

# Xtep (1368 HK)

## A resilient 2Q22 and FY22E guidance upheld

We believe Xtep's 30%+ YoY retail sales growth in Jun was impressive while inventory level and retail discounts are all controllable. More importantly, management maintained its FY22E guidance. Due to its industry leading growth and attractive valuation (21x), we maintain BUY and lift our SOTP-based TP at HK\$17.04, implying ~26x FY23E P/E (rolled over from ~28x FY22E P/E).

- **2Q22 retail sales growth beat slightly while inventory level and retail discounts were inline.** Xtep core brand registered mid-teen YoY retail sales growth in 2Q22, beating CMBI est. of 10%, mainly due to: 1) strong come back in Jun 2022 (~30% growth), 2) extremely fast growth from kids (~80% growth), and 3) resilient e-commerce sales despite the difficulties in logistics. This is far better than Anta/ FILA/ Pou Sheng's MSD decline/ HSD decline/ 25% drop. In 2Q22, inventory to sales ratio increased slightly to ~4.5 months (vs ~4 months in 1Q22) while retail discounts were at 25%-30% off (vs 25% off in 1Q22), all had softened QoQ, but in line with CMBI est. and understandable given the COVID-19 outbreaks.
- **Issued positive profit alert for 1H22E.** Xtep is expecting 35%+/ 35%+ sales/ net profit growth in 1H22E, driven by: 1) encouraging breakthrough in product innovation, channel and branding upgrades for the core brand and Kids, 2) impressive sales growth for Saucony (100%+) and 3) better than expected sales growth for K&P (revised up FY22E target to 30%+, from 20%+). Moreover, GP margin may stay flattish in 1H22. In fact, if we also consider the trade fair orders cuts/ delay to some distributors (who are in areas impacted by COVID-19), this in-line result is highly resilient enough.
- **Management maintained its FY22E guidance and stays confident on FY23E.** Despite mild cut in trade fair orders in 2H22E, management is keeping its FY22E targets (25%-30% listed co sales growth, mild improvements in OP margin). We are also rather positive, due to: 1) decent momentum, where MTD retail sales growth in Jul 2022 was at 30%+ (20% for offline and much faster for Kids and online), 2) potential beat in new stores openings, already opened 100+ in 1H22 while the target is 200+ for Xtep core brand (fairly similar to Xtep kids), and 3) accelerated ASP growth to ~10% in 1Q23E (vs only 5-10% in FY22E). Noted that management is aiming to normalize its inventory to sales ratio by 4Q22E (~4.0 months), but this is not too negative at all, thanks to Xtep's wholesale business model.
- **Maintain BUY and raise TP to HK\$ 17.04.** We maintain BUY with a new TP at HK\$ 17.04, based on SOTP valuation (23x FY23E P/E for Xtep, cost for K&P and 2.0x P/S for JV), implying ~26x for the group, reasonable given the 25% NP CAGR in FY21-24E. It is trading at only 1.0x PEG.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,172	10,013	12,615	14,941	17,069
YoY growth (%)	(0.1)	22.5	26.0	18.4	14.2
Net income (RMB mn)	513	908	1,148	1,416	1,766
EPS (RMB)	0.206	0.355	0.451	0.556	0.693
YoY growth (%)	(31.6)	72.1	26.9	23.4	24.7
Consensus EPS (RMB)	N/A	N/A	0.451	0.563	0.700
P/E (x)	55.8	31.9	25.2	21.1	16.9
P/B (x)	4.0	3.6	3.4	3.3	3.0
Yield (%)	1.0	1.9	2.4	2.8	3.6
ROE (%)	7.0	11.4	13.5	15.4	17.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$17.04**  
 (Previous TP **HK\$16.21**)  
 Up/Downside **+24.5%**  
 Current Price **HK\$13.68**

### China Sportswear Sector

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### Stock Data

Mkt Cap (HK\$ mn)	36,045
Avg 3 mths t/o (HK\$ mn)	165.20
52w High/Low (HK\$)	14.98/8.08
Total Issued Shares (mn)	2,634.8
Source: Bloomberg	

### Shareholding Structure

Mr Ding Shui Po & Family	52.28%
JP Morgan Chase	4.61%
ICBC Credit Suisse AM	3.02%
Employee incentive scheme	4.01%
Free Float	36.08%

Source: HKEx, Bloomberg

### Share Performance

	Absolute	Relative
1-mth	9.7%	14.7%
3-mth	29.3%	32.2%
6-mth	11.1%	30.0%
12-mth	-6.1%	23.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

1. Xtep (1368 HK, BUY) – Prudent on 2Q22 but guidance maintained – 8 Apr 2022

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,615	14,941	17,069	12,568	14,587	16,430	0.4%	2.4%	3.9%
Gross profit	5,279	6,282	7,210	5,314	6,290	7,120	0.7%	-0.1%	1.3%
EBIT	1,726	2,105	2,527	1,806	2,214	2,590	-4.4%	-5.0%	-2.4%
Net profit att.	1,148	1,416	1,766	1,210	1,508	1,811	-5.1%	-6.0%	-2.5%
Diluted EPS (RMB)	0.451	0.556	0.693	0.475	0.592	0.711	-5.1%	-6.0%	-2.5%
Gross margin	41.8%	42.0%	42.2%	42.3%	43.1%	43.3%	-0.4ppt	-1.1ppt	-1.1pt
EBIT margin	13.7%	14.1%	114.8%	14.4%	15.2%	15.8%	-0.7ppt	-1.1ppt	-1.0pt
Net profit att. margin	9.1%	9.5%	10.3%	9.6%	10.3%	11.0%	-0.5ppt	-0.9ppt	-0.7pt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,615	14,941	17,069	12,592	15,429	18,611	0.2%	-3.2%	-8.3%
Gross profit	5,279	6,282	7,210	5,261	6,504	7,893	0.2%	-3.4%	-8.7%
EBIT	1,726	2,105	2,527	1,772	2,206	2,705	-2.6%	-4.6%	-6.6%
Net profit att.	1,148	1,416	1,766	1,170	1,465	1,814	-1.9%	-3.3%	-2.7%
Diluted EPS (RMB)	0.451	0.556	0.693	0.451	0.563	0.700	0.0%	-1.2%	-1.0%
Gross margin	41.8%	42.0%	42.2%	41.8%	42.2%	42.4%	0.1ppt	-0.1ppt	-0.2ppt
EBIT margin	13.7%	14.1%	114.8%	14.1%	14.3%	14.5%	-0.4ppt	-0.2ppt	0.3ppt
Net profit att. margin	9.1%	9.5%	10.3%	9.3%	9.5%	9.7%	-0.2ppt	0.0ppt	0.6ppt

Source: Company data, CMBIGM estimates

## Focus charts

Figure 3: Sum of the parts (SOTP) valuation for Xtep Int'l

Sum of the parts valuation	Targeted price per share (HK\$)	Targeted market cap (HK\$ mn)	Targeted market cap (RMB mn)	Target ratio (x)	Valuation method	FY23E sales (RMB mn)	FY23E net profit (RMB mn)	Remarks
Xtep core brand	15.82	40,282	34,476	23.0	FY23E P/E	13,041	1,499	Based on 18% NP FY21-24E CAGR
K-swiss and Palladium	0.77	1,953	1,672	N/A	M&A costs	1,405	(63)	Implied a 1.2x FY23E P/S
Saucony and Merrell JV	0.45	1,156	990	2.0	FY23E P/S	495	(20)	Based on 2.0x FY23E P/S
Total	17.04	43,392	37,138			14,941	1,416	Implied a 26x FY23E P/E
Number of shares (mn)	2,547							
CNYHKD fx rate	1.17							
Current price (HKD)	13.68							
Upside (%)	24.5%							

Source: Bloomberg, CMBIS estimates

Figure 4: Xtep Int'l performance by brand segment

Sales (RMB mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY21-24E CAGR
Xtep core brand	7,707	7,101	8,841	11,038	13,041	14,785	16,478	18.7%
K-swiss and Palladium	466	999	971	1,248	1,405	1,585	1,789	17.7%
Saucony and Merrell JV	10	72	201	329	495	699	957	51.5%
Total	8,183	8,172	10,013	12,615	14,941	17,069	19,225	19.5%
Net profit (RMB mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY21-24E CAGR
Xtep core brand	790	656	1,055	1,277	1,499	1,715	2,006	17.6%
K-swiss and Palladium	(60)	(126)	(101)	(90)	(63)	16	74	-154.3%
Saucony and Merrell JV	(2)	(17)	(46)	(39)	(20)	35	57	-191.2%
Total	728	513	908	1,148	1,416	1,766	2,137	24.8%
NP margin	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	
Xtep core brand	10.2%	9.2%	11.9%	11.6%	11.5%	11.6%	12.2%	
K-swiss and Palladium	-12.9%	-12.6%	-10.4%	-7.2%	-4.5%	1.0%	4.1%	
Saucony and Merrell JV	-19.6%	-23.7%	-23.0%	-12.0%	-4.0%	5.0%	6.0%	
Total	8.9%	6.3%	9.1%	9.1%	9.5%	10.3%	11.1%	

Source: Company data, CMBIS estimates

## Operating numbers

Figure 5: Sportswear brands sales growth trend

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	3Q22E	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	15.0%	25.0%
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-25.0%	-10.0%	10.0%
Anta brand's SSSG																
Anta brand's retail sales	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	17.0%	23.0%
Core brand	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens		
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD		
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD		
Non-Anta brands (FILA/ 65%-70% 55%-60%)																
FILA brand's retail sales			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	15.0%	20.0%
Classic/ Core brand			Over 40%	Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD		
Kids			Over 70%	Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD		
Fusion			Over 100%	Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Mid-teens	Over 20%	-ve MSD		
Online			Over 70%	Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD		
Other brands																
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%		
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%		
Li Ning group's SSSG																
Direct retail	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%			
Wholesales	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens			
E- Commerce	+ve High 30%	+ve Mid 30%	+ve Mid 30%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%			
Li Ning group's retail sales	+ve Low 20%-25%	+ve Low 20%-25%	+ve Low 30%-35%	+ve Mid 30%-40%	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-5.0%	20.0%	25.0%
Direct retail	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%			
Wholesales	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%			
E- Commerce	+ve Low 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+ve Low-teens	+ve High 20%	+ve Low 40%	+ve Mid 30%	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%			
Xtep's SSSG																
Xtep's retail sales	Over 20%	Over 20%	20%	Over 20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20.0%	20.0%
361 Degrees' SSSG																
361 Degree's retail sales					-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens			
Pou Sheng's SSSG	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%										
Pou Sheng's sales	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-5.0%	5.0%
Topsports' retail sales																
Dong Xiang's SSSG	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD			
Dong Xiang's retail sales	+ve MSD	+ve MSD	+ve Mid-teens	+ve Low-teens	-ve 25%-30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD			
Direct retail	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%							
E- Commerce	+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	35%-40%							

Source: Company data, CMBIGM estimates, \*Nike's year end is in May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Assumptions

Figure 6: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	5,047	5,928	7,544	8,981	10,407
Apparels	2,964	3,887	4,859	5,734	6,422
Accessories	161	198	211	226	240
Total	8,172	10,013	12,615	14,941	17,069
<b>Sales by segment growth (%)</b>					
Shoes	8.5%	17.5%	27.3%	19.1%	15.9%
Apparels	-11.4%	31.2%	25.0%	18.0%	12.0%
Accessories	-12.9%	22.5%	7.0%	7.0%	6.0%
Total	-0.1%	22.5%	26.0%	18.4%	14.2%
<b>Sales by segment (RMB mn)</b>					
Mass market	7,101	8,841	11,038	13,041	14,785
Athleisure	999	971	1,248	1,405	1,585
Professional sports	72	201	329	495	699
Total	8,172	10,013	12,615	14,941	17,069
<b>Sales by segment growth (YoY)</b>					
Mass market	-7.9%	24.5%	24.8%	18.1%	13.4%
Athleisure	114.4%	-2.8%	28.5%	12.6%	12.8%
Professional sports	609.9%	180.3%	63.5%	50.6%	41.4%
Total	-0.1%	22.5%	26.0%	18.4%	14.2%
<b>Sales network</b>					
Xtep	4,971	4,722	4,864	5,010	5,160
Xtep kids	800	1,179	1,297	1,401	1,499
Oversea stores	250	250	300	300	300
Total	6,021	6,151	6,461	6,710	6,959
GP margins	39.1%	41.7%	41.8%	42.0%	42.2%
<b>Opex breakdown</b>					
A&P / sales	11.2%	10.2%	10.5%	11.0%	11.0%
Staff costs/ sales	12.1%	11.1%	10.4%	10.3%	10.0%
R&D / sales	2.7%	2.5%	2.4%	2.3%	2.3%
D&A / sales	2.0%	1.7%	1.5%	1.5%	1.4%
Provisions (write backs) / sales	0.7%	-0.2%	0.0%	0.0%	0.0%
Rental / sales	0.1%	0.1%	0.3%	0.4%	0.4%
Selling & distribution costs / sales	18.8%	18.9%	19.0%	19.2%	18.9%
Admin expenses / sales	12.9%	11.9%	11.6%	11.2%	10.9%
Total	31.7%	30.8%	30.7%	30.5%	29.8%
<b>OP margins</b>	<b>11.2%</b>	<b>13.9%</b>	<b>13.7%</b>	<b>14.1%</b>	<b>14.8%</b>
Effective tax rate	33.7%	30.9%	31.0%	30.0%	29.0%
<b>Net profit att. margins</b>	<b>6.3%</b>	<b>9.1%</b>	<b>9.1%</b>	<b>9.5%</b>	<b>10.3%</b>
<b>Net profit att. growth (%)</b>	<b>-29.5%</b>	<b>77.1%</b>	<b>26.3%</b>	<b>23.4%</b>	<b>24.7%</b>

Source: Company data, CMBIGM estimates

## Valuation

Figure 7: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Xtep Intl	1368 HK	BUY	17.04	13.68	25%	36,045	Dec-21	25.2	21.1	3.5	3.2	12.0	1.0	2.8
Anta Sports	2020 HK	BUY	115.47	94.65	22%	256,844	Dec-21	27.2	21.1	6.3	5.2	29.2	1.6	1.5
Li Ning	2331 HK	BUY	75.43	68.10	11%	178,274	Dec-21	32.0	25.5	6.0	5.1	26.9	1.7	1.0
361 Degrees	1361 HK	NR	N/A	3.93	n/a	8,126	Dec-21	10.2	8.6	0.9	0.8	8.8	0.8	2.4
Topsports	6110 HK	NR	N/A	7.00	n/a	43,409	Feb-22	14.0	11.7	3.3	2.9	24.1	1.2	4.7
Pou Sheng	3813 HK	NR	N/A	0.84	n/a	4,474	Dec-21	7.3	4.3	0.4	0.4	4.5	0.2	1.9
China DX	3818 HK	NR	N/A	0.42	n/a	2,443	Mar-22	11.8	4.4	0.2	0.2	(16.7)	0.0	5.6
Avg.								18.2	13.8	3.0	2.6	12.7	0.9	2.8
Med.								14.0	11.7	3.3	2.9	12.0	1.0	2.4
International Sportswear														
Nike Inc	NKE US	NR	N/A	104.46	N/A	1,290,507	May-22	26.2	21.9	10.0	8.5	43.1	1.9	1.2
Adidas	ADS GY	NR	N/A	161.20	N/A	245,032	Dec-21	18.2	15.0	4.2	3.8	29.4	28.8	2.2
Puma	PUM GY	NR	N/A	64.36	N/A	76,810	Dec-21	24.4	19.0	3.9	3.5	14.7	1.3	1.3
Under Armour	UAA US	NR	N/A	8.52	N/A	29,802	Mar-23	12.8	10.0	1.9	1.6	n/a	1.4	0.0
Lululemon	LULU US	NR	N/A	279.63	N/A	280,188	Jan-22	29.3	25.2	11.2	8.7	38.4	1.5	0.0
Skechers	SKX US	NR	N/A	36.53	N/A	44,669	Dec-21	12.4	9.9	1.5	1.3	25.7	(8.0)	0.0
Vf Corp	VFC US	NR	N/A	45.11	N/A	137,566	Apr-22	13.5	12.0	4.6	4.3	42.1	2.6	4.5
Columbia	COLM US	NR	N/A	74.02	N/A	36,530	Dec-21	12.5	11.2	2.3	2.0	19.8	1.1	1.6
Wolverine	WWW US	NR	N/A	20.06	N/A	12,712	Jan-22	7.7	6.9	2.3	1.9	6.5	0.1	2.0
Mizuno Corp	8022 JP	NR	N/A	2357.00	N/A	3,581	Mar-22	10.2	8.9	0.5	0.5	7.2	(2.1)	2.5
Asics Corp	7936 JP	NR	N/A	2466.00	N/A	26,762	Dec-21	27.2	21.1	3.0	2.7	5.0	0.9	1.3
Avg.								17.7	14.6	4.1	3.5	23.2	2.7	1.5
Med.								13.5	12.0	3.0	2.7	22.8	1.3	1.3

Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>8,172</b>	<b>10,013</b>	<b>12,615</b>	<b>14,941</b>	<b>17,069</b>
Footwear	5,047	5,928	7,544	8,981	10,407
Apparel	2,964	3,887	4,859	5,734	6,422
Accessories	161	198	211	226	240
<b>Cost of goods sold</b>	<b>(4,973)</b>	<b>(5,835)</b>	<b>(7,336)</b>	<b>(8,660)</b>	<b>(9,859)</b>
<b>Gross profit</b>	<b>3,198</b>	<b>4,178</b>	<b>5,279</b>	<b>6,282</b>	<b>7,210</b>
<b>Other income</b>	<b>307</b>	<b>299</b>	<b>315</b>	<b>374</b>	<b>410</b>
<b>Operating expenses</b>	<b>(2,588)</b>	<b>(3,081)</b>	<b>(3,868)</b>	<b>(4,551)</b>	<b>(5,093)</b>
S & D costs	(1,537)	(1,891)	(2,402)	(2,876)	(3,229)
Admin exp.	(827)	(937)	(1,163)	(1,331)	(1,471)
R & D	(223)	(252)	(303)	(344)	(393)
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>918</b>	<b>1,396</b>	<b>1,726</b>	<b>2,105</b>	<b>2,527</b>
Finance costs, net	(140)	(63)	(47)	(53)	(57)
JVs & associates	(17)	(46)	(39)	(20)	35
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>762</b>	<b>1,287</b>	<b>1,639</b>	<b>2,032</b>	<b>2,505</b>
Income tax	(257)	(397)	(508)	(610)	(726)
Less: Minority interests	(8)	(19)	(16)	6	13
<b>Net profit</b>	<b>513</b>	<b>908</b>	<b>1,148</b>	<b>1,416</b>	<b>1,766</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>EBIT</b>	<b>918</b>	<b>1,396</b>	<b>1,726</b>	<b>2,105</b>	<b>2,527</b>
D & A	78	84	132	167	182
Change in working capital	(320)	(447)	(793)	(712)	(653)
Income tax paid	(325)	(329)	(508)	(610)	(726)
Others	(32)	(3)	(47)	(53)	(57)
<b>Net cash from operating</b>	<b>320</b>	<b>701</b>	<b>509</b>	<b>897</b>	<b>1,273</b>
Capex & investments	(207)	(414)	(442)	(523)	(597)
Associated companies	(20)	-	-	-	-
Interest received	-	-	-	-	-
Others	800	86	-	-	-
<b>Net cash from investing</b>	<b>573</b>	<b>(329)</b>	<b>(442)</b>	<b>(523)</b>	<b>(597)</b>
Equity raised	31	-	-	-	-
Net change in bank loans	(77)	(312)	-	-	-
Dividend paid	(279)	(356)	(611)	(763)	(946)
Others	(55)	764	-	-	-
<b>Net cash from financing</b>	<b>(380)</b>	<b>96</b>	<b>(611)</b>	<b>(763)</b>	<b>(946)</b>
<b>Net change in cash</b>	<b>513</b>	<b>469</b>	<b>(543)</b>	<b>(389)</b>	<b>(271)</b>
Beginning cash balance	2,970	3,472	3,930	3,387	2,998
Exchange difference	(11)	(11)	-	-	-
<b>Cash at the end of the year</b>	<b>3,472</b>	<b>3,930</b>	<b>3,387</b>	<b>2,998</b>	<b>2,727</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>3,544</b>	<b>4,183</b>	<b>4,453</b>	<b>4,789</b>	<b>5,240</b>
Fixed asset	796	1,119	1,454	1,850	2,318
Intangible assets & goodwill	741	700	674	634	582
Prepaid lease payments	573	576	576	576	576
Interest in joint ventures	218	365	325	305	340
Other non-current assets	1,216	1,424	1,424	1,424	1,424
<b>Current assets</b>	<b>9,027</b>	<b>10,432</b>	<b>11,566</b>	<b>12,672</b>	<b>13,765</b>
Cash and cash equivalents	3,472	3,930	3,387	2,998	2,727
Inventories	975	1,497	1,883	2,222	2,530
Trade and other receivables	3,236	3,528	4,445	5,265	6,014
Prepayments	899	1,443	1,817	2,153	2,459
Other current assets	446	34	34	34	34
<b>Current liabilities</b>	<b>3,334</b>	<b>4,053</b>	<b>4,936</b>	<b>5,719</b>	<b>6,430</b>
Bank loans	642	405	405	405	405
Trade payables	1,479	2,352	2,957	3,491	3,975
Accruals & other payables	1,052	1,071	1,349	1,598	1,826
Tax payables	86	123	123	123	123
Others	75	102	102	102	102
<b>Non-current liabilities</b>	<b>1,939</b>	<b>2,580</b>	<b>2,580</b>	<b>2,580</b>	<b>2,580</b>
Bank loans	1,516	1,375	1,375	1,375	1,375
CB or Preferred shares	-	758	758	758	758
Deferred tax	237	253	253	253	253
Others	186	194	194	194	194
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-16</b>	<b>-10</b>	<b>2</b>
<b>Total net assets</b>	<b>7,299</b>	<b>7,982</b>	<b>8,519</b>	<b>9,173</b>	<b>9,992</b>
<b>Shareholders' equity</b>	<b>7,299</b>	<b>7,982</b>	<b>8,519</b>	<b>9,173</b>	<b>9,992</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Footwear	61.8	59.2	59.8	60.1	61.0
Apparel	36.3	38.8	38.5	38.4	37.6
Accessories	2.0	2.0	1.7	1.5	1.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	39.1	41.7	41.8	42.0	42.2
Operating margin	11.2	13.9	13.7	14.1	14.8
Pre-tax margin	9.3	12.9	13.0	13.6	14.7
Net margin	6.3	9.1	9.1	9.5	10.3
Effective tax rate	33.0	29.8	30.3	29.7	29.4
<b>Balance sheet ratios</b>					
Current ratio (x)	2.7	2.6	2.3	2.2	2.1
Quick ratio (x)	2.4	2.2	2.0	1.8	1.7
Cash ratio (x)	1.0	1.0	0.7	0.5	0.4
Inventory turnover days	72	94	94	94	94
Trade receivables days	145	129	129	129	129
Trade payables days	109	147	147	147	147
Total debt / total equity ratio (%)	30	32	30	28	25
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	7.0	11.4	13.5	15.4	17.7
ROA	4.1	6.2	7.2	8.1	9.3
<b>Per share</b>					
EPS (RMB)	0.21	0.36	0.45	0.56	0.69
DPS (RMB)	0.12	0.21	0.27	0.33	0.42
BVPS (RMB)	2.87	3.13	3.34	3.60	3.92

Source: Company data, CMBIGM estimates



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