

Anta Sports (2020 HK)

Earnings cut and de-rating may end here

For 3Q23, we think Anta's result was soft but FILA's performance was upbeat. Given a better retail sales trend in Sep to 10-1 holidays and already low investors' expectation, we believe turnaround is likely (no more earnings cut and de-rating), and hence current valuation of 23x FY23E P/E is too demanding.

- **Anta's 3Q23 performance was relatively soft.** Anta's retail sales grew by HSD in 3Q23, below CMBI est. of 11%, dragged by: 1) slow e-commerce sales growth (at LSD, vs offline's HSD) and 2) relatively weak demand for domestic fashion products. Meanwhile, retail discount widened to 28% off (vs 2Q23's 27% off and 3Q22's 26% off). Inventory to sales ratio went up to 5 months in 3Q23, from 4.5 to 5 months in 2Q23. But seasonally speaking, this is normal as the brand would usually stock up for the 10-1 holidays.
- **Anta's FY23E's guidance was maintained, and we foresee a stable OP margin.** We are cautiously optimistic on Anta brand's 4Q23E retail sales growth (CMBI est. of 17%), because: 1) sales trend has been sequentially improving from Jul-Aug to Sep and 10-1 holidays, 2) the low is base, (a beat could easily happen if the recovery rate sustains), hence we do think FY23E target (HSD to 10%+ retail sales growth) is totally achievable. Retail discounts, in our view, may not widen in 4Q23E, as aggressive promotion is not the focus for double 11 festival (will focus more on margins). Moreover, even though A&P expenses will be higher in 2H23E vs 1H23, due to new sponsorships for the NBA players and marketing around Asian Game, we still expect a 21% OP margin in 2H23E (similar to 1H23 and 2H22).
- **FILA's 3Q23 result was slightly better-than-expected.** FILA's retail sales growth was at low-teens in 3Q23, beating CMBI est. of 10%, thanks to: 1) resilient e-commerce sales growth despite a high base last year (65%+ growth in 3Q22) and 2) successful products reform (new products, including the functional and footwear products are all selling well). Retail discounts was decent at 24% off in 3Q23, similar to that in 2Q23, but better than 3Q22's 26% off. Inventory to sales ratio was also at 5 months in 3Q23, also higher than 2Q23's 4.5 to 5 months.
- **FILA's FY24E guidance stayed but we raised our OP margin forecasts.** We are highly confident that FILA can achieve its FY24E target (10%+ retail sales growth) because the benefits from product reform and store revamp are still there. Moreover, we also expect GP and OP margin to improve YoY, thanks to: 1) less retail discounts, 2) more sales from live-streaming or other new platforms (margins are better vs traditional e-commerce platforms) and 3) less marketing expenses on new stores (not many new opening YTD).
- **Maintain BUY and raise TP to HK\$109.99**, based on 27x FY23E (unchanged), vs 5-year average of 26x, supported by 15%/ 25% sales/ NP CAGR during FY22-25E. We revised up FY23E/ 24E/ 25E NP forecasts by 2%/ 1%/ 1% to factor in faster FILA sales growth.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	49,328	53,651	62,611	71,670	80,675
YoY growth (%)	38.9	8.8	16.7	14.5	12.6
Operating profit (RMB mn)	11,372	11,229	14,771	17,428	20,484
Net profit (RMB mn)	8,219.0	8,245.0	11,102.3	13,680.3	16,213.9
EPS (Reported) (RMB)	2.77	2.72	3.64	4.48	5.31
YoY growth (%)	49.2	(1.7)	33.7	23.2	18.5
P/E (x)	26.9	30.0	22.5	18.2	15.4
P/B (x)	7.0	6.7	5.6	4.6	3.9
Yield (%)	1.1	1.5	1.6	2.2	2.9
ROE (%)	31.1	26.7	30.7	31.3	31.0
Net gearing (%)	39.3	53.9	62.9	69.4	74.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$109.99

(Previous TP HK\$107.97)

Up/Downside 20.2%

Current Price HK\$91.50

China Consumer Discretionary

Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

Raphael TSE

(852) 3900 0856

raphaeltse@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	247,354.6
Avg 3 mths t/o (HK\$ mn)	535.1
52w High/Low (HK\$)	124.00/69.00
Total Issued Shares (mn)	2703.3
Source: FactSet	

Shareholding Structure

Mr. Ding Shi zhong & Family	54.5%
BlackRock Fund	1.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	2.8%	1.6%
3-mth	13.0%	16.8%
6-mth	-18.4%	-9.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

[China Consumer Sector – An inline golden week but we will stay cautious](#)
(10 Oct 23)

[JNBY Design \(3306 HK\) – An all-rounded beat and an optimistic outlook](#)
(11 Sep 23)

[Xtep \(1368 HK\) – The growth story is intact despite volatility](#)
(24 Aug 23)

[Anta Sports \(2020 HK\) – Costs control and efficiency gains are the keys](#)
(23 Aug 23)

[China Lilang \(1234 HK\) – 1H23 inline and FY23E guidance maintained](#)
(17 Aug 23)

- **Other brands' results were inline.** Other brand's retail sales growth was at 45% to 50% (40%+/ 60%+ for Descente/ Kolon) in 3Q23, slowed down from 70% to 75% in 2Q23, but remained very fast. Inventory to sales ratio and retail discount was fairly stable. We reckon the 40% retail sales growth target is almost certain and OP margin should continue to improve as operating leverage will continue to kick in.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	62,611	71,670	80,675	61,960	70,911	79,805	1.1%	1.1%	1.1%
Gross profit	38,557	44,797	50,798	37,972	44,217	50,176	1.5%	1.3%	1.2%
EBIT	14,771	17,428	20,484	14,494	17,198	20,249	1.9%	1.3%	1.2%
Net profit att.	10,144	12,500	14,815	9,957	12,338	14,647	1.9%	1.3%	1.1%
Diluted EPS (RMB)	3.637	4.482	5.312	3.570	4.424	5.252	1.9%	1.3%	1.1%
Gross margin	61.6%	62.5%	63.0%	61.3%	62.4%	62.9%	0.3ppt	0.1ppt	0.1ppt
EBIT margin	23.6%	24.3%	25.4%	23.4%	24.3%	25.4%	0.2ppt	0.1ppt	0ppt
Net profit att. margin	16.2%	17.4%	18.4%	16.1%	17.4%	18.4%	0.1ppt	0ppt	0ppt

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	62,611	71,670	80,675	62,026	71,397	81,554	0.9%	0.4%	-1.1%
Gross profit	38,557	44,797	50,798	38,420	44,577	51,285	0.4%	0.5%	-0.9%
EBIT	14,771	17,428	20,484	14,445	16,718	19,473	2.3%	4.2%	5.2%
Net profit att.	10,144	12,500	14,815	9,788	11,736	13,828	3.6%	6.5%	7.1%
Diluted EPS (RMB)	3.637	4.482	5.312	3.515	4.186	4.926	3.5%	7.1%	7.8%
Gross margin	61.6%	62.5%	63.0%	61.9%	62.4%	62.9%	-0.4ppt	0.1ppt	0.1ppt
EBIT margin	23.6%	24.3%	25.4%	23.3%	23.4%	23.9%	0.3ppt	0.9ppt	1.5ppt
Net profit att. margin	16.2%	17.4%	18.4%	15.8%	16.4%	17.0%	0.4ppt	1ppt	1.4ppt

Source: Bloomberg, CMBIGM estimates

Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Nike China sales	-4%	1%	8%	19%	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	12%	8%	8%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	5%	20%
Anta brand's SSSG																
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	+ve MSD	+ve HSD	+ve HSD	19%
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	+ve HSD	+ve HSD	+ve HSD	
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	+ve MSD	+ve HSD	+ve HSD	
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	-ve LSD	+ve MSD	+ve LSD	
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	+ve HSD	+ve High-teens	+ve Low-teens	28%
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	+ve LSD	+ve MSD	+ve HSD	
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	-ve HSD	+ve LSD	+ve HSD	
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	-ve HSD	+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%	Over 40%	60%-65%	-ve Mid-teens	
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	75%-80%	70%-75%	45%-50%	
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens	70%-75%	60%-65%	40%-45%	
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	100%	100%	60%-65%	
Li Ning group's SSSG	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	-ve HSD	+ve LSD		
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%	-ve LSD	+ve HSD		
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%	-ve LSD	+ve LSD		
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	-ve Low 20%	+ve LSD		
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	+ve MSD	+ve Mid-teens	9%	30%
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	+ve Mid-teens	+ve High 20%		
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%	+ve MSD	+ve Mid-teens		
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	-ve Low-teens	+ve Low-teens		
Xtep brand's SSSG																
Xtep brand'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	20%	+ve High-teens	18%	30%
361 Degree brand's SSSG																
361 Degree brand'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	+ve Low-teens	+ve Low-teens		
Kids						20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%		
E- Commerce									35%-40%	50%	40%	45%	25%	35%	30%	
Pou Sheng's SSSG	-33%	-18%	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%		
Pou Sheng's sales	-25%	0%	0%	1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	20%
Topsports' retail sales																
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	+ve Low to Mid-teens	+ve Low to 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%	+ve Low to Mid-teens	+ve Mid-teens		
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)

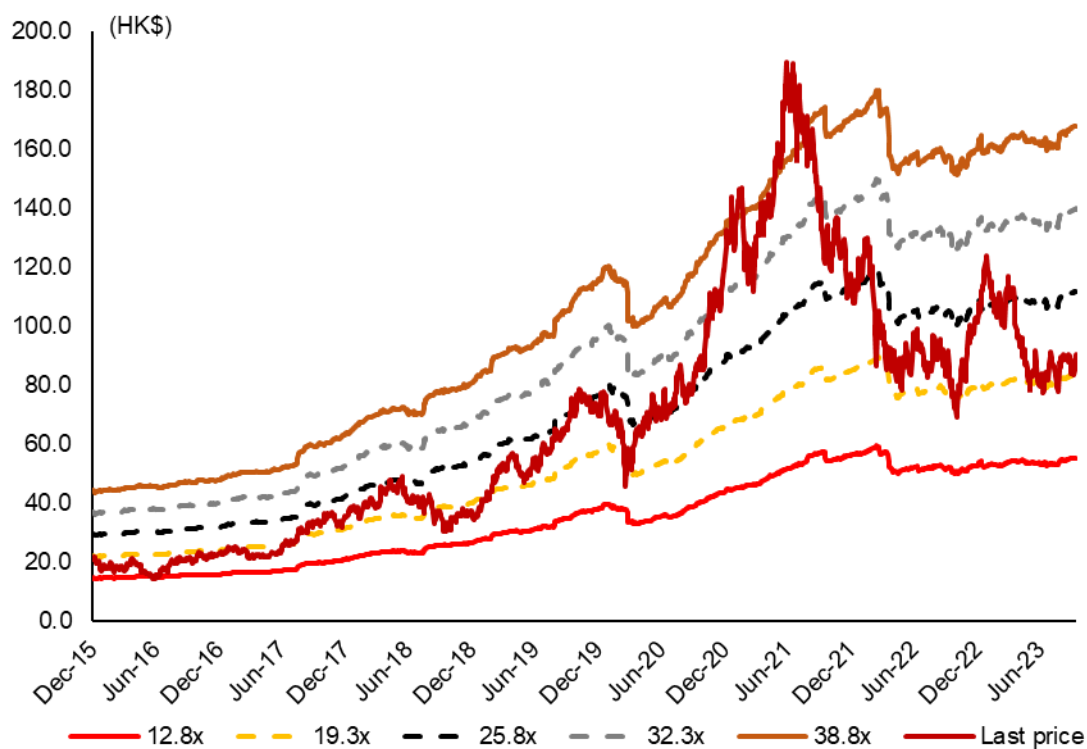
Valuation

Figure 4: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf.
								FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E
H shares Sportswear														
Anta Sports	2020 HK	BUY	109.99	91.50	20%	259,185	Dec-22	22.5	18.2	5.5	21.8	0.9	1.8	(10.6)
Li Ning Co	2331 HK	BUY	52.97	35.00	51%	92,262	Dec-22	19.2	15.9	3.1	16.8	1.5	1.9	(48.3)
Xtep Intl	1368 HK	BUY	11.41	7.36	55%	19,419	Dec-22	15.6	12.6	2.0	11.7	0.8	3.3	(15.3)
361 Degrees Intl	1361 HK	NR	n/a	4.21	n/a	8,705	Dec-22	8.6	7.3	0.9	10.9	0.5	3.6	26.4
Topsports Intl	6110 HK	BUY	9.00	6.03	49%	37,393	Feb-23	14.4	12.1	3.3	18.0	0.8	6.3	(0.3)
Pou Sheng Intl	3813 HK	NR	n/a	0.66	n/a	3,515	Dec-22	6.5	5.4	0.4	4.6	0.1	n/a	(12.0)
China DX	3818 HK	NR	n/a	0.27	n/a	1,590	Mar-23	5.0	4.2	0.2	1.2	0.0	15.9	(12.9)
								Avg.	13.1	10.8	2.2	12.1	0.6	5.5
								Med.	14.4	12.1	2.0	11.7	0.8	3.4
International Sportswear														
Nike	NKE US	NR	n/a	98.65	n/a	1,174,352	May-23	26.4	22.6	10.3	33.9	1.7	1.4	(15.7)
Adidas	ADS GY	NR	n/a	171.40	n/a	255,221	Dec-22	n/a	40.4	6.5	(2.2)	0.0	0.3	34.5
Puma	PUM GY	NR	n/a	53.70	n/a	67,001	Dec-22	22.6	16.6	3.0	12.8	1.2	1.5	(5.3)
Under Armour	UAA US	NR	n/a	6.74	n/a	22,617	Mar-23	13.4	10.8	1.4	20.8	(2.7)	0.0	(33.7)
Lululemon	LULU US	NR	n/a	373.36	n/a	369,549	Jan-23	30.6	26.7	11.4	31.5	0.9	0.0	16.5
Skechers	SKX US	NR	n/a	48.48	n/a	58,684	Dec-22	14.2	11.9	1.8	13.1	0.6	0.0	15.6
On Holding	ONON US	NR	n/a	24.66	n/a	61,334	Dec-22	48.6	33.5	6.3	6.3	0.4	n/a	43.7
Vf Corp	VFC US	NR	n/a	16.16	n/a	49,154	Apr-23	8.0	6.9	2.0	3.9	0.1	7.4	(41.5)
Columbia	COLM US	NR	n/a	71.20	n/a	34,156	Dec-22	15.7	13.4	2.1	16.2	2.6	1.7	(18.7)
Wolverine	WWW US	NR	n/a	7.75	n/a	4,820	Dec-22	16.6	5.2	1.7	(56.5)	(0.1)	5.3	(29.1)
Mizuno Corp	8022 JP	NR	n/a	4675.00	n/a	6,503	Mar-23	12.0	10.9	1.0	9.0	2.8	1.6	66.2
Asics Corp	7936 JP	NR	n/a	4871.00	n/a	48,405	Dec-22	29.0	24.9	4.9	15.8	1.3	1.2	67.2
								Avg.	21.6	18.7	4.4	8.7	0.7	1.9
								Med.	16.6	15.0	2.5	12.9	0.7	5.1

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 6: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment growth (%)					
Shoes	50.7%	17.4%	17.0%	12.5%	10.0%
Apparels	32.1%	3.1%	16.7%	16.1%	14.5%
Accessories	36.5%	6.4%	12.0%	12.0%	12.0%
Total	38.9%	8.8%	16.7%	14.5%	12.6%
Sales by brand growth (%)					
Anta	47.7%	14.1%	12.0%	12.0%	11.0%
Anta Kids	50.0%	15.0%	10.0%	14.0%	13.0%
FILA	25.1%	-1.4%	17.0%	12.0%	9.0%
Descente & Others	51.1%	26.1%	55.0%	26.0%	24.0%
E-commerce	61.6%	17.7%	8.0%	17.0%	15.0%
Total	38.9%	8.8%	16.7%	14.5%	12.6%
Sales network					
Anta	6,832	6,924	7,049	7,124	7,174
Anta Kids	2,571	2,679	2,854	2,929	2,979
FILA	2,054	1,984	1,950	1,975	2,025
Descente & Others	459	477	491	521	551
Total	11,916	12,064	12,344	12,549	12,729
GP margins					
Anta	52.3%	53.2%	53.4%	54.0%	54.5%
FILA	70.5%	68.0%	69.0%	70.0%	70.0%
Others	70.5%	66.4%	71.0%	72.5%	74.0%
Total	61.6%	60.2%	61.6%	62.5%	63.0%
Opex breakdown					
A&P Expenses / sales	12.4%	10.3%	9.6%	9.8%	9.6%
Labour costs / sales	13.5%	15.1%	14.6%	14.6%	14.7%
R &D expenses / sales	5.9%	6.0%	6.1%	6.0%	6.0%
Rental expenses/ sales	11.6%	11.5%	11.1%	11.1%	10.7%
Selling & distribution costs / sales	36.0%	36.6%	35.3%	35.3%	34.8%
Admin expenses / sales	5.9%	6.7%	5.8%	5.8%	5.7%
OP margin					
Anta	20.6%	21.7%	20.9%	21.8%	23.0%
FILA	24.7%	20.0%	26.5%	27.0%	28.0%
Others	18.4%	20.6%	24.0%	25.0%	26.0%
Total	22.3%	20.9%	23.5%	24.2%	25.3%
Effective tax rate	26.9%	27.4%	26.0%	26.0%	26.0%
NP att. margin	15.7%	14.1%	16.2%	17.4%	18.4%
NP att. growth	49.6%	-1.7%	33.7%	23.2%	18.5%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	35,512	49,328	53,651	62,611	71,670	80,675
Cost of goods sold	(14,861)	(18,924)	(21,333)	(24,054)	(26,873)	(29,876)
Gross profit	20,651	30,404	32,318	38,557	44,797	50,798
Operating expenses	(12,888)	(20,681)	(23,216)	(25,728)	(29,448)	(32,654)
Selling expense	(10,766)	(17,753)	(19,629)	(21,765)	(24,975)	(27,755)
Admin expense	(1,251)	(1,812)	(2,308)	(2,514)	(2,814)	(3,022)
R&D expense	(871)	(1,116)	(1,279)	(1,449)	(1,659)	(1,878)
Others	0	0	0	0	0	0
Operating profit	8,826	11,372	11,229	14,771	17,428	20,484
Other income	1,063	1,649	2,127	1,941	2,078	2,340
Share of (losses)/profits of associates/JV	(601)	(81)	28	(188)	430	565
EBITDA	9,316	11,944	11,971	15,339	17,979	20,917
Depreciation	(414)	(443)	(474)	(329)	(317)	(301)
Other amortisation	(76)	(129)	(268)	(240)	(234)	(132)
Interest income	271	392	609	931	1,140	1,373
Interest expense	(407)	(443)	(511)	(511)	(511)	(511)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	8,089	11,240	11,355	15,003	18,487	21,911
Income tax	(2,520)	(3,021)	(3,110)	(3,901)	(4,807)	(5,697)
Minority interest	(407)	(499)	(655)	(958)	(1,181)	(1,399)
Net profit	5,569	8,219	8,245	11,102	13,680	16,214
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	32,717	39,902	45,445	54,872	65,287	76,408
Cash & equivalents	15,323	17,592	23,919	31,095	39,391	48,345
Account receivables	6,614	6,914	7,520	8,776	10,046	11,308
Inventories	5,486	7,644	6,254	7,249	8,099	9,004
Prepayment	0	0	0	0	0	0
ST bank deposits	5,024	6,989	6,989	6,989	6,989	6,989
Other current assets	270	763	763	763	763	763
Non-current assets	19,150	22,766	22,803	22,798	23,537	24,636
PP&E	2,184	2,853	3,131	3,553	4,096	4,763
Investment in JVs & assos	9,658	9,027	9,055	8,867	9,297	9,862
Intangibles	1,579	1,531	1,281	1,060	844	730
Other non-current assets	5,729	9,355	9,336	9,318	9,299	9,281
Total assets	51,867	62,668	68,248	77,670	88,824	101,044
Current liabilities	11,715	15,943	16,954	18,672	20,421	22,192
Short-term borrowings	1,968	1,748	1,748	1,748	1,748	1,748
Account payables	2,376	3,146	3,546	3,999	4,468	4,967
Tax payable	1,507	1,816	1,816	1,816	1,816	1,816
Other current liabilities	5,864	9,233	9,844	11,110	12,389	13,662
Non-current liabilities	14,328	15,062	15,062	15,062	15,062	15,062
Long-term borrowings	12,456	11,425	11,425	11,425	11,425	11,425
Other non-current liabilities	1,872	3,637	3,637	3,637	3,637	3,637
Total liabilities	26,043	31,005	32,016	33,734	35,483	37,254
Share capital	261	261	261	261	261	261
Retained earnings	18,185	22,663	24,832	31,339	38,799	46,979
Other reserves	5,567	5,999	7,744	7,982	8,747	9,617
Total shareholders equity	24,013	28,923	32,837	39,583	47,808	56,857
Minority interest	1,811	2,740	3,395	4,353	5,534	6,933
Total equity and liabilities	51,867	62,668	68,248	77,670	88,824	101,044

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,089	11,240	11,355	15,003	18,487	21,911
Depreciation & amortization	490	572	742	569	551	434
Tax paid	(2,181)	(2,677)	(3,110)	(3,901)	(4,807)	(5,697)
Change in working capital	(3,461)	(282)	1,796	(533)	(371)	(396)
Others	4,520	3,008	483	699	81	(54)
Net cash from operations	7,458	11,861	11,265	11,837	13,941	16,198
Investing						
Capital expenditure	(649)	(1,360)	(751)	(751)	(860)	(968)
Acquisition of subsidiaries/ investments	(84)	(94)	0	0	0	0
Others	(1,190)	(3,215)	0	0	0	0
Net cash from investing	(1,923)	(4,669)	(751)	(751)	(860)	(968)
Financing						
Dividend paid	(1,404)	(2,456)	(3,676)	(3,399)	(4,275)	(5,765)
Net borrowings	(3,343)	(196)	0	0	0	0
Proceeds from share issues	21	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	5,955	(2,295)	(511)	(511)	(511)	(511)
Net cash from financing	1,229	(4,947)	(4,187)	(3,910)	(4,786)	(6,276)
Net change in cash						
Cash at the beginning of the year	8,221	15,323	17,592	23,919	31,095	39,391
Exchange difference	338	24	0	0	0	0
Others	6,764	2,245	6,327	7,176	8,296	8,954
Cash at the end of the year	15,323	17,592	23,919	31,095	39,391	48,345
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	4.7%	38.9%	8.8%	16.7%	14.5%	12.6%
Gross profit	10.7%	47.2%	6.3%	19.3%	16.2%	13.4%
Operating profit	0.9%	28.8%	(1.3%)	31.5%	18.0%	17.5%
EBITDA	(7.8%)	28.2%	0.2%	28.1%	17.2%	16.3%
Net profit	(1.0%)	47.6%	0.3%	34.7%	23.2%	18.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	58.2%	61.6%	60.2%	61.6%	62.5%	63.0%
Operating margin	24.9%	23.1%	20.9%	23.6%	24.3%	25.4%
EBITDA margin	26.2%	24.2%	22.3%	24.5%	25.1%	25.9%
Return on equity (ROE)	25.3%	31.1%	26.7%	30.7%	31.3%	31.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.2	0.4	0.5	0.6	0.7	0.7
Current ratio (x)	2.8	2.5	2.7	2.9	3.2	3.4
Receivable turnover days	68.0	51.2	51.2	51.2	51.2	51.2
Inventory turnover days	134.7	147.4	107.0	110.0	110.0	110.0
Payable turnover days	58.4	60.7	60.7	60.7	60.7	60.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	41.5	26.9	30.0	22.5	18.2	15.4
P/E (diluted)	41.5	26.9	30.0	22.5	18.2	15.4
P/B	8.7	7.0	6.7	5.6	4.6	3.9
P/CFPS	25.6	28.0	20.1	20.1	17.1	14.7
Div yield (%)	0.8	1.1	1.5	1.6	2.2	2.9
EV	241,450.6	235,973.6	229,646.4	222,470.3	214,174.7	205,220.9
EV/Sales	6.8	4.8	4.3	3.6	3.0	2.5
EV/EBITDA	25.9	19.8	19.2	14.5	11.9	9.8

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.