

# Xtep (1368 HK)

## Guidance raised after positive profit alert

Xtep's positive profit alert is a beat and we find the new guidance encouraging, supported by robust re-orders, trade fair sales growth, brand elevation (high-end products continue to sell well) and subsequent improvement in GP margin, etc. Therefore, we still find its risk reward reasonable with further upsides. Maintain BUY and raised TP to HK\$18.17, based on SOTP valuation, implying ~36x FY22E P/E (down from ~39x). It is now trading at 27x 22E P/E.

- **Xtep expects YoY NP growth to be 65%+ in 1H21E**, thanks to: 1) robust re-orders for Xtep core brand, 2) accelerated growth for e-commerce, thru greater efforts on A&P and digitalization, 3) strong ramp up of Xtep kids after successful restructuring, and 4) improvement in GP margin, due to product innovations and low base created by one-off inventory buy-back last year. Most importantly, Xtep core brand's sales and net profit in 1H21E were already better than that in 1H19 while NP margin for the Group/ Xtep core brand also surged to 10.0%/ 13.5% in 1H21E, from 6.3%/ 9.2% in FY20.
- **Excellent retail sale growth momentum with decent retail discounts and channel inventory in 2Q21E**. Xtep reported a 30-35% YoY retail sales growth (CMBI est.: ~30%/ ~35%/ 50%+ for offline/ online/ kids) in 2Q21E, slowed down from ~55% in 1Q21. However, according to management, 2Q21E/ 1Q21E retail sales was ~30%/ ~15% higher vs 2Q19/ 1Q19.
- **FY21E guidance raised**. Management is confident to achieve a 20% YoY sales growth in FY21E (up from ~15%), thanks to: 1) potential re-orders in 3Q21E, 2) robust trade fair growth in 4Q21E (~30% YoY with 5-10% ASP hike) and 3) better marketing (i.e. a new brand ambassador might be announced soon). In terms of profitability, management now foresees 2H21E net profit to be higher than 1H21E's ~RMB 400mn, supported by margin drivers like: 1) product mix improvement (e.g. newly launched product like 300X, priced at RMB 999 or above, is still fairly hot selling), 2) better channel mix and retail discounts, as e-commerce sales continue to ramp up.
- **We are still optimistic about its long term growth story**, because of: 1) stellar trade fair sales growth in 1Q22E (the fastest in history, partly due to low base) and 20% listed co. sales growth target for the next 5 years, reiterated again by the management and 3) potential growth from new brands (K-Swiss & Palladium) and JV (Sauncony).
- **Maintain BUY and raised TP to HK\$ 18.17**. We revised up our FY21E/ 22E/ 23E EPS estimates by 22%/ 25%/ 29%, to factor in the better-than-expected sales growth, GP margin and operating leverage, noted that our estimates are 24-32% higher than consensus. It is trading at 27x FY22E P/E, still have ~40% discounts to Anta & Li Ning. We maintain BUY and raised TP to HK\$ 18.17, based on SOTP valuation (33x P/E for Xtep (down from 35x), cost for K&P and 2.0x P/S for JV (down from 2.5x)).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	8,183	8,172	9,928	11,701	13,491
YoY growth (%)	28.2	(0.1)	21.5	17.9	15.3
Net income (RMB mn)	728	513	850	1,057	1,363
EPS (RMB)	0.302	0.206	0.334	0.415	0.535
YoY growth (%)	2.3	(31.6)	61.8	24.3	29.0
Consensus EPS (RMB)	n/a	n/a	0.273	0.331	0.414
P/E (x)	40.5	55.8	34.0	27.4	21.2
P/B (x)	4.4	4.0	3.7	3.5	3.3
Yield (%)	1.5	1.0	1.8	2.2	2.8
ROE (%)	10.5	7.0	11.0	12.8	15.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$18.17
(Previous TP)	HK\$16.32)
Up/Downside	+33.7%
Current Price	HK\$13.68

### China Sportswear Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	35,963
Avg 3 mths t/o (HK\$ mn)	347.90
52w High/Low (HK\$)	16.32/2.23
Total Issued Shares (mn)	2,628.8

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%

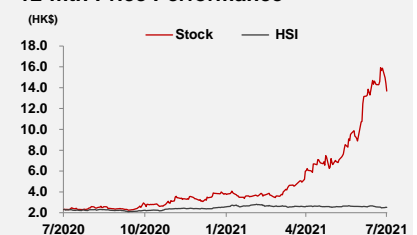
Source: HKEx, Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	62.4%	67.5%
3-mth	140.7%	145.3%
6-mth	277.5%	281.2%
12-mth	474.5%	429.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related Reports

1. Xtep (1368 HK, BUY) – Sustaining demand for domestic fashion - 24 Jun 2021
2. Xtep (1368 HK, BUY) – Solid turnaround to drive potential re-rating - 19 Mar 2021

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## Results Preview

Figure 1: Results preview – Half Year

Half yearly (RMB mn)	1H20	2H20	1H21E	2H22E	1H20 YoY	2H20 YoY	1H21E YoY	2H21E YoY
<b>Revenue</b>	<b>3,679</b>	<b>4,493</b>	<b>4,241</b>	<b>5,687</b>	<b>10%</b>	<b>-7%</b>	<b>15%</b>	<b>27%</b>
COGS	(2,190)	(2,784)	(2,448)	(3,386)				
<b>Gross profit</b>	<b>1,489</b>	<b>1,709</b>	<b>1,793</b>	<b>2,301</b>	<b>-1%</b>	<b>-17%</b>	<b>20%</b>	<b>35%</b>
<b>GP margins</b>	<b>40.5%</b>	<b>38.0%</b>	<b>42.3%</b>	<b>40.5%</b>				
Other income & gains	210	98	102	166				
S & D expenses	(685)	(852)	(763)	(1,072)	<b>8%</b>	<b>-21%</b>	<b>11%</b>	<b>26%</b>
<b>S &amp; D exp / sales</b>	<b>-18.6%</b>	<b>-19.0%</b>	<b>-18.0%</b>	<b>-18.8%</b>				
Admin expenses	(513)	(537)	(382)	(720)	<b>83%</b>	<b>-14%</b>	<b>-26%</b>	<b>34%</b>
<b>Admin exp / sales</b>	<b>-13.9%</b>	<b>-12.0%</b>	<b>-9.0%</b>	<b>-12.7%</b>				
Other opex	0	0	0	0				
<b>Operating profit (EBIT)</b>	<b>501</b>	<b>417</b>	<b>750</b>	<b>675</b>	<b>-30%</b>	<b>-19%</b>	<b>50%</b>	<b>62%</b>
<b>OP margins</b>	<b>13.6%</b>	<b>9.3%</b>	<b>17.7%</b>	<b>11.9%</b>				
Other items	0	0	0	0				
Net finance income	(77)	(62)	(76)	(56)				
<b>Net finance income / sales</b>	<b>-2.1%</b>	<b>-1.4%</b>	<b>-1.8%</b>	<b>-1.0%</b>				
Profit after financing costs	423	355	673	619				
Associated coms	(5)	(12)	(21)	(12)				
Jointly controlled coms	0	0	0	0				
<b>Pre-tax profit</b>	<b>418</b>	<b>344</b>	<b>652</b>	<b>607</b>	<b>-39%</b>	<b>-22%</b>	<b>56%</b>	<b>77%</b>
Tax	(166)	(91)	(228)	(175)				
<b>Tax / sales</b>	<b>-4.5%</b>	<b>-2.0%</b>	<b>-5.4%</b>	<b>-3.1%</b>				
<b>Effective tax rate</b>	<b>-39.6%</b>	<b>-26.5%</b>	<b>-35.0%</b>	<b>-28.8%</b>				
Minority interests	4	(12)	3	3				
<b>Net profit att.</b>	<b>248</b>	<b>265</b>	<b>421</b>	<b>430</b>	<b>-46%</b>	<b>1%</b>	<b>70%</b>	<b>62%</b>
<b>NP margins</b>	<b>6.7%</b>	<b>5.9%</b>	<b>9.9%</b>	<b>7.6%</b>				
<b>Sales by segment</b>								
Mass market	3,201	3,900	3,649	5,028	<b>-5%</b>	<b>-10%</b>	<b>14%</b>	<b>29%</b>
Athleisure	459	541	504	582		<b>16%</b>	<b>10%</b>	<b>8%</b>
Professional sports	20	52	88	77		<b>417%</b>	<b>350%</b>	<b>47%</b>
Total	3,679	4,493	4,241	5,687	<b>10%</b>	<b>-7%</b>	<b>15%</b>	<b>27%</b>

Source: Company data, CMBIS estimates

Figure 2: Results preview - Full Year

Full yearly (RMB mn)	FY19	FY20	FY21E	FY22E	FY20 YoY	FY21E YoY	FY22E YoY
<b>Revenue</b>	8,183	8,172	9,928	11,701	0%	21%	18%
COGS	(4,632)	(4,973)	(5,834)	(6,828)			
<b>Gross profit</b>	3,550	3,198	4,094	4,872	-10%	28%	19%
<b>GP margins</b>	43.4%	39.1%	41.2%	41.6%			
Other income & gains	308	307	268	293			
S & D expenses	(1,718)	(1,537)	(1,835)	(2,176)	-11%	19%	19%
<b>S &amp; D exp / sales</b>	-21.0%	-18.8%	-18.5%	-18.6%			
Admin expenses	(906)	(1,050)	(1,101)	(1,283)	16%	5%	17%
<b>Admin exp / sales</b>	-11.1%	-12.9%	-11.1%	-11.0%			
Other opex	0	0	0	0			
<b>Operating profit (EBIT)</b>	1,234	918	1,425	1,706	-26%	55%	20%
<b>OP margins</b>	15.1%	11.2%	14.4%	14.6%			
Other items	(2)	(17)	(33)	(10)			
Net finance income	(111)	(140)	(133)	(145)			
<b>Net finance income / sales</b>	-1.4%	-1.7%	-1.3%	-1.2%			
Profit after financing costs	1,121	762	1,260	1,552			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
<b>Pre-tax profit</b>	1,121	762	1,260	1,552	-32%	65%	23%
Tax	(390)	(257)	(403)	(481)			
<b>Tax / sales</b>	-4.8%	-3.1%	-4.1%	-4.1%			
<b>Effective tax rate</b>	-34.8%	-33.7%	-32.0%	-31.0%			
Minority interests	4	(8)	6	14			
<b>Net profit att.</b>	728	513	850	1,057	-29%	66%	24%
<b>NP margins</b>	8.9%	6.3%	8.6%	9.0%			
<b>Sales by segment</b>							
Mass market	7,707	7,101	8,677	10,145	-8%	22%	17%
Athleisure	466	999	1,087	1,223	114%	9%	12%
Professional sports	10	72	165	333	610%	130%	102%
Total	8,183	8,172	9,928	11,701	0%	21%	18%

Source: Company data, CMBIS estimates

Figure 3: 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	17.06	43,454	36,067	33.0	FY22E P/E	10,145	1,093	Based on 27% NP FY20-23E CAGR
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)	18.17	46,270	38,404			11,701	1,057	Implying a 36x FY22E P/E
Number of shares (mn)	2,547							
CNYHKD FX rate	1.2048							
Current price (HKD)	13.68							
Upside (%)	32.8%							

Source: Bloomberg, CMBIS estimates

Figure 4: 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	8,677	10,145	11,570	12,762	14,080	17.7%
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	9,928	11,701	13,491	15,093	16,886	18.2%
Net profit (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY20-23E CAGR
Xtep core brand	790	656	940	1,093	1,333	1,519	1,762	26.7%
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	850	1,057	1,363	1,621	1,943	38.5%
NP margin	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	
Xtep core brand	10%	9%	11%	11%	12%	12%	13%	
K-swiss and Palladium	-13%	-13%	-5%	-2%	1%	4%	6%	
Saucony and Merrell JV	-20%	-24%	-20%	-3%	3%	5%	7%	
Total	9%	6%	9%	9%	10%	11%	12%	

Source: Company data, CMBIS estimates

Figure 5: 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%	9.0%		
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%			
<b>Anta brand's SSSG</b>																
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%	35%-40%	10.0%	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%	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%	Over 20%		
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%	Over 45%		
<b>Non-Anta brands (FILA/)</b>																
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%	30%-35%	15.0%	10.0%
Kids							Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%			
Fusion							Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%			
Online							Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%			
<b>Other brands</b>																
Descente				Over 100%	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%		
Kolon						15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%		
Li Ning group's SSSG	+ve Low-teens	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-twentyies	n/a	-ve MSD	+ve LSD	+ve Low-teens				
Direct retail	+ve Low-teens	+ve HSD	+ve HSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD				
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 30%	+ve Mid 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%				
Li Ning group's retail sa	+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%	71.0%	20.0%	15.0%
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	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	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Low-teens	10%	+ve Low-teens								
Xtep's retail sales				Over 20%	Over 20%	20%	Over 20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	8.0%	6.0%	
361 Degrees' SSSG	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD								
361 Degree's retail sales									-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD	+ve High-teens	15%-20%		
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%	-15.0%	-5.0%	-1.0%
Dong Xiang's SSSG	+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			
Direct retail	+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			
E- Commerce					+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	+ve High 30%			

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 6: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,928	11,701	13,491	9,543	11,030	12,485	4.0%	6.1%	8.1%
Gross profit	4,094	4,872	5,719	3,841	4,530	5,218	6.6%	7.6%	9.6%
EBIT	1,425	1,706	2,099	1,206	1,450	1,736	18.2%	17.7%	20.9%
Net profit att.	850	1,057	1,363	702	882	1,113	21.1%	19.7%	22.4%
Diluted EPS (RMB)	0.334	0.415	0.535	0.276	0.346	0.437	21.1%	19.7%	22.4%
Gross margin	41.2%	41.6%	42.4%	40.2%	41.1%	41.8%	1ppt	0.6ppt	0.6ppt
EBIT margin	14.4%	14.6%	15.6%	12.6%	13.1%	13.9%	1.7ppt	1.4ppt	1.6ppt
Net profit att. margin	8.6%	9.0%	10.1%	7.4%	8.0%	8.9%	1.2ppt	1ppt	1.2ppt

Source: Company data, CMBIS estimates

Figure 7: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,928	11,701	13,491	9,440	10,888	12,552	5.2%	7.5%	7.5%
Gross profit	4,094	4,872	5,719	3,847	4,509	5,233	6.4%	8.1%	9.3%
EBIT	1,425	1,706	2,099	1,093	1,314	1,491	30.4%	29.8%	40.8%
Net profit att.	850	1,057	1,363	686	837	1,031	24.0%	26.2%	32.2%
Diluted EPS (RMB)	0.334	0.415	0.535	0.273	0.331	0.414	22.1%	25.4%	29.1%
Gross margin	41.2%	41.6%	42.4%	40.7%	41.4%	41.7%	0.5ppt	0.2ppt	0.7ppt
EBIT margin	14.4%	14.6%	15.6%	11.6%	12.1%	11.9%	2.8ppt	2.5ppt	3.7ppt
Net profit att. margin	8.6%	9.0%	10.1%	7.3%	7.7%	8.2%	1.3ppt	1.3ppt	1.9ppt

Source: Company data, CMBIS estimates

## Valuation

Figure 8: 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	
<b>H shares Sportswear</b>															
Xtep Intl	1368 HK	BUY	18.17	13.68	33%	35,963	Dec-20	34.0	27.4	3.8	3.6	7.3	0.9	1.8	
Anta Sports	2020 HK	BUY	212.74	185.60	15%	501,738	Dec-20	52.3	40.3	13.8	11.1	23.4	1.4	0.7	
Li Ning	2331 HK	BUY	103.82	90.85	14%	226,612	Dec-20	64.1	50.2	16.6	13.0	21.5	1.4	0.5	
361 Degrees	1361 HK	NR	n/a	3.96	n/a	8,188	Dec-20	15.2	13.6	0.9	0.9	6.4	1.4	1.4	
Topsports	6110 HK	NR	n/a	11.34	n/a	70,322	Feb-21	17.8	15.1	5.2	4.4	27.4	0.9	2.9	
Pou Sheng	3813 HK	NR	n/a	1.72	n/a	9,214	Dec-20	6.7	5.0	0.8	0.7	3.9	0.1	1.6	
China DX	3818 HK	NR	n/a	1.26	n/a	7,418	Mar-21	6.8	10.5	0.5	0.5	16.4	0.0	7.6	
								<b>Avg.</b>	<b>28.1</b>	<b>23.1</b>	<b>5.9</b>	<b>4.9</b>	<b>15.2</b>	<b>0.9</b>	<b>2.3</b>
								<b>Med.</b>	<b>17.8</b>	<b>15.1</b>	<b>3.8</b>	<b>3.6</b>	<b>16.4</b>	<b>0.9</b>	<b>1.6</b>
<b>International Sportswear</b>															
Nike Inc	NKE US	NR	n/a	162.30	n/a	1,991,861	May-21	37.9	32.4	17.4	15.6	55.0	2.3	0.7	
Adidas	ADS GY	NR	n/a	322.75	n/a	593,944	Dec-20	41.9	31.8	8.6	7.5	13.8	0.5	1.0	
Puma	PUM GY	NR	n/a	103.40	n/a	143,199	Dec-20	54.4	36.9	8.1	7.1	7.8	0.6	0.5	
Under Armour	UAA US	NR	n/a	20.79	n/a	69,103	Dec-20	62.6	42.7	5.2	4.7	7.1	(0.3)	0.0	
Lululemon	LULU US	NR	n/a	380.01	n/a	384,190	Jan-21	55.4	45.3	16.2	12.9	31.5	1.9	0.0	
Skechers	SKX US	NR	n/a	49.58	n/a	59,741	Dec-20	23.3	18.3	2.5	2.2	6.0	0.3	0.0	
Vf Corp	VFC US	NR	n/a	81.42	n/a	248,144	Mar-21	26.4	22.2	9.5	8.6	12.7	0.5	2.4	
Columbia	COLM US	NR	n/a	101.06	n/a	52,165	Dec-20	22.8	19.6	3.3	2.9	9.2	0.4	1.1	
Wolverine	WWW US	NR	n/a	32.68	n/a	21,026	Jan-21	15.4	13.4	3.7	3.1	(16.9)	(0.1)	1.2	
Mizuno Corp	8022 JP	NR	n/a	2571.00	n/a	4,822	Mar-21	19.2	14.4	0.6	0.6	3.7	1.4	1.9	
Asics Corp	7936 JP	NR	n/a	2550.00	n/a	34,165	Dec-20	83.7	38.5	3.6	3.4	(3.7)	(0.4)	0.9	
								<b>Avg.</b>	<b>40.3</b>	<b>28.7</b>	<b>7.2</b>	<b>6.2</b>	<b>11.5</b>	<b>0.6</b>	<b>0.9</b>
								<b>Med.</b>	<b>37.9</b>	<b>31.8</b>	<b>5.2</b>	<b>4.7</b>	<b>7.8</b>	<b>0.5</b>	<b>0.9</b>

Source: Bloomberg, CMBIS estimates

## Assumptions

Figure 9: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales by segment (RMB mn)</b>					
Shoes	4,653	5,047	6,202	7,358	8,553
Apparels	3,344	2,964	3,557	4,161	4,744
Accessories	185	161	169	181	194
Total	8,183	8,172	9,928	11,701	13,491
<b>Sales by segment growth (%)</b>					
Shoes	18.6%	8.5%	22.9%	18.6%	16.2%
Apparels	43.7%	-11.4%	20.0%	17.0%	14.0%
Accessories	41.0%	-12.9%	5.0%	7.0%	7.0%
Total	28.2%	-0.1%	21.5%	17.9%	15.3%
<b>Sales by segment (RMB mn)</b>					
Mass market	7,707	7,101	8,677	10,145	11,570
Athleisure	466	999	1,087	1,223	1,377
Professional sports	10	72	165	333	543
Total	8,183	8,172	9,928	11,701	13,491
<b>Sales by segment growth (YoY)</b>					
Mass market	20.7%	-7.9%	22.2%	16.9%	14.0%
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%	21.5%	17.9%	15.3%
<b>Sales network</b>					
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%	41.2%	41.6%	42.4%
<b>Opex breakdown</b>					
A&P / sales	14.4%	11.2%	11.4%	11.6%	11.8%
Staff costs/ sales	11.0%	12.1%	11.2%	10.9%	10.4%
R&D / sales	2.4%	2.7%	2.6%	2.4%	2.3%
D&A / sales	1.7%	2.0%	2.5%	2.2%	2.0%
Provisions (write backs) / sales	-0.9%	0.7%	-0.5%	-0.2%	-0.1%
Rental / sales	0.1%	0.1%	1.0%	1.2%	1.3%
Selling & distribution costs / sales	21.0%	18.8%	18.5%	18.6%	18.6%
Admin expenses / sales	11.1%	12.9%	11.1%	11.0%	10.5%
Total	32.1%	31.7%	29.6%	29.6%	29.1%
<b>OP margins</b>	<b>15.1%</b>	<b>11.2%</b>	<b>14.4%</b>	<b>14.6%</b>	<b>15.6%</b>
Effective tax rate	34.8%	33.7%	32.0%	31.0%	30.0%
<b>Net profit att. margins</b>	<b>8.9%</b>	<b>6.3%</b>	<b>8.6%</b>	<b>9.0%</b>	<b>10.1%</b>
<b>Net profit att. growth (%)</b>	<b>10.8%</b>	<b>-29.5%</b>	<b>65.7%</b>	<b>24.3%</b>	<b>29.0%</b>

Source: Company data, CMBIS estimates



## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>8,183</b>	<b>8,172</b>	<b>9,928</b>	<b>11,701</b>	<b>13,491</b>	<b>EBIT</b>	<b>1,234</b>	<b>918</b>	<b>1,425</b>	<b>1,706</b>	<b>2,099</b>
Footwear	4,653	5,047	6,202	7,358	8,553	D & A	185	318	331	343	348
Apparel	3,344	2,964	3,557	4,161	4,744	Change in working capital	36	(320)	(575)	(568)	(580)
Accessories	185	161	169	181	194	Income tax paid	(334)	(325)	(403)	(481)	(592)
						Others	(343)	(272)	(133)	(145)	(143)
<b>Cost of goods sold</b>	<b>(4,632)</b>	<b>(4,973)</b>	<b>(5,834)</b>	<b>(6,828)</b>	<b>(7,773)</b>	<b>Net cash from operating</b>	<b>778</b>	<b>320</b>	<b>645</b>	<b>855</b>	<b>1,132</b>
<b>Gross profit</b>	<b>3,550</b>	<b>3,198</b>	<b>4,094</b>	<b>4,872</b>	<b>5,719</b>	Capex & investments	(97)	(207)	(149)	(176)	(202)
<b>Other income</b>	<b>308</b>	<b>307</b>	<b>268</b>	<b>293</b>	<b>310</b>	Associated companies	(35)	(20)	-	-	-
						Interest received	-	-	-	-	-
<b>Operating expenses</b>	<b>(2,625)</b>	<b>(2,588)</b>	<b>(2,937)</b>	<b>(3,459)</b>	<b>(3,930)</b>	Others	(1,913)	800	-	-	-
S & D costs	(1,718)	(1,537)	(1,835)	(2,176)	(2,515)	<b>Net cash from investing</b>	<b>(2,045)</b>	<b>573</b>	<b>(149)</b>	<b>(176)</b>	<b>(202)</b>
Admin exp.	(711)	(827)	(843)	(1,002)	(1,105)	Equity raised	1,187	31	-	-	-
R & D	(195)	(223)	(258)	(281)	(310)	Net change in bank loans	386	(77)	1,003	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(436)	(279)	(398)	(568)	(720)
<b>EBIT</b>	<b>1,234</b>	<b>918</b>	<b>1,425</b>	<b>1,706</b>	<b>2,099</b>	Others	(98)	(55)	-	-	-
Finance costs, net	(111)	(140)	(133)	(145)	(143)	<b>Net cash from financing</b>	<b>1,039</b>	<b>(380)</b>	<b>605</b>	<b>(568)</b>	<b>(720)</b>
JVs & associates	(2)	(17)	(33)	(10)	16	<b>Net change in cash</b>	<b>(227)</b>	<b>513</b>	<b>1,101</b>	<b>112</b>	<b>210</b>
Exceptional	-	-	-	-	-	Beginning cash balance	3,196	2,970	3,472	4,573	4,685
<b>Pre-tax profit</b>	<b>1,121</b>	<b>762</b>	<b>1,260</b>	<b>1,552</b>	<b>1,972</b>	Exchange difference	1	(11)	-	-	-
Income tax	(390)	(257)	(403)	(481)	(592)	<b>Cash at the end of the year</b>	<b>2,970</b>	<b>3,472</b>	<b>4,573</b>	<b>4,685</b>	<b>4,895</b>
Less: Minority interests	4	(8)	6	14	18						
<b>Net profit</b>	<b>728</b>	<b>513</b>	<b>850</b>	<b>1,057</b>	<b>1,363</b>						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>3,057</b>	<b>3,544</b>	<b>3,329</b>	<b>3,152</b>	<b>3,023</b>	<b>Sales mix (%)</b>					
Fixed asset	662	796	855	929	1,026	Footwear	56.9	61.8	62.5	62.9	63.4
Intangible assets & goodwill	1,738	1,528	1,287	1,045	803	Apparel	40.9	36.3	35.8	35.6	35.2
Prepaid lease payments	104	573	573	573	573	Accessories	2.3	2.0	1.7	1.5	1.4
Interest in joint ventures	197	218	185	175	192	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Other non-current assets	356	429	429	429	429						
<b>Current assets</b>	<b>9,266</b>	<b>9,027</b>	<b>11,186</b>	<b>12,390</b>	<b>13,690</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	2,970	3,472	4,573	4,685	4,895	Gross margin	43.4	39.1	41.2	41.6	42.4
Inventories	1,046	975	1,144	1,338	1,523	Operating margin	15.1	11.2	14.4	14.6	15.6
Trade and other receivables	2,910	3,236	3,931	4,633	5,342	Pre-tax margin	13.7	9.3	12.7	13.3	14.6
Prepayments	818	899	1,092	1,287	1,484	Net margin	8.9	6.3	8.6	9.0	10.1
Other current assets	1,522	446	446	446	446	Effective tax rate	34.7	33.0	31.2	30.8	30.2
<b>Current liabilities</b>	<b>3,671</b>	<b>3,334</b>	<b>3,816</b>	<b>4,340</b>	<b>4,851</b>	<b>Balance sheet ratios</b>					
Bank loans	1,086	642	642	642	642	Current ratio (x)	2.5	2.7	2.9	2.9	2.8
Trade payables	1,420	1,479	1,735	2,030	2,311	Quick ratio (x)	2.2	2.4	2.6	2.5	2.5
Accruals & other payables	981	1,052	1,278	1,506	1,737	Cash ratio (x)	0.8	1.0	1.2	1.1	1.0
Tax payables	115	86	86	86	86	Inventory turnover days	82	72	72	72	72
Others	69	75	75	75	75	Trade receivables days	130	145	145	145	145
<b>Non-current liabilities</b>	<b>1,691</b>	<b>1,939</b>	<b>2,942</b>	<b>2,942</b>	<b>2,942</b>	Trade payables days	112	109	109	109	109
Bank loans	1,269	1,516	1,516	1,516	1,516	Total debt / total equity ratio (%)	34	30	41	38	36
CB or Preferred shares	-	-	1,003	1,003	1,003	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	280	237	237	237	237	<b>Returns (%)</b>					
Others	142	186	186	186	186	ROE	10.5	7.0	11.0	12.8	15.3
						ROA	5.9	4.1	5.9	6.8	8.2
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>20</b>	<b>38</b>	<b>Per share</b>					
<b>Total net assets</b>	<b>6,960</b>	<b>7,299</b>	<b>7,751</b>	<b>8,240</b>	<b>8,883</b>	EPS (RMB)	0.30	0.21	0.33	0.41	0.54
<b>Shareholders' equity</b>	<b>6,960</b>	<b>7,299</b>	<b>7,751</b>	<b>8,240</b>	<b>8,883</b>	DPS (RMB)	0.18	0.12	0.20	0.25	0.32
						BVPS (RMB)	2.79	2.87	3.04	3.24	3.49

Source: Company data, CMBIS estimates

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