

# China Lilang (1234 HK)

## Positive growth resumed and attractive yield

BUY and raised TP to HK\$ 5.89, based on 8x FY21E P/E (rolled over from 8x FY20E). We believe current valuation is highly attractive (8x FY20E P/E, ~1 s.d. below 3 years average of 10x and 9% FY20E yield), especially after mgmt. reiterated its mid-single-digit retail sales growth guidance for 2H20E.

- **1H19 results inline, decline mainly due to trade fair order cut and lower GP margin.** China Lilang's sales/ net profit decline by 29%/ 31% YoY to RMB 1,093mn/ 269mn, inline with profit warning. The drop was mainly due to: 1) cancellation of 2020 Spring Summer trade fair orders of RMB 143mn and 2) lower GP margin. Given a strong B/S and healthy C/F condition, the Company's dividend payout ratio remained stable at ~69% (vs 73% in 1H19) and FY20E/ 21E yield can be as high as 9%/ 11% if this policy sustains.
- **Inventory (both group and channel) increased but remained manageable.** Group's inventory days surged to 185 days in 1H20 (vs 111 in FY19) while channel inventory also jumped to RMB 1.3bn in 1H20 (vs 1.1bn in FY19) since sell-through rate for 2020 Spring/ Summer collections were only at 60%/ 65% (vs 80%+ in past years). But we are not worried as mgmt. is determined to clear inventory by: 1) opening 100 outlet stores by FY20E, and 2) organizing more online and offline clearance activities. Mgmt. believes inventory level is likely to normalize by 2021 CNY festival.
- **Mid-single-digit retail sale growth in 2H20E reiterated.** Mgmt. reiterated its previous guidance, which, in our view, was supported by positive retail sales growth in Jul-Aug 2020 (vs 15-20% drop/ 40-45% drop in 2Q20/ 1Q20). In fact, retail discounts were highly resilient at 25% off/ 70% off for new/ old products in 1H20, indicating a strong brand image.
- **Cautiously optimistic on 2021 Spring Summer trade fair orders.** Following a rather conservative 2020 Fall and Winter trade fair orders (CMBI est.: 5% to 10% decline), mgmt. believes the distributors' sentiment for 2021 Spring Summer trade fair has become far more positive by now.
- **E-commerce growth to sustain into 2H20E.** Mgmt. is also highly confident on its e-commerce growth in 2H20E (CMBI est. 100-150%), as it is planning: 1) to have more clearance sales online, 2) to sell more online exclusive products (hopefully to become hot selling) and 3) to have more marketing activities, including IP crossovers and a new brand ambassador.
- **Maintain BUY and lifted TP to HK\$ 5.89.** We maintain BUY but lifted TP to HK\$ 5.89, based on 8x FY21E P/E (rolled over from 8x FY20E). The counter is attractive at 8x FY20E P/E and 9% yield. We cut our FY20E/ 21E/ 20E EPS estimates by 15%/ 3%/ 6% to factor in 1) trade fair order cut, 2) lower GP margins and 3) one-off acquisition costs of the 228 smart causal stores.

### Earnings Summary

| (YE 31 Dec)         | FY18A    | FY19A    | FY20E    | FY21E    | FY22E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 3,168    | 3,658    | 2,951    | 3,418    | 3,658    |
| YoY growth (%)      | 29.8     | 15.5     | (19.3)   | 15.8     | 7.0      |
| Net income (RMB mn) | 751      | 812      | 611      | 796      | 846      |
| EPS (RMB)           | 0.714    | 0.759    | 0.566    | 0.736    | 0.781    |
| YoY growth (%)      | 17.3     | 6.2      | (25.4)   | 30.0     | 6.1      |
| Consensus EPS (RMB) | n/a      | n/a      | 0.583    | 0.710    | 0.787    |
| P/E (x)             | 6.3      | 6.0      | 8.0      | 6.2      | 5.8      |
| P/B (x)             | 1.4      | 1.3      | 1.3      | 1.2      | 1.2      |
| Yield (%)           | 12.0     | 12.7     | 8.8      | 11.4     | 12.1     |
| ROE (%)             | 23.0     | 23.2     | 16.8     | 20.7     | 20.5     |
| Net gearing (%)     | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | HK\$5.89  |
| (Previous TP  | HK\$5.43) |
| Up/Downside   | +30.0%    |
| Current Price | HK\$4.53  |

### China Apparel Sector

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### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 5,425     |
| Avg 3 mths t/o (HK\$ mn) | 6.23      |
| 52w High/Low (HK\$)      | 6.84/4.10 |
| Total Issued Shares (mn) | 1,197.5   |
| Source: Bloomberg        |           |

### Shareholding Structure

|                         |        |
|-------------------------|--------|
| Mr Wang & Family        | 67.51% |
| Value Partners          | 4.98%  |
| Free Float              | 27.51% |
| Source: Bloomberg, HKEx |        |

### Share Performance

|                   | Absolute | Relative |
|-------------------|----------|----------|
| 1-mth             | 1.8%     | 0.7%     |
| 3-mth             | 0.9%     | -4.8%    |
| 6-mth             | -21.6%   | -14.9%   |
| 12-mth            | -29.6%   | -28.6%   |
| Source: Bloomberg |          |          |

### 12-mth Price Performance



Source: Bloomberg

### Auditor: KPMG

### Related Reports

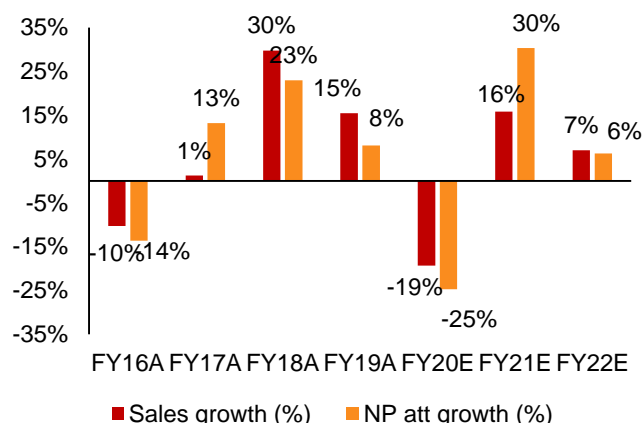
1. China Lilang (1234 HK, BUY) - Virus impact inevitable but attractive yield – 20 Mar 2020
2. China Lilang (1234 HK, BUY) - Challenging outlook but attractive valuation - 14 Aug 2019
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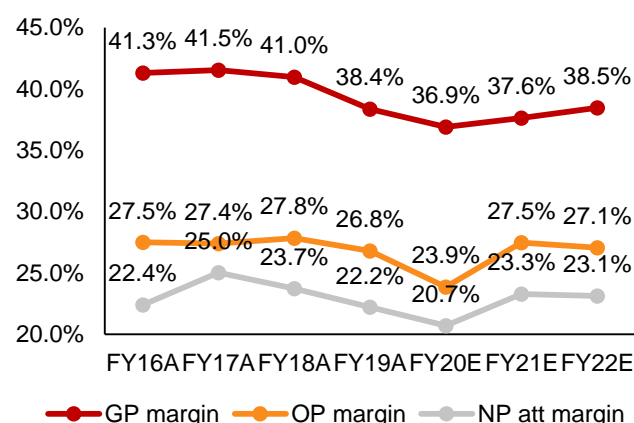
## Focus Charts

**Figure 1: Sales/ net profit growth**



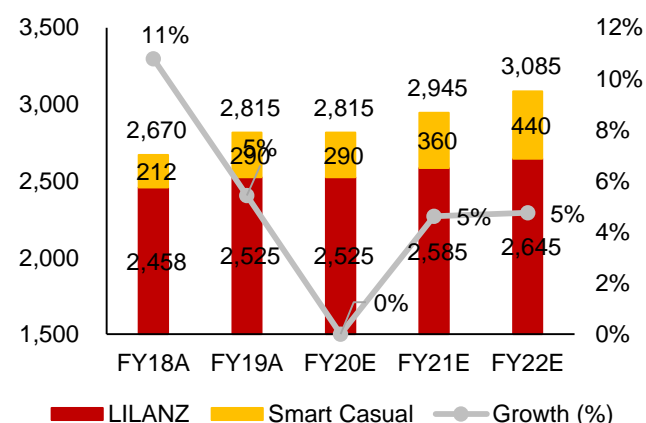
Source: Company data, CMBIS estimates

**Figure 2: GP/ OP/ NP margin**



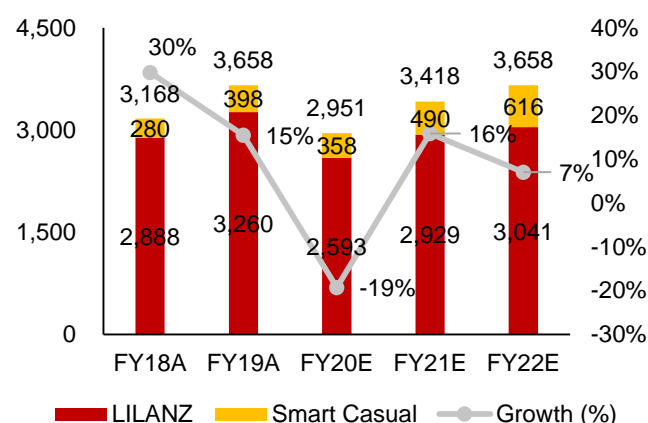
Source: Company data, CMBIS estimates

**Figure 3: Sales, by brand and growth**



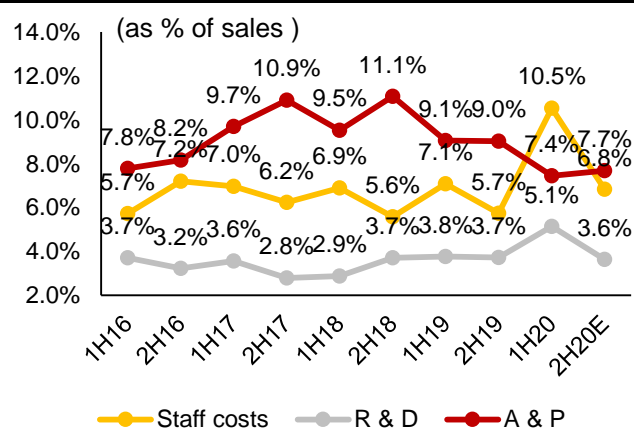
Source: Company data, CMBIS estimates

**Figure 4: Number of stores, by brand and growth**



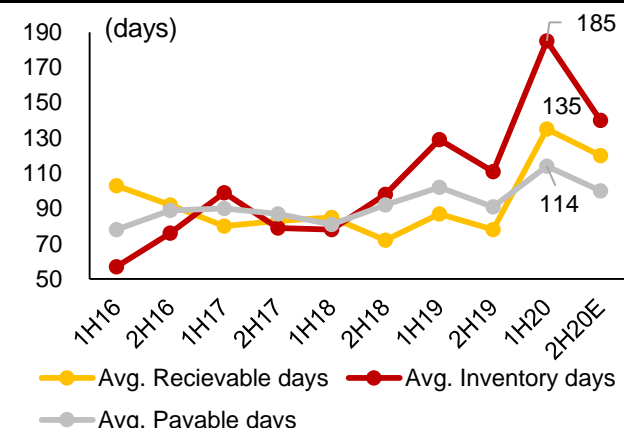
Source: Company data, CMBIS estimates

**Figure 5: Opex breakdown**



Source: Company data, CMBIS estimates

**Figure 6: Working capital condition**



Source: Company data, CMBIS estimates

## Earnings revision

Figure 7: Earnings revision

| RMB mn                 | New   |       |       | Old   |       |       | Diff (%) |         |         |
|------------------------|-------|-------|-------|-------|-------|-------|----------|---------|---------|
|                        | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E    | FY21E   | FY22E   |
| Revenue                | 2,951 | 3,418 | 3,658 | 3,537 | 3,861 | 4,208 | -16.6%   | -11.5%  | -13.1%  |
| Gross profit           | 1,089 | 1,287 | 1,407 | 1,321 | 1,475 | 1,621 | -17.6%   | -12.8%  | -13.2%  |
| EBIT                   | 704   | 939   | 990   | 857   | 983   | 1,085 | -17.8%   | -4.4%   | -8.8%   |
| Net profit att.        | 611   | 796   | 846   | 716   | 817   | 900   | -14.7%   | -2.5%   | -6.0%   |
| Diluted EPS (RMB)      | 0.510 | 0.663 | 0.703 | 0.597 | 0.680 | 0.748 | -14.7%   | -2.5%   | -6.0%   |
| Gross margin           | 36.9% | 37.6% | 38.5% | 37.4% | 38.2% | 38.5% | -0.5ppt  | -0.6ppt | -0.1ppt |
| EBIT margin            | 23.9% | 27.5% | 27.1% | 24.2% | 25.5% | 25.8% | -0.4ppt  | 2ppt    | 1.3ppt  |
| Net profit att. margin | 20.7% | 23.3% | 23.1% | 20.2% | 21.2% | 21.4% | 0.5ppt   | 2.1ppt  | 1.7ppt  |

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

| RMB mn                 | CMBIS |       |       | Consensus |       |       | Diff (%) |         |         |
|------------------------|-------|-------|-------|-----------|-------|-------|----------|---------|---------|
|                        | FY20E | FY21E | FY22E | FY20E     | FY21E | FY22E | FY20E    | FY21E   | FY22E   |
| Revenue                | 2,951 | 3,418 | 3,658 | 3,403     | 3,926 | 4,341 | -13.3%   | -12.9%  | -15.7%  |
| Gross profit           | 1,089 | 1,287 | 1,407 | 1,287     | 1,550 | 1,688 | -15.4%   | -17.0%  | -16.7%  |
| EBIT                   | 704   | 939   | 990   | 791       | 910   | 1,006 | -11.0%   | 3.2%    | -1.6%   |
| Net profit att.        | 611   | 796   | 846   | 680       | 866   | 936   | -10.2%   | -8.0%   | -9.6%   |
| Diluted EPS (RMB)      | 0.510 | 0.663 | 0.703 | 0.583     | 0.710 | 0.787 | -12.5%   | -6.6%   | -10.7%  |
| Gross margin           | 36.9% | 37.6% | 38.5% | 37.8%     | 39.5% | 38.9% | -0.9ppt  | -1.8ppt | -0.4ppt |
| EBIT margin            | 23.9% | 27.5% | 27.1% | 23.2%     | 23.2% | 23.2% | 0.6ppt   | 4.3ppt  | 3.9ppt  |
| Net profit att. margin | 20.7% | 23.3% | 23.1% | 20.0%     | 22.0% | 21.6% | 0.7ppt   | 1.2ppt  | 1.6ppt  |

Source: Company data, CMBIS estimates

## Results Summary

Figure 9: Results summary – Half Year

| Half yearly<br>(RMB mn)           | 1H19          | 2H19          | 1H20          | 2H20E         | 1H19<br>YoY | 2H19<br>YoY | 1H20<br>YoY | 2H20<br>E YoY | 1H20E<br>CMBI | Actual<br>vs CMBI |
|-----------------------------------|---------------|---------------|---------------|---------------|-------------|-------------|-------------|---------------|---------------|-------------------|
| <b>Revenue</b>                    | <b>1,540</b>  | <b>2,118</b>  | <b>1,093</b>  | <b>1,858</b>  | <b>19%</b>  | <b>13%</b>  | <b>-29%</b> | <b>-12%</b>   | <b>1,309</b>  | <b>-16%</b>       |
| COGS                              | (902)         | (1,354)       | (662)         | (1,200)       |             |             |             |               | (838)         |                   |
| <b>Gross profit</b>               | <b>638</b>    | <b>765</b>    | <b>431</b>    | <b>658</b>    | <b>18%</b>  | <b>1%</b>   | <b>-32%</b> | <b>-14%</b>   | <b>471</b>    | <b>-9%</b>        |
| <b>GP margins</b>                 | <b>41.4%</b>  | <b>36.1%</b>  | <b>39.4%</b>  | <b>35.4%</b>  |             |             |             |               | <b>36.0%</b>  |                   |
| Other income & gains              | 53            | 63            | 46            | 48            |             |             |             |               | 26            |                   |
| S & D expenses                    | (173)         | (237)         | (111)         | (193)         | 13%         | -3%         | -36%        | -19%          | (161)         | -31%              |
| <b>S &amp; D exp / sales</b>      | <b>-11.2%</b> | <b>-11.2%</b> | <b>-10.2%</b> | <b>-10.4%</b> |             |             |             |               | <b>-12.3%</b> |                   |
| Admin expenses                    | (50)          | (54)          | (54)          | (47)          | 7%          | 18%         | 9%          | -13%          | (46)          | 19%               |
| <b>Admin exp / sales</b>          | <b>-3.3%</b>  | <b>-2.5%</b>  | <b>-5.0%</b>  | <b>-2.5%</b>  |             |             |             |               | <b>-3.5%</b>  |                   |
| Other opex                        | -4            | -22           | -5            | -69           |             |             |             |               | -4            |                   |
| <b>Operating profit (EBIT)</b>    | <b>465</b>    | <b>515</b>    | <b>307</b>    | <b>397</b>    | <b>22%</b>  | <b>3%</b>   | <b>-34%</b> | <b>-23%</b>   | <b>287</b>    | <b>7%</b>         |
| <b>OP margins</b>                 | <b>30.2%</b>  | <b>24.3%</b>  | <b>28.1%</b>  | <b>21.4%</b>  |             |             |             |               | <b>21.9%</b>  |                   |
| Other items                       | 0             | 0             | 0             | 0             |             |             |             |               | 0             |                   |
| Net finance income                | 28            | 16            | 20            | 21            |             |             |             |               | 24            | -16%              |
| <b>Net finance income / sales</b> | <b>1.8%</b>   | <b>0.7%</b>   | <b>1.8%</b>   | <b>1.1%</b>   |             |             |             |               | <b>1.8%</b>   |                   |
| Profit after financing costs      | 493           | 531           | 327           | 419           |             |             |             |               | 310           |                   |
| Associated coms                   | 0             | 0             | 0             | 0             |             |             |             |               | 0             |                   |
| Jointly controlled coms           | 0             | 0             | 0             | 0             |             |             |             |               | 0             |                   |
| <b>Pre-tax profit</b>             | <b>493</b>    | <b>531</b>    | <b>327</b>    | <b>419</b>    | <b>17%</b>  | <b>1%</b>   | <b>-34%</b> | <b>-21%</b>   | <b>310</b>    | <b>5%</b>         |
| Tax                               | (105)         | (107)         | (58)          | (77)          |             |             |             |               | (65)          | -12%              |
| <b>Tax / sales</b>                | <b>-6.8%</b>  | <b>-5.1%</b>  | <b>-5.3%</b>  | <b>-4.1%</b>  |             |             |             |               | <b>-5.0%</b>  |                   |
| <b>Effective tax rate</b>         | <b>-21.2%</b> | <b>-20.2%</b> | <b>-17.6%</b> | <b>-18.3%</b> |             |             |             |               | <b>-21.0%</b> |                   |
| Minority interests                | 0             | 0             | 0             | 0             |             |             |             |               | 0             |                   |
| <b>Net profit att.</b>            | <b>389</b>    | <b>424</b>    | <b>269</b>    | <b>342</b>    | <b>14%</b>  | <b>3%</b>   | <b>-31%</b> | <b>-19%</b>   | <b>245</b>    | <b>10%</b>        |
| <b>NP margins</b>                 | <b>25.2%</b>  | <b>20.0%</b>  | <b>24.6%</b>  | <b>18.4%</b>  |             |             |             |               | <b>18.7%</b>  |                   |

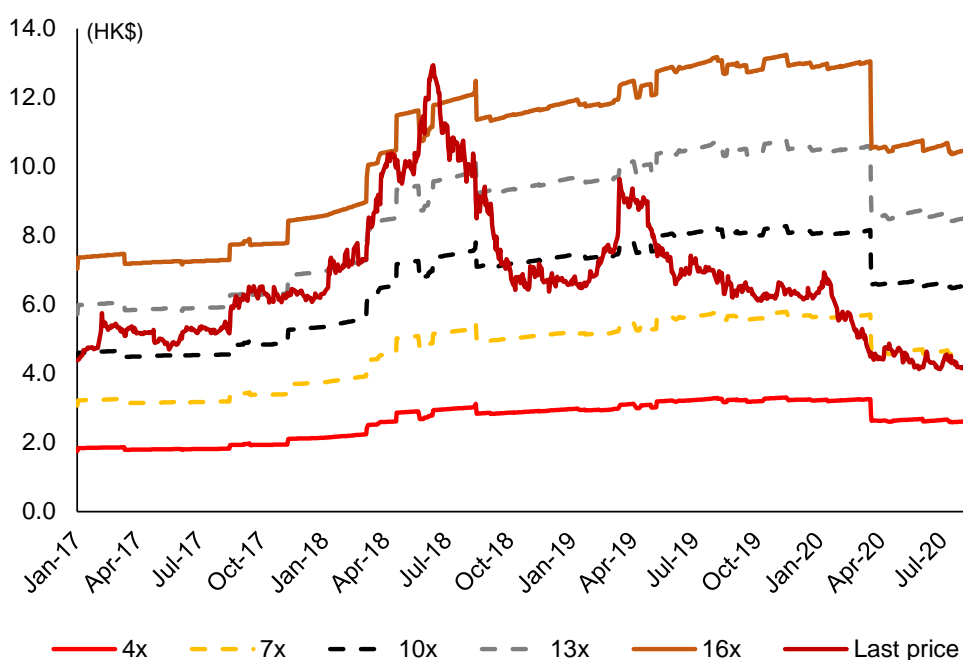
Source: Company data, CMBIS estimates

Figure 10: Results summary - Full Year

| Full yearly (RMB mn)         | FY19    | FY20E   | FY21E   | FY19<br>YoY | FY20E<br>YoY | FY21E<br>YoY |
|------------------------------|---------|---------|---------|-------------|--------------|--------------|
| Revenue                      | 3,658   | 2,951   | 3,418   | 15%         | -19%         | 16%          |
| COGS                         | (2,255) | (1,862) | (2,132) |             |              |              |
| Gross profit                 | 1,403   | 1,089   | 1,287   | 8%          | -22%         | 18%          |
| GP margins                   | 38.4%   | 36.9%   | 37.6%   |             |              |              |
| Other income & gains         | 116     | 94      | 113     |             |              |              |
| S & D expenses               | (410)   | (304)   | (334)   | 3%          | -26%         | 10%          |
| S & D exp / sales            | -11.2%  | -10.3%  | -9.8%   |             |              |              |
| Admin expenses               | (104)   | (101)   | (106)   | 13%         | -2%          | 4%           |
| Admin exp / sales            | -2.8%   | -3.4%   | -3.1%   |             |              |              |
| Other opex                   | -26     | -74     | -21     |             |              |              |
| Operating profit (EBIT)      | 980     | 704     | 939     | 11%         | -28%         | 33%          |
| OP margins                   | 26.8%   | 23.9%   | 27.5%   |             |              |              |
| Other items                  | 0       | 0       | 0       |             |              |              |
| Net finance income           | 44      | 41      | 44      |             |              |              |
| Net finance income / sales   | 1.2%    | 1.4%    | 1.3%    |             |              |              |
| Profit after financing costs | 1,024   | 745     | 983     |             |              |              |
| Associated coms              | 0       | 0       | 0       |             |              |              |
| Jointly controlled coms      | 0       | 0       | 0       |             |              |              |
| Pre-tax profit               | 1,024   | 745     | 983     | 8%          | -27%         | 32%          |
| Tax                          | (212)   | (134)   | (187)   |             |              |              |
| Tax / sales                  | -5.8%   | -4.5%   | -5.5%   |             |              |              |
| Effective tax rate           | -20.7%  | -18.0%  | -19.0%  |             |              |              |
| Minority interests           | 0       | 0       | 0       |             |              |              |
| Net profit att.              | 812     | 611     | 796     | 8%          | -25%         | 30%          |
| NP margins                   | 22.2%   | 20.7%   | 23.3%   |             |              |              |

Source: Company data, CMBIS estimates

Figure 11: Forward 1 years P/E band



Source: Company data, Bloomberg, CMBIS estimates

## Valuation

Figure 12: Peers' valuation

| Company                      | Ticker    | Rating | 12m TP (LC) | Price (LC) | Up/Down-side | Mkt. Cap (HK\$mn) | Year End | P/E (x)      |             | P/B (x)    |            | ROE (%)       | 3yrs PEG (x) | Yield (%)  |
|------------------------------|-----------|--------|-------------|------------|--------------|-------------------|----------|--------------|-------------|------------|------------|---------------|--------------|------------|
|                              |           |        |             |            |              |                   |          | FY1E         | FY2E        | FY1E       | FY2E       | FY1E          | FY1E         | FY1E       |
| <b>H shares Apparel</b>      |           |        |             |            |              |                   |          |              |             |            |            |               |              |            |
| China Lilang                 | 1234 HK   | BUY    | 5.89        | 4.53       | 30%          | 5,425             | Dec-19   | 6.0          | 7.8         | 1.3        | 1.2        | 23.2          | 3.5          | 8.7        |
| Bosideng Int'l               | 3998 HK   | BUY    | 3.26        | 2.32       | 41%          | 24,961            | Mar-20   | 14.7         | 12.1        | 2.0        | 1.9        | 12.0          | 0.6          | 4.6        |
| Jnby Design                  | 3306 HK   | BUY    | 9.57        | 7.83       | 22%          | 4,062             | Jun-19   | 8.0          | 7.1         | 2.4        | 2.2        | 34.8          | 1.6          | 8.1        |
| Cosmo Lady                   | 2298 HK   | SELL   | 1.14        | 0.44       | 162%         | 979               | Dec-19   | 9.7          | 3.2         | 0.3        | 0.3        | (39.4)        | 0.0          | 2.6        |
| Giordano                     | 709 HK    | NR     | n/a         | 1.27       | n/a          | 2,004             | Dec-19   | n/a          | 14.1        | 0.9        | 0.8        | (4.2)         | 0.0          | 3.9        |
| Koradior                     | 3709 HK   | NR     | n/a         | 9.49       | n/a          | 6,501             | Dec-19   | 18.4         | 11.1        | 1.7        | 1.6        | 18.6          | 2.8          | 1.4        |
| I.T Ltd                      | 999 HK    | NR     | n/a         | 1.00       | n/a          | 1,196             | Feb-20   | n/a          | n/a         | n/a        | n/a        | (24.9)        | 0.0          | n/a        |
| Esprit Holdings              | 330 HK    | NR     | n/a         | 0.92       | n/a          | 1,736             | Jun-19   | n/a          | n/a         | 0.3        | 0.4        | (10.4)        | 0.0          | n/a        |
| La Chapelle                  | 6116 HK   | NR     | n/a         | 0.68       | n/a          | 1,109             | Dec-19   | n/a          | n/a         | n/a        | n/a        | (114.7)       | 0.0          | n/a        |
| Bauhaus Intl                 | 483 HK    | NR     | n/a         | 0.90       | n/a          | 331               | Mar-20   | n/a          | n/a         | n/a        | n/a        | (27.0)        | 0.0          | n/a        |
| <b>Avg.</b>                  |           |        |             |            |              |                   |          | <b>11.4</b>  | <b>9.2</b>  | <b>1.3</b> | <b>1.2</b> | <b>(13.2)</b> | <b>0.9</b>   | <b>4.9</b> |
| <b>Med.</b>                  |           |        |             |            |              |                   |          | <b>9.7</b>   | <b>9.5</b>  | <b>1.3</b> | <b>1.2</b> | <b>(7.3)</b>  | <b>0.0</b>   | <b>4.3</b> |
| <b>A-shares Apparel</b>      |           |        |             |            |              |                   |          |              |             |            |            |               |              |            |
| Ningbo Peacebird             | 603877 CH | NR     | n/a         | 22.17      | n/a          | 11,904            | Dec-19   | 20.3         | 16.6        | 2.8        | 2.6        | 13.5          | 2.4          | 2.4        |
| Joeone Co Ltd                | 601566 CH | NR     | n/a         | 9.57       | n/a          | 6,166             | Dec-19   | 22.1         | 21.6        | 1.3        | 1.3        | 3.6           | 18.8         | 2.6        |
| Fujian Septwolves            | 002029 CH | NR     | n/a         | 5.65       | n/a          | 4,787             | Dec-19   | 19.2         | 14.5        | 0.7        | 0.7        | 3.6           | (8.4)        | 1.1        |
| Hla Corp Ltd                 | 600398 CH | NR     | n/a         | 6.54       | n/a          | 31,675            | Dec-19   | 11.9         | 9.1         | 1.9        | 1.7        | 16.5          | 3.4          | 4.2        |
| Jiangsu Hongdou              | 600400 CH | NR     | n/a         | 3.56       | n/a          | 10,112            | Dec-19   | 41.9         | 41.9        | 2.2        | 2.2        | 4.4           | 3.2          | 1.1        |
| Lancy Co Ltd                 | 002612 CH | NR     | n/a         | 9.59       | n/a          | 4,757             | Dec-19   | 29.1         | 19.6        | 1.4        | 1.3        | 0.1           | 0.5          | 0.7        |
| Shenzhen Huijie              | 002763 CH | NR     | n/a         | 7.94       | n/a          | 3,663             | Dec-19   | n/a          | n/a         | n/a        | n/a        | 4.5           | 0.0          | n/a        |
| Ellassay Fashion             | 603808 CH | NR     | n/a         | 14.33      | n/a          | 5,343             | Dec-19   | 10.2         | 12.2        | 2.1        | 2.0        | 22.7          | 3.0          | 2.3        |
| Bobaloon Co                  | 002776 CH | NR     | n/a         | 8.95       | n/a          | 5,399             | Dec-19   | 21.8         | 17.9        | 1.9        | 1.8        | 6.4           | 0.8          | n/a        |
| <b>Avg.</b>                  |           |        |             |            |              |                   |          | <b>22.1</b>  | <b>19.2</b> | <b>1.8</b> | <b>1.7</b> | <b>8.4</b>    | <b>2.6</b>   | <b>2.1</b> |
| <b>Med.</b>                  |           |        |             |            |              |                   |          | <b>21.1</b>  | <b>17.3</b> | <b>1.9</b> | <b>1.7</b> | <b>4.5</b>    | <b>2.4</b>   | <b>2.3</b> |
| <b>International Apparel</b> |           |        |             |            |              |                   |          |              |             |            |            |               |              |            |
| Hugo Boss                    | BOSS GR   | NR     | n/a         | 22.47      | n/a          | 14,630            | Dec-19   | n/a          | 13.5        | 1.7        | 1.5        | (10.5)        | 0.0          | 2.7        |
| Ted Baker                    | TED LN    | NR     | n/a         | 100.00     | n/a          | 1,889             | Jan-20   | n/a          | 13.9        | 1.1        | 1.0        | (37.3)        | 0.0          | 0.0        |
| Next                         | NXT LN    | NR     | n/a         | 6028.00    | n/a          | 82,030            | Jan-20   | 34.4         | 16.3        | 11.2       | 8.2        | 151.1         | (10.8)       | 1.7        |
| Hennes & Mauritz             | HMB SS    | NR     | n/a         | 140.20     | n/a          | 208,002           | Nov-19   | 490.2        | 21.9        | 4.3        | 4.2        | 9.8           | 264.6        | 4.0        |
| Industria De Diseno          | ITX SM    | NR     | n/a         | 23.22      | n/a          | 669,279           | Jan-20   | 38.0         | 22.1        | 4.9        | 4.6        | 18.0          | 14.1         | 2.4        |
| Ovs Spa                      | OVS IM    | NR     | n/a         | 0.91       | n/a          | 1,907             | Jan-20   | 60.6         | 5.2         | 0.3        | 0.3        | (17.6)        | (0.4)        | 0.0        |
| Pvh Corp                     | PVH US    | NR     | n/a         | 51.50      | n/a          | 28,354            | Feb-20   | n/a          | 8.8         | 0.8        | 0.7        | (14.8)        | 0.0          | 0.1        |
| Vf Corp                      | VFC US    | NR     | n/a         | 62.04      | n/a          | 187,349           | Mar-20   | 58.2         | 24.3        | 8.4        | 8.5        | 9.8           | 2.8          | 3.1        |
| Marks & Spencer              | MKS LN    | NR     | n/a         | 106.00     | n/a          | 21,194            | Mar-20   | 15.1         | 8.3         | 0.6        | 0.6        | 0.8           | 0.1          | 0.0        |
| <b>Avg.</b>                  |           |        |             |            |              |                   |          | <b>116.1</b> | <b>14.9</b> | <b>3.7</b> | <b>3.3</b> | <b>12.1</b>   | <b>30.0</b>  | <b>1.6</b> |
| <b>Med.</b>                  |           |        |             |            |              |                   |          | <b>48.1</b>  | <b>13.9</b> | <b>1.7</b> | <b>1.5</b> | <b>0.8</b>    | <b>0.0</b>   | <b>1.7</b> |

Source: Bloomberg, CMBIS estimates

## Assumptions

Figure 13: China Lilang's key assumptions

| Major assumptions                          | FY18A        | FY19A        | FY20E         | FY21E        | FY22E        |
|--|--------------|--------------|---------------|--------------|--------------|
| <b>Sales by segment (RMB mn)</b>           |              |              |               |              |              |
| LILANZ                                     | 2,888        | 3,260        | 2,593         | 2,929        | 3,041        |
| Smart Casual                               | 280          | 398          | 358           | 490          | 616          |
| Total                                      | 3,168        | 3,658        | 2,951         | 3,418        | 3,658        |
| <b>Sales by segment growth (%)</b>         |              |              |               |              |              |
| LILANZ                                     | 25.3%        | 12.9%        | -20.5%        | 13.0%        | 3.8%         |
| Smart Casual                               | 154.9%       | 42.3%        | -10.0%        | 36.6%        | 25.9%        |
| Total                                      | 29.8%        | 15.5%        | -19.3%        | 15.8%        | 7.0%         |
| <b>Sales network by segment</b>            |              |              |               |              |              |
| LILANZ                                     | 2,458        | 2,525        | 2,525         | 2,585        | 2,645        |
| Smart Casual                               | 212          | 290          | 290           | 360          | 440          |
| Total                                      | 2,670        | 2,815        | 2,815         | 2,945        | 3,085        |
| <b>Sales network by segment growth (%)</b> |              |              |               |              |              |
| LILANZ                                     | 5.9%         | 2.7%         | 0.0%          | 2.4%         | 2.3%         |
| Smart Casual                               | 138.2%       | 36.8%        | 0.0%          | 24.1%        | 22.2%        |
| Total                                      | 9.0%         | 5.4%         | 0.0%          | 4.6%         | 4.8%         |
| <b>Trade fair sales growth (%)</b>         |              |              |               |              |              |
| Spring Summer                              | 21.0%        | 23.0%        | -40.0%        | 20.0%        | 9.0%         |
| Fall                                       | 31.0%        | 21.0%        | -10.0%        | 15.0%        | 7.5%         |
| Winter                                     | 33.0%        | 11.5%        | -5.0%         | 10.0%        | 12.5%        |
| GP margins by segment                      | 41.0%        | 38.4%        | 36.9%         | 37.6%        | 38.5%        |
| <b>Opex breakdown</b>                      |              |              |               |              |              |
| Staff costs                                | 1.2%         | 1.3%         | 1.6%          | 1.6%         | 1.6%         |
| D & A                                      | 1.0%         | 1.0%         | 1.3%          | 1.2%         | 1.1%         |
| R & D                                      | 3.4%         | 3.7%         | 4.2%          | 3.6%         | 3.4%         |
| Provision ( write back )                   | 0.0%         | 0.0%         | 0.8%          | 0.0%         | 0.0%         |
| A & P                                      | 10.4%        | 9.0%         | 7.6%          | 7.8%         | 8.8%         |
| Selling & distribution costs / sales       | 12.5%        | 11.2%        | 10.3%         | 9.8%         | 11.0%        |
| Admin expenses / sales                     | 2.9%         | 2.8%         | 3.4%          | 3.1%         | 3.1%         |
| <b>OP margins</b>                          | <b>27.8%</b> | <b>26.8%</b> | <b>23.9%</b>  | <b>27.5%</b> | <b>27.1%</b> |
| Effective tax rate                         | 23.7%        | 22.2%        | 20.7%         | 23.3%        | 23.1%        |
| <b>NP att. margins</b>                     | <b>23.7%</b> | <b>22.2%</b> | <b>20.7%</b>  | <b>23.3%</b> | <b>23.1%</b> |
| <b>NP att. growth (%)</b>                  | <b>22.9%</b> | <b>8.1%</b>  | <b>-24.8%</b> | <b>30.3%</b> | <b>6.3%</b>  |

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)        | FY18A          | FY19A          | FY20E          | FY21E          | FY22E          |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>            | <b>3,168</b>   | <b>3,658</b>   | <b>2,951</b>   | <b>3,418</b>   | <b>3,658</b>   |
| LILANZ                    | 2,888          | 3,260          | 2,593          | 2,929          | 3,041          |
| L2                        | -              | -              | -              | -              | -              |
| Smart Casual              | 280            | 398            | 358            | 490            | 616            |
| <b>Cost of goods sold</b> | <b>(1,870)</b> | <b>(2,255)</b> | <b>(1,862)</b> | <b>(2,132)</b> | <b>(2,251)</b> |
| <b>Gross profit</b>       | <b>1,298</b>   | <b>1,403</b>   | <b>1,089</b>   | <b>1,287</b>   | <b>1,407</b>   |
| <b>Other income</b>       | <b>87</b>      | <b>116</b>     | <b>94</b>      | <b>113</b>     | <b>121</b>     |
| <b>Operating expenses</b> | <b>(503)</b>   | <b>(539)</b>   | <b>(479)</b>   | <b>(460)</b>   | <b>(537)</b>   |
| D & A                     | (29)           | (42)           | (61)           | (78)           | (81)           |
| Staff costs               | (45)           | (53)           | (56)           | (60)           | (65)           |
| S & D costs (ex-staff,    | (369)          | (377)          | (270)          | (296)          | (361)          |
| Admin exp. (ex-staff,     | (45)           | (42)           | (19)           | (4)            | (8)            |
| Other operating           | (15)           | (26)           | (74)           | (21)           | (22)           |
| <b>EBIT</b>               | <b>882</b>     | <b>980</b>     | <b>704</b>     | <b>939</b>     | <b>990</b>     |
| Finance costs, net        | 63             | 44             | 41             | 44             | 55             |
| JVs & associates          | -              | -              | -              | -              | -              |
| Exceptional               | -              | -              | -              | -              | -              |
| <b>Pre-tax profit</b>     | <b>945</b>     | <b>1,024</b>   | <b>745</b>     | <b>983</b>     | <b>1,045</b>   |
| Income tax                | (194)          | (212)          | (134)          | (187)          | (198)          |
| Less: Minority interests  | 0              | 0              | 0              | 0              | 0              |
| <b>Net profit</b>         | <b>751</b>     | <b>812</b>     | <b>611</b>     | <b>796</b>     | <b>846</b>     |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>EBIT</b>                        | <b>1,044</b> | <b>1,265</b> | <b>1,447</b> | <b>1,639</b> | <b>1,796</b> |
| D & A                              | 49           | 69           | 101          | 131          | 136          |
| Change in working capital          | (307)        | (205)        | (168)        | 59           | 83           |
| Income tax paid                    | (156)        | (207)        | (134)        | (186)        | (198)        |
| Others                             | (184)        | (313)        | (696)        | (651)        | (746)        |
| <b>Net cash from operating</b>     | <b>446</b>   | <b>609</b>   | <b>550</b>   | <b>992</b>   | <b>1,071</b> |
| Capex & investments                | (188)        | (94)         | (236)        | (103)        | (110)        |
| Associated companies               | -            | -            | -            | -            | -            |
| Interest received                  | 72           | 52           | -            | -            | -            |
| Others                             | 185          | (43)         | -            | -            | -            |
| <b>Net cash from investing</b>     | <b>68</b>    | <b>(85)</b>  | <b>(236)</b> | <b>(103)</b> | <b>(110)</b> |
| Equity raised                      | 3            | -            | -            | -            | -            |
| Net change in bank loans           | -            | -            | -            | -            | -            |
| Dividend paid                      | (495)        | (612)        | (530)        | (487)        | (573)        |
| Others                             | (6)          | (5)          | (6)          | (6)          | (6)          |
| <b>Net cash from financing</b>     | <b>(497)</b> | <b>(617)</b> | <b>(536)</b> | <b>(493)</b> | <b>(579)</b> |
| <b>Net change in cash</b>          | <b>17</b>    | <b>(93)</b>  | <b>(221)</b> | <b>396</b>   | <b>382</b>   |
| Beginning cash balance             | 1,823        | 1,843        | 1,751        | 1,498        | 1,858        |
| Exchange difference                | 3            | 1            | -            | -            | -            |
| <b>Cash at the end of the year</b> | <b>1,843</b> | <b>1,751</b> | <b>1,529</b> | <b>1,894</b> | <b>2,240</b> |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-current assets</b>      | <b>925</b>   | <b>1,033</b> | <b>1,168</b> | <b>1,140</b> | <b>1,113</b> |
| Fixed asset                    | 699          | 714          | 851          | 825          | 801          |
| Intangible assets &            | 106          | 150          | 148          | 146          | 144          |
| Prepaid lease payments         | 115          | 8            | 8            | 8            | 8            |
| Interest in joint ventures     | -            | -            | -            | -            | -            |
| Other non-current assets       | 6            | 160          | 160          | 160          | 160          |
| <b>Current assets</b>          | <b>3,487</b> | <b>3,531</b> | <b>3,384</b> | <b>3,758</b> | <b>4,096</b> |
| Cash and cash equivalents      | 1,843        | 1,751        | 1,529        | 1,925        | 2,306        |
| Inventories                    | 676          | 689          | 714          | 701          | 678          |
| Trade and other                | 953          | 1,082        | 1,132        | 1,124        | 1,102        |
| Prepayments                    | -            | -            | -            | -            | -            |
| Other current assets           | 15           | 9            | 9            | 9            | 9            |
| <b>Current liabilities</b>     | <b>993</b>   | <b>935</b>   | <b>843</b>   | <b>880</b>   | <b>920</b>   |
| Bank loans                     | 41           | 27           | 27           | 27           | 27           |
| Trade payables                 | 817          | 756          | 663          | 701          | 740          |
| Accruals & other payables      | -            | -            | -            | -            | -            |
| Tax payables                   | 134          | 152          | 152          | 152          | 152          |
| Others                         | -            | 1            | 1            | 1            | 1            |
| <b>Non-current liabilities</b> | <b>20</b>    | <b>22</b>    | <b>22</b>    | <b>22</b>    | <b>22</b>    |
| Bank loans                     | -            | -            | -            | -            | -            |
| Deferred income                | -            | -            | -            | -            | -            |
| Deferred tax                   | 20           | 22           | 22           | 22           | 22           |
| Others                         | -            | -            | -            | -            | -            |
| <b>Minority Interest</b>       | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     |
| <b>Total net assets</b>        | <b>3,400</b> | <b>3,606</b> | <b>3,688</b> | <b>3,996</b> | <b>4,268</b> |
| <b>Shareholders' equity</b>    | <b>3,400</b> | <b>3,606</b> | <b>3,688</b> | <b>3,996</b> | <b>4,268</b> |

### Key ratios

| YE 31 Dec                   | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales mix (%)</b>        |              |              |              |              |              |
| LILANZ                      | 91.2         | 89.1         | 87.9         | 85.7         | 83.2         |
| L2                          | -            | -            | -            | -            | -            |
| Smart Casual                | 8.8          | 10.9         | 12.1         | 14.3         | 16.8         |
| <b>Total</b>                | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>P&amp;L ratios (%)</b>   |              |              |              |              |              |
| Gross margin                | 41.0         | 38.4         | 36.9         | 37.6         | 38.5         |
| Operating margin            | 27.8         | 26.8         | 23.9         | 27.5         | 27.1         |
| Pre-tax margin              | 29.8         | 28.0         | 25.2         | 28.8         | 28.6         |
| Net margin                  | 23.7         | 22.2         | 20.7         | 23.3         | 23.1         |
| Effective tax rate          | 20.5         | 20.7         | 18.0         | 19.0         | 19.0         |
| <b>Balance sheet ratios</b> |              |              |              |              |              |
| Current ratio (x)           | 2.5          | 2.7          | 2.7          | 2.7          | 2.7          |
| Quick ratio (x)             | 2.2          | 2.5          | 2.4          | 2.4          | 2.4          |
| Cash ratio (x)              | 1.9          | 1.9          | 1.8          | 2.2          | 2.5          |
| Inventory turnover days     | 132          | 112          | 140          | 120          | 110          |
| Trade receivables days      | 110          | 108          | 140          | 120          | 110          |
| Trade payables days         | 160          | 122          | 130          | 120          | 120          |
| Total debt / total equity   | 1            | 1            | 1            | 1            | 1            |
| Net debt / equity ratio (%) | Net cash     | Net cash     | Net cash     | Net cash     | Net cash     |
| <b>Returns (%)</b>          |              |              |              |              |              |
| ROE                         | 22.1         | 22.5         | 16.6         | 19.9         | 19.8         |
| ROA                         | 17.0         | 17.8         | 13.4         | 16.3         | 16.3         |
| <b>Per share</b>            |              |              |              |              |              |
| EPS (RMB)                   | 0.63         | 0.68         | 0.51         | 0.66         | 0.70         |
| DPS (RMB)                   | 0.48         | 0.51         | 0.36         | 0.46         | 0.49         |
| BVPS (RMB)                  | 2.84         | 3.01         | 3.07         | 3.32         | 3.54         |

Source: Company data, CMBIS estimates

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