Tue, 15 Jan 2019

Equity Research
Sportswear / China

Xtep Intl (1368 HK)

FY18 results preview

- **We expect Xtep FY18E revenue/net profits to be up 20.5%/63.2% yoy to RMB6,164mn/RMB666mn respectively.**
- **We revise up our FY18 earnings estimates by 7.0% to RMB666mn and keep FY19E forecast largely unchanged.**
- **Maintain BUY on Xtep with TP HK$5.70 unchanged based on same 14x FY19E P/E.**

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Company Update

BUY

UNCHANGED

Close price:	**HK$4.62**
Target Price:	**HK$5.70 (+23%)**
Prior TP:	**HK$5.70**

Key Data

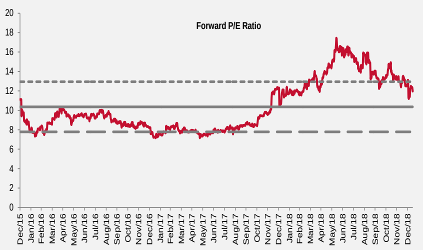
HKEx code		1368 HK
12 Months High	(HK$)	6.14
12 Month Low	(HK$)	3.24
3M Avg Dail Vol.	(mn)	1.88
Issue Share	(mn)	2,243.38
Market Cap	(HK$mn)	10,364.42
Fiscal Year		31/12/2017
Major shareholder (s)		Ding Shuibo (59.98%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 14/01/2019

Price Chart

	1mth	3mth	6mth
Absolute %	**11.3**	**11.9**	**-9.3**
Rel. MSCI CHINA %	**10.5**	**9.1**	**3.8**

PE



Company Profile

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

We expect Xtep FY18E revenue/net profits to be RMB6,164mn/RMB666mn, up 20.5%/63.2% yoy respectively. We believe the growth in revenue is mainly driven by more efficient retail network and more responsive supply chain as compared to FY17, which is reflected in the notable improvement in FY18E SSSG. We expect FY18E GPM to maintain flat at 43.6% vs 43.9% in FY17 as we believe the increase in raw material price will eclipse limited economies of scale. As a result, we forecast FY18E net profits to increase by 63.2% yoy thanks to (1) better retail performance, (2) absence of intensive opex for internal restructure, and (3) low-base in FY17. Earlier this month, Xtep announced more resilient than expected 4Q18E operation data set with SSSG up mid-teens percentage (MTS), healthy inventory level of 4 months, and retail discounts of 20-25% off.

Revise up FY18/19E earnings estimates by 7.0% to RMB666mn. We revise up our FY18E revenue by 2.6% to RMB6,164 on better than expected 4Q18E retail performance while keep our FY19E forecast largely unchanged due to opaque visibility of macro consumption environment. As a result, our FY18/19E diluted EPS is revised by 7.0%./0.0% to HK$0.366/HK$0.408 respectively.

Maintain BUY with TP HK$5.70 unchanged based on same 14x FY19E P/E, at 8.5% discount to industry average.

Risks: (1) Deep discount on e-commerce platform due to keen competition (2) slower than expected retail growth (3) deflated consumer confidence due to slowing down macro economy.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	5,396.6	5,113.4	6,164.1	6,831.4	7,778.0
Growth (%)	1.9	(5.2)	20.5	10.8	13.9
Net Profit	527.8	408.1	666.3	742.7	868.7
Growth (%)	(22.2)	(22.7)	63.2	11.5	17.0
Diluted EPS (HK$)	0.297	0.230	0.366	0.408	0.477
EPS growth (%)	(22.4)	(22.6)	59.4	11.5	17.0
Change to previous EPS (%)			7.0	(0.0)	
Consensus EPS (HK$)			0.356	0.416	
ROE (%)	10.8	8.0	12.6	13.4	14.7
P/E (x)	15.6	20.1	12.6	11.3	9.7
P/B (x)	1.7	1.6	1.5	1.5	1.4
Yield (%)	3.6	3.0	4.8	5.3	6.2
DPS (HK$)	0.165	0.140	0.220	0.245	0.286

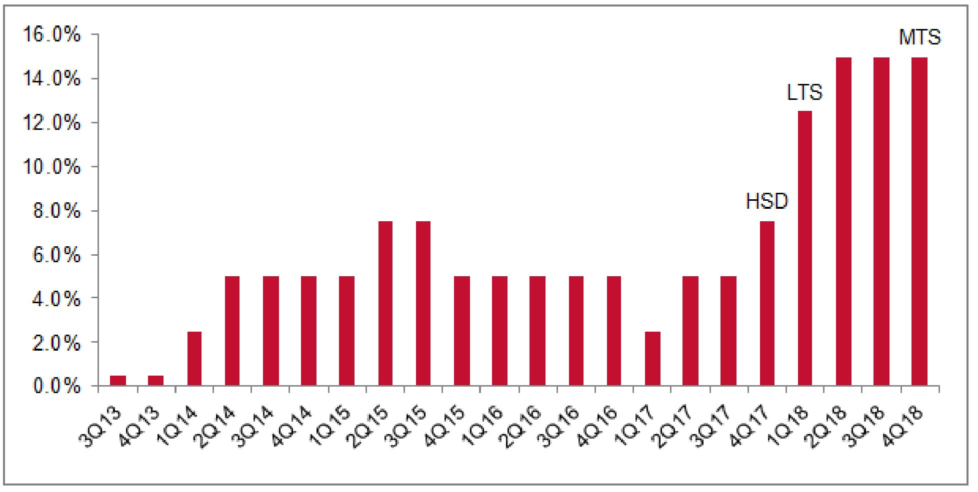
Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY18E			FY19E			OP Comments
(RMB mn)	New	Old	% Chg	New	Old	% Chg	
Revenue	**6,164**	**6,007**	**2.6**	**6,831**	**6,889**	**(0.8)**	
Gross profit	2,688	2,619	2.6	2,979	3,004	(0.8)	
Gross margin	43.6%	43.6%	0.0	43.6%	43.6%	0.0	
Opex	(1,804)	(1,799)	0.3	(1,986)	(2,011)	(1.2)	
EBIT	1,036	972	6.5	1,144	1,145	(0.1)	
Net Profit	666	623	7.0	743	743	(0.1)	
Diluted EPS (HK$)	0.366	0.342	7.0	0.408	0.408	(0.0)	

Source: OP Research

Exhibit 3: SSSG yoy growth from 3Q13 to 4Q18



Source: Company, OP Research

Financial Summary

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Footwear	3,525	3,258	3,927	4,352	4,955
Apparel	1,765	1,759	2,121	2,351	2,676
Accessories	106	96	116	128	146
Turnover	**5,397**	**5,113**	**6,164**	**6,831**	**7,778**
YoY%	1.9	(5.2)	20.5	10.8	13.9
COGS	(3,065)	(2,869)	(3,477)	(3,853)	(4,387)
Gross profit	**2,331**	**2,244**	**2,688**	**2,979**	**3,391**
Gross margin	43.2%	43.9%	43.6%	43.6%	43.6%
Other income	99	158	152	152	152
Selling & distribution	(851)	(911)	(1,049)	(1,161)	(1,310)
Admin	(524)	(623)	(600)	(655)	(713)
R&D	(138)	(143)	(154)	(171)	(194)
Other opex	0	0	0	0	0
Total opex	**(1,513)**	**(1,678)**	**(1,804)**	**(1,986)**	**(2,217)**
Operating profit (EBIT)	**917**	**725**	**1,036**	**1,144**	**1,326**
Operating margin	17.0%	14.2%	16.8%	16.7%	17.0%
Provisions	0	0	0	0	0
Interest Income	51	52	55	58	61
Finance costs	(102)	(106)	(116)	(116)	(116)
Profit after financing costs	866	671	974	1,086	1,270
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	866	671	974	1,086	1,270
Tax	(293)	(224)	(273)	(304)	(356)
Minority interests	(45)	(38)	(35)	(39)	(46)
Profit from discontinued operations	0	0	0	0	0
Net profit	**528**	**408**	**666**	**743**	**869**
YoY%	(22)	(23)	63	11	17
Net margin	9.8%	8.0%	10.8%	10.9%	11.2%
EBITDA	**971**	**783**	**1,103**	**1,224**	**1,420**
EBITDA margin	18.0%	15.3%	17.9%	17.9%	18.3%
EPS (RMB)	**0.237**	**0.184**	**0.293**	**0.326**	**0.382**
YoY%	(22)	(23)	59	11	17
DPS (HK$)	0.165	0.140	0.220	0.245	0.286

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	971	783	1,103	1,224	1,420
Chg in working cap	(510)	(119)	108	(132)	(121)
Others	187	205	0	0	0
Operating cash	**648**	**868**	**1,211**	**1,092**	**1,299**
Interest received	(53)	(51)	55	58	61
Tax	(249)	(259)	(66)	(273)	(304)
Net cash from operations	**346**	**558**	**1,201**	**877**	**1,055**
Capex	(94)	(123)	(149)	(165)	(188)
Investments	8	(75)	0	0	0
Change in short-term bank deposits	(629)	447	0	0	0
Sales of assets	42	63	0	0	0
Interests received	0	0	0	0	0
Others	106	(37)	0	0	0
Investing cash	**(567)**	**275**	**(149)**	**(165)**	**(188)**
FCF	**(221)**	**833**	**1,052**	**713**	**868**
Issue of shares	62	7	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(394)	(271)	(500)	(421)	(484)
Net change in bank loans	(228)	421	0	0	0
Others	17	(3)	(116)	(116)	(116)
Financing cash	**(542)**	**154**	**(617)**	**(538)**	**(601)**
Net change in cash	**(764)**	**987**	**435**	**175**	**267**
Exchange rate or other Adj	3	(1)	0	0	0
Opening cash	3,607	2,847	3,832	4,268	4,442
Closing cash	**2,847**	**3,832**	**4,268**	**4,442**	**4,709**
CFPS (HK$)	**0.194**	**0.314**	**0.660**	**0.482**	**0.580**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	43.2	43.9	43.6	43.6	43.6
Operating margin (%)	17.0	14.2	16.8	16.7	17.0
Net margin (%)	9.8	8.0	10.8	10.9	11.2
Selling & dist'n exp/Sales (%)	15.8	17.8	17.0	17.0	16.8
Admin exp/Sales (%)	9.7	12.2	9.7	9.6	9.2
Salaries/Sales (%)	10.4	12.1	11.2	11.2	11.0
A&P/Sales (%)	11.8	12.9	12.5	12.5	12.5
R&D/Sales (%)	2.6	2.8	2.5	2.5	2.5
Payout ratio (%)	60.5	101.4	60.0	60.0	60.0
Effective tax (%)	33.8	33.5	28.0	28.0	28.0
Total debt/equity (%)	30.3	35.4	34.3	32.4	30.4
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.4	3.2	2.8	2.8	2.7
Quick ratio (x)	2.2	2.9	2.6	2.5	2.4
Inventory T/O (days)	55	91	91	91	91
AR T/O (days)	142	129	125	120	117
AP T/O (days)	107	131	131	131	131
Cash conversion cycle (days)	90	90	86	81	78
Asset turnover (x)	0.7	0.6	0.7	0.7	0.7
Financial leverage (x)	1.7	1.7	1.8	1.8	1.8
EBIT margin (%)	17.0	14.2	16.8	16.7	17.0
Interest burden (x)	0.9	0.9	0.9	0.9	1.0
Tax burden (x)	0.6	0.6	0.7	0.7	0.7
Return on equity (%)	**10.8**	**8.0**	**12.6**	**13.4**	**14.7**
ROIC (%)	**26.3**	**19.9**	**32.1**	**35.8**	**38.6**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Balance Sheet (RMB mn)					
Fixed assets	618	686	768	855	949
Intangible assets & goodwill	5	8	6	5	3
Associated companies & JVs	0	0	0	0	0
Long-term investments	252	267	267	267	267
Other non-current assets	82	92	92	92	92
Non-current assets	**957**	**1,052**	**1,133**	**1,218**	**1,311**
Inventories	460	718	718	870	964
AR	2,103	1,807	2,111	2,246	2,493
Prepayments & deposits	408	572	493	547	622
Other current assets	1,400	953	953	953	953
Cash	2,847	3,832	4,268	4,442	4,709
Current assets	**7,217**	**7,882**	**8,543**	**9,058**	**9,742**
AP	896	1,028	1,245	1,380	1,571
Tax	88	66	273	304	356
Accruals & other payables	544	565	681	754	859
Bank loans & leases	1,502	831	831	831	831
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**3,029**	**2,489**	**3,030**	**3,269**	**3,617**
Bank loans & leases	0	1,019	1,019	1,019	1,019
CB & othe debts	0	0	0	0	0
Deferred tax & others	122	97	97	97	97
MI	69	108	143	182	228
Non-current liabilities	**191**	**1,224**	**1,259**	**1,298**	**1,344**
Total net assets	**4,953**	**5,221**	**5,387**	**5,708**	**6,092**
Shareholder's equity	**4,953**	**5,221**	**5,387**	**5,708**	**6,092**
Share capital	20	20	20	20	20
Reserves	4,934	5,201	5,367	5,688	6,073
BVPS (HK$)	**2.79**	**2.94**	**3.00**	**3.18**	**3.40**
Total debts	1,502	1,850	1,850	1,850	1,850
Net cash/(debts)	2,744	2,934	3,369	3,544	3,811

Source: Company, OP Research

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Xtep Intl	**1368 HK**	**4.62**	**1,321**	**1.0**	**18.9**	**12.0**	**10.3**	**57.3**	**17.2**	**15.7**	**0.77**	**3.2**	**5.0**	**1.48**	**1.45**	**8.6**	**5.8**	**Net cash**	**43.9**	**8.0**	**8.0**	**12.4**	**11.3**	**17.0**
HSI		26,298.33			10.0	10.0	9.2	(0.0)	9.1	(0.1)	(104.88)	3.8	4.0	1.23	1.12						12.3	11.2	0.8	1.9
HSCEI		10,292.44			8.0	7.5	6.9	6.1	9.5	(2.3)	(3.31)	4.1	4.5	1.04	0.91						13.0	12.1	(0.6)	(0.1)
CSI300		3,067.78			11.5	9.6	8.3	19.5	15.1	N/A	N/A	2.6	3.3	1.5	1.3						13.0	13.3	(3.1)	(3.2)
Domestic peers																								
Adjusted sector avg*					**20.6**	**18.4**	**15.3**	**10.5**	**18.4**	**17.7**	**0.9**	**3.1**	**3.4**	**1.7**	**1.6**	**11.2**	**8.7**	**5.6**	**45.4**	**7.8**	**7.7**	**8.1**	**(1.6)**	**5.2**
361 Degrees	1361 HK	1.81	477	0.3	7.1	6.3	5.7	11.8	10.1	9.9	0.6	6.2	6.3	0.5	0.5	0.8	0.8	0.0	41.8	8.9	8.1	8.6	0.0	(1.1)
Anta Sports Prod	2020 HK	35.10	12,015	23.5	25.9	20.3	16.5	27.3	23.1	23.1	0.9	3.0	3.5	5.6	5.1	17.3	13.0	0.0	49.4	18.5	25.8	27.3	(5.9)	10.7
Li Ning Co Ltd	2331 HK	9.20	2,570	9.9	37.0	27.1	20.7	36.5	30.7	29.4	0.9	N/A	0.7	3.2	3.3	17.8	13.0	0.0	47.1	5.8	11.7	12.9	9.5	36.3
Pou Sheng Intl	3813 HK	1.50	1,022	0.3	17.1	15.4	11.8	11.0	31.0	21.3	0.7	1.3	1.5	N/A	1.0	7.5	6.9	33.7	35.0	2.1	N/A	6.7	1.4	(2.0)
China Dongxiang	3818 HK	1.16	871	0.5	6.9	7.7	7.7	(10.4)	0.0	(4.8)	N/A	9.4	7.9	0.6	0.6	6.0	9.7	0.0	55.7	59.5	7.3	7.8	(6.5)	(3.3)
Annil Co Ltd-A	002875 CH	14.92	291	6.2	25.2	22.2	18.6	13.6	19.3	16.2	1.4	1.0	N/A	2.3	2.2	16.7	N/A	0.0	55.1	6.7	10.0	9.5	2.2	13.6
Guirenniao Co-A	603555 CH	6.21	577	10.1	24.8	29.6	25.9	(16.1)	14.3	6.2	4.7	4.0	0.6	1.8	1.7	12.4	N/A	74.7	33.8	4.9	1.1	3.3	(0.8)	13.5
International peers																								
Adjusted sector avg*					**55.4**	**30.9**	**25.5**	**79.4**	**26.4**	**35.9**	**0.88**	**1.7**	**0.7**	**8.14**	**7.83**	**26.7**	**19.3**	**0.0**	**47.9**	**4.5**	**15.4**	**23.9**	**4.1**	**2.1**
Nike Inc -Cl B	NKE US	76.04	119,672	600.8	65.2	28.7	24.3	127.2	18.2	45.9	0.6	1.1	1.1	13.7	14.0	22.9	20.3	0.0	43.8	5.3	21.0	46.0	4.8	0.2
Under Armour-A	UAA US	19.67	8,379	122.1	N/A	91.5	61.9	N/A	47.9	(263.0)	N/A	N/A	0.0	4.4	4.4	44.7	26.5	29.9	45.0	(1.0)	(6.7)	3.4	3.6	5.4
Lululemon Ath	LULU US	132.16	17,499	331.0	69.6	35.7	30.4	94.6	17.5	38.6	0.9	N/A	0.0	12.4	10.6	29.8	20.6	0.0	52.8	9.8	27.2	32.9	10.9	(8.0)
Adidas Ag	ADS GR	196.70	45,185	139.8	36.3	23.5	20.6	54.5	14.3	26.4	0.9	1.3	1.6	6.1	5.9	15.0	13.4	0.0	50.4	5.2	24.7	25.5	0.8	1.8
Puma Se	PUM GR	458.00	7,918	18.3	50.4	35.6	26.6	41.4	34.2	32.7	1.1	2.7	0.7	4.0	4.1	21.2	16.0	0.0	47.3	3.3	10.6	12.0	0.5	11.3

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

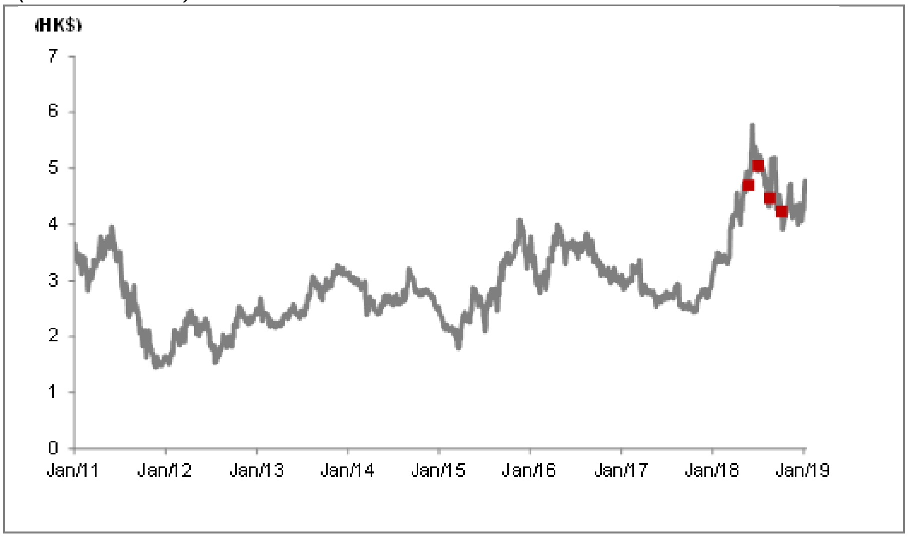
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/01/2019	Sinosoft Tech	1297	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Sunny Optical	2382	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Q Tech	1478	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Tian Lun Gas	1600	FY18E results preview	BUY	Yuji Fung/Dallas Cai
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai
03/12/2018	Ju Teng Intl	3336	Positive profit alert for FY18E	BUY	Yuji Fung/Dallas Cai
26/11/2018	Truly Intl	732	3Q18 turnover flat as expected	BUY	Yuji Fung/Dallas Cai
19/11/2018	Ausnutria Dairy	1717	Nurturing by global layout	BUY	Dallas Cai
13/11/2018	361 Degrees Intl	1361	Introduce new investor to kids' wear business	BUY	Yuji Fung/Dallas Cai
12/11/2018	Sunny Optical	2382	Oct shipments up to expectations	BUY	Yuji Fung/Dallas Cai
12/11/2018	Q Tech	1478	Shipment growth looms on horizon	BUY	Yuji Fung/Dallas Cai
07/11/2018	China Youzan	8083	3Q18 results in line with expectations	BUY	Yuji Fung/Dallas Cai
02/11/2018	CH Display OPT	334	TCL Group ups stakes for turnaround and advance on opportunities	BUY	Yuji Fung/Dallas Cai
30/10/2018	TCL Electronics	1070	Revised up full year shipments target	BUY	Yuji Fung/Dallas Cai
26/10/2018	CH Display OPT	334	New client order lifts Sept shipments to record high	BUY	Yuji Fung/Dallas Cai
23/10/2018	Li Ning	2331	Solid set of 3Q18 operations data	BUY	Dallas Cai
23/10/2018	361 Degrees Intl	1361	3Q18 operations data in-line with expectations	BUY	Yuji Fung/Dallas Cai
16/10/2018	TCL Electronics	1070	3Q18 shipments set record high	BUY	Yuji Fung/Dallas Cai
12/10/2018	Sunny Optical	2382	Upbeat September handset-related shipments	BUY	Yuji Fung/Dallas Cai
12/10/2018	Anta Sports	2020	Solid 3Q18 operations data	BUY	Dallas Cai
09/10/2018	Xtep Intl	1368	Solid 3Q18 sales, worries on earnings	BUY	Dallas Cai
17/09/2018	CH Display OPT	334	Upgrade on new client orders to lift earnings	BUY	Yuji Fung/Dallas Cai

Historical recommendations and target price: Xtep (1368 HK)

(as of 14/01/2019)



	Date	Rating	TP	Close
1	29 May 2018	BUY	6.40	4.94
2	25 Jun 2018	BUY	7.30	5.30
3	22 Aug 2018	BUY	6.60	5.07
4	09 Oct 2018	BUY	5.70	4.23

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