

Anta Sports (2020 HK)

Impressive 4Q sales and CB was well accepted

Maintain BUY but fine-tuned TP to HK\$ 90.26, based on 30x FY20E P/E (unchanged). We remained confident on Anta's execution even though 1Q20E could be a tougher quarter. Despite the potential share dilution, we see the CB as a positive as it can lower recurring interest costs. We think valuation is attractive at 25.1x P/E & 1.2x 3 years PEG, vs intl. peers' avg. of 26.7x & 1.6x.

- **4Q retail sales slight beat.** Anta/ FILA/ other brands' retail sales growth were high-teens/ 50-55%/ 25-30% in 4Q19 (vs mid-teens/ 50-55%/ 30-35% in 3Q19), slightly above CMBI est. of high-teens/ 40-50%/ 30-35% for Anta/ FILA/ others.
- **Remarkable growth given unfavorable weather.** Due to hotter temperature in 4Q19 (+ 1-2 degrees vs 4Q18), a surge in industry-wide inventory was observed in our channel check. Hence, it was fairly impressive to see growth of Anta/ FILA brand to accelerate/ sustain, management attributed that to: 1) earlier rollout of winter products and 2) slightly greater promotion (retail discounts for Anta/ FILA down 2/1ppt in 4Q19 vs 4Q18). Even though we believe FILA growth slowed down from 100% YoY in FY18 to 70% YoY in FY19E, growth of sales per store only slowed from 40% to 30% level (adjusted for buyback of FILA's distributor stores), which is remarkable given a slower store count growth of 18% YoY in FY19E (vs 52% YoY in FY18). This strong momentum continues to provide us confidence on its FY20E revenue growth.
- **Considerable finance costs savings from issuing CB.** Sales of a 5-year zero coupon convertible bond with 40% conversion premium was done on 14 Jan 2020, at the price of 102.5% of principal amount, with a total size of EUR 1bn. We think it is wise for the Company to reduce its near-term finance costs (RMB 150mn based on 2.3% interest rate for its EUR 850mn debt borrowed last year, for Amer's acquisition), at the potential expense of share dilution (~82mn new shares or ~3.1% of total issuances). Also, the reception of CB was favorable, indicated by its high-end pricing. We think interest among investors could be great thanks to attractive valuation of the CB, especially its call option could worth ~25% of the face value, based on Anta's credit condition and volatility data from Bloomberg.
- **Maintain BUY and fine-tuned TP to HK\$ 90.26.** We maintain BUY and fine-tuned TP to HK\$ 90.26, based on 30x FY20E P/E (unchanged), implying a 1.5x 3 years PEG. The stock is attractive, trading at 25.1x P/E or 1.2x PEG. We adjusted our FY19E/ 20E/ 21E diluted EPS estimates by -8.8%/ -1.3%/ -0.1%, to factor in 1) increases in fully diluted number of shares, and 2) repayment of EUR 500mn debt right after CB issuance.

Earnings Summary

| (YE 31 Dec) | FY17A | FY18A | FY19E | FY20E | FY21E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 16,692 | 24,100 | 33,309 | 41,589 | 48,896 |
| YoY growth (%) | 25.1 | 44.4 | 38.2 | 24.9 | 17.6 |
| Net income (RMB mn) | 3,088 | 4,103 | 5,381 | 7,382 | 9,115 |
| EPS (RMB) | 1.148 | 1.525 | 1.930 | 2.648 | 3.269 |
| YoY growth (%) | 21.0 | 32.8 | 26.5 | 37.2 | 23.5 |
| P/E (x) | 55.5 | 43.5 | 34.4 | 25.1 | 20.3 |
| P/B (x) | 12.5 | 11.3 | 9.4 | 7.5 | 6.4 |
| Yield (%) | 1.3 | 1.0 | 1.2 | 1.6 | 3.4 |
| ROE (%) | 26.6 | 27.8 | 30.8 | 34.2 | 35.0 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$90.26 |
| (Previous TP | HK\$91.46) |
| Up/Downside | +19.6% |
| Current Price | HK\$75.45 |

China Sportswear Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 203,862 |
| Avg 3 mths t/o (HK\$ mn) | 419.86 |
| 52w High/Low (HK\$) | 79.9/34.8 |
| Total Issued Shares (mn) | 2,701.9 |
| Source: Bloomberg | |

Shareholding Structure

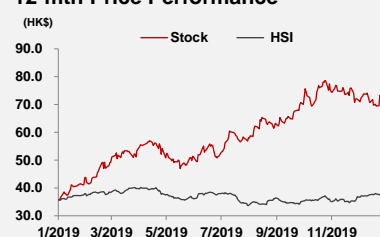
| | |
|---|--------|
| Mr. Ding Shizhong (CEO), Mr. Ding Shijia (V-Chairman), Mr. Lai Shixian (CFO) & Family | 61.06% |
| Free Float | 38.94% |
| Source: HKEx | |

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 4.9% | 0.6% |
| 3-mth | 7.7% | -1.1% |
| 6-mth | 46.6% | 44.5% |
| 12-mth | 115.0% | 95.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

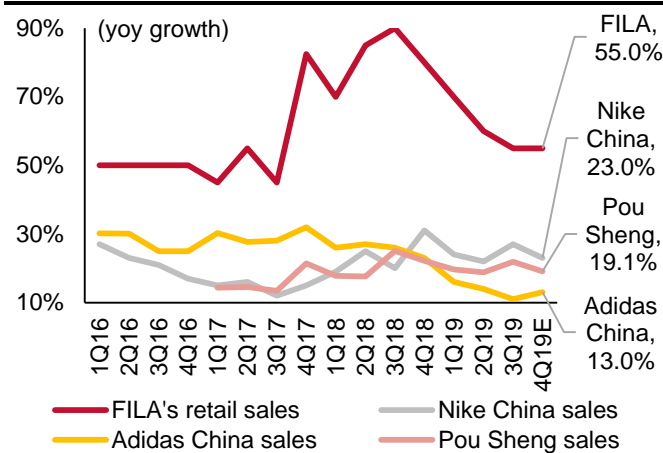
Auditor: KPMG

Related Reports

1. Anta Sports (2020 HK) - Solid FILA growth and operating leverage – 16 Oct 2019
2. Anta Sports (2020 HK) – Solid results and guidance despite M&A costs – 27 Aug 2019
3. China Sportswear 1H19 preview : growing at full speed – 24 Jul 2019

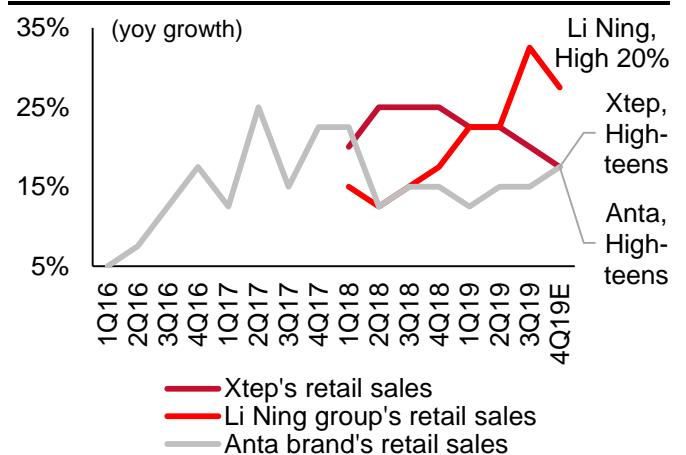
Focus Charts

Figure 1: Retail sales growth – foreign bands



Source: Company data, CMBIS estimates

Figure 2: Retail sales growth – domestic bands



Source: Company data, CMBIS estimates

Figure 3: Sportswear brands sales growth trend

| Operating numbers | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19E |
|--------------------------------------|-----------|----------|----------|-----------|---------------|---------------|---------------|------------------|------------------|-----------------|------------------|-----------------|------------------|------------------|------------------|-----------------|
| Nike China sales | 27.0% | 23.0% | 21.0% | 17.0% | 15.0% | 16.0% | 12.0% | 15.0% | 19.0% | 25.0% | 20.0% | 31.0% | 24.0% | 22.0% | 27.0% | 23.0% |
| Adidas China sales | 30.2% | 30.1% | 25.0% | 25.0% | 30.3% | 27.7% | 28.0% | 32.0% | 26.0% | 27.0% | 26.0% | 23.0% | 16.0% | 14.0% | 11.0% | 13.0% |
| Anta brand's SSSG | | | | | | | | | | | | | | | | |
| Anta brand's retail sales | +ve MSD | +ve HSD | +ve LDD | +ve HDD | +ve Low-teens | +ve 20%-30% | +ve Mid-teens | +ve 20%-25% | +ve 20%-25% | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve High-teens |
| Core brand | Flat | Flat | +ve MSD | +ve HSD | +ve LSD | +ve Mid-teens | +ve MSD | +ve Mid-teens | +ve Mid-teens | +ve HSD | +ve Low-teens | +ve HSD | +ve HSD | +ve Low-teens | +ve Low-teens | +ve HSD |
| Kids | 50% - 60% | over 30% | over 30% | over 30% | over 30% | 25%-30% | over 30% | over 40% | over 40% | over 25% | Over 25% | Over 25% | Over 20% | 30% | Over 25% | 25% |
| Online | 50 - 100% | 60% | over 50% | over 100% | over 50% | over 50% | over 50% | over 40% | over 40% | over 25% | Over 20% | Over 25% | +ve Mid-teens | 25% | 35% | Over 40% |
| Non-Anta brands (FILA/ Other brands) | | | | | | | | | | | | | | | | |
| FILA | over 50% | over 50% | over 50% | over 50% | +ve 40%-50% | +ve 50%-60% | +ve 40%-50% | +ve 85%-90% | +ve 80%-85% | +ve 90%-95% | +ve 90%-95% | +ve 80%-85% | +ve 65%-70% | +ve 55%-60% | 50%-55% | 50%-55% |
| Other brands | | | | | | | | | | | | | | | 30%-35% | 25%-30% |
| Li Ning group's SSSG | | | | | | | | | | | | | | | | |
| Li Ning group's retail sales | +ve LSD | +ve HSD | +ve HSD | Mid-teens | Flat | +ve HSD | -ve LSD | +ve Low-teens | +ve Low-teens | +ve HSD | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Low-teens | +ve Mid-teens | +ve High-teens |
| Direct retail | Flat | +ve MSD | +ve LSD | +ve HSD | -ve MSD | Flat | -ve MSD | +ve Low-teens | +ve Low-teens | +ve HSD | +ve HSD | +ve MSD | +ve HSD | +ve Low-teens | +ve Low-teens | +ve Low-teens |
| Wholesales | Flat | +ve MSD | +ve LSD | +ve LSD | -ve MSD | +ve LSD | -ve MSD | +ve HSD | +ve MSD | +ve LSD | +ve HSD | +ve MSD | +ve Low-teens | +ve Low-teens | +ve Low-teens | +ve Low-teens |
| E- Commerce | Low-60% | Low-70% | Mid-80% | Mid-90% | Mid-60% | Mid-90% | Low 30%-40% | +ve High-teens | +ve High 30%-40% | +ve Mid-30% | +ve High 30%-40% | +ve Mid-50% | +ve High 30%-40% | +ve Mid-30%-40% | +ve Mid-50%-60% | +ve Low 30%-40% |
| Li Ning group's retail sales | | | | | | | | | | | | | | | | |
| Direct retail | | | | | | | | Low 20%-30% | +ve Mid-teens | +ve Mid-teens | +ve HSD | +ve Low-teens | +ve HSD | +ve Low-teens | +ve Mid-teens | +ve Mid-teens |
| Wholesales | | | | | | | | +ve MSD | +ve MSD | +ve Low-teens | +ve Low-teens | +ve Low-teens | +ve Low-teens | +ve Mid-20% | +ve Mid-30% | +ve High 30% |
| E- Commerce | | | | | | | | +ve High 30%-40% | +ve High 30%-40% | +ve Low 30%-40% | +ve Mid-50% | +ve Mid-40%-50% | +ve Low 20%-30% | +ve High 20%-30% | +ve High 50%-60% | +ve Low 30%-40% |
| Xtep's SSSG | | | | | | | | | | | | | | | | |
| Xtep's retail sales | +ve MSD | +ve MSD | +ve MSD | +ve MSD | +ve LSD | +ve MSD | +ve MSD | +ve HSD | +ve Low-teens | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Low-teens | +ve Low-teens | 10% | +ve HSD |
| 361 Degrees' SSSG | 7.2% | 7.0% | 7.3% | 7.5% | 7.0% | +ve HSD | +ve HSD | +ve HSD | +ve HSD | +ve HSD | +ve MSD | Flat | +ve LSD | +ve LSD | +ve LSD | +ve LSD |
| Pou Sheng's SSSG | 7.5% | 5.9% | 0.4% | 8.6% | 1.9% | 5.6% | 1.5% | 12.0% | 10.1% | 2.2% | 8.9% | 8.7% | 8.4% | 4.2% | 6.0% | 5.0% |
| Pou Sheng's sales | 6.9% | 6.6% | 3.5% | 10.1% | 14.4% | 14.5% | 13.4% | 21.6% | 17.7% | 17.7% | 24.4% | 22.0% | 19.9% | 18.9% | 21.9% | 19.1% |
| Dong Xiang's SSSG | | | | | | | | | | | | | | | | |
| Dong Xiang's retail sales | | | | | Flat | -ve LSD | -ve MSD | +ve LSD | +ve Mid to High | -ve Mid to High | +ve MSD | +ve LSD | -ve LSD | +ve MSD | +ve Mid to High | +ve MSD |
| Direct retail | | | | | | | | | +ve HSD | Flat | +ve Low-teens | +ve HSD | Flat | +ve LSD | +ve HSD | +ve MSD |
| E- Commerce | | | | | | | | | | | | | +ve 35%-45% | +ve 30%-35% | +ve 55%-60% | +ve 30%-40% |

CMBI estimates

Source: Company data, CMBIS estimates, *Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov18)

Earnings revision

Figure 4: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------------|--------|--------|--------|--------|--------|--------|----------|---------|---------|
| | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E |
| Revenue | 33,309 | 41,589 | 48,896 | 33,014 | 41,179 | 48,310 | 0.9% | 1.0% | 1.2% |
| Gross profit | 18,083 | 23,004 | 27,351 | 17,955 | 22,813 | 27,055 | 0.7% | 0.8% | 1.1% |
| EBIT | 8,570 | 10,738 | 12,821 | 8,361 | 10,663 | 12,684 | 2.5% | 0.7% | 1.1% |
| Reported Net profit | 5,381 | 7,382 | 9,115 | 5,691 | 7,216 | 8,800 | -5.5% | 2.3% | 3.6% |
| Diluted EPS (RMB) | 1.930 | 2.648 | 3.269 | 2.116 | 2.683 | 3.272 | -8.8% | -1.3% | -0.1% |
| Gross margin | 54.3% | 55.3% | 55.9% | 54.4% | 55.4% | 56.0% | -0.1ppt | -0.1ppt | -0.1ppt |
| EBIT margin | 25.7% | 25.8% | 26.2% | 25.3% | 25.9% | 26.3% | 0.4ppt | -0.1ppt | 0.0ppt |
| Net profit att. margin | 16.2% | 17.7% | 18.6% | 17.2% | 17.5% | 18.2% | -1.1ppt | 0.2ppt | 0.4ppt |

Source: Company data, CMBIS estimates

Figure 5: CMBI estimates vs consensus

| RMB mn | CMBI | | | Consensus | | | Diff (%) | | |
|------------------------|--------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E |
| Revenue | 33,309 | 41,589 | 48,896 | 32,646 | 40,340 | 48,876 | 2.0% | 3.1% | 0.0% |
| Gross profit | 18,083 | 23,004 | 27,351 | 17,768 | 22,279 | 27,396 | 1.8% | 3.3% | -0.2% |
| EBIT | 8,570 | 10,738 | 12,821 | 8,132 | 10,045 | 12,138 | 5.4% | 6.9% | 5.6% |
| Net profit att. | 5,381 | 7,382 | 9,115 | 5,483 | 7,250 | 8,916 | -1.9% | 1.8% | 2.2% |
| Diluted EPS (RMB) | 1.930 | 2.648 | 3.269 | 2.053 | 2.693 | 3.330 | -6.0% | -1.7% | -1.8% |
| Gross margin | 54.3% | 55.3% | 55.9% | 54.4% | 55.2% | 56.1% | -0.1ppt | 0.1ppt | -0.1ppt |
| EBIT margin | 25.7% | 25.8% | 26.2% | 24.9% | 24.9% | 24.8% | 0.8ppt | 0.9ppt | 1.4ppt |
| Net profit att. margin | 16.2% | 17.7% | 18.6% | 16.8% | 18.0% | 18.2% | -0.6ppt | -0.2ppt | 0.4ppt |

Source: Bloomberg, CMBIS 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 | | | | | | | | | | | | | | |
| Anta Sports | 2020 HK | BUY | 90.26 | 75.45 | 20% | 203,862 | Dec-18 | 34.4 | 25.1 | 9.1 | 7.3 | 28.6 | 1.2 | 1.1 |
| Li Ning Co | 2331 HK | BUY | 24.43 | 27.35 | -11% | 67,114 | Dec-18 | 41.2 | 34.0 | 8.3 | 6.9 | 20.9 | 1.0 | 0.8 |
| Xtep Intl | 1368 HK | BUY | 5.09 | 4.38 | 16% | 11,005 | Dec-18 | 13.0 | 10.6 | 1.5 | 1.4 | 12.2 | 1.3 | 4.6 |
| 361 Degrees Intl | 1361 HK | NR | n/a | 1.39 | n/a | 2,874 | Dec-18 | 5.7 | 5.0 | 0.4 | 0.4 | 5.5 | 0.3 | 7.9 |
| Topsports Intl | 6110 HK | NR | n/a | 10.66 | n/a | 66,105 | Feb-19 | 20.7 | 17.4 | 6.0 | 5.0 | 76.8 | 0.0 | 2.0 |
| Pou Sheng Intl | 3813 HK | NR | n/a | 2.54 | n/a | 13,605 | Dec-18 | 14.9 | 11.2 | 1.6 | 1.4 | 9.6 | 0.5 | 1.3 |
| China DX | 3818 HK | NR | n/a | 0.88 | n/a | 5,180 | Mar-19 | 7.6 | 8.7 | 0.4 | 0.4 | n/a | 0.0 | 9.6 |
| Avg. | | | | | | | | 19.6 | 16.0 | 3.9 | 3.3 | 25.6 | 0.6 | 3.9 |
| Med. | | | | | | | | 14.9 | 11.2 | 1.6 | 1.4 | 16.5 | 0.5 | 2.0 |
| International Sportswear | | | | | | | | | | | | | | |
| Nike | NKE US | NR | n/a | 103.44 | n/a | 1,252,506 | May-19 | 34.2 | 29.6 | 19.0 | 18.1 | 50.6 | 2.1 | 0.9 |
| Adidas | ADS GY | NR | n/a | 313.25 | n/a | 543,393 | Dec-18 | 32.0 | 28.6 | 8.6 | 7.7 | 28.2 | 2.9 | 1.2 |
| Puma | PUM GY | NR | n/a | 75.40 | n/a | 98,431 | Dec-18 | 43.5 | 35.7 | 6.0 | 5.4 | 14.0 | 1.8 | 0.8 |
| Under Armour | UAA US | NR | n/a | 20.95 | n/a | 69,152 | Dec-18 | 61.3 | 44.2 | 4.3 | 3.9 | 5.4 | (0.2) | 0.0 |
| Lululemon | LULU US | NR | n/a | 245.94 | n/a | 249,180 | Feb-19 | 50.8 | 42.8 | 17.5 | 14.2 | 37.1 | 2.2 | 0.0 |
| Skechers | SKX US | NR | n/a | 42.56 | n/a | 51,873 | Dec-18 | 19.0 | 16.7 | 2.7 | 2.5 | 15.9 | 1.4 | 0.0 |
| Vf Corp | VFC US | NR | n/a | 97.10 | n/a | 301,551 | Mar-19 | 28.6 | 25.0 | 8.4 | 7.8 | 29.2 | 2.6 | 1.9 |
| Columbia | COLM US | NR | n/a | 98.34 | n/a | 51,637 | Dec-18 | 20.5 | 19.2 | 3.7 | 3.2 | 19.3 | 1.5 | 1.0 |
| Wolverine | WWW US | NR | n/a | 33.90 | n/a | 21,319 | Dec-18 | 15.0 | 13.5 | 3.4 | 2.8 | 18.1 | 1.5 | 1.1 |
| Mizuno Corp | 8022 JP | NR | n/a | 2709.00 | n/a | 5,087 | Mar-19 | 11.8 | 10.6 | 0.7 | 0.7 | 6.8 | 1.9 | 1.8 |
| Asics Corp | 7936 JP | NR | n/a | 1620.00 | n/a | 21,732 | Dec-18 | 39.8 | 28.3 | 1.8 | 1.7 | (12.1) | (0.2) | 1.8 |
| Avg. | | | | | | | | 32.4 | 26.7 | 6.9 | 6.2 | 19.3 | 1.6 | 1.0 |
| Med. | | | | | | | | 32.0 | 28.3 | 4.3 | 3.9 | 18.1 | 1.8 | 1.0 |

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 7: Anta's key assumptions

| Major assumptions | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales by segment (RMB mn) | | | | | |
| Shoes | 7,049 | 8,631 | 10,789 | 13,055 | 15,144 |
| Apparels | 9,116 | 14,709 | 21,495 | 27,366 | 32,513 |
| Accessories | 528 | 759 | 1,025 | 1,169 | 1,239 |
| Total | 16,692 | 24,100 | 33,309 | 41,589 | 48,896 |
| Sales by segment growth (%) | | | | | |
| Shoes | 17.5% | 22.5% | 25.0% | 21.0% | 16.0% |
| Apparels | 32.4% | 61.4% | 46.1% | 27.3% | 18.8% |
| Accessories | 14.9% | 43.9% | 35.0% | 14.0% | 6.0% |
| Total | 25.1% | 44.4% | 38.2% | 24.9% | 17.6% |
| Sales by brand growth (%) | | | | | |
| Anta | 0.0% | 9.0% | 11.0% | 7.0% | 5.0% |
| Anta Kids | 25.0% | 29.0% | 27.0% | 25.0% | 20.0% |
| FILA | 55.0% | 100.0% | 70.0% | 35.0% | 20.0% |
| Descente & Others | 275.2% | 150.3% | 30.0% | 27.0% | 25.0% |
| E-commerce | 70.0% | 45.0% | 35.0% | 27.0% | 25.0% |
| Total | 25.1% | 44.4% | 38.2% | 24.9% | 17.6% |
| Sales network | | | | | |
| Anta | 7,258 | 7,271 | 7,351 | 7,411 | 7,491 |
| Anta Kids | 2,209 | 2,786 | 2,936 | 3,136 | 3,316 |
| FILA | 1,086 | 1,652 | 1,952 | 2,202 | 2,432 |
| Descente & Others | 529 | 479 | 564 | 724 | 919 |
| Total | 11,082 | 12,188 | 12,803 | 13,473 | 14,158 |
| GP margins | 49.4% | 52.6% | 54.3% | 55.3% | 55.9% |
| Opex breakdown | | | | | |
| A&P Expenses / sales | 10.6% | 12.1% | 11.0% | 11.4% | 11.6% |
| Labour costs / sales | 12.0% | 10.9% | 11.5% | 11.6% | 11.8% |
| R & D expenses / sales | 5.7% | 5.2% | 5.2% | 5.3% | 5.4% |
| Rental expenses/ sales | 5.4% | 7.2% | 8.5% | 9.1% | 9.3% |
| Selling & distribution costs / sales | 22.8% | 27.1% | 28.7% | 29.4% | 29.5% |
| Admin expenses / sales | 5.4% | 5.1% | 3.2% | 3.3% | 3.3% |
| OP margin | 23.9% | 23.7% | 25.5% | 25.7% | 26.1% |
| Effective tax rate | 26.7% | 26.6% | 29.0% | 28.0% | 27.0% |
| NP att. margin | 18.5% | 17.0% | 16.2% | 17.7% | 18.6% |
| NP att. growth (%) | 29.4% | 32.9% | 31.1% | 37.2% | 23.5% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 16,692 | 24,100 | 33,309 | 41,589 | 48,896 |
| Footwear | 7,049 | 8,631 | 10,78 | 13,05 | 15,14 |
| Apparel | 9,116 | 14,70 | 21,49 | 27,36 | 32,51 |
| Accessories | 528 | 759 | 1,025 | 1,169 | 1,239 |
| Cost of goods sold | (8,451) | (11,413) | (15,226) | (18,585) | (21,545) |
| Gross profit | 8,241 | 12,687 | 18,083 | 23,004 | 27,351 |
| Other income | 625 | 652 | 1,113 | 1,306 | 1,477 |
| Operating expenses | (4,710) | (7,748) | (10,626) | (13,572) | (16,006) |
| D & A | (146) | (175) | (223) | (286) | (335) |
| Staff costs | (942) | (1,238) | (1,800) | (2,267) | (2,711) |
| S & D costs (ex-staff, D&A) | (3,122) | (5,639) | (7,661) | (9,835) | (11,569) |
| Admin exp. (ex-staff, D&A) | (281) | (440) | (588) | (742) | (871) |
| Other operating expenses | (219) | (256) | (354) | (442) | (520) |
| EBIT | 4,156 | 5,592 | 8,570 | 10,738 | 12,821 |
| Finance costs, net | 155 | 175 | (108) | (229) | (44) |
| JVs & associates | - | - | (633) | 83 | 122 |
| Exceptional | - | - | - | - | - |
| Pre-tax profit | 4,311 | 5,767 | 7,829 | 10,592 | 12,899 |
| Income tax | (1,152) | (1,533) | (2,270) | (2,966) | (3,483) |
| Less: Minority interests | 71 | 131 | 178 | 244 | 301 |
| Net profit | 3,088 | 4,103 | 5,381 | 7,382 | 9,115 |

Cash flow summary

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBIT | 4,156 | 5,592 | 8,570 | 10,738 | 12,821 |
| D & A | 234 | 278 | 357 | 466 | 555 |
| Change in working capital | 1 | 866 | (672) | (598) | (527) |
| Income tax paid | (1,013) | (1,288) | (2,270) | (2,966) | (3,483) |
| Others | (196) | (1,008) | 216 | 170 | 192 |
| Net cash from operating | 3,181 | 4,440 | 6,200 | 7,810 | 9,558 |
| Capex & investments | (675) | (1,319) | (14,232) | (1,165) | (880) |
| Associated companies | - | - | - | - | - |
| Interest received | - | - | - | - | - |
| Others | (903) | 118 | - | - | - |
| Net cash from investing | (1,579) | (1,201) | (14,23) | (1,165) | (880) |
| Equity raised | 3,435 | 4 | - | - | - |
| Net change in bank loans | 148 | 1,165 | 7,300 | (5,000) | - |
| Dividend paid | (1,937) | (2,425) | (1,999) | (2,585) | (5,001) |
| Others | (1,649) | 119 | (324) | (399) | (236) |
| Net cash from financing | (2) | (1,136) | 4,977 | (7,984) | (5,237) |
| Net change in cash | 1,601 | 2,102 | (3,056) | (1,339) | 3,441 |
| Beginning cash balance | 5,830 | 6,968 | 9,284 | 6,228 | 4,889 |
| Exchange difference | (463) | 214 | - | - | - |
| Cash at the end of the year | 6,968 | 9,284 | 6,228 | 4,889 | 8,330 |

Balance sheet

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 3,632 | 5,090 | 18,333 | 19,115 | 19,562 |
| Fixed asset | 1,203 | 1,787 | 2,701 | 3,436 | 3,792 |
| Intangible assets & goodwill | 1,136 | 1,170 | 1,132 | 1,095 | 1,064 |
| Prepaid lease payments | 105 | 367 | 13,367 | 13,367 | 13,367 |
| Interest in joint ventures | - | - | (633) | (550) | (427) |
| Other non-current assets | 1,188 | 1,766 | 1,766 | 1,766 | 1,766 |
| Current assets | 15,442 | 19,284 | 18,967 | 20,074 | 25,670 |
| Cash and cash equivalents | 6,968 | 9,284 | 6,228 | 4,889 | 8,330 |
| Inventories | 2,155 | 2,892 | 3,859 | 4,710 | 5,460 |
| Trade and other receivables | 3,733 | 4,638 | 6,411 | 8,004 | 9,410 |
| Prepayments | - | - | - | - | - |
| Other current assets | 2,586 | 2,470 | 2,470 | 2,470 | 2,470 |
| Current liabilities | 4,498 | 7,548 | 9,614 | 11,462 | 13,091 |
| Bank loans | 148 | 1,244 | 1,244 | 1,244 | 1,244 |
| Trade payables | 1,447 | 1,792 | 2,391 | 2,919 | 3,383 |
| Accruals & other payables | 2,531 | 3,841 | 5,309 | 6,628 | 7,793 |
| Tax payables | 353 | 650 | 650 | 650 | 650 |
| others | 19 | 21 | 21 | 21 | 21 |
| Non-current liabilities | 215 | 306 | 7,606 | 2,606 | 2,606 |
| Bank loans | - | 70 | 7,370 | 2,370 | 2,370 |
| Deferred income | - | - | - | - | - |
| Deferred tax | 215 | 236 | 236 | 236 | 236 |
| Others | - | - | - | - | - |
| Minority Interest | 654 | 743 | 920 | 1,165 | 1,466 |
| Total net assets | 13,706 | 15,777 | 19,159 | 23,955 | 28,069 |
| Shareholders' equity | 13,706 | 15,777 | 19,159 | 23,955 | 28,069 |

Key ratios

| YE Dec 31 | FY17A | FY18A | FY19E | FY20E | FY21E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Footwear | 42.2 | 35.8 | 32.4 | 31.4 | 31.0 |
| Apparel | 54.6 | 61.0 | 64.5 | 65.8 | 66.5 |
| Accessories | 3.2 | 3.2 | 3.1 | 2.8 | 2.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| P&L ratios (%) | | | | | |
| Gross margin | 49.4 | 52.6 | 54.3 | 55.3 | 55.9 |
| Operating margin | 24.9 | 23.2 | 25.7 | 25.8 | 26.2 |
| Pre-tax margin | 25.8 | 23.9 | 23.5 | 25.5 | 26.4 |
| Net margin | 18.5 | 17.0 | 16.2 | 17.7 | 18.6 |
| Effective tax rate | 26.7 | 26.6 | 26.8 | 28.2 | 27.3 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 3.4 | 2.6 | 2.0 | 1.8 | 2.0 |
| Quick ratio (x) | 3.0 | 2.2 | 1.6 | 1.3 | 1.5 |
| Cash ratio (x) | 155 | 123 | 65 | 43 | 64 |
| Inventory turnover days | 93 | 93 | 93 | 93 | 93 |
| Trade receivables days | 82 | 70 | 70 | 70 | 70 |
| Trade payables days | 62 | 57 | 57 | 57 | 57 |
| Total debt / total equity ratio (%) | 1 | 8 | 45 | 15 | 13 |
| Net debt / equity ratio (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Returns (%) | | | | | |
| ROE | 22.5 | 26.0 | 28.1 | 30.8 | 32.5 |
| ROA | 16.2 | 16.8 | 14.4 | 18.8 | 20.2 |
| Per share | | | | | |
| EPS (RMB) | 1.15 | 1.53 | 1.93 | 2.65 | 3.27 |
| DPS (RMB) | 0.81 | 0.69 | 0.77 | 1.06 | 2.29 |
| BVPS (RMB) | 5.11 | 5.87 | 7.09 | 8.87 | 10.3 |

Source: Company data, CMBIS estimates

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| | |
|-----------------------|---|
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