

# Xtep (1368 HK)

## Inventory not a worry and guidance maintained

Xtep roughly maintained its FY22E guidance, which consists of faster sales growth but a slightly higher opex for Xtep kids' brand building. Due to likely turnaround, its industry leading growth and attractive valuation (21x), we maintain BUY and kept our SOTP-based TP at HK\$17.04, implying ~27x FY23E P/E.

- **1H22E result roughly inline.** Sales increased by 37% YoY to RMB 5.68bn, 2% above CMBI est., still strong after some trade fair order cuts for its distributors in North East China. Net profit also rose by 38% YoY to RMB 590mn, 2% above CMBI est., which consists of better than expected S&M and Xtep kids sales growth, other income but also higher than expected tax rate. Dividend payout was cut from ~60% in FY21 to just 50% in 1H22, as the Company prefers to better use its cash on business expansions but noted that it is still the highest among all leading sportswear brands. Inventory days jumped to 106 days in 1H22 (by 29 days from 77 days in FY21), but this is mostly due to some trade fair order cuts (worth of ~RMB 200mn) and delayed shipments for K&P (worth of ~RMB 350mn), and a reasonable amount of inventory is needed in order to capture future pickup in consumer demands.
- **Retail sales growth accelerated in Jul-Aug 2022.** Management stated that Xtep core brand's retail sales growth was at ~20-30%/ ~30% in Jul / Aug 2022, vs 10%/ 30-35% in May/ Jun 2022. This is already the best amongst its peers (10%+/- double digits for Li Ning/ Anta and FILA).
- **FY22E sales growth guidance raised but net profit growth target roughly maintained.** Management did raise the Company's sales growth target (Xtep 25%-30% to 30%/ K&P: maintained at 30%/ S&M: 50% to 60%-70%) to ~30% in FY22E, from 25%-30%, thanks to: 1) Xtep core brand's rapid recovery, no more trade fair orders adjustments are needed in 2H22E, 2) blooming growth for Xtep kids (80%+ growth in 1H22) as the physical education has now become a compulsory module at schools and 3) store expansions (200+ stores for Core brand/ Kids respectively) and per store area growth (about 10-15% increase). However, while GP margin is guided to be at 42%- 42.5% in FY22E, opex is also higher than expected (esp. A&P and R&D expenses) for Xtep kids, in order to build the foundations in 1-2 years for better long-term future growth. As a whole, the Company's NP margin may decrease by 0.3ppt-0.5ppt in FY22E.
- **Maintain BUY and TP at HK\$ 17.04.** We maintain BUY with a TP at HK\$ 17.04, based on SOTP valuation (23x FY23E P/E for Xtep, cost for K&P and 2.0x P/S for JV), implying ~27x FY23E P/E for the group, reasonable given the 24% NP CAGR in FY21-24E. It is trading at only 1.0x PEG.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,172	10,013	12,859	15,225	17,393
YoY growth (%)	(0.1)	22.5	28.4	18.4	14.2
Net income (RMB mn)	513	908	1,138	1,384	1,708
EPS (RMB)	0.206	0.355	0.439	0.525	0.648
YoY growth (%)	(31.6)	72.1	23.7	19.6	23.4
Consensus EPS (RMB)	N/A	N/A	0.445	0.560	0.690
P/E (x)	51.5	29.4	23.8	20.6	16.7
P/B (x)	3.7	3.3	3.2	3.1	2.9
Yield (%)	1.1	2.0	2.5	2.9	3.6
ROE (%)	7.0	11.4	13.4	15.2	17.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$17.04
(Previous TP	HK\$17.04)
Up/Downside	+35.1%
Current Price	HK\$12.62

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### Stock Data

Mkt Cap (HK\$ mn)	33,252
Avg 3 mths t/o (HK\$ mn)	197.72
52w High/Low (HK\$)	14.98/8.08
Total Issued Shares (mn)	2,634.8

Source: Bloomberg

### Shareholding Structure

Mr Ding Shui Po & Family	52.28%
JP Morgan Chase	4.61%
ICBC Credit Suisse AM	3.02%
Employee incentive scheme	4.01%
Free Float	36.08%

Source: HKEx, Bloomberg

### Share Performance

	Absolute	Relative
1-mth	2.1%	7.1%
3-mth	25.2%	32.0%
6-mth	3.2%	23.5%
12-mth	15.2%	45.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

1. Xtep (1368 HK, BUY) – A resilient 2Q22 and FY22E guidance upheld – 14 Jul 2022
2. Xtep (1368 HK, BUY) – Prudent on 2Q22 but guidance maintained – 8 Apr 2022
3. Xtep (1368 HK, BUY) – Robust retail sales growth despite pandemic – 17 Mar 2022

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,859	15,225	17,393	12,615	14,941	17,069	1.9%	1.9%	1.9%
Gross profit	5,446	6,475	7,430	5,279	6,282	7,210	3.2%	3.1%	3.1%
EBIT	1,738	2,099	2,538	1,726	2,105	2,527	0.7%	-0.2%	0.5%
Net profit att.	1,138	1,384	1,708	1,148	1,416	1,766	-0.8%	-2.3%	-3.3%
Diluted EPS (RMB)	0.439	0.525	0.648	0.451	0.556	0.693	-2.5%	-5.5%	-6.5%
Gross margin	42.3%	42.5%	42.7%	41.8%	42.0%	42.2%	0.5ppt	0.5ppt	0.5ppt
EBIT margin	13.5%	13.8%	14.6%	13.7%	14.1%	14.8%	-0.2ppt	-0.3ppt	-0.2ppt
Net profit att. margin	8.8%	9.1%	9.8%	9.1%	9.5%	10.3%	-0.2ppt	-0.4ppt	-0.5ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,859	15,225	17,393	12,573	15,426	18,624	2.3%	-1.3%	-6.6%
Gross profit	5,446	6,475	7,430	5,252	6,472	7,851	3.7%	0.0%	-5.4%
EBIT	1,738	2,099	2,538	1,734	2,158	2,639	0.2%	-2.7%	-3.8%
Net profit att.	1,138	1,384	1,708	1,154	1,452	1,792	-1.4%	-4.7%	-4.6%
Diluted EPS (RMB)	0.439	0.525	0.648	0.445	0.560	0.690	-1.3%	-6.2%	-6.0%
Gross margin	42.3%	42.5%	42.7%	41.8%	42.0%	42.2%	0.6ppt	0.6ppt	0.6ppt
EBIT margin	13.5%	13.8%	14.6%	13.8%	14.0%	14.2%	-0.3ppt	-0.2ppt	0.4ppt
Net profit att. margin	8.8%	9.1%	9.8%	9.2%	9.4%	9.6%	-0.3ppt	-0.3ppt	0.2ppt

Source: Company data, CMBIGM estimates

## Results Summary

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H21	2H22	1H22E	2H22E	1H21 YoY	2H21 YoY	1H22 E YoY	2H22 E YoY	1H22E CMBI	Actual vs CMBI
<b>Revenue</b>	<b>4,135</b>	<b>5,878</b>	<b>5,684</b>	<b>7,176</b>	<b>12%</b>	<b>31%</b>	<b>37%</b>	<b>22%</b>	<b>5,573</b>	<b>2%</b>
<b>COGS</b>	<b>(2,406)</b>	<b>(3,430)</b>	<b>(3,297)</b>	<b>(4,117)</b>					<b>(3,238)</b>	
<b>Gross profit</b>	<b>1,729</b>	<b>2,449</b>	<b>2,387</b>	<b>3,059</b>	<b>16%</b>	<b>43%</b>	<b>38%</b>	<b>25%</b>	<b>2,335</b>	<b>2%</b>
<b>GP margins</b>	<b>41.8%</b>	<b>41.7%</b>	<b>42.0%</b>	<b>42.6%</b>					<b>41.9%</b>	
Other income & gains	211	88	237	59					212	12%
S & D expenses	(774)	(1,117)	(1,046)	(1,440)	13%	31%	35%	29%	(1,048)	0%
<b>S &amp; D exp / sales</b>	<b>-18.7%</b>	<b>-19.0%</b>	<b>-18.4%</b>	<b>-20.1%</b>					<b>-18.8%</b>	
Admin expenses	(483)	(707)	(656)	(861)	-6%	31%	36%	22%	(641)	2%
<b>Admin exp / sales</b>	<b>-11.7%</b>	<b>-12.0%</b>	<b>-11.5%</b>	<b>-12.0%</b>					<b>-11.5%</b>	
Other opex	0	0	0	0					0	
<b>Operating profit (EBIT)</b>	<b>684</b>	<b>713</b>	<b>922</b>	<b>816</b>	<b>37%</b>	<b>71%</b>	<b>35%</b>	<b>14%</b>	<b>858</b>	<b>7%</b>
<b>OP margins</b>	<b>16.5%</b>	<b>12.1%</b>	<b>16.2%</b>	<b>11.4%</b>					<b>15.4%</b>	
Other items	0	0	0	0					0	
Net finance income	(30)	(33)	(28)	(19)					(28)	1%
<b>Net finance income / sales</b>	<b>-0.7%</b>	<b>-0.6%</b>	<b>-0.5%</b>	<b>-0.3%</b>					<b>-0.5%</b>	
Profit after financing costs	653	680	893	796					830	
Associated coms	(8)	(39)	(11)	(29)					(6)	
Jointly controlled coms	0	0	0	0					0	
<b>Pre-tax profit</b>	<b>646</b>	<b>641</b>	<b>882</b>	<b>767</b>	<b>54%</b>	<b>87%</b>	<b>37%</b>	<b>20%</b>	<b>825</b>	<b>7%</b>
Tax	(224)	(173)	(293)	(235)					(256)	
<b>Tax / sales</b>	<b>-5.4%</b>	<b>-3.0%</b>	<b>-5.2%</b>	<b>-3.3%</b>					<b>-4.6%</b>	
<b>Effective tax rate</b>	<b>-34.7%</b>	<b>-27.1%</b>	<b>-33.2%</b>	<b>-30.6%</b>					<b>-31.0%</b>	
Minority interests	(5)	(14)	(1)	(15)					(11)	
<b>Net profit att.</b>	<b>427</b>	<b>482</b>	<b>590</b>	<b>548</b>	<b>72%</b>	<b>82%</b>	<b>38%</b>	<b>14%</b>	<b>580</b>	<b>2%</b>
<b>NP margins</b>	<b>10.3%</b>	<b>8.2%</b>	<b>10.4%</b>	<b>7.6%</b>					<b>10.4%</b>	
<b>Sales by segment</b>										
Mass market	3,597	5,244	4,898	6,355	12%	34%	36%	21%	4,820	2%
Athleisure	462	509	630	639	1%	-6%	36%	26%	624	1%
Professional sports	76	125	157	181	289%	140%	106%	45%	129	21%
<b>Total</b>	<b>4,135</b>	<b>5,878</b>	<b>5,684</b>	<b>7,176</b>	<b>12%</b>	<b>31%</b>	<b>37%</b>	<b>22%</b>	<b>5,573</b>	<b>2%</b>

Source: Company data, CMBIS estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY20	FY21	FY22E	FY23E	FY21 YoY	FY22E YoY	FY23E YoY
<b>Revenue</b>	<b>8,172</b>	<b>10,013</b>	<b>12,859</b>	<b>15,225</b>	<b>23%</b>	<b>28%</b>	<b>18%</b>
COGS	(4,973)	(5,835)	(7,413)	(8,750)			
<b>Gross profit</b>	<b>3,198</b>	<b>4,178</b>	<b>5,446</b>	<b>6,475</b>	<b>31%</b>	<b>30%</b>	<b>19%</b>
<b>GP margins</b>	<b>39.1%</b>	<b>41.7%</b>	<b>42.3%</b>	<b>42.5%</b>			
Other income & gains	307	299	296	304			
S & D expenses	(1,537)	(1,891)	(2,486)	(2,958)	<b>23%</b>	<b>31%</b>	<b>19%</b>
<b>S &amp; D exp / sales</b>	<b>-18.8%</b>	<b>-18.9%</b>	<b>-19.3%</b>	<b>-19.4%</b>			
Admin expenses	(1,050)	(1,189)	(1,518)	(1,722)	<b>13%</b>	<b>28%</b>	<b>13%</b>
<b>Admin exp / sales</b>	<b>-12.9%</b>	<b>-11.9%</b>	<b>-11.8%</b>	<b>-11.3%</b>			
Other opex	0	0	0	0			
<b>Operating profit (EBIT)</b>	<b>918</b>	<b>1,396</b>	<b>1,738</b>	<b>2,099</b>	<b>52%</b>	<b>24%</b>	<b>21%</b>
<b>OP margins</b>	<b>11.2%</b>	<b>13.9%</b>	<b>13.5%</b>	<b>13.8%</b>			
Other items	(17)	(46)	(41)	(31)			
Net finance income	(140)	(63)	(48)	(54)			
<b>Net finance income / sales</b>	<b>-1.7%</b>	<b>-0.6%</b>	<b>-0.4%</b>	<b>-0.4%</b>			
Profit after financing costs	762	1,287	1,649	2,015			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
<b>Pre-tax profit</b>	<b>762</b>	<b>1,287</b>	<b>1,649</b>	<b>2,015</b>	<b>69%</b>	<b>28%</b>	<b>22%</b>
Tax	(257)	(397)	(528)	(625)			
<b>Tax / sales</b>	<b>-3.1%</b>	<b>-4.0%</b>	<b>-4.1%</b>	<b>-4.1%</b>			
<b>Effective tax rate</b>	<b>-33.7%</b>	<b>-30.9%</b>	<b>-32.0%</b>	<b>-31.0%</b>			
Minority interests	(8)	(19)	(16)	6			
<b>Net profit att.</b>	<b>513</b>	<b>908</b>	<b>1,138</b>	<b>1,384</b>	<b>77%</b>	<b>25%</b>	<b>22%</b>
<b>NP margins</b>	<b>6.3%</b>	<b>9.1%</b>	<b>8.8%</b>	<b>9.1%</b>			
<b>Sales by segment</b>							
Mass market	7,101	8,841	11,253	13,286	<b>25%</b>	<b>27%</b>	<b>18%</b>
Athleisure	999	971	1,268	1,429	<b>-3%</b>	<b>31%</b>	<b>13%</b>
Professional sports	72	201	338	510	<b>180%</b>	<b>68%</b>	<b>51%</b>
<b>Total</b>	<b>8,172</b>	<b>10,013</b>	<b>12,859</b>	<b>15,225</b>	<b>23%</b>	<b>28%</b>	<b>18%</b>

Source: Company data, CMBIS estimates

## Focus charts

Figure 5: Sum of the parts (SOTP) valuation for Xtep Int'l

Sum of the parts valuation	Targeted price per share (HK\$)	Targeted market cap (HK\$ mn)	Targeted market cap (RMB mn)	Target ratio (x)	Valuation method	FY23E sales (RMB mn)	FY23E net profit (RMB mn)	Remarks
Xtep core brand	15.81	40,265	34,462	23.0	FY23E P/E	13,286	1,498	Based on 18% NP FY21-24E CAGR
K-swiss and Palladium	0.77	1,953	1,672	n/a	M&A costs	1,429	(84)	Implied a 1.2x FY23E P/S
Saucony and Merrell JV	0.47	1,191	1,019	2.0	FY23E P/S	510	(31)	Based on 2.0x FY23E P/S
Total	17.04	43,409	37,152			15,225	1,384	Implied a 27x FY23E P/E
Number of shares (mn)	2,547							
CNYHKD fx rate	1.17							
Current price (HKD)	12.62							
Upside (%)	35.1%							

Source: Bloomberg, CMBIS estimates

Figure 6: Xtep Int'l performance by brand segment

Sales (RMB mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY21-24E CAGR
Xtep core brand	7,707	7,101	8,841	11,253	13,286	15,059	16,782	19.4%
K-swiss and Palladium	466	999	971	1,268	1,429	1,613	1,822	18.4%
Saucony and Merrell JV	10	72	201	338	510	721	988	53.1%
Total	8,183	8,172	10,013	12,859	15,225	17,393	19,592	20.2%
Net profit (RMB mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY21-24E CAGR
Xtep core brand	790	656	1,055	1,278	1,498	1,752	2,038	18.4%
K-swiss and Palladium	(60)	(126)	(101)	(100)	(84)	(22)	48	-39.9%
Saucony and Merrell JV	(2)	(17)	(46)	(41)	(31)	(22)	10	-22.3%
Total	728	513	908	1,138	1,384	1,708	2,096	23.4%
NP margin	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	
Xtep core brand	10.2%	9.2%	11.9%	11.4%	11.3%	11.6%	12.1%	
K-swiss and Palladium	-12.9%	-12.6%	-10.4%	-7.9%	-5.9%	-1.4%	2.7%	
Saucony and Merrell JV	-19.6%	-23.7%	-23.0%	-12.0%	-6.0%	-3.0%	1.0%	
Total	8.9%	6.3%	9.1%	8.8%	9.1%	9.8%	10.7%	

Source: Company data, CMBIS estimates

## Operating numbers

Figure 7: Sportswear brands sales growth trend

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	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%	-10.0%	5.0%
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%	-20.0%	-5.0%
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	15.0%	17.0%
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		
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		
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		
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	13.0%	15.0%
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		
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		
Fusion			Over 100%	Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Mid-teens	Over 20%	-ve MSD		
Online			Over 70%	Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD		
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%		
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%		
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 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens		
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		
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		
Li Ning group's retail sales	+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	20.0%	25.0%
Direct retail	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-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		
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 30%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD		
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		
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	25.0%	20.0%
361 Degrees' 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		
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%	-15.0%	0.0%
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)

## Assumptions

Figure 8: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	5,047	5,928	7,400	8,806	10,217
Apparels	2,964	3,887	5,248	6,193	6,936
Accessories	161	198	211	226	240
Total	8,172	10,013	12,859	15,225	17,393
<b>Sales by segment growth (%)</b>					
Shoes	8.5%	17.5%	24.8%	19.0%	16.0%
Apparels	-11.4%	31.2%	35.0%	18.0%	12.0%
Accessories	-12.9%	22.5%	7.0%	7.0%	6.0%
Total	-0.1%	22.5%	28.4%	18.4%	14.2%
<b>Sales by segment (RMB mn)</b>					
Mass market	7,101	8,841	11,253	13,286	15,059
Athleisure	999	971	1,268	1,429	1,613
Professional sports	72	201	338	510	721
Total	8,172	10,013	12,859	15,225	17,393
<b>Sales by segment growth (YoY)</b>					
Mass market	-7.9%	24.5%	27.3%	18.1%	13.3%
Athleisure	114.4%	-2.8%	30.6%	12.7%	12.8%
Professional sports	609.9%	180.3%	68.1%	50.8%	41.5%
Total	-0.1%	22.5%	28.4%	18.4%	14.2%
<b>Sales network</b>					
Xtep	4,971	4,722	4,864	5,010	5,160
Xtep kids	800	1,179	1,297	1,401	1,499
Oversea stores	250	250	300	300	300
Total	6,021	6,151	6,461	6,710	6,959
GP margins	39.1%	41.7%	42.3%	42.5%	42.7%
<b>Opex breakdown</b>					
A&P / sales	11.2%	10.2%	11.0%	11.3%	11.3%
Staff costs/ sales	12.1%	11.1%	10.2%	10.1%	9.9%
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%	0.0%	0.0%	0.0%
Rental / sales	0.1%	0.1%	0.3%	0.4%	0.4%
Selling & distribution costs / sales	18.8%	18.9%	19.3%	19.4%	19.1%
Admin expenses / sales	12.9%	11.9%	11.8%	11.3%	11.0%
Total	31.7%	30.8%	31.1%	30.7%	30.1%
<b>OP margins</b>	<b>11.2%</b>	<b>13.9%</b>	<b>13.5%</b>	<b>13.8%</b>	<b>14.6%</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>8.8%</b>	<b>9.1%</b>	<b>9.8%</b>
<b>Net profit att. growth (%)</b>	<b>-29.5%</b>	<b>77.1%</b>	<b>25.3%</b>	<b>21.6%</b>	<b>23.4%</b>

Source: Company data, CMBIGM estimates

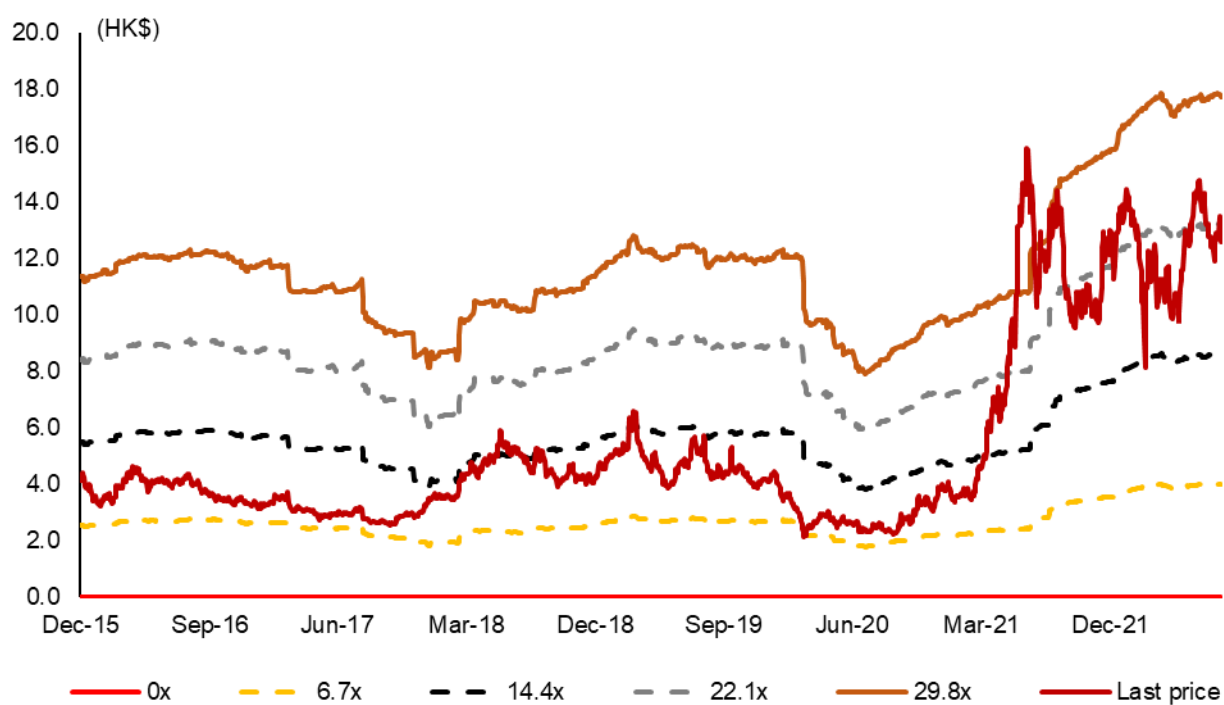
## Valuation

Figure 9: 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														
Xtep Intl	1368 HK	BUY	17.04	12.62	35%	33,252	Dec-21	23.8	20.6	3.3	3.1	13.5	1.1	2.5
Anta Sports	2020 HK	BUY	122.05	92.00	33%	249,653	Dec-21	26.8	20.9	6.3	5.1	25.5	1.7	1.5
Li Ning	2331 HK	BUY	80.64	69.90	15%	183,011	Dec-21	33.1	26.6	6.3	5.4	26.1	1.8	0.9
361 Degrees	1361 HK	NR	n/a	4.20	n/a	8,684	Dec-21	10.9	9.5	1.0	0.9	10.3	0.9	2.1
Topsports	6110 HK	NR	n/a	6.29	n/a	39,006	Feb-22	12.8	10.7	3.0	2.7	24.1	1.2	5.2
Pou Sheng	3813 HK	NR	n/a	0.79	n/a	4,208	Dec-21	13.8	5.1	0.4	0.4	(3.2)	0.4	1.5
China DX	3818 HK	NR	n/a	0.37	n/a	2,178	Mar-22	n/a	4.0	0.2	0.2	(16.7)	0.0	6.2
Avg.								20.2	13.9	2.9	2.5	11.4	1.0	2.9
Med.								18.8	10.7	3.0	2.7	13.5	1.1	2.1
International Sportswear														
Nike Inc	NKE US	NR	n/a	111.79	n/a	1,376,068	May-22	29.6	24.4	11.2	9.9	43.1	2.3	1.1
Adidas	ADS GY	NR	n/a	157.16	n/a	236,591	Dec-21	23.1	18.0	4.4	4.2	29.5	(4.3)	1.9
Puma	PUM GY	NR	n/a	62.84	n/a	74,274	Dec-21	23.8	19.2	3.8	3.4	16.0	1.3	1.4
Under Armour	UAA US	NR	n/a	9.08	n/a	30,521	Mar-23	17.8	12.7	2.1	1.7	n/a	3.9	0.0
Lululemon	LULU US	NR	n/a	319.44	n/a	319,975	Jan-22	33.0	28.8	12.6	9.8	38.4	1.7	0.0
Skechers	SKX US	NR	n/a	39.29	n/a	48,018	Dec-21	14.6	11.5	1.6	1.4	23.3	(3.1)	0.0
Vf Corp	VFC US	NR	n/a	43.76	n/a	133,413	Apr-22	14.4	12.9	4.4	4.2	30.4	8.1	4.7
Columbia	COLM US	NR	n/a	74.35	n/a	36,228	Dec-21	14.4	12.8	2.4	2.1	18.5	1.9	1.6
Wolverine	WWW US	NR	n/a	21.39	n/a	13,217	Jan-22	9.8	8.5	2.5	2.0	18.4	0.2	2.0
Mizuno Corp	8022 JP	NR	n/a	2688.00	n/a	4,115	Mar-22	10.6	9.3	0.6	0.6	7.6	(2.7)	2.2
Asics Corp	7936 JP	NR	n/a	2583.00	n/a	28,246	Dec-21	26.5	20.7	3.1	2.8	6.4	0.8	1.2
Avg.								19.8	16.2	4.4	3.8	23.2	0.9	1.5
Med.								17.8	12.9	3.1	2.8	20.9	1.3	1.4

Source: Bloomberg, CMBIGM estimates



**Figure 10: P/E valuation band**

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>8,172</b>	<b>10,013</b>	<b>12,859</b>	<b>15,225</b>	<b>17,393</b>
Footwear	5,047	5,928	7,400	8,806	10,217
Apparel	2,964	3,887	5,248	6,193	6,936
Accessories	161	198	211	226	240
<b>Cost of goods sold</b>	<b>(4,973)</b>	<b>(5,835)</b>	<b>(7,413)</b>	<b>(8,750)</b>	<b>(9,963)</b>
<b>Gross profit</b>	<b>3,198</b>	<b>4,178</b>	<b>5,446</b>	<b>6,475</b>	<b>7,430</b>
<b>Other income</b>	<b>307</b>	<b>299</b>	<b>296</b>	<b>304</b>	<b>348</b>
<b>Operating expenses</b>	<b>(2,588)</b>	<b>(3,081)</b>	<b>(4,004)</b>	<b>(4,680)</b>	<b>(5,239)</b>
S & D costs	(1,537)	(1,891)	(2,486)	(2,958)	(3,322)
Admin exp.	(827)	(937)	(1,183)	(1,342)	(1,483)
R & D	(223)	(252)	(334)	(381)	(435)
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>918</b>	<b>1,396</b>	<b>1,738</b>	<b>2,099</b>	<b>2,538</b>
Finance costs, net	(140)	(63)	(48)	(54)	(58)
JVs & associates	(17)	(46)	(41)	(31)	(22)
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>762</b>	<b>1,287</b>	<b>1,649</b>	<b>2,015</b>	<b>2,458</b>
Income tax	(257)	(397)	(528)	(625)	(737)
Less: Minority interests	(8)	(19)	(16)	6	12
<b>Net profit</b>	<b>513</b>	<b>908</b>	<b>1,138</b>	<b>1,384</b>	<b>1,708</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>EBIT</b>	<b>918</b>	<b>1,396</b>	<b>1,738</b>	<b>2,099</b>	<b>2,538</b>
D & A	78	84	132	168	183
Change in working capital	(320)	(447)	(877)	(726)	(667)
Income tax paid	(325)	(329)	(528)	(625)	(737)
Others	(32)	(3)	(48)	(54)	(58)
<b>Net cash from operating</b>	<b>320</b>	<b>701</b>	<b>417</b>	<b>863</b>	<b>1,258</b>
Capex & investments	(207)	(414)	(450)	(533)	(609)
Associated companies	(20)	-	-	-	-
Interest received	-	-	-	-	-
Others	800	86	-	-	-
<b>Net cash from investing</b>	<b>573</b>	<b>(329)</b>	<b>(450)</b>	<b>(533)</b>	<b>(609)</b>
Equity raised	31	-	-	-	-
Net change in bank loans	(77)	(312)	-	-	-
Dividend paid	(279)	(356)	(614)	(757)	(920)
Others	(55)	764	-	-	-
<b>Net cash from financing</b>	<b>(380)</b>	<b>96</b>	<b>(614)</b>	<b>(757)</b>	<b>(920)</b>
<b>Net change in cash</b>	<b>513</b>	<b>469</b>	<b>(646)</b>	<b>(427)</b>	<b>(270)</b>
Beginning cash balance	2,970	3,472	3,930	3,283	2,856
Exchange difference	(11)	(11)	-	-	-
<b>Cash at the end of the year</b>	<b>3,472</b>	<b>3,930</b>	<b>3,283</b>	<b>2,856</b>	<b>2,586</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>3,544</b>	<b>4,183</b>	<b>4,460</b>	<b>4,795</b>	<b>5,199</b>
Fixed asset	796	1,119	1,462	1,868	2,346
Intangible assets & goodwill	741	700	674	634	582
Prepaid lease payments	573	576	576	576	576
Interest in joint ventures	218	365	324	293	272
Other non-current assets	1,216	1,424	1,424	1,424	1,424
<b>Current assets</b>	<b>9,027</b>	<b>10,432</b>	<b>11,604</b>	<b>12,694</b>	<b>13,811</b>
Cash and cash equivalents	3,472	3,930	3,283	2,856	2,586
Inventories	975	1,497	1,902	2,245	2,557
Trade and other receivables	3,236	3,528	4,531	5,365	6,128
Prepayments	899	1,443	1,853	2,193	2,506
Other current assets	446	34	34	34	34
<b>Current liabilities</b>	<b>3,334</b>	<b>4,053</b>	<b>4,994</b>	<b>5,785</b>	<b>6,506</b>
Bank loans	642	405	405	405	405
Trade payables	1,479	2,352	2,989	3,527	4,016
Accruals & other payables	1,052	1,071	1,375	1,628	1,860
Tax payables	86	123	123	123	123
Others	75	102	102	102	102
<b>Non-current liabilities</b>	<b>1,939</b>	<b>2,580</b>	<b>2,580</b>	<b>2,580</b>	<b>2,580</b>
Bank loans	1,516	1,375	1,375	1,375	1,375
CB or Preferred shares	-	758	758	758	758
Deferred tax	237	253	253	253	253
Others	186	194	194	194	194
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-16</b>	<b>-10</b>	<b>2</b>
<b>Total net assets</b>	<b>7,299</b>	<b>7,982</b>	<b>8,507</b>	<b>9,134</b>	<b>9,922</b>
<b>Shareholders' equity</b>	<b>7,299</b>	<b>7,982</b>	<b>8,507</b>	<b>9,134</b>	<b>9,922</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Footwear	61.8	59.2	57.5	57.8	58.7
Apparel	36.3	38.8	40.8	40.7	39.9
Accessories	2.0	2.0	1.6	1.5	1.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	39.1	41.7	42.3	42.5	42.7
Operating margin	11.2	13.9	13.5	13.8	14.6
Pre-tax margin	9.3	12.9	12.8	13.2	14.1
Net margin	6.3	9.1	8.8	9.1	9.8
Effective tax rate	33.0	29.8	31.2	30.5	29.7
<b>Balance sheet ratios</b>					
Current ratio (x)	2.7	2.6	2.3	2.2	2.1
Quick ratio (x)	2.4	2.2	1.9	1.8	1.7
Cash ratio (x)	1.0	1.0	0.7	0.5	0.4
Inventory turnover days	72	94	94	94	94
Trade receivables days	145	129	129	129	129
Trade payables days	109	147	147	147	147
Total debt / total equity ratio (%)	30	32	30	28	26
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	7.0	11.4	13.4	15.2	17.2
ROA	4.1	6.2	7.1	7.9	9.0
<b>Per share</b>					
EPS (RMB)	0.21	0.36	0.44	0.53	0.65
DPS (RMB)	0.12	0.21	0.26	0.32	0.39
BVPS (RMB)	2.87	3.13	3.23	3.47	3.77

Source: Company data, CMBIGM estimates

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