHKI) and Hang Seng Shenzhen Hong Kong Information Technology Index (SZHKT), effective on December 7, 2015

Source: Company, CSCI Research

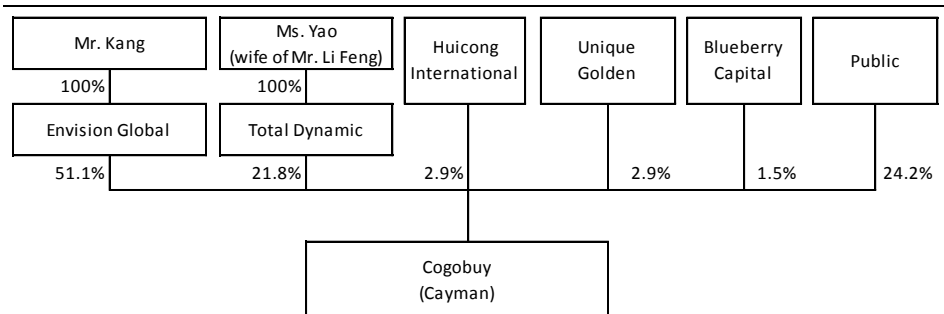
## Management and shareholding structure

Cogobuy's founder Mr. Kang has over 18 years' experience in the Internet multimedia and electronic component distribution industry. Prior to founding the Company, Mr. Kang founded the predecessor of NASDAQ listed company Viewtran (VIEW US), Comtech Group to act as a distribution channel for the sale of electronic components in China. Mr. Kang currently holds 51% stake in Cogobuy. The second largest shareholder is Ms. Yao, who is also the wife of Mr. Li Feng, the senior vice president of the company in charge of the Cogobuy.com e-commerce and social media marketing platform.

**Figure 3: Management profile**

Name	Position	Background
<b>Executive Directors</b>		
KANG, Jingwei (康敬伟)	Founder, Chairman & CEO	Founder and chairman Mr. Kang is a visionary industry veteran with extensive experience in both the Internet industry and the electronic components industry in China. Mr. Kang co-founded Viewtran, a Nasdaq listed company, and has over 18 years of experience in China's Internet multimedia and electronic component distribution industry.
WU, Lun Cheung (胡麟祥)	CFO and Company Secretary	Mr. Wu is responsible for the overall financial operation, investor relations and secretarial matters of the Group. Mr. Wu has over 15-years of experience in auditing and commercial consulting. He worked at Pricewaterhouse Coopers from 1997 to 2003, before becoming the vice president of finance at Viewtran from 2003 to 2013, where he was in charge of corporate finance, compliance and investment. Mr. Wu is a Hong Kong Certified Public Accountant and an American Chartered Global Management Accountant.
NI, Hong (倪虹)	CIO	Ms. Ni is responsible for heading the Company's capital market activities and investment initiatives. Ms. Ni is currently serving as an independent director of JA Solar (JASO US), ATA Inc. (ATAI US), KongZhong Corp (KZ US) and Digital China (861 HK). Ms. Ni served as the CFO and director of Viewtran from August 2004 to January 2008 and subsequently served as its vice chairman until early 2009. Previously, she spent six years serving as a practicing attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, specialising in corporate finance. Prior to that, she worked at Merrill Lynch's investment banking division in New York.
LI, Feng (李峰)	Senior vice-president	Mr. Li is primarily responsible for the development of the Cogobuy.com e-commerce and social media marketing platform. Mr. Li received his bachelor of science degree in computer science from Tsinghua University, China in June 1987, and master of science degree in computer science from Marquette University in Milwaukee, United States in May 1989. Between 1990 and 1999, Mr. Li worked at Informix Software. Between 1999 and 2000, Mr. Li worked for Shanghai Siemens as its chief representative and project director. Between 2002 and 2006, Mr. Li served as chief operating officer of Viewtran Inc.

Source: Company, CSCI Research

**Figure 4: Shareholding structure**


Source: Company, CSCI Research

**Income statement (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
Revenue	6,848	9,453	11,551	13,874	16,179
COGS	(6,315)	(8,689)	(10,613)	(12,741)	(14,849)
Gross profit	533	765	938	1,133	1,330
Selling and distribution	(98)	(152)	(170)	(183)	(194)
Research and development	(42)	(56)	(67)	(79)	(91)
Administrative and other	(32)	(30)	(40)	(49)	(59)
<b>EBITDA</b>	<b>276</b>	<b>461</b>	<b>590</b>	<b>750</b>	<b>916</b>
Depreciation & Amortization	(8)	(8)	(9)	(9)	(9)
Other income	6	26	20	20	21
<b>EBIT</b>	<b>268</b>	<b>453</b>	<b>581</b>	<b>741</b>	<b>907</b>
Finance costs	(31)	(30)	(35)	(33)	(33)
<b>Pretax profit</b>	<b>237</b>	<b>423</b>	<b>546</b>	<b>708</b>	<b>874</b>
Taxation	(27)	(57)	(75)	(95)	(116)
Minority interests	(16)	(24)	(25)	(26)	(27)
<b>Net profit</b>	<b>194</b>	<b>343</b>	<b>446</b>	<b>587</b>	<b>731</b>
Net profit (adjusted)	194	343	446	587	731
Basic EPS (RMB)	0.17	0.26	0.33	0.43	0.54
Diluted EPS (RMB)	0.17	0.25	0.33	0.43	0.54
DPS (RMB)	-	-	-	-	1.00

**Balance sheet (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
Cash	1,234	1,035	971	1,009	1,158
Short term investments	-	-	-	-	-
Accounts receivables	749	1,430	1,620	1,831	2,072
Inventory	501	609	761	94	1,065
Other current assets	962	1,524	1,729	1,963	2,216
<b>Total current assets</b>	<b>3,446</b>	<b>4,598</b>	<b>5,081</b>	<b>5,717</b>	<b>6,510</b>
PP&E	2	6	6	7	7
Intangible Assets	24	64	56	48	41
Goodwill	154	184	184	184	184
Other long term assets	15	115	126	138	153
<b>Total long term assets</b>	<b>194</b>	<b>368</b>	<b>372</b>	<b>378</b>	<b>386</b>
<b>TOTAL ASSETS</b>	<b>3,640</b>	<b>4,967</b>	<b>5,453</b>	<b>6,095</b>	<b>6,895</b>
Short term debt	1,411	2,126	2,020	1,919	1,823
Accounts payables	566	750	862	974	1,091
Other current liabilities	34	79	87	102	119
<b>Total current liabilities</b>	<b>2,011</b>	<b>2,954</b>	<b>2,969</b>	<b>2,994</b>	<b>3,033</b>
Long term debt	-	-	-	-	-
Deferred tax	4	11	12	15	18
Convertible bonds	-	-	-	-	-
Other long term liabilities	-	-	-	-	-
<b>Total long term liabilities</b>	<b>4</b>	<b>11</b>	<b>12</b>	<b>15</b>	<b>18</b>
<b>TOTAL LIABILITIES</b>	<b>2,015</b>	<b>2,965</b>	<b>2,981</b>	<b>3,009</b>	<b>3,051</b>
Shareholders' funds	1,603	1,921	2,367	2,954	3,685
Minority Interests	22	80	105	131	158
<b>TOTAL LIAB AND EQUITY</b>	<b>3,640</b>	<b>4,967</b>	<b>5,453</b>	<b>6,095</b>	<b>6,895</b>
Net cash / (debt)	(178)	(109)	(1048)	(909)	(665)

**Cash flow statement (RMBm)**

Year end: Dec	2014	2015	2016E	2017E	2018E
<b>EBIT</b>	<b>268</b>	<b>453</b>	<b>581</b>	<b>741</b>	<b>907</b>
Depreciation & amortisation	8	8	9	9	9
Net interest	25	(25)	(20)	(20)	(21)
Taxes paid	(16)	(57)	(75)	(95)	(116)
Changes in working capital	(78)	(596)	(275)	(301)	(335)
Others	25	(30)	(35)	(33)	(33)
<b>Cash flow from operations</b>	<b>232</b>	<b>(247)</b>	<b>185</b>	<b>301</b>	<b>411</b>
Capex	(1)	(49)	(2)	(2)	(2)
Acquisitions	(5)	(96)	(2)	(2)	(2)
Disposals	4	-	-	-	-
Others	(507)	(546)	(140)	(159)	(163)
<b>Cash flow from investing</b>	<b>(518)</b>	<b>(690)</b>	<b>(143)</b>	<b>(163)</b>	<b>(167)</b>
Dividends	1	2	3	4	5
Issue of shares	1,096	-	-	-	-
Change in debt	204	714	(106)	(101)	(96)
Others	(82)	8	(3)	(4)	(5)
<b>Cash flow from financing</b>	<b>1,219</b>	<b>725</b>	<b>(106)</b>	<b>(101)</b>	<b>(96)</b>
<b>Change in cash</b>	<b>933</b>	<b>(213)</b>	<b>(65)</b>	<b>37</b>	<b>148</b>
Free cash flow	231	(295)	183	300	409

**Key ratios**

Year end: Dec	2014	2015	2016E	2017E	2018E
<b>Operating ratios</b>					
Gross margin	7.8	8.1	8.1	8.2	8.2
EBITDA margin (%)	4.0	4.9	5.1	5.4	5.7
Effective tax rate (%)	11.4	13.4	13.7	13.4	13.2
Revenue growth (%)	183.3	38.0	22.2	20.1	16.6
Net income growth (%)	136.4	76.6	30.1	31.6	24.6
EPS growth adj (%)	85.3	52.5	29.5	31.6	24.6
DPS growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Efficiency ratios</b>					
ROE (%)	12.1	17.8	18.8	19.9	19.8
ROCE (%)	138.0	123.1	156.2	196.3	235.2
Asset turnover (x)	19	19	2.1	2.3	2.3
Op cash / EBIT (x)	0.9	(0.5)	0.3	0.4	0.5
Depreciation / CAPEX (x)	9.2	0.2	5.8	4.8	4.2
Accounts receivable days	37.4	42.1	48.2	45.4	44.0
Accounts payable days	28.9	27.6	27.7	26.3	25.4
<b>Leverage ratios</b>					
Net gearing (%)	11.1	56.8	44.3	30.8	18.0
Net debt / EBITDA (x)	0.6	2.4	1.8	1.2	0.7
Interest cover (x)	0.3	(1.0)	(1.0)	(1.0)	(1.0)
Current ratio (x)	1.7	1.6	1.7	1.9	2.1
<b>Valuation</b>					
PER (x)	50.8	33.2	26.0	19.8	15.9
EV/EBITDA (x)	42.9	27.5	21.4	16.7	13.4
PBR (x)	6.2	6.0	4.9	3.9	3.1
Dividend yield (x)	na	na	na	na	na

Source: Company, CSC Research



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## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

<b>Outperform</b>	Relative Performance >10%
<b>Neutral</b>	Relative Performance is -10% to 10%
<b>Underperform</b>	Relative Performance <10%

### Disclosure of Interests

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