



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Pou Sheng

Reuters 3813.HK Bloomberg 3813 HK Exchange HSI Ticker 3813

Date
26 September 2016

Initiation of Coverage

Price at 23 Sep 2016 (HKD)	2.64
Price target - 12mth (HKD)	3.40
52-week range (HKD)	2.78 - 1.19
HANG SENG INDEX	23,686

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At the centre stage of growth; initiating with Buy

Dual driving forces from international brands and channel brand efforts

China's importance as a market for international sports brands continues to rise, inspiring structural growth for leading distributors like Pou Sheng (PS). We forecast PS will become a more efficient player in distributing products for international brands. At the same time, PS has been aggressively enhancing its own channel brands through multi-brand stores and e-commerce. We forecast PS's revenue to post a 13% CAGR in 2015-20E (driven by network expansion and SSSg equally), an earnings CAGR of 37%, driven by revenue growth and margin expansion. Our DCF-based target price implies 14x 2017E PER, Buy.

Growing with international brands' long-term targets...

We forecast PS will enjoy structural growth driven by intentional brands' well-planned expansion in China. Accounting for c.20% of Nike and Adidas sell-through in China (Figure 14), we believe that PS is well embedded in the brands' growth schemes. PS also has the flexibility to accommodate each brand's agenda (Figure 15). In addition to a robust store expansion target (Figure 16) we view SSSg and efficiency as the two major growth opportunities for PS. On SSSg, a near-term driver is the easing inventory shortage (Figure 21). Moreover, a long-term SSSg driver results from more flagship stores that PS will install for the brands. On efficiency, PS's operating efficiency is far behind that of Belle and Foot Locker (Figure 22). However, we anticipate strong efficiency improvements driven by consolidating JV stores, adjusting inventory systems, and reducing discounts. We forecast PS to expand its store network to 6,800 by 2020 (from 4,943 in 2015, representing a 7% CAGR).

...while developing the channel brands and e-commerce

In addition to distributing on behalf of international brands, PS is also exploring the potential of its channel brand and e-commerce. We forecast that PS will add significantly more multi-brand stores under its brand "YY Sport". This also represents its answer to the sports segmentation trend (Figure 27). Also, PS's unique multi-brand store format allows for more rental income (Figure 28). We forecast that sporting goods e-commerce will become more disciplined, and major distributors, such as PS, should benefit (Figure 32). We do not expect brands' DTC (direct-to-consumer) to impact PS significantly, as China remains a diverse and under-penetrated market for sporting goods.

DCF-based target price of HKD3.4 supported by PER, downside risks

We use discounted cash flow (DCF) as our primary approach to value PS's shares. We adopt the DCF methodology as we expect investors to focus more on PS's long-term value creation (detailed assumptions in Figure 4). Downside risks: a market slowdown, heavier competition from DTC, inventory shortages, as well as weaker demand for channel brand concepts.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.9	20.0	111.2
HANG SENG INDEX	3.0	13.5	11.2

Source: Deutsche Bank

This report is published in conjunction with our sector report – Greater China Sporting Goods: Giant Steps

Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
DB EPS growth (%)	-	1,230.2	81.6	39.9	24.0
PER (x)	67.4	9.2	14.5	10.3	8.3

Source: Deutsche Bank estimates, company data



Model updated: 23 September 2016

Running the numbers

Asia
Hong Kong
Textiles & Apparel

Pou Sheng

Reuters: 3813.HK Bloomberg: 3813.HK

Buy

Price (23 Sep 16) HKD 2.64
Target Price HKD 3.40
52 Week range HKD 1.19 - 2.78
Market Cap (m) HKDm 14,200
USDm 1,831

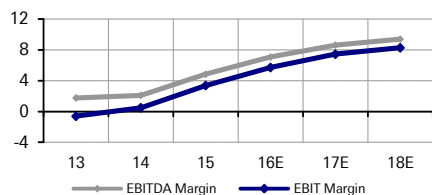
Company Profile

Pou Sheng International (Holdings) Limited is one of the largest sportswear retailers in Mainland China under the brand of YY Sports. Its brand portfolio of footwear includes Nike, Adidas, Asics, Reebok, PUMA...etc.

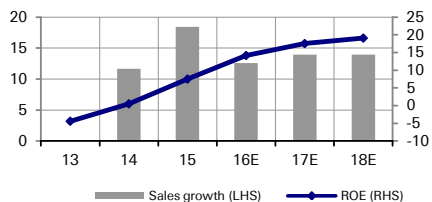
Price Performance



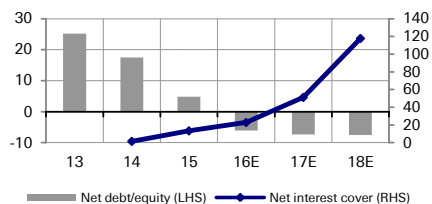
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015	2016E	2017E	2018E
DB EPS (CNY)	-0.04	0.01	0.09	0.16	0.22	0.27
Reported EPS (CNY)	-0.04	0.01	0.08	0.16	0.22	0.27
DPS (CNY)	0.00	0.00	0.00	0.04	0.07	0.11
BVPS (CNY)	1.0	1.0	1.0	1.2	1.4	1.6
Weighted average shares (m)	5,379	5,368	5,326	5,233	5,233	5,233
Average market cap (CNYm)	1,815	2,351	4,230	12,211	12,211	12,211
Enterprise value (CNYm)	3,065	3,206	4,421	11,741	11,487	11,089

Valuation Metrics

P/E (DB) (x)	nm	67.4	9.2	14.5	10.3	8.3
P/E (Reported) (x)	nm	82.1	10.5	14.6	10.3	8.3
P/BV (x)	0.31	0.60	1.47	1.90	1.67	1.46
FCF Yield (%)	4.1	17.5	15.2	4.3	3.3	5.7
Dividend Yield (%)	0.0	0.0	0.0	1.7	3.0	4.9
EV/Sales (x)	0.3	0.3	0.3	0.7	0.6	0.5
EV/EBITDA (x)	15.8	12.5	6.3	10.2	7.2	5.6
EV/EBIT (x)	nm	53.0	9.1	12.6	8.3	6.3

Income Statement (CNYm)

Sales revenue	10,929	12,202	14,451	16,268	18,534	21,116
Gross profit	3,421	3,773	5,023	6,178	7,216	8,357
EBITDA	194	257	699	1,151	1,600	1,983
Depreciation	261	196	210	221	220	235
Amortisation	0	0	0	0	0	0
EBIT	-67	60	488	930	1,380	1,747
Net interest income(expense)	-76	-39	-36	-41	-27	-15
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-46	104	89	237	245	249
Profit before tax	-188	125	541	1,127	1,598	1,981
Income tax expense	48	86	149	308	434	534
Minorities	1	11	-13	-12	-11	-10
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-238	29	405	830	1,174	1,457
DB adjustments (including dilution)	20	6	57	9	0	0
DB Net profit	-218	35	462	840	1,174	1,457

Cash Flow (CNYm)

Cash flow from operations	183	573	915	805	705	1,009
Net Capex	-108	-162	-274	-299	-314	-330
Free cash flow	75	410	641	506	391	679
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	-208	-352
Net inc/(dec) in borrowings	-367	-438	-794	-241	0	0
Other investing/financing cash flows	-238	36	53	142	-43	-241
Net cash flow	-530	9	-99	406	141	86
Change in working capital	-230	324	680	-70	-555	-512

Balance Sheet (CNYm)

Cash and other liquid assets	253	269	176	582	722	808
Tangible fixed assets	1,315	1,280	1,299	1,377	1,471	1,565
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	241	176	118	120	222	524
Other assets	7,168	6,459	6,583	6,775	7,565	8,359
Total assets	8,978	8,185	8,175	8,854	9,980	11,257
Interest bearing debt	1,646	1,211	441	200	200	200
Other liabilities	1,816	1,581	2,229	2,372	2,625	2,925
Total liabilities	3,462	2,792	2,671	2,572	2,825	3,125
Shareholders' equity	5,417	5,303	5,461	6,251	7,135	8,122
Minorities	99	90	43	31	20	11
Total shareholders' equity	5,516	5,392	5,504	6,282	7,155	8,132
Net debt	1,392	941	266	-382	-522	-608

Key Company Metrics

Sales growth (%)	nm	11.6	18.4	12.6	13.9	13.9
DB EPS growth (%)	na	na	1,230.2	81.6	39.9	24.0
EBITDA Margin (%)	1.8	2.1	4.8	7.1	8.6	9.4
EBIT Margin (%)	-0.6	0.5	3.4	5.7	7.4	8.3
Payout ratio (%)	nm	0.0	0.0	25.0	30.0	40.0
ROE (%)	-4.4	0.5	7.5	14.2	17.5	19.1
Capex/sales (%)	1.1	1.3	2.0	1.8	1.7	1.6
Capex/depreciation (x)	0.4	0.8	1.4	1.4	1.4	1.4
Net debt/equity (%)	25.2	17.5	4.8	-6.1	-7.3	-7.5
Net interest cover (x)	nm	1.5	13.4	22.9	51.2	117.8

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

We forecast PS will enjoy structural growth driven by intentional brands' well-planned expansion in China. PS is well embedded in the brands' growth schemes, with the flexibility to accommodate each brand's agenda. In addition to a robust store expansion target, we view SSSg and efficiency as the two major growth opportunities for PS.

In addition to distributing on behalf of international brands, PS is also exploring the potential of its channel brand and e-commerce. We forecast that PS will add significantly more multi-brand stores under its brand "YY Sport". We forecast that sporting goods e-commerce will become more disciplined, and major distributors such as PS should benefit. We do not expect brands' DTC (direct-to-consumer) to impact PS significantly, as China remains a diverse and under-penetrated market for sporting goods.

Valuation

We use discounted cash flow (DCF) as our primary approach to value PS's shares. We adopt the DCF methodology as we expect investors to focus more on PS's long-term value creation. In our DCF model, we derive a WACC of 10.18% with a cost of equity of 10.34% (risk-free rate=3.9%, beta=1.15, market risk premium=5.6%) and a cost of debt of 7.2%. We assume a long-term growth rate of 2%, which is in line with Deutsche Bank's Hong Kong China consumer discretionary coverage.

Risks

- **A significant decline in sportswear demand in China** would lead to reduced per store sales for PS and consequent operating deleverage.
- **Nike and Adidas's heavier DTC efforts to compete with distributors** would lead to reduced per store sales at PS and consequent operating deleverage.
- **More severe inventory shortage** would lead to reduced per store sales for PS and consequent operating deleverage.
- **PS's channel brands less appreciated by consumers:** this will lead to worse-than-expected revenue from PS's channel brand stores and dilute PS's profitability.



Initiating with Buy

Forecasts: DBe net profit 5-20% above consensus

How we differ from consensus:

- **We are more positive on PS's gross margin**, as we forecast stronger (1) reductions in retail discounts; and (2) efficiency improvements.
- **We are more positive on PS's operating leverage**, as we forecast sustainable SSSg to help PS lever again rental and salary.
- **We are more positive on rental income from PS's Sports City initiative**. We therefore forecast higher rental income.

Figure 1: Deutsche Bank estimates vs. consensus: we are more positive on PS's profitability

(USD mn)	2016E			2017E			2018E		
	DBe	Consensus	Diff	DBe	Consensus	Diff	DBe	Consensus	Diff
Revenue	2,416	2,509	-3.7%	2,648	2,765	-4.2%	3,017	3,089	-2.3%
Gross Profit	885	896	-1.2%	999	997	0.3%	1,160	1,127	2.9%
EBIT*	173	166	4.5%	232	203	14.3%	285	252	13.2%
Pre-tax Income	167	158	6.1%	228	197	16.0%	283	245	15.6%
Net Income	123	118	5.0%	168	140	19.6%	208	173	20.3%
Reported EPS (USD)	0.02	0.02	4.9%	0.03	0.03	19.6%	0.04	0.03	20.3%
Gross Margin (%)	36.6%	35.7%	0.9%	37.7%	36.0%	1.7%	38.5%	36.5%	2.0%
EBIT Margin (%)	7.2%	6.6%	0.6%	8.8%	7.3%	1.4%	9.5%	8.2%	1.3%
Net Margin (%)	5.1%	4.7%	0.4%	6.3%	5.1%	1.3%	6.9%	5.6%	1.3%

Source: Deutsche Bank estimates, Bloomberg Finance LP *including non-OP items to fit consensus reporting style

Note: PS recently changed its reporting currency to RMB (from USD), but in order to compare with Bloomberg Finance LP consensus we translate our forecasts into USD.

Valuation: TP of HKD3.4 implies 29% potential upside

- Our target price represents 14x 2017 EPS, in line with 1-year mean plus one standard deviation.
- Peak/trough PER in the past two years: 15x/5x.

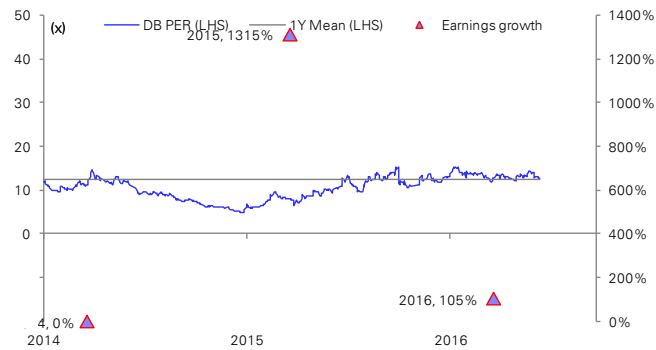


Figure 2: PS: consensus PER



Source: Deutsche Bank, Bloomberg Finance LP consensus

Figure 3: PS: consensus PER vs. earnings growth



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus

Sentiment and catalysts

Positive catalysts:

- **Potential acceleration in SSSg from 2H16**, as the inventory shortage at Nike has started to ease with restocking.
- **Establishment of more Adidas Brand Centres in 2H16 and 2017**, which carry better per store sales and inventory efficiency (Figure 35).
- **Establishment of more Sports City stores.**
- **Growing contribution from e-commerce**, with stronger performance of YY Sports during the major e-commerce shopping festivals including the Double 11 shopping festival.



Valuation and risks

Valuation: DCF-based target price of HKD3.4 implies 14x 2017E PER

DCF-based target price of HKD3.4

We use discounted cash flow (DCF) as our primary approach to value PS's shares. We adopt the DCF methodology as we expect investors to focus more on PS's long-term value creation. In our DCF model, we derive a WACC of 10.18% with a cost of equity of 10.34% (risk-free rate=3.9%, beta=1.15, market risk premium=5.6%) and a cost of debt of 7.2%. We assume a long-term growth rate of 2%, which is in line with Deutsche Bank's Hong Kong China consumer discretionary coverage.

Figure 4: Discounted cash flow valuation – key assumptions

Share & Market Information		Note
Valuation date	12 month forward	
Current Stock Price	2.64	
Issued Shares (million)	5,233	Weighted average shares
DCF Target Price	3.4	
Implied Upside (Downside)	29%	
Valuation metrics		
FY16 PER (recurring)	18.3	
FY17 PER (recurring)	13.6	
FY16 PBR	2.8	
FY17 PBR	2.5	
Cost of Equity	10.34%	
Risk Free Rate (%)	3.9%	Deutsche Bank assumption for China
Beta	1.15	Bloomberg Finance LP 1-year beta
Market Risk Premium (%)	5.60%	Deutsche Bank assumption for China
Cost of Debt (after tax)	7.20%	
Cost of Debt	10.00%	Company long-term borrowing rate
Tax Rate	28.00%	Long-term tax rate
Target Debt / (Debt + Equity)	5%	
WACC	10.18%	
DCF Model LT growth	2.0%	In line with Deutsche Bank consumer discretionary coverage space

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP



Figure 5: DCF sales, margin assumptions and sensitivity

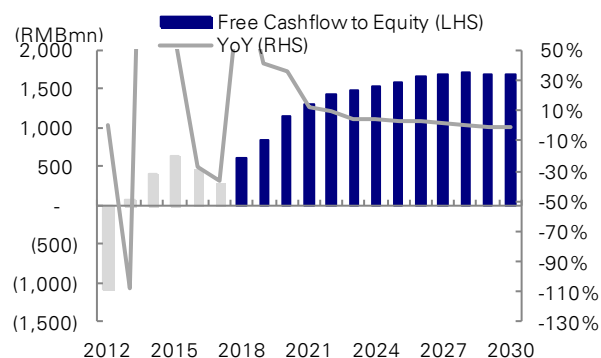
Two-stage DCF:
1. FCF forecasts from model 2018-2020
2. Explicit forecast period 2021-2030

	2018-2021	2022-2025	2026-2030	2018-2030
Revenue CAGR:	15.6%	5.1%	3.0%	6.2%
Average EBIT margin:	8.8%	8.8%	7.9%	8.5%
FCF CAGR:	64.0%	5.1%	1.1%	14.3%

		WACC				
		11.2%	10.7%	10.2%	9.7%	9.2%
Terminal Growth	0.00%	2.8	2.9	3.1	3.3	3.5
	1.00%	2.9	3.0	3.2	3.4	3.6
	2.00%	3.0	3.2	3.4	3.6	3.9
	3.00%	3.1	3.3	3.6	3.8	4.1
	4.00%	3.3	3.5	3.8	4.1	4.5

Source: Deutsche Bank estimates

Figure 6: Free cash flow to equity profile



Source: Deutsche Bank estimates, Note: representing free cash flow for equity (in line with Deutsche Bank RTN)

DCF-based target price supported by PER valuation

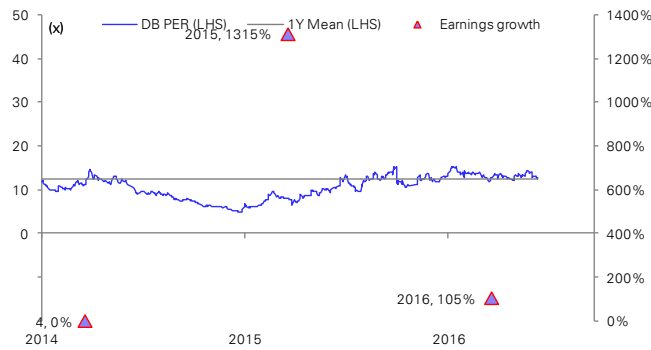
Our DCF-based target price suggests 14x 2017E PER, in line with PS's one-year mean plus one standard deviation (15x). We believe a further re-rating is achievable for PS's shares, given: (1) its above-peer EPS growth in 2017 (40% YoY) (Figure 9); and (2) expanding ROE to 19% by 2020 vs. 7% in 2015, as well as (3) ample earnings upside to Bloomberg Finance LP consensus (Figure 1).

Figure 7: PS: consensus PER



Source: Deutsche Bank, Bloomberg Finance LP consensus

Figure 8: PS: consensus PER vs. earnings growth



Source: Deutsche Bank estimates, Bloomberg Finance LP consensus

Downside risks to our view

- **A significant decline in sportswear demand in China** would lead to reduced per store sales for PS and consequent operating leverage.
- **Nike and Adidas's heavier DTC efforts to compete with distributors** would lead to reduced per store sales at PS and consequent operating leverage.
- **More severe inventory shortage** would lead to reduced per store sales for PS and consequent operating leverage.
- **PS's channel brands less appreciated by consumers:** this will lead to worse-than-expected revenue from PS's channel brand stores and dilute PS's profitability.



Figure 9: China sportswear comp

Name	Ticker	PX_Last	Market Cap	DB rating	PER		EPS YoY		PB		ROE		Div. Yield	
		(local cur.)			(US\$m)	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16
China Sportswear Brands & Distributors														
Anta	2020 HK	20.5	6,611	Buy	19.5	16.1	11%	21%	4.7	4.3	25.2%	27.8%	3.3%	4.0%
Li Ning	2331 HK	5.33	1,296	Buy	25.2	15.4	>100%	63%	2.4	2.1	17.1%	19.0%	2.0%	2.5%
Belle	1880 HK	5.42	5,899	Buy	12.4	10.1	-10%	-9%	1.5	1.4	17.2%	15.1%	3.5%	6.0%
Pou Sheng	3813 HK	2.64	1,831	Buy	14.5	10.3	82%	40%	1.9	1.7	14.1%	17.5%	1.7%	3.0%
XTEP	1368 HK	3.81	1,088	NR	10.1	9.0	12%	12%	1.4	1.3	14.1%	14.7%	5.8%	6.5%
Peak	1968 HK	2.53	779	NR	12.5	11.6	-1%	8%	1.0	1.0	8.2%	8.6%	6.0%	6.2%
CNDX	3818 HK	1.56	1,113	NR	11.0	11.6	-16%	-5%	0.8	0.7	6.8%	7.2%	5.4%	5.3%
361 Degrees	1361 HK	2.54	677	NR	8.1	7.0	8%	16%	0.8	0.7	10.0%	10.8%	6.5%	6.0%
Average					15.5	12.5	8%	14%	2.6	2.4	18.2%	19.0%	3.6%	4.8%
Global SPA														
Inditex	ITX SQ	33.015	115,326	Hold	35.8	31.6	15%	13%	9.0	8.2	26.3%	27.1%	2.1%	2.4%
H&M	HMB SS	248.3	48,011	Hold	21.9	17.7	-10%	23%	6.8	6.1	31.6%	36.1%	4.6%	5.1%
Fast Retailing	9983 JP	33230	34,889	Hold	52.3	24.8	-47%	111%	4.2	3.8	7.9%	15.5%	1.3%	1.5%
Average					35.3	27.0	-2%	33%	7.6	6.9	24.3%	27.3%	2.6%	2.9%
Global Sports Brands														
Lululemon	LULU US	65.73	9,008	Hold	35.3	31.1	-1%	14%	9.0	6.7	24.8%	24.4%	0.0%	0.0%
Under Armour	UA US	39.9	16,217	Buy	67.5	n.a.	12%	n.a.	8.7	7.4	14.3%	16.1%	0.0%	0.0%
Adidas	ADS GR	155.05	36,358	Buy	33.1	25.2	32%	31%	5.7	5.1	18.3%	21.1%	1.4%	1.7%
Amer Sports	AMEAS FH	27.76	3,687	Buy	20.4	17.6	26%	16%	3.2	2.9	15.3%	16.4%	2.5%	2.9%
Puma	PUM GY	244.85	4,139	Hold	61.6	40.5	61%	52%	2.2	2.1	3.6%	5.3%	0.4%	0.6%
Skechers	SKX US	21.93	3,477	NR	11.9	10.6	23%	12%	2.0	1.7	17.6%	16.2%	0.0%	0.0%
VF	VFC US	56.88	23,590	Buy	17.8	n.a.	5%	n.a.	4.7	4.7	25.7%	29.7%	3.0%	2.9%
Columbia	COLM US	57.81	4,032	NR	21.7	19.6	9%	10%	2.6	2.4	12.5%	12.7%	1.4%	1.4%
Nike	NKE US	55.41	92,973	Buy	25.7	23.2	17%	11%	7.9	7.8	30.1%	33.4%	1.2%	1.3%
Average					30.2	24.1	17%	16%	7.0	6.6	25.1%	28.0%	1.3%	1.4%
Global Apparel Brands														
RL	RL US	98.97	8,141	Hold	15.6	n.a.	-19%	n.a.	2.3	2.2	13.8%	10.5%	2.3%	2.4%
GAP	GPS US	22.58	8,998	Sell	9.3	12.0	-14%	-23%	3.7	3.1	33.3%	23.3%	4.7%	4.7%
A&F	ANF US	16.84	1,139	Hold	15.0	26.8	-27%	-44%	0.9	0.9	5.8%	3.2%	5.5%	5.6%
Guess	GES US	14.98	1,264	NR	23.4	19.2	-35%	22%	1.2	1.2	5.6%	6.6%	7.1%	7.1%
Average					13.2	14.3	-18%	-20%	2.8	2.5	21.8%	15.7%	3.9%	3.9%
Average					32.1	25.5	4%	26%	7.1	6.5	24.4%	26.8%	2.2%	2.5%

Source: Deutsche Bank estimates, Bloomberg Finance LP Note: for companies under DB coverage, use DBs, else, use Bloomberg Finance LP consensus. To determine which companies are under DB coverage, please refer to column "DB rating" Using close price as of 2016 September 23



Rising importance & efficiency

Summary

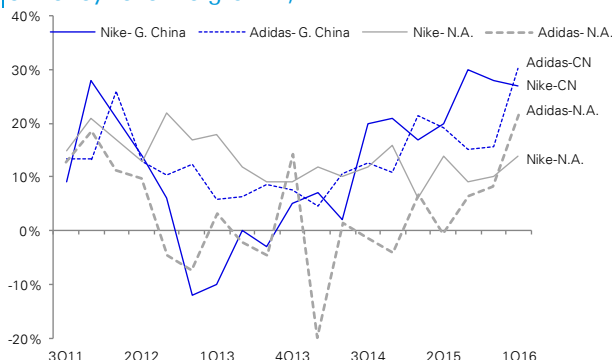
- We forecast sustainable revenue growth for PS as it further embeds into international sports brands' growth schemes.
- In addition, brands' omni-channel efforts and inventory control should increase market share for major distributors like PS.
- We believe PS still has ample room to improve its profitability.

Executing growth strategy for major sporting goods brands

China an increasingly important driver for international brands

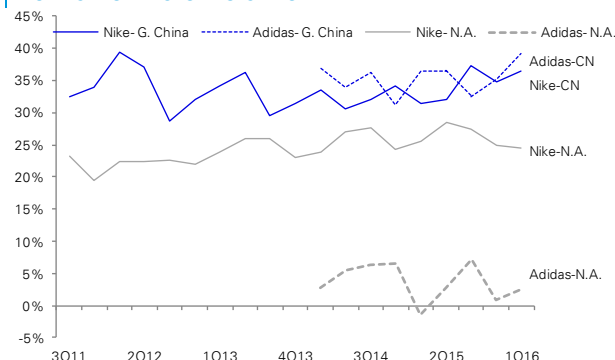
International sports brands have seen accelerating revenue growth in China, with strong profitability (Figure 10 & Figure 11). Thanks to the structural growth from sports segmentation, we witness international sports brands incorporating the China market into their long-term growth schemes. With China's increasing importance, we expect deeper cooperation between international sports brands and their distribution partners in China, namely PS and Belle Sportswear

Figure 10: China increasingly a growth driver (constant currency revenue growth)



Source: Deutsche Bank, Company data

Figure 11: Higher EBIT margin in China is also making the market more lucrative



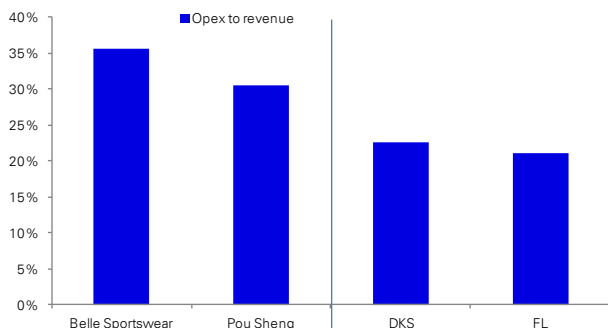
Source: Deutsche Bank, Company data

Unique value add by Chinese distributors

The Chinese sporting goods market is far from "uniform" when compared to the US, with great diversity in terms of consumer appetite, local government regulations, distribution efficiency, etc. The divergence widens further in lower tier cities. As a result, we believe international sports brands require local experts to negotiate with local landlords (for new locations), manage store staff, enhance compliance with local regulation, observe local market trends, etc. As a result, distributing sports goods in China tends to be a more labor-intensive task than in the US (Figure 12). China's unique challenges are more highlighted with a large store network (Figure 13).

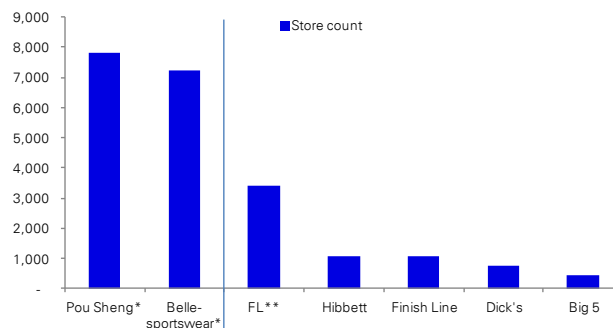


Figure 12: Opex to revenue – Chinese operators



Source: Deutsche Bank, Company data

Figure 13: Store count comparison



Source: Deutsche Bank, Company data * including stores operated by wholesalers, but not JV ** including non-US stores

PS is a major partner for Nike and Adidas

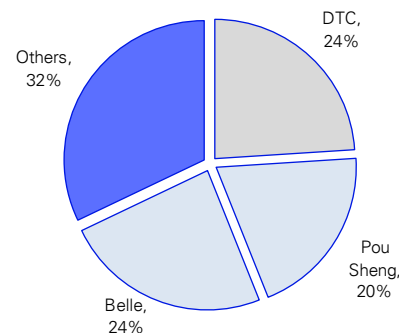
We estimate that PS accounts for over 20% of Nike and Adidas's sell-through in China, through physical stores and e-commerce (Figure 14). PS is currently the largest distributor for Adidas in China and is the second-largest for Nike (behind Belle Sportswear).

Different brands have different agendas for PS...

Below is based on our interview with PS's unlisted competitors in China.

- **Skechers** is more liberal, allowing PS to penetrate the market through e-commerce, multi-brand stores, etc. Moreover, Skechers holds a broader expansion target for expanding into lower-tier cities. We note that PS only holds the distribution rights in Northern China.
- **Adidas** is also on the lenient side, in our view. The brand currently allows PS to operate outlets, e-commerce, and multi-brand stores (based on our estimate). Aiming to expand into lower-tier cities, Adidas is also more liberal in allowing PS to expand through franchisees. These are in addition to less stringent inventory control and strong omni-channel efforts. We thus expect Adidas to be one of PS's most important growth drivers in the near future.
- **Nike** has been tightening its control on PS (based on our estimates). The brand has launched new initiatives including tight inventory control, buying back old inventory (to support DTC outlets and e-commerce), based on our estimates. We also sensed channel inventory shortages at PS's Nike stores, based on our estimates.
- **Under Armour** potentially imposes the strongest control over PS. The brand only allows PS to operate mono-brand store formats. In addition, UA is very stringent in terms of store location selection.

Figure 14: Nike and Adidas's distribution network (2015)



Source: Deutsche Bank estimates, company data

Figure 15: PS's major clients and policies

	Retail Format				Expansion Target	Franchises	Store productivity	Omni-channel progress	Inventory control
	Flagship stores	Outlet	E-commerce	YY Sports City					
Nike	Y	N	N	Y	Top 50 cities	Controlled	Very High	Fast	Very tight
Adidas	Y	Y	Y	Y	Into lower tier	Liberal	High	Fast	Normal
Skechers	n.a.	Y	Y	Y	Into lower tier	Liberal	Mid-to-High	Slower	Normal
Under Armour	N	N	N	N	Very selected	Forbids	Very High	Fast	Tight

Source: Deutsche Bank estimates



...but are mostly leveraging PS to execute growth in China

Despite the distinct strategies and focuses of PS's major brands, we expect robust growth in general. We anticipate more growth from Skechers to be driven by store expansion. Adidas will likely demonstrate balanced growth between network expansion and SSSg. For Nike, due to its stringent control, we forecast more growth for PS to be driven by SSSg (mainly through reduced discounts). However, we do forecast that Nike will gradually restock PS in 2H16, and this should ease the pressure on PS.

As a result, we expect that the majority of PS's new stores to be driven by Adidas (especially Brand Centres), Skechers, and PS's channel brand – Sports City (Figure 16).

Figure 16: PS's store additions in 2016: robust growth from Adidas

Brand	Store format	Estimated net add*	Note
Nike	Mono-brand	Less than 50	Focus on top 50 cities, strict control of the use of franchise system
Adidas	Performance & Neo	Over 100	A major portion of stores opened by PS's franchisees.
	Brand Centre	Over 10	Very high per store sales, operated by PS.
Skechers	Mono-brand	Over 200	Aggressive and sustainable expansion.
Under Armour	Mono-brand	Limited	Hard to get approval to open stores from the brand.
YY	Sports City	Over 50	Multi-floor with over 15 sports brands and others (e.g. F&B).
Total		600-800	

Source: Deutsche Bank estimates*estimates by DB

Distributor consolidation

Market consolidation driven by omni-channel and tighter inventory control

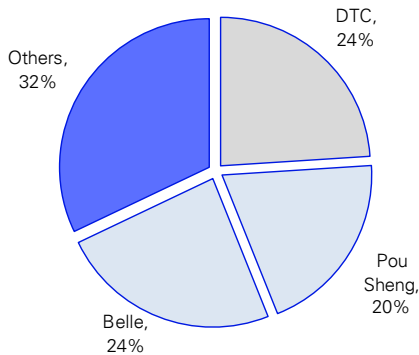
Within Nike and Adidas's distribution systems in China, we estimate that DTC (direct to consumer), PS, and Belle Sportswear represent over 60% of sell-through. The remaining 40% is represented by various regional distributors and smaller e-commerce platforms (Figure 17 and Figure 18).

We forecast the three major channels (PS, Belle Sportswear and DTC) to take share from regional distributors and smaller e-commerce platforms due to:

- **Omni-channel efforts:** Omni-channel focuses on the communication between various inventory pools. Therefore, a more concentrated market structure leads to easier omni-channel migration, in our view. This incentivises the brands to consolidate their distribution system.
- **Inventory control:** with growing inventory control and inventory shortages, we anticipate that it will become harder for the marginal players to secure Nike and Adidas products (especially through resale). This will also likely drive industry consolidation.

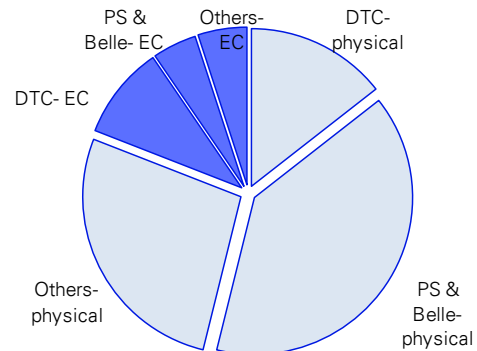


Figure 17: Nike and Adidas's sell-through (by coordinator)



Source: Deutsche Bank estimates, company data

Figure 18: Nike and Adidas's sell-through (by channel)



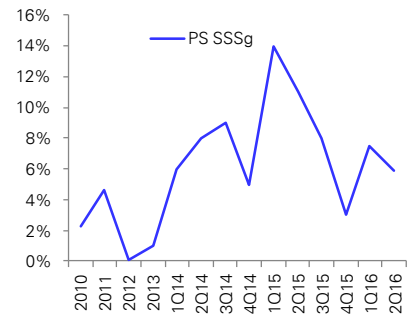
Source: Deutsche Bank estimates, company data

PS's ample room for SSS & efficiency improvements

Still room for SSS improvement

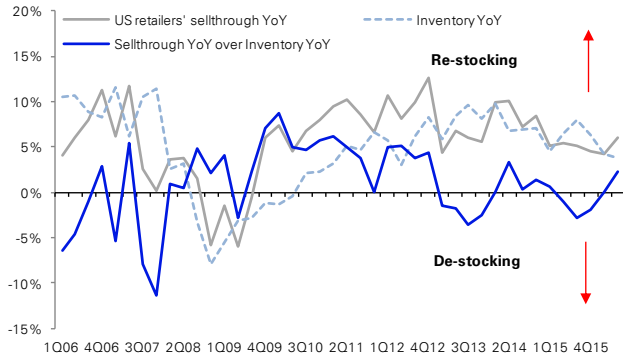
- Inventory restocking:** Unlike in the US (that has had inventory cycles in the past years, Figure 20), we have witnessed continued inventory destocking by Nike and Adidas in China since 2014. The stringent inventory control has led to inventory shortages and put pressure on PS's SSSg YTD (Figure 19). We estimate a slight inventory shortage at PS's Adidas operation but a quite heavy inventory shortage at its Nike operation.
- We are seeing restocking by brands' ODMs:** Based on our interviews with ODMs (textile companies and shoe makers), we anticipate that Nike will gradually restock its distributors in China. This should boost PS's SSSg.

Figure 19: PS's SSSg



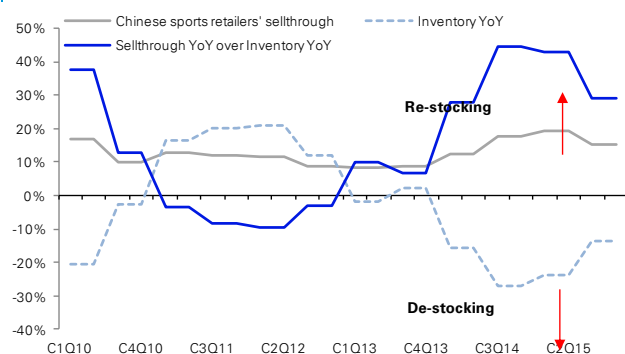
Source: Deutsche Bank, Company data

Figure 20: US sports retailers saw distinct inventory sell-through cycles...



Source: Deutsche Bank, Bloomberg Finance LP Note: this analysis covers public financial data from DKS, FL, HIB, BGFV

Figure 21: ...but in China, there is structural revenue growth and sustainable inventory reduction.



Source: Deutsche Bank, Bloomberg Finance LP Note: this analysis covers public financial data from Pou Sheng and Belle Sportswear

PS's lower efficiency and business structure...

PS's store productivity is still significantly lower vs. Belle Sportswear, in our view. We estimate that productivity (measured by sell-through per square metre) at PS's directly-operated stores is 19% lower than for comparable ones at Belle Sportswear (Figure 22).



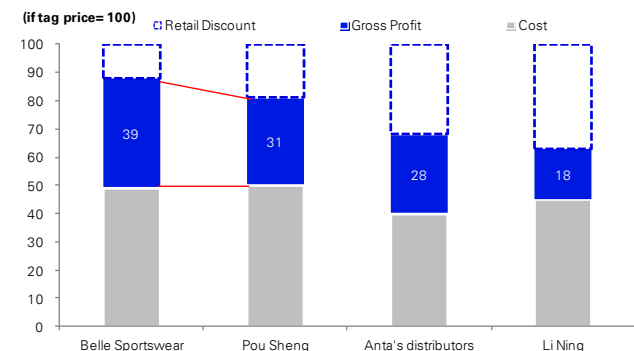
Figure 22: Store productivity comparison

(RMB mn)	Pou Sheng 2015	Belle FY16	diff.	Foot Locker 2015	diff.
1. Average store number	7,394	6,770	9%	3,403	117%
Directly operated	4,603	5,958	-23%		
Wholesale	2,791	812	244%		
2. Reported sales					
Revenue / store	1.95	2.91	-33%	13.68	-86%
Directly operated	2.52	3.12	-19%		
Wholesale	0.98	1.10	-11%		
Retail to wholesale	2.58	2.83			
3. Sellthrough					
Sellthrough per sqm per day	60	82	-26%	95	-36%
Directly operated	70	87	-19%		
Wholesale	45	46	-3%		
Average selling area (sqm)	100	100	0%	208	-52%

Source: Deutsche Bank estimates, company data, Note: for Foot Locker, all are reported data in annual report

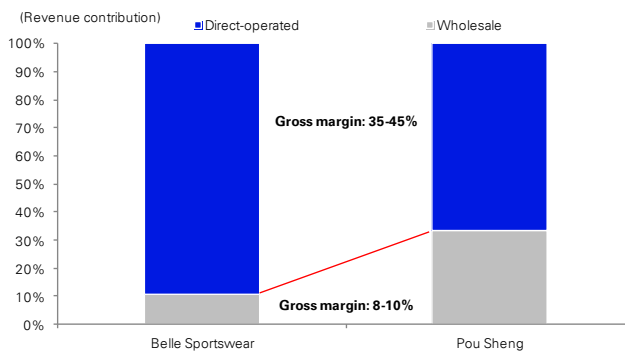
We attribute such to greater retail discount at PS's stores (Figure 23). Also PS's greater use of franchisees dilutes the profitability, in our view (Figure 24).

Figure 23: PS's retail discount is deeper



Source: Deutsche Bank estimates, company data

Figure 24: PS has a larger wholesale (franchise) exposure



Source: Deutsche Bank estimates, company data

...led to lower gross margin vs. Belle Sportswear

We therefore estimate a significant gap between PS and Belle Sportswear's gross margin (Figure 25).

Figure 25: Significant differences in PS and Belle's gross margins

(RMB mn)	Pou Sheng 2015	Belle FY16	diff.	Foot Locker 2015	diff.
Gross margin					
Directly operated	39%	45%	-6%		
Wholesale	8%	9%	-1%		
Retail gross margin	33%	43%	-10%	34%	-1%

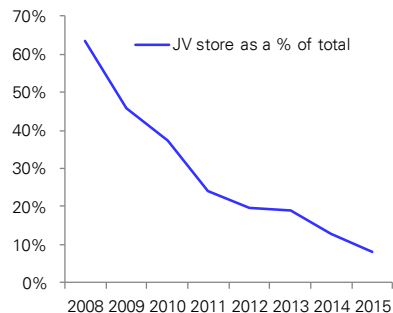
Source: Deutsche Bank estimates, company data, Note: for Foot Locker, all are reported data in annual report



PS's initiatives to close the efficiency gap

- **Consolidating JV stores into management by head office:** One of PS's most interesting characteristics is the vast number of JV stores under its operation. In past years, PS expanded through the acquisition and inclusion of JVs. This created a less synchronised management system that reduced efficiency. Nevertheless, we believe that it is PS's goal to impose better control on JV stores by increasing holdings in them (consolidation, Figure 26).
- **Inventory consolidation:** The immediate benefit of the aforementioned consolidation is inventory efficiency. In the past, PS needed to pay sales tax when transferring inventory between JV stores. After the consolidation, PS can deploy inventory more freely. This is an advantage in light of continued inventory shortages and omni-channel efforts.
- **Gross margin improvements:** We forecast further gross margin improvements for PS due to narrowed retail discount. Nevertheless, we forecast that PS's lower-margin wholesale business (franchise) will continue to grow. This is due to Adidas and Sketchers' expansion into lower-tier cities.

Figure 26: Consolidating JV stores into a consolidated entity



Source: Deutsche Bank, company data



Channel brands

Summary

- We forecast channel brand stores to be more successful nowadays thanks to the sports segmentation trend.
- PS's YY Sports City represents a unique model to generate both sales and rental income, leveraging the strong popularity of Nike and Adidas stores.
- In addition to sports, we expect PS to further emphasise Athleisure and kids' products.

Channel brands represent PS' multi-brand strategy

New initiatives since 2015

Under the brand YY Sports, PS wishes to explore markets that the mainstream mono-brand stores would be harder to service. PS therefore can monetise the sports segmentation opportunity in China.

A very nimble multi-brand strategy

With an established YY Sports store network, PS can nimbly adjust the brands it wishes to introduce into China. This enhances PS's bargaining power. Compared with Anta's multi-brand strategy, we view PS's as more nimble. We believe Anta's multi-brand strategy aims to modify leading sports brands into the "China-dedicated version", while PS's channel brand strategy focuses on nimbly introducing international brands into China (Figure 27).

Figure 27: PS's multi-brand strategy vs. that of Anta

Multi-brand strategy	PS	Anta
	Channel brand	Brand platform
<i>In charge of...</i>		
Product design	N	Y
Manufacturing	N	Y
Marketing	Y	Y
Distribution	Y	Y
Advantages	More nimble in importing international brands to China.	Better control over brands, product and marketing to create China-dedicated brands.
Disadvantages	Hard to modify brands and products to fit the Chinese market.	Heavier investment and slower process in preparing brands.

Source: Deutsche Bank estimates



Sports City: the start of a new growth driver

Sports City: a niche business model leveraging Nike and Adidas's popularity

Sports City represents one of PS's multi-brand store formats (Figure 28). We forecast that PS will add over 50 Sport City stores in 2016, which should serve as one of the major growth drivers. The Sports City store format is often multi-story stores that include not just sporting goods but also other functions including F&B. PS will lease a multi-story building, fill a majority of the space with its brands, and lease the rest to other brands for rental income.

The core of the Sports City business model is to leverage the strong traffic generated through Nike and Adidas stores. Also, the higher per square metre revenue by selling sporting goods yields better rental return for the landlord, creating a win-win situation.

Figure 28: Comparison of different store formats

	Sports City	Sports Supermarket	Multi-brand lifestyle	Mono brand
Brand nature	Channel brand (YY Sports)			Original brand
Area size	Over 1,500	Over 1,000	Over 1,000	100-1,000 sqm
Categories	Sporting goods & others (F&B...etc.)	Sporting goods	Sporting goods & fashion	Sporting goods
Brand	15-20 brands	15-20 brands	Over 10 brands	Single brand
Revenue	Sales & Rental (more)	Sales & Rental	Sales & Rental	Sales
Notable peers	n.a.	Decathlon, Top Sports (Belle)	Footmark (Really)	Belle, Really, Zhong He
Note	Incepted in 2015, with Sports City one of the focuses of expansion in 2016			

Source: Deutsche Bank estimates

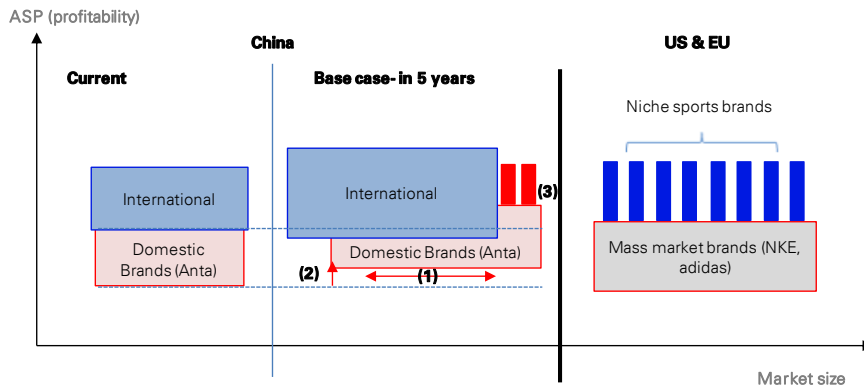
Sports segmentation trend positive to multi-brand format

The development was less than successful in the past, mainly as Chinese consumers prefer mono-brand stores. But we forecast the sports segmentation trend to drive demand for multi-brand stores.

- Mono-brand stores' popularity comes from demand for authentic products:** A major reason behind consumers' preference for mono-brand stores was insecurity. It is widely perceived that mono-brand stores sell authentic products, whereas multi-brand stores sometimes blend in fake ones.
- However, sports segmentation is changing consumers' perceptions:** Sports segmentation represents the emergence of new niche sports segments (Figure 29). As a result, multi-brand stores that help consumers compare **the pros and cons of different brands** should gain popularity.



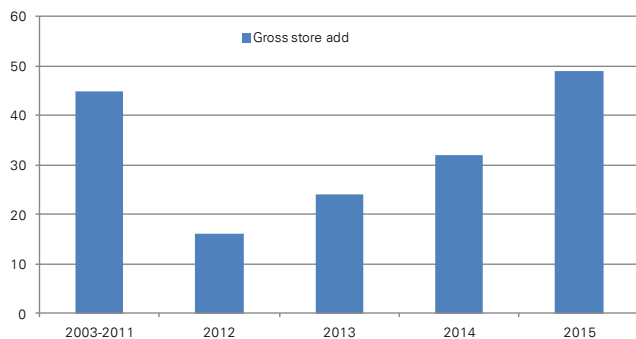
Figure 29: Major market growth drivers: (1) more participation, (2) upgrades, and (3) segmentation



Source: Deutsche Bank estimates

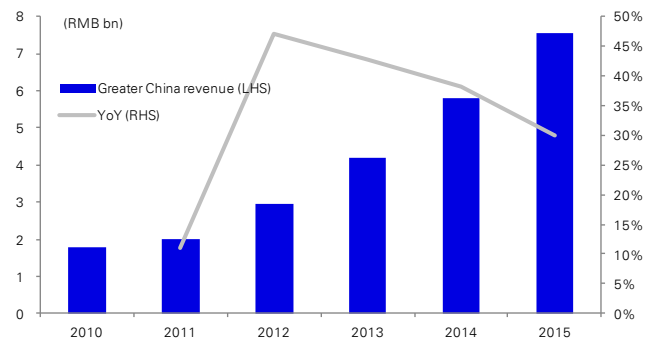
- ...and Decathlon is one of the first major successes in China:** Decathlon operates over 160 stores in China, with annual sales of over RMB7bn (50% of the scale of PS). Decathlon plans to expand its store network to over 500 by 2020. The company operates a sports supermarket format (Figure 28). A normal Decathlon Sports Supermarket carries over 20 brands (over 90% are Decathlon's private label brands) and covers over 70 sports categories. Decathlon's multi-brand format (and its extreme attention to value for money) resulted in strong growth in China (Figure 30 & Figure 31).

Figure 30: Decathlon's accelerating store expansion...



Source: Deutsche Bank estimates, company data

Figure 31: ...and robust revenue growth



Source: Deutsche Bank estimates, company data

Sport City aims to monetise O2O (Online To Offline)

PS has focused more on its CRM (customer relationship management) system since 2015 and has enjoyed robust growth of online membership. We believe that PS will leverage Sport City to monetise its online membership. In addition, Sport City offers space for PS to host sporting events and even sports games to attract more online members, creating a positive O2O circle.



More categories beyond sports

Lifestyle: Capturing the Athleisure trend

In addition to sports brands, PS also operates multi-brand lifestyle stores. The format targets the emerging Athleisure market in China, spearheaded by Adidas Original, Converse, Onitsuka Tiger, etc. PS's major advantage in this category is its ability to secure sufficient products from Adidas, Nike, and Asics.

Kids: A major component to include in PS's multi-brand stores

We believe that kids wear is another major component that will drive long-term growth for PS. PS has been proactively licensing leading international kids wear brands (e.g. Carter's). PS aims to blend kids wear into its existing multi-brand format to enhance one-stop shopping. Competition in the kids wear space is less intense compared with adults wear. The more notable competitor to PS is Goodbaby's distribution business (not in the listed entity).



E-commerce and DTC: opportunities outweigh risks

Summary

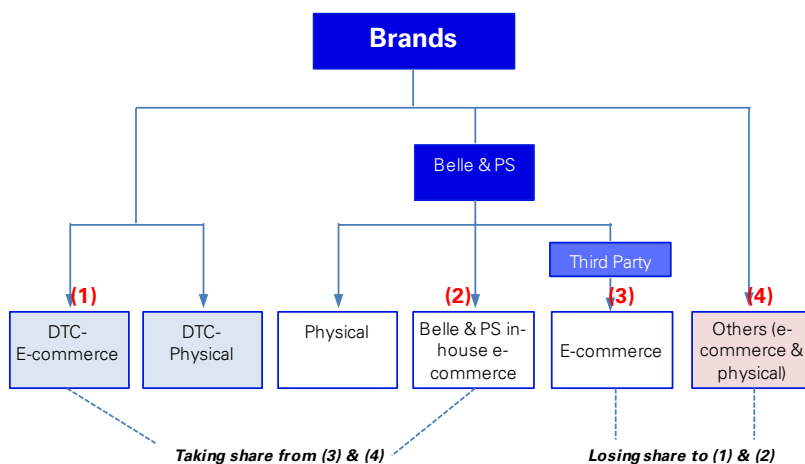
- Investors often worry that sporting goods' DTC (direct to consumer) efforts will jeopardise distributors' growth. However, we argue that the market is big enough for their coexistence.
- For e-commerce, we anticipate that both PS's e-commerce and DTC will take market share from unregulated operators.
- For physical stores, we forecast sufficient room for PS to expand its network. Also, we believe that PS can help Adidas open more flagship stores (Brand Centres).

E-commerce: A major opportunity for PS

Major distributors benefiting from a more disciplined e-commerce market

China's sporting goods distribution network structure is very complicated, especially for e-commerce. PS's exposure to e-commerce has been through two channels: firstly, the e-commerce stores under its brands YY Sports. PS works with over 15 websites, but with traffic concentrated on Tmall and JD (route "(2)" in Figure 32). Secondly, PS sometimes resells (串貨) products (often obsolete inventory) to a third party (most often to smaller e-commerce operators) (route (3) in Figure 32). This represents a lower gross margin business and is not completely approved of by the brands.

Figure 32: Sporting goods distribution structure in China



Source: Deutsche Bank estimates



Nevertheless, we expect that the e-commerce network will become more disciplined, with more products being offered via DTC and e-commerce operated by PS and Belle (route “(1)” and “(2)” in Figure 32).

- **Brand’s 2020 strategy aims to grow DTC:** Nike’s 2020 strategy aims to drive the contribution of DTC (especially its in-house shopping website). Adidas operates a less aggressive target for DTC but also aims to grow its DTC e-commerce presence in China.
- **Inventory control to entail channel shifts:** At the same time, both Nike and Adidas are controlling their product availability to eliminate less preferred channels. PS therefore has been proactively reducing its exposure to resale channels (“(3)” in Figure 32) by increasing its mark-up on resale products (Figure 33). This incentivised a major concentration of e-commerce channels, to DTC and major distributors (routes “(1)” and “(2)” to take market share from routes “(3)” and “(4)”).

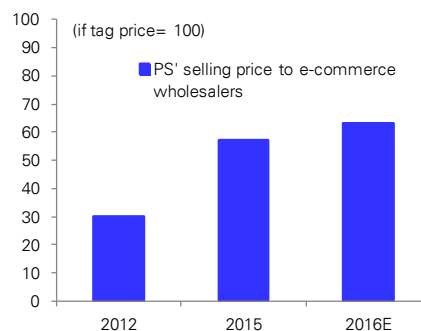
Co-existence of DTC e-commerce and distributors’ e-commerce

Despite brands’ DTC e-commerce efforts, we argue that there is still sufficient room for PS and Belle Sportswear to operate their own e-commerce. The opportunity is especially large with regard to offering multi-brand shopping experiences.

For example, Adidas has recently issued licences to PS and Belle to authorise the duo’s e-commerce operation. This allows PS and Belle to become the only physical distributors eligible to distribute Adidas product online.

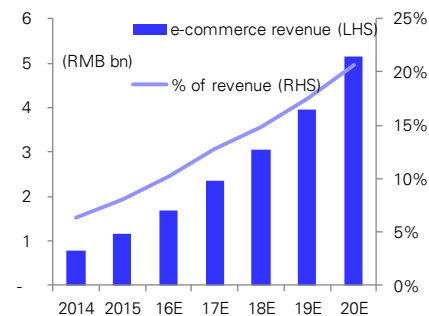
We do not expect the brands to take back e-commerce distribution rights in the near future, due to PS’s growing bargaining power. We estimate that PS’s e-commerce business grew 50% YoY in 2015, with a target of reaching 20% of its revenue in five years, based on our estimates (Figure 34).

Figure 33: PS has been hiking prices on its resale products



Source: Deutsche Bank estimates

Figure 34: PS’ e-commerce business growing its importance



Source: Deutsche Bank estimates

Physical stores: help Adidas operate more flagship stores

Adidas’s brand-led retail (BLR) allows PS to operate more flagship stores

Adidas’s strategy is significantly different from that of Nike. Based on Adidas’s BLR scheme (a hard franchise model that emphasises partnership with PS), PS gained a solid flagship store opening pipeline. This includes over 10 Brand Centres in 2016 in various first-tier cities, based on our estimates. We note that the Brand Centres tend to generate exceptionally high sell-through (sometimes equivalent to 10 ordinary stores) while delivering strong inventory efficiency (Figure 35).

Figure 35: Flagship stores garner higher productivity and inventory performance

	Ordinary Store	Flagship Store
Store size (sqm)	100	500
Sell-through (RMBmn / month)	0.3	1.8
Daily sell-through per sqm (RMB)	100	120
Required inventory (RMBmn)	1.5	6
Inventory level (months)	5.0	3.3

Source: Deutsche Bank estimates



Nike: Limited physical store expansion

We do not expect the Nike store network operated by PS and Belle Sportswear to expand significantly in the near future. We sense Nike's intention to develop more e-commerce exposure in China. We witness Nike opening more DTC flagship stores to replace PS and Belle's smaller stores, but this has taken place more commonly in Shanghai and currently has limited impact on PS and Belle's earnings, in our view.



Financial outlook

Income statement

- Revenue:** We forecast PS's revenue to be driven more by directly-operated stores (including e-commerce). We forecast PSD growth of 3.0%/7.0%/7.5% in 2016/2017/2018. Excluding e-commerce growth, we forecast that PSD growth will be 0.0%/3.7%/3.4% in 2016/2017/2018. The acceleration in 2017 is to reflect the easing inventory shortage of Nike products.

We note that the absolute revenue growth of low-teens ppt YoY may not seem significant, but the strong PSD growth underpins our positive view on the sector.

- Gross margin:** We forecast improving gross margin, driven by directly-operated stores, while the wholesale gross margin remains largely unchanged.
- Opex:** We do not expect there to be significant room for improvement, considering that PS is already operating at a rental-to-revenue ratio of 16%.
- Other income:** We expect that PS will recognise more rental revenue due to its Sport City model.

Figure 36: PS: income statement

Income Statement- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
Net Sales	14,451	16,268	18,534	21,116	23,927	26,597
Retail	14,345	16,158	18,418	20,993	23,800	26,466
Directly Operated	11,618	13,370	15,419	17,772	20,310	22,721
Wholesale	2,727	2,787	2,999	3,221	3,490	3,745
Other Revenue	107	110	116	123	127	131
Costs	9,638	10,311	11,539	12,995	14,615	16,135
Gross profit	4,813	5,957	6,995	8,121	9,312	10,462
Operating expenses	4,324	5,027	5,616	6,374	7,222	8,028
Operating profit	488	930	1,380	1,747	2,090	2,433
Net interest income	-36	-41	-27	-15	-4	7
Other non-OP	89	237	245	249	253	258
Total non-operating income	53	197	218	234	249	265
Pretax profit	541	1,127	1,598	1,981	2,339	2,698
Taxes (negative for credit)	149	308	434	534	626	717
Minority	-13	-12	-11	-10	-9	-8
Net Income	405	830	1,174	1,457	1,722	1,989
DB EPS (CNY)	0.09	0.16	0.22	0.27	0.32	0.37
Profitability	2015A	2016E	2017E	2018E	2019E	2020E
Gross margin	33.3%	36.6%	37.7%	38.5%	38.9%	39.3%
Operating margin	3.4%	5.7%	7.4%	8.3%	8.7%	9.1%
OPEX to sales	29.9%	30.9%	30.3%	30.2%	30.2%	30.2%
Pretax margin	3.7%	6.9%	8.6%	9.4%	9.8%	10.1%
Net Margin	2.8%	5.1%	6.3%	6.9%	7.2%	7.5%
Growth	2015A	2016E	2017E	2018E	2019E	2020E
Revenue- YoY	18%	13%	14%	14%	13%	11%
EPS- YoY	1230%	82%	40%	24%	18%	16%

Source: Deutsche Bank estimates, Company data



Balance sheet

- Working capital:** We expect that PS's receivable days will reduce with more Sports City stores in the blend relative to total stores. We also forecast that the company's inventory days will reduce, driven by better inventory efficiency. Nevertheless, we do not expect significant improvements in the near term, as Nike is gradually replenishing inventory at PS. We forecast prolonged accounts payable days as PS further leverages its channel brands to improve its terms for second-tier brands.
- Borrowing:** Due to better working capital conditions, we forecast that PS will pay down its short-term loans.

Figure 37: PS: balance sheet

Balance Sheet- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
Cash & equiv.	176	582	722	808	849	982
S/T investment	-	-	100	400	650	1,100
Receivables	1,966	2,095	2,285	2,603	2,950	3,279
Inventory	3,736	3,814	4,426	4,913	5,405	5,835
Other current asset	108	98	88	79	71	64
Current Asset	5,986	6,588	7,621	8,804	9,926	11,261
Net PP&E	1,299	1,377	1,471	1,565	1,661	1,759
LT equity investment	72	74	77	79	81	84
Other LT assets	818	815	812	809	806	804
L/T Assets	2,199	2,266	2,359	2,453	2,548	2,646
Total Asset	8,175	8,854	9,980	11,257	12,474	13,907
Trade payable	1,943	2,079	2,327	2,620	2,947	3,254
S/T loans	441	200	200	200	100	100
Other current liabilities	112	114	116	119	121	123
Current liabilities	2,496	2,393	2,643	2,939	3,168	3,477
L/T debt (incl cap lease)	-	-	-	-	-	-
Other L/T liabilities	175	179	182	186	190	193
L/T liabilities	175	179	182	186	190	193
Total Liability	2,671	2,572	2,825	3,125	3,357	3,670
Common Equity	43	43	43	43	43	43
Minority	43	31	20	11	2	(6)
Other Equity & Adjustments	5,418	6,208	7,091	8,078	9,072	10,200
Equity	5,504	6,282	7,155	8,132	9,117	10,237
AR Days	49	46	43	42	42	43
Inventory Days	140	134	130	131	129	127
AP Days	61	71	70	69	70	70

Source: Deutsche Bank estimates, Company data

Cash flow statement

- Operating cash flow supported by enhanced earnings power**
 - Controlled capex** as the company renovates its stores gradually
- Cash dividend:** Furthermore, PS has already announced that it will pay interim dividends, and we believe that the company will sustainably announce cash dividends.

Figure 38: Cash flow statement

Cashflow Statement- Consolidated						
	2015A	2016E	2017E	2018E	2019E	2020E
EBITDA less tax	549	842	1,166	1,448	1,714	1,982
A/R Dec. (Inc.)	21	(129)	(190)	(318)	(347)	(329)
Inventory Dec. (Inc.)	16	(78)	(612)	(487)	(492)	(430)
A/P Inc. (Dec.)	643	137	248	294	327	307
Govt grant & other	(314)	32	94	73	60	26
Operating cashflow	915	805	705	1,009	1,262	1,556
Capex	(285)	(299)	(314)	(330)	(346)	(363)
Deposit, loan and prepaid	75	7	6	6	6	5
Financial instruments	-	-	(100)	(300)	(250)	(450)
Other	(45)	80	4	3	1	7
Investing cashflow	(255)	(212)	(404)	(621)	(589)	(801)
Dividend	-	-	(208)	(352)	(583)	(689)
Equity financing	0	-	-	-	-	-
Debt financing	(794)	(241)	-	-	(100)	-
Other & bonus	48	55	47	50	51	67
Financing cashflow	(746)	(186)	(161)	(302)	(632)	(622)
Adjustments	(13)	-	-	-	-	-

Source: Deutsche Bank estimates, Company data



Company profile

Company History

Pou Sheng International (Holdings) Limited was founded in 1992 as one of the largest sportswear retailers in Mainland China under the brand YY Sports. In 2008, Pou Sheng was spun off from its parent company, Yue Yuen Industrial Holdings (551.HK), and listed on the Hong Kong Stock Exchange with an IPO price of HK\$2.93 per share. Pou Sheng's subsidiaries include YY Sports Holdings Limited, A-Grade Holdings Limited, Baosheng Daoji (Beijing) Trading Company Limited, Baoxin (Chengdu) Trading Company Limited, Pou Yu (Chengdu) Trading Co., Ltd., Brightup Group Limited, and Charming Technology Limited.

The principal activities of Pou Sheng and its subsidiaries are the retailing of sportswear, the leasing of commercial space to retailers and distributors for concession sales, and distribution of licensed sportswear products. Pou Sheng operates in three businesses: the retail business, which includes the retailing of sportswear products and footwear products, and commissions from the leasing of large-scale commercial spaces to retailers and distributors for concession sales; a brand licensee business, engaged in the distribution of licensed sportswear products and footwear products; and the manufacturing business, the manufacture and sale of original equipment manufacturers' (OEMs') footwear products and sportswear products. Its brand portfolio of footwear includes Nike, Adidas, Li Ning, Kappa, Reebok, PUMA, Converse, Hush Puppies, Pony, Nautica, Wolverine, and Umbro. As of December 31, 2015, Pou Sheng owned 4,943 directly operated retail outlets and 2,893 sub-distributor operated retail outlets, with total employees of nearly 25,000.



Management profile

Figure 39: Management team of Pou Sheng

Name	Title	Age	Date of appointment	Background
Wu Pan-Tsu	Chairman	63	Apr-12	Various managerial positions in ABN-AMRO Bank, Chase Manhattan Bank and BNP PARIBAS, Executive Vice President in Pou Chen Corporation, Director of Kleine Developments Ltd., Director of Elitegroup Computer Systems Co., Ltd., Director of First Sino Bank in Shanghai, China
Kwan Heh-Der	CEO/Executive Director	62	31-Aug-12	Director of strategy & business development of AT&T China, Beijing, President of Lucent Technologies Qingdao, COO of Lucent Technologies China, COO of CEC Industries Ltd., President and a board director of Tecom Co. Ltd.
Tsai David, Nai Fung	Chairman/Non-executive Directors	65	Apr-08	Chairman of the Nomination Committee of the Board, Director of Pou Chen Corporation, San Fang Chemical Industry Co., Ltd. and Elitegroup Computer Systems Co., Ltd., Director of Wealthplus Holdings Limited, Chairman of Pou Yuen Industrial (Holdings) Limited and Managing Director of Yue Yuen Industrial (Holdings) Limited
Tsai Patty, Pei Chun	Non-executive Directors	36	Apr-08	Executive Director and the Managing Director of Yue Yuen, CEO of Pou Chen group, Director of Wealthplus., Director of Mega Financial Holding Company Limited
Li I-nan	Non-executive Directors	74	Mar-13	Member of the Remuneration Committee of the Board, Executive director of Yue Yuen, Director of Yue Yuen Education Foundation, Non-executive Director of Symphony Holdings Limited
Chen Huan-Chung	Independent Non-executive Director	60	Apr-08	Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. Mr. Chen is a partner of Wong Tong & Co., CPAS, Supervisor of Pou Chen group
Hsieh, Wuei-Jung	Independent Non-executive Director	64	Mar-13	Chairman of the Remuneration Committee of the Board, Vice President and CFO of Vanguard International Semiconductor Corporation, Independent Director and Chairman of the compensation committee of Anpec Electronics Corporation and a member of the compensation committee of Motech industries, Inc., Independent Director, Chairman of the audit committee and a member of the compensation committee of the board of Xintec Inc.
Shan Xue	Independent Non-executive Director	37	1-Oct-14	Member of the Audit Committee and Member of the Nomination committee of the Board, Director, Member of investment committee and General Manager of JIC Capital Management (Tianjin) Limited, Executive Director of ZT Dawn (Beijing) Investment Consultant Limited
Chen Kuo-Lung	CFO	50	Aug-13	Senior Management Accounting Positions with various leading corporations
Tan Chih Cheng	Vice President of Operation & Business Management Division	-	Jan-16	More than 20 years of experience in management of well-known listed companies, which are vary from consultant, retail, media, real estate construction and other industries

Source: Deutsche Bank, Company data

Major shareholder

According to public company filings, 3,295,923,560 shares in Pou Sheng are held by Major Focus Management Limited, a wholly-owned subsidiary of Yue Yuen.

Figure 40: List of Pou Sheng's major shareholders

Name	Holding (%)	Profile
Major Focus Management Limited	61.81	A wholly-owned subsidiary of Yue Yuen
Pei Chun Tsai	0.37	A director of Pousheng, Yue Yuen and Wealthplus

Source: Deutsche Bank, Company data, Bloomberg Finance LP

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Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Pou Sheng	3813.HK	2.63 (HKD) 23 Sep 16	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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Historical recommendations and target price: Pou Sheng (3813.HK)

(as of 9/23/2016)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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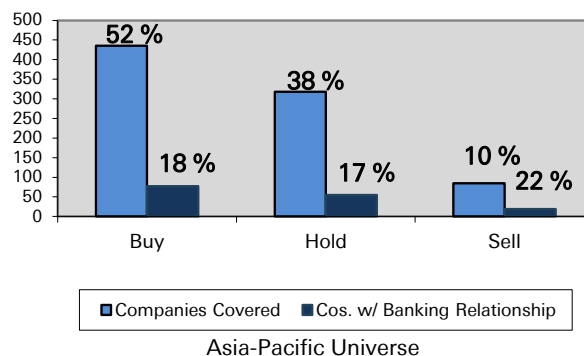
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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