

Xtep (1368 HK)

Stable 2H21E and upbeat long-term guidance

Despite an inline 1H21 result and temporarily weak retail sales in Aug 2021, we are still fairly positive on Xtep, thanks to its upbeat trade fair sales outlook and 5 years guidance. Hence we maintain BUY and raised TP to HK\$18.73, based on SOTP valuation, implying a ~36x FY22E P/E. It is now trading at 25x 22E P/E.

- 1H21 result inline.** Xtep's net profit grew by 72% YoY to RMB 427mn, inline with profit alert and CMBI est. while sales rose by 12% YoY to RMB 4.1bn, 3% below CMBI est.. GP margin and OP margin were slightly below CMBI est. but was offset by better-than-expected other income and finance costs.
- Stayed positive on 2H21E and FY21E.** Retail sales growth in early Aug 2021 was under pressure (flattish offline YoY growth and double digit e-commerce YoY growth), due to flooding in Chengzhou and COVID-19 outbreak from Nanjing, after a fairly robust Jul 2021 (similar to CMBI est. 50%+ YoY growth in Jun 2021). However, healthy recovery was seen since late Aug 2021 and management believe the FY21E retail sales growth target is still achievable. Noted that management now targets a **30%+ listed co sales growth for 2H21E and 9% listed co NP margin for FY21E** (equal to 11-12% NP margin for core Xtep brand), also **hugely confident on 2Q21E trade fair sales** given robust end demand and low channel inventory.
- Upbeat 5 years guidance.** Management also announced a very robust target of RMB 20 bn/ 4bn listed co. sales for Xtep/ new brands by FY25E, implying a 23%/ 30% sales CAGR during FY20-25E, which we have only factored in 75%/ 61% of that, based on our est. of 16%/ 18% CAGR. We believe the growth drivers could be: 1) further expansion into T1 & T2 cities, aided by the launch of XDNA (a high-end product series that will start to have new stores in 2H21E), 2) faster growth from lifestyle products (should accounted for 30%/ 40% of volume/ sales, given a 30-50% higher ASP vs performance products), and 3) rapid online sale (may account for 40% of sales, partly due to more channels and platforms like TikTok and Xiaohongshu).
- New brands are still making losses.** Management is now expecting a RMB 0.9-1.0bn sales and RMB 90-100mn net losses for K-Swiss and Palladium and RMB 170-180mn sales and RMB 40-50mn net losses for Saucony and Merrell in FY21E, mainly due to intensified COVID-19 outbreak in overseas.
- Maintain BUY and raised TP to HK\$ 18.73.** We revised up our FY21E/ 22E/ 23E EPS estimates by 4%/ 3%/ 5%, to factor in the better-than-expected sales growth, GP margin and operating leverage. It is trading at 25x FY22E P/E. We maintain BUY and raised TP to HK\$ 18.73, based on SOTP valuation (32x FY22E P/E for Xtep, cost for K&P and 2.0x P/S for JV), implying a ~36x FY22E P/E, justifiable given a 38% NP CAGR in FY20-23E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	8,183	8,172	10,070	11,967	13,888
YoY growth (%)	28.2	(0.1)	23.2	18.8	16.1
Net income (RMB mn)	728	513	880	1,089	1,431
EPS (RMB)	0.302	0.206	0.346	0.428	0.562
YoY growth (%)	2.3	(31.6)	67.5	23.7	31.4
Consensus EPS (RMB)	n/a	n/a	0.305	0.371	0.470
P/E (x)	37.9	52.2	30.7	24.8	18.9
P/B (x)	4.1	3.8	3.5	3.3	3.0
Yield (%)	1.6	1.1	2.0	2.4	3.2
ROE (%)	10.5	7.0	11.3	13.2	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$18.73
(Previous TP)	HK\$18.17)
Up/Downside	+46.3%
Current Price	HK\$12.80

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	33,649
Avg 3 mths t/o (HK\$ mn)	476.83
52w High/Low (HK\$)	16.32/2.23
Total Issued Shares (mn)	2,628.8

Source: Bloomberg

Shareholding Structure

Mr Ding Shui Po & Family	52.28%
Amundi Asset Management	1.96%
Templeton Investments	1.62%
Employee incentive scheme	4.01%
Free Float	40.13%

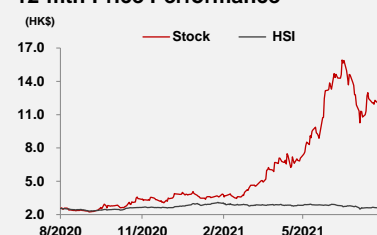
Source: HKEx, Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.3%	2.3%
3-mth	65.5%	89.6%
6-mth	203.6%	270.5%
12-mth	370.7%	375.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Xtep (1368 HK, BUY) – Guidance raised after positive profit alert – 15 Jul 2021
- Xtep (1368 HK, BUY) – Sustaining demand for domestic fashion - 24 Jun 2021
- Xtep (1368 HK, BUY) – Solid turnaround to drive potential re-rating - 19 Mar 2021

Results Summary

Figure 1: Results summary – Half Year

Half yearly (RMB mn)	1H20	2H21	1H21	2H21E	1H20 YoY	2H20 YoY	1H21 YoY	2H21 E YoY	1H21E CMBI	Actual vs CMBI
Revenue	3,679	4,493	4,135	5,936	10%	-7%	12%	32%	4,241	-3%
COGS	(2,190)	(2,784)	(2,406)	(3,489)					(2,448)	
Gross profit	1,489	1,709	1,729	2,446	-1%	-17%	16%	43%	1,793	-4%
GP margins	40.5%	38.0%	41.8%	41.2%					42.3%	
Other income & gains	210	98	211	111					102	107%
S & D expenses	(685)	(852)	(774)	(1,129)	8%	-21%	13%	32%	(763)	1%
S & D exp / sales	-18.6%	-19.0%	-18.7%	-19.0%					-18.0%	
Admin expenses	(513)	(537)	(483)	(659)	83%	-14%	-6%	23%	(382)	26%
Admin exp / sales	-13.9%	-12.0%	-11.7%	-11.1%					-9.0%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	501	417	684	769	-30%	-19%	37%	84%	750	-9%
OP margins	13.6%	9.3%	16.5%	13.0%					17.7%	
Other items	0	0	0	0					0	
Net finance income	(77)	(62)	(30)	(76)					(76)	-60%
Net finance income / sales	-2.1%	-1.4%	-0.7%	-1.3%					-1.8%	
Profit after financing costs	423	355	653	693					673	
Associated coms	(5)	(12)	(8)	(35)					(21)	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	418	344	646	659	-39%	-22%	54%	92%	652	-1%
Tax	(166)	(91)	(224)	(193)					(228)	
Tax / sales	-4.5%	-2.0%	-5.4%	-3.3%					-5.4%	
Effective tax rate	-39.6%	-26.5%	-34.7%	-29.4%					-35.0%	
Minority interests	4	(12)	(5)	11					3	
Net profit att.	248	265	427	454	-46%	1%	72%	71%	421	1%
NP margins	6.7%	5.9%	10.3%	7.6%					9.9%	
Sales by segment										
Mass market	3,201	3,900	3,597	5,314	-5%	-10%	12%	36%	3,649	-1%
Athleisure	459	541	462	527		16%	1%	-2%	504	-8%
Professional sports	20	52	76	94		417%	289%	80%	88	-14%
Total	3,679	4,493	4,135	5,936	10%	-7%	12%	32%	4,241	-3%

Source: Company data, CMBIS estimates

Figure 2: Results summary - Full Year

Full yearly (RMB mn)	FY19	FY20	FY21E	FY22E	FY20 YoY	FY21E YoY	FY22E YoY
Revenue	8,183	8,172	10,070	11,967	0%	23%	19%
COGS	(4,632)	(4,973)	(5,895)	(6,920)			
Gross profit	3,550	3,198	4,176	5,047	-10%	31%	21%
GP margins	43.4%	39.1%	41.5%	42.2%			
Other income & gains	308	307	322	299			
S & D expenses	(1,718)	(1,537)	(1,903)	(2,270)	-11%	24%	19%
S & D exp / sales	-21.0%	-18.8%	-18.9%	-19.0%			
Admin expenses	(906)	(1,050)	(1,142)	(1,339)	16%	9%	17%
Admin exp / sales	-11.1%	-12.9%	-11.3%	-11.2%			
Other opex	0	0	0	0			
Operating profit (EBIT)	1,234	918	1,453	1,738	-26%	58%	20%
OP margins	15.1%	11.2%	14.4%	14.5%			
Other items	(2)	(17)	(42)	(26)			
Net finance income	(111)	(140)	(106)	(113)			
Net finance income / sales	-1.4%	-1.7%	-1.1%	-0.9%			
Profit after financing costs	1,121	762	1,304	1,599			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	1,121	762	1,304	1,599	-32%	71%	23%
Tax	(390)	(257)	(417)	(496)			
Tax / sales	-4.8%	-3.1%	-4.1%	-4.1%			
Effective tax rate	-34.8%	-33.7%	-32.0%	-31.0%			
Minority interests	4	(8)	7	14			
Net profit att.	728	513	880	1,089	-29%	72%	24%
NP margins	8.9%	6.3%	8.7%	9.1%			
Sales by segment							
Mass market	7,707	7,101	8,911	10,595	-8%	25%	19%
Athleisure	466	999	989	1,112	114%	-1%	12%
Professional sports	10	72	170	260	610%	137%	53%
Total	8,183	8,172	10,070	11,967	0%	23%	19%

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	17.69	45,055	37,396	32.0	FY22E P/E	10,595	1,169	Based on 29% NP FY20-23E CAGR
K-Swiss and Palladium	0.79	2,014	1,672	n/a	M&A costs	1,112	(54)	Implying a 1.5x FY22E P/S
Saucony and Merrell JV	0.25	626	519	2.0	FY22E P/S	260	(26)	Based on 2.0x FY22E P/S
Total (RMB)	18.73	47,695	39,587			11,967	1,089	Implying a 36x FY22E P/E
Number of shares (mn)	2,547							
CNYHKD FX rate	1.2048							
Current price (HKD)	12.80							
Upside (%)	46.3%							

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	8,911	10,595	12,201	13,602	15,003	19.8%
K-swiss and Palladium	466	999	989	1,112	1,253	1,413	1,596	7.8%
Saucony and Merrell JV	10	72	170	260	434	642	862	82.3%
Total	8,183	8,172	10,070	11,967	13,888	15,657	17,461	19.3%
Net profit (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY20-23E CAGR
Xtep core brand	790	656	1,016	1,169	1,406	1,641	1,894	28.9%
K-swiss and Palladium	(60)	(126)	(93)	(54)	12	57	97	-145.2%
Saucony and Merrell JV	(2)	(17)	(42)	(26)	13	32	60	-191.5%
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	10.2%	9.2%	11.4%	11.0%	11.5%	12.1%	12.6%	
K-swiss and Palladium	-12.9%	-12.6%	-9.4%	-4.8%	0.9%	4.1%	6.1%	
Saucony and Merrell JV	-19.6%	-23.7%	-25.0%	-10.0%	3.0%	5.0%	7.0%	
Total	8.9%	6.3%	8.4%	8.8%	9.8%	10.4%	11.1%	

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	2Q21	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%	-16.0%				
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%	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%				
Non-Anta brands (FILA/)																		
FILA brand's retail sales	80%-85%	90%-95%	90%-95%	80%-85%	65%-70%	55%-60%			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	15.0%	10.0%
Classic/ Core brand									Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%			
Kids									Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%			
Fusion									Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%			
Online									Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%			
Other brands																		
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-teens	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	80%-85%				
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	n/a	90%-95%				
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	n/a	70%-75%				
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%	n/a	85%-90%				
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	85%-90%	90%-95%	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	90%-95%	85%-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	80%-85%	90%-95%				
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%	95%-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 Degree's 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 SD	-ve Mid to High SD	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD				
Dong Xiang's retail sales									+ve MSD	+ve MSD	+ve Mid-teens	+ve Low-teens	-ve 25%-30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens
Direct retail	+ve HSD	Flat	+ve Low-teens	+ve HSD	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%					
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%	35%-40%					

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	10,070	11,967	13,888	9,928	11,701	13,491	1.4%	2.3%	2.9%
Gross profit	4,176	5,047	5,961	4,094	4,872	5,719	2.0%	3.6%	4.2%
EBIT	1,453	1,738	2,169	1,425	1,706	2,099	1.9%	1.9%	3.3%
Net profit att.	880	1,089	1,431	850	1,057	1,363	3.5%	3.1%	5.0%
Diluted EPS (RMB)	0.346	0.428	0.562	0.334	0.415	0.535	3.5%	3.1%	5.0%
Gross margin	41.5%	42.2%	42.9%	41.2%	41.6%	42.4%	0.2ppt	0.5ppt	0.5ppt
EBIT margin	14.4%	14.5%	15.6%	14.4%	14.6%	15.6%	0.1ppt	-0.1ppt	0.1ppt
Net profit att. margin	8.7%	9.1%	10.3%	8.6%	9.0%	10.1%	0.2ppt	0.1ppt	0.2ppt

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	10,070	11,967	13,888	9,610	11,390	13,427	4.8%	5.1%	3.4%
Gross profit	4,176	5,047	5,961	3,943	4,733	5,642	5.9%	6.6%	5.7%
EBIT	1,453	1,738	2,169	1,262	1,534	1,894	15.2%	13.3%	14.5%
Net profit att.	880	1,089	1,431	759	925	1,151	15.9%	17.7%	24.3%
Diluted EPS (RMB)	0.346	0.428	0.562	0.305	0.371	0.470	13.2%	15.2%	19.6%
Gross margin	41.5%	42.2%	42.9%	41.0%	41.6%	42.0%	0.4ppt	0.6ppt	0.9ppt
EBIT margin	14.4%	14.5%	15.6%	13.1%	13.5%	14.1%	1.3ppt	1.1ppt	1.5ppt
Net profit att. margin	8.7%	9.1%	10.3%	7.9%	8.1%	8.6%	0.8ppt	1ppt	1.7ppt

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	
H shares Sportswear															
Xtep Intl	1368 HK	BUY	18.73	12.80	46%	33,649	Dec-20	30.7	24.8	3.5	3.3	9.5	0.8	2.0	
Anta Sports	2020 HK	BUY	212.74	170.10	25%	459,836	Dec-20	47.9	36.7	12.6	10.1	23.4	1.2	0.8	
Li Ning	2331 HK	BUY	103.82	93.95	11%	234,439	Dec-20	55.3	43.8	16.5	12.6	33.2	1.1	0.5	
361 Degrees	1361 HK	NR	n/a	3.43	n/a	7,092	Dec-20	12.2	10.7	0.8	0.7	7.7	0.7	1.9	
Topsports	6110 HK	NR	n/a	10.24	n/a	63,501	Feb-21	16.0	13.6	4.7	3.9	27.4	0.8	3.2	
Pou Sheng	3813 HK	NR	n/a	1.52	n/a	8,142	Dec-20	5.8	4.5	0.7	0.6	11.6	0.1	2.6	
China DX	3818 HK	NR	n/a	0.90	n/a	5,299	Mar-21	n/a	n/a	n/a	n/a	16.4	0.0	n/a	
								Avg.	28.0	22.3	6.5	5.2	18.4	0.7	1.8
								Med.	23.4	19.2	4.1	3.6	16.4	0.8	1.9
International Sportswear															
Nike Inc	NKE US	NR	n/a	167.79	n/a	2,069,959	May-21	38.7	33.1	16.0	12.9	55.0	2.3	0.7	
Adidas	ADS GY	NR	n/a	306.35	n/a	561,751	Dec-20	39.2	29.9	8.3	7.3	24.8	0.5	1.1	
Puma	PUM GY	NR	n/a	107.30	n/a	148,069	Dec-20	54.3	37.2	8.3	7.3	15.8	0.6	0.5	
Under Armour	UAA US	NR	n/a	23.45	n/a	77,986	Dec-20	44.8	37.8	5.8	5.0	22.0	(0.2)	0.0	
Lululemon	LULU US	NR	n/a	397.83	n/a	403,503	Jan-21	57.5	47.0	16.9	13.4	31.5	1.9	0.0	
Skechers	SKX US	NR	n/a	50.39	n/a	61,191	Dec-20	18.6	16.1	2.5	2.1	14.3	0.2	0.0	
Vf Corp	VFC US	NR	n/a	76.43	n/a	233,854	Mar-21	23.6	20.2	7.6	7.2	32.9	0.4	2.6	
Columbia	COLM US	NR	n/a	100.89	n/a	51,864	Dec-20	21.8	18.6	3.7	3.2	14.5	0.4	0.9	
Wolverine	WWW US	NR	n/a	36.60	n/a	23,449	Jan-21	15.8	13.0	5.0	4.1	(9.9)	(0.1)	1.2	
Mizuno Corp	8022 JP	NR	n/a	2562.00	n/a	4,831	Mar-21	19.2	14.4	0.6	0.6	7.5	1.3	2.0	
Asics Corp	7936 JP	NR	n/a	2514.00	n/a	33,868	Dec-20	91.8	35.1	3.5	3.3	1.7	(0.5)	1.0	
								Avg.	38.7	27.5	7.1	6.0	19.1	0.6	0.9
								Med.	38.7	29.9	5.8	5.0	15.8	0.4	0.9

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 9: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)					
Shoes	4,653	5,047	6,344	7,625	8,950
Apparels	3,344	2,964	3,557	4,161	4,744
Accessories	185	161	169	181	194
Total	8,183	8,172	10,070	11,967	13,888
Sales by segment growth (%)					
Shoes	18.6%	8.5%	25.7%	20.2%	17.4%
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%	23.2%	18.8%	16.1%
Sales by segment (RMB mn)					
Mass market	7,707	7,101	8,911	10,595	12,201
Athleisure	466	999	989	1,112	1,253
Professional sports	10	72	170	260	434
Total	8,183	8,172	10,070	11,967	13,888
Sales by segment growth (YoY)					
Mass market	20.7%	-7.9%	25.5%	18.9%	15.2%
Athleisure	n/a	114.4%	-1.0%	12.4%	12.6%
Professional sports	n/a	609.9%	137.0%	52.8%	67.2%
Total	28.2%	-0.1%	23.2%	18.8%	16.1%
Sales network					
Xtep	5,279	4,971	4,822	4,918	5,066
Xtep kids	850	800	1,000	1,100	1,177
Oversea stores	250	250	250	300	300
Total	6,379	6,021	6,072	6,318	6,543
GP margins	43.4%	39.1%	41.5%	42.2%	42.9%
Opex breakdown					
A&P / sales	14.4%	11.2%	11.1%	11.3%	11.5%
Staff costs/ sales	11.0%	12.1%	11.4%	11.4%	10.8%
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%	0.0%	0.0%	0.0%
Rental / sales	0.1%	0.1%	1.0%	1.2%	1.3%
Selling & distribution costs / sales	21.0%	18.8%	18.9%	19.0%	18.9%
Admin expenses / sales	11.1%	12.9%	11.3%	11.2%	10.7%
Total	32.1%	31.7%	30.2%	30.2%	29.6%
OP margins	15.1%	11.2%	14.4%	14.5%	15.6%
Effective tax rate	34.8%	33.7%	32.0%	31.0%	30.0%
Net profit att. margins	8.9%	6.3%	8.7%	9.1%	10.3%
Net profit att. growth (%)	10.8%	-29.5%	71.6%	23.7%	31.4%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	8,183	8,172	10,070	11,967	13,888
Footwear	4,653	5,047	6,344	7,625	8,950
Apparel	3,344	2,964	3,557	4,161	4,744
Accessories	185	161	169	181	194
Cost of goods sold	(4,632)	(4,973)	(5,895)	(6,920)	(7,927)
Gross profit	3,550	3,198	4,176	5,047	5,961
Other income	308	307	322	299	319
Operating expenses	(2,625)	(2,588)	(3,045)	(3,608)	(4,112)
S & D costs	(1,718)	(1,537)	(1,903)	(2,270)	(2,631)
Admin exp.	(711)	(827)	(880)	(1,051)	(1,161)
R & D	(195)	(223)	(262)	(287)	(319)
Other operating expenses	-	-	-	-	-
EBIT	1,234	918	1,453	1,738	2,169
Finance costs, net	(111)	(140)	(106)	(113)	(112)
JVs & associates	(2)	(17)	(42)	(26)	13
Exceptional	-	-	-	-	-
Pre-tax profit	1,121	762	1,304	1,599	2,070
Income tax	(390)	(257)	(417)	(496)	(621)
Less: Minority interests	4	(8)	7	14	19
Net profit	728	513	880	1,089	1,431

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	1,234	918	1,453	1,738	2,169
D & A	185	318	331	343	348
Change in working capital	36	(320)	(623)	(612)	(623)
Income tax paid	(334)	(325)	(417)	(496)	(621)
Others	(343)	(272)	(106)	(113)	(112)
Net cash from operating	778	320	638	861	1,162
Capex & investments	(97)	(207)	(151)	(180)	(208)
Associated companies	(35)	(20)	-	-	-
Interest received	-	-	-	-	-
Others	(1,913)	800	-	-	-
Net cash from investing	(2,045)	573	(151)	(180)	(208)
Equity raised	1,187	31	-	-	-
Net change in bank loans	386	(77)	1,003	-	-
Dividend paid	(436)	(279)	(406)	(587)	(749)
Others	(98)	(55)	-	-	-
Net cash from financing	1,039	(380)	597	(587)	(749)
Net change in cash	(227)	513	1,083	94	204
Beginning cash balance	3,196	2,970	3,472	4,555	4,650
Exchange difference	1	(11)	-	-	-
Cash at the end of the year	2,970	3,472	4,555	4,650	4,854
	1,234	918	1,453	1,738	2,169

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	3,057	3,544	3,322	3,132	3,006
Fixed asset	662	796	857	935	1,038
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	176	150	163
Other non-current assets	356	429	429	429	429
Current assets	9,266	9,027	11,252	12,507	13,880
Cash and cash equivalents	2,970	3,472	4,555	4,650	4,854
Inventories	1,046	975	1,155	1,356	1,554
Trade and other receivables	2,910	3,236	3,988	4,739	5,499
Prepayments	818	899	1,108	1,316	1,528
Other current assets	1,522	446	446	446	446
Current liabilities	3,671	3,334	3,853	4,402	4,948
Bank loans	1,086	642	642	642	642
Trade payables	1,420	1,479	1,753	2,058	2,357
Accruals & other payables	981	1,052	1,296	1,541	1,788
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	-	-	7	21	40
Total net assets	6,960	7,299	7,773	8,275	8,956
Shareholders' equity	6,960	7,299	7,773	8,275	8,956

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Footwear	56.9	61.8	63.0	63.7	64.4
Apparel	40.9	36.3	35.3	34.8	34.2
Accessories	2.3	2.0	1.7	1.5	1.4
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	43.4	39.1	41.5	42.2	42.9
Operating margin	15.1	11.2	14.4	14.5	15.6
Pre-tax margin	13.7	9.3	13.0	13.4	14.9
Net margin	8.9	6.3	8.7	9.1	10.3
Effective tax rate	34.7	33.0	31.0	30.5	30.2
Balance sheet ratios					
Current ratio (x)	2.5	2.7	2.9	2.8	2.8
Quick ratio (x)	2.2	2.4	2.6	2.5	2.5
Cash ratio (x)	0.8	1.0	1.2	1.1	1.0
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	38	35
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	10.5	7.0	11.3	13.2	16.0
ROA	5.9	4.1	6.0	7.0	8.5
Per share					
EPS (RMB)	0.30	0.21	0.35	0.43	0.56
DPS (RMB)	0.18	0.12	0.21	0.26	0.34
BVPS (RMB)	2.79	2.87	3.05	3.25	3.52

Source: Company data, CMBIS estimates

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