

# Xtep (1368 HK)

## Double 11 is critical but NP target is still intact

Xtep's 3Q24 retail sales growth was weak, but that was well expected. On the other hand, inventory level and discounts were still decent and better-than-expected, in our view. We are prudent about sales growth in 4Q24E and FY25E but still confident about the respective margin expansions, supported by slowdown in store expansion, limited retail discounts and active control over various opex. Maintain BUY and raise TP to HK\$ 7.50.

- **Retail sales growth did improve in Oct 2024, but we are prudent about 4Q24E because the Double 11 festival is still very critical.** Management did mention 10%+ MTD retail sales growth in Oct 2024 (both traffic and ASP has got better), but we are still cautious about the sustainability because the actual performance of Double 11 will play a very critical role in 4Q24E results. As far as we know, the pre-sales growth is at 10%+ up to late Oct 2024, but the management focus this time is more about profitability and healthiness of inventory. The product return rate may continue to increase in 2H24E, but management has already taken that into consideration.
- **All in all, we are still confident enough on Xtep's FY24E net profit growth.** Despite the miss on sales growth in 3Q24, management is still confident and expect 20%+ net profit growth in FY24E, supported by: 1) spin off of K&P segment, 2) limited inventory clearance pressure, 3) slowdown in net new store openings (cut from 100 to 200 for both Adult and kids to flattish), 4) active control over the A&P expenses, etc.
- **Our initial outlook for FY25E is still mildly positive.** For the core brand Xtep, even though the ASP may only be flattish (increased sales mix from the higher priced running shoes to be offset by more mass market and value for money products), we are still forecasting HSD sales growth in FY25E, driven by: 1) relatively fast-growing running industry (number of marathon runners and events is still growing by 10%+ YoY), 2) excellent product quality (consistent upgrades of product without rising any tag prices), 3) resilient trade fair order sales growth, led by the low channel inventory), 4) rapid growth on Douyin platform (penetration is still low). For Saucony, we think its growth is robust and visible. We are now projecting 30%+ sales growth in FY25E, thanks to: 1) superior product quality (comparable to other overseas brands but the tag price is still at a discount of 30% to 50%), 2) positive feedback from the new flagship stores in Shenzhen, 3) further categories expansion (from shoes to apparel and from function to fashion), 4) further store expansion (by both the Company and the franchisees) and 5) relatively low market share (only at 8% vs Xtep's 41% within the marathon runners in 2023), etc.. All in all, we are now foreseeing around 5% sales growth and about 13% net profit growth in FY25E.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	12,930	14,346	14,793	15,543	16,917
YoY growth (%)	29.1	10.9	3.1	5.1	8.8
Operating profit (RMB mn)	1,464.3	1,579.9	1,853.7	2,045.0	2,334.1
Net profit (RMB mn)	912.3	1,033.0	1,239.0	1,405.7	1,646.6
EPS (Reported) (RMB)	0.36	0.39	0.45	0.51	0.60
YoY growth (%)	0.6	9.4	15.2	13.5	17.1
P/E (x)	14.2	13.0	11.3	9.9	8.5
P/B (x)	1.6	1.5	1.5	1.4	1.3
Yield (%)	3.5	3.8	12.6	5.0	5.8
ROE (%)	11.2	12.0	13.9	15.5	17.0
Net gearing (%)	14.8	7.1	15.9	14.0	14.1

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$7.50
(Previous TP)	HK\$6.67
Up/Downside	35.6%
Current Price	HK\$5.53

### China Consumer Discretionary

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#### Stock Data

Mkt Cap (HK\$ mn)	14,570.7
Avg 3 mths t/o (HK\$ mn)	56.6
52w High/Low (HK\$)	6.98/3.36
Total Issued Shares (mn)	2634.8

Source: FactSet

#### Shareholding Structure

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

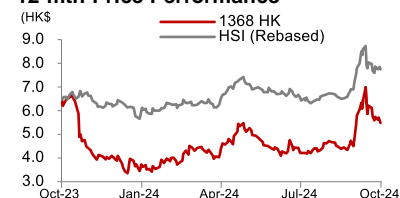
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	15.0%	6.8%
3-mth	31.2%	8.4%
6-mth	24.5%	4.5%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Recent Reports:

[Anta Sports \(2020 HK\) - All eyes on 4Q24E for the room of re-rating](#)  
(14 Oct 24)

[Anta Sports \(2020 HK\) - Takeaways from the Anta Superstore visit](#)  
(27 Sep 24)

[Topsports \(6110 HK\) - Grim outlook but dividend is attractive](#)  
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[JNBY Design \(3306 HK\) - Prudent guidance and generous dividends](#)  
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[Xtep \(1368 HK\) - Better margins despite cautious sales growth](#)  
(21 Aug 24)

[Li Ning \(2331 HK\) - We see long-term value but short-term risks](#)  
(19 Aug 24)

- **3Q24 retail sales growth slowed down as expected.** Xtep's retail sales growth was only at MSD in 3Q24, slowing down from 10% in 2Q24, but that was already inline with our and investor's low expectation (given the weak numbers of Anta and Topsports, esp. in Sep 2024). The slowdown, in our view, was mainly due to the weak macro environment, unfavorable weather and sluggish demand for sports fashion products. In terms of categories, we think e-commerce sales growth (CMBI est. high-teens) could still be faster vs offline (CMBI est. flattish to LSD), while running product sales growth should outperform (sales volume of the flagship series such as 160x, 260x and 360x had actually doubled YTD) vs sports fashion and the kids should be better than the adults.
- **However, inventory and discounts level remained fairly healthy and has beaten our expectation.** Xtep's inventory to sales ratio was only at 4 months in 3Q24, flattish QoQ vs 2Q24 and improved a lot YoY vs the 4.5 to 5.0 months in 2Q23. Hence, its retail discount was very resilient, at 25% off in 3Q24, similar to 2Q24 and better than the 25% to 30% off in 3Q23. In fact, this was kind of beaten our estimates as the industry environment has turned quite promotional into 2H24E.
- **Maintain BUY and raised TP to HK\$ 7.50, based on 13x FY25E P/E (rolled over from 14x FY24E P/E).** We have adjusted our FY24E/ 25E/ 26E net profit forecasts by -3%/ -2%/ -3%, to factor in the slower-than-expected sales growth and weaker-than-expected margins. The stock is now trading at 10x FY25E P/E, still attractive vs its 8-year average of 15x, plus its 5% FY25E P/E yield.

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,793	15,543	16,917	14,994	15,823	17,366	-1.3%	-1.8%	-2.6%
Gross profit	6,481	6,787	7,424	6,592	6,943	7,660	-1.7%	-2.2%	-3.1%
EBIT	1,854	2,045	2,334	1,903	2,093	2,404	-2.6%	-2.3%	-2.9%
Net profit att.	1,230	1,396	1,635	1,264	1,430	1,687	-2.7%	-2.4%	-3.1%
Diluted EPS (RMB)	0.450	0.511	0.598	0.463	0.523	0.617	-2.7%	-2.4%	-3.1%
Gross margin	43.8%	43.7%	43.9%	44.0%	43.9%	44.1%	-0.1ppt	-0.2ppt	-0.2ppt
EBIT margin	12.5%	13.2%	13.8%	12.7%	13.2%	13.8%	-0.2ppt	-0.1ppt	0ppt
Net profit att. margin	8.3%	9.0%	9.7%	8.4%	9.0%	9.7%	-0.1ppt	-0.1ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,793	15,543	16,917	14,777	15,445	16,866	0.1%	0.6%	0.3%
Gross profit	6,481	6,787	7,424	6,420	6,735	7,390	1.0%	0.8%	0.5%
EBIT	1,854	2,045	2,334	1,770	1,980	2,227	4.7%	3.3%	4.8%
Net profit att.	1,230	1,396	1,635	1,240	1,394	1,576	-0.8%	0.1%	3.8%
Diluted EPS (RMB)	0.450	0.511	0.598	0.470	0.528	0.598	-4.2%	-3.2%	0.1%
Gross margin	43.8%	43.7%	43.9%	43.4%	43.6%	43.8%	0.4ppt	0.1ppt	0.1ppt
EBIT margin	12.5%	13.2%	13.8%	12.0%	12.8%	13.2%	0.6ppt	0.3ppt	0.6ppt
Net profit att. margin	8.3%	9.0%	9.7%	8.4%	9.0%	9.3%	-0.1ppt	0ppt	0.3ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-3%	-5%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	11%	13%
Anta brand's SSSG																
Anta brand's retail sales	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	+ve MSD	+ve HSD	+ve HSD	+ve High-teens	+ve MSD	+ve HSD	+ve MSD	16%
Core brand	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens	+ve HSD	+ve HSD	+ve HSD	25%-30%	+ve LSD	+ve LSD	-ve LSD	
Kids	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	30%-35%	Flat	-ve LSD	-ve HSD	
Online	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	+ve MSD	20%-25%	20%-25%	20%-25%	
FILA brand's retail sales																
FILA brand's retail sales	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	+ve Low-teens	25%-30%	+ve HSD	+ve MSD	-ve LSD	10%
Classic/ Core brand	80% Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	40%-45%	+ve MSD	+ve HSD	-ve MSD		
Kids	100% Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD	+ve HSD	30%-35%	-ve LSD	-ve LSD	-ve Low-teens		
Fusion	150% Over 80%	+ve Mid-teens	+ve Mid-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%	-ve MSD	+ve MSD	-ve HSD		
Online	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	+ve Mid-teens	20%	20%	+ve HSD	
Other brands																
Other brands	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%	55%-60%	25%-30%	40%-45%	45%-50%	30%
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%	20-25%	35%-40%	35%-40%	
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%	60%	65%-70%	
Li Ning group's SSSG																
Li Ning group's SSSG	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens	-ve HSD	+ve LSD	-ve MSD	+ve Low-teens	-ve MSD	-ve HSD	-ve HSD	
Direct retail	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD	+ve MSD	+ve High 30%	-ve LSD	-ve MSD	-ve MSD	
Wholesales	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD	-ve Low-teens	+ve MSD	-ve Mid-teens	-ve High-teens	-ve HSD	
E- Commerce	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD	-ve LSD	+ve MSD	+ve Low 20%	+ve Low-teens	+ve MSD	
Li Ning group's retail sales																
Li Ning group's retail sales	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	+ve Mid-teens	+ve MSD	+ve Low 20%	+ve LSD	-ve LSD	-ve MSD	7%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%	+ve MSD	Flat	-ve MSD	
Wholesales	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	-ve Low 20%	+ve MSD	+ve Mid-teens	+ve LSD	+ve High-teens	-ve MSD	-ve HSD	-ve HSD	
E- Commerce	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	+ve MSD	-ve Low-teens	+ve Low-teens	-ve LSD	+ve MSD	+ve Low 20%	+ve HSD	+ve MSD	
Xtep brand's SSSG																
Xtep brand's retail sales	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%-35%	+ve HSD	10%	+ve MSD	10%
361 Degree brand's SSSG																
361 Degree brand's offli	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	Flat	+ve Low-teens	+ve Low-teens	15.0%	20.0%	+ve High-teens	10.0%	10.0%	14%
Kids	20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%	20%-25%	+ve Mid-teens	10%	
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%	Over 20%	
Pou Sheng's SSSG																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%	-16%		
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-11%	-8%
Topsports' retail sales																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low-teens	+ve Low 20%	-ve LSD	+ve Low-teens	+ve LSD	-ve MSD	-ve Low-teens	-8%
Dong Xiang's SSSG																
Dong Xiang's SSSG	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens	+ve Low to Mid SD	25% to 30%	-ve HSD	-ve MSD	-ve HSD	
Dong Xiang's retail sale																
Dong Xiang's retail sale	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens	+ve LSD	-ve Mid 20% to 30%	+ve Low to Mid-teens	+ve Mid-teens	+ve MSD	Mid 40% to 50%	-ve Low 10% to 20%	-ve LSD to MSD	-ve Low 10% to 20%	
Direct retail	70%-75%															
E- Commerce	35%-40%															

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

## Assumptions

Figure 4: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment (RMB mn)</b>					
Shoes	7,760	8,172	8,603	9,156	9,840
Apparels	4,897	5,904	5,904	6,081	6,749
Accessories	273	270	286	306	328
Total	12,930	14,346	14,793	15,543	16,917
<b>Sales by segment growth (%)</b>					
Shoes	30.9%	5.3%	5.3%	6.4%	7.5%
Apparels	26.0%	20.6%	0.0%	3.0%	11.0%
Accessories	38.3%	-1.2%	6.0%	7.0%	7.0%
Total	29.1%	10.9%	3.1%	5.1%	8.8%
<b>Sales by segment (RMB mn)</b>					
Mass market	11,128	11,947	12,724	13,926	14,904
Athleisure	1,403	1,603	822	0	0
Professional sports	400	796	1,247	1,617	2,013
Total	12,930	14,346	14,793	15,543	16,917
<b>Sales by segment growth (YoY)</b>					
Mass market	25.9%	7.4%	6.5%	9.4%	7.0%
Athleisure	44.5%	14.3%	-48.7%	-100.0%	#DIV/0!
Professional sports	99.0%	98.9%	56.7%	29.7%	24.5%
Total	29.1%	10.9%	3.1%	5.1%	8.8%
<b>Sales network</b>					
Xtep	4,493	4,568	4,568	4,568	4,568
Xtep kids	1,520	1,703	1,703	1,788	1,878
Oversea stores	300	300	300	300	300
Total	6,313	6,571	6,571	6,656	6,746
GP margin	40.9%	42.2%	43.8%	43.7%	43.9%
<b>Opex breakdown</b>					
A&P / sales	11.9%	13.7%	13.2%	12.8%	12.8%
Staff costs/ sales	11.3%	10.1%	10.1%	9.8%	9.5%
R&D / sales	2.3%	2.8%	2.6%	2.8%	2.8%
D&A / sales	1.9%	2.1%	2.1%	2.0%	2.0%
Provisions (write-backs) / sales	0.4%	0.1%	0.1%	0.1%	0.0%
Rental / sales	0.1%	0.2%	0.2%	0.2%	0.2%
Selling & distribution costs / sales	20.8%	23.5%	23.0%	22.6%	22.3%
Admin expenses / sales	11.2%	10.7%	10.6%	10.3%	10.2%
Total	32.0%	34.2%	33.7%	32.9%	32.5%
<b>OP margin</b>	<b>11.3%</b>	<b>11.0%</b>	<b>12.5%</b>	<b>13.2%</b>	<b>13.8%</b>
Effective tax rate	33.0%	28.7%	30.0%	29.5%	29.0%
<b>Net profit att. margins</b>	<b>7.1%</b>	<b>7.2%</b>	<b>8.3%</b>	<b>9.0%</b>	<b>9.7%</b>
<b>Net profit att. growth (%)</b>	<b>1.5%</b>	<b>11.8%</b>	<b>19.4%</b>	<b>13.5%</b>	<b>17.1%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,013	12,930	14,346	14,793	15,543	16,917
Cost of goods sold	(5,835)	(7,639)	(8,296)	(8,311)	(8,755)	(9,494)
Gross profit	4,178	5,292	6,050	6,481	6,787	7,424
Operating expenses	(3,081)	(4,144)	(4,909)	(4,983)	(5,115)	(5,496)
Selling expense	(1,891)	(2,690)	(3,369)	(3,408)	(3,514)	(3,776)
Admin expense	(937)	(1,155)	(1,142)	(1,190)	(1,166)	(1,246)
R&D expense	(252)	(299)	(398)	(385)	(435)	(474)
Others	0	0	0	0	0	0
Operating profit	1,396	1,464	1,580	1,854	2,045	2,334
Other income	299	317	439	355	373	406
Share of (losses)/profits of associates/JV	(46)	(12)	15	37	65	101
EBITDA	1,480	1,595	1,740	2,040	2,243	2,478
Depreciation	(71)	(117)	(145)	(124)	(127)	(123)
Other amortisation	(13)	(14)	(16)	(61)	(71)	(21)
Interest income	21	25	41	73	78	78
Interest expense	(85)	(117)	(187)	(194)	(194)	(194)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	1,287	1,361	1,449	1,770	1,994	2,319
Income tax	(397)	(449)	(416)	(531)	(588)	(673)
Minority interest	19	9	(3)	(9)	(10)	(12)
Net profit	889	912	1,033	1,239	1,406	1,647

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,432	12,338	12,044	13,023	13,311	14,189
Cash & equivalents	3,930	3,414	3,295	4,081	3,954	4,089
Account receivables	3,528	4,213	4,975	5,130	5,391	5,867
Inventories	1,497	2,287	1,794	1,797	1,893	2,053
Prepayment	1,443	1,371	1,112	1,147	1,205	1,311
ST bank deposits	33	1,047	862	862	862	862
Other current assets	1	6	7	7	7	7
Non-current assets	4,183	4,155	5,281	4,353	4,641	5,056
PP&E	1,119	1,368	1,592	1,868	2,162	2,497
Investment in JVs & assos	365	439	751	789	853	954
Intangibles	671	723	723	(520)	(593)	(614)
Other non-current assets	2,028	1,626	2,214	2,216	2,218	2,219
Total assets	14,615	16,494	17,325	17,377	17,952	19,244
Current liabilities	4,053	6,645	5,851	5,907	6,130	6,515
Short-term borrowings	405	2,231	954	954	954	954
Account payables	2,352	2,772	2,531	2,535	2,671	2,896
Tax payable	123	108	144	144	144	144
Other current liabilities	1,173	1,534	2,222	2,274	2,361	2,521
Non-current liabilities	2,580	1,542	2,552	2,552	2,552	2,552
Long-term borrowings	1,375	193	1,691	1,691	1,691	1,691
Other non-current liabilities	1,205	1,349	860	860	860	860
Total liabilities	6,633	8,187	8,402	8,459	8,681	9,066
Share capital	23	23	23	23	23	23
Retained earnings	5,020	5,126	5,281	4,630	5,358	6,210
Other reserves	2,940	3,157	3,620	4,256	3,871	3,914
Total shareholders equity	7,982	8,307	8,923	8,909	9,252	10,148
Minority interest	0	0	0	9	19	30
Total equity and liabilities	14,615	16,494	17,325	17,377	17,952	19,244

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,287	1,361	1,449	1,770	1,994	2,319
Depreciation & amortization	84	131	161	186	198	144
Tax paid	(329)	(431)	(531)	(531)	(588)	(673)
Change in working capital	(447)	(688)	(21)	(136)	(192)	(358)
Others	107	199	197	(37)	(65)	(101)
<b>Net cash from operations</b>	<b>701</b>	<b>572</b>	<b>1,255</b>	<b>1,251</b>	<b>1,347</b>	<b>1,332</b>
<b>Investing</b>						
Capital expenditure	(414)	(365)	(389)	(401)	(421)	(458)
Acquisition of subsidiaries/ investments	(3)	(5)	(6)	1,180	0	0
Others	89	(503)	(520)	0	0	0
<b>Net cash from investing</b>	<b>(329)</b>	<b>(873)</b>	<b>(915)</b>	<b>779</b>	<b>(421)</b>	<b>(458)</b>
<b>Financing</b>						
Dividend paid	(356)	(550)	(469)	(1,245)	(1,052)	(739)
Net borrowings	(312)	466	189	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	764	(152)	(182)	0	0	0
<b>Net cash from financing</b>	<b>96</b>	<b>(236)</b>	<b>(461)</b>	<b>(1,245)</b>	<b>(1,052)</b>	<b>(739)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,472	3,930	3,414	3,295	4,081	3,954
Exchange difference	(11)	21	2	0	0	0
Others	469	(537)	(122)	786	(126)	134
<b>Cash at the end of the year</b>	<b>3,930</b>	<b>3,414</b>	<b>3,295</b>	<b>4,081</b>	<b>3,954</b>	<b>4,089</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	22.5%	29.1%	10.9%	3.1%	5.1%	8.8%
Gross profit	30.6%	26.7%	14.3%	7.1%	4.7%	9.4%
Operating profit	52.1%	4.9%	7.9%	17.3%	10.3%	14.1%
EBITDA	48.6%	7.8%	9.1%	17.2%	10.0%	10.5%
Net profit	76.1%	2.6%	13.2%	19.9%	13.5%	17.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	41.7%	40.9%	42.2%	43.8%	43.7%	43.9%
Operating margin	13.9%	11.3%	11.0%	12.5%	13.2%	13.8%
EBITDA margin	14.8%	12.3%	12.1%	13.8%	14.4%	14.6%
Return on equity (ROE)	11.6%	11.2%	12.0%	13.9%	15.5%	17.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.2	0.1	0.1	0.2	0.1	0.1
Current ratio (x)	2.6	1.9	2.1	2.2	2.2	2.2
Receivable turnover days	128.6	118.9	126.6	126.6	126.6	126.6
Inventory turnover days	93.7	109.3	78.9	78.9	78.9	78.9
Payable turnover days	147.1	132.4	111.3	111.3	111.3	111.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	14.3	14.2	13.0	11.3	9.9	8.5
P/E (diluted)	14.3	14.2	13.0	11.3	9.9	8.5
P/B	1.6	1.6	1.5	1.5	1.4	1.3
P/CFPS	18.5	22.9	10.6	11.1	10.3	10.4
Div yield (%)	4.2	3.5	3.8	12.6	5.0	5.8
EV	12,659.3	13,345.0	13,975.1	13,189.1	13,315.4	13,181.2
EV/Sales	1.3	1.0	1.0	0.9	0.9	0.8
EV/EBITDA	8.6	8.4	8.0	6.5	5.9	5.3

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

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