

Li Ning (2331 HK)

Healthy outlook after a beat in retail discounts

Li Ning may not be our top pick in the sportswear sector. But thanks to potential sequential acceleration in sales growth and decent margin improvement (better discounts and operating leverage), we are still positive on Li Ning and maintain BUY with TP of HK\$ 22.17, based on 15x FY24E P/E.

■ **The 2024 outlook is constructive, as we see some upsides on sales growth and margins.** Even though Li Ning is not our top pick in the China sportswear sector, we still think the outlook is positive and sequential improvement should be expected (the base is high for 2Q24E but will get better in 2H24E). 1) There is no change in FY24E guidance (MSD sales growth and low-teen level of NP margin). 2) Thanks to healthy level of channel inventory, management also does not see any needs for trade fair orders to be adjusted/ cut again. 3) The momentum on e-commerce is decent, as the new channels (Poizon and Douyin) are still fast-growing and online sales can react fast and positively to any improvement in marketing activities. 4) The new products (esp. the running shoes like “Super light 21/ 超轻 21”, “Red rabbit 7/ 赤兔 7”, “Feidian4/ 飞电 4C” are all hot selling) are doing well and we should see more to come (more CBA related products will be launched and Way of Wade 11 will come in May 2024, etc.). 5) We do look forward to its new style of marketing (a new CMO joined last year and the department has been regrouped), an Olympic marketing campaign will be launched in May 2024, which will feature many stores about many athletes. 6) We also see some room for margin improvements, because the retail discounts is healthily improving (esp. in direct retail and e-commerce segment) and the level of operating deleverage could be less than we previously thought.

■ **Improvement in retail discounts is slightly better than expected.** Li Ning’s retail discounts has narrowed YoY by LSD on both offline and online channel in 1Q24, which is effectively implied a decent improvement vs 4Q23. More encouragingly, the retail discounts improvement was as high as MSD for the direct-retail stores. Overall discounts for offline stores was at 30% to 35% in 1Q24, from 35% off in 1Q23.

■ **Inventory level has rebounded vs 4Q23 but is still healthy.** Inventory to sales ratio was at 4 to 4.5 months in 1Q24, increased from 3.6 months in 4Q23, but it is still at a very healthy range.

■ **Maintain BUY but trim TP to HK\$ 22.17, based on 15x FY24E P/E (unchanged).** We have revised down our FY24E/ 25E/ 26E net profit by 11%/ 8%/ 8% to factor in: 1) lower other gains, 2) lower interest income, 3) higher A&P expenses and 4) potential impairment losses. The current valuation of 13x FY24E P/E may be not be too attractive for an 8% 3-year sales CAGR. However, we do think a turnaround is likely and maintain BUY. The stock is trading at 13x FY24E P/E with 4% 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	4,164.5	4,764.3	5,358.1
Net profit (RMB mn)	4,063.8	3,187.0	3,402.2	3,938.2	4,484.1
EPS (Reported) (RMB)	1.54	1.23	1.31	1.52	1.73
YoY growth (%)	(2.3)	(20.5)	6.8	15.8	13.9
P/E (x)	10.7	13.4	12.5	10.8	9.5
P/B (x)	1.8	1.7	1.6	1.5	1.3
Yield (%)	2.7	3.2	3.4	4.0	4.5
ROE (%)	17.9	12.8	12.9	13.9	14.6
Net gearing (%)	30.9	25.0	30.3	36.4	42.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$22.17
(Previous TP)	HK\$24.86
Up/Downside	19.9%
Current Price	HK\$18.50

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	48,406.1
Avg 3 mths t/o (HK\$ mn)	509.5
52w High/Low (HK\$)	56.90/15.12
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	-9.5%	-11.3%
3-mth	18.9%	8.5%
6-mth	-39.4%	-38.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **1Q24 retail sales growth was roughly inline.** Li Ning's retail sales growth was at LSD, slightly better than CMBI est. of 0%. Management mentioned Mar 2024 is mildly better (vs Jan-Feb) and believes Apr 2024 could be decent, but that is mostly supported by the holidays (Ching Ming Festival lasts for three days and the last weekend is linked to 5-1 holidays) and number in May 2024 may normalize.
- **E-commerce, direct retail and running are outperforming.** In terms of segment, sales growth for e-commerce was robust at 20%+, better than management expectation while offline sales was slow and a bit disappointing. E-commerce sales growth was mainly driven by Poizon (100%+) and Douyin (20%+). These platform contributed around 30% of total online sales, way faster than Tmall (HSD) and JD (10%+). And by channel, direct retail did outperform, but that was mostly due to robust sales growth in the outlet channel while the performance was similar between the regular direct retail stores and distributor stores. By sports, running and cross products is still fast-growing, by 20%+ and 10%+ but the basketball product sales was falling, even though the drop has been narrowing.
- **Number of stores was stable but the store opening plan in FY24E remains intact.** Li Ning's number of stores was at 6,214 in 1Q24, roughly flattish vs 6,206 in 1Q23, but dropped slightly from 6,240 in 3Q24. There is no change in store expansion plan in FY24E (20 net closures for direct retail, 100 net increases for wholesale and 150 net increases for kids). We believe Li Ning will expand more into the lower tier cities with a greater scale of localization (more tailor made strategy and specific sets of products for various cities).

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	29,523	32,070	34,931	0.0%	0.0%	0.0%
Gross profit	14,485	15,920	17,481	14,485	15,920	17,481	0.0%	0.0%	0.0%
EBIT	4,165	4,764	5,358	4,504	5,020	5,635	-7.5%	-5.1%	-4.9%
Net profit att.	3,402	3,938	4,484	3,814	4,299	4,873	-10.8%	-8.4%	-8.0%
Diluted EPS (RMB)	1.31	1.52	1.73	1.47	1.65	1.88	-10.8%	-8.4%	-8.0%
Gross margin	49.1%	49.6%	50.0%	49.1%	49.6%	50.0%	0ppt	0ppt	0ppt
EBIT margin	14.1%	14.9%	15.3%	15.3%	15.7%	16.1%	-1.2ppt	-0.8ppt	-0.8ppt
Net profit att. margin	11.5%	12.3%	12.8%	12.9%	13.4%	13.9%	-1.4ppt	-1.1ppt	-1.1ppt

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	29,260	31,809	34,516	0.9%	0.8%	1.2%
Gross profit	14,485	15,920	17,481	14,283	15,635	17,096	1.4%	1.8%	2.3%
EBIT	4,165	4,764	5,358	3,920	4,568	5,098	6.3%	4.3%	5.1%
Net profit att.	3,402	3,938	4,484	3,438	3,915	4,398	-1.0%	0.6%	1.9%
Diluted EPS (RMB)	1.31	1.52	1.73	1.32	1.51	1.69	-1.0%	0.5%	2.0%
Gross margin	49.1%	49.6%	50.0%	48.8%	49.2%	49.5%	0.2ppt	0.5ppt	0.5ppt
EBIT margin	14.1%	14.9%	15.3%	13.4%	14.4%	14.8%	0.7ppt	0.5ppt	0.6ppt
Net profit att. margin	11.5%	12.3%	12.8%	11.8%	12.3%	12.7%	-0.2ppt	0ppt	0.1ppt

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%	6%	9%	9%	9%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	5%	5%	5%	5%
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	+ve MSD	3%	14%	18%
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%	+ve LSD			
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%	Flat			
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	20%-25%			
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%	+ve HSD	9%	11%	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%	+ve MSD			
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%	-ve LSD			
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%	-ve MSD			
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	20%			
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%	25%-30%			
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%	20-25%			
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%			
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	-ve MSD			
Direct retail	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	+ve MSD	+ve High 30%	-ve LSD			
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	-ve Mid-teens			
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	+ve Low 20%			
Li Ning group's retail sales																
Li Ning group's retail sales	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve High 30%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	+ve Mid-teens	+ve MSD	+ve Low 20%	+ve LSD	6%	5%	17%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 30%	+ve Mid 20%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%	+ve MSD			
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	-ve MSD			
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	+ve Low 20%			
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%	+ve HSD	11%	10%	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%	+ve High-teens	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%	20%-25%			
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%			
Pou Sheng's SSSG																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%				
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	5%	3%	6%
Topsports' retail sales																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High-teens	-ve High-teens	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low-20%	-ve LSD	+ve Low-teens	3%	10%	0%	13%
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 SD	-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 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)

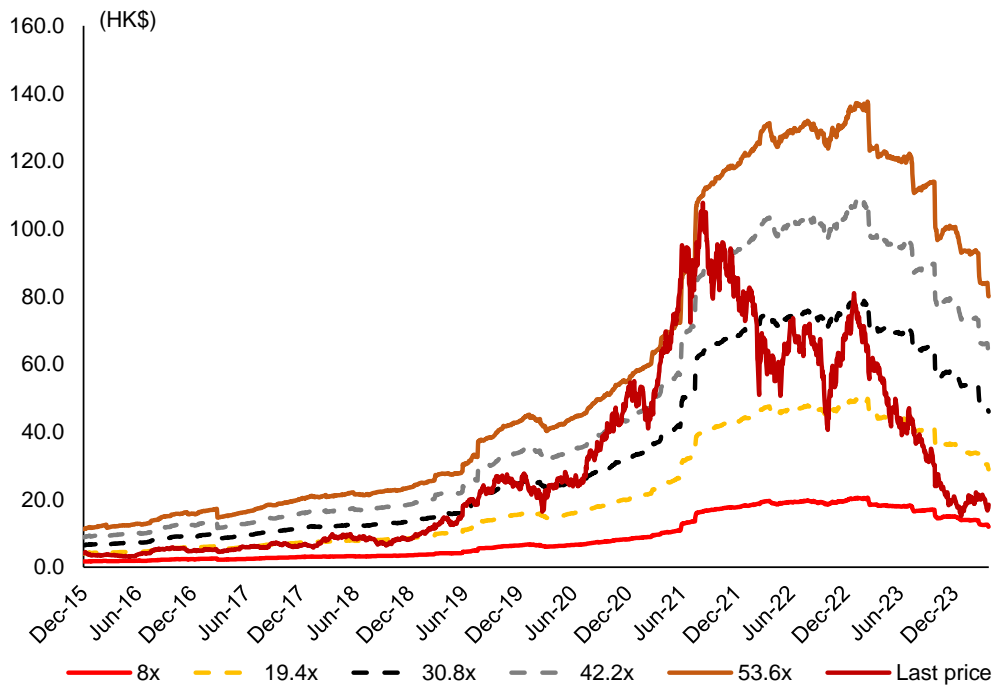
Valuation

Figure 4: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. (%)	
								FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E	
H shares Sportswear															
Li Ning	2331 HK	BUY	22.17	18.50	20%	47,813	Dec-23	13.4	12.5	1.7	16.7	(22.3)	3.4	(11.5)	
Anta Sports	2020 HK	BUY	109.99	87.25	26%	247,146	Dec-23	17.9	16.2	3.9	23.8	1.2	2.9	15.2	
Xtep Intl	1368 HK	BUY	6.31	4.56	38%	12,045	Dec-23	9.4	8.1	1.1	12.0	0.8	5.4	3.4	
361 Degrees	1361 HK	BUY	6.25	4.55	37%	9,408	Dec-23	7.6	6.5	0.8	11.3	0.5	3.9	31.1	
Topsports	6110 HK	BUY	9.23	5.17	79%	32,060	Feb-23	12.5	10.7	2.8	20.4	0.7	7.1	(15.0)	
Pou Sheng	3813 HK	NR	n/a	0.62	n/a	3,302	Dec-23	4.7	3.7	0.3	5.9	0.2	6.6	(8.8)	
China DX	3818 HK	NR	n/a	0.35	n/a	2,061	Mar-23	10.8	6.5	0.2	1.0	0.3	6.2	22.8	
								Avg.	10.9	9.2	1.6	13.0	(2.7)	5.1	5.3
								Med.	10.8	8.1	1.1	12.0	0.5	5.4	3.4
International Sportswear															
Nike Inc	NKE US	NR	n/a	94.19	n/a	1,114,116	May-23	25.5	23.8	10.2	36.4	2.3	1.5	(13.2)	
Adidas	ADS GY	NR	n/a	224.90	n/a	338,057	Dec-23	68.6	31.8	7.9	(1.6)	(0.2)	0.5	22.1	
Puma	PUM GY	NR	n/a	43.08	n/a	54,259	Dec-23	18.5	14.7	2.3	12.1	1.0	1.9	(14.7)	
Under Armour	UAA US	NR	n/a	6.78	n/a	22,732	Mar-23	13.0	11.5	1.4	20.1	(1.9)	0.0	(22.9)	
Lululemon	LULU US	NR	n/a	361.79	n/a	357,263	Jan-24	25.7	22.8	8.2	42.0	1.9	0.0	(29.2)	
Skechers	SKX US	NR	n/a	58.01	n/a	70,981	Dec-23	14.9	12.7	1.8	14.4	1.1	0.1	(6.9)	
On Holding	ONON US	NR	n/a	31.93	n/a	79,762	Dec-23	44.5	33.1	7.2	7.8	0.8	n/a	18.4	
Decker Outdoor	DECK US	NR	n/a	810.22	n/a	162,979	Mar-23	29.8	26.8	10.2	37.4	1.4	0.0	21.2	
Vf Corp	VFC US	NR	n/a	12.79	n/a	38,972	Apr-23	11.8	9.8	2.2	(28.2)	0.2	6.1	(32.0)	
Columbia	COLM US	NR	n/a	77.14	n/a	35,953	Dec-23	21.1	17.7	2.2	13.0	4.3	1.5	(3.0)	
Wolverine	WWW US	NR	n/a	10.01	n/a	6,269	Dec-23	13.5	9.0	2.2	(13.4)	(0.1)	4.4	12.6	
Mizuno Corp	8022 JP	NR	n/a	7350.00	n/a	9,888	Mar-23	15.2	14.9	1.4	10.3	2.1	1.4	87.0	
Asics Corp	7936 JP	NR	n/a	6656.00	n/a	63,966	Dec-23	31.1	26.8	5.8	18.8	2.7	1.1	50.7	
								Avg.	25.6	19.6	4.9	13.0	1.2	1.6	6.9
								Med.	21.1	17.7	2.3	13.0	1.1	1.3	(3.0)

Source: Bloomberg, CMBIGM estimates

Figure 5: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 6: 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%	9.5%	9.5%	9.5%
Labour/ sales	7.7%	8.7%	8.4%	8.4%	8.4%
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%	0.4%	0.0%	0.0%
Selling & distribution costs / sales	28.3%	32.9%	32.5%	32.4%	32.4%
Admin expenses / sales	4.3%	4.6%	4.4%	4.3%	4.2%
OP margins	18.9%	12.9%	14.1%	14.9%	15.3%
Effective tax rate	25.0%	25.1%	24.0%	24.0%	24.0%
Net profit margins	15.7%	11.5%	11.5%	12.3%	12.8%
Net profit att. growth (%)	1.3%	-21.6%	6.8%	15.8%	13.9%

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)	(10,898)	(11,783)	(12,807)
Selling expense	(6,138)	(7,314)	(9,080)	(9,595)	(10,398)	(11,327)
Admin expense	(697)	(579)	(638)	(641)	(666)	(697)
R&D expense	(414)	(534)	(618)	(661)	(718)	(782)
Operating profit	5,136	4,887	3,559	4,165	4,764	5,358
Other income	416	829	543	578	627	683
Share of (losses)/profits of associates/JV	159	201	378	207	224	245
EBITDA	5,767	5,668	4,628	5,363	6,083	6,778
Depreciation	(589)	(732)	(1,020)	(1,157)	(1,289)	(1,399)
Other amortisation	(41)	(49)	(48)	(41)	(30)	(21)
Interest income	145	448	501	287	375	479
Interest expense	(112)	(121)	(181)	(182)	(182)	(182)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	5,328	5,415	4,256	4,477	5,182	5,900
Income tax	(1,317)	(1,351)	(1,069)	(1,074)	(1,244)	(1,416)
Minority interest	0	0	0	0	0	0
Net profit	4,011	4,064	3,187	3,402	3,938	4,484
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	18,672	12,395	11,529	13,738	16,598	19,809
Cash & equivalents	14,745	7,382	6,213	8,132	10,597	13,357
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	23,473	23,557	23,631	23,729
PP&E	1,626	3,235	3,318	3,342	3,336	3,334
Investment in JVs & assos	0	0	186	287	398	518
Intangibles	188	217	170	129	97	75
Other non-current assets	9,789	17,800	19,799	19,799	19,800	19,801
Total assets	30,275	33,647	35,002	37,295	40,229	43,538
Current liabilities	7,704	7,241	7,583	7,973	8,660	9,420
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	760	930	1,102
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	10,047	10,733	11,494
Share capital	239	240	240	240	240	240
Retained earnings	3	2	536	2,408	4,574	7,040
Other reserves	20,863	24,089	24,569	24,601	24,682	24,764
Total shareholders equity	21,104	24,332	25,345	27,249	29,496	32,044
Minority interest	0	0	0	0	0	0
Total equity and liabilities	30,275	33,647	35,002	37,295	40,229	43,538

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,328	5,415	4,256	4,477	5,182	5,900
Depreciation & amortization	630	782	1,069	1,198	1,319	1,420
Tax paid	(456)	(1,316)	(1,351)	(1,069)	(1,074)	(1,244)
Change in working capital	826	(1,133)	320	95	123	136
Others	197	167	(697)	(312)	(418)	(542)
Net cash from operations	6,525	3,914	3,597	4,389	5,132	5,670
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)	(1,307)	392	489	603
Net cash from investing	(6,539)	(9,481)	(2,411)	(789)	(794)	(794)
Financing						
Dividend paid	(515)	(1,195)	(2,174)	(1,498)	(1,691)	(1,936)
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)	(1,680)	(1,873)	(2,117)
Net cash from financing	7,081	(3,082)	(4,529)	(3,179)	(3,564)	(4,053)
Net change in cash						
Cash at the beginning of the year	7,187	14,745	7,382	6,213	8,132	10,597
Exchange difference	(25)	93	0	0	0	0
Others	7,583	(7,455)	(1,170)	1,920	2,465	2,759
Cash at the end of the year	14,745	7,382	6,213	8,132	10,597	13,357
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%)	17.0%	14.4%	12.5%
EBITDA	108.0%	(1.7%)	(18.4%)	15.9%	13.4%	11.4%
Net profit	136.1%	1.3%	(21.6%)	6.8%	15.8%	13.9%
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%	14.1%	14.9%	15.3%
EBITDA margin	25.5%	22.0%	16.8%	18.2%	19.0%	19.4%
Return on equity (ROE)	26.9%	17.9%	12.8%	12.9%	13.9%	14.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.7	0.3	0.3	0.3	0.4	0.4
Current ratio (x)	2.4	1.7	1.5	1.7	1.9	2.1
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	9.5	10.7	13.4	12.5	10.8	9.5
P/E (diluted)	9.5	10.7	13.4	12.5	10.8	9.5
P/B	1.9	1.8	1.7	1.6	1.5	1.3
P/CFPS	6.7	11.5	12.4	10.1	8.7	7.8
Div yield (%)	2.7	2.7	3.2	3.4	4.0	4.5
EV	31,069.6	38,281.8	39,451.4	37,531.7	35,066.5	32,307.2
EV/Sales	1.4	1.5	1.4	1.3	1.1	0.9
EV/EBITDA	5.4	6.8	8.5	7.0	5.8	4.8

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

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