

China Sportswear Sector

5-1 sales beat but competition intensified

On one hand, retail sales growth in 5-1 Golden Week was a beat (after a soft Feb-Mar and an inline Apr). On the other hand, retail discounts surprisingly widened due to increased competition from the de-stocking by brands like Adidas and Li Ning. While fundamentals (sales, discounts and inventory) are trending good into 2H23E and setting up for a decent FY24E, we should still keep our eyes on the end demand and intensity of competition. At the moment, we prefer Xtep (1368 HK) and Topsports (6110 HK), due to better than expected sales and operating leverage.

- **Retail sales growth accelerated further in Apr and 5-1 Golden Week 2023, better than expected.** Based on our channel checks, we believe retail sales growth (brands average) had sped up from 10%+ in 1Q23 to 20%+/ 25%+ in Apr/ May 2023. Generally speaking, growth rates in Feb and Mar 2023 were slightly below expectation, due to early CNY and colder than expected weather. However, as the weather gradually got hot and more sports events being roll out, retail sales growth has accelerated in Apr/ 5-1 golden week 2023, inline/ better than expected. Offline customer traffic (for some distributors) has already exceeded the level in 2019 and even better than the CNY 2023. On the other hand, e-commerce sales growth, based on our estimates, should have turned into positive since Apr 2023, but still slower than the offline by about 10%-20%. For 5-1 period, we believe retail sales growth of Xtep/ Nike/ 361 Degrees is the fastest, at 35%+/ 30%+/ 30%+, all of which beat our estimates, while that of Anta/ Li Ning/ Adidas was at about 20%+/ 20%+/ 10%+, which were inline with expectation.
- **Retail discounts widened in 2Q23E (vs 1Q23) and slightly missed, due to seasonality and price war, but the bottom should have reached.** While sales growth in 5-1 Golden Week was surprisingly fast, retail discounts had worsen vs 1Q23 and missed our expectation. The retail discounts sequentially retreated in Feb and Mar 2023 (vs Jan 2023) because of less new product launches (seasonality) and unfavourable weather and had further widened in Apr and 5-1 Golden Week 2023, due to heavy de-stocking, brands like Adidas and Li Ning are doing more aggressive promotions (both online and offline). Most brands are aiming to normalize their channel inventories by 2Q23E (2Q23E for Nike/ Adidas, 3Q23E for Anta/ Xtep and 4Q23E for Li Ning), therefore we do believe pressure could start to ease since 3Q23E, esp. when inventory in 3Q and 1Q are quite interchangeable and many inventories in 4Q22 have already been cleared in CNY 2023.
- **Our pecking order now is Xtep (1368 HK) > Topsports (6110 HK) = Anta (2020 HK) > Li Ning (2331 HK).** Xtep is our sector top pick, because it has the fastest retail sales growth among all leading brands in FY23E despite all the intensified competition in the running segment. We do see reasonable room for positive surprises. We also like Topsports, because the turnaround of international brands is finally here and the retail discounts improvement in FY23E is greater than the domestic brands.

Valuation Table

Company	Ticker	Rating	Mkt cap (HK\$ mn)	TP (LC)	Price (LC)	Up/down side	P/E (x) FY1 FY2	PB (x) FY1 FY2	ROE (%) FY0
Xtep	1368 HK	BUY	24,100	11.80	9.14	29%	19.3 15.6	2.3	11.4
Anta	2020 HK	BUY	272,357	130.72	96.15	36%	24.2 20.1	5.5	24.0
Li Ning	2331 HK	BUY	147,091	66.72	55.80	20%	26.4 21.5	4.6	17.9
361D	1361 HK	NR	8,602	n/a	4.16	n/a	8.3 7.1	0.8	9.9
Topsports	6110 HK	NR	42,354	n/a	6.83	n/a	18.2 14.3	3.3	21.3
Pou Sheng	3813 HK	NR	3,462	n/a	0.64	n/a	6.5 4.0	0.4	1.1
Dongxiang	3818 HK	NR	1,825	n/a	0.31	n/a	n/a 9.1	0.2	(14.0)

Source: Company data, CMBIGM estimates

**OUTPERFORM
(Maintain)**

China Sportswear Sector

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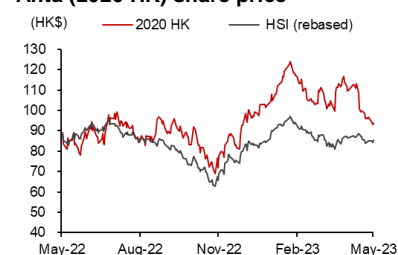
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Anta (2020 HK) share price



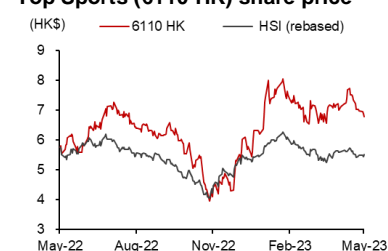
Source: Bloomberg, CMBIGM estimates

Xtep (1368 HK) share price



Source: Bloomberg, CMBIGM estimates

Top Sports (6110 HK) share price



Source: Bloomberg, CMBIGM estimates

Li Ning (2331 HK) share price



Source: Bloomberg, CMBIGM estimates

- **Retail sales growth shall accelerate in 2H23E but it would take time for trade fair sales growth to follow, due to excessive channel inventory and limited re-orders.** Assuming the macro factors being equal (economic growth in China to recover and tensions between US and China not deteriorating), we should see retail sales growth to accelerate from roughly 15% in 1H23E to about 20% in 2H23E, thanks to lower base and less retail discounts. However, trade fair sales growth could still be slower than the retail sales growth during 1Q23E-3Q23E and only start to pick up since 4Q23E, due to excessive inventory carried over from FY22. That would hinder the re-order sales contribution (5% only in FY23E vs the norm of 5%-10%), so as the quick response sales.
- **We believe outlook for FY24E is bright and it is not fully priced in.** While sales growth and margin improvement are back-loaded in FY23E, we are now even more optimistic about FY24E, because the retail sales growth could be boosted by: 1) acceleration in store openings and store revamps (plans in FY22 are delayed into FY23E due to COVID-19), 2) trade fair sales growth to reaccelerate plus the potentially higher re-orders as level of inventory normalises, and 3) resumption of rapid e-commerce sales growth.
- **Xtep (1368 HK, BUY).** We are putting Xtep as our sector top pick, because it has the fastest retail sales growth among all the leading sportswear brands in China, and there is still reasonable room for positive surprises. While the running segment is enjoying much faster than industry sales growth (vs basketball), we are rather impressed by Xtep's ability to further gain market shares in 1Q23, esp. when brands like Li Ning and Anta are doubling down its investments on both branding and products in running. Moreover, we think the room for further ASP hike is still decent for Xtep, unlike Li Ning.
- **Topsports (6110 HK, NR).** We also like Topsports because of the turnaround for international brands, as the first positive growth for Nike/ Adidas was already registered in during the CNY 2023 and further accelerated in 5-1 Golden Week (since the XJ cotton incident in Apr 2021). With new product launches and marketing events normalize in FY23E, Nike/ Adidas sales growth had impressively accelerated from about 15%/ 0% in 1Q23 to 30%+/ 10%+ during 5-1 Golden Week 2023. Moreover, we also expect its retail discounts to improve YoY in FY23E (mostly for Adidas as that is flattish for Nike), which is far better than that for domestic brands (there is still YoY pressure for both Li Ning and Anta and normal for Xtep). We also think their new strategy of China for China (more localization, such as more Chinese designers, more Chinese style products and more china production for quick response orders) is a correct solution, for them to deliver at least 10%+ retail sales growth ahead in mid-term.
- **Anta (2020 HK, BUY).** We are still optimistic about Anta group's turnaround in FY23E, because of: 1) its increased efforts on its basketball line (NBA stars China tour, more innovative new products, etc.), as well as the brand upgrades, 2) FILA's reform (FILA Core to focus on professional sports and FILA Fusion to become more street fashion), operating leverage and improvements in retail discounts, 3) Kolon and Descente's rapid sales growth plus their strong margins.
- **Li Ning (2331 HK, BUY).** We prefer Li Ning less at the moment, because of: 1) its slowdown in trade fair sales growth and greater than peers de-stocking pressure (a result of its robust FY22 trade fair sales growth but a miss in FY22 retail sales growth), 2) its limitation on further ASP hike (many products by Li Ning already have a price point similar to Nike and it is hard to re-raise the tag prices for many products after heavy discounting since 2H22, there are more promotions online in Mar 2023 as well) and 3) slower than peers' margin improvement (its retail discounts improvement in 2H23E may not be too significant).

Operating numbers

Figure 1: Retail sales growth (offline + online, CMBI est.), by brand

	1Q23	Apr 2023E	May 2023E
Nike	~15%	20%+	30%+
Adidas	~0%	10%+	10%+
Anta	MSD	20%+	20%+
Li Ning	MSD	20%+	20%+
Xtep	~20%	~40%	35%+
361 Degrees	~low-teens	20%+	30%+

Source: CMBIGM estimates, may 2023E refers to 5-1 golden weeks holidays in 2023

Figure 2: Historical sales growth trend, by brand

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%	-20%	-13%	6%	1%	20%	10%	10%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	15%	10%	40%
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	14%	13%	25%
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			
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			
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			
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	16%	11%	23%
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			
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			
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			
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%			
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%			
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%			
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%			
Li Ning group's SSSG																
Direct retail	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve High 30%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens	-ve LSD			
Wholesales	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	+ve HSD	-ve Low 20%	-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%			
Li Ning group's retail sa	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 20%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	15%	5%	31%
Direct retail	-ve Mid 30%	-ve Low-teens	Flat	+ve HSD	+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			
Wholesales	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve High 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	-ve Low 20%	+ve MSD			
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			
Xtep's SSSG																
Xtep'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%	23%	13%	31%
361 Degrees' SSSG																
361 Degree's retail sale:	-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			
Kids					20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%			
E- Commerce								35%-40%	50%	40%	45%	25%	35%			
Pou Sheng's SSSG																
Pou Sheng's sales	-33%	-18%		1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	22%	7%	20%
Topsports' retail sales																
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			
Dong Xiang's retail sale	-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			
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 at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

Peers Valuation

Figure 3: 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	FY2E	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear																
Xtep	1368 HK	BUY	11.80	9.14	29%	24,100	Dec-22	19.3	15.6	2.3	11.4	0.8	3.1	5.2		
Anta	2020 HK	BUY	130.72	96.15	36%	272,357	Dec-22	24.2	20.1	5.5	24.0	1.2	1.8	(6.0)		
Li Ning	2331 HK	BUY	66.72	55.80	20%	147,091	Dec-22	26.4	21.5	4.6	17.9	1.4	1.2	(17.6)		
361 Degrees	1361 HK	NR	n/a	4.16	n/a	8,602	Dec-22	8.3	7.1	0.8	9.9	0.5	5.0	24.9		
Topsports	6110 HK	NR	n/a	6.83	n/a	42,354	Feb-22	18.2	14.3	3.3	21.3	3.3	4.0	10.3		
Pou Sheng	3813 HK	NR	n/a	0.65	n/a	3,462	Dec-22	6.5	4.0	0.4	1.1	0.1	2.4	(13.3)		
Dongxiang	3818 HK	NR	n/a	0.31	n/a	1,825	Mar-22	n/a	9.1	0.2	(14.0)	0.0	3.7	0.0		
Avg.								17.2	13.1	2.4	10.2	1.0	3.0	0.5		
Med.								18.7	14.3	2.3	11.4	0.8	3.1	0.0		
International Sportswear																
Nike Inc	NKE US	NR	n/a	126.59	n/a	1,526,926	May-22	39.1	31.5	13.5	37.3	4.9	1.0	8.2		
Adidas	ADS GY	NR	n/a	170.34	n/a	265,455	Dec-22	n/a	42.6	6.5	1.6	0.0	0.5	33.6		
Puma	PUM GY	NR	n/a	51.86	n/a	67,718	Dec-22	21.1	15.9	2.9	14.9	1.0	1.6	(8.5)		
Under Armour	UAA US	NR	n/a	8.64	n/a	28,567	Mar-23	15.5	14.0	1.9	n/a	1.0	0.0	(15.0)		
Lululemon	LULU US	NR	n/a	386.71	n/a	386,394	Jan-23	33.5	29.0	12.0	29.0	1.0	0.0	20.7		
Skechers	SKX US	NR	n/a	51.84	n/a	62,951	Dec-22	16.6	13.5	1.9	11.6	0.7	0.0	23.6		
Vf Corp	VFC US	NR	n/a	22.12	n/a	67,468	Apr-22	10.6	10.0	2.6	11.9	(1.1)	8.0	(19.9)		
Columbia	COLM US	NR	n/a	82.63	n/a	40,231	Dec-22	16.2	14.2	2.4	15.4	1.7	1.5	(5.7)		
Wolverine	WWW US	NR	n/a	14.99	n/a	9,286	Dec-22	10.2	7.3	2.7	(40.2)	(0.1)	2.9	37.1		
Mizuno Corp	8022 JP	NR	n/a	3365.00	n/a	5,212	Mar-22	12.5	11.0	0.7	8.1	(4.0)	1.8	19.6		
Asics Corp	7936 JP	NR	n/a	3820.00	n/a	42,267	Dec-22	28.7	24.2	3.8	12.5	1.6	1.2	31.1		
Avg.								20.4	19.4	4.6	10.2	0.6	1.7	11.4		
Med.								16.4	14.2	2.7	12.2	1.0	1.2	19.6		

Source: Bloomberg, CMBIGM estimates

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