

THE GROWTH OF CHINA'S SPORTSWEAR INDUSTRY

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GLOBAL ✕
by Mirae Asset



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UNDERSTANDING THE GROWTH OF CHINA'S SPORTSWEAR INDUSTRY

- The move towards healthier lifestyles is boosting the sportswear industry
- Casualwear is now a mainstream fashion trend
- The government is promoting cleaner living
- Foreign brands face competition from local producers

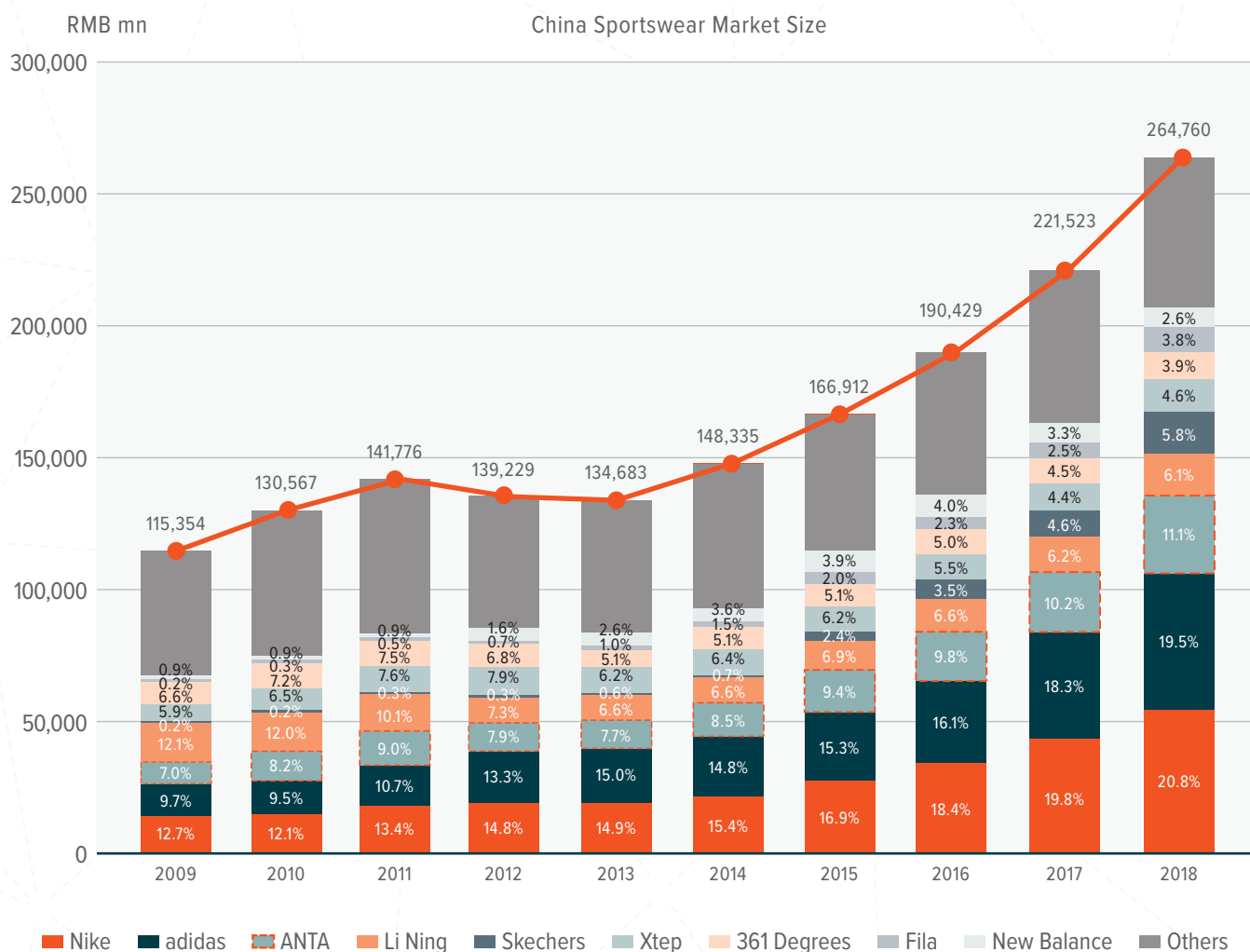
The robust growth of the sportswear industry is not just a Chinese consumer trend but also a global phenomenon. With rising health awareness, more people are participating in sporting activities and being careful about what they eat. For instance, marathon running in China is growing in popularity, with a record 1,581 races and related events taking place in 2018 (from 1,102 in 2017). During the same period, the number of participants rose to 5.83 million (a 17% increase) according to the Chinese Athletics Association (CAA).



CASUAL URBAN LIFESTYLE

The desire for a healthier life has translated into a fashion trend that is benefiting the sportswear industry. Consumers, especially the younger generation, want to look good and energetic, so the demand for sportswear has moved beyond functional shoes and apparel toward casual urban lifestyle outfits. For examples, girls wear Lululemon yoga pants on the weekend even though they are not working out. Similarly, it has become more fashionable to wear an apple watch rather than a luxury brand.

EXHIBIT 1. CHINA SPORTSWEAR MARKET SIZE

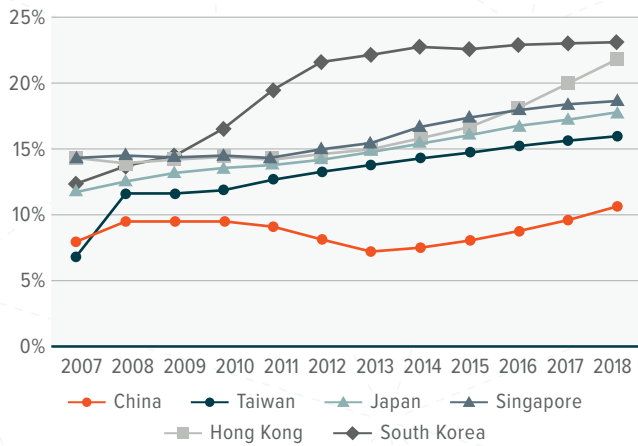


Source: Company data, Euromonitor, Morgan Stanley, January 2020

DRESS DOWN EVERY DAY

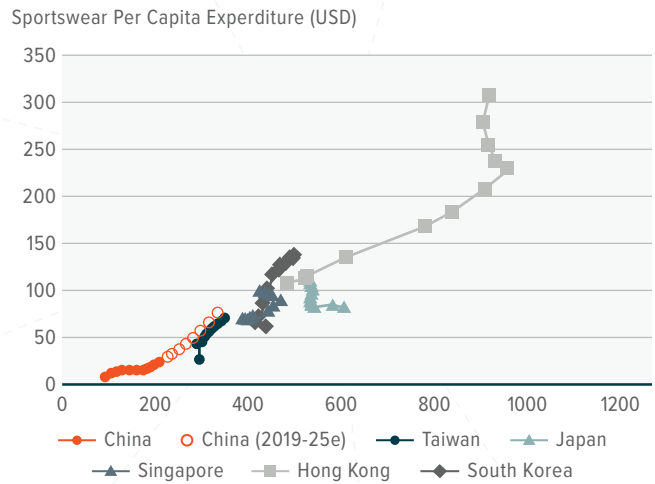
It was uncommon for the older generation to appear unshaven or wear informal clothes to work. Today, however, many young men sport a beard and/or dress more casually in the office, especially with many tech companies adopting a more relaxed approach to their employees' attire. This development explains why most luxury brands now feature sports shoes, and sportswear companies are expanding into the casualwear market. A good model here is the success of the Fila brand in China.

EXHIBIT 2. SPORTSWEAR SALES AS % OF TOTAL APPAREL AND FOOTWEAR SALES



Source: Euromonitor, Morgan Stanley, January 2020

EXHIBIT 3. APPAREL AND SPORTSWEAR PER CAPITAL EXPENDITURE (USD)



Source: Euromonitor, Morgan Stanley, January 2020

EASE PRESSURE ON HEALTHCARE COSTS

The Chinese government is also supporting the sports industry. The sector was indeed overlooked in the past, but it has been playing catch up in recent years. For example, the total number of sports facilities in China increased from 850,000 in 2004 to 1.96 million in 2017, a year-on-year growth of approximately 6%. We believe that government support will continue going forward: for instance, China is ageing fast with a declining birth rate, so healthcare spending will inevitably increase. If more people adopt healthy lifestyles, then the social burden will decrease.

Elsewhere, we have seen the introduction of regulations to reduce the time kids spend playing online games. However, encouraging youngsters to participate in various sports could be a better solution to this issue. Meanwhile, there will be the Tokyo Summer Olympics in 2020, followed by Beijing Winter Olympics in 2022, which will also support the sportswear industry in the near term.



PROUDLY MADE IN CHINA





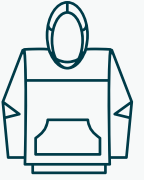
One interesting trend we see is the rising demand for local brands. Young Chinese consumers have grown up amid strong economic growth and are proud of their country, i.e. strong nationalism. Their parents' generation preferred foreign brands given a belief that these were of a higher quality. However, this assumption has changed, and many young consumers do not care if a product is local or from overseas as long as it is trendy. One good example is Li-Ning, which is a very popular high-end sportswear label with a similar price point to foreign lines, such as Nike and Adidas. We expect that strong industry growth will continue to benefit both global and local brands, but we think that the US-China trade war will support home-grown names in the near term.

EXHIBIT 4. CHINA SPORTSWEAR PRODUCT RANGE AND PRICE POINTS BY BRANDS

Category	Running				Basketball			Lifestyle		
Brand	Anta	Li Ning	Xtep	Adidas	Anta	Li Ning	Nike	Anta	Li Ning	Adidas
Premium (>RMB 1,000)				 RMB 1,393		 RMB 1,299	 RMB 1,599			 RMB 2,599
Mid-end	 RMB 499	 RMB 469	 RMB 469	 RMB 629	 RMB 699	 RMB 499		 RMB 449	 RMB 999	 RMB 799
Low-end (<RMB 250)	 RMB 249		 RMB 239					 RMB 249		

Source: Company data, Tmall, Morgan Stanley, November 2019

EXHIBIT 5. LI NING'S FASHION LINE VS. OTHER PREMIUM AND LUXURY BRANDS

	Band/Product Series	Li Ning	Adidas	Luxury Brands
Fashionable Footwear	Price Range	 RMB 400-1,300	 RMB 1,000-5,000	 > RMB 5,000
Fashionable Apparel	Price Range	 RMB 300-1,000	 RMB 1,300-2,500+	

Source: Company data, Morgan Stanley, November 2019

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