

# Xtep (1368 HK)

## Excellent YTD performance among all brands

FY22 results and FY23E guidance were roughly inline but the YTD performance was impressive and solid. We still like Xtep due to its attractive PEG of 0.7x.

- **FY22 results inline.** Xtep's sales grew by 29% YoY to RMB 12.9bn while net profit rose by 1% YoY to RMB 922mn. The new brands (K&P, S&M) registered a loss of RMB 222mn, missing management est. of no more than RMB 150mn, mainly because of pandemic in 4Q22.
- **Robust retail sales growth registered in YTD 2023.** Management highlighted about mid-teens/ 20%+ retail sales growth for Xtep in Jan-Feb/Mar 2023. These figures are very encouraging and far better than Anta and Li Ning's. Once again, offline outperformed the online (except the still fast-growing live streaming e-commerce with better margins).
- **Inventory already become healthier and should normalize by 3Q-4Q23E.** Inventory to sales ratio also improved significantly, from over 5 months in 4Q22 to below 5 months in 1Q23E. Since the inventory from 3Q-4Q22 was still excessive, de-stocking process should last into 2H23E and hopefully be done before double-11. The need of deep retail discounts is now gone.
- **A fair but still industry leading FY23E guidance.** Xtep brand is now targeting a 20%+ retail sales growth, a mid-teen listed co sales growth and an even faster net profit growth in FY23E. Xtep kid is about to grow by 20%-30%. In fact, we are fairly confident for the Company to achieve this goal, considering: 1) excellent YTD performance and the low bases, 2) strong momentum from running segment, helped by the return of marathons in China, as well as many headlines about "record breaking" made by the athletes wearing Xtep shoes, 3) store revamps, 4) expansion into higher tier cities, etc.. On the other hand, management is also targeting a 41-42% GP margin and a similar to FY22E level NP margin for Xtep core brand.
- **New brands are fast growing and hopefully will narrow down the losses.** The JV (Saucony & Merrell) had a very rapid sales growth of 99% in FY22, and it will still grow fast, by 60%-70% in FY23E, thanks to re-opening of sports events, e-commerce business and around 30-50 new stores. Breakeven is likely in FY23E. K-Swiss & Palladium sales grew by 44% in FY22 but generated a greater than expected loss. In FY23E, the Company is aiming for a 20%-30% sales growth, mainly due to expansion in China (about 30-40 net new stores) and a sluggish overseas growth, while the net loss should be less than RMB 150mn.
- **Maintain BUY but raised TP to HK\$ 10.54,** based on 21x FY23E P/E, about 1 s.d. above the 5 years average of 15x. We cut FY23E/ 24E net profit by 5%/ 5%, to factor in faster sales growth but a lower GP margin. It is trading at 17x FY23E P/E, not demanding at all.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,013	12,930	15,113	17,550	20,008
YoY growth (%)	22.5	29.1	16.9	16.1	14.0
Operating profit (RMB mn)	1,396	1,464	1,807	2,174	2,650
Net profit (RMB mn)	889.4	912.3	1,190.3	1,478.3	1,854.9
EPS (Reported) (RMB)	0.36	0.36	0.47	0.60	0.74
YoY growth (%)	72.1	0.6	32.6	26.5	23.4
P/E (x)	19.9	21.7	17.3	14.0	11.2
P/B (x)	2.3	2.5	2.3	2.1	2.0
Yield (%)	3.0	2.3	3.5	4.3	5.4
ROE (%)	11.9	11.3	13.7	15.9	18.5
Net gearing (%)	Net cash	Net cash	Net cash	4.5	8.8

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$10.54
(Previous TP)	HK\$10.44
Up/Downside	21.3%
Current Price	HK\$8.69

### China Consumer Discretionary

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### Stock Data

Mkt Cap (HK\$ mn)	22,896.8
Avg 3 mths t/o (HK\$ mn)	9.3
52w High/Low (HK\$)	14.78/6.85
Total Issued Shares (mn)	2634.8
Source: FactSet	

### Shareholding Structure

Mr Ding Shui Po & Family	49.0%
JP Morgan Chase	4.6%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-4.6%	-0.6%
3-mth	0.9%	1.4%
6-mth	-8.7%	-15.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15,113	17,550	20,008	14,395	16,447	n/a	5.0%	6.7%	n/a
Gross profit	6,224	7,273	8,345	6,093	7,032	n/a	2.2%	3.4%	n/a
EBIT	1,807	2,174	2,650	1,878	2,287	n/a	-3.8%	-4.9%	n/a
Net profit att.	1,181	1,461	1,832	1,237	1,545	n/a	-4.5%	-5.4%	n/a
Diluted EPS (RMB)	0.448	0.555	0.695	0.470	0.586	n/a	-4.5%	-5.4%	n/a
Gross margin	41.2%	41.4%	41.7%	42.3%	42.8%	n/a	-1.1ppt	-1.3ppt	n/a
EBIT margin	12.0%	12.4%	13.2%	13.0%	13.9%	n/a	-1.1ppt	-1.5ppt	n/a
Net profit att. margin	7.8%	8.3%	9.2%	8.6%	9.4%	n/a	-0.8ppt	-1.1ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15,113	17,550	20,008	14,886	17,840	20,575	1.5%	-1.6%	-2.8%
Gross profit	6,224	7,273	8,345	6,194	7,490	8,612	0.5%	-2.9%	-3.1%
EBIT	1,807	2,174	2,650	1,789	2,243	2,621	1.0%	-3.1%	1.1%
Net profit att.	1,181	1,461	1,832	1,193	1,495	1,758	-1.0%	-2.3%	4.2%
Diluted EPS (RMB)	0.448	0.555	0.695	0.455	0.573	0.668	-1.6%	-3.2%	4.2%
Gross margin	41.2%	41.4%	41.7%	41.6%	42.0%	41.9%	-0.4ppt	-0.5ppt	-0.1ppt
EBIT margin	12.0%	12.4%	13.2%	12.0%	12.6%	12.7%	-0.1ppt	-0.2ppt	0.5ppt
Net profit att. margin	7.8%	8.3%	9.2%	8.0%	8.4%	8.5%	-0.2ppt	-0.1ppt	0.6ppt

Source: Company data, CMBIGM estimates

## Results Summary

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H21	2H22	1H22E	2H22	1H21 YoY	2H21 YoY	1H22 E YoY	2H22 E YoY	1H22E CMBIGM	Actual vs CMBIGM
<b>Revenue</b>	<b>4,135</b>	<b>5,878</b>	<b>5,684</b>	<b>7,247</b>	<b>12%</b>	<b>31%</b>	<b>37%</b>	<b>23%</b>	<b>6,973</b>	<b>4%</b>
<b>COGS</b>	<b>-2,406</b>	<b>-3,430</b>	<b>-3,297</b>	<b>-4,342</b>					<b>-4,190</b>	
<b>Gross profit</b>	<b>1,729</b>	<b>2,449</b>	<b>2,387</b>	<b>2,905</b>	<b>16%</b>	<b>43%</b>	<b>38%</b>	<b>19%</b>	<b>2,783</b>	<b>4%</b>
<b>GP margins</b>	<b>41.8%</b>	<b>41.7%</b>	<b>42.0%</b>	<b>40.1%</b>					<b>39.9%</b>	
Other income & gains	211	88	237	79					54	47%
S & D expenses	-774	-1,117	-1,046	-1,644	13%	31%	35%	47%	-1,454	13%
<b>S &amp; D exp / sales</b>	<b>-18.7%</b>	<b>-19.0%</b>	<b>-18.4%</b>	<b>-22.7%</b>					<b>-20.9%</b>	
Admin expenses	-483	-707	-656	-798	-6%	31%	36%	13%	-870	-8%
<b>Admin exp / sales</b>	<b>-11.7%</b>	<b>-12.0%</b>	<b>-11.5%</b>	<b>-11.0%</b>					<b>-12.5%</b>	
Other opex	0	0	0	0					0	
<b>Operating profit (EBIT)</b>	<b>684</b>	<b>713</b>	<b>922</b>	<b>543</b>	<b>37%</b>	<b>71%</b>	<b>35%</b>	<b>-24%</b>	<b>513</b>	<b>6%</b>
<b>OP margins</b>	<b>16.5%</b>	<b>12.1%</b>	<b>16.2%</b>	<b>7.5%</b>					<b>7.4%</b>	
Other items	0	0	0	0					0	
Net finance income	-30	-33	-28	-63					-20	223%
<b>Net finance income / sales</b>	<b>-0.7%</b>	<b>-0.6%</b>	<b>-0.5%</b>	<b>-0.9%</b>					<b>-0.3%</b>	
Profit after financing costs	653	680	893	480					493	
Associated coms	-8	-39	-11	-1					-33	
Jointly controlled coms	0	0	0	0					0	
<b>Pre-tax profit</b>	<b>646</b>	<b>641</b>	<b>882</b>	<b>479</b>	<b>54%</b>	<b>87%</b>	<b>37%</b>	<b>-25%</b>	<b>460</b>	<b>4%</b>
Tax	-224	-173	-293	-155					-136	
<b>Tax / sales</b>	<b>-5.4%</b>	<b>-3.0%</b>	<b>-5.2%</b>	<b>-2.1%</b>					<b>-2.0%</b>	
<b>Effective tax rate</b>	<b>-34.7%</b>	<b>-27.1%</b>	<b>-33.2%</b>	<b>-32.5%</b>					<b>-29.6%</b>	
Minority interests	-5	-14	-1	-8					-12	
<b>Net profit att.</b>	<b>427</b>	<b>482</b>	<b>590</b>	<b>331</b>	<b>72%</b>	<b>82%</b>	<b>38%</b>	<b>-31%</b>	<b>336</b>	<b>-1%</b>
<b>NP margins</b>	<b>10.3%</b>	<b>8.2%</b>	<b>10.4%</b>	<b>4.6%</b>					<b>4.8%</b>	
<b>Sales by segment</b>										
Mass market	3,597	5,244	4,898	6,230	12%	34%	36%	19%	6,090	2%
Athleisure	462	509	630	773	1%	-6%	36%	52%	637	21%
Professional sports	76	125	157	244	289%	140%	106%	95%	247	-1%
Total	4,135	5,878	5,684	7,247	12%	31%	37%	23%	6,973	4%

Source: Company data, CMBIGM estimates

**Figure 4: Results summary - Full Year**

Full yearly (RMB mn)	FY21	FY22	FY23E	FY21 YoY	FY22 YoY	FY23E YoY	FY22E CMBIG M	Actual vs CMBIG M
<b>Revenue</b>	<b>10,013</b>	<b>12,930</b>	<b>15,113</b>	<b>23%</b>	<b>29%</b>	<b>17%</b>	<b>12,657</b>	<b>2%</b>
COGS	-5,835	-7,639	-8,888				-7,487	
<b>Gross profit</b>	<b>4,178</b>	<b>5,292</b>	<b>6,224</b>	<b>31%</b>	<b>27%</b>	<b>18%</b>	<b>5,170</b>	<b>2%</b>
<b>GP margins</b>	<b>41.7%</b>	<b>40.9%</b>	<b>41.2%</b>				<b>40.8%</b>	
Other income & gains	299	317	332				291	9%
S & D expenses	-1,891	-2,690	-3,021	23%	42%	12%	-2,500	8%
<b>S &amp; D exp / sales</b>	<b>-18.9%</b>	<b>-20.8%</b>	<b>-20.0%</b>				<b>-19.8%</b>	
Admin expenses	-1,189	-1,454	-1,759	13%	22%	21%	-1,526	-5%
<b>Admin exp / sales</b>	<b>-11.9%</b>	<b>-11.2%</b>	<b>-11.6%</b>				<b>-12.1%</b>	
Other opex	0	0	0				0	
<b>Operating profit (EBIT)</b>	<b>1,396</b>	<b>1,464</b>	<b>1,777</b>	<b>52%</b>	<b>5%</b>	<b>21%</b>	<b>1,435</b>	<b>2%</b>
<b>OP margins</b>	<b>13.9%</b>	<b>11.3%</b>	<b>11.8%</b>				<b>11.3%</b>	
Other items	-46	-12	-6				-44	
Net finance income	-63	-91	-82				-48	91%
<b>Net finance income / sales</b>	<b>-0.6%</b>	<b>-0.7%</b>	<b>-0.5%</b>				<b>-0.4%</b>	
Profit after financing costs	1,287	1,361	1,689				1,343	
Associated coms	0	0	0				0	
Jointly controlled coms	0	0	0				0	
<b>Pre-tax profit</b>	<b>1,287</b>	<b>1,361</b>	<b>1,689</b>	<b>69%</b>	<b>6%</b>	<b>24%</b>	<b>1,343</b>	<b>1%</b>
Tax	-397	-449	-524				-430	
<b>Tax / sales</b>	<b>-4.0%</b>	<b>-3.5%</b>	<b>-3.5%</b>				<b>-3.4%</b>	
<b>Effective tax rate</b>	<b>-30.9%</b>	<b>-33.0%</b>	<b>-31.0%</b>				<b>-32.0%</b>	
Minority interests	-19	-9	5				-13	
<b>Net profit att.</b>	<b>908</b>	<b>922</b>	<b>1,160</b>	<b>77%</b>	<b>1%</b>	<b>26%</b>	<b>926</b>	<b>-1%</b>
<b>NP margins</b>	<b>9.1%</b>	<b>7.1%</b>	<b>7.7%</b>				<b>7.3%</b>	
<b>Sales by segment</b>								
Mass market	8,841	11,128	12,779	25%	26%	15%	10,987	1%
Athleisure	971	1,403	1,712	-3%	44%	22%	1,266	11%
Professional sports	201	400	622	180%	99%	56%	403	-1%
Total	10,013	12,930	15,113	23%	29%	17%	12,657	2%

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 5: Sportswear brands sales growth trend

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
Nike China sales	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-13.0%	6.0%	0.0%	20.0%	10.0%	10.0%
Adidas China sales	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-27.0%	-50.0%	-20.0%	15.0%	10.0%	40.0%
<b>Anta brand's SSSG</b>																
Anta brand's retail sales	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	10.0%	10.0%	16.0%	23.0%
Core brand	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens				
Kids	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens				
Online	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD				
<b>FILA brand's retail sales</b>																
FILA brand's retail sales	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	12.0%	16.0%	11.0%	20.0%
Classic/ Core brand	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens				
Kids	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens				
Fusion	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD				
Online	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%				
<b>Other brands</b>																
Other brands	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens				
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens				
Kolon	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	-ve High-teens				
<b>Li Ning group's SSSG</b>																
Li Ning group's retail sales	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens				
Direct retail	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%				
Wholesales	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	-ve Low 20%				
E- Commerce	+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%	+ve LSD	+ve Low-teens	-ve LSD				
<b>Li Ning group's retail sales</b>																
Li Ning group's retail sales	-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%	-ve HSD	+ve Mid-teens	-ve Low-teens	2.0%	13.0%	5.0%	31.0%
Direct retail	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens				
Wholesales	-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%	-ve HSD	+ve Low-teens	-ve Low 20%				
E- Commerce	+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%	+ve MSD	+ve Mid 20%	+ve MSD				
<b>Xtep's SSSG</b>																
Xtep's retail sales	-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%-25%	-ve HSD	18.0%	7.0%	8.0%	23.0%
<b>361 Degrees' SSSG</b>																
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	+ve Low-teens	+ve Mid-teens	Flat				
Pou Sheng's SSSG	-32.5%	-17.8%														
Pou Sheng's sales	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-8.5%	-20.4%	7.0%	18.0%	7.0%	20.0%
<b>Topsports' retail sales</b>																
Topsports' retail sales	-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	-ve Low to Mid-teens	-ve Low to Mid SD	-ve Mid-teens				
Dong Xiang's SSSG	-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	-ve Low to Mid-teens	-ve Low to Mid SD	-ve Mid-teens				
Dong Xiang's retail sales	-ve 25% to 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	-ve Mid to High-teens	+ve LSD	-ve Mid 20% to 30%				
Direct retail	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%											
E- Commerce	-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	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales by segment (RMB mn)</b>					
Shoes	5,928	7,760	9,189	10,763	12,358
Apparels	3,887	4,897	5,631	6,476	7,318
Accessories	198	273	292	310	332
Total	10,013	12,930	15,113	17,550	20,008
<b>Sales by segment growth (%)</b>					
Shoes	17.5%	30.9%	18.4%	17.1%	14.8%
Apparels	31.2%	26.0%	15.0%	15.0%	13.0%
Accessories	22.5%	38.3%	7.0%	6.0%	7.0%
Total	22.5%	29.1%	16.9%	16.1%	14.0%
<b>Sales by segment (RMB mn)</b>					
Mass market	8,841	11,128	12,779	14,688	16,617
Athleisure	971	1,403	1,712	2,029	2,313
Professional sports	201	400	622	832	1,078
Total	10,013	12,930	15,113	17,550	20,008
<b>Sales by segment growth (YoY)</b>					
Mass market	24.5%	25.9%	14.8%	14.9%	13.1%
Athleisure	-2.8%	44.5%	22.0%	18.6%	14.0%
Professional sports	180.3%	99.0%	55.6%	33.8%	29.6%
Total	22.5%	29.1%	16.9%	16.1%	14.0%
<b>Sales network</b>					
Xtep	4,722	4,493	4,628	4,767	4,910
Xtep kids	1,179	1,520	1,672	1,789	1,878
Oversea stores	250	300	300	300	300
Total	6,151	6,313	6,600	6,856	7,088
GP margins	41.7%	40.9%	41.2%	41.4%	41.7%
<b>Opex breakdown</b>					
A&P / sales	10.2%	11.9%	11.3%	11.5%	11.5%
Staff costs/ sales	11.1%	11.3%	11.5%	11.3%	11.1%
R&D / sales	2.5%	2.3%	2.5%	2.5%	2.5%
D&A / sales	1.7%	1.9%	1.6%	1.5%	1.4%
Provisions (write backs) / sales	-0.2%	0.4%	0.3%	0.2%	0.0%
Rental / sales	0.1%	0.1%	0.4%	0.4%	0.4%
Selling & distribution costs / sales	18.9%	20.8%	20.2%	20.1%	19.8%
Admin expenses / sales	11.9%	11.2%	11.3%	11.1%	10.8%
Total	30.8%	32.0%	31.4%	31.2%	30.6%
<b>OP margins</b>	<b>13.9%</b>	<b>11.3%</b>	<b>12.0%</b>	<b>12.4%</b>	<b>13.2%</b>
Effective tax rate	30.9%	33.0%	31.0%	30.0%	29.0%
<b>Net profit att. margins</b>	<b>9.1%</b>	<b>7.1%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>9.2%</b>
<b>Net profit att. growth (%)</b>	<b>77.1%</b>	<b>1.5%</b>	<b>28.1%</b>	<b>23.7%</b>	<b>25.4%</b>

Source: Company data, CMBIGM estimates

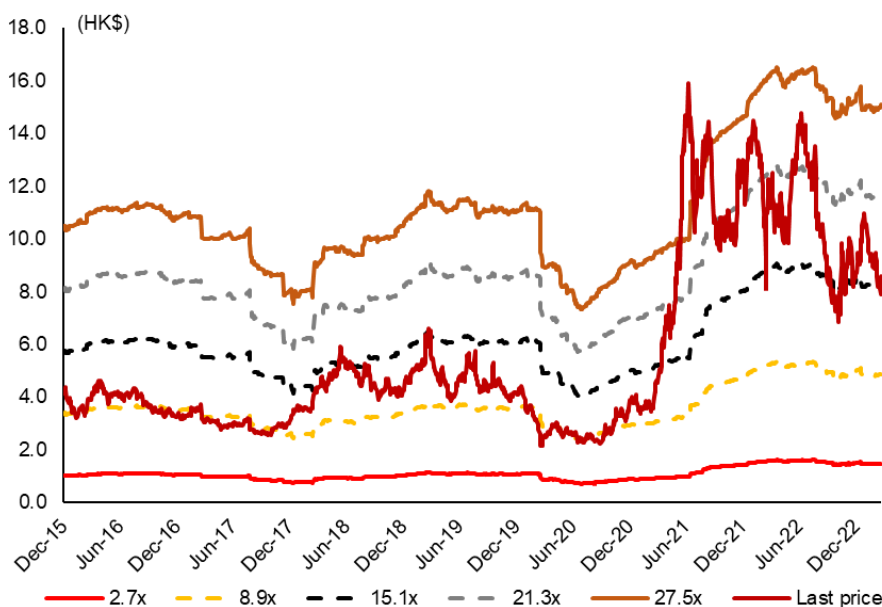
## Valuation

Figure 7: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
<b>H shares Sportswear</b>														
Xtep Intl	1368 HK	BUY	10.54	8.69	21%	22,913	Dec-22	17.3	14.0	2.2	2.0	13.5	0.7	3.5
Anta Sports	2020 HK	BUY	126.05	111.40	13%	302,298	Dec-22	27.9	22.9	6.4	5.4	24.0	1.4	1.6
Li Ning	2331 HK	BUY	66.44	60.20	10%	158,689	Dec-22	27.1	22.1	4.9	4.2	17.9	1.3	1.1
361 Degrees	1361 HK	NR	n/a	3.72	n/a	7,691	Dec-22	7.5	6.6	0.7	0.7	9.9	0.4	5.6
Topsports	6110 HK	NR	n/a	7.09	n/a	43,967	Feb-22	18.2	14.5	3.4	3.1	21.3	3.0	4.2
Pou Sheng	3813 HK	NR	n/a	0.70	n/a	3,728	Dec-22	6.9	4.4	0.4	0.4	1.1	0.1	2.3
China DX	3818 HK	NR	n/a	0.34	n/a	2,002	Mar-22	n/a	9.9	0.2	0.2	(14.0)	0.0	3.4
Avg.								17.5	13.5	2.6	2.3	10.5	1.0	3.1
Med.								17.7	14.0	2.2	2.0	13.5	0.7	3.4
<b>International Sportswear</b>														
Nike Inc	NKE US	NR	n/a	121.79	n/a	1,481,852	May-22	37.9	30.5	12.9	12.4	37.3	4.9	1.1
Adidas	ADS GY	NR	n/a	141.00	n/a	214,930	Dec-22	n/a	33.3	5.2	4.5	9.8	0.0	0.8
Puma	PUM GY	NR	n/a	53.62	n/a	68,486	Dec-22	22.0	16.6	3.0	2.7	14.9	1.2	1.6
Under Armour	UAA US	NR	n/a	9.04	n/a	29,527	Mar-23	16.6	14.5	2.0	1.8	n/a	1.0	0.0
Lululemon	LULU US	NR	n/a	310.22	n/a	310,621	Jan-22	31.3	27.5	11.6	9.0	41.1	1.5	0.0
Skechers	SKX US	NR	n/a	44.79	n/a	54,577	Dec-22	15.2	12.3	1.7	1.4	10.9	0.7	0.0
Vf Corp	VFC US	NR	n/a	21.33	n/a	65,052	Apr-22	10.2	9.4	2.5	2.3	11.9	(1.1)	8.4
Columbia	COLM US	NR	n/a	87.26	n/a	42,574	Dec-22	16.4	14.7	2.5	2.1	15.9	1.4	1.4
Wolverine	WWW US	NR	n/a	16.84	n/a	10,431	Dec-22	11.2	8.2	2.6	2.1	(40.2)	(0.1)	2.7
Mizuno Corp	8022 JP	NR	n/a	3035.00	n/a	4,775	Mar-22	11.3	9.9	0.7	0.7	8.1	(3.6)	2.0
Asics Corp	7936 JP	NR	n/a	3415.00	n/a	38,380	Dec-22	25.9	22.1	3.5	3.2	12.5	1.6	1.3
Avg.								19.8	18.1	4.4	3.8	12.2	0.7	1.7
Med.								16.5	14.7	2.6	2.3	12.2	1.0	1.3

Source: Bloomberg, CMBIGM estimates

Figure 8: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	8,172	10,013	12,930	15,113	17,550	20,008
Cost of goods sold	(4,973)	(5,835)	(7,639)	(8,888)	(10,276)	(11,663)
Gross profit	3,198	4,178	5,292	6,224	7,273	8,345
Operating expenses	(2,588)	(3,081)	(4,144)	(4,749)	(5,468)	(6,115)
Selling expense	(1,537)	(1,891)	(2,690)	(3,049)	(3,521)	(3,956)
Admin expense	(827)	(937)	(1,155)	(1,322)	(1,508)	(1,658)
R&D expense	(223)	(252)	(299)	(378)	(439)	(500)
Others	0	0	0	0	0	0
Operating profit	918	1,396	1,464	1,807	2,174	2,650
Other income	307	299	317	332	369	420
Share of (losses)/profits of associates/JV	(17)	(46)	(12)	(6)	17	43
EBITDA	996	1,480	1,597	1,975	2,357	2,845
Depreciation	(64)	(71)	(107)	(127)	(131)	(133)
Other amortisation	(14)	(13)	(26)	(40)	(52)	(61)
Interest income	4	21	25	39	35	32
Interest expense	(144)	(85)	(117)	(117)	(117)	(117)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	762	1,287	1,361	1,723	2,109	2,609
Income tax	(257)	(397)	(449)	(533)	(631)	(754)
Minority interest	8	19	9	(5)	(11)	(13)
Net profit	505	889	912	1,190	1,478	1,855

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,027	10,432	11,484	12,432	13,459	14,558
Cash & equivalents	3,472	3,930	3,071	2,614	2,076	1,598
Account receivables	3,236	3,528	4,556	5,325	6,184	7,050
Inventories	975	1,497	1,960	2,281	2,637	2,993
Prepayment	899	1,443	1,863	2,177	2,528	2,883
ST bank deposits	437	33	33	33	33	33
Other current assets	8	1	1	1	1	1
Non-current assets	3,544	4,183	4,491	4,846	5,294	5,843
PP&E	796	1,119	1,464	1,866	2,350	2,916
Investment in JVs & assos	218	365	352	346	363	406
Intangibles	709	671	642	599	545	482
Other non-current assets	1,820	2,028	2,032	2,035	2,037	2,038
Total assets	12,572	14,615	15,975	17,278	18,753	20,400
Current liabilities	3,334	4,053	5,092	5,829	6,649	7,471
Short-term borrowings	642	405	405	405	405	405
Account payables	1,479	2,352	3,079	3,583	4,143	4,702
Tax payable	86	123	123	123	123	123
Other current liabilities	1,127	1,173	1,485	1,718	1,979	2,242
Non-current liabilities	1,939	2,580	2,571	2,576	2,586	2,599
Long-term borrowings	1,516	1,375	1,375	1,375	1,375	1,375
Other non-current liabilities	423	1,205	1,196	1,201	1,211	1,224
Total liabilities	5,273	6,633	7,663	8,405	9,236	10,071
Share capital	22	23	23	23	23	23
Retained earnings	4,671	5,020	5,185	5,658	6,242	6,975
Other reserves	2,605	2,940	3,104	3,192	3,252	3,331
Total shareholders equity	7,299	7,982	8,313	8,873	9,517	10,330
Minority interest	0	0	(9)	(4)	6	19
Total equity and liabilities	7,299	7,982	8,322	8,877	9,511	10,310

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	762	1,287	1,361	1,817	2,272	2,765
Depreciation & amortization	78	84	132	168	183	195
Tax paid	(325)	(329)	(449)	(533)	(631)	(754)
Change in working capital	(320)	(447)	(872)	(667)	(746)	(754)
Others	125	107	12	(92)	(187)	(209)
<b>Net cash from operations</b>	<b>320</b>	<b>701</b>	<b>185</b>	<b>693</b>	<b>892</b>	<b>1,242</b>
<b>Investing</b>						
Capital expenditure	(207)	(414)	(453)	(529)	(614)	(700)
Acquisition of subsidiaries/ investments	(4)	(3)	0	0	0	0
Others	784	89	0	0	0	0
<b>Net cash from investing</b>	<b>573</b>	<b>(329)</b>	<b>(453)</b>	<b>(529)</b>	<b>(614)</b>	<b>(700)</b>
<b>Financing</b>						
Dividend paid	(279)	(356)	(591)	(633)	(840)	(1,050)
Net borrowings	(77)	(312)	0	0	0	0
Proceeds from share issues	37	0	0	0	0	0
Share repurchases	(6)	0	0	0	0	0
Others	(55)	764	0	0	0	0
<b>Net cash from financing</b>	<b>(380)</b>	<b>96</b>	<b>(591)</b>	<b>(633)</b>	<b>(840)</b>	<b>(1,050)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,970	3,472	3,930	3,071	2,614	2,076
Exchange difference	(11)	(11)	0	0	0	0
Others	513	469	(859)	(456)	(539)	(478)
<b>Cash at the end of the year</b>	<b>3,472</b>	<b>3,930</b>	<b>3,071</b>	<b>2,614</b>	<b>2,076</b>	<b>1,598</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	(0.1%)	22.5%	29.1%	16.9%	16.1%	14.0%
Gross profit	(9.9%)	30.6%	26.7%	17.6%	16.9%	14.7%
Operating profit	(25.6%)	52.1%	4.9%	23.4%	20.3%	21.9%
EBITDA	(24.6%)	48.6%	7.9%	23.7%	19.3%	20.7%
Net profit	(31.0%)	76.1%	2.6%	30.5%	24.2%	25.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	39.1%	41.7%	40.9%	41.2%	41.4%	41.7%
Operating margin	11.2%	13.9%	11.3%	12.0%	12.4%	13.2%
EBITDA margin	12.2%	14.8%	12.3%	13.1%	13.4%	14.2%
Return on equity (ROE)	7.1%	11.6%	11.2%	13.9%	16.1%	18.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.2	0.2	0.1	0.0	(0.0)	(0.1)
Current ratio (x)	2.7	2.6	2.3	2.1	2.0	1.9
Receivable turnover days	144.5	128.6	128.6	128.6	128.6	128.6
Inventory turnover days	71.5	93.7	93.7	93.7	93.7	93.7
Payable turnover days	108.5	147.1	147.1	147.1	147.1	147.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	12.5	21.0	26.6	17.3	14.0	11.2
P/E (diluted)	12.5	21.0	26.6	17.3	14.0	11.2
P/B	0.9	2.4	3.0	2.3	2.1	1.9
P/CFPS	20.0	27.2	132.5	28.9	22.5	16.1
Div yield (%)	4.6	2.9	1.8	3.7	4.7	5.8
EV	20,381.7	20,707.7	22,330.4	20,676.8	20,960.7	21,182.1
EV/Sales	2.5	2.1	1.7	1.4	1.2	1.1
EV/EBITDA	20.5	14.0	14.0	10.5	8.9	7.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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