



## Sector Report: Consumer Sector - Apparel

行业报告：消费行业 - 服装

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31 December 2020

# Bright Outlook on Industry Recovery in 2021

对2021年行业复苏展望乐观

- **We expect the apparel industry in China to continue to recover in 2021.** January-November 2020 cumulative retail sales of garments, footwear, hats and knitwear in China decreased by 7.9% YoY, which improved from the decline of 19.6% during 1H20. Industry recovery in 2021 will be mainly supported by strong growth of sales through online channels, public COVID-19 vaccination and expected stable major raw material prices.
- **Sportswear recovered better than other sectors.** January-November 2020 cumulative retail sales of sports and recreational articles in China increased by 9.1% YoY, and the growth rate surged to 24.0% in November. Retail channel performance of sportswear companies in China strongly recovered in 2H20. We expect the sector to maintain its recovery trend in 2021. In addition, the pandemic has accelerated the process of market concentration, which will benefit leading companies in the industry.
- **We maintain "Outperform" rating for the apparel industry.** We expect the apparel industry to continue to recover in 2021 driven by online channels and the sportswear sector. Our top pick is Anta Sports (02020 HK), which has recovered better than its peers and will benefit the most from increasing market concentration. We forecast Anta's EPS to grow at a CAGR of 24.4% during 2019-2022. We give Anta a "Buy" rating and a TP of HK\$142.00, representing 63.0x, 40.0x and 31.4x 2020, 2021 and 2022 PER, respectively.
- **我们预计中国服装行业在 2021 年将继续复苏。**2020 年 1 至 11 月中国服装鞋帽、针纺织品累计零售额同比下跌 7.9%，相比 2020 年上半年 19.6% 的下滑有所改善。2021 年的行业复苏的主要支撑力为线上渠道销售的强劲增长、社会公众接种新冠疫苗以及主要原材料价格预期将保持稳定。
- **体育用品板块比其他板块恢复地更好。**2020 年 1 至 11 月中国体育及娱乐用品累计零售额同比增长 9.1%，并且 11 月份的增速飙升到了 24.0%。中国体育用品公司的零售渠道表现在 2020 年下半年强劲复苏。我们预期该板块在 2021 年将维持复苏的趋势。此外，疫情加速了市场份额集中化的进程，这将使行业内的龙头公司受益。
- **我们维持服装行业“跑赢大市”的评级。**我们预期服装行业在 2021 年将继续复苏，主要由线上渠道和体育用品板块所带动。我们的行业首选股是安踏体育(02020 HK)，其比同业公司恢复的更好，并将是市场集中度提升的最大受益者。我们预测安踏的每股盈利将在 2019-2022 年期间保持 24.4% 的年复合增长率。我们给予安踏“买入”的投资评级以及 142.00 港元的目标价，分别相当于 63.0 倍、40.0 倍和 31.4 倍 2020 年、2021 年和 2022 年市盈率。

Rating:

**Outperform**

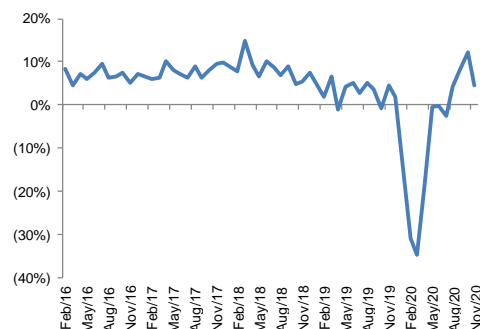
Maintained

评级:

**跑赢大市 (维持)**

## Retail Sales YoY Growth of Garments, Footwear, Hats & Knitwear in China

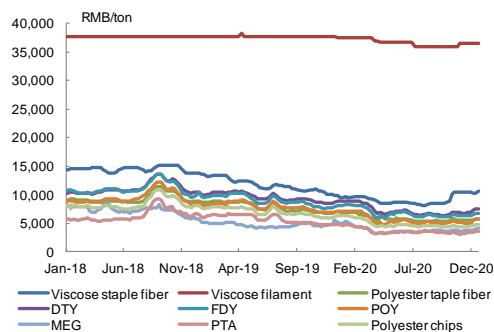
中国服装鞋帽、针纺织品零售额同比增速



Source: the National Bureau of Statistics of China.

## Major Raw Materials Prices

主要原材料价格



Source: www.sinotex.cn, Guotai Junan International.

| Company Name           | Code     | Price    | Rating     | 20PER  | 21PER  | 22PER  | 21ROE     | 21P/B  | 21Yield |
|------------------------|----------|----------|------------|--------|--------|--------|-----------|--------|---------|
| 公司名称                   | 编号       | 股价(HK\$) | 投资评级       | 市盈率(x) | 市盈率(x) | 市盈率(x) | 净资产收益率(%) | 市净率(x) | 股息率(%)  |
| Giordano International | 00709 HK | 1.140    | Neutral    | n.a.   | 13.5   | 8.6    | 5.7       | 0.8    | 7.4     |
| China Lilang           | 01234 HK | 5.290    | Buy        | 8.5    | 6.1    | 5.4    | 22.6      | 1.3    | 11.8    |
| 361 Degrees            | 01361 HK | 1.080    | Buy        | 4.8    | 4.1    | 3.5    | 6.7       | 0.3    | 10.9    |
| Xtep International     | 01368 HK | 3.870    | Buy        | 18.1   | 12.6   | 10.2   | 9.0       | 1.1    | 4.7     |
| Samsonite              | 01910 HK | 13.740   | Buy        | n.a.   | 83.8   | 25.6   | 3.9       | 3.2    | 0.0     |
| Prada                  | 01913 HK | 51.200   | Neutral    | n.a.   | 57.9   | 49.6   | 7.9       | 4.4    | 0.8     |
| Anta Sports            | 02020 HK | 122.900  | Buy        | 54.5   | 34.6   | 27.2   | 30.5      | 9.6    | 1.2     |
| Shenzhen International | 02313 HK | 152.000  | Accumulate | 36.4   | 30.6   | 26.2   | 21.3      | 6.2    | 1.6     |
| Li Ning                | 02331 HK | 53.300   | Accumulate | 68.6   | 48.8   | 39.8   | 25.9      | 11.6   | 0.8     |
| China Dongxiang        | 03818 HK | 0.810    | Buy        | 3.1    | 7.4    | 6.6    | 4.7       | 0.3    | 8.1     |
| Weighted Average.      |          |          |            |        |        |        |           |        |         |
| 市值加权平均                 |          |          |            | 50.0   | 39.6   | 31.7   | 22.8      | 7.8    | 1.3     |

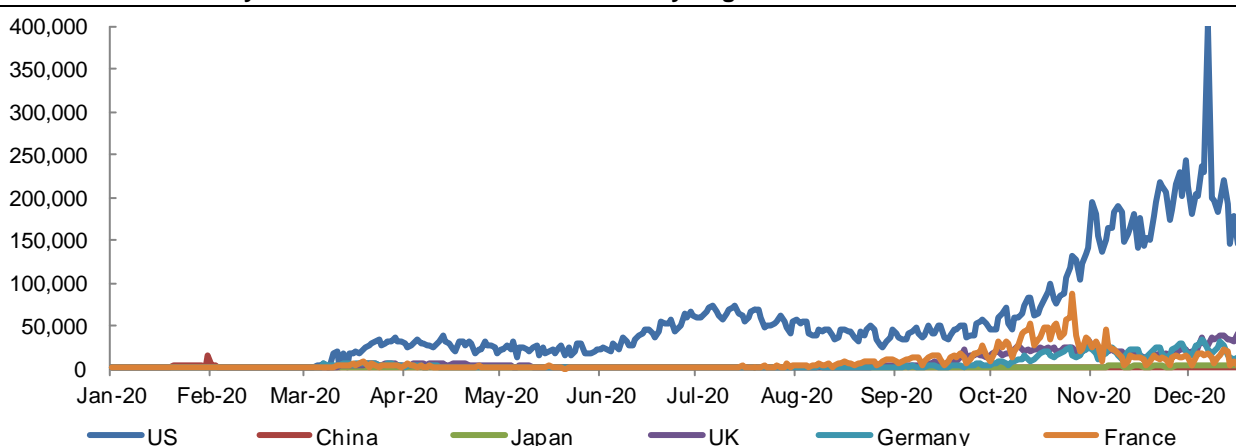
Source: the Companies, Guotai Junan International.

\* Note: The financial year-end date of China Dongxiang is not 31 December, and "20" means "FY21" and so on.

## Update of the COVID-19 Pandemic

**The COVID-19 pandemic ("the pandemic") in the world outside of China is still very serious.** According to the World Health Organization (WHO), as at 30 December 2020, the accumulated number of confirmed COVID-19 cases worldwide reached 80,453,105, of which about 24% were from the U.S., about 20% from other parts of the Americas and about 32% from Europe. The U.S. has been the most affected country in the world, and the deteriorating trend is even accelerating. The average daily new confirmed cases during December 2020 reached about 200,000, which accounted for around 1/3 of global average daily new confirmed cases. The situation in Europe is also very serious. Since the beginning of November, more than a dozen European countries have implemented a new round of lockdown policies. Non-essential facilities and institutions such as catering and entertainment have all been suspended, and the tourism industry has almost completely stagnated. The lockdown period may be extended to January 2021, which will affect consumer activity during the Christmas holiday period, the most important holiday in western countries. Lockdowns during the Christmas holiday period will have seriously affected economies. Similar to Europe, several states in the United States recently implemented lockdown policies, and the policy is expected to continue until at least January 2021.

**Figure-1: Number of Daily New Confirmed COVID-19 Cases - by Region**



Source: the WHO, Guotai Junan International.

**The U.S. and Europe have started COVID-19 vaccination.** On 9 November 2020, Pfizer and BioNTech announced that their COVID-19 vaccine tested more than 90% effective. On 16 November 2020, Moderna Inc. announced that its experimental vaccine was 94.5% effective in preventing COVID-19 infection, which is even more effective than the former. The United States began to vaccinate American residents with the COVID-19 vaccine in December 2020, and plans to complete the vaccination in April 2021. On December 26, 2020, European countries including France, Italy, Spain, Germany, and Hungary received Pfizer's vaccine and began to vaccinate European people. However, the real mass vaccination may still have to wait until January 2021. Pfizer plans to make up to 1.3 billion doses worldwide in 2021. Moderna expects to be able to make 500 million to 1 billion doses worldwide in 2021. Therefore, the two companies are expected to provide 1.8 billion to 2.3 billion vaccine doses in 2021, which will accelerate recovery of the global economy.

**New progress has been made in the development of China's COVID-19 vaccine.** On 19 December, the Joint Prevention and Control Mechanism of the State Council of China (JPCM) held a press conference to explain COVID-19 vaccine development. China has simultaneously carried out vaccine R&D based on 5 technical routes. Since July 2020, emergency vaccination has been carried out for high-risk groups, and more than 1 million doses of emergency vaccination of COVID-19 vaccine has been produced. After strict adverse reaction monitoring and follow-up observation, no serious adverse reactions occurred. More than 60,000 of the vaccinated candidates went to high-risk areas abroad, and there were no reports of serious infections. Experimental data shows that the vaccine protection period can be guaranteed for at least half a year. As for whether it can be maintained for a longer period of time, experimental observation is still needed. JPCM stated that in response to the high risk of a resurgence of a local epidemic in winter and spring, it will carry out COVID-19 vaccination for some people. The vaccination process will be divided into two steps. The first step is to vaccinate high-risk groups, including those engaged in import cold chain, port quarantine, aviation air service, fresh food market, public transportation, medical disease control, etc., as well as those who go to medium- and high-risk countries. In the second step, with the conditional approval of the vaccine, or the gradual increase in vaccine production capacity, more people will be vaccinated. The current local epidemic risk in China mainly

comes from overseas imports. Therefore, giving high-risk groups priority vaccination can effectively reduce this risk, which will further improve the business environment and promote the recovery of consumer sentiment in China.

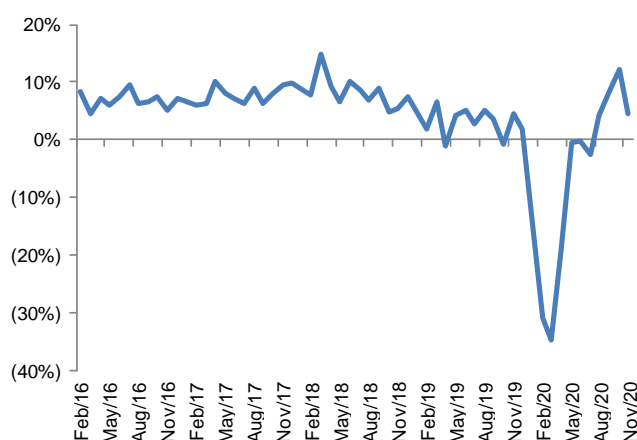
**The market worries that the mutated COVID-19 strain in the UK may drag down global economic recovery.** The mutated COVID-19 strain was discovered in the UK on 19 December 2020, with infectivity increased by 70%. The surge in confirmed cases caused by the mutated virus has forced the UK to lock down the city. Many European countries have also imposed traffic blockades on the UK, and financial markets have also suffered severe shocks. The US Centers for Disease Control and Prevention stated that the mutated COVID-19 strain discovered in the UK may have spread to the US. Two questions about the mutated COVID-19 strain are very important: **1) Are the vaccines still effective?** Pfizer and Moderna are currently testing their vaccines against the mutated COVID-19 strain. The CEO of BioNTech said that although technically speaking, the vaccines may still be effective against the mutated virus strain, it will take two weeks to get the experimental data. **2) Is the mutated virus more harmful?** According to the WHO, there is currently no evidence that the mutated COVID-19 strain in the UK will cause more serious symptoms, and there is no evidence that mutation makes the virus more harmful or that it may weaken the effectiveness of diagnostic methods and vaccines.

**Based on the above analysis, we have reached several conclusions:** 1) the COVID-19 pandemic will not disappear in 2021; 2) the global economy will gradually recover in 2021, and the recovery may speed up in 2H21 if the application of COVID-19 vaccines goes well; 3) business environment in mainland China will further recover in 2021 and is expected to return to normal levels in 2H21; 4) the consumer industry will recover first, while the recovery of the international tourism industry will lag behind; and 5) in the worst case, if the vaccine is not effective or the virus undergoes major mutations, the recovery of the global economy will be greatly delayed.

## Apparel Industry

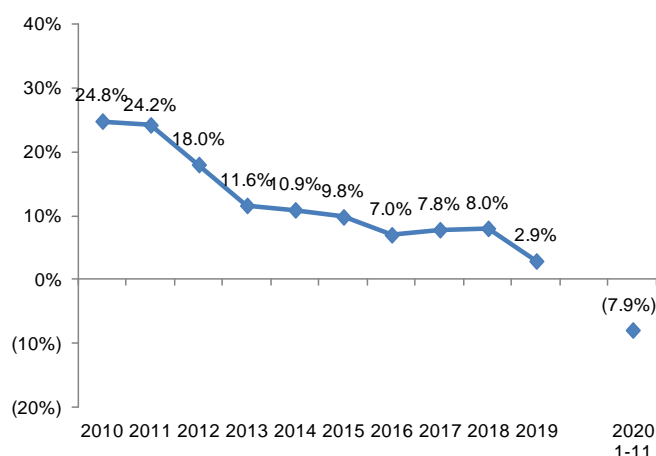
**We expect the recovery of the apparel industry in China to continue in 2021.** According to the National Bureau of Statistics of China, January-November 2020 accumulated retail sales of garments, footwear, hats and knitwear in China decreased by 7.9% YoY, which improved from the decline of 19.6% during 1H20. The impact from the pandemic has been decreasing since April, and monthly retail sales of garments, footwear, hats and knitwear in China returned to positive growth in August. Growth in October reached 12.2%, which was mainly because the Mid-Autumn Festival fell in September in 2019 but October in 2020. The recovery of the apparel industry in China during 2H20 was in line with expectations, and we expect the recovery to continue in 2021. Considering the relatively low base in 2020, we forecast retail sales of garments, footwear, hats and knitwear in China to record double-digit percentage YoY growth in 2021.

**Figure-2: Retail Sales Growth of Garments, Footwear, Hats & Knitwear in China (YoY)**



Source: National Bureau of Statistics of China, Guotai Junan International.

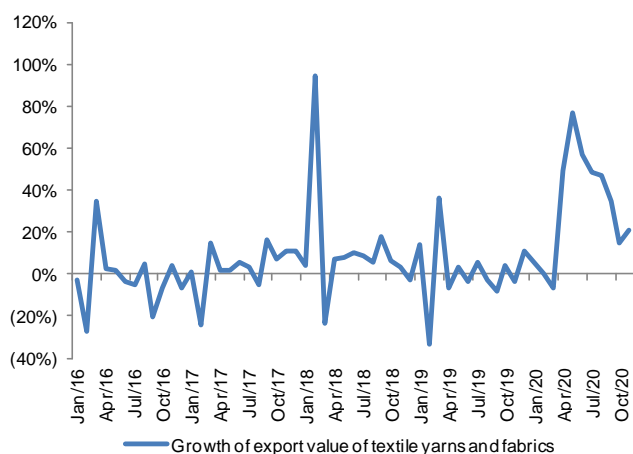
**Figure-3: Accumulated Retail Sales Growth of Garments, Footwear, Hats & Knitwear in China (YoY)**



Source: National Bureau of Statistics of China, Guotai Junan International.

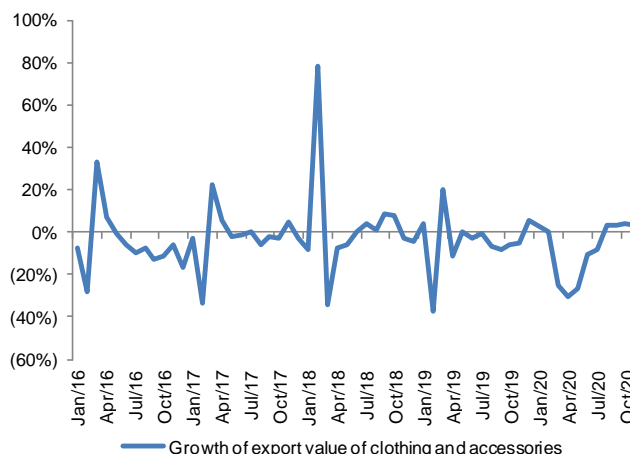
**Exports of textiles and clothing products in China have recovered.** The export value of China's textile yarn and fabrics fell by 14.6% YoY during January-March 2020. However, the pandemic has led to a surge in global demand for masks and personal protective equipment, and China began exporting a large amount of masks in April. As a result, the export value of domestic textile yarn and fabrics and products achieved more than 40%YoY growth during April-August. The monthly growth rate fell back to the range of 15%-35% during September-November, and the cumulative exports value during January-November increased by 31% YoY, which was the highest in the past decade. The recovery in exports value of clothing and accessories lagged behind, which did not resume positive growth until August, and maintained a growth rate of only 3%-4% during August-November, mainly due to: 1) the overseas pandemic has always been serious, making it difficult for the demand for clothing to recover; 2) a large amount of unsold inventory that was originally used for exports was later turned into domestic sales. Recently, many countries in Europe and many states in the United States launched a new round of lockdown policies. It is expected that the overseas pandemic will still be severe in the first quarter of 2021. However, considering the low base in the first quarter of 2020, we expect that the amount of domestic apparel exports in the first quarter of 2021 may record slight YoY increase.

**Figure-4: Growth of Exports Value of Textile Yarn and Fabrics in China (YoY)**



Source: General Administration of Customs of China, Guotai Junan International.

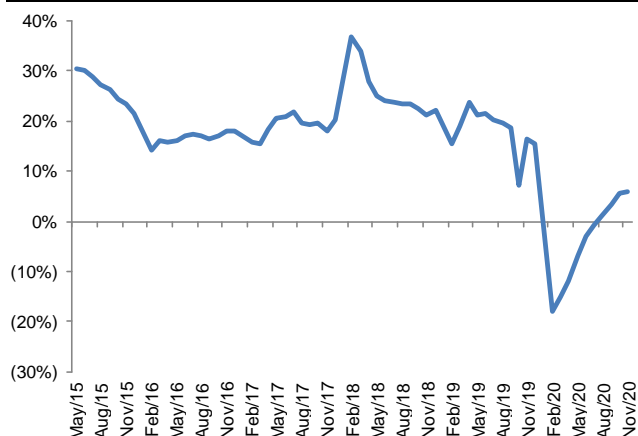
**Figure-5: Growth of Exports Value of Clothing and Accessories in China (YoY)**



Source: General Administration of Customs of China, Guotai Junan International.

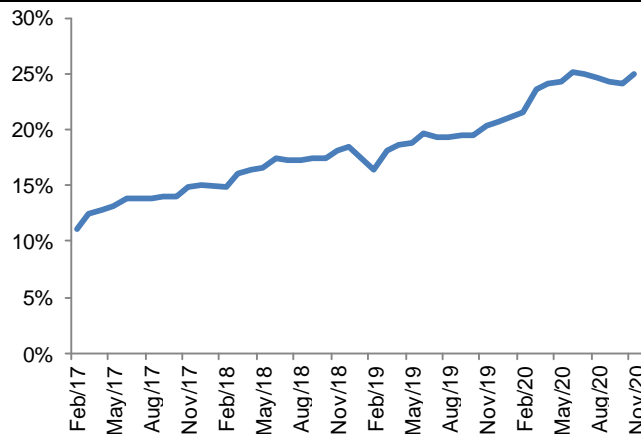
**Online channels have become more important, alleviating pressure caused by the closing of offline channels, and will continue to enjoy fast growth during 2021.** Although offline stores in China have gradually resumed operations, they have not yet fully recovered. During 2020, online channels grew rapidly, which partially offset the impact on offline channels. According to the National Bureau of Statistics of China, January-November 2020 online retail sales of physical goods in China rose by 15.7% YoY and accounted for 25.0% of total retail sales of consumer goods, which was 4.6 ppt higher than that in the same period last year. January-November 2020 accumulated online retail sales growth of clothing in China decreased by 5.9% YoY, which was much better than performance of offline channels, mainly because: 1) people still need to wear masks in public places, which affects their shopping experience; 2) online platforms offered more discounts and promotions; 3) there are more choices of online products, for example, products that were not sold online in the past can also be bought online, and many new products were published through the online platform; and 4) live video streaming became extraordinarily popular and has become a very important and efficient channel for selling goods. We expect online retail sales of clothing in China to maintain relatively fast growth in 2021 and expect it to make a higher contribution to overall sales of clothing over the next few years.

**Figure-6: Accumulated Growth of Online Retail Sales of Clothing in China (YoY)**



Source: National Bureau of Statistics of China, Guotai Junan International.

**Figure-7: Online Retail Sales of Physical Goods As % of Total Retail Sales of Consumer Goods**



Source: National Bureau of Statistics of China, Guotai Junan International.

**Online sales during the 2020 Double Eleven shopping festival ("Double Eleven") achieved excellent results.** During Double Eleven, Tmall's turnover increased by 26% YoY to RMB498.2 billion, and JD's turnover increased by 32% YoY to RMB271.5 billion. Among all product categories, the clothing category ranked third in online sales, and the footwear & luggage category ranked fifth. The Double Eleven in 2020 is different from the past in that the event period was much longer. The pre-sale period this year was divided into two phases: the first phase was from October 20 to November 3, and the second phase was from November 4 to November 11. Among all apparel product categories, the sportswear category performed far better than other categories. The pre-sale sales of sportswear and sports shoes increased YoY by 57.1% and 43.6%, respectively, while the pre-sale sales growth of men's clothing, home textiles, women's clothing and children's clothing were all in the range of 32%-35%. China's domestic apparel industry has shown two trends: 1) brands with strong e-commerce operations and with brand influence are in leading positions, and the gap between the head and tail of the sales list is widening; and 2) the number of Chinese local brands on the top 10 lists has been increasing YoY, and their ranking has also been increasing YoY, indicating that consumer recognition of local brands is gradually increasing. Chinese brands including Bosideng, HLA, Semir, Peacebird, FUANNA, Anta, Li Ning, etc., entered the top 10 lists in their respective categories.

**Table-1: Tmall 2020 Double Eleven Brand Sales Ranking (As of 1:00 a.m. on 11 November 2020)**

| Ranking | Men's wear     | Women's wear  | Sportswear  | Fashion footwear | Bag & Accessories | Children's wear |
|---------|----------------|---------------|-------------|------------------|-------------------|-----------------|
| 1       | Uniqlo         | Uniqlo        | Nike        | Belle            | COACH             | BalaBala        |
| 2       | GXG            | Bosideng      | Adidas      | Skechers         | Michael Kors      | babycare        |
| 3       | Bosideng       | Eifini        | LI-NING     | Red Dragonfly    | MCM               | Nike            |
| 4       | Mark Fairwhale | Peacebird     | Anta        | Dr. Martens      | CHARLES & KEITH   | Aptamil         |
| 5       | HLA            | Vero Moda     | FILA        | TATA             | Samsonite         | Adidas          |
| 6       | Peacebird      | ONLY          | PUMA        | Staccato         | Mexican           | Pampers         |
| 7       | Jack Jones     | Mo & Co.      | JORDAN      | UGG              | Goldlion          | Anta            |
| 8       | Semir          | LEDiN         | VANS        | Teenmix          | Septwolves        | HUGGIES         |
| 9       | Beaster        | Zara          | Skechers    | Camel            | Tory Burch        | DAVE & BELLA    |
| 10      | LILANZ         | Teenie Weenie | New Balance | Ecco             | CARTELO           | Goodbaby        |

Source: Tmall, Guotai Junan International.



**We believe that the Chinese apparel industry will continue to grow over the next few years.** According to Euromonitor, the market size of China's apparel products (in terms of retail prices) is estimated to decrease by 10.0% YoY to RMB1,967 billion, and the market size of footwear products (in terms of retail prices) is estimated to decrease by 8.4% YoY to RMB398 billion. The industry is expected to recover in 2021 and regain its growth momentum over the next few years. Euromonitor forecasts that apparel and footwear market sizes will grow at a CAGR of 6.8% and 4.6%, respectively, during 2020-2025. The fastest growing categories are childrenswear and children's footwear, with CAGR expected to be 15.7% and 7.5%, respectively, during 2020-2025. The reasons for the rapid growth in childrenswear and children's footwear include: 1) the base is relatively small; 2) with the increase of per capita income in China, childrenswear has become a more important category; 3) at present, the main consumer groups of childrenswear are post-80s and post-90s parents, who have stronger consumption desire and are more willing to spend money on their children.

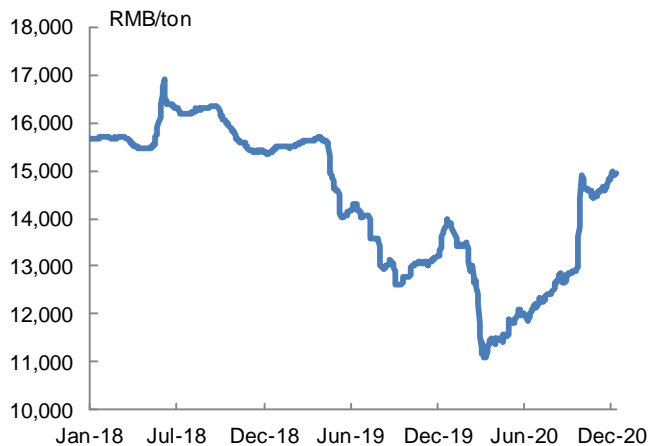
**Table-2: Market Scale of the Apparel and Footwear Industry in China (in Retail Value)**

| RMB bn                | 2019A | 2020F   | 2021F | 2022F | 2023F | 2024F | 2025F | 20-25 CAGR  |
|-----------------------|-------|---------|-------|-------|-------|-------|-------|-------------|
| <b>Apparel</b>        | 2,185 | 1,967   | 2,231 | 2,358 | 2,485 | 2,612 | 2,740 | <b>6.8%</b> |
| YoY                   | 5.2%  | (10.0%) | 13.4% | 5.7%  | 5.4%  | 5.1%  | 4.9%  |             |
| - Men's wear          | 581   | 511     | 575   | 597   | 618   | 639   | 660   | 5.3%        |
| YoY                   | 3.9%  | (12.0%) | 12.5% | 3.8%  | 3.6%  | 3.4%  | 3.2%  |             |
| - Women's wear        | 1,057 | 941     | 1,049 | 1,096 | 1,142 | 1,187 | 1,231 | 5.5%        |
| YoY                   | 4.4%  | (11.0%) | 11.5% | 4.5%  | 4.2%  | 3.9%  | 3.7%  |             |
| - Children's wear     | 239   | 229     | 286   | 330   | 376   | 425   | 476   | 15.7%       |
| YoY                   | 14.4% | (4.2%)  | 24.6% | 15.4% | 13.9% | 13.1% | 12.0% |             |
| <b>Footwear</b>       | 435   | 398     | 416   | 436   | 456   | 477   | 498   | <b>4.6%</b> |
| YoY                   | 5.8%  | (8.4%)  | 4.4%  | 4.7%  | 4.8%  | 4.6%  | 4.4%  |             |
| - Men's Footwear      | 165   | 152     | 159   | 166   | 174   | 181   | 189   | 4.4%        |
| YoY                   | 6.0%  | (8.0%)  | 4.2%  | 4.6%  | 4.7%  | 4.5%  | 4.3%  |             |
| - Women's Footwear    | 207   | 185     | 192   | 199   | 207   | 214   | 221   | 3.6%        |
| YoY                   | 5.0%  | (10.7%) | 3.8%  | 4.0%  | 3.8%  | 3.4%  | 3.0%  |             |
| - Children's Footwear | 63    | 62      | 66    | 70    | 76    | 82    | 89    | 7.5%        |
| YoY                   | 8.0%  | (2.2%)  | 6.3%  | 7.2%  | 7.7%  | 8.0%  | 8.4%  |             |

Source: Euromonitor, Guotai Junan International.

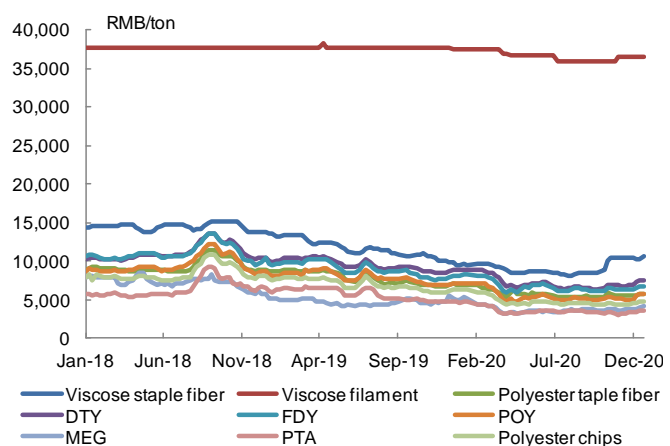
**Major raw material prices are expected to remain basically stable in 1H21.** Cotton price in China has been increasing since a sharp drop at the beginning of 2020, and there was a very sharp rise in mid-October. As at 29 December 2020, cotton price was 11.7% higher than that at the beginning of the year, mainly due to the decline in global cotton production and the increase in downstream demand. Amongst the four major cotton-producing countries in the world, China, India, the United States and Brazil, only China's pandemic has been under control. Xinjiang, one of China's main cotton producing areas, was affected by drought and the epidemic, so its actual cotton output in 2020 was lower than expected. In addition, due to the severe pandemic in traditional textiles and clothing countries such as India and Bangladesh, local textiles companies stopped production and orders were forced to transfer to China, which led to a rapid increase in orders received by Chinese cotton spinning and clothing companies and accelerated domestic demand for cotton. Also due to the increase in downstream demand and the decline in production capacity in some areas caused by the pandemic, prices of major chemical raw materials, including viscose fiber, polyester filament, polyester chips, etc., also recorded a very sharp rise in mid-October. However, the prices of most chemical raw materials are still far below their levels at the beginning of the year. We expect that global demand for cotton and major chemical raw materials will not change much in the first half of 2021. The current higher cotton price increases planting profit and will promote the enthusiasm for cotton planting, so the supply of cotton may increase. Therefore, we expect that the prices of cotton and major chemical raw materials will remain basically stable or rise slowly in the first half of 2021.

Figure-8: China Cotton 328 Index



Source: The China National Cotton Exchange, Guotai Junan International.

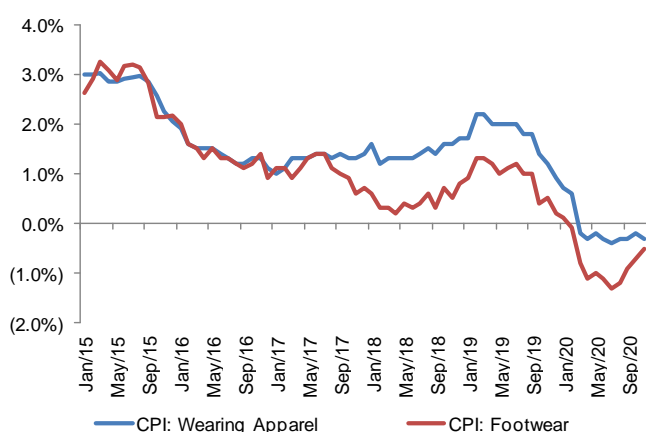
Figure-9: Market Prices of Major Raw Materials in the Textiles & Garment Industry in China



Source: www.sinotex.cn, Guotai Junan International.

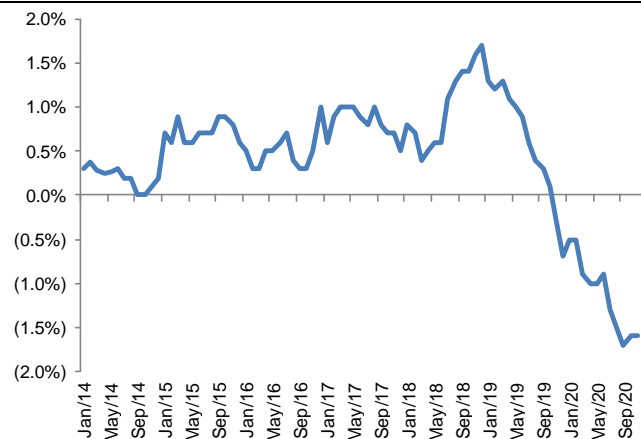
**PPI and CPI of the apparel industry in China have shown signs of recovery.** The PPI of the textiles and garment industry recorded negative growth during January-November 2020, and the decline continued to expand month over month. January-November 2020 cumulative PPI of the textiles and garment industry decreased by 1.1% YoY. The decline in PPI was mainly due to the fact that downstream inventory pressure was still high, making new demand weaker, forcing manufacturers to lower their profit margins. PPI growth has had a lagging conduction effect on CPI growth. CPI of footwear began to decline in February 2020, and then the decline continued to expand to a YoY decline of 1.2% in August, but the decline narrowed during September-November, mainly due to the recovery of market demand. Growth of CPI of wearing apparel during March-November remained at a decline of 0.2%-0.4%. Due to the impact of the pandemic, the apparel industry in China accumulated a large amount of inventory in the first quarter. Although the industry's inventory problem has been eased to a large extent so far, it has not yet been completely resolved. At present, the discounts in both online and offline channels are still relatively high, and discounts during Double Eleven in 2020 were greater than those in previous years. It is expected that the industry's inventory problems and market supply and demand conditions will return to normal levels by mid-2021. Therefore, we expect both PPI and CPI of the apparel industry in China to maintain negative growth in the first half of 2021.

Figure-10: CPI of Wearing Apparel & Footwear in China



Source: National Bureau of Statistics of China, Guotai Junan International.

Figure-11: PPI of Manufacture of Textiles, Wearing Apparel and Accessories in China

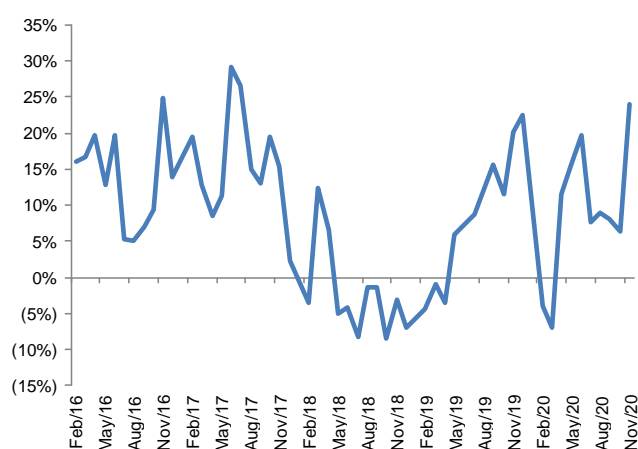


Source: National Bureau of Statistics of China, Guotai Junan International.

## Sportswear Sector

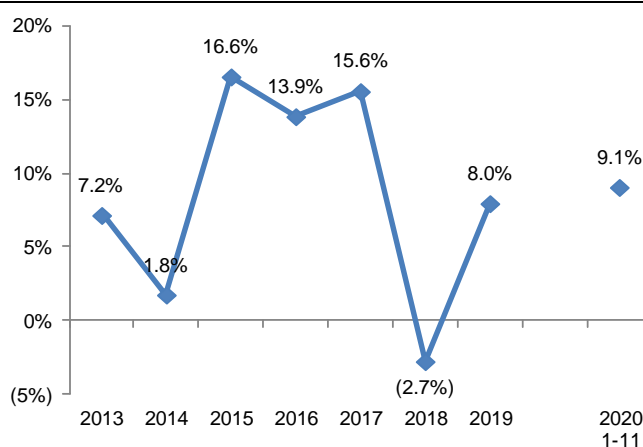
**The sportswear sector in China has recovered better than other sectors of the apparel industry.** January-November 2020 accumulated retail sales of sports and recreational articles in China increased by 9.1% YoY, which was higher than the 8.0% growth for the full year of 2019. Monthly retail sales of sports and recreational articles recorded YoY growth of high-single-digit percentage during July-October, and the growth rate surged to 24% in November, mainly due to: 1) promotions and discounts during the Double Eleven in 2020 were stronger than last year, and the pre-sale this year started in October, which resulted in most orders in October and November being concentrated during Double Eleven. As a result, monthly sales in October only grew by 6.3% YoY; 2) winter arrived early in 2020, boosting the sales of winter clothing; and 3) demand for sportswear products in China was constantly increasing. We expect the sportswear sector to remain as the best performing sector in the apparel industry in 2021. Due to the relatively low base in 2020, we forecast that the retail sales of sports and recreational articles in China will record close to double-digit percentage growth in 2021.

**Figure-12: Monthly Retail Sales Growth of Sports and Recreational Articles in China (YoY)**



Source: National Bureau of Statistics of China, Guotai Junan International.

**Figure-13: Accumulated Retail Sales Growth of Sports and Recreational Articles in China (YoY)**



Source: National Bureau of Statistics of China, Guotai Junan International.

**Retail channels within the sportswear sector in China recovered to positive growth in 3Q20.** The experiences of several leading sporting goods companies, including Anta (02020 HK), Li Ning (02331 HK), Xtep (01368 HK), 361 Degrees (01361 HK) and China Dongxiang (03818 HK), were relatively similar during 2020. Retail sales of offline channels recorded negative growth in the first and second quarter of 2020, and returned to positive growth in the third quarter. We estimate that retail sales in the fourth quarter will not be worse than the third quarter. E-commerce channels have been the most important in 2020, and most companies' e-commerce business achieved 30%-50% growth in 2H20. The recovery of different brands was quite different. The FILA brand and Anta's new brands achieved high positive growth since the second quarter, while Li Ning, Xtep, and China Dongxiang did not resume positive growth until the third quarter; 361 degrees recorded decline during all the first three quarters of 2020. The main reasons for the difference are brand influence, recognition of new products, and channel operation and management capabilities. So far, channel inventory pressure of the sportswear industry in China has been greatly eased, but inventory is still slightly higher than normal, and online and offline discount rates are also higher than usual. Discounts and promotions during 2020 Double Eleven were also greater than those in previous years. We expect that channel performance of sportswear companies in China will continue to improve in 2021, and channel inventory is expected to return to relatively healthy levels by the end of the first quarter of 2021.



Table-3: Retail Sales Growth (%) of Major Domestic Sportswear Companies in China

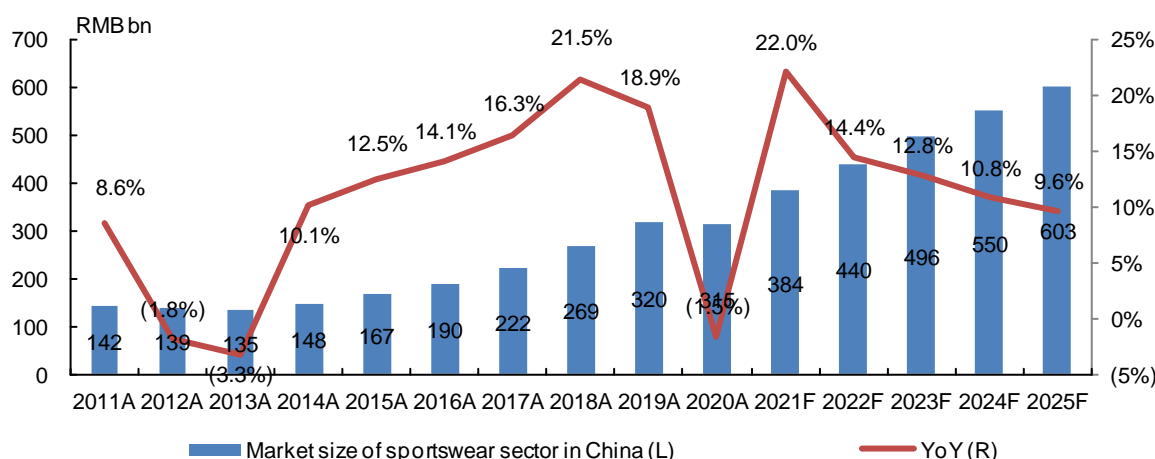
|                   | 2Q19           | 3Q19                 | 4Q19          | 1Q20           | 2Q20                 | 3Q20                 |
|-------------------|----------------|----------------------|---------------|----------------|----------------------|----------------------|
| Anta              |                |                      |               |                |                      |                      |
| - Anta core brand | +Mid-teens     | +Mid-teens           | +High-teens   | (20%-25%)      | (LSD)                | +LSD                 |
| - non-Anta brands | 55%-60%        |                      |               |                |                      |                      |
| - FILA brand      |                | 50%-55%              | 50%-55%       | (MSD)          | +Low-teens           | 20%-25%              |
| - other brands    |                | 30%-35%              | 25%-30%       | (HSD)          | 25%-30%              | 50%-55%              |
| 361 Degrees       |                |                      |               |                |                      |                      |
| - core brand      | +LSD           | +LSD                 | +LSD          | (25%-30%)      | (Low-teens)          | (HSD)                |
| - kids brand      | +HSD           | +HSD                 | +HSD          | (25%-30%)      | (Low-teens)          | (HSD)                |
| Xtep              | >20%           | 20%                  | >20%          | (20%-25%)      | (LSD)                | +MSD                 |
| Li Ning           | +Low-twenties  | +Low-thirties        | +Mid-thirties | (High-teens)   | (MSD)                | +MSD                 |
| - retail          | +HSD           | +Mid-teens           | +High-teens   | (Mid-thirties) | (Low-teens)          | Flat                 |
| - wholesale       | +Mid-twenties  | +Mid-thirties        | +Low-forties  | (High-teens)   | (HSD)                | (LSD)                |
| - e-commerce      | +High-twenties | +Low-fifties         | +Low-forties  | +Low-teens     | +High-twenties       | +Low-forties         |
| China Dongxiang*  | +MSD           | +Mid-teens           | +Low-teens    | (M-LSD)        | (MSD)                | +MSD                 |
| - offline         | +LSD           | +HSD                 | +MSD          | (LSD)          | (mid-to-low teens)   | Flat                 |
| - online          | +30%-35%       | +mid-to-high-fifties | +Low-forties  | (Low-teens)    | +mid-to-low thirties | +Mid-to-low-thirties |

Source: the Companies, Guotai Junan International.

\* China Dongxiang has changed its financial year end date to 31 March since 2019. Therefore for China Dongxiang, 3Q19 stands for 2QFY20, and so on.

We maintain our forecast that the sportswear sector in China will maintain fast growth over the next five years. The sportswear sector in China has basically recovered from the pandemic, and is expected to maintain strong growth over the next few years. The main growth drivers include: 1) continuously increasing per capita disposable income of households in China; 2) stronger fitness awareness among Chinese people; 3) an increase in the number of people participating in sports activities; 4) more sports and fitness facilities being established; 5) the determination of the Chinese government to support the sports industry in China, accompanied by a series of supportive policies; 6) very strong growth in online channels; 7) stronger consumer recognition of Chinese domestic sportswear brands; and 8) very large growth potential for outdoor sports and winter sports. According to Euromonitor, the market size of the sportswear industry in China grew at a CAGR of 16.6% during 2014-2019 and is estimated to drop by 1.5% YoY in 2020. Euromonitor forecasts the market size to grow at a CAGR of 13.9% during 2020-2025 and reach RMB603 billion in 2025.

Figure-14: Market Size of the Sportswear Industry in China



Source: Euromonitor, Guotai Junan International.

The major domestic sportswear companies in China have taken the "multi-brand, multi-category" strategy. These companies are becoming more diversified in terms of brand portfolio and product portfolio through acquiring existing brands or creating new brands/ sub-brands. The brands or sub-brands normally differentiate with each other in terms of brand positioning, price range or product categories. Each brand/ sub-brand is positioned to fulfill the needs of a specific group of customers, which strengthens the brand's market recognition and customer loyalty. Besides, the companies are able to reach more customer segments with the joining of new brands/ sub-brands. For example, the joining of the FILA brand allows Anta to reach high-end customers, and the joining of the Descente brand brings a new product category, outdoor equipments, into Anta's product portfolio.

**Table-4: Brand Portfolio of Major Domestic Sportswear Companies in China**

| Company         | Brand/Sub-brand  | Brand positioning     | Product category                         |
|-----------------|------------------|-----------------------|--|
| Anta Sports     | Anta             | Mid-end               | Running, Training, Basketball, Lifestyle |
|                 | Anta Kids        | Mid-end, kids         | Running, Training, Basketball, Lifestyle |
|                 | FILA             | High-end              | Running, Training, Lifestyle             |
|                 | FILA Kids        | High-end, kids        | Running, Training, Lifestyle             |
|                 | FILA Fusion      | High-end              | Running, Training, Lifestyle, Fashion    |
|                 | Descente         | High-end              | Running, Training, Skiing                |
|                 | Kolon Sports     | High-end              | Outdoor                                  |
|                 | Sprandi          | Mid-end               | Sports & Lifestyle Shoes                 |
|                 | KingKow          | Mid-to-high-end, kids | Lifestyle                                |
|                 | Salomon          | Mid-to-high-end       | Outdoor, Skiing                          |
|                 | Arc'teryx        | High-end              | Outdoor, Skiing                          |
|                 | Wilson           | Mid-to-high-end       | Basketball, Baseball, Football           |
| Li Ning         | LINING           | Mid-end               | Running, Training, Basketball, Lifestyle |
|                 | LINING Young     | Mid-end, kids         | Running, Training, Basketball, Lifestyle |
|                 | China LINING     | High-end              | Running, Training, Lifestyle, Fashion    |
| Xtep Int'l      | Xtep             | Mid-to-low-end        | Running, Training, Basketball, Lifestyle |
|                 | Saucany          | High-end              | Running Shoes                            |
|                 | Merrell          | High-end              | Outdoor                                  |
|                 | K-Swiss          | High-end              | Tennis shoes                             |
|                 | Palladium        | High-end              | Fashion shoes                            |
| 361 Degrees     | 361 Degrees      | Mid-to-low-end        | Running, Training, Basketball, Lifestyle |
|                 | 361 Degrees Kids | Mid-end, kids         | Running, Training, Basketball, Lifestyle |
|                 | One Way          | High-end              | Cycling, Skiing, Outdoor                 |
| China Dongxiang | Kappa            | Mid-end               | Lifestyle, Fashion                       |
|                 | Phenix           | High-end              | Skiing                                   |

Source: the Companies, Guotai Junan International.

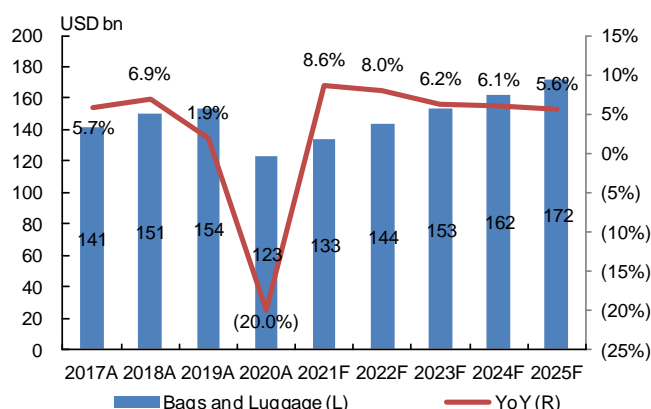
## Bags and Luggage Sector

**Global tourism industry is expected to recover in 2021.** The number of destinations banning international tourism in the world continued to decline. According to the eighth edition of the World Tourism Organization Travel Restriction Report released by the World Tourism Organization on 2 December 2020, 70% of all destinations in the world have relaxed travel restrictions against the COVID-19 pandemic. In contrast, a quarter of destinations continue to be completely closed to international tourists. The number of destinations that had relaxed their international travel restrictions was 115 as at 1 September 2020, and rose to 152 as at 1 November 2020. Although recently many European countries have implemented lockdown policies again, the recovery trend of the global tourism industry will continue in 2021, backed by the application of COVID-19 vaccines in the United States and Europe.

**Remarkable recovery in China's tourism industry was observed in 2H20.** China's tourism industry has recovered rapidly since 2Q20. According to the Ministry of Culture and Tourism, the number of tourist arrivals in A-level tourist attractions nationwide in 3Q20 reached about 70% of the same period last year, and some local tourist attractions recovered to close to the level of the same period last year. According to the National Tourism Administration, the total number of tourist arrivals in China during the National Day Holiday (from October 1<sup>st</sup> to October 8<sup>th</sup>) in 2020 amounted to 637 million, representing a YoY decrease of 18.5%. Total tourism revenue amounted to RMB466.6 billion, representing a YoY decrease of 28.2%. From October 1<sup>st</sup> to October 4<sup>th</sup>, the number of domestic hotel bookings on the Tongcheng-Elong platform reached a record high, with a YoY increase of 40%. Among them, the number of hotel bookings from third-tier and lower-tier cities increased by more than 50% YoY. In addition, short- and medium-distance travel has become the main travel mode in China. According to BigData-Research, in the past, tourists in China were more inclined to travel abroad and long-distance travel, and short- and medium-distance travel only accounted for 20.8%. After the pandemic, the proportion of short- and medium-distance travel rapidly increased to 75.9%.

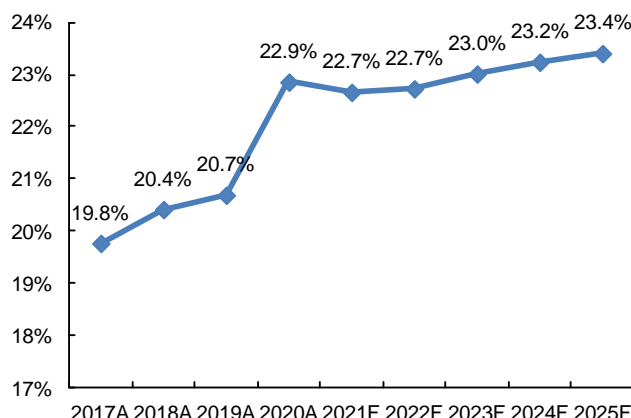
**The global bags and luggage industry is also expected to recover over the next few years.** Growth of the global bags and luggage industry is highly related to growth of global travel and the tourism industry. According to Euromonitor, due to impact from the pandemic, the market size of the global bags and luggage industry is estimated to shrink by 20.0% YoY in 2020, and is expected to resume positive growth over the next few years. Euromonitor forecasts that the global bags and luggage industry will grow at a CAGR of 6.9% during 2020-2025. The bags and luggage industry in China maintained a relatively high growth rate over the past few years, and was far less affected by the pandemic than overseas markets. Euromonitor forecasts that the bags and luggage industry in China will decline by 11.6% YoY in 2020 and grow at a CAGR of 7.4% during 2020-2025. Therefore, the proportion of China's contribution to the global bags and luggage industry will continue to increase, which is expected to rise from 20.7% in 2019 to 23.4% in 2025. At the same time, with the accelerated elimination of underperforming brands, the market concentration of the global bags and luggage industry will be further enhanced. We believe that over the next few years, Samsonite (01910 HK), as a leading enterprise in the global bags and luggage industry, will benefit from the recovery of global tourism industry, the rebound of demand for bags and luggage products and the enhancement of market concentration.

**Figure-15: Market Scale of the Global Bag and Luggage Sector**



Source: Euromonitor, Guotai Junan International.

**Figure-16: Bag and Luggage Industry Scale in China As % of Global**



Source: Euromonitor, Guotai Junan International.

## The Luxury Goods Sector

**The luxury goods sector in Europe and America will continue to be affected by the COVID-19 pandemic in the first half of 2021.** Due to the continued spread of COVID-19 in Europe and the increased risk of another outbreak in winter, many European countries recently implemented lockdown measures again. Most of the lockdown periods started in mid-December 2020 and will last until January 2021, at which time governments will again assess whether lockdown periods need to be extended. Similarly, many states in the United States have announced further lockdowns or extensions to lockdown periods. The lockdown periods cover the Christmas holiday period, one of the most important holidays in western countries, which will result in a significant reduction of tourists and very weak consumer sentiment in Europe and the United States. Therefore, in December 2020 and the first quarter of 2021, Prada's (01913 HK) business in European and American markets will still be severely impacted.

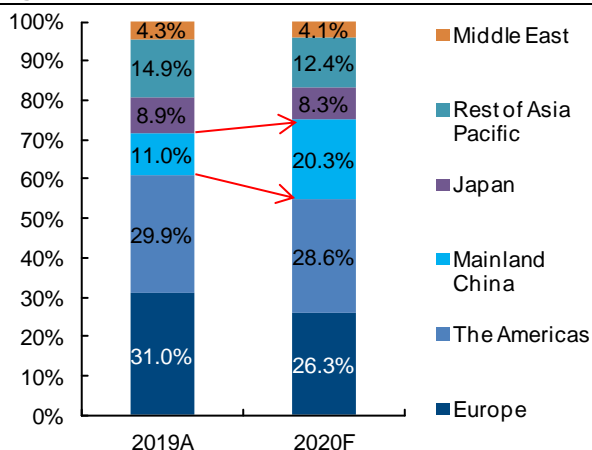
**Contrary to Europe and the United States, China's luxury goods industry is enjoying robust recovery.** The pandemic in China was under control in 2Q20, and the luxury goods industry has been recovering since then. The main driving forces were: 1) China's high-income groups were not greatly affected by the pandemic, so consumer demand for luxury goods did not decline seriously; 2) due to restrictions on travelling abroad, luxury goods consumption of Chinese consumers has returned from overseas markets to mainland China; and 3) most luxury brands have accelerated their digitalization process, including opening Tmall flagship stores, landing on self-media platforms (including Weibo, WeChat, Douyin, Bilibili, Xiaohongshu, etc.), participation in online live broadcasts, etc. These measures partially offset the impact on physical stores; and 4) Hainan's duty-free shopping policy has led to a substantial increase in luxury retail sales of Hainan's duty-free shops. According to Bain & Company, the global personal luxury goods market size in 2020 is estimated to decrease by 23% YoY to EUR217 billion. All markets except for mainland China are expected to record YoY decline. Mainland China is estimated to grow by 45% YoY in 2020, and accounted for 20.3% of global market size, up from 11.0% in 2019. Global online sales is estimated to grow by 48% YoY, and its sales contribution is estimated to almost double to 22.6% in 2020. We expect that China's luxury goods industry will continue to maintain much higher growth than the global market in 2021. In addition, when international tourism is reopened in the future, Chinese tourists will continue to play an important role in the global luxury goods market. Bain & Company forecasts that proportion of global personal luxury goods consumption contributed by Chinese customers will increase from around 35% in 2019 to 40%-50% by 2025.

**Table-5: Global Personal Luxury Goods Market Size**

| EUR bn                         | 2019A      | 2020F      | YoY          |
|--------------------------------|------------|------------|--------------|
| Europe                         | 87         | 57         | (36%)        |
| The Americas                   | 84         | 62         | (27%)        |
| Mainland China                 | 31         | 44         | 45%          |
| Japan                          | 25         | 18         | (24%)        |
| Rest of Asia Pacific           | 42         | 27         | (35%)        |
| Middle East                    | 12         | 9          | (21%)        |
| <b>Total</b>                   | <b>281</b> | <b>217</b> | <b>(23%)</b> |
| - Online sales                 | 33         | 49         | 48%          |
| - Online sales as a % of total | 11.7%      | 22.6%      | 10.9 ppt     |

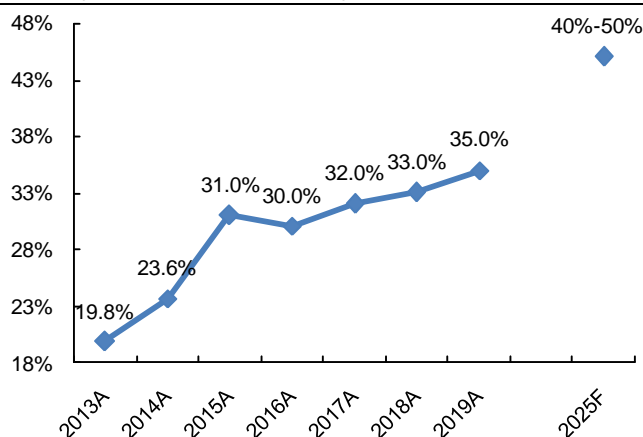
Source: Bain & Company, Guotai Junan International.

**Figure-17: Global Personal Luxury Goods Market Size by Region (2019)**



Source: Bain & Company, Guotai Junan International.

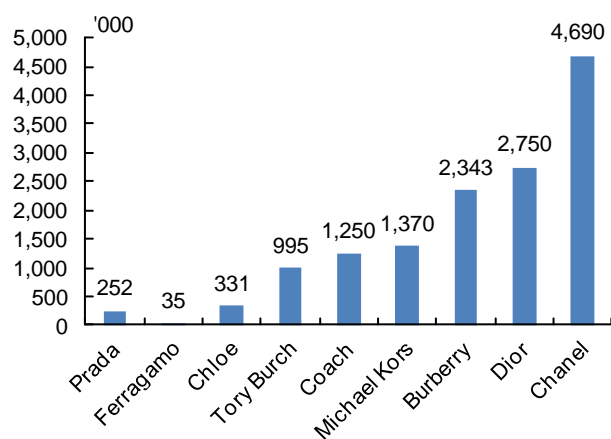
**Figure-18: Proportion of Global Sales of Personal Luxury Goods Contributed by Chinese Customers**



Source: Bain & Company, Guotai Junan International.

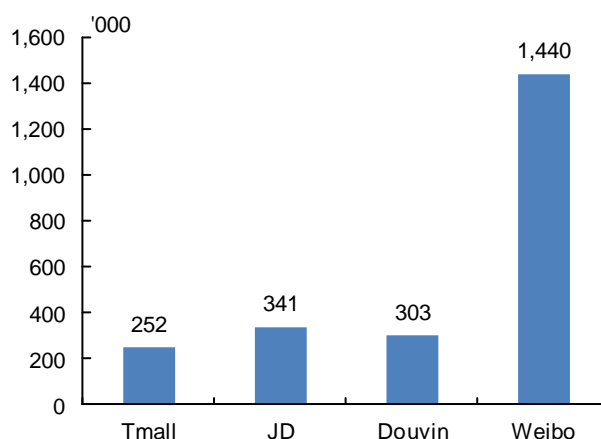
**Prada is paying more attention to the China market and digitalization.** Prada has been actively carrying out digitalization reforms and has now landed on most mainstream media platforms in China. As at December 30, 2020, there were 252,000 followers of Prada's Tmall flagship store, 341,000 followers of its JD flagship store, 303,000 followers of its Douyin's official account and 1.44 million followers of its Weibo account. The company also participated in the 2020 Double Eleven shopping festival. Prada's flagship store on Tmall launched sales promotion from 0:00am to 7:00am on November 11, 2020, returning to original prices after that. This was Prada's biggest discount activity since entering Tmall in February 2020, but the discount period was very short, which is in accordance with the company's strategy of insisting on full-price sales to enhance its brand image. In addition, Prada is also paying more attention to Chinese consumers. In July 2020, Prada's 2021 Spring/Summer collections conference was held in Shanghai and broadcast live globally. At this press conference, Prada released a new handbag collection, Prada Cleo, which went online on Prada's official website in November 2020 and attracted strong market attention. The China market became Prada's main growth engine in 2020 and 2021. We estimate that the China market will contribute more than 30% of Prada's total revenue in 2020 (2019: around 21%).

**Figure-19: Number of Followers of Flagship Stores of Luxury Brands on Tmall**



Source: Tmall, Guotai Junan International.  
Note: As of 30 December 2020.

**Figure-20: Followers of Prada's Accounts on Media Platforms in China**



Source: Tmall, JD.com, Douyin, Weibo, Guotai Junan International.  
Note: As of 30 December 2020.



## Valuation and Top Pick

**We maintain "Outperform" rating for the apparel industry.** The apparel industry in China has almost fully recovered from the COVID-19 pandemic, thanks to the Chinese government's strong control over the outbreak, as well as strong growth in sales through online channels. We expect the recovery trend to continue in 2021. Online channels will continue to be the main growth driver in 2021. Major raw material prices are expected to remain stable during 2021, which is conducive to alleviating pressure on apparel companies. The sportswear sector has been the fastest recovering sector, and we expect the sector to maintain its growth trend in 2021. In addition, the pandemic has accelerated the process of market concentration, which will benefit the leading companies in the sportswear sector. Valuation of the apparel industry has been strongly repaired recently, due to a bright outlook on industry recovery in 2021 as well as the progress in the development of COVID-19 vaccines in major countries around the world. However, based on the expectation of a quick recovery, we maintain "Outperform" rating for the apparel industry.

**Our top pick is Anta Sports (02020 HK) with a TP of HK\$142.00 and investment rating of "Buy".** The sportswear sector in China has basically recovered from the pandemic and is expected to maintain fast growth over the next few years. Anta Sports, as the largest domestic sportswear company in China, has recovered from the pandemic better than expected and also better than its peers, backed by its "single-focus + multi-brand + omni-channel" strategy. Based on the steady performance of the Anta brand, robust growth of FILA as well as high growth potential of Amer Sports and other brands, we remain confident in the Company's future growth and expect the Company to gain more market share in the future. Based on the Company's faster-than-industry growth, continuous improvement in profitability and great potential for long-term growth in the future, we give Anta a "Buy" rating and a TP of HK\$142.00, which represents 63.0x, 40.0x and 31.4x 2020, 2021 and 2022 PER, respectively.

**Table-6: Peers Valuation Comparison**

| Company          | Stock Code | Curren-<br>cy | Last price | Market    | PE(x) |       |      |      | PB(x) |      |      |      | ROE(%) | D/Y(%) | EV/       | Gross     | Operating |
|------------------|------------|---------------|------------|-----------|-------|-------|------|------|-------|------|------|------|--------|--------|-----------|-----------|-----------|
|                  |            |               |            | Cap       |       |       |      |      |       |      |      |      |        |        | EBITDA(x) | Margin(%) | Margin(%) |
|                  |            |               |            | HKD mn    | 19A   | 20F   | 21F  | 22F  | 19A   | 20F  | 21F  | 22F  | 20F    | 20F    | 20F       | 20F       | 20F       |
| Apparel          |            |               |            |           |       |       |      |      |       |      |      |      |        |        |           |           |           |
| Giordano Intl    | 709 HK     | HKD           | 1.14       | 1,798     | 7.8   | n.a.  | 14.3 | 8.8  | 0.7   | 0.8  | 0.8  | 0.8  | (9.0)  | 4.4    | n.a.      | 55.2      | (7.5)     |
| China Lilang     | 1234 HK    | HKD           | 5.29       | 6,335     | 6.9   | 7.8   | 6.2  | 6.0  | 1.6   | 1.4  | 1.3  | 1.2  | 17.3   | 8.3    | 4.6       | 38.1      | 24.6      |
| Bosideng*        | 3998 HK    | HKD           | 3.95       | 42,624    | 36.3  | 31.2  | 22.4 | 18.5 | 3.6   | 3.8  | 3.3  | 3.0  | 12.0   | 5.4    | 7.2       | 55.0      | 13.1      |
| JNBY*            | 3306 HK    | HKD           | 9.00       | 4,669     | 8.2   | 11.9  | 9.1  | 8.3  | 2.9   | 2.9  | 2.4  | 2.3  | 23.9   | 11.0   | 4.4       | 59.7      | 15.5      |
| H&M*             | HMB SS     | SEK           | 172.00     | 268,874   | 21.2  | 242.9 | 24.6 | 20.1 | 5.0   | 5.2  | 4.8  | 4.6  | 2.2    | 2.9    | 13.5      | 50.0      | 1.4       |
| Inditex*         | ITX SM     | EUR           | 26.39      | 783,799   | 23.9  | 22.6  | 57.7 | 25.7 | 5.6   | 5.5  | 5.7  | 5.4  | 24.6   | 0.9    | 12.3      | 55.9      | 16.9      |
| Fast Retailing*  | 6288 HK    | HKD           | 68.70      | 728,726   | 58.0  | 104.5 | 53.4 | 44.6 | 10.1  | 9.9  | 8.6  | 7.5  | 9.5    | 0.8    | 19.5      | 48.6      | 7.3       |
| Cosmo Lady       | 2298 HK    | HKD           | 1.29       | 2,902     | n.a.  | 32.3  | 16.1 | 12.6 | 1.0   | 1.0  | 1.0  | 0.9  | (2.0)  | 0.0    | n.a.      | 46.6      | (3.0)     |
| Koradior         | 3709 HK    | HKD           | 14.30      | 9,796     | 18.2  | 21.5  | 15.5 | 13.1 | 2.8   | 2.4  | 2.2  | 2.0  | 11.7   | 2.3    | 7.5       | n.a.      | n.a.      |
| Septwolves       | 002029     | CNY           | 5.24       | 4,698     | 11.4  | 22.8  | 13.4 | n.a. | 0.7   | 0.6  | 0.6  | n.a. | 2.9    | 1.0    | n.a.      | 43.7      | 6.4       |
| HLA              | 600398     | CNY           | 6.52       | 33,412    | 9.1   | 13.0  | 9.4  | 8.0  | 2.1   | 1.9  | 1.7  | 1.5  | 14.8   | 3.3    | 5.7       | 37.6      | 14.6      |
| Semir            | 002563     | CNY           | 10.05      | 32,163    | 17.3  | 35.8  | 18.2 | 14.9 | 2.3   | 2.3  | 2.2  | 2.1  | 5.9    | 2.5    | 13.6      | 40.2      | 6.2       |
| Simple Average   |            |               |            |           | 19.8  | 30.3  | 21.7 | 16.4 | 3.2   | 3.1  | 2.9  | 2.8  | 9.5    | 3.6    | 9.8       | 48.2      | 8.7       |
| Weighted Average |            |               |            |           | 36.2  | 59.0  | 48.5 | 31.3 | 7.0   | 6.9  | 6.5  | 5.8  | 14.8   | 1.4    | 15.0      | 51.6      | 10.7      |
| Sportswear       |            |               |            |           |       |       |      |      |       |      |      |      |        |        |           |           |           |
| Anta             | 2020 HK    | HKD           | 122.90     | 332,239   | 54.5  | 53.9  | 35.7 | 28.1 | 14.8  | 11.7 | 9.4  | 7.7  | 23.7   | 0.6    | 29.2      | 54.9      | 23.0      |
| Lining           | 2331 HK    | HKD           | 53.30      | 132,671   | 75.9  | 69.8  | 50.9 | 39.6 | 15.3  | 13.1 | 10.8 | 8.9  | 20.4   | 0.4    | 40.1      | 49.1      | 13.3      |
| Xtep Intl        | 1368 HK    | HKD           | 3.87       | 9,807     | 11.1  | 17.3  | 11.8 | 9.6  | 1.3   | 1.1  | 1.1  | 1.0  | 6.7    | 3.5    | 7.8       | 40.1      | 10.3      |
| 361 Degrees Intl | 1361 HK    | HKD           | 1.08       | 2,233     | 4.6   | 4.8   | 4.4  | 3.9  | 0.3   | 0.3  | 0.3  | 0.3  | 6.1    | 7.6    | n.a.      | 38.6      | 14.9      |
| China Dongxiang* | 3818 HK    | HKD           | 0.81       | 4,768     | n.a.  | 11.5  | 4.7  | 4.4  | 0.4   | 0.4  | 0.3  | 0.3  | 3.5    | 3.1    | n.a.      | 60.2      | 17.9      |
| Topsports*       | 6110 HK    | HKD           | 11.60      | 71,934    | n.a.  | 25.2  | 24.6 | 19.5 | 31.5  | 6.1  | 5.8  | 5.0  | 36.9   | 2.4    | 13.4      | 42.1      | 9.6       |
| Nike*            | NKE US     | USD           | 141.58     | 1,722,951 | 55.5  | 86.9  | 46.9 | 36.6 | 24.6  | 27.4 | 21.8 | 19.2 | 29.7   | 1.0    | 35.8      | 43.4      | 8.3       |
| Adidas           | ADS GR     | EUR           | 297.90     | 568,958   | 29.8  | 140.4 | 34.3 | 27.9 | 8.6   | 8.2  | 7.4  | 6.7  | 7.5    | 0.7    | 32.4      | 49.9      | 3.6       |
| Asics            | 7936 JP    | JPY           | 1,980.0    | 28,256    | 52.2  | n.a.  | 44.8 | 29.2 | 2.4   | 2.7  | 2.6  | 2.5  | (8.1)  | 1.2    | 60.9      | 47.4      | (1.4)     |
| Puma             | PUM GY     | EUR           | 92.28      | 132,635   | 52.4  | 169.9 | 47.4 | 35.0 | 7.4   | 7.1  | 6.4  | 5.7  | 3.9    | 0.2    | 34.0      | 46.3      | 3.7       |
| Lululemon*       | LULU US    | USD           | 350.78     | 354,426   | 96.6  | 70.9  | 76.3 | 51.9 | 31.8  | 23.4 | 18.9 | 15.7 | 38.0   | 0.0    | 25.1      | 55.9      | 22.3      |
| Simple Average   |            |               |            |           | 52.0  | 42.5  | 42.9 | 28.4 | 11.8  | 8.9  | 7.5  | 6.5  | 12.8   | 1.7    | 56.1      | 47.9      | 10.2      |
| Weighted Average |            |               |            |           | 56.4  | 77.5  | 47.7 | 35.7 | 20.2  | 19.8 | 16.0 | 13.9 | 23.9   | 0.8    | 37.4      | 47.3      | 10.2      |

**Textile & Garment**

|                    |         |     |        |         |      |      |      |      |     |     |      |      |       |      |      |      |       |
|--------------------|---------|-----|--------|---------|------|------|------|------|-----|-----|------|------|-------|------|------|------|-------|
| Shenzhou           | 2313 HK | HKD | 152.00 | 228,490 | 39.5 | 35.5 | 30.0 | 25.8 | 8.1 | 6.8 | 6.0  | 5.3  | 20.1  | 1.5  | 26.1 | 30.9 | 25.7  |
| Yue Yuen           | 551 HK  | HKD | 16.14  | 26,021  | 11.1 | n.a. | 13.0 | 9.4  | 0.8 | 0.9 | 0.8  | 0.8  | (2.6) | 1.7  | 14.1 | 21.2 | (0.2) |
| Texhong Textile    | 2678 HK | HKD | 6.65   | 6,085   | 6.0  | 22.4 | 5.9  | 4.3  | 0.7 | 0.7 | 0.6  | 0.6  | 3.1   | 1.4  | 6.6  | 12.2 | 4.9   |
| Pacific Textiles*  | 1382 HK | HKD | 5.09   | 7,183   | 8.5  | 10.0 | 9.1  | 8.1  | 2.2 | 2.5 | 2.3  | 2.2  | 23.7  | 11.8 | 5.3  | 16.9 | 15.5  |
| Regina Miracle*    | 2199 HK | HKD | 2.54   | 3,110   | 11.0 | 10.7 | 24.2 | 9.6  | 1.1 | 1.1 | 1.0  | 1.0  | 9.9   | 2.3  | 7.6  | 22.7 | 7.5   |
| Stella Int'l       | 1836 HK | HKD | 9.01   | 7,161   | 9.5  | 37.2 | 10.9 | 8.3  | 1.0 | 1.0 | 1.0  | 0.9  | 3.5   | 2.2  | 14.6 | 16.7 | (0.0) |
| Texwinca*          | 321 HK  | HKD | 1.49   | 2,059   | 6.3  | 12.2 | n.a. | n.a. | 0.4 | 0.4 | n.a. | n.a. | 3.3   | 8.0  | 2.5  | 32.0 | 3.3   |
| Nameson*           | 1982 HK | HKD | 0.47   | 1,060   | n.a. | 6.7  | n.a. | n.a. | 0.5 | 0.5 | n.a. | n.a. | 8.0   | 9.8  | 4.9  | 15.4 | 5.8   |
| Best Pacific Int'l | 2111 HK | HKD | 1.25   | 1,300   | 4.3  | 5.3  | 4.0  | 3.4  | 0.5 | 0.5 | 0.4  | 0.4  | 9.0   | 3.7  | 4.7  | 23.9 | 10.5  |
| Simple Average     |         |     |        |         | 12.0 | 17.5 | 13.9 | 9.9  | 1.7 | 1.6 | 1.7  | 1.6  | 8.7   | 4.7  | 9.6  | 21.3 | 8.1   |
| Weighted Average   |         |     |        |         | 33.9 | 33.8 | 26.7 | 22.6 | 6.8 | 5.7 | 5.1  | 4.5  | 17.0  | 1.9  | 23.2 | 28.7 | 21.5  |

**Luggage & Luxury**

|                     |         |     |         |           |      |      |       |      |      |      |      |     |        |     |      |      |        |
|---------------------|---------|-----|---------|-----------|------|------|-------|------|------|------|------|-----|--------|-----|------|------|--------|
| SAMSONITE           | 1910 HK | HKD | 13.74   | 19,713    | 18.9 | n.a. | 107.3 | 16.0 | 1.3  | 3.3  | 3.2  | 2.8 | (72.4) | 0.0 | n.a. | 49.1 | (77.9) |
| PRADA               | 1913 HK | HKD | 51.20   | 131,012   | 58.4 | n.a. | 79.0  | 52.0 | 5.0  | 4.8  | 4.5  | 2.8 | (1.3)  | 0.1 | 20.6 | 71.3 | 0.7    |
| LVMH                | MC FP   | EUR | 513.10  | 2,468,095 | 36.0 | 62.5 | 36.5  | 31.5 | 7.1  | 6.7  | 6.0  | 5.4 | 11.2   | 0.9 | 25.3 | 64.3 | 16.8   |
| HERMES              | RMS FP  | EUR | 884.00  | 889,340   | 60.3 | 82.2 | 58.5  | 50.7 | 14.2 | 12.9 | 11.1 | 9.6 | 16.4   | 0.5 | 42.4 | 67.5 | 27.9   |
| CHRISTIAN DIOR      | CDI FP  | EUR | 451.20  | 776,143   | 27.7 | 49.7 | 29.0  | 23.4 | 7.5  | 7.0  | 6.1  | 5.3 | 14.6   | 1.1 | 12.9 | 63.8 | n.a.   |
| KERING              | KER FP  | EUR | 588.00  | 707,598   | 32.0 | 37.3 | 25.6  | 22.2 | 7.2  | 6.5  | 5.7  | 4.9 | 18.1   | 1.3 | 18.0 | 73.0 | 23.7   |
| CAPRI HOLDINGS*     | CPRI US | USD | 43.75   | 51,093    | 12.1 | n.a. | 37.2  | 12.6 | 2.7  | 3.0  | 2.8  | 2.3 | (9.7)  | 0.0 | 11.0 | 58.9 | (3.5)  |
| BURBERRY*           | BRBY LN | GBP | 1,811.5 | 77,453    | 22.0 | 60.8 | 35.2  | 25.0 | 5.1  | 6.0  | 5.4  | 4.9 | 9.1    | 0.9 | 11.4 | 64.8 | 7.2    |
| TAPESTRY*           | TPR US  | USD | 31.45   | 67,632    | 14.2 | n.a. | 13.5  | 12.1 | 2.6  | 3.8  | 3.0  | 2.8 | (22.5) | 8.1 | 61.8 | 65.3 | (11.1) |
| HUGO BOSS           | BOSS GY | EUR | 27.29   | 18,309    | 9.2  | n.a. | 20.8  | 13.6 | 1.9  | 2.2  | 2.0  | 1.8 | (17.1) | 0.8 | 10.0 | 62.3 | (8.1)  |
| SALVATORE FERRAGAMO | SFER IM | EUR | 15.86   | 25,511    | 30.7 | n.a. | 268.8 | 56.4 | 3.5  | 3.8  | 3.8  | 3.7 | (9.2)  | 0.2 | 23.1 | 61.2 | (6.4)  |
| TOD'S               | TOD IM  | EUR | 28.46   | 8,975     | 20.3 | n.a. | n.a.  | n.a. | 0.9  | 1.3  | 1.4  | 1.2 | (10.1) | 0.1 | 37.3 | 73.8 | (16.1) |
| Simple Average      |         |     |         |           | 28.5 | 58.5 | 44.3  | 28.7 | 4.9  | 5.1  | 4.6  | 3.9 | (6.1)  | 1.2 | 24.9 | 64.6 | (4.3)  |
| Weighted Average    |         |     |         |           | 38.0 | 60.4 | 38.6  | 32.3 | 8.1  | 7.6  | 6.7  | 5.8 | 12.0   | 1.0 | 25.4 | 66.0 | 18.1   |

Source: Bloomberg, Guotai Junan International.

Note: H&M (HMB SS), Adidas (ADS GR) and Puma (PUM GY) as outliers are excluded from the calculation of simple and weighted average of 20F PER. SALVATORE FERRAGAMO (SFER IM) as an outlier is excluded from the calculation of simple and weighted average of 21F PER.

\* The financial year-end dates of Bosideng (3998 HK), JNBY (3306 HK), H&M (HMB SS), Inditex (ITX SM), Fast Retailing (6288 HK), China Dongxiang (3818 HK), Topsports (6110 HK), Nike (NKE), Lululemon (LULU), Pacific Textiles (1382 HK), Regina Miracle (2199 HK), Texwinca Hldgs (321 HK), Nameson Hldgs (1982 HK), CAPRI (CPRI), Burberry (BRBY) and Tapestry (TPR) are not 31 December. For easier comparison with peers, "19A" means "FY20A" and "20F" means "FY21F" and so on for the aforementioned companies.

## Company Report: Samsonite (01910 HK)

公司报告: 新秀丽 (01910 HK)

# Better Outlook on 2021 Industry Recovery, Upgrade to "Buy"

对2021年行业复苏展望更佳，上调评级至“买入”

- Samsonite will benefit from industry recovery in 2021.** Although Europe and the US have implemented more partial lockdowns since mid-December 2020, the global tourism industry is expected to recover in 2021 driven by the progress of COVID-19 vaccine development and the robust recovery in the China market. The global bags and luggage industry is also expected to recover over the next few years. In addition, with the accelerated elimination of underperforming brands, market concentration of the global bags and luggage industry will be further enhanced, which will benefit Samsonite.
- Revise up 2021 and 2022 EPS forecasts by 338.3% and 30.2% to US\$0.021 and US\$0.069, respectively.** We have revised up 2021 and 2022 revenue forecasts on a better outlook on industry recovery. The Company forecasts that 2021 revenue may recover to 60%-70% of the number in 2019, and its GPM may recover to mid-fifties percentage in 2021. The Company targets to achieve breakeven in terms of EBITDA by the end of 1Q21, and deliver positive EBITDA for the full year of 2021, through effective cost savings. Cash flow may return to positive starting from 2Q21, driven by reduction in investment and capex.
- Raise TP to HK\$16.10 and upgrade rating to "Buy".** In order to boost business recovery, Samsonite will continue to strengthen online channels, develop non-travel categories, reduce costs and maintain sufficient financial liquidity. We have raised our TP to reflect better outlook on industry recovery, improving financial performance of Samsonite as well as higher industry valuation. Our new TP represents 30.0x 2022 PER, as well as 14.1x and 11.0x 2021 and 2022 EV/EBITDA ratio, respectively. Our TP also reflects 17.2% upside potential, and therefore we upgrade to "Buy" rating.
- 新秀丽将受益于2021年的行业复苏。**尽管欧洲和美国自2020年12月以来实施了新一轮部分封锁政策，但我们预期全球旅游行业将在2021年复苏，主要由新冠疫苗研制的进展以及中国市场强劲的恢复所驱动。全球箱包行业预期也将在未来几年复苏。此外，随着表现不佳的品牌被加速逐出市场，全球箱包行业的市场集中度也将进一步加强，这对新秀丽来说是有利的。
- 分别上调2021年和2022年每股盈利预测338.3%和30.2%至0.021美元和0.069美元。**基于对行业复苏更加乐观的展望，我们上调了2021年和2022年的收入预测。公司预测2021年收入将会恢复到2019年数字的60%-70%，并且毛利率将在2021年恢复至50%-60%中段水平。公司目标为通过有效的费用缩减，在2021年1季度末在EBITDA层面实现盈亏平衡，并在2021年全年实现正的EBITDA。现金流或将在2021年2季度恢复至正数，主要由投资和资本支出的缩减所带动。
- 上调目标价至16.10港元并上调评级至“买入”。**为了促进业务复苏，公司将继续强化线上渠道、开发非旅游产品类别、减少开支并保持充足的财务灵活性。我们上调了目标价以反映对行业复苏更好的展望、新秀丽持续改善的财务表现以及更高的行业估值。我们的新目标价相当于30.0倍2022年市盈率，并分别相当于14.1倍和11.0倍2021年和2022年EV/EBITDA。我们的目标价亦反映了17.2%的上升空间，因此我们上调评级至“买入”。

Rating:

**Buy**  
Upgraded

评级:

买入 (上调)

6-18m TP目标价:

**HK\$16.10**

Revised from 原目标价:

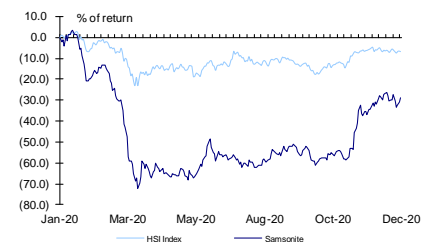
HK\$12.10

Share price 股价:

HK\$13.740

### Stock performance

股价表现



| Change in Share Price            | 1 M  | 3 M  | 1 Y    |
|----------------------------------|------|------|--------|
| 股价变动                             | 1 个月 | 3 个月 | 1 年    |
| Abs. % 绝对变动 %                    | 9.7  | 76.2 | (26.5) |
| Rel. % to HS Index 相对恒指变动 %      | 6.4  | 60.1 | (23.1) |
| Avg. Share price(HK\$) 平均股价 (港元) | 13.2 | 10.9 | 10.0   |

Source: Bloomberg, Guotai Junan International.

| Year End                                | Turnover | Net Profit | EPS     | EPS            | PER                                    | BPS    | PBR                               | DPS    | Yield | ROE    |
|---|----------|------------|---------|----------------|--|--------|-----------------------------------|--------|-------|--------|
| 年结                                      | 收入       | 股东净利       | 每股净利    | 每股净利变          | 市盈率                                    | 每股净资产  | 市净率                               | 每股股息   | 股息率   | 净资产收益率 |
| 12/31                                   | (US\$ m) | (US\$ m)   | (US\$)  | (Δ %)          | (x)                                    | (US\$) | (x)                               | (US\$) | (%)   | (%)    |
| 2018A                                   | 3,797    | 237        | 0.166   | (29.7)         | 10.4                                   | 1.361  | 1.3                               | 0.087  | 5.1   | 12.7   |
| 2019A                                   | 3,639    | 133        | 0.093   | (44.2)         | 18.6                                   | 1.362  | 1.3                               | 0.000  | 0.0   | 6.8    |
| 2020F                                   | 1,528    | (1,185)    | (0.827) | n.a.           | n.a.                                   | 0.535  | 3.2                               | 0.000  | 0.0   | (87.2) |
| 2021F                                   | 2,525    | 30         | 0.021   | n.a.           | 82.0                                   | 0.556  | 3.1                               | 0.000  | 0.0   | 3.9    |
| 2022F                                   | 2,809    | 99         | 0.069   | 226.9          | 25.1                                   | 0.625  | 2.8                               | 0.000  | 0.0   | 11.7   |
| Shares in issue (m) 总股数 (m)             |          |            |         | 1,434.7        | Major shareholder 大股东                  |        | Hermes Investment Management 9.9% |        |       |        |
| Market cap. (HK\$ m) 市值 (HK\$ m)        |          |            |         | 19,713.1       | Free float (%) 自由流通比率(%)               |        | 63.9                              |        |       |        |
| 3 month average vol. 3 个月平均成交股数('000)   |          |            |         | 9,133.3        | FY20 Net gearing (%) FY20 净负债/股东资金 (%) |        | 231.8                             |        |       |        |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) |          |            |         | 19.640 / 5.200 | FY20 Est. NAV (HK\$) FY20 每股估值 (港元)    |        | 18.5                              |        |       |        |

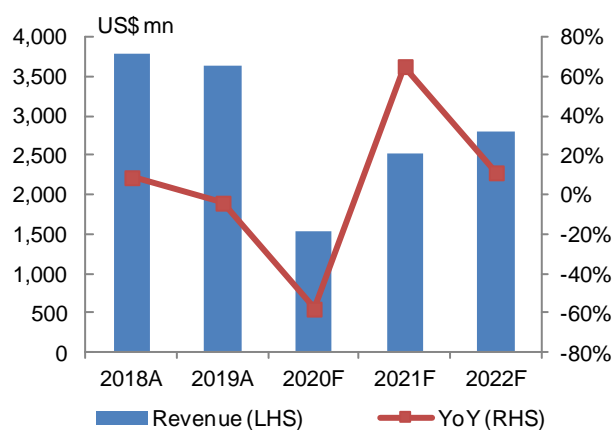
Source: the Company, Guotai Junan International.

Table-7: Key Assumptions and Adjustments

| RMB mn             | OLD     |       |       | NEW     |       |       | CHANGE  |           |           |
|--------------------|---------|-------|-------|---------|-------|-------|---------|-----------|-----------|
|                    | 2020F   | 2021F | 2022F | 2020F   | 2021F | 2022F | 2020F   | 2021F     | 2022F     |
| Revenue            | 1,528   | 2,480 | 2,754 | 1,528   | 2,525 | 2,809 | 0.0%    | 1.8%      | 2.0%      |
| Gross profit       | 760     | 1,362 | 1,521 | 760     | 1,389 | 1,554 | 0.0%    | 2.0%      | 2.2%      |
| Operating profit   | (1,201) | 125   | 200   | (1,201) | 152   | 230   | 0.0%    | 21.6%     | 14.9%     |
| Net profit         | (1,185) | 7     | 76    | (1,185) | 30    | 99    | 0.0%    | 338.3%    | 30.2%     |
| EBITDA             | (1,025) | 305   | 385   | (1,025) | 332   | 415   | 0.0%    | 8.9%      | 7.8%      |
| Basic EPS (US\$)   | (0.827) | 0.005 | 0.053 | (0.827) | 0.021 | 0.069 | 0.0%    | 338.3%    | 30.2%     |
| Gross margin       | 49.7%   | 54.9% | 55.2% | 49.7%   | 55.0% | 55.3% | 0.0 ppt | 0.1 ppt   | 0.1 ppt   |
| % SG&A of turnover | 69.0%   | 49.6% | 47.7% | 69.0%   | 48.7% | 46.9% | 0.0 ppt | (0.9) ppt | (0.8) ppt |
| Operating margin   | (78.6%) | 5.0%  | 7.3%  | (78.6%) | 6.0%  | 8.2%  | 0.0 ppt | 1.0 ppt   | 0.9 ppt   |
| Effective tax rate | 9.2%    | 13.0% | 23.0% | 9.2%    | 13.0% | 23.0% | 0.0 ppt | 0.0 ppt   | 0.0 ppt   |
| Net margin         | (77.5%) | 0.3%  | 2.8%  | (77.5%) | 1.2%  | 3.5%  | 0.0 ppt | 0.9 ppt   | 0.8 ppt   |
| EBITDA margin      | (67.1%) | 12.3% | 14.0% | (67.1%) | 13.1% | 14.8% | 0.0 ppt | 0.9 ppt   | 0.8 ppt   |

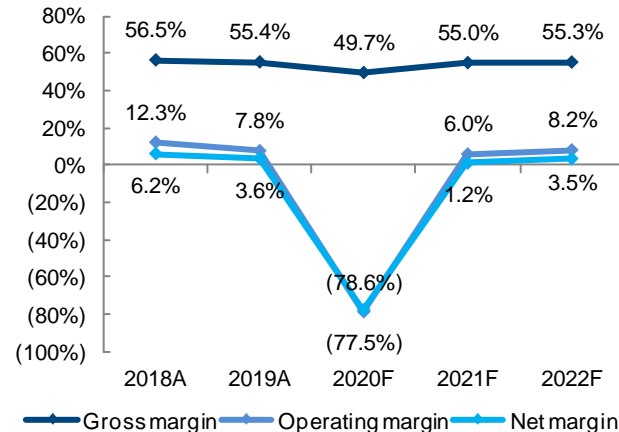
Source: the Company, Guotai Junan International.

Figure-21: Samsonite's Revenue & YoY Growth



Source: the Company, Guotai Junan International.

Figure-22: Samsonite's Profitability



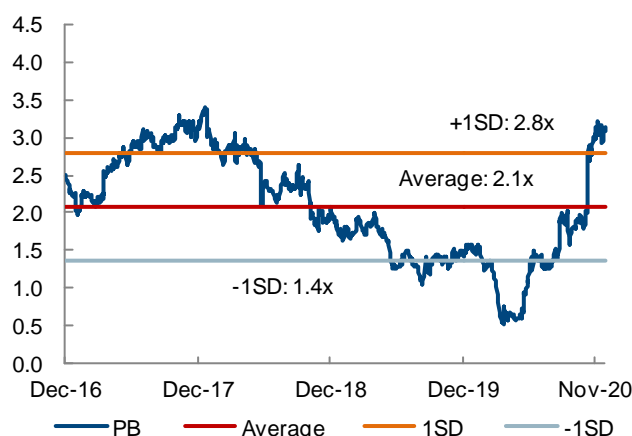
Source: the Company, Guotai Junan International.

Figure-23: Samsonite's EV/EBITDA Ratio (Next Annual)



Source: Bloomberg, Guotai Junan International.

Figure-24: Samsonite's P/B Ratio (Next Annual)



Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

| Income Statement                  |         |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|---------|
| Year end 31 Dec (US\$ m)          | 2018A   | 2019A   | 2020F   | 2021F   | 2022F   |
| Total Revenue                     | 3,797   | 3,639   | 1,528   | 2,525   | 2,809   |
| Cost of Sales                     | (1,652) | (1,622) | (768)   | (1,135) | (1,255) |
| Gross Profit                      | 2,145   | 2,017   | 760     | 1,389   | 1,554   |
| Distribution Costs                | (1,212) | (1,203) | (770)   | (909)   | (973)   |
| Marketing Expenses                | (221)   | (190)   | (76)    | (102)   | (107)   |
| Administrative & General Expenses | (233)   | (230)   | (209)   | (219)   | (237)   |
| Other Expenses                    | (11)    | (112)   | (906)   | (7)     | (7)     |
| Operating Profit                  | 467     | 283     | (1,201) | 152     | 230     |
| Net Finance Income (costs)        | (124)   | (98)    | (113)   | (116)   | (101)   |
| Profit Before Tax                 | 344     | 185     | (1,314) | 35      | 129     |
| Income Tax                        | (87)    | (32)    | 121     | (5)     | (30)    |
| Profit After Tax                  | 257     | 153     | (1,193) | 31      | 100     |
| Non-controlling Interest          | (21)    | (21)    | 8       | (0)     | (0)     |
| Shareholders' Profit / Loss       | 237     | 133     | (1,185) | 30      | 99      |
| Basic EPS                         | 0.166   | 0.093   | (0.827) | 0.021   | 0.069   |
| YoY                               | (29.7%) | (44.2%) | n.a.    | n.a.    | 226.9%  |

| Cash Flow Statement                    |         |       |         |       |       |
|--|---------|-------|---------|-------|-------|
| Year end 31 Dec (US\$ m)               | 2018A   | 2019A | 2020F   | 2021F | 2022F |
| Profit Before Taxation                 | 257     | 153   | (1,193) | 31    | 100   |
| D&A                                    | 121     | 112   | 116     | 123   | 129   |
| Other Adjustments                      | 219     | 431   | 861     | 148   | 160   |
| Changes in Working Capital             | (122)   | 34    | 79      | (7)   | (30)  |
| Tax and Interest Paid                  | (167)   | (154) | (86)    | (25)  | (100) |
| Cash from Operating Activities         | 307     | 576   | (223)   | 269   | 258   |
| Capital Expenditure                    | (101)   | (55)  | (24)    | (58)  | (70)  |
| Acquisition of Businesses              | 0       | 0     | (8)     | (13)  | (14)  |
| Others                                 | (17)    | (18)  | (104)   | (50)  | (27)  |
| Cash from Investing Activities         | (117)   | (73)  | (136)   | (120) | (111) |
| Dividends Paid                         | (110)   | (125) | 0       | 0     | 0     |
| Proceeds from Senior Credit Facilities | 1,923   | 0     | 0       | 0     | 0     |
| Others                                 | (1,920) | (340) | 1,226   | (338) | (309) |
| Cash from Financing Activities         | (107)   | (465) | 1,226   | (338) | (309) |
| Net Changes in Cash                    | 83      | 38    | 867     | (189) | (162) |
| Cash at Beg of Year                    | 344     | 428   | 463     | 1,330 | 1,141 |
| Foreign Exchange Effect                | 1       | (3)   | 0       | 0     | 0     |
| Cash at End of Year                    | 428     | 463   | 1,330   | 1,141 | 979   |

| Balance Sheet                     |       |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|-------|
| As at 31 Dec (US\$ m)             | 2018A | 2019A | 2020F | 2021F | 2022F |
| Property, Plant and Equipment     | 311   | 267   | 241   | 214   | 190   |
| Lease Right-of-use Assets         | 0     | 614   | 578   | 571   | 543   |
| Goodwill                          | 1,340 | 1,339 | 843   | 843   | 843   |
| Other Intangible Assets           | 1,771 | 1,691 | 1,428 | 1,406 | 1,386 |
| Others                            | 102   | 87    | 88    | 83    | 86    |
| Total Non-current Assets          | 3,524 | 3,998 | 3,178 | 3,117 | 3,047 |
| Inventory                         | 623   | 587   | 558   | 583   | 612   |
| Trade and Bill Receivables        | 421   | 396   | 168   | 268   | 299   |
| Prepaid Expenses and Others       | 147   | 97    | 103   | 107   | 112   |
| Cash & Cash Equivalents           | 428   | 463   | 1,330 | 1,141 | 979   |
| Total Current Assets              | 1,618 | 1,543 | 2,159 | 2,099 | 2,001 |
| Total Assets                      | 5,142 | 5,541 | 5,337 | 5,216 | 5,048 |
| Trade and Bill Payables           | 699   | 676   | 502   | 625   | 660   |
| Bank Loans                        | 81    | 61    | 94    | 83    | 75    |
| Current Tax Liabilities           | 75    | 54    | 19    | 20    | 20    |
| Employee Benefits                 | 82    | 84    | 67    | 65    | 63    |
| Others                            | 0     | 175   | 157   | 150   | 142   |
| Total Current Liabilities         | 936   | 1,050 | 840   | 943   | 962   |
| Loans and Borrowings              | 1,839 | 1,694 | 3,012 | 2,711 | 2,436 |
| Lease Liabilities                 | 0     | 475   | 404   | 384   | 364   |
| Deferred Tax Liabilities & Others | 376   | 320   | 273   | 339   | 348   |
| Total Non-current Liabilities     | 2,214 | 2,489 | 3,688 | 3,434 | 3,148 |
| Total Liabilities                 | 3,151 | 3,540 | 4,528 | 4,377 | 4,110 |
| Share Capital                     | 14    | 14    | 14    | 14    | 14    |
| Reserves                          | 1,934 | 1,937 | 752   | 782   | 882   |
| Total Shareholders' Equity        | 1,948 | 1,951 | 766   | 797   | 896   |
| Minority Interest                 | 43    | 51    | 42    | 43    | 43    |
| Total Equity                      | 1,991 | 2,002 | 808   | 839   | 939   |

| Financial Ratio       |       |       |        |       |       |
|-----------------------|-------|-------|--------|-------|-------|
|                       | 2018A | 2019A | 2020F  | 2021F | 2022F |
| Gross Margin (%)      | 56.5  | 55.4  | 49.7   | 55.0  | 55.3  |
| Operating Margin (%)  | 12.3  | 7.8   | (78.6) | 6.0   | 8.2   |
| Net Margin (%)        | 6.2   | 3.6   | (77.5) | 1.2   | 3.5   |
| ROE (%)               | 12.7  | 6.8   | (87.2) | 3.9   | 11.7  |
| ROA (%)               | 4.6   | 2.5   | (21.8) | 0.6   | 1.9   |
| ROCE (%)              | 3.5   | 2.0   | (16.9) | 0.4   | 1.5   |
| Inventory Days        | 133.2 | 136.1 | 272.1  | 183.4 | 173.8 |
| A/C Receivable Days   | 40.0  | 41.0  | 67.4   | 31.5  | 36.8  |
| A/C Payable Days      | 119.2 | 115.4 | 202.2  | 131.2 | 139.6 |
| Cash Conversion Cycle | 53.9  | 61.7  | 137.3  | 83.7  | 71.0  |
| Payout Ratio (%)      | 52.8  | 0.0   | 0.0    | 0.0   | 0.0   |
| Net Gearing (%)       | 76.6  | 66.3  | 231.8  | 207.6 | 171.0 |
| Current Ratio (x)     | 1.7   | 1.5   | 2.6    | 2.2   | 2.1   |

Source: the Company, Guotai Junan International.

31 December 2020

Consumer Sector-Apparel 消费行业-服装

Sector Report



## Company Report: Shenzhou International (02313 HK)

公司报告: 申洲国际 (02313 HK)

# Benefiting from Optimistic Outlook on Industry Recovery and Higher Industry Valuation, "Accumulate"

受益于对行业复苏的乐观展望以及更高的行业估值, “收集”

- **Business environment is expected to improve in 2021.** The COVID-19 vaccines are being vaccinated to people in many countries including China, the United States and Europe. We expect to see improving business environment globally in 2021, driving the recovery of demand for clothing and sportswear products, which will be the engine of Shenzhou's business growth. In addition, the Company's production capacity will continue to expand as planned, and overall capacity utilization rate is also expected to improve over the next few years.
- **We forecast 2020-2022 EPS to grow YoY by 4.3%, 18.8% and 16.8% to RMB3.534, RMB4.198 and RMB4.902, respectively, representing a CAGR of 13.1% during 2019-2022.** We have maintained our earnings forecasts for the Company. China and Japan markets have strongly recovered from the pandemic and are expected to continue the trend in 2021. In addition, the Company's new business, manufacturing masks, is estimated to contribute US\$100-200 million to revenue in 2H20, and the business will continue in 2021. We forecast GPM to remain stable in 2H20 and improve in 2021, driving increases in operating margin.
- **Raise TP to HK\$163.60 and maintain "Accumulate" rating.** Shenzhou has been less impacted by the pandemic than most of its peers, mainly thanks to its vertically integrated business model and strong R&D capabilities. We expect the Company to gain more market share over the next few years. We raise TP to reflect a more optimistic outlook on 2021 industry recovery as well as higher industry valuation. Our new TP represents 39.2x, 33.0x and 28.2x 2020, 2021 and 2022 PER, respectively, as well as 7.6% upside potential.
- **2021 年的业务环境预期将有所改善。** 新冠疫苗正在多个国家进行接种, 包括中国、美国和欧洲。我们预期 2021 年全球的业务环境都将有所改善, 带动对服装和体育用品的需求复苏, 这将成为申洲业务增长的引擎。此外, 公司将会继续按照计划在接下来几年中扩张其产能, 并且预期整体产能利用率也将改善。
- **我们预测 2020-2022 年每股盈利将分别同比增长 4.3%、18.8% 和 16.8% 至 3.534 元人民币、4.198 元人民币及 4.902 元人民币, 相当于 2019-2022 年期间 13.1% 的年复合增长率。** 我们维持了对公司的盈利预测。中国和日本市场已经从疫情中强力复苏, 并且我们预期将会在 2021 年延续这一趋势。此外, 公司生产口罩的新业务估计将会在 2020 年下半年贡献 1.0-2.0 亿美元的收入, 并且该业务将会在 2021 年继续经营。我们预测毛利率将在 2020 年下半年维持稳定并在 2021 年改善, 带动经营利润率的提升。
- **上调目标价至 163.60 港元并维持“收集”评级。** 申洲受疫情的影响比其大多数同业更少, 主要受益于其垂直一体化的业务模式以及强大的研发能力。我们预期公司将在未来几年中获得更多市场份额。我们上调目标价以反映对 2021 年行业复苏更乐观的展望以及更高的行业估值水平。我们的新目标价分别相当于 39.2 倍、33.0 倍和 28.2 倍 2020 年、2021 年和 2022 年市盈率, 以及 7.6% 的上涨空间。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$163.60**

Revised from 原目标价:

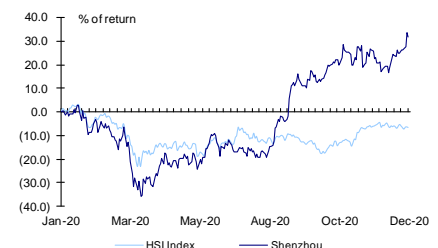
HK\$138.50

Share price 股价:

HK\$152.000

### Stock performance

股价表现



| Change in Share Price            | 1 M   | 3 M   | 1 Y   |
|----------------------------------|-------|-------|-------|
| 股价变动                             | 1 个月  | 3 个月  | 1 年   |
| Abs. % 绝对变动 %                    | 15.9  | 16.5  | 33.5  |
| Rel. % to HS Index 相对恒指变动 %      | 12.5  | 0.4   | 36.9  |
| Avg. Share price(HK\$) 平均股价 (港元) | 140.2 | 138.4 | 109.5 |

Source: Bloomberg, Guotai Junan International.

| Year End | Turnover | Net Profit | EPS   | EPS   | PER  | BPS    | PBR | DPS   | Yield | ROE    |
|----------|----------|------------|-------|-------|------|--------|-----|-------|-------|--------|
| 年结       | 收入       | 股东净利       | 每股净利  | 每股净利变 | 市盈率  | 每股净资产  | 市净率 | 每股股息  | 股息率   | 净资产收益率 |
| 12/31    | (RMB m)  | (RMB m)    | (RMB) | (Δ %) | (x)  | (RMB)  | (x) | (RMB) | (%)   | (%)    |
| 2018A    | 20,950   | 4,540      | 3.021 | 16.9  | 43.4 | 14.834 | 8.8 | 1.537 | 1.2   | 21.7   |
| 2019A    | 22,665   | 5,095      | 3.390 | 12.2  | 39.3 | 16.746 | 8.0 | 1.690 | 1.3   | 21.5   |
| 2020F    | 23,673   | 5,313      | 3.534 | 4.3   | 35.7 | 18.562 | 6.8 | 1.704 | 1.3   | 20.0   |
| 2021F    | 27,382   | 6,311      | 4.198 | 18.8  | 30.0 | 20.827 | 6.1 | 2.099 | 1.7   | 21.3   |
| 2022F    | 31,152   | 7,368      | 4.902 | 16.8  | 25.7 | 23.454 | 5.4 | 2.451 | 1.9   | 22.1   |

|   |                  |  |                   |
|---|------------------|--|-------------------|
| Shares in issue (m) 总股数 (m)             | 1,503.2          | Major shareholder 大股东                  | Ma Jianrong 42.5% |
| Market cap. (HK\$ m) 市值 (HK\$ m)        | 228,489.8        | Free float (%) 自由流通比率 (%)              | 52.5              |
| 3 month average vol. 3 个月平均成交股数 ('000)  | 3,653.2          | FY20 Net gearing (%) FY20 净负债/股东资金 (%) | Net Cash          |
| 52 Weeks high/low (HK\$) 52 周高/低 (HK\$) | 153.300 / 72.350 | FY20 Est. NAV (HK\$) FY20 每股估值 (港元)    | 187.9             |

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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31 December 2020

Consumer Sector-Apparel 消费行业-服装

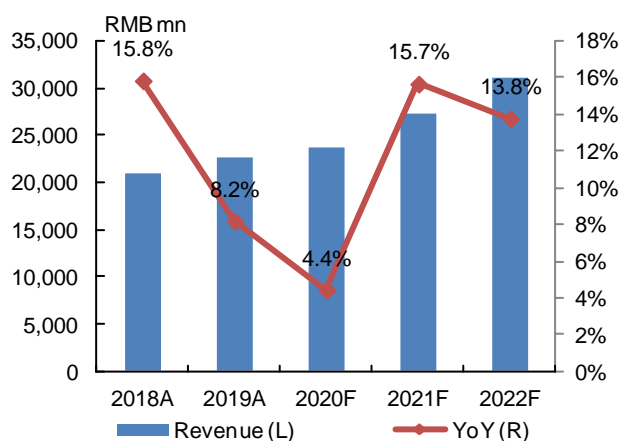
Sector Report

Table-8: Shenzhou's Production Capacity

|   | 2017A      | 2018A      | 2019A      | 2020F      | 2021F      | 2022F      |
|---|------------|------------|------------|------------|------------|------------|
| <b>Daily average fabric output (tons)</b> | <b>430</b> | <b>510</b> | <b>570</b> | <b>610</b> | <b>660</b> | <b>700</b> |
| YoY                                       | 20.0%      | 18.7%      | 11.8%      | 7.0%       | 8.2%       | 6.1%       |
| - Mainland China                          | 240        | 260        | 300        | 310        | 330        | 350        |
| YoY                                       | 0.7%       | 8.4%       | 15.4%      | 3.3%       | 6.5%       | 6.1%       |
| - Cambodia                                | 190        | 250        | 270        | 300        | 330        | 350        |
| YoY                                       | 58.3%      | 31.6%      | 8.0%       | 11.1%      | 10.0%      | 6.1%       |
| <b>Knitwear output (million pieces)</b>   | <b>350</b> | <b>400</b> | <b>433</b> | <b>486</b> | <b>568</b> | <b>655</b> |
| YoY                                       | 12.9%      | 14.3%      | 8.3%       | 12.3%      | 16.8%      | 15.3%      |
| - Mainland China                          | 266        | 285        | 294        | 308        | 328        | 349        |
| YoY                                       | 7.2%       | 7.1%       | 3.3%       | 4.5%       | 6.5%       | 6.5%       |
| - Cambodia                                | 54         | 61         | 64         | 80         | 112        | 146        |
| YoY                                       | 15.0%      | 13.0%      | 5.0%       | 25.0%      | 40.0%      | 30.0%      |
| - Vietnam                                 | 30         | 54         | 75         | 98         | 128        | 160        |
| YoY                                       | 100.0%     | 80.0%      | 38.0%      | 32.0%      | 30.0%      | 25.0%      |

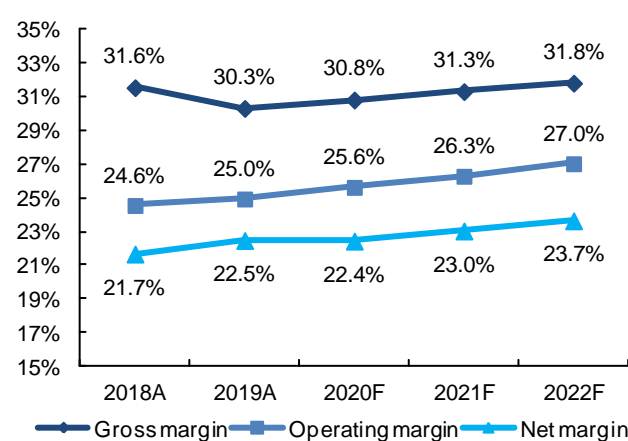
Source: the Company, Guotai Junan International.

Figure-25: Shenzhou's Revenue & YoY Growth



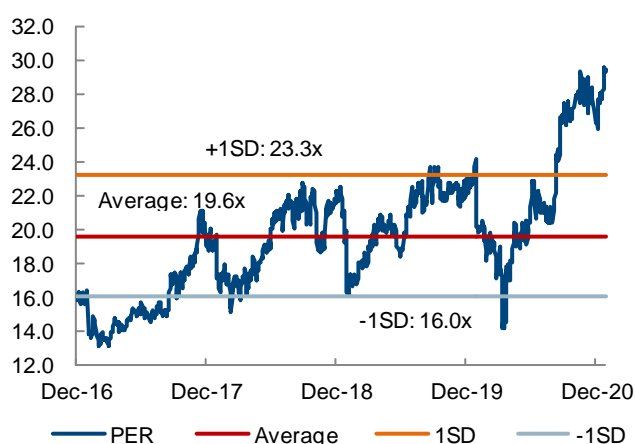
Source: the Company, Guotai Junan International.

Figure-26: Shenzhou's Profitability



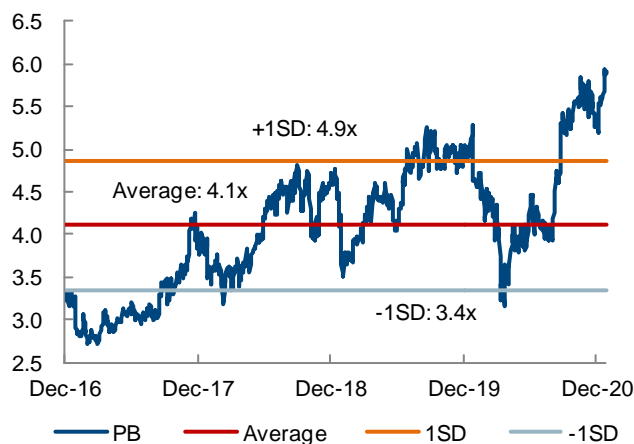
Source: the Company, Guotai Junan International.

Figure-27: Shenzhou's P/E Ratio (Next Annual)



Source: Bloomberg, Guotai Junan International.

Figure-28: Shenzhou's P/B Ratio (Next Annual)



Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

| Income Statement                 |          |          |          |          |          |
|----------------------------------|----------|----------|----------|----------|----------|
| Year end 31 Dec (RMB m)          | 2018A    | 2019A    | 2020F    | 2021F    | 2022F    |
| Total Revenue                    | 20,950   | 22,665   | 23,673   | 27,382   | 31,152   |
| Cost of Sales                    | (14,336) | (15,789) | (16,373) | (18,801) | (21,234) |
| Gross Profit                     | 6,614    | 6,876    | 7,300    | 8,581    | 9,918    |
| Other Income                     | 709      | 731      | 819      | 813      | 879      |
| Selling & Distribution Expenses  | (708)    | (380)    | (319)    | (367)    | (418)    |
| Administrative Expense           | (1,450)  | (1,551)  | (1,698)  | (1,800)  | (1,926)  |
| Other Expenses                   | (19)     | (21)     | (31)     | (25)     | (27)     |
| Operating Profit                 | 5,146    | 5,655    | 6,070    | 7,202    | 8,426    |
| Finance Costs                    | (61)     | (89)     | (152)    | (130)    | (122)    |
| Share of Profits of An Associate | 5        | 6        | 6        | 6        | 5        |
| Profit Before Tax                | 5,090    | 5,572    | 5,924    | 7,078    | 8,310    |
| Income Tax                       | (598)    | (613)    | (652)    | (800)    | (939)    |
| Profit After Tax                 | 4,493    | 4,959    | 5,272    | 6,278    | 7,370    |
| Non-controlling Interest         | 48       | 137      | 41       | 33       | (2)      |
| Shareholders' Profit / Loss      | 4,540    | 5,095    | 5,313    | 6,311    | 7,368    |
| Basic EPS                        | 3.021    | 3.390    | 3.534    | 4.198    | 4.902    |
| YoY                              | 16.9%    | 12.2%    | 4.3%     | 18.8%    | 16.8%    |

| Cash Flow Statement                      |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Year end 31 Dec (RMB m)                  | 2018A   | 2019A   | 2020F   | 2021F   | 2022F   |
| Profit Before Taxation                   | 5,090   | 5,572   | 5,924   | 7,078   | 8,310   |
| D&A                                      | 881     | 1,031   | 955     | 1,167   | 1,320   |
| Other Adjustments                        | (150)   | (204)   | (84)    | (63)    | (54)    |
| Changes in Working Capital               | (1,282) | 15      | (1,471) | (1,410) | (1,430) |
| Interest Paid                            | (85)    | (88)    | (152)   | (130)   | (122)   |
| Income Tax Paid                          | (335)   | (721)   | (643)   | (791)   | (930)   |
| Cash from Operating Activities           | 4,119   | 5,604   | 4,528   | 5,851   | 7,092   |
| Purchase of PP&E                         | (1,648) | (2,542) | (1,894) | (2,191) | (2,492) |
| Change in Structured Deposits            | 1,050   | 0       | 0       | 0       | 0       |
| Change in Available-for-sale Investments | 0       | 0       | (20)    | (22)    | (24)    |
| Other Investing Activities               | (866)   | (610)   | (1,181) | (156)   | (254)   |
| Cash from Investing Activities           | (1,464) | (3,152) | (3,095) | (2,368) | (2,771) |
| Dividends Paid                           | (2,057) | (2,403) | (2,582) | (2,906) | (3,420) |
| Other Financing Activities               | 386     | 1,415   | 1,038   | (290)   | (271)   |
| Cash from Financing Activities           | (1,671) | (988)   | (1,544) | (3,196) | (3,691) |

|                         |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|
| Net Changes in Cash     | 984   | 1,464 | (111) | 287   | 631   |
| Cash at Beg of Year     | 2,471 | 3,566 | 5,061 | 4,950 | 5,237 |
| Foreign Exchange Effect | 111   | 31    | 0     | 0     | 0     |
| Cash at End of Year     | 3,566 | 5,061 | 4,950 | 5,237 | 5,868 |

| Balance Sheet                            |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| As at 31 Dec (RMB m)                     | 2018A  | 2019A  | 2020F  | 2021F  | 2022F  |
| Property, Plant and Equipment            | 8,003  | 9,592  | 10,542 | 11,576 | 12,761 |
| Right-of-use Assets                      | 0      | 1,535  | 1,828  | 2,185  | 2,578  |
| Intangible Assets                        | 100    | 101    | 110    | 118    | 128    |
| Long-term Deposits                       | 0      | 100    | 150    | 225    | 338    |
| Prepaid Land Lease Payments              | 1,201  | 0      | 0      | 0      | 0      |
| Other Non-current Assets                 | 109    | 32     | 35     | 38     | 42     |
| Total Non-current Assets                 | 9,412  | 11,361 | 12,665 | 14,143 | 15,846 |
| Inventories                              | 5,237  | 5,282  | 5,811  | 6,624  | 7,485  |
| Trade and Other Receivables              | 3,565  | 3,649  | 4,087  | 4,700  | 5,311  |
| Available-for-sale Investments           | 1,480  | 200    | 220    | 242    | 266    |
| Structured Deposits                      | 0      | 0      | 0      | 0      | 0      |
| Other Current Assets                     | 4,292  | 6,302  | 7,781  | 7,791  | 7,778  |
| Cash & Cash Equivalents                  | 3,566  | 5,061  | 4,950  | 5,237  | 5,868  |
| Total Current Assets                     | 18,140 | 20,494 | 22,848 | 24,594 | 26,708 |
| Total Assets                             | 27,552 | 31,855 | 35,513 | 38,737 | 42,554 |
| Trade and Other Payables                 | 813    | 881    | 837    | 946    | 1,050  |
| Other Payables and Accruals              | 1,182  | 1,180  | 1,144  | 1,167  | 1,191  |
| Interest Bearing Bank Borrowings         | 2,434  | 3,192  | 4,150  | 3,942  | 3,745  |
| Other Current Liabilities                | 491    | 332    | 339    | 345    | 352    |
| Total Current Liabilities                | 4,920  | 5,585  | 6,470  | 6,401  | 6,338  |
| Interest Bearing Bank & Other Borrowings | 82     | 776    | 854    | 769    | 692    |
| Deferred Tax Liabilities                 | 96     | 179    | 183    | 186    | 190    |
| Other Non-current Liabilities            | 0      | 123    | 126    | 128    | 131    |
| Total Non-current Liabilities            | 178    | 1,079  | 1,163  | 1,083  | 1,013  |
| Total Liabilities                        | 5,098  | 6,664  | 7,632  | 7,484  | 7,350  |
| Share Capital                            | 151    | 151    | 151    | 151    | 151    |
| Reserves                                 | 22,148 | 25,021 | 27,752 | 31,157 | 35,105 |
| Total Shareholders' Equity               | 22,299 | 25,172 | 27,903 | 31,308 | 35,257 |
| Minority Interest                        | 156    | 19     | (22)   | (55)   | (53)   |
| Total Equity                             | 22,454 | 25,191 | 27,881 | 31,253 | 35,203 |

| Financial Ratio        |          |          |          |          |          |
|------------------------|----------|----------|----------|----------|----------|
|                        | 2018A    | 2019A    | 2020F    | 2021F    | 2022F    |
| Gross Margin (%)       | 31.6     | 30.3     | 30.8     | 31.3     | 31.8     |
| Operating Margin (%)   | 24.6     | 25.0     | 25.6     | 26.3     | 27.0     |
| Net Margin (%)         | 21.7     | 22.5     | 22.4     | 23.0     | 23.7     |
| ROE (%)                | 21.7     | 21.5     | 20.0     | 21.3     | 22.1     |
| ROA (%)                | 17.6     | 17.2     | 15.8     | 17.0     | 18.1     |
| ROCE (%)               | 28.7     | 31.3     | 28.7     | 29.4     | 30.6     |
| Payout Ratio (%)       | 50.7     | 50.3     | 48.3     | 50.0     | 50.0     |
| Inventory Days         | 123.7    | 121.6    | 123.6    | 120.7    | 121.3    |
| A/C Receivable Days    | 55.6     | 58.1     | 59.6     | 58.6     | 58.6     |
| A/C Payable Days       | 21.5     | 19.6     | 19.1     | 17.3     | 17.1     |
| Overall turnover cycle | 157.8    | 160.1    | 164.1    | 162.0    | 162.8    |
| Net Gearing (%)        | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current Ratio (x)      | 3.7      | 3.7      | 3.5      | 3.8      | 4.2      |

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating     |    | Definition  |
|------------|----|---|
| Buy        | 买入 | Relative Performance >15%;<br>or the fundamental outlook of the company or sector is favorable.             |
| Accumulate | 收集 | Relative Performance is 5% to 15%;<br>or the fundamental outlook of the company or sector is favorable.     |
| Neutral    | 中性 | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the company or sector is neutral.       |
| Reduce     | 减持 | Relative Performance is -5% to -15%;<br>or the fundamental outlook of the company or sector is unfavorable. |
| Sell       | 卖出 | Relative Performance <-15%;<br>or the fundamental outlook of the company or sector is unfavorable.          |

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating       |      | Definition   |
|--------------|------|--|
| Outperform   | 跑赢大市 | Relative Performance >5%;<br>or the fundamental outlook of the sector is favorable.        |
| Neutral      | 中性   | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance <-5%;<br>or the fundamental outlook of the sector is unfavorable.     |

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