

Xtep (1368 HK)

A high-quality 2Q23 and guidance unchanged

Even though 2Q23 results was just roughly inline (slightly slower retail sales growth but a strong retail discounts), it was certainly industry leading with high-quality. Management remained confident and reiterated their list co-level FY23E guidance despite the macro headwinds. Hence, we maintain BUY given its attractive valuation of 16x FY23E P/E and 0.7x PEG.

■ **2Q23 retail sales growth remained fast, industry leading and with high-quality.** Xtep's retail sales rose by high-teens in 2Q23, slightly slowing down from the ~20% in 1Q23, but inline with CMBI est. of ~19%. It also consisted of ~30%/ 30% growth for Xtep kids/ running. Offline was far ahead of the close to flattish e-commerce growth (traditional platform was sluggish while sales from new retail channels had doubled). Even though the sales trend has slowed down (35%+/ 10%+/ 10%+ for Apr/ May/ Jun 2023), we still appreciate the rapid growth a lot, as it was way faster than Anta/ 361 degrees' HSD/ low-teens growth, as well as seeing a MSD contribution from replenishment and quick response orders.

■ **Our outlook for 2H23E and beyond are still cautiously optimistic.** While we have turned more cautious on China sportswear industry since Mid-May 2023, due to: 1) weak macro demand, 2) cool down of domestic fashion and 3) increased efforts from the international brands, Xtep should continue to shine and this is echoed by strong confidence from management. The 25%+ retail sales growth guidance was lowered down to 20%+, perhaps due to slow down in momentum (Jun-Jul MTD 2023 retail sales was 10%+), but we still see a decent and achievable target with a low base in 4Q23E, supported by strong offline SSSG from distributors, as well as Xtep's highly value for money products and the more stable demand from lower tier cities. And more importantly, the guidance for listed co 15%-20% sales growth and an even faster net profit growth (GP margin and OP margin will improve) remained unchanged. While sales growth could be supported by more re-orders, GP margin would be aided by ASP increases and higher sales mix from functional products (despite the potentially higher retail discounts). Also, the OP margin should improve with more operating leverage, where SSSG will remain high at HSD (even with a slightly higher A&P expenses at 11-13% of sales). **Note that we now forecast a ~11% sales growth and ~14% net profit growth in 1H23E.**

■ **Maintain BUY but cut TP to HK\$ 11.17, based on 23x FY23E P/E (remained unchanged and ~1.3x s.d. above the 5 years average of 15x).** We trimmed FY23E/ 24E/ 25E net profit by 5%/ 5%/ 5% to factor in a slightly less GP margin improvement and operating leverage. 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	15,014	17,429	19,868
YoY growth (%)	22.5	29.1	16.1	16.1	14.0
Operating profit (RMB mn)	1,396	1,464	1,761	2,120	2,527
Net profit (RMB mn)	889.4	912.3	1,137.3	1,413.4	1,732.9
EPS (Reported) (RMB)	0.36	0.36	0.43	0.53	0.65
YoY growth (%)	72.1	0.6	20.3	23.9	22.6
P/E (x)	18.1	19.6	16.3	13.1	10.7
P/B (x)	2.1	2.2	2.1	1.9	1.8
Yield (%)	2.9	1.8	3.5	4.4	5.4
ROE (%)	11.6	11.2	13.3	15.4	17.6
Net gearing (%)	17.9	6.8	1.3	(4.6)	(9.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.17**
(Previous TP) HK\$11.76
Up/Downside **41.2%**
Current Price **HK\$7.91**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn) 20,841.6
Avg 3 mths t/o (HK\$ mn) 60.8
52w High/Low (HK\$) 14.34/6.85
Total Issued Shares (mn) 2634.8
Source: FactSet

Shareholding Structure

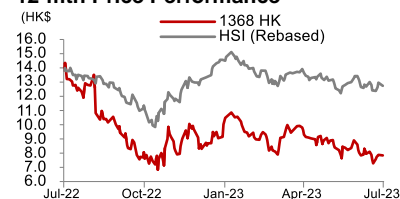
Mr Ding Shui Po & Family 49.0%
JP Morgan Chase 4.6%
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.0%	-2.7%
3-mth	-14.9%	-8.6%
6-mth	-24.5%	-13.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **2Q23 retail discounts was better than expected while inventory level stayed; we still expect it to normalize by 4Q23E.** Xtep's retail discounts had improved to just 25% off in 2Q23 (vs 25%-30% off in 1Q23). This was impressive, given the industry-wide de-stocking pressure. Inventory to sales ratio remained at below 5 months in 2Q23 (same as 1Q23). However, given the sports events like 2023 Hangzhou Asian Games in 3Q23E and its plan to clear inventories from last year in 4Q23E, retail discounts might turn deeper in 2H23E as the target to normalize inventory (to ~4 months) by 4Q23E remained unchanged.
- **The new brands beat in 1H23E but net losses target in FY23E maintained.** Sales growth from both Saucony and Merrell was at ~100% in 1H23E, far ahead of the guidance of 60%-70% growth. Net profit was registered in 1H23E, also better than the original plan. Sales per store for Saucony was about RMB 280K. For K-Swiss and Palladium, the China business was decent, but kind of offset by the sluggish overseas sales, so the result in 1H23E might be lower than expected. All in all, net losses from these new brands will not exceed RMB 150mn in FY23E, but remained unchanged.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	15,014	17,429	19,868	15,187	17,629	20,093	-1.1%	-1.1%	-1.1%
Gross profit	6,161	7,199	8,259	6,253	7,305	8,379	-1.5%	-1.4%	-1.4%
EBIT	1,761	2,120	2,527	1,824	2,192	2,609	-3.5%	-3.3%	-3.1%
Net profit att.	1,132	1,403	1,721	1,192	1,474	1,803	-5.0%	-4.8%	-4.6%
Diluted EPS (RMB)	0.430	0.533	0.653	0.453	0.559	0.684	-5.0%	-4.8%	-4.6%
Gross margin	41.0%	41.3%	41.6%	41.2%	41.4%	41.7%	-0.1ppt	-0.1ppt	-0.1ppt
EBIT margin	11.7%	12.2%	12.7%	12.0%	12.4%	13.0%	-0.3ppt	-0.3ppt	-0.3ppt
Net profit att. margin	7.5%	8.1%	8.7%	7.9%	8.4%	9.0%	-0.3ppt	-0.3ppt	-0.3ppt

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	15,014	17,429	19,868	15,094	17,955	21,183	-0.5%	-2.9%	-6.2%
Gross profit	6,161	7,199	8,259	6,248	7,483	8,880	-1.4%	-3.8%	-7.0%
EBIT	1,761	2,120	2,527	1,737	2,141	2,628	1.4%	-1.0%	-3.8%
Net profit att.	1,132	1,403	1,721	1,158	1,444	1,773	-2.2%	-2.8%	-2.9%
Diluted EPS (RMB)	0.430	0.533	0.653	0.440	0.547	0.677	-2.3%	-2.7%	-3.5%
Gross margin	41.0%	41.3%	41.6%	41.4%	41.7%	41.9%	-0.4ppt	-0.4ppt	-0.3ppt
EBIT margin	11.7%	12.2%	12.7%	11.5%	11.9%	12.4%	0.2ppt	0.2ppt	0.3ppt
Net profit att. margin	7.5%	8.1%	8.7%	7.7%	8.0%	8.4%	-0.1ppt	0ppt	0.3ppt

Source: Company data, CMBIGM estimates

Results preview

Figure 3: Results preview – Half Year

Half yearly (RMB mn)	1H22	2H23	1H23E	2H23E	1H22 YoY	2H22 YoY	1H23 E YoY	2H23 E YoY
Revenue	5,684	7,247	6,326	8,687	37%	23%	11%	20%
COGS	-3,297	-4,342	-3,663	-5,189				
Gross profit	2,387	2,905	2,663	3,498	38%	19%	12%	20%
GP margins	42.0%	40.1%	42.1%	40.3%				
Other income & gains	237	79	221	109				
S & D expenses	-1,046	-1,644	-1,139	-1,898	35%	47%	9%	15%
S & D exp / sales	-18.4%	-22.7%	-18.0%	-21.9%				
Admin expenses	-656	-798	-715	-979	36%	13%	9%	23%
Admin exp / sales	-11.5%	-11.0%	-11.3%	-11.3%				
Other opex	0	0	0	0				
Operating profit (EBIT)	922	543	1,031	730	35%	-24%	12%	34%
OP margins	16.2%	7.5%	16.3%	8.4%				
Other items	0	0	0	0				
Net finance income	-28	-63	-32	-51				
Net finance income / sales	-0.5%	-0.9%	-0.5%	-0.6%				
Profit after financing costs	893	480	1,000	679				
Associated coms	-11	-1	-6	0				
Jointly controlled coms	0	0	0	0				
Pre-tax profit	882	479	993	679	37%	-25%	13%	42%
Tax	-293	-155	-318	-217				
Tax / sales	-5.2%	-2.1%	-5.0%	-2.5%				
Effective tax rate	-33.2%	-32.5%	-32.0%	-32.0%				
Minority interests	-1	-8	2	3				
Net profit att.	590	331	673	459	38%	-31%	14%	39%
NP margins	10.4%	4.6%	10.6%	5.3%				
Sales by segment								
Mass market	4,898	6,230	5,289	7,391	36%	19%	8%	19%
Athleisure	630	773	724	987	36%	52%	15%	28%
Professional sports	157	244	313	309	106%	95%	100%	27%
Total	5,684	7,247	6,326	8,687	37%	23%	11%	20%

Source: Company data, CMBIGM estimates

Figure 4: Results preview - Full Year

Full yearly (RMB mn)	FY22	FY23E	FY24E	FY22 YoY	FY23E YoY	FY24E YoY
Revenue	12,930	15,014	17,429	29%	16%	16%
COGS	-7,639	-8,852	-10,230			
Gross profit	5,292	6,161	7,199	27%	16%	17%
GP margins	40.9%	41.0%	41.3%			
Other income & gains	317	330	366			
S & D expenses	-2,690	-3,037	-3,507	42%	13%	15%
S & D exp / sales	-20.8%	-20.2%	-20.1%			
Admin expenses	-1,454	-1,694	-1,938	22%	16%	14%
Admin exp / sales	-11.2%	-11.3%	-11.1%			
Other opex	0	0	0			
Operating profit (EBIT)	1,464	1,761	2,120	5%	20%	20%
OP margins	11.3%	11.7%	12.2%			
Other items	-12	-6	17			
Net finance income	-91	-82	-88			
Net finance income / sales	-0.7%	-0.5%	-0.5%			
Profit after financing costs	1,361	1,672	2,048			
Associated coms	0	0	0			
Jointly controlled coms	0	0	0			
Pre-tax profit	1,361	1,672	2,048	6%	23%	22%
Tax	-449	-535	-635			
Tax / sales	-3.5%	-3.6%	-3.6%			
Effective tax rate	-33.0%	-32.0%	-31.0%			
Minority interests	-9	5	10			
Net profit att.	922	1,132	1,403	1%	23%	24%
NP margins	7.1%	7.5%	8.1%			
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	622	832	99%	56%	34%
Total	12,930	15,014	17,429	29%	16%	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%	-20%	-13%	6%	1%	18%	8%	8%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	10%	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	12%	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																
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	8%	24%
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																
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																
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			
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 sales																
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	11%	5%	26%
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			
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%	+ve High-teens	13%	26%
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	+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 sales	-33%	-18%	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%			
	-25%	0%	0%	1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	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	+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	+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	9,090	10,643	12,218
Apparels	3,887	4,897	5,631	6,476	7,318
Accessories	198	273	292	310	332
Total	10,013	12,930	15,014	17,429	19,868
Sales by segment growth (%)					
Shoes	17.5%	30.9%	17.1%	17.1%	14.8%
Apparels	31.2%	26.0%	15.0%	15.0%	13.0%
Accessories	22.5%	38.3%	7.0%	6.0%	7.0%
Total	22.5%	29.1%	16.1%	16.1%	14.0%
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	622	832	1,078
Total	10,013	12,930	15,014	17,429	19,868
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%	55.6%	33.8%	29.6%
Total	22.5%	29.1%	16.1%	16.1%	14.0%
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%	41.0%	41.3%	41.6%
Opex breakdown					
A&P / sales	10.2%	11.9%	11.3%	11.5%	11.5%
Staff costs/ sales	11.1%	11.3%	11.6%	11.4%	11.3%
R&D / sales	2.5%	2.3%	2.5%	2.5%	2.5%
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%	20.2%	20.1%	20.0%
Admin expenses / sales	11.9%	11.2%	11.3%	11.1%	10.9%
Total	30.8%	32.0%	31.5%	31.2%	31.0%
OP margins	13.9%	11.3%	11.7%	12.2%	12.7%
Effective tax rate	30.9%	33.0%	32.0%	31.0%	30.0%
Net profit att. margins	9.1%	7.1%	7.5%	8.1%	8.7%
Net profit att. growth (%)	77.1%	1.5%	22.8%	23.9%	22.6%

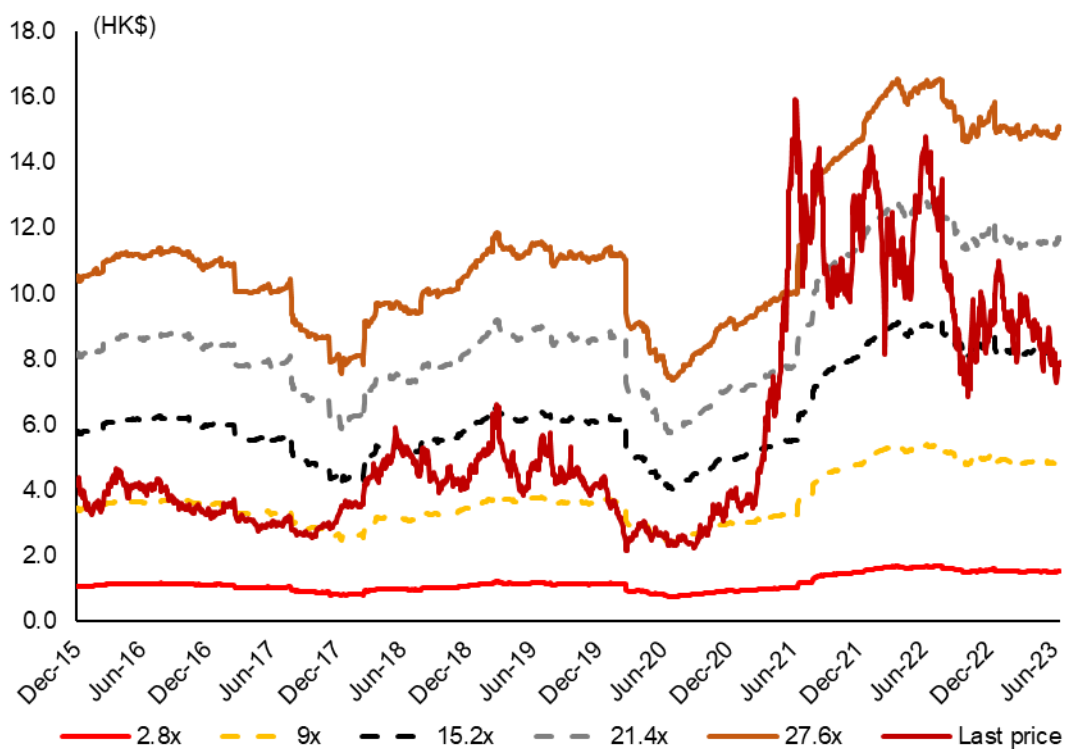
Source: Company data, CMBIGM estimates

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	FY1E	FY1E	FY1E	FY1E	FY1E
H shares Sportswear														
Xtep Intl	1368 HK	BUY	11.17	7.91	41%	20,856	Dec-22	16.3	13.1	2.1	11.4	0.7	3.7	(9.0)
Anta Sports	2020 HK	BUY	98.20	82.95	18%	234,966	Dec-22	22.3	18.5	5.0	24.0	1.3	2.0	(18.9)
Li Ning	2331 HK	BUY	66.72	40.50	65%	106,760	Dec-22	20.5	16.7	3.5	17.9	1.2	1.5	(40.2)
361 Degrees	1361 HK	NR	n/a	4.06	n/a	8,395	Dec-22	8.5	7.2	0.8	9.9	0.5	4.8	21.9
Topsports	6110 HK	BUY	9.00	6.76	33%	41,920	Feb-23	15.7	13.2	3.7	18.0	0.8	5.6	9.2
Pou Sheng	3813 HK	NR	n/a	0.61	n/a	3,249	Dec-22	4.8	3.4	0.3	1.1	0.0	3.7	(18.7)
China DX	3818 HK	NR	n/a	0.30	n/a	1,766	Mar-23	5.6	4.6	0.2	1.2	0.0	14.4	(3.2)
Avg.								13.4	11.0	2.2	11.9	0.7	5.1	(8.4)
Med.								15.7	13.1	2.1	11.4	0.7	3.7	(9.0)
International Sportswear														
Nike Inc	NKE US	NR	n/a	109.88	n/a	1,318,632	May-23	29.2	24.9	12.0	34.6	1.8	1.3	(6.1)
Adidas	ADS GY	NR	n/a	172.30	n/a	271,334	Dec-22	n/a	42.5	6.9	1.6	0.0	0.4	35.2
Puma	PUM GY	NR	n/a	58.80	n/a	77,588	Dec-22	24.0	18.0	3.2	13.9	1.2	1.4	3.7
Under Armour	UAA US	NR	n/a	8.41	n/a	27,927	Mar-23	16.8	13.5	1.7	20.8	(3.5)	0.0	(17.2)
Lululemon	LULU US	NR	n/a	390.51	n/a	387,431	Jan-23	32.8	28.6	11.5	31.9	1.0	0.0	21.9
Skechers	SKX US	NR	n/a	54.26	n/a	65,554	Dec-22	17.1	13.9	2.0	11.6	0.7	0.0	29.3
Vf Corp	VFC US	NR	n/a	20.46	n/a	62,091	Apr-23	9.8	8.3	2.5	3.7	0.1	5.9	(25.9)
Columbia	COLM US	NR	n/a	77.95	n/a	37,759	Dec-22	15.1	13.3	2.3	15.4	1.5	1.6	(11.0)
Wolverine	WWW US	NR	n/a	13.03	n/a	8,081	Dec-22	9.0	6.2	2.4	(39.3)	(0.0)	3.1	19.2
Mizuno Corp	8022 JP	NR	n/a	3740.00	n/a	5,559	Mar-23	11.4	11.0	0.8	8.4	0.0	1.6	33.0
Asics Corp	7936 JP	NR	n/a	4301.00	n/a	45,671	Dec-22	31.0	26.3	4.4	15.9	1.8	1.1	47.6
Avg.								19.6	18.8	4.5	10.8	0.4	1.5	11.8
Med.								17.0	13.9	2.5	13.9	0.7	1.3	19.2

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	15,014	17,429	19,868
Cost of goods sold	(4,973)	(5,835)	(7,639)	(8,852)	(10,230)	(11,609)
Gross profit	3,198	4,178	5,292	6,161	7,199	8,259
Operating expenses	(2,588)	(3,081)	(4,144)	(4,731)	(5,445)	(6,149)
Selling expense	(1,537)	(1,891)	(2,690)	(3,037)	(3,507)	(3,979)
Admin expense	(827)	(937)	(1,155)	(1,318)	(1,503)	(1,674)
R&D expense	(223)	(252)	(299)	(375)	(436)	(497)
Others	0	0	0	0	0	0
Operating profit	918	1,396	1,464	1,761	2,120	2,527
Other income	307	299	317	330	366	417
Share of (losses)/profits of associates/JV	(17)	(46)	(12)	(6)	17	43
EBITDA	996	1,480	1,597	1,929	2,303	2,722
Depreciation	(64)	(71)	(107)	(127)	(131)	(133)
Other amortisation	(14)	(13)	(26)	(40)	(52)	(61)
Interest income	4	21	25	35	29	22
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	1,672	2,048	2,476
Income tax	(257)	(397)	(449)	(535)	(635)	(743)
Minority interest	8	19	9	(5)	(10)	(12)
Net profit	505	889	912	1,137	1,413	1,733

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,027	10,432	11,484	12,380	13,380	14,421
Cash & equivalents	3,472	3,930	3,071	2,621	2,068	1,545
Account receivables	3,236	3,528	4,556	5,290	6,141	7,001
Inventories	975	1,497	1,960	2,272	2,625	2,979
Prepayment	899	1,443	1,863	2,163	2,511	2,862
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	4,843	5,286	5,830
PP&E	796	1,119	1,464	1,863	2,342	2,904
Investment in JVs & assos	218	365	352	346	363	406
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	17,223	18,666	20,251
Current liabilities	3,334	4,053	5,092	5,804	6,618	7,434
Short-term borrowings	642	405	405	405	405	405
Account payables	1,479	2,352	3,079	3,569	4,124	4,680
Tax payable	86	123	123	123	123	123
Other current liabilities	1,127	1,173	1,485	1,707	1,966	2,227
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	8,384	9,198	10,014
Share capital	22	23	23	23	23	23
Retained earnings	4,671	5,020	5,185	5,638	6,200	6,888
Other reserves	2,605	2,940	3,104	3,182	3,240	3,308
Total shareholders equity	7,299	7,982	8,313	8,843	9,462	10,218
Minority interest	0	0	(9)	(4)	6	18
Total equity and liabilities	12,572	14,615	15,975	17,223	18,666	20,251

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	762	1,287	1,361	1,672	2,048	2,476
Depreciation & amortization	78	84	132	168	183	195
Tax paid	(325)	(329)	(449)	(535)	(635)	(743)
Change in working capital	(320)	(447)	(872)	(634)	(739)	(748)
Others	125	107	12	6	(17)	(43)
Net cash from operations	320	701	185	678	841	1,137
Investing						
Capital expenditure	(207)	(414)	(453)	(525)	(610)	(695)
Acquisition of subsidiaries/ investments	(4)	(3)	0	0	0	0
Others	784	89	0	0	0	0
Net cash from investing	573	(329)	(453)	(525)	(610)	(695)
Financing						
Dividend paid	(279)	(356)	(591)	(602)	(784)	(964)
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)	(602)	(784)	(964)
Net change in cash						
Cash at the beginning of the year	2,970	3,472	3,930	3,071	2,621	2,068
Exchange difference	(11)	(11)	0	0	0	0
Others	513	469	(859)	(450)	(553)	(523)
Cash at the end of the year	3,472	3,930	3,071	2,621	2,068	1,545
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.1%)	22.5%	29.1%	16.1%	16.1%	14.0%
Gross profit	(9.9%)	30.6%	26.7%	16.4%	16.8%	14.7%
Operating profit	(25.6%)	52.1%	4.9%	20.2%	20.4%	19.2%
EBITDA	(24.6%)	48.6%	7.9%	20.8%	19.4%	18.2%
Net profit	(31.0%)	76.1%	2.6%	24.7%	24.3%	22.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	39.1%	41.7%	40.9%	41.0%	41.3%	41.6%
Operating margin	11.2%	13.9%	11.3%	11.7%	12.2%	12.7%
EBITDA margin	12.2%	14.8%	12.3%	12.8%	13.2%	13.7%
Return on equity (ROE)	7.1%	11.6%	11.2%	13.3%	15.4%	17.6%
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)	(0.1)
Current ratio (x)	2.7	2.6	2.3	2.1	2.0	1.9
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	32.3	18.1	19.6	16.3	13.1	10.7
P/E (diluted)	32.3	18.1	19.6	16.3	13.1	10.7
P/B	2.32	2.1	2.2	2.1	1.9	1.8
P/CFPS	20.0	27.2	132.5	28.4	22.9	16.9
Div yield (%)	4.6	2.9	1.8	3.5	4.4	5.4
EV	18,395.1	18,721.1	20,275.2	20,724.8	21,278.1	21,801.2
EV/Sales	2.3	1.9	1.6	1.4	1.2	1.1
EV/EBITDA	18.5	12.7	12.7	10.7	9.2	8.0

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

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