

Li Ning (2331 HK)

Expectations reset with positive initiatives

We do find Li Ning's FY23 results and FY24E guidance are inline, even though the views from the market are quite mixed. Anyhow, we do appreciate management's efforts to fix the bugsell and the branding power issues, as well as resetting investors' expectation with a prudent guidance. With all the progress mentioned below, we believe Li Ning could improve overtime and turn around. Hence, we maintain BUY with TP based on 15x FY24E P/E. It is now at 13x.

■ **While the FY24E guidance is quite prudent, we do see some positives initiatives.** The management has mentioned flattish retail sales growth trend YTD in 2024, which is actually quite in line with CMBI est. of 1% in 1Q24E. But we are not too worried as this is also inline with the FY24E guidance (MSD listed co level sales growth and low-teens net profit margin). In fact, we do see many positives that could drive moderate sales growth and a more meaningful margin expansion, namely: 1) stabilization and turnaround of the e-commerce business, we think it is likely for e-commerce sales to reaccelerate and have a narrowing retail discounts in FY24E, after a low base and the correction of various bugsell by some of its distributors, 2) basketball sales should rebound, as supply rationalized and star products gradually become more popular, while the running and training are still selling very well (rose by 40% and 25% in FY23), 3) management of star SKUs to become more centralized, the 100% target by FY24E is still on track, and this should improve the overall product efficiency and retail discounts, 4) consolidation of marketing functions into one larger department, it is likely to see some more focused and effective marketing events onwards, 5) likely decline in impairment losses in FY24E (after roughly RMB 330mn one-off losses in FY23). Li Ning will also put more efforts on expansions to the lower tier cities and roll out of more value for money products, in our view, which are both neutral to the overall sales and margins.

■ **Maintain BUY but cut TP to HK\$ 24.86, based on 15x FY24E P/E (cut from 19x to factor in a slowdown in sales CAGR).** We have revised down our FY24E/ 25E net profit by 8%/ 13% to factor in: 1) slower sales growth and guidance, 2) lower operating leverage due to the slow SSSG, 3) the impairment losses but a higher GP margin driven by better new product and channel mix. The current valuation of 13x FY24E P/E may be not be too attractive for a 8% 3-year sales CAGR. However, we do think a turnaround is likely and with a 15% 3-year NP CAGR, the downside is limited. Hence, we maintain BUY with a TP based on 15x FY24E P/E. The stock is trading at 13x FY24E P/E with 3% yield.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	25,803	27,598	29,523	32,070	34,931
YoY growth (%)	14.3	7.0	7.0	8.6	8.9
Operating profit (RMB mn)	4,886.8	3,559.1	4,504.2	5,019.9	5,634.9
Net profit (RMB mn)	4,063.8	3,187.0	3,813.9	4,299.4	4,872.6
EPS (Reported) (RMB)	1.54	1.23	1.47	1.65	1.88
YoY growth (%)	(2.3)	(20.5)	19.7	12.7	13.3
P/E (x)	36.0	33.6	13.4	11.9	10.5
P/B (x)	6.0	4.3	1.9	1.7	1.6
Yield (%)	0.8	1.3	3.3	3.7	4.2
ROE (%)	17.9	12.8	14.4	15.0	15.5
Net gearing (%)	30.9	32.9	38.6	44.1	49.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$24.86**
 (Previous TP) **HK\$32.93**
Up/Downside **15.9%**
Current Price **HK\$21.45**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	56,124.9
Avg 3 mths t/o (HK\$ mn)	534.3
52w High/Low (HK\$)	61.90/15.12
Total Issued Shares (mn)	2616.5

Source: FactSet

Shareholding Structure

Viva China Holdings	10.4%
GIC Pte Ltd.	5.0%

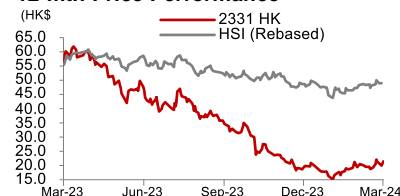
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.7%	9.7%
3-mth	11.4%	11.8%
6-mth	-38.0%	-33.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **FY23 results were roughly inline.** In FY23, Li Ning's sales has risen by 7% and net profit has fallen by 22%, roughly inline with market expectations (missed the BBG est. but better than the more bearish buy-side view). The sharp decline in sales growth and margin in 2H23 was mostly due to: 1) adjustments in 3Q/ 4Q23 trade fair orders, 2) weak demand from the e-commerce, and 3) the impairment losses (mostly associating with stores closures), etc.. Noted that dividend payout ratio was raised to 45% (from 30% in FY22) and therefore the historical yield has improved to ~3%.
- **The working capital, inventory condition as well as retail discounts are rather healthy.** Even though the earnings was under pressure, but both cashflow and inventories were quite decent, in our view. Operating cashflow still managed to increase by 20%. Channel inventory to sales ratio (including online and warehouses) was only at 3.6 months in 4Q23, a 5-years low level, far better than the around 5 months in 3Q23. New product mix within inventory is still very high at 80% and retail discounts for new products (in 6 months) has improved from high 70s to 80s.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,523	32,070	34,931	31,129	35,099	n/a	-5.2%	-8.6%	n/a
Gross profit	14,485	15,920	17,481	14,968	16,969	n/a	-3.2%	-6.2%	n/a
EBIT	4,504	5,020	5,635	5,005	5,916	n/a	-10.0%	-15.2%	n/a
Net profit att.	3,814	4,299	4,873	4,148	4,962	n/a	-8.0%	-13.3%	n/a
Diluted EPS (RMB)	1.47	1.65	1.88	1.55	1.85	n/a	-5.1%	-10.6%	n/a
Gross margin	49.1%	49.6%	50.0%	48.1%	48.3%	n/a	1ppt	1.3ppt	n/a
EBIT margin	15.3%	15.7%	16.1%	16.1%	16.9%	n/a	-0.8ppt	-1.2ppt	n/a
Net profit att. margin	12.9%	13.4%	13.9%	13.3%	14.1%	n/a	-0.4ppt	-0.7ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,523	32,070	34,931	30,893	34,644	36,438	-4.4%	-7.4%	-4.1%
Gross profit	14,485	15,920	17,481	15,138	17,118	18,317	-4.3%	-7.0%	-4.6%
EBIT	4,504	5,020	5,635	4,754	5,598	5,678	-5.3%	-10.3%	-0.8%
Net profit att.	3,814	4,299	4,873	4,011	4,686	5,165	-4.9%	-8.2%	-5.7%
Diluted EPS (RMB)	1.47	1.65	1.88	1.52	1.79	1.90	-3.7%	-7.6%	-1.2%
Gross margin	49.1%	49.6%	50.0%	49.0%	49.4%	50.3%	0.1ppt	0.2ppt	-0.2ppt
EBIT margin	15.3%	15.7%	16.1%	15.4%	16.2%	15.6%	-0.1ppt	-0.5ppt	0.5ppt
Net profit att. margin	12.9%	13.4%	13.9%	13.0%	13.5%	14.2%	-0.1ppt	-0.1ppt	-0.2ppt

Source: Company data, CMBIGM estimates

Operating numbers

Figure 3: Historical sales growth trend, by brand

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	5%	13%	13%	13%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	10%	10%	10%	10%
Anta brand's SSSG																
Anta brand's retail sales	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	+ve MSD	+ve HSD	+ve HSD	+ve High-teens	15%	3%	16%	20%
Core brand	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens	+ve HSD	+ve HSD	+ve HSD	25%-30%				
Kids	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	30%-35%				
Online	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	+ve MSD				
FILA brand's retail sales																
FILA brand's retail sales	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	+ve Low-teens	25%-30%	6%	9%	13%	13%
Classic/ Core brand	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	40%-45%				
Kids	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD	+ve HSD	30%-35%				
Fusion	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%				
Online	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	+ve Mid-teens				
Other brands																
Other brands	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%	55%-60%				
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%				
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%				
Li Ning group's SSSG																
Li Ning group's SSSG	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	-ve MSD	+ve Low-teens				
Direct retail	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 30%	-ve LSD	+ve HSD	+ve MSD	+ve High 30%				
Wholesales	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	-ve Low-teens	+ve MSD				
E- Commerce	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD	-ve LSD	+ve MSD				
Li Ning group's retail sales																
Li Ning group's retail sales	+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	+ve MSD	+ve Low 20%	1%	5%	2%	20%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%				
Wholesales	+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	+ve LSD	+ve High-teens				
E- Commerce	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	-ve LSD	+ve MSD				
Xtep brand's SSSG																
Xtep brand's retail sales	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%-35%	7%	6%	3%	16%
361 Degree brand's SSSG																
361 Degree brand's retail sales	+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	15.0%	20.0%	10%	15%	13%	12%
Kids	20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%				
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%				
Pou Sheng's SSSG																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-5%					
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-1%	13%	8%	10%
Topsports' retail sales																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low 20%	-ve LSD	+ve Low-teens	6%	13%	3%	16%
Dong Xiang's SSSG																
Dong Xiang's SSSG	+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	+ve Low to Mid SD	25% to 30%				
Dong Xiang's retail sales	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 Mid-teens	+ve Mid-teens	+ve MSD	Mid 40% to 50%				
Direct retail	70%-75%															
E- Commerce	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 (%)	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	24.86	21.45	16%	63,133	Dec-22	15.5	12.9	2.0	16.7	6.6	3.3	2.6	
Anta Sports	2020 HK	BUY	109.99	79.30	39%	220,236	Dec-22	20.4	17.1	4.6	21.8	1.2	2.2	4.7	
Xtep Intl	1368 HK	BUY	6.31	5.04	25%	11,992	Dec-23	10.3	8.6	1.1	11.7	0.7	4.8	14.3	
361 Degrees	1361 HK	BUY	6.25	4.47	40%	9,201	Dec-23	7.4	6.4	0.8	10.9	0.5	3.9	28.2	
Topsports	6110 HK	BUY	9.23	5.51	68%	35,533	Feb-23	13.8	11.7	3.1	20.4	0.8	6.4	(5.8)	
Pou Sheng	3813 HK	NR	n/a	0.68	n/a	3,622	Dec-23	5.2	4.3	0.4	5.9	0.2	6.7	0.0	
China DX	3818 HK	NR	n/a	0.38	n/a	2,237	Mar-23	11.7	7.0	0.2	1.0	0.3	5.7	33.3	
								Avg.	12.0	9.7	1.7	12.6	1.5	4.6	11.1
								Med.	11.7	8.6	1.1	11.7	0.7	4.8	4.7
International Sportswear															
Nike Inc	NKE US	NR	n/a	99.33	n/a	1,176,812	May-23	27.6	23.5	10.8	36.0	2.0	1.4	(8.5)	
Adidas	ADS GY	NR	n/a	199.80	n/a	306,165	Dec-23	77.8	30.4	6.9	(1.6)	(0.2)	0.6	8.5	
Puma	PUM GY	NR	n/a	40.65	n/a	52,194	Dec-23	17.1	13.6	2.1	12.1	0.8	2.1	(19.5)	
Under Armour	UAA US	NR	n/a	7.15	n/a	23,889	Mar-23	13.7	12.0	1.4	20.1	(2.0)	0.0	(18.7)	
Lululemon	LULU US	NR	n/a	466.64	n/a	460,456	Jan-23	37.5	32.8	14.2	30.5	1.1	0.0	(8.7)	
Skechers	SKX US	NR	n/a	60.33	n/a	72,308	Dec-23	15.4	13.2	1.9	14.4	1.3	0.1	(3.2)	
On Holding	ONON US	NR	n/a	32.85	n/a	81,880	Dec-23	43.4	32.0	7.1	7.8	0.7	n/a	21.8	
Decker Outdoor	DECK US	NR	n/a	918.95	n/a	184,445	Mar-23	33.8	30.5	11.7	37.4	1.6	0.0	37.5	
Vf Corp	VFC US	NR	n/a	14.34	n/a	43,599	Apr-23	13.1	10.6	2.4	(28.2)	0.2	5.4	(23.7)	
Columbia	COLM US	NR	n/a	77.71	n/a	36,335	Dec-23	21.1	17.8	2.2	13.0	3.6	1.5	(2.3)	
Wolverine	WWW US	NR	n/a	10.02	n/a	6,248	Dec-23	13.5	9.0	2.2	(13.4)	(0.1)	4.4	12.7	
Mizuno Corp	8022 JP	NR	n/a	5920.00	n/a	8,245	Mar-23	13.1	12.9	1.2	10.3	2.2	1.6	50.6	
Asics Corp	7936 JP	NR	n/a	6751.00	n/a	67,170	Dec-23	31.8	27.4	5.9	18.8	2.7	1.1	52.8	
								Avg.	27.6	20.4	5.4	12.1	1.1	1.5	7.6
								Med.	21.1	17.8	2.4	13.0	1.1	1.3	(2.3)

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 5: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)					
Shoes	13,479	13,389	14,443	15,973	17,607
Clothes	10,709	12,411	13,155	14,076	15,202
Equipment	1,616	1,799	1,925	2,021	2,122
Others	0	0	0	0	0
Total	25,803	27,598	29,523	32,070	34,931
Sales by segment growth (%)					
Shoes	41.8%	-0.7%	7.9%	10.6%	10.2%
Clothes	-9.4%	15.9%	6.0%	7.0%	8.0%
Equipment	30.1%	11.3%	7.0%	5.0%	5.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	14.3%	7.0%	7.0%	8.6%	8.9%
Sales by channel growth (%)					
Franchises	15.7%	0.6%	5.0%	8.0%	8.0%
Self-owned	6.4%	29.6%	10.0%	11.0%	12.0%
E-commerce	16.4%	0.9%	8.0%	8.0%	8.0%
International	53.9%	16.6%	0.0%	0.0%	0.0%
Total	14.3%	7.0%	7.0%	8.6%	8.9%
Sales network by segment					
Self-owned	1,430	1,498	1,483	1,498	1,513
Franchise	4,865	4,742	4,842	4,942	5,042
Sub-total	6,295	6,240	6,325	6,440	6,555
LN Young	1,308	1,428	1,578	1,728	1,878
Total	7,603	7,668	7,903	8,168	8,433
GP margins	48.4%	48.4%	49.1%	49.6%	50.0%
Opex breakdown					
A & P/ sales	8.8%	9.0%	9.0%	9.0%	9.0%
Labour/ sales	7.7%	8.7%	8.3%	8.3%	8.3%
Rental/ sales	5.6%	7.0%	6.9%	7.1%	7.1%
D & A/ sales	3.0%	3.9%	4.1%	4.1%	4.1%
R & D/ sales	2.1%	2.2%	2.2%	2.2%	2.2%
Provision/ sales	0.0%	1.2%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	28.3%	32.9%	31.5%	31.7%	31.7%
Admin expenses / sales	4.3%	4.6%	4.3%	4.2%	4.1%
OP margins	18.9%	12.9%	15.3%	15.7%	16.1%
Effective tax rate	25.0%	25.1%	24.0%	24.0%	24.0%
Net profit margins	15.7%	11.5%	12.9%	13.4%	13.9%
Net profit att. growth (%)	1.3%	-21.6%	19.7%	12.7%	13.3%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	22,572	25,803	27,598	29,523	32,070	34,931
Cost of goods sold	(10,603)	(13,319)	(14,246)	(15,038)	(16,151)	(17,450)
Gross profit	11,969	12,485	13,352	14,485	15,920	17,481
Operating expenses	(7,249)	(8,428)	(10,336)	(10,558)	(11,527)	(12,530)
Selling expense	(6,138)	(7,314)	(9,080)	(9,296)	(10,173)	(11,082)
Admin expense	(697)	(579)	(638)	(601)	(636)	(665)
R&D expense	(414)	(534)	(618)	(661)	(718)	(782)
Operating profit	5,136	4,887	3,559	4,504	5,020	5,635
Other income	416	829	543	578	627	683
Share of (losses)/profits of associates/JV	159	201	378	295	321	349
EBITDA	5,767	5,668	4,628	5,702	6,339	7,055
Depreciation	(589)	(732)	(1,020)	(1,157)	(1,289)	(1,399)
Other amortisation	(41)	(49)	(48)	(41)	(30)	(21)
Interest income	145	448	501	374	472	583
Interest expense	(112)	(121)	(181)	(156)	(156)	(156)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	5,328	5,415	4,256	5,018	5,657	6,411
Income tax	(1,317)	(1,351)	(1,069)	(1,204)	(1,358)	(1,539)
Minority interest	0	0	0	0	0	0
Net profit	4,011	4,064	3,187	3,814	4,299	4,873

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	18,672	12,395	13,529	16,113	19,100	22,487
Cash & equivalents	14,745	7,382	8,213	10,507	13,100	16,034
Account receivables	903	1,020	1,091	1,167	1,268	1,381
Inventories	1,773	2,428	2,597	2,742	2,944	3,181
Prepayment	849	920	984	1,053	1,143	1,245
ST bank deposits	402	644	644	644	644	644
Other current assets	0	0	0	0	0	0
Non-current assets	11,603	21,252	21,473	21,601	21,722	21,871
PP&E	1,626	3,235	3,318	3,342	3,336	3,334
Investment in JVs & assos	0	0	186	331	489	660
Intangibles	188	217	170	129	97	75
Other non-current assets	9,789	17,800	17,799	17,799	17,800	17,801
Total assets	30,275	33,647	35,002	37,714	40,823	44,358
Current liabilities	7,704	7,241	7,583	8,103	8,774	9,543
Short-term borrowings	0	0	0	0	0	0
Account payables	1,599	1,584	1,952	2,060	2,212	2,390
Tax payable	1,308	1,037	755	890	1,044	1,225
Other current liabilities	4,797	4,619	4,876	5,152	5,518	5,928
Non-current liabilities	1,467	2,074	2,074	2,074	2,074	2,074
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,467	2,074	2,074	2,074	2,074	2,074
Total liabilities	9,171	9,315	9,657	10,177	10,847	11,616
Share capital	239	240	240	240	240	240
Retained earnings	3	2	536	2,634	4,999	7,679
Other reserves	20,863	24,089	24,569	24,663	24,736	24,822
Total shareholders equity	21,104	24,332	25,345	27,537	29,975	32,741
Minority interest	0	0	0	0	0	0
Total equity and liabilities	30,275	33,647	35,002	37,714	40,823	44,358

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,328	5,415	4,256	5,018	5,657	6,411
Depreciation & amortization	630	782	1,069	1,198	1,319	1,420
Tax paid	(456)	(1,316)	(1,351)	(1,069)	(1,204)	(1,358)
Change in working capital	826	(1,133)	320	95	123	136
Others	197	167	(697)	(514)	(637)	(776)
Net cash from operations	6,525	3,914	3,597	4,728	5,258	5,833
Investing						
Capital expenditure	(985)	(1,757)	(1,104)	(1,181)	(1,283)	(1,397)
Acquisition of subsidiaries/ investments	(43)	(74)	0	0	0	0
Others	(5,511)	(7,651)	693	525	635	760
Net cash from investing	(6,539)	(9,481)	(411)	(656)	(648)	(637)
Financing						
Dividend paid	(515)	(1,195)	(2,174)	(1,622)	(1,862)	(2,106)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	8,667	97	0	0	0	0
Share repurchases	0	(159)	0	0	0	0
Others	(1,071)	(1,826)	(2,355)	(1,777)	(2,017)	(2,262)
Net cash from financing	7,081	(3,082)	(4,529)	(3,399)	(3,879)	(4,368)
Net change in cash						
Cash at the beginning of the year	7,187	14,745	7,382	8,213	10,507	13,100
Exchange difference	(25)	93	0	0	0	0
Others	7,583	(7,455)	830	2,295	2,593	2,934
Cash at the end of the year	14,745	7,382	8,213	10,507	13,100	16,034
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.1%	14.3%	7.0%	7.0%	8.6%	8.9%
Gross profit	68.7%	4.3%	6.9%	8.5%	9.9%	9.8%
Operating profit	133.9%	(4.9%)	(27.2%)	26.6%	11.4%	12.3%
EBITDA	108.0%	(1.7%)	(18.4%)	23.2%	11.2%	11.3%
Net profit	136.1%	1.3%	(21.6%)	19.7%	12.7%	13.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	53.0%	48.4%	48.4%	49.1%	49.6%	50.0%
Operating margin	22.8%	18.9%	12.9%	15.3%	15.7%	16.1%
EBITDA margin	25.5%	22.0%	16.8%	19.3%	19.8%	20.2%
Return on equity (ROE)	26.9%	17.9%	12.8%	14.4%	15.0%	15.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.7	0.3	0.3	0.4	0.4	0.5
Current ratio (x)	2.4	1.7	1.8	2.0	2.2	2.4
Receivable turnover days	14.6	14.4	14.4	14.4	14.4	14.4
Inventory turnover days	61.0	66.5	66.5	66.5	66.5	66.5
Payable turnover days	55.1	43.4	50.0	50.0	50.0	50.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	39.4	36.0	33.6	13.4	11.9	10.5
P/E (diluted)	39.4	36.0	33.6	13.4	11.9	10.5
P/B	7.7	6.0	4.3	1.9	1.7	1.6
P/CFPS	24.2	37.4	29.8	10.8	9.8	8.8
Div yield (%)	0.7	0.8	1.3	3.3	3.7	4.2
EV	41,405.0	48,617.1	47,786.7	45,492.2	42,899.2	39,965.0
EV/Sales	1.8	1.9	1.7	1.5	1.3	1.1
EV/EBITDA	7.2	8.6	10.3	8.0	6.8	5.7

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

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