



Vipshop Holdings Ltd. (VIPS US)

1Q24 Preview: Slower than Expected Apparel Demand in Mar

What's New: We nudge down our 1Q24 top-line estimates towards the lower-end of the guided range partly due to slower-than-expected apparel demand in Mar. In this note, we highlight the latest updates including revenue and margin outlook.

Key points in the quarter:

1Q24 outlook

- We nudge down our 1Q24 total revs from RMB28.8bn (+4.8% YoY) to RMB27.8bn (+1.0% YoY). Our updated total revenue estimate is at the lower end of the guided range of RMB27.5bn to RMB28.9bn (+0% to 5% YoY). The downward revision is partly due to slower-than-expected apparel demand in Mar (YoY decline) amid softening consumer demand – especially for Spring clothing. Some of the Spring clothing demand could also be pushed out to Apr as weather conditions could turn favorable. VIPS is also hosting its anniversary promotion event on Apr 19 – which could aid recovery of apparel demand in Apr.
- We maintain our 1Q24 GM at 23.5% and non-GAAP NM at 8.1% as VIPS could remain prudent on its investments. As a result of the prudent S&M spending, total active customer growth could remain flat YoY, while Super VIP members could continue to grow in 1Q.

2Q24 outlook

- Visibility remains limited as the recovery would be dependent on the momentum of the Spring clothing sales. If weather conditions turn favorable, VIPS could increase investments to stimulate apparel demand in 2Q. However, we note that VIPS could face tougher comps in 2Q as the strong rebound in travel aided apparel demand last year.
- Despite limited visibility, VIPS could continue to achieve high quality revenue and profitability growth for FY24.

Return rates

- The increase in return rates could moderate in FY24 (1% to 1.5% increase per our estimate) compared to FY23 (3%-4% per our estimate). Hence, gap between rev growth and GMV growth could narrow to single digit in FY24 (compared to double digits in FY23).

NEUTRAL

Ticker:	VIPS
Target Price, USD:	19
Potential Change:	+17.9%
Latest Close (Mar 26), USD:	16.11

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Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-3.84%	-0.77%	9.78%
Relative to Index*	2.20%	8.47%	39.15%

Note: * NASDAQ Composite Index
Source: Bloomberg Data

Limited impact from competition

- Despite the recent investment commentary from BABA, we believe it has limited on VIPS (or on the apparel category) as subsidies could be more applicable on the standardized categories.

Forecasts**Exhibit 1: Old vs New estimates**

	1Q24E			FY24E		Chg (% or bp)
	Old	New	Chg (% or bp)	Old	New	
Total net revenues (RMBm)	28,845.5	27,812.4	-3.6%	118,130.2	117,097.2	-0.9%
YoY-Total revenues	4.8%	1.0%		4.7%	3.8%	
Non-GAAP net margin %	8.1%	8.1%	0.0%	8.4%	8.4%	0.0%
Non-GAAP diluted EPS (RMB)	4.24	4.09	-3.4%	18.22	18.08	-0.8%

Source: New Street Research, company report

	2020	2021	2022	2023	2024E
Revenue (RMBm)	101,858.5	117,059.7	103,152.5	112,856.0	117,097.2
Operating profit (RMBm)	5,860.1	5,582.4	6,197.4	9,104.1	9,753.7
Operating profit - Non-GAAP (RMBm)	6,846.5	6,604.2	7,405.0	10,613.9	11,165.6
Net profit (RMBm)	5,907.0	4,681.1	6,298.8	8,116.6	8,296.8
Net profit - Non-GAAP (RMBm)	6,268.6	6,011.7	6,836.9	9,509.9	9,846.3
Normalized EPS (USD)	1.34	1.34	1.58	2.38	2.53
Normalized EPS growth	26.2%	0.1%	18.2%	50.0%	6.4%
Normalized P/E (x)	14.6	14.6	12.3	8.2	7.7

Source: New Street Research, company report

Valuation and Risks**Maintain PT at USD 19; Maintain NEUTRAL rating**

We maintain our PT at USD19 which implies a 7.5x FY24E P/E, a discount to peer average (ex Coupang and SE) of 10.5x. We maintain our NEUTRAL rating.

Exhibit 2: Peer Comparisons

Ticker	Company	Price USD	Mkt cap USDm	EV USDm	EV/Revenue		P/E	
					FY2024	FY2025	FY2024	FY2025
VIPS US equity	Vipshop	16.11	8,737	5,413	0.33	0.31	6.46	6.02
CPNG US Equity	Coupang	17.60	31,562	29,121	1.01	0.88	64.00	29.38
PDD US equity	Pinduoduo	120.10	159,563	130,407	2.51	1.95	14.57	10.82
BABA US equity	Alibaba	71.48	181,804	105,948	0.81	0.75	8.24	8.23
SE US Equity	Sea Ltd	55.56	31,489	30,232	2.04	1.80	54.58	26.16
JD US equity	JD.com, Inc.	26.36	41,425	21,987	0.14	0.13	8.75	7.66
	Average:				1.30	1.10	30.03	16.45
	Average (ex Coupang and SE):				1.15	0.94	10.52	8.91
	Median:				1.01	0.88	14.57	10.82

Note: Estimates for all companies are Bloomberg consensus; pricing as of market close on Mar 26, 2024

Source: New Street Research, Bloomberg

Risks

Downside risks to our PT and forward estimates include: 1) greater competition from deep-pocketed players; 2) a slowing demand environment; and 3) margins being impacted by continued investments.

Financials

Vipshops (VIPS)	2020	2021	2022	2023	2024E	2025E
RMB (000)						
Net Sales	101,858,489	117,059,678	103,152,489	112,856,020	117,097,193	121,817,912
<i>QoQ Growth</i>						
<i>YoY Growth</i>	9.5%	14.9%	-11.9%	9.4%	3.8%	4.0%
Cost of Sales	(80,573,181)	(93,953,121)	(81,536,410)	(87,135,128)	(89,424,593)	(93,030,045)
Gross Profit	21,285,308	23,106,557	21,616,079	25,720,892	27,672,600	28,787,867
Gross Profit Margin	20.9%	19.7%	21.0%	22.8%	23.6%	23.6%
Other Income	707,855	924,579	724,832	801,560	734,827	852,725
Operating Expenses						
Fulfillment	(6,878,991)	(7,652,504)	(7,247,210)	(8,262,004)	(9,032,175)	(9,395,869)
Marketing	(4,284,274)	(5,089,213)	(2,831,317)	(3,242,215)	(3,211,568)	(3,220,116)
Technology and Content	(1,221,264)	(1,517,308)	(1,605,422)	(1,767,530)	(1,878,176)	(1,996,038)
Goodwill impairment loss						
General and Administrative	(3,748,548)	(4,189,689)	(4,459,517)	(4,146,569)	(4,531,781)	(4,772,400)
Total Operating Expenses	(16,133,077)	(18,448,714)	(16,143,466)	(17,418,318)	(18,653,700)	(19,384,424)
GAAP Income (Loss) from Operations	5,860,086	5,582,422	6,197,445	9,104,134	9,753,728	10,256,169
Operating Margin	5.8%	4.8%	6.0%	8.1%	8.3%	8.4%
Non GAAP Adj						
Share-based Compensation Charges						
Total Compensation Charges	951,048	1,010,014	1,207,583	1,509,806	1,411,840	1,435,747
Goodwill impairment loss						
Amortization of intangible assets in income from operations	35,377	11,792	-	-	-	-
Non-GAAP Income (Loss) from Operations	6,846,511	6,604,228	7,405,028	10,613,940	11,165,568	11,691,916
Operating Margin	6.7%	5.6%	7.2%	9.4%	9.5%	9.6%
Income (Loss) before Income Taxes	7,019,357	5,873,275	8,077,204	9,987,002	10,403,728	10,906,169
Income Tax Expenses	(1,130,016)	(1,222,704)	(1,758,811)	(1,866,004)	(2,080,746)	(2,181,234)
<i>Effective Tax Rate</i>	16.1%	20.8%	21.8%	18.7%	20.0%	20.0%
Share of loss of an affiliate	30,015	42,303	(6,560)	80,301	(13,206)	16,040
Net Income (Loss)	5,919,356	4,692,874	6,311,833	8,201,299	8,309,776	8,740,975
Net (Income) loss attributable to non controlling interest	(12,399)	(11,802)	(13,019)	(84,675)	(13,019)	(13,019)
Deemed Dividend on Issuance of Series A Preferred Shares						
GAAP Net Income (Loss) attributable to Ordinary Shareholders	5,906,957	4,681,072	6,298,814	8,116,624	8,296,757	8,727,956
<i>QoQ Growth</i>						
<i>YoY Growth</i>	47.1%	-20.8%	34.6%	28.9%	2.2%	5.2%
Net Profit Margin	5.8%	4.0%	6.1%	7.2%	7.1%	7.2%
Amortization of intangible assets in net income attributable to share	26,533	17,688	17,688	17,688	17,688	17,688
Non-GAAP Net Income (Loss) attributable to Ordinary Shareholders	6,268,609	6,011,679	6,836,908	9,509,871	9,846,285	10,301,391
<i>QoQ Growth</i>						
<i>YoY Growth</i>	25.0%	-4.1%	13.7%	39.1%	3.5%	4.6%
Net Profit Margin	6.2%	5.1%	6.6%	8.4%	8.4%	8.5%
-Basic share count	675,377	680,896	636,419	553,612	535,464	524,835
-Diluted share count	689,523	694,422	641,022	562,786	545,038	534,219
GAAP Net Earnings (Loss) per ADS						
-Basic	\$8.73	\$6.87	\$10.02	\$14.69	\$15.51	\$16.64
-Diluted	\$8.55	\$6.73	\$9.95	\$14.45	\$15.24	\$16.35
Non-GAAP Net Earnings (Loss) per ADS in RMB						
-Basic	\$9.27	\$8.83	\$10.83	\$17.23	\$18.40	\$19.64
-Diluted	\$9.07	\$8.65	\$10.75	\$16.94	\$18.08	\$19.30
Non-GAAP Net Earnings (Loss) per ADS in USD						
-Basic	\$1.37	\$1.37	\$1.60	\$2.42	\$2.57	\$2.75
-Diluted	\$1.34	\$1.34	\$1.58	\$2.38	\$2.53	\$2.70

Source: New Street Research, Company filings

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