

Xtep (1368 HK)

New brands require both time and investments

Trimmed TP to HK\$ 5.09 but maintain BUY due to low valuation, based on a 13x FY20E P/E (down from 16x due to slower growth). We are now more cautious on Xtep's growth in 4Q19E and FY20E because of 1) diminishing brand momentum and 2) initial investments (losses) for JV and new brands.

- **Retail sales growth may soften.** We forecast Xtep's retail sales growth in the next six months (4Q19E and 1Q20E) to soften to 15%-20%, vs about 20% in 3Q19, due to 1) a potentially warmer weather, 2) an early 2020 Chinese New Year (two weeks earlier vs 2019), 3) shift of focus to optimize retail discounts and maintain healthy channel inventory (only ~14% Single Day online sales growth achieved), and 4) less store upgrades as coverage of 6s format already reached 90%+ (trial run of 8th format stores has just started).
- **Core brand growth may normalize to low-teens in FY20E but margin may sustain.** We forecast a ~12% Xtep core brand sales growth in FY20E, inline with potential future retail slowdown and weakening demand in recent trade fairs. We also expect core brand profitability (both GP and NP margin) to be stable, at ~10.3% in FY20E (vs ~10% in FY19E).
- **Investment periods are needed for JV (Saucony & Merrell), K-Swiss, Palladium and others.** We estimate about 30-40/ 20-30 new stores for Saucony/ Merrell in FY20E and 100+ stores for each in FY21E. And if store level profit breakeven can be achieved, then expansion may speed up by granting rights to distributors to open more. But before that, we expect ~RMB 10-20mn/ 20-30mn net losses for JV in FY19E/ FY20E. For E-land footwear, We estimate RMB 500mn/ 1,300mn sales in FY19E/ 20E, (vs RMB 1,441mn in FY18) as K-Swiss restructuring may take 18-24 months, while GP margin should be stable at ~38%. Excluding RMB 65mn one-off losses for inventory impairment, operating breakeven should be achievable in FY19E/ 20E.
- **Huge potential for the Jeremy Lin franchise but still too early to factor in any expectation.** According to Baidu Index, search counts of Jeremy Lin/ 林书豪 in 11M19 was 9,577, which is way higher than Klay Thompson/ 汤普森's 1,827 and Dwyane Wade/ 韦德的 3,840, in our view, thanks to his large fan base and stellar performance in CBA (so far this season). We believe there is potential room for Xtep to capitalize the Jeremy Lin Franchise. However, the progressive expansion plan and limited contribution in 4Q19E should be expected. A clearer picture could be obtained later in FY20E.
- **Maintain BUY but cut TP to HK\$ 5.09.** We cut our FY19E/20E/21E EPS estimates by 8.6%/ 6.8%/ 6.1%, to factor in the 1) slower trade fair sales growth, 2) greater-than-expected M&A and new brands related expenses. The counter is trading at 11x FY20E P/E, below its 5 years average of 12x.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	5,113	6,383	8,224	10,014	11,240
YoY growth (%)	(5.2)	24.8	28.8	21.8	12.2
Net income (RMB mn)	408	657	695	838	997
EPS (RMB)	0.184	0.295	0.286	0.336	0.400
YoY growth (%)	(22.6)	60.6	(2.9)	17.4	19.0
P/E (x)	19.3	12.3	12.6	10.8	9.0
P/B (x)	1.5	1.5	1.3	1.3	1.2
Yield (%)	5.2	4.9	4.7	5.6	6.6
ROE (%)	7.9	12.3	11.5	12.0	13.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.09
(Previous TP)	HK\$6.72)
Up/Downside	+21.0%
Current Price	HK\$4.21

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	10,577
Avg 3 mths t/o (HK\$ mn)	46.56
52w High/Low (HK\$)	6.74/3.81
Total Issued Shares (mn)	2,512.4

Source: Bloomberg

Shareholding Structure

Mr Ding Shui Po & Family	53.89%
Templeton Investments	2.62%
Employee incentive scheme	4.01%
Free Float	39.48%

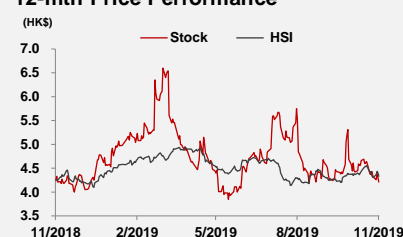
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.3%	-8.9%
3-mth	-25.2%	-27.0%
6-mth	-3.2%	0.1%
12-mth	4.6%	0.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

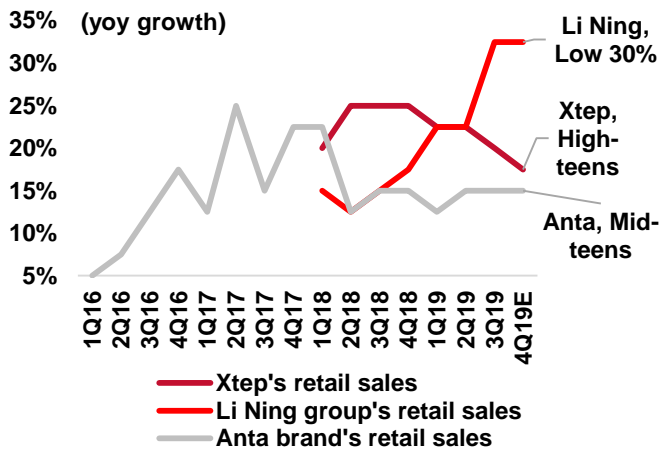
Auditor: Ernst & Young

Related Reports

1. Xtep (1368 HK) - For the greater good and a brighter future – 22 Aug 2019
2. China Sportswear Sector - Growing at full speed - 24 Jul 2019
3. Xtep (1368 HK) - Overhang of substantial M&A removed - 3 May 2019

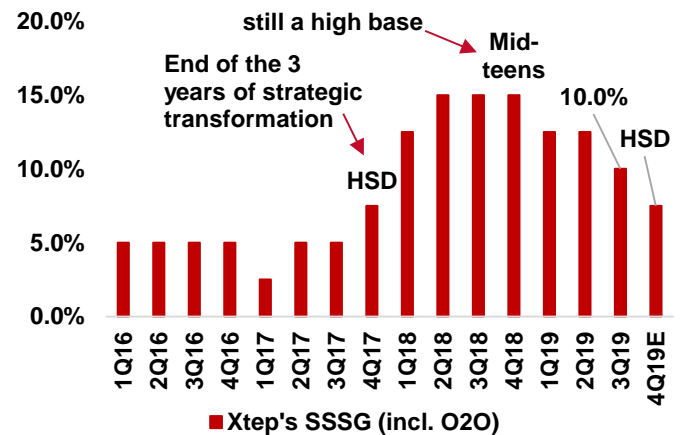
Focus Charts

Figure 1: Retail sales growth, by domestic brand



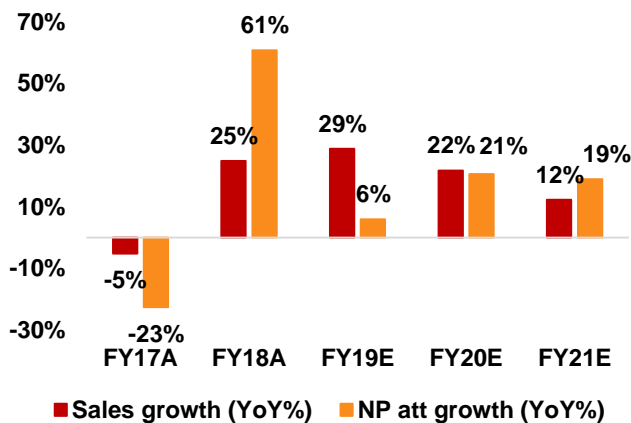
Source: Company data, CMBIS estimates

Figure 2: Xtep's same store sales growth



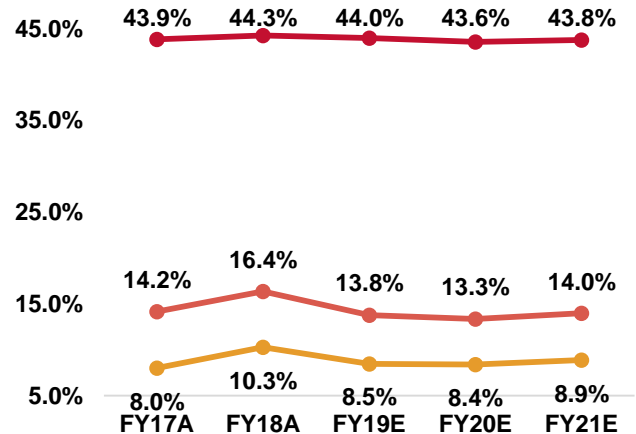
Source: Company data, CMBIS estimates

Figure 3: Sales/ net profit growth



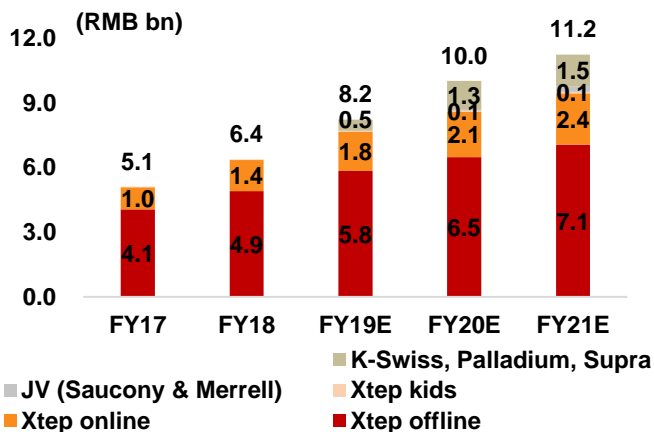
Source: Company data, CMBIS estimates

Figure 4: GP/ OP/ NP margin



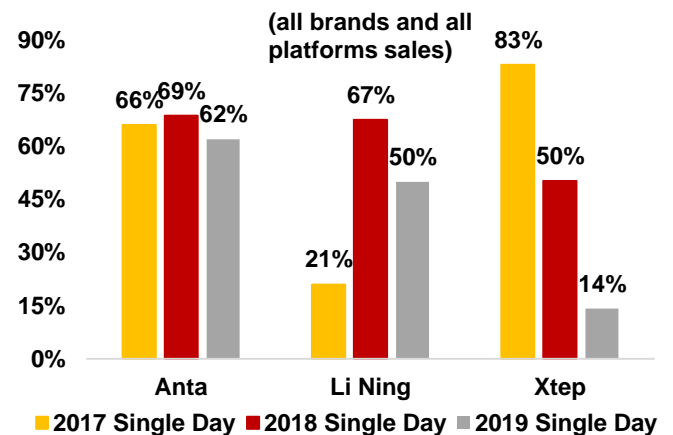
Source: Company data, CMBIS estimates

Figure 5: Sales breakdown, by segment



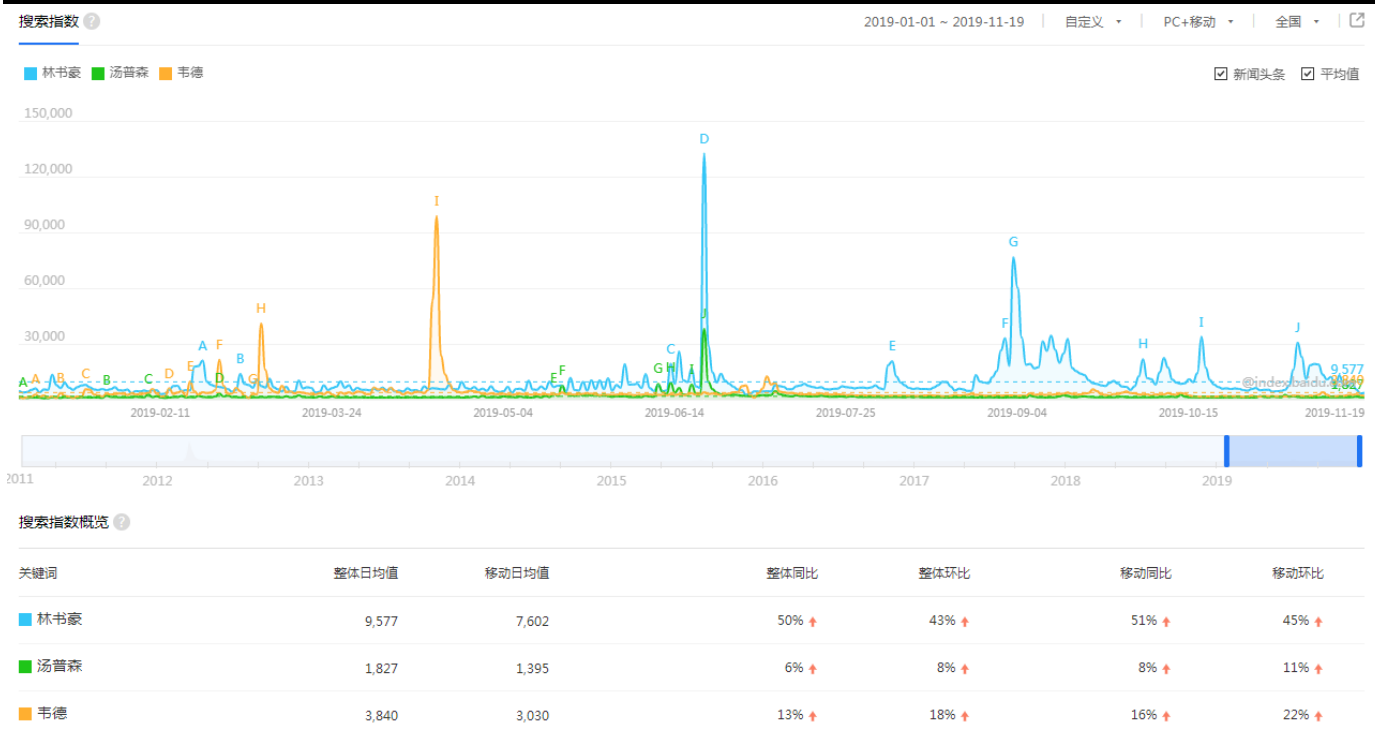
Source: Company data, CMBIS estimates

Figure 6: Single day sales growth, by brand



Source: Company data, Tmall, CMBIS estimates

Figure 7: Baidu Index, by different professional basketball players



Source: Baidu Index, CMBIS

Figure 8: Sportswear brands sales growth trend

Operating numbers	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E
Nike China sales	27.0%	23.0%	21.0%	17.0%	15.0%	16.0%	12.0%	15.0%	19.0%	25.0%	20.0%	31.0%	24.0%	22.0%	27.0%	21.0%
Adidas China sales	30.2%	30.1%	25.0%	25.0%	30.3%	27.7%	28.0%	32.0%	26.0%	27.0%	26.0%	23.0%	16.0%	14.0%	11.0%	13.0%
Anta brand's SSSG																
Anta brand's retail sa	+ve MSD	+ve HSD	+ve LDD	+ve HDD	+ve Low-teens	+ve 20%-30%	+ve Mid-teens	+ve 20%-25%	+ve 20%-25%	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens
Core brand	Flat	Flat	+ve MSD	+ve HSD	+ve LSD	+ve Mid-teens	+ve MSD	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve Low-teens
Kids	50% - 60%	over 30%	over 30%	over 30%	over 30%	25%-30%	over 30%	over 40%	over 40%	over 25%	Over 25%	Over 25%	Over 20%	30%	Over 25%	Over 25%
Online	50 - 100%	60%	over 50%	over 100%	over 50%	over 50%	over 50%	over 40%	over 40%	over 25%	Over 20%	Over 25%	+ve Mid-teens	25%	35%	30%
Non-Anta brands (FIL	over 50%	over 50%	over 50%	over 50%	+ve 40%-50%	+ve 50%-60%	+ve 40%-50%	+ve 85%-90%	+ve 80%-85%	+ve 90%-95%	+ve 90%-95%	+ve 80%-85%	+ve 65%-70%	+ve 55%-60%	+ve 50%-55%	+ve 40%-50%
Li Ning group's SSSG	+ve LSD	+ve HSD	+ve HSD	Mid-teens	Flat	+ve HSD	-ve LSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve High-teens
Direct retail	Flat	+ve MSD	+ve LSD	+ve HSD	-ve MSD	Flat	-ve MSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve HSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve Mid-teens
Wholesales	Flat	+ve MSD	+ve LSD	+ve LSD	-ve MSD	+ve LSD	-ve MSD	+ve HSD	+ve MSD	+ve LSD	+ve HSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens
E- Commerce	Low-60%	Low-70%	Mid-80%	Mid-90%	Mid-60%	Mid-90%	Low 30%-40%	+ve High-teens	+ve High	+ve Mid-30%-40%	+ve High	+ve Mid-30%-40%	+ve High	+ve Mid-30%-40%	+ve Mid-50%-60%	+ve Mid-30%-40%
Li Ning group's retail sales								+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens
Direct retail								Low 20%-30%	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve HSD	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens
Wholesales								+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-20%	+ve Mid-30%	+ve High-25%-30%
E- Commerce								+ve High-30%-40%	+ve High-30%-40%	+ve Low-30%-40%	+ve Mid-50%	+ve Mid-40%-50%	+ve Low-20%-30%	+ve High-20%-30%	+ve Low-50%-60%	+ve Low-40%-50%
Xtep's SSSG	+ve MSD	+ve MSD	+ve MSD	+ve MSD	+ve LSD	+ve MSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Low-teens	10%	+ve HSD
Xtep's retail sales															Over 20%	+ve High-teens
361 Degrees' SSSG	7.2%	7.0%	7.3%	7.5%	7.0%	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD
Pou Sheng's SSSG	7.5%	5.9%	0.4%	8.6%	1.9%	5.6%	1.5%	12.0%	10.1%	2.2%	8.9%	8.7%	8.4%	4.2%	6.0%	5.0%
Dong Xiang's SSSG					Flat	-ve LSD	-ve MSD	+ve LSD	+ve Mid-to High	-ve Mid-to High	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid-to High	+ve Mid-to High

Source: Company data, CMBIS estimates, *Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov18)

Results Summary

Figure 9: Results preview – Half Year

Half yearly (RMB mn)	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy
Revenue	2,729	3,654	3,357	4,867	18%	30%	23%	33%
COGS	(1,536)	(2,019)	(1,860)	(2,744)				
Gross profit	1,193	1,635	1,497	2,123	17%	33%	25%	30%
GP margins	43.7%	44.7%	44.6%	43.6%				
Other income & gains	143	53	138	73				
S & D expenses	(480)	(877)	(637)	(1,198)	25%	67%	33%	37%
S & D exp / sales	-17.6%	-24.0%	-19.0%	-24.6%				
Admin expenses	(264)	(359)	(281)	(582)	7%	-31%	7%	62%
Admin exp / sales	-9.7%	-9.8%	-8.4%	-12.0%				
Other opex	0	0	0	0				
Operating profit (EBIT)	592	452	717	415	24%	84%	21%	-8%
OP margins	21.7%	12.4%	21.4%	8.5%				
Other items	0	0	0	0				
Net finance income	(41)	(27)	(36)	(51)				
Net finance income / sales	-1.5%	-0.7%	-1.1%	-1.0%				
Profit after financing costs	551	426	681	364				
Associated coms	0	0	0	0				
Jointly controlled coms	0	0	0	0				
Pre-tax profit	551	426	681	364	18%	109%	24%	-14%
Tax	(175)	(131)	(218)	(122)				
Tax / sales	-6.4%	-3.6%	-6.5%	-2.5%				
Effective tax rate	-31.8%	-30.8%	-32.0%	-33.4%				
Minority interests	0	13	(0)	11				
Net profit att.	375	281	463	232	21%	188%	23%	-17%
NP margins	13.7%	7.7%	13.8%	4.8%				

Source: Company data, CMBIS estimates

Figure 10: Results preview - Full Year

Full yearly (RMB mn)	FY17	FY18	FY19E	FY20E	FY18 yoy	FY19E yoy	FY20E yoy
Revenue	5,113	6,383	8,224	10,014	25%	29%	22%
COGS	(2,869)	(3,555)	(4,604)	(5,646)			
Gross profit	2,244	2,828	3,620	4,368	26%	28%	21%
GP margins	43.9%	44.3%	44.0%	43.6%			
Other income & gains	158	196	210	241			
S & D expenses	(911)	(1,357)	(1,835)	(2,242)	49%	35%	22%
S & D exp / sales	-17.8%	-21.3%	-22.3%	-22.4%			
Admin expenses	(767)	(622)	(863)	(1,031)	-19%	39%	19%
Admin exp / sales	-15.0%	-9.8%	-10.5%	-10.3%			
Other opex	0	0	0	0			
Operating profit (EBIT)	725	1,044	1,133	1,336	44%	8%	18%
OP margins	14.2%	16.4%	13.8%	13.3%			
Other items	0	0	0	0			
Net finance income	(54)	(68)	(87)	(91)			
Net finance income / sales	-1.1%	-1.1%	-1.1%	-0.9%			
Profit after financing costs	671	976	1,045	1,246			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	671	976	1,045	1,246	46%	7%	19%
Tax	(224)	(306)	(340)	(399)			
Tax / sales	-4.4%	-4.8%	-4.1%	-4.0%			
Effective tax rate	-33.5%	-31.4%	-32.5%	-32.0%			
Minority interests	38	13	10	9			
Net profit att.	408	657	695	838	61%	6%	21%
NP margins	8.0%	10.3%	8.5%	8.4%			

Source: Company data, CMBIS estimates

Earnings revision

Figure 11: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,224	10,014	11,240	7,719	8,949	10,134	6.6%	11.9%	10.9%
Gross profit	3,620	4,368	4,923	3,433	3,981	4,513	5.5%	9.7%	9.1%
EBIT	1,133	1,336	1,570	1,207	1,405	1,645	-6.1%	-4.9%	-4.6%
Reported Net profit	695	838	997	761	900	1,062	-8.6%	-6.8%	-6.1%
Diluted EPS (RMB)	0.286	0.336	0.400	0.313	0.361	0.426	-8.6%	-6.8%	-6.1%
Gross margin	44.0%	43.6%	43.8%	44.5%	44.5%	44.5%	-0.5ppt	-0.9ppt	-0.7ppt
EBIT margin	13.8%	13.3%	14.0%	15.6%	15.7%	16.2%	-1.9ppt	-2.4ppt	-2.3ppt
Net profit att. margin	8.5%	8.4%	8.9%	9.9%	10.1%	10.5%	-1.4ppt	-1.7ppt	-1.6ppt

Source: Company data, CMBIS estimates

Figure 12: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,224	10,014	11,240	7,934	9,479	10,865	3.7%	5.6%	3.5%
Gross profit	3,620	4,368	4,923	3,513	4,201	4,835	3.1%	4.0%	1.8%
EBIT	1,133	1,336	1,570	1,134	1,391	1,642	-0.1%	-4.0%	-4.4%
Net profit att.	695	838	997	726	900	1,066	-4.3%	-6.8%	-6.5%
Diluted EPS (RMB)	0.286	0.336	0.400	0.306	0.373	0.446	-6.5%	-9.7%	-10.3%
Gross margin	44.0%	43.6%	43.8%	44.3%	44.3%	44.5%	-0.3ppt	-0.7ppt	-0.7ppt
EBIT margin	13.8%	13.3%	14.0%	14.3%	14.7%	15.1%	-0.5ppt	-1.3ppt	-1.1ppt
Net profit att. margin	8.5%	8.4%	8.9%	9.2%	9.5%	9.8%	-0.7ppt	-1.1ppt	-0.9ppt

Source: Company data, CMBIS estimates

Valuation

Figure 13: 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	5.09	4.21	20.8%	10,577	Dec-18	12.6	10.8	1.5	1.4	12.2	1.2	4.8
Anta Sports	2020 HK	BUY	91.46	74.80	22.3%	202,096	Dec-18	31.7	25.1	9.1	7.3	28.6	1.2	1.1
Li Ning	2331 HK	BUY	24.43	26.05	-6.2%	60,315	Dec-18	40.3	33.0	8.0	6.7	20.9	0.9	0.8
361 Degrees	1361 HK	NR	n/a	1.44	n/a	2,977	Dec-18	5.9	5.2	0.4	0.4	5.5	0.3	7.5
Topsports	6110 HK	NR	n/a	9.74	n/a	60,400	Feb-19	19.3	16.1	5.6	4.7	76.8	0.0	3.0
Pou Sheng	3813 HK	NR	n/a	2.77	n/a	14,837	Dec-18	16.5	12.5	1.7	1.5	9.6	0.6	1.1
China DX	3818 HK	NR	n/a	0.83	n/a	4,885	Mar-19	6.8	9.4	0.4	n/a	3.3	0.0	13.4
Avg.								19.0	16.0	3.8	3.7	22.4	0.6	4.5
Med.								16.5	12.5	1.7	3.1	12.2	0.6	3.0
International Sportswear														
Nike Inc	NKE US	NR	n/a	93.05	n/a	1,136,410	May-19	31.3	27.0	17.6	12.4	47.3	1.9	1.0
Adidas	ADS GY	NR	n/a	270.80	n/a	470,714	Dec-18	27.7	24.6	7.4	6.6	28.2	2.5	1.4
Puma	PUM GY	NR	n/a	66.75	n/a	87,317	Dec-18	38.5	31.7	5.3	4.8	14.0	1.6	0.7
Under Armour	UAA US	NR	n/a	16.99	n/a	57,019	Dec-18	49.7	35.6	3.5	3.2	5.4	(0.2)	0.0
Lululemon	LULU US	NR	n/a	217.04	n/a	221,210	Feb-19	45.7	38.4	15.9	12.7	37.8	2.1	0.0
Skechers	SKX US	NR	n/a	39.91	n/a	48,945	Dec-18	17.8	15.8	2.6	2.4	15.9	1.3	0.0
Vf Corp	VFC US	NR	n/a	85.50	n/a	267,145	Mar-19	25.4	22.1	7.4	6.9	29.2	2.2	2.1
Columbia	COLM US	NR	n/a	90.55	n/a	47,837	Dec-18	18.9	17.7	3.4	3.0	19.3	1.4	1.1
Wolverine	WWW US	NR	n/a	32.55	n/a	20,595	Dec-18	14.4	12.9	3.2	2.6	18.1	1.7	1.2
Mizuno Corp	8022 JP	NR	n/a	2846.00	n/a	5,453	Mar-19	12.4	11.1	0.7	0.7	6.8	2.0	1.8
Asics Corp	7936 JP	NR	n/a	1657.00	n/a	22,679	Dec-18	40.7	28.9	1.8	1.8	(12.1)	(0.2)	1.8
Avg.								29.3	24.2	6.2	5.2	19.1	1.5	1.0
Med.								27.7	24.6	3.5	3.2	18.1	1.7	1.1

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 14: Xtep's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (RMB mn)					
Shoes	3,258	3,925	4,936	5,933	6,561
Apparels	1,759	2,327	3,141	3,927	4,516
Accessories	96	131	147	154	164
Total	5,113	6,383	8,224	10,014	11,240
Sales by segment growth (%)					
Shoes	-7.6%	20.5%	25.8%	20.2%	10.6%
Apparels	-0.3%	32.2%	35.0%	25.0%	15.0%
Accessories	-9.6%	36.6%	12.0%	5.0%	6.0%
Total	-5.2%	24.8%	28.8%	21.8%	12.2%
Sales network					
Xtep	5,582	5,580	5,781	5,984	6,163
Xtep kids	250	450	698	732	769
Oversea stores	200	200	250	300	350
Total	6,032	6,230	6,729	7,016	7,282
GP margins	43.9%	44.3%	44.0%	43.6%	43.8%
Opex breakdown					
A&P / sales	12.9%	15.2%	14.7%	15.1%	14.8%
Staff costs/ sales	12.2%	11.6%	10.8%	11.2%	11.3%
R&D / sales	2.8%	2.6%	2.5%	2.6%	2.6%
D&A / sales	1.3%	1.4%	1.4%	1.4%	1.3%
Provisions (write backs) / sales	4.2%	-0.8%	0.5%	0.2%	0.0%
Rental / sales	0.3%	0.3%	1.0%	0.8%	0.8%
Selling & distribution costs / sales	17.8%	21.3%	22.3%	22.4%	22.1%
Admin expenses / sales	15.0%	9.8%	10.5%	10.3%	9.9%
Total	32.8%	31.0%	32.8%	32.7%	32.1%
OP margins	14.2%	16.4%	13.8%	13.3%	14.0%
Effective tax rate	33.5%	31.4%	32.5%	32.0%	32.0%
Net profit att. margins	8.0%	10.3%	8.5%	8.4%	8.9%
Net profit att. growth (%)	-22.7%	60.9%	5.9%	20.6%	19.0%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	5,113	6,383	8,224	10,014	11,240
Footwear	3,258	3,925	4,936	5,933	6,561
Apparel	1,759	2,327	3,141	3,927	4,516
Accessories	96	131	147	154	164
Cost of goods sold	(2,869)	(3,555)	(4,604)	(5,646)	(6,317)
Gross profit	2,244	2,828	3,620	4,368	4,923
Other income	158	196	210	241	254
Operating expenses	(1,678)	(1,980)	(2,698)	(3,273)	(3,607)
D & A	(16)	(8)	(142)	(269)	(275)
Staff costs	(626)	(738)	(889)	(1,120)	(1,269)
S & D costs (ex-staff, D&A)	(292)	(623)	(950)	(1,126)	(1,224)
Admin exp. (ex-staff, D&A)	(745)	(611)	(718)	(758)	(839)
Other operating expenses	-	-	-	-	-
EBIT	725	1,044	1,133	1,336	1,570
Finance costs, net	(54)	(68)	(87)	(91)	(89)
JVs & associates	-	-	-	-	-
Exceptional	-	-	-	-	-
Pre-tax profit	671	976	1,045	1,246	1,482
Income tax	(224)	(306)	(340)	(399)	(474)
Less: Minority interests	38	13	10	9	10
Net profit	408	657	695	838	997

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	725	1,044	1,133	1,336	1,570
D & A	48	60	186	322	337
Change in working capital	(119)	(513)	(457)	(392)	(342)
Income tax paid	(259)	(309)	(340)	(399)	(474)
Others	164	(128)	(87)	(91)	(89)
Net cash from operating	558	154	435	777	1,003
Capex & investments	(123)	(72)	(123)	(250)	(169)
Associated companies	(10)	(1)	-	-	-
Interest received	-	-	-	-	-
Others	408	(208)	(1,700)	-	-
Net cash from investing	275	(281)	(1,823)	(250)	(169)
Equity raised	7	(31)	1,164	-	-
Net change in bank loans	421	(10)	-	-	-
Dividend paid	(271)	(459)	(410)	(467)	(552)
Others	(3)	(11)	-	-	-
Net cash from financing	154	(511)	754	(467)	(552)
Net change in cash	987	(637)	(634)	60	282
Beginning cash balance	2,847	3,832	3,196	2,562	2,622
Exchange difference	(1)	1	-	-	-
Cash at the end of the year	3,832	3,196	2,562	2,622	2,904

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	1,052	1,139	2,776	2,705	2,537
Fixed asset	646	641	695	864	937
Intangible assets & goodwill	47	105	1,687	1,447	1,206
Prepaid lease payments	267	279	279	279	279
Interest in joint ventures	-	114	114	114	114
Other non-current assets	92	-	-	-	-
Current assets	7,882	8,060	8,390	9,341	10,296
Cash and cash equivalents	3,832	3,196	2,562	2,622	2,904
Inventories	718	836	1,047	1,237	1,384
Trade and other receivables	1,807	2,115	2,659	3,155	3,541
Prepayments	572	727	937	1,141	1,281
Other current assets	953	1,186	1,186	1,186	1,186
Current liabilities	2,489	3,278	3,786	4,285	4,616
Bank loans	831	1,483	1,483	1,483	1,483
Trade payables	1,028	879	1,138	1,396	1,561
Accruals & other payables	565	861	1,110	1,351	1,517
Tax payables	66	54	54	54	54
Others	-	1	1	1	1
Non-current liabilities	1,116	590	590	590	590
Bank loans	1,019	461	461	461	461
Deferred income	-	-	-	-	-
Deferred tax	97	107	107	107	107
Others	-	22	22	22	22
Minority Interest	-	-	10	19	30
Total net assets	5,329	5,331	6,781	7,152	7,597
Shareholders' equity	5,329	5,331	6,781	7,152	7,597

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Footwear	63.7	61.5	60.0	59.2	58.4
Apparel	34.4	36.5	38.2	39.2	40.2
Accessories	1.9	2.1	1.8	1.5	1.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	43.9	44.3	44.0	43.6	43.8
Operating margin	14.2	16.4	13.8	13.3	14.0
Pre-tax margin	13.1	15.3	12.7	12.4	13.2
Net margin	8.0	10.3	8.5	8.4	8.9
Effective tax rate	33.5	31.4	32.5	32.0	32.0
Balance sheet ratios					
Current ratio (x)	3.2	2.5	2.2	2.2	2.2
Quick ratio (x)	2.9	2.2	1.9	1.9	1.9
Cash ratio (x)	1.5	1.0	0.7	0.6	0.6
Inventory turnover days	91	86	83	80	80
Trade receivables days	129	121	118	115	115
Trade payables days	131	90	90	90	90
Total debt / total equity	35	36	29	27	26
Net debt / equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	7.7	12.3	10.3	11.7	13.1
ROA	4.6	7.1	6.2	7.0	7.8
Per share					
EPS (RMB)	0.18	0.30	0.29	0.34	0.40
DPS (RMB)	0.19	0.18	0.17	0.20	0.24
BVPS (RMB)	2.40	2.40	2.72	2.87	3.05

Source: Company data, CMBIS estimates

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