

# China Sportswear Sector

We expect prudent guidance but decent margins

Even though we are trimming our FY22E net profit forecasts, we believe the sector has already bottomed out in 1Q23E, supported by: 1) decent YTD retail sales growth, 2) turn around in inventory level and retail discounts. While we expect a more conservative FY23E guidance by the brands, we do see decent upside surprises from GP margin improvements, helped by better retail discounts and cheaper input costs, etc. Therefore, for brands with a higher DTC mix, we believe brands like Anta (2020 HK) and Topsports (6110 HK) are going to outperform.

- **Factoring in the drags in 4Q22.** Echoing Adidas's 50% YoY decline in the Greater China sales in 4Q22, we are not surprised to see pressure for various sportswear brands on their original FY22E retail sales target, mainly due to the sharp drop in offline SSS and the associating operating deleverage during late Oct to early Dec 2022. Apart from that, we also expect the list co level sales and net profit to be adversely affected, as a result of: 1) adjustments in trade fair orders, 2) buyback of inventories or 3) one-off support for distributors to clear inventories. As a whole, our sales/net profit growth forecast for Anta, Li Ning and Xtep are +9%/ -6%, +13%/ +2% and +26%/ +2% in FY22E.
- **Retail sales growth YTD in 2023 improved meaningfully, vs 4Q22, but a conservative guidance for FY23E is still likely.** Based on our channel checks and estimations, we are forecasting mid-teens/ mid-teens/ low-teens/ mid-teens retail sales growth for Anta/ FILA/ Li Ning/ Xtep in 1Q23E, huge improvement from the -ve HSD/ -ve low-teens/ -ve HSD/ -ve HSD in 4Q22. This is evidenced by: 1) flatish sales growth for Pou Sheng in Jan-Feb 2023 (vs 20% drop in 4Q22) and 2) robust retail sales growth during CNY, about high-teens/ mid-teens/ flatish growth for domestic brands/ Nike/ Adidas, etc. Since contribution from CNY is huge, we believe the numbers in 1Q23E are pretty much locked in. There are certainly many positive catalysts for FY23E, such as: 1) absence of COVID-19 outbreaks and social distancing measures, 2) relaunches of various sporting events (Marathons, football and basketball competitions, etc.) and 3) reasonably decent trade fair orders sales growth (10%+/ flatish for domestic/ foreign brands). But to err on the side of caution, we would not be surprised to see the sportswear brand to stay cautious and give out a rather conservative FY23E guidance as follows: **Li Ning:** mid-teens retail sales growth (vs original target of high-teens to low 20s in FY22E), **Anta:** high-teen retail sales growth (vs original target of 20%+ in FY22E and 18%-25% CAGR during FY20-25E), **FILA:** 10%+ retail sales growth (vs original target of 15%+ in FY22E), **Xtep:** high-teens listed co level sales growth (vs 23% CAGR during FY21-25E).
- **Our pecking order now is Anta (2020 HK) > Topsports (6110 HK) = Xtep (1368 HK) > Li Ning (2331 HK).**

## Valuation Table

Company	Ticker	Rating	Mkt cap (HK\$ mn)	TP (LC)	Price (LC)	Up/down side	P/E (x) FY1 FY2	PB (x) FY2 FY0	ROE (%) FY0
Xtep	1368 HK	BUY	21,990	10.44	8.34	25%	20.8 16.8	2.1	13.5
Anta	2020 HK	BUY	283,845	123.25	104.60	18%	33.4 26.3	6.1	25.5
Li Ning	2331 HK	BUY	170,419	73.37	64.65	13%	34.1 28.2	5.1	26.1
361D	1361 HK	NR	7,774	n/a	3.38	n/a	9.2 7.8	0.7	10.3
Topsports	6110 HK	NR	42,478	n/a	4.53	n/a	17.5 14.0	3.0	21.3
Pou Sheng	3813 HK	NR	3,782	n/a	0.84	n/a	24.0 5.7	0.4	(3.2)
Dongxiang	3818 HK	NR	1,972	n/a	0.26	n/a	n/a 9.8	0.2	(14.0)

Source: Company data, CMBIGM estimates

**OUTPERFORM  
(Maintain)**

## China Sportswear Sector

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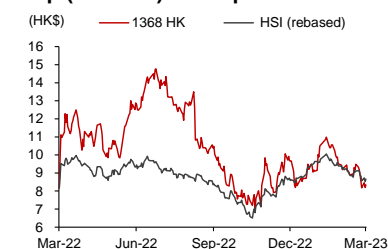
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### Anta (2020 HK) share price



Source: Bloomberg, CMBIGM estimates

### Xtep (1368 HK) share price



Source: Bloomberg, CMBIGM estimates

### Top Sports (6110 HK) share price



Source: Bloomberg, CMBIGM estimates

### Li Ning (2331 HK) share price

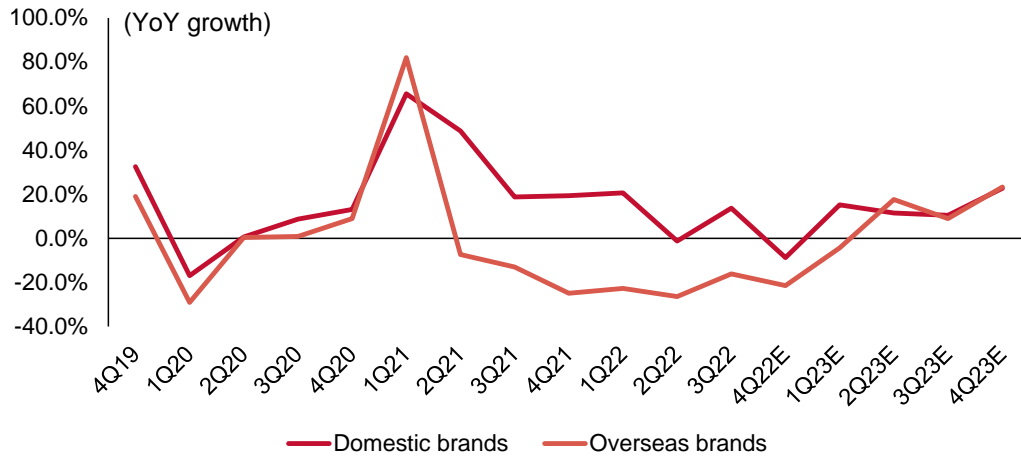


Source: Bloomberg, CMBIGM estimates

- **However, more positives could be derived from GP margin improvements, backed by better retail discounts and lower input costs, etc..** Based on our channel checks, we believe retail discounts improved a lot in 1Q23E from the tough in 4Q22, which is now closer to 3Q22 level, but not yet returned to that in 1Q19, driven by reduced discounts for new products and a better new/ old product mix. For example, we forecast Xtep's retail discounts to be at around 25%-30% off in 1Q23E (vs 30% off in 4Q22 and 25% off in 1Q19 and 3Q22). This is also backed by turnaround in inventory to sales ratio, which should have been shortened by roughly 0.5 to 1.0 months in 1Q23E vs 4Q22. We see greater YoY improvements for Anta, FILA than Xtep and Li Ning. Moreover, as the prices of oil and synthetic fiber have continued to decline since 2H22E, plus the increases in ASP (MSD to HSD for domestic brands), we believe the GP margin in FY23E could be positively aided. Lastly, we believe FILA, Anta and Topsports can benefit more from this turnaround, thanks to their higher than average DTC sales mix, at about 100%, 66% and 82% in FY22E (vs 50% and 41% for Li Ning and Xtep).
- **Domestic brands are still outperforming in 1Q23E, but foreign brands may catch up since 2Q23E.** Foreign brands' retail sales growth were still slower vs domestic brands in 1Q23E, where Nike's retail sales had returned to positive growth while Adidas is still under pressure, esp. with drags such as: 1) YEEZY series sales suspension and 2) active inventory clearances by Adidas, in both channels and factories. Going forward, driven by low base (Tier 1 cities were hurt more in 1Q22) and normalization of new product launches and marketing campaign, foreign brands' retail sales growth may catch up to domestic brands' level, since 2Q23E.

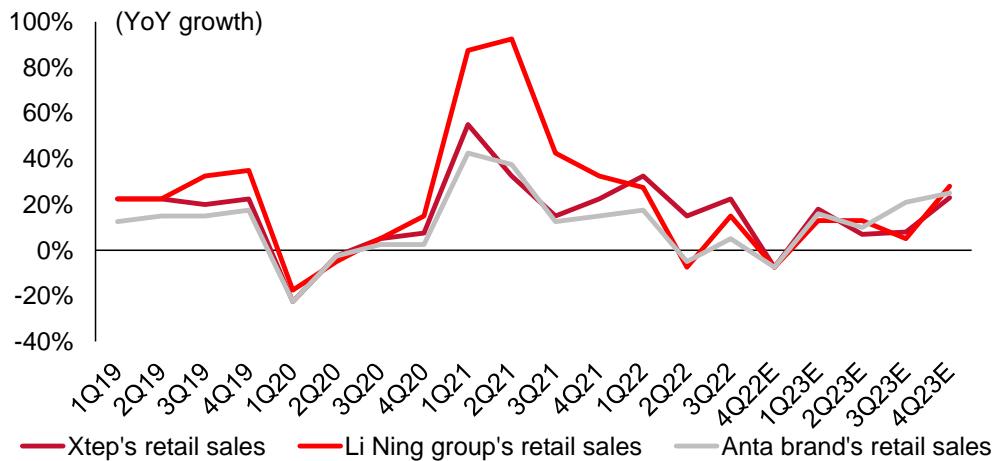
## Operating numbers

**Figure 1: Sales growth trend, by domestic and overseas brand**



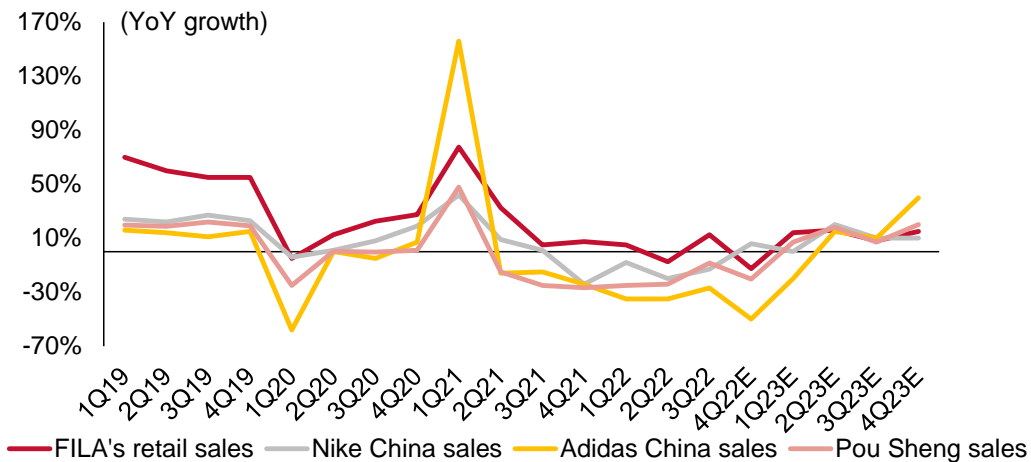
Source: Company data, CMBIGM estimates

**Figure 2: Sales growth trend, by domestic brands**

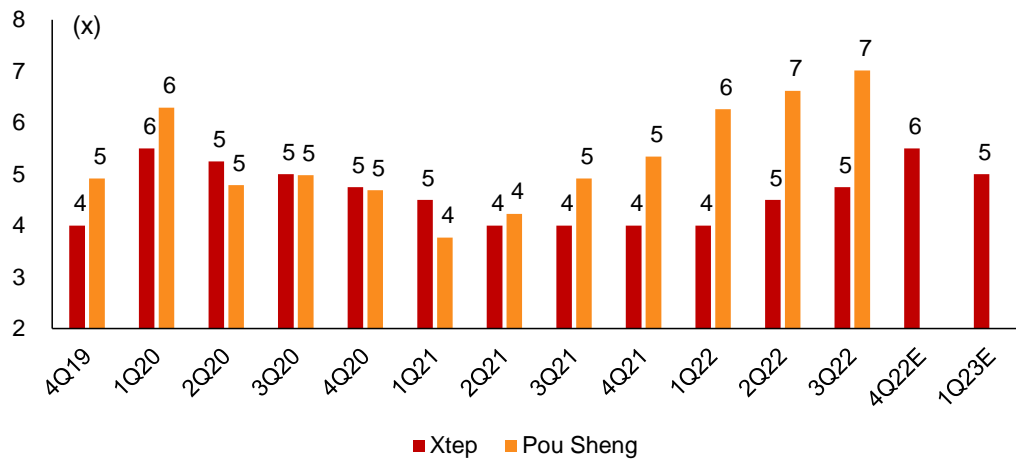


Source: Company data, CMBIGM estimates

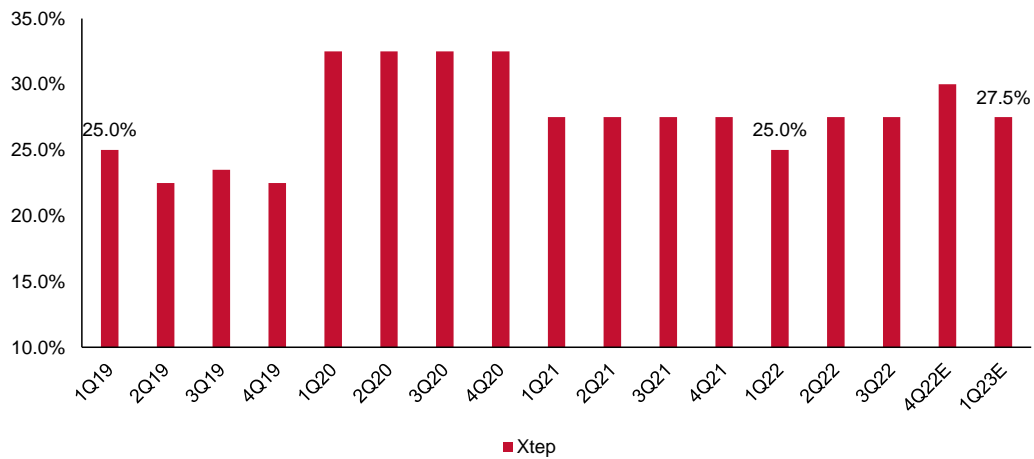
**Figure 3: Sales growth trend, by overseas brands**



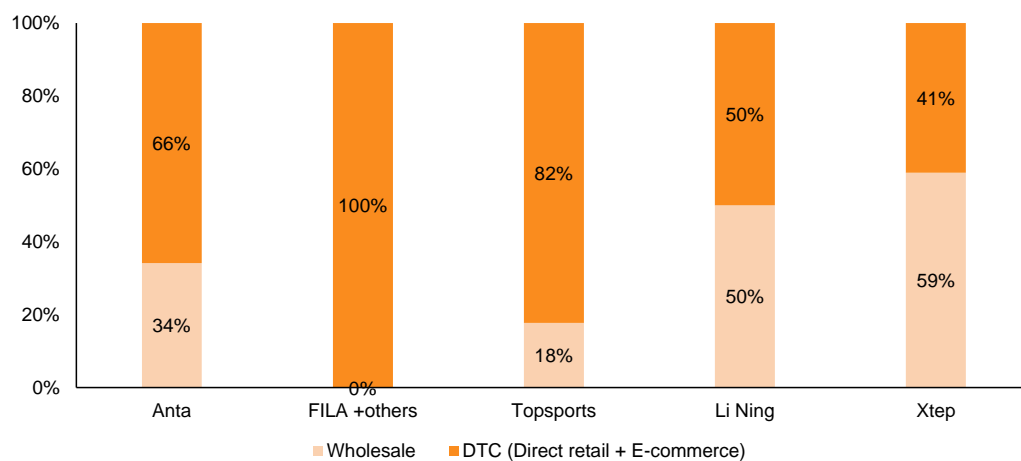
Source: Company data, CMBIGM estimates, \*Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

**Figure 4: Xtep and Pou Sheng's inventory to sales ratio**

Source: Company data, CMBIGM estimates

**Figure 5: Xtep's retail sales discounts**

Source: Company data, CMBIGM estimates

**Figure 6: Sales mix by channel (wholesale vs DTC), by brands, FY22E**

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 7: Historical sales growth trend, by brand

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
Nike China sales	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-13.0%	6.0%	0.0%	20.0%	10.0%	10.0%
Adidas China sales	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-27.0%	-50.0%	-20.0%	15.0%	10.0%	40.0%
<b>Anta brand's SSSG</b>																
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	16.0%	10.0%	21.0%	25.0%
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				
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				
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				
<b>FILA brand's retail sales</b>																
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	14.0%	16.0%	8.0%	15.0%
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				
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				
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				
Online	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%				
<b>Other brands</b>																
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				
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens				
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				
<b>Li Ning group's SSSG</b>																
Li Ning group's retail sales	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	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	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 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					
<b>Li Ning group's retail sales</b>																
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	-9.0%	13.0%	13.0%	5.0%	28.0%
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%					
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					
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%					
<b>Xtep's SSSG</b>																
Xtep'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	18.0%	7.0%	8.0%	23.0%
<b>361 Degrees' SSSG</b>																
361 Degree's retail sale	-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	-32.5%	-17.8%														
Pou Sheng's sales	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-8.5%	-20.4%	7.0%	18.0%	7.0%	20.0%
<b>Topsports' retail sales</b>																
Topsports' retail sales								-ve 20%-25%	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens				
<b>Dong Xiang's SSSG</b>																
Dong Xiang's retail sale	-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				
Dong Xiang's retail sale	-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%				
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 at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Peers Valuation

Figure 8: 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 (%)
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
<b>H shares Sportswear</b>														
Anta Sports	2020 HK	BUY	123.25	104.60	18%	283,845	Dec-21	33.4	26.3	7.3	6.1	25.5	2.6	1.3
Li Ning	2331 HK	BUY	73.37	64.65	13%	170,419	Dec-21	34.1	28.2	6.0	5.1	26.1	2.1	0.9
Xtep Intl	1368 HK	BUY	10.44	8.34	25%	21,990	Dec-21	20.8	16.8	2.3	2.1	13.5	1.4	2.7
361 Degrees	1361 HK	NR	n/a	3.76	n/a	7,774	Dec-21	9.2	7.8	0.8	0.7	10.3	0.6	3.9
Topsports	6110 HK	NR	n/a	6.85	n/a	42,478	Feb-22	17.5	14.0	3.3	3.0	21.3	3.0	4.3
Pou Sheng	3813 HK	NR	n/a	0.71	n/a	3,782	Dec-21	24.0	5.7	0.4	0.4	(3.2)	0.8	0.5
China DX	3818 HK	NR	n/a	0.34	n/a	1,972	Mar-22	n/a	9.8	0.2	0.2	(14.0)	0.0	3.4
<b>Avg.</b>								<b>22.9</b>	<b>15.2</b>	<b>2.9</b>	<b>2.5</b>	<b>11.4</b>	<b>1.5</b>	<b>2.4</b>
<b>Med.</b>								<b>22.2</b>	<b>14.0</b>	<b>2.3</b>	<b>2.1</b>	<b>13.5</b>	<b>1.4</b>	<b>2.7</b>
<b>International Sportswear</b>														
Nike Inc	NKE US	NR	n/a	119.00	n/a	1,448,126	May-22	37.8	30.1	12.5	11.7	37.3	4.9	1.1
Adidas	ADS GY	NR	n/a	142.04	n/a	212,174	Dec-22	n/a	33.6	4.9	4.3	9.8	0.0	1.0
Puma	PUM GY	NR	n/a	50.76	n/a	63,534	Dec-22	20.8	15.7	2.8	2.5	14.9	1.2	1.7
Under Armour	UAA US	NR	n/a	8.33	n/a	27,209	Mar-23	15.3	13.3	1.8	1.6	n/a	0.9	0.0
Lululemon	LULU US	NR	n/a	295.10	n/a	295,526	Jan-22	29.7	26.0	11.0	8.6	41.1	1.4	0.0
Skechers	SKX US	NR	n/a	43.08	n/a	52,501	Dec-22	14.7	11.8	1.6	1.4	10.9	0.7	0.0
Vf Corp	VFC US	NR	n/a	20.74	n/a	63,262	Apr-22	10.0	9.2	2.5	2.2	11.9	(1.0)	8.6
Columbia	COLM US	NR	n/a	86.38	n/a	42,152	Dec-22	16.3	14.5	2.4	2.1	15.9	1.4	1.4
Wolverine	WWW US	NR	n/a	16.79	n/a	10,401	Dec-22	11.2	8.2	2.4	1.9	(40.2)	(0.1)	2.7
Mizuno Corp	8022 JP	NR	n/a	3250.00	n/a	5,096	Mar-22	12.1	10.6	0.7	0.7	8.1	(3.8)	1.8
Asics Corp	7936 JP	NR	n/a	3495.00	n/a	39,146	Dec-22	26.5	22.7	3.6	3.2	12.5	1.7	1.2
<b>Avg.</b>								<b>19.4</b>	<b>17.8</b>	<b>4.2</b>	<b>3.7</b>	<b>12.2</b>	<b>0.7</b>	<b>1.8</b>
<b>Med.</b>								<b>15.8</b>	<b>14.5</b>	<b>2.5</b>	<b>2.2</b>	<b>12.2</b>	<b>0.9</b>	<b>1.2</b>

Source: Bloomberg, CMBIGM estimates

# Anta Sports (2020 HK)

## Set to benefit more from a higher DTC mix

- **Decent retail sales growth YTD despite the high base last year.** With retail sales growth at mid-teens level in Jan 2023, we believe the momentum has sustained into the CNY in 2023, even with the high base due to Winter Olympics. The trend is also decent in Mar 2023, thanks to the low base. Hence, we are now forecasting mid-teens/ mid-teens retail sales growth for both Anta/ FILA in 1Q23E, compared to HSD drop/ low-teens decline in 4Q22.
- **The setup is good but we are cautious on FY23E guidance.** Just because of: 1) absence of pandemic (up to 15%/ 30% of Anta/ FILA stores were closed during the peak of COVID-19), 2) HSD to close to 10% increases in ASP, and 3) the needs to clear excessive inventories (on top of the mid-teens level 1Q-3Q23E trade fair sales growth), we are confident on retail sales growth in FY23E. However, in our view, the management could still be cautious and give out a conservative guidance, like 15%+/ 10%+ retail sales growth for Anta/ FILA in FY23E.
- **But we do prefer Anta over Li Ning in FY23E, due to its higher DTC sales mix and tier 1 cities exposure, which could lead to better GP margin improvements.** During this first phase of China re-opening, even though the offline foot traffic has not fully recovered, but retail discount has already narrowed quickly, esp. when the intention for price war is low. Therefore, in this case, brands with a higher DTC mix (or lower wholesale mix), such as Anta and FILA could benefit more than Li Ning and Xtep.
- **The outdoor sports is still in huge demand.** During the latest “3-8/ Women” festival in China, over 78 subcategories under the sportswear segment reported 100%+ YoY increase in sales growth, including products like trail running shoes/ hiking shoes/ cycling jackets/ sun protection jackets, etc., on the JD.com platform, during 3 to 8 Mar 2023.
- **Maintain BUY with TP of HK\$ 123.25**, based on 31x FY23E P/E, about 1 s.d. above the 5 years average of 26x, supported by 20% NP CAGR during FY21-25E. It is currently trading at 26x FY23E P/E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	35,512	49,328	53,891	62,794	71,772
YoY growth (%)	4.7	38.9	9.2	16.5	14.3
Operating profit (RMB mn)	8,826	11,372	10,600	13,014	15,649
Net profit (RMB mn)	5,569.0	8,219.0	7,812.3	9,927.7	12,039.9
EPS (Reported) (RMB)	1.86	2.77	2.60	3.30	4.00
YoY growth (%)	(3.2)	49.2	(6.2)	27.1	21.3
P/E (x)	47.4	31.4	33.4	26.3	21.7
P/B (x)	9.9	8.1	7.1	5.9	5.0
Yield (%)	0.7	1.5	1.0	1.3	1.8
ROE (%)	23.4	29.2	23.4	25.4	25.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$123.25

(Previous TP HK\$128.94)

**Up/Downside** 17.8%

**Current Price** HK\$104.60

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### Stock Data

Mkt Cap (HK\$ mn)	282,768.2
Avg 3 mths t/o (HK\$ mn)	108.5
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	-2.0%	4.4%
3-mth	7.6%	6.7%
6-mth	13.4%	9.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet



## Earnings revision

Figure 9: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	53,891	62,794	71,772	53,891	63,012	71,400	0.0%	-0.3%	0.5%
Gross profit	33,051	38,841	44,956	33,051	39,100	44,338	0.0%	-0.7%	1.4%
EBIT	10,600	13,014	15,649	10,600	13,630	15,860	0.0%	-4.5%	-1.3%
Net profit att.	7,242	9,203	11,161	7,242	9,628	11,308	0.0%	-4.4%	-1.3%
Diluted EPS (RMB)	2.597	3.300	4.002	2.597	3.452	4.055	0.0%	-4.4%	-1.3%
Gross margin	61.3%	61.9%	62.6%	61.3%	62.1%	62.1%	0ppt	-0.2ppt	0.5ppt
EBIT margin	19.7%	20.7%	21.8%	19.7%	21.6%	22.2%	0ppt	-0.9ppt	-0.4ppt
Net profit att. margin	13.4%	14.7%	15.6%	13.4%	15.3%	15.8%	0ppt	-0.6ppt	-0.3ppt

Source: Company data, CMBIGM estimates

Figure 10: CMBIGM estimates vs consensus

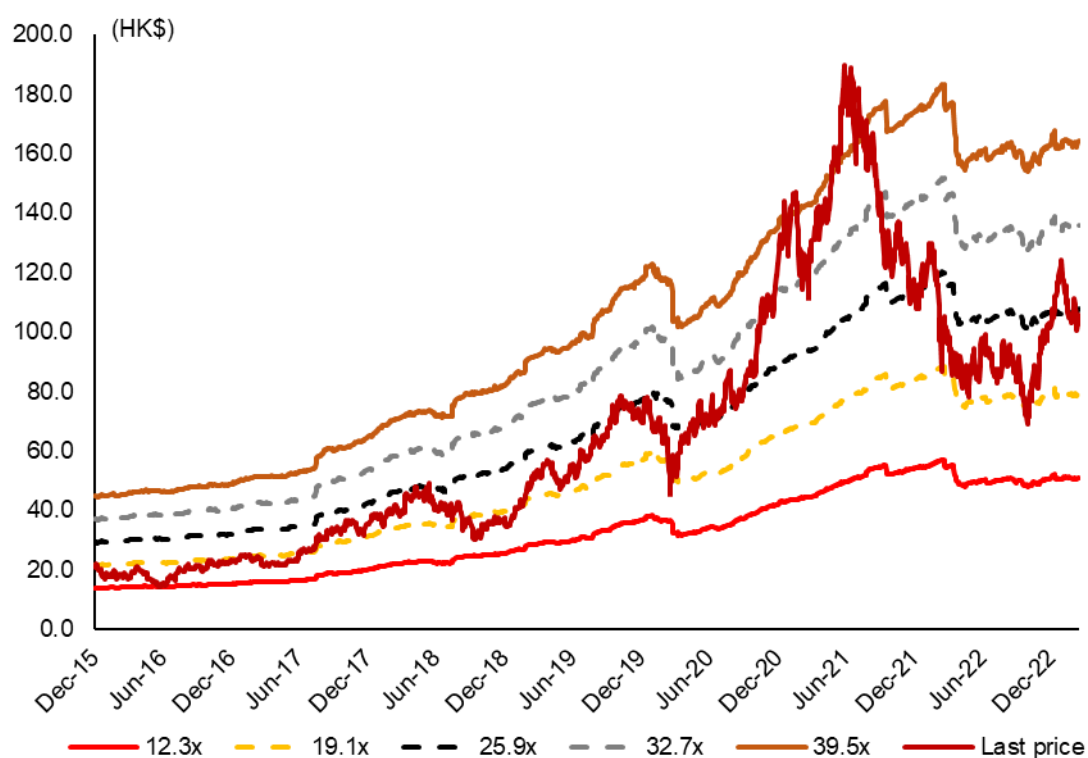
RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	53,891	62,794	71,772	53,363	62,625	73,384	1.0%	0.3%	-2.2%
Gross profit	33,051	38,841	44,956	32,432	38,672	45,662	1.9%	0.4%	-1.5%
EBIT	10,600	13,014	15,649	10,873	13,742	16,589	-2.5%	-5.3%	-5.7%
Net profit att.	7,242	9,203	11,161	7,306	9,461	11,605	-0.9%	-2.7%	-3.8%
Diluted EPS (RMB)	2.597	3.300	4.002	2.709	3.494	4.283	-4.2%	-5.6%	-6.6%
Gross margin	61.3%	61.9%	62.6%	60.8%	61.8%	62.2%	0.6ppt	0.1ppt	0.4ppt
EBIT margin	19.7%	20.7%	21.8%	20.4%	21.9%	22.6%	-0.7ppt	-1.2ppt	-0.8ppt
Net profit att. margin	13.4%	14.7%	15.6%	13.7%	15.1%	15.8%	-0.3ppt	-0.5ppt	-0.3ppt

Source: Bloomberg, CMBIGM estimates



## Valuation

Figure 11: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

## Assumptions

Figure 12: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment growth (%)</b>					
Shoes	11.3%	50.7%	15.0%	18.0%	12.5%
Apparels	1.3%	32.1%	5.5%	15.7%	15.8%
Accessories	1.8%	36.5%	8.0%	12.0%	12.0%
Total	4.7%	38.9%	9.2%	16.5%	14.3%
<b>Sales by brand growth (%)</b>					
Anta	-10.9%	67.5%	12.0%	15.0%	13.0%
Anta Kids	-37.0%	50.0%	22.0%	16.0%	15.0%
FILA	18.1%	25.1%	0.0%	13.0%	11.0%
Descente & Others	35.4%	51.1%	30.0%	31.0%	26.0%
E-commerce	13.8%	20.2%	19.0%	23.0%	19.0%
Total	4.7%	38.9%	9.2%	16.5%	14.3%
<b>Sales network</b>					
Anta	6,851	6,422	6,652	6,682	6,702
Anta Kids	3,071	2,981	2,551	2,621	2,671
FILA	2,006	2,054	1,954	2,054	2,154
Descente & Others	457	459	505	630	840
Total	12,385	11,916	11,662	11,987	12,367
<b>GP margins</b>					
Anta	44.7%	52.2%	54.8%	55.1%	55.3%
FILA	69.3%	70.5%	68.0%	69.0%	70.0%
Others	65.9%	71.0%	69.0%	69.0%	72.0%
Total	58.2%	61.6%	61.3%	61.9%	62.6%
<b>Opex breakdown</b>					
A&P Expenses / sales	10.0%	12.4%	12.5%	11.2%	11.0%
Labour costs / sales	12.5%	13.5%	14.3%	14.8%	15.0%
R & D expenses / sales	5.9%	5.9%	6.2%	6.1%	6.0%
Rental expenses/ sales	10.4%	11.6%	12.1%	12.6%	12.4%
Selling & distribution costs / sales	30.3%	36.0%	37.8%	37.4%	37.1%
Admin expenses / sales	6.0%	5.9%	6.4%	6.1%	6.0%
<b>OP margin</b>					
Anta	28.3%	20.6%	19.3%	20.1%	21.2%
FILA	25.8%	24.7%	20.0%	21.0%	22.0%
Others	8.4%	18.4%	19.0%	22.0%	23.0%
Total	25.8%	22.3%	19.6%	20.6%	21.7%
Effective tax rate	31.2%	26.9%	27.0%	26.0%	26.0%
<b>NP att. margin</b>	<b>14.5%</b>	<b>15.7%</b>	<b>13.4%</b>	<b>14.7%</b>	<b>15.6%</b>
<b>NP att. growth</b>	<b>-3.4%</b>	<b>49.6%</b>	<b>-6.2%</b>	<b>27.1%</b>	<b>21.3%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	33,928	35,512	49,328	53,891	62,794	71,772
Cost of goods sold	(15,269)	(14,861)	(18,924)	(20,840)	(23,953)	(26,816)
Gross profit	18,659	20,651	30,404	33,051	38,841	44,956
Operating expenses	(11,034)	(12,888)	(20,681)	(23,852)	(27,334)	(30,957)
Selling expense	(9,721)	(10,766)	(17,753)	(20,445)	(23,458)	(26,560)
Admin expense	(523)	(1,251)	(1,812)	(2,133)	(2,351)	(2,635)
R&D expense	(789)	(871)	(1,116)	(1,274)	(1,525)	(1,762)
Others	0	0	0	0	0	0
Operating profit	8,752	8,826	11,372	10,600	13,014	15,649
Other income	1,127	1,063	1,649	1,401	1,507	1,651
Share of (losses)/profits of associates/JV	(633)	(601)	(81)	108	314	431
EBITDA	10,101	9,316	11,944	11,342	13,583	16,201
Depreciation	(389)	(414)	(443)	(474)	(329)	(317)
Other amortisation	(961)	(76)	(129)	(268)	(240)	(234)
Interest income	168	271	392	417	511	613
Interest expense	(278)	(407)	(443)	(423)	(423)	(423)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	8,008	8,089	11,240	10,702	13,416	16,270
Income tax	(2,384)	(2,520)	(3,021)	(2,889)	(3,488)	(4,230)
Minority interest	(280)	(407)	(499)	(570)	(725)	(879)
Net profit	5,624	5,569	8,219	7,812	9,928	12,040

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	23,321	32,717	39,902	45,420	53,962	63,514
Cash & equivalents	8,221	15,323	17,592	24,005	30,190	37,620
Account receivables	6,309	6,614	6,914	7,554	8,801	10,060
Inventories	4,405	5,486	7,644	6,109	7,219	8,082
Prepayment	0	0	0	0	0	0
ST bank deposits	4,386	5,024	6,989	6,989	6,989	6,989
Other current assets	0	270	763	763	763	763
Non-current assets	17,898	19,150	22,766	22,886	23,385	24,125
PP&E	2,148	2,184	2,853	3,134	3,558	4,102
Investment in JVs & assos	10,551	9,658	9,027	9,135	9,449	9,879
Intangibles	678	1,579	1,531	1,281	1,060	844
Other non-current assets	4,521	5,729	9,355	9,336	9,318	9,299
Total assets	41,218	51,867	62,668	68,306	77,347	87,639
Current liabilities	12,412	11,715	15,943	16,906	18,682	20,426
Short-term borrowings	1,359	1,968	1,748	1,748	1,748	1,748
Account payables	2,963	2,376	3,146	3,465	3,982	4,458
Tax payable	1,225	1,507	1,816	1,816	1,816	1,816
Other current liabilities	6,865	5,864	9,233	9,878	11,135	12,404
Non-current liabilities	7,746	14,328	15,062	15,062	15,062	15,062
Long-term borrowings	6,644	12,456	11,425	11,425	11,425	11,425
Other non-current liabilities	1,102	1,872	3,637	3,637	3,637	3,637
Total liabilities	20,157	26,043	31,005	31,968	33,744	35,488
Share capital	261	261	261	261	261	261
Retained earnings	14,403	18,185	22,663	25,269	31,403	38,379
Other reserves	5,418	5,567	5,999	7,498	7,904	8,597
Total shareholders equity	20,082	24,013	28,923	33,028	39,568	47,237
Minority interest	979	1,811	2,740	3,310	4,035	4,914
Total equity and liabilities	19,102	22,202	26,183	29,718	35,533	42,323

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	8,008	8,089	11,240	10,702	13,416	16,270
Depreciation & amortization	1,350	490	572	742	569	551
Tax paid	(2,133)	(2,181)	(2,677)	(2,889)	(3,488)	(4,230)
Change in working capital	1,178	(3,461)	(282)	1,858	(582)	(377)
Others	(918)	4,520	3,008	315	109	(8)
<b>Net cash from operations</b>	<b>7,485</b>	<b>7,458</b>	<b>11,861</b>	<b>10,728</b>	<b>10,024</b>	<b>12,207</b>
<b>Investing</b>						
Capital expenditure	(512)	(649)	(1,360)	(754)	(754)	(861)
Acquisition of subsidiaries/ investments	(551)	(84)	(94)	0	0	0
Others	(12,002)	(1,190)	(3,215)	0	0	0
<b>Net cash from investing</b>	<b>(13,065)</b>	<b>(1,923)</b>	<b>(4,669)</b>	<b>(754)</b>	<b>(754)</b>	<b>(861)</b>
<b>Financing</b>						
Dividend paid	(1,417)	(1,404)	(2,456)	(3,137)	(2,663)	(3,492)
Net borrowings	7,733	(3,343)	(196)	0	0	0
Proceeds from share issues	709	21	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(2,356)	5,955	(2,295)	(423)	(423)	(423)
<b>Net cash from financing</b>	<b>4,670</b>	<b>1,229</b>	<b>(4,947)</b>	<b>(3,560)</b>	<b>(3,086)</b>	<b>(3,915)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	9,284	8,221	15,323	17,592	24,005	30,190
Exchange difference	(153)	338	24	0	0	0
Others	(910)	6,764	2,245	6,413	6,184	7,431
<b>Cash at the end of the year</b>	<b>8,221</b>	<b>15,323</b>	<b>17,592</b>	<b>24,005</b>	<b>30,190</b>	<b>37,620</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	40.8%	4.7%	38.9%	9.2%	16.5%	14.3%
Gross profit	47.1%	10.7%	47.2%	8.7%	17.5%	15.7%
Operating profit	56.5%	0.9%	28.8%	(6.8%)	22.8%	20.3%
EBITDA	70.2%	(7.8%)	28.2%	(5.0%)	19.8%	19.3%
Net profit	32.8%	(1.0%)	47.6%	(4.9%)	27.1%	21.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	55.0%	58.2%	61.6%	61.3%	61.9%	62.6%
Operating margin	25.8%	24.9%	23.1%	19.7%	20.7%	21.8%
EBITDA margin	29.8%	26.2%	24.2%	21.0%	21.6%	22.6%
Return on equity (ROE)	31.4%	25.3%	31.1%	25.2%	27.4%	27.7%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.2	0.2	0.4	0.5	0.6	0.7
Current ratio (x)	1.9	2.8	2.5	2.7	2.9	3.1
Receivable turnover days	67.9	68.0	51.2	51.2	51.2	51.2
Inventory turnover days	105.3	134.7	147.4	107.0	110.0	110.0
Payable turnover days	70.8	58.4	60.7	60.7	60.7	60.7
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	48.0	47.4	31.4	33.4	26.3	21.7
P/E (diluted)	48.0	47.4	31.4	33.4	26.3	21.7
P/B	6.8	7.7	11.1	7.5	6.3	5.2
P/CFPS	19.0	25.6	28.0	23.8	25.5	20.9
Div yield (%)	1.2	0.8	1.1	1.0	1.2	1.7
EV	278,045.0	276,864.2	271,387.2	264,973.9	258,789.4	251,358.8
EV/Sales	8.2	7.8	5.5	4.9	4.1	3.5
EV/EBITDA	27.5	29.7	22.7	23.4	19.1	15.5

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

# Xtep (1368 HK)

## 4Q22 drags and back-loaded FY23E growth

- **The worst should be over but we still have to factor in the negatives in FY22E.** Given 1) trade fair orders adjustments in 2H22E, 2) lower than expected GP margin for inventory clearance (esp. for e-commerce during double 11 and double 12 festival) and 3) one-off subsidies given to distributors, we are cutting FY22E/ 23E/ 24E net profit est. by 4%/ 5%/ 4%.
- **YTD retail sales growth continued to be strong, partly driven by inventory clearance and Xtep Kids.** After the decent retail sales growth during pre-CNY (about 20%+, highlighted by management), we believe the growth remained quick in Feb- Mar 2023. Hence, we are forecasting high-teens growth for 1Q23E, partly due to its efforts to de-stock, as inventory clearance remains the top priority. Moreover, based on our channel check, its childrenswear sales growth is still rapid and being a key driver.
- **Sales growth in 1H23E could still be slower than that in 2H23E.** While management is guiding mid-teens listed co-level sales growth, it could be slower in 1H23E, because of its higher wholesale revenue mix.
- **We still think Xtep's risk reward is attractive.** We still think the risks reward for Xtep is high, as its FY25E target remains highly intact, supported by its smaller scale, plus its robust e-commerce and Xtep Kids retail sales growth. Comparing to Anta/ Li Ning's 20%/ 21% NP CAGR during FY21-25E, we believe Xtep's 26% NP CAGR is more attractive, esp. when it is only trading at 17x FY23E P/E, vs Anta/ Li Ning's 26x/ 28x.
- **Maintain BUY with TP of HK\$ 10.44,** based on 21x FY23E P/E, about 1 s.d. higher than the 5 years average of 15x, supported by 26% NP CAGR during FY21-25E. It is currently trading at 17x FY23E P/E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,172	10,013	12,657	14,912	17,326
YoY growth (%)	(0.1)	22.5	26.4	17.8	16.2
Operating profit (RMB mn)	918	1,396	1,435	1,782	2,199
Net profit (RMB mn)	505.0	889.4	913.5	1,176.5	1,495.0
EPS (Reported) (RMB)	0.21	0.36	0.41	0.47	0.60
YoY growth (%)	(31.6)	72.1	14.3	16.7	26.5
P/E (x)	34.0	19.1	20.8	16.8	13.2
P/B (x)	2.4	2.2	2.3	2.2	2.0
Yield (%)	1.7	3.1	2.4	3.6	4.5
ROE (%)	7.2	11.9	11.3	13.5	15.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	1.1

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$10.44**

(Previous TP) HK\$11.52

**Up/Downside** **25.2%**

**Current Price** **HK\$8.34**

#### China Consumer Discretionary

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#### Stock Data

Mkt Cap (HK\$ mn)	21,974.6
Avg 3 mths t/o (HK\$ mn)	9.3
52w High/Low (HK\$)	14.78/6.85
Total Issued Shares (mn)	2634.8
Source: FactSet	

#### Shareholding Structure

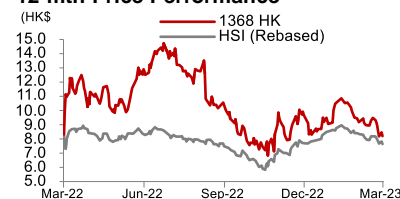
Mr Ding Shui Po & Family	49.0%
JP Morgan Chase	4.6%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	-9.2%	-3.2%
3-mth	-13.8%	-14.5%
6-mth	-20.4%	-22.9%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

## Earnings revision

Figure 13: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,657	14,912	17,326	12,523	14,395	16,447	1.1%	3.6%	5.3%
Gross profit	5,170	6,156	7,203	5,226	6,093	7,032	-1.1%	1.0%	2.4%
EBIT	1,435	1,782	2,199	1,490	1,878	2,287	-3.7%	-5.1%	-3.8%
Net profit att.	926	1,170	1,481	964	1,237	1,545	-4.0%	-5.4%	-4.1%
Diluted EPS (RMB)	0.358	0.444	0.562	0.372	0.470	0.586	-4.0%	-5.4%	-4.1%
Gross margin	40.8%	41.3%	41.6%	41.7%	42.3%	42.8%	-0.9ppt	-1ppt	-1.2ppt
EBIT margin	11.3%	11.9%	12.7%	11.9%	13.0%	13.9%	-0.6ppt	-1.1ppt	-1.2ppt
Net profit att. margin	7.3%	7.8%	8.5%	7.7%	8.6%	9.4%	-0.4ppt	-0.7ppt	-0.8ppt

Source: Company data, CMBIGM estimates

Figure 14: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,657	14,912	17,326	12,740	14,867	17,817	-0.6%	0.3%	-2.8%
Gross profit	5,170	6,156	7,203	5,211	6,185	7,480	-0.8%	-0.5%	-3.7%
EBIT	1,435	1,782	2,199	1,417	1,787	2,238	1.3%	-0.3%	-1.7%
Net profit att.	926	1,170	1,481	943	1,193	1,494	-1.8%	-1.9%	-0.8%
Diluted EPS (RMB)	0.358	0.444	0.562	0.360	0.456	0.573	-0.8%	-2.6%	-1.9%
Gross margin	40.8%	41.3%	41.6%	40.9%	41.6%	42.0%	-0.1ppt	-0.3ppt	-0.4ppt
EBIT margin	11.3%	11.9%	12.7%	11.1%	12.0%	12.6%	0.2ppt	-0.1ppt	0.1ppt
Net profit att. margin	7.3%	7.8%	8.5%	7.4%	8.0%	8.4%	-0.1ppt	-0.2ppt	0.2ppt

Source: Company data, CMBIGM estimates

## Assumptions

Figure 15: Major assumptions

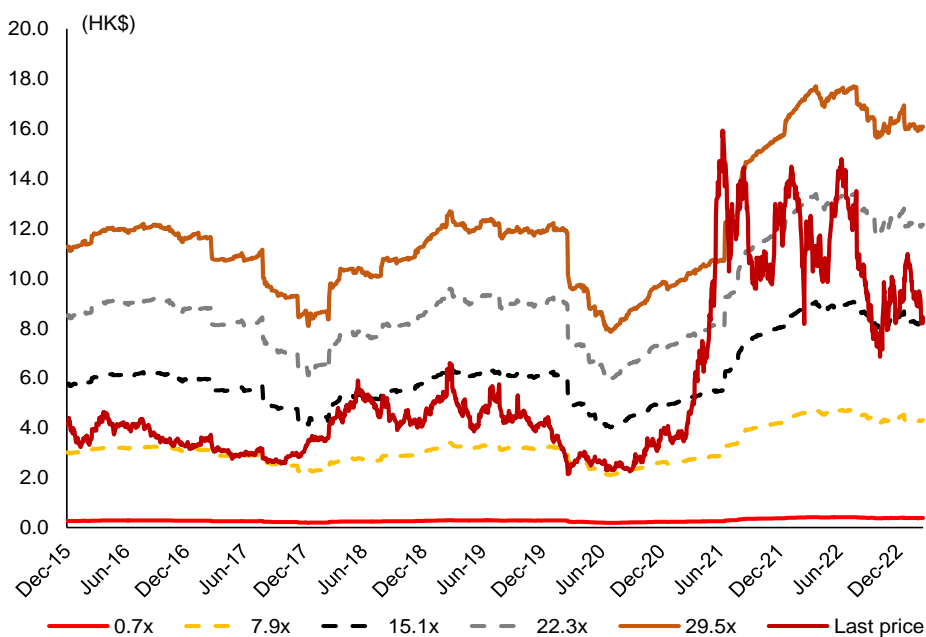
Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	5,047	5,928	7,197	8,388	9,844
Apparels	2,964	3,887	5,248	6,298	7,242
Accessories	161	198	211	226	240
Total	8,172	10,013	12,657	14,912	17,326
<b>Sales by segment growth (%)</b>					
Shoes	8.5%	17.5%	21.4%	16.5%	17.4%
Apparels	-11.4%	31.2%	35.0%	20.0%	15.0%
Accessories	-12.9%	22.5%	7.0%	7.0%	6.0%
Total	-0.1%	22.5%	26.4%	17.8%	16.2%
<b>Sales by segment (RMB mn)</b>					
Mass market	7,101	8,841	10,987	12,870	14,805
Athleisure	999	971	1,266	1,415	1,683
Professional sports	72	201	403	627	838
Total	8,172	10,013	12,657	14,912	17,326
<b>Sales by segment growth (YoY)</b>					
Mass market	-7.9%	24.5%	24.3%	17.1%	15.0%
Athleisure	114.4%	-2.8%	30.4%	11.8%	18.9%
Professional sports	609.9%	180.3%	100.6%	55.4%	33.7%
Total	-0.1%	22.5%	26.4%	17.8%	16.2%
<b>Sales network</b>					
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%	40.8%	41.3%	41.6%
<b>Opex breakdown</b>					
A&P / sales	11.2%	10.2%	10.8%	11.3%	11.5%
Staff costs/ sales	12.1%	11.1%	10.4%	10.3%	10.2%
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%	0.8%	0.3%	0.0%
Rental / sales	0.1%	0.1%	0.3%	0.4%	0.4%
Selling & distribution costs / sales	18.8%	18.9%	19.8%	19.8%	19.5%
Admin expenses / sales	12.9%	11.9%	12.1%	11.5%	11.3%
Total	31.7%	30.8%	31.8%	31.3%	30.8%
<b>OP margins</b>	<b>11.2%</b>	<b>13.9%</b>	<b>11.3%</b>	<b>11.9%</b>	<b>12.7%</b>
Effective tax rate	33.7%	30.9%	32.0%	31.0%	30.0%
<b>Net profit att. margins</b>	<b>6.3%</b>	<b>9.1%</b>	<b>7.3%</b>	<b>7.8%</b>	<b>8.5%</b>
<b>Net profit att. growth (%)</b>	<b>-29.5%</b>	<b>77.1%</b>	<b>2.0%</b>	<b>26.3%</b>	<b>26.6%</b>

Source: Company data, CMBIGM estimates



## Valuation

Figure 16: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	8,183	8,172	10,013	12,657	14,912	17,326
Cost of goods sold	(4,632)	(4,973)	(5,835)	(7,487)	(8,756)	(10,123)
Gross profit	3,550	3,198	4,178	5,170	6,156	7,203
Operating expenses	(2,625)	(2,588)	(3,081)	(4,026)	(4,673)	(5,333)
Selling expense	(1,718)	(1,537)	(1,891)	(2,500)	(2,953)	(3,381)
Admin expense	(711)	(827)	(937)	(1,197)	(1,347)	(1,519)
R&D expense	(195)	(223)	(252)	(329)	(373)	(433)
Others	0	0	0	0	0	0
Operating profit	1,234	918	1,396	1,435	1,782	2,199
Other income	308	307	299	291	298	329
Share of (losses)/profits of associates/JV	(2)	(17)	(46)	(44)	(25)	(8)
EBITDA	1,322	996	1,480	1,567	1,949	2,381
Depreciation	(81)	(64)	(71)	(107)	(127)	(130)
Other amortisation	(7)	(14)	(13)	(26)	(40)	(52)
Interest income	29	4	21	44	39	35
Interest expense	(140)	(144)	(85)	(91)	(91)	(91)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	1,121	762	1,287	1,343	1,704	2,134
Income tax	(390)	(257)	(397)	(430)	(528)	(639)
Minority interest	(4)	8	19	13	(5)	(11)
Net profit	731	505	889	913	1,176	1,495

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	9,266	9,027	10,432	11,517	12,537	13,634
Cash & equivalents	2,970	3,472	3,930	3,278	2,853	2,401
Account receivables	2,910	3,236	3,528	4,460	5,254	6,105
Inventories	1,046	975	1,497	1,921	2,247	2,598
Prepayment	818	899	1,443	1,823	2,148	2,496
ST bank deposits	1,517	437	33	33	33	33
Other current assets	5	8	1	1	1	1
Non-current assets	3,057	3,544	4,183	4,450	4,779	5,195
PP&E	662	796	1,119	1,455	1,851	2,327
Investment in JVs & assos	197	218	365	320	295	287
Intangibles	810	709	671	642	599	545
Other non-current assets	1,388	1,820	2,028	2,032	2,035	2,037
Total assets	12,323	12,572	14,615	15,966	17,317	18,830
Current liabilities	3,671	3,334	4,053	5,002	5,754	6,564
Short-term borrowings	1,086	642	405	405	405	405
Account payables	1,420	1,479	2,352	3,018	3,530	4,081
Tax payable	115	86	123	123	123	123
Other current liabilities	1,050	1,127	1,173	1,455	1,697	1,955
Non-current liabilities	1,691	1,939	2,580	2,567	2,572	2,582
Long-term borrowings	1,269	1,516	1,375	1,375	1,375	1,375
Other non-current liabilities	423	423	1,205	1,192	1,197	1,207
Total liabilities	5,362	5,273	6,633	7,568	8,326	9,146
Share capital	22	22	23	23	23	23
Retained earnings	4,408	4,671	5,020	5,181	5,649	6,241
Other reserves	2,530	2,605	2,940	3,194	3,319	3,419
Total shareholders equity	6,960	7,299	7,982	8,398	8,990	9,684
Minority interest	0	0	0	(13)	(8)	2
Total equity and liabilities	6,960	7,299	7,982	8,411	8,999	9,681

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,121	762	1,287	1,524	1,817	2,272
Depreciation & amortization	88	78	84	132	167	182
Tax paid	(334)	(325)	(329)	(430)	(528)	(639)
Change in working capital	36	(320)	(447)	(788)	(693)	(740)
Others	(133)	125	107	(16)	50	68
<b>Net cash from operations</b>	<b>778</b>	<b>320</b>	<b>701</b>	<b>423</b>	<b>813</b>	<b>1,144</b>
<b>Investing</b>						
Capital expenditure	(97)	(207)	(414)	(443)	(522)	(606)
Acquisition of subsidiaries/ investments	(1,694)	(4)	(3)	0	0	0
Others	(254)	784	89	0	0	0
<b>Net cash from investing</b>	<b>(2,045)</b>	<b>573</b>	<b>(329)</b>	<b>(443)</b>	<b>(522)</b>	<b>(606)</b>
<b>Financing</b>						
Dividend paid	(436)	(279)	(356)	(540)	(633)	(840)
Net borrowings	386	(77)	(312)	0	0	0
Proceeds from share issues	1,190	37	0	0	0	0
Share repurchases	(3)	(6)	0	0	0	0
Others	(98)	(55)	764	0	0	0
<b>Net cash from financing</b>	<b>1,039</b>	<b>(380)</b>	<b>96</b>	<b>(540)</b>	<b>(633)</b>	<b>(840)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,196	2,970	3,472	3,930	3,278	2,853
Exchange difference	1	(11)	(11)	0	0	0
Others	(227)	513	469	(652)	(425)	(452)
<b>Cash at the end of the year</b>	<b>2,970</b>	<b>3,472</b>	<b>3,930</b>	<b>3,278</b>	<b>2,853</b>	<b>2,401</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	28.2%	(0.1%)	22.5%	26.4%	17.8%	16.2%
Gross profit	25.5%	(9.9%)	30.6%	23.7%	19.1%	17.0%
Operating profit	18.2%	(25.6%)	52.1%	2.8%	24.2%	23.4%
EBITDA	19.7%	(24.6%)	48.6%	5.9%	24.4%	22.2%
Net profit	9.2%	(31.0%)	76.1%	2.7%	28.8%	27.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	43.4%	39.1%	41.7%	40.8%	41.3%	41.6%
Operating margin	15.1%	11.2%	13.9%	11.3%	11.9%	12.7%
EBITDA margin	16.2%	12.2%	14.8%	12.4%	13.1%	13.7%
Return on equity (ROE)	11.9%	7.1%	11.6%	11.2%	13.5%	16.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.3	0.2	0.2	0.1	0.0	(0.0)
Current ratio (x)	2.5	2.7	2.6	2.3	2.2	2.1
Receivable turnover days	129.8	144.5	128.6	128.6	128.6	128.6
Inventory turnover days	82.4	71.5	93.7	93.7	93.7	93.7
Payable turnover days	111.9	108.5	147.1	147.1	147.1	147.1
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	24.7	34.0	19.1	20.8	16.8	13.2
P/E (diluted)	24.7	34.0	19.1	20.8	16.8	13.2
P/B	1.5	0.9	2.4	2.3	2.1	2.0
P/CFPS	13.0	20.0	27.2	62.7	28.5	20.4
Div yield (%)	2.4	1.7	3.1	2.4	3.6	4.5
EV	18,649.6	19,490.3	19,816.3	20,343.3	20,676.8	20,960.7
EV/Sales	2.3	2.4	2.0	1.6	1.4	1.2
EV/EBITDA	14.1	19.6	13.4	13.0	10.6	8.8

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

# Li Ning (2331 HK)

## Turning around but still dragged by GP margin

- **Retail sales trend should be similar to peers in 4Q22 and should have turned around in 1Q23E.** We estimate that its retail sales to fall by HSD in 4Q22 (inline with both Anta and Xtep) and to increase by low-teens in 1Q23E, which is already a decent level, esp. when we consider the high base last year (high-20s increase in 1Q22).
- **Factoring in the drags in 4Q22.** Factoring in 1) the miss in retail sales in 4Q22, 2) widened retail discounts in 4Q22E vs 3Q22, and 3) adjustments in 1Q-3Q23E trade fair sales orders, we are now revising down the FY22E/23E/24E net profit by 14%/9%/8%.
- **No change in FY25E guidance but the target in FY23E should not be aggressive.** With no change in industry potential and company's competitiveness, we believe Li Ning would reiterate its long-term target (double-digit retail sales CAGR during FY21-25E). However, with potentially slower ASP growth, we are only expecting its management to provide 15%+ retail sales growth guidance in FY23E.
- **We prefer Li Ning less mainly because of its GP margin pressure in 1H23E.** We do agree that Li Ning's inventory level is industry leading and remained extremely healthy (CMBI est. at around 4.5 to 5.0 months) even in 4Q22. But its retail discounts could still be high in 1Q23E, compared to that in 1Q22, which may limit its GP margin expansion in 1H23E.
- **Maintain BUY with TP of HK\$ 73.37,** based on 32x FY23 P/E (up from 29x), at par with 5 years average of 32x, supported by 21% NP CAGR during FY21-25E. It is currently trading at 28x FY23E P/E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,457	22,572	25,617	29,833	34,056
YoY growth (%)	4.2	56.1	13.5	16.5	14.2
Operating profit (RMB mn)	2,196	5,136	5,169	6,345	7,344
Net profit (RMB mn)	1,698.5	4,010.9	4,013.4	4,981.5	6,050.4
EPS (Reported) (RMB)	0.68	1.58	1.83	2.09	2.50
YoY growth (%)	12.5	133.6	16.1	14.0	19.4
P/E (x)	80.4	34.0	34.1	28.2	23.2
P/B (x)	15.6	6.7	5.9	5.1	4.3
Yield (%)	0.4	0.9	0.9	1.0	1.3
ROE (%)	19.5	19.0	17.0	19.4	20.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price **HK\$73.37**(Previous TP **HK\$73.08**)Up/Downside **13.5%**Current Price **HK\$64.65**

### China Consumer Discretionary

#### Walter WOO

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### Stock Data

Mkt Cap (HK\$ mn)	169,159.7
Avg 3 mths t/o (HK\$ mn)	70.3
52w High/Low (HK\$)	81.00/40.60
Total Issued Shares (mn)	2616.5
Source: FactSet	

### Shareholding Structure

Viva China Holdings	10.4%
Fidelity Management & Research Co.	4.4%

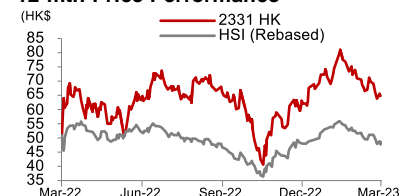
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.9%	-3.0%
3-mth	4.1%	3.2%
6-mth	-2.6%	-5.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Earnings revision

Figure 17: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	25,617	29,833	34,056	26,910	31,350	35,802	-4.8%	-4.8%	-4.9%
Gross profit	12,845	15,153	17,363	13,673	16,019	18,359	-6.1%	-5.4%	-5.4%
EBIT	5,169	6,345	7,344	5,776	6,717	7,766	-10.5%	-5.5%	-5.4%
Net profit att.	4,080	5,017	6,086	4,752	5,514	6,585	-14.1%	-9.0%	-7.6%
Diluted EPS (RMB)	1.58	1.90	2.31	1.83	2.09	2.50	-14.1%	-9.0%	-7.6%
Gross margin	50.1%	50.8%	51.0%	50.8%	51.1%	51.3%	-0.7ppt	-0.3ppt	-0.3ppt
EBIT margin	20.2%	21.3%	21.6%	21.5%	21.4%	21.7%	-1.3ppt	-0.2ppt	-0.1ppt
Net profit att. margin	15.9%	16.8%	17.9%	17.7%	17.6%	18.4%	-1.7ppt	-0.8ppt	-0.5ppt

Source: Company data, CMBIGM estimates

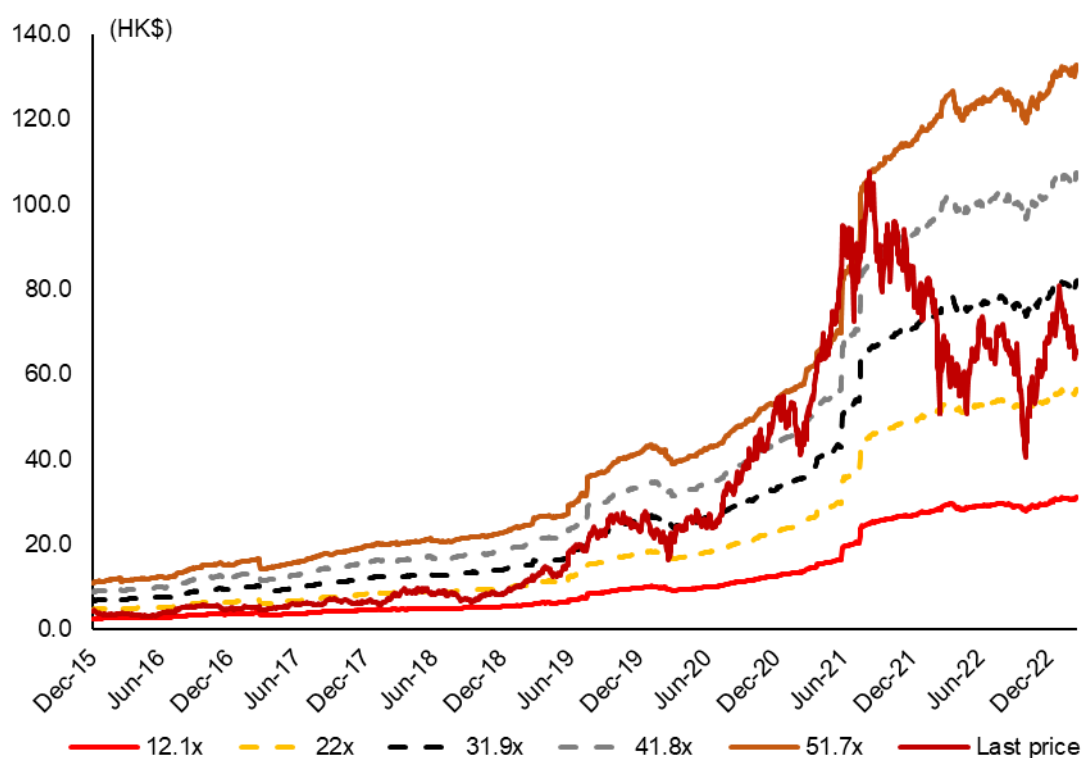
Figure 18: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	25,617	29,833	34,056	26,485	31,687	38,056	-3.3%	-5.9%	-10.5%
Gross profit	12,845	15,153	17,363	13,349	16,380	19,886	-3.8%	-7.5%	-12.7%
EBIT	5,169	6,345	7,344	5,409	6,883	8,536	-4.4%	-7.8%	-14.0%
Net profit att.	4,080	5,017	6,086	4,461	5,582	6,907	-8.6%	-10.1%	-11.9%
Diluted EPS (RMB)	1.58	1.90	2.31	1.72	2.14	2.64	-8.2%	-11.0%	-12.6%
Gross margin	50.1%	50.8%	51.0%	50.4%	51.7%	52.3%	-0.3ppt	-0.9ppt	-1.3ppt
EBIT margin	20.2%	21.3%	21.6%	20.4%	21.7%	22.4%	-0.2ppt	-0.5ppt	-0.9ppt
Net profit att. margin	15.9%	16.8%	17.9%	16.8%	17.6%	18.1%	-0.9ppt	-0.8ppt	-0.3ppt

Source: Company data, CMBIGM estimates

## Valuation

Figure 19: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

## Assumptions

Figure 20: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	6,338	9,506	12,190	14,567	16,744
Clothes	7,365	11,824	12,060	13,749	15,674
Equipment	754	1,242	1,367	1,517	1,638
Others	0	0	0	0	0
Total	14,457	22,572	25,617	29,833	34,056
<b>Sales by segment growth (%)</b>					
Shoes	4.2%	50.0%	28.2%	19.5%	14.9%
Clothes	3.6%	60.5%	2.0%	14.0%	14.0%
Equipment	11.7%	64.9%	10.0%	11.0%	8.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	4.2%	56.1%	13.5%	16.5%	14.2%
<b>Sales by channel growth (%)</b>					
Franchises	0.9%	56.7%	15.0%	15.0%	13.0%
Self-owned	-9.8%	53.5%	5.0%	17.0%	15.0%
E-commerce	29.7%	58.4%	17.5%	19.0%	16.0%
International	-16.7%	34.9%	15.0%	5.0%	0.0%
Total	4.2%	56.1%	13.5%	16.5%	14.2%
<b>Sales network by segment</b>					
Self-owned	1,149	1,165	1,290	1,330	1,360
Franchise	4,763	4,770	4,695	4,725	4,755
Sub-total	5,912	5,935	5,985	6,055	6,115
LN Young	1,021	1,202	1,227	1,327	1,407
Total	6,933	7,137	7,212	7,382	7,522
GP margins	49.1%	53.0%	50.1%	50.8%	51.0%
<b>Opex breakdown</b>					
A & P/ sales	8.9%	7.9%	8.2%	8.4%	8.6%
Labour/ sales	9.1%	8.0%	7.6%	7.5%	7.3%
Rental/ sales	6.3%	5.1%	5.1%	4.9%	4.7%
D & A/ sales	4.0%	2.8%	2.9%	3.0%	3.0%
R & D/ sales	2.2%	1.8%	2.1%	2.2%	2.2%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	30.6%	27.2%	27.6%	27.3%	27.2%
Admin expenses / sales	5.6%	4.9%	4.9%	4.6%	4.5%
<b>OP margins</b>	<b>15.2%</b>	<b>22.8%</b>	<b>20.2%</b>	<b>21.3%</b>	<b>21.6%</b>
Effective tax rate	24.4%	24.7%	23.0%	22.0%	20.0%
<b>Net profit margins</b>	<b>11.7%</b>	<b>17.8%</b>	<b>15.9%</b>	<b>16.8%</b>	<b>17.9%</b>
<b>Net profit att. growth (%)</b>	<b>13.3%</b>	<b>136.1%</b>	<b>1.7%</b>	<b>23.0%</b>	<b>21.3%</b>

Source: Company data, CMBIGM estimates



## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	13,870	14,457	22,572	25,617	29,833	34,056
Cost of goods sold	(7,064)	(7,363)	(10,603)	(12,773)	(14,679)	(16,693)
Gross profit	6,805	7,094	11,969	12,845	15,153	17,363
Operating expenses	(5,401)	(5,230)	(7,249)	(8,329)	(9,539)	(10,819)
Selling expense	(4,445)	(4,425)	(6,138)	(7,080)	(8,156)	(9,272)
Admin expense	(594)	(482)	(697)	(711)	(727)	(798)
R&D expense	(362)	(323)	(414)	(538)	(656)	(749)
Operating profit	1,543	2,196	5,136	5,169	6,345	7,344
Other income	139	331	416	653	731	800
Share of (losses)/profits of associates/JV	343	83	159	154	179	204
EBITDA	2,004	2,772	5,767	5,917	7,228	8,366
Depreciation	(420)	(534)	(589)	(715)	(855)	(1,000)
Other amortisation	(41)	(42)	(41)	(34)	(28)	(22)
Interest income	29	35	145	336	257	322
Interest expense	(59)	(66)	(112)	(427)	(384)	(299)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	1,857	2,248	5,328	5,232	6,397	7,572
Income tax	(357)	(549)	(1,317)	(1,219)	(1,415)	(1,521)
Minority interest	0	0	0	0	0	0
Net profit	1,499	1,698	4,011	4,013	4,981	6,050
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	8,539	9,777	18,672	21,962	26,611	31,961
Cash & equivalents	5,961	7,187	14,745	17,472	21,480	26,172
Account receivables	687	659	903	1,025	1,193	1,362
Inventories	1,407	1,346	1,773	2,100	2,413	2,744
Prepayment	483	584	849	964	1,123	1,282
ST bank deposits	1	1	402	402	402	402
Other current assets	0	0	0	0	0	0
Non-current assets	4,008	4,817	11,603	11,968	12,381	12,839
PP&E	1,039	1,065	1,626	1,936	2,274	2,636
Investment in JVs & assos	0	0	0	88	191	309
Intangibles	193	191	188	156	129	107
Other non-current assets	2,776	3,562	9,789	9,787	9,786	9,786
Total assets	12,547	14,594	30,275	33,930	38,992	44,800
Current liabilities	4,717	5,015	7,704	8,482	9,727	10,900
Short-term borrowings	0	0	0	0	0	0
Account payables	1,348	1,227	1,599	1,927	2,214	2,518
Tax payable	531	592	1,308	1,209	1,406	1,512
Other current liabilities	2,838	3,196	4,797	5,346	6,107	6,870
Non-current liabilities	707	889	1,467	1,467	1,467	1,467
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	707	889	1,467	1,467	1,467	1,467
Total liabilities	5,423	5,904	9,171	9,949	11,194	12,366
Share capital	214	228	239	239	239	239
Retained earnings	3	3	3	1,679	5,247	9,574
Other reserves	6,907	8,459	20,863	22,063	22,312	22,621
Total shareholders equity	7,124	8,689	21,104	23,981	27,798	32,434
Minority interest	0	0	0	0	0	0
Total equity and liabilities	7,124	8,689	21,104	23,981	27,798	32,434

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,857	2,248	5,328	6,171	7,070	8,231
Depreciation & amortization	461	576	630	748	883	1,022
Tax paid	(144)	(589)	(456)	(1,317)	(1,219)	(1,415)
Change in working capital	1,176	142	826	314	408	407
Others	153	387	197	(1,002)	(724)	(887)
<b>Net cash from operations</b>	<b>3,503</b>	<b>2,763</b>	<b>6,525</b>	<b>4,914</b>	<b>6,417</b>	<b>7,358</b>
<b>Investing</b>						
Capital expenditure	(636)	(594)	(985)	(1,025)	(1,193)	(1,362)
Acquisition of subsidiaries/ investments	(50)	(152)	(43)	0	0	0
Others	112	(246)	(5,511)	468	368	444
<b>Net cash from investing</b>	<b>(573)</b>	<b>(992)</b>	<b>(6,539)</b>	<b>(557)</b>	<b>(825)</b>	<b>(918)</b>
<b>Financing</b>						
Dividend paid	(215)	(378)	(515)	(1,203)	(1,398)	(1,593)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	56	189	8,667	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(705)	(703)	(1,071)	(1,630)	(1,584)	(1,748)
<b>Net cash from financing</b>	<b>(863)</b>	<b>(891)</b>	<b>7,081</b>	<b>(2,833)</b>	<b>(2,982)</b>	<b>(3,341)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,672	5,961	7,187	14,745	15,105	19,100
Exchange difference	8	(33)	(25)	0	0	0
Others	2,282	1,258	7,583	3,302	3,995	4,758
<b>Cash at the end of the year</b>	<b>5,961</b>	<b>7,187</b>	<b>14,745</b>	<b>18,047</b>	<b>19,100</b>	<b>23,858</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	32.0%	4.2%	56.1%	13.5%	16.5%	14.2%
Gross profit	34.7%	4.2%	68.7%	7.3%	18.0%	14.6%
Operating profit	98.6%	42.3%	133.9%	0.6%	22.8%	15.7%
EBITDA	68.6%	38.3%	108.0%	2.6%	22.2%	15.7%
Net profit	109.6%	13.3%	136.1%	0.1%	24.1%	21.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	49.1%	49.1%	53.0%	50.1%	50.8%	51.0%
Operating margin	11.1%	15.2%	22.8%	20.2%	21.3%	21.6%
EBITDA margin	14.4%	19.2%	25.5%	23.1%	24.2%	24.6%
Return on equity (ROE)	23.2%	21.5%	26.9%	17.8%	19.2%	20.1%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.8	0.8	0.7	0.7	0.8	0.8
Current ratio (x)	1.8	1.9	2.4	2.6	2.7	2.9
Receivable turnover days	18.1	16.6	14.6	14.6	14.6	14.6
Inventory turnover days	72.7	66.7	61.0	60.0	60.0	60.0
Payable turnover days	69.7	60.8	55.1	55.1	55.1	55.1
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	96.1	80.4	34.0	34.1	28.2	23.2
P/E (diluted)	96.1	80.4	34.0	34.1	28.2	23.2
P/B	5.5	7.6	7.7	6.2	5.3	4.6
P/CFPS	11.3	24.2	24.2	29.8	23.3	20.3
Div yield (%)	1.0	0.8	0.7	1.0	1.1	1.4
EV	152,878.5	153,837.1	154,439.7	115,054.9	111,059.7	106,301.7
EV/Sales	11.0	10.6	6.8	4.5	3.7	3.1
EV/EBITDA	76.3	55.5	26.8	19.4	15.4	12.7

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

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