

# Li Ning (2331 HK)

## Guidance maintained with healthy inventory

1H22 result was a mixture of weaker GP margin but better sales, other income and costs control, but we are quite delighted by the healthy inventory and solid FY22 guidance. Hence, we reiterate BUY and raised TP to HK\$80.64, based on a 32x FY23E P/E (rolled over from 35x FY22E P/E). Its current valuation of 28x FY23E P/E is not too demanding, especially when the sector is turning around.

- **1H22 result in line, soften GP margin offset by strong sales, other income and costs control.** Sales increased by 22% YoY to RMB 12.4bn, beating BBG/ CMBI est. by 7%/ 13%, thanks to blooming wholesale and footwear sales. Net profit rose by 12% YoY to RMB 2.2bn, 4%/7% above BBG/ CMBI est., which consists of a sizable miss in GP margin (at 50.0% vs CMBI est. of 54.1%) but much stronger than expected other income, interest income and opex control. But equally important is that the channel inventory was still low and healthy at 3.6 months (vs 3.1/ 3.9 months in 1H21/ 2H21).
- **2Q22 retail sales missed slightly but trend in Jul-Aug 2022 is encouraging.** Retail sales dropped by HSD in 2Q22, slightly below CMBI est. of -5%, which is just at par with FILA, worse than Anta's MSD decline and far behind's Xtep's mid-teens growth, but it is understandable given the high base and the shanghai lockdown. Considering the high base (70%+/ 30%+ growth in Jul/ Aug 2021), retail sales growth of 10%+ during Jul- 10 Aug 2022 (positive/ much faster in Jul/ Aug) is decent enough, in our view. We are now forecasting 20%/ 25% retail sales growth in 3Q22E/ 4Q22E.
- **No change on the FY22E guidance and we are now more confident.** Management reiterated their FY22E guidance (high-teens to low 20s sales growth and high-teens NP margin) and we are confident too, because of: 1) massive success in the professional running shoes (the super light series recorded a sales volume of 3mn pairs), 2) low base, 3) decent sales area growth (20%+ YoY), 4) stellar sales per store by its new stores in 1H22 ((at RMB 450K vs group average of ~ RMB 350K in FY21), 5) successful reforms on the retail operation, which consist of weekly reviews on items per tickets and conversion rate, etc. We are also comfortable about its margins, due to: 1) healthy inventory level as well as the new/old product mix (less pressure to offer larger retail discounts in 2H22E despite the relatively excessive industry inventory) and 2) its exceptional opex control (esp. on staff costs).
- **Maintain BUY and raised TP to HK\$ 80.64.** We maintain BUY and lifted TP to HK\$ 80.64, based on a 32x FY23E P/E (from 35x FY22E P/E). Current valuation is at 28x FY23E P/E, which is not too demanding, in our view, vs 5 year-average of 30x. We revised down our FY22E/ 23E/ 24R NP est. by 3%/ 2%/ 5% to factor in faster sales growth but lower GP/ OP margins.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,457	22,572	26,910	31,350	35,802
YoY growth (%)	4.2	56.1	19.2	16.5	14.2
Net income (RMB mn)	1,698	4,011	4,752	5,514	6,585
EPS (RMB)	0.68	1.58	1.83	2.09	2.50
YoY growth (%)	12.5	133.6	16.1	14.0	19.4
Consensus EPS (RMB)	n/a	n/a	1.81	2.27	2.77
P/E (x)	87.2	36.9	31.7	27.8	23.3
P/B (x)	16.7	11.7	9.1	7.2	5.8
Yield (%)	0.4	0.8	1.0	1.1	1.3
ROE (%)	19.5	32.9	30.2	27.8	26.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$80.64
(Previous TP	HK\$75.43)
Up/Downside	+15.0%
Current Price	HK\$70.10

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### Stock Data

Mkt Cap (HK\$ mn)	183,513
Avg 3 mths t/o (HK\$ mn)	1,048.91
52w High/Low (HK\$)	108.2/ 48.6
Total Issued Shares (mn)	2,617.9

Source: Bloomberg

### Shareholding Structure

Mr Li Ning & Family	12.79%
BlackRock Inc.	6.13%
JP Morgan Chase & Co	5.21%
FMR LLC.	4.70%
Schroders Plc.	4.70%
Free Float	66.47%

Source: Bloomberg, HKEx

### Share Performance

	Absolute	Relative
1-mth	-2.6%	2.4%
3-mth	16.4%	15.0%
6-mth	-19.1%	0.3%
12-mth	-22.7%	2.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers

### Related Reports

1. Li Ning (2331 HK, BUY) – A resilient 1Q22 but we are prudent on 2Q22E - 20 Apr 2022
2. Li Ning (2331 HK, BUY) – A solid guidance, considering the pandemic - 21 Mar 2022

- **Multiple growth drivers ahead despite certain setbacks for China Li Ning and Li Ning 1990.** We believe Li Ning still has many long-term growth drivers, namely: 1) new products equipped with the evolutionary technology (the success for its running shoes will be imposed on other categories like basketball shoes in FY23E), 2) the fast growing Li Ning's kidswear, where its products and distributors are all being upgraded and refined, 3) womenswear with great potential where Li Ning does has a tremendous game plan in the long-run. In fact, for the China Li Ning and the Li Ning 1990 series, management are revising and rationalizing their expansions, and is now aiming to refine their quality, uniqueness as well as trendiness of the products and brandings, in order to restore their credibility and create a more impressive and influential image among the consumers, which should eventually benefit its growth in the long run.

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	26,910	31,350	35,802	26,042	30,232	33,969	3.3%	3.7%	5.4%
Gross profit	13,673	16,019	18,359	13,641	15,887	17,908	0.2%	0.8%	2.5%
EBIT	5,776	6,717	7,766	5,759	6,675	7,520	0.3%	0.6%	3.3%
Net profit att.	4,752	5,514	6,585	4,633	5,408	6,290	2.6%	2.0%	4.7%
Diluted EPS (RMB)	1.83	2.09	2.50	1.79	2.05	2.39	2.6%	2.0%	4.7%
Gross margin	50.8%	51.1%	51.3%	52.4%	52.6%	52.7%	-1.6ppt	-1.5ppt	-1.4ppt
EBIT margin	21.5%	21.4%	21.7%	22.1%	22.1%	22.1%	-0.6ppt	-0.7ppt	-0.4ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.8%	17.9%	18.5%	-0.1ppt	-0.3ppt	-0.1ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	26,910	31,350	35,802	26,789	32,480	38,947	0.5%	-3.5%	-8.1%
Gross profit	13,673	16,019	18,359	13,891	17,116	20,657	-1.6%	-6.4%	-11.1%
EBIT	5,776	6,717	7,766	5,858	7,394	9,062	-1.4%	-9.2%	-14.3%
Net profit att.	4,752	5,514	6,585	4,687	5,871	7,180	1.4%	-6.1%	-8.3%
Diluted EPS (RMB)	1.83	2.09	2.50	1.81	2.27	2.77	1.1%	-7.8%	-9.8%
Gross margin	50.8%	51.1%	51.3%	51.9%	52.7%	53.0%	-1ppt	-1.6ppt	-1.8ppt
EBIT margin	21.5%	21.4%	21.7%	21.9%	22.8%	23.3%	-0.4ppt	-1.3ppt	-1.6ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.5%	18.1%	18.4%	0.2ppt	-0.5ppt	0ppt

Source: Company data, CMBIGM estimates

## Results preview

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H21	2H21	1H22	2H22E	1H21 YoY	2H21 YoY	1H22 YoY	2H22E YoY	1H22E CMBIG M	Actual vs CMBIGM
Revenue	10,197	12,376	12,409	14,502	65%	50%	22%	17%	11,028	13%
COGS	(4,498)	(6,106)	(6,208)	(7,029)					(5,060)	
Gross profit	5,699	6,270	6,201	7,472	86%	55%	9%	19%	5,968	4%
<b>GP margins</b>	<b>55.9%</b>	<b>50.7%</b>	<b>50.0%</b>	<b>51.5%</b>					<b>54.1%</b>	
Other income & gains	134	282	344	342					132	160%
S & D expenses	(2,857)	(3,281)	(3,383)	(3,913)	47%	33%	18%	19%	(3,110)	9%
<b>S &amp; D exp / sales</b>	<b>-28.0%</b>	<b>-26.5%</b>	<b>-27.3%</b>	<b>-27.0%</b>					<b>-28.2%</b>	
Admin expenses	(437)	(673)	(518)	(769)	26%	47%	18%	14%	(441)	17%
<b>Admin exp / sales</b>	<b>-4.3%</b>	<b>-5.4%</b>	<b>-4.2%</b>	<b>-5.3%</b>					<b>-4.0%</b>	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,538	2,598	2,644	3,132	183%	100%	4%	21%	2,549	4%
<b>OP margins</b>	<b>24.9%</b>	<b>21.0%</b>	<b>21.3%</b>	<b>21.6%</b>					<b>23.1%</b>	
Other items	0	0	0	0					0	
Net finance income	7	25	174	60					44	294%
<b>Net finance income / sales</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.4%</b>	<b>0.4%</b>					<b>0.4%</b>	
Profit after financing costs	2,546	2,623	2,817	3,192					2,593	
Associated coms	0	0	0	0					0	
Jointly controlled coms	80	80	102	60					66	54%
Pre-tax profit	2,625	2,703	2,919	3,252	189%	102%	11%	20%	2,659	10%
Tax	(663)	(654)	(730)	(690)					(612)	19%
<b>Tax / sales</b>	<b>-6.5%</b>	<b>-5.3%</b>	<b>-5.9%</b>	<b>-4.8%</b>					<b>-5.5%</b>	
<b>Effective tax rate</b>	<b>-25.3%</b>	<b>-24.2%</b>	<b>-25.0%</b>	<b>-21.2%</b>					<b>-23.0%</b>	
Minority interests	0	0	0	0					0	
<b>Net profit att.</b>	<b>1,962</b>	<b>2,049</b>	<b>2,189</b>	<b>2,562</b>	<b>187%</b>	<b>102%</b>	<b>12%</b>	<b>25%</b>	<b>2,048</b>	<b>7%</b>
<b>NP margins</b>	<b>19.2%</b>	<b>16.6%</b>	<b>17.6%</b>	<b>17.7%</b>					<b>18.6%</b>	
<b>Sales by channels</b>										
Franchises	4,588	6,264	5,894	6,912	48%	64%	28%	10%	4,818	22%
Self-owned	2,519	2,492	2,792	2,970	89%	29%	11%	19%	2,519	11%
E-commerce	2,967	3,446	3,536	4,480	78%	45%	19%	30%	3,561	-1%
International	122	174	186	140	80%	15%	52%	-20%	131	42%
Total	10,197	12,376	12,409	14,502	65%	50%	22%	17%	11,028	13%
<b>Breakdown by segment</b>										
A & P	(747)	(1,033)	(981)	(1,226)	34%	43%	31%	19%	(937)	5%
Labour	(839)	(973)	(911)	(1,157)	35%	41%	9%	19%	(1,026)	-11%
Rent	(567)	(589)	(691)	(699)	39%	16%	22%	19%	(584)	18%
D & A	(299)	(332)	(368)	(371)	10%	8%	23%	12%	(331)	11%
R & D	(188)	(226)	(239)	(326)	35%	23%	27%	44%	(265)	-10%
Others	(656)	(802)	(711)	(904)	120%	52%	8%	13%	(408)	74%
As % of total sales										
A & P	-7.3%	-8.3%	-7.9%	-8.5%					-8.5%	
Labour	-8.2%	-7.9%	-7.3%	-8.0%					-9.3%	
Rent	-5.6%	-4.8%	-5.6%	-4.8%					-5.3%	
D & A	-2.9%	-2.7%	-3.0%	-2.6%					-3.0%	
R & D	-1.8%	-1.8%	-1.9%	-2.2%					-2.4%	
Others	-6.4%	-6.5%	-5.7%	-6.2%					-3.7%	

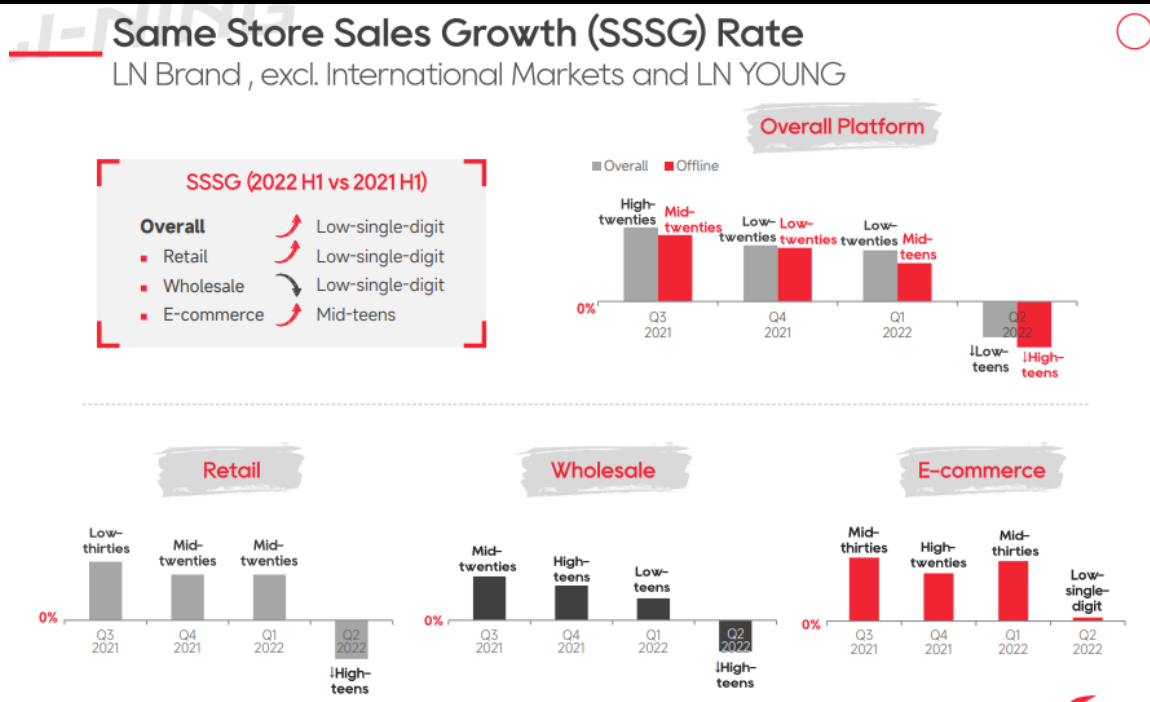
Source: Company data, CMBIS estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY21	FY22E	FY23E	FY22E YoY	FY23E YoY
Revenue	22,572	26,910	31,350	19%	16%
COGS	(10,603)	(13,237)	(15,331)		
Gross profit	11,969	13,673	16,019	14%	17%
<b>GP margins</b>	<b>53.0%</b>	<b>50.8%</b>	<b>51.1%</b>		
Other income & gains	416	686	768		
S & D expenses	(6,138)	(7,296)	(8,609)	19%	18%
<b>S &amp; D exp / sales</b>	<b>-27.2%</b>	<b>-27.1%</b>	<b>-27.5%</b>		
Admin expenses	(1,111)	(1,288)	(1,460)	16%	13%
<b>Admin exp / sales</b>	<b>-4.9%</b>	<b>-4.8%</b>	<b>-4.7%</b>		
Other opex	0	0	0		
Operating profit (EBIT)	5,136	5,776	6,717	12%	16%
<b>OP margins</b>	<b>22.8%</b>	<b>21.5%</b>	<b>21.4%</b>		
Other items	0	0	0		
Net finance income	33	234	164		
<b>Net finance income / sales</b>	<b>0.1%</b>	<b>0.9%</b>	<b>0.5%</b>		
Profit after financing costs	5,169	6,010	6,881		
Associated coms	0	0	0		
Jointly controlled coms	159	161	188		
Pre-tax profit	5,328	6,171	7,070	16%	15%
Tax	(1,317)	(1,419)	(1,555)		
<b>Tax / sales</b>	<b>-5.8%</b>	<b>-5.3%</b>	<b>-5.0%</b>		
<b>Effective tax rate</b>	<b>-24.7%</b>	<b>-23.0%</b>	<b>-22.0%</b>		
Minority interests	0	0	0		
<b>Net profit att.</b>	<b>4,011</b>	<b>4,752</b>	<b>5,514</b>	<b>18%</b>	<b>16%</b>
<b>NP margins</b>	<b>17.8%</b>	<b>17.7%</b>	<b>17.6%</b>		
<b>Sales by channels</b>					
Franchises	10,853	12,806	14,727	18%	15%
Self-owned	5,010	5,762	6,742	15%	17%
E-commerce	6,413	8,016	9,539	25%	19%
International	296	326	342	10%	5%
Total	22,572	26,910	31,350	19%	16%
<b>Breakdown by segment</b>					
A & P	(1,779)	(2,207)	(2,633)	24%	19%
Labour	(1,812)	(2,067)	(2,447)	14%	18%
Rent	(1,156)	(1,391)	(1,591)	20%	14%
D & A	(630)	(739)	(890)	17%	20%
R & D	(414)	(565)	(690)	37%	22%
Others	(1,457)	(1,615)	(1,818)	11%	13%
As % of total sales					
A & P	-7.9%	-8.2%	-8.4%		
Labour	-8.0%	-7.7%	-7.8%		
Rent	-5.1%	-5.2%	-5.1%		
D & A	-2.8%	-2.7%	-2.8%		
R & D	-1.8%	-2.1%	-2.2%		
Others	-6.5%	-6.0%	-5.8%		

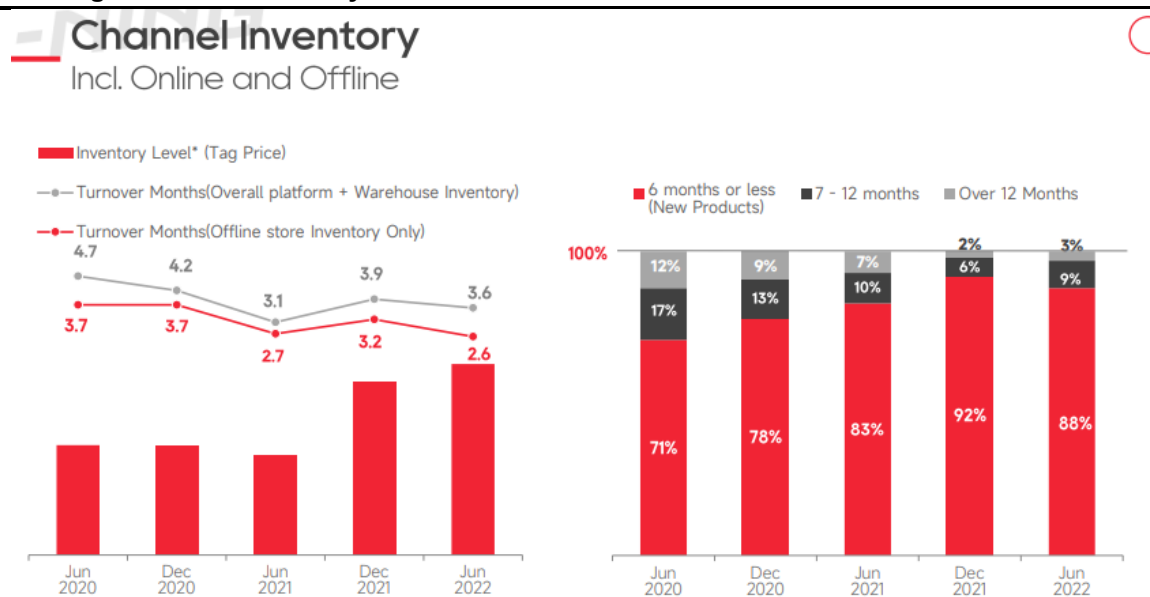
Source: Company data, CMBIS estimates

Figure 5: Li Ning's SSSG by channel



Source: Company data, CMBIS estimates

Figure 6: Li Ning's channel inventory



Source: Company data, CMBIS estimates



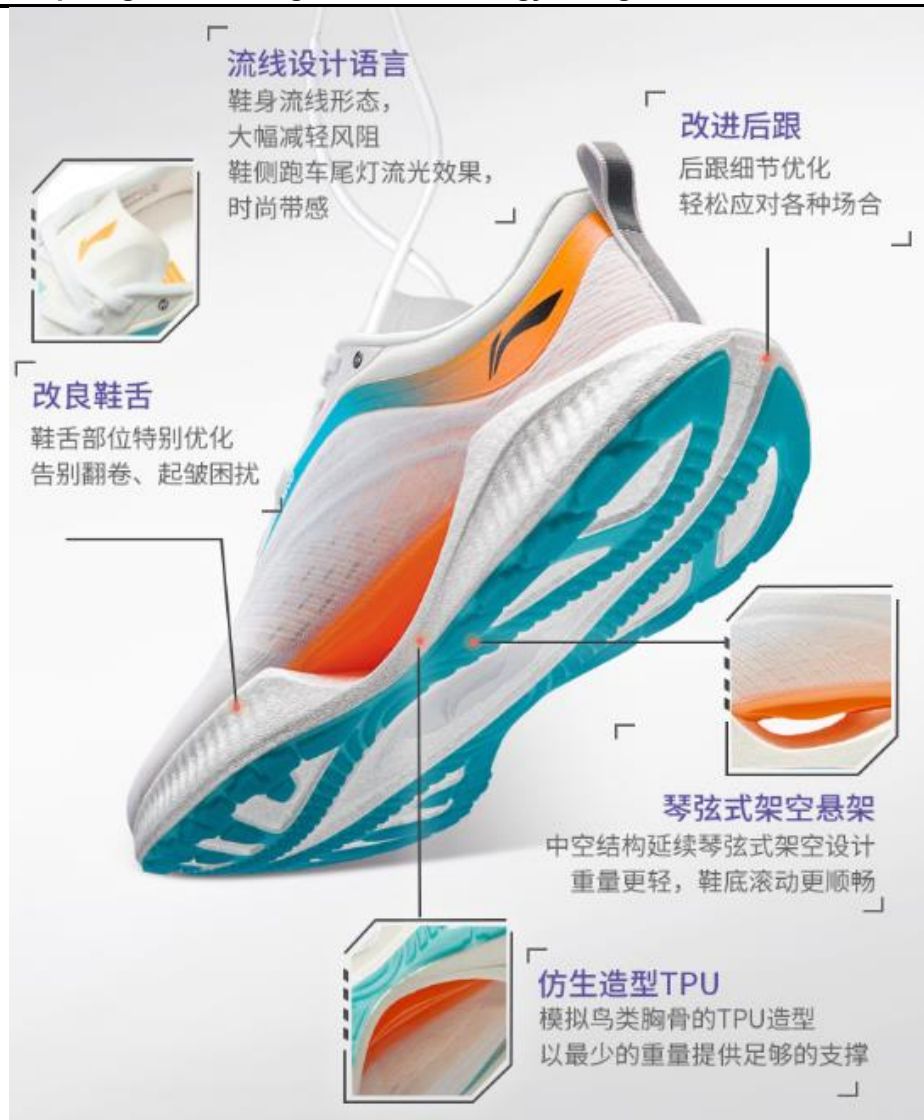


Figure 8: Li Ning's super light 19 running shoes on Tmall



Source: Tmall, CMBIGM estimates

Figure 9: Li Ning's super light 19 running shoes' technology changes



Source: Tmall, CMBIGM estimates

Figure 10: Evolution of the Li Ning's super light running shoes series



Source: Tmall, CMBIGM estimates



## Operating numbers

Figure 11: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%	-8.0%	-20.0%	-10.0%	5.0%
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%	-35.0%	-35.0%	-20.0%	-5.0%
Anta brand's SSSG																
Anta brand's retail sales	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	17.0%	23.0%
Core brand	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens		
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD		
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD		
Non-Anta brands (FILA) 65%-70% 55%-60%																
FILA brand's retail sales			50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	15.0%	20.0%
Classic/ Core brand			Over 40%	Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD		
Kids			Over 70%	Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD		
Fusion			Over 100%	Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD		
Online			Over 70%	Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD		
Other brands																
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%		
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%		
Li Ning group's SSSG																
Direct retail	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	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		
Wholesales	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Mid 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens		
E- Commerce	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	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 High 30%	+ve Mid 30%	+ve Mid 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD		
Li Ning group's retail sales																
Direct retail	+ve Low 20%-25%	+ve Low 20%-25%	+ve Low 30%-35%	+ve Mid 30%-40%	-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	20.0%	25.0%
Wholesales	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-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		
E- Commerce	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-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 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+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		
Xtep's SSSG																
Xtep's retail sales	Over 20%	Over 20%	20%	Over 20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	28.0%	20.0%
361 Degrees' SSSG																
361 Degree's retail sales	+ve LSD	+ve LSD	+ve LSD	+ve LSD	-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		
Pou Sheng's SSSG																
Pou Sheng's sales	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-25.0%	-24.1%	-15.0%	0.0%
Topsports' retail sales																
Dong Xiang's SSSG	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-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 Mid to High-teens	-ve Low to Mid-teens		
Dong Xiang's retail sale																
Direct retail	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%							
E- Commerce	+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-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 12: 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\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Li Ning	2331 HK	BUY	80.64	70.10	15%	183,513	Dec-21	31.7	27.8	9.1	7.2	32.9	1.9	0.9
Anta Sports	2020 HK	BUY	115.47	87.40	32%	237,171	Dec-21	25.3	19.6	5.9	4.8	29.2	1.5	1.6
Xtep Intl	1368 HK	BUY	17.04	12.92	32%	34,042	Dec-21	25.0	19.8	3.4	3.1	12.0	1.1	2.4
361 Degrees	1361 HK	NR	n/a	4.00	n/a	8,270	Dec-21	10.2	8.9	0.9	0.8	8.8	0.8	2.3
Topsports	6110 HK	NR	n/a	6.54	n/a	40,556	Feb-22	13.1	11.0	3.1	2.8	24.1	1.2	5.1
Pou Sheng	3813 HK	NR	n/a	0.80	n/a	4,261	Dec-21	11.1	4.7	0.4	0.4	(3.2)	0.3	1.6
China DX	3818 HK	NR	n/a	0.39	n/a	2,267	Mar-22	n/a	4.1	0.2	0.2	(16.7)	0.0	6.0
Avg.								19.4	13.7	3.3	2.8	12.4	1.0	2.8
Med.								19.0	11.0	3.1	2.8	12.0	1.1	2.3
International Sportswear														
Nike Inc	NKE US	NR	n/a	116.07	n/a	1,427,132	May-22	30.8	25.3	11.7	10.2	43.1	2.4	1.1
Adidas	ADS GY	NR	n/a	173.20	n/a	267,510	Dec-21	25.4	19.8	4.9	4.7	29.5	(6.5)	1.7
Puma	PUM GY	NR	n/a	68.82	n/a	83,455	Dec-21	26.0	21.1	4.2	3.7	16.0	1.4	1.3
Under Armour	UAA US	NR	n/a	10.03	n/a	33,876	Mar-23	19.6	14.0	2.3	1.9	n/a	4.4	0.0
Lululemon	LULU US	NR	n/a	321.69	n/a	321,868	Jan-22	33.5	29.0	12.7	9.8	38.4	1.7	0.0
Skechers	SKX US	NR	n/a	40.21	n/a	49,086	Dec-21	14.9	11.7	1.6	1.4	23.3	(3.1)	0.0
Vf Corp	VFC US	NR	n/a	47.12	n/a	143,494	Apr-22	15.4	13.8	4.8	4.5	30.4	8.0	4.3
Columbia	COLM US	NR	n/a	76.39	n/a	37,180	Dec-21	14.8	13.1	2.5	2.1	18.5	2.0	1.5
Wolverine	WWW US	NR	n/a	22.91	n/a	14,140	Jan-22	10.5	9.1	2.7	2.1	18.4	0.2	1.9
Mizuno Corp	8022 JP	NR	n/a	2656.00	n/a	4,142	Mar-22	10.4	9.2	0.6	0.6	7.6	(2.6)	2.3
Asics Corp	7936 JP	NR	n/a	2655.00	n/a	29,580	Dec-21	27.9	21.5	3.2	2.9	6.4	0.9	1.2
Avg.								20.8	17.1	4.6	4.0	23.2	0.8	1.4
Med.								19.6	14.0	3.2	2.9	20.9	1.4	1.3

Source: Bloomberg, CMBIGM estimates

## Assumptions

Figure 13: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	6,338	9,506	12,537	15,006	17,261
Clothes	7,365	11,824	13,006	14,827	16,903
Equipment	754	1,242	1,367	1,517	1,638
Others	0	0	0	0	0
Total	14,457	22,572	26,910	31,350	35,802
<b>Sales by segment growth (%)</b>					
Shoes	4.2%	50.0%	31.9%	19.7%	15.0%
Clothes	3.6%	60.5%	10.0%	14.0%	14.0%
Equipment	11.7%	64.9%	10.0%	11.0%	8.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales by channel growth (%)</b>					
Franchises	0.9%	56.7%	18.0%	15.0%	13.0%
Self-owned	-9.8%	53.5%	15.0%	17.0%	15.0%
E-commerce	29.7%	58.4%	25.0%	19.0%	16.0%
International	-16.7%	34.9%	10.0%	5.0%	0.0%
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales network by segment</b>					
Self-owned	1,149	1,165	1,310	1,350	1,380
Franchise	4,763	4,770	4,775	4,805	4,835
Sub-total	5,912	5,935	6,085	6,155	6,215
LN Young	1,021	1,202	1,277	1,377	1,457
Total	6,933	7,137	7,362	7,532	7,672
GP margins	49.1%	53.0%	50.8%	51.1%	51.3%
<b>Opex breakdown</b>					
A & P/ sales	8.9%	7.9%	8.2%	8.4%	8.6%
Labour/ sales	9.1%	8.0%	7.7%	7.8%	7.5%
Rental/ sales	6.3%	5.1%	5.2%	5.1%	4.9%
D & A/ sales	4.0%	2.8%	2.7%	2.8%	3.0%
R & D/ sales	2.2%	1.8%	2.1%	2.2%	2.2%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	30.6%	27.2%	27.1%	27.5%	27.4%
Admin expenses / sales	5.6%	4.9%	4.8%	4.7%	4.6%
<b>OP margins</b>	<b>15.2%</b>	<b>22.8%</b>	<b>21.5%</b>	<b>21.4%</b>	<b>21.7%</b>
Effective tax rate	24.4%	24.7%	23.0%	22.0%	20.0%
<b>Net profit margins</b>	<b>11.7%</b>	<b>17.8%</b>	<b>17.7%</b>	<b>17.6%</b>	<b>18.4%</b>
<b>Net profit att. growth (%)</b>	<b>13.3%</b>	<b>136.1%</b>	<b>18.5%</b>	<b>16.0%</b>	<b>19.4%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>14,457</b>	<b>22,572</b>	<b>26,910</b>	<b>31,350</b>	<b>35,802</b>
Franchises	6,924	10,853	12,806	14,727	16,642
Self-owned	3,265	5,010	5,762	6,742	7,753
E-commerce	4,049	6,413	8,016	9,539	11,065
International	220	296	326	342	342
<b>Cost of goods sold</b>	<b>(7,363)</b>	<b>(10,603)</b>	<b>(13,237)</b>	<b>(15,331)</b>	<b>(17,443)</b>
<b>Gross profit</b>	<b>7,094</b>	<b>11,969</b>	<b>13,673</b>	<b>16,019</b>	<b>18,359</b>
<b>Other income</b>	<b>331</b>	<b>416</b>	<b>686</b>	<b>768</b>	<b>841</b>
<b>Operating expenses</b>	<b>(5,230)</b>	<b>(7,249)</b>	<b>(8,583)</b>	<b>(10,069)</b>	<b>(11,435)</b>
D & A	(576)	(630)	(565)	(690)	(788)
Staff costs	(1,311)	(1,812)	(2,067)	(2,447)	(2,694)
S & D costs (ex-staff, D&A)	(3,449)	(4,783)	(5,737)	(6,746)	(7,739)
Admin exp. (ex-staff, D&A)	106	(24)	(214)	(186)	(214)
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>
Finance costs, net	(32)	33	234	164	250
JVs & associates	83	159	161	188	215
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>2,248</b>	<b>5,328</b>	<b>6,171</b>	<b>7,070</b>	<b>8,231</b>
Income tax	(549)	(1,317)	(1,419)	(1,555)	(1,646)
Less: Minority interests	0	0	0	0	0
<b>Net profit</b>	<b>1,698</b>	<b>4,011</b>	<b>4,752</b>	<b>5,514</b>	<b>6,585</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>
D & A	576	630	747	894	1,045
Change in working capital	142	948	227	390	391
Income tax paid	(589)	(549)	(1,317)	(1,419)	(1,555)
Others	439	-	-	-	-
<b>Net cash from operating</b>	<b>2,763</b>	<b>6,165</b>	<b>5,433</b>	<b>6,582</b>	<b>7,646</b>
Capex & investments	(594)	(1,016)	(1,076)	(1,254)	(1,432)
Associated companies	(53)	-	-	-	-
Interest received	31	97	99	115	131
Others	(376)	(9)	153	42	78
<b>Net cash from investing</b>	<b>(992)</b>	<b>(927)</b>	<b>(825)</b>	<b>(1,097)</b>	<b>(1,223)</b>
Equity raised	189	-	-	-	-
Net change in bank loans	-	-	-	-	-
Dividend paid	(378)	(510)	(1,203)	(1,398)	(1,593)
Others	(325)	(112)	(103)	(92)	(72)
<b>Net cash from financing</b>	<b>(513)</b>	<b>(622)</b>	<b>(1,306)</b>	<b>(1,490)</b>	<b>(1,665)</b>
<b>Net change in cash</b>	<b>1,258</b>	<b>4,616</b>	<b>3,302</b>	<b>3,995</b>	<b>4,758</b>
Beginning cash balance	5,961	7,187	11,803	15,105	19,100
Exchange difference	(33)	-	-	-	-
<b>Cash at the end of the year</b>	<b>7,187</b>	<b>11,803</b>	<b>15,105</b>	<b>19,100</b>	<b>23,858</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>4,817</b>	<b>5,419</b>	<b>5,994</b>	<b>6,642</b>	<b>7,356</b>
Fixed asset	1,065	1,502	1,873	2,269	2,683
Intangible assets & goodwill	357	460	602	780	996
Prepaid lease payments	384	384	384	384	384
Interest in joint ventures	-	62	125	198	281
Other non-current assets	3,011	3,011	3,011	3,011	3,011
<b>Current assets</b>	<b>9,777</b>	<b>15,241</b>	<b>19,475</b>	<b>24,176</b>	<b>29,644</b>
Cash and cash equivalents	7,187	11,803	15,105	19,100	23,858
Inventories	1,346	1,598	2,176	2,520	2,867
Trade and other receivables	659	928	1,106	1,288	1,471
Prepayments	584	912	1,087	1,267	1,446
Other current assets	1	1	1	1	1
<b>Current liabilities</b>	<b>5,015</b>	<b>7,580</b>	<b>8,841</b>	<b>10,073</b>	<b>11,264</b>
Bank loans	-	-	-	-	-
Trade payables	1,227	1,598	1,995	2,310	2,628
Accruals & other payables	2,540	3,967	4,729	5,509	6,291
Tax payables	592	1,360	1,462	1,598	1,689
Others	656	656	656	656	656
<b>Non-current liabilities</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	64	64	64	64	64
Others	825	825	825	825	825
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>
<b>Shareholders' equity</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Franchises	47.9	48.1	47.6	47.0	46.5
Self-owned	22.6	22.2	21.4	21.5	21.7
E-commerce	28.0	28.4	29.8	30.4	30.9
International	1.5	1.3	1.2	1.1	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	49.1	53.0	50.8	51.1	51.3
Operating margin	15.2	22.8	21.5	21.4	21.7
Pre-tax margin	15.5	23.6	22.9	22.6	23.0
Net margin	11.7	17.8	17.7	17.6	18.4
Effective tax rate	25.4	25.5	23.6	22.6	20.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.9	2.0	2.2	2.4	2.6
Quick ratio (x)	1.7	1.8	2.0	2.1	2.4
Cash ratio (x)	1.4	1.6	1.7	1.9	2.1
Inventory turnover days	67	55	60	60	60
Trade receivables days	17	15	15	15	15
Trade payables days	61	55	55	55	55
Total debt / total equity ratio (%)	1	1	1	1	0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	19.5	32.9	30.2	27.8	26.5
ROA	11.6	19.4	18.7	17.9	17.8
<b>Per share</b>					
EPS (RMB)	0.68	1.58	1.83	2.09	2.50
DPS (RMB)	0.21	0.49	0.57	0.65	0.77
BVPS (RMB)	3.54	4.96	6.41	8.08	10.1

Source: Company data, CMBIGM estimates

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