Xtep International Holdings (1368 HK)

1H26: Revenue Misses But Gross Margin Expansion Drives Better-Than-Expected Net Profit; Lowers Full-Year Revenue Target

Highlights

- Xtep's 1H26 revenue missed but net profit beat consensus primarily driven by gross margin expansion.
- Looking ahead, management has lowered the full-year group revenue guidance to a low single-digit decline (vs previously mid-single-digit growth). Of this, Saucony is expected to deliver 10% growth, with 20-30 new stores planned for the full year.
- Gross margin expansion is likely to continue in 2H26. However, the core Xtep brand's operating margin may be under pressure. Net margin is expected to be at a high single-digit range.
- **Maintain BUY, keep target price unchanged at HK$5.60.**

1H26 Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy chg (%)
Total revenue	6,795	7,314	6,838	(0.6)
Gross profit	3,155	2,989	3,074	2.6
Gross margin (%)	46.4	40.9	45.0	1.4
Operating profit	1,161	714	1,305	(11.0)
Operating margin (%)	17.1	9.8	19.1	(2.0)
Net profit	818	458	914	(10.5)
Net margin (%)	12.0	6.3	13.4	(1.3)

Source: Xtep, UOB Kay Hian

Analysis

- **1H26 revenue missed but net profit beat consensus, primarily driven by gross margin expansion.** Xtep International Holdings (Xtep) reported 1H26 revenue of Rmb6,795m (-1% yoy), 2% below Visible Alpha Insights (VA) consensus. By segment, revenue of the core Xtep brand decreased 2% to Rmb5,920m, broadly consistent with management's softened tone on the 2Q26 update call (revenue tracking a similar trend to retail sell-through), while the professional sports segment (Saucony and Merrell) delivered an 11% revenue growth to Rmb875m. Gross profit was Rmb3,155m (+3% yoy), and gross margin was 46.4% (+1.4ppt yoy), driven by: a) a 1.5ppt expansion in the mass market segment, supported by the e-commerce business and kids business with an increasing mix of functional products; and b) a 0.3ppt expansion in the professional sports segment, underpinned by the premiumisation strategy to improve flagship product discounting and achieve economies of scale in apparel and lifestyle offerings.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	13,577	14,151	13,763	14,043	14,332
EBITDA	2,224	2,316	2,154	2,349	2,489
Operating profit	1,966	2,019	1,807	1,966	2,073
Net profit (rep./act.)	1,238	1,372	1,235	1,327	1,382
Net profit (adj.)	1,238	1,372	1,235	1,327	1,382
EPS (Fen)	46.6	46.6	41.9	45.1	46.9
PE (x)	7.0	7.0	7.8	7.2	6.9
P/B (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	3.6	2.9	2.8	2.4	2.2
Dividend yield (%)	19.0	7.5	7.3	7.9	8.2
Net margin (%)	9.1	9.7	9.0	9.5	9.6
Net debt/(cash) to equity (%)	(10.8)	(29.8)	(29.2)	(29.7)	(30.5)
Interest cover (x)	22.8	23.2	25.4	21.3	17.8
ROE (%)	13.7	14.2	11.6	11.8	11.7
Consensus net profit	-	-	1,242.4	1,414.3	1,540.6
UOBKH/Consensus (x)	-	-	0.99	0.94	0.90

Source: Xtep, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$3.79
Target Price	HK$5.60
Upside	+47.8%

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	1368 HK
Shares issued (m)	2,815.1
Market cap (HK$m)	10,669.2
Market cap (US$m)	1,361.1
3-mth avg daily t'over (US$m)	6.4

Price Performance (%)

52-week high/low: HK$6.79/HK$3.45

1mth	3mth	6mth	1yr	YTD
4.1	(8.5)	(29.7)	(43.3)	(28.6)

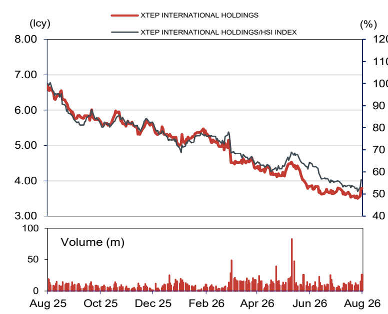
Major Shareholders (%)

Ding Shui Po	47.12

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	3.88
FY26 Net Cash/Share (Rmb)	1.09

Price Chart



Source: Bloomberg

Company Description

Xtep International Holdings is a leading multi-brand sportswear company in China. With a diverse brand portfolio encompassing the core Xtep brand, Saucony and Merrell, Xtep strategically targets the mass market and professional sports segments.

- Operating profit was Rmb1,161m (-11% yoy), with operating margin at 17.1% (-2.0ppt yoy), as gross margin improvement was more than offset by higher SG&A (% of total revenue +3.1ppt yoy to 34.2%). Net profit was Rmb818m (-10% yoy), 1% above VA consensus, with net margin at 12.0% (-1.3ppt yoy).The company declared an interim dividend of HK$18 cents per share, implying a dividend payout ratio of 54% (vs 50% in 1H25).
- **Full-year revenue guidance lowered to low single-digit decline.** Since 3Q26, while Saucony's performance met management's expectation, particularly with decent offline growth, retail sell-through of the core Xtep brand has remained under pressure. Against the uncertain macro backdrop, management has lowered the full-year group revenue guidance to a low single-digit decline (vs previously mid-single-digit growth). Of this, Saucony is expected to deliver a 10% growth, with 20-30 new stores planned for the full year (five stores added in 1H26, bringing the total to 180).
- **Expect gross margin to continue in 2H26, but core Xtep brand's operating margin may come under pressure.** With gross margin improvements across both the mass-market and professional sports segments in 1H26, management expects further gross margin expansion in 2H26. For the core Xtep brand, the improvement will be driven by direct-to-consumer (DTC) benefits, a rising e-commerce mix and reduced discounting on flagship products, while Saucony will benefit from continued scale effects.
- On operating margin, Saucony's full-year operating margin is projected to be no lower than 2025's level. However, for the core Xtep brand, as the DTC transition continues (with a further 400 stores planned for 2H26), and investments in channel upgrades and e-commerce-related expenses, operating margin could face some pressure in 2H26. Net margin is forecasted to be at a high single-digit range.

Segmental Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy chg (%)
Revenue				
- Xtep	5,920	6,463	6,053	(2.2)
- Saucony & Merrell	875	851	785	11.4
Gross profit				
- Xtep	2,669	2,515	2,641	1.1
- Saucony & Merrell	485	474	433	12.0
Gross margin (%)				
- Xtep	45.1	38.9	43.6	1.5
- Saucony & Merrell	55.5	55.7	55.2	0.3
Operating profit				
- Xtep	1,120	712	1,208	(7.3)
- Saucony & Merrell	91	35	79	15.5
Operating margin (%)				
- Xtep	18.9	11.0	20.0	(1.0)
- Saucony & Merrell	10.4	4.2	10.0	0.4
Number of stores				
- Xtep	7,763	7,845	7,924	(161)
- Saucony & Merrell	180	175	155	25

Note: Revenue reconciled by GAAP; changes in the number of stores are net changes of stores.
Source: Xtep, UOB Kay Hian

Earnings Revision/Risk

- **Lower our 2026/27 earnings forecasts by 0.3%/2.1%, respectively.** We lower our 2026/27 revenue forecasts by 5.3%/6.1% respectively to reflect the weaker-than-expected sell-through starting from 2Q26. We lift our 2026/27 gross margin estimates by 1.0ppt/0.9ppt respectively to reflect gross margin expansion in 1H26. We raise our 2026/27 SG&A ratio estimates by 0.5ppt each. Thus, our 2026/27 earnings forecasts are cut by 0.3%/2.1%, respectively.

Valuation/Recommendation

- **Maintain BUY; keep target price unchanged at HK$5.60.** We keep our DCF-based target price unchanged at HK$5.60. Our target price implies 10.3x 2026F PE and 9.6x 2027F PE. The stock currently trades at 7.8x 2026F PE and 7.2x 2027F PE.

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	14,151.1	13,763.1	14,042.8	14,331.7
EBITDA	2,316.3	2,153.6	2,348.6	2,489.2
Deprec. & amort.	297.5	346.4	383.0	415.7
EBIT	2,018.8	1,807.2	1,965.6	2,073.5
Associate contributions	54.4	54.4	54.4	54.4
Net interest income/(expense)	(99.8)	(84.8)	(110.2)	(139.9)
Pre-tax profit	1,973.4	1,776.9	1,909.9	1,988.0
Tax	(601.8)	(541.9)	(582.5)	(606.3)
Minorities	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	0.0
Net profit	1,371.6	1,235.0	1,327.4	1,381.7
Net profit (adj.)	1,371.6	1,235.0	1,327.4	1,381.7

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,759.8	2,084.7	2,377.2	2,640.6
Other LT assets	2,916.7	2,942.1	2,963.1	2,980.6
Cash/ST investment	3,457.1	4,462.4	5,134.1	5,751.9
Other current assets	8,765.2	8,106.8	8,267.0	8,432.4
Total assets	16,898.9	17,595.9	18,741.4	19,805.5
ST debt	840.5	700.1	801.5	879.6
Other current liabilities	4,310.7	4,144.4	4,221.0	4,299.9
LT debt	256.3	697.3	1,036.9	1,298.4
Other LT liabilities	1,288.8	1,288.8	1,288.8	1,288.8
Shareholders' equity	10,335.7	10,898.4	11,526.2	12,171.8
Minority interest	(133.1)	(133.1)	(133.1)	(133.1)
Total liabilities & equity	16,898.9	17,595.9	18,741.4	19,805.5

Cash flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	952.4	1,612.3	1,626.9	1,710.8
Pre-tax profit	1,973.4	1,776.9	1,909.9	1,988.0
Tax	(601.8)	(541.9)	(582.5)	(606.3)
Deprec. & amort.	297.5	346.4	383.0	415.7
Working capital changes	(805.0)	31.0	(83.5)	(86.6)
Non-cash items	(48.7)	0.0	0.0	0.0
Other operating cashflows	38.5	0.0	(0.0)	(0.0)
Investing	(19.4)	(235.5)	(696.6)	(696.6)
Capex (growth)	(264.1)	(500.0)	(500.0)	(500.0)
Investments	345.4	0.0	0.0	0.0
Proceeds from sale of assets	43.8	0.0	0.0	0.0
Others	(144.4)	264.5	(196.6)	(196.6)
Financing	(454.7)	(371.6)	(258.6)	(396.4)
Dividend payments	(636.7)	(672.2)	(699.6)	(736.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	767.4	1,141.1	1,141.1	1,141.1
Loan repayment	(1,686.7)	(840.5)	(700.1)	(801.5)
Others/interest paid	1,101.3	0.0	0.0	0.0
Net cash inflow (outflow)	478.3	1,005.2	671.7	617.8
Beginning cash & cash equivalent	2,979.2	3,457.1	4,462.4	5,134.1
Changes due to forex impact	(0.4)	0.0	0.0	0.0
Ending cash & cash equivalent	3,457.1	4,462.4	5,134.1	5,751.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.4	15.6	16.7	17.4
Pre-tax margin	13.9	12.9	13.6	13.9
Net margin	9.7	9.0	9.5	9.6
ROA	8.3	7.2	7.3	7.2
ROE	14.2	11.6	11.8	11.7
Growth				
Turnover	4.2	(2.7)	2.0	2.1
EBITDA	4.2	(7.0)	9.1	6.0
Pre-tax profit	3.8	(10.0)	7.5	4.1
Net profit	10.8	(10.0)	7.5	4.1
Net profit (adj.)	10.8	(10.0)	7.5	4.1
EPS	(0.1)	(10.0)	7.5	4.1
Leverage				
Debt to total capital	9.8	11.8	14.3	15.7
Debt to equity	11.3	13.2	16.4	18.4
Net debt/(cash) to equity	(29.8)	(29.2)	(29.7)	(30.5)
Interest cover (x)	23.2	25.4	21.3	17.8