

# Li Ning (2331 HK)

## We see long-term value but short-term risks

In the short run, we are still quite cautious about Li Ning in 2H24E, because of: 1) risks of greater retail discounts or promotion, 2) risks of trade fair orders adjustments, 3) unfavorable channel mix and operating deleverage and 4) relatively fixed opex. However, from the long run prospective, we can still see the value in Li Ning, esp. when we consider its ex-cash FY24E P/E, which is only at 5-6x (excluding the net cash of RMB 17.6bn, in fact, we can also adjust for its RMB2.0-3.0bn worth of property investment in HK & SH). Maintain BUY but trim our TP to HK\$ 16.18, based on 12x FY24E P/E (cut from 15x, to factor in the industry de-rating). It is trading at 10x FY24E P/E.

■ **Even though the FY24E guidance was revised down, we still see some risks and pressure.** Management pointed out that the retail sales were weak and fell by HSD in Jul to mid-Aug 2024 (the completion rate is obviously below 100%), and therefore they have decided to revise down the FY24E guidance to LSD sales growth (cut from MSD) and a low-teen net profit margin (maintained). However, from our point of view, we are still quite cautious about 2H24E. On sales, we are cutting our retail sales growth forecasts in 3Q24E/ 4Q24E to -4%/ +6% (from +3%/ +13%) because the recovery rate (vs 2019) continued to weaken and the value for money product strategy was not too effective (sales mix of product priced between RMB 300-600 did increase from 56% to 62%, but the overall retail was growth was still at negative). Moreover, since the top priority right now is to preserve the healthiness of the Company (that includes keeping the inventory to sales ratio at about 4x in 2H24E), under such a weak retail sales growth environment, we believe the risks of potential trade fair orders adjustment and increases in retail discounts in 2H24E have become much higher, this would likely translate into lower sales or GP margin. On top of these, we believe there is still certain pressure on OP margins, because of: 1) unfavorable channel mix (direct retail could continue to outperform just because of sales growth in outlets), 2) operating deleverage (SSSG in the regular stores for both wholesale/ direct-retail channel could still be falling), 3) limited improvement in rental expenses (we do see some room for rental costs reductions as the shopping mall vacancy increases, but Li Ning may not benefit too much as it is already enjoying the low rent since the launch of China Li Ning in 2018 and XJ cotton incident in 2021), and 4) relatively fixed opex (D&A expenses could still increase YoY in 2H24E and so as the A&P expenses, due to the advertising around the 2024 Paris Olympics.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	25,803	27,598	28,162	30,195	32,722
YoY growth (%)	14.3	7.0	2.0	7.2	8.4
Operating profit (RMB mn)	4,886.8	3,559.1	3,659.0	4,037.2	4,557.6
Net profit (RMB mn)	4,063.8	3,187.0	3,103.5	3,419.4	3,843.3
EPS (Reported) (RMB)	1.54	1.23	1.19	1.32	1.48
YoY growth (%)	(2.3)	(20.5)	(2.6)	10.2	12.4
P/E (x)	7.8	9.8	10.1	9.2	8.1
P/B (x)	1.3	1.3	1.2	1.1	1.0
Yield (%)	3.9	4.5	4.4	4.9	5.5
ROE (%)	17.9	13.1	12.3	12.6	13.2
Net gearing (%)	30.9	34.1	36.0	39.3	43.0

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **HK\$16.18**

(Previous TP) **HK\$22.17**

**Up/Downside** **23.5%**

**Current Price** **HK\$13.10**

**China Consumer Discretionary**

**Walter WOO**

(852) 3761 8776

walterwoo@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	34,276.8
Avg 3 mths t/o (HK\$ mn)	427.3
52w High/Low (HK\$)	40.75/13.10
Total Issued Shares (mn)	2616.5

Source: FactSet

### Shareholding Structure

Viva China Holdings	10.4%
GIC Pte Ltd.	5.0%

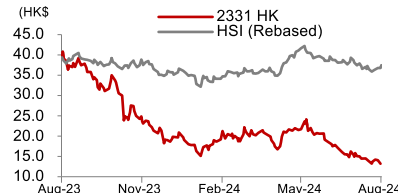
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.2%	-10.7%
3-mth	-39.6%	-32.9%
6-mth	-38.4%	-42.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent Reports:

[361 Degrees \(1361 HK\) - The cautious outlook is likely priced in](#)  
(13 Aug 24)

[Xtep \(1368 HK\) - Cautiously optimistic after a resilient 2Q24](#)  
(12 Jul 24)

[Anta Sports \(2020 HK\) - Stay cautious about FY24E after an inline 2Q24](#)  
(9 Jul 24)

[Bosideng \(3998 HK\) - Beautifully executed the solid strategies](#)  
(28 Jun 24)

[Topsports \(6110 HK\) - This is likely a rocky-road turnaround](#)  
(24 May 24)

[Xtep \(1368 HK\) - Huge boost in short-run growth with high yield](#)  
(13 May 24)

- **Maintain BUY but trim TP to HK\$ 16.18, based on 12x FY24E P/E (cut from 15x).** We have revised down our FY24E/ 25E/ 26E net profit by 9%/ 12%/ 13%, to factor in: 1) weaker-than-expected retail sales growth, 2) less-than-expected improvement in retail discounts, 3) less operating leverage, 4) higher A&P expenses and 5) some potential impairment losses. The stock is now trading at 10x FY24E P/E and 9x FY25E P/E. Considering the 5x-6x ex-cash P/E, plus our long-term positive view, we still have a BUY rating on Li Ning.
- **1H24 results beat on GP margin and dividends.** Li Ning's sales grew by 2% YoY to RMB 14.35bn, inline with CMBI/ BBG est., while net profit dropped by 7% YoY to RMB 1.96bn, beating CMBI/ BBG est. by 7%/ 17%, mostly thanks to the better-than-expected GP margin expansion (+1.7ppt to 50.4% vs CMBI est. of 49.5%), but slightly offset by higher-than-expected admin costs and tax. However, the OP margin has still decreased slightly to 16.8%, from 17.7% in 1H23, largely due to changes in channel mix (wholesale business has dropped the most while it has the highest OP margin). Noted that the DPS has actually increased by 4% YoY to RMB 0.3775 (from RMB 0.3620 in 1H23), thanks to buyback of shares and increased payout ratio to 50% (from 45% last year).
- **Online growth was the fastest while direct retail continued to outperform wholesale.** In terms of channel, sales growth for e-commerce/ direct-retail/ wholesale were 11%/ 3%/ -2% in 1H24. We believe that the direct retail growth was mainly driven by robust performance in the outlet channel. In terms of categories, sales growth for running/ fitness/ sports causal/ basketball were at 25%/ 7%/ -7%/ -20%, all had slowed down from the 40%/ 25%/ flat/ flat in FY23.
- **But the retail sales growth was a miss and inventory condition has worsened.** The Company also reported a LSD retail sales decline, which is actually a miss vs CMBI est. of LSD increases. The drop was a mixture of LSD increase in ASP (tag price was flattish) and MSD decrease in volume. We attributed this to the weaker-than-expected macro, rising competition, lack of popular new products and ineffective marketing. Although the condition of channel inventory is still very healthy, where the retail sale to inventory ratio was at 3.9x in 1H24, vs 3.6x in 2H23 and 3.8x in 1H23, we have become slightly worried as the new product inventory mix has just started to fall to 83% in 1H24, vs 87% in 2H23 and also 87% in 1H23.

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	28,162	30,195	32,722	29,523	32,070	34,931	-4.6%	-5.8%	-6.3%
Gross profit	13,805	14,849	16,237	14,485	15,920	17,481	-4.7%	-6.7%	-7.1%
EBIT	3,659	4,098	4,623	4,165	4,764	5,358	-12.1%	-14.0%	-13.7%
Net profit att.	3,103	3,466	3,895	3,402	3,938	4,484	-8.8%	-12.0%	-13.1%
Diluted EPS (RMB)	1.19	1.33	1.50	1.31	1.52	1.73	-8.8%	-12.0%	-13.1%
Gross margin	49.0%	49.2%	49.6%	49.1%	49.6%	50.0%	0ppt	-0.5ppt	-0.4ppt
EBIT margin	13.0%	13.6%	14.1%	14.1%	14.9%	15.3%	-1.1ppt	-1.3ppt	-1.2ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.5%	12.3%	12.8%	-0.5ppt	-0.8ppt	-0.9ppt

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	28,162	30,195	32,722	28,919	31,304	33,848	-2.6%	-3.5%	-3.3%
Gross profit	13,805	14,849	16,237	14,142	15,395	16,769	-2.4%	-3.6%	-3.2%
EBIT	3,659	4,098	4,623	3,822	4,359	4,865	-4.3%	-6.0%	-5.0%
Net profit att.	3,103	3,466	3,895	3,361	3,783	4,240	-7.7%	-8.4%	-8.1%
Diluted EPS (RMB)	1.19	1.33	1.50	1.31	1.47	1.66	-8.7%	-9.4%	-9.5%
Gross margin	49.0%	49.2%	49.6%	48.9%	49.2%	49.5%	0.1ppt	0ppt	0.1ppt
EBIT margin	13.0%	13.6%	14.1%	13.2%	13.9%	14.4%	-0.2ppt	-0.4ppt	-0.2ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.6%	12.1%	12.5%	-0.6ppt	-0.6ppt	-0.6ppt

Source: Company data, CMBIGM estimates

## Results review

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24E	1H23 YoY	2H23 YoY	1H24 YoY	2H24E YoY	1H24E CMBIG M	Actual vs CMBIGM
<b>Revenue</b>	<b>14,019</b>	<b>13,580</b>	<b>14,345</b>	<b>13,817</b>	<b>13%</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>14,381</b>	<b>0%</b>
COGS	-7,181	-7,065	-7,110	-7,247					-7,256	
Gross profit	6,838	6,514	7,236	6,569	10%	4%	6%	1%	7,125	2%
<b>GP margins</b>	<b>48.8%</b>	<b>48.0%</b>	<b>50.4%</b>	<b>47.5%</b>					<b>49.5%</b>	
Other income & gains	176	368	184	367					187	-2%
S & D expenses	-3,948	-5,132	-4,327	-5,091	17%	31%	10%	-1%	-4,366	-1%
<b>S &amp; D exp / sales</b>	<b>-28.2%</b>	<b>-37.8%</b>	<b>-30.2%</b>	<b>-36.9%</b>					<b>-30.4%</b>	
Admin expenses	-591	-665	-680	-598	14%	12%	15%	-10%	-652	4%
<b>Admin exp / sales</b>	<b>-4.2%</b>	<b>-4.9%</b>	<b>-4.7%</b>	<b>-4.3%</b>					<b>-4.5%</b>	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,474	1,085	2,412	1,247	-6%	-52%	-3%	15%	2,293	5%
<b>OP margins</b>	<b>17.7%</b>	<b>8.0%</b>	<b>16.8%</b>	<b>9.0%</b>					<b>15.9%</b>	
Other items	0	0	0	0					0	
Net finance income	224	95	100	99					72	40%
<b>Net finance income / sales</b>	<b>1.6%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>					<b>0.5%</b>	
Profit after financing costs	2,698	1,180	2,513	1,346					2,365	
Associated coms	0	0	0	0					0	
Jointly controlled coms	102	276	111	114					72	54%
Pre-tax profit	2,800	1,456	2,623	1,460	-4%	-42%	-6%	0%	2,437	8%
Tax	-680	-390	-661	-319					-609	9%
<b>Tax / sales</b>	<b>-4.8%</b>	<b>-2.9%</b>	<b>-4.6%</b>	<b>-2.3%</b>					<b>-4.2%</b>	
<b>Effective tax rate</b>	<b>-24.3%</b>	<b>-26.8%</b>	<b>-25.2%</b>	<b>-21.8%</b>					<b>-25.0%</b>	
Minority interests	0	0	0	0					0	
<b>Net profit att.</b>	<b>2,121</b>	<b>1,066</b>	<b>1,962</b>	<b>1,141</b>	<b>-3%</b>	<b>-43%</b>	<b>-7%</b>	<b>7%</b>	<b>1,827</b>	<b>7%</b>
<b>NP margins</b>	<b>15.1%</b>	<b>7.9%</b>	<b>13.7%</b>	<b>8.3%</b>					<b>12.7%</b>	
<b>Sales by channels</b>										
Franchises	6,724	5,904	6,590	5,785	14%	-11%	-2%	-2%	6,556	1%
Self-owned	3,410	3,498	3,503	3,543	22%	38%	3%	1%	3,580	-2%
E-commerce	3,595	3,936	4,004	4,205	2%	0%	11%	7%	3,955	1%
International	290	242	248	283	56%	-10%	-14%	17%	290	-14%
Total	14,019	13,580	14,345	13,817	13%	1%	2%	2%	14,381	0%
<b>Breakdown by segment</b>										
A & P	-1,042	-1,454	-1,249	-1,455	6%	12%	20%	0%	-1,294	-4%
Labour	-1,161	-1,231	-1,217	-1,247	27%	14%	5%	1%	-1,150	6%
Rent	-948	-983	-966	-969	37%	30%	2%	-1%	-978	-1%
D & A	-455	-616	-501	-857	23%	49%	10%	39%	-575	-13%
R & D	-291	-327	-317	-314	22%	11%	9%	-4%	-302	5%
Others	-632	-862	-687	-777	-11%	26%	9%	-10%	-719	-4%
As % of total sales										
A & P	-7.4%	-10.7%	-8.7%	-10.5%					-9.0%	
Labour	-8.3%	-9.1%	-8.5%	-9.0%					-8.0%	
Rent	-6.8%	-7.2%	-6.7%	-7.0%					-6.8%	
D & A	-3.2%	-4.5%	-3.5%	-6.2%					-4.0%	
R & D	-2.1%	-2.4%	-2.2%	-2.3%					-2.1%	
Others	-4.5%	-6.3%	-4.8%	-5.6%					-5.0%	

Source: Company data, CMBIGM estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY23	FY24E	FY25E	FY24E YoY	FY25E YoY
Revenue	27,598	28,162	30,195	2%	7%
COGS	-14,246	-14,357	-15,347		
Gross profit	13,352	13,805	14,849	3%	8%
<b>GP margins</b>	<b>48.4%</b>	<b>49.0%</b>	<b>49.2%</b>		
Other income & gains	543	551	591		
S & D expenses	-9,080	-9,418	-10,009	4%	6%
<b>S &amp; D exp / sales</b>	<b>-32.9%</b>	<b>-33.4%</b>	<b>-33.1%</b>		
Admin expenses	-1,256	-1,279	-1,333	2%	4%
<b>Admin exp / sales</b>	<b>-4.6%</b>	<b>-4.5%</b>	<b>-4.4%</b>		
Other opex	0	0	0		
Operating profit (EBIT)	3,559	3,659	4,098	3%	12%
<b>OP margins</b>	<b>12.9%</b>	<b>13.0%</b>	<b>13.6%</b>		
Other items	0	0	0		
Net finance income	319	199	222		
<b>Net finance income / sales</b>	<b>1.2%</b>	<b>0.7%</b>	<b>0.7%</b>		
Profit after financing costs	3,878	3,858	4,320		
Associated coms	0	0	0		
Jointly controlled coms	378	225	242		
Pre-tax profit	4,256	4,084	4,561	-4%	12%
Tax	-1,069	-980	-1,095		
<b>Tax / sales</b>	<b>-3.9%</b>	<b>-3.5%</b>	<b>-3.6%</b>		
<b>Effective tax rate</b>	<b>-25.1%</b>	<b>-24.0%</b>	<b>-24.0%</b>		
Minority interests	0	0	0		
<b>Net profit att.</b>	<b>3,187</b>	<b>3,103</b>	<b>3,466</b>	<b>-3%</b>	<b>12%</b>
<b>NP margins</b>	<b>11.5%</b>	<b>11.0%</b>	<b>11.5%</b>		
<b>Sales by channels</b>					
Franchises	12,628	12,375	13,118	-2%	6%
Self-owned	6,907	7,046	7,680	2%	9%
E-commerce	7,531	8,209	8,866	9%	8%
International	532	532	532	0%	0%
Total	27,598	28,162	30,195	2%	7%
<b>Breakdown by segment</b>					
A & P	-2,496	-2,704	-2,869	8%	6%
Labour	-2,392	-2,464	-2,654	3%	8%
Rent	-1,930	-1,935	-2,053	0%	6%
D & A	-1,071	-1,358	-1,611	27%	19%
R & D	-618	-631	-676	2%	7%
Others	-1,494	-1,464	-1,480	-2%	1%
As % of total sales					
A & P	-9.0%	-9.6%	-9.5%		
Labour	-8.7%	-8.8%	-8.8%		
Rent	-7.0%	-6.9%	-6.8%		
D & A	-3.9%	-4.8%	-5.3%		
R & D	-2.2%	-2.2%	-2.2%		
Others	-5.4%	-5.2%	-4.9%		

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 5: Historical sales growth trend, by brand

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-5%	-3%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	11%	13%
<b>Anta brand's SSSG</b>																
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	+ve HSD	12%	15%
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	+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	-ve LSD		
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%	20%-25%		
<b>FILA brand's retail sales</b>																
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	+ve MSD	10%	15%
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	+ve HSD		
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	-ve LSD		
Fusion	150%	Over 80%	+ve Mid-teens	+ve Mid-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%	-ve MSD	+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%	20%		
<b>Other brands</b>																
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%	40%-45%		
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%	35%-40%		
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%	60%		
<b>Li Ning group's SSSG</b>																
Li Ning group's retail sales	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	-ve HSD		
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	-ve MSD		
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	-ve High-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%	+ve Low-teens		
<b>Li Ning group's retail sales</b>																
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	-ve LSD	-4%	6%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%	+ve MSD	Flat		
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	-ve HSD		
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%	+ve HSD		
<b>Xtep brand's SSSG</b>																
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	10%	10%	16%
<b>361 Degree brand's SSSG</b>																
361 Degree brand's offli	+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	10.0%	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%	+ve Mid-teens		
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%		
<b>Pou Sheng's SSSG</b>																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%			
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-6%	2%
<b>Topsports' retail sales</b>																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low-20%	-ve LSD	+ve Low-teens	+ve LSD	-ve MSD	-3%	0%
<b>Dong Xiang's SSSG</b>																
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%	-ve HSD	-ve MSD		
Dong Xiang's retail sale	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 Low to Mid-teens	+ve Mid-teens	+ve MSD	Mid 40% to 50%	-ve Low 10% to 20%	-ve LSD to MSD		
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)

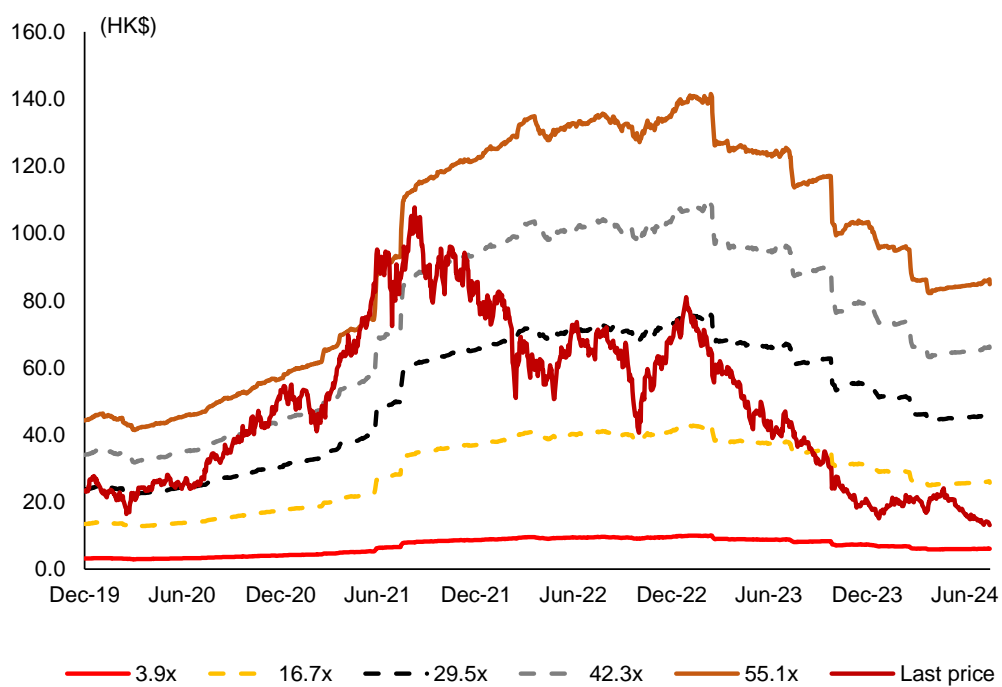
## Valuation

Figure 6: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E
H shares Sportswear														
Li Ning	2331 HK	BUY	16.18	13.10	24%	33,857	Dec-23	9.5	9.7	1.2	16.7	(2.0)	4.6	(36.7)
Anta Sports	2020 HK	BUY	101.38	68.10	49%	192,902	Dec-23	13.8	12.6	2.9	23.8	0.9	3.8	(10.1)
Xtep Intl	1368 HK	BUY	7.32	4.75	54%	12,561	Dec-23	9.5	8.3	1.2	12.0	0.7	5.2	7.7
361 Degrees	1361 HK	BUY	5.15	3.58	44%	7,402	Dec-23	6.1	5.2	0.7	11.5	0.5	4.9	3.2
Topsports	6110 HK	BUY	6.78	3.02	125%	18,728	Feb-24	7.4	6.7	1.7	22.5	0.9	12.4	(48.1)
Pou Sheng	3813 HK	NR	n/a	0.62	n/a	3,302	Dec-23	5.2	4.4	0.3	6.0	0.3	10.4	(8.8)
China DX	3818 HK	NR	n/a	0.29	n/a	1,707	Mar-24	n/a	16.6	0.2	(6.8)	0.0	7.5	1.8
Avg.								8.6	9.1	1.2	12.3	0.2	7.0	(13.0)
Med.								8.4	8.3	1.2	12.0	0.5	5.2	(8.8)
International Sportswear														
Nike Inc	NKE US	NR	n/a	83.23	n/a	972,888	May-24	26.7	23.2	8.7	40.1	11.5	1.8	(23.3)
Adidas	ADS GY	NR	n/a	217.00	n/a	335,089	Dec-23	61.5	29.5	7.5	4.9	(0.2)	0.6	17.8
Puma	PUM GY	NR	n/a	36.84	n/a	47,667	Dec-23	16.8	13.1	2.0	10.2	0.9	2.2	(27.1)
Under Armour	UAA US	NR	n/a	8.00	n/a	26,722	Mar-24	35.4	21.9	1.8	(4.4)	(16.3)	0.0	(9.0)
Lululemon	LULU US	NR	n/a	258.10	n/a	251,526	Jan-24	18.3	16.7	6.1	41.9	1.6	0.0	(49.5)
Skechers	SKX US	NR	n/a	64.84	n/a	77,172	Dec-23	15.5	13.1	2.1	14.4	0.8	0.0	4.0
On Holding	ONON US	NR	n/a	42.54	n/a	105,715	Dec-23	49.7	44.5	8.5	13.7	0.9	n/a	57.7
Decker Outdoor	DECK US	NR	n/a	950.53	n/a	188,303	Mar-24	29.9	26.2	9.7	41.9	2.6	0.0	42.2
Vf Corp	VFC US	NR	n/a	16.88	n/a	51,216	Mar-24	29.0	16.1	3.3	(57.0)	(0.2)	2.0	(10.2)
Columbia	COLM US	NR	n/a	80.08	n/a	36,555	Dec-23	20.8	18.3	2.4	12.3	3.6	1.5	0.7
Wolverine	WWW US	NR	n/a	13.11	n/a	8,178	Dec-23	15.6	10.4	3.3	(27.2)	(0.1)	3.3	47.5
Mizuno Corp	8022 JP	NR	n/a	8440.00	n/a	11,816	Mar-24	14.6	13.5	1.4	10.7	2.4	1.5	114.8
Asics Corp	7936 JP	NR	n/a	2622.00	n/a	104,898	Dec-23	31.8	27.9	9.5	22.9	1.1	1.5	137.4
Avg.								28.1	21.1	5.1	9.6	0.7	1.2	23.3
Med.								26.7	18.3	3.3	12.3	0.9	1.5	4.0

Source: Bloomberg, CMBIGM estimates

Figure 7: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates



## Assumptions

Figure 8: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment (RMB mn)</b>					
Shoes	13,479	13,389	13,875	15,074	16,462
Clothes	10,709	12,411	12,038	12,761	13,782
Equipment	1,616	1,799	2,248	2,361	2,479
Others	0	0	0	0	0
Total	25,803	27,598	28,162	30,195	32,722
<b>Sales by segment growth (%)</b>					
Shoes	41.8%	-0.7%	3.6%	8.6%	9.2%
Clothes	-9.4%	15.9%	-3.0%	6.0%	8.0%
Equipment	30.1%	11.3%	25.0%	5.0%	5.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	14.3%	7.0%	2.0%	7.2%	8.4%
<b>Sales by channel growth (%)</b>					
Franchises	15.7%	0.6%	-2.0%	6.0%	8.0%
Self-owned	6.4%	29.6%	2.0%	9.0%	10.0%
E-commerce	16.4%	0.9%	9.0%	8.0%	8.0%
International	53.9%	16.6%	0.0%	0.0%	0.0%
Total	14.3%	7.0%	2.0%	7.2%	8.4%
<b>Sales network by segment</b>					
Self-owned	1,430	1,498	1,458	1,473	1,488
Franchise	4,865	4,742	4,827	4,912	4,997
Sub-total	6,295	6,240	6,285	6,385	6,485
LN Young	1,308	1,428	1,508	1,588	1,668
Total	7,603	7,668	7,793	7,973	8,153
GP margins	48.4%	48.4%	49.0%	49.2%	49.6%
<b>Opex breakdown</b>					
A & P/ sales	8.8%	9.0%	9.6%	9.5%	9.4%
Labour/ sales	7.7%	8.7%	8.8%	8.8%	8.7%
Rental/ sales	5.6%	7.0%	6.9%	6.8%	6.8%
D & A/ sales	3.0%	3.9%	4.8%	5.3%	5.6%
R & D/ sales	2.1%	2.2%	2.2%	2.2%	2.2%
Provision/ sales	0.0%	1.2%	0.5%	0.0%	0.0%
Selling & distribution costs / sales	28.3%	32.9%	33.4%	33.1%	33.1%
Admin expenses / sales	4.3%	4.6%	4.5%	4.4%	4.3%
<b>OP margins</b>	<b>18.9%</b>	<b>12.9%</b>	<b>13.0%</b>	<b>13.6%</b>	<b>14.1%</b>
Effective tax rate	25.0%	25.1%	24.0%	24.0%	24.0%
<b>Net profit margins</b>	<b>15.7%</b>	<b>11.5%</b>	<b>11.0%</b>	<b>11.5%</b>	<b>11.9%</b>
<b>Net profit att. growth (%)</b>	<b>1.3%</b>	<b>-21.6%</b>	<b>-2.6%</b>	<b>11.7%</b>	<b>12.4%</b>

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	28,162	30,195	32,722
Cost of goods sold	(10,603)	(13,319)	(14,246)	(14,357)	(15,347)	(16,485)
Gross profit	11,969	12,485	13,352	13,805	14,849	16,237
Operating expenses	(7,249)	(8,428)	(10,336)	(10,697)	(11,402)	(12,319)
Selling expense	(6,138)	(7,314)	(9,080)	(9,418)	(10,062)	(10,896)
Admin expense	(697)	(579)	(638)	(648)	(664)	(690)
R&D expense	(414)	(534)	(618)	(631)	(676)	(733)
Operating profit	5,136	4,887	3,559	3,659	4,037	4,558
Other income	416	829	543	551	591	640
Share of (losses)/profits of associates/JV	159	201	378	225	242	262
EBITDA	5,767	5,668	4,642	5,017	5,648	6,405
Depreciation	(589)	(732)	(1,016)	(1,304)	(1,567)	(1,814)
Other amortisation	(41)	(49)	(67)	(54)	(44)	(34)
Interest income	145	448	501	419	440	457
Interest expense	(112)	(121)	(181)	(220)	(220)	(220)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	5,328	5,415	4,256	4,084	4,499	5,057
Income tax	(1,317)	(1,351)	(1,069)	(980)	(1,080)	(1,214)
Minority interest	0	0	0	0	0	0
Net profit	4,011	4,064	3,187	3,103	3,419	3,843
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	18,672	12,395	13,653	14,793	16,758	19,150
Cash & equivalents	14,745	7,382	5,444	6,520	8,147	10,136
Account receivables	903	1,020	1,206	1,230	1,319	1,429
Inventories	1,773	2,428	2,493	2,513	2,686	2,885
Prepayment	849	920	1,016	1,037	1,111	1,204
ST bank deposits	402	644	3,494	3,494	3,494	3,494
Other current assets	0	0	0	0	0	0
Non-current assets	11,603	21,252	20,555	21,101	21,531	21,896
PP&E	1,626	3,235	4,124	4,583	4,905	5,139
Investment in JVs & assos	0	0	0	142	293	458
Intangibles	188	217	221	167	122	87
Other non-current assets	9,789	17,800	16,210	16,210	16,211	16,212
Total assets	30,275	33,647	34,208	35,894	38,289	41,046
Current liabilities	7,704	7,241	7,268	7,260	7,727	8,306
Short-term borrowings	0	0	0	0	0	0
Account payables	1,599	1,584	1,790	1,804	1,928	2,071
Tax payable	1,308	1,037	915	826	926	1,060
Other current liabilities	4,797	4,619	4,563	4,631	4,873	5,175
Non-current liabilities	1,467	2,074	2,533	2,533	2,533	2,533
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,467	2,074	2,533	2,533	2,533	2,533
Total liabilities	9,171	9,315	9,801	9,793	10,260	10,838
Share capital	239	240	240	240	240	240
Retained earnings	3	2	0	1,228	3,108	5,222
Other reserves	20,863	24,089	24,167	24,634	24,682	24,745
Total shareholders equity	21,104	24,332	24,407	26,101	28,029	30,207
Minority interest	0	0	0	0	0	0
Total equity and liabilities	30,275	33,647	34,208	35,894	38,289	41,046

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	5,328	5,415	4,256	4,084	4,499	5,057
Depreciation & amortization	630	782	1,082	1,358	1,611	1,848
Tax paid	(456)	(1,316)	(1,155)	(1,069)	(980)	(1,080)
Change in working capital	826	(1,133)	(31)	16	30	42
Others	197	167	535	(424)	(462)	(499)
<b>Net cash from operations</b>	<b>6,525</b>	<b>3,914</b>	<b>4,688</b>	<b>3,964</b>	<b>4,698</b>	<b>5,367</b>
<b>Investing</b>						
Capital expenditure	(985)	(1,757)	(1,727)	(1,762)	(1,890)	(2,048)
Acquisition of subsidiaries/ investments	(43)	(74)	(88)	0	0	0
Others	(5,511)	(7,651)	(634)	502	530	554
<b>Net cash from investing</b>	<b>(6,539)</b>	<b>(9,481)</b>	<b>(2,449)</b>	<b>(1,260)</b>	<b>(1,360)</b>	<b>(1,493)</b>
<b>Financing</b>						
Dividend paid	(515)	(1,195)	(2,175)	(1,409)	(1,491)	(1,666)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	8,667	97	7	0	0	0
Share repurchases	0	(159)	(1,159)	0	0	0
Others	(1,071)	(1,826)	(3,066)	(1,629)	(1,711)	(1,885)
<b>Net cash from financing</b>	<b>7,081</b>	<b>(3,082)</b>	<b>(6,392)</b>	<b>(3,038)</b>	<b>(3,202)</b>	<b>(3,551)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	7,187	14,745	7,382	5,444	6,520	8,147
Exchange difference	(25)	93	40	0	0	0
Others	7,583	(7,455)	(1,978)	1,076	1,628	1,989
<b>Cash at the end of the year</b>	<b>14,745</b>	<b>7,382</b>	<b>5,444</b>	<b>6,520</b>	<b>8,147</b>	<b>10,136</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	56.1%	14.3%	7.0%	2.0%	7.2%	8.4%
Gross profit	68.7%	4.3%	6.9%	3.4%	7.6%	9.3%
Operating profit	133.9%	(4.9%)	(27.2%)	2.8%	10.3%	12.9%
EBITDA	108.0%	(1.7%)	(18.1%)	8.1%	12.6%	13.4%
Net profit	136.1%	1.3%	(21.6%)	(2.6%)	10.2%	12.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	53.0%	48.4%	48.4%	49.0%	49.2%	49.6%
Operating margin	22.8%	18.9%	12.9%	13.0%	13.4%	13.9%
EBITDA margin	25.5%	22.0%	16.8%	17.8%	18.7%	19.6%
Return on equity (ROE)	26.9%	17.9%	13.1%	12.3%	12.6%	13.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.7	0.3	0.3	0.4	0.4	0.4
Current ratio (x)	2.4	1.7	1.9	2.0	2.2	2.3
Receivable turnover days	14.6	14.4	15.9	15.9	15.9	15.9
Inventory turnover days	61.0	66.5	63.9	63.9	63.9	63.9
Payable turnover days	55.1	43.4	45.9	45.9	45.9	45.9
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	7.6	7.8	9.8	10.1	9.2	8.1
P/E (diluted)	7.6	7.8	9.8	10.1	9.2	8.1
P/B	1.5	1.3	1.3	1.2	1.1	1.0
P/CFPS	4.7	8.1	6.7	7.9	6.7	5.8
Div yield (%)	3.8	3.9	4.5	4.4	4.9	5.5
EV	19,556.8	26,769.0	25,965.6	24,889.9	23,262.1	21,273.1
EV/Sales	0.9	1.0	0.9	0.9	0.8	0.7
EV/EBITDA	3.4	4.7	5.6	5.0	4.1	3.3

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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.