

# Xtep (1368 HK)

## A beat in 4Q24 with a constructive outlook

Xtep's 4Q24 results were slightly better than expected (retail sales growth was inline but the inventory level was better than expected). And we are delighted to hear that sales trend in Jan 2025 is decent and management outlook for FY25E has turned more positive. However, we will continue to stay prudent at the moment given the macro uncertainty. Maintain BUY but fine-tuned TP to HK\$ 7.55, based on 13x FY25E P/E (unchanged).

■ **For FY25E, we think the trend is constructive but our view remains conservative.** For Xtep brand in FY25E, management has turned more optimistic, due to the recently better-than-expected sales trend and improved market conditions post government stimulus. They had mentioned many growth drivers such as: 1) opening more larger sized stores and closing more smaller sized ones (the average store size in 1H24 was at 160 sq.m) with better locations, 2) ramp-up of more 9th gen stores, 3) launch of a new store format (e.g. for running), 4) launch of more value for money products for the online channel and 5) further improvement in the kid business (by improving customer experience, living streaming capability and launch of more value for money products). Given the extremely healthy inventory level and its first class product innovation and price to quality, we are also positive about Xtep's outlook and will forecast HSD (unchanged) retail sales growth in FY25E. For Saucony brand in FY25E, we do concur with management's optimistic view (even better vs Xtep), thanks to different growth drivers, namely: 1) store expansion (40 new stores in FY25E, including more flagship stores and those in the tier 2 or below cities), 3) opening of more larger sized stores (used to be at 100 sq.m, but the new stores now are at 150 to 200 sq.m), 4) superior product quality (comparable to other overseas brands but the tag price is still at a discount of 30% to 50%), 5) category expansion (rolling out more SKUs, such as products for business use, retro or OG series, various apparel products (account for only 20% of the SKUs at the moment), etc.), 6) decent sales per store growth (sales per store for the new store in Shenzhen had far exceeded RMB 500K per month while average sales per store was just at RMB 300K, and SSSG was as high as 45%+ in FY24), 7) greater wholesale sales (of the China product series and apparel products) to Saucony international, 8) further improvement in customer experience and operation of different running clubs. Noted that there is a major change lately, where the company will focus more on direct retail stores now (instead of franchising). In terms of profitability, we believe the net profit margin will not be realized soon in FY25E due to the need of more investments in marketing and R&D, even though that may ultimately be at 20%+ (likely to come gradually during FY26E-30E, according to management). All in all, we are now forecasting 32% sales growth and a net profit margin of 4% for Saucony in FY25E.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	12,930	14,346	14,823	15,558	16,907
YoY growth (%)	29.1	10.9	3.3	5.0	8.7
Operating profit (RMB mn)	1,464.3	1,579.9	1,864.4	2,055.5	2,363.8
Net profit (RMB mn)	912.3	1,033.0	1,247.1	1,415.1	1,672.0
EPS (Reported) (RMB)	0.36	0.39	0.45	0.51	0.61
YoY growth (%)	0.6	9.4	16.0	13.5	18.2
P/E (x)	14.3	13.1	11.3	10.0	8.4
P/B (x)	1.6	1.5	1.5	1.5	1.3
Yield (%)	3.4	3.8	12.6	5.0	5.9
ROE (%)	11.2	12.0	14.0	15.6	17.2
Net gearing (%)	14.8	7.1	15.8	13.9	14.1

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$7.55
(Previous TP)	HK\$7.50
Up/Downside	38.7%
Current Price	HK\$5.44

### China Consumer Discretionary

#### Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	14,333.5
Avg 3 mths t/o (HK\$ mn)	51.9
52w High/Low (HK\$)	6.98/3.42
Total Issued Shares (mn)	2634.8

Source: FactSet

#### Shareholding Structure

Mr Ding Shui Po & Family	49.2%
JPMorgan Chase & Co	4.6%

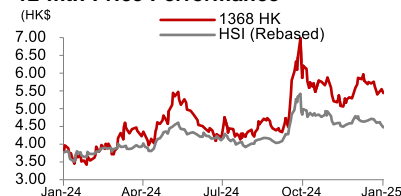
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-3.5%	2.8%
3-mth	-12.4%	-2.3%
6-mth	26.9%	16.3%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Recent Reports:

[Anta Sports \(2020 HK\) - A beat in 4Q24 but a conservative outlook](#)  
(09 Jan 25)

[Topsports \(6110 HK\) - More time is needed despite the attractive yield](#)  
(29 Oct 24)

[Anta Sports \(2020 HK\) - All eyes on 4Q24E for the room of re-rating](#)  
(14 Oct 24)

[Anta Sports \(2020 HK\) - Takeaways from the Anta Superstore visit](#)  
(27 Sep 24)

[Topsports \(6110 HK\) - Grim outlook but dividend is attractive](#)  
(12 Sep 24)

[JNBY Design \(3306 HK\) - Prudent guidance and generous dividends](#)  
(9 Sep 24)

- **4Q24 retail sales growth was roughly inline.** Xtep has reported HSD retail sales growth in 4Q24, improved from the MSD in 3Q24 and very close to our estimates of 10%. Given the challenging industry environment (esp. for the offline channel) and unfavourable weather, we are totally satisfied with such a growth rate. In terms of segment, retail sales growth for offline/ online channels/ Xtep kids was at LSD/ 20%+/ 10%+, which have all improved slightly vs those in 3Q24. We believe the growth drivers continued to be the running products (esp. the star products like 160x, 260x and 360x) and e-commerce (esp. the Douyin channel). Moreover, retail sales growth for Saucony was still very rapid at 50% in 4Q24, very similar to the 50%+ in 3Q24. Retail sales growth for Merrell was also very fast, at 40% in 4Q24. For FY24, Xtep/ Saucony's retail sales growth was at HSD/ about 60%, inline with/ ahead of management guidance of HSD/ 50%, but both were inline with market expectation, in our view. All in all, the management is highly confident on achieving net profit growth of higher than 20% in FY24E.
- **But the retail discounts and inventory were all the bright spots.** Retail discount for Xtep was at 25% to 30% off in 4Q24, widened from the 25% in 3Q24, but did improve YoY from the 30% off in 4Q23. Such a trend had actually outperformed the industry average. Moreover, the inventory to sales ratio was at just 4 months in 4Q24, which did not change QoQ from 3Q24 and this was rather impressive, in our view, because this was supposed to increase YoY due to the early CNY in 2025.
- **A good start so far in 1Q25, but we are prudent.** According to the management, retail sales growth trend for Xtep/ Saucony in Jan 2025 was at 10%+/ very robust. We do appreciate such a growth rate, but we tend to be prudent as it has a low base due to the CNY seasonality in 2025.
- **Maintain BUY and fine-tuned the TP to HK\$ 7.55, based on 13x FY25E P/E (unchanged).** We have raised our FY24E/ 25E/ 26E net profit forecasts by 1%/ 1%/ 2%, to factor in faster-than-expected sales growth and better-than-expected margins for Saucony. The stock is now trading at 10x FY25E P/E, still attractive vs its 8-year average of 15x, plus its 5% FY25E P/E yield.

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,823	15,558	16,907	14,793	15,543	16,917	0.2%	0.1%	-0.1%
Gross profit	6,498	6,801	7,451	6,481	6,787	7,424	0.3%	0.2%	0.4%
EBIT	1,864	2,055	2,364	1,854	2,045	2,334	0.6%	0.5%	1.3%
Net profit att.	1,238	1,405	1,660	1,230	1,396	1,635	0.7%	0.7%	1.5%
Diluted EPS (RMB)	0.453	0.514	0.608	0.450	0.511	0.598	0.7%	0.7%	1.5%
Gross margin	43.8%	43.7%	44.1%	43.8%	43.7%	43.9%	0ppt	0ppt	0.2ppt
EBIT margin	12.6%	13.2%	14.0%	12.5%	13.2%	13.8%	0ppt	0.1ppt	0.2ppt
Net profit att. margin	8.4%	9.0%	9.8%	8.3%	9.0%	9.7%	0ppt	0.1ppt	0.2ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	14,823	15,558	16,907	14,709	15,428	16,833	0.8%	0.8%	0.4%
Gross profit	6,498	6,801	7,451	6,388	6,727	7,377	1.7%	1.1%	1.0%
EBIT	1,864	2,055	2,364	1,787	1,998	2,235	4.3%	2.9%	5.8%
Net profit att.	1,238	1,405	1,660	1,218	1,344	1,492	1.7%	4.5%	11.3%
Diluted EPS (RMB)	0.453	0.514	0.608	0.470	0.529	0.597	-3.6%	-2.8%	1.8%
Gross margin	43.8%	43.7%	44.1%	43.4%	43.6%	43.8%	0.4ppt	0.1ppt	0.2ppt
EBIT margin	12.6%	13.2%	14.0%	12.1%	12.9%	13.3%	0.4ppt	0.3ppt	0.7ppt
Net profit att. margin	8.4%	9.0%	9.8%	8.3%	8.7%	8.9%	0.1ppt	0.3ppt	1ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-3%	-7%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	9%	11%
Anta brand's SSSG																
Anta brand's retail sales	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	+ve MSD	+ve HSD	+ve HSD	+ve High-teens	+ve MSD	+ve HSD	+ve MSD	+ve HSD
Core brand	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens	+ve HSD	+ve HSD	+ve HSD	25%-30%	+ve LSD	+ve LSD	-ve LSD	+ve MSD
Kids	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	30%-35%	Flat	-ve LSD	-ve HSD	+ve HSD
Online	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	+ve MSD	20%-25%	20%-25%	20%-25%	+ve High-teens
FILA brand's retail sales																
Classic/ Core brand	80% Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	40%-45%	+ve MSD	+ve HSD	-ve MSD	+ve LSD	+ve LSD
Kids	100% Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD	+ve HSD	30%-35%	-ve LSD	-ve LSD	-ve Low-teens	Flat	Flat
Fusion	150% Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%	-ve MSD	+ve MSD	-ve HSD	+ve Low-teens	+ve Low-teens
Online	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	+ve Mid-teens	20%	20%	+ve HSD	+ve Mid-teens
Other brands																
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%	20-25%	35%-40%	35%-40%	45%-50%
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%	60%	65%-70%	60%-65%
Li Ning group's SSSG																
Direct retail	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens	-ve HSD	+ve LSD	-ve MSD	+ve Low-teens	-ve MSD	-ve HSD	-ve HSD	-ve HSD
Wholesales	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD	+ve MSD	+ve High 30%	-ve LSD	-ve MSD	-ve MSD	-ve MSD
E- Commerce	n/a	+ve High 70%	+ve Mid 20%	+ve High-teens	+ve High-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD	-ve Low-teens	+ve MSD	-ve Mid-teens	-ve High-teens	-ve HSD	-ve HSD
Li Ning group's retail sa	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	+ve Mid-teens	+ve MSD	+ve Low 20%	+ve LSD	-ve LSD	-ve MSD	6%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 30%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%	+ve MSD	Flat	-ve MSD	-ve MSD
Wholesales	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	-ve Low 20%	+ve MSD	+ve Mid-teens	+ve LSD	+ve High-teens	-ve MSD	-ve HSD	-ve HSD	-ve HSD
E- Commerce	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	+ve MSD	-ve Low-teens	+ve Low-teens	-ve LSD	+ve MSD	+ve Low 20%	+ve HSD	+ve MSD	+ve MSD
Xtep brand's SSSG																
Xtep brand's retail sales	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%-35%	+ve HSD	10%	+ve MSD	+ve HSD
Saucony's retail sales																
361 Degree brand's SSSG																
361 Degree brand's offli	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	Flat	+ve Low-teens	+ve Low-teens	15.0%	20.0%	+ve High-teens	10.0%	10.0%	13%
Kids	20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%	20%-25%	+ve Mid-teens	10%	10%
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%	Over 20%	Over 20%
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%	-16%	-18%	-18%
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-11%	-3%
Topsports' retail sales																
Dong Xiang's SSSG	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens	+ve Low to Mid SD	25% to 30%	-ve HSD	-ve MSD	-ve HSD	-ve HSD
Dong Xiang's retail sale	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens	+ve LSD	-ve Mid to 30%	+ve Low to Mid-teens	+ve Mid-teens	+ve MSD	Mid 40% to 50%	-ve Low 10% to 20%	-ve LSD to MSD	-ve Low 10% to 20%	-ve Low 10% to 20%
Direct retail	70%-75%															
E- Commerce	35%-40%															

Source: Company data, CMBIGM estimates, \*Nike's year end is in May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Assumptions

Figure 4: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment (RMB mn)</b>					
Shoes	7,760	8,172	8,634	9,171	9,830
Apparels	4,897	5,904	5,904	6,081	6,749
Accessories	273	270	286	306	328
Total	12,930	14,346	14,823	15,558	16,907
<b>Sales by segment growth (%)</b>					
Shoes	30.9%	5.3%	5.6%	6.2%	7.2%
Apparels	26.0%	20.6%	0.0%	3.0%	11.0%
Accessories	38.3%	-1.2%	6.0%	7.0%	7.0%
Total	29.1%	10.9%	3.3%	5.0%	8.7%
<b>Sales by segment (RMB mn)</b>					
Mass market	11,128	11,947	12,724	13,868	14,771
Athleisure	1,403	1,603	822	0	0
Professional sports	400	796	1,278	1,690	2,136
Total	12,930	14,346	14,823	15,558	16,907
<b>Sales by segment growth (YoY)</b>					
Mass market	25.9%	7.4%	6.5%	9.0%	6.5%
Athleisure	44.5%	14.3%	-48.7%	-100.0%	#DIV/0!
Professional sports	99.0%	98.9%	60.6%	32.3%	26.4%
Total	29.1%	10.9%	3.3%	5.0%	8.7%
<b>Sales network</b>					
Xtep	4,493	4,568	4,568	4,568	4,568
Xtep kids	1,520	1,703	1,703	1,788	1,878
Oversea stores	300	300	300	300	300
Total	6,313	6,571	6,571	6,656	6,746
GP margin	40.9%	42.2%	43.8%	43.7%	44.1%
<b>Opex breakdown</b>					
A&P / sales	11.9%	13.7%	13.2%	12.8%	12.8%
Staff costs/ sales	11.3%	10.1%	10.1%	9.8%	9.5%
R&D / sales	2.3%	2.8%	2.6%	2.8%	2.8%
D&A / sales	1.9%	2.1%	2.1%	2.0%	2.0%
Provisions (write-backs) / sales	0.4%	0.1%	0.1%	0.1%	0.0%
Rental / sales	0.1%	0.2%	0.2%	0.2%	0.2%
Selling & distribution costs / sales	20.8%	23.5%	23.0%	22.6%	22.3%
Admin expenses / sales	11.2%	10.7%	10.6%	10.3%	10.2%
Total	32.0%	34.2%	33.7%	32.9%	32.5%
<b>OP margin</b>	<b>11.3%</b>	<b>11.0%</b>	<b>12.6%</b>	<b>13.2%</b>	<b>14.0%</b>
Effective tax rate	33.0%	28.7%	30.0%	29.5%	29.0%
<b>Net profit att. margins</b>	<b>7.1%</b>	<b>7.2%</b>	<b>8.4%</b>	<b>9.0%</b>	<b>9.8%</b>
<b>Net profit att. growth (%)</b>	<b>1.5%</b>	<b>11.8%</b>	<b>20.2%</b>	<b>13.5%</b>	<b>18.2%</b>

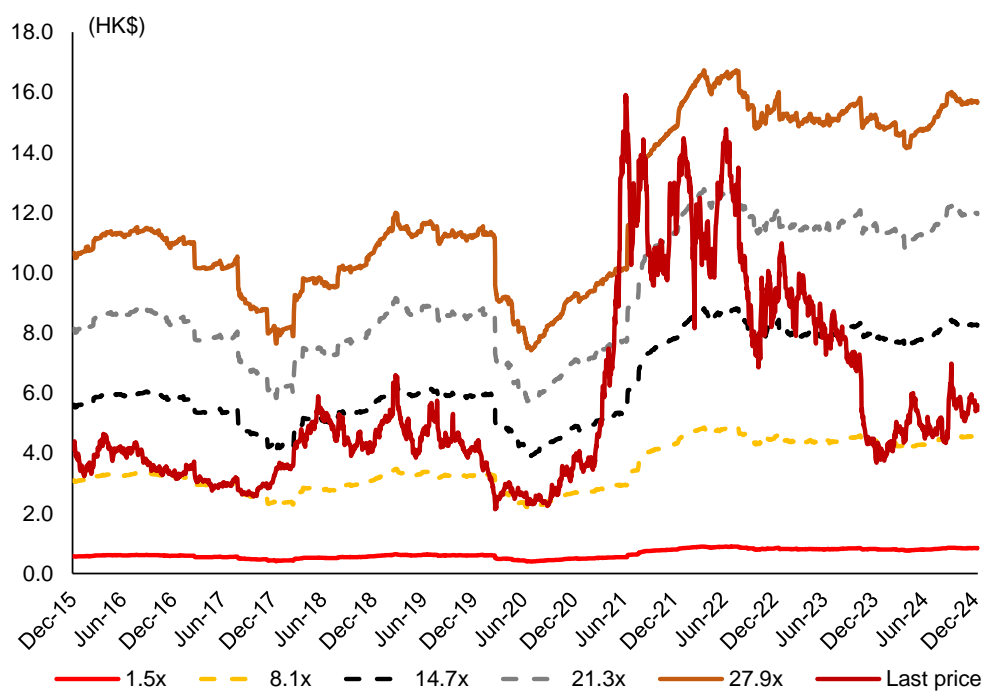
Source: Company data, CMBIGM estimates

## Valuation

Figure 5: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf.
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E
H share Sportswear														
Xtep	1368 HK	BUY	7.55	5.44	39%	14,599	Dec-23	10.6	9.4	1.4	12.3	0.7	13.4	(3.5)
Anta	2020 HK	BUY	126.68	78.10	62%	220,494	Dec-23	16.0	15.1	3.4	24.9	1.3	3.2	0.3
Li Ning	2331 HK	BUY	19.58	14.82	32%	38,307	Dec-23	11.7	10.4	1.4	11.8	2.4	4.0	(10.0)
361 Degrees	1361 HK	BUY	5.15	3.93	31%	8,126	Dec-23	6.8	5.9	0.7	11.5	0.5	5.9	(7.3)
Topsports	6110 HK	HOLD	2.82	2.77	2%	17,177	Feb-24	11.3	9.5	1.6	18.0	(2.3)	8.0	(7.0)
Pou Sheng	3813 HK	NR	n/a	0.49	n/a	2,610	Dec-23	5.3	4.1	0.3	6.0	0.5	7.6	(2.0)
China DX	3818 HK	NR	n/a	0.34	n/a	2,002	Mar-24	n/a	n/a	n/a	(1.0)	0.0	n/a	(2.9)
Avg.								10.3	9.1	1.5	11.9	0.4	7.0	(4.6)
Med.								11.0	9.4	1.4	11.8	0.5	6.8	(3.5)
International Sportswear														
Nike	NKE US	NR	n/a	71.20	n/a	820,026	May-24	31.7	27.4	8.3	34.7	(5.1)	2.1	(5.9)
Adidas	ADS GY	NR	n/a	243.80	n/a	350,074	Dec-23	61.8	32.2	8.4	8.2	(0.2)	0.6	3.0
Puma	PUM GY	NR	n/a	42.71	n/a	51,004	Dec-23	20.3	15.4	2.4	9.6	1.3	1.9	(3.7)
Under Armour	UAA US	NR	n/a	8.21	n/a	26,093	Mar-24	28.1	20.7	1.8	(0.9)	38.7	0.0	(0.8)
Lululemon	LULU US	NR	n/a	395.47	n/a	375,011	Jan-24	27.8	25.7	10.2	46.2	2.5	0.0	3.4
Amer Sports	AS US	NR	n/a	30.89	n/a	131,413	Dec-23	72.5	44.8	3.3	(1.7)	(0.3)	0.0	10.5
Skechers	SKX US	NR	n/a	70.09	n/a	82,799	Dec-23	16.5	14.4	2.2	15.1	1.0	0.0	4.2
On Holding	VFC US	NR	n/a	22.79	n/a	69,086	Mar-24	50.1	24.4	4.6	(36.9)	(0.3)	1.6	6.2
Deckers	DECK US	NR	n/a	207.50	n/a	245,460	Mar-24	37.1	32.3	12.3	43.6	2.6	0.0	2.2
Vf Corp	ONON US	NR	n/a	56.63	n/a	142,560	Dec-23	69.2	54.4	11.8	10.7	1.1	0.0	3.4
Columbia	COLM US	NR	n/a	82.57	n/a	36,772	Dec-23	21.2	19.3	2.5	11.6	4.1	1.5	(1.6)
Wolverine	WWW US	NR	n/a	22.95	n/a	14,308	Dec-23	25.7	16.8	5.1	(21.5)	(0.1)	1.8	3.4
Mizuno Corp	8022 JP	NR	n/a	8830.00	n/a	11,590	Mar-24	15.0	13.9	1.5	10.2	2.8	1.4	(1.5)
Asics Corp	7936 JP	NR	n/a	3251.00	n/a	121,935	Dec-23	36.9	30.5	11.3	27.2	1.2	0.8	4.5
Avg.								36.7	26.6	6.1	11.1	3.5	0.8	1.9
Med.								29.9	25.0	4.8	10.4	1.1	0.7	3.2

Source: Bloomberg, CMBIGM estimates

**Figure 6: Forward 12M P/E valuation band**

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>10,013</b>	<b>12,930</b>	<b>14,346</b>	<b>14,823</b>	<b>15,558</b>	<b>16,907</b>
Cost of goods sold	(5,835)	(7,639)	(8,296)	(8,325)	(8,757)	(9,456)
<b>Gross profit</b>	<b>4,178</b>	<b>5,292</b>	<b>6,050</b>	<b>6,498</b>	<b>6,801</b>	<b>7,451</b>
<b>Operating expenses</b>	<b>(3,081)</b>	<b>(4,144)</b>	<b>(4,909)</b>	<b>(4,990)</b>	<b>(5,119)</b>	<b>(5,493)</b>
Selling expense	(1,891)	(2,690)	(3,369)	(3,413)	(3,517)	(3,774)
Admin expense	(937)	(1,155)	(1,142)	(1,191)	(1,167)	(1,246)
R&D expense	(252)	(299)	(398)	(385)	(436)	(473)
Others	0	0	0	0	0	0
<b>Operating profit</b>	<b>1,396</b>	<b>1,464</b>	<b>1,580</b>	<b>1,864</b>	<b>2,055</b>	<b>2,364</b>
Other income	299	317	439	356	373	406
Share of (losses)/profits of associates/JV	(46)	(12)	15	38	68	107
<b>EBITDA</b>	<b>1,480</b>	<b>1,595</b>	<b>1,740</b>	<b>2,050</b>	<b>2,253</b>	<b>2,508</b>
Depreciation	(71)	(117)	(145)	(124)	(127)	(123)
Other amortisation	(13)	(14)	(16)	(61)	(71)	(21)
Interest income	21	25	41	73	78	78
Interest expense	(85)	(117)	(187)	(194)	(194)	(194)
Other income/expense	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>1,287</b>	<b>1,361</b>	<b>1,449</b>	<b>1,782</b>	<b>2,007</b>	<b>2,355</b>
Income tax	(397)	(449)	(416)	(534)	(592)	(683)
Minority interest	19	9	(3)	(9)	(10)	(12)
<b>Net profit</b>	<b>889</b>	<b>912</b>	<b>1,033</b>	<b>1,247</b>	<b>1,415</b>	<b>1,672</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>10,432</b>	<b>12,338</b>	<b>12,044</b>	<b>13,031</b>	<b>13,312</b>	<b>14,185</b>
Cash & equivalents	3,930	3,414	3,295	4,072	3,948	4,097
Account receivables	3,528	4,213	4,975	5,141	5,396	5,864
Inventories	1,497	2,287	1,794	1,800	1,893	2,045
Prepayment	1,443	1,371	1,112	1,149	1,206	1,310
ST bank deposits	33	1,047	862	862	862	862
Other current assets	1	6	7	7	7	7
<b>Non-current assets</b>	<b>4,183</b>	<b>4,155</b>	<b>5,281</b>	<b>4,355</b>	<b>4,646</b>	<b>5,067</b>
PP&E	1,119	1,368	1,592	1,869	2,163	2,498
Investment in JVs & assos	365	439	751	790	857	964
Intangibles	671	723	723	(520)	(593)	(614)
Other non-current assets	2,028	1,626	2,214	2,216	2,218	2,219
<b>Total assets</b>	<b>14,615</b>	<b>16,494</b>	<b>17,325</b>	<b>17,386</b>	<b>17,958</b>	<b>19,252</b>
<b>Current liabilities</b>	<b>4,053</b>	<b>6,645</b>	<b>5,851</b>	<b>5,915</b>	<b>6,132</b>	<b>6,502</b>
Short-term borrowings	405	2,231	954	954	954	954
Account payables	2,352	2,772	2,531	2,539	2,671	2,884
Tax payable	123	108	144	144	144	144
Other current liabilities	1,173	1,534	2,222	2,278	2,363	2,520
<b>Non-current liabilities</b>	<b>2,580</b>	<b>1,542</b>	<b>2,552</b>	<b>2,552</b>	<b>2,552</b>	<b>2,552</b>
Long-term borrowings	1,375	193	1,691	1,691	1,691	1,691
Other non-current liabilities	1,205	1,349	860	860	860	860
<b>Total liabilities</b>	<b>6,633</b>	<b>8,187</b>	<b>8,402</b>	<b>8,467</b>	<b>8,683</b>	<b>9,053</b>
Share capital	23	23	23	23	23	23
Retained earnings	5,020	5,126	5,281	4,627	5,360	6,225
Other reserves	2,940	3,157	3,620	4,260	3,873	3,919
<b>Total shareholders equity</b>	<b>7,982</b>	<b>8,307</b>	<b>8,923</b>	<b>8,910</b>	<b>9,256</b>	<b>10,167</b>
Minority interest	0	0	0	9	19	31
<b>Total equity and liabilities</b>	<b>14,615</b>	<b>16,494</b>	<b>17,325</b>	<b>17,386</b>	<b>17,958</b>	<b>19,252</b>



<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,287	1,361	1,449	1,782	2,007	2,355
Depreciation & amortization	84	131	161	186	198	144
Tax paid	(329)	(431)	(531)	(534)	(592)	(683)
Change in working capital	(447)	(688)	(21)	(145)	(188)	(354)
Others	107	199	197	(38)	(68)	(107)
<b>Net cash from operations</b>	<b>701</b>	<b>572</b>	<b>1,255</b>	<b>1,250</b>	<b>1,357</b>	<b>1,355</b>
<b>Investing</b>						
Capital expenditure	(414)	(365)	(389)	(401)	(421)	(458)
Acquisition of subsidiaries/ investments	(3)	(5)	(6)	1,180	0	0
Others	89	(503)	(520)	0	0	0
<b>Net cash from investing</b>	<b>(329)</b>	<b>(873)</b>	<b>(915)</b>	<b>779</b>	<b>(421)</b>	<b>(458)</b>
<b>Financing</b>						
Dividend paid	(356)	(550)	(469)	(1,251)	(1,059)	(748)
Net borrowings	(312)	466	189	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	764	(152)	(182)	0	0	0
<b>Net cash from financing</b>	<b>96</b>	<b>(236)</b>	<b>(461)</b>	<b>(1,251)</b>	<b>(1,059)</b>	<b>(748)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,472	3,930	3,414	3,295	4,072	3,948
Exchange difference	(11)	21	2	0	0	0
Others	469	(537)	(122)	777	(123)	149
<b>Cash at the end of the year</b>	<b>3,930</b>	<b>3,414</b>	<b>3,295</b>	<b>4,072</b>	<b>3,948</b>	<b>4,097</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	22.5%	29.1%	10.9%	3.3%	5.0%	8.7%
Gross profit	30.6%	26.7%	14.3%	7.4%	4.7%	9.6%
Operating profit	52.1%	4.9%	7.9%	18.0%	10.3%	15.0%
EBITDA	48.6%	7.8%	9.1%	17.8%	9.9%	11.3%
Net profit	76.1%	2.6%	13.2%	20.7%	13.5%	18.2%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	41.7%	40.9%	42.2%	43.8%	43.7%	44.1%
Operating margin	13.9%	11.3%	11.0%	12.6%	13.2%	14.0%
EBITDA margin	14.8%	12.3%	12.1%	13.8%	14.5%	14.8%
Return on equity (ROE)	11.6%	11.2%	12.0%	14.0%	15.6%	17.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.2	0.1	0.1	0.2	0.1	0.1
Current ratio (x)	2.6	1.9	2.1	2.2	2.2	2.2
Receivable turnover days	128.6	118.9	126.6	126.6	126.6	126.6
Inventory turnover days	93.7	109.3	78.9	78.9	78.9	78.9
Payable turnover days	147.1	132.4	111.3	111.3	111.3	111.3
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	14.4	14.3	13.1	11.3	10.0	8.4
P/E (diluted)	14.4	14.3	13.1	11.3	10.0	8.4
P/B	1.6	1.6	1.5	1.5	1.5	1.3
P/CFPS	18.7	23.1	10.8	11.2	10.3	10.3
Div yield (%)	4.2	3.4	3.8	12.6	5.0	5.9
EV	12,430.1	13,107.9	13,737.3	12,960.2	13,083.6	12,934.7
EV/Sales	1.2	1.0	1.0	0.9	0.8	0.8
EV/EBITDA	8.4	8.2	7.9	6.3	5.8	5.2

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

### For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.