

# Li Ning (2331 HK)

## Reiterated guidance but we remained cautious

1H23 result was a slight miss, but the inventory level, retail sales growth and FY23E guidance update were all better than expected. Given the weakened demand, risks of higher retail discounts, potential operating deleverage, we had revised down our forecasts. However, since current valuation is not demanding and some negatives were kind of priced in already, we are still rating it BUY.

■ **1H23 result slightly missed.** Sales increased by 13% YoY to RMB 14.0bn, below FY23E guidance of mid-teen growth but beating BBG and CMBI est. by 3%, mainly driven by the surprisingly rapid growth for self-owned stores (+22%). Net profit dropped by 3% YoY to RMB 2.1bn, inline with FY23E guidance of mid-teen NP margin, but missing BBG/ CMBI est. by 4%/9%. We attributed this to: 1) lower than expected GP margin, at 48.8% (vs est. of around 49.6%), 2) surge in opex (labour/ rental costs jumped by 28%/37% YoY) and 3) less than expected other income and higher than expected tax rate. Moreover, the number of Li Ning/ LN Young stores had dropped by about 150/ 20 YTD, which is also quite far away from the FY23E target increases of roughly 250/ 150 stores. However, the Company declared an interim dividend, which is the first time in many years, implying a 45% payout ratio (higher than the 30% for FY22).

■ **FY23E guidance maintained, which was clearly a beat, but we are still more conservative.** Management has surprisingly reiterated the FY23E guidance (mid-teen listed co sales growth and mid 10-20% NP margin). However, we are still worrying about the sales growth, because some categories were missing targets (running was robust but basketball and sports casual were limp, noted that China Li Ning and Li Ning 1990 were both below expectation and would takes more time to reform and turnaround) and macro environment is not too favourable (consumption trade down is not good for high-end lines within the Li Ning brand). Also, we see certain pressure on GP margin (more discounts and de-stocking could be needed in the self-owned and e-commerce channels), as well as OP margin (operating leverage could be higher than expected if SSSG remains slow for both self-owned and distributors' stores).

■ **Maintain BUY but cut TP to HK\$ 52.97 as we foresee slower net profit growth, even though we are still long term positive.** We revised down FY23E/ 24E/ 25E net profit by 11%/13%/11%, to factor in: 1) lower GP margin, 2) more operating leverage and 3) less other income but higher tax rate. The new TP is based on 25x FY24E (rolled over from 33x FY23E P/E and vs 5 years average of 28x), supported by 14% NP CAGR during FY22-25E. It is currently trading at 21x FY24E P/E. We do think the issues Li Ning now facing are just temporary, the room for growth is still huge and the reforms carrying out should still be fruitful (e.g. star product strategy, opening more larger-sized stores and sales channel improvements).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,572	25,803	29,335	33,498	37,775
YoY growth (%)	56.1	14.3	13.7	14.2	12.8
Operating profit (RMB mn)	5,136	4,887	5,157	6,160	7,207
Net profit (RMB mn)	4,010.9	4,063.8	4,325.5	5,070.6	6,013.1
EPS (Reported) (RMB)	1.58	1.54	1.81	1.89	2.24
YoY growth (%)	133.6	(2.3)	17.0	4.8	18.6
P/E (x)	22.5	25.3	24.2	20.6	17.4
P/B (x)	4.4	4.2	3.9	3.4	3.0
Yield (%)	0.7	0.8	1.3	1.6	1.9
ROE (%)	26.9	17.9	17.0	17.9	18.7
Net gearing (%)	69.7	30.9	37.3	45.5	53.1

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$52.97**  
(Previous TP) HK\$66.44  
**Up/Downside** **21.2%**  
**Current Price** **HK\$43.70**

#### China Consumer Discretionary

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#### Stock Data

Mkt Cap (HK\$ mn)	114,343.1
Avg 3 mths t/o (HK\$ mn)	797.7
52w High/Low (HK\$)	81.00/39.00
Total Issued Shares (mn)	2616.5
Source: FactSet	

#### Shareholding Structure

Viva China Holdings	10.4%
Fidelity Management & Research Co.	4.4%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	6.2%	3.9%
3-mth	-14.3%	-11.3%
6-mth	-39.5%	-32.8%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

- **Inventory level was a beat, but the worry is still there.** All channel inventory to sales ratio had improved to about 3.8x in 1H23, from 4.2x in FY22. However, if we look at inventory mix at the listed co level, it had worsened, where new/old mix were at 29%/ 71% in 1H23, compared to 20%/ 80% in FY22. On top of that, due to the weakening macro environment plus the strong incoming trade fair orders, we believe the inventory level or retail discounts could be under pressure in 2H23E.
- **4Q22 Retail sales growth was a beat in 2Q23, but the trend could still be bumpy in 2H23E.** Despite the sluggish performance during May-Jun 2023, Li Ning's retail sales (all channels) growth increased by mid-teens in 2Q23, speeded up from the 5% in 1Q23, better than CMBI est. of 11%. Management did mention MSD growth for Jul 2023 and we would not be surprised to see further acceleration into 2H23E (mainly due to low base). However, we are still highly cautious about both the demand and potential pressure on retail discounts (for all channels).

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	29,335	33,498	37,775	29,503	33,710	38,032	-0.6%	-0.6%	-0.7%
Gross profit	14,220	16,374	18,565	14,632	16,888	19,129	-2.8%	-3.0%	-3.0%
EBIT	5,157	6,160	7,207	5,758	6,772	7,850	-10.4%	-9.0%	-8.2%
Net profit att.	4,325	5,071	6,013	4,839	5,815	6,775	-10.6%	-12.8%	-11.3%
Diluted EPS (RMB)	1.61	1.89	2.24	1.81	2.17	2.53	-10.6%	-12.8%	-11.3%
Gross margin	48.5%	48.9%	49.1%	49.6%	50.1%	50.3%	-1.1ppt	-1.2ppt	-1.2ppt
EBIT margin	17.6%	18.4%	19.1%	19.5%	20.1%	20.6%	-1.9ppt	-1.7ppt	-1.6ppt
Net profit att. margin	14.7%	15.1%	15.9%	16.4%	17.2%	17.8%	-1.7ppt	-2.1ppt	-1.9ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	29,335	33,498	37,775	29,814	34,856	40,389	-1.6%	-3.9%	-6.5%
Gross profit	14,220	16,374	18,565	14,836	17,628	20,669	-4.2%	-7.1%	-10.2%
EBIT	5,157	6,160	7,207	5,487	6,770	8,064	-6.0%	-9.0%	-10.6%
Net profit att.	4,325	5,071	6,013	4,689	5,719	6,818	-7.7%	-11.3%	-11.8%
Diluted EPS (RMB)	1.61	1.89	2.24	1.77	2.18	2.58	-9.1%	-13.3%	-13.1%
Gross margin	48.5%	48.9%	49.1%	49.8%	50.6%	51.2%	-1.3ppt	-1.7ppt	-2ppt
EBIT margin	17.6%	18.4%	19.1%	18.4%	19.4%	20.0%	-0.8ppt	-1ppt	-0.9ppt
Net profit att. margin	14.7%	15.1%	15.9%	15.7%	16.4%	16.9%	-1ppt	-1.3ppt	-1ppt

Source: Company data, CMBIGM estimates

## Results review

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H22	2H22	1H23	2H23E	1H22 YoY	2H22 YoY	1H23 YoY	2H23E YoY	1H23E CMBIG M	Actual vs CMBIGM
Revenue	12,409	13,395	14,019	15,317	22%	8%	13%	14%	13,672	3%
COGS	-6,208	-7,111	-7,181	-7,934					-6,905	
Gross profit	6,201	6,284	6,838	7,382	9%	0%	10%	17%	6,768	1%
<b>GP margins</b>	<b>50.0%</b>	<b>46.9%</b>	<b>48.8%</b>	<b>48.2%</b>					<b>49.5%</b>	
Other income & gains	344	486	176	411					383	-54%
S & D expenses	-3,383	-3,931	-3,948	-4,418	18%	20%	17%	12%	-3,774	5%
<b>S &amp; D exp / sales</b>	<b>-27.3%</b>	<b>-29.3%</b>	<b>-28.2%</b>	<b>-28.8%</b>					<b>-27.6%</b>	
Admin expenses	-518	-595	-591	-693	18%	-12%	14%	16%	-588	0%
<b>Admin exp / sales</b>	<b>-4.2%</b>	<b>-4.4%</b>	<b>-4.2%</b>	<b>-4.5%</b>					<b>-4.3%</b>	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,644	2,243	2,474	2,682	4%	-14%	-6%	20%	2,789	-11%
<b>OP margins</b>	<b>21.3%</b>	<b>16.7%</b>	<b>17.7%</b>	<b>17.5%</b>					<b>20.4%</b>	
Other items	0	0	0	0					0	
Net finance income	174	153	224	135					123	82%
<b>Net finance income / sales</b>	<b>1.4%</b>	<b>1.1%</b>	<b>1.6%</b>	<b>0.9%</b>					<b>0.9%</b>	
Profit after financing costs	2,817	2,397	2,698	2,817					2,912	
Associated coms	0	0	0	0					0	
Jointly controlled coms	102	100	102	74					82	24%
Pre-tax profit	2,919	2,496	2,800	2,891	11%	-8%	-4%	16%	2,994	-6%
Tax	-730	-622	-680	-686					-659	3%
<b>Tax / sales</b>	<b>-5.9%</b>	<b>-4.6%</b>	<b>-4.8%</b>	<b>-4.5%</b>					<b>-4.8%</b>	
<b>Effective tax rate</b>	<b>-25.0%</b>	<b>-24.9%</b>	<b>-24.3%</b>	<b>-23.7%</b>					<b>-22.0%</b>	
Minority interests	0	0	0	0					0	
<b>Net profit att.</b>	<b>2,189</b>	<b>1,874</b>	<b>2,121</b>	<b>2,205</b>	<b>12%</b>	<b>-9%</b>	<b>-3%</b>	<b>18%</b>	<b>2,336</b>	<b>-9%</b>
<b>NP margins</b>	<b>17.6%</b>	<b>14.0%</b>	<b>15.1%</b>	<b>14.4%</b>					<b>17.1%</b>	
<b>Sales by channels</b>										
Franchises	5,894	6,658	6,724	7,460	28%	6%	14%	12%	6,601	2%
Self-owned	2,792	2,538	3,410	3,094	11%	2%	22%	22%	3,071	11%
E-commerce	3,536	3,929	3,595	4,393	19%	14%	2%	12%	3,749	-4%
International	186	270	290	371	52%	55%	56%	38%	251	15%
Total	12,409	13,395	14,019	15,317	22%	8%	13%	14%	13,672	3%
<b>Breakdown by segment</b>										
A & P	-981	-1,298	-1,042	-1,598	31%	26%	6%	23%	-1,094	-5%
Labour	-911	-1,079	-1,161	-1,110	9%	11%	27%	3%	-1,053	10%
Rent	-691	-754	-948	-751	22%	28%	37%	0%	-793	20%
D & A	-368	-413	-455	-621	23%	25%	23%	50%	-424	7%
R & D	-239	-295	-291	-355	27%	30%	22%	20%	-301	-3%
Others	-711	-687	-643	-677	8%	-14%	-10%	-1%	-697	-8%
As % of total sales										
A & P	-7.9%	-9.7%	-7.4%	-10.4%					-8.0%	
Labour	-7.3%	-8.1%	-8.3%	-7.2%					-7.7%	
Rent	-5.6%	-5.6%	-6.8%	-4.9%					-5.8%	
D & A	-3.0%	-3.1%	-3.2%	-4.1%					-3.1%	
R & D	-1.9%	-2.2%	-2.1%	-2.3%					-2.2%	
Others	-5.7%	-5.1%	-4.6%	-4.4%					-5.1%	

Source: Company data, CMBIGM estimates

**Figure 4: Results summary - Full Year**

Full yearly (RMB mn)	FY22	FY23E	FY24E	FY23E YoY	FY24E YoY
<b>Revenue</b>	<b>25,803</b>	<b>29,335</b>	<b>33,498</b>	<b>14%</b>	<b>14%</b>
COGS	-13,319	-15,115	-17,123		
Gross profit	12,485	14,220	16,374	14%	15%
<b>GP margins</b>	<b>48.4%</b>	<b>48.5%</b>	<b>48.9%</b>		
Other income & gains	829	587	670		
S & D expenses	-7,314	-8,367	-9,459	14%	13%
<b>S &amp; D exp / sales</b>	<b>-28.3%</b>	<b>-28.5%</b>	<b>-28.2%</b>		
Admin expenses	-1,113	-1,283	-1,426	15%	11%
<b>Admin exp / sales</b>	<b>-4.3%</b>	<b>-4.4%</b>	<b>-4.3%</b>		
Other opex	0	0	0		
Operating profit (EBIT)	4,887	5,157	6,160	6%	19%
<b>OP margins</b>	<b>18.9%</b>	<b>17.6%</b>	<b>18.4%</b>		
Other items	0	0	0		
Net finance income	327	359	311		
<b>Net finance income / sales</b>	<b>1.3%</b>	<b>1.2%</b>	<b>0.9%</b>		
Profit after financing costs	5,214	5,515	6,471		
Associated coms	0	0	0		
Jointly controlled coms	201	176	201		
Pre-tax profit	5,415	5,691	6,672	5%	17%
Tax	-1,351	-1,366	-1,601		
<b>Tax / sales</b>	<b>-5.2%</b>	<b>-4.7%</b>	<b>-4.8%</b>		
<b>Effective tax rate</b>	<b>-25.0%</b>	<b>-24.0%</b>	<b>-24.0%</b>		
Minority interests	0	0	0		
<b>Net profit att.</b>	<b>4,064</b>	<b>4,325</b>	<b>5,071</b>	<b>6%</b>	<b>17%</b>
<b>NP margins</b>	<b>15.7%</b>	<b>14.7%</b>	<b>15.1%</b>		
<b>Sales by channels</b>					
Franchises	12,552	14,184	16,027	13%	13%
Self-owned	5,330	6,503	7,544	22%	16%
E-commerce	7,465	7,988	9,266	7%	16%
International	456	661	661	45%	0%
Total	25,803	29,335	33,498	14%	14%
<b>Breakdown by segment</b>					
A & P	-2,279	-2,640	-3,082	16%	17%
Labour	-1,989	-2,271	-2,476	14%	9%
Rent	-1,446	-1,698	-1,854	17%	9%
D & A	-782	-1,076	-1,228	38%	14%
R & D	-534	-645	-737	21%	14%
Others	-1,398	-1,320	-1,507	-6%	14%
As % of total sales					
A & P	-8.8%	-9.0%	-9.2%		
Labour	-7.7%	-7.7%	-7.4%		
Rent	-5.6%	-5.8%	-5.5%		
D & A	-3.0%	-3.7%	-3.7%		
R & D	-2.1%	-2.2%	-2.2%		
Others	-5.4%	-4.5%	-4.5%		

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 5: Historical sales growth trend, by brand

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E
Nike China sales	-4%	1%	8%	19%	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	18%	8%	8%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	5%	20%
<b>Anta brand's SSSG</b>																
Anta brand's retail sales	-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	-ve HSD	+ve MSD	+ve HSD	12%	17%
Core brand	-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	-ve Mid-teens	+ve HSD	+ve HSD		
Kids	-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	-ve High-teens	+ve MSD	+ve HSD		
Online	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD		
<b>FILA brand's retail sales</b>																
FILA brand's retail sales	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	10%	24%
Classic/ Core brand	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD		
Kids	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD		
Fusion	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD		
Online	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%		
<b>Other brands</b>																
Other brands	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%		
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens	70%-75%	60%-65%		
Kolon	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	-ve High-teens	100%	100%		
<b>Li Ning group's SSSG</b>																
Li Ning group's SSSG	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	-ve High-teens	-ve HSD	+ve LSD		
Direct retail	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD		
Wholesales	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	-ve Low 20%	-ve LSD	+ve LSD		
E- Commerce	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve High 30%	+ve Mid 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD		
<b>Li Ning group's retail sales</b>																
Li Ning group's retail sales	-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	-ve Low-teens	+ve MSD	+ve Mid-teens	7%	31%
Direct retail	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 30%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%		
Wholesales	-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	-ve Low 20%	+ve MSD	+ve Mid-teens		
E- Commerce	+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%	+ve MSD	-ve Low-teens	+ve Low-teens		
<b>Xtep's SSSG</b>																
Xtep's retail sales	-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%	-ve HSD	20%	+ve High-teens	16%	26%
<b>361 Degrees' SSSG</b>																
361 Degree's retail sale:	-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	Flat	+ve Low-teens	+ve Low-teens		
Kids						20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%		
E- Commerce									35%-40%	50%	40%	45%	25%	35%	30%	
Pou Sheng's SSSG	-33%	-18%	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%			
Pou Sheng's sales	-25%	0%	0%	1%	48%	-15%	-25%	-27%	-25%	-8%	-20%	-20%	7%	17%	7%	20%
<b>Topsports' retail sales</b>																
Topsports' retail sales																
Dong Xiang's SSSG	-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	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens		
Dong Xiang's retail sale	-ve 25% to 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	+ve LSD	-ve Mid 20% to 30%	+ve Low to Mid-teens	+ve Mid-teens		
Direct retail	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%											
E- Commerce	-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)

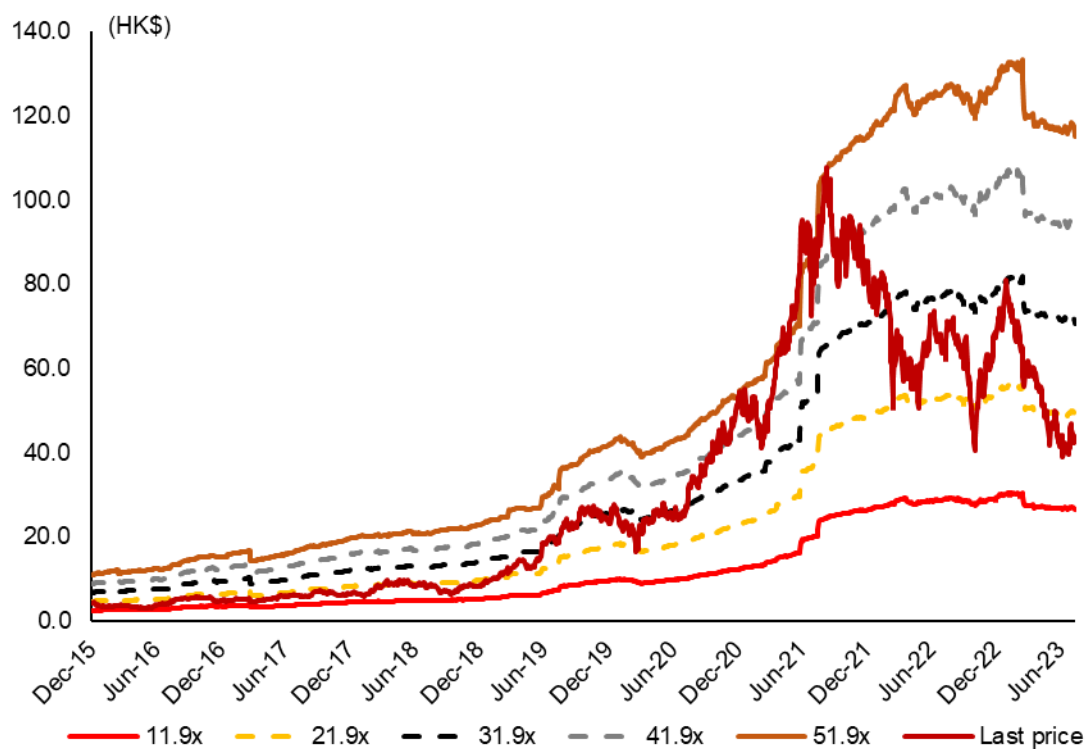
## Valuation

Figure 6: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E
H shares Sportswear														
Li Ning	2331 HK	BUY	52.97	43.70	21%	115,195	Dec-22	24.2	20.6	3.9	16.7	1.8	1.5	(35.5)
Anta Sports	2020 HK	BUY	98.20	85.55	15%	242,331	Dec-22	23.1	19.3	5.2	24.0	1.4	1.9	(16.4)
Xtep Intl	1368 HK	BUY	11.17	8.21	36%	21,662	Dec-22	17.5	14.1	2.2	11.4	1.0	2.9	(5.5)
361 Degrees	1361 HK	NR	n/a	5.12	n/a	10,587	Dec-22	10.8	9.1	1.1	9.9	0.7	3.8	53.8
Topsports	6110 HK	NR	n/a	7.05	n/a	43,719	Feb-23	16.4	13.8	3.9	18.0	0.8	5.3	16.6
Pou Sheng	3813 HK	NR	n/a	0.66	n/a	3,515	Dec-22	5.2	3.7	0.4	1.1	0.0	3.1	(12.0)
China DX	3818 HK	NR	n/a	0.30	n/a	1,766	Mar-23	5.6	4.6	0.2	1.2	0.0	14.4	(3.2)
Avg.								14.7	12.2	2.4	11.8	0.8	4.7	(0.3)
Med.								16.4	13.8	2.2	11.4	0.8	3.1	(5.5)
International Sportswear														
Nike Inc	NKE US	NR	n/a	108.09	n/a	1,292,783	May-23	28.9	24.6	11.8	34.6	1.8	1.3	(7.6)
Adidas	ADS GY	NR	n/a	177.94	n/a	274,093	Dec-22	n/a	42.4	7.0	(2.2)	0.0	0.4	39.6
Puma	PUM GY	NR	n/a	64.98	n/a	83,869	Dec-22	26.7	20.0	3.6	12.8	1.3	1.3	14.6
Under Armour	UAA US	NR	n/a	7.84	n/a	26,002	Mar-23	15.8	12.7	1.6	20.8	(2.7)	0.0	(22.8)
Lululemon	LULU US	NR	n/a	381.13	n/a	378,580	Jan-23	32.0	27.8	11.2	31.9	1.0	0.0	19.0
Skechers	SKX US	NR	n/a	53.32	n/a	64,504	Dec-22	15.7	13.0	1.9	13.1	0.6	0.0	27.1
Vf Corp	VFC US	NR	n/a	20.61	n/a	62,652	Apr-23	10.1	8.8	2.5	3.9	0.1	5.8	(25.4)
Columbia	COLM US	NR	n/a	75.79	n/a	36,337	Dec-22	16.3	14.1	2.3	16.2	2.3	1.6	(13.5)
Wolverine	WWW US	NR	n/a	8.81	n/a	5,476	Dec-22	11.3	5.1	1.7	(56.5)	(0.1)	4.6	(19.4)
Mizuno Corp	8022 JP	NR	n/a	4295.00	n/a	6,157	Mar-23	11.0	10.1	0.9	9.0	2.5	1.7	52.7
Asics Corp	7936 JP	NR	n/a	5172.00	n/a	52,968	Dec-22	34.7	29.7	5.2	15.8	1.7	0.9	77.5
Avg.								20.3	18.9	4.5	9.0	0.8	1.6	12.9
Med.								16.0	14.1	2.5	13.1	1.0	1.3	14.6

Source: Bloomberg, CMBIGM estimates

Figure 7: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates



## Assumptions

Figure 8: Major assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales by segment (RMB mn)</b>					
Shoes	9,506	13,479	15,548	17,888	20,427
Clothes	11,824	10,709	11,994	13,673	15,313
Equipment	1,242	1,616	1,794	1,937	2,034
Others	0	0	0	0	0
Total	22,572	25,803	29,335	33,498	37,775
<b>Sales by segment growth (%)</b>					
Shoes	50.0%	41.8%	15.4%	15.0%	14.2%
Clothes	60.5%	-9.4%	12.0%	14.0%	12.0%
Equipment	64.9%	30.1%	11.0%	8.0%	5.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	56.1%	14.3%	13.7%	14.2%	12.8%
<b>Sales by channel growth (%)</b>					
Franchises	56.7%	15.7%	13.0%	13.0%	12.0%
Self-owned	53.5%	6.4%	22.0%	16.0%	14.0%
E-commerce	58.4%	16.4%	7.0%	16.0%	14.0%
International	34.9%	53.9%	45.0%	0.0%	0.0%
Total	56.1%	14.3%	13.7%	14.2%	12.8%
<b>Sales network by segment</b>					
Self-owned	1,165	1,430	1,500	1,560	1,620
Franchise	4,770	4,865	4,905	4,935	4,965
Sub-total	5,935	6,295	6,405	6,495	6,585
LN Young	1,202	1,308	1,458	1,558	1,658
Total	7,137	7,603	7,863	8,053	8,243
GP margins	53.0%	48.4%	48.5%	48.9%	49.1%
<b>Opex breakdown</b>					
A & P/ sales	7.9%	8.8%	9.0%	9.2%	9.2%
Labour/ sales	8.0%	7.7%	7.7%	7.4%	7.1%
Rental/ sales	5.1%	5.6%	5.8%	5.5%	5.4%
D & A/ sales	2.8%	3.0%	3.7%	3.7%	3.7%
R & D/ sales	1.8%	2.1%	2.2%	2.2%	2.2%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	27.2%	28.3%	28.5%	28.2%	27.9%
Admin expenses / sales	4.9%	4.3%	4.4%	4.3%	4.1%
<b>OP margins</b>	<b>22.8%</b>	<b>18.9%</b>	<b>17.6%</b>	<b>18.4%</b>	<b>19.1%</b>
Effective tax rate	24.7%	25.0%	24.0%	24.0%	24.0%
<b>Net profit margins</b>	<b>17.8%</b>	<b>15.7%</b>	<b>14.7%</b>	<b>15.1%</b>	<b>15.9%</b>
<b>Net profit att. growth (%)</b>	<b>136.1%</b>	<b>1.3%</b>	<b>6.4%</b>	<b>17.2%</b>	<b>18.6%</b>

Source: Company data, CMBIGM estimates



## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	14,457	22,572	25,803	29,335	33,498	37,775
Cost of goods sold	(7,363)	(10,603)	(13,319)	(15,115)	(17,123)	(19,210)
Gross profit	7,094	11,969	12,485	14,220	16,374	18,565
Operating expenses	(5,230)	(7,249)	(8,428)	(9,650)	(10,885)	(12,113)
Selling expense	(4,425)	(6,138)	(7,314)	(8,367)	(9,459)	(10,550)
Admin expense	(482)	(697)	(579)	(638)	(689)	(732)
R&D expense	(323)	(414)	(534)	(645)	(737)	(831)
Operating profit	2,196	5,136	4,887	5,157	6,160	7,207
Other income	331	416	829	587	670	755
Share of (losses)/profits of associates/JV	83	159	201	176	201	227
EBITDA	2,772	5,767	5,668	6,232	7,388	8,595
Depreciation	(534)	(589)	(732)	(1,027)	(1,187)	(1,357)
Other amortisation	(42)	(41)	(49)	(48)	(41)	(30)
Interest income	35	145	448	514	467	634
Interest expense	(66)	(112)	(121)	(156)	(156)	(156)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	2,248	5,328	5,415	5,691	6,672	7,912
Income tax	(549)	(1,317)	(1,351)	(1,366)	(1,601)	(1,899)
Minority interest	0	0	0	0	0	0
Net profit	1,698	4,011	4,064	4,325	5,071	6,013

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,777	18,672	12,395	15,369	19,859	25,101
Cash & equivalents	7,187	14,745	7,382	9,764	13,574	18,114
Account receivables	659	903	1,020	1,160	1,325	1,494
Inventories	1,346	1,773	2,428	2,756	3,122	3,502
Prepayment	584	849	920	1,046	1,194	1,347
ST bank deposits	1	402	644	644	644	644
Other current assets	0	0	0	0	0	0
Non-current assets	4,817	11,603	21,252	21,436	21,647	21,882
PP&E	1,065	1,626	3,235	3,381	3,534	3,688
Investment in JVs & assos	0	0	0	87	185	297
Intangibles	191	188	217	170	129	97
Other non-current assets	3,562	9,789	17,800	17,799	17,799	17,800
Total assets	14,594	30,275	33,647	36,805	41,505	46,983
Current liabilities	5,015	7,704	7,241	8,248	9,355	10,552
Short-term borrowings	0	0	0	0	0	0
Account payables	1,227	1,599	1,584	2,071	2,346	2,631
Tax payable	592	1,308	1,037	1,052	1,287	1,585
Other current liabilities	3,196	4,797	4,619	5,125	5,722	6,335
Non-current liabilities	889	1,467	2,074	2,074	2,074	2,074
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	889	1,467	2,074	2,074	2,074	2,074
Total liabilities	5,904	9,171	9,315	10,322	11,429	12,625
Share capital	228	239	240	240	240	240
Retained earnings	3	3	2	676	4,015	7,973
Other reserves	8,459	20,863	24,089	25,567	25,822	26,143
Total shareholders equity	8,689	21,104	24,332	26,484	30,077	34,357
Minority interest	0	0	0	0	0	0
Total equity and liabilities	14,594	30,275	33,647	36,805	41,505	46,983

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	2,248	5,328	5,415	5,691	6,672	7,912
Depreciation & amortization	576	630	782	1,076	1,228	1,388
Tax paid	(589)	(456)	(1,316)	(1,351)	(1,366)	(1,601)
Change in working capital	142	826	(1,133)	399	193	197
Others	387	197	167	(535)	(512)	(705)
<b>Net cash from operations</b>	<b>2,763</b>	<b>6,525</b>	<b>3,914</b>	<b>5,280</b>	<b>6,214</b>	<b>7,190</b>
<b>Investing</b>						
Capital expenditure	(594)	(985)	(1,757)	(1,173)	(1,340)	(1,511)
Acquisition of subsidiaries/ investments	(152)	(43)	(74)	0	0	0
Others	(246)	(5,511)	(7,651)	604	569	749
<b>Net cash from investing</b>	<b>(992)</b>	<b>(6,539)</b>	<b>(9,481)</b>	<b>(570)</b>	<b>(771)</b>	<b>(762)</b>
<b>Financing</b>						
Dividend paid	(378)	(515)	(1,195)	(2,174)	(1,478)	(1,732)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	189	8,667	97	0	0	0
Share repurchases	0	0	(159)	0	0	0
Others	(703)	(1,071)	(1,826)	(2,329)	(1,633)	(1,888)
<b>Net cash from financing</b>	<b>(891)</b>	<b>7,081</b>	<b>(3,082)</b>	<b>(4,503)</b>	<b>(3,111)</b>	<b>(3,620)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,961	7,187	14,745	7,382	9,764	13,574
Exchange difference	(33)	(25)	93	0	0	0
Others	1,258	7,583	(7,455)	2,381	3,810	4,540
<b>Cash at the end of the year</b>	<b>7,187</b>	<b>14,745</b>	<b>7,382</b>	<b>9,764</b>	<b>13,574</b>	<b>18,114</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	4.2%	56.1%	14.3%	13.7%	14.2%	12.8%
Gross profit	4.2%	68.7%	4.3%	13.9%	15.1%	13.4%
Operating profit	42.3%	133.9%	(4.9%)	5.5%	19.5%	17.0%
EBITDA	38.3%	108.0%	(1.7%)	9.9%	18.5%	16.3%
Net profit	13.3%	136.1%	1.3%	6.4%	17.2%	18.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	49.1%	53.0%	48.4%	48.5%	48.9%	49.1%
Operating margin	15.2%	22.8%	18.9%	17.6%	18.4%	19.1%
EBITDA margin	19.2%	25.5%	22.0%	21.2%	22.1%	22.8%
Return on equity (ROE)	21.5%	26.9%	17.9%	17.0%	17.9%	18.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.8	0.7	0.3	0.4	0.5	0.5
Current ratio (x)	1.9	2.4	1.7	1.9	2.1	2.4
Receivable turnover days	16.6	14.6	14.4	14.4	14.4	14.4
Inventory turnover days	66.7	61.0	66.5	66.5	66.5	66.5
Payable turnover days	60.8	55.1	43.4	50.0	50.0	50.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	54.4	22.5	25.3	24.2	20.6	17.4
P/E (diluted)	54.4	22.5	25.3	24.2	20.6	17.4
P/B	10.5	4.4	4.2	3.9	3.4	3.0
P/CFPS	24.2	24.2	37.4	20.5	17.4	15.1
Div yield (%)	0.8	0.7	0.8	1.3	1.6	1.9
EV	101,689.7	99,623.1	106,835.3	104,453.8	100,643.9	96,103.4
EV/Sales	7.0	4.4	4.1	3.6	3.0	2.5
EV/EBITDA	36.7	17.3	18.8	16.8	13.6	11.2

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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