

Li Ning (2331 HK)

Prudent sales but upbeat margin guidance

SUMMARY. Mid to high-end items (priced at RMB 500+) now accounted for 50%+ of retail sales, enjoying at least 5% faster growth rate (vs low-end items). This has marked Li Ning's successful brand upgrade. We expect momentum to last, thus reiterated BUY and lifted TP to HK\$24.43, based on 32x FY20E P/E.

- **Strong beat despite positive alert.** 1H19 net profit surged by 196% YoY to RMB 795mn, 11%/44% above CMBI/ BBG's est. Excluding sales of 160 stores for RMB 234mn, core net profit was up by 109% (vs the pre-announced 90%+). The beat was due to: 1) impressive wholesale growth of 45%, as distributors are committed to open more larger-sized and high-end causal stores, 2) e-commerce growth acceleration to 38%, thanks to rollout of exclusive China LN products and 3) the associated operating leverage, where OP margin actually jumped by 4.6ppt to 10.8%.
- **Retail sales growth is trending up in Jul-Aug 2019.** Overall retail sales growth was at low 20% in 2Q19, same as 1Q19, but the trend is improving in Jul-Aug 2019. As stated by management, retail sell-through growth for direct retail/ wholesale/ e-commerce are at low-teens/ low 30%/ ~40%, all trended up from HSD/ mid 20%/ high 20%-30% in 2Q19.
- **1Q20 trade fair sales growth further speeded up.** 1Q20 trade fair sales growth reached high-teens, quickest pace in four years. However, the China LN series was not even included. Note that China LN sales contribution to retail offline sell-through was only 3% in 1H19, but it reached 7% in Jul 2019 and is targeted at 8% by 4Q19E. Number of China LN stores may reach 100-120 by FY19E (~50 more in 2H19). Sales per store remained at 4-5x greater vs regular LN store while retail discounts was only 6% off in 1H19.
- **Upbeat FY20E-21E OP margin guidance.** Despite a conservative mid to high-teens sales growth target in FY19E (direct retail and wholesale may slow down while e-commerce may last) and a 8.5%-9.0% NP margin guidance in FY19E, we are still positive on margins as the Company incurred more incentive and hiring fees in 1H19. More importantly, 2ppt OP margin expansion per year is feasible in the next two years, thanks to 1) better input costs by lowering payable days, 2) continual improvements in rebates and delivery discounts, 3) ramp up of self-owned footwear factory, etc.
- **Maintain BUY and lift TP to HK\$ 24.43.** We maintain BUY and lift TP to HK\$ 24.43, based on 32x FY20E P/E (unchanged), implying a 1.1x 3 years PEG (vs int'l avg. of 1.3x). The counter is attractive, trading at 26x FY19E P/E and 0.9x PEG. We lifted our FY19E/20E/21E EPS estimates by 0.6%/4.9%/7.6%, to factor in better-than-expected margins and operating leverage. **We have an bullish EPS estimates, 19-22% above BBG's est.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	8,874	10,511	13,498	15,750	17,905
YoY growth (%)	10.7	18.4	28.4	16.7	13.7
Net income (RMB mn)	515	715	1,415	1,678	2,151
EPS (RMB)	0.212	0.292	0.577	0.685	0.878
YoY growth (%)	(26.9)	38.0	97.8	18.6	28.2
Core NP (RMB mn)	515	715	1,181	1,678	2,151
YoY growth (%)	(19.9)	38.8	65.1	42.1	28.2
P/E (x)	78.2	59.8	30.9	26.0	20.3
P/B (x)	7.8	7.2	6.1	5.3	4.5
Yield (%)	0.0	0.5	1.3	1.5	2.0
ROE (%)	11.4	13.1	22.0	22.1	24.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$24.43**
 (Previous TP **HK\$24.29**)
 Up/Downside **+23.0%**
 Current Price **HK\$19.86**

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	45,813
Avg 3 mths t/o (HK\$ mn)	265.60
52w High/Low (HK\$)	21.05/6.33
Total Issued Shares (mn)	2,306.8

Source: Bloomberg

Shareholding Structure

Mr Li Ning & Family	19.18%
Marathon Asset Management	4.64%
FIL Limited	4.50%
Schroders Plc	3.95%
Linden Street	3.91%
Free Float	63.82%

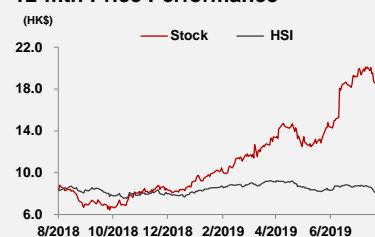
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.8%	16.8%
3-mth	58.6%	76.3%
6-mth	94.3%	118.4%
12-mth	130.9%	153.3%

Source: Bloomberg

12-mth Price Performance



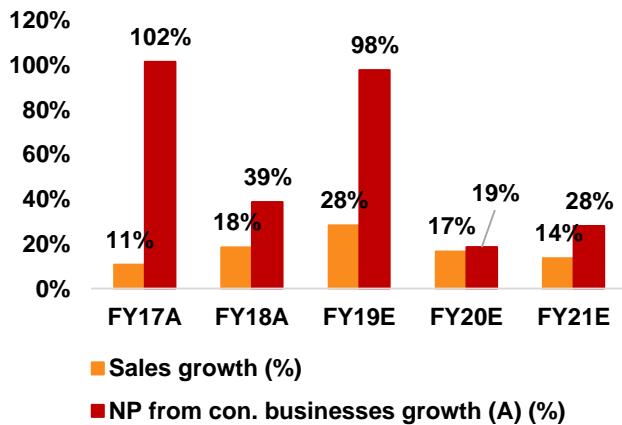
Source: Bloomberg

Auditor: PricewaterhouseCoopers

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<https://euromoney.com/brokers>

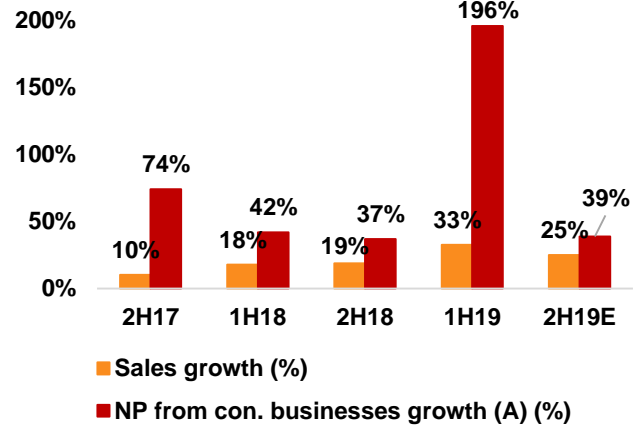
Focus Charts

Figure 1: Sales/ net profit growth - Full year



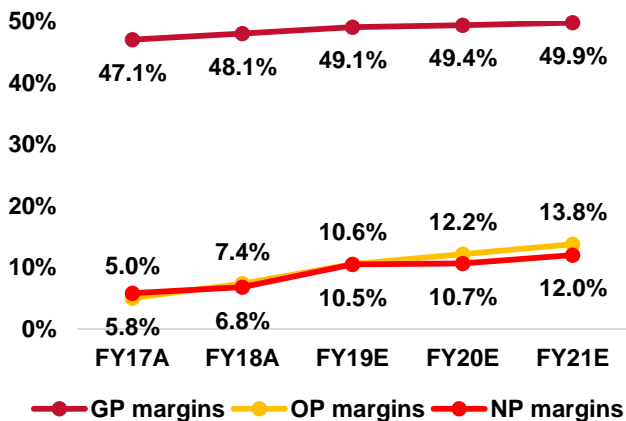
Source: Company data, CMBIS estimates

Figure 2: Sales/ net profit growth - Half year



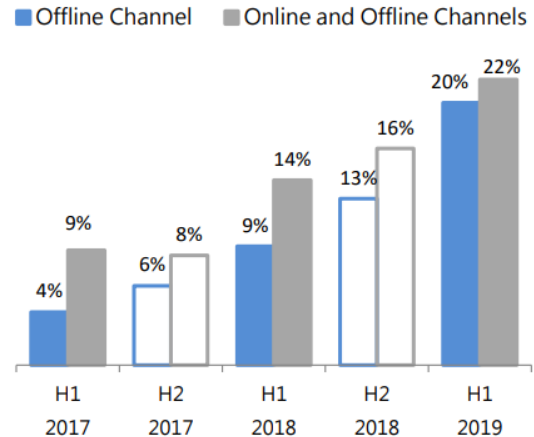
Source: Company data, CMBIS estimates

Figure 3: GP/ OP/ NP margin



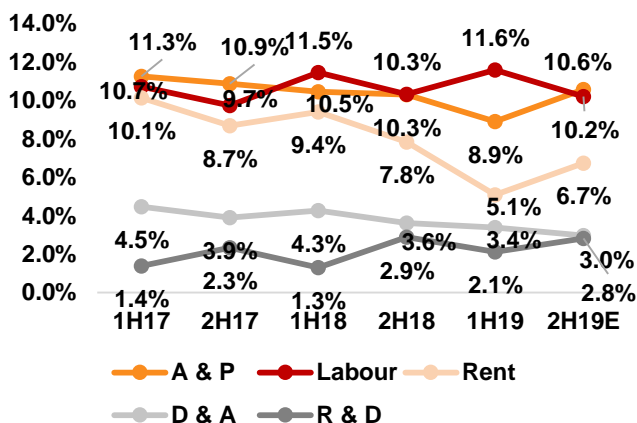
Source: Company data, CMBIS estimates

Figure 4: Sell-through growth, YoY% (ex. LN Young)



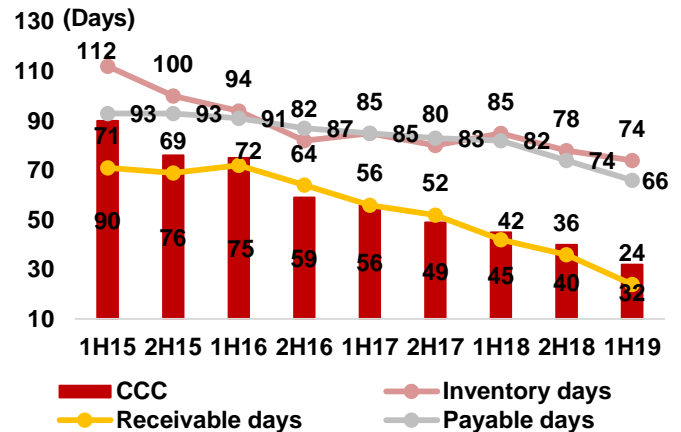
Source: Company data, CMBIS

Figure 5: Opex breakdown



Source: Company data, CMBIS estimates

Figure 6: Working capital condition



Source: Internet, CMBIS

Figure 7: Sportswear brands sales growth trend

Operating numbers	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19E
Nike China sales	17.0%	20.0%	30.0%	24.0%	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%
Adidas China sales	21.0%	19.0%	15.1%	15.6%	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%
Anta brand's SSSG	+ve HSD	+ve HSD	+ve HSD	+ve MSD														
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
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
Kids					50% - 60%	over 30%	over 30%	over 30%	over 30%	+ve 25%-30%	over 30%	over 40%	over 40%	over 25%	Over 25%	Over 25%	Over 20%	30%
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%
Non-Anta brands (FILA/ Descente/ Kolon/ Sprandi/ King Kow)					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%
Li Ning group's SSSG	+ve MSD	+ve Low-teens	+ve MSD	+ve LSD	+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
Direct retail		+ve MSD	+ve MSD	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
Wholesales		+ve LSD	-ve LSD	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
E- Commerce		Doubled	High-60%	Low-60%	Low-70%	Mid-80%	Mid-90%	Mid-60%	Mid-90%	Low 30%-40%	+ve High-teens	High 30%-40%	Mid-30%	High 30%-40%	Mid-50%	High 30%-40%	Mid 30%-40%	Mid 30%-40%
Li Ning group's retail sales													+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	Low 20%-25%	Low 20%-25%
Direct retail													Low 20%-30%	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD
Wholesales													+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	Low 20%-25%	Mid-20%
E- Commerce													High 30%-40%	High 30%-40%	Low 30%-40%	Mid-50%	Low 40%-50%	High 20%-30%
Xtep's SSSG	+ve MSD	+ve HSD	+ve HSD	+ve MSD	+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
Xtep's retail sales																	Over 20%	Over 20%
361 Degrees' SSSG	6.3%	7.2%	8.1%	7.9%	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
Pou Sheng's SSSG	14.0%	11.0%	8.0%	3.0%	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%
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 LSD

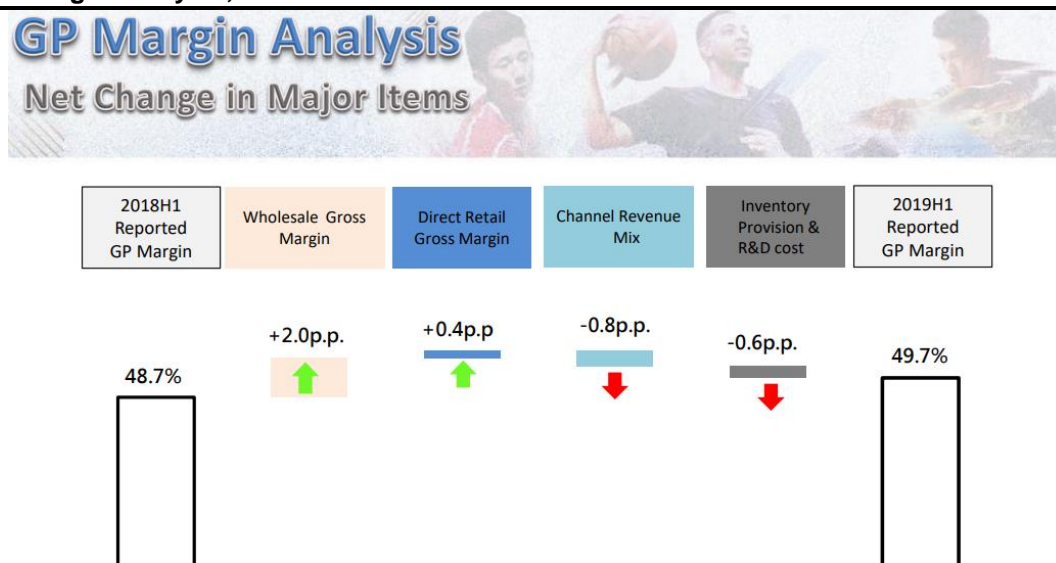
Source: Company data, CMBIS estimates

Figure 8: SSSG by channel



Source: Company data, CMBIS

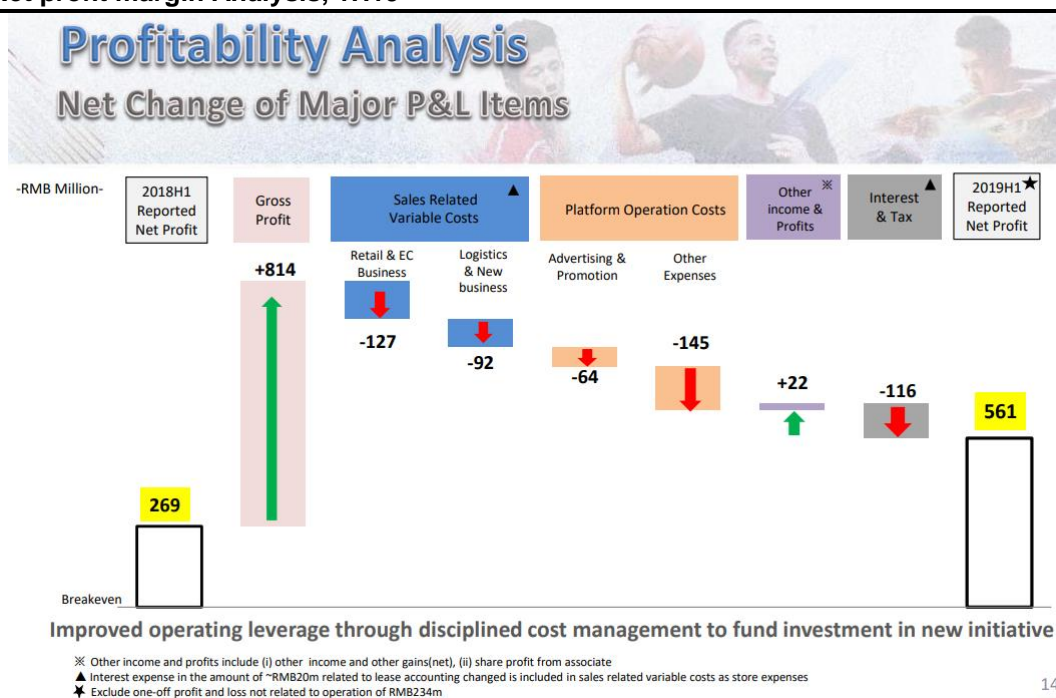
Figure 9: GP margin Analysis, 1H19



Gross margin expansion driven by improved wholesale delivery discount and product performance

Source: Company data, CMBIS

Figure 10: Net profit margin Analysis, 1H19



Source: Company data, CMBIS

Results Summary

Figure 11: Results summary – Half Year

Half yearly (RMB mn)	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19 E yoy	1H19E CMBI	Actual vs CMBI
Revenue	4,713	5,798	6,255	7,244	18%	19%	33%	25%	6,153	2%
COGS	(2,419)	(3,039)	(3,147)	(3,721)					(3,148)	
Gross profit	2,294	2,759	3,108	3,522	20%	21%	35%	28%	3,005	3%
GP margins	48.7%	47.6%	49.7%	48.6%					48.8%	
Other income & gains	32	62	44	30					25	80%
S & D expenses	(1,735)	(1,973)	(2,023)	(2,383)	16%	11%	17%	21%	(2,065)	-2%
S & D exp / sales	-36.8%	-34.0%	-32.3%	-32.9%					-33.6%	
Admin expenses	(297)	(365)	(451)	(420)	35%	30%	52%	15%	(364)	24%
Admin exp / sales	-6.3%	-6.3%	-7.2%	-5.8%					-5.9%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	294	483	678	749	46%	98%	131%	55%	600	13%
OP margins	6.2%	8.3%	10.8%	10.3%					9.8%	
Other items	0	0	0	0					205	
Net finance income	1	8	(8)	12					13	-165%
Net finance income / sales	0.0%	0.1%	-0.1%	0.2%					0.2%	
Profit after financing costs	295	491	670	761					818	
Associated coms	0	0	0	0					0	
Jointly controlled coms	32	32	310	27					25	
Pre-tax profit	327	523	980	788	34%	79%	199%	51%	843	16%
Tax	(59)	(76)	(185)	(168)					(128)	
Tax / sales	-1.2%	-1.3%	-3.0%	-2.3%					-2.1%	
Effective tax rate	-18.0%	-14.6%	-18.9%	-21.4%					-15.1%	
Minority interests	0	0	0	0					0	
Net profit att.	269	447	795	620	42%	37%	196%	39%	715	11%
NP margins	5.7%	7.7%	12.7%	8.6%					11.6%	
Sales by channels										
Franchises	2,092	2,816	3,040	3,685	14%	17%	45%	31%	2,720	12%
Self owned	1,565	1,568	1,758	1,719	17%	13%	12%	10%	1,831	-4%
E-commerce	980	1,238	1,357	1,637	35%	32%	38%	32%	1,519	-11%
International	75	177	100	203	-18%	20%	33%	15%	83	21%
Total	4,713	5,798	6,255	7,244	18%	19%	33%	25%	6,153	2%
Breakdown by segment										
A & P	(493)	(598)	(557)	(766)	10%	13%	13%	28%	(646)	-14%
Labour	(540)	(599)	(725)	(740)	26%	26%	34%	24%	(632)	15%
Rent	(444)	(455)	(319)	(488)	9%	7%	-28%	7%	(493)	-35%
D & A	(202)	(210)	(212)	(216)	13%	10%	5%	3%	(240)	-12%
R & D	(62)	(167)	(133)	(205)	11%	46%	115%	22%	(74)	80%
Others	(293)	(309)	(529)	(389)	37%	-3%	81%	26%	(345)	54%
As % of total sales										
A & P	-11.3%	-10.9%	-10.5%	-10.3%					-10.5%	
Labour	-10.7%	-9.7%	-11.5%	-10.3%					-11.5%	
Rent	-10.1%	-8.7%	-9.4%	-7.8%					-9.4%	
D & A	-4.5%	-3.9%	-4.3%	-3.6%					-4.3%	
R & D	-1.4%	-2.3%	-1.3%	-2.9%					-1.3%	
Others	-5.3%	-6.5%	-6.2%	-5.3%					-6.2%	

Source: Company data, CMBIS estimates

Figure 12: Results summary - Full Year

Full yearly (RMB mn)	FY17	FY18	FY19E	FY18 yoy	FY19E yoy	1H18 As % of FY18	1H19 As % of FY19E
Revenue	8,874	10,511	13,498	18%	28%	45%	46%
COGS	(4,697)	(5,458)	(6,868)				
Gross profit	4,176	5,053	6,630	21%	31%	45%	47%
GP margins	47.1%	48.1%	49.1%				
Other income & gains	44	95	74				
S & D expenses	(3,273)	(3,708)	(4,407)	13%	19%	47%	46%
S & D exp / sales	-36.9%	-35.3%	-32.6%				
Admin expenses	(501)	(662)	(871)	32%	32%	45%	52%
Admin exp / sales	-5.6%	-6.3%	-6.5%				
Other opex	0	0	0				
Operating profit (EBIT)	446	777	1,427	74%	84%	38%	48%
OP margins	5.0%	7.4%	10.6%				
Other items	0	0	0				
Net finance income	18	10	4				
Net finance income / sales	0.2%	0.1%	0.0%				
Profit after financing costs	464	787	1,431				
Associated coms	0	0	0				
Jointly controlled coms	74	64	337				
Pre-tax profit	538	850	1,769	58%	108%	39%	55%
Tax	(22)	(135)	(354)				
Tax / sales	-0.3%	-1.3%	-2.6%				
Effective tax rate	-4.2%	-15.9%	-20.0%				
Minority interests	0	0	0				
Net profit att.	515	715	1,415	39%	98%	38%	56%
NP margins	5.8%	6.8%	10.5%				
Sales by channels							
Franchises	4,242	4,909	6,725	16%	37%		
Self owned	2,724	3,132	3,477	15%	11%		
E-commerce	1,668	2,218	2,994	33%	35%		
International	240	252	303	5%	20%		
Total	8,874	10,511	13,498	18%	28%		
Breakdown by segment							
A & P	(981)	(1,091)	(1,323)	11%	21%	45%	42%
Labour	(904)	(1,139)	(1,465)	26%	29%	47%	49%
Rent	(830)	(898)	(807)	8%	-10%	49%	40%
D & A	(370)	(411)	(427)	11%	4%	49%	50%
R & D	(170)	(229)	(337)	35%	47%	27%	39%
Others	(532)	(602)	(918)	13%	53%	49%	58%
As % of total sales							
A & P	-11.1%	-10.4%	-9.8%				
Labour	-10.2%	-10.8%	-10.9%				
Rent	-9.3%	-8.5%	-6.0%				
D & A	-4.2%	-3.9%	-3.2%				
R & D	-1.9%	-2.2%	-2.5%				
Others	-6.0%	-5.7%	-6.8%				

Source: Company data, CMBIS estimates

Earnings revision

Figure 13: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	13,498	15,750	17,905	13,357	15,602	17,812	1.1%	0.9%	0.5%
Gross profit	6,630	7,788	8,927	6,561	7,714	8,870	1.1%	0.9%	0.6%
EBIT	1,427	1,920	2,471	1,400	1,820	2,285	1.9%	5.4%	8.1%
Reported Net profit	1,415	1,678	2,151	1,407	1,600	1,998	0.6%	4.9%	7.6%
Diluted EPS (RMB)	0.577	0.685	0.878	0.574	0.653	0.815	0.6%	4.9%	7.6%
Gross margin	49.1%	49.4%	49.9%	49.1%	49.4%	49.8%	0ppt	0ppt	0.1ppt
EBIT margin	10.6%	12.2%	13.8%	10.5%	11.7%	12.8%	0.1ppt	0.5ppt	1ppt
Net profit att. margin	10.5%	10.7%	12.0%	10.5%	10.3%	11.2%	-0.1ppt	0.4ppt	0.8ppt

Source: Company data, CMBIS estimates

Figure 14: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	13,498	15,750	17,905	12,845	15,003	17,328	5.1%	5.0%	3.3%
Gross profit	6,630	7,788	8,927	6,290	7,431	8,659	5.4%	4.8%	3.1%
EBIT	1,427	1,920	2,471	1,248	1,654	2,066	14.3%	16.1%	19.6%
Net profit att.	1,415	1,678	2,151	1,156	1,386	1,733	22.4%	21.1%	24.1%
Diluted EPS (RMB)	0.577	0.685	0.878	0.484	0.574	0.719	19.4%	19.4%	22.0%
Gross margin	49.1%	49.4%	49.9%	49.0%	49.5%	50.0%	0.2ppt	-0.1ppt	-0.1ppt
EBIT margin	10.6%	12.2%	13.8%	9.7%	11.0%	11.9%	0.9ppt	1.2ppt	1.9ppt
Net profit att. margin	10.5%	10.7%	12.0%	9.0%	9.2%	10.0%	1.5ppt	1.4ppt	2ppt

Source: Company data, CMBIS estimates

Valuation

Figure 15: 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	24.43	19.86	23.0%	45,813	Dec-18	30.9	26.0	6.2	5.4	20.9	0.7	0.9
Anta Sports	2020 HK	BUY	69.91	58.10	20.3%	156,943	Dec-18	26.5	21.6	7.1	5.8	27.8	1.3	1.4
Xtep Intl	1368 HK	BUY	6.93	5.06	37.0%	12,649	Dec-18	13.6	11.6	1.7	1.6	12.4	1.1	4.3
361 Degrees	1361 HK	NR	n/a	1.26	n/a	2,605	Dec-18	5.8	5.1	0.4	0.4	5.3	0.4	7.5
Pou Sheng	3813 HK	NR	n/a	2.12	n/a	11,356	Dec-18	14.1	11.0	1.4	1.2	8.2	0.6	1.5
China DX	3818 HK	NR	n/a	0.81	n/a	4,768	Mar-19	6.6	9.2	0.4	0.4	3.3	0.0	13.8
Avg.								16.2	14.1	2.9	2.5	13.0	0.7	4.9
Med.								13.8	11.3	1.5	1.4	10.3	0.7	2.9
International Sportswear														
Nike Inc	NKE US	NR	n/a	81.30	n/a	999,514	May-19	27.9	24.0	12.6	11.6	42.7	1.8	1.1
Adidas	ADS GY	NR	n/a	254.30	n/a	445,679	Dec-18	25.9	22.9	7.0	6.2	30.5	2.0	1.5
Puma	PUM GY	NR	n/a	64.60	n/a	85,168	Dec-18	37.3	30.3	5.1	4.6	13.8	1.5	0.7
Under Armour	UAA US	NR	n/a	19.01	n/a	63,579	Dec-18	56.1	39.7	3.9	3.6	4.3	(0.2)	0.0
Lululemon	LULU US	NR	n/a	175.19	n/a	179,085	Feb-19	37.8	31.8	14.2	11.4	33.7	1.8	0.0
Skechers	SKX US	NR	n/a	31.38	n/a	38,596	Dec-18	14.1	12.6	2.1	1.9	15.7	1.1	0.0
Vf Corp	VFC US	NR	n/a	80.38	n/a	251,137	Mar-19	23.6	20.8	6.9	6.6	29.1	2.1	2.2
Columbia	COLM US	NR	n/a	95.44	n/a	50,593	Dec-18	20.0	18.3	3.5	3.0	18.9	1.4	1.0
Wolverine	WWW US	NR	n/a	24.04	n/a	16,078	Dec-18	10.6	9.7	2.0	1.8	19.0	2.3	1.6
Amer Sports	AMEAS FH	NR	n/a	40.02	n/a	40,761	Dec-18	n/a	n/a	n/a	n/a	5.3	0.0	2.0
Mizuno Corp	8022 JP	NR	n/a	2780.00	n/a	5,481	Mar-19	12.0	10.9	0.7	0.7	6.9	1.7	1.8
Asics Corp	7936 JP	NR	n/a	1504.00	n/a	21,183	Dec-18	37.2	25.6	1.6	1.6	(10.3)	(0.2)	1.9
Avg.								27.5	22.4	5.4	4.8	17.5	1.3	1.2
Med.								25.9	22.9	3.9	3.6	17.3	1.6	1.3

Source: Bloomberg, CMBIS estimates

Assumption

Figure 16: Li Ning's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (Rmb mn)					
Shoes	4,146	4,601	5,775	6,689	7,604
Clothes	4,172	5,316	7,070	8,343	9,511
Equipments	501	594	653	718	790
Others	55	0	0	0	0
Total	8,874	10,511	13,498	15,750	17,905
Sales by segment growth (%)					
Shoes	5.0%	11.0%	25.5%	15.8%	13.7%
Clothes	18.7%	27.4%	33.0%	18.0%	14.0%
Equipments	8.0%	18.5%	10.0%	10.0%	10.0%
Others	-39.1%	-100.0%	n/a	n/a	n/a
Total	10.7%	18.4%	28.4%	16.7%	13.7%
Sales by channel growth (%)					
Franchises	3.4%	15.7%	37.0%	14.0%	10.0%
Self owned	6.5%	15.0%	11.0%	14.0%	12.0%
E-commerce	45.6%	32.9%	35.0%	27.0%	24.0%
International	15.0%	5.3%	20.0%	5.0%	0.0%
Total	10.7%	18.4%	28.4%	16.7%	13.7%
Sales network by segment					
Self owned	1,541	1,506	1,366	1,391	1,416
Franchise	4,721	4,838	5,078	5,143	5,198
Total	6,262	6,344	6,444	6,534	6,614
LN Young	173	793	1,093	1,293	1,443
Sum-total	6,435	7,137	7,537	7,827	8,057
GP margins	47.1%	48.1%	49.1%	49.4%	49.9%
Opex breakdown					
A & P/ sales	11.1%	10.4%	9.8%	9.6%	9.4%
Labour/ sales	10.2%	10.8%	10.9%	11.2%	10.9%
Rental/ sales	9.3%	8.5%	6.0%	5.5%	5.2%
D & A/ sales	4.2%	3.9%	3.2%	3.2%	3.3%
R & D/ sales	1.9%	2.2%	2.5%	2.5%	2.4%
Provision/ sales	-0.1%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	36.9%	35.3%	32.6%	31.6%	30.6%
Admin expenses / sales	5.6%	6.3%	6.5%	6.2%	6.0%
OP margins	5.0%	7.4%	10.6%	12.2%	13.8%
Effective tax rate	4.2%	15.9%	20.0%	18.0%	18.0%
Net profit margins	5.8%	6.8%	10.5%	10.7%	12.0%
Net profit att. growth (%)	-19.9%	38.8%	97.8%	18.6%	28.2%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	8,874	10,511	13,498	15,750	17,905
Franchises	4,242	4,909	6,725	7,666	8,433
Self owned	2,724	3,132	3,477	3,964	4,439
E-commerce	1,668	2,218	2,994	3,802	4,715
International	240	252	303	318	318
Cost of goods sold	(4,697)	(5,458)	(6,868)	(7,962)	(8,978)
Gross profit	4,176	5,053	6,630	7,788	8,927
Other income	44	95	74	87	98
Operating expenses	(3,774)	(4,370)	(5,278)	(5,955)	(6,555)
D & A	(370)	(410)	(427)	(501)	(586)
Staff costs	(904)	(1,139)	(1,465)	(1,764)	(1,959)
S & D costs (ex-staff, D&A)	(2,428)	(2,708)	(3,256)	(3,583)	(3,929)
Admin exp. (ex-staff, D&A)	(74)	(113)	(129)	(107)	(82)
Other operating expenses	-	-	-	-	-
EBIT	446	777	1,427	1,920	2,471
Finance costs, net	18	10	4	33	45
JVs & associates	74	64	337	95	107
Exceptional	-	-	-	-	-
Pre-tax profit	538	850	1,769	2,047	2,623
Income tax	(22)	(135)	(354)	(368)	(472)
Less: Minority interests	0	0	0	0	0
Net profit	515	715	1,415	1,678	2,151

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
EBIT	446	777	1,427	1,920	2,471
D & A	370	410	427	501	586
Change in working capital	351	448	(45)	(35)	(33)
Income tax paid	(27)	(9)	(135)	(354)	(368)
Others	20	46	-	-	-
Net cash from operating	1,159	1,672	1,674	2,032	2,655
Capex & investments	(389)	(431)	(607)	(709)	(806)
Associated companies	(38)	(44)	-	-	-
Interest received	53	51	273	76	87
Others	32	(59)	32	39	48
Net cash from investing	(343)	(483)	(303)	(593)	(671)
Equity raised	17	51	-	-	-
Net change in bank loans	2	-	-	-	-
Dividend paid	-	-	(215)	(557)	(661)
Others	(252)	(117)	(28)	(7)	(3)
Net cash from financing	(232)	(66)	(242)	(564)	(664)
Net change in cash	584	1,123	1,129	874	1,320
Beginning cash balance	1,954	2,529	3,672	4,800	5,675
Exchange difference	(9)	19	-	-	-
Cash at the end of the year	2,529	3,672	4,800	5,675	6,995

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
Non-current assets	2,211	2,341	2,586	2,812	3,053
Fixed asset	838	830	1,027	1,253	1,497
Intangible assets & goodwill	334	308	291	274	249
Prepaid lease payments	101	103	103	103	103
Interest in joint ventures	-	-	65	83	103
Other non-current assets	937	1,100	1,100	1,100	1,100
Current assets	5,110	6,386	8,254	9,693	11,547
Cash and cash equivalents	2,529	3,672	4,800	5,675	6,995
Inventories	1,103	1,240	1,560	1,809	2,039
Trade and other receivables	1,138	929	1,193	1,392	1,582
Prepayments	340	546	701	818	930
Other current assets	1	0	0	0	0
Current liabilities	2,128	2,777	3,690	4,235	4,839
Bank loans	-	-	-	-	-
Trade payables	1,145	1,133	1,426	1,653	1,864
Accruals & other payables	963	1,412	1,813	2,116	2,405
Tax payables	20	134	353	368	471
Others	-	98	98	98	98
Non-current liabilities	120	130	130	130	130
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	57	54	54	54	54
Others	63	77	77	77	77
Minority Interest	-	-	-	-	-
Total net assets	5,074	5,820	7,020	8,141	9,630
Shareholders' equity	5,074	5,820	7,020	8,141	9,630

Key ratios

YE Dec 31	FY17A	FY18A	FY19A	FY20E	FY21E
Sales mix (%)					
Franchises	47.8	46.7	49.8	48.7	47.1
Self owned	30.7	29.8	25.8	25.2	24.8
E-commerce	18.8	21.1	22.2	24.1	26.3
International	2.7	2.4	2.2	2.0	1.8
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	47.1	48.1	49.1	49.4	49.9
Operating margin	5.0	7.4	10.6	12.2	13.8
Pre-tax margin	6.1	8.1	13.1	13.0	14.6
Net margin	5.8	6.8	10.5	10.7	12.0
Effective tax rate	4.8	17.2	24.7	18.9	18.8
Balance sheet ratios					
Current ratio (x)	2.4	2.3	2.2	2.3	2.4
Quick ratio (x)	1.9	1.9	1.8	1.9	2.0
Cash ratio (x)	1.2	1.3	1.3	1.3	1.4
Inventory turnover days	144	112	105	105	105
Trade receivables days	64	61	60	60	60
Trade payables days	49	40	40	40	40
Total debt / total equity	0	1	0	0	0
Net debt / equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	10.2	12.3	20.2	20.6	22.3
ROA	7.0	8.2	13.1	13.4	14.7
Per share					
EPS (RMB)	0.21	0.29	0.58	0.68	0.88
DPS (RMB)	-	0.09	0.23	0.27	0.35
BVPS (RMB)	2.11	2.41	2.91	3.37	3.99

Source: Company data, CMBIS estimates

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