

Xtep (1368 HK)

Speedy recovery in CNY and robust guidance

We are impressed by the quick recovery of retail sales growth during CNY, even with high base last year. Moreover, we do find FY23E guidance encouraging, hence we maintain BUY and revise up our TP to HK\$11.52, based on a 21x FY23E P/E (which is 1 s.d. higher than the 5 years average of 15x, up from 19x given the turnaround) and its valuation is not too demanding at 17x FY23E P/E.

- **Recovery in 2023 CNY is speedy.** After the improvement in Dec 2022, a HSD drop vs mid-teen decline in Nov 2022, retail sales growth had further accelerated to 20%+ during the first 10 days of 2023 CNY season (vs same season last year), and the retail discounts also improved to just 25% to 30% off (about 1-2ppt better than last year). We are fairly impressed by this result, given the high base last year, with minimal COVID-19 outbreaks.
- **Despite cuts in FY22E estimates, we are encouraged by the decent FY23E guidance.** We are revising down our FY22E sales/ net profit by 1%/ 8%, in order to factor in: 1) adjustment in trade fair orders, 2) fall in GP margin, led by aggressive promotions during double 11 and 3) more subsidies paid to the distributors to de-stock. But we do find the FY23E guidance robust and it is a sign of confidence. Management is now foreseeing 20%+ retail sales growth and about mid-teens listed co level sales growth, consist of: 1) 5-10% ASP growth, 2) 40%+ Xtep kids growth and 3) about 300 new stores openings. Moreover, management also guided core brand's net profit margin to be similar to FY21's level (CMBI est. is 1ppt more conservative), driven by improvements in GP margin and opex control, which can more than offset the surge in A&P expenses (to be around 10% to 12% of sales, as more marathons being resumed.)
- **Inventory level: the worst is gone but it shall return to normal by 4Q23E.** Management believes it should take about 1 year to destock its inventory, to around a level of 4 months by 4Q23E, because the excess SKUs are mostly from 3Q22 and 4Q22. However, after inventory clearance made during the CNY, management also believes the ratio could go down to around 5 months in 2Q23E. In fact, listed co level inventory days should also fall to about 90 days in FY22E, from 100+ days in 1H22.
- **Maintain BUY and raise TP to HK\$ 11.52.** We cut FY22E/ 23E/ 24E net profit by ~8%/ ~1%/ ~2% but maintain BUY with a higher TP at HK\$ 11.52, based on 21x FY23E P/E (up from 19x as we think the turnaround is here), which is fairly justifiable given the 19% NP CAGR in FY21-24E. It is trading at 17x FY23E P/E, and we believe it is attractive, thanks to the 40% off discounts to Anta and Li Ning's 28x, vs 2 years' average of just 30% off.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,172	10,013	12,523	14,395	16,447
YoY growth (%)	(0.1)	22.5	25.1	15.0	14.3
Net income (RMB mn)	513	908	964	1,237	1,545
EPS (RMB)	0.206	0.355	0.372	0.470	0.586
YoY growth (%)	(31.6)	72.1	4.8	26.1	24.9
Consensus EPS (RMB)	N/A	N/A	0.410	0.489	0.611
P/E (x)	37.3	21.3	20.4	16.7	13.4
P/B (x)	2.7	2.4	2.4	2.3	2.1
Yield (%)	1.5	2.8	2.5	3.6	4.5
ROE (%)	7.0	11.4	11.4	13.7	15.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.52**
 (Previous TP **HK\$10.52**)
 Up/Downside **+25.9%**
 Current Price **HK\$9.15**

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	24,126
Avg 3 mths t/o (HK\$ mn)	134.40
52w High/Low (HK\$)	14.98/6.79
Total Issued Shares (mn)	2,636.7

Source: Bloomberg

Shareholding Structure

Mr Ding Shui Po & Family	49.14%
JP Morgan Chase	4.60%
China Universal Asset Management Co Ltd	2.74%
GF Fund Management Co Ltd	1.79%
Free Float	41.73%

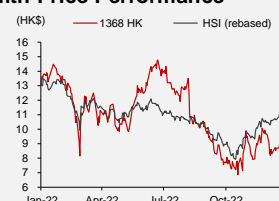
Source: HKEx, Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.9%	-16.2%
3-mth	17.6%	-10.3%
6-mth	-34.3%	-38.7%
12-mth	-29.5%	-20.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Xtep (1368 HK, BUY) – Guidance softens with mounting inventory risks – 19 Oct 2022
2. Xtep (1368 HK, BUY) – Inventory not a worry and guidance maintained – 24 Aug 2022
3. Xtep (1368 HK, BUY) – A resilient 2Q22 and FY22E guidance upheld – 14 Jul 2022

- **4Q22 was roughly inline.** Xtep's retail sales dropped by HSD in 4Q22, slightly better than CMBI est. of low-teen decline. Retail discount was at 30% off in 4Q22, worsened from 25% to 30% off in 3Q22, but it was inline with management's guidance. Inventory to sales ratio climbed to around 5.5 months in 4Q22, from the 4.5 to 5.0 months in 3Q22, slightly worse than CMBI est.. But the retail sales growth for E-commerce / Xtep kid are still highly resilient at teens/ 40%+ in 4Q22.
- **Smooth development of new brands, esp. the Saucony and K-swiss.** Saucony's sales have already doubled in FY22E and another 100% growth in FY23E is still possible. It could become the first new brand to reach a breakeven in FY23E. Moreover, the franchise model will be rolled out and about 1/3 and 2/3 will be run by existing Xtep's distributors and new distributors with foreign brand experience. There will be about 50 to 100 new stores to be opened in FY23E. K-swiss's new stores opened in FY22E were well-received also with sales per store of RMB 300-400K. Mostly importantly the net losses from all four new brands will not be higher than RMB 150mn in FY23E.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,523	14,395	16,447	12,591	14,672	16,774	-0.5%	-1.9%	-1.9%
Gross profit	5,226	6,093	7,032	5,270	6,172	7,129	-0.8%	-1.3%	-1.4%
EBIT	1,490	1,878	2,287	1,612	1,900	2,350	-7.6%	-1.1%	-2.7%
Net profit att.	964	1,237	1,545	1,052	1,248	1,579	-8.3%	-0.9%	-2.2%
Diluted EPS (RMB)	0.372	0.470	0.586	0.406	0.474	0.599	-8.3%	-0.9%	-2.2%
Gross margin	41.7%	42.3%	42.8%	41.9%	42.1%	42.5%	-0.1ppt	0.3ppt	0.3ppt
EBIT margin	11.9%	13.0%	13.9%	12.8%	12.9%	14.0%	-0.9ppt	0.1ppt	-0.1ppt
Net profit att. margin	7.7%	8.6%	9.4%	8.4%	8.5%	9.4%	-0.7ppt	0.1ppt	0ppt

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	12,523	14,395	16,447	12,873	15,429	18,816	-2.7%	-6.7%	-12.6%
Gross profit	5,226	6,093	7,032	5,338	6,450	7,907	-2.1%	-5.5%	-11.1%
EBIT	1,490	1,878	2,287	1,586	1,892	2,360	-6.1%	-0.7%	-3.1%
Net profit att.	964	1,237	1,545	1,060	1,266	1,582	-9.0%	-2.3%	-2.4%
Diluted EPS (RMB)	0.372	0.470	0.586	0.410	0.489	0.611	-9.3%	-4.0%	-4.1%
Gross margin	41.7%	42.3%	42.8%	41.5%	41.8%	42.0%	0.3ppt	0.5ppt	0.7ppt
EBIT margin	11.9%	13.0%	13.9%	12.3%	12.3%	12.5%	-0.4ppt	0.8ppt	1.4ppt
Net profit att. margin	7.7%	8.6%	9.4%	8.2%	8.2%	8.4%	-0.5ppt	0.4ppt	1ppt

Source: Company data, CMBIGM estimates

Focus charts

Figure 3: 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	10,851	12,339	13,996	15,592	16.5%
K-swiss and Palladium	466	999	971	1,268	1,429	1,613	1,822	18.4%
Saucony and Merrell JV	10	72	201	403	627	838	1,086	61.0%
Total	8,183	8,172	10,013	12,523	14,395	16,447	18,500	18.0%
Net profit (RMB mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY21-24E CAGR
Xtep core brand	790	656	1,055	1,109	1,346	1,575	1,820	14.3%
K-swiss and Palladium	-60	-126	-101	-100	-84	-22	48	-39.9%
Saucony and Merrell JV	-2	-17	-46	-44	-25	-8	11	-43.4%
Total	728	513	908	964	1,237	1,545	1,879	19.4%
NP margin	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	
Xtep core brand	10.2%	9.2%	11.9%	10.2%	10.9%	11.3%	11.7%	
K-swiss and Palladium	-12.9%	-12.6%	-10.4%	-7.9%	-5.9%	-1.4%	2.7%	
Saucony and Merrell JV	-19.6%	-23.7%	-23.0%	-11.0%	-4.0%	-1.0%	1.0%	
Total	8.9%	6.3%	9.1%	7.7%	8.6%	9.4%	10.2%	

Source: Company data, CMBIGM estimates

Operating numbers

Figure 4: Sportswear brands sales growth trend

Operating numbers	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	1Q23E	2Q23E
Nike China sales	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-13.0%	6.0%	-23.0%	26.0%
Adidas China sales	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-27.0%	-20.0%	-5.0%	30.0%
Anta brand's SSSG																
Anta brand's retail sales	+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	+ve MSD	-ve HSD	0.0%	4.0%
Core brand	+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	+ve LSD	-ve Mid-teens		
Kids	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	+ve HSD	-ve High-teens		
Online	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD		
FILA brand's retail sales																
Classic/ Core brand	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	+ve Low-teens	-ve Low-teens	-11.0%	11.0%
Kids	Over 40%	Over 70%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens		
Fusion	Over 70%	Over 100%	-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		
Online	Over 70%	160%	+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		
Other brands																
Descente	30%-35%	25%-30%	-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		
Kolon	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens		
Li Ning group's SSSG	+ve High-teens	+ve Low-teens	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			
Direct retail	+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%	+ve High-teens	+ve MSD			
Wholesales	+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	-ve High-teens	+ve HSD			
E- Commerce	+ve Mid 50%	+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 30%	+ve Mid 30%	+ve LSD	+ve Low-teens			
Li Ning group's retail sales	+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%	-ve HSD	+ve Mid-teens	-9.0%	-9.0%	13.0%
Direct retail	+ve Mid-teens	+ve High-teens	-ve Mid-teens	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 30%	+ve Mid 30%	+ve High 20%	+ve Mid 20%	-ve HSD	+ve Low 20%			
Wholesales	+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%	-ve HSD	+ve Low-teens			
E- Commerce	+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%	+ve MSD	+ve Mid 20%			
Xtep's SSSG																
Xtep's retail sales	10%	+ve Low-teens	-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	10.0%	12.0%
361 Degrees' SSSG																
361 Degree's retail sales	+ve LSD	+ve LSD	-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	6.0%	1.9%	-32.5%	-17.8%												
Pou Sheng's sales	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-8.5%	-21.0%	-18.0%	30.0%
Topsports' retail sales																
Dong Xiang's SSSG	+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	-ve Low to Mid-teens	-ve Low to Mid SD			
Dong Xiang's retail sales	+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	-ve Mid to High-teens	+ve LSD			
Direct retail	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%									
E- Commerce	+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 5: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
Shoes	5,047	5,928	7,063	7,977	9,272
Apparels	2,964	3,887	5,248	6,193	6,936
Accessories	161	198	211	226	240
Total	8,172	10,013	12,523	14,395	16,447
Sales by segment growth (%)					
Shoes	8.5%	17.5%	19.1%	12.9%	16.2%
Apparels	-11.4%	31.2%	35.0%	18.0%	12.0%
Accessories	-12.9%	22.5%	7.0%	7.0%	6.0%
Total	-0.1%	22.5%	25.1%	15.0%	14.3%
Sales by segment (RMB mn)					
Mass market	7,101	8,841	10,851	12,339	13,996
Athleisure	999	971	1,268	1,429	1,613
Professional sports	72	201	403	627	838
Total	8,172	10,013	12,523	14,395	16,447
Sales by segment growth (YoY)					
Mass market	-7.9%	24.5%	22.7%	13.7%	13.4%
Athleisure	114.4%	-2.8%	30.6%	12.7%	12.8%
Professional sports	609.9%	180.3%	100.6%	55.4%	33.7%
Total	-0.1%	22.5%	25.1%	15.0%	14.3%
Sales network					
Xtep	4,971	4,722	4,628	4,766	4,909
Xtep kids	800	1,179	1,521	1,673	1,790
Oversea stores	250	250	300	300	300
Total	6,021	6,151	6,448	6,739	6,999
GP margins	39.1%	41.7%	41.7%	42.3%	42.8%
Opex breakdown					
A&P / sales	11.2%	10.2%	11.0%	11.3%	11.3%
Staff costs/ sales	12.1%	11.1%	10.5%	10.5%	10.5%
R&D / sales	2.7%	2.5%	2.6%	2.5%	2.5%
D&A / sales	2.0%	1.7%	1.5%	1.5%	1.4%
Provisions (write backs) / sales	0.7%	-0.2%	0.5%	0.0%	0.0%
Rental / sales	0.1%	0.1%	0.3%	0.4%	0.4%
Selling & distribution costs / sales	18.8%	18.9%	20.0%	19.8%	19.6%
Admin expenses / sales	12.9%	11.9%	12.2%	11.5%	11.3%
Total	31.7%	30.8%	32.1%	31.3%	30.9%
OP margins	11.2%	13.9%	11.9%	13.0%	13.9%
Effective tax rate	33.7%	30.9%	32.0%	31.0%	30.0%
Net profit att. margins	6.3%	9.1%	7.7%	8.6%	9.4%
Net profit att. growth (%)	-29.5%	77.1%	6.2%	28.3%	24.9%

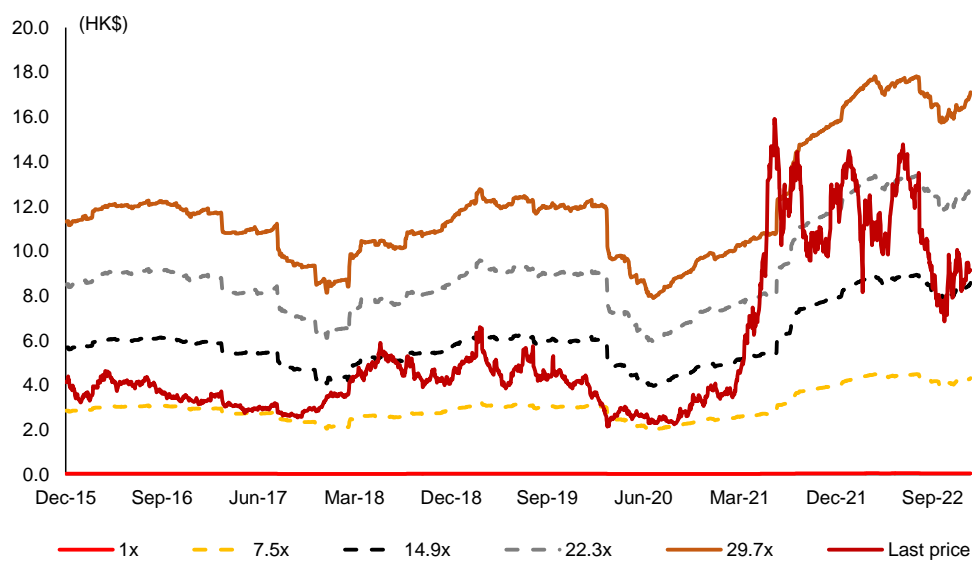
Source: Company data, CMBIGM estimates

Valuation

Figure 6: 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	11.52	9.15	26%	24,126	Dec-21	20.4	16.7	2.4	2.2	13.5	1.1	2.5
Anta Sports	2020 HK	BUY	128.94	113.80	13%	308,810	Dec-21	35.7	27.9	7.7	6.4	25.5	2.7	1.2
Li Ning	2331 HK	BUY	73.08	69.00	6%	181,740	Dec-21	33.9	27.6	6.3	5.3	26.1	2.0	0.9
361 Degrees	1361 HK	NR	n/a	3.43	n/a	7,092	Dec-21	8.2	7.0	0.7	0.7	10.3	0.6	4.3
Topsports	6110 HK	NR	n/a	7.44	n/a	46,137	Feb-22	18.2	14.8	3.5	3.2	21.3	2.8	4.3
Pou Sheng	3813 HK	NR	n/a	0.92	n/a	4,900	Dec-21	27.4	7.2	0.5	0.5	(3.2)	0.9	0.6
China DX	3818 HK	NR	n/a	0.40	n/a	2,326	Mar-22	n/a	11.4	0.2	0.2	(14.0)	0.0	2.9
Avg.								23.9	16.1	3.1	2.7	11.4	1.4	2.4
Med.								23.9	14.8	2.4	2.2	13.5	1.1	2.5
International Sportswear														
Nike Inc	NKE US	NR	n/a	128.85	n/a	1,560,380	May-22	40.9	32.6	13.5	12.6	37.3	5.6	1.0
Adidas	ADS GY	NR	n/a	150.72	n/a	229,365	Dec-21	66.0	32.2	4.4	4.1	19.2	(4.3)	1.2
Puma	PUM GY	NR	n/a	63.16	n/a	80,538	Dec-21	25.7	23.8	3.9	3.5	14.1	1.8	1.3
Under Armour	UAA US	NR	n/a	11.49	n/a	38,024	Mar-23	26.7	18.8	2.6	2.2	n/a	1.7	0.0
Lululemon	LULU US	NR	n/a	315.47	n/a	314,392	Jan-22	31.8	27.5	12.0	9.3	41.1	1.5	0.0
Skechers	SKX US	NR	n/a	46.56	n/a	56,401	Dec-21	20.4	15.4	2.0	1.7	22.2	(2.6)	0.0
Vf Corp	VFC US	NR	n/a	31.13	n/a	94,471	Apr-22	15.0	13.2	4.3	4.0	12.7	(1.8)	6.3
Columbia	COLM US	NR	n/a	93.03	n/a	45,130	Dec-21	17.9	16.5	3.0	2.6	18.5	3.0	1.3
Wolverine	WWW US	NR	n/a	13.62	n/a	8,377	Jan-22	9.5	8.4	1.7	1.5	24.3	0.3	3.0
Mizuno Corp	8022 JP	NR	n/a	2653.00	n/a	4,289	Mar-22	10.4	9.2	0.6	0.6	8.5	(1.6)	2.3
Asics Corp	7936 JP	NR	n/a	2878.00	n/a	33,241	Dec-21	25.4	21.8	3.3	3.0	7.8	0.8	1.1
Avg.								26.3	19.9	4.6	4.1	20.6	0.4	1.6
Med.								25.4	18.8	3.3	3.0	18.9	0.8	1.2

Source: Bloomberg, CMBIGM estimates

Figure 7: Valuation band (Forward 12 months P/E)

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	8,172	10,013	12,523	14,395	16,447
Footwear	5,047	5,928	7,063	7,977	9,272
Apparel	2,964	3,887	5,248	6,193	6,936
Accessories	161	198	211	226	240
Cost of goods sold	(4,973)	(5,835)	(7,297)	(8,303)	(9,415)
Gross profit	3,198	4,178	5,226	6,093	7,032
Other income	307	299	288	288	329
Operating expenses	(2,588)	(3,081)	(4,024)	(4,503)	(5,074)
S & D costs	(1,537)	(1,891)	(2,499)	(2,846)	(3,217)
Admin exp.	(827)	(937)	(1,200)	(1,297)	(1,446)
R & D	(223)	(252)	(326)	(360)	(411)
Other operating expenses	-	-	-	-	-
EBIT	918	1,396	1,490	1,878	2,287
Finance costs, net	(140)	(63)	(47)	(52)	(56)
JVs & associates	(17)	(46)	(44)	(25)	(8)
Exceptional	-	-	-	-	-
Pre-tax profit	762	1,287	1,398	1,801	2,223
Income tax	(257)	(397)	(447)	(558)	(667)
Less: Minority interests	-8	-19	-14	5	11
Net profit	513	908	964	1,237	1,545

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	918	1,396	1,490	1,878	2,287
D & A	78	84	132	167	182
Change in working capital	(320)	(447)	(763)	(582)	(636)
Income tax paid	(325)	(329)	(447)	(558)	(667)
Others	(32)	(3)	12	(91)	(22)
Net cash from operating	320	701	423	813	1,144
Capex & investments	(207)	(414)	(438)	(504)	(576)
Associated companies	(20)	-	-	-	-
Interest received	-	-	-	-	-
Others	800	86	-	-	-
Net cash from investing	573	(329)	(438)	(504)	(576)
Equity raised	31	-	-	-	-
Net change in bank loans	(77)	(312)	-	-	-
Dividend paid	(279)	(356)	(540)	(633)	(840)
Others	(55)	764	-	-	-
Net cash from financing	(380)	96	(540)	(633)	(840)
Net change in cash	513	469	(556)	(324)	(272)
Beginning cash balance	2,970	3,472	3,930	3,335	3,077
Exchange difference	(11)	(11)	-	-	-
Cash at the end of the year	3,472	3,930	3,374	3,011	2,805

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	3,544	4,183	4,445	4,757	5,143
Fixed asset	796	1,119	1,451	1,828	2,274
Intangible assets & goodwill	741	700	674	634	582
Prepaid lease payments	573	576	576	576	576
Interest in joint ventures	218	365	320	295	287
Other non-current assets	1,216	1,424	1,424	1,424	1,424
Current assets	9,027	10,432	11,459	12,389	13,400
Cash and cash equivalents	3,472	3,930	3,335	3,077	2,784
Inventories	975	1,497	1,873	2,131	2,416
Trade and other receivables	3,236	3,528	4,413	5,072	5,795
Prepayments	899	1,443	1,804	2,074	2,369
Other current assets	446	34	34	34	34
Current liabilities	3,334	4,053	4,911	5,516	6,184
Bank loans	642	405	405	405	405
Trade payables	1,479	2,352	2,942	3,347	3,796
Accruals & other payables	1,052	1,071	1,339	1,540	1,759
Tax payables	86	123	123	123	123
Others	75	102	102	102	102
Non-current liabilities	1,939	2,580	2,580	2,580	2,580
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
Minority Interest	-	-	-14	-9	3
Total net assets	7,299	7,982	8,427	9,058	9,775
Shareholders' equity	7,299	7,982	8,427	9,058	9,775

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Footwear	61.8	59.2	56.4	55.4	56.4
Apparel	36.3	38.8	41.9	43.0	42.2
Accessories	2.0	2.0	1.7	1.6	1.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	39.1	41.7	41.7	42.3	42.8
Operating margin	11.2	13.9	11.9	13.0	13.9
Pre-tax margin	9.3	12.9	11.2	12.5	13.5
Net margin	6.3	9.1	7.7	8.5	9.4
Effective tax rate	33.0	29.8	31.0	30.5	29.7
Balance sheet ratios					
Current ratio (x)	2.7	2.6	2.3	2.2	2.2
Quick ratio (x)	2.4	2.2	2.0	1.9	1.8
Cash ratio (x)	1.0	1.0	0.7	0.6	0.5
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	26
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	7.0	11.4	11.4	13.7	15.8
ROA	4.1	6.2	6.1	7.2	8.3
Per share					
EPS (RMB)	0.21	0.36	0.37	0.47	0.60
DPS (RMB)	0.12	0.21	0.19	0.28	0.36
BVPS (RMB)	2.87	3.13	3.20	3.44	3.71

Source: Company data, CMBIGM estimates

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