

CIO Perspectives

2 May 2024

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EQUITY STRATEGY

Global Sports Apparel: Reposition against Rising Players

Key Points

- Sports brand companies moderated their 2024 outlook amid a mixed US retail environment
- Major sportswear brands reported less favourable sales as result of niche brands capturing a greater share
- Despite revenue softness during 1H, we expect 2H outlook to improve as a result of new technical capabilities and product innovation rollout
- China sportswear players' 1Q24 operational update reflected steady growth with an improving outlook from March onwards
- Favour China sportswear brands over US and European peers
- Compared to US and European peers, China sportswear brands possess (a) Better resilience, (b) Faster response time to consumers, and (c) Rising penetration across various sports categories

Sportswear sales to moderate in 2024; But improvement in outlook expected for 2H24. Sports brand companies have moderated their outlook for 2024 amid a mixed retail environment in the US. Major brands like Nike and Lululemon reported less favourable sales as a result of niche brands like Hoka, On Running, and New Balance capturing more sales, while Lululemon faced price competition.

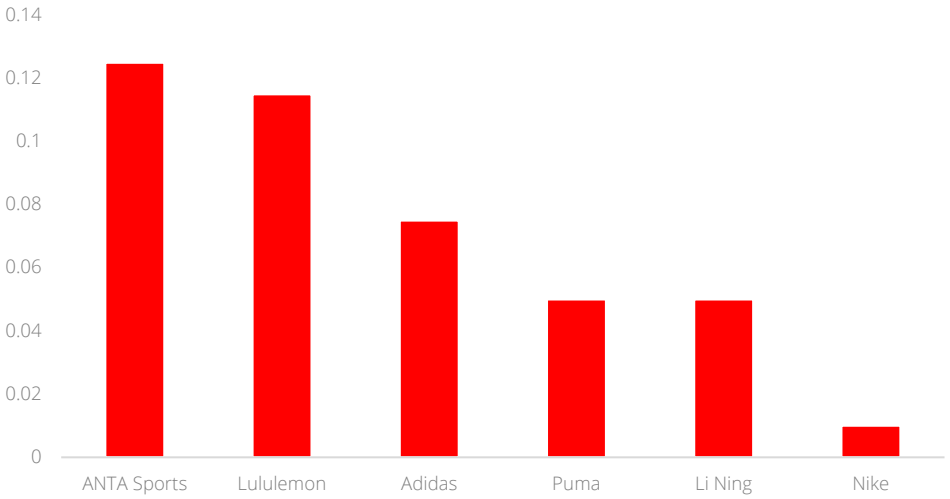
This shift in consumer trend resulted in Nike recalibrating its strategy with the aim of achieving cost savings of USD2bn over the next three years and scaling back on less profitable categories. As a result, Nike's top line is expected to record a low single-digit decline in 1HFY May 25. Lululemon, meanwhile, also disappointed with top-line guidance of 11-12% for FY Jan 25 and coming in below market expectations.

While promotional activities have decreased in the US market, demand slowdown will require some time for adjustment, with margin trends improving towards the end of the year. Despite the softness in top-line trends during the first half, we expect 2H outlook to improve as the result of new technical capabilities and product innovation rollout.

1Q24 results looking better for selective plays. Adidas has raised its full-year guidance with top-line growth (currency-neutral) of mid-to-high single digit y/y (vs previous guidance of mid-single digit) and operating profit is expected to reach EUR700mn (previously EUR500mn) amid greater sell-through of Yeezy inventory. China sportswear players' 1Q24 operational update thus far reflected steady growth, with an improving outlook from March onwards. With healthier inventory levels, retail discount rates narrowed further q/q, driving better ASPs and margins.

Favour China sportswear brands over US and European peers. Compared to their US and European peers, China sportswear brands (a) Display better resilience, (b) Faster response time to consumer demand and (c) Rising penetration across various sports categories. Additionally, the China sportswear industry is setting its sights on the global market (starting with Southeast Asia) and this augurs well for its growth outlook.

Figure 1: Topline guidance (currency neutral basis)



Source: Companies, DBS (Nike: FY May 24: guidance)

DBS

Table 1: Company Commentary

Name	Call	Target Price	Rationale	Analyst
Nike (NKE US)	HOLD	USD90	Nike is the largest sports apparel brand operator globally. It boasts leading market shares across key categories including basketball, running, and football. Sales in key geographic markets such as EMEA, Asia Pacific, and Latin America have recorded persistent declines, while sales growth in Greater China has fallen short of street estimates. Nike expects the Paris Olympics will serve as a catalyst, with Nike Air's new launches and the maximisation of new product cycles.	Alison Fok alisonfok@dbs.com
Adidas (ADS GR)	HOLD	EUR227	Adidas is a leading designer, developer of athletic and sports lifestyle products. Its lifestyle categories contain star products such as Samba, Gazelle, and Spezial. By working on its sell-through rates and controlling its retail discount levels, Adidas plans to accelerate its rollout of Adizero Adios Pro Evo 1, with further rollouts catering to running and football. This should bode well for the company, with the UEFA EURO, Olympics, and Paralympics coming up in 2024.	Alison Fok alisonfok@dbs.com
Anta Sports (2020 HK)	BUY	HKD117	ANTA Sports is China's largest sportswear player and anticipates sustaining its teen-level top-line growth over the next three years, driven by ANTA (10-15%), FILA (10-15%), and other brands (Descente & Kolon Sports) (+30%), with the intention to sustain operating margin of >20% across all brands. With the successful spin-off of Amer Sports, ANTA Sports continues to harness improving growth through offline retail channels, which commands better retail discounts and consumer engagement.	Alison Fok alisonfok@dbs.com
Li Ning (2331 HK)	BUY	HKD34.8	Li Ning is China's second largest domestic sportswear player. Looking ahead, Li Ning expects to deliver mid-single-digit growth in its top line, with a teen net profit margin. The company will place stronger effort into refining its product mix and controlling its retail discount to stabilise channel sales in 2024. Despite concerns, Li Ning's channel inventory remains healthy, with the bulk of its inventory mix standing at six months or below as of end-Dec 23.	Alison Fok alisonfok@dbs.com

Source: Bloomberg, DBS
As at 2 May 2024

Table 2: Peer Comparison Table

Peers	DBS Target Price (LCY)	Mkt Cap (USDbn)	Fwd PE (x)	Div. yield (%)	1Y Fwd EPS Growth (%)	Geography
Nike	90.00	136.4	22.9	1.6	5.2	United States
Adidas	227.00	43.6	69.7	0.3	-	Europe
Anta Sports	117.00	32.5	19.2	1.9	17.3	China
Li Ning	34.80	6.9	13.8	2.9	13.6	China

Source: Thomson Reuters, DBS
Data as at 1 May 2024

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 2 May 2024 15:15:00 (SGT)
Dissemination Date: 2 May 2024 16:20:00 (SGT)

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