

361 Degrees (1361 HK)

The cautious outlook is likely priced in

We are certainly cautious about the sportswear sector. However, brands like Anta, Xtep and 361 Degrees have outperformed in 1H24 and we think this should sustain into 2H24E. For 361, supported by stepped-up efforts in 2H24E and its fairly undemanding valuation at 6x FY24E P/E and 7% FY24E yield, we maintain BUY.

- FY24E guidance maintained but we are more cautious on margins.** Management has reiterated its targets of 15%-20% sales growth and 10% to 12% NP margin for FY24E and still thinks double-digit offline sales growth for both adults and kids is possible, driven by: 1) improved performance in Aug 2024 (growth was under pressure in Jun-Jul 2024 because of bad weather and the exam season), 2) positive momentum built by the Spencer Dinwiddie's China tour in late Jul 2024, as well as many self-owned sports events like the 3#track and Light Up, 3) increased use of social media like XHS and Douyin by store-level staff, 4) greater focus on member engagement, and 5) launches of Nikola Jokic's product series in 4Q24E. Moreover, we believe e-commerce sales growth and kids wear sales growth should still be more resilient than the adults wear sales growth. However, in terms of margin and expenses, we become slightly more conservative. The company is likely to turn even more cost-conscious, but we still expect certain pressure, esp. on GP margin (cut to 41.1%) and A&P expenses (increase to 13.1% of sales), while R&D expenses could be stable (at around 3.5% of sales) in FY24E.
- The initial look of FY25E is still fine.** According to management, their initial look about FY25E is still healthy, thanks to the decent trade fair orders in 1Q25E. Even though competition has intensified, ASP may still increase (tag price may stay but items per ticket can rise).
- Maintain BUY but trim TP to HK\$ 5.15.** We cut our FY24E/ 25E/ 26E net profit by 8%/ 9%/ 9% to factor in more conservative margins and less operating leverage. Our TP is based on 9x FY24E P/E (cut from 10x, to price in the industry de-rating). But since the stock is trading only at 6x FY4E P/E, we find it rather attractive.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,961	8,423	9,908	11,391	12,833
YoY growth (%)	17.3	21.0	17.6	15.0	12.7
Operating profit (RMB mn)	991.2	1,300.0	1,469.4	1,730.2	2,008.3
Net profit (RMB mn)	747.1	961.4	1,076.3	1,253.9	1,449.9
EPS (Reported) (RMB)	0.36	0.46	0.52	0.61	0.70
YoY growth (%)	24.2	28.7	11.9	16.5	15.6
P/E (x)	8.8	6.9	6.1	5.3	4.6
P/B (x)	0.7	0.7	0.6	0.6	0.6
Yield (%)	0.0	5.8	6.5	9.5	11.0
ROE (%)	8.3	10.0	10.7	11.6	12.5
Net gearing (%)	3.1	3.0	2.8	2.6	2.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.15
(Previous TP)	HK\$6.25)
Up/Downside	48.5%
Current Price	HK\$3.47

China Consumer Discretionary

Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	7,174.8
Avg 3 mths t/o (HK\$ mn)	9.8
52w High/Low (HK\$)	4.95/3.22
Total Issued Shares (mn)	2067.7

Source: FactSet

Shareholding Structure

Mr. Ding Wuhao	17.0%
Mr. Ding Huihuang	16.3%

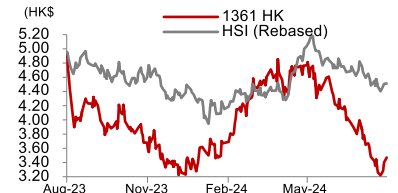
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.0%	-7.0%
3-mth	-27.1%	-19.2%
6-mth	-5.7%	-13.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

[Xtep \(1368 HK\) - Cautiously optimistic after a resilient 2Q24](#)
(12 Jul 24)

[Anta Sports \(2020 HK\) - Stay cautious about FY24E after an inline 2Q24](#)
(9 Jul 24)

[Bosideng \(3998 HK\) - Beautifully executed the solid strategies](#)
(28 Jun 24)

[Topsports \(6110 HK\) - This is likely a rocky-road turnaround](#)
(24 May 24)

[Xtep \(1368 HK\) - Huge boost in short-run growth with high yield](#)
(13 May 24)

[Li Ning \(2331 HK\) - Healthy outlook after a beat in retail discounts](#)
(24 Apr 24)

- **1H24 results roughly inline, given the recent industry weakness.** 361 Degrees sales increased by 19% YoY to RMB 5.1bn in 1H24, 2%/ 1% above CMBI/ BBG est., while net profit also rose by 12% YoY to RMB 790mn, 3%/ 5% below CMBI/ BBG est.. The sight miss was due to: 1) slightly lower GP margin (due to sales of more value-for-money products), and slightly less other income, 2) higher-than-expected A&P expenses, and 3) provisions for trade receivables. If we adjust for the provision and write-backs last year, the adj. operating income would have gone up by 13%. Dividend per share surged by 154% YoY in 1H24, but the payout ratio was at 40%, similar to the level in FY23. Inventory days were stable at 85 days in 1H24, similar to 86 days last year.
- **Running, basketball and female fitness continued to outperform.** E-commerce growth was still intact. In terms of product, sales growth for footwear/ apparel/ kids was at 20%/ 16%/ 24% YoY in 1H24. By channel, e-commerce sales growth was slightly slow at 16%, compared to group's 19% sales growth and the 20%+/ 30%+ online retail sales growth in 1Q/ 2Q24, and such differences were partly due to the O2O sales for the distributors and the delay in recognition of the sales generated during the 618 Festival. By category, running is still the largest, contributing around 52% of sales and enjoyed 40% growth, while basketball made up about 8% of sales and had 20% growth. Others like female fitness already generated 6% of sales with decent growth, while the causal segment was relatively subdued.

Earnings Forecast

Figure 1: Earnings forecast

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	9,908	11,391	12,833	9,938	11,453	12,920	-0.3%	-0.5%	-0.7%
Gross profit	4,070	4,698	5,315	4,095	4,738	5,367	-0.6%	-0.8%	-1.0%
EBIT	1,469	1,730	2,008	1,597	1,881	2,182	-8.0%	-8.0%	-8.0%
Net profit att.	1,076	1,254	1,450	1,176	1,376	1,587	-8.4%	-8.9%	-8.6%
Diluted EPS (RMB)	0.521	0.606	0.701	0.569	0.666	0.767	-8.4%	-8.9%	-8.6%
Gross margin	41.1%	41.2%	41.4%	41.2%	41.4%	41.5%	-0.1ppt	-0.1ppt	-0.1ppt
EBIT margin	14.8%	15.2%	15.6%	16.1%	16.4%	16.9%	-1.2ppt	-1.2ppt	-1.2ppt
Net profit att. margin	10.9%	11.0%	11.3%	11.8%	12.0%	12.3%	-1ppt	-1ppt	-1ppt

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	9,908	11,391	12,833	9,953	11,444	13,065	-0.5%	-0.5%	-1.8%
Gross profit	4,070	4,698	5,315	4,118	4,751	5,461	-1.2%	-1.1%	-2.7%
EBIT	1,469	1,730	2,008	1,604	1,748	1,974	-8.4%	-1.0%	1.7%
Net profit att.	1,076	1,254	1,450	1,128	1,313	1,528	-4.6%	-4.5%	-5.1%
Diluted EPS (RMB)	0.521	0.606	0.701	0.546	0.649	0.751	-4.7%	-6.6%	-6.6%
Gross margin	41.1%	41.2%	41.4%	41.4%	41.5%	41.8%	-0.3ppt	-0.3ppt	-0.4ppt
EBIT margin	14.8%	15.2%	15.6%	16.1%	15.3%	15.1%	-1.3ppt	-0.1ppt	0.5ppt
Net profit att. margin	10.9%	11.0%	11.3%	11.3%	11.5%	11.7%	-0.5ppt	-0.5ppt	-0.4ppt

Source: Bloomberg, CMBIGM estimates

Results summary

Figure 3: Results review – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24E	1H23 YoY	2H23 YoY	1H24 YoY	2H24E YoY	1H24E CMBIGM M	Actual vs CMBIGM
Revenue	4,312	4,112	5,141	4,766	18%	24%	19%	16%	5,018	2%
COGS	-2,515	-2,446	-3,016	-2,821					-2,920	
Gross profit	1,796	1,666	2,125	1,945	19%	28%	18%	17%	2,097	1%
GP margins	41.7%	40.5%	41.3%	40.8%					41.8%	
Other income & gains	200	170	181	172					201	-10%
S & D expenses	-758	-1,105	-916	-1,233	26%	33%	21%	12%	-828	11%
S & D exp / sales	-17.6%	-26.9%	-17.8%	-25.9%					-16.5%	
Admin expenses	-286	-344	-311	-406	17%	16%	9%	18%	-331	-6%
Admin exp / sales	-6.6%	-8.4%	-6.1%	-8.5%					-6.6%	
Other opex	40	5	-18	8					25	
Operating profit (EBIT)	993	391	1,060	486	29%	29%	7%	24%	1,164	-9%
OP margins	23.0%	9.5%	20.6%	10.2%					23.2%	
Other items	0	0	0	0					0	
Net finance income	-9	-11	-8	-12					-5	63%
Net finance income / sales	-0.2%	-0.3%	-0.2%	-0.3%					-0.1%	
Profit after financing costs	984	380	1,052	474					1,159	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	984	380	1,052	474	28%	28%	7%	25%	1,159	-9%
Tax	-217	-106	-231	-143					-278	
Tax / sales	-5.0%	-2.6%	-4.5%	-3.0%					-5.5%	
Effective tax rate	-22.1%	-27.9%	-21.9%	-30.2%					-24.0%	
Minority interests	63	16	32	44					64	
Net profit att.	704	258	790	287	28%	31%	12%	11%	817	-3%
NP margins	16.3%	6.3%	15.4%	6.0%					16.3%	

Source: Company data, CMBIGM estimates

Figure 4: Results review - Full Year

Full yearly (RMB mn)	FY23	FY24E	FY25E	FY26E	FY24E YoY	FY25E YoY	FY26E YoY
Revenue	8,423	9,908	11,391	12,833	18%	15%	13%
COGS	-4,961	-5,838	-6,693	-7,518			
Gross profit	3,462	4,070	4,698	5,315	18%	15%	13%
GP margins	41.1%	41.1%	41.2%	41.4%			
Other income & gains	369	353	387	428			
S & D expenses	-1,863	-2,149	-2,445	-2,726	15%	14%	11%
S & D exp / sales	-22.1%	-21.7%	-21.5%	-21.2%			
Admin expenses	-630	-717	-817	-913	14%	14%	12%
Admin exp / sales	-7.5%	-7.2%	-7.2%	-7.1%			
Other opex	45	-10	-11	-13			
Operating profit (EBIT)	1,384	1,547	1,812	2,091	12%	17%	15%
OP margins	16.4%	15.6%	15.9%	16.3%			
Other items	0	0	0	0			
Net finance income	-20	-20	-20	-20			
Net finance income / sales	-0.2%	-0.2%	-0.2%	-0.2%			
Profit after financing costs	1,363	1,527	1,791	2,071			
Associated coms	0	0	0	0			
Jointly controlled coms	0	0	0	0			
Pre-tax profit	1,363	1,527	1,791	2,071	12%	17%	16%
Tax	-323	-374	-448	-518			
Tax / sales	-3.8%	-3.8%	-3.9%	-4.0%			
Effective tax rate	-23.7%	-24.5%	-25.0%	-25.0%			
Minority interests	79	76	90	104			
Net profit att.	961	1,076	1,254	1,450	12%	17%	16%
NP margins	11.4%	10.9%	11.0%	11.3%			

Source: Company data, CMBIGM estimates

Assumptions

Figure 5: CMBIGM's assumptions

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by product type (RMB mn)						
Footwear	2,948	3,509	4,445	5,248	6,057	6,849
Apparel	2,820	3,211	3,676	4,304	4,926	5,523
Accessories	87	119	171	168	194	218
Others	79	122	132	187	215	242
Total	5,933	6,961	8,423	9,908	11,391	12,833
Sales growth by product type (YoY)						
Footwear	21.7%	19.0%	26.7%	18.1%	15.4%	13.1%
Apparel	9.4%	13.9%	14.5%	17.1%	14.4%	12.1%
Accessories	27.1%	37.2%	43.4%	-1.4%	15.0%	12.7%
Others	34.0%	54.8%	8.0%	42.3%	15.0%	12.7%
Total	15.7%	17.3%	21.0%	17.6%	15.0%	12.7%
Number of stores						
Adult (incl. kids' store in store)	5,270	5,480	5,734	5,834	6,054	6,274
Kids	1,896	2,288	2,545	2,945	3,185	3,425
Total	7,166	7,768	8,279	8,779	9,239	9,699
Growth (%)	4.3%	8.4%	6.6%	6.0%	5.2%	5.0%
Average size for adult store (sq.m)						
Average size for adult store (sq.m)	120	129	138	145	151	156
Growth (%)	5.3%	7.5%	7.0%	5.1%	4.1%	3.3%
Offline sales per store (RMB mn)						
Offline sales per store (RMB mn)	1.7	1.8	1.9	2.2	2.3	2.5
Growth (%)	3.7%	2.7%	8.6%	11.4%	7.3%	6.3%
E-commerce sales (RMB mn)						
E-commerce sales (RMB mn)	1,227.4	1,685.4	2,325.5	2,714.3	3,257.2	3,745.8
Growth (%)	55.1%	37.3%	38.0%	16.7%	20.0%	15.0%
GP margin						
GP margin	41.7%	40.5%	41.1%	41.1%	41.2%	41.4%
Opex breakdown						
A&P / sales	10.2%	11.4%	12.7%	13.1%	13.1%	13.1%
Staff costs/ sales	2.1%	1.5%	1.6%	1.5%	1.4%	1.3%
E-C expenses/ sales	3.9%	4.3%	4.7%	4.7%	4.7%	4.7%
R&D / sales	4.2%	3.8%	3.7%	3.6%	3.7%	3.8%
D&A / sales	1.2%	0.9%	0.8%	0.8%	0.8%	0.8%
Selling & distribution costs / sales						
Selling & distribution costs / sales	19.2%	20.6%	22.1%	21.7%	21.5%	21.2%
Admin expenses / sales						
Admin expenses / sales	9.4%	7.8%	7.5%	7.2%	7.2%	7.1%
Total	28.6%	28.4%	29.6%	28.9%	28.6%	28.4%
OP margin						
OP margin	16.9%	14.2%	15.4%	14.8%	15.2%	15.6%
Effective tax rate						
Effective tax rate	29.0%	23.3%	23.7%	24.5%	25.0%	25.0%
Net profit att. margin						
Net profit att. margin	10.1%	10.7%	11.4%	10.9%	11.0%	11.3%
Net profit att. growth (%)						
Net profit att. growth (%)	45.0%	24.2%	28.7%	11.9%	16.5%	15.6%

Source: Company data, CMBIGM estimates

Operating numbers

Figure 6: Sportswear brands sales growth trend

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-5%	-3%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	11%	13%
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	12%	15%
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		
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		
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%		
FILA brand's retail sales																
FILA brand's retail sales	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	+ve Low-teens	25%-30%	+ve HSD	+ve MSD	10%	15%
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		
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		
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		
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%		
Other brands																
Other brands	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%	55%-60%	25%-30%	40%-45%		
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%		
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%		
Li Ning group's SSSG																
Li Ning group's SSSG	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			
Direct retail	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			
Wholesales	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD	-ve Low-teens	+ve MSD	-ve Mid-teens			
E- Commerce	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD	-ve LSD	+ve MSD	+ve Low 20%			
Li Ning group's retail sales																
Li Ning group's retail sales	+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	3%	3%	13%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+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			
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			
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%			
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%	10%	16%
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%	13%	12%
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		
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%		
Pou Sheng's SSSG																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%			
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-6%	4%
Topsports' retail sales																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low 20%	+ve Low 20%	-ve LSD	+ve Low-teens	+ve LSD	-ve MSD	-3%	0%
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 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			
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 20% 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		
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)

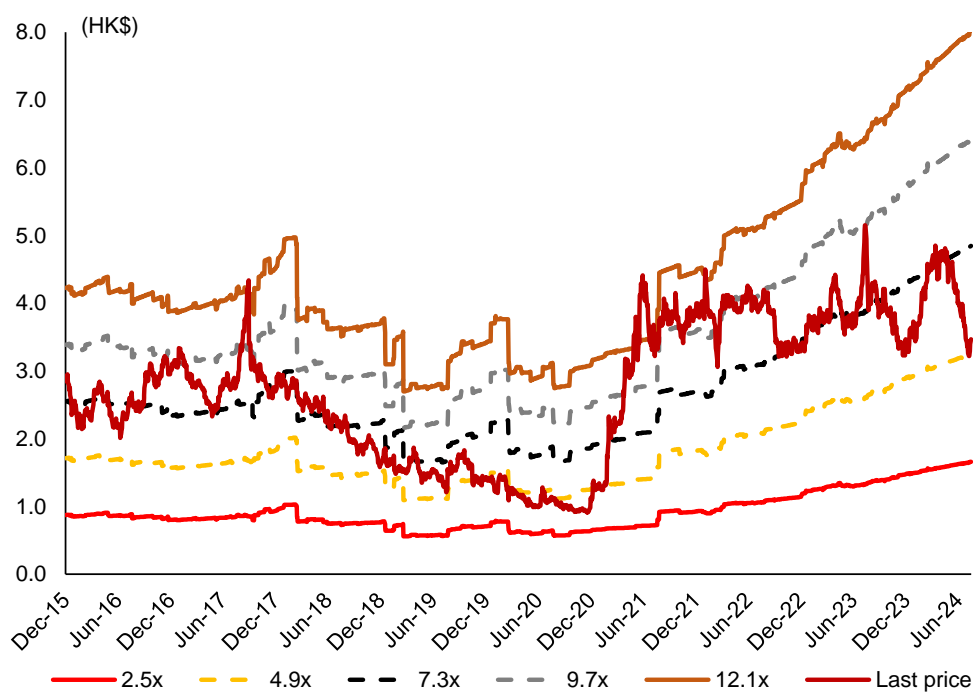
Valuation

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 (%)	YTD per.(%)	
								FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E	
H-share Sportswear															
361 Degrees	1361 HK	BUY	5.15	3.47	49%	7,175	Dec-23	6.1	5.2	0.6	11.3	0.4	6.6	0.0	
Anta	2020 HK	BUY	101.38	68.30	48%	193,468	Dec-23	13.9	12.7	2.9	23.8	0.9	3.7	(9.8)	
Li Ning	2331 HK	BUY	22.17	14.06	58%	36,338	Dec-23	9.8	8.6	1.3	13.1	0.9	4.4	(32.0)	
Xtep	1368 HK	BUY	7.32	4.83	52%	12,773	Dec-23	9.7	8.5	1.2	12.0	0.7	5.1	9.5	
Topsports	6110 HK	BUY	6.78	3.20	112%	19,844	Feb-24	7.7	7.0	1.8	22.5	0.9	11.6	(45.0)	
Pou Sheng	3813 HK	NR	n/a	0.60	n/a	3,196	Dec-23	4.8	3.9	n/a	5.9	0.2	5.4	(11.8)	
Dongxiang	3818 HK	NR	n/a	0.29	n/a	1,707	Mar-24	n/a	16.7	0.2	(6.8)	0.0	7.5	1.8	
								Avg.	8.7	8.9	1.3	11.7	0.6	6.3	(12.5)
								Med.	8.7	8.5	1.2	12.0	0.7	5.4	(9.8)
International sportswear															
Nike	NKE US	NR	n/a	74.60	n/a	871,463	May-24	23.9	20.8	7.8	40.1	10.3	2.0	(31.3)	
Adidas	ADS GY	NR	n/a	213.50	n/a	327,052	Dec-23	60.5	29.0	6.2	4.9	(0.2)	0.6	15.9	
Puma	PUM GY	NR	n/a	35.46	n/a	45,515	Dec-23	16.1	12.5	1.8	10.2	0.9	2.3	(29.8)	
Under Armour	UAA US	NR	n/a	8.07	n/a	26,890	Mar-24	35.5	22.4	1.7	(4.4)	(11.3)	0.0	(8.2)	
Lululemon	LULU US	NR	n/a	237.14	n/a	230,955	Jan-24	16.8	15.3	4.4	41.9	1.5	0.0	(53.6)	
Skechers	SKX US	NR	n/a	61.83	n/a	73,543	Dec-23	14.8	12.5	1.7	14.4	0.8	0.0	(0.8)	
Vf Corp	VFC US	NR	n/a	17.42	n/a	52,821	Mar-24	29.6	16.4	3.0	(57.0)	(0.2)	2.0	(7.3)	
Deckers	DECK US	NR	n/a	893.64	n/a	176,922	Mar-24	28.1	24.6	7.7	41.9	2.4	0.0	33.7	
On	ONON US	NR	n/a	40.26	n/a	99,986	Dec-23	44.8	38.7	6.2	11.5	0.7	n/a	49.3	
Columbia	COLM US	NR	n/a	80.33	n/a	36,646	Dec-23	20.8	18.4	2.2	12.3	3.6	1.5	1.0	
WWW	WWW US	NR	n/a	12.48	n/a	7,777	Dec-23	14.7	9.6	2.6	(27.2)	(0.1)	3.5	40.3	
Mizuno	8022 JP	NR	n/a	7110.00	n/a	9,964	Mar-24	12.1	11.4	1.2	10.7	2.0	1.8	80.9	
Asics	7936 JP	NR	n/a	2203.50	n/a	88,237	Dec-23	29.0	24.9	6.3	22.5	1.1	1.1	99.5	
								Avg.	26.7	19.7	4.1	9.4	0.9	1.2	14.6
								Med.	23.9	18.4	3.0	11.5	0.9	1.3	1.0

Source: Bloomberg, company data, CMBIGM estimates

Figure 8: 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)						
Revenue	5,933	6,961	8,423	9,908	11,391	12,833
Cost of goods sold	(3,461)	(4,140)	(4,961)	(5,838)	(6,693)	(7,518)
Gross profit	2,472	2,821	3,462	4,070	4,698	5,315
Operating expenses	(1,741)	(2,141)	(2,448)	(2,876)	(3,274)	(3,651)
Selling expense	(1,140)	(1,433)	(1,863)	(2,149)	(2,445)	(2,726)
Admin expense	(558)	(541)	(630)	(717)	(817)	(913)
R&D expense	0	0	0	0	0	0
Others	(42)	(166)	45	(10)	(11)	(13)
Operating profit	1,002	991	1,300	1,469	1,730	2,008
Other income	270	312	286	276	306	345
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	1,071	1,057	1,369	1,536	1,793	2,068
Depreciation	(69)	(65)	(69)	(67)	(63)	(59)
Other amortisation	(1)	0	0	(0)	(0)	(0)
Interest income	81	83	84	77	81	83
Interest expense	(37)	(9)	(20)	(20)	(20)	(20)
Net Interest income/(expense)	45	74	63	57	61	63
Other income/expense	(1)	0	0	0	0	0
Pre-tax profit	1,045	1,065	1,363	1,527	1,791	2,071
Income tax	(303)	(248)	(323)	(374)	(448)	(518)
After tax profit	742	817	1,040	1,153	1,344	1,553
Minority interest	(141)	(70)	(79)	(76)	(90)	(104)
Net profit	602	747	961	1,076	1,254	1,450

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,083	11,284	11,617	12,753	13,672	15,218
Cash & equivalents	3,339	3,860	3,596	4,981	4,030	5,178
Account receivables	2,600	3,024	3,831	3,226	4,264	4,174
Inventories	891	1,182	1,350	1,209	1,542	1,548
Prepayment	3,201	3,193	2,827	3,325	3,823	4,306
Other current assets	52	24	12	12	12	12
Non-current assets	1,155	1,152	1,448	1,456	1,480	1,518
PP&E	823	773	765	774	798	836
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Other non-current assets	332	380	683	683	683	683
Total assets	11,238	12,436	13,065	14,209	15,152	16,736
Current liabilities	2,668	2,906	3,088	3,478	3,570	4,259
Short-term borrowings	208	192	48	48	48	48
Account payables	1,240	1,503	1,499	1,699	1,601	2,106
Tax payable	368	386	461	461	461	461
Other current liabilities	852	824	1,079	1,269	1,459	1,644
Non-current liabilities	14	113	254	330	420	524
Long-term borrowings	0	100	245	245	245	245
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	14	13	10	86	175	279
Total liabilities	2,682	3,018	3,342	3,808	3,990	4,783
Share capital	182	182	182	182	182	182
Retained earnings	0	0	0	384	1,011	1,736
Other reserves	6,934	7,761	8,900	9,194	9,328	9,395
Total shareholders equity	8,556	9,418	9,723	10,401	11,162	11,954
Minority interest	1,439	1,474	641	641	641	641
Total equity and liabilities	11,238	12,436	13,065	14,209	15,152	16,736

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,045	1,065	1,363	1,527	1,791	2,071
Depreciation & amortization	69	65	69	67	63	60
Tax paid	(299)	(285)	(263)	(374)	(448)	(518)
Change in working capital	(471)	(620)	(679)	639	(1,778)	290
Others	27	156	(83)	0	0	0
Net cash from operations	372	380	408	1,858	(371)	1,903
Investing						
Capital expenditure	(9)	(31)	(64)	(75)	(87)	(97)
Acquisition of subsidiaries/ investments	(1)	0	0	0	0	0
Others	1,079	116	481	0	0	0
Net cash from investing	1,069	85	417	(75)	(87)	(97)
Financing						
Dividend paid	0	(34)	(179)	(399)	(493)	(658)
Net borrowings	(2)	84	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(1,550)	10	(901)	0	0	0
Net cash from financing	(1,552)	59	(1,079)	(399)	(493)	(658)
Net change in cash						
Cash at the beginning of the year	3,451	3,339	3,860	3,596	4,981	4,030
Exchange difference	(1)	(3)	(9)	0	0	0
Cash at the end of the year	3,339	3,860	3,596	4,981	4,030	5,178
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	15.7%	17.3%	21.0%	17.6%	15.0%	12.7%
Gross profit	27.3%	14.1%	22.7%	17.6%	15.4%	13.1%
Operating profit	39.8%	(1.1%)	31.1%	13.0%	17.7%	16.1%
EBITDA	34.6%	(1.3%)	29.6%	12.2%	16.7%	15.3%
Net profit	45.0%	24.2%	28.7%	11.9%	16.5%	15.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	41.7%	40.5%	41.1%	41.1%	41.2%	41.4%
Operating margin	16.9%	14.2%	15.4%	14.8%	15.2%	15.6%
EBITDA margin	18.0%	15.2%	16.3%	15.5%	15.7%	16.1%
Return on equity (ROE)	7.5%	8.3%	10.0%	10.7%	11.6%	12.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio (x)	3.8	3.9	3.8	3.7	3.8	3.6
Receivable turnover days	149.4	147.4	148.5	130.0	120.0	120.0
Inventory turnover days	87.2	91.4	93.2	80.0	75.0	75.0
Payable turnover days	121.2	120.9	110.4	100.0	90.0	90.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.0	8.8	6.9	6.1	5.3	4.6
P/E (diluted)	11.0	8.8	6.9	6.1	5.3	4.6
P/B	0.8	0.7	0.7	0.6	0.6	0.6
P/CFPS	17.7	17.4	16.2	3.6	ns	3.5
Div yield (%)	0.0	0.0	5.8	6.5	9.5	11.0
EV	3,991.2	3,582.3	3,858.4	2,473.9	3,424.6	2,277.0
EV/Sales	0.7	0.5	0.5	0.2	0.3	0.2
EV/EBITDA	3.7	3.4	2.8	1.6	1.9	1.1

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.