

Xtep Int'l (1368 HK)

Brand got attention after the Xinjiang Cotton event, and the company's valuation discount narrowed
Hong Kong | Consumer (Sportswear) | Update Report

7 May 2021

Investment Summary

Xtep's main brand's retail sales (including online and offline channels) recorded an increase of approximately 55% in Q1. The discount level and inventory level have continued to improve quarterly. The retail inventory turnover period has been shortened to approximately 4.5 months, which is in line with our expectations. The company's recent valuation discounts with leading sportswear companies have continued to narrow due to the continued outperforming operating performance of its peers and the Xinjiang cotton event.

The main brand's performance in 2021 further improves

Xtep International announced on April 15 the operating status of Xtep's main brand in Q1. The retail sales growth of the main brand recorded a growth of about 55% compared with the same period last year, in line with our expectations, mainly due to the low base last year. Compared to 2019, it recorded a MDD growth, which was better than its peers (Anta Q1 vs 2019: LDD). By channel, online channels increased by 70% Yoy, and offline channels increased by 40% Yoy. Both retail discounts and inventory cycles have improved. Retail discounts range from 25% to 30%. Retail inventory turnover is about 4.5 months, returning to pre-epidemic levels on a quarterly basis.

Xinjiang Cotton event

The outbreak of the Xinjiang cotton event started on March 24. A Weibo about H&M not cooperating with any garment manufacturing factory in Xinjiang or purchasing products or raw materials from the region attracted the attention of mainland netizens. At the end of September last year, the United States passed the " Uyghur Forced Labor Prevention Act," and the Better Cotton Initiative (BCI) subsequently launched an initiative to boycott Xinjiang cotton. Many BCI members had already made a statement regarding the deactivation of Xinjiang cotton in September last year. At the end of March, the Chinese Communist Youth League's Weibo posts and reports from mainland official media initiated a series of boycotts in the mainland. The affected brands include approximately 200 brands, including international brands such as Nike, Adidas and PUMA. From the sales data of Tmall, the sales volume of domestic sports brands such as Anta, Li Ning and Xtep all recorded substantial growth in the week following March 24.

Use rate of domestic brands increases, Xtep 160x series is recognized by professional runners

In the Xiamen Marathon held on April 10, the use rate of domestic brands rose sharply. Among the runners completed within 3 hours, about 69% of the runners wore domestic brands. Domestic brands surpassed international brands for the first time, and Xtep ranked first with the 51% use rate, and Nike, which used to be the number one, dropped from 70% last year to 26%. Among the top 9 players who finished the race, 7 players used Xtep 160x PRO, reflecting the recognition of the company's running shoes in the professional market. 160x PRO is a new product launched by Xtep in March this year. It has been improved and upgraded on the basis of 160x. At the same time, 160x 2.0 and 300x 2.0 were also launched, all referred to as the second generation of 160x. Xtep's investment in technology R&D has increased Yoy in recent years to strengthen the performance of its products in the running profession.

Accumulate (Maintain)

CMD HKD 6.56
(Closing price as at 5 May)
TARGET HKD 7.79 (+18.75%)

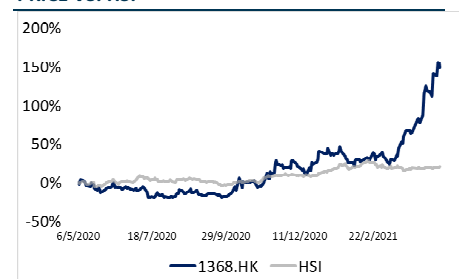
COMPANY DATA

O/S SHARES (MN) :	2,621.97
MARKET CAP (HKD MN) :	17,200
52 - WK HI/LO (HKD):	7.32/2.20

SHARE HOLDING PATTERN, %

Ding Shui Po	52.28
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PRICE VS. HSI



source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	8,183	8,172	9,427	11,988
Net Profit	728	513	675	904
EPS, CNY cent	30.72	20.83	26.50	35.49
P/E, x	18.15	26.77	21.04	15.71
BVPS, CNY	277.03	286.57	301.57	324.12
P/BV, x	2.01	1.95	1.85	1.72
DPS (HKD Cent)	20.00	14.00	18.71	25.05
Div. Yield (%)	3.05%	2.13%	2.85%	3.82%

Source: Company reports, Phillip Securities Est.

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Valuation and investment advice

The company's Q1 was in line with our expectations. Under the influence of the epidemic last year, the company's development of new brands was postponed. The sales and inventory levels of the main brands improved quarterly, while maintaining better performance than other peers. It is expected that the company will be able to cultivate its new brands more effectively after the opening of the new operation center in Shanghai in 2021. With the Xinjiang cotton event, the company's brand has received a lot of attention from the market, and the company's valuation discount with industry leaders has narrowed significantly. The Xinjiang cotton event brought a short-term sales impact to domestic sports brands, which is a one-off event, but at the same time, it also provides a customer experience opportunity for domestic products. Quality products can eventually attract users to continue using them. In the past years, the company has continued to deepen the field of running, and it has also been recognized by users in the practical use environment. We maintain our previous expectations. We expect the company's EPS for FY21/FY22 to be RMB 26.50/35.49 cents. We raise our target price to HK\$7.79 (previously RMB 4.49), and raise the forecast P/E for FY 2021 to 25x (previously: 16x), Corresponding to FY21E/FY22E P/E of 25.00x /18.66x, maintain the Accumulate rating.

(Current price as of May 5)

Peer comparison

Company	Ticker	CMP	Mkt Cap.	P/E			P/B		
				TTM	2021	2022	TTM	2021	2022
		(Base Currency)	('mn HKD)						
ANTA SPORTS PF	2020 hk equity	139.50	377,114	40.3x	31.3x	25.4x	10.6x	8.6x	7.0x
SHENZHOU INTE	2331 hk equity	65.45	163,181	56.1x	43.5x	34.9x	12.7x	10.2x	8.3x
XTEP INTERNATI	1368 hk equity	6.56	17,200	20.0x	16.2x	13.3x	1.8x	1.7x	1.6x
LULULEMON ATH	LULU US equity	2523.76	328,923	70.7x	50.3x	40.5x	17.6x	14.0x	11.2x
NIKE INC -CL B	Nke US equity	1021.85	1,614,500	42.0x	33.2x	28.4x	19.2x	17.2x	14.5x
ADIDAS AG	ADS GR equity	2393.11	479,619	34.2x	26.2x	22.1x	6.9x	6.0x	5.5x
Mean				43.9x	33.4x	27.4x	11.5x	9.6x	8.0x
Median				41.2x	32.3x	26.9x	11.6x	9.4x	7.6x

Source: Bloomberg, PSHK

(CMP as of May 5)

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8,183	8,172	9,427	11,988	15,901
COGS	(4,632)	(4,974)	(5,527)	(6,883)	(8,753)
Gross Profit	3,550	3,198	3,900	5,105	7,149
S&D expense	(1,718)	(1,537)	(1,980)	(2,517)	(3,339)
Admin expense	(906)	(1,050)	(924)	(1,175)	(1,558)
Other operating gain/(loss)	308	307	151	149	147
Operating Profit	1,234	918	1,148	1,561	2,398
Net finance income	(100)	(140)	(143)	(139)	(138)
Associated companies & JVs	(2)	(17)	(2)	5	13
Profit before tax	1,121	762	1,002	1,427	2,273
Tax	(390)	(257)	(331)	(469)	(746)
NCI	(4)	8	4	(54)	(135)
Profit for the year	728	513	675	904	1,392
EPS (RMB cent)	30.72	20.83	26.50	35.49	54.66

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	18.15	26.77	21.04	15.71	10.20
P/B ratio, x	2.01	1.95	1.85	1.72	1.54
Dividend Yield, %	3.05%	2.13%	2.85%	3.82%	5.88%

Per share data (RMB cent)

EPS	30.72	20.83	26.50	35.49	54.66
BVPS	277.03	286.57	301.57	324.12	362.49
DPS (HKD cent)	20.00	14.00	18.71	25.05	38.58

Growth & Margin

Growth					
Revenue Growth	28%	0%	15%	27%	33%
Operating income Growth	18%	-26%	25%	36%	54%
Net income Growth	11%	-30%	32%	34%	54%
Margin					
Gross Profit Margin	43%	39%	41%	43%	45%
Operating profit Margin	15%	11%	12%	13%	15%
Net Profit Margin	9%	6%	7%	7%	9%

Key Ratios

ROE	10%	7%	9%	11%	15%
ROA	6%	4%	5%	6%	8%

source : PSHK

(CMP as of May 5)

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	662	796	817	838	860
LT investment	73	65	63	68	80
Other	2,322	2,683	2,549	2,448	2,369
Total Non Current Assets	3,057	3,544	3,429	3,354	3,309
Current Asset					
T/R	2,596	2,760	2,583	3,284	4,357
Inventories	1,046	975	1,212	1,509	1,918
Restricted Bank deposits	1,517	437	437	437	437
Cash and cash equivalents	2,970	3,472	4,572	4,969	5,623
Others	1,137	1,383	907	907	907
Total Current Assets	9,266	9,027	9,711	11,106	13,243
Total Assets	12,323	12,572	13,139	14,460	16,552
Non Current Liabilities					
Loan	1,304	1,516	1,516	1,516	1,516
Deferred tax liabilities	280	237	237	237	237
Others	(1,477)	(1,622)	(1,619)	(1,616)	(1,613)
Total Non Current Liabilities	107	131	134	137	140
Current Liabilities					
Loan	1,086	642	642	642	642
T/P	1,420	1,479	1,363	1,697	2,158
B/P	981	1,052	1,105	1,377	1,751
Others	185	161	406	544	821
Total Current Liabilities	3,671	3,334	3,517	4,260	5,372
Equity					
Share capital	22	22	22	22	22
Reserve	6,868	7,201	7,587	8,108	8,950
Non controlling interest	70	75	71	125	260
Total Equity	6,960	7,299	7,681	8,255	9,233
Total Liabilities and Equity	10,739	10,764	11,332	12,652	14,744

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	1,370	1,084	1,435	1,819	2,636
Chg in working cap	(64)	(320)	354	(393)	(647)
Others	(194)	(120)	(143)	(139)	(138)
Tax	(334)	(325)	(86)	(331)	(469)
CFO	778	320	1,560	955	1,382
Capex	(100)	(211)	(124)	(127)	(131)
Others	(1,945)	784	-	-	-
CFI	(2,045)	573	(124)	(127)	(131)
Issue of Shares	30	26	-	-	-
Dividends paid	(436)	(279)	(289)	(383)	(550)
Others	1,446	(127)	(47)	(47)	(47)
CFF	1,039	(380)	(336)	(430)	(597)
Net Change in Cash	(227)	513	1,100	397	654
Foreign exchange	1	(11)	-	-	-
Cash and CE at Y/E	2,970	3,472	4,572	4,969	5,623

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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