

# China Sportswear Sector

## Decent 618 growth but with margins pressure

- JD and live streaming platforms outperformed during 618 Festival.** Based on Syntun data, e-commerce GMV of all channels was at ~RMB 696bn during 618 Festival in 2022 (31 May to 18 Jun 2022), increasing by 20% YoY, while sales from the comprehensive platforms increased by only 1% YoY to RMB 583bn. However, sales from live streaming platforms surged by 124% YoY to RMB 145bn. Since sales growth by JD// Tik Tok was better/ fairly robust at ~ 10%/ ~160%, we believe sales from Ali-platforms and PDD might be relatively sluggish or have declined YoY.
- Sportswear outperformed during 618 and its 2Q22E retail sales growth should be at least in line with CMBI est. and brands' expectation.** Also, according to Syntun data, bodycare and cleaning was one of the fastest growing category (by 34% YoY), followed by sportswear (by 9%), grain, oil, food (by 9%) and home appliances (by 7%), considering the sales of all online channels. Moreover, based on data from MKTINDEX.com, sportswear and outdoor sales growth was impressive at 27% on the Ali-platforms (Tao Bao+ Tmall), way faster than other segments. We believe the strong rebound of online sales during 618 would be able to offset the weakness in offline stores, hence we are not expecting further cuts in guidance for 2H22E.
- Performance by brands during 618.** Xtep was the only brand which reported its 618 performance, where its GMV (of all online channels) had increased by 64% (Main brand +61%, Kids +103%, Saucony +135%), Xtep sales on JD grew by 5 times. We believe Xtep's retail discount could stay flattish vs last year, thanks to its quick recovery in Jun 2022. Li Ning/ Li Ning kids' Tmall sales increased by ~27%/ ~100%. Anta/ FILA's Tmall sales grew by ~139%/ ~17%, Anta/ FILA's JD sales grew by 100%+/ 100%+. We believe Anta group's retail discount may widen vs last year but remain controllable.
- Slightly deeper retail discounts and lower ASP might bring certain pressure on GP margin.** In order to facilitate retail sales recovery after COVID-19 outbreaks and lockdowns in Apr-May 2022, all e-commerce platforms rolled out more promotion (RMB 50 off per RMB 300 spending (vs RMB 30 off per RMB 200 last year), hence the retail discounts are already higher. On top of that, sportswear brands, in general, had also imposed higher retail discounts, in order to clear inventories in 2Q22E. This was also evidenced by the drop in ASP during 618 (by ~10% YoY), according to MKTINDEX.com.
- Sector should have been bottomed out, and our pecking order is Xtep > Li Ning = Anta > Topsports > Pou Sheng.**

### Valuation Table

Company	Ticker	Rating	Mkt cap (HK\$ mn)	TP (LC)	Price (LC)	Up/down side	P/E (x) FY1 FY2	PB (x) FY2	ROE (%) FY2
Xtep	1368 HK	BUY	34,773	16.21	13.22	23%	20.2 16.2	3.1	12.0
Anta	2020 HK	BUY	240,291	110.53	88.55	25%	24.7 19.2	4.8	29.2
Li Ning	2331 HK	BUY	174,317	75.43	66.60	13%	31.0 24.7	5.0	26.9
361D	1361 HK	NR	8,519	n/a	4.12	N/A	10.6 9.0	0.8	8.8
Topsports	6110 HK	NR	40,804	n/a	6.58	N/A	12.9 10.9	2.7	24.1
Pou Sheng	3813 HK	NR	4,474	n/a	0.84	N/A	7.1 4.4	0.4	4.5
Dongxiang	3818 HK	NR	2,738	n/a	0.47	N/A	13.2 5.0	0.2	(0.5)

Source: Bloomberg, CMBIGM estimates

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### China Sportswear Sector

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#### Xtep (1368 HK) share price



Source: Bloomberg, CMBIGM estimates

#### Anta (2020 HK) share price



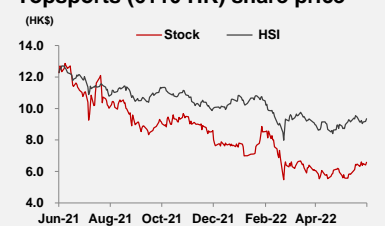
Source: Bloomberg, CMBIGM estimates

#### Li Ning (2331 HK) share price



Source: Bloomberg, CMBIGM estimates

#### Topsports (6110 HK) share price

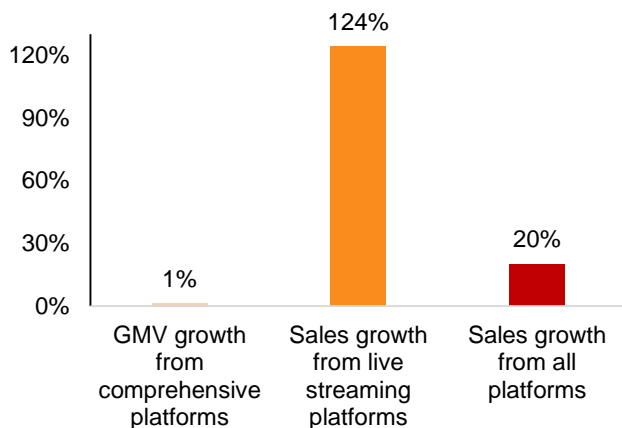


Source: Bloomberg, CMBIGM estimates

- **Xtep (1368 HK, BUY)** - still our top pick, due to its more resilient retail sales growth (CMBI est. mild decline in Apr 2022 and HSD increase in May 2022) and much faster than industry recovery (CMBI est. 20%+ in Jun 2022), supported by higher mix of lower tier cities and ASP increases through product and brand upgrades.
- **Li Ning (2331 HK, BUY)** - Even though Li Ning sales growth during 618 was only moderate, but we still think a only MSD retail sales decline in 2Q22E is achievable (vs previous Company' guidance of 5% growth), hence the need of further earnings cut in 2H22E is limited.
- **Anta (2020 HK, BUY)** - Performance of Anta brand was strong, but it was certainly hindered by sluggish recovery of FILA, but still, we believe its 618 performance is in line with management's expectation and there is a chance for its 2Q22E retail sales decline to be less negative as the management previously guided. Hence, we are cautiously optimistic for Anta group's guidance to stay in 2H22E.
- **Topsports (6110 HK, NR)** - Even though both Nike and Adidas brands are still experiencing sales decline in 2Q22E as a whole, but after Nike's online sales growth turned positive in May 2022, we think its overall sales growth could resume positive soon (perhaps in 3Q22E) and might not lose much market shares since then, thanks to normalization of new products launches and marketing activities, as well as low base. However, for Adidas, we believe it may take a longer time to turnaround (may be in 4Q22E or even beyond).

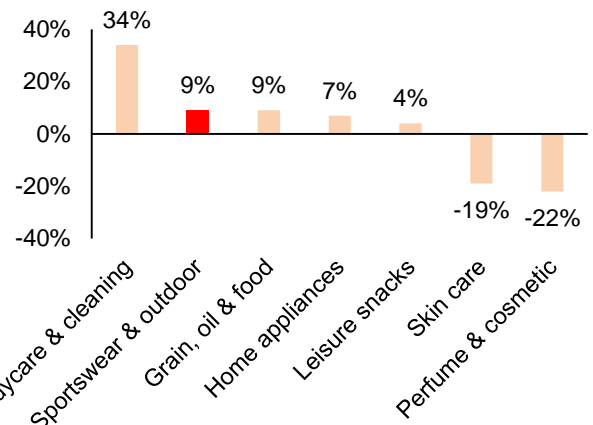
## Focus Charts

Figure 1: Growth in 618, by e-commerce platforms



Source: Syntun data, CMBIS estimates

Figure 2: GMV growth in 618, by sectors



Source: Syntun data, CMBIS estimates

Figure 3: Performance during 618, by brand

By Brand	Channels	Performance
Anta group	Tmall	截至6月9日天猫平台，安踏累计GMV同比增加139%
	JD	618全周期，安踏、斐乐、牧高笛等超1800个品牌和健身器材、帐篷/垫子等超120个品类成交额较去年都实现了翻倍增长。
	JD	其中，斐乐、迪桑特开门红3天完成去年618全时期目标
Li Ning	Tmall	截至6月9日天猫平台，李宁累计GMV同比增加27%
	Tmall	李宁儿童发布天猫618战报显示，李宁儿童618全波段销售同比增长100%，位居国内儿童GMV运动品牌第二。
Xtep	All channels	6月21日消息，特步集团公布618战报。截止6月20日24:00，特步集团累计成交额6.5亿，同比增长64%。其中，特步主品牌“特步”成交额5.9亿，同比增长61%；特步儿童成交额7500万，同比增长103%；索康尼成交额同比增长135%，在618所有运动鞋类目里国际品牌中增速排名第一。
	Tmall	截至6月9日天猫平台，特步累计GMV同比增加48%
	JD	国潮品牌鸿星尔克、特步成交额同比增长超5倍
361 Degrees	Tmall	截至6月9日天猫平台，361度累计GMV同比增加56%
FILA	Tmall	截至6月13日天猫平台，FILA累计GMV同比增加17%
Nike	Tmall	截至6月13日天猫平台，Nike累计GMV同比增加175%
Adidas	Tmall	截至6月13日天猫平台，Adidas累计GMV同比增加26%
	Tik Tok	成交额破千万品牌达758个。其中品牌GMV TOP3排名分别阿迪达斯、小米和Whoo后，

Source: Company data, MKTINDEX.com, sina news, sohu news, ebrun, CMBIS estimates

## Operating numbers

Figure 4: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	2Q22E	3Q22E	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-10.0%	15.0%	25.0%
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-25.0%	-10.0%	10.0%
<b>Anta brand's SSSG</b>																
Anta brand's retail sales	+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	+ve Mid-teens	+ve High-teens	-6.0%	20.0%	25.0%
Core brand	+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	+ve MSD	+ve Mid-teens			
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%			
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%			
<b>Non-Anta brands (FILA/   65%-70% 55%-60%)</b>																
FILA brand's retail sales			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-15.0%	15.0%	15.0%
Classic/ Core brand				Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD			
Kids				Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens			
Fusion				Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%			
Online				Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%			
<b>Other brands</b>																
			30%-35%	25%-30%	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%			
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%			
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%			
<b>Li Ning group's SSSG</b>																
Li Ning group's retail sales	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-twenties	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-5.0%	20.0%	25.0%
Direct retail	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%			
Wholesales	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens			
E- Commerce	+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	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%			
Direct retail	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%			
Wholesales	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%			
E- Commerce	+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%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%			
<b>Xtep's SSSG</b>																
Xtep's retail sales	+ve Low-teens	+ve Low-teens	10%	+ve Low-teens												
361 Degree's SSSG	+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%	+ve Low-teens	+ve High-teens	+ve High-teens			
Pou Sheng's SSSG	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%										
Pou Sheng's sales	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-31.0%	-5.0%	5.0%
<b>Topsports' retail sales</b>																
Dong Xiang's SSSG	-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	-ve High-teens	-ve Mid to High-teens				
Dong Xiang's retail sale	+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	-ve Mid to High-teens	-ve Mid-teens				
Direct retail	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, CMBIGM estimates, \*Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Peers Valuation

Figure 5: 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	16.21	13.22	23%	34,773	Dec-21	20.2	16.2	3.4	3.1	12.0	0.8	3.0	
Anta Sports	2020 HK	BUY	110.53	88.55	25%	240,291	Dec-21	24.7	19.2	5.8	4.8	29.2	1.4	1.6	
Li Ning	2331 HK	BUY	75.43	66.60	13%	174,317	Dec-21	31.0	24.7	5.9	5.0	26.9	1.6	1.0	
361 Degrees	1361 HK	NR	N/A	4.12	N/A	8,519	Dec-21	10.6	9.0	0.9	0.8	8.8	1.1	2.3	
Topsports	6110 HK	NR	N/A	6.58	N/A	40,804	Feb-22	12.9	10.9	3.0	2.7	24.1	1.0	5.2	
Pou Sheng	3813 HK	NR	N/A	0.84	N/A	4,474	Dec-21	7.1	4.4	0.4	0.4	4.5	0.2	2.0	
China DX	3818 HK	NR	N/A	0.47	N/A	2,738	Mar-21	13.2	5.0	0.2	0.2	(0.5)	(0.4)	0.0	
								<b>Avg.</b>	<b>17.1</b>	<b>12.8</b>	<b>2.8</b>	<b>2.4</b>	<b>15.0</b>	<b>0.8</b>	<b>2.1</b>
								<b>Med.</b>	<b>13.2</b>	<b>10.9</b>	<b>3.0</b>	<b>2.7</b>	<b>12.0</b>	<b>1.0</b>	<b>2.0</b>
<b>INTERNATIONAL SPORTSWEAR</b>															
Nike Inc	NKE US	NR	N/A	109.34	N/A	1,350,733	May-21	29.6	24.2	11.8	10.3	45.7	2.1	1.1	
Adidas	ADS GY	NR	N/A	166.08	N/A	263,820	Dec-21	18.1	14.9	4.2	3.7	29.4	5.7	2.2	
Puma	PUM GY	NR	N/A	64.90	N/A	80,943	Dec-21	24.4	18.9	4.1	3.6	14.7	1.2	1.3	
Under Armour	UAA US	NR	N/A	8.96	N/A	31,816	Mar-23	13.5	10.5	2.0	1.7	12.7	1.4	0.0	
Lululemon	LULU US	NR	N/A	279.54	N/A	280,098	Jan-22	29.0	25.1	11.4	8.6	38.4	1.4	0.0	
Skechers	SKX US	NR	N/A	36.58	N/A	44,730	Dec-21	12.5	9.9	1.5	1.3	25.7	(8.0)	0.0	
Vf Corp	VFC US	NR	N/A	46.49	N/A	141,774	Mar-22	13.9	12.4	4.8	4.4	42.1	2.7	4.3	
Columbia	COLM US	NR	N/A	72.11	N/A	35,588	Dec-21	12.2	10.9	2.2	1.9	19.8	1.0	1.7	
Wolverine	WWW US	NR	N/A	19.44	N/A	12,321	Jan-22	7.5	6.7	2.3	1.9	6.5	0.1	2.1	
Mizuno Corp	8022 JP	NR	N/A	2220.00	N/A	3,397	Mar-22	9.6	8.4	0.5	0.5	7.2	(2.0)	2.7	
Asics Corp	7936 JP	NR	N/A	2407.00	N/A	26,316	Dec-21	27.2	21.0	2.9	2.6	5.0	0.9	1.3	
								<b>Avg.</b>	<b>18.0</b>	<b>14.8</b>	<b>4.3</b>	<b>3.7</b>	<b>22.5</b>	<b>0.6</b>	<b>1.5</b>
								<b>Med.</b>	<b>13.9</b>	<b>12.4</b>	<b>2.9</b>	<b>2.6</b>	<b>19.8</b>	<b>1.2</b>	<b>1.3</b>

Source: Bloomberg, CMBIGM estimates

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