

China Sportswear Sector

Sequential improvements during double 11

- **Resilient online sales growth during double 11, where Tik Tok, PDD and JD platforms continued to outperform.** Based on our channel check and CMBI est., the online GMV growth during 2022's double 11 was at ~14% YoY, inline with CMBI est. and beat market expectation, similar to online sales growth in Sep 2022 and had picked up vs Oct 2022. In terms of platforms, YoY growth for Alibaba (Tmall + Tao Bao)/ JD/ PDD/ TikTok increased by ~flatish/ ~teens/ 27%/ 38%. Moreover, based on our channel check, the refund ratio improved vs last year (by about 2-3ppt) as well, thanks to faster delivery time to consumers, as many brands have better inventory allocations (more localized warehouses).
- **Sportswear outperformed on Alibaba platforms while home appliances did better on JD.** According to our channel check, the online GMV growth during double 11 for Sportswear/ Apparel/ Home appliances were at ~14%/ 7%/ 3% YoY on Alibaba-platforms and at ~10%/ 11%/ 16% YoY on JD platforms.
- **Overseas brands had caught up in growth vs domestic brands.** Based on our channel check, the online GMV growth during double 11 for Nike/ Adidas/ FILA/ Anta/ Li Ning/ Xtep/ 361 Degrees were at ~26%/ 24%/ 17%/ 30%/ 31%/ 21%/ 18% on Alibaba-platforms and at ~19%/ 16%/ 13%/ 21%/ 27%/ 18%/ 13% on JD platforms. Noted that, we believe the actual growth should be even faster, as it will include the contribution from channels like Tik Tok. For example, Xtep has registered about 30% GMV growth during double 11. As a whole, the blended growth rates are fairly similar between the overseas brands (21%) vs domestic brands (21%). We believe the accelerated growth rates for overseas brands were boosted by their more aggressive discounting and increased marketing budgets with Alibaba and JD platforms.
- **However, we should still be cautious about the retail discounts and hence the GP margins.** In order to boost consumption and clear inventories, all e-commerce platforms rolled out greater promotions (RMB 50 off per RMB 300 spending vs RMB 30 off per RMB 200 last year). But on top of this, the actual blended retail discounts rates (based on final transactions) are also higher at 24%-25% off in 2022 vs about 18%-19% off in 2021 (20%-25% off/ 25%-30% off for new/ old products in 2022 vs 15%-20% off/ 22%-25% off in 2021).
- **Closing our long Anta and short Li Ning pair trade idea and our new pecking order is now Li Ning (2331 HK) > Xtep (1368 HK) > Anta (2020 HK) > Topsports (6110 HK) = 361 Degrees (1361 HK) > Pou Sheng (3813 HK).** We believe our pair trade call had been profitable since 18 Oct 2022, but we are now closing it, as Li Ning's sales growth had improved in Nov 2022. Therefore, we are now suggesting investors to long Li Ning (2331 HK), Xtep (1368 HK), Anta (2020 HK) with 1 month outlook but stay cautious in 3 months.

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	23,730	10.52	9.00	17%	19.2 16.1	2.3	13.5
Anta	2020 HK	BUY	231,605	113.30	85.15	33%	25.6 20.5	4.9	25.5
Li Ning	2331 HK	BUY	151,205	73.08	57.70	27%	24.0 21.0	5.4	32.9
361D	1361 HK	NR	6,988	n/a	3.38	n/a	8.4 7.3	0.7	10.3
Topsports	6110 HK	NR	28,092	n/a	4.53	n/a	10.5 8.7	2.1	21.3
Pou Sheng	3813 HK	NR	2,344	n/a	0.84	n/a	13.2 3.7	0.2	(3.2)
Donqiang	3818 HK	NR	1,531	n/a	0.26	n/a	7.8 2.9	0.1	(16.7)

Source: Bloomberg, CMBIGM estimates

OUTPERFORM
 (Maintain)

China Sportswear Sector

Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

Raphael Tse

(852) 3900 0856

raphaeltse@cmbi.com.hk

Li Ning (2331 HK) share price



Source: Bloomberg, CMBIGM estimates

Xtep (1368 HK) share price



Source: Bloomberg, CMBIGM estimates

Anta (2020 HK) share price



Source: Bloomberg, CMBIGM estimates

Topsports (6110 HK) share price



Source: Bloomberg, CMBIGM estimates

- **Sentiment might continue to improve in 4Q22E.** While we are certain the offline sales will be dragged by covid-19 outbreaks in Guangzhou and recently in Beijing, the improved online sales growth, the relaxation of social distancing policies, the constructive meeting between China and US/ Germany, as well as the upcoming world cup, we believe the sentiment could continue to improve and perhaps can drive up consumer discretionary sector valuation.
- **But we are still conservative on the FY23E outlook and fundamentals.** Fundamentally speaking, there are many reasons for us to stay conservative, namely: 1) sales growth were not as sustainable during the second half of the double 11 festival, we believe that was a result of sluggish economic and income growth, higher than usual unemployment rates (esp. for younger generations) and negative wealth effects (both stock and property markets), 2) earlier than last year Chinese New Year 2023 (in late Jan) and 3) relatively high inventory level, as the de-stocking activities could last until 2Q23E.

Operating numbers

Figure 1: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-13.0%	0.0%
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-27.0%	-10.0%
Anta brand's SSSG																
Anta brand's retail sales	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	12.0%
Core brand	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	
Non-Anta brands (FILA/ 65%-70% 55%-60%)																
FILA brand's retail sales			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	9.0%
Classic/ Core brand			Over 40%	Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	
Kids			Over 70%	Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	
Fusion			Over 100%	Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	
Online			Over 70%	Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	
Other brands																
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	
Li Ning group's SSSG																
Direct retail	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 80%	+ve High 20%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	
Wholesales	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	
E- Commerce	+ve High 30%	+ve Mid 30%	+ve Mid 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	
Li Ning group's retail sales																
Direct retail	+ve Low 20%-25%	+ve Low 20%-25%	+ve Low 30%-35%	+ve Mid 30%-40%	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-ve HSD	+ve Mid-teens	16.0%
Wholesales	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	
E- Commerce	+ve Low 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+ve Low-teens	+ve High 20%	+ve Low 40%	+ve Mid 30%	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	
Xtep's SSSG																
Xtep's retail sales	Over 20%	Over 20%	20%	Over 20%	-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%	9.0%
361 Degree's SSSG																
361 Degree's retail sales					-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	
Pou Sheng's SSSG	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%										
Pou Sheng's sales	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-8.5%	-1.0%
Topsports' retail sales																
Dong Xiang's SSSG	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens		
Dong Xiang's retail sales	+ve MSD	+ve MSD	+ve Mid-teens	+ve Low-teens	-ve 25%-30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens		
Direct retail	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%							
E- Commerce	+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	35%-40%							

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

Peers Valuation

Figure 2: 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														
Li Ning	2331 HK	BUY	73.08	57.70	27%	151,205	Dec-21	24.0	21.0	6.9	5.4	32.9	1.5	1.1
Anta Sports	2020 HK	BUY	113.30	85.15	33%	231,065	Dec-21	25.6	20.5	6.0	4.9	25.5	2.0	1.7
Xtep Intl	1368 HK	BUY	10.52	9.00	17%	23,730	Dec-21	19.2	16.1	2.5	2.3	13.5	1.2	2.9
361 Degrees	1361 HK	NR	n/a	3.38	n/a	6,988	Dec-21	8.4	7.3	0.7	0.7	10.3	0.6	4.1
Topsports	6110 HK	NR	n/a	4.53	n/a	28,092	Feb-22	10.5	8.7	2.3	2.1	21.3	1.5	7.2
Pou Sheng	3813 HK	NR	n/a	0.44	n/a	2,344	Dec-21	13.2	3.7	0.3	0.2	(3.2)	0.5	1.5
China DX	3818 HK	NR	n/a	0.26	n/a	1,531	Mar-22	7.8	2.9	0.1	0.1	(16.7)	0.0	8.5
Avg.								15.5	11.5	2.7	2.3	12.0	1.0	3.9
Med.								13.2	8.7	2.3	2.1	13.5	1.2	2.9
International Sportswear														
Nike Inc	NKE US	NR	n/a	105.80	n/a	1,297,155	May-22	35.1	27.7	10.7	9.8	37.4	5.4	1.2
Adidas	ADS GY	NR	n/a	131.88	n/a	205,114	Dec-21	43.5	24.0	3.9	3.7	19.2	(3.1)	1.5
Puma	PUM GY	NR	n/a	51.52	n/a	62,955	Dec-21	20.7	19.1	3.1	2.8	14.1	1.7	1.6
Under Armour	UAA US	NR	n/a	9.03	n/a	29,839	Mar-23	19.6	13.8	2.1	1.9	n/a	1.1	0.0
Lululemon	LULU US	NR	n/a	354.62	n/a	354,319	Jan-22	35.7	30.9	13.1	10.0	39.9	1.7	0.0
Skechers	SKX US	NR	n/a	39.51	n/a	48,008	Dec-21	17.4	13.2	1.7	1.5	22.2	(2.2)	0.0
Vf Corp	VFC US	NR	n/a	33.49	n/a	101,973	Apr-22	13.9	12.1	4.3	3.8	12.7	(3.7)	6.1
Columbia	COLM US	NR	n/a	80.69	n/a	39,275	Dec-21	15.5	14.2	2.6	2.3	18.5	2.3	1.5
Wolverine	WWW US	NR	n/a	12.67	n/a	7,819	Jan-22	8.3	7.1	1.5	1.3	24.3	0.2	3.4
Mizuno Corp	8022 JP	NR	n/a	2702.00	n/a	4,007	Mar-22	10.6	9.4	0.6	0.6	7.6	(1.6)	2.2
Asics Corp	7936 JP	NR	n/a	2887.00	n/a	30,588	Dec-21	29.0	23.6	3.4	3.2	7.8	1.0	1.1
Avg.								22.7	17.7	4.3	3.7	20.4	0.2	1.7
Med.								19.6	14.2	3.1	2.8	18.9	1.0	1.5

Source: Bloomberg, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.