

Li Ning (2331 HK)

Industry leading momentum and recovery

We are impressed by Li Ning's sales growth and working capital management in 2H19 and believe its recovery in FY20E to be industry leading. Thus we reiterated BUY and lifted TP to HK\$29.63, based on 30x FY21E P/E (from 32x FY20E).

- **We believe Li Ning's retail sales recovery in 2Q20E is industry leading.** After summarizing all the comments from various listed co.'s management, we believe Li Ning's recovery in 2Q20E should be the second strongest, at -5% YoY, vs FILA's +15%, Anta/ Pou Sheng's -8% and Xtep's -10%. This should point to an overall better performance onwards, both Li Ning and Anta are our top-picks within the sportswear sector in FY20E.
- **A prudent FY20E guidance.** No post-virus outbreak sales growth guidance was provided but NP margin of 10-10.5% in FY20E can still be achieved thanks to its flexible cost structure with ~40% opex from variable costs. Other target includes: 1) 1ppt drop in 1H20E GP margin due to greater retail discounts and supports to distributors, 2) 170-200 new stores (bv 50 stores scheduled in 1H20E will be delayed) and 3) 20%+ online sales growth in FY20E (overly prudent in our view). Also, thanks to its super decent retail sales and working capital trend back in 3Q/ 4Q19, we are highly confident on its execution and outlook in FY20E.
- **FMR's stakes had surpassed 5%.** On 1 Apr 2020, Fidelity management & research company LLC (FMR) had bought 21.65 mn shares in Li Ning at HK\$ 21.52, raising its stake to 5.26%. Noted that FMR's track record was very solid, with max return of 125%/50% achieved on Li Ning/ Anta after its meaningful rise in stakes (0.16%/ 0.07% in 1Q19 to 3.08%/0.69% in 1Q20).
- **Placement by Viva China is expected.** On 31 Mar 2020, Viva China (8032 HK) sold 2.85% of existing stakes (down from 16.33%, including convertible securities, to 13.48%), at HK\$ 21.52 per shares (~5% discounts vs last closed price). We are not surprised as Viva China had shown certain interests back in 2019 by raising more capital for further business development, including M&As of sports related businesses.
- **FY19 result recap.** Li Ning's sales/ net profit grew by 32%/ 110% YoY in FY19, beating CMBI est. by 3%/6%, due to better wholesale/ e-commerce sales and other income, despite slightly higher opex (rental, D&A).
- **Maintain BUY and lifted TP to HK\$ 29.63.** We maintain BUY and lifted TP to HK\$ 29.63, based on 30x FY21E P/E (rolled over from 32x FY20E), given a 3 years adjusted NP CAGR of 31%. The counter is attractive, trading at 23x FY21E P/E. We adjusted our FY20E/ 21E EPS estimates by -4.2%/+0.6%, to factor in lower sales due to virus outbreak but better margins.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	10,511	13,870	15,682	18,369	21,054
YoY growth (%)	18.4	32.0	13.1	17.1	14.6
Net income (RMB mn)	715	1,499	1,636	2,202	2,709
EPS (RMB)	0.292	0.601	0.656	0.883	1.086
YoY growth (%)	38.0	106.0	9.1	34.6	23.0
Core NP (RMB mn)	715	1,265	1,636	2,202	2,709
YoY growth (%)	38.8	76.9	29.3	34.6	23.0
Consensus EPS (RMB)	n/a	n/a	0.628	0.857	1.053
P/E (x)	67.1	33.2	30.4	22.6	18.3
P/B (x)	8.1	6.9	5.8	4.8	4.0
Yield (%)	0.5	0.8	0.8	1.1	1.4
ROE (%)	13.1	23.2	21.1	23.7	24.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$29.63**
 (Previous TP **HK\$24.43**)
 Up/Downside **+32.9%**
 Current Price **HK\$22.30**

China Sportswear Sector

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

Stock Data

Mkt Cap (HK\$ mn)	54,839
Avg 3 mths t/o (HK\$ mn)	457.51
52w High/Low (HK\$)	27.7/12.4
Total Issued Shares (mn)	2,459.1

Source: Bloomberg

Shareholding Structure

Mr Li Ning & Family	14.23%
Blackrock Inc.	6.89%
Schroders Plc	6.06%
FMR LLC	5.26%
Free Float	67.56%

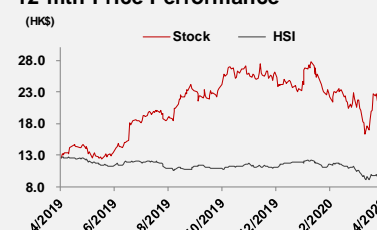
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.1%	12.2%
3-mth	-7.5%	8.0%
6-mth	-3.0%	3.3%
12-mth	78.7%	120.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

1. LI Ning (2331 HK, BUY) - Prudent sales but upbeat margin guidance - 15 Aug 2019

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	15,682	18,369	21,054	15,750	17,905	n/a	-0.4%	2.6%	n/a
Gross profit	7,754	9,171	10,559	7,788	8,927	n/a	-0.4%	2.7%	n/a
EBIT	1,870	2,530	3,120	1,920	2,471	n/a	-2.6%	2.4%	n/a
Net profit att.	1,636	2,202	2,709	1,678	2,151	n/a	-2.5%	2.4%	n/a
Diluted EPS (RMB)	0.656	0.883	1.086	0.685	0.878	n/a	-4.2%	0.6%	n/a
Gross margin	49.4%	49.9%	50.2%	49.4%	49.9%	n/a	0ppt	0.1ppt	n/a
EBIT margin	11.9%	13.8%	14.8%	12.2%	13.8%	n/a	-0.3ppt	0ppt	n/a
Net profit att. margin	10.4%	12.0%	12.9%	10.7%	12.0%	n/a	-0.2ppt	0ppt	n/a

Source: Company data, CMBIS estimates

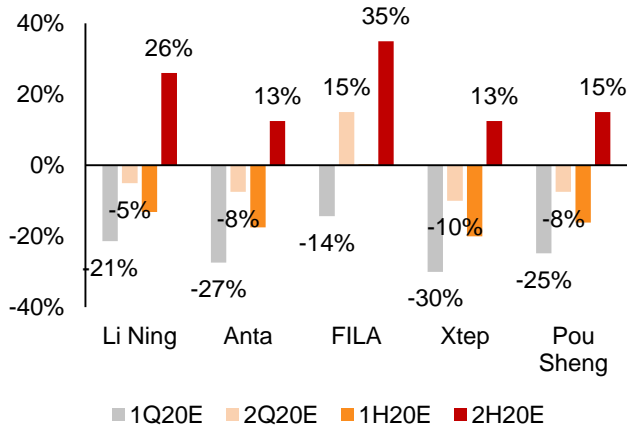
Figure 2: CMBI estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	15,682	18,369	21,054	15,210	18,530	22,012	3.1%	-0.9%	-4.4%
Gross profit	7,754	9,171	10,559	7,400	9,244	11,098	4.8%	-0.8%	-4.9%
EBIT	1,870	2,530	3,120	1,808	2,636	3,267	3.4%	-4.0%	-4.5%
Net profit att.	1,636	2,202	2,709	1,536	2,099	2,640	6.5%	4.9%	2.6%
Diluted EPS (RMB)	0.656	0.883	1.086	0.628	0.857	1.053	4.5%	3.0%	3.2%
Gross margin	49.4%	49.9%	50.2%	48.7%	49.9%	50.4%	0.8ppt	0ppt	-0.3ppt
EBIT margin	11.9%	13.8%	14.8%	11.9%	14.2%	14.8%	0ppt	-0.5ppt	0ppt
Net profit att. margin	10.4%	12.0%	12.9%	10.1%	11.3%	12.0%	0.3ppt	0.7ppt	0.9ppt

Source: Company data, CMBIS estimates

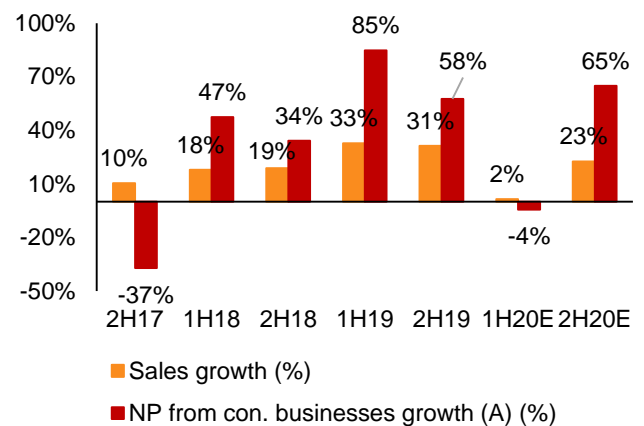
Focus Charts

Figure 3: Retail sales growth (CMBI est.), by brands



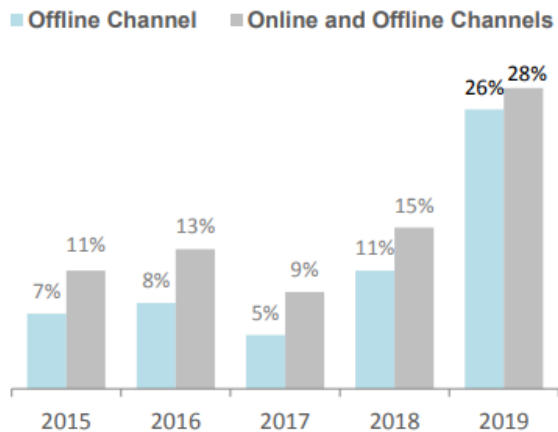
Source: Company data, CMBIS estimates

Figure 4: Sales/ net profit growth - Half year



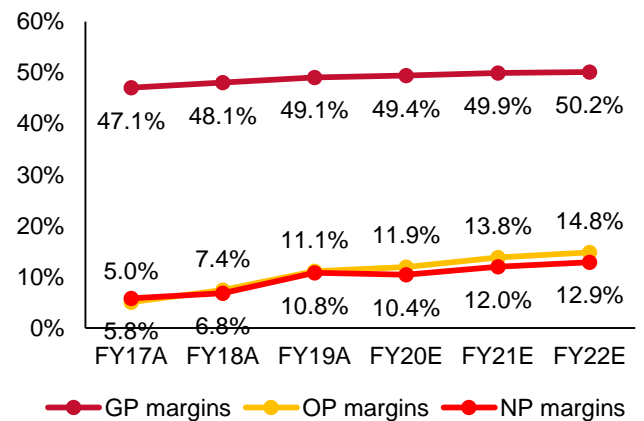
Source: Company data, CMBIS estimates

Figure 5: Sell-through growth, YoY% (ex. LN Young)



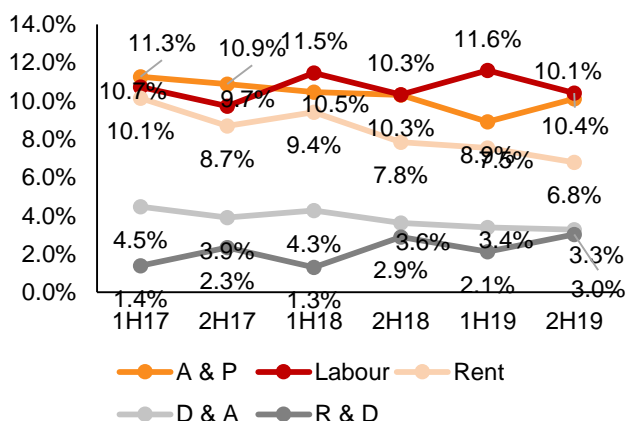
Source: Company data, CMBIS

Figure 6: GP/ OP/ NP att. margin



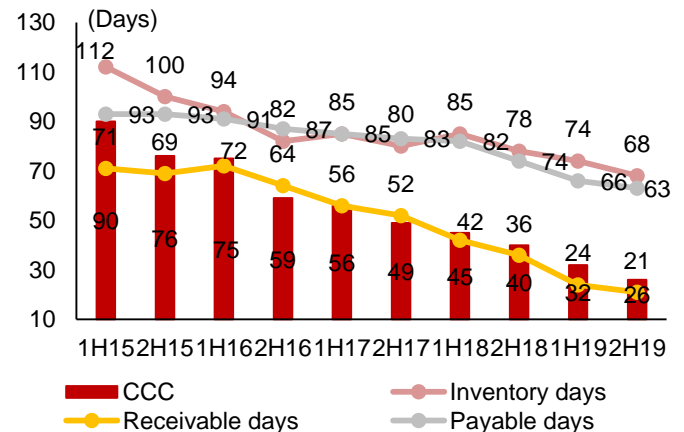
Source: Company data, CMBIS estimates

Figure 7: Opex breakdown



Source: Company data, CMBIS estimates

Figure 8: Working capital condition



Source: Company data, CMBIS estimates

Figure 9: Retail sales trend forecasts, by brands

Retail sales growth (Management comments)											
Period	4Q19	Jan20	Feb20	Mar20	1Q20E	2Q20E	1H20E	2H20E	FY20E		
Li Ning	30-40%	Very strong	45%/ 25% drop (early/ late Mar)		90% of budget (May)						
Anta	15-20%				20-30% drop	0-10% drop	Mid teen drop	Double digit up	Mid single digit drop		
FILA	50-55%				10-20% drop	10-20% up	Flat	30% plus	20% plus		
Xtep	20% plus				20% plus	80% drop	40% drop	25-30% drop			
Pou Sheng	19.0%				25.0%	82% drop	70% of budget (late Mar)	60%-65% of budget	80% of budget		
Retail sales growth (CMBIS estimates)											
Period	4Q19	Jan20	Feb20	Mar20	1Q20E	2Q20E	1H20E	2H20E	FY20E		
Li Ning	35%	28%	-70%	-30%	-21%	-5%	-13%	26%	6%		
Anta	18%	18%	-70%	-35%	-27%	-8%	-17%	13%	-2%		
FILA	53%	40%	-70%	-25%	-14%	15%	0%	35%	18%		
Xtep	23%	23%	-80%	-40%	-30%	-10%	-20%	13%	-4%		
Pou Sheng	19%	25%	-82%	-25%	-25%	-8%	-16%	15%	-1%		

Source: Company data, CMBIS estimates

Figure 10: Historical sales growth trend, by brands

Operating numbers	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Nike China sales	27.0%	23.0%	21.0%	17.0%	15.0%	16.0%	12.0%	15.0%	19.0%	25.0%	20.0%	31.0%	24.0%	22.0%	27.0%	23.0%
Adidas China sales	30.2%	30.1%	25.0%	25.0%	30.3%	27.7%	28.0%	32.0%	26.0%	27.0%	26.0%	23.0%	16.0%	14.0%	11.0%	15.0%
Anta brand's SSSG																
Anta brand's retail sales	+ve MSD	+ve HSD	+ve LDD	+ve HDD	+ve Low-teens	+ve 20%-30%	+ve Mid-teens	+ve 20%-25%	+ve 20%-25%	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens
Core brand	Flat	Flat	+ve MSD	+ve HSD	+ve LSD	+ve Mid-teens	+ve MSD	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD
Kids	50% - 60%	over 30%	over 30%	over 30%	over 30%	25%-30%	over 30%	over 40%	over 40%	over 25%	Over 25%	Over 25%	Over 20%	30%	Over 25%	25%
Online	50 - 100%	60%	over 50%	over 100%	over 50%	over 50%	over 50%	over 40%	over 40%	over 25%	Over 20%	Over 25%	+ve Mid-teens	25%	35%	Over 40%
Non-Anta brands (FILA/	over 50%	over 50%	over 50%	over 50%	+ve 40%-50%	+ve 50%-60%	+ve 40%-50%	+ve 85%-90%	+ve 80%-85%	+ve 90%-95%	+ve 90%-95%	+ve 80%-85%	+ve 65%-70%	+ve 55%-60%		
FILA															50%-55%	50%-55%
Other brands															30%-35%	25%-30%
Li Ning group's SSSG	+ve LSD	+ve HSD	+ve HSD	Mid-teens	Flat	+ve HSD	-ve LSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens
Direct retail	Flat	+ve MSD	+ve LSD	+ve HSD	-ve MSD	Flat	-ve MSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve HSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens
Wholesales	Flat	+ve MSD	+ve LSD	+ve LSD	-ve MSD	+ve LSD	-ve MSD	+ve HSD	+ve MSD	+ve LSD	+ve HSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens
E- Commerce	Low-60%	Low-70%	Mid-80%	Mid-90%	Mid-60%	Mid-90%	Low 30%	+ve High-teens	+ve High-teens	+ve Mid-30%	+ve High-teens	+ve Mid-50%	+ve High-teens	+ve Mid-30%	+ve Mid-50%	+ve Low-40%
Li Ning group's retail sales								+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens
Direct retail								Low 20%-30%	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve HSD	+ve Mid-teens	+ve High-teens
Wholesales								+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-20%	+ve Mid-20%	+ve Mid-30%	+ve Low-40%
E- Commerce								+ve High-teens	+ve High-teens	+ve Low-30%	+ve Mid-50%	+ve Low-40%	+ve High-teens	+ve High-teens	+ve Low-50%	+ve Low-40%
Xtep's SSSG	+ve MSD	+ve MSD	+ve MSD	+ve MSD	+ve LSD	+ve MSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Low-teens		+ve Low-teens
Xtep's retail sales															Over 20%	Over 20%
361 Degrees' SSSG	7.2%	7.0%	7.3%	7.5%	7.0%	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD
Pou Sheng's SSSG	7.5%	5.9%	0.4%	8.6%	1.9%	5.6%	1.5%	12.0%	10.1%	2.2%	8.9%	8.7%	8.4%	4.2%	6.0%	1.9%
Pou Sheng's sales	6.9%	6.6%	3.5%	10.1%	14.4%	14.5%	13.4%	21.6%	17.7%	17.7%	24.4%	22.0%	19.9%	18.9%	21.9%	19.1%
Dong Xiang's SSSG					Flat	-ve LSD	-ve MSD	+ve LSD	+ve Mid to High	+ve Mid to High	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid to High	+ve Mid to High
Direct retail									+ve HSD	Flat	+ve Low-teens	+ve HSD	Flat	+ve LSD	+ve HSD	+ve Low-teens
E- Commerce													+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%

Source: Company data, CMBIS estimates

Results Summary

Figure 11: Results summary – Half Year

Half yearly (RMB mn)	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19E yoy	2H19E CMBIS	Actual vs CMBIS
Revenue	4,713	5,798	6,255	7,615	18%	19%	33%	31%	7,244	5%
COGS	(2,419)	(3,039)	(3,147)	(3,917)					(3,721)	
Gross profit	2,294	2,759	3,108	3,698	20%	21%	35%	34%	3,522	5%
GP margins	48.7%	47.6%	49.7%	48.6%					48.6%	
Other income & gains	32	62	44	94					30	216%
S & D expenses	(1,735)	(1,973)	(2,023)	(2,422)	16%	11%	17%	23%	(2,383)	2%
S & D exp / sales	-36.8%	-34.0%	-32.3%	-31.8%					-32.9%	
Admin expenses	(297)	(365)	(451)	(505)	35%	30%	52%	39%	(420)	20%
Admin exp / sales	-6.3%	-6.3%	-7.2%	-6.6%					-5.8%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	294	483	678	865	46%	98%	131%	79%	749	16%
OP margins	6.2%	8.3%	10.8%	11.4%					10.3%	
Other items	0	0	0	0					0	
Net finance income	1	8	(8)	(22)					12	-277%
Net finance income / sales	0.0%	0.1%	-0.1%	-0.3%					0.2%	
Profit after financing costs	295	491	670	843					761	
Associated coms	0	0	0	0					0	
Jointly controlled coms	32	32	310	33					27	
Pre-tax profit	327	523	980	876	34%	79%	199%	68%	788	11%
Tax	(59)	(76)	(185)	(172)					(168)	
Tax / sales	-1.2%	-1.3%	-3.0%	-2.3%					-2.3%	
Effective tax rate	-18.0%	-14.6%	-18.9%	-19.6%					-21.4%	
Minority interests	0	0	0	0					0	
Net profit att.	269	447	795	704.1	42%	37%	196%	58%	620	14%
NP margins	5.7%	7.7%	12.7%	9.2%					8.6%	
Sales by channels										
Franchises	2,092	2,816	3,040	3,826	14%	17%	45%	36%	3,685	4%
Self-owned	1,565	1,568	1,758	1,862	17%	13%	12%	19%	1,719	8%
E-commerce	980	1,238	1,357	1,763	35%	32%	38%	42%	1,637	8%
International	75	177	100	163	-18%	20%	33%	-8%	203	-19%
Total	4,713	5,798	6,255	7,615	18%	19%	33%	31%	7,244	5%
Breakdown by segment										
A & P	(493)	(598)	(557)	(770)	10%	13%	13%	29%	(766)	1%
Labour	(540)	(599)	(725)	(793)	26%	26%	34%	32%	(740)	7%
Rent	(444)	(455)	(471)	(517)	9%	7%	6%	14%	(488)	6%
D & A	(202)	(210)	(212)	(249)	13%	10%	5%	19%	(216)	15%
R & D	(62)	(167)	(133)	(230)	11%	46%	115%	37%	(205)	12%
Others	(293)	(309)	(376)	(367)	37%	-3%	29%	19%	(389)	-6%
As % of total sales										
A & P	-11.3%	-10.9%	-10.5%	-10.3%					-10.3%	
Labour	-10.7%	-9.7%	-11.5%	-10.3%					-10.3%	
Rent	-10.1%	-8.7%	-9.4%	-7.8%					-7.8%	
D & A	-4.5%	-3.9%	-4.3%	-3.6%					-3.6%	
R & D	-1.4%	-2.3%	-1.3%	-2.9%					-2.9%	
Others	-5.3%	-6.5%	-6.2%	-5.3%					-5.3%	

Source: Company data, CMBIS estimates

Figure 12: Results summary - Full Year

Full yearly (RMB mn)	FY18	FY19	FY20E	FY18 yoy	FY19 yoy	FY20E yoy	FY19E CMBIS	Actual vs CMBIS
Revenue	10,511	13,870	15,682	18%	32%	13%	13,498	3%
COGS	(5,458)	(7,064)	(7,928)				(6,868)	
Gross profit	5,053	6,805	7,754	21%	35%	14%	6,630	3%
GP margins	48.1%	49.1%	49.4%				49.1%	
Other income & gains	95	139	86				74	87%
S & D expenses	(3,708)	(4,445)	(4,913)	13%	20%	11%	(4,407)	1%
S & D exp / sales	-35.3%	-32.0%	-31.3%				-32.6%	
Admin expenses	(662)	(956)	(1,057)	32%	44%	11%	(871)	10%
Admin exp / sales	-6.3%	-6.9%	-6.7%				-6.5%	
Other opex	0	0	0				0	
Operating profit (EBIT)	777	1,543	1,870	74%	99%	21%	1,427	8%
OP margins	7.4%	11.1%	11.9%				10.6%	
Other items	0	0	0				0	
Net finance income	10	(30)	30				4	-826%
Net finance income / sales	0.1%	-0.2%	0.2%				0.0%	
Profit after financing costs	787	1,513	1,901				1,431	
Associated coms	0	0	0				0	
Jointly controlled coms	64	343	94				337	
Pre-tax profit	850	1,857	1,995	58%	118%	7%	1,769	5%
Tax	(135)	(357)	(359)				(354)	
Tax / sales	-1.3%	-2.6%	-2.3%				-2.6%	
Effective tax rate	-15.9%	-19.3%	-18.0%				-20.0%	
Minority interests	0	0	0				0	
Net profit att.	715	1,499	1,636	39%	110%	9%	1,415	6%
NP margins	6.8%	10.8%	10.4%				10.5%	
Sales by channels								
Franchises	4,909	6,865	7,631	16%	40%	11%	6,725	2%
Self-owned	3,132	3,620	3,858	15%	16%	7%	3,477	4%
E-commerce	2,218	3,121	3,941	33%	41%	26%	2,994	4%
International	252	264	252	5%	4%	-4%	303	-13%
Total	10,511	13,870	15,682	18%	32%	13%	13,498	3%
Breakdown by segment								
A & P	(1,091)	(1,327)	(1,427)	11%	22%	8%	(1,323)	0%
Labour	(1,139)	(1,519)	(1,727)	26%	33%	14%	(1,465)	4%
Rent	(898)	(989)	(979)	8%	10%	-1%	(807)	23%
D & A	(411)	(461)	(504)	11%	12%	9%	(427)	8%
R & D	(229)	(362)	(392)	35%	58%	8%	(337)	7%
Others	(602)	(744)	(941)	13%	24%	26%	(918)	-19%
As % of total sales								
A & P	-10.4%	-9.6%	-9.1%				-9.8%	
Labour	-10.8%	-10.9%	-11.0%				-10.9%	
Rent	-8.5%	-7.1%	-6.2%				-6.0%	
D & A	-3.9%	-3.3%	-3.2%				-3.2%	
R & D	-2.2%	-2.6%	-2.5%				-2.5%	
Others	-5.7%	-5.4%	-6.0%				-6.8%	

Source: Company data, CMBIS estimates

Valuation

Figure 13: 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\$m)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Li Ning	2331 HK	BUY	29.63	22.30	33%	54,839	Dec-19	30.4	22.6	5.8	4.8	18.5	0.8	0.9
Anta Sports	2020 HK	BUY	62.26	54.00	15%	145,905	Dec-19	22.3	16.3	5.4	4.4	29.8	1.1	1.7
Xtep Intl	1368 HK	BUY	2.90	2.58	12%	6,482	Dec-19	8.2	6.5	0.8	0.8	11.9	1.1	6.9
361 Degrees	1361 HK	NR	n/a	1.20	n/a	2,481	Dec-19	5.1	4.3	0.3	0.3	7.2	0.6	8.7
Topsports	6110 HK	NR	n/a	8.76	n/a	54,323	Feb-19	19.2	16.7	4.9	3.8	76.8	0.0	3.3
Pou Sheng	3813 HK	NR	n/a	1.59	n/a	8,517	Dec-19	13.1	6.6	0.9	0.8	11.5	0.7	1.7
China DX	3818 HK	NR	n/a	0.67	n/a	3,944	Mar-19	5.6	n/a	n/a	n/a	n/a	0.0	n/a
Avg.								14.8	12.1	3.0	2.5	26.0	0.6	3.9
Med.								13.1	11.4	2.9	2.3	15.2	0.7	2.5
International Sportswear														
Nike Inc	NKE US	NR	n/a	84.26	n/a	1,016,847	May-19	34.7	29.5	16.8	15.7	48.0	3.3	1.1
Adidas	ADS GY	NR	n/a	214.50	n/a	362,660	Dec-19	27.6	20.3	6.0	5.0	30.0	5.7	1.8
Puma	PUM GY	NR	n/a	53.72	n/a	68,351	Dec-19	34.5	23.4	3.9	3.5	14.7	2.3	0.8
Under Armour	UAA US	NR	n/a	9.72	n/a	31,928	Dec-19	n/a	37.1	2.0	1.9	4.4	0.0	0.0
Lululemon	LULU US	NR	n/a	195.85	n/a	197,628	Feb-20	43.0	32.4	10.7	9.2	38.0	3.5	0.0
Skechers	SKX US	NR	n/a	24.40	n/a	29,680	Dec-19	12.8	10.3	1.5	1.4	15.9	(4.6)	0.0
Vf Corp	VFC US	NR	n/a	56.62	n/a	173,257	Mar-20	18.1	18.0	4.8	4.5	29.1	3.1	3.3
Columbia	COLM US	NR	n/a	72.23	n/a	37,742	Dec-19	17.9	15.1	2.3	1.9	18.8	11.7	1.5
Wolverine	WWW US	NR	n/a	15.87	n/a	9,974	Dec-19	7.9	6.5	1.5	1.2	14.4	0.4	2.5
Mizuno Corp	8022 JP	NR	n/a	1760.00	n/a	3,333	Mar-19	7.6	6.9	0.5	0.5	6.6	1.3	2.8
Asics Corp	7936 JP	NR	n/a	910.00	n/a	12,310	Dec-19	30.7	16.0	1.1	1.1	4.5	1.6	3.1
Avg.								23.5	19.6	4.6	4.2	20.4	2.6	1.5
Med.								22.8	18.0	2.3	1.9	15.9	2.3	1.5

Source: Bloomberg, CMBIS estimates

Assumption

Figure 14: Li Ning's key assumptions

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Sales by segment (Rmb mn)					
Shoes	4,601	6,085	6,870	8,030	9,237
Clothes	5,316	7,110	8,070	9,522	10,903
Equipments	594	674	742	816	914
Others	0	0	0	0	0
Total	10,511	13,870	15,682	18,369	21,054
Sales by segment growth (%)					
Shoes	11.0%	32.3%	12.9%	16.9%	15.0%
Clothes	27.4%	33.7%	13.5%	18.0%	14.5%
Equipments	18.5%	13.6%	10.0%	10.0%	12.0%
Others	-100.0%	n/a	n/a	n/a	n/a
Total	18.4%	32.0%	13.1%	17.1%	14.6%
Sales by channel growth (%)					
Franchises	15.7%	39.9%	11.1%	13.0%	11.0%
Self owned	15.0%	15.6%	6.6%	15.0%	13.0%
E-commerce	32.9%	40.7%	26.3%	28.0%	23.0%
International	5.3%	4.5%	-4.5%	5.0%	0.0%
Total	18.4%	32.0%	13.1%	17.1%	14.6%
Sales network by segment					
Self owned	1,506	1,292	1,267	1,292	1,317
Franchise	4,838	5,157	5,202	5,257	5,312
Total	6,344	6,449	6,469	6,549	6,629
LN Young	793	1,101	1,251	1,401	1,501
Sum-total	7,137	7,550	7,720	7,950	8,130
GP margins	48.1%	49.1%	49.4%	49.9%	50.2%
Opex breakdown					
A & P/ sales	10.4%	9.6%	9.1%	9.2%	9.4%
Labour/ sales	10.8%	10.9%	11.0%	10.6%	10.2%
Rental/ sales	8.5%	7.1%	6.2%	5.9%	5.5%
D & A/ sales	3.9%	3.3%	3.2%	3.2%	3.2%
R & D/ sales	2.2%	2.6%	2.5%	2.4%	2.4%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	35.3%	32.0%	31.3%	30.2%	29.5%
Admin expenses / sales	6.3%	6.9%	6.7%	6.5%	6.4%
OP margins	7.4%	11.1%	11.9%	13.8%	14.8%
Effective tax rate	15.9%	19.3%	18.0%	18.0%	18.0%
Net profit margins	6.8%	10.8%	10.4%	12.0%	12.9%
Net profit att. growth (%)	38.8%	109.6%	9.1%	34.6%	23.0%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	10,511	13,870	15,682	18,369	21,054
Franchises	4,909	6,865	7,631	8,623	9,571
Self owned	3,132	3,620	3,858	4,437	5,013
E-commerce	2,218	3,121	3,941	5,045	6,205
International	252	264	252	264	264
Cost of goods sold	(5,458)	(7,064)	(7,928)	(9,197)	(10,495)
Gross profit	5,053	6,805	7,754	9,171	10,559
Other income	95	139	86	101	116
Operating expenses	(4,370)	(5,401)	(5,970)	(6,743)	(7,555)
D & A	(410)	(429)	(504)	(591)	(505)
Staff costs	(1,139)	(1,519)	(1,727)	(1,951)	(2,155)
S & D costs (ex-staff, D&A)	(2,708)	(3,252)	(3,553)	(4,010)	(4,515)
Admin exp. (ex-staff, D&A)	(113)	(201)	(186)	(190)	(379)
Other operating expenses	-	-	-	-	-
EBIT	777	1,543	1,870	2,530	3,120
Finance costs, net	10	(30)	30	45	57
JVs & associates	64	343	94	110	126
Exceptional	-	-	-	-	-
Pre-tax profit	850	1,857	1,995	2,685	3,303
Income tax	(135)	(357)	(359)	(483)	(595)
Less: Minority interests	0	0	0	0	0
Net profit	715	1,499	1,636	2,202	2,709

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
EBIT	777	1,543	1,870	2,530	3,120
D & A	410	429	504	591	676
Change in working capital	448	1,344	128	190	190
Income tax paid	(9)	(135)	(357)	(359)	(483)
Others	46	-	-	-	-
Net cash from operating	1,672	3,181	2,145	2,952	3,503
Capex & investments	(431)	(624)	(706)	(827)	(947)
Associated companies	(44)	-	-	-	-
Interest received	51	278	76	89	102
Others	(59)	29	39	48	60
Net cash from investing	(483)	(318)	(590)	(689)	(785)
Equity raised	51	-	-	-	-
Net change in bank loans	-	10	-	-	-
Dividend paid	-	(215)	(380)	(382)	(516)
Others	(117)	(369)	(9)	(4)	(4)
Net cash from financing	(66)	(573)	(389)	(386)	(520)
Net change in cash	1,123	2,290	1,166	1,877	2,198
Beginning cash balance	2,529	3,672	5,961	7,017	8,789
Exchange difference	19	-	-	-	-
Cash at the end of the year	3,672	5,961	7,127	8,894	10,987

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
Non-current assets	2,341	4,008	4,228	4,485	4,781
Fixed asset	830	1,039	1,258	1,518	1,803
Intangible assets & goodwill	308	265	248	223	211
Prepaid lease payments	103	115	115	115	115
Interest in joint ventures	-	-	18	39	63
Other non-current assets	1,100	2,589	2,589	2,589	2,589
Current assets	6,386	8,539	10,030	12,365	15,022
Cash and cash equivalents	3,672	5,961	7,127	8,983	11,155
Inventories	1,240	1,407	1,579	1,832	2,091
Trade and other receivables	929	687	776	909	1,042
Prepayments	546	483	546	640	733
Other current assets	0	1	1	1	1
Current liabilities	2,777	4,717	5,171	5,965	6,751
Bank loans	-	-	-	-	-
Trade payables	1,133	1,348	1,513	1,755	2,003
Accruals & other payables	1,412	2,205	2,493	2,920	3,347
Tax payables	134	531	532	656	768
Others	98	633	633	633	633
Non-current liabilities	130	707	707	707	707
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	54	54	54	54	54
Others	77	653	653	653	653
Minority Interest	-	-	-	-	-
Total net assets	5,820	7,124	8,380	10,179	12,345
Shareholders' equity	5,820	7,124	8,380	10,179	12,345

Key ratios

YE Dec 31	FY17A	FY18A	FY19A	FY20E	FY21E
Sales mix (%)					
Franchises	46.7	49.5	48.7	46.9	45.5
Self owned	29.8	26.1	24.6	24.2	23.8
E-commerce	21.1	22.5	25.1	27.5	29.5
International	2.4	1.9	1.6	1.4	1.3
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.1	49.1	49.4	49.9	50.2
Operating margin	7.4	11.1	11.9	13.8	14.8
Pre-tax margin	8.1	13.4	12.7	14.6	15.7
Net margin	6.8	10.8	10.0	11.6	12.6
Effective tax rate	17.2	23.6	18.9	18.8	18.7
Balance sheet ratios					
Current ratio (x)	2.3	1.8	1.9	2.1	2.2
Quick ratio (x)	1.9	1.5	1.6	1.8	1.9
Cash ratio (x)	1.3	1.3	1.4	1.5	1.7
Inventory turnover days	112	105	105	105	105
Trade receivables days	61	60	60	60	60
Trade payables days	40	40	40	40	40
Total debt / total equity	1	1	1	0	0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	12.3	21.0	19.5	21.6	21.9
ROA	8.2	11.9	11.5	13.1	13.7
Per share					
EPS (RMB)	0.29	0.60	0.62	0.88	1.09
DPS (RMB)	0.09	0.15	0.16	0.22	0.27
BVPS (RMB)	2.41	2.90	3.41	4.14	5.03

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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