

Xtep (1368 HK)

The growth story is intact despite volatility

2H23 results was roughly inline (we think inventory and A&P expenses are not a concern). Management reiterated the listed co-level FY23E guidance, while retail sales trend is resilient and improving in Jul-Aug 2023. Hence, we maintain BUY given its attractive valuation of 16x FY23E P/E and 0.7x PEG.

- **1H23 results roughly inline.** For 1H23, Xtep group's sales increased by 15% YoY to RMB 6.5bn, 2%/ 3% higher than BBG/ CMBI est., which was a mixture of around 11%/ 19%/ 120% growth for Xtep (about 15%/ MSD for kids/ e-commerce)/ K&P/ S&M, and. Net profit also rose by 13% YoY to RMB 665mn, fairly inline with BBG/ CMBI est., as a decent GP margin improvement was more than offset by a surge in opex (A&P and R&D expenses rocketed 51%/ 65% and staff costs also fell 17%).
- **Inventory might have increased but the condition is healthy.** Average inventory days in 1H23 increased to 115 days, from 90 days in FY22, but that was only a 5% increase in terms of absolute amount, half of that are related to the new brands (which are all operating under the DTC model). Xtep has done a lot to de-stock, by revising down the trade fair orders voluntarily and it will continue to clear the old inventory thru both offline (e.g. the outlets) and online channels. Management expect the retail discounts to slightly widen to 30% off anytime in 2H23E when the clearance arrives, hence we think it is under control. In fact, apart from the old inventories, the new products are highly successful too, where the sell thru rate in 1Q23 and 2Q23 were all above 70%, achieving a 3-5ppt YoY improvement.
- **The listed co level FY23E guidance (15-20% sales growth and even faster net profit growth) is maintained.** Sales growth may accelerate in 2H23E, because: 1) trade fair sales growth could start to converge with retail sales growth, 2) Xtep's products are value for money enough to win more market shares, esp. when more consumers start to trade down, 3) Xtep demonstrated strength in the running categories (market shares of the top 100 runners in China continue to climb to 42% in 1H23, from 35% in FY22, according to 98 Run). Moreover, we believe NP margin could at least be flattish in FY23E, as A&P and R&D expenses are likely to be front-loaded and accounted for less than 13%/ 3% of sales, while staff costs are curbed by more staff cuts.
- **Maintain BUY but raise TP to HK\$ 11.41, based on 23x FY23E P/E (remains unchanged and ~1.3x s.d. above the 5-year average of 15x).** We revised up FY23E/ 24E/ 25E net profit by 2%/ 7%/ 6% to factor in better margins. It is trading at 16x FY23E P/E and 0.7x PEG, not demanding at all.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,013	12,930	15,103	17,545	20,012
YoY growth (%)	22.5	29.1	16.8	16.2	14.1
Operating profit (RMB mn)	1,396	1,464	1,806	2,267	2,680
Net profit (RMB mn)	889.4	912.3	1,162.0	1,512.6	1,842.5
EPS (Reported) (RMB)	0.36	0.36	0.44	0.57	0.69
YoY growth (%)	72.1	0.6	22.9	29.8	21.8
P/E (x)	17.8	19.2	15.6	12.0	9.9
P/B (x)	2.0	2.2	2.0	1.9	1.7
Yield (%)	2.9	1.8	3.0	4.0	4.8
ROE (%)	11.6	11.2	13.5	16.2	18.0
Net gearing (%)	17.9	6.8	1.9	(2.1)	(5.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$11.41
 (Previous TP HK\$11.17)
Up/Downside 47.2%
Current Price HK\$7.75

China Consumer Discretionary

Walter WOO
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Raphael TSE
 (852) 3900 0856
 raphaeltse@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn) 20,420.0
 Avg 3 mths t/o (HK\$ mn) 52.2
 52w High/Low (HK\$) 10.98/6.85
 Total Issued Shares (mn) 2634.8
 Source: FactSet

Shareholding Structure

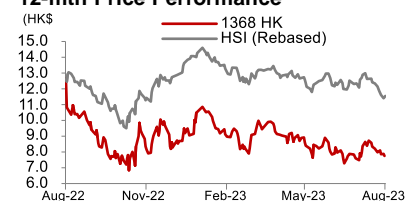
Mr Ding Shui Po & Family 49.0%
 JP Morgan Chase 4.6%
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.8%	7.7%
3-mth	-9.9%	-1.9%
6-mth	-13.6%	-1.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

[Anta Sports \(2020 HK\) – Costs control and efficiency gains are the keys](#)
 (23 Aug 2023)

[China Lilang \(1234 HK\) – 1H23 inline and FY23E guidance maintained](#)
 (17 Aug 2023)

[Li Ning \(2331 HK\) – Reiterated guidance but we remained cautious](#)
 (14 Aug 2023)

[Xtep \(1368 HK\) – A high-quality 2Q23 and guidance unchanged](#)
 (20 Jul 2023)

[Topsports \(6110 HK, Initiation\) – Localization and efficiency-led turnaround](#)
 (30 Jun 2023)

- **Retail sale growth picked up again in Jul-Aug 2023 and FY23 guidance was reiterated.** Xtep's retail sales growth accelerated to about high-teens in Jul-Aug 2023 (from 10%+ in May-Jun 2023). With low base in 4Q22, the 20%+ FY23E retail sales growth target is not hard to achieve.
- **New brand like Saucony has done a great job and we are looking forward to its full potential in China.** S&M sales jumped by 120% YoY and first profit was recorded since the set-up of the JV in FY19. The FY23E target, as a result, was raised from 60%+ to 70%+ retail sales growth. Management also highlighted that the reform for Saucony was thorough (from products to branding to stores, etc.,) and they expect the financials start to explode once its sales exceeded RMB 1.0bn level. We think Saucony is very close to the target and would be able to achieve it in just 1-2 years.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15,103	17,545	20,012	15,014	17,429	19,868	0.6%	0.7%	0.7%
Gross profit	6,258	7,301	8,384	6,161	7,199	8,259	1.6%	1.4%	1.5%
EBIT	1,806	2,267	2,680	1,761	2,120	2,527	2.6%	7.0%	6.1%
Net profit att.	1,157	1,502	1,829	1,132	1,403	1,721	2.2%	7.0%	6.3%
Diluted EPS (RMB)	0.439	0.570	0.694	0.430	0.533	0.653	2.2%	7.0%	6.3%
Gross margin	41.4%	41.6%	41.9%	41.0%	41.3%	41.6%	0.4ppt	0.3ppt	0.3ppt
EBIT margin	12.0%	12.9%	13.4%	11.7%	12.2%	12.7%	0.2ppt	0.8ppt	0.7ppt
Net profit att. margin	7.7%	8.6%	9.1%	7.5%	8.1%	8.7%	0.1ppt	0.5ppt	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	15,103	17,545	20,012	15,082	17,810	20,739	0.1%	-1.5%	-3.5%
Gross profit	6,258	7,301	8,384	6,250	7,429	8,704	0.1%	-1.7%	-3.7%
EBIT	1,806	2,267	2,680	1,670	2,060	2,485	8.2%	10.1%	7.9%
Net profit att.	1,157	1,502	1,829	1,138	1,407	1,703	1.6%	6.7%	7.4%
Diluted EPS (RMB)	0.439	0.570	0.694	0.435	0.540	0.656	1.0%	5.6%	5.9%
Gross margin	41.4%	41.6%	41.9%	41.4%	41.7%	42.0%	0ppt	-0.1ppt	-0.1ppt
EBIT margin	12.0%	12.9%	13.4%	11.1%	11.6%	12.0%	0.9ppt	1.4ppt	1.4ppt
Net profit att. margin	7.7%	8.6%	9.1%	7.5%	7.9%	8.2%	0.1ppt	0.7ppt	0.9ppt

Source: Company data, CMBIGM estimates

Results summary

Figure 3: Results review – Half Year

Half yearly (RMB mn)	1H22	2H22	1H23	2H23E	1H22 YoY	2H22 YoY	1H23 YoY	2H23 E YoY	1H23E CMBIG M	Actual vs CMBI
Revenue	5,684	7,247	6,522	8,580	37%	23%	15%	18%	6,326	3%
COGS	-3,297	-4,342	-3,725	-5,119					-3,663	
Gross profit	2,387	2,905	2,797	3,461	38%	19%	17%	19%	2,663	5%
GP margins	42.0%	40.1%	42.9%	40.3%					42.1%	
Other income & gains	237	79	336	57					221	52%
S & D expenses	-1,046	-1,644	-1,510	-1,600	35%	47%	44%	-3%	-1,139	33%
S & D exp / sales	-18.4%	-22.7%	-23.2%	-18.6%					-18.0%	
Admin expenses	-656	-798	-636	-1,098	36%	13%	-3%	38%	-715	-11%
Admin exp / sales	-11.5%	-11.0%	-9.8%	-12.8%					-11.3%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	922	543	987	820	35%	-24%	7%	51%	1,031	-4%
OP margins	16.2%	7.5%	15.1%	9.6%					16.3%	
Other items	0	0	0	0					0	
Net finance income	-28	-63	-74	-16					-32	135%
Net finance income / sales	-0.5%	-0.9%	-1.1%	-0.2%					-0.5%	
Profit after financing costs	893	480	912	804					1,000	
Associated coms	-11	-1	5	-12					-6	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	882	479	917	791	37%	-25%	4%	65%	993	-8%
Tax	-293	-155	-246	-301					-318	
Tax / sales	-5.2%	-2.1%	-3.8%	-3.5%					-5.0%	
Effective tax rate	-33.2%	-32.5%	-26.8%	-38.0%					-32.0%	
Minority interests	-1	-8	6	-1					2	
Net profit att.	590	331	665	491	38%	-31%	13%	48%	673	-1%
NP margins	10.4%	4.6%	10.2%	5.7%					10.6%	
Sales by segment										
Mass market	4,898	6,230	5,430	7,250	36%	19%	11%	16%	5,289	3%
Athleisure	630	773	749	963	36%	52%	19%	25%	724	3%
Professional sports	157	244	344	367	106%	95%	120%	51%	313	10%
Total	5,684	7,247	6,522	8,580	37%	23%	15%	18%	6,326	3%

Source: Company data, CMBIGM estimates

Figure 4: Results review - Full Year

Full yearly (RMB mn)	FY22	FY23E	FY24E	FY22 YoY	FY23E YoY	FY24E YoY
Revenue	12,930	15,103	17,545	29%	17%	16%
COGS	-7,639	-8,845	-10,244			
Gross profit	5,292	6,258	7,301	27%	18%	17%
GP margins	40.9%	41.4%	41.6%			
Other income & gains	317	393	404			
S & D expenses	-2,690	-3,110	-3,501	42%	16%	13%
S & D exp / sales	-20.8%	-20.6%	-20.0%			
Admin expenses	-1,454	-1,734	-1,936	22%	19%	12%
Admin exp / sales	-11.2%	-11.5%	-11.0%			
Other opex	0	0	0			
Operating profit (EBIT)	1,464	1,806	2,267	5%	23%	26%
OP margins	11.3%	12.0%	12.9%			
Other items	-12	-7	19			
Net finance income	-91	-91	-94			
Net finance income / sales	-0.7%	-0.6%	-0.5%			
Profit after financing costs	1,361	1,709	2,192			
Associated coms	0	0	0			
Jointly controlled coms	0	0	0			
Pre-tax profit	1,361	1,709	2,192	6%	26%	28%
Tax	-449	-547	-680			
Tax / sales	-3.5%	-3.6%	-3.9%			
Effective tax rate	-33.0%	-32.0%	-31.0%			
Minority interests	-9	5	11			
Net profit att.	922	1,157	1,502	1%	26%	30%
NP margins	7.1%	7.7%	8.6%			
Sales by segment						
Mass market	11,128	12,680	14,567	26%	14%	15%
Athleisure	1,403	1,711	2,030	44%	22%	19%
Professional sports	400	711	948	99%	78%	33%
Total	12,930	15,103	17,545	29%	17%	16%

Source: Company data, CMBIGM estimates

Operating numbers

Figure 5: Sportswear brands sales growth trend

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E
Nike China sales	-4%	1%	8%	19%	42%	9%	1%	-24%	-8%	-13%	-20%	6%	1%	18%	8%	8%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	5%	20%
Anta brand's SSSG																
Anta brand's retail sales	-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	-ve HSD	+ve MSD	+ve HSD	11%	17%
Core brand	-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	-ve Mid-teens	+ve HSD	+ve HSD		
Kids	-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	-ve High-teens	+ve MSD	+ve HSD		
Online	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD		
FILA brand's retail sales																
FILA brand's retail sales	-ve MSD	+ve Low-teens	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	10%	24%
Classic/ Core brand	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80% Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD			
Kids	-ve LSD	Over 30%	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			
Fusion	+ve MSD	Over 70%	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			
Online	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%		
Other brands																
Other brands	-ve HSD	25%-30%	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%		
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens	70%-75%	60%-65%		
Kolon	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	-ve High-teens	100%	100%		
Li Ning group's SSSG																
Li Ning group's retail sales	n/a	-ve MSD	+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		
Direct retail	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	+ve MSD	-ve High 20%	-ve LSD	+ve HSD		
Wholesales	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve High-teens	-ve Low-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD		
E- Commerce	+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	-ve LSD	-ve Low 20%	+ve LSD		
Li Ning group's retail sales																
Li Ning group's retail sales	-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	-ve Low-teens	+ve MSD	+ve Mid-teens	5%	31%
Direct retail	-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	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High-teens		
Wholesales	-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	-ve Low 20%	+ve MSD	+ve Mid-teens		
E- Commerce	+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%	+ve MSD	-ve Low-teens	+ve Low-teens		
Xtep brand's SSSG																
Xtep brand's retail sales	-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%	-ve HSD	20%	+ve High-teens	16%	26%
361 Degree brand's SSSG																
361 Degree brand'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	Flat	+ve Low-teens	+ve Low-teens		
Kids					20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%		
E- Commerce								35%-40%	50%	40%	45%	25%	35%	30%		
Pou Sheng's SSSG																
Pou Sheng's SSSG	-33%	-18%	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%		
Pou Sheng's sales	-25%	0%	0%	1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	7%	20%
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	8%	15%
Dong Xiang's SSSG																
Dong Xiang's SSSG	-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	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens		
Dong Xiang's retail sales																
Dong Xiang's retail sales	-ve 25% to 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	+ve LSD	-ve Mid 20% to 30%	+ve Low to Mid-teens	+ve Mid-teens		
Direct retail	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%											
E- Commerce	-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 6: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)					
Shoes	5,928	7,760	9,162	10,741	12,344
Apparels	3,887	4,897	5,631	6,476	7,318
Accessories	198	273	309	327	350
Total	10,013	12,930	15,103	17,545	20,012
Sales by segment growth (%)					
Shoes	17.5%	30.9%	18.1%	17.2%	14.9%
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%	16.8%	16.2%	14.1%
Sales by segment (RMB mn)					
Mass market	8,841	11,128	12,680	14,567	16,474
Athleisure	971	1,403	1,711	2,030	2,315
Professional sports	201	400	711	948	1,223
Total	10,013	12,930	15,103	17,545	20,012
Sales by segment growth (YoY)					
Mass market	24.5%	25.9%	13.9%	14.9%	13.1%
Athleisure	-2.8%	44.5%	22.0%	18.6%	14.0%
Professional sports	180.3%	99.0%	77.8%	33.3%	29.0%
Total	22.5%	29.1%	16.8%	16.2%	14.1%
Sales network					
Xtep	4,722	4,493	4,628	4,767	4,910
Xtep kids	1,179	1,520	1,672	1,789	1,878
Oversea stores	250	300	300	300	300
Total	6,151	6,313	6,600	6,856	7,088
GP margins	41.7%	40.9%	41.4%	41.6%	41.9%
Opex breakdown					
A&P / sales	10.2%	11.9%	12.6%	12.1%	12.1%
Staff costs/ sales	11.1%	11.3%	10.9%	10.4%	10.4%
R&D / sales	2.5%	2.3%	2.4%	2.6%	2.6%
D&A / sales	1.7%	1.9%	1.6%	1.5%	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%	20.6%	20.0%	19.9%
Admin expenses / sales	11.9%	11.2%	11.5%	11.0%	10.9%
Total	30.8%	32.0%	32.1%	31.0%	30.8%
OP margins	13.9%	11.3%	12.0%	12.9%	13.4%
Effective tax rate	30.9%	33.0%	32.0%	31.0%	30.0%
Net profit att. margins	9.1%	7.1%	7.7%	8.6%	9.1%
Net profit att. growth (%)	77.1%	1.5%	25.5%	29.8%	21.8%

Source: Company data, CMBIGM estimates

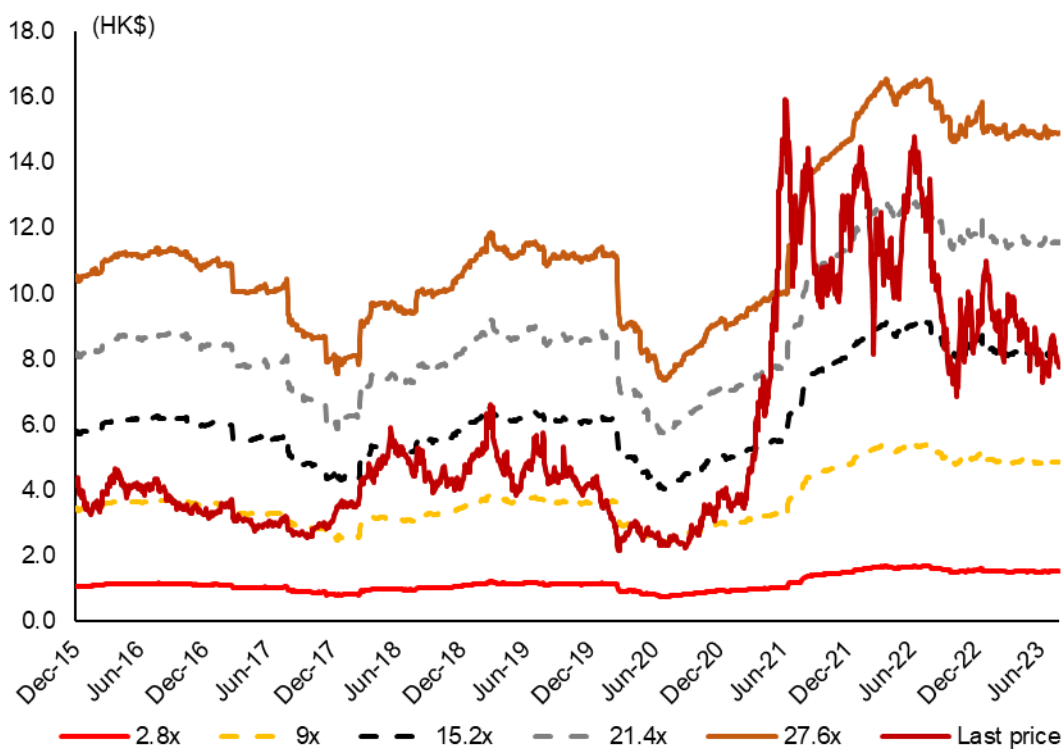
Valuation

Figure 7: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf.
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY1E	FY1E	FY1E	FY1E
H shares Sportswear														
Xtep Intl	1368 HK	BUY	11.41	7.75	47%	20,448	Dec-22	15.6	12.0	2.1	11.4	0.6	3.2	(10.8)
Anta Sports	2020 HK	BUY	107.97	85.20	27%	241,340	Dec-22	22.8	19.1	5.1	21.8	1.3	2.0	(16.7)
Li Ning	2331 HK	BUY	52.97	36.45	45%	96,084	Dec-22	19.9	16.5	3.2	16.8	1.5	1.9	(46.2)
361 Degrees	1361 HK	NR	n/a	3.90	n/a	8,064	Dec-22	8.1	6.9	0.8	10.9	0.5	4.4	17.1
Topsports	6110 HK	BUY	9.00	6.72	34%	41,672	Feb-23	15.7	13.2	3.7	18.0	0.8	5.6	11.1
Pou Sheng	3813 HK	NR	n/a	0.68	n/a	3,622	Dec-22	6.7	4.5	0.4	4.6	0.1	3.6	(9.3)
China DX	3818 HK	NR	n/a	0.28	n/a	1,619	Mar-23	5.1	4.3	0.2	1.2	0.0	15.6	(11.3)
Avg.								13.4	10.9	2.2	12.1	0.7	5.2	(9.4)
Med.								15.6	12.0	2.1	11.4	0.6	3.6	(10.8)
International Sportswear														
Nike Inc	NKE US	NR	n/a	101.46	n/a	1,217,104	May-23	27.1	23.1	11.0	34.6	1.7	1.4	(13.3)
Adidas	ADS GY	NR	n/a	174.24	n/a	265,751	Dec-22	n/a	41.0	6.8	(2.2)	0.0	0.4	36.7
Puma	PUM GY	NR	n/a	59.62	n/a	76,194	Dec-22	24.3	18.2	3.3	12.8	1.2	1.4	5.1
Under Armour	UAA US	NR	n/a	7.20	n/a	23,920	Mar-23	14.4	11.6	1.5	20.8	(2.8)	0.0	(29.1)
Lululemon	LULU US	NR	n/a	379.42	n/a	378,004	Jan-23	31.8	27.7	11.2	31.9	1.0	0.0	18.4
Skechers	SKX US	NR	n/a	50.15	n/a	60,850	Dec-22	14.8	12.2	1.8	13.1	0.6	0.0	19.5
Vf Corp	VFC US	NR	n/a	18.96	n/a	57,808	Apr-23	9.3	8.1	2.3	3.9	0.1	6.3	(31.3)
Columbia	COLM US	NR	n/a	73.88	n/a	35,526	Dec-22	16.1	13.8	2.2	16.2	2.4	1.7	(15.6)
Wolverine	WWW US	NR	n/a	8.09	n/a	5,044	Dec-22	17.4	5.3	1.7	(56.5)	(0.1)	5.0	(26.0)
Mizuno Corp	8022 JP	NR	n/a	4695.00	n/a	6,725	Mar-23	12.0	11.0	1.0	9.0	2.8	1.6	66.9
Asics Corp	7936 JP	NR	n/a	4985.00	n/a	51,012	Dec-22	30.8	26.6	5.0	15.8	1.5	1.1	71.1
Avg.								19.8	18.1	4.4	9.0	0.8	1.7	9.3
Med.								16.7	13.8	2.3	13.1	1.0	1.4	5.1

Source: Bloomberg, CMBIGM estimates

Figure 8: 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	15,103	17,545	20,012
Cost of goods sold	(4,973)	(5,835)	(7,639)	(8,845)	(10,244)	(11,628)
Gross profit	3,198	4,178	5,292	6,258	7,301	8,384
Operating expenses	(2,588)	(3,081)	(4,144)	(4,844)	(5,437)	(6,164)
Selling expense	(1,537)	(1,891)	(2,690)	(3,110)	(3,501)	(3,988)
Admin expense	(827)	(937)	(1,155)	(1,372)	(1,479)	(1,656)
R&D expense	(223)	(252)	(299)	(362)	(456)	(520)
Others	0	0	0	0	0	0
Operating profit	918	1,396	1,464	1,806	2,267	2,680
Other income	307	299	317	393	404	460
Share of (losses)/profits of associates/JV	(17)	(46)	(12)	(7)	19	49
EBITDA	996	1,480	1,597	1,974	2,450	2,875
Depreciation	(64)	(71)	(107)	(127)	(131)	(133)
Other amortisation	(14)	(13)	(26)	(40)	(52)	(61)
Interest income	4	21	25	26	23	20
Interest expense	(144)	(85)	(117)	(117)	(117)	(117)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	762	1,287	1,361	1,709	2,192	2,632
Income tax	(257)	(397)	(449)	(547)	(680)	(790)
Minority interest	8	19	9	(5)	(11)	(13)
Net profit	505	889	912	1,162	1,513	1,842

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,027	10,432	11,484	12,474	13,673	14,926
Cash & equivalents	3,472	3,930	3,071	2,673	2,300	1,973
Account receivables	3,236	3,528	4,556	5,321	6,182	7,051
Inventories	975	1,497	1,960	2,270	2,629	2,984
Prepayment	899	1,443	1,863	2,176	2,528	2,883
ST bank deposits	437	33	33	33	33	33
Other current assets	8	1	1	1	1	1
Non-current assets	3,544	4,183	4,491	4,845	5,295	5,850
PP&E	796	1,119	1,464	1,866	2,349	2,916
Investment in JVs & assos	218	365	352	345	364	413
Intangibles	709	671	642	599	545	482
Other non-current assets	1,820	2,028	2,032	2,035	2,037	2,038
Total assets	12,572	14,615	15,975	17,319	18,968	20,776
Current liabilities	3,334	4,053	5,092	5,810	6,636	7,458
Short-term borrowings	642	405	405	405	405	405
Account payables	1,479	2,352	3,079	3,566	4,130	4,688
Tax payable	86	123	123	123	123	123
Other current liabilities	1,127	1,173	1,485	1,717	1,978	2,242
Non-current liabilities	1,939	2,580	2,580	2,580	2,580	2,580
Long-term borrowings	1,516	1,375	1,375	1,375	1,375	1,375
Other non-current liabilities	423	1,205	1,205	1,205	1,205	1,205
Total liabilities	5,273	6,633	7,672	8,391	9,216	10,038
Share capital	22	23	23	23	23	23
Retained earnings	4,671	5,020	5,185	5,764	6,515	7,429
Other reserves	2,605	2,940	3,104	3,146	3,207	3,266
Total shareholders equity	7,299	7,982	8,313	8,933	9,745	10,718
Minority interest	0	0	(9)	(4)	7	20
Total equity and liabilities	12,572	14,615	15,975	17,319	18,968	20,776

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	762	1,287	1,361	1,709	2,192	2,632
Depreciation & amortization	78	84	132	168	183	195
Tax paid	(325)	(329)	(449)	(547)	(680)	(790)
Change in working capital	(320)	(447)	(872)	(669)	(746)	(758)
Others	125	107	12	7	(19)	(49)
Net cash from operations	320	701	185	668	930	1,230
Investing						
Capital expenditure	(207)	(414)	(453)	(529)	(614)	(700)
Acquisition of subsidiaries/ investments	(4)	(3)	0	0	0	0
Others	784	89	0	0	0	0
Net cash from investing	573	(329)	(453)	(529)	(614)	(700)
Financing						
Dividend paid	(279)	(356)	(591)	(537)	(689)	(856)
Net borrowings	(77)	(312)	0	0	0	0
Proceeds from share issues	37	0	0	0	0	0
Share repurchases	(6)	0	0	0	0	0
Others	(55)	764	0	0	0	0
Net cash from financing	(380)	96	(591)	(537)	(689)	(856)
Net change in cash						
Cash at the beginning of the year	2,970	3,472	3,930	3,071	2,673	2,300
Exchange difference	(11)	(11)	0	0	0	0
Others	513	469	(859)	(398)	(373)	(327)
Cash at the end of the year	3,472	3,930	3,071	2,673	2,300	1,973
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.1%)	22.5%	29.1%	16.8%	16.2%	14.1%
Gross profit	(9.9%)	30.6%	26.7%	18.3%	16.7%	14.8%
Operating profit	(25.6%)	52.1%	4.9%	23.4%	25.5%	18.2%
EBITDA	(24.6%)	48.6%	7.9%	23.6%	24.1%	17.4%
Net profit	(31.0%)	76.1%	2.6%	27.4%	30.2%	21.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	39.1%	41.7%	40.9%	41.4%	41.6%	41.9%
Operating margin	11.2%	13.9%	11.3%	12.0%	12.9%	13.4%
EBITDA margin	12.2%	14.8%	12.3%	13.1%	14.0%	14.4%
Return on equity (ROE)	7.1%	11.6%	11.2%	13.5%	16.2%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.2	0.2	0.1	0.0	(0.0)	(0.0)
Current ratio (x)	2.7	2.6	2.3	2.1	2.1	2.0
Receivable turnover days	144.5	128.6	128.6	128.6	128.6	128.6
Inventory turnover days	71.5	93.7	93.7	93.7	93.7	93.7
Payable turnover days	108.5	147.1	147.1	147.1	147.1	147.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	31.6	17.8	19.2	15.6	12.0	9.9
P/E (diluted)	31.6	17.8	19.2	15.6	12.0	9.9
P/B	2.3	2.0	2.2	2.0	1.9	1.7
P/CFPS	20.0	27.2	132.5	28.5	20.4	15.4
Div yield (%)	4.6	2.9	1.8	3.0	4.0	4.8
EV	17,987.6	18,313.6	19,853.6	20,251.5	20,624.6	20,951.2
EV/Sales	2.2	1.8	1.5	1.3	1.2	1.0
EV/EBITDA	18.1	12.4	12.4	10.3	8.4	7.3

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

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 CMBIS 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.