

# 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 Shen'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				

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

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### 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

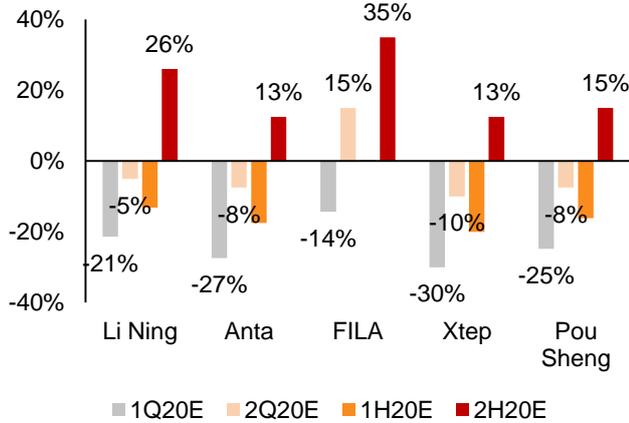
Figure 2: CMBI estimates vs consensus

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

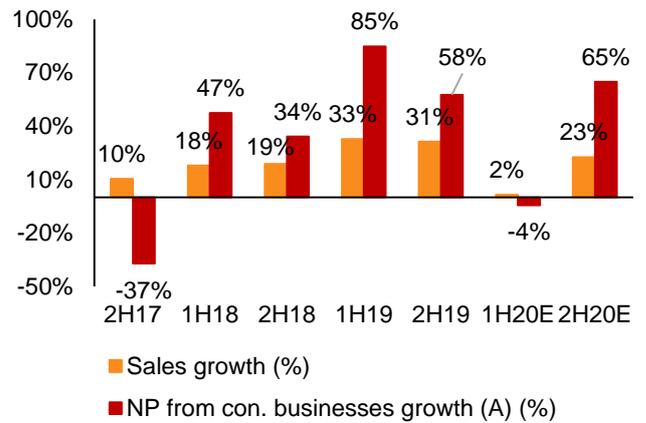
## Focus Charts

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



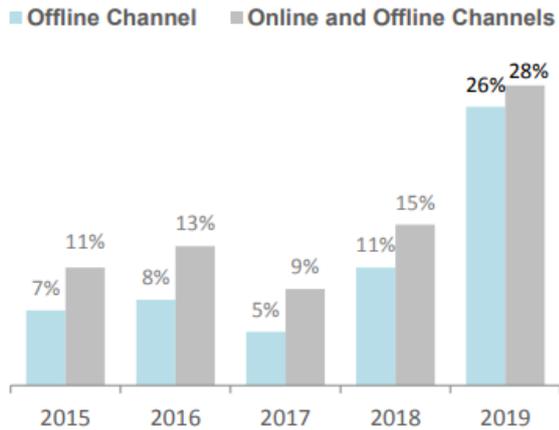
Source: Company data, CMBIS estimates

**Figure 4: Sales/ net profit growth - Half year**



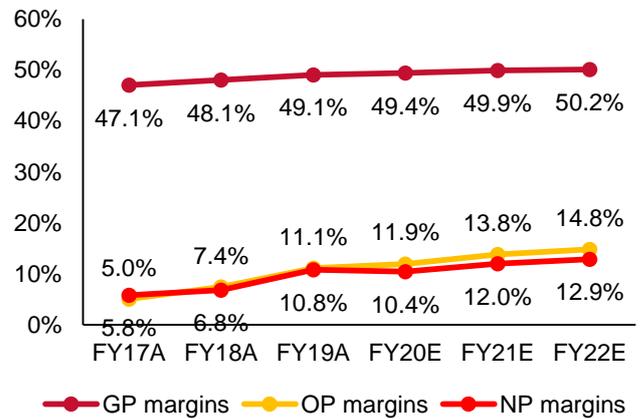
Source: Company data, CMBIS estimates

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



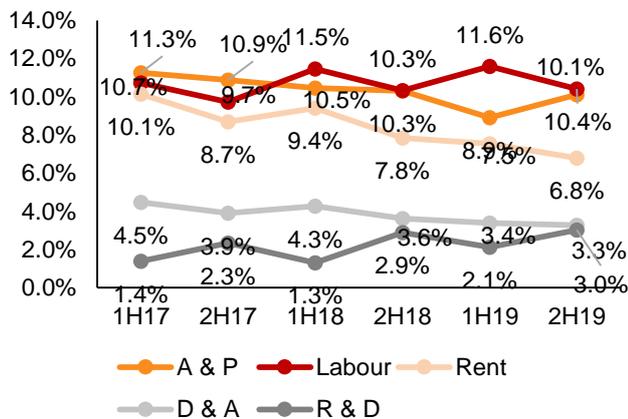
Source: Company data, CMBIS

**Figure 6: GP/ OP/ NP att. margin**



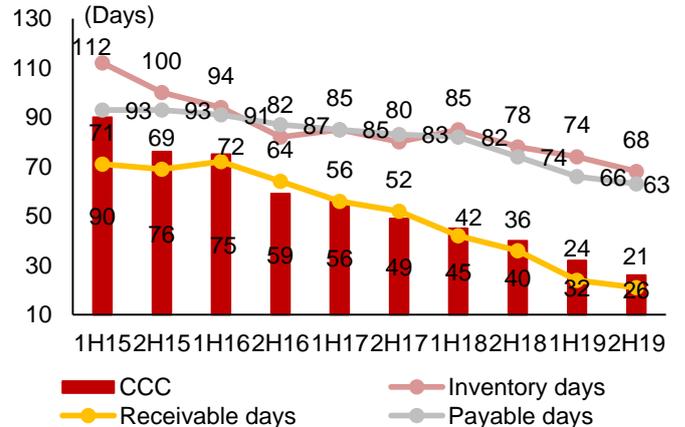
Source: Company data, CMBIS estimates

**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/ Other brands)	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-teens	+ve High-teens	+ve Mid-teens	+ve High-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens
Li Ning group's retail sales								+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve High-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 Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens
Wholesales								+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens
E- Commerce								+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve High-teens	+ve Low-teens	+ve Low-teens
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	10%	+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
<b>Revenue</b>	<b>4,713</b>	<b>5,798</b>	<b>6,255</b>	<b>7,615</b>	<b>18%</b>	<b>19%</b>	<b>33%</b>	<b>31%</b>	<b>7,244</b>	<b>5%</b>
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%
<b>GP margins</b>	<b>48.7%</b>	<b>47.6%</b>	<b>49.7%</b>	<b>48.6%</b>					<b>48.6%</b>	
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%
<b>S &amp; D exp / sales</b>	<b>-36.8%</b>	<b>-34.0%</b>	<b>-32.3%</b>	<b>-31.8%</b>					<b>-32.9%</b>	
Admin expenses	(297)	(365)	(451)	(505)	35%	30%	52%	39%	(420)	20%
<b>Admin exp / sales</b>	<b>-6.3%</b>	<b>-6.3%</b>	<b>-7.2%</b>	<b>-6.6%</b>					<b>-5.8%</b>	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	294	483	678	865	46%	98%	131%	79%	749	16%
<b>OP margins</b>	<b>6.2%</b>	<b>8.3%</b>	<b>10.8%</b>	<b>11.4%</b>					<b>10.3%</b>	
Other items	0	0	0	0					0	
Net finance income	1	8	(8)	(22)					12	-277%
<b>Net finance income / sales</b>	<b>0.0%</b>	<b>0.1%</b>	<b>-0.1%</b>	<b>-0.3%</b>					<b>0.2%</b>	
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)	
<b>Tax / sales</b>	<b>-1.2%</b>	<b>-1.3%</b>	<b>-3.0%</b>	<b>-2.3%</b>					<b>-2.3%</b>	
<b>Effective tax rate</b>	<b>-18.0%</b>	<b>-14.6%</b>	<b>-18.9%</b>	<b>-19.6%</b>					<b>-21.4%</b>	
Minority interests	0	0	0	0					0	
<b>Net profit att.</b>	<b>269</b>	<b>447</b>	<b>795</b>	<b>704.1</b>	<b>42%</b>	<b>37%</b>	<b>196%</b>	<b>58%</b>	<b>620</b>	<b>14%</b>
<b>NP margins</b>	<b>5.7%</b>	<b>7.7%</b>	<b>12.7%</b>	<b>9.2%</b>					<b>8.6%</b>	
<b>Sales by channels</b>										
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%
<b>Breakdown by segment</b>										
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
<b>Revenue</b>	<b>10,511</b>	<b>13,870</b>	<b>15,682</b>	<b>18%</b>	<b>32%</b>	<b>13%</b>	<b>13,498</b>	<b>3%</b>
COGS	(5,458)	(7,064)	(7,928)				(6,868)	
Gross profit	5,053	6,805	7,754	21%	35%	14%	6,630	3%
<b>GP margins</b>	<b>48.1%</b>	<b>49.1%</b>	<b>49.4%</b>				<b>49.1%</b>	
Other income & gains	95	139	86				74	87%
S & D expenses	(3,708)	(4,445)	(4,913)	13%	20%	11%	(4,407)	1%
<b>S &amp; D exp / sales</b>	<b>-35.3%</b>	<b>-32.0%</b>	<b>-31.3%</b>				<b>-32.6%</b>	
Admin expenses	(662)	(956)	(1,057)	32%	44%	11%	(871)	10%
<b>Admin exp / sales</b>	<b>-6.3%</b>	<b>-6.9%</b>	<b>-6.7%</b>				<b>-6.5%</b>	
Other opex	0	0	0				0	
Operating profit (EBIT)	777	1,543	1,870	74%	99%	21%	1,427	8%
<b>OP margins</b>	<b>7.4%</b>	<b>11.1%</b>	<b>11.9%</b>				<b>10.6%</b>	
Other items	0	0	0				0	
Net finance income	10	(30)	30				4	-826%
<b>Net finance income / sales</b>	<b>0.1%</b>	<b>-0.2%</b>	<b>0.2%</b>				<b>0.0%</b>	
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)	
<b>Tax / sales</b>	<b>-1.3%</b>	<b>-2.6%</b>	<b>-2.3%</b>				<b>-2.6%</b>	
<b>Effective tax rate</b>	<b>-15.9%</b>	<b>-19.3%</b>	<b>-18.0%</b>				<b>-20.0%</b>	
Minority interests	0	0	0				0	
<b>Net profit att.</b>	<b>715</b>	<b>1,499</b>	<b>1,636</b>	<b>39%</b>	<b>110%</b>	<b>9%</b>	<b>1,415</b>	<b>6%</b>
<b>NP margins</b>	<b>6.8%</b>	<b>10.8%</b>	<b>10.4%</b>				<b>10.5%</b>	
<b>Sales by channels</b>								
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%
<b>Breakdown by segment</b>								
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

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 (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
<b>H shares Sportswear</b>															
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	
								<b>Avg.</b>	<b>14.8</b>	<b>12.1</b>	<b>3.0</b>	<b>2.5</b>	<b>26.0</b>	<b>0.6</b>	<b>3.9</b>
								<b>Med.</b>	<b>13.1</b>	<b>11.4</b>	<b>2.9</b>	<b>2.3</b>	<b>15.2</b>	<b>0.7</b>	<b>2.5</b>
<b>International Sportswear</b>															
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	
								<b>Avg.</b>	<b>23.5</b>	<b>19.6</b>	<b>4.6</b>	<b>4.2</b>	<b>20.4</b>	<b>2.6</b>	<b>1.5</b>
								<b>Med.</b>	<b>22.8</b>	<b>18.0</b>	<b>2.3</b>	<b>1.9</b>	<b>15.9</b>	<b>2.3</b>	<b>1.5</b>

Source: Bloomberg, CMBIS estimates

## Assumption

Figure 14: Li Ning's key assumptions

Major assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales by segment (Rmb mn)</b>					
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
<b>Sales by segment growth (%)</b>					
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%
<b>Sales by channel growth (%)</b>					
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%
<b>Sales network by segment</b>					
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%
<b>Opex breakdown</b>					
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%
<b>OP margins</b>	<b>7.4%</b>	<b>11.1%</b>	<b>11.9%</b>	<b>13.8%</b>	<b>14.8%</b>
Effective tax rate	15.9%	19.3%	18.0%	18.0%	18.0%
<b>Net profit margins</b>	<b>6.8%</b>	<b>10.8%</b>	<b>10.4%</b>	<b>12.0%</b>	<b>12.9%</b>
<b>Net profit att. growth (%)</b>	<b>38.8%</b>	<b>109.6%</b>	<b>9.1%</b>	<b>34.6%</b>	<b>23.0%</b>

Source: Company data, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E	YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>10,511</b>	<b>13,870</b>	<b>15,682</b>	<b>18,369</b>	<b>21,054</b>	<b>EBIT</b>	<b>777</b>	<b>1,543</b>	<b>1,870</b>	<b>2,530</b>	<b>3,120</b>
Franchises	4,909	6,865	7,631	8,623	9,571	D & A	410	429	504	591	676
Self owned	3,132	3,620	3,858	4,437	5,013	Change in working capital	448	1,344	128	190	190
E-commerce	2,218	3,121	3,941	5,045	6,205	Income tax paid	(9)	(135)	(357)	(359)	(483)
International	252	264	252	264	264	Others	46	-	-	-	-
<b>Cost of goods sold</b>	<b>(5,458)</b>	<b>(7,064)</b>	<b>(7,928)</b>	<b>(9,197)</b>	<b>(10,495)</b>	<b>Net cash from operating</b>	<b>1,672</b>	<b>3,181</b>	<b>2,145</b>	<b>2,952</b>	<b>3,503</b>
<b>Gross profit</b>	<b>5,053</b>	<b>6,805</b>	<b>7,754</b>	<b>9,171</b>	<b>10,559</b>	Capex & investments	(431)	(624)	(706)	(827)	(947)
<b>Other income</b>	<b>95</b>	<b>139</b>	<b>86</b>	<b>101</b>	<b>116</b>	Associated companies	(44)	-	-	-	-
<b>Operating expenses</b>	<b>(4,370)</b>	<b>(5,401)</b>	<b>(5,970)</b>	<b>(6,743)</b>	<b>(7,555)</b>	Interest received	51	278	76	89	102
D & A	(410)	(429)	(504)	(591)	(505)	Others	(59)	29	39	48	60
Staff costs	(1,139)	(1,519)	(1,727)	(1,951)	(2,155)	<b>Net cash from investing</b>	<b>(483)</b>	<b>(318)</b>	<b>(590)</b>	<b>(689)</b>	<b>(785)</b>
S & D costs (ex-staff, D&A)	(2,708)	(3,252)	(3,553)	(4,010)	(4,515)	Equity raised	51	-	-	-	-
Admin exp. (ex-staff, D&A)	(113)	(201)	(186)	(190)	(379)	Net change in bank loans	-	10	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	-	(215)	(380)	(382)	(516)
<b>EBIT</b>	<b>777</b>	<b>1,543</b>	<b>1,870</b>	<b>2,530</b>	<b>3,120</b>	Others	(117)	(369)	(9)	(4)	(4)
Finance costs, net	10	(30)	30	45	57	<b>Net cash from financing</b>	<b>(66)</b>	<b>(573)</b>	<b>(389)</b>	<b>(386)</b>	<b>(520)</b>
JVs & associates	64	343	94	110	126	<b>Net change in cash</b>	<b>1,123</b>	<b>2,290</b>	<b>1,166</b>	<b>1,877</b>	<b>2,198</b>
Exceptional	-	-	-	-	-	Beginning cash balance	2,529	3,672	5,961	7,017	8,789
<b>Pre-tax profit</b>	<b>850</b>	<b>1,857</b>	<b>1,995</b>	<b>2,685</b>	<b>3,303</b>	Exchange difference	19	-	-	-	-
Income tax	(135)	(357)	(359)	(483)	(595)	<b>Cash at the end of the year</b>	<b>3,672</b>	<b>5,961</b>	<b>7,127</b>	<b>8,894</b>	<b>10,987</b>
Less: Minority interests	0	0	0	0	0						
<b>Net profit</b>	<b>715</b>	<b>1,499</b>	<b>1,636</b>	<b>2,202</b>	<b>2,709</b>						

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Non-current assets</b>	<b>2,341</b>	<b>4,008</b>	<b>4,228</b>	<b>4,485</b>	<b>4,781</b>	<b>Sales mix (%)</b>					
Fixed asset	830	1,039	1,258	1,518	1,803	Franchises	46.7	49.5	48.7	46.9	45.5
Intangible assets & goodwill	308	265	248	223	211	Self owned	29.8	26.1	24.6	24.2	23.8
Prepaid lease payments	103	115	115	115	115	E-commerce	21.1	22.5	25.1	27.5	29.5
Interest in joint ventures	-	-	18	39	63	International	2.4	1.9	1.6	1.4	1.3
Other non-current assets	1,100	2,589	2,589	2,589	2,589	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>6,386</b>	<b>8,539</b>	<b>10,030</b>	<b>12,365</b>	<b>15,022</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	3,672	5,961	7,127	8,983	11,155	Gross margin	48.1	49.1	49.4	49.9	50.2
Inventories	1,240	1,407	1,579	1,832	2,091	Operating margin	7.4	11.1	11.9	13.8	14.8
Trade and other receivables	929	687	776	909	1,042	Pre-tax margin	8.1	13.4	12.7	14.6	15.7
Prepayments	546	483	546	640	733	Net margin	6.8	10.8	10.0	11.6	12.6
Other current assets	0	1	1	1	1	Effective tax rate	17.2	23.6	18.9	18.8	18.7
<b>Current liabilities</b>	<b>2,777</b>	<b>4,717</b>	<b>5,171</b>	<b>5,965</b>	<b>6,751</b>	<b>Balance sheet ratios</b>					
Bank loans	-	-	-	-	-	Current ratio (x)	2.3	1.8	1.9	2.1	2.2
Trade payables	1,133	1,348	1,513	1,755	2,003	Quick ratio (x)	1.9	1.5	1.6	1.8	1.9
Accruals & other payables	1,412	2,205	2,493	2,920	3,347	Cash ratio (x)	1.3	1.3	1.4	1.5	1.7
Tax payables	134	531	532	656	768	Inventory turnover days	112	105	105	105	105
Others	98	633	633	633	633	Trade receivables days	61	60	60	60	60
<b>Non-current liabilities</b>	<b>130</b>	<b>707</b>	<b>707</b>	<b>707</b>	<b>707</b>	Trade payables days	40	40	40	40	40
Bank loans	-	-	-	-	-	Total debt / total equity	1	1	1	0	0
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash				
Deferred tax	54	54	54	54	54	<b>Returns (%)</b>					
Others	77	653	653	653	653	ROE	12.3	21.0	19.5	21.6	21.9
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	ROA	8.2	11.9	11.5	13.1	13.7
<b>Total net assets</b>	<b>5,820</b>	<b>7,124</b>	<b>8,380</b>	<b>10,179</b>	<b>12,345</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>5,820</b>	<b>7,124</b>	<b>8,380</b>	<b>10,179</b>	<b>12,345</b>	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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