

Xtep Intl (1368 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$4.74

Target Price: HK\$5.60 (+18%)

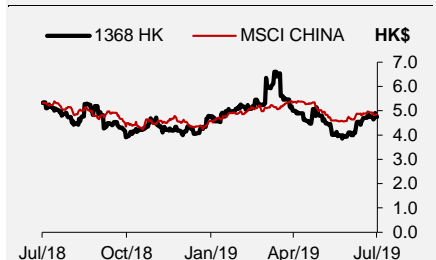
Prior TP: HK\$5.70

Key Data

HKEx code	1368 HK
12 Months High (HK\$)	6.74
12 Month Low (HK\$)	3.81
3M Avg Dail Vol. (mn)	9.46
Issue Share (mn)	2,498.50
Market Cap (HK\$mn)	11,842.90
Fiscal Year	31/12/2018
Major shareholder (s)	Ding Shuibao (59.98%)

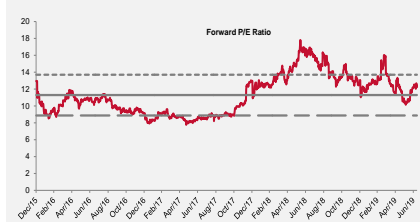
Source: Company data, Bloomberg, OP Research
Closing price as of 12/07/2019

Price Chart



	1mth	3mth	6mth
Absolute %	15.3	-5.0	-0.6
Rel. MSCI CHINA %	11.8	4.7	-6.5

PE



Company Profile

Xtep International Holdings Ltd. designs, manufactures, and markets sportswear. The Company produces footwear, apparel, and accessories.

2Q19E keeps up robust growth momentum

- Xtep retained robust growth momentum in 2Q19E with retail sell-through increasing more than 20% yoy from a high base in 2Q18.
- We revise down FY19/20E earnings estimate by 11.8%/12.0% to RMB753mn/RMB881mn on higher outgoings for channel investment after acquisition deal.
- Maintain BUY on Xtep with TP HK\$5.60 revised down from HK\$5.70 based on rolled forward 14x FY20E P/E.

2Q19E remained robust sell-through growth. Xtep saw retail sell-through (incl. both online and offline) registered over 20% yoy growth in 2Q19E, vs over 20% in 1Q19. SSSG kept up at low-teens (LTS) percentage, vs MTS in 2Q18 and LTS in 1Q19. Retail discount level stayed stable in 20~25% off, vs 20~25% off in 2Q18 and ~25% off in 1Q19. Retail inventory turnover maintained healthy at around 4 months, flattish YoY/MoM.

Revise down FY19/20E earnings estimate by 11.8%/12.0% to RMB753mn/RMB881mn. We maintain our forecast on FY19/20E revenue unchanged while revise up FY19/20E opex by 6.7%/6.8% to RMB2,314mn/RMB2,616mn respectively to reflect expected higher outgoings for channel investment after the addition of new brands. As a result, our FY19/20E diluted EPS was revised down by 15.5%/15.6% respectively to HK\$0.343/HK\$0.402.

We expect Xtep to achieve ~20% yoy growth in 1H19E revenue to reach RMB3,275mn backed by over 20% growth in retail sell-through. We estimate 1H19E net earnings to remain flattish to RMB343mn compared with RMB352mn in 1H18 (after the adjustments for AR write back) mainly due to the high base as well as the one-off acquisition-related costs in 1H19E.

Maintain BUY We maintain BUY on Xtep with TP HK\$5.60 revised down from HK\$5.70 based on rolled forward 14x FY20E P/E.

Risks: (1) Slower than expected retail growth (2) deflated consumer confidence due to slowing down macro economy, (3) execution risks during and after the acquisition

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,113.4	6,383.2	7,672.4	8,794.2	9,931.7
Growth (%)	(5.2)	24.8	20.2	14.6	12.9
Adjusted net profit	529.0	577.3	752.8	881.4	1,015.6
Growth (%)	0.2	9.1	30.4	17.1	15.2
Diluted EPS (HK\$)	0.230	0.369	0.343	0.402	0.463
EPS growth (%)	(22.6)	60.6	(6.9)	17.1	15.2
Change to previous EPS (%)			(15.5)	(15.6)	
Consensus EPS (HK\$)			0.000	0.391	
ROE (%)	8.0	12.4	12.4	12.5	13.6
P/E (x)	20.6	12.9	13.8	11.8	10.2
P/B (x)	1.6	1.6	1.5	1.4	1.3
Yield (%)	3.0	4.2	4.3	5.1	5.9
DPS (HK\$)	0.140	0.200	0.206	0.241	0.278

Source: OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	7,672	7,672	0.0	8,794	8,794	(0.0)	
Gross profit	3,361	3,361	0.0	3,869	3,869	0.0	
Gross margin	43.8%	43.8%	0.0	44.0%	44.0%	0.0	
Opex	(2,314)	(2,169)	6.7	(2,616)	(2,449)	6.8	As we are expecting higher input for channel construction
EBIT	1,153	1,299	(11.2)	1,360	1,527	(10.9)	
Core Net Profit	753	854	(11.8)	881	1,001	(12.0)	
Diluted EPS (HK\$)	0.343	0.406	(15.5)	0.402	0.476	(15.6)	

Source: OP Research

Exhibit 3: 1H19E results preview

(RMB mn)	1H18	2H18A	1H19E	FY18	FY19E
Revenue	2,729	3,654	3,275	6,383	7,672
COGS	(1,536)	(2,019)	(1,867)	(3,555)	(4,312)
Gross profit	1,193	1,635	1,408	2,828	3,361
Other income & gains	143	53	54	196	107
Selling exp	(480)	(877)	(622)	(1,357)	(1,596)
Admin exp excl R&D	(194)	(263)	(229)	(456)	(534)
R&D	(70)	(96)	(80)	(166)	(184)
Operating profit (EBIT)	592	452	531	1,044	1,153
Provisions or other items	0	0	0	0	0
Interest income	28	45	30	72	82
Finance costs	(69.2)	(71.3)	(70.0)	(141)	(144)
Profit after financing costs	551	426	491	976	1,091
Associated cos	0	0	0	0	0
Jointly controlled cos	0	0	0	0	0
Pre-tax profit	551	426	491	976	1,091
Tax	(175)	(131)	(147)	(306)	(327)
Minority interests	(0)	(12.98)	0.00	(13)	(11)
Profit from discontinued operations	0.00	0.00	0.00	0	0
Net profit	375	281	343	657	753
YoY%					
Revenue	18%	-10%	20%	24.8%	20.2%
Gross profit	17%	33%	18%	26.0%	18.8%
Net profit	21%	188%	-8%	60.9%	14.7%
Key ratios					
GPM	43.7%	44.7%	43.0%	44.3%	43.8%
Selling exp	17.6%	24.0%	19.0%	21.3%	20.8%
Admin exp	7.1%	7.2%	7.0%	7.2%	7.0%
EIT	31.8%	30.8%	30.0%	31.4%	30.0%
Net margin	13.7%	7.7%	10.5%	10.3%	9.8%

Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Footwear	3,258	3,925	4,718	5,408	6,107
Apparel	1,759	2,327	2,797	3,206	3,620
Accessories	96	131	158	181	204
Turnover	5,113	6,383	7,672	8,794	9,932
YoY%	(5.2)	24.8	20.2	14.6	12.9
COGS	(2,869)	(3,555)	(4,312)	(4,925)	(5,562)
Gross profit	2,244	2,828	3,361	3,869	4,370
Gross margin	43.9%	44.3%	43.8%	44.0%	44.0%
Other income	158	196	107	107	107
Selling & distribution	(911)	(1,357)	(1,596)	(1,809)	(2,028)
Admin	(623)	(456)	(534)	(596)	(664)
R&D	(143)	(166)	(184)	(211)	(238)
Other opex	0	0	0	0	0
Total opex	(1,678)	(1,980)	(2,314)	(2,616)	(2,931)
Operating profit (EBIT)	725	1,044	1,153	1,360	1,546
Operating margin	14.2%	16.4%	15.0%	15.5%	15.6%
Provisions	0	0	0	0	0
Interest Income	52	72	82	96	99
Finance costs	(106)	(141)	(144)	(144)	(144)
Profit after financing costs	671	976	1,091	1,312	1,501
Associated companies & JVs	0	0	0	(50)	(50)
Pre-tax profit	671	976	1,091	1,262	1,451
Tax	(224)	(306)	(327)	(367)	(420)
Minority interests	(38)	(13)	(11)	(13)	(15)
Profit from discontinued operations	0	0	0	0	0
Net profit	408	657	753	881	1,016
YoY%	(23)	61	15	17	15
Adjusted net profit	529	577	753	881	1,016
YoY%	0	9	30	17	15
Adjusted net margin	10.3%	9.0%	9.8%	10.0%	10.2%
EBITDA	783	1,126	1,221	1,435	1,629
EBITDA margin	15.3%	17.6%	15.9%	16.3%	16.4%
EPS (RMB)	0.184	0.295	0.298	0.349	0.403
YoY%	(23)	61	(7)	17	15
DPS (HK\$)	0.140	0.200	0.206	0.241	0.278
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	783	1,126	1,221	1,435	1,629
Chg in working cap	(119)	(513)	(193)	(299)	(273)
Others	205	(94)	0	0	0
Operating cash	868	518	1,028	1,136	1,356
Interest received	(51)	(55)	82	96	99
Tax	(259)	(309)	(54)	(327)	(367)
Net cash from operations	558	154	1,056	904	1,088
Capex	(123)	(72)	(87)	(100)	(113)
Investments	(75)	(81)	0	0	0
Change in short-term bank deposits	447	(234)	0	0	0
Sales of assets	63	83	0	0	0
Interests received	0	0	0	0	0
Others	(37)	24	0	0	0
Investing cash	275	(281)	(87)	(100)	(113)
FCF	833	(127)	968	804	975
Issue of shares	7	59	1,178	0	0
Buy-back	0	(89)	0	0	0
Minority interests	0	(4)	0	0	0
Dividends paid	(271)	(459)	(424)	(487)	(566)
Net change in bank loans	421	(10)	0	0	0
Others	(3)	(7)	(144)	(144)	(144)
Financing cash	154	(511)	610	(631)	(710)
Net change in cash	987	(637)	1,579	173	266
Exchange rate or other Adj	(1)	1	0	0	0
Opening cash	2,847	3,832	3,196	4,774	4,947
Closing cash	3,832	3,196	4,774	4,947	5,213
CFPS (HK\$)	0.314	0.087	0.481	0.412	0.496

Source: Company, OP Research

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	43.9	44.3	43.8	44.0	44.0
Operating margin (%)	14.2	16.4	15.0	15.5	15.6
Net margin (%)	8.0	10.3	9.8	10.0	10.2
Selling & dist'n exp/Sales (%)	17.8	21.3	20.8	20.6	20.4
Admin exp/Sales (%)	12.2	7.2	7.0	6.8	6.7
Salaries/Sales (%)	12.1	11.6	11.1	10.8	10.6
A&P/Sales (%)	12.9	15.2	15.0	15.0	15.0
R&D/Sales (%)	2.8	2.6	2.4	2.4	2.4
Payout ratio (%)	101.4	59.5	60.0	60.0	60.0
Effective tax (%)	33.5	31.4	30.0	28.0	28.0
Total debt/equity (%)	35.4	36.5	28.4	26.9	25.3
		Net	Net	Net	Net
Net debt/equity (%)		Net cash	Net cash	cash	cash
Current ratio (x)	3.2	2.5	2.6	2.6	2.6
Quick ratio (x)	2.9	2.2	2.4	2.3	2.3
Inventory T/O (days)	91	86	86	86	86
AR T/O (days)	129	121	120	117	115
AP T/O (days)	131	90	90	90	90
Cash conversion cycle (days)	90	117	116	113	111
Asset turnover (x)	0.6	0.7	0.7	0.8	0.8
Financial leverage (x)	1.7	1.7	1.7	1.7	1.7
EBIT margin (%)	14.2	16.4	15.0	15.5	15.6
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.6	0.7	0.7	0.7	0.7
Return on equity (%)	8.0	12.4	12.4	12.5	13.6
ROIC (%)	19.9	26.2	27.3	32.3	34.3
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	686	677	698	724	755
Intangible assets & goodwill	8	8	6	4	3
Associated companies & JVs	0	0	0	(50)	(100)
Long-term investments	267	339	339	339	339
Other non-current assets	92	114	114	114	114
Non-current assets	1,052	1,139	1,157	1,132	1,112
Inventories	718	836	836	1,014	1,158
AR	1,807	2,115	2,522	2,819	3,129
Prepayments & deposits	572	727	874	1,002	1,132
Other current assets	953	1,186	1,186	1,186	1,186
Cash	3,832	3,196	4,774	4,947	5,213
Current assets	7,882	8,060	10,193	10,968	11,817
AP	1,028	879	1,066	1,217	1,375
Tax	66	54	327	367	420
Accruals & other payables	565	861	1,035	1,187	1,340
Bank loans & leases	831	1,483	1,483	1,483	1,483
CB & othe debts	0	0	0	0	0
Other current liabilities	0	1	1	1	1
Current liabilities	2,489	3,278	3,912	4,255	4,619
Bank loans & leases	1,019	461	461	461	461
CB & othe debts	0	0	0	0	0
Deferred tax & others	97	129	129	129	129
MI	108	5	15	28	43
Non-current liabilities	1,224	595	605	618	633
Total net assets	5,221	5,326	6,833	7,227	7,677
Shareholder's equity	5,221	5,326	6,833	7,227	7,677
Share capital	20	20	20	20	20
Reserves	5,201	5,306	6,814	7,207	7,658
BVPS (HK\$)	2.94	2.97	3.15	3.33	3.53
Total debts	1,850	1,944	1,944	1,944	1,944
Net cash/(debts)	2,934	2,438	4,016	4,189	4,455

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B		EV/		Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px	
					Hist (x)	FY1 (x)	FY2 (x)					Hist (%)	FY1 (%)	Hist (x)	P/B (x)	Ebitda Hist	Ebitda Cur Yr						1-mth %	3-mth %
Xtep Intl	1368 HK	4.74	1,514	5.6	12.9	13.8	11.8	(6.9)	17.1	16.6	0.8	4.2	4.3	1.6	1.5	7.3	6.4	Net cash	44.3	10.3	12.4	12.4	15.3	(5.0)
HSI		28,471.62			11.1	11.2	10.4	(0.8)	7.7	5.2	2.16	3.4	3.7	1.26	1.23						11.3	11.0	2.3	(4.7)
HSCEI		10,788.34			8.8	8.6	7.9	2.5	8.2	6.7	1.29	3.7	4.0	1.08	1.05						12.3	12.2	1.5	(7.2)
CSI300		3,808.73			14.2	12.4	10.9	14.7	14.0	13.9	0.9	2.2	2.5	1.8	1.6						12.3	13.1	1.8	(5.3)
Domestic peers																								
Adjusted sector avg*					19.5	19.0	17.6	(6.7)	79.2	18.9	0.9	2.5	2.6	3.0	1.5	16.3	7.0	6.6	45.0	9.6	11.3	8.7	3.2	(12.5)
361 Degrees	1361 HK	1.49	394	0.4	8.9	7.0	6.0	27.9	15.4	16.9	0.4	5.1	6.5	0.5	0.4	(0.2)	(0.2)	0.0	40.6	5.9	5.3	6.5	3.5	(11.8)
Anta Sports Prod	2020 HK	51.45	17,765	49.4	29.6	23.3	19.1	(47.0)	192.5	22.3	1.0	1.5	1.5	7.7	N/A	18.9	N/A	0.0	52.6	17.0	27.8	N/A	3.1	(3.8)
Li Ning Co Ltd	2331 HK	19.14	5,644	35.9	56.8	37.4	31.2	(2.1)	86.2	31.8	1.2	0.5	0.9	6.3	N/A	29.6	N/A	0.0	48.1	6.8	13.1	N/A	29.5	42.6
Pou Sheng Intl	3813 HK	1.97	1,349	0.3	16.7	14.7	12.0	(23.0)	80.0	18.3	0.8	1.3	1.5	1.3	N/A	8.4	N/A	39.8	33.5	2.4	8.2	N/A	9.4	2.1
China Dongxiang	3818 HK	1.00	752	0.6	16.2	8.0	N/A	102.2	N/A	N/A	N/A	5.6	N/A	0.5	N/A	19.0	N/A	0.0	57.3	18.5	3.3	N/A	2.0	(16.0)
Annil Co Ltd-A	002875 CH	18.52	355	8.0	26.3	23.7	19.5	11.0	21.7	18.1	1.3	0.9	N/A	2.8	2.5	22.3	14.1	0.0	55.0	6.9	10.1	11.0	5.3	(11.1)
Guirenniao Co-A	603555 CH	4.97	454	5.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.9	N/A	(18.7)	N/A	146.8	28.0	(24.6)	(37.6)	N/A	(4.2)	(34.6)
International peers																								
Adjusted sector avg*					41.4	33.6	28.4	(75.2)	499.8	19.1	1.80	0.9	0.6	9.73	10.53	23.9	91.4	0.0	49.0	7.2	23.2	25.8	7.0	13.1
Nike Inc -CI B	NKE US	88.29	138,770	564.7	34.6	30.5	26.0	(72.4)	382.4	15.8	1.9	1.0	1.0	12.3	16.8	26.5	89.2	0.0	44.7	10.3	42.7	48.8	6.8	2.4
Under Armour-A	UAA US	26.56	11,158	112.5	N/A	76.3	54.0	N/A	N/A	(288.1)	N/A	N/A	0.0	5.8	5.3	77.6	497.7	8.5	45.1	(0.9)	0.3	(0.2)	2.2	21.5
Lululemon Ath	LULU US	183.07	23,850	364.5	50.4	39.5	33.2	(75.6)	523.2	21.4	1.8	N/A	0.0	17.5	16.8	28.9	125.8	0.0	55.2	14.7	33.7	38.2	7.1	7.8
Adidas Ag	ADS GR	276.90	62,510	149.0	32.8	28.2	25.1	(73.0)	384.9	14.3	2.0	1.2	1.4	7.9	8.5	18.9	68.2	0.0	51.9	7.8	26.9	28.1	7.8	22.9
Puma Se	PUM GR	59.80	10,156	18.3	47.7	36.2	29.3	(79.9)	708.7	24.9	1.5	0.6	0.8	5.2	5.2	21.1	82.4	0.0	48.4	4.0	12.2	14.1	11.2	10.7

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
12/07/2019	Anta Sports	2020	2Q19E operations on track	BUY	Dallas Cai/Megan Jin
10/07/2019	Anta Sports	2020	Clearing up Muddy Waters	BUY	Dallas Cai/Megan Jin
08/07/2019	Kingdee Intl	268	Downgrade on unexpected profit warning	SELL	Yuji Fung/Dallas Cai
01/07/2019	Q Tech	1478	Upgrade on better downstream demand outlook	BUY	Yuji Fung/Dallas Cai
25/06/2019	Li Ning	2331	Upgrade on surprise in revenue growth	BUY	Dallas Cai/Megan Jin
24/06/2019	361 Degrees Intl	1361	Rebranding starts from building basketball half-courts	BUY	Megan Jin
21/06/2019	Q Tech	1478	Kunshan reverse road show takeaways	SELL	Yuji Fung/Dallas Cai
19/06/2019	Sunny Optical	2382	Conference call takeaways	BUY	Yuji Fung/Dallas Cai
18/06/2019	TCL Electronics	1070	Overseas shipments keep steam	BUY	Yuji Fung/Dallas Cai
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin

Historical recommendations and target price: Xtep (1368 HK)

(as of 12/07/2019)



Date	Rating	TP (HK\$)	Close (HK\$)	Date	Rating	TP (HK\$)	Close (HK\$)
1 25 Jun 2018	BUY	7.30	5.30	5. 06 Mar 2019	BUY	5.70	5.27
2 22 Aug 2018	BUY	6.60	5.07	6. 13 Mar 2019	BUY	6.50	5.30
3 09 Oct 2018	BUY	5.70	4.23	7. 09 Apr 2019	BUY	5.70	5.11
4 15 Jan 2019	BUY	5.70	4.62	8. 03 May 2019	BUY	5.70	4.67

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