

## Sportswear - China

# Distributor call takeaways: 10%+ growth in 2024, but discounting likely to deepen

### Industry Overview

We recently hosted conference call with Mr. Chen, a sportswear distributor in Eastern China, and summarize our key takeaways below. Please note these discussions were specific to the distributor's region and may not represent national trends; information should be used together with other sources and channel checks.

## 4Q soft; New Year holidays sales rebound on a low base

4Q23 retail sales growth in distributor regions was lower than the distributor's earlier expectation of close to 30%, with Li Ning's growth at high-20%, Anta and Nike at low-20%, and adidas at high-teens%. International brands underperformed domestic brands, due to soft consumption preference, not fully recovered marketing campaigns, and loss of shares in wholesale channel to discounted outlets (brands' DTC). New Year holiday sales (3 days holidays) growth in the distributor region was mid-20% for domestic brands, high-teens% for Nike, and mid-teens% for adidas, partially due to concentrated consumption during holidays and a low base (2023 New Year holiday sales at -high-single digit% for Li Ning, -5-6% for Anta and -10-12% for Nike and adidas).

## Relatively resilient sportswear growth in 2024 at 10%+

The distributor acknowledged the market's concern about weak consumption, but he believes sportswear sector could be more resilient than other apparel/shoes segments given rising sports participation. He now expects 10% growth for overall sportswear industry, with domestic continuing to outgrow international. He sees 10-15% order growth for domestic brands and 3-5% growth for international brands in 2024. 1Q24 growth faces a high base, but likely to be partially offset by a late Chinese New Year, which is expected to grow at a similar level to that of the full year.

## Inventory still high, discounting likely to deepen

Discounting trended deeper in 4Q23 in distributor regions, with Li Ning and international brands deepening by 3% YoY and Anta by 1%. Anta's better discounting was supported by more rational sell-in target, strict inventory management, and stringent control of online/new product discounting. Inventory level was still higher than optimal level, as of end-Dec (Anta and Li Ning 5.2-5.3x and Nike at 4.4x, still higher than normal level of <5x for domestic brands/<4.2x for international). On a positive note, cross-sales ratio improved to 2.6-2.9x on average, compared with 2.3x in 2022. The distributor plans to offer more discounts post-holiday season (Jan-Feb) in exchange for more volume growth.

## Casual wear downtrading; functional pricing holds up

The distributor believes consumption downtrading is the trend for casual/non-functional wear, together with a deeper discounting offered, which may lead to broader pricing range. Brands will launch lower-end products targeting at lower-tiered cities. On the other hand, professional products still enjoy consumer recognition with stable pricing.  
(Continued next page for comments on brands)

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Lucy Yu >>  
Research Analyst  
Merrill Lynch (Singapore)  
+65 6678 0417  
[lucy.yu@bofa.com](mailto:lucy.yu@bofa.com)

Chen Luo, CFA >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 2009  
[chen.luo@bofa.com](mailto:chen.luo@bofa.com)

Alice Ma >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 8752  
[alice.ma@bofa.com](mailto:alice.ma@bofa.com)

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## Anta: more room for channel/products with pricing control

The distributor is positive on Anta brand. 1) **Channel:** Anta's offline channel was weak with smaller stores and lower exposure to malls compared with other brands within Anta group. In 2023, Anta conducted channel upgrade, with more champion stores, and added more stores at good locations in shopping mall channels. 2) **Product:** Anta launched more SKUs in outdoor, basketball, and running, which is likely to become future drivers. 3) **Retail:** Anta adopts stringent price control in both online and offline for a stable retail pricing.

## Li Ning: issues still need to be fixed

The distributor commented on Li Ning's operation volatilities faced by the company, and attributed the softness in 2023 to below reasons. 1) From 4Q22, China Li Ning saw a deterioration in sales, with fading Guo Chao (preference for national brands), followed by store closures. 2) Li Ning added quite a few big-sized stores post Xinjiang cotton controversy in 2021. Following separation of China Li Ning series from big stores and normalizing sales, these big stores suffered from lower sales, followed by floor space reduction. 3) Management reshuffling also led to short-term human resources issue. On a positive note, the distributor believes Li Ning's brand equity remains strong and might be able return to growth track again once these issues are fixed.

## International brands: outlets disrupt pricing and wholesale channels

Nike and adidas did not ask the distributor to place more orders for 2024 (currently at 3-5% growth). Nonetheless, deep discounting in outlets (normally at c.40% of tag price) continued to impact the distributor in terms of pricing and lower sales to sub-distributors. Some sub-distributors source directly from outlets and sell in lower-tier markets (less impact to the distributor given different covered regions) or online platforms (impact distributor's pricing).

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