

# Li Ning (2331 HK)

## Guidance maintained but we are conservative

3Q22 results were roughly inline with the already low market expectation. While management is still confident about 4Q22 and keeps the FY22E guidance, we are relatively more conservative due to industry-level competition. We reiterate BUY but cut our TP to HK\$73.08, based on a 29x FY23E P/E (vs 32x due to sector de-rating). Its current valuation of 21x FY23E P/E is not too demanding.

- **3Q22 roughly inline with slight QoQ increase in inventory and retail discounts.** Li Ning reported mid-teens retail YoY sales growth in 3Q22 (direct retail/ wholesale/ e-commerce increased by low-20s/ low-teens/ mid-20s), roughly inline with the already conservative market expectation. Also, the faster direct retail growth was driven by more store opening and Li Ning Young (Kid)'s YoY growth was highly impressive at around 50%. For retail discounts, while it is still increasing slightly in 3Q22 (vs 2Q22) or by LSD ppt (vs 3Q21), the gap is already smaller (vs 2Q22). For inventory to sales ratio, it also climbed slightly to 4+ months, compared to 3.6 months in 1H22, but the mix is still healthy (6 months or below improved) and was partly due to preparation for 10-1 golden week, according to management.
- **Management is still confident about 4Q22E and kept their FY22E guidance, but we are somewhat more conservative.** Management has reiterated their FY22E listed co level guidance (high-teens to low-20s sales growth and high-teens net profit margin) and is also positive on 4Q22E. However, we are somewhat more conservative, because: 1) retail sales growth was still fairly moderate, at 15%+ in Sep and ~15% during the 10-1 golden week, even though the bases are much lower than Jul and Aug 2022; 2) retail discounts could still increase QoQ vs 3Q22E, given both inventory pressure from the Company and industry prospective.
- **Still too early to place a FY23E guidance but we think it could be mixed.** While management is still confident about the 2025 target, they are still formulating their FY23E guidance. We believe it could be a bit mixed, considering the following positive factors: 1) distributors are still optimistic and placing decent orders during trade fairs, 2) ASP could still be increasing (In fact, ASP hike can still more than offset the increasing retail discounts in 3Q22), 3) likely to have more efforts on costs savings AND negative factors: 1) guidance is likely to reflect more of the currently soft economic conditions, 2) China Li Ning and Li Ning 1990 are still undergoing adjustments.
- **Maintain BUY but revised down TP to HK\$ 73.08.** We maintain BUY and cut TP to HK\$ 73.08, based on a 29x FY23E P/E (from 32x FY22E P/E to factor in the sector de-rating). Current valuation is at 21x FY23E P/E, which is not too demanding, in our view, vs 5-year average of 30x.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,457	22,572	26,910	31,350	35,802
YoY growth (%)	4.2	56.1	19.2	16.5	14.2
Net income (RMB mn)	1,698	4,011	4,752	5,514	6,585
EPS (RMB)	0.68	1.58	1.83	2.09	2.50
YoY growth (%)	12.5	133.6	16.1	14.0	19.4
Consensus EPS (RMB)	n/a	n/a	1.83	2.28	2.80
P/E (x)	65.9	27.8	24.0	21.0	17.6
P/B (x)	12.6	8.9	6.9	5.4	4.3
Yield (%)	0.5	1.1	1.3	1.5	1.8
ROE (%)	19.5	32.9	30.2	27.8	26.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$73.08
(Previous TP	HK\$80.64)
Up/Downside	+38.0%
Current Price	HK\$52.95

### China Sportswear Sector

**Walter Woo**  
 (852) 3761 8776  
 walterwoo@cmbi.com.hk

**Raphael Tse**  
 (852) 3900 0856  
 raphaeltse@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	138,757
Avg 3 mths t/o (HK\$ mn)	720.54
52w High/Low (HK\$)	98.0/ 48.6
Total Issued Shares (mn)	2,620.5

Source: Bloomberg

### Shareholding Structure

Mr Li Ning & Family	12.79%
BlackRock Inc.	6.13%
JP Morgan Chase & Co	5.21%
FMR LLC.	4.70%
Schroders Plc.	4.70%
Free Float	66.47%

Source: Bloomberg, HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.8%	-3.3%
3-mth	-17.0%	2.3%
6-mth	-11.5%	12.6%
12-mth	-35.4%	-2.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers

### Related Reports

1. Li Ning (2331 HK, BUY) – Guidance maintained with healthy inventory - 15 Aug 2022
2. Li Ning (2331 HK, BUY) – A resilient 1Q22 but we are prudent on 2Q22E - 20 Apr 2022

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	26,910	31,350	35,802	26,910	31,350	35,802	0.0%	0.0%	0.0%
Gross profit	13,673	16,019	18,359	13,673	16,019	18,359	0.0%	0.0%	0.0%
EBIT	5,776	6,717	7,766	5,776	6,717	7,766	0.0%	0.0%	0.0%
Net profit att.	4,752	5,514	6,585	4,752	5,514	6,585	0.0%	0.0%	0.0%
Diluted EPS (RMB)	1.83	2.09	2.50	1.83	2.09	2.50	0.0%	0.0%	0.0%
Gross margin	50.8%	51.1%	51.3%	50.8%	51.1%	51.3%	0ppt	0ppt	0ppt
EBIT margin	21.5%	21.4%	21.7%	21.5%	21.4%	21.7%	0ppt	0ppt	0ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.7%	17.6%	18.4%	0ppt	0ppt	0ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	26,910	31,350	35,802	27,142	32,960	39,440	-0.9%	-4.9%	-9.2%
Gross profit	13,673	16,019	18,359	13,846	17,213	20,738	-1.2%	-6.9%	-11.5%
EBIT	5,776	6,717	7,766	5,830	7,444	9,141	-0.9%	-9.8%	-15.0%
Net profit att.	4,752	5,514	6,585	4,741	5,945	7,283	0.2%	-7.2%	-9.6%
Diluted EPS (RMB)	1.83	2.09	2.50	1.83	2.28	2.80	0.3%	-8.1%	-10.9%
Gross margin	50.8%	51.1%	51.3%	51.0%	52.2%	52.6%	-0.2ppt	-1.1ppt	-1.3ppt
EBIT margin	21.5%	21.4%	21.7%	21.5%	22.6%	23.2%	0ppt	-1.2ppt	-1.5ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.5%	18.0%	18.5%	0.2ppt	-0.4ppt	-0.1ppt

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 3: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-13.0%	5.0%
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-20.0%	-5.0%
Anta brand's SSSG																
Anta brand's retail sales	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	8.0%
Core brand	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	
Non-Anta brands (FILA/ 65%-70% 55%-60%)																
FILA brand's retail sales			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	11.0%
Classic/ Core brand			Over 40%	Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	
Kids			Over 70%	Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	
Fusion			Over 100%	Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	
Online			Over 70%	Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	
Other brands																
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	
Li Ning group's SSSG																
Direct retail	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	
Wholesales	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	
E- Commerce	+ve High 30%	+ve Mid 30%	+ve Mid 30%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	
Li Ning group's retail sales																
Direct retail	+ve Low 20%-25%	+ve Low 20%-25%	+ve Low 30%-35%	+ve Mid 30%-40%	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-ve HSD	+ve Mid-teens	15.0%
Wholesales	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	
E- Commerce	+ve Low 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+ve Low-teens	+ve High 20%	+ve Low 40%	+ve Mid 30%	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	
Xtep's SSSG																
Xtep's retail sales	Over 20%	Over 20%	20%	Over 20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	14.0%
361 Degrees' SSSG																
361 Degree's retail sales					-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	
Pou Sheng's SSSG	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%										
Pou Sheng's sales	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-8.0%	0.0%
Topsports' retail sales																
Dong Xiang's SSSG	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens		
Dong Xiang's retail sales	+ve MSD	+ve MSD	+ve Mid-teens	+ve Low-teens	-ve 25%-30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens		
Direct retail	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%							
E- Commerce	+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	35%-40%							

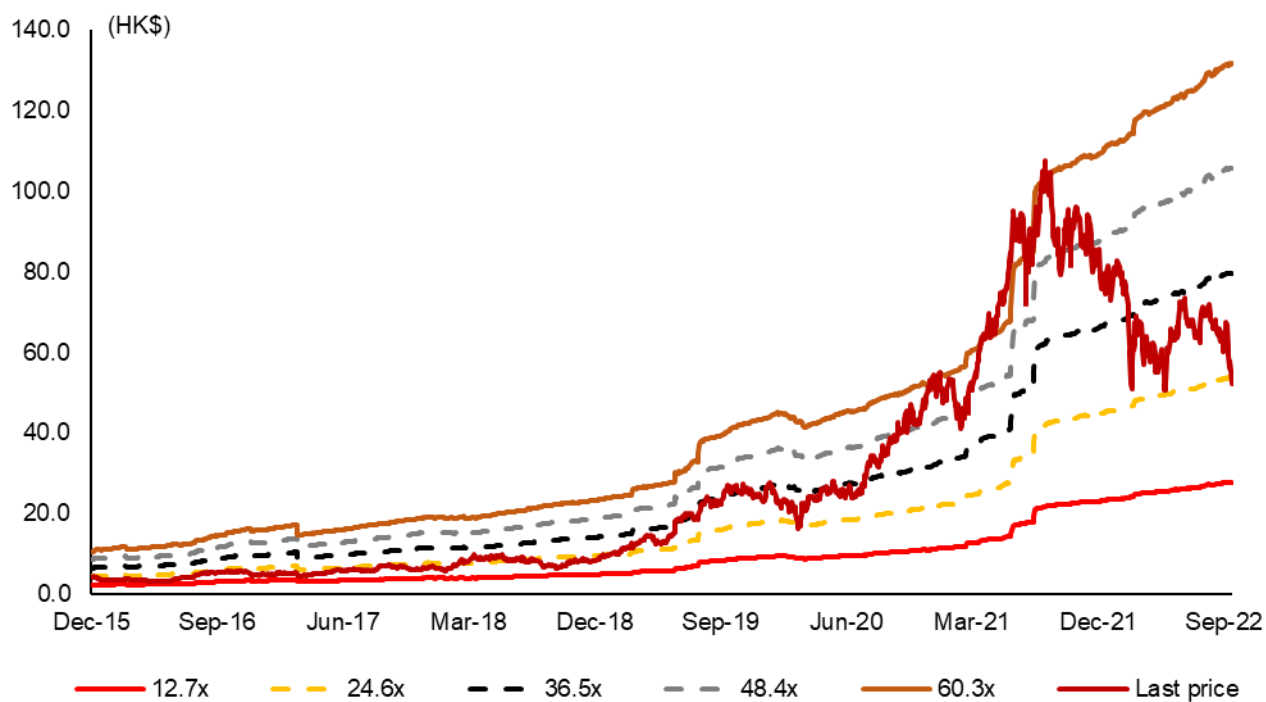
Source: Company data, CMBIGM estimates, \*Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Valuation

Figure 4: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Li Ning	2331 HK	BUY	73.08	52.95	38%	138,757	Dec-21	24.0	21.0	6.9	5.4	32.9	1.5	1.2
Anta Sports	2020 HK	BUY	115.47	76.20	52%	206,778	Dec-21	23.3	18.6	5.4	4.5	25.5	1.8	1.9
Xtep Intl	1368 HK	BUY	17.04	7.62	124%	20,078	Dec-21	16.5	13.8	2.1	1.9	13.5	1.0	3.3
361 Degrees	1361 HK	NR	n/a	3.34	n/a	6,906	Dec-21	8.4	7.2	0.8	0.7	10.3	0.6	3.5
Topsports	6110 HK	NR	n/a	5.40	n/a	33,487	Feb-22	11.8	9.8	2.7	2.4	24.1	1.3	5.9
Pou Sheng	3813 HK	NR	n/a	0.45	n/a	2,370	Dec-21	9.1	3.2	0.3	0.2	(3.2)	0.3	2.9
China DX	3818 HK	NR	n/a	0.30	n/a	1,737	Mar-22	n/a	3.4	0.2	0.2	(16.7)	0.0	7.4
Avg.								15.5	11.0	2.6	2.2	12.4	0.9	3.7
Med.								14.2	9.8	2.1	1.9	13.5	1.0	3.3
International Sportswear														
Nike Inc	NKE US	NR	n/a	88.57	n/a	1,087,779	May-22	29.3	23.0	9.0	8.2	37.4	4.4	1.4
Adidas	ADS GY	NR	n/a	115.68	n/a	170,268	Dec-21	17.5	14.7	3.3	3.1	29.5	(2.1)	2.6
Puma	PUM GY	NR	n/a	46.81	n/a	54,095	Dec-21	18.3	16.1	2.9	2.6	16.0	1.3	1.8
Under Armour	UAA US	NR	n/a	6.92	n/a	23,319	Mar-23	13.7	9.8	1.6	1.4	n/a	0.6	0.0
Lululemon	LULU US	NR	n/a	296.87	n/a	297,133	Jan-22	29.7	25.8	11.1	8.3	39.9	1.4	0.0
Skechers	SKX US	NR	n/a	35.70	n/a	43,642	Dec-21	13.5	10.6	1.5	1.3	23.3	(3.0)	0.0
Vf Corp	VFC US	NR	n/a	28.45	n/a	86,760	Apr-22	11.0	9.7	3.1	3.0	30.4	(8.8)	7.2
Columbia	COLM US	NR	n/a	72.68	n/a	35,424	Dec-21	14.1	12.6	2.3	2.0	18.5	1.9	1.6
Wolverine	WWW US	NR	n/a	16.10	n/a	9,951	Jan-22	7.3	6.5	1.9	1.5	18.4	0.1	2.7
Mizuno Corp	8022 JP	NR	n/a	2593.00	n/a	3,611	Mar-22	10.2	9.0	0.6	0.6	7.6	(2.6)	2.3
Asics Corp	7936 JP	NR	n/a	2378.00	n/a	23,655	Dec-21	23.9	19.8	2.8	2.6	6.4	0.9	1.3
Avg.								17.1	14.3	3.6	3.1	22.7	(0.5)	1.9
Med.								14.1	12.6	2.8	2.6	20.9	0.6	1.6

Source: Bloomberg, CMBIGM estimates

**Figure 5: P/E valuation band**

Source: Bloomberg, CMBIGM estimates

## Assumptions

Figure 6: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	6,338	9,506	12,537	15,006	17,261
Clothes	7,365	11,824	13,006	14,827	16,903
Equipment	754	1,242	1,367	1,517	1,638
Others	0	0	0	0	0
Total	14,457	22,572	26,910	31,350	35,802
<b>Sales by segment growth (%)</b>					
Shoes	4.2%	50.0%	31.9%	19.7%	15.0%
Clothes	3.6%	60.5%	10.0%	14.0%	14.0%
Equipment	11.7%	64.9%	10.0%	11.0%	8.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales by channel growth (%)</b>					
Franchises	0.9%	56.7%	18.0%	15.0%	13.0%
Self-owned	-9.8%	53.5%	15.0%	17.0%	15.0%
E-commerce	29.7%	58.4%	25.0%	19.0%	16.0%
International	-16.7%	34.9%	10.0%	5.0%	0.0%
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales network by segment</b>					
Self-owned	1,149	1,165	1,310	1,350	1,380
Franchise	4,763	4,770	4,775	4,805	4,835
Sub-total	5,912	5,935	6,085	6,155	6,215
LN Young	1,021	1,202	1,277	1,377	1,457
Total	6,933	7,137	7,362	7,532	7,672
GP margins	49.1%	53.0%	50.8%	51.1%	51.3%
<b>Opex breakdown</b>					
A & P/ sales	8.9%	7.9%	8.2%	8.4%	8.6%
Labour/ sales	9.1%	8.0%	7.7%	7.8%	7.5%
Rental/ sales	6.3%	5.1%	5.2%	5.1%	4.9%
D & A/ sales	4.0%	2.8%	2.7%	2.8%	3.0%
R & D/ sales	2.2%	1.8%	2.1%	2.2%	2.2%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	30.6%	27.2%	27.1%	27.5%	27.4%
Admin expenses / sales	5.6%	4.9%	4.8%	4.7%	4.6%
<b>OP margins</b>	<b>15.2%</b>	<b>22.8%</b>	<b>21.5%</b>	<b>21.4%</b>	<b>21.7%</b>
Effective tax rate	24.4%	24.7%	23.0%	22.0%	20.0%
<b>Net profit margins</b>	<b>11.7%</b>	<b>17.8%</b>	<b>17.7%</b>	<b>17.6%</b>	<b>18.4%</b>
<b>Net profit att. growth (%)</b>	<b>13.3%</b>	<b>136.1%</b>	<b>18.5%</b>	<b>16.0%</b>	<b>19.4%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>14,457</b>	<b>22,572</b>	<b>26,910</b>	<b>31,350</b>	<b>35,802</b>
Franchises	6,924	10,853	12,806	14,727	16,642
Self-owned	3,265	5,010	5,762	6,742	7,753
E-commerce	4,049	6,413	8,016	9,539	11,065
International	220	296	326	342	342
<b>Cost of goods sold</b>	<b>(7,363)</b>	<b>(10,603)</b>	<b>(13,237)</b>	<b>(15,331)</b>	<b>(17,443)</b>
<b>Gross profit</b>	<b>7,094</b>	<b>11,969</b>	<b>13,673</b>	<b>16,019</b>	<b>18,359</b>
<b>Other income</b>	<b>331</b>	<b>416</b>	<b>686</b>	<b>768</b>	<b>841</b>
<b>Operating expenses</b>	<b>(5,230)</b>	<b>(7,249)</b>	<b>(8,583)</b>	<b>(10,069)</b>	<b>(11,435)</b>
D & A	(576)	(630)	(565)	(690)	(788)
Staff costs	(1,311)	(1,812)	(2,067)	(2,447)	(2,694)
S & D costs (ex-staff, D&A)	(3,449)	(4,783)	(5,737)	(6,746)	(7,739)
Admin exp. (ex-staff, D&A)	106	(24)	(214)	(186)	(214)
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>
Finance costs, net	(32)	33	234	164	250
JVs & associates	83	159	161	188	215
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>2,248</b>	<b>5,328</b>	<b>6,171</b>	<b>7,070</b>	<b>8,231</b>
Income tax	(549)	(1,317)	(1,419)	(1,555)	(1,646)
Less: Minority interests	0	0	0	0	0
<b>Net profit</b>	<b>1,698</b>	<b>4,011</b>	<b>4,752</b>	<b>5,514</b>	<b>6,585</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>
D & A	576	630	747	894	1,045
Change in working capital	142	948	227	390	391
Income tax paid	(589)	(549)	(1,317)	(1,419)	(1,555)
Others	439	-	-	-	-
<b>Net cash from operating</b>	<b>2,763</b>	<b>6,165</b>	<b>5,433</b>	<b>6,582</b>	<b>7,646</b>
Capex & investments	(594)	(1,016)	(1,076)	(1,254)	(1,432)
Associated companies	(53)	-	-	-	-
Interest received	31	97	99	115	131
Others	(376)	(9)	153	42	78
<b>Net cash from investing</b>	<b>(992)</b>	<b>(927)</b>	<b>(825)</b>	<b>(1,097)</b>	<b>(1,223)</b>
Equity raised	189	-	-	-	-
Net change in bank loans	-	-	-	-	-
Dividend paid	(378)	(510)	(1,203)	(1,398)	(1,593)
Others	(325)	(112)	(103)	(92)	(72)
<b>Net cash from financing</b>	<b>(513)</b>	<b>(622)</b>	<b>(1,306)</b>	<b>(1,490)</b>	<b>(1,665)</b>
<b>Net change in cash</b>	<b>1,258</b>	<b>4,616</b>	<b>3,302</b>	<b>3,995</b>	<b>4,758</b>
Beginning cash balance	5,961	7,187	11,803	15,105	19,100
Exchange difference	(33)	-	-	-	-
<b>Cash at the end of the year</b>	<b>7,187</b>	<b>11,803</b>	<b>15,105</b>	<b>19,100</b>	<b>23,858</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>4,817</b>	<b>5,419</b>	<b>5,994</b>	<b>6,642</b>	<b>7,356</b>
Fixed asset	1,065	1,502	1,873	2,269	2,683
Intangible assets & goodwill	357	460	602	780	996
Prepaid lease payments	384	384	384	384	384
Interest in joint ventures	-	62	125	198	281
Other non-current assets	3,011	3,011	3,011	3,011	3,011
<b>Current assets</b>	<b>9,777</b>	<b>15,241</b>	<b>19,475</b>	<b>24,176</b>	<b>29,644</b>
Cash and cash equivalents	7,187	11,803	15,105	19,100	23,858
Inventories	1,346	1,598	2,176	2,520	2,867
Trade and other receivables	659	928	1,106	1,288	1,471
Prepayments	584	912	1,087	1,267	1,446
Other current assets	1	1	1	1	1
<b>Current liabilities</b>	<b>5,015</b>	<b>7,580</b>	<b>8,841</b>	<b>10,073</b>	<b>11,264</b>
Bank loans	-	-	-	-	-
Trade payables	1,227	1,598	1,995	2,310	2,628
Accruals & other payables	2,540	3,967	4,729	5,509	6,291
Tax payables	592	1,360	1,462	1,598	1,689
Others	656	656	656	656	656
<b>Non-current liabilities</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	64	64	64	64	64
Others	825	825	825	825	825
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>
<b>Shareholders' equity</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Franchises	47.9	48.1	47.6	47.0	46.5
Self-owned	22.6	22.2	21.4	21.5	21.7
E-commerce	28.0	28.4	29.8	30.4	30.9
International	1.5	1.3	1.2	1.1	1.0
<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	49.1	53.0	50.8	51.1	51.3
Operating margin	15.2	22.8	21.5	21.4	21.7
Pre-tax margin	15.5	23.6	22.9	22.6	23.0
Net margin	11.7	17.8	17.7	17.6	18.4
Effective tax rate	25.4	25.5	23.6	22.6	20.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.9	2.0	2.2	2.4	2.6
Quick ratio (x)	1.7	1.8	2.0	2.1	2.4
Cash ratio (x)	1.4	1.6	1.7	1.9	2.1
Inventory turnover days	67	55	60	60	60
Trade receivables days	17	15	15	15	15
Trade payables days	61	55	55	55	55
Total debt / total equity ratio (%)	1	1	1	1	0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	19.5	32.9	30.2	27.8	26.5
ROA	11.6	19.4	18.7	17.9	17.8
<b>Per share</b>					
EPS (RMB)	0.68	1.58	1.83	2.09	2.50
DPS (RMB)	0.21	0.49	0.57	0.65	0.77
BVPS (RMB)	3.54	4.96	6.41	8.08	10.1

Source: Company data, CMBIGM estimates



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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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