

# Xtep International (01368.HK)

1H2022 Positive profit alert in line with consensus

China | Consumer | Sportswear

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## 1H2022 Positive profit alert in line with consensus

Xtep announced the operation data of 2Q2022. Xtep core brand products retail sell-through (including offline and online channels) grew by mid-teens (30% – 35% growth in 1Q2022), retail discount level at 25% – 30% (25% discount at 1Q2022). For the six months ended 30 June 2022, core brand products retail sell-through (including offline and online channels) grew by 20% – 25%, and inventory turnover was around 4.5 months (about 4 months in 1H2021, 1Q2022), estimated to be related to the impact of the COVID.

Xtep also expected to record a significant increase of not less than 35% in its unaudited consolidated profit attributable to shareholders for 1H2022 as compared to that for the corresponding period in 2021, which is also in line with market consensus. Such increase was primarily due to a not less than 35% growth in consolidated revenue mainly attributable to: (1) remarkable sales fair orders resulting from encouraging retail performance of the core Xtep brand and Xtep Kids' business driven by their breakthrough in product innovation, retail channel upgrade and increased brand awareness; and (2) an impressive YoY revenue growth of over 100% for Saucony under the professional sports segment owing to its strong retail sales particularly in its e-commerce business.

## Adverse impact of COVID on the economy is fading in June, 618 sales growth 64%

The adverse impact of the latest round of COVID outbreaks on the economy is fading, and the resumption of work and production in key cities, core brand products sales are expected to gradually improve. In fact, according to the 618 Shopping Festival sales data in 2022, Xtep recorded a 64% YoY online sales growth to RMB650mn, while the online sales of the core Xtep brand surged 61% to RMB590mn and those of Xtep Kids swelled 103% to RMB75mn. Saucony's even rocketed 135%, the most among all international sports shoe brands during the Festival.

## Company valuation

In 2Q2022, Xtep's core brand products retail sales growth slowed down due to the impact of the resurgence in pandemic. However, Xtep continues to cooperate with international brand distributors and launched a new store in Tangshan Rongda Shopping Mall with Pou Sheng in July. With the expansion of quality channels, which may help the sales growth of core brand and offset the impact of the COVID in the first half of the year. We adjust our FY2022E EPS forecast to RMB0.43 (down slightly compare with March 2022 report), with TP at HKD13.01, represents of 26.2x P/E (equivalent to the average P/E ratio of the past 2 years plus 1 standard deviation). We downgrade our investment rating to "Neutral".

## Risk factors

1) Resurgence in COVID in mainland; 2) Weak domestic growth and consumer spending in sportswear; 3) Intensified competition in the industry; and 4) Slower-than-expected in new brands development.

## Neutral (downgrade)

CMP HKD12.80

(Closing price as of 1 August)

Target HKD 13.01(+1.6%)

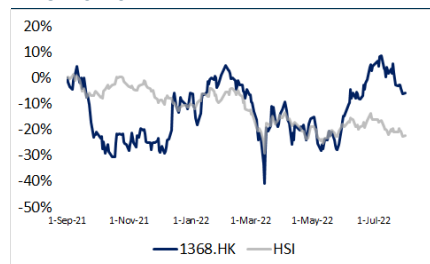
### COMPANY DATA

O/S SHARES (MN) :	2634.8427
MARKET CAP (HKD MN) :	33726.0
52 - WK HI/LO (HKD):	14.980/7.945

### SHARE HOLDING PATTERN, %

Mr. Ding Shui Po	52.02%
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### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY20	FY21	FY22E	FY23E
Revenue	8,172	10,013	12,473	15,550
Net profit	513	908	1,126	1,461
Reported EPS	0.21	0.36	0.43	0.56
P/E ratio, x	52.1	30.2	25.8	19.9
Dividend Yield, %	1.1%	2.0%	2.3%	3.0%

Source: Company reports, Phillip Securities Est.

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## Financial

**Consolidated Statement of Profit or Loss**

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	8,183	8,172	10,013	12,473	15,550
COGS	(4,632)	(4,973)	(5,835)	(7,350)	(9,230)
<b>Gross Profit</b>	3,550	3,198	4,178	5,122	6,320
Selling expenses	(1,718)	(1,537)	(1,891)	(2,301)	(2,677)
General & Admin exp	(906)	(1,050)	(1,189)	(1,489)	(1,900)
Others	308	307	299	421	494
<b>Operating Profit</b>	1,234	918	1,396	1,753	2,237
Finance costs	(111)	(140)	(63)	(111)	(96)
<b>Profit before tax</b>	1,121	762	1,287	1,642	2,141
Income tax	(390)	(257)	(397)	(536)	(709)
<b>Shareholders Net profit</b>	728	513	908	1,126	1,461
<b>Reported EPS, Diluted</b>	0.30	0.21	0.36	0.43	0.56
<b>DPS</b>	0.17	0.12	0.21	0.25	0.32
<b>Payout ratio</b>	58%	59%	58%	58%	58%
<b>Shares outstanding</b>	2,368	2,463	2,499	2,630	2,630

**Key Financial Data**

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E
<b>Valuation Ratio</b>					
P/S ratio, x	3.1	3.2	2.7	2.3	1.9
P/E ratio, x	35.6	52.1	30.2	25.8	19.9
Dividend Yield, %	1.6%	1.1%	2.0%	2.3%	3.0%

**Per share data (RMB)**

EPS	0.30	0.21	0.36	0.43	0.56
BVPS	2.74	2.84	3.01	3.03	3.11
DPS (HKD)	0.20	0.14	0.25	0.30	0.39

**Growth & Margin**

<b>Growth</b>					
Revenue Growth	28.2%	-0.1%	22.5%	24.6%	24.7%
Gross Profit Growth	25.5%	-9.9%	30.6%	22.6%	23.4%
Operating Profit Growth	18.2%	-25.6%	52.1%	25.6%	27.6%
Net Profit Growth	10.8%	-29.5%	77.1%	23.9%	29.7%
<b>Margin</b>					
Gross Profit Margin	43.4%	39.1%	41.7%	41.1%	40.6%
Operating Profit Margin	15.1%	11.2%	13.9%	14.1%	14.4%
Net Profit Margin	8.9%	6.3%	9.1%	9.0%	9.4%

**Key Ratios**

ROE	11.9%	7.3%	12.0%	14.2%	18.1%
ROA	6.8%	4.1%	6.7%	7.5%	9.1%

**Consolidated Statement of Financial Position**

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
<b>Non Current Asset</b>					
PPE	662	796	1,119	1,275	1,385
Others	2,395	2,748	3,064	2,944	2,804
<b>Total Non Current Assets</b>	3,057	3,544	4,183	4,219	4,190
<b>Current Asset</b>					
Inventory	1,046	975	1,497	1,642	2,080
Trade and other receivables	2,910	3,236	3,528	4,417	5,439
Bank balance and cash	2,970	3,472	3,930	3,661	3,492
Others	2,340	1,345	1,477	1,471	1,444
<b>Total Current Assets</b>	9,266	9,027	10,432	11,192	12,455
<b>Total Assets</b>	12,323	12,572	14,615	15,411	16,644
<b>Non Current Liabilities</b>					
Interest-bearing Borrowings	1,269	1,516	1,375	1,374	1,166
Other Non-current Liabilities	423	423	1,205	1,505	2,305
<b>Total Non-current Liabilities</b>	1,691	1,939	2,580	2,879	3,471
<b>Current Liabilities</b>					
Trade payables	1,420	1,479	2,352	2,574	3,106
Others	2,251	1,855	1,701	1,937	1,846
<b>Total Current Liabilities</b>	3,671	3,334	4,053	4,511	4,952
<b>Equity</b>					
Shareholders' equity	6,890	7,223	7,929	7,967	8,168
Non-controlling interests	70	75	53	53	53
<b>Total equity</b>	6,960	7,299	7,982	8,020	8,221
<b>Total Liabilities and Equity</b>	12,323	12,572	14,615	15,411	16,644

**Consolidated Statement of Cash Flow**

Dec Y/E, RMB mn	FY19	FY20	FY21	FY22E	FY23E
<b>CFO</b>					
Profit before income tax	1,121	762	1,287	1,642	2,141
D&A add-back	84	67	73	84	95
Others	(463)	(189)	(212)	(433)	(423)
Net (inc)/dec working capital	36	(320)	(447)	(812)	(928)
<b>Net cash flow from operating activities</b>	778	320	701	480	885
<b>CFI</b>					
Purchase of PP&E	(97)	(207)	(414)	(239)	(206)
Others	(1,948)	780	86	6	27
<b>Net cash flow from investing activities</b>	(2,045)	573	(329)	(234)	(179)
<b>CCF</b>					
Dividends paid	(436)	(279)	(356)	(660)	(833)
Others	1,476	(101)	453	25	(183)
<b>Net cash flows from financing activities</b>	1,039	(380)	96	(635)	(1,016)
<b>Net Change in Cash</b>	(227)	513	469	(389)	(309)
<b>Cash and CE at Y/E</b>	2,970	3,472	3,930	3,541	3,232

Current Price as of: 1 August

Source: PSHK Est.

**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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