

Xtep (1368 HK)

Building a more all-round company in long run

The FY24 results were inline with BBG estimates and mgmt. guidance and so do the numbers in 2025 YTD. Management's FY25E guidance was quite conservative (slightly faster if we adjust for DTC transformation) and we do concur with them. However, thanks to the improved macro (favorable policies) and industry trend, we are still positive on Xtep. Maintain BUY but trim TP to HK\$ 7.20, based on 14x FY25E P/E (mild earnings cut but a sector re-rate).

■ **Performance in Jan-early Mar 2025 was inline with management's expectation.** Management has highlighted an "inline with target" retail sales growth for Xtep in 2025 YTD, while e-commerce growth was still better than offline. And the inventory to sales ratio was still fairly decent, at just 4 months (similar to that in 4Q24 and better than 4 to 4.5 months in 1Q24). The retail discounts were also very healthy, at 25% to 30% off (similar to that in 4Q24 and 1Q24). For Saucony, the retail sales growth was still very rapid.

■ **FY25E guidance is quite conservative (would be higher if we adjust for the DTC transformation) but the market should have some expectations.** The Company's FY25E guidance includes a positive sales growth and a 10% or above net profit growth in FY25E, while sales growth for Saucony should be at 30% to 40% (This may imply a LSD Xtep core brand sales growth, as it could be at around MSD, if we adjust for the DTC transformation). Management also sees a rather flattish ASP and most of the growth coming from volume. In terms of store counts, Xtep may be flattish (opening larger ones while closing down smaller ones) and Saucony may have 30 new stores. Even though Xtep's attitude is rather prudent, we can still see a few growth drivers, namely: 1) rolling out more running shoes around the 160X to 360X franchise, 2) reforms of the apparel offerings, by introducing more running related (but still compatible with daily life) clothing and 3) solid sales per store growth and store expansion of Saucony brand. Moreover, we are confident about margin expansion, driven by: 1) potential improvement in retail discounts for online sales, 2) reductions of rebates or other support to distributors for apparel product de-stocking and 3) increased efforts on the overall cost control.

■ **Maintain BUY but trim TP to HK\$ 7.20, based on 14x FY25E P/E (up from 13x, due to sector re-rate).** We have revised down FY25E/ 26E net profit forecasts by 2%/ 6%, in order to factor in a slower sales growth (partly due to the DTC transformation) but a better GP and OP margin. The stock is now trading at 11x FY25E P/E, still undemanding vs its 8-year average of 15x. We do think the macro has become better (after various policy support measures) and the industry trend is improving. As Xtep is still likely to ride on this trend, we are still positive.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	14,346	13,577	14,312	15,249	16,363
YoY growth (%)	10.9	(5.4)	5.4	6.5	7.3
Operating profit (RMB mn)	1,579.9	1,965.5	1,965.5	2,187.6	2,441.2
Net profit (RMB mn)	1,033.0	1,305.5	1,372.0	1,569.5	1,839.3
EPS (Reported) (RMB)	0.39	0.47	0.48	0.54	0.64
YoY growth (%)	9.4	19.4	3.6	12.6	17.2
P/E (x)	13.6	11.4	11.0	9.7	8.3
P/B (x)	1.6	1.6	1.7	1.5	1.4
Yield (%)	3.6	11.6	4.5	5.1	6.0
ROE (%)	12.0	14.8	15.8	17.3	18.3
Net gearing (%)	7.1	7.9	2.3	5.2	7.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.20
(Previous TP)	HK\$7.55
Up/Downside	26.5%
Current Price	HK\$5.69

China Consumer Discretionary

Walter WOO

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	14,992.3
Avg 3 mths t/o (HK\$ mn)	68.6
52w High/Low (HK\$)	6.98/3.97
Total Issued Shares (mn)	2634.8

Source: FactSet

Shareholding Structure

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

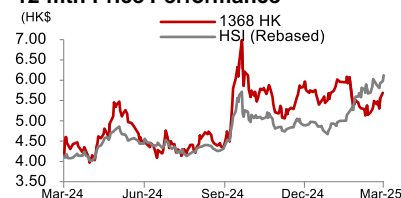
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.4%	-2.2%
3-mth	-3.4%	-21.2%
6-mth	28.7%	-5.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

[Topsports \(6110 HK\) - Improved in 2H25E, more catalysts in FY26E](#)
(17 Mar 25)

[361 Degrees \(1361 HK\) - Cautiously optimistic after a decent 2025 CNY](#)
(13 Mar 25)

[JNBY Design \(3306 HK\) - Sales trend is muted but yield is still attractive](#)
(28 Feb 25)

[Xtep \(1368 HK\) - A beat in 4Q24 with a constructive outlook](#)
(13 Jan 25)

[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)

- **Xtep has finally kicked off its DTC transformation, a good step towards a more all-round company in the long run.** The Chairman and CEO Mr. Ding mentioned that the consumers nowadays are eager for a more thorough shopping experience and Xtep has already acquired that set of skills by running the DTC model for Saucony for years (and a solid track record has been built), therefore Xtep will now kick off its DTC transformation. Xtep will repurchase about 400 to 500 stores (100-200 in 2H25E and 200-400 in FY26E) from its distributors (both the distribution rights and the physical stores), which is about 8% to 10% of total stores. In terms of financial impact, per store sales and net profit will be accretive (however, the net profit margin will be lower, because the discounts for wholesales (at about 62% off) are higher than direct retail (at about 23% off)), which is a positive in the long-run. However, in the short run, the revenue and net profit previously booked through trade fair sales orders will be cancelled (will result in 2-3%/ 4-5% drags on the group-level sales in FY25E/ 26E).
- **Saucony annual sales have just exceed the RMB 1bn benchmark and we think its growth momentum and long-term story remain extremely intact.** Management believes Saucony brand's growth momentum could be even healthier once its sales exceeded the RMB 1bn benchmark. And on top of the 30%+ sales growth target in FY25E, management is confident on doubling Saucony's sales per store in 3 to 5 years (implying a 15% to 26% CAGR), from the current level of sales per store of RMB 400K. All in all, the growth drivers will include: 1) store expansion (30 new stores in FY25E, including more flagship stores and those in tier-2 or below cities), 2) 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), 3) superior product quality (comparable to other overseas brands but the tag price is still at a discount of 30% to 50%), 4) 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, may go up to 30%), etc., 5) decent sales per store growth (Sales per store for the new store in Shenzhen have far exceeded RMB 500K per month while average sales per store is just at RMB 300K, and SSSG was as high as 45%+ in FY24), 6) greater wholesale sales (of the China product series and apparel products) to Saucony international, and 7) further improvement in customer experience and operation of different running clubs.
- **FY24 results were inline with consensus.** Xtep's sales increased by 7% YoY to RMB 13.6bn (excluding the spin-off of K&P), about 3% below CMBI est./ inline with BBG est. while net profit surged by 20% YoY to RMB 1.24bn (also adjusted for the spin-off), 5% better than CMBI est./ inline with BBG est and management's guidance. Noted that better-than-expected other income and finance costs were offset by the higher-than-expected income tax.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	14,312	15,249	16,363	15,558	16,907	n/a	-8.0%	-9.8%	n/a
Gross profit	6,266	6,765	7,355	6,801	7,451	n/a	-7.9%	-9.2%	n/a
EBIT	1,966	2,188	2,441	2,055	2,364	n/a	-4.4%	-7.5%	n/a
Net profit att.	1,372	1,570	1,839	1,405	1,660	n/a	-2.4%	-5.5%	n/a
Diluted EPS (RMB)	0.483	0.544	0.637	0.514	0.608	n/a	-6.0%	-10.5%	n/a
Gross margin	43.8%	44.4%	44.9%	43.7%	44.1%	n/a	0.1ppt	0.3ppt	n/a
EBIT margin	13.7%	14.3%	14.9%	13.2%	14.0%	n/a	0.5ppt	0.4ppt	n/a
Net profit att. margin	9.6%	10.3%	11.2%	9.0%	9.8%	n/a	0.6ppt	0.5ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	14,312	15,249	16,363	15,271	16,664	18,320	-6.3%	-8.5%	-10.7%
Gross profit	6,266	6,765	7,355	6,650	7,296	8,025	-5.8%	-7.3%	-8.3%
EBIT	1,966	2,188	2,441	2,001	2,242	2,554	-1.8%	-2.4%	-4.4%
Net profit att.	1,372	1,570	1,839	1,376	1,557	1,814	-0.3%	0.8%	1.4%
Diluted EPS (RMB)	0.483	0.544	0.637	0.522	0.581	0.650	-7.4%	-6.4%	-1.9%
Gross margin	43.8%	44.4%	44.9%	43.6%	43.8%	43.8%	0.2ppt	0.6ppt	1.1ppt
EBIT margin	13.7%	14.3%	14.9%	13.1%	13.5%	13.9%	0.6ppt	0.9ppt	1ppt
Net profit att. margin	9.6%	10.3%	11.2%	9.0%	9.3%	9.9%	0.6ppt	1ppt	1.3ppt

Source: Company data, Bloomberg, CMBIGM estimates

Operating numbers

Figure 3: Sportswear brands sales growth trend

Operating numbers	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E
Nike China sales	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-3%	-11%	-8%	1%	3%	6%
Adidas China sales	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	9%	10%	11%	11%	12%	13%
Anta brand's SSSG																
Anta brand's retail sales	+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	11%	8%	10%	9%
Core brand	+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	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 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	-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	6%	6%	8%	8%
Kids	+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				
Fusion	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				
Online	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	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	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	+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					
Wholesales	+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					
E- Commerce	+ve Low-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 Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD	-ve LSD	+ve MSD	+ve Low 20%	+ve Low-teens	+ve MSD					
Li Ning group's retail sales																
Direct retail	+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	3%	-3%	3%	5%	8%
Wholesales	+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					
E- Commerce	+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 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					
Xtep brand's SSSG																
Xtep brand's retail sales	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	8%	8%	9%	10%
Saucony's retail sales																
													Over 50%	50.0%		
361 Degree brand's SSSG																
361 Degree brand's offline	+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%	10.0%				
Kids	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%	20%-25%	+ve Mid-teens	10%	10%-15%				
E- Commerce	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%	Over 20%	30%-35%				
Pou Sheng's SSSG																
Pou Sheng's sales	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%	-16%	-18%	-14%	-8%	3%	6%	7%
Topsports' retail sales	-ve High-teens	-ve High-teens	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low 20%	-ve LSD	+ve Low-teens	+ve LSD	-ve MSD	-ve Low-teens	-ve MSD	-1%	3%	5%	7%
Dong Xiang's SSSG																
Dong Xiang's retail sales	-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				
		-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	-ve Low 10% to 20%	-ve MSD				
Direct retail																
E- Commerce																

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	FY23A	FY24A	FY25E	FY26E	FY27E
Sales by segment (RMB mn)					
Shoes	8,172	8,054	8,560	9,094	9,777
Apparels	5,904	5,226	5,435	5,816	6,223
Accessories	270	297	317	340	363
Total	14,346	13,577	14,312	15,249	16,363
Sales by segment growth (%)					
Shoes	5.3%	-1.4%	6.3%	6.2%	7.5%
Apparels	20.6%	-11.5%	4.0%	7.0%	7.0%
Accessories	-1.2%	9.8%	7.0%	7.0%	7.0%
Total	10.9%	-5.4%	5.4%	6.5%	7.3%
Sales by segment (RMB mn)					
Mass market	11,947	12,340	12,670	13,094	13,592
Athleisure	1,603	0	0	0	0
Professional sports	796	1,237	1,642	2,155	2,771
Total	14,346	13,577	14,312	15,249	16,363
Sales by segment growth (YoY)					
Mass market	7.4%	3.3%	2.7%	3.3%	3.8%
Athleisure	14.3%	-100.0%	#DIV/0!	#DIV/0!	#DIV/0!
Professional sports	98.9%	55.5%	32.7%	31.3%	28.6%
Total	10.9%	-5.4%	5.4%	6.5%	7.3%
Sales network					
Xtep	4,568	4,498	4,453	4,408	4,364
Xtep kids	1,703	1,584	1,584	1,584	1,584
Oversea stores	300	300	300	300	300
Total	6,571	6,382	6,337	6,292	6,248
GP margin	42.2%	43.2%	43.8%	44.4%	44.9%
Opex breakdown					
A&P / sales	13.7%	13.4%	13.2%	13.2%	13.2%
Staff costs/ sales	10.1%	10.0%	9.8%	10.0%	10.0%
R&D / sales	2.8%	2.9%	2.8%	2.8%	2.8%
D&A / sales	2.1%	1.9%	1.8%	1.8%	1.7%
Provisions (write-backs) / sales	0.1%	0.2%	0.1%	0.0%	0.0%
Rental / sales	0.2%	0.2%	0.2%	0.2%	0.2%
Selling & distribution costs / sales	23.5%	21.1%	22.6%	22.6%	22.6%
Admin expenses / sales	10.7%	10.5%	10.3%	10.3%	10.3%
Total	34.2%	31.6%	33.0%	32.9%	32.9%
OP margin	11.0%	14.5%	13.7%	14.3%	14.9%
Effective tax rate	28.7%	31.3%	29.5%	29.0%	28.0%
Net profit att. margins	7.2%	9.1%	9.6%	10.3%	11.2%
Net profit att. growth (%)	11.8%	20.2%	10.8%	14.4%	17.2%

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\$mnn)	End	FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E
H share Sportswear														
Xtep	1368 HK	BUY	7.20	5.69	27%	15,787	Dec-24	11.5	11.1	1.4	14.1	1.0	11.5	0.9
Anta	2020 HK	BUY	126.68	101.90	24%	286,055	Dec-23	20.6	19.4	4.4	24.9	1.6	2.5	30.9
Li Ning	2331 HK	BUY	19.58	19.16	2%	49,525	Dec-23	14.8	13.6	1.8	11.8	3.2	3.1	16.4
361 Degrees	1361 HK	BUY	5.97	4.88	22%	10,090	Dec-24	7.1	6.3	0.9	12.4	0.6	6.3	15.1
Topsports	6110 HK	BUY	4.51	3.92	15%	24,309	Feb-24	15.6	13.0	2.3	18.0	(3.6)	5.8	31.5
Pou Sheng	3813 HK	NR	n/a	0.60	n/a	3,196	Dec-24	5.5	4.9	0.3	5.7	0.6	7.2	20.0
China DX	3818 HK	NR	n/a	0.44	n/a	2,591	Mar-24	n/a	n/a	n/a	(1.0)	0.0	n/a	25.7
Avg.								12.5	11.4	1.8	12.3	0.5	6.1	20.1
Med.								13.2	12.0	1.6	12.4	0.6	6.0	20.0
International Sportswear														
Nike	NKE US	NR	n/a	72.89	n/a	837,668	May-24	33.6	30.0	8.4	34.7	(4.2)	2.1	(3.7)
Adidas	ADS GY	NR	n/a	223.30	n/a	341,740	Dec-24	29.4	19.8	6.2	15.2	0.6	1.3	(5.7)
Puma	PUM GY	NR	n/a	23.99	n/a	30,534	Dec-24	15.6	11.1	1.2	10.5	1.7	2.5	(45.9)
Under Armour	UAA US	NR	n/a	6.74	n/a	21,563	Mar-24	22.1	16.7	1.5	(6.1)	(40.8)	0.0	(18.6)
Lululemon	LULU US	NR	n/a	321.65	n/a	304,348	Jan-24	22.4	20.8	8.3	46.2	2.0	0.0	(15.9)
Amer Sports	AS US	NR	n/a	28.37	n/a	122,124	Dec-24	40.4	30.0	2.8	n/a	0.4	0.0	1.4
Skechers	SKX US	NR	n/a	56.68	n/a	65,773	Dec-24	12.4	10.7	1.7	15.4	0.9	0.0	(15.7)
On Holding	VFC US	NR	n/a	15.76	n/a	47,673	Mar-24	21.8	14.7	3.7	(24.1)	(0.1)	2.3	(26.6)
Deckers	DECK US	NR	n/a	115.34	n/a	136,008	Mar-24	19.5	17.3	6.7	39.8	1.3	0.0	(43.2)
Vf Corp	ONON US	NR	n/a	46.11	n/a	116,005	Dec-24	38.7	29.9	7.3	19.6	1.5	0.0	(15.8)
Columbia	COLM US	NR	n/a	78.28	n/a	33,660	Dec-24	19.5	17.5	2.3	12.0	2.2	1.3	(6.7)
Wolverine	WWW US	NR	n/a	13.30	n/a	8,305	Dec-24	11.0	8.8	2.8	16.4	0.2	3.1	(40.1)
Mizuno Corp	8022 JP	NR	n/a	7840.00	n/a	10,842	Mar-24	13.3	12.3	1.3	10.8	2.4	1.6	(12.5)
Asics Corp	7936 JP	NR	n/a	3184.00	n/a	121,684	Dec-24	27.8	24.3	8.7	29.1	1.5	1.0	2.4
Avg.								23.4	18.8	4.5	16.9	(2.2)	1.1	(17.6)
Med.								21.9	17.4	3.2	15.4	1.1	1.1	(15.8)

Source: Bloomberg, CMBIGM estimates
 Note: Data as of 18 Mar 2025

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	12,930	14,346	13,577	14,312	15,249	16,363
Cost of goods sold	(7,639)	(8,296)	(7,712)	(8,046)	(8,484)	(9,008)
Gross profit	5,292	6,050	5,865	6,266	6,765	7,355
Operating expenses	(4,144)	(4,909)	(4,295)	(4,718)	(5,022)	(5,390)
Selling expense	(2,690)	(3,369)	(2,868)	(3,241)	(3,450)	(3,703)
Admin expense	(1,155)	(1,142)	(1,034)	(1,076)	(1,145)	(1,229)
R&D expense	(299)	(398)	(393)	(401)	(427)	(458)
Others	0	0	0	0	0	0
Operating profit	1,464	1,580	1,966	1,966	2,188	2,441
Other income	317	439	396	417	444	477
Share of (losses)/profits of associates/JV	(12)	15	33	70	113	201
EBITDA	1,595	1,740	2,151	2,163	2,332	2,528
Depreciation	(117)	(145)	(124)	(127)	(123)	(112)
Other amortisation	(14)	(16)	(61)	(71)	(21)	25
Interest income	25	41	37	32	31	34
Interest expense	(117)	(187)	(135)	(121)	(121)	(121)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	1,361	1,449	1,901	1,946	2,211	2,555
Income tax	(449)	(416)	(596)	(574)	(641)	(715)
Minority interest	9	(3)	0	0	0	0
Net profit	912	1,033	1,306	1,372	1,570	1,839
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	12,338	12,044	11,230	11,144	11,946	12,800
Cash & equivalents	3,414	3,295	2,979	2,496	2,790	3,038
Account receivables	4,213	4,975	5,011	5,283	5,628	6,040
Inventories	2,287	1,794	1,596	1,665	1,755	1,864
Prepayment	1,371	1,112	1,046	1,103	1,175	1,261
ST bank deposits	1,047	862	590	590	590	590
Other current assets	6	7	7	7	7	7
Non-current assets	4,155	5,281	4,738	4,944	5,269	5,764
PP&E	1,368	1,592	1,669	1,876	2,108	2,378
Investment in JVs & assos	439	751	736	805	918	1,119
Intangibles	723	723	17	(56)	(78)	(54)
Other non-current assets	1,626	2,214	2,317	2,319	2,320	2,321
Total assets	16,494	17,325	15,968	16,088	17,215	18,565
Current liabilities	6,645	5,851	5,283	5,468	5,707	5,993
Short-term borrowings	2,231	954	1,161	1,161	1,161	1,161
Account payables	2,772	2,531	2,195	2,291	2,415	2,565
Tax payable	108	144	77	77	77	77
Other current liabilities	1,534	2,222	1,849	1,939	2,053	2,190
Non-current liabilities	1,542	2,552	1,983	1,983	1,983	1,983
Long-term borrowings	193	1,691	867	867	867	867
Other non-current liabilities	1,349	860	1,116	1,116	1,116	1,116
Total liabilities	8,187	8,402	7,266	7,451	7,690	7,976
Share capital	23	23	24	24	24	24
Retained earnings	5,126	5,281	(209)	(793)	30	993
Other reserves	3,157	3,620	8,888	9,406	9,472	9,572
Total shareholders equity	8,307	8,923	8,703	8,637	9,525	10,589
Minority interest	0	0	0	0	0	0
Total equity and liabilities	16,494	17,325	15,968	16,088	17,215	18,565

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,361	1,449	1,901	1,946	2,211	2,555
Depreciation & amortization	131	161	186	198	144	87
Tax paid	(431)	(531)	(469)	(574)	(641)	(715)
Change in working capital	(688)	(21)	(439)	(212)	(269)	(320)
Others	199	197	48	(70)	(113)	(201)
Net cash from operations	572	1,255	1,228	1,288	1,331	1,406
Investing						
Capital expenditure	(365)	(389)	(317)	(334)	(356)	(382)
Acquisition of subsidiaries/ investments	(5)	(6)	(5)	0	0	0
Others	(503)	(520)	973	0	0	0
Net cash from investing	(873)	(915)	651	(334)	(356)	(382)
Financing						
Dividend paid	(550)	(469)	(1,444)	(1,437)	(682)	(775)
Net borrowings	466	189	(651)	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(152)	(182)	(102)	0	0	0
Net cash from financing	(236)	(461)	(2,197)	(1,437)	(682)	(775)
Net change in cash						
Cash at the beginning of the year	3,930	3,414	3,295	2,979	2,496	2,790
Exchange difference	21	2	2	0	0	0
Others	(537)	(122)	(317)	(483)	294	249
Cash at the end of the year	3,414	3,295	2,979	2,496	2,790	3,038
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	29.1%	10.9%	(5.4%)	5.4%	6.5%	7.3%
Gross profit	26.7%	14.3%	(3.0%)	6.8%	8.0%	8.7%
Operating profit	4.9%	7.9%	24.4%	(0.0%)	11.3%	11.6%
EBITDA	7.8%	9.1%	23.6%	0.6%	7.8%	8.4%
Net profit	2.6%	13.2%	26.4%	5.1%	14.4%	17.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	40.9%	42.2%	43.2%	43.8%	44.4%	44.9%
Operating margin	11.3%	11.0%	14.5%	13.7%	14.3%	14.9%
EBITDA margin	12.3%	12.1%	15.8%	15.1%	15.3%	15.5%
Return on equity (ROE)	11.2%	12.0%	14.8%	15.8%	17.3%	18.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.1	0.1	0.1	0.0	0.1	0.1
Current ratio (x)	1.9	2.1	2.1	2.0	2.1	2.1
Receivable turnover days	118.9	126.6	134.7	134.7	134.7	134.7
Inventory turnover days	109.3	78.9	75.5	75.5	75.5	75.5
Payable turnover days	132.4	111.3	103.9	103.9	103.9	103.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	14.8	13.6	11.4	11.0	9.7	8.3
P/E (diluted)	14.8	13.6	11.4	11.0	9.7	8.3
P/B	1.7	1.6	1.6	1.7	1.5	1.4
P/CFPS	23.9	11.1	11.5	11.7	11.5	10.9
Div yield (%)	3.3	3.6	11.6	4.5	5.1	6.0
EV	13,766.6	14,397.7	14,585.3	15,585.8	15,292.2	15,043.4
EV/Sales	1.1	1.0	1.1	1.1	1.0	0.9
EV/EBITDA	8.6	8.3	6.8	7.2	6.6	5.9

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.