

China Lilang (1234 HK)

Turning around with attractive yield

We are still positive considering the turnaround (decent YTD performance and FY23E target) and its limited downside (9% dividend yield).

- **FY22 results was dragged by pandemic in 4Q22.** China Lilang's sales dropped by 9% YoY to RMB 3.1bn and net profit declined by 4% YoY to RMB 448mn, 21% and 27% below CMBI est. But this is not a surprise, esp. when a large portion of stores had changed into consignment (from wholesale). GP margin surged to 46.0% in FY22, vs 41.9% in FY21, just because of provisions (around RMB 120mn) in FY21 and write-back of that (about RMB 20mn) in FY22. Adjusted GP margin rose by 1.2ppt, mainly due to 15%-20% ASP hike for smart casual collection and therefore NP margin can still went up to 14.5% from 13.9%.
- **But the inventory condition is quite healthy.** Inventory days increased to 195 days in FY22, from 145 in FY21, but better than the 217 days in 1H22. We find that reasonable, when we also consider the business model changes in recent years (from wholesale to consignment and to direct retail), as well as the beginning of provision write-back.
- **Retail sales has already improved in YTD 2023.** Management also mentioned that retail sales growth had improved to MSD in Jan-Feb and close to 10% in Mar 2023 (vs 23% drop in 4Q22).
- **Turnaround is here and FY23E guidance is inline with our expectation.** The Company is now targeting a 10%+ retail sales growth in FY23E and that should be back-loaded (CMBI est. ~HSD/ low-teens in 1H23E/2H23E). We believe that is achievable, because of: 1) low base in FY22, 2) improved productivity after the reforms (e.g. inventory sharing between consignment stores and direct retail stores are more effective in catching sales), 3) resumption of store openings (100 net new stores in FY23E, 50%/ 50% for LILANZ/ smart casual, vs 89 store closures in FY22) and 4) increased efforts on new retail (will open more live-streaming workshops across the country, from 2 to about 20), etc.
- **Margin will continue to improve, despite the increased efforts on marketing.** The Company may take part in a fashion show overseas in FY23E, hence A&P expenses will still be high, at 10%-13% of sales (CMBI est. at 11%). But thanks to: 1) GP margin expansion, aided by faster growth from the higher margin smart casual and e-commerce and 2) operating leverage, NP margin will go up to 15.1% in FY23E, vs 14.5% in FY22.
- **Maintain BUY but raised TP to HK\$4.83.** We cut our FY23E/ 24E NP forecasts by 24%/ 24% to factor the drags during pandemic. Our new NP is based on 10x FY23E P/E (up from 7x, as it has turned around). It is attractive at 9x FY23E P/E and 9% FY23E yield, esp. when capex cycle is now over.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	3,379	3,086	3,420	3,699	3,945
YoY growth (%)	26.1	(8.7)	10.8	8.2	6.7
Operating profit (RMB mn)	533	519	637	730	801
Net profit (RMB mn)	468.1	448.1	516.9	581.0	632.9
EPS (Reported) (RMB)	0.39	0.37	0.43	0.49	0.53
YoY growth (%)	(16.1)	(4.2)	15.4	12.4	8.9
P/E (x)	8.7	9.9	8.6	7.6	7.0
P/B (x)	1.1	1.2	1.1	1.1	1.0
Yield (%)	8.3	7.5	8.7	9.8	10.7
ROE (%)	12.8	12.0	13.4	14.5	15.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.83
(Previous TP)	HK\$4.46
Up/Downside	16.5%
Current Price	HK\$4.15

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Stock Data

Mkt Cap (HK\$ mn)	415.0
Avg 3 mths t/o (HK\$ mn)	4.0
52w High/Low (HK\$)	4.15/3.25
Total Issued Shares (mn)	100.0
Source: FactSet	

Shareholding Structure

Mr. Wang & Family	67.3%
Value Partners	1.1%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	3.8%	11.0%
3-mth	5.9%	5.5%
6-mth	20.6%	16.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,420	3,699	3,945	4,036	4,442	n/a	-15.3%	-16.7%	n/a
Gross profit	1,592	1,747	1,865	1,894	2,145	n/a	-15.9%	-18.6%	n/a
EBIT	637	730	801	785	924	n/a	-18.8%	-21.0%	n/a
Net profit att.	517	581	633	636	744	n/a	-18.7%	-21.9%	n/a
Diluted EPS (RMB)	0.432	0.485	0.529	0.529	0.618	n/a	-18.5%	-21.5%	n/a
Gross margin	46.5%	47.2%	47.3%	46.9%	48.3%	n/a	-0.4ppt	-1.1ppt	n/a
EBIT margin	18.6%	19.7%	20.3%	19.4%	20.8%	n/a	-0.8ppt	-1.1ppt	n/a
Net profit att. margin	15.1%	15.7%	16.0%	15.8%	16.7%	n/a	-0.6ppt	-1ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,420	3,699	3,945	4,115	4,613	n/a	-16.9%	-19.8%	n/a
Gross profit	1,592	1,747	1,865	1,930	2,228	n/a	-17.5%	-21.6%	n/a
EBIT	637	730	801	841	924	n/a	-24.3%	-21.0%	n/a
Net profit att.	517	581	633	680	763	n/a	-24.0%	-23.8%	n/a
Diluted EPS (RMB)	0.432	0.485	0.529	0.578	0.635	n/a	-25.3%	-23.6%	n/a
Gross margin	46.5%	47.2%	47.3%	46.9%	48.3%	n/a	-0.4ppt	-1.1ppt	n/a
EBIT margin	18.6%	19.7%	20.3%	20.4%	20.0%	n/a	-1.8ppt	-0.3ppt	n/a
Net profit att. margin	15.1%	15.7%	16.0%	16.5%	16.5%	n/a	-1.4ppt	-0.8ppt	n/a

Source: Company data, CMBIGM estimates

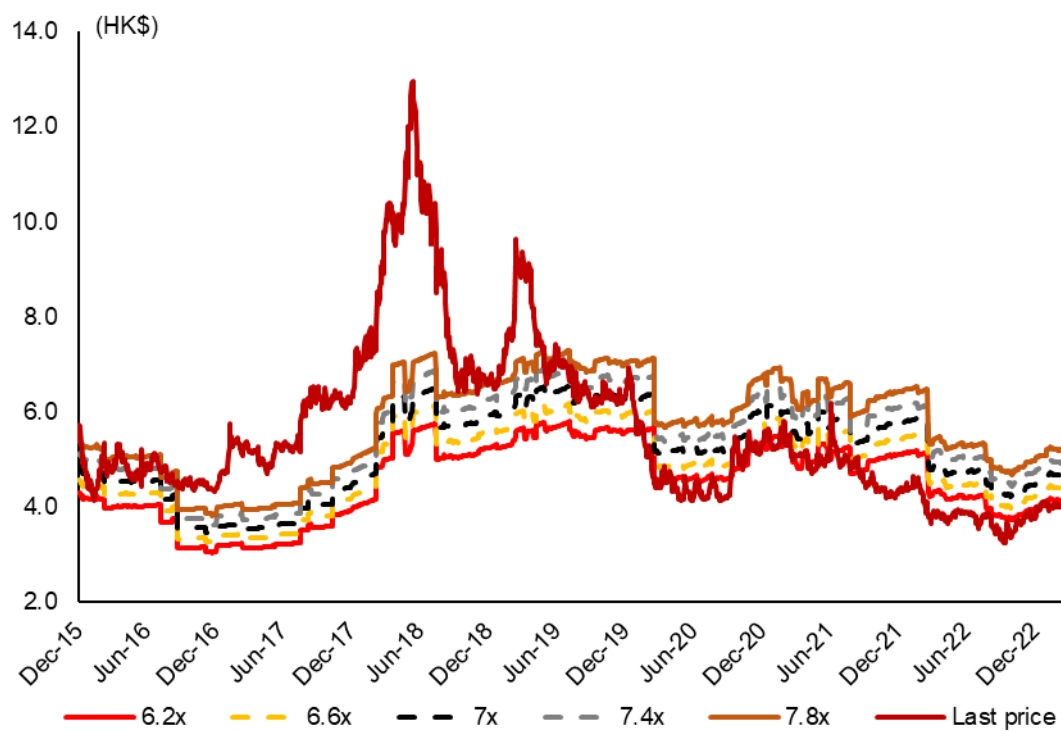
Valuation

Figure 3: Peers' valuation

			12m TP	Price	Up/ Down- side	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)		(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Apparel														
China Lilang	1234 HK	BUY	4.83	4.15	16%	4,970	Dec-22	9.9	8.6	1.0	1.0	12.2	2.3	7.5
Bosideng Int'l	3998 HK	BUY	4.10	4.34	-6%	47,320	Mar-22	17.5	14.8	3.1	2.8	19.0	1.2	4.0
Jnby Design	3306 HK	BUY	11.76	9.84	20%	5,105	Jun-22	8.5	7.1	2.4	2.2	27.6	1.3	8.6
Cosmo Lady	2298 HK	NR	n/a	0.42	n/a	945	Dec-21	36.9	12.3	0.4	0.4	(23.3)	(0.2)	n/a
Giordano	709 HK	NR	n/a	2.23	n/a	3,525	Dec-22	11.7	9.7	n/a	n/a	11.4	0.7	7.6
Koradior	3709 HK	NR	n/a	10.24	n/a	7,209	Dec-21	8.2	7.0	1.4	1.2	14.4	0.4	4.9
Esprit Holdings	330 HK	NR	n/a	0.71	n/a	2,010	Dec-21	n/a	n/a	n/a	n/a	5.5	0.0	n/a
Bauhaus Intl	483 HK	NR	n/a	0.52	n/a	191	Mar-22	n/a	n/a	n/a	n/a	57.6	0.0	n/a
Avg.								15.5	9.9	1.7	1.6	15.6	0.7	6.5
Med.								10.8	9.1	1.4	1.2	13.3	0.6	7.5
A-shares Apparel														
Ningbo Peacebird	603877 CH	NR	n/a	19.59	n/a	10,637	Dec-21	30.7	15.5	2.1	2.0	6.7	189.5	1.3
Joeone Co Ltd	601566 CH	NR	n/a	11.19	n/a	7,328	Dec-21	n/a	25.3	1.7	1.6	0.7	0.0	0.4
Fujian Septwolves	002029 CH	NR	n/a	5.85	n/a	5,038	Dec-21	17.7	15.1	0.7	0.7	4.0	3.2	n/a
Hla Corp Ltd	600398 CH	NR	n/a	6.21	n/a	30,570	Dec-21	12.2	10.3	1.7	1.5	15.0	3.2	4.1
Jiangsu Hongdou	600400 CH	NR	n/a	3.85	n/a	10,105	Dec-21	110.0	64.2	2.7	2.6	1.5	2.9	n/a
Lancy Co Ltd	002612 CH	NR	n/a	26.27	n/a	13,246	Dec-21	200.5	61.8	3.9	3.7	1.6	23.2	0.2
Shenzhen Huijie	002763 CH	NR	n/a	7.61	n/a	3,555	Dec-21	n/a	n/a	n/a	n/a	9.1	0.0	n/a
Ellassay Fashion	603808 CH	NR	n/a	10.90	n/a	4,585	Dec-21	28.5	13.2	1.4	1.3	5.1	6.0	0.7
Bobaolon Co	002776 CH	NR	n/a	3.00	n/a	1,839	Dec-21	n/a	n/a	n/a	n/a	(139.1)	0.0	n/a
Avg.								66.6	29.3	2.0	1.9	(10.6)	25.3	1.3
Med.								29.6	15.5	1.7	1.6	4.0	3.2	0.7
International Apparel														
Hugo Boss	BOSS GR	NR	n/a	56.30	n/a	33,281	Dec-22	16.4	13.9	3.1	2.6	20.5	1.0	2.4
Next	NXT LN	NR	n/a	6578.00	n/a	81,315	Jan-22	11.9	13.1	6.4	5.7	76.3	(3.3)	3.0
Hennes & Mauritz	HMB SS	NR	n/a	122.72	n/a	151,997	Nov-22	23.9	17.1	4.2	4.0	6.4	0.5	5.3
Industria De Diseno	ITX SM	NR	n/a	28.63	n/a	749,253	Jan-23	20.2	18.6	5.1	4.8	25.2	2.5	4.5
Ovs Spa	OVS IM	NR	n/a	2.36	n/a	5,760	Jan-22	9.9	9.3	0.7	0.9	6.3	1.0	2.6
Pvh Corp	PVH US	NR	n/a	72.71	n/a	36,163	Jan-22	8.7	8.1	1.0	0.9	9.1	(1.3)	0.2
Vf Corp	VFC US	NR	n/a	21.42	n/a	65,337	Apr-22	10.3	9.5	2.6	2.3	11.9	(1.1)	8.4
Marks & Spencer	MKS LN	NR	n/a	141.60	n/a	26,695	Apr-22	8.7	9.9	0.9	0.9	11.3	(5.3)	2.2
Avg.								13.8	12.4	3.0	2.8	20.9	(0.8)	3.6
Med.								11.1	11.5	2.8	2.5	11.6	(0.3)	2.8

Source: Bloomberg, CMBIGM estimates

Figure 4: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 5: China Lilang's key assumptions

Major assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Sales by segment (RMB mn)					
LILANZ	2,737	2,535	2,786	3,008	3,206
Smart Casual	642	551	634	691	739
Total	3,379	3,086	3,420	3,699	3,945
Sales by segment growth (%)					
LILANZ	24.6%	-7.4%	9.9%	8.0%	6.6%
Smart Casual	32.9%	-14.2%	15.0%	9.0%	7.0%
Total	26.1%	-8.7%	10.8%	8.2%	6.7%
Sales network by segment					
LILANZ	2,443	2,393	2,443	2,493	2,543
Smart Casual	290	251	301	331	361
Total	2,733	2,644	2,744	2,824	2,904
Sales network by segment growth (%)					
LILANZ	-0.9%	-2.0%	2.1%	2.0%	2.0%
Smart Casual	-1.7%	-13.4%	19.9%	10.0%	9.1%
Total	-1.0%	-3.3%	3.8%	2.9%	2.8%
Trade fair sales growth (%)					
Spring Summer	20.0%	3.8%	10.0%	0.0%	0.0%
Fall	15.0%	2.5%	10.0%	0.0%	0.0%
Winter	10.0%	-23.0%	10.0%	0.0%	0.0%
GP margins by segment					
LILANZ	41.9%	46.0%	46.5%	47.2%	47.3%
Smart Casual	41.9%	46.0%	46.5%	47.2%	47.3%
Opex breakdown					
Staff costs	3.3%	3.7%	3.6%	3.6%	3.6%
D & A	3.0%	3.7%	3.7%	3.8%	3.8%
R & D	3.8%	4.0%	4.3%	4.3%	4.3%
Provision (write back)	0.0%	0.0%	0.0%	0.0%	0.0%
A & P	10.1%	13.0%	11.0%	11.0%	11.0%
Selling & distribution costs / sales	23.5%	25.7%	24.2%	23.8%	23.4%
Admin expenses / sales	5.1%	5.8%	5.5%	5.4%	5.3%
OP margins	15.8%	16.8%	18.6%	19.7%	20.3%
Effective tax rate	16.6%	18.1%	20.0%	22.0%	23.0%
NP att. margins	13.9%	14.5%	15.1%	15.7%	16.0%
NP att. growth (%)	-16.0%	-4.3%	15.4%	12.4%	8.9%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	2,681	3,379	3,086	3,420	3,699	3,945
Cost of goods sold	(1,477)	(1,964)	(1,666)	(1,828)	(1,952)	(2,080)
Gross profit	1,204	1,415	1,420	1,592	1,747	1,865
Operating expenses	(658)	(971)	(973)	(1,023)	(1,091)	(1,143)
Selling expense	(492)	(795)	(792)	(827)	(881)	(923)
Admin expense	12	(42)	(55)	(40)	(40)	(39)
R&D expense	(120)	(129)	(124)	(147)	(159)	(170)
Others	(58)	(5)	(2)	(10)	(11)	(12)
Operating profit	651	533	519	637	730	801
Other income	106	89	72	68	74	79
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	655	536	523	639	732	803
Other amortisation	(3)	(4)	(4)	(2)	(2)	(2)
Interest income	45	34	52	44	50	56
Interest expense	(1)	(6)	(24)	(35)	(35)	(35)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	695	561	547	646	745	822
Income tax	(138)	(93)	(99)	(129)	(164)	(189)
Minority interest	0	0	0	0	0	0
Net profit	557	468	448	517	581	633

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	3,618	3,273	2,772	3,077	3,379	3,664
Cash & equivalents	1,739	1,572	960	1,088	1,248	1,398
Account receivables	1,210	795	843	934	1,010	1,077
Inventories	667	894	885	971	1,037	1,105
Prepayment	0	0	0	0	0	0
ST bank deposits	2	12	81	81	81	81
Other current assets	0	0	3	3	3	3
Non-current assets	1,394	1,735	2,706	2,641	2,572	2,530
PP&E	924	1,200	1,213	1,150	1,083	1,043
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	8	7	5	3	1	(1)
Other non-current assets	462	528	1,488	1,488	1,488	1,488
Total assets	5,011	5,008	5,478	5,718	5,951	6,195
Current liabilities	1,288	1,261	1,439	1,525	1,592	1,660
Short-term borrowings	37	119	279	279	279	279
Account payables	1,036	870	888	974	1,040	1,109
Tax payable	152	175	197	197	197	197
Other current liabilities	62	98	75	75	75	75
Non-current liabilities	70	73	256	256	256	256
Long-term borrowings	0	0	187	187	187	187
Other non-current liabilities	70	73	69	69	69	69
Total liabilities	1,358	1,334	1,695	1,782	1,848	1,916
Share capital	106	106	106	106	106	106
Retained earnings	0	0	0	154	320	496
Other reserves	3,548	3,568	3,677	3,677	3,677	3,677
Total shareholders equity	3,654	3,673	3,782	3,936	4,103	4,278
Minority interest	0	0	0	0	0	0
Total equity and liabilities	3,654	3,673	3,782	3,936	4,103	4,278

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	695	561	547	646	745	822
Depreciation & amortization	31	100	115	168	143	120
Tax paid	(155)	(100)	(85)	(129)	(164)	(189)
Change in working capital	175	(69)	0	(91)	(76)	(67)
Others	27	107	77	35	35	35
Net cash from operations	773	599	654	629	683	721
Investing						
Capital expenditure	(225)	(302)	(379)	(103)	(74)	(79)
Acquisition of subsidiaries/ investments	(3)	(3)	(2)	0	0	0
Others	38	25	(795)	0	0	0
Net cash from investing	(191)	(280)	(1,175)	(103)	(74)	(79)
Financing						
Dividend paid	(521)	(446)	(341)	(363)	(414)	(457)
Net borrowings	0	73	361	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(69)	(109)	(111)	(35)	(35)	(35)
Net cash from financing	(590)	(483)	(90)	(398)	(449)	(492)
Net change in cash						
Cash at the beginning of the year	1,751	1,739	1,572	960	1,088	1,248
Exchange difference	(4)	(3)	0	0	0	0
Others	(8)	(164)	(612)	128	160	150
Cash at the end of the year	1,739	1,572	960	1,088	1,248	1,398
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(26.7%)	26.1%	(8.7%)	10.8%	8.2%	6.7%
Gross profit	(14.2%)	17.5%	0.4%	12.1%	9.7%	6.8%
Operating profit	(33.5%)	(18.2%)	(2.6%)	22.7%	14.6%	9.7%
EBITDA	(33.4%)	(18.1%)	(2.5%)	22.1%	14.6%	9.7%
Net profit	(31.4%)	(16.0%)	(4.3%)	15.4%	12.4%	8.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	44.9%	41.9%	46.0%	46.5%	47.2%	47.3%
Operating margin	24.3%	15.8%	16.8%	18.6%	19.7%	20.3%
EBITDA margin	24.4%	15.9%	16.9%	18.7%	19.8%	20.3%
Return on equity (ROE)	15.4%	12.8%	12.0%	13.4%	14.5%	15.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.4	0.4	0.1	0.2	0.2	0.2
Current ratio (x)	2.8	2.6	1.9	2.0	2.1	2.2
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	7.5	8.7	9.9	8.6	7.6	7.0
P/E (diluted)	7.5	8.7	9.9	8.6	7.6	7.0
P/B	1.4	1.3	1.0	1.1	1.1	1.0
P/CFPS	6.7	8.2	6.1	6.9	6.4	6.0
Div yield (%)	8.8	6.8	8.4	8.9	10.0	10.9
EV	3,330.7	3,602.5	4,469.3	4,341.6	4,181.5	4,031.5
EV/Sales	1.2	1.1	1.4	1.3	1.1	1.0
EV/EBITDA	5.1	6.7	8.5	6.8	5.7	5.0

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

Disclosures & Disclaimers

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CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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