

Xtep (1368 HK)

Cautiously optimistic after a resilient 2Q24

The sportswear industry remains under great pressure, but we believe Xtep is still one of a few brands that can mildly outperform and improve sequentially in 2H24E, because of: 1) successful new product launches such as the 360X, 2) robust e-commerce sales growth (esp. the Douyin platform), 3) wholesale business nature (therefore drags from operating deleverage is limited), 4) a strong beat in Saucony's sales growth and margin expansion, and 5) reduced losses after the sale of K&P. Plus the attractive valuation (10x FY24E P/E and 15% yield), we maintain BUY.

■ **2H24E outlook remains cautiously optimistic.** Guidance of Xtep's retail sales growth in FY24E remained the same, at 10%+; however, the listco level sales growth will be adjusted to HSD to low-teens (from 10%+ previously), due to the sale of K&P (a certain amount of sales and net losses will not be consolidated anymore). On one hand, management are very cautious about the unfavorable weather and macro environment, but on the other hand, they are still foreseeing a potential speed-up in sales growth in 2H24E. In our view, that is likely supported by: 1) a low base in 2H23, 2) excellent sales momentum of the 360X series, 3) more new product launches in 2H24E, and 4) robust e-commerce sales growth (thanks to increased supplies of value-for-money products). Margin wise, we think the GP margin could be stable (the increases in retail discounts in online channel could be offset by reduced drags of de-stocking) while the OP margin could improve, thanks to: 1) reduced losses after the sale of K&P (part of the losses will be offset by the disposal gains; therefore we only expect losses of about RMB 70mn in FY24E, instead of RMB 110mn) and 2) a drop in A&P expenses vs last year.

■ **Saucony's performance was a decent beat in 1H24.** Retail sales growth of Saucony was over 50% in 1H24, far better than the guidance of 30%-40% growth in FY24E. We do find it highly impressive, because the growth had outperformed so many other overseas brands and the SSSG was strong at 30% or above. As a result, due to the operating leverage, we believe the net profit margin could also beat our expectation. Thanks to the newly signed brand ambassador, we think the brand awareness can be boosted and the strong sales momentum could continue in 2H24E. The brand opened 20 new stores in 1H24 and it is on track to achieve the guidance of 50 new stores by FY24E.

■ **Maintain BUY but fine-tune TP to HK\$ 7.32, based on 14x FY24E P/E (unchanged).** We have adjusted our FY24E/ 25E/ 26E net profit by -1%/ +1%/ -1%. The stock is now trading at 10x FY24E P/E, fairly attractive vs its 8-years average of 15x, let alone the 15% FY24E dividend yield.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	12,930	14,346	15,322	15,979	17,494
YoY growth (%)	29.1	10.9	6.8	4.3	9.5
Operating profit (RMB mn)	1,464.3	1,579.9	1,919.7	2,181.7	2,493.5
Net profit (RMB mn)	912.3	1,033.0	1,275.3	1,499.6	1,756.7
EPS (Reported) (RMB)	0.36	0.39	0.46	0.54	0.64
YoY growth (%)	0.6	9.4	18.6	17.6	17.2
P/E (x)	12.4	11.3	9.6	8.1	6.9
P/B (x)	1.4	1.3	1.3	1.3	1.1
Yield (%)	3.8	4.1	14.1	5.8	6.8
ROE (%)	11.2	12.0	14.3	16.5	18.0
Net gearing (%)	14.8	7.1	14.7	13.3	13.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.32
(Previous TP)	HK\$7.63
Up/Downside	46.5%
Current Price	HK\$5.00

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	13,174.2
Avg 3 mths t/o (HK\$ mn)	49.9
52w High/Low (HK\$)	8.72/3.68
Total Issued Shares (mn)	2634.8

Source: FactSet

Shareholding Structure

Mr Ding Shui Po & Family	49.2%
JPMorgan Chase & Co	4.6%

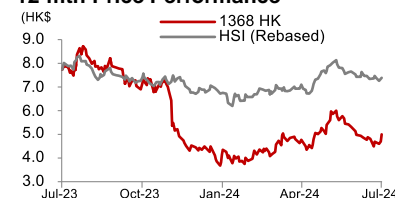
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.5%	-0.7%
3-mth	4.2%	-0.1%
6-mth	14.9%	5.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **2Q24 retail sales growth beat slightly.** Xtep's retail sales growth in 2Q24 was at 10%, inline with CMBI est. of 11%, but better than the market's expectation (investors have turned rather bearish lately after weak numbers in May-Jun, as well as Nike's cautious outlook) and speeded up from the HSD in 1Q24. And Xtep's outperformance, in our view, was due to its successful new product launches and the robust e-commerce sales growth. For example, the 360X (the running shoes equipped with carbon-plate, priced only at RMB 599) was extremely popular, with over 800k pairs sold since its launch in Mar 2024. In terms of channel, offline sales only grew by LSD (SSSG was at negative LSD) while online sales jumped by more than 25% in 2Q24, and both are very similar to 1Q24.
- **Both inventory and retail discounts have improved.** Inventory to sales ratio went down to just 4 months in 2Q24 from 4 to 4.5 months in 1Q24, reaching the lowest level since 2Q22. Therefore, the retail discounts also improved to 25% off in 2Q24, from 25% to 30% off in 1Q24, but that was the same YoY. In terms of channel, the discounts improved offline but widened online YoY.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,322	15,979	17,494	15,371	15,713	17,298	-0.3%	1.7%	1.1%
Gross profit	6,478	6,771	7,456	6,508	6,653	7,366	-0.5%	1.8%	1.2%
EBIT	1,920	2,182	2,493	1,976	2,218	2,557	-2.9%	-1.6%	-2.5%
Net profit att.	1,266	1,489	1,744	1,275	1,479	1,763	-0.7%	0.7%	-1.1%
Diluted EPS (RMB)	0.463	0.545	0.638	0.483	0.560	0.668	-4.0%	-2.7%	-4.4%
Gross margin	42.3%	42.4%	42.6%	42.3%	42.3%	42.6%	-0.1ppt	0ppt	0ppt
EBIT margin	12.5%	13.7%	14.3%	12.9%	14.1%	14.8%	-0.3ppt	-0.5ppt	-0.5ppt
Net profit att. margin	8.3%	9.3%	10.0%	8.3%	9.4%	10.2%	0ppt	-0.1ppt	-0.2ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,322	15,979	17,494	15,770	17,197	19,036	-2.8%	-7.1%	-8.1%
Gross profit	6,478	6,771	7,456	6,685	7,305	8,114	-3.1%	-7.3%	-8.1%
EBIT	1,920	2,182	2,493	1,770	2,042	2,318	8.5%	6.8%	7.6%
Net profit att.	1,266	1,489	1,744	1,194	1,382	1,578	6.0%	7.7%	10.6%
Diluted EPS (RMB)	0.463	0.545	0.638	0.457	0.529	0.603	1.4%	2.9%	5.8%
Gross margin	42.3%	42.4%	42.6%	42.4%	42.5%	42.6%	-0.1ppt	-0.1ppt	0ppt
EBIT margin	12.5%	13.7%	14.3%	11.2%	11.9%	12.2%	1.3ppt	1.8ppt	2.1ppt
Net profit att. margin	8.3%	9.3%	10.0%	7.6%	8.0%	8.3%	0.7ppt	1.3ppt	1.7ppt

Source: Company data, Bloomberg, CMBIGM estimates

Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-5%	-3%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	5%	5%	5%
Anta brand's SSSG																
Anta brand's retail sales	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	+ve High-teens	+ve MSD	+ve HSD	12%	15%
Core brand	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	25%-30%	+ve LSD	+ve LSD		
Kids	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	30%-35%	Flat	-ve LSD		
Online	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	+ve MSD	20%-25%	20%-25%		
FILA brand's retail sales																
Classic/ Core brand	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	40%-45%	+ve MSD	+ve HSD		
Kids	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	30%-35%	-ve LSD	-ve LSD		
Fusion	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%	-ve MSD	+ve MSD		
Online	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	+ve Mid-teens	20%	20%		
Other brands																
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%	20%-25%	35%-40%		
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%	60%		
Li Ning group's SSSG																
Direct retail	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	-ve MSD	+ve Low-teens	-ve MSD			
Wholesales	n/a	+ve Low 90%	+ve Mid 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD	+ve MSD	+ve High 30%	-ve LSD			
E- Commerce	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	-ve Low-teens	+ve MSD	-ve Mid-teens			
Li Ning group's retail sa	+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	+ve MSD	+ve Low 20%	+ve LSD	7%	3%	17%
Direct retail	+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%	+ve Low 20%	+ve Low 50%	+ve MSD			
Wholesales	+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	+ve LSD	+ve High-teens	-ve MSD			
E- Commerce	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	-ve LSD	+ve MSD	+ve Low 20%			
Xtep brand's SSSG																
Xtep brand's retail sales	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%-35%	+ve HSD	10%	10%	16%
361 Degree brand's SSSG																
361 Degree brand's offli	+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	15.0%	20.0%	+ve High-teens	10%	13%	12%
Kids	20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%	20%-25%			
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%			
Pou Sheng's SSSG																
Pou Sheng's sales	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%			
Topsports' retail sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	0%	4%
Dong Xiang's SSSG	+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	+ve Low to Mid SD	25% to 30%	-ve HSD			
Dong Xiang's retail sale	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	+ve MSD	Mid 40% to 50%	-ve Low 10% to 20%			
Direct retail	70%-75%															
E- Commerce	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 4: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)					
Shoes	7,760	8,172	8,483	9,055	9,819
Apparels	4,897	5,904	6,553	6,618	7,346
Accessories	273	270	286	306	328
Total	12,930	14,346	15,322	15,979	17,494
Sales by segment growth (%)					
Shoes	30.9%	5.3%	3.8%	6.7%	8.4%
Apparels	26.0%	20.6%	11.0%	1.0%	11.0%
Accessories	38.3%	-1.2%	6.0%	7.0%	7.0%
Total	29.1%	10.9%	6.8%	4.3%	9.5%
Sales by segment (RMB mn)					
Mass market	11,128	11,947	13,291	14,418	15,549
Athleisure	1,403	1,603	826	0	0
Professional sports	400	796	1,205	1,561	1,945
Total	12,930	14,346	15,322	15,979	17,494
Sales by segment growth (YoY)					
Mass market	25.9%	7.4%	11.2%	8.5%	7.8%
Athleisure	44.5%	14.3%	-48.4%	-100.0%	#DIV/0!
Professional sports	99.0%	98.9%	51.5%	29.6%	24.6%
Total	29.1%	10.9%	6.8%	4.3%	9.5%
Sales network					
Xtep	4,493	4,568	4,659	4,753	4,848
Xtep kids	1,520	1,703	1,805	1,895	1,990
Oversea stores	300	300	300	300	300
Total	6,313	6,571	6,765	6,948	7,138
GP margins	40.9%	42.2%	42.3%	42.4%	42.6%
Opex breakdown					
A&P / sales	11.9%	13.7%	12.3%	11.9%	11.9%
Staff costs/ sales	11.3%	10.1%	9.6%	9.2%	9.1%
R&D / sales	2.3%	2.8%	2.8%	2.8%	2.8%
D&A / sales	1.9%	2.1%	2.0%	2.0%	1.9%
Provisions (write-backs) / sales	0.4%	0.1%	0.1%	0.1%	0.0%
Rental / sales	0.1%	0.2%	0.2%	0.2%	0.2%
Selling & distribution costs / sales	20.8%	23.5%	21.9%	21.2%	21.0%
Admin expenses / sales	11.2%	10.7%	10.1%	9.7%	9.6%
Total	32.0%	34.2%	31.9%	30.9%	30.6%
OP margins	11.3%	11.0%	12.5%	13.7%	14.3%
Effective tax rate	33.0%	28.7%	30.0%	29.5%	29.0%
Net profit att. margins	7.1%	7.2%	8.3%	9.3%	10.0%
Net profit att. growth (%)	1.5%	11.8%	22.9%	17.6%	17.2%

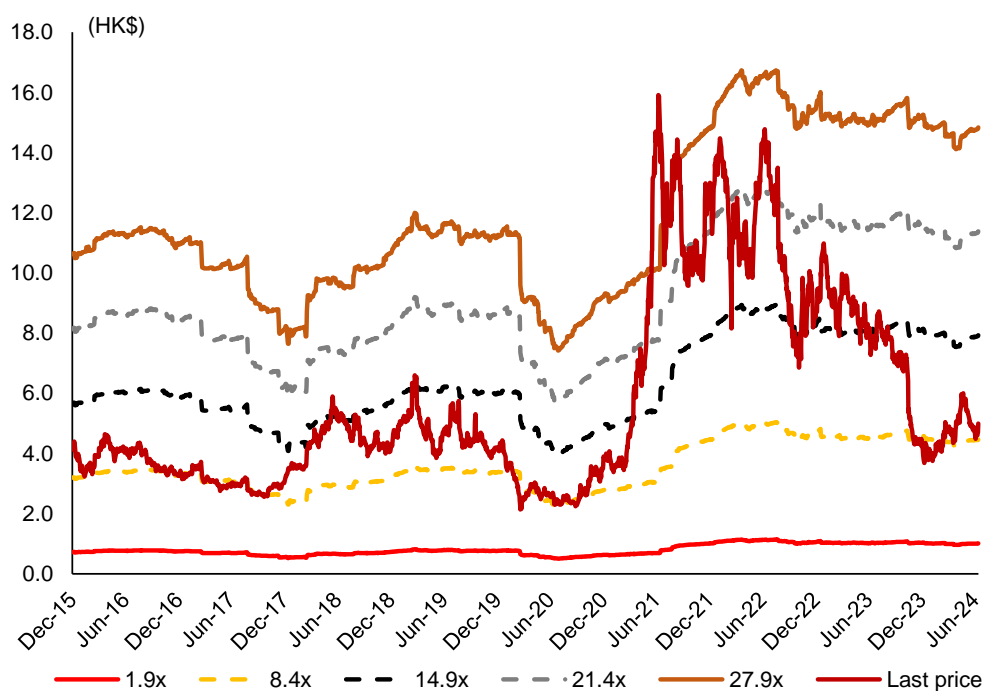
Source: Company data, CMBIGM estimates

Valuation

Figure 5: 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 (%)	YTD perf.
								FY1E	FY2E	FY2E	FY1E	FY1E	FY1E	FY1E
H share Sportswear														
Xtep Intl	1368 HK	BUY	7.32	5.00	46%	13,223	Dec-23	9.6	8.1	1.2	12.0	0.5	14.9	13.4
Anta Sports	2020 HK	BUY	101.38	71.80	41%	203,382	Dec-23	14.7	13.4	3.1	23.8	1.0	3.5	(5.2)
Li Ning	2331 HK	BUY	22.17	15.10	47%	39,026	Dec-23	10.6	9.3	1.4	13.1	1.0	4.1	(27.0)
361 Degrees	1361 HK	BUY	6.25	3.93	59%	8,126	Dec-23	6.6	5.6	0.7	11.3	0.5	4.4	13.3
Topsports	6110 HK	BUY	6.78	3.88	75%	24,061	Feb-24	9.3	8.4	2.2	22.5	1.1	9.7	(36.2)
Pou Sheng	3813 HK	NR	n/a	0.61	n/a	3,249	Dec-23	4.7	3.8	n/a	5.9	0.2	7.1	(10.3)
China DX	3818 HK	NR	n/a	0.31	n/a	1,825	Mar-24	n/a	18.0	0.2	(6.8)	0.0	6.9	8.8
Avg.								9.2	9.5	1.5	11.7	0.6	7.2	(6.2)
Med.								9.4	8.4	1.3	12.0	0.5	6.9	(5.2)
International Sportswear														
Nike Inc	NKE US	NR	n/a	72.95	n/a	859,574	May-24	22.3	19.6	7.7	40.1	6.1	2.1	(32.8)
Adidas	ADS GY	NR	n/a	225.80	n/a	344,764	Dec-23	72.6	32.3	7.9	2.8	(0.2)	0.5	22.6
Puma	PUM GY	NR	n/a	43.34	n/a	55,448	Dec-23	18.3	14.3	2.4	10.2	0.9	2.0	(14.2)
Under Armour	UAA US	NR	n/a	6.99	n/a	23,462	Mar-24	34.2	20.1	1.4	11.3	(49.8)	0.0	(20.5)
Lululemon	LULU US	NR	n/a	289.29	n/a	282,323	Jan-24	20.2	18.3	6.8	41.9	1.6	0.0	(43.4)
Skechers	SKX US	NR	n/a	67.27	n/a	80,100	Dec-23	16.3	14.0	2.2	15.1	0.9	0.0	7.9
Vf Corp	VFC US	NR	n/a	13.18	n/a	40,031	Mar-24	17.9	12.1	2.8	(42.4)	(0.1)	2.7	(29.9)
Deckers	DECK US	NR	n/a	886.65	n/a	176,119	Mar-24	28.7	25.0	8.9	39.2	2.6	0.0	32.6
On Holding	ONON US	NR	n/a	36.46	n/a	90,735	Dec-23	39.8	35.6	7.3	11.5	0.7	n/a	35.2
Columbia	COLM US	NR	n/a	79.07	n/a	36,498	Dec-23	20.3	18.1	2.3	12.8	3.6	1.5	(0.6)
Wolverine	WWW US	NR	n/a	12.61	n/a	7,869	Dec-23	15.8	10.4	2.9	(25.4)	(0.1)	3.5	41.8
Mizuno Corp	8022 JP	NR	n/a	7570.00	n/a	9,906	Mar-24	12.9	12.1	1.3	10.8	4.3	1.7	92.6
Asics Corp	7936 JP	NR	n/a	2527.00	n/a	94,492	Dec-23	41.9	37.2	10.4	22.5	3.4	1.0	128.8
Avg.								27.8	20.7	4.9	11.6	(2.0)	1.2	16.9
Med.								20.3	18.3	2.9	11.5	0.9	1.2	7.9

Source: Bloomberg, CMBIGM estimates

Figure 6: Forward 12M P/E valuation band

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,013	12,930	14,346	15,322	15,979	17,494
Cost of goods sold	(5,835)	(7,639)	(8,296)	(8,844)	(9,209)	(10,038)
Gross profit	4,178	5,292	6,050	6,478	6,771	7,456
Operating expenses	(3,081)	(4,144)	(4,909)	(4,895)	(4,940)	(5,347)
Selling expense	(1,891)	(2,690)	(3,369)	(3,348)	(3,394)	(3,673)
Admin expense	(937)	(1,155)	(1,142)	(1,118)	(1,099)	(1,184)
R&D expense	(252)	(299)	(398)	(429)	(447)	(490)
Others	0	0	0	0	0	0
Operating profit	1,396	1,464	1,580	1,920	2,182	2,493
Other income	299	317	439	337	352	385
Share of (losses)/profits of associates/JV	(46)	(12)	15	24	62	97
EBITDA	1,480	1,595	1,740	2,106	2,380	2,637
Depreciation	(71)	(117)	(145)	(124)	(127)	(123)
Other amortisation	(13)	(14)	(16)	(61)	(71)	(21)
Interest income	21	25	41	72	77	77
Interest expense	(85)	(117)	(187)	(194)	(194)	(194)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	1,287	1,361	1,449	1,822	2,127	2,474
Income tax	(397)	(449)	(416)	(547)	(627)	(718)
Minority interest	19	9	(3)	(9)	(11)	(12)
Net profit	889	912	1,033	1,275	1,500	1,757

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,432	12,338	12,044	13,252	13,543	14,512
Cash & equivalents	3,930	3,414	3,295	3,969	3,902	4,050
Account receivables	3,528	4,213	4,975	5,314	5,542	6,067
Inventories	1,497	2,287	1,794	1,912	1,991	2,170
Prepayment	1,443	1,371	1,112	1,188	1,238	1,356
ST bank deposits	33	1,047	862	862	862	862
Other current assets	1	6	7	7	7	7
Non-current assets	4,183	4,155	5,281	4,354	4,651	5,079
PP&E	1,119	1,368	1,592	1,883	2,188	2,539
Investment in JVs & assos	365	439	751	775	838	935
Intangibles	671	723	723	(520)	(593)	(614)
Other non-current assets	2,028	1,626	2,214	2,216	2,218	2,219
Total assets	14,615	16,494	17,325	17,606	18,194	19,591
Current liabilities	4,053	6,645	5,851	6,131	6,319	6,747
Short-term borrowings	405	2,231	954	954	954	954
Account payables	2,352	2,772	2,531	2,698	2,809	3,062
Tax payable	123	108	144	144	144	144
Other current liabilities	1,173	1,534	2,222	2,336	2,412	2,588
Non-current liabilities	2,580	1,542	2,552	2,552	2,552	2,552
Long-term borrowings	1,375	193	1,691	1,691	1,691	1,691
Other non-current liabilities	1,205	1,349	860	860	860	860
Total liabilities	6,633	8,187	8,402	8,683	8,870	9,299
Share capital	23	23	23	23	23	23
Retained earnings	5,020	5,126	5,281	4,617	5,393	6,303
Other reserves	2,940	3,157	3,620	4,274	3,888	3,934
Total shareholders equity	7,982	8,307	8,923	8,914	9,304	10,260
Minority interest	0	0	0	9	20	32
Total equity and liabilities	14,615	16,494	17,325	17,606	18,194	19,591

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,287	1,361	1,449	1,822	2,127	2,474
Depreciation & amortization	84	131	161	186	198	144
Tax paid	(329)	(431)	(531)	(547)	(627)	(718)
Change in working capital	(447)	(688)	(21)	(252)	(170)	(393)
Others	107	199	197	(24)	(62)	(97)
Net cash from operations	701	572	1,255	1,185	1,465	1,410
Investing						
Capital expenditure	(414)	(365)	(389)	(415)	(433)	(474)
Acquisition of subsidiaries/ investments	(3)	(5)	(6)	1,180	0	0
Others	89	(503)	(520)	0	0	0
Net cash from investing	(329)	(873)	(915)	765	(433)	(474)
Financing						
Dividend paid	(356)	(550)	(469)	(1,275)	(1,099)	(789)
Net borrowings	(312)	466	189	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	764	(152)	(182)	0	0	0
Net cash from financing	96	(236)	(461)	(1,275)	(1,099)	(789)
Net change in cash						
Cash at the beginning of the year	3,472	3,930	3,414	3,295	3,969	3,902
Exchange difference	(11)	21	2	0	0	0
Others	469	(537)	(122)	675	(67)	148
Cash at the end of the year	3,930	3,414	3,295	3,969	3,902	4,050
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	22.5%	29.1%	10.9%	6.8%	4.3%	9.5%
Gross profit	30.6%	26.7%	14.3%	7.1%	4.5%	10.1%
Operating profit	52.1%	4.9%	7.9%	21.5%	13.6%	14.3%
EBITDA	48.6%	7.8%	9.1%	21.0%	13.0%	10.8%
Net profit	76.1%	2.6%	13.2%	23.5%	17.6%	17.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	41.7%	40.9%	42.2%	42.3%	42.4%	42.6%
Operating margin	13.9%	11.3%	11.0%	12.5%	13.7%	14.3%
EBITDA margin	14.8%	12.3%	12.1%	13.7%	14.9%	15.1%
Return on equity (ROE)	11.6%	11.2%	12.0%	14.3%	16.5%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	0.1	0.1	0.1	0.1	0.1
Current ratio (x)	2.6	1.9	2.1	2.2	2.1	2.2
Receivable turnover days	128.6	118.9	126.6	126.6	126.6	126.6
Inventory turnover days	93.7	109.3	78.9	78.9	78.9	78.9
Payable turnover days	147.1	132.4	111.3	111.3	111.3	111.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.5	12.4	11.3	9.6	8.1	6.9
P/E (diluted)	11.5	12.4	11.3	9.6	8.1	6.9
P/B	1.3	1.4	1.3	1.3	1.3	1.1
P/CFPS	17.0	21.0	9.8	10.7	8.7	9.0
Div yield (%)	4.6	3.8	4.1	14.1	5.8	6.8
EV	11,309.4	11,948.5	12,575.1	11,900.5	11,967.5	11,819.7
EV/Sales	1.1	0.9	0.9	0.8	0.7	0.7
EV/EBITDA	7.6	7.5	7.2	5.7	5.0	4.5

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

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