

Xtep (1368 HK)

Acquisition of 50% of the Saucony & Merrell China JV and 40% of the Saucony IP Company

- **What is new? Xtep announced the acquisition of 50% shares of the 2019 JV with Wolverine Group and 40% of Saucony Asia IP.** Xtep (1368 HK) will spend around USD61mn (around RMB430mn) to purchase 50% shares of the Saucony and Merrell JV formed in 2019 with Wolverine Group (WWW US) and 40% stake of the Saucony Asia IP Holdco (together with the option to buy further stake of 35% or 60%).
- **Our view: Positive, supported by undemanding valuation and potential margin expansion.**
- **1) The valuation is attractive,** as the deal was priced at around 1.1x FY23E P/S, which is higher than Xtep's 0.7x but lower than domestic/ international sportswear brands' average of 1.2x/ 2.1x, and the sales CAGR was exceptionally fast at 136% during FY20-22 and should remain fast at about 52% during FY22-25E.
- **2) The deal should be EPS accretive,** as we believe Xtep could gain extra profits by consolidating the 50% ownership of the JV (starting from 1 Jan 2024), by paying 40% less of the license fees (about 19% of FOB price) or by earning license fees when Saucony global team sells shoes designed by the China team. We do forecast Saucony's GP margin to climb to around 58% and net profits to be at around RMB78mn in FY24E (referring to the RMB19mn net profit generated in 1H23 based on the Non-GAPP standard). Noted that management is confident that Saucony's sales could reach RMB2.0bn by FY25E and the GP margin and OP margin could exceed 60% and 20% in the long run (in 5 to 6 years).
- **3) The room for product category expansion is still huge,** as Saucony is ramping up the localized products (made up around 40% of footwear (could still go over 50%) and 100% of apparel) and clothing products (contributed about 30% offline sales or 15% to 20% of total sales), and is also launching a new business casual line and introducing fairly classic OG series (offering retro footwear ranging from speed shoes, trail run shoes, walking shoes and causal classic) to the China market.
- **4) Sales per store growth could still be fast,** as the store size could continue to grow (stores opened in the early stages, e.g. in 2020, are at about 80-90 sq.m. while the new ones tend to be larger, at 200 sq.m).
- **Maintain BUY but trim TP to HK\$ 7.62, based on 13x FY24E P/E (down from 15x).** We have fine-tuned our FY23E/ 24E/ 25E NP forecast by -1%/ +3%/ +5%, to factor in the M&A. While we think this deal is positive for Xtep but the industry landscape is still not favourable for domestic brands in 4Q24E and 1H24E, hence we will now use a lower target P/E. But given the distressed valuation of 7x FY24E P/E and 5% yield, we maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,013	12,930	14,742	16,845	19,155
YoY growth (%)	22.5	29.1	14.0	14.3	13.7
Operating profit (RMB mn)	1,396	1,464	1,638	2,016	2,437
Net profit (RMB mn)	889.4	912.3	1,049.6	1,366.9	1,733.9
EPS (Reported) (RMB)	0.36	0.36	0.40	0.51	0.63
YoY growth (%)	72.1	0.6	12.0	26.6	23.6
P/E (x)	10.0	10.8	9.7	7.4	5.9
P/B (x)	1.1	1.2	1.1	1.1	1.0
Yield (%)	2.9	1.8	5.1	6.4	7.9
ROE (%)	11.6	11.2	12.2	14.8	17.2
Net gearing (%)	17.9	14.8	6.5	3.7	1.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$7.62

(Previous TP) HK\$8.58

Up/Downside 75.2%

Current Price HK\$4.35

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	11,461.6
Avg 3 mths t/o (HK\$ mn)	55.8
52w High/Low (HK\$)	10.98/4.30
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	-15.7%	-11.5%
3-mth	-43.9%	-39.5%
6-mth	-51.6%	-41.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **Updates for Xtep.** According to the management, sales growth in Dec 2023 was similar to that in Nov 2023. Also, management maintained the FY23E guidance (10%+ sales growth and faster net profit growth) and still expected the inventory level to fall below RMB2bn by the end of FY23E. They also kept that target of 25% to 30% off retail discounts in 4Q23E (close to 25% off if the double 11 festival was excluded). Noted that Xtep's e-commerce performance in FY23E was weaker than expected (e.g. only 8% growth during the Double 11 festival) and that was mainly due to retirement of some low-end product series.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	14,742	16,845	19,155	14,742	16,914	19,232	0.0%	-0.4%	-0.4%
Gross profit	6,069	7,046	8,100	6,069	7,009	8,032	0.0%	0.5%	0.9%
EBIT	1,638	2,016	2,437	1,641	2,003	2,377	-0.2%	0.7%	2.6%
Net profit att.	1,050	1,367	1,733	1,054	1,334	1,648	-0.4%	2.5%	5.1%
Diluted EPS (RMB)	0.398	0.519	0.658	0.400	0.506	0.626	-0.4%	2.5%	5.1%
Gross margin	41.2%	41.8%	42.3%	41.2%	41.4%	41.8%	0ppt	0.4ppt	0.5ppt
EBIT margin	11.1%	12.0%	12.7%	11.1%	11.8%	12.4%	0ppt	0.1ppt	0.4ppt
Net profit att. margin	7.1%	8.1%	9.0%	7.1%	7.9%	8.6%	0ppt	0.2ppt	0.5ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	14,742	16,845	19,155	14,614	16,997	19,642	0.9%	-0.9%	-2.5%
Gross profit	6,069	7,046	8,100	6,064	7,097	8,251	0.1%	-0.7%	-1.8%
EBIT	1,638	2,016	2,437	1,604	1,946	2,341	2.1%	3.6%	4.1%
Net profit att.	1,050	1,367	1,733	1,085	1,326	1,594	-3.3%	3.1%	8.8%
Diluted EPS (RMB)	0.398	0.519	0.658	0.411	0.501	0.602	-3.2%	3.5%	9.2%
Gross margin	41.2%	41.8%	42.3%	41.5%	41.8%	42.0%	-0.3ppt	0.1ppt	0.3ppt
EBIT margin	11.1%	12.0%	12.7%	11.0%	11.4%	11.9%	0.1ppt	0.5ppt	0.8ppt
Net profit att. margin	7.1%	8.1%	9.0%	7.4%	7.8%	8.1%	-0.3ppt	0.3ppt	0.9ppt

Source: Company data, Bloomberg, CMBIGM estimates

Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E
Nike China sales	8%	19%	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	5%	13%
Adidas China sales	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	20%	10%	10%
Anta brand's SSSG																
Anta brand's retail sales	+ve LSD	+ve LSD	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	18%	16%	3%
Core brand	-ve MSD	-ve MSD	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			
Kids	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD			
Online	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD			
FILA brand's retail sales																
FILA brand's retail sales	20%-25%	25%-30%	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	26%	10%	14%
Classic/ Core brand	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD			
Kids	Over 30%	Over 20%	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			
Fusion	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD			
Online	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens			
Other brands																
Other brands	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%			
Descente	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens	70%-75%	60%-65%	40%-45%			
Kolon	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	-ve High-teens	100%	100%	60%-65%			
Li Ning group's SSSG																
Li Ning group's SSSG	+ve LSD	+ve Low-teens	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			
Direct retail	-ve MSD	+ve HSD	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			
Wholesales	-ve MSD	+ve MSD	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			
E- Commerce	+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	-ve LSD	-ve Low	+ve LSD	-ve LSD			
Li Ning group's retail sales																
Li Ning group's retail sales	+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	-ve Low-teens	+ve MSD	+ve Mid-teens	+ve MSD	18%	0%	2%
Direct retail	Flat	+ve MSD	+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%			
Wholesales	-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	-ve Low 20%	+ve MSD	+ve Mid-teens	+ve LSD			
E- Commerce	+ve Low 40%	+ve Mid 30%	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			
Xtep brand's SSSG																
Xtep brand's retail sales	+ve MSD	+ve HSD	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	29%	7%	6%
361 Degree brand's SSSG																
361 Degree brand's retail sales	-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	+ve Low-teens	+ve Low-teens	15.0%			
Kids			20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%			
E- Commerce					35%-40%	50%	40%	45%	25%	35%	30%	30%				
Pou Sheng's SSSG																
Pou Sheng's SSSG	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-5%			
Pou Sheng's sales	0%	1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	11%	4%	18%
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 LSD	+ve Low-teens	8%	12%	
Dong Xiang's SSSG																
Dong Xiang's SSSG	+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	+ve Low to Mid-teens	+ve Low to Mid-teens	+ve Low to Mid SD			
Dong Xiang's retail sales																
Dong Xiang's retail sales	+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%	+ve Low to Mid-teens	+ve Mid-teens	+ve MSD			
Direct retail	Flat	+ve MSD	70%-75%													
E- Commerce	+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)

Assumptions

Figure 4: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)					
Shoes	5,928	7,760	8,802	10,041	11,487
Apparels	3,887	4,897	5,631	6,476	7,318
Accessories	198	273	309	327	350
Total	10,013	12,930	14,742	16,845	19,155
Sales by segment growth (%)					
Shoes	17.5%	30.9%	13.4%	14.1%	14.4%
Apparels	31.2%	26.0%	15.0%	15.0%	13.0%
Accessories	22.5%	38.3%	13.0%	6.0%	7.0%
Total	22.5%	29.1%	14.0%	14.3%	13.7%
Sales by segment (RMB mn)					
Mass market	8,841	11,128	12,372	13,824	15,558
Athleisure	971	1,403	1,615	1,913	2,179
Professional sports	201	400	756	1,108	1,419
Total	10,013	12,930	14,742	16,845	19,155
Sales by segment growth (YoY)					
Mass market	24.5%	25.9%	11.2%	11.7%	12.5%
Athleisure	-2.8%	44.5%	15.1%	18.5%	13.9%
Professional sports	180.3%	99.0%	88.9%	46.6%	28.0%
Total	22.5%	29.1%	14.0%	14.3%	13.7%
Sales network					
Xtep	4,722	4,493	4,628	4,767	4,910
Xtep kids	1,179	1,520	1,626	1,708	1,793
Oversea stores	250	300	300	300	300
Total	6,151	6,313	6,554	6,774	7,003
GP margins	41.7%	40.9%	41.2%	41.8%	42.3%
Opex breakdown					
A&P / sales	10.2%	11.9%	12.6%	12.5%	12.5%
Staff costs/ sales	11.1%	11.3%	11.2%	10.9%	10.9%
R&D / sales	2.5%	2.3%	2.4%	2.6%	2.6%
D&A / sales	1.7%	1.9%	1.7%	1.6%	1.4%
Provisions (write backs) / sales	-0.2%	0.4%	0.3%	0.2%	0.2%
Rental / sales	0.1%	0.1%	0.4%	0.4%	0.4%
Selling & distribution costs / sales	18.9%	20.8%	21.0%	20.7%	20.6%
Admin expenses / sales	11.9%	11.2%	11.7%	11.5%	11.2%
Total	30.8%	32.0%	32.7%	32.2%	31.9%
OP margins	13.9%	11.3%	11.1%	12.0%	12.7%
Effective tax rate	30.9%	33.0%	32.0%	31.0%	30.0%
Net profit att. margins	9.1%	7.1%	7.1%	8.1%	9.0%
Net profit att. growth (%)	77.1%	1.5%	13.9%	30.3%	26.8%

Source: Company data, CMBIGM estimates

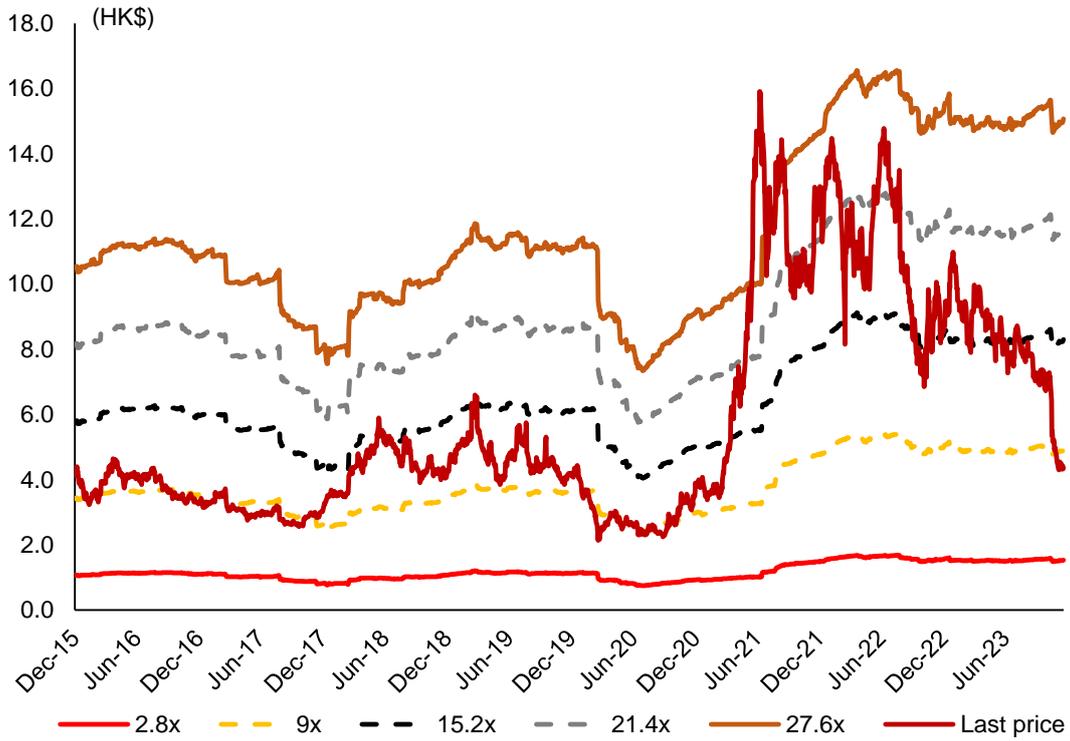
Valuation

Figure 5: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$mn)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. FY1E	
H shares Sportswear															
Xtep Intl	1368 HK	BUY	7.62	4.35	75%	11,490	Dec-22	9.7	7.4	1.2	11.7	0.4	5.2	(49.9)	
Anta Sports	2020 HK	BUY	109.99	73.35	50%	207,773	Dec-22	19.1	16.1	4.3	21.8	1.1	2.4	(28.3)	
Li Ning	2331 HK	BUY	32.93	18.64	77%	48,936	Dec-22	11.7	9.9	1.7	16.8	1.5	3.2	(72.5)	
361 Degrees	1361 HK	NR	n/a	3.37	n/a	6,968	Dec-22	6.8	5.7	0.7	10.9	0.4	4.3	1.2	
Topsports	6110 HK	BUY	9.23	6.11	51%	37,889	Feb-23	14.7	12.4	3.3	20.4	0.8	6.0	1.1	
Pou Sheng	3813 HK	NR	n/a	0.66	n/a	3,515	Dec-22	8.3	4.7	0.4	4.6	0.1	4.8	(12.0)	
China DX	3818 HK	NR	n/a	0.24	n/a	1,384	Mar-23	10.7	7.2	0.1	1.0	0.3	9.3	(21.8)	
								Avg.	11.6	9.1	1.7	12.5	0.7	5.0	(26.0)
								Med.	10.7	7.4	1.2	11.7	0.4	4.8	(21.8)
International Sportswear															
Nike Inc	NKE US	NR	n/a	121.55	n/a	1,442,871	May-23	32.5	27.7	12.8	33.9	2.1	1.2	3.9	
Adidas	ADS GY	NR	n/a	190.34	n/a	291,629	Dec-22	n/a	43.0	6.9	(3.7)	0.0	0.2	49.3	
Puma	PUM GY	NR	n/a	52.64	n/a	67,580	Dec-22	23.2	16.9	2.9	10.8	1.2	1.5	(7.2)	
Under Armour	UAA US	NR	n/a	8.60	n/a	28,648	Mar-23	17.4	14.3	1.8	21.0	(2.7)	0.0	(15.4)	
Lululemon	LULU US	NR	n/a	491.46	n/a	483,726	Jan-23	39.5	34.5	15.2	30.5	1.2	0.0	53.4	
Skechers	SKX US	NR	n/a	61.71	n/a	74,115	Dec-22	17.8	15.0	2.3	14.4	0.7	0.0	47.1	
Vf Corp	VFC US	NR	n/a	19.91	n/a	60,391	Apr-23	13.0	10.3	2.9	(8.1)	0.1	3.9	(27.9)	
Deckers	DECK US	NR	n/a	702.81	n/a	141,051	Mar-23	29.5	25.9	8.9	37.0	1.7	0.0	76.1	
On Holding	ONON US	NR	n/a	30.88	n/a	76,624	Dec-22	55.9	38.5	7.7	6.3	0.5	n/a	80.0	
Columbia	COLM US	NR	n/a	81.51	n/a	38,469	Dec-22	18.0	17.5	2.5	15.3	8.6	1.5	(6.9)	
Wolverine	WWW US	NR	n/a	8.98	n/a	5,571	Dec-22	119.7	10.4	2.1	(62.1)	(0.7)	4.5	(17.8)	
Mizuno Corp	8022 JP	NR	n/a	3880.00	n/a	5,637	Mar-23	9.4	8.6	0.9	8.7	2.4	1.9	37.9	
Asics Corp	7936 JP	NR	n/a	4546.00	n/a	47,179	Dec-22	27.3	22.2	4.6	17.5	1.1	1.3	56.0	
								Avg.	33.6	21.9	5.5	9.4	1.2	1.3	25.3
								Med.	25.2	17.5	2.9	14.4	1.1	1.3	37.9

Source: Bloomberg, CMBIGM estimates

Figure 6: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	8,172	10,013	12,930	14,742	16,845	19,155
Cost of goods sold	(4,973)	(5,835)	(7,639)	(8,673)	(9,799)	(11,055)
Gross profit	3,198	4,178	5,292	6,069	7,046	8,100
Operating expenses	(2,588)	(3,081)	(4,144)	(4,815)	(5,418)	(6,104)
Selling expense	(1,537)	(1,891)	(2,690)	(3,091)	(3,489)	(3,949)
Admin expense	(827)	(937)	(1,155)	(1,370)	(1,491)	(1,657)
R&D expense	(223)	(252)	(299)	(354)	(438)	(498)
Others	0	0	0	0	0	0
Operating profit	918	1,396	1,464	1,638	2,016	2,437
Other income	307	299	317	383	387	441
Share of (losses)/profits of associates/JV	(17)	(46)	(12)	15	78	156
EBITDA	996	1,480	1,595	1,809	2,202	2,635
Depreciation	(64)	(71)	(117)	(121)	(124)	(127)
Other amortisation	(14)	(13)	(14)	(50)	(61)	(71)
Interest income	4	21	25	26	23	19
Interest expense	(144)	(85)	(117)	(131)	(131)	(131)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	762	1,287	1,361	1,549	1,986	2,482
Income tax	(257)	(397)	(449)	(499)	(619)	(748)
Minority interest	8	19	9	(11)	(10)	(12)
Net profit	505	889	912	1,050	1,367	1,734
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	9,027	10,432	12,338	12,777	13,800	14,957
Cash & equivalents	3,472	3,930	3,414	2,761	2,539	2,322
Account receivables	3,236	3,528	4,213	4,803	5,488	6,241
Inventories	975	1,497	2,287	2,597	2,934	3,310
Prepayment	899	1,443	1,371	1,563	1,785	2,030
ST bank deposits	437	33	1,047	1,047	1,047	1,047
Other current assets	8	1	6	6	6	6
Non-current assets	3,544	4,183	4,155	4,850	5,217	5,716
PP&E	796	1,119	1,368	1,663	2,014	2,427
Investment in JVs & assos	218	365	439	454	532	688
Intangibles	709	671	723	1,104	1,041	968
Other non-current assets	1,820	2,028	1,626	1,629	1,631	1,633
Total assets	12,572	14,615	16,494	17,627	19,017	20,672
Current liabilities	3,334	4,053	6,645	7,220	7,860	8,571
Short-term borrowings	642	405	2,231	2,231	2,231	2,231
Account payables	1,479	2,352	2,772	3,147	3,556	4,011
Tax payable	86	123	108	108	108	108
Other current liabilities	1,127	1,173	1,534	1,734	1,966	2,221
Non-current liabilities	1,939	2,580	1,542	1,542	1,542	1,542
Long-term borrowings	1,516	1,375	193	193	193	193
Other non-current liabilities	423	1,205	1,349	1,349	1,349	1,349
Total liabilities	5,273	6,633	8,187	8,762	9,402	10,113
Share capital	22	23	23	23	23	23
Retained earnings	4,671	5,020	5,126	5,487	6,170	7,037
Other reserves	2,605	2,940	3,157	3,344	3,401	3,466
Total shareholders equity	7,299	7,982	8,307	8,854	9,594	10,526
Minority interest	0	0	0	11	21	33
Total equity and liabilities	12,572	14,615	16,494	17,627	19,017	20,672

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	762	1,287	1,361	1,560	1,996	2,494
Depreciation & amortization	78	84	131	171	186	198
Tax paid	(325)	(329)	(431)	(499)	(619)	(748)
Change in working capital	(320)	(447)	(688)	(517)	(605)	(663)
Others	125	107	199	(15)	(78)	(156)
Net cash from operations	320	701	572	699	881	1,124
Investing						
Capital expenditure	(207)	(414)	(365)	(416)	(475)	(541)
Acquisition of subsidiaries/ investments	(4)	(3)	(5)	(434)	0	0
Others	784	89	(503)	0	0	0
Net cash from investing	573	(329)	(873)	(850)	(475)	(541)
Financing						
Dividend paid	(279)	(356)	(550)	(502)	(627)	(801)
Net borrowings	(77)	(312)	466	0	0	0
Proceeds from share issues	37	0	0	0	0	0
Share repurchases	(6)	0	0	0	0	0
Others	(55)	764	(152)	0	0	0
Net cash from financing	(380)	96	(236)	(502)	(627)	(801)
Net change in cash						
Cash at the beginning of the year	2,970	3,472	3,930	3,414	2,761	2,539
Exchange difference	(11)	(11)	21	0	0	0
Others	513	469	(537)	(653)	(222)	(218)
Cash at the end of the year	3,472	3,930	3,414	2,761	2,539	2,322
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.1%)	22.5%	29.1%	14.0%	14.3%	13.7%
Gross profit	(9.9%)	30.6%	26.7%	14.7%	16.1%	15.0%
Operating profit	(25.6%)	52.1%	4.9%	11.9%	23.1%	20.9%
EBITDA	(24.6%)	48.6%	7.8%	13.4%	21.7%	19.7%
Net profit	(31.0%)	76.1%	2.6%	15.1%	30.2%	26.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	39.1%	41.7%	40.9%	41.2%	41.8%	42.3%
Operating margin	11.2%	13.9%	11.3%	11.1%	12.0%	12.7%
EBITDA margin	12.2%	14.8%	12.3%	12.3%	13.1%	13.8%
Return on equity (ROE)	7.1%	11.6%	11.2%	12.2%	14.8%	17.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.2	0.2	0.1	0.1	0.0	0.0
Current ratio (x)	2.7	2.6	1.9	1.8	1.8	1.7
Receivable turnover days	144.5	128.6	118.9	118.9	118.9	118.9
Inventory turnover days	71.5	93.7	109.3	109.3	109.3	109.3
Payable turnover days	108.5	147.1	132.4	132.4	132.4	132.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	17.7	10.0	10.8	9.7	7.4	5.9
P/E (diluted)	17.7	10.0	10.8	9.7	7.4	5.9
P/B	1.3	1.1	1.2	1.1	1.1	1.0
P/CFPS	20.0	27.2	42.8	14.9	11.8	9.3
Div yield (%)	4.6	2.9	1.8	5.1	6.4	7.9
EV	9,327.9	9,653.9	10,235.9	10,888.9	17,120.1	17,513.9
EV/Sales	1.1	1.0	0.8	0.7	1.0	0.9
EV/EBITDA	9.4	6.5	6.4	6.0	7.8	6.6

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

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