

Xtep (1368 HK)

Robust retail sales growth despite pandemic

We are highly impressed by Xtep's rapid growth in Jan-Mar 2022, despite the macro weakness and COVID outbreaks. Due to its fairly attractive valuation (18x FY22E P/E) after the recent market crash, we maintain BUY and fine-tuned our SOTP-based TP to HK\$16.21, implying ~28x FY22E P/E (down from 30x).

- **FY21 results inline.** In FY21, Xtep's sales grew by 23% YoY to RMB 10.0bn, inline with BBG est., while net profit increased by 77% YoY to RMB 908mn, only 3% above BBG est. Noted that cash conversion cycle was lowered to 64 days (vs 87 days last year) plus some provision write back (~RMB 21mn), all are pointing to healthy business conditions.
- **Upbeat retail sales growth recorded in Jan – Mar 2022.** Retail sales growth QTD was still strong at 30%+, not much slowdown even in Mar 2022, perhaps due to Xtep's more mass market pricing, greater exposure to street level stores and lower tier cities. 3 months sell-thru rate was excellent at 50%+ while retail discounts was at 25-30% off, same as last year.
- **Guidance for F22E remained robust.** Guidance, in our view is still very strong, as the management is now forecasting sales growth of 25-30% for Xtep core brand (and 35-45% in 1H22E), 50%+ for kids and 30%+ for e-commerce, all of these growth are all faster vs FY21. For offline sales, we believe the main drivers are: 1) ramp up of 9th gen. stores (sales per store can reach RMB 300K-500K per month) and 2) more product upgrades (3rd gen 160x running shoes will be launched soon in Mar 2022). For Kids, growth will be driven by store openings, we expect ~200 new stores in FY22E. For e-commerce, rapid growth can still be maintained, thanks to the continued development in many new platforms, such as JD, TikTok and Xiaohongshu. NP margin for Xtep core brand should be at ~12% in FY22E.
- **New brands' sales growth target revised down slightly.** Management is now expecting 20-30% sales growth for K-swiss and Palladium (down from 30%+, due to lingering supply chain issues in Southeast Asia), driven by online sales growth and 10-20 new store openings. But net losses would still be ~RMB 90mn-100m and the Company targets to break even by FY24E.
- **JV's sales growth target maintained.** Management is now expecting 50% sales growth for Saucony and Merrell, driven by online sales growth and 10-20 new store openings. But net losses would be no more than RMB 50mn and the Company targets to roll out the franchise model and break even by FY23E.
- **Maintain BUY and fine-tuned TP to HK\$ 16.21.** We revised up FY22E/22E NP by 4%/ 0% to factor in better GP margin, better finance costs but slightly higher admin costs. We cut TP to HK\$ 16.21, based on SOTP valuation (24x FY22E P/E for Xtep, cost for K&P and 2.0x P/S for JV), implying ~28x for group, reasonable given the 26% NP CAGR in FY21-24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	8,172	10,013	12,568	14,587	16,430
YoY growth (%)	(0.1)	22.5	25.5	16.1	12.6
Net income (RMB mn)	513	908	1,210	1,508	1,811
EPS (RMB)	0.206	0.355	0.475	0.592	0.711
YoY growth (%)	(31.6)	72.1	33.8	24.6	20.1
Consensus EPS (RMB)	n/a	n/a	0.461	0.579	0.800
P/E (x)	40.8	23.3	17.5	14.0	11.7
P/B (x)	2.9	2.6	2.5	2.3	2.1
Yield (%)	1.4	2.6	3.4	4.3	5.1
ROE (%)	7.0	11.4	14.1	16.3	18.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$16.21
 (Previous TP) HK\$16.43
Up/Downside +62.1%
Current Price HK\$10.00

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Stock Data

Mkt Cap (HK\$ mn)	26,303
Avg 3 mths t/o (HK\$ mn)	185.39
52w High/Low (HK\$)	16.32/3.31
Total Issued Shares (mn)	2,630.3

Source: Bloomberg

Shareholding Structure

Mr Ding Shui Po & Family	52.28%
JP Morgan Chase	4.61%
ICBC Credit Suisse AM	3.02%
Employee incentive scheme	4.01%
Free Float	36.08%

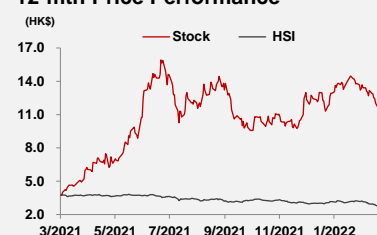
Source: HKEx, Bloomberg

Share Performance

	Absolute	Relative
1-mth	-25.3%	-8.0%
3-mth	-23.0%	-10.0%
6-mth	-24.4%	-7.1%
12-mth	173.2%	294.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Xtep (1368 HK, BUY) – Upbeat guidance with multiple growth drivers – 17 Jan 2022
2. Xtep (1368 HK, BUY) – Slight beat in 3Q21 and guidance maintained – 20 Oct 2021
3. Xtep (1368 HK, BUY) – Stable 2H21E and upbeat long-term guidance – 24 Aug 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	15.12	38,516	31,968	24.0	FY22E P/E	11,038	1,332	Based on 34% NP FY20-23E CAGR
K-Swiss and Palladium	0.79	2,014	1,672	n/a	M&A costs	1,220	(91)	Implying a ~1.4x FY22E P/S
Saucony and Merrell JV	0.29	746	620	2.0	FY22E P/S	310	(31)	Based on ~2.0x FY22E P/S
Total (RMB)	16.21	41,276	34,259			12,568	1,210	Implying a ~28.0x FY22E P/E
Number of shares (mn)	2,547							
CNYHKD FX rate	1.2048							
Current price (HKD)	10.00							
Upside (%)	62.1%							

Source: Bloomberg, CMBIGM 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	8,841	11,038	12,748	14,225	15,704	21.5%
K-swiss and Palladium	466	999	971	1,220	1,374	1,549	1,749	11.2%
Saucony and Merrell JV	10	72	201	310	465	656	896	86.5%
Total	8,183	8,172	10,013	12,568	14,587	16,430	18,348	21.3%
Net profit (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY20-23E CAGR
Xtep core brand	790	656	1,055	1,332	1,569	1,762	2,028	33.8%
K-swiss and Palladium	(60)	(126)	(101)	(91)	(62)	16	72	-21.2%
Saucony and Merrell JV	(2)	(17)	(46)	(31)	0	33	54	-100.0%
Total	728	513	908	1,210	1,508	1,811	2,154	43.2%
NP margin	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	
Xtep core brand	10.2%	9.2%	11.9%	12.1%	12.3%	12.4%	12.9%	
K-swiss and Palladium	-12.9%	-12.6%	-10.4%	-7.5%	-4.5%	1.0%	4.1%	
Saucony and Merrell JV	-19.6%	-23.7%	-23.0%	-10.0%	0.0%	5.0%	6.0%	
Total	8.9%	6.3%	9.1%	9.6%	10.3%	11.0%	11.7%	

Source: Company data, CMBIGM estimates

Earnings revision

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,568	14,587	16,430	12,558	14,567	n/a	0.1%	0.1%	n/a
Gross profit	5,314	6,290	7,120	5,269	6,225	n/a	0.9%	1.0%	n/a
EBIT	1,806	2,214	2,590	1,855	2,284	n/a	-2.6%	-3.0%	n/a
Net profit att.	1,210	1,508	1,811	1,168	1,509	n/a	3.6%	-0.1%	n/a
Diluted EPS (RMB)	0.475	0.592	0.711	0.459	0.592	n/a	3.6%	-0.1%	n/a
Gross margin	42.3%	43.1%	43.3%	42.0%	42.7%	n/a	0.3ppt	0.4ppt	n/a
EBIT margin	14.4%	15.2%	15.8%	14.8%	15.7%	n/a	-0.4ppt	-0.5ppt	n/a
Net profit att. margin	9.6%	10.3%	11.0%	9.3%	10.4%	n/a	0.3ppt	0ppt	n/a

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,568	14,587	16,430	12,408	15,031	17,527	1.3%	-3.0%	-6.3%
Gross profit	5,314	6,290	7,120	5,212	6,339	7,445	2.0%	-0.8%	-4.4%
EBIT	1,806	2,214	2,590	1,825	2,280	2,522	-1.1%	-2.9%	2.7%
Net profit att.	1,210	1,508	1,811	1,145	1,399	1,824	5.6%	7.8%	-0.7%
Diluted EPS (RMB)	0.475	0.592	0.711	0.461	0.579	0.800	3.0%	2.3%	-11.1%
Gross margin	42.3%	43.1%	43.3%	42.0%	42.2%	42.5%	0.3ppt	0.9ppt	0.9ppt
EBIT margin	14.4%	15.2%	15.8%	14.7%	15.2%	14.4%	-0.3ppt	0ppt	1.4ppt
Net profit att. margin	9.6%	10.3%	11.0%	9.2%	9.3%	10.4%	0.4ppt	1ppt	0.6ppt

Source: Company data, CMBIGM estimates

Assumptions

Figure 5: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
Shoes	5,047	5,928	7,497	8,724	9,877
Apparels	2,964	3,887	4,859	5,637	6,313
Accessories	161	198	211	226	240
Total	8,172	10,013	12,568	14,587	16,430
Sales by segment growth (%)					
Shoes	8.5%	17.5%	26.5%	16.4%	13.2%
Apparels	-11.4%	31.2%	25.0%	16.0%	12.0%
Accessories	-12.9%	22.5%	7.0%	7.0%	6.0%
Total	-0.1%	22.5%	25.5%	16.1%	12.6%
Sales by segment (RMB mn)					
Mass market	7,101	8,841	11,038	12,748	14,225
Athleisure	999	971	1,220	1,374	1,549
Professional sports	72	201	310	465	656
Total	8,172	10,013	12,568	14,587	16,430
Sales by segment growth (YoY)					
Mass market	-7.9%	24.5%	24.8%	15.5%	11.6%
Athleisure	114.4%	-2.8%	25.7%	12.6%	12.8%
Professional sports	609.9%	180.3%	54.1%	50.2%	41.0%
Total	-0.1%	22.5%	25.5%	16.1%	12.6%
Sales network					
Xtep	4,971	4,722	4,864	5,010	5,160
Xtep kids	800	1,179	1,297	1,401	1,499
Oversea stores	250	250	300	300	300
Total	6,021	6,151	6,461	6,710	6,959
GP margins	39.1%	41.7%	42.3%	43.1%	43.3%
Opex breakdown					
A&P / sales	11.2%	10.2%	10.5%	11.0%	11.0%
Staff costs/ sales	12.1%	11.1%	10.5%	10.5%	10.4%
R&D / sales	2.7%	2.5%	2.4%	2.3%	2.3%
D&A / sales	2.0%	1.7%	1.5%	1.5%	1.4%
Provisions (write backs) / sales	0.7%	-0.2%	0.0%	0.0%	0.0%
Rental / sales	0.1%	0.1%	0.3%	0.4%	0.4%
Selling & distribution costs / sales	18.8%	18.9%	19.0%	19.3%	19.1%
Admin expenses / sales	12.9%	11.9%	11.4%	11.1%	10.9%
Total	31.7%	30.8%	30.4%	30.4%	30.0%
OP margins	11.2%	13.9%	14.4%	15.2%	15.8%
Effective tax rate	33.7%	30.9%	31.0%	30.0%	29.0%
Net profit att. margins	6.3%	9.1%	9.6%	10.3%	11.0%
Net profit att. growth (%)	-29.5%	77.1%	33.2%	24.6%	20.1%

Source: Company data, CMBIGM estimates

Valuation

Figure 6: 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	16.21	10.00	62%	26,303	Dec-21	17.5	14.0	2.5	2.3	12.0	0.7	3.4	
Anta Sports	2020 HK	BUY	132.66	99.95	33%	270,198	Dec-20	28.6	22.7	7.3	5.9	30.5	0.8	1.3	
Li Ning	2331 HK	BUY	102.84	57.90	78%	151,498	Dec-20	32.7	26.0	9.0	7.3	33.2	0.6	0.9	
361 Degrees	1361 HK	NR	n/a	3.26	n/a	6,740	Dec-20	9.8	8.7	0.8	0.7	7.7	0.5	2.1	
Topsports	6110 HK	NR	n/a	6.34	n/a	39,316	Feb-21	11.3	9.4	2.8	2.4	26.5	0.7	4.5	
Pou Sheng	3813 HK	NR	n/a	0.76	n/a	4,048	Dec-21	3.9	2.9	0.4	0.3	4.5	0.1	4.0	
China DX	3818 HK	NR	n/a	0.44	n/a	2,561	Mar-21	n/a	3.2	0.2	0.2	(0.5)	0.0	n/a	
								Avg.	17.3	12.4	3.3	2.7	16.3	0.5	2.7
								Med.	14.4	9.4	2.5	2.3	12.0	0.6	2.8
International Sportswear															
Nike Inc	NKE US	NR	n/a	124.83	n/a	1,543,752	May-21	33.8	26.6	14.0	12.9	48.3	2.3	0.9	
Adidas	ADS GY	NR	n/a	213.65	n/a	353,365	Dec-21	22.0	18.1	5.5	5.0	30.3	3.7	1.8	
Puma	PUM GY	NR	n/a	76.32	n/a	99,107	Dec-21	27.5	21.7	4.8	4.2	15.7	1.2	1.2	
Under Armour	UAA US	NR	n/a	16.81	n/a	58,963	Dec-21	22.3	20.8	n/a	3.1	19.1	2.5	n/a	
Lululemon	LULU US	NR	n/a	303.15	n/a	306,536	Jan-21	39.4	33.2	13.3	10.4	36.1	1.2	0.0	
Skechers	SKX US	NR	n/a	39.09	n/a	47,705	Dec-21	13.4	10.8	1.6	1.4	25.8	(6.0)	0.0	
Vf Corp	VFC US	NR	n/a	56.71	n/a	172,467	Apr-21	17.7	15.6	6.5	6.0	41.1	0.3	3.5	
Columbia	COLM US	NR	n/a	92.07	n/a	46,453	Dec-21	16.0	14.2	2.8	2.6	18.5	1.4	1.3	
Wolverine	WWW US	NR	n/a	23.46	n/a	14,988	Jan-22	9.1	8.0	2.5	2.1	11.3	0.2	2.6	
Mizuno Corp	8022 JP	NR	n/a	2175.00	n/a	3,815	Mar-21	18.3	13.3	0.5	0.5	7.6	1.8	2.3	
Asics Corp	7936 JP	NR	n/a	2088.00	n/a	26,167	Dec-21	24.1	18.1	2.5	2.3	6.9	0.6	1.4	
								Avg.	22.2	18.2	5.4	4.6	23.7	0.8	1.5
								Med.	22.0	18.1	3.8	3.1	19.1	1.2	1.3

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	8,172	10,013	12,568	14,587	16,430	EBIT	918	1,396	1,806	2,214	2,590
Footwear	5,047	5,928	7,497	8,724	9,877	D & A	78	84	132	167	182
Apparel	2,964	3,887	4,859	5,637	6,313	Change in working capital	(320)	(447)	(787)	(634)	(569)
Accessories	161	198	211	226	240	Income tax paid	(325)	(329)	(536)	(649)	(745)
						Others	(32)	(3)	(47)	(51)	(54)
Cost of goods sold	(4,973)	(5,835)	(7,255)	(8,298)	(9,310)	Net cash from operating	320	701	568	1,047	1,404
Gross profit	3,198	4,178	5,314	6,290	7,120	Capex & investments	(207)	(414)	(440)	(511)	(575)
Other income	307	299	314	365	394	Associated companies	(20)	-	-	-	-
						Interest received	-	-	-	-	-
Operating expenses	(2,588)	(3,081)	(3,822)	(4,440)	(4,924)	Others	800	86	-	-	-
S & D costs	(1,537)	(1,891)	(2,385)	(2,819)	(3,137)	Net cash from investing	573	(329)	(440)	(511)	(575)
Admin exp.	(827)	(937)	(1,135)	(1,285)	(1,410)	Equity raised	31	-	-	-	-
R & D	(223)	(252)	(302)	(336)	(378)	Net change in bank loans	(77)	(312)	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(279)	(356)	(628)	(808)	(988)
EBIT	918	1,396	1,806	2,214	2,590	Others	(55)	764	-	-	-
Finance costs, net	(140)	(63)	(47)	(51)	(54)	Net cash from financing	(380)	96	(628)	(808)	(988)
JVs & associates	(17)	(46)	(31)	-	33	Net change in cash	513	469	(500)	(271)	(160)
Exceptional	-	-	-	-	-	Beginning cash balance	2,970	3,472	3,930	3,430	3,159
Pre-tax profit	762	1,287	1,728	2,163	2,569	Exchange difference	(11)	(11)	-	-	-
Income tax	(257)	(397)	(536)	(649)	(745)	Cash at the end of the year	3,472	3,930	3,430	3,159	2,999
Less: Minority interests	(8)	(19)	(17)	6	13						
Net profit	513	908	1,210	1,508	1,811						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	3,544	4,183	4,460	4,804	5,230	Sales mix (%)					
Fixed asset	796	1,119	1,452	1,836	2,282	Footwear	61.8	59.2	59.7	59.8	60.1
Intangible assets & goodwill	741	700	674	634	582	Apparel	36.3	38.8	38.7	38.6	38.4
Prepaid lease payments	573	576	576	576	576	Accessories	2.0	2.0	1.7	1.6	1.5
Interest in joint ventures	218	365	334	334	366		-	-	-	-	-
Other non-current assets	1,216	1,424	1,424	1,424	1,424	Total	100.0	100.0	100.0	100.0	100.0
Current assets	9,027	10,432	11,565	12,564	13,579	P&L ratios (%)					
Cash and cash equivalents	3,472	3,930	3,430	3,159	2,999	Gross margin	39.1	41.7	42.3	43.1	43.3
Inventories	975	1,497	1,862	2,129	2,389	Operating margin	11.2	13.9	14.4	15.2	15.8
Trade and other receivables	3,236	3,528	4,429	5,140	5,789	Pre-tax margin	9.3	12.9	13.8	14.8	15.6
Prepayments	899	1,443	1,811	2,102	2,367	Net margin	6.3	9.1	9.6	10.3	11.0
Other current assets	446	34	34	34	34	Effective tax rate	33.0	29.8	30.5	30.0	29.4
Current liabilities	3,334	4,053	4,898	5,535	6,140	Balance sheet ratios					
Bank loans	642	405	405	405	405	Current ratio (x)	2.7	2.6	2.4	2.3	2.2
Trade payables	1,479	2,352	2,925	3,345	3,753	Quick ratio (x)	2.4	2.2	2.0	1.9	1.8
Accruals & other payables	1,052	1,071	1,344	1,560	1,757	Cash ratio (x)	1.0	1.0	0.7	0.6	0.5
Tax payables	86	123	123	123	123	Inventory turnover days	72	94	94	94	94
Others	75	102	102	102	102	Trade receivables days	145	129	129	129	129
Non-current liabilities	1,939	2,580	2,580	2,580	2,580	Trade payables days	109	147	147	147	147
Bank loans	1,516	1,375	1,375	1,375	1,375	Total debt / total equity ratio (%)	30	32	30	27	25
CB or Preferred shares	-	758	758	758	758	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	237	253	253	253	253	Returns (%)					
Others	186	194	194	194	194	ROE	7.0	11.4	14.1	16.3	18.0
Minority Interest	-	-	-17	-11	2	ROA	4.1	6.2	7.5	8.7	9.6
Total net assets	7,299	7,982	8,564	9,264	10,086	Per share					
Shareholders' equity	7,299	7,982	8,564	9,264	10,086	EPS (RMB)	0.21	0.36	0.48	0.59	0.71
						DPS (RMB)	0.12	0.21	0.29	0.36	0.43
						BVPS (RMB)	2.87	3.13	3.36	3.64	3.96

Source: Company data, CMBIGM estimates

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