

# Xtep (1368 HK)

## Slight beat in 3Q21 and guidance maintained

Despite a depressing 3Q21 with various industry headwinds (bad weather, COVID-19 outbreak, weak economic growth, etc.), Xtep still delivered a resilient growth. Hence we maintain BUY but fine-tuned TP to HK\$15.41, based on SOTP valuation, implying a ~30x FY22E P/E (down from 36x to factor in the industry de-rating). We think it is now attractive at 20x 22E P/E.

- Xtep's 3Q21 retail sales growth beat slightly, thanks to rising product popularity.** Xtep's retail sales grew by mid-teens in 3Q21, beating CMBI est. of 8%. Even though it had slowed down vs 30-35% in 2Q21, we believe that was already a decent growth rate amid the flooding, warmer and later winter, COVID-19 resurgence, etc. The growth was already faster than Anta's low teens and FILA's mid-single-digit growth during the same period. The sell through rate was decent at about 60% and such a resilient performance, in our view, was supported by: its mass market positioning (ASP is ranging from RMB 300-500) and the rising popularity of functional and domestic fashion products (e.g. 160X 2.0 and Xtep x Shaolin).
- MTD retail sales growth should have recovered meaningfully in Oct 2021.** Thanks to more favorable weather since early Oct 2021, we believe the retail sales growth should have improved to 10%+, comparing to just flattish during 10-1 holidays, vs slightly positive in Aug-Sep 2021 and 20%+ in Jul 2021. Xtep kids is already growing by 30%+ MTD in Oct 2021.
- Channel inventory and retail discounts remained healthy.** Inventory to sales ratio was at 4 months in 3Q21, same as 4 months in 2Q21, very healthy given slowdown in sales growth, even compared to peers. Retail discounts stayed at 25%-30% off in 3Q21, same as 2Q21 and 5ppt better YoY.
- Both short and long-term guidance maintained.** During our Corporate Day, management also reiterated its guidance for sales growth (30% in 2H21E), GP margin (about 41% for group in FY21E) and NP margin (11-12% for core brand in FY21E). Moreover for its 5 years plan, listed sales growth shall grow by 20%+ per year, where ASP adjustments may account for 5-10% growth and the other 10-15% growth will be from volume (thanks to store openings, product categories expansions and rising product popularity).
- Maintain BUY but fine-tuned TP to HK\$ 15.41.** We maintain BUY but lowered TP to HK\$ 15.41, based on SOTP valuation (26x FY22E P/E for Xtep (from 32x to factor in industry de-rating), cost for K&P and 2.0x P/S for JV), implying a ~30x FY22E P/E for group, 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	0.343	0.439	0.543
P/E (x)	30.6	42.1	24.8	20.0	15.3
P/B (x)	3.3	3.0	2.8	2.6	2.4
Yield (%)	1.9	1.4	2.4	3.0	3.9
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\$15.41
(Previous TP)	HK\$18.73)
Up/Downside	+49.3%
Current Price	HK\$10.32

### China Sportswear Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	27,130
Avg 3 mths t/o (HK\$ mn)	327.06
52w High/Low (HK\$)	16.32/2.57
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%

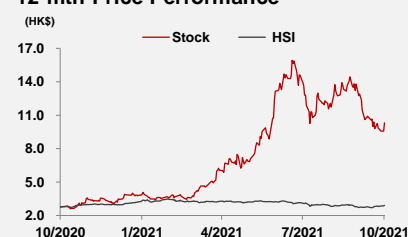
Source: HKEx, Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-30.7%	-32.0%
3-mth	-34.4%	-27.7%
6-mth	57.7%	79.7%
12-mth	239.4%	225.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related Reports

- Xtep (1368 HK, BUY) – Stable 2H21E and upbeat long-term guidance – 24 Aug 2021
- 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

## Focus charts

Figure 1: 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	14.37	36,607	30,384	26.0	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)	15.41	39,247	32,575			11,967	1,089	Implying a 30x FY22E P/E
Number of shares (mn)	2,547							
CNYHKD FX rate	1.2048							
Current price (HKD)	10.32							
Upside (%)	49.3%							

Source: Bloomberg, CMBIS estimates

Figure 2: 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

## Operating numbers

Figure 3: 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%	1.0%	
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%		
<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%	+ve Low-teens	10.0%
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%	+ve HSD	
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%	+ve MSD	
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%	20%-25%	
<b>Non-Anta brands (FILA/ Li Ning/ Xtep/ 361 Degrees/ Pou Sheng/ Dong Xiang)</b>																
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%	+ve MSD	5.0%
Classic/ Core brand								Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	
Kids								Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	
Fusion								Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	
Online								Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	
Other brands							30%-35%	25%-30%	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	
Descente				Over 100%	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	
Kolon						15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	
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 sales	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	-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-teens	+ve Mid-20%	+ve Mid-20%	+ve Low-30%	+ve High-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%	20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	+ve Mid-teens	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%	-25.1%	-15.0%
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	+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 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 4: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	10,070	11,967	13,888	10,070	11,967	13,888	0.0%	0.0%	0.0%
Gross profit	4,176	5,047	5,961	4,176	5,047	5,961	0.0%	0.0%	0.0%
EBIT	1,453	1,738	2,169	1,453	1,738	2,169	0.0%	0.0%	0.0%
Net profit att.	880	1,089	1,431	880	1,089	1,431	0.0%	0.0%	0.0%
Diluted EPS (RMB)	0.346	0.428	0.562	0.346	0.428	0.562	0.0%	0.0%	0.0%
Gross margin	41.5%	42.2%	42.9%	41.5%	42.2%	42.9%	0ppt	0ppt	0ppt
EBIT margin	14.4%	14.5%	15.6%	14.4%	14.5%	15.6%	0ppt	0ppt	0ppt
Net profit att. margin	8.7%	9.1%	10.3%	8.7%	9.1%	10.3%	0ppt	0ppt	0ppt

Source: Company data, CMBIS estimates

Figure 5: 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	9,905	12,199	14,759	1.7%	-1.9%	-5.9%
Gross profit	4,176	5,047	5,961	4,126	5,127	6,242	1.2%	-1.6%	-4.5%
EBIT	1,453	1,738	2,169	1,375	1,730	2,129	5.6%	0.5%	1.9%
Net profit att.	880	1,089	1,431	875	1,121	1,393	0.7%	-2.8%	2.7%
Diluted EPS (RMB)	0.346	0.428	0.562	0.343	0.439	0.543	0.7%	-2.7%	3.4%
Gross margin	41.5%	42.2%	42.9%	41.7%	42.0%	42.3%	-0.2ppt	0.1ppt	0.6ppt
EBIT margin	14.4%	14.5%	15.6%	13.9%	14.2%	14.4%	0.5ppt	0.3ppt	1.2ppt
Net profit att. margin	8.7%	9.1%	10.3%	8.8%	9.2%	9.4%	-0.1ppt	-0.1ppt	0.9ppt

Source: Company data, CMBIS estimates

## Assumptions

Figure 6: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales by segment (RMB mn)</b>					
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
<b>Sales by segment growth (%)</b>					
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%
<b>Sales by segment (RMB mn)</b>					
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
<b>Sales by segment growth (YoY)</b>					
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%
<b>Sales network</b>					
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%
<b>Opex breakdown</b>					
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%
<b>OP margins</b>	<b>15.1%</b>	<b>11.2%</b>	<b>14.4%</b>	<b>14.5%</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>8.7%</b>	<b>9.1%</b>	<b>10.3%</b>
<b>Net profit att. growth (%)</b>	<b>10.8%</b>	<b>-29.5%</b>	<b>71.6%</b>	<b>23.7%</b>	<b>31.4%</b>

Source: Company data, CMBIS estimates

## Valuation

Figure 7: 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	15.41	10.32	49%	27,130	Dec-20	24.8	20.0	2.8	2.6	9.5	0.6	2.4	
Anta Sports	2020 HK	BUY	156.06	130.90	19%	353,866	Dec-20	37.3	29.1	9.6	7.8	30.5	1.0	0.9	
Li Ning	2331 HK	BUY	102.84	90.10	14%	224,881	Dec-20	51.0	40.3	15.6	11.9	33.2	1.0	0.6	
361 Degrees	1361 HK	NR	n/a	3.86	n/a	7,981	Dec-20	11.3	9.9	0.9	0.9	7.7	0.5	1.7	
Topsports	6110 HK	NR	n/a	9.31	n/a	57,733	Feb-21	14.9	12.3	4.2	3.6	27.4	0.7	3.6	
Pou Sheng	3813 HK	NR	n/a	1.35	n/a	7,232	Dec-20	5.2	4.1	0.7	0.6	11.6	0.1	2.5	
China DX	3818 HK	NR	n/a	0.88	n/a	5,181	Mar-21	n/a	n/a	n/a	n/a	16.4	0.0	n/a	
								<b>Avg.</b>	<b>24.1</b>	<b>19.3</b>	<b>5.6</b>	<b>4.5</b>	<b>19.5</b>	<b>0.6</b>	<b>2.0</b>
								<b>Med.</b>	<b>19.8</b>	<b>16.2</b>	<b>3.5</b>	<b>3.1</b>	<b>16.4</b>	<b>0.6</b>	<b>2.1</b>
<b>International Sportswear</b>															
Nike Inc	NKE US	NR	n/a	159.43	n/a	1,962,364	May-21	43.9	33.5	18.4	16.9	51.6	2.9	0.7	
Adidas	ADS GY	NR	n/a	270.55	n/a	491,694	Dec-20	35.7	27.0	7.2	6.4	24.8	0.5	1.2	
Puma	PUM GY	NR	n/a	101.60	n/a	138,957	Dec-20	51.9	35.6	7.8	6.8	15.8	0.6	0.6	
Under Armour	UAA US	NR	n/a	20.53	n/a	69,475	Dec-20	37.9	33.4	5.0	4.3	22.0	(0.2)	0.0	
Lululemon	LULU US	NR	n/a	417.38	n/a	421,338	Jan-21	55.7	46.3	17.7	13.8	35.4	1.7	0.0	
Skechers	SKX US	NR	n/a	43.66	n/a	52,908	Dec-20	16.6	14.4	2.2	1.9	14.3	0.2	0.0	
Vf Corp	VFC US	NR	n/a	72.93	n/a	222,678	Mar-21	23.0	19.4	7.4	7.0	32.9	0.4	2.7	
Columbia	COLM US	NR	n/a	95.97	n/a	49,231	Dec-20	20.7	17.7	3.5	3.0	14.5	0.4	1.0	
Wolverine	WWW US	NR	n/a	31.41	n/a	20,081	Jan-21	13.6	11.2	4.6	3.8	(9.9)	(0.1)	1.4	
Mizuno Corp	8022 JP	NR	n/a	2650.00	n/a	4,798	Mar-21	19.8	14.9	0.7	0.7	7.5	1.4	1.9	
Asics Corp	7936 JP	NR	n/a	2924.00	n/a	37,818	Dec-20	97.8	39.3	4.1	3.8	1.7	(0.5)	0.8	
								<b>Avg.</b>	<b>37.9</b>	<b>26.6</b>	<b>7.1</b>	<b>6.2</b>	<b>19.1</b>	<b>0.7</b>	<b>0.9</b>
								<b>Med.</b>	<b>35.7</b>	<b>27.0</b>	<b>5.0</b>	<b>4.3</b>	<b>15.8</b>	<b>0.4</b>	<b>0.8</b>

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>8,183</b>	<b>8,172</b>	<b>10,070</b>	<b>11,967</b>	<b>13,888</b>
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
<b>Cost of goods sold</b>	<b>(4,632)</b>	<b>(4,973)</b>	<b>(5,895)</b>	<b>(6,920)</b>	<b>(7,927)</b>
<b>Gross profit</b>	<b>3,550</b>	<b>3,198</b>	<b>4,176</b>	<b>5,047</b>	<b>5,961</b>
<b>Other income</b>	<b>308</b>	<b>307</b>	<b>322</b>	<b>299</b>	<b>319</b>
<b>Operating expenses</b>	<b>(2,625)</b>	<b>(2,588)</b>	<b>(3,045)</b>	<b>(3,608)</b>	<b>(4,112)</b>
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	-	-	-	-	-
<b>EBIT</b>	<b>1,234</b>	<b>918</b>	<b>1,453</b>	<b>1,738</b>	<b>2,169</b>
Finance costs, net	(111)	(140)	(106)	(113)	(112)
JVs & associates	(2)	(17)	(42)	(26)	13
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>1,121</b>	<b>762</b>	<b>1,304</b>	<b>1,599</b>	<b>2,070</b>
Income tax	(390)	(257)	(417)	(496)	(621)
Less: Minority interests	4	(8)	7	14	19
<b>Net profit</b>	<b>728</b>	<b>513</b>	<b>880</b>	<b>1,089</b>	<b>1,431</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>EBIT</b>	<b>1,234</b>	<b>918</b>	<b>1,453</b>	<b>1,738</b>	<b>2,169</b>
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)
<b>Net cash from operating</b>	<b>778</b>	<b>320</b>	<b>638</b>	<b>861</b>	<b>1,162</b>
Capex & investments	(97)	(207)	(151)	(180)	(208)
Associated companies	(35)	(20)	-	-	-
Interest received	-	-	-	-	-
Others	(1,913)	800	-	-	-
<b>Net cash from investing</b>	<b>(2,045)</b>	<b>573</b>	<b>(151)</b>	<b>(180)</b>	<b>(208)</b>
Equity raised	1,187	31	-	-	-
Net change in bank loans	386	(77)	1,003	-	-
Dividend paid	(436)	(279)	(406)	(587)	(749)
Others	(98)	(55)	-	-	-
<b>Net cash from financing</b>	<b>1,039</b>	<b>(380)</b>	<b>597</b>	<b>(587)</b>	<b>(749)</b>
<b>Net change in cash</b>	<b>(227)</b>	<b>513</b>	<b>1,083</b>	<b>94</b>	<b>204</b>
Beginning cash balance	3,196	2,970	3,472	4,555	4,650
Exchange difference	1	(11)	-	-	-
<b>Cash at the end of the year</b>	<b>2,970</b>	<b>3,472</b>	<b>4,555</b>	<b>4,650</b>	<b>4,854</b>
	<b>1,234</b>	<b>918</b>	<b>1,453</b>	<b>1,738</b>	<b>2,169</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>3,057</b>	<b>3,544</b>	<b>3,322</b>	<b>3,132</b>	<b>3,006</b>
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
<b>Current assets</b>	<b>9,266</b>	<b>9,027</b>	<b>11,252</b>	<b>12,507</b>	<b>13,880</b>
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
<b>Current liabilities</b>	<b>3,671</b>	<b>3,334</b>	<b>3,853</b>	<b>4,402</b>	<b>4,948</b>
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
<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>
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
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>21</b>	<b>40</b>
<b>Total net assets</b>	<b>6,960</b>	<b>7,299</b>	<b>7,773</b>	<b>8,275</b>	<b>8,956</b>
<b>Shareholders' equity</b>	<b>6,960</b>	<b>7,299</b>	<b>7,773</b>	<b>8,275</b>	<b>8,956</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
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
	-	-	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
ROE	10.5	7.0	11.3	13.2	16.0
ROA	5.9	4.1	6.0	7.0	8.5
<b>Per share</b>					
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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