

Xtep (1368 HK)

Sustaining demand for domestic fashion

We remain positive on Xtep's future retail sales and trade fair order growth in 2H21E and FY22E, and expect them to remain fast given the healthier inventory level and improved retail discounts. Therefore, we still find its risk reward reasonable with further upsides. Maintain BUY and raise TP to HK\$16.32, based on SOTP valuation, implying ~39x FY22E P/E (up from 14x). It is now trading at 33x 22E P/E.

- Decent retail sales momentum will fuel faster future growth.** Despite a certain slowdown in retail sales growth in early Jun 2021 (highlighted by the management), vs robust growth in Apr-May 2021 (faster vs 1Q21), we remain positive due to its impressive performance during 618 Festival (GMV of RMB 300mn+ from all channels, 40%+/ 300%+/ 400%+ sales growth on Tmall/ JD/ other live streaming platforms). We are more optimistic for FY22E, because of potentially strong trade fair orders for 1Q/2Q22E, backed by low level of inventory, improved distributors' profitability and greater ASP hikes.
- Ample room for domestic fashion to grow.** The success Xtep attained in 1H21E was not an accident. We believe that was due to years of consistent and heavy investments on both product functionality and fashion design. For example, the highly ranked 160X running shoes series and crossovers with Shaolin/ 少林 were launched in 2H20-1Q21, while the Xinjiang cotton incident was just a trigger for this blooming demand from many domestic consumers. We also see certain similarities between Xtep in 2021 vs Li Ning in 2018 and expect Xtep to double down (more localized marketing and innovative products) and yield better brand elevations (catch up in ASP vs other brands). We are confident for Xtep core brand to deliver at least 10-15% sales/ 15-20% net profit growth in FY20-23E.
- Hillhouse is here for the long term growth.** Hillhouse invested ~RMB 500mn/ US\$ 65mn into Xtep Int'l/ Xtep Global (owners of K-Swiss and Palladium) in a form of CB, with coupon rates of 1.8%/ 0% and conversion price at HK\$ 10.24/ market cap at US\$ 260mn, in an investment period of 6/ 10 years and will result in ~2%/ 20% dilution in share capital upon exercise. We concur with the management that Hillhouse will be able to provide precious insights in digitalization and managing foreign brands in China, with the experience learnt from Topsports. Also, 1.4x FY22E P/S valuation is not too demanding.
- Maintain BUY and raised TP to HK\$ 16.32.** We revised up our FY21E/ 22E/ 23E EPS estimates by 2%/ 0%/ 4%, to factor in: 1) better-than-expected sales growth, GP margin and operating leverage, 2) higher interest costs. It is trading at 33x FY22E P/E. We maintain BUY and raised TP to HK\$ 16.32, based on SOTP valuation (35x P/E for Xtep, cost for K&P and 2.5x P/S for JV), up from 14x FY22E P/E.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 8,183 | 8,172 | 9,543 | 11,030 | 12,485 |
| YoY growth (%) | 28.2 | (0.1) | 16.8 | 15.6 | 13.2 |
| Net income (RMB mn) | 728 | 513 | 702 | 882 | 1,113 |
| EPS (RMB) | 0.302 | 0.206 | 0.276 | 0.346 | 0.437 |
| YoY growth (%) | 2.3 | (31.6) | 33.6 | 25.7 | 26.1 |
| Consensus EPS (RMB) | n/a | n/a | 0.273 | 0.332 | 0.414 |
| P/E (x) | 41.0 | 56.5 | 41.7 | 33.2 | 26.3 |
| P/B (x) | 4.4 | 4.1 | 3.8 | 3.6 | 3.4 |
| Yield (%) | 1.4 | 1.0 | 1.4 | 1.8 | 2.3 |
| ROE (%) | 10.5 | 7.0 | 9.2 | 11.0 | 13.0 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|-----------|
| Target Price | HK\$16.32 |
| (Previous TP) | HK\$5.84) |
| Up/Downside | +17.7% |
| Current Price | HK\$13.86 |

China Sportswear Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 36,340 |
| Avg 3 mths t/o (HK\$ mn) | 248.19 |
| 52w High/Low (HK\$) | 14.20/2.23 |
| Total Issued Shares (mn) | 2,622.0 |

Source: Bloomberg

Shareholding Structure

| | |
|---------------------------|--------|
| Mr Ding Shui Po & Family | 52.27% |
| Templeton Investments | 2.38% |
| JP Morgan Chase | 4.62% |
| Employee incentive scheme | 4.01% |
| Free Float | 36.72% |

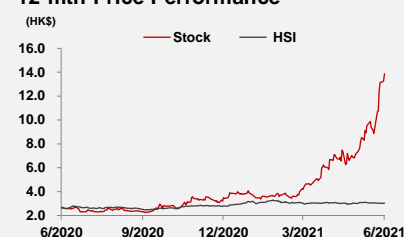
Source: HKEx, Bloomberg

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 87.9% | 88.8% |
| 3-mth | 212.9% | 219.3% |
| 6-mth | 315.6% | 283.5% |
| 12-mth | 392.6% | 326.5% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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Results Summary

Figure 1: Hillhouse investments in Xtep Int'l and Xtep Global

| | | |
|---|------------------------------|--|
| Date | 15-Jun-21 | 15-Jun-21 |
| Investor | Hillhouse | Hillhouse |
| Target company | Xtep International (1368 HK) | Xtep Global - owner of "K-SWISS" and "Palladium" |
| Total consideration | HK\$ 500mn | US\$ 65mn |
| Annual interest rate | 1.8% | 0.0% |
| Investment period | 6 years | 10 years |
| Conversion price per share | HK\$10.24 | US\$4,333 |
| Conversion price implied valuation | | US\$ 260mn |
| Last close price (before announcement) or M&A implied valuation | HK\$8.88 | US\$ 260mn |
| Shares issues upon conversion (fully diluted, excluding interest) | 48,809,058 | |
| Shares issues upon conversion (fully diluted) | 54,362,449 | 15,000 |
| Total issued shares (fully diluted, excluding interest) | 2,621,965,472 | |
| Total issued shares (fully diluted) | 2,676,327,921 | 75,000 |
| As % of total capital (fully diluted, excluding interest) | 1.86% | |
| As % of total capital (fully diluted) | 2.03% | 20.00% |

Source: Company data, CMBIS estimates

Figure 2: Sum of the parts (SOTP) valuation for Xtep Int'l

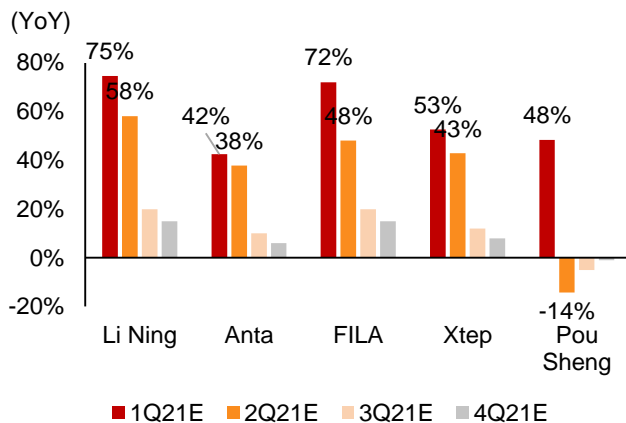
| Sum of the parts valuation | Targeted price per share (HK\$) | Targeted market cap (HK\$ mn) | Targeted market cap (RMB mn) | Target ratio (x) | Valuation method | FY22E sales (RMB mn) | FY22E net profit (RMB mn) | Remarks |
|----------------------------|---------------------------------|-------------------------------|------------------------------|------------------|------------------|----------------------|---------------------------|---|
| Xtep core brand | 15.21 | 38,745 | 32,158 | 35.0 | FY22E P/E | 9,474 | 919 | Based on 35x FY22E PE, vs 18% NP CAGR in FY20-23E |
| K-Swiss and Palladium | 0.79 | 2,014 | 1,672 | n/a | M&A costs | 1,223 | (26) | Implying a 1.4x FY22E P/S |
| Saucony and Merrell JV | 0.31 | 802 | 666 | 2.0 | FY22E P/S | 333 | (10) | Based on 2.0x FY22E P/S |
| Total (RMB) | 16.32 | 41,158 | 34,161 | | | 11,030 | 882 | Implying a 39x FY22E P/E vs 29% NP CAGR in FY20-23E |
| Number of shares (mn) | 2,547 | | | | | | | |
| CNYHKD FX rate | 1.2048 | | | | | | | |
| Current price (HKD) | 13.86 | | | | | | | |
| Upside (%) | 17.7% | | | | | | | |

Source: Bloomberg, CMBIS estimates

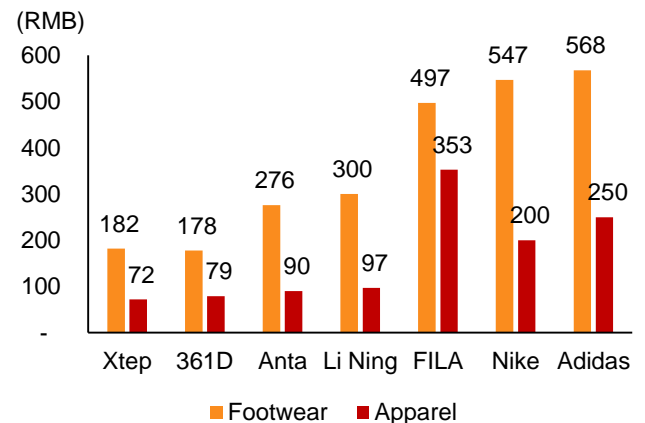
Figure 3: Xtep Int'l performance by brand segment

| Sales (RMB mn) | FY19 | FY20 | FY21E | FY22E | FY23E | FY24E | FY25E | FY20-23E CAGR |
|------------------------|-------|-------|-------|--------|--------|--------|--------|---------------|
| Xtep core brand | 7,707 | 7,101 | 8,292 | 9,474 | 10,565 | 11,654 | 12,859 | 14.2% |
| K-swiss and Palladium | 466 | 999 | 1,087 | 1,223 | 1,377 | 1,554 | 1,756 | 11.3% |
| Saucony and Merrell JV | 10 | 72 | 165 | 333 | 543 | 777 | 1,050 | 96.4% |
| Total | 8,183 | 8,172 | 9,543 | 11,030 | 12,485 | 13,985 | 15,665 | 15.2% |
| Net profit (RMB mn) | FY19 | FY20 | FY21E | FY22E | FY23E | FY24E | FY25E | FY20-23E CAGR |
| Xtep core brand | 790 | 656 | 792 | 919 | 1,083 | 1,236 | 1,443 | 18.2% |
| K-swiss and Palladium | (60) | (126) | (56) | (26) | 14 | 64 | 107 | -147.7% |
| Saucony and Merrell JV | (2) | (17) | (33) | (10) | 16 | 39 | 74 | -198.6% |
| Total | 728 | 513 | 702 | 882 | 1,113 | 1,338 | 1,623 | 29.5% |
| NP margin | FY19 | FY20 | FY21E | FY22E | FY23E | FY24E | FY25E | |
| Xtep core brand | 23% | 24% | 24% | 24% | 25% | 26% | 27% | |
| K-swiss and Palladium | -35% | -31% | -13% | -5% | 2% | 10% | 14% | |
| Saucony and Merrell JV | -45% | -57% | -47% | -7% | 7% | 11% | 15% | |
| Total | 20% | 16% | 18% | 19% | 21% | 23% | 25% | |

Source: Company data, CMBIS estimates

Figure 4: Quarterly retail sales growth, by brand

Source: Company data, CMBIS estimates

Figure 5: ASP on online flagship store, by brand

Source: Tmall, CMBIS estimates

Figure 6: Sportswear brands sales growth trend

| Operating numbers | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21E | 3Q21E | 4Q21E |
|--------------------------------|-----------------|-----------------|---------------|----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------------|----------------|---------------|--------------|--------|-------|-------|
| Nike China sales | 19.0% | 25.0% | 20.0% | 31.0% | 24.0% | 22.0% | 27.0% | 23.0% | -4.0% | 1.0% | 8.0% | 19.0% | 42.0% | | | |
| Adidas China sales | 26.0% | 27.0% | 26.0% | 23.0% | 16.0% | 14.0% | 11.0% | 15.0% | -58.0% | 0.0% | -5.0% | 7.0% | 156.0% | | | |
| Anta brand's SSSG | | | | | | | | | | | | | | | | |
| Anta brand's retail sales | 20%-25% | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve High-teens | -ve 20%-25% | -ve LSD | +ve LSD | +ve LSD | 40%-45% | 38.0% | 8.0% | 6.0% |
| Core brand | +ve Mid-teens | +ve HSD | +ve Low-teens | +ve HSD | +ve HSD | +ve Low-teens | +ve Low-teens | +ve HSD | -ve 20%-25% | -ve LSD | -ve MSD | -ve MSD | 35%-40% | | | |
| Kids | over 40% | over 25% | Over 25% | Over 25% | Over 20% | 30% | Over 25% | 25% | -ve 20%-25% | +ve MSD | +ve Low-teens | -ve Low-teens | 45%-50% | | | |
| Online | over 40% | over 25% | Over 20% | Over 25% | +ve Mid-teens | 25% | 35% | Over 40% | +ve MSD | Over 40% | Over 50% | Over 25% | Over 60% | | | |
| Non-Anta brands (FILA/) | | | | | | | | | | | | | | | | |
| FILA brand's retail sales | 80%-85% | 90%-95% | 90%-95% | 80%-85% | 65%-70% | 55%-60% | | | | | | | | | | |
| Classic/ Core brand | | | | | | | 50%-55% | 50%-55% | -ve MSD | +ve Low-teens | 20%-25% | 25%-30% | 75%-80% | 48.0% | 18.0% | 15.0% |
| Kids | | | | | | | | | Over 40% | -ve 20%-25% | +ve MSD | +ve MSD | +ve MSD | 80% | | |
| Fusion | | | | | | | | | Over 70% | -ve LSD | Over 30% | Over 30% | Over 20% | 100% | | |
| Online | | | | | | | | | Over 100% | +ve MSD | Over 70% | Over 50% | Over 50% | 150% | | |
| Other brands | | | | | | | 30%-35% | 25%-30% | -ve HSD | 25%-30% | 50%-55% | 55%-60% | 115%-120% | | | |
| Descente | | | | Over 100% | Over 100% | Over 90% | 50% | 50% | +ve Mid-teens | Over 60% | 90% | Over 80% | 150% | | | |
| Kolon | | | | | | 15% | 20% | 20% | -ve High-teens | +ve LSD | 20%-25% | 30%-40% | Over 75% | | | |
| Li Ning group's SSSG | | | | | | | | | | | | | | | | |
| Direct retail | +ve Low-teens | +ve HSD | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Mid-teens | +ve High-teens | +ve Low-teens | n/a | -ve MSD | +ve LSD | +ve Low-teens | | | | |
| Wholesales | +ve MSD | +ve LSD | +ve HSD | +ve MSD | +ve Low-teens | +ve Low-teens | +ve Low-teens | +ve Mid-teens | n/a | -ve Low-teens | -ve MSD | +ve MSD | | | | |
| E- Commerce | +ve High 30% | +ve Mid-30% | +ve High 30% | +ve Mid 50% | +ve High 30% | +ve Mid 50% | +ve Mid 50% | +ve Low 40% | +ve Low-teens | +ve Mid 20% | +ve High 30% | +ve Low 30% | | | | |
| Li Ning group's retail sales | +ve Mid-teens | +ve Low-teens | +ve Mid-teens | +ve High-teens | +ve Low 20%-25% | +ve Low 20%-25% | +ve Low 30%-35% | +ve Mid 30%-40% | -ve High-teens | -ve MSD | +ve MSD | +ve Mid-teens | High 80%-90% | 58.0% | 15.0% | 10.0% |
| Direct retail | Low 20%-30% | +ve Mid-teens | +ve Mid-teens | +ve HSD | +ve Low-teens | +ve HSD | +ve Mid-teens | +ve High-teens | -ve Mid 30% | -ve Low-teens | Flat | +ve MSD | Low-90% | | | |
| Wholesales | +ve MSD | +ve MSD | +ve Low-teens | +ve Low-teens | +ve Low 20%-25% | +ve Mid-20% | +ve Mid-30% | +ve Low 40% | -ve High-teens | -ve HSD | -ve LSD | +ve Low-teens | Low-80% | | | |
| E- Commerce | +ve High 30% | +ve High 30% | +ve Low 30% | +ve Mid 50% | +ve Low 40% | +ve High 20% | +ve Low 50% | +ve Low 40% | +ve Low-teens | +ve High 20% | +ve Low 40% | +ve Mid 30% | 100% | | | |
| Xtep's SSSG | | | | | | | | | | | | | | | | |
| Xtep's retail sales | +ve Low-teens | +ve Mid-teens | +ve Mid-teens | +ve Mid-teens | +ve Low-teens | +ve Low-teens | 10% | +ve Low-teens | | | | | | | | |
| 361 Degree's SSSG | +ve HSD | +ve HSD | +ve MSD | Flat | +ve LSD | +ve LSD | +ve LSD | +ve LSD | | | | | | | | |
| 361 Degree's retail sales | | | | | | | | | | | | | | | | |
| Pou Sheng's SSSG | 10.1% | 2.2% | 8.9% | 8.7% | 8.4% | 4.2% | 6.0% | 1.9% | -32.5% | -17.8% | | | | | | |
| Pou Sheng's sales | 17.7% | 17.7% | 24.4% | 22.0% | 19.9% | 18.9% | 21.9% | 19.1% | -25.1% | 0.3% | -0.3% | 1.0% | 47.8% | -14.0% | -5.0% | -1.0% |
| Dong Xiang's SSSG | | | | | | | | | | | | | | | | |
| Direct retail | +ve Mid to High | -ve Mid to High | +ve MSD | +ve LSD | -ve LSD | +ve MSD | +ve Mid to High | +ve Mid to High | -ve Low-Mid SD | -ve MSD | +ve Low-Mid SD | +ve MSD | +ve HSD | | | |
| E- Commerce | +ve HSD | Flat | +ve Low-teens | +ve HSD | Flat | +ve LSD | +ve HSD | +ve Low-teens | -ve LSD | -ve Low to Mid-teens | -ve Low-Mid SD | -ve LSD | -ve MSD | | | |
| | | | | | | | | | | | | | | | | |

Source: Company data, CMBIS estimates, *Nike's year end is in May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

Earnings revision

Figure 7: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------------|-------|--------|--------|-------|--------|--------|----------|---------|---------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 9,543 | 11,030 | 12,485 | 9,366 | 10,679 | 12,057 | 1.9% | 3.3% | 3.6% |
| Gross profit | 3,841 | 4,530 | 5,218 | 3,808 | 4,452 | 5,072 | 0.9% | 1.7% | 2.9% |
| EBIT | 1,206 | 1,450 | 1,736 | 1,140 | 1,376 | 1,589 | 5.7% | 5.4% | 9.3% |
| Net profit att. | 702 | 882 | 1,113 | 671 | 863 | 1,051 | 4.6% | 2.3% | 5.8% |
| Diluted EPS (RMB) | 0.276 | 0.346 | 0.437 | 0.269 | 0.346 | 0.422 | 2.3% | 0.0% | 3.6% |
| Gross margin | 40.2% | 41.1% | 41.8% | 40.7% | 41.7% | 42.1% | -0.4ppt | -0.6ppt | -0.3ppt |
| EBIT margin | 12.6% | 13.1% | 13.9% | 12.2% | 12.9% | 13.2% | 0.5ppt | 0.3ppt | 0.7ppt |
| Net profit att. margin | 7.4% | 8.0% | 8.9% | 7.2% | 8.1% | 8.7% | 0.2ppt | -0.1ppt | 0.2ppt |

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

| RMB mn | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------------|-------|--------|--------|-----------|--------|--------|----------|---------|---------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 9,543 | 11,030 | 12,485 | 9,439 | 10,894 | 12,580 | 1.1% | 1.2% | -0.7% |
| Gross profit | 3,841 | 4,530 | 5,218 | 3,851 | 4,522 | 5,264 | -0.3% | 0.2% | -0.9% |
| EBIT | 1,206 | 1,450 | 1,736 | 1,079 | 1,297 | 1,450 | 11.7% | 11.8% | 19.8% |
| Net profit att. | 702 | 882 | 1,113 | 681 | 834 | 1,025 | 3.1% | 5.8% | 8.6% |
| Diluted EPS (RMB) | 0.276 | 0.346 | 0.437 | 0.273 | 0.332 | 0.414 | 1.0% | 4.2% | 5.7% |
| Gross margin | 40.2% | 41.1% | 41.8% | 40.8% | 41.5% | 41.8% | -0.6ppt | -0.4ppt | -0.1ppt |
| EBIT margin | 12.6% | 13.1% | 13.9% | 11.4% | 11.9% | 11.5% | 1.2ppt | 1.2ppt | 2.4ppt |
| Net profit att. margin | 7.4% | 8.0% | 8.9% | 7.2% | 7.7% | 8.1% | 0.1ppt | 0.3ppt | 0.8ppt |

Source: Company data, CMBIS estimates

Valuation

Figure 9: Peers valuation table

| Company | Ticker | Rating | 12m TP (LC) | Price (LC) | Up/Down-side | Mkt. Cap (HK\$m) | Year End | P/E (x) | | P/B (x) | | ROE (%) | 3yrs PEG (x) | Yield (%) | |
|---------------------------------|---------|--------|-------------|------------|--------------|------------------|----------|-------------|-------------|-------------|------------|------------|--------------|------------|------------|
| | | | | | | | | FY1E | FY2E | FY1E | FY2E | FY1E | FY1E | FY1E | |
| H shares Sportswear | | | | | | | | | | | | | | | |
| Xtep Intl | 1368 HK | BUY | 16.32 | 13.86 | 18% | 36,340 | Dec-20 | 41.7 | 33.2 | 3.8 | 3.6 | 7.3 | 1.5 | 1.4 | |
| Anta Sports | 2020 HK | BUY | 198.84 | 182.10 | 9% | 492,276 | Dec-20 | 51.5 | 39.9 | 13.8 | 11.1 | 23.4 | 1.4 | 0.7 | |
| Li Ning | 2331 HK | BUY | 67.66 | 85.05 | -20% | 212,102 | Dec-20 | 72.3 | 55.3 | 16.4 | 13.2 | 21.5 | 2.0 | 0.4 | |
| 361 Degrees | 1361 HK | NR | n/a | 4.27 | n/a | 8,829 | Dec-20 | 16.4 | 14.7 | 1.0 | 0.9 | 6.4 | 1.5 | 1.3 | |
| Topsports | 6110 HK | NR | n/a | 12.70 | n/a | 78,756 | Feb-21 | 20.2 | 16.9 | 5.8 | 4.9 | 27.4 | 1.0 | 2.5 | |
| Pou Sheng | 3813 HK | NR | n/a | 1.71 | n/a | 9,160 | Dec-20 | 6.5 | 5.2 | 0.8 | 0.7 | 3.9 | 0.1 | 1.3 | |
| China DX | 3818 HK | NR | n/a | 1.23 | n/a | 7,240 | Mar-21 | 6.6 | 10.3 | 0.5 | 0.5 | 11.8 | 0.0 | 7.8 | |
| | | | | | | | | Avg. | 30.8 | 25.1 | 6.0 | 5.0 | 14.5 | 1.1 | 2.2 |
| | | | | | | | | Med. | 20.2 | 16.9 | 3.8 | 3.6 | 11.8 | 1.4 | 1.3 |
| International Sportswear | | | | | | | | | | | | | | | |
| Nike Inc | NKE US | NR | n/a | 132.48 | n/a | 1,625,470 | May-20 | 42.3 | 34.0 | 19.4 | 17.5 | 32.7 | 1.0 | 0.8 | |
| Adidas | ADS GY | NR | n/a | 290.05 | n/a | 539,183 | Dec-20 | 38.0 | 29.0 | 7.8 | 6.8 | 13.8 | 0.5 | 1.1 | |
| Puma | PUM GY | NR | n/a | 95.96 | n/a | 134,243 | Dec-20 | 51.3 | 35.3 | 7.4 | 6.5 | 7.8 | 0.6 | 0.6 | |
| Under Armour | UAA US | NR | n/a | 20.30 | n/a | 67,205 | Dec-20 | 61.3 | 42.4 | 5.1 | 4.6 | 7.1 | (0.3) | 0.0 | |
| Lululemon | LULU US | NR | n/a | 359.11 | n/a | 362,969 | Jan-21 | 52.7 | 43.3 | 15.2 | 12.1 | 31.5 | 1.8 | 0.0 | |
| Skechers | SKX US | NR | n/a | 48.16 | n/a | 58,015 | Dec-20 | 22.7 | 17.9 | 2.5 | 2.1 | 6.0 | 0.3 | 0.0 | |
| Vf Corp | VFC US | NR | n/a | 81.21 | n/a | 247,440 | Mar-21 | 26.3 | 22.1 | 9.4 | 8.5 | 12.7 | 0.5 | 2.4 | |
| Columbia | COLM US | NR | n/a | 99.94 | n/a | 51,576 | Dec-20 | 22.6 | 19.4 | 3.2 | 2.9 | 9.2 | 0.4 | 1.1 | |
| Wolverine | WWW US | NR | n/a | 33.70 | n/a | 21,676 | Jan-21 | 15.9 | 13.8 | 3.8 | 3.2 | (16.9) | (0.1) | 1.2 | |
| Mizuno Corp | 8022 JP | NR | n/a | 2293.00 | n/a | 4,262 | Mar-21 | 17.6 | 12.4 | 0.6 | 0.6 | 3.7 | 0.0 | 2.2 | |
| Asics Corp | 7936 JP | NR | n/a | 2570.00 | n/a | 34,127 | Dec-20 | 81.4 | 38.2 | 3.7 | 3.5 | (3.7) | (0.4) | 0.9 | |
| | | | | | | | | Avg. | 39.3 | 28.0 | 7.1 | 6.2 | 9.4 | 0.4 | 0.9 |
| | | | | | | | | Med. | 38.0 | 29.0 | 5.1 | 4.6 | 7.8 | 0.4 | 0.9 |

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 10: Major assumptions

| Major assumptions | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------------|--------------|---------------|--------------|--------------|--------------|
| Sales by segment (RMB mn) | | | | | |
| Shoes | 4,653 | 5,047 | 5,965 | 6,997 | 8,016 |
| Apparels | 3,344 | 2,964 | 3,408 | 3,852 | 4,275 |
| Accessories | 185 | 161 | 169 | 181 | 194 |
| Total | 8,183 | 8,172 | 9,543 | 11,030 | 12,485 |
| Sales by segment growth (%) | | | | | |
| Shoes | 18.6% | 8.5% | 18.2% | 17.3% | 14.6% |
| Apparels | 43.7% | -11.4% | 15.0% | 13.0% | 11.0% |
| Accessories | 41.0% | -12.9% | 5.0% | 7.0% | 7.0% |
| Total | 28.2% | -0.1% | 16.8% | 15.6% | 13.2% |
| Sales by segment (RMB mn) | | | | | |
| Mass market | 7,707 | 7,101 | 8,292 | 9,474 | 10,565 |
| Athleisure | 466 | 999 | 1,087 | 1,223 | 1,377 |
| Professional sports | 10 | 72 | 165 | 333 | 543 |
| Total | 8,183 | 8,172 | 9,543 | 11,030 | 12,485 |
| Sales by segment growth (YoY) | | | | | |
| Mass market | 20.7% | -7.9% | 16.8% | 14.3% | 11.5% |
| Athleisure | n/a | 114.4% | 8.8% | 12.5% | 12.7% |
| Professional sports | n/a | 609.9% | 129.5% | 102.2% | 63.2% |
| Total | 28.2% | -0.1% | 16.8% | 15.6% | 13.2% |
| Sales network | | | | | |
| Xtep | 5,279 | 4,971 | 5,021 | 5,121 | 5,275 |
| Xtep kids | 850 | 800 | 856 | 942 | 1,008 |
| Oversea stores | 250 | 250 | 250 | 300 | 300 |
| Total | 6,379 | 6,021 | 6,127 | 6,363 | 6,582 |
| GP margins | 43.4% | 39.1% | 40.2% | 41.1% | 41.8% |
| Opex breakdown | | | | | |
| A&P / sales | 14.4% | 11.2% | 11.8% | 12.0% | 12.2% |
| Staff costs / sales | 11.0% | 12.1% | 11.6% | 11.6% | 11.2% |
| R&D / sales | 2.4% | 2.7% | 2.6% | 2.4% | 2.3% |
| D&A / sales | 1.7% | 2.0% | 2.6% | 2.3% | 2.2% |
| Provisions (write backs) / sales | -0.9% | 0.7% | -0.4% | -0.2% | -0.1% |
| Rental / sales | 0.1% | 0.1% | 0.9% | 1.1% | 1.2% |
| Selling & distribution costs / sales | 21.0% | 18.8% | 18.9% | 19.1% | 19.3% |
| Admin expenses / sales | 11.1% | 12.9% | 11.4% | 11.3% | 10.9% |
| Total | 32.1% | 31.7% | 30.3% | 30.4% | 30.2% |
| OP margins | 15.1% | 11.2% | 12.6% | 13.1% | 13.9% |
| Effective tax rate | 34.8% | 33.7% | 32.0% | 31.0% | 30.0% |
| Net profit att. margins | 8.9% | 6.3% | 7.4% | 8.0% | 8.9% |
| Net profit att. growth (%) | 10.8% | -29.5% | 36.9% | 25.7% | 26.1% |

Source: Company data, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 8,183 | 8,172 | 9,543 | 11,030 | 12,485 |
| Footwear | 4,653 | 5,047 | 5,965 | 6,997 | 8,016 |
| Apparel | 3,344 | 2,964 | 3,408 | 3,852 | 4,275 |
| Accessories | 185 | 161 | 169 | 181 | 194 |
| Cost of goods sold | (4,632) | (4,973) | (5,702) | (6,500) | (7,267) |
| Gross profit | 3,550 | 3,198 | 3,841 | 4,530 | 5,218 |
| Other income | 308 | 307 | 258 | 276 | 287 |
| Operating expenses | (2,625) | (2,588) | (2,892) | (3,356) | (3,769) |
| S & D costs | (1,718) | (1,537) | (1,808) | (2,111) | (2,412) |
| Admin exp. | (711) | (827) | (837) | (980) | (1,070) |
| R & D | (195) | (223) | (248) | (265) | (287) |
| Other operating expenses | - | - | - | - | - |
| EBIT | 1,234 | 918 | 1,206 | 1,450 | 1,736 |
| Finance costs, net | (111) | (140) | (133) | (144) | (142) |
| JVs & associates | (2) | (17) | (33) | (10) | 16 |
| Exceptional | - | - | - | - | - |
| Pre-tax profit | 1,121 | 762 | 1,040 | 1,296 | 1,611 |
| Income tax | (390) | (257) | (333) | (402) | (483) |
| Less: Minority interests | 4 | (8) | 5 | 12 | 14 |
| Net profit | 728 | 513 | 702 | 882 | 1,113 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------------|----------------|--------------|--------------|--------------|--------------|
| EBIT | 1,234 | 918 | 1,206 | 1,450 | 1,736 |
| D & A | 185 | 318 | 331 | 342 | 347 |
| Change in working capital | 36 | (320) | (443) | (480) | (471) |
| Income tax paid | (334) | (325) | (333) | (402) | (483) |
| Others | (343) | (272) | (133) | (144) | (142) |
| Net cash from operating | 778 | 320 | 628 | 766 | 986 |
| Capex & investments | (97) | (207) | (143) | (165) | (187) |
| Associated companies | (35) | (20) | - | - | - |
| Interest received | - | - | - | - | - |
| Others | (1,913) | 800 | - | - | - |
| Net cash from investing | (2,045) | 573 | (143) | (165) | (187) |
| Equity raised | 1,187 | 31 | - | - | - |
| Net change in bank loans | 386 | (77) | 1,003 | - | - |
| Dividend paid | (436) | (279) | (356) | (472) | (594) |
| Others | (98) | (55) | - | - | - |
| Net cash from financing | 1,039 | (380) | 647 | (472) | (594) |
| Net change in cash | (227) | 513 | 1,131 | 129 | 205 |
| Beginning cash balance | 3,196 | 2,970 | 3,472 | 4,603 | 4,732 |
| Exchange difference | 1 | (11) | - | - | - |
| Cash at the end of the year | 2,970 | 3,472 | 4,603 | 4,732 | 4,937 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|
| Non-current assets | 3,057 | 3,544 | 3,324 | 3,137 | 2,994 |
| Fixed asset | 662 | 796 | 850 | 915 | 997 |
| Intangible assets & goodwill | 1,738 | 1,528 | 1,287 | 1,045 | 803 |
| Prepaid lease payments | 104 | 573 | 573 | 573 | 573 |
| Interest in joint ventures | 197 | 218 | 185 | 175 | 192 |
| Other non-current assets | 356 | 429 | 429 | 429 | 429 |
| Current assets | 9,266 | 9,027 | 10,995 | 12,032 | 13,124 |
| Cash and cash equivalents | 2,970 | 3,472 | 4,603 | 4,732 | 4,937 |
| Inventories | 1,046 | 975 | 1,118 | 1,274 | 1,424 |
| Trade and other receivables | 2,910 | 3,236 | 3,779 | 4,367 | 4,944 |
| Prepayments | 818 | 899 | 1,050 | 1,213 | 1,373 |
| Other current assets | 1,522 | 446 | 446 | 446 | 446 |
| Current liabilities | 3,671 | 3,334 | 3,728 | 4,156 | 4,572 |
| Bank loans | 1,086 | 642 | 642 | 642 | 642 |
| Trade payables | 1,420 | 1,479 | 1,696 | 1,933 | 2,161 |
| Accruals & other payables | 981 | 1,052 | 1,228 | 1,420 | 1,607 |
| Tax payables | 115 | 86 | 86 | 86 | 86 |
| Others | 69 | 75 | 75 | 75 | 75 |
| Non-current liabilities | 1,691 | 1,939 | 2,942 | 2,942 | 2,942 |
| Bank loans | 1,269 | 1,516 | 1,516 | 1,516 | 1,516 |
| CB or Preferred shares | - | - | 1,003 | 1,003 | 1,003 |
| Deferred tax | 280 | 237 | 237 | 237 | 237 |
| Others | 142 | 186 | 186 | 186 | 186 |
| Minority Interest | - | - | 5 | 17 | 31 |
| Total net assets | 6,960 | 7,299 | 7,645 | 8,055 | 8,574 |
| Shareholders' equity | 6,960 | 7,299 | 7,645 | 8,055 | 8,574 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Footwear | 56.9 | 61.8 | 62.5 | 63.4 | 64.2 |
| Apparel | 40.9 | 36.3 | 35.7 | 34.9 | 34.2 |
| Accessories | 2.3 | 2.0 | 1.8 | 1.6 | 1.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| P&L ratios (%) | | | | | |
| Gross margin | 43.4 | 39.1 | 40.2 | 41.1 | 41.8 |
| Operating margin | 15.1 | 11.2 | 12.6 | 13.1 | 13.9 |
| Pre-tax margin | 13.7 | 9.3 | 10.9 | 11.7 | 12.9 |
| Net margin | 8.9 | 6.3 | 7.4 | 8.0 | 8.9 |
| Effective tax rate | 34.7 | 33.0 | 31.0 | 30.8 | 30.3 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 2.5 | 2.7 | 2.9 | 2.9 | 2.9 |
| Quick ratio (x) | 2.2 | 2.4 | 2.6 | 2.6 | 2.6 |
| Cash ratio (x) | 0.8 | 1.0 | 1.2 | 1.1 | 1.1 |
| Inventory turnover days | 82 | 72 | 72 | 72 | 72 |
| Trade receivables days | 130 | 145 | 145 | 145 | 145 |
| Trade payables days | 112 | 109 | 109 | 109 | 109 |
| Total debt / total equity ratio (%) | 34 | 30 | 41 | 39 | 37 |
| Net debt / equity ratio (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Returns (%) | | | | | |
| ROE | 10.5 | 7.0 | 9.2 | 11.0 | 13.0 |
| ROA | 5.9 | 4.1 | 4.9 | 5.8 | 6.9 |
| Per share | | | | | |
| EPS (RMB) | 0.30 | 0.21 | 0.28 | 0.35 | 0.44 |
| DPS (RMB) | 0.18 | 0.12 | 0.17 | 0.21 | 0.26 |
| BVPS (RMB) | 2.79 | 2.87 | 3.00 | 3.16 | 3.37 |

Source: Company data, CMBIS estimates

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