

Xtep (1368 HK)

Better margins despite cautious sales growth

The sportswear industry is still under immense pressure. However, we are still confident in the mid to long run. Going into 2H24E, we still believe Xtep can continue its outperformance, supported by: 1) successful new products, 2) robust e-commerce sales and platform expansion, 3) relatively more wholesale business nature, 4) robust growth from the Saucony brand and 5) reduced losses after the sales of K&P. The stock's valuation is fairly attractive, at 10x FY24E P/E and 14% FY24E yield.

■ **We are slightly more prudent about Xtep's retail sales trend in 2H24E, but more confident on the group level.** According to management, the retail sales trend for Xtep brand in Jul-Aug 2024 continued to face certain pressure (e.g. bad weather, weak consumer sentiment), rather similar to that in Jun 2024, where offline/ e-commerce sales growth was roughly at LSD/ more than 20% (we estimated the overall growth to be at HSD). But thanks to different initiatives, such as: 1) a strong pipeline of new products (the 260X and 360X launched earlier this year, priced at RMB 799 and RMB 599, have been very hot-selling, and the 6.0 version of 160X will come to market in 3Q24E), 2) further penetration into new e-commerce platforms (more events with Douyin and expansion into more new platforms), 3) a re-focus of many of the company's resources on the core brand and running, after the strategic disposal of K&P, we think Xtep's retail sales growth could still be resilient, at roughly HSD in 2H24E (cut from the original target of 10% or above in FY24E). On the other hand, Saucony has performed well, registered 70% or more sales growth in 1H24, where SSSG/ sales per store went up by 30%; therefore the guidance on Saucony's sales growth has been lifted to 50% or above. We think the momentum will sustain, esp. after the appointment of its new spokesperson Eddie Peng in Jul 2024. In addition, sales growth of Merrell was blooming, at 80% or above.

■ **But the listco level guidance was largely maintained (net profit growth could still be fast).** The company has reiterated its FY24E guidance (HSD to low-teens sales growth and even faster net profit growth (the target now is 20% or above)), and we are more confident about its margin expansion because: 1) cost control has become one of the top priorities of the company (after the brand and channel healthiness), 2) greater economies of scale as sales volumes of star products continue to surge, 3) e-commerce OP margin could further improve, led by operating leverage and rising sales from the higher-margin new platforms, 4) A&P expenses (as % of sales) will fall YoY, as Xtep's advertisements around the Olympics are relatively less vs its peers, and 5) the strategic disposal of K&P. Noted that the net margin improvement is valid for all brands (from Xtep core to Saucony).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	12,930	14,346	14,994	15,823	17,366
YoY growth (%)	29.1	10.9	4.5	5.5	9.8
Operating profit (RMB mn)	1,464.3	1,579.9	1,903.2	2,093.0	2,404.4
Net profit (RMB mn)	912.3	1,033.0	1,273.4	1,440.5	1,698.9
EPS (Reported) (RMB)	0.36	0.39	0.46	0.52	0.62
YoY growth (%)	0.6	9.4	18.4	13.1	17.9
P/E (x)	13.0	11.9	10.1	8.9	7.5
P/B (x)	1.5	1.4	1.4	1.3	1.2
Yield (%)	3.8	4.1	14.1	5.6	6.6
ROE (%)	11.2	12.0	14.3	15.8	17.5
Net gearing (%)	14.8	7.1	15.3	13.1	12.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.32
(Previous TP)	HK\$7.32
Up/Downside	44.0%
Current Price	HK\$5.08

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Stock Data

Mkt Cap (HK\$ mn)	13,385.0
Avg 3 mths t/o (HK\$ mn)	33.3
52w High/Low (HK\$)	8.21/3.68
Total Issued Shares (mn)	2634.8

Source: FactSet

Shareholding Structure

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

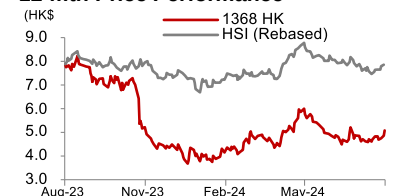
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.7%	4.2%
3-mth	-15.3%	-5.1%
6-mth	23.9%	15.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **For FY25E, we are cautious, but still think moderate growth is achievable.** The macro environment could still be uncertain in FY25E. However, thanks to Xtep's value-for-money position, leadership in running categories, and consistent product upgrades, we still expect it to outperform the industry. And supported by Xtep's healthy channel inventory, we are still forecasting HSD/ 30% or above sales growth for Xtep/ Saucony brand in FY25E.
- **1H24 results were roughly inline.** Xtep's sales rose by 10% YoY to RMB 7.2bn in 1H24, 2% above CMBI/ BBG est., and the net profit increased by 13% YoY to RMB 752mn, missing CMBI est. by 3% but beating BBG est. by 15%. GP margin surged due to: 1) economies of scale led by increased sales of star products like the 360X, 2) Xtep kids' margin improvements, 3) limited retail discounts, and 4) acquisition of stakes in the Saucony & Merrell JV, etc., but that was mostly offset by a jump in A&P expenses (~12% increase) and staff costs (~19% increase). Noted that, if we adjust for the provisions this year and write-backs last year, the adjusted OP could have gone up by ~18% YoY. Inventory days dropped 7 days YoY to 100 days, while the receivables days increased by 8 days to 100 days in 1H24. We are really impressed by the net operating cash flow, which has rocketed by 211% YoY. In terms of segment, online sales continued to outperform, followed by kids than adults. Moreover, sales growth for Xtep/ K-Swiss & Palladium/ Saucony & Merrell were at 7%/10%/ 72%.
- **Maintain BUY and TP of HK\$ 7.32, based on 14x FY24E P/E (unchanged).** We have adjusted our FY24E/ 25E/ 26E net profit by 0%/ -4%/ -3% to factor in slightly slower sales growth but a much better GP margin. The stock is trading at 10x FY24E P/E, highly attractive vs its 8-year average of 15x, or vs its 15% 3-year operating income CAGR, let alone the 14% FY24E dividend yield.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,994	15,823	17,366	15,322	15,979	17,494	-2.1%	-1.0%	-0.7%
Gross profit	6,592	6,943	7,660	6,478	6,771	7,456	1.8%	2.6%	2.7%
EBIT	1,903	2,093	2,404	1,920	2,182	2,493	-0.9%	-4.1%	-3.6%
Net profit att.	1,264	1,430	1,687	1,266	1,489	1,744	-0.1%	-3.9%	-3.3%
Diluted EPS (RMB)	0.463	0.523	0.617	0.463	0.545	0.638	-0.1%	-3.9%	-3.3%
Gross margin	44.0%	43.9%	44.1%	42.3%	42.4%	42.6%	1.7ppt	1.5ppt	1.5ppt
EBIT margin	12.7%	13.2%	13.8%	12.5%	13.7%	14.3%	0.2ppt	-0.4ppt	-0.4ppt
Net profit att. margin	8.4%	9.0%	9.7%	8.3%	9.3%	10.0%	0.2ppt	-0.3ppt	-0.3ppt

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	14,994	15,823	17,366	15,640	16,952	18,771	-4.1%	-6.7%	-7.5%
Gross profit	6,592	6,943	7,660	6,639	7,214	8,020	-0.7%	-3.8%	-4.5%
EBIT	1,903	2,093	2,404	1,736	2,023	2,298	9.6%	3.5%	4.6%
Net profit att.	1,264	1,430	1,687	1,204	1,394	1,594	5.1%	2.6%	5.8%
Diluted EPS (RMB)	0.463	0.523	0.617	0.457	0.526	0.605	1.3%	-0.4%	2.0%
Gross margin	44.0%	43.9%	44.1%	42.4%	42.6%	42.7%	1.5ppt	1.3ppt	1.4ppt
EBIT margin	12.7%	13.2%	13.8%	11.1%	11.9%	12.2%	1.6ppt	1.3ppt	1.6ppt
Net profit att. margin	8.4%	9.0%	9.7%	7.7%	8.2%	8.5%	0.7ppt	0.8ppt	1.2ppt

Source: Company data, Bloomberg, CMBIGM estimates

Results summary

Figure 3: Results review – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24E	1H23 YoY	2H23 YoY	1H24 YoY	2H24 E YoY	1H24E CMBIGM	Actual vs CMBI
Revenue	6,522	7,823	7,203	7,791	15%	8%	10%	0%	7,058	2%
COGS	-3,725	-4,571	-3,889	-4,513					-4,016	
Gross profit	2,797	3,253	3,314	3,277	17%	12%	18%	1%	3,042	9%
GP margin	42.9%	41.6%	46.0%	42.1%					43.1%	
Other income & gains	336	103	275	55					282	-3%
S&D expenses	-1,510	-1,859	-1,692	-1,740	44%	13%	12%	-6%	-1,517	12%
S&D exp / sales	-23.2%	-23.8%	-23.5%	-22.3%					-21.5%	
Admin expenses	-636	-903	-802	-783	-3%	13%	26%	-13%	-656	22%
Admin exp / sales	-9.8%	-11.5%	-11.1%	-10.1%					-9.3%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	987	593	1,094	809	7%	9%	11%	36%	1,151	-5%
OP margin	15.1%	7.6%	15.2%	10.4%					16.3%	
Other items	0	0	0	0					0	
Net finance income	-74	-71	-64	-57					-78	-17%
Net finance income / sales	-1.1%	-0.9%	-0.9%	-0.7%					-1.1%	
Profit after financing costs	912	522	1,030	752					1,073	
Associated coms	5	10	16	21					7	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	917	532	1,046	773	4%	11%	14%	45%	1,080	-3%
Tax	-246	-170	-294	-252					-302	
Tax / sales	-3.8%	-2.2%	-4.1%	-3.2%					-4.3%	
Effective tax rate	-26.8%	-31.9%	-28.1%	-32.6%					-28.0%	
Minority interests	6	-3	0	9					5	
Net profit att.	665	365	752	512	13%	10%	13%	40%	772	-3%
NP margin	10.2%	4.7%	10.4%	6.6%					10.9%	
Sales by segment										
Mass market	5,430	6,518	5,789	7,136	11%	5%	7%	9%	5,755	1%
Athleisure	749	854	822	0	19%	10%	10%	-100%	786	5%
Professional sports	344	451	593	654	120%	85%	72%	45%	516	15%
Total	6,522	7,823	7,203	7,790	15%	8%	10%	0%	7,058	2%

Source: Company data, CMBIGM estimates

Figure 4: Results review - Full Year

Full yearly (RMB mn)	FY23	FY24E	FY25E	FY23 YoY	FY24E YoY	FY25E YoY
Revenue	14,346	14,994	15,823	11%	5%	6%
COGS	-8,296	-8,402	-8,880			
Gross profit	6,050	6,592	6,943	14%	9%	5%
GP margin	42.2%	44.0%	43.9%			
Other income & gains	439	330	348			
S&D expenses	-3,369	-3,432	-3,571	25%	2%	4%
S&D exp / sales	-23.5%	-22.9%	-22.6%			
Admin expenses	-1,540	-1,586	-1,627	6%	3%	3%
Admin exp / sales	-10.7%	-10.6%	-10.3%			
Other opex	0	0	0			
Operating profit (EBIT)	1,580	1,903	2,093	8%	20%	10%
OP margin	11.0%	12.7%	13.2%			
Other items	15	37	67			
Net finance income	-145	-121	-117			
Net finance income / sales	-1.0%	-0.8%	-0.7%			
Profit after financing costs	1,449	1,819	2,043			
Associated coms	0	0	0			
Jointly controlled coms	0	0	0			
Pre-tax profit	1,449	1,819	2,043	6%	26%	12%
Tax	-416	-546	-603			
Tax / sales	-2.9%	-3.6%	-3.8%			
Effective tax rate	-28.7%	-30.0%	-29.5%			
Minority interests	3	9	10			
Net profit att.	1,030	1,264	1,430	12%	23%	13%
NP margin	7.2%	8.4%	9.0%			
Sales by segment						
Mass market	11,947	12,925	14,145	7%	8%	9%
Athleisure	1,603	822	0	14%	-49%	-100%
Professional sports	796	1,247	1,678	99%	57%	35%
Total	14,346	14,994	15,823	11%	5%	6%

Source: Company data, CMBIGM estimates

Operating numbers

Figure 5: Sportswear brands sales growth trend

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	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%	9%	11%	13%
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 LSD	+ve HSD	+ve MSD	+ve High 30%	-ve LSD	-ve MSD		
Wholesales	n/a	+ve Low 90%	+ve Mid 30%	+ve High 20%	+ve High-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD	-ve Low-teens	+ve MSD	-ve Mid-teens	-ve High-teens		
E- Commerce	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	-ve LSD	+ve MSD	+ve Low 20%	+ve Low-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	-ve LSD	-4%	6%
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	Flat		
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	-ve HSD		
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%	+ve HSD		
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%	8%	9%
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	10.0%	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%	+ve Mid-teens		
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%		
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%	-6%	2%
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	-ve MSD		
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%	-ve LSD to MSD		
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 6: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)					
Shoes	7,760	8,172	8,154	8,898	9,691
Apparels	4,897	5,904	6,553	6,618	7,346
Accessories	273	270	286	306	328
Total	12,930	14,346	14,994	15,823	17,366
Sales by segment growth (%)					
Shoes	30.9%	5.3%	-0.2%	9.1%	8.9%
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%	4.5%	5.5%	9.8%
Sales by segment (RMB mn)					
Mass market	11,128	11,947	12,925	14,145	15,255
Athleisure	1,403	1,603	822	0	0
Professional sports	400	796	1,247	1,678	2,111
Total	12,930	14,346	14,994	15,823	17,366
Sales by segment growth (YoY)					
Mass market	25.9%	7.4%	8.2%	9.4%	7.8%
Athleisure	44.5%	14.3%	-48.7%	-100.0%	n/a
Professional sports	99.0%	98.9%	56.7%	34.6%	25.8%
Total	29.1%	10.9%	4.5%	5.5%	9.8%
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 margin	40.9%	42.2%	44.0%	43.9%	44.1%
Opex breakdown					
A&P / sales	11.9%	13.7%	13.2%	12.8%	12.8%
Staff costs/ sales	11.3%	10.1%	10.1%	10.0%	9.8%
R&D / sales	2.3%	2.8%	2.6%	2.8%	2.8%
D&A / sales	1.9%	2.1%	2.1%	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%	22.9%	22.6%	22.3%
Admin expenses / sales	11.2%	10.7%	10.6%	10.3%	10.2%
Total	32.0%	34.2%	33.5%	32.9%	32.5%
OP margin	11.3%	11.0%	12.7%	13.2%	13.8%
Effective tax rate	33.0%	28.7%	30.0%	29.5%	29.0%
Net profit att. margins	7.1%	7.2%	8.4%	9.0%	9.7%
Net profit att. growth (%)	1.5%	11.8%	22.7%	13.1%	17.9%

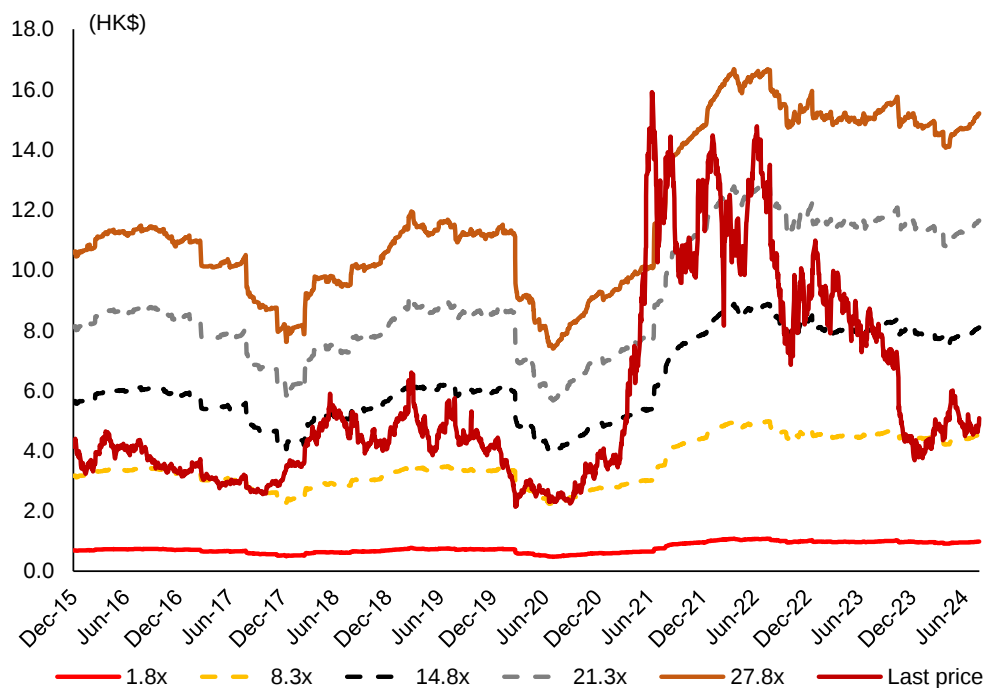
Source: Company data, CMBIGM estimates

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 (%)	YTD perf. (%)
								FY1E	FY2E	FY2E	FY1E	FY1E	FY1E	FY1E
H shares Sportswear														
Xtep Intl	1368 HK	BUY	7.31	5.08	44%	13,434	Dec-23	9.7	8.6	1.3	12.0	0.6	14.6	15.2
Anta Sports	2020 HK	BUY	101.38	67.25	51%	190,494	Dec-23	13.6	12.4	2.8	23.8	0.9	3.8	(11.2)
Li Ning	2331 HK	BUY	16.18	14.06	15%	36,338	Dec-23	10.3	9.2	1.3	11.8	1.3	4.5	(32.0)
361 Degrees	1361 HK	BUY	5.15	3.65	41%	7,547	Dec-23	6.2	5.3	0.7	11.5	0.5	6.3	5.2
Topsports	6110 HK	BUY	6.78	3.12	117%	19,348	Feb-24	7.6	6.9	1.7	22.5	0.9	12.0	(46.3)
Pou Sheng	3813 HK	NR	n/a	0.62	n/a	3,302	Dec-23	5.2	4.4	0.3	6.0	0.3	10.4	(8.8)
China DX	3818 HK	NR	n/a	0.29	n/a	1,678	Mar-24	n/a	16.3	0.2	(6.8)	0.0	7.7	0.0
Avg.								8.7	9.0	1.2	11.6	0.7	8.5	(11.1)
Med.								8.7	8.6	1.3	11.8	0.6	7.7	(8.8)
International Sportswear														
Nike Inc	NKE US	NR	n/a	83.00	n/a	969,428	May-24	26.6	23.1	8.7	40.1	11.5	1.8	(23.6)
Adidas	ADS GY	NR	n/a	213.90	n/a	333,099	Dec-23	60.6	29.1	7.4	4.9	(0.2)	0.6	16.1
Puma	PUM GY	NR	n/a	37.17	n/a	48,501	Dec-23	17.1	13.3	2.0	10.2	0.9	2.1	(26.4)
Under Armour	UAA US	NR	n/a	8.28	n/a	27,653	Mar-24	36.6	22.7	1.8	(4.4)	(16.8)	0.0	(5.8)
Lululemon	LULU US	NR	n/a	258.00	n/a	251,229	Jan-24	18.3	16.7	6.1	41.9	1.6	0.0	(49.5)
Skechers	SKX US	NR	n/a	66.50	n/a	79,078	Dec-23	15.9	13.4	2.1	14.4	0.9	0.0	6.7
Vf Corp	VFC US	NR	n/a	16.61	n/a	50,341	Mar-24	28.7	16.0	3.2	(57.0)	(0.2)	2.1	(11.7)
Deckers	DECK US	NR	n/a	954.80	n/a	188,999	Mar-24	30.0	26.3	9.8	41.9	2.6	0.0	42.8
On Holding	ONON US	NR	n/a	41.33	n/a	102,627	Dec-23	48.0	42.9	8.2	13.7	0.9	n/a	53.2
Columbia	COLM US	NR	n/a	79.99	n/a	36,485	Dec-23	20.7	18.3	2.4	12.3	3.6	1.5	0.6
Wolverine	WWW US	NR	n/a	12.65	n/a	7,881	Dec-23	15.1	10.0	3.2	(27.2)	(0.1)	3.5	42.2
Mizuno Corp	8022 JP	NR	n/a	8660.00	n/a	12,303	Mar-24	15.0	13.8	1.4	10.7	2.4	1.4	120.4
Asics Corp	7936 JP	NR	n/a	2523.50	n/a	102,441	Dec-23	30.6	26.8	9.2	22.9	1.1	1.6	128.5
Avg.								27.9	21.0	5.0	9.6	0.6	1.2	22.6
Med.								26.6	18.3	3.2	12.3	0.9	1.5	6.7

Source: Bloomberg, CMBIGM estimates

Figure 8: 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	14,994	15,823	17,366
Cost of goods sold	(5,835)	(7,639)	(8,296)	(8,402)	(8,880)	(9,705)
Gross profit	4,178	5,292	6,050	6,592	6,943	7,660
Operating expenses	(3,081)	(4,144)	(4,909)	(5,018)	(5,198)	(5,638)
Selling expense	(1,891)	(2,690)	(3,369)	(3,432)	(3,571)	(3,873)
Admin expense	(937)	(1,155)	(1,142)	(1,196)	(1,184)	(1,278)
R&D expense	(252)	(299)	(398)	(390)	(443)	(486)
Others	0	0	0	0	0	0
Operating profit	1,396	1,464	1,580	1,903	2,093	2,404
Other income	299	317	439	330	348	382
Share of (losses)/profits of associates/JV	(46)	(12)	15	37	67	106
EBITDA	1,480	1,595	1,740	2,089	2,291	2,548
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	1,819	2,043	2,393
Income tax	(397)	(449)	(416)	(546)	(603)	(694)
Minority interest	19	9	(3)	(9)	(10)	(12)
Net profit	889	912	1,033	1,273	1,440	1,699

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,432	12,338	12,044	13,074	13,378	14,315
Cash & equivalents	3,930	3,414	3,295	4,026	3,876	3,979
Account receivables	3,528	4,213	4,975	5,200	5,488	6,023
Inventories	1,497	2,287	1,794	1,817	1,920	2,099
Prepayment	1,443	1,371	1,112	1,162	1,226	1,346
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	4,359	4,656	5,088
PP&E	1,119	1,368	1,592	1,874	2,175	2,522
Investment in JVs & assos	365	439	751	789	856	961
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	17,433	18,035	19,404
Current liabilities	4,053	6,645	5,851	5,958	6,200	6,631
Short-term borrowings	405	2,231	954	954	954	954
Account payables	2,352	2,772	2,531	2,563	2,709	2,960
Tax payable	123	108	144	144	144	144
Other current liabilities	1,173	1,534	2,222	2,297	2,394	2,573
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	8,510	8,752	9,183
Share capital	23	23	23	23	23	23
Retained earnings	5,020	5,126	5,281	4,617	5,363	6,243
Other reserves	2,940	3,157	3,620	4,273	3,877	3,924
Total shareholders equity	7,982	8,307	8,923	8,914	9,264	10,190
Minority interest	0	0	0	9	19	31
Total equity and liabilities	14,615	16,494	17,325	17,433	18,035	19,404

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,287	1,361	1,449	1,819	2,043	2,393
Depreciation & amortization	84	131	161	186	198	144
Tax paid	(329)	(431)	(531)	(546)	(603)	(694)
Change in working capital	(447)	(688)	(21)	(190)	(213)	(402)
Others	107	199	197	(37)	(67)	(106)
Net cash from operations	701	572	1,255	1,232	1,358	1,335
Investing						
Capital expenditure	(414)	(365)	(389)	(406)	(429)	(470)
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)	774	(429)	(470)
Financing						
Dividend paid	(356)	(550)	(469)	(1,274)	(1,080)	(761)
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)	(1,274)	(1,080)	(761)
Net change in cash						
Cash at the beginning of the year	3,472	3,930	3,414	3,295	4,026	3,876
Exchange difference	(11)	21	2	0	0	0
Others	469	(537)	(122)	732	(151)	104
Cash at the end of the year	3,930	3,414	3,295	4,026	3,876	3,979
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	22.5%	29.1%	10.9%	4.5%	5.5%	9.8%
Gross profit	30.6%	26.7%	14.3%	9.0%	5.3%	10.3%
Operating profit	52.1%	4.9%	7.9%	20.5%	10.0%	14.9%
EBITDA	48.6%	7.8%	9.1%	20.0%	9.7%	11.2%
Net profit	76.1%	2.6%	13.2%	23.3%	13.1%	17.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	41.7%	40.9%	42.2%	44.0%	43.9%	44.1%
Operating margin	13.9%	11.3%	11.0%	12.7%	13.2%	13.8%
EBITDA margin	14.8%	12.3%	12.1%	13.9%	14.5%	14.7%
Return on equity (ROE)	11.6%	11.2%	12.0%	14.3%	15.8%	17.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	0.1	0.1	0.2	0.1	0.1
Current ratio (x)	2.6	1.9	2.1	2.2	2.2	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	13.1	13.0	11.9	10.1	8.9	7.5
P/E (diluted)	13.1	13.0	11.9	10.1	8.9	7.5
P/B	1.5	1.5	1.4	1.4	1.3	1.2
P/CFPS	17.0	21.0	9.8	10.3	9.4	9.5
Div yield (%)	4.6	3.8	4.1	14.1	5.6	6.6
EV	11,513.2	12,159.3	12,786.4	12,054.7	12,205.5	12,101.8
EV/Sales	1.1	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	7.8	7.6	7.3	5.8	5.3	4.7

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

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