

Li Ning (2331 HK)

Impressive retail sales growth YTD

We are impressed by Li Ning's retail sales growth in YTD 2021, and we believe it can outperform the industry in FY21E, thanks to: 1) better brand popularity, 2) meaningful GP margin increase, and 3) solid cost control. As its reform is being implemented, we are upbeat on its long-term NP margin potential. Hence we reiterate BUY and raised TP to HK\$68.62, based on 45x FY22E P/E (vs prior 48x FY22E P/E to factor in the recent sector de-rating).

- **FY20 results roughly inline.** Sales and core net profit managed to grow by 4% and 34% YoY in FY20, 3% below and 2% higher than CMBI est. Slightly weaker-than-expected offline sales and GP margin were offset by stronger than expected costs control (esp. A&P and labour). Despite a flattish GP margin of 48.8% in 2H20 (vs 48.6% in 2H19), a significant net profit margin improvement to 12.3% in 2H20 was achieved (vs 9.2% 2H19), reaffirming our confidence on its reforms and re-acceleration in growth onwards.
- **Stellar retail sales growth achieved in YTD 2021.** The Company guided a 20-25% listed co. sales growth and a high-teen to low 20% retail sales growth for offline/ online and wholesale/ retail. We think it is conservative because 1) offline retail sales growth in Jan to mid-Mar 2021 was already ~70% YoY (high 30% growth vs 2019 level) which is way faster than CMBI est. of 34% for 1Q21E, 2) channel inventory is healthy, and 3) number of store growth will resume (China Li Ning to add 100 stores) and sales area growth will accelerate.
- **NP margin of ~13% in FY21E and 15%+ in longer run are not aggressive.** The Company also targets a 1ppt increase in NP margin in FY21E, which is again greatly prudent, because 1) 75% recovery of retail sales discounts (MSD lower in FY20 vs normal level) could drive 0.6-0.7ppt improvement in GP margin; 2) channel mix would be better as self-owned sales growth picks up again; and 3) there are rooms for IMU (initial markup) to increase by brand elevations (more high-end and function items are introduced) and refinements in costs and supply chain. In addition, 0.6-0.7ppt OPM improvement can be achieved through operating leverage every year (assuming 15-20% sales CAGR onwards).
- **Maintain BUY and lifted TP to HK\$ 68.62.** We maintain BUY and lifted TP to HK\$ 68.62, based on 45x FY22E P/E (down from 48x FY22E), given a 3-year core NP att. CAGR of 32%. Current valuation at 31x FY22E P/E, in our view, is highly attractive. We revised up our FY21E/ 22E NP att. estimates by 7%/ 8% to factor in better GP margin and operating leverage.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,870	14,457	18,097	21,333	24,313
YoY growth (%)	32.0	4.2	25.2	17.9	14.0
Net income (RMB mn)	1,499	1,698	2,504	3,179	3,880
EPS (RMB)	0.60	0.68	1.00	1.27	1.54
YoY growth (%)	106.0	12.5	47.4	27.0	22.1
Core NP (RMB mn)	1,265	1,698	2,504	3,179	3,880
YoY growth (%)	76.9	34.3	47.4	27.0	22.1
Consensus EPS (RMB)	n/a	n/a	0.88	1.14	n/a
P/E (x)	70.5	59.0	39.5	31.1	25.5
P/B (x)	14.6	11.3	9.1	7.4	6.0
Yield (%)	0.4	0.5	0.8	1.0	1.2
ROE (%)	21.0	19.5	23.4	24.2	24.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$68.62
(Previous TP	HK\$67.66)
Up/Downside	+44.6%
Current Price	HK\$47.45

China Sportswear Sector

Walter Woo
 (852) 3761 8776
 walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	118,110
Avg 3 mths t/o (HK\$ mn)	610.03
52w High/Low (HK\$)	57.6/ 16.0
Total Issued Shares (mn)	2,489.1

Source: Bloomberg

Shareholding Structure

Mr Li Ning & Family	14.23%
FMR LLC.	4.94%
Schroders Plc.	4.94%
Blackrock Inc.	4.84%
Free Float	70.05%

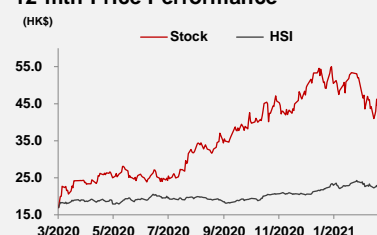
Source: Bloomberg, HKEx

Share Performance

	Absolute	Relative
1-mth	-8.7%	-3.5%
3-mth	2.5%	-6.3%
6-mth	28.1%	8.0%
12-mth	169.3%	111.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

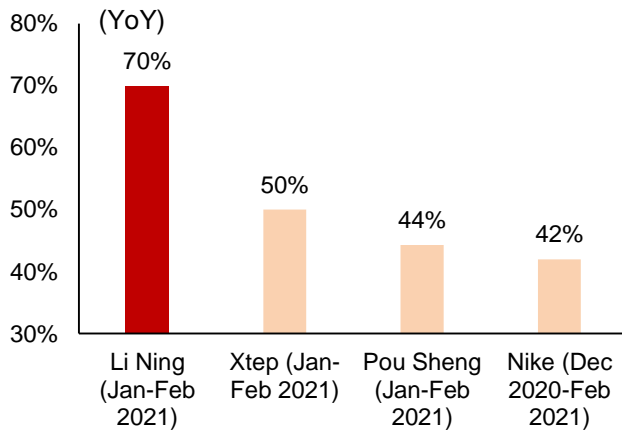
Auditor: PricewaterhouseCoopers

Related Reports

1. Li Ning (2331 HK, BUY) - Solid brand elevation and reform plan - 18 Feb 2021
2. Li Ning (2331 HK, BUY) - Margin expansion and solid reforms ahead - 17 Aug 2020
3. Li Ning (2331 HK, BUY) - Industry leading momentum and recovery - 9 Apr 2020

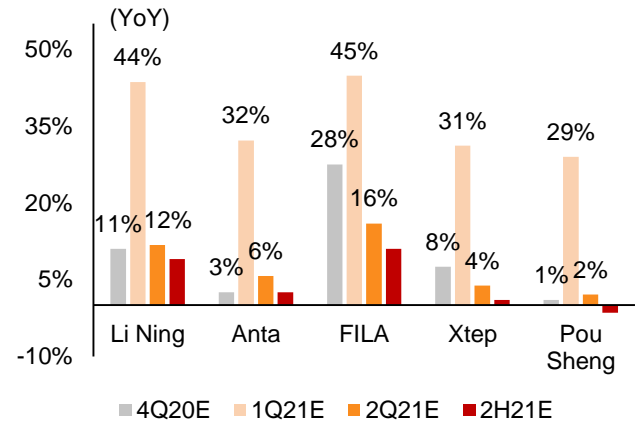
Focus Charts

Figure 1: 2021 retail sales growth (reported), by brand



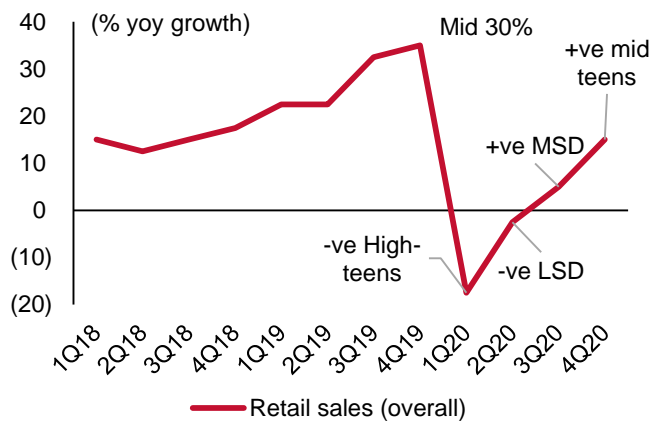
Source: Company data, CMBIS estimates

Figure 2: Retail sales growth (CMBIS est.), by brand



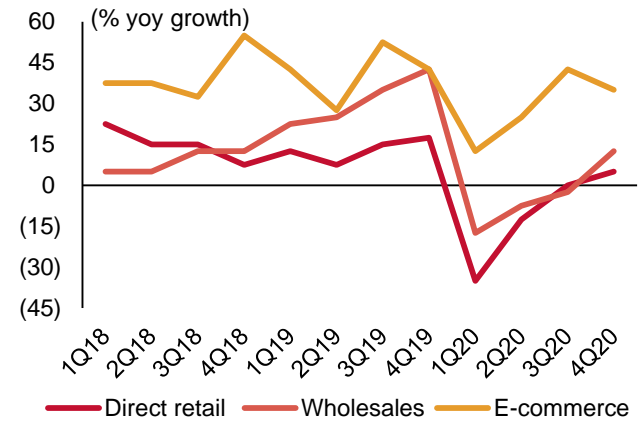
Source: Company data, CMBIS estimates

Figure 3: Li Ning's retail sales growth



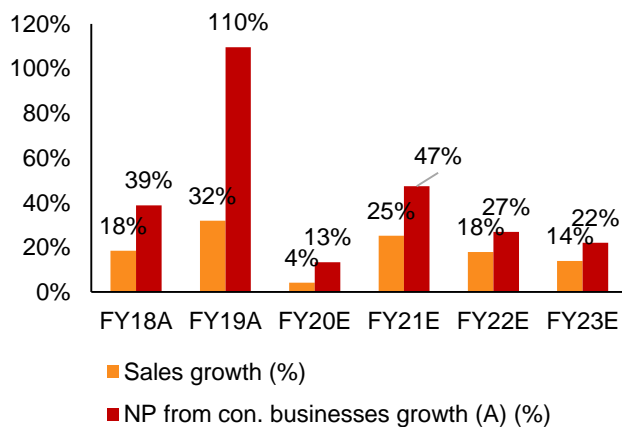
Source: Company data, CMBIS estimates

Figure 4: Li Ning's retail sales growth, by channel



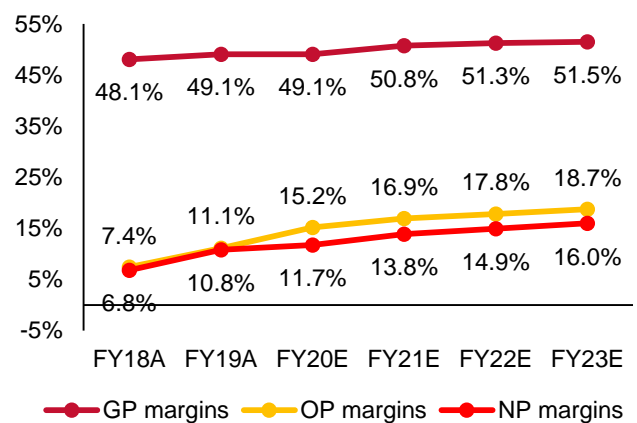
Source: Company data, CMBIS estimates

Figure 5: Sales/ NP att. growth



Source: Company data, CMBIS estimates

Figure 6: GP/ OP/ NP att. margin



Source: Company data, CMBIS estimates

Earnings revision

Figure 7: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	18,097	21,333	24,313	18,510	21,667	n/a	-2.2%	-1.5%	n/a
Gross profit	9,190	10,937	12,525	9,391	11,064	n/a	-2.1%	-1.1%	n/a
EBIT	3,058	3,793	4,558	2,824	3,467	n/a	8.3%	9.4%	n/a
Net profit att.	2,504	3,179	3,880	2,344	2,946	n/a	6.8%	7.9%	n/a
Diluted EPS (RMB)	1.00	1.27	1.54	0.93	1.17	n/a	7.1%	8.2%	n/a
Gross margin	50.8%	51.3%	51.5%	50.7%	51.1%	n/a	0ppt	0.2ppt	n/a
EBIT margin	16.9%	17.8%	18.7%	15.3%	16.0%	n/a	1.6ppt	1.8ppt	n/a
Net profit att. margin	13.8%	14.9%	16.0%	12.7%	13.6%	n/a	1.2ppt	1.3ppt	n/a

Source: Company data, CMBIS estimates

Figure 8: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	18,097	21,333	24,313	18,249	21,786	n/a	-0.8%	-2.1%	n/a
Gross profit	9,190	10,937	12,525	9,196	11,093	n/a	-0.1%	-1.4%	n/a
EBIT	3,058	3,793	4,558	2,831	3,708	n/a	8.0%	2.3%	n/a
Net profit att.	2,504	3,179	3,880	2,209	2,855	n/a	13.4%	11.3%	n/a
Diluted EPS (RMB)	1.00	1.27	1.54	0.88	1.14	n/a	12.8%	10.7%	n/a
Gross margin	50.8%	51.3%	51.5%	50.4%	50.9%	n/a	0.4ppt	0.4ppt	n/a
EBIT margin	16.9%	17.8%	18.7%	15.5%	17.0%	n/a	1.4ppt	0.8ppt	n/a
Net profit att. margin	13.8%	14.9%	16.0%	12.1%	13.1%	n/a	1.7ppt	1.8ppt	n/a

Source: Company data, CMBIS estimates

Results review

Figure 9: Results summary – Half Year

Half yearly (RMB mn)	1H19	2H19	1H20	2H20	1H19 YoY	2H19 YoY	1H20 YoY	2H20 YoY	2H20E CMBIS	Actual vs CMBIS
Revenue	6,255	7,615	6,181	8,276	33%	31%	-1%	9%	8,765	-6%
COGS	(3,147)	(3,917)	(3,124)	(4,238)					(4,393)	
Gross profit	3,108	3,698	3,057	4,038	35%	34%	-2%	9%	4,372	-8%
GP margins	49.7%	48.6%	49.5%	48.8%					49.9%	
Other income & gains	44	94	136	195					103	90%
S & D expenses	(2,023)	(2,422)	(1,949)	(2,476)	17%	23%	-4%	2%	(2,685)	-8%
S & D exp / sales	-32.3%	-31.8%	-31.5%	-29.9%					-30.6%	
Admin expenses	(451)	(505)	(346)	(459)	52%	39%	-23%	-9%	(556)	-17%
Admin exp / sales	-7.2%	-6.6%	-5.6%	-5.5%					-6.3%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	678	865	898	1,298	131%	79%	32%	50%	1,234	5%
OP margins	10.8%	11.4%	14.5%	15.7%					14.1%	
Other items	0	0	0	0					0	
Net finance income	(8)	(22)	(12)	(19)					(2)	n/a
Net finance income / sales	-0.1%	-0.3%	-0.2%	-0.2%					0.0%	
Profit after financing costs	670	843	885	1,279					1,232	
Associated coms	0	0	0	0					0	
Jointly controlled coms	310	33	22	62					38	62%
Pre-tax profit	980	876	907	1,341	199%	68%	-7%	53%	1,270	6%
Tax	(185)	(172)	(224)	(325)					(288)	13%
Tax / sales	-3.0%	-2.3%	-3.6%	-3.9%					-3.3%	
Effective tax rate	-18.9%	-19.6%	-24.7%	-24.3%					-22.7%	
Minority interests	0	0	0	0					0	
Net profit att.	795	704	683	1,015	196%	58%	-14%	44%	982	3%
NP margins	12.7%	9.2%	11.1%	12.3%					11.2%	
Sales by channels										
Franchises	3,040	3,826	3,109	3,816	45%	36%	2%	0%	4,208	-9%
Self-owned	1,758	1,862	1,335	1,932	12%	19%	-24%	4%	2,142	-10%
E-commerce	1,357	1,763	1,669	2,379	38%	42%	23%	35%	2,292	4%
International	100	163	68	149	33%	-8%	-32%	-9%	123	21%
Total	6,255	7,615	6,181	8,276	33%	31%	-1%	9%	8,765	-6%
Breakdown by segment										
A & P	(557)	(770)	(556)	(724)	13%	29%	0%	-6%	(864)	-16%
Labour	(725)	(793)	(623)	(688)	34%	32%	-14%	-13%	(951)	-28%
Rent	(471)	(517)	(409)	(507)	6%	14%	-13%	-2%	(551)	-8%
D & A	(212)	(249)	(270)	(306)	5%	19%	28%	23%	(265)	15%
R & D	(133)	(230)	(139)	(184)	115%	37%	5%	-20%	(205)	-10%
Others	(376)	(367)	(298)	(527)	29%	19%	-21%	43%	(404)	30%
As % of total sales										
A & P	-10.5%	-10.3%	-8.9%	-10.1%					-10.1%	
Labour	-11.5%	-10.3%	-11.6%	-10.4%					-10.4%	
Rent	-9.4%	-7.8%	-7.5%	-6.8%					-6.8%	
D & A	-4.3%	-3.6%	-3.4%	-3.3%					-3.3%	
R & D	-1.3%	-2.9%	-2.1%	-3.0%					-3.0%	
Others	-6.2%	-5.3%	-6.0%	-4.8%					-4.8%	

Source: Company data, CMBIS estimates

Figure 10: Results summary - Full Year

Full yearly (RMB mn)	FY19	FY20	FY21E	FY20 YoY	FY21E YoY	FY20E CMBIS	Actual vs CMBIS
Revenue	13,870	14,457	18,097	4%	25%	14,946	-3%
COGS	(7,064)	(7,363)	(8,907)			(7,517)	
Gross profit	6,805	7,094	9,190	4%	30%	7,428	-4%
GP margins	49.1%	49.1%	50.8%			49.7%	
Other income & gains	139	331	217			239	39%
S & D expenses	(4,445)	(4,425)	(5,238)	0%	18%	(4,633)	-5%
S & D exp / sales	-32.0%	-30.6%	-28.9%			-31.0%	
Admin expenses	(956)	(805)	(1,111)	-16%	38%	(902)	-11%
Admin exp / sales	-6.9%	-5.6%	-6.1%			-6.0%	
Other opex	0	0	0			0	
Operating profit (EBIT)	1,543	2,196	3,058	42%	39%	2,132	3%
OP margins	11.1%	15.2%	16.9%			14.3%	
Other items	0	0	0			0	
Net finance income	(30)	(32)	(18)			(14)	120%
Net finance income / sales	-0.2%	-0.2%	-0.1%			-0.1%	
Profit after financing costs	1,513	2,164	3,040			2,118	
Associated coms	0	0	0			0	
Jointly controlled coms	343	83	90			60	40%
Pre-tax profit	1,857	2,248	3,130	21%	39%	2,177	3%
Tax	(357)	(549)	(626)			(512)	7%
Tax / sales	-2.6%	-3.8%	-3.5%			-3.4%	
Effective tax rate	-19.3%	-24.4%	-20.0%			-23.5%	
Minority interests	0	0	0			0	
Net profit att.	1,499	1,698	2,504	13%	47%	1,666	2%
NP margins	10.8%	11.7%	13.8%			11.1%	
Sales by channels							
Franchises	6,865	6,925	8,310	1%	20%	7,317	-5%
Self-owned	3,620	3,267	4,084	-10%	25%	3,477	-6%
E-commerce	3,121	4,048	5,465	30%	35%	3,961	2%
International	264	217	239	-18%	10%	191	14%
Total	13,870	14,457	18,097	4%	25%	14,946	-3%
Breakdown by segment							
A & P	(1,327)	(1,280)	(1,719)	-4%	34%	(1,420)	-10%
Labour	(1,519)	(1,311)	(1,614)	-14%	23%	(1,574)	-17%
Rent	(989)	(915)	(1,029)	-7%	12%	(960)	-5%
D & A	(461)	(576)	(612)	25%	6%	(535)	8%
R & D	(362)	(323)	(434)	-11%	35%	(344)	-6%
Others	(744)	(825)	(941)	11%	14%	(702)	17%
As % of total sales							
A & P	-9.6%	-8.9%	-9.5%			-9.5%	
Labour	-10.9%	-9.1%	-8.9%			-10.5%	
Rent	-7.1%	-6.3%	-5.7%			-6.4%	
D & A	-3.3%	-4.0%	-3.4%			-3.6%	
R & D	-2.6%	-2.2%	-2.4%			-2.3%	
Others	-5.4%	-5.7%	-5.2%			-4.7%	

Source: Company data, CMBIS estimates

Figure 11: Historical sales growth trend, by brand

Operating numbers	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E
Nike China sales	19.0%	25.0%	20.0%	31.0%	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%			
Adidas China sales	26.0%	27.0%	26.0%	23.0%	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%				
Anta brand's SSSG																
Anta brand's retail sales	+ve 20%-25%	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	32.0%	6.0%	3.0%	2.0%
Core brand	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD				
Kids	over 40%	over 25%	Over 25%	Over 25%	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens				
Online	over 40%	over 25%	Over 20%	Over 25%	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%				
Non-Anta brands (FILA/)	+ve 80%-85%	+ve 90%-95%	+ve 90%-95%	+ve 80%-85%	+ve 65%-70%	+ve 55%-60%										
FILA brand's retail sales							50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	45.0%	16.0%	12.0%	10.0%
Classic/ Core brand								Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD				
Kids								Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%				
Fusion								Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%				
Online								Over 70%	160%	Over 80%	Over 90%	70%-80%				
Other brands							30%-35%	25%-30%	-ve HSD	25%-30%	50%-55%	55%-60%				
Descente				Over 100%	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%				
Kolon						15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%				
Li Ning group's SSSG	+ve Low-teens	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	n/a	-ve MSD	+ve LSD	+ve Low-teens				
Direct retail	+ve Low-teens	+ve HSD	+ve HSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD				
Wholesales	+ve MSD	+ve LSD	+ve HSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD				
E- Commerce	+ve High 30%	+ve Mid-30%	+ve High 30%	+ve Mid 50%	+ve High 30%	+ve Mid 30%	+ve Mid 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%				
Li Ning group's retail sa	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	44.0%	12.0%	10.0%	8.0%
Direct retail	Low 20%-30%	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD				
Wholesales	+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-20%	+ve Mid-20%	+ve Low-30%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens				
E- Commerce	+ve High 30%	+ve High 30%	+ve Low 30%	+ve Mid 50%	+ve Low 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+ve Low-teens	+ve High 20%	+ve Low 40%	+ve Mid 30%				
Xtep's SSSG	+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%	20%	Over 20%	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD		31.0%	4.0%	2.0%	0.0%
361 Degrees' SSSG	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD								
361 Degree's retail sales									-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD				
Pou Sheng's SSSG	10.1%	2.2%	8.9%	8.7%	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%						
Pou Sheng's sales	17.7%	17.7%	24.4%	22.0%	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	29.0%	2.0%	0.0%	-3.0%
Dong Xiang's SSSG	+ve Mid to High	-ve Mid to High	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid to High	+ve Mid to High	-ve Low-Mid SD	-ve Mid SD	+ve Low-Mid SD	+ve Mid SD				
Direct retail	+ve HSD	Flat	+ve Low-teens	+ve HSD	Flat	+ve LSD	+ve HSD	+ve Low-teens	-ve LSD	-ve Low to Mid-teens	-ve Low-Mid SD	-ve Low SD				
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%				

Source: Company data, CMBIS estimates

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	68.62	47.45	45%	118,110	Dec-20	59.0	39.5	11.3	9.1	21.0	2.1	0.7
Anta Sports	2020 HK	BUY	150.98	120.40	25%	325,481	Dec-19	52.7	35.5	11.3	9.1	23.0	2.2	0.6
Xtep Intl	1368 HK	BUY	5.84	4.00	46%	10,188	Dec-20	12.4	10.1	1.1	1.1	7.3	0.5	4.8
361 Degrees	1361 HK	NR	n/a	2.10	n/a	4,342	Dec-19	9.0	8.3	0.6	0.5	5.8	1.3	3.9
Topsports	6110 HK	NR	n/a	13.34	n/a	82,724	Feb-20	27.7	22.1	6.5	5.7	28.8	1.8	1.8
Pou Sheng	3813 HK	NR	n/a	1.77	n/a	9,482	Dec-19	20.6	7.3	1.0	0.9	5.6	1.0	0.6
China DX	3818 HK	NR	n/a	0.90	n/a	5,298	Mar-20	5.2	4.9	0.4	0.4	11.8	0.3	10.6
Avg.								26.7	18.2	4.6	3.8	14.8	1.3	3.3
Med.								20.6	10.1	1.1	1.1	11.8	1.3	1.8
International Sportswear														
Nike Inc	NKE US	NR	n/a	137.49	n/a	1,682,968	May-20	44.0	34.7	20.1	17.9	32.7	1.1	0.8
Adidas	ADS GY	NR	n/a	281.00	n/a	520,748	Dec-20	36.4	28.0	7.4	6.6	6.5	0.5	1.2
Puma	PUM GY	NR	n/a	88.18	n/a	122,979	Dec-20	51.8	34.8	6.8	6.1	4.4	0.6	0.6
Under Armour	UAA US	NR	n/a	23.43	n/a	74,696	Dec-20	124.6	68.1	6.1	5.5	(28.7)	(0.7)	0.0
Lululemon	LULU US	NR	n/a	308.71	n/a	312,418	Feb-20	67.3	46.1	16.6	14.1	29.2	3.9	0.0
Skechers	SKX US	NR	n/a	41.30	n/a	50,585	Dec-20	21.5	16.6	2.2	2.0	4.1	0.3	0.3
Vf Corp	VFC US	NR	n/a	79.63	n/a	242,192	Mar-21	61.1	26.6	15.8	13.6	(4.3)	2.3	2.4
Columbia	COLM US	NR	n/a	107.34	n/a	55,329	Dec-20	26.4	22.2	3.5	3.1	5.9	0.5	1.0
Wolverine	WWW US	NR	n/a	40.33	n/a	25,828	Jan-21	19.9	17.1	4.1	3.6	(20.8)	(0.1)	1.0
Mizuno Corp	8022 JP	NR	n/a	2456.00	n/a	4,655	Mar-20	n/a	18.8	0.7	0.7	3.4	0.0	2.0
Asics Corp	7936 JP	NR	n/a	2050.00	n/a	27,760	Dec-20	65.6	34.3	2.9	2.8	(11.6)	(0.3)	1.3
Avg.								51.9	31.6	7.8	6.9	1.9	0.7	1.0
Med.								47.9	28.0	6.1	5.5	4.1	0.5	1.0

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 13: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)					
Shoes	6,085	6,338	7,877	9,231	10,473
Clothes	7,110	7,365	9,354	11,131	12,801
Equipment	674	754	867	971	1,039
Others	0	0	0	0	0
Total	13,870	14,457	18,097	21,333	24,313
Sales by segment growth (%)					
Shoes	32.3%	4.2%	24.3%	17.2%	13.5%
Clothes	33.7%	3.6%	27.0%	19.0%	15.0%
Equipment	13.6%	11.7%	15.0%	12.0%	7.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	32.0%	4.2%	25.2%	17.9%	14.0%
Sales by channel growth (%)					
Franchises	39.9%	0.9%	20.0%	14.0%	12.0%
Self-owned	15.6%	-9.7%	25.0%	17.0%	14.0%
E-commerce	40.7%	29.7%	35.0%	25.0%	17.0%
International	4.5%	-17.7%	10.0%	5.0%	5.0%
Total	32.0%	4.2%	25.2%	17.9%	14.0%
Sales network by segment					
Self-owned	1,292	1,149	1,174	1,199	1,224
Franchise	5,157	4,763	4,818	4,873	4,928
Sub-total	6,449	5,912	5,992	6,072	6,152
LN Young	1,101	1,021	1,171	1,271	1,371
Total	7,550	6,933	7,163	7,343	7,523
GP margins	49.1%	49.1%	50.8%	51.3%	51.5%
Opex breakdown					
A & P/ sales	9.6%	8.9%	9.5%	9.7%	9.7%
Labour/ sales	10.9%	9.1%	8.9%	8.8%	8.7%
Rental/ sales	7.1%	6.3%	5.7%	5.3%	5.1%
D & A/ sales	3.3%	4.0%	3.4%	3.3%	2.9%
R & D/ sales	2.6%	2.2%	2.4%	2.4%	2.4%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	32.0%	30.6%	28.9%	28.6%	28.0%
Admin expenses / sales	6.9%	5.6%	6.1%	6.1%	5.9%
OP margins	11.1%	15.2%	16.9%	17.8%	18.7%
Effective tax rate	19.3%	24.4%	20.0%	19.0%	18.0%
Net profit margins	10.8%	11.7%	13.8%	14.9%	16.0%
Net profit att. growth (%)	109.6%	13.3%	47.4%	27.0%	22.1%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,870	14,457	18,097	21,333	24,313
Franchises	6,865	6,925	8,310	9,473	10,610
Self-owned	3,620	3,267	4,084	4,778	5,447
E-commerce	3,121	4,048	5,465	6,831	7,992
International	264	217	239	250	263
Cost of goods sold	(7,064)	(7,363)	(8,907)	(10,396)	(11,787)
Gross profit	6,805	7,094	9,190	10,937	12,525
Other income	139	331	217	256	292
Operating expenses	(5,401)	(5,230)	(6,349)	(7,400)	(8,259)
D & A	(461)	(533)	(612)	(512)	(584)
Staff costs	(1,519)	(1,311)	(1,614)	(1,877)	(2,106)
S & D costs (ex-staff, D&A)	(3,252)	(3,398)	(3,969)	(4,625)	(5,150)
Admin exp. (ex-staff, D&A)	(170)	12	(154)	(386)	(418)
Other operating expenses	-	-	-	-	-
EBIT	1,543	2,196	3,058	3,793	4,558
Finance costs, net	(30)	(32)	(18)	4	28
JVs & associates	343	83	90	128	146
Exceptional	-	-	-	-	-
Pre-tax profit	1,857	2,248	3,130	3,925	4,732
Income tax	(357)	(549)	(626)	(746)	(852)
Less: Minority interests	0	0	0	0	0
Net profit	1,499	1,698	2,504	3,179	3,880

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	1,543	2,196	3,058	3,793	4,558
D & A	461	533	612	698	707
Change in working capital	1,176	201	302	266	245
Income tax paid	(144)	(357)	(549)	(626)	(746)
Others	467	(337)	-	-	-
Net cash from operating	3,503	2,236	3,423	4,131	4,765
Capex & investments	(636)	(663)	(830)	(978)	(1,115)
Associated companies	(50)	-	-	-	-
Interest received	15	11	12	17	19
Others	97	35	43	55	69
Net cash from investing	(573)	(617)	(775)	(906)	(1,027)
Equity raised	56	-	-	-	-
Net change in bank loans	-	58	-	-	-
Dividend paid	(215)	(380)	(510)	(751)	(954)
Others	(490)	(71)	(62)	(51)	(41)
Net cash from financing	(649)	(393)	(571)	(803)	(995)
Net change in cash	2,282	1,226	2,077	2,422	2,743
Beginning cash balance	3,672	5,961	7,187	9,264	11,686
Exchange difference	8	-	-	-	-
Cash at the end of the year	5,961	7,187	9,264	11,686	14,430

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,008	4,817	5,113	5,505	6,039
Fixed asset	1,039	1,065	1,327	1,638	2,067
Intangible assets & goodwill	265	357	313	283	261
Prepaid lease payments	115	384	384	384	384
Interest in joint ventures	-	-	79	190	316
Other non-current assets	2,589	3,011	3,011	3,011	3,011
Current assets	8,539	9,777	12,449	15,421	18,675
Cash and cash equivalents	5,961	7,187	9,264	11,686	14,430
Inventories	1,407	1,346	1,628	1,900	2,154
Trade and other receivables	687	659	825	972	1,108
Prepayments	483	584	731	862	982
Other current assets	1	1	1	1	1
Current liabilities	4,717	5,015	5,989	6,925	7,787
Bank loans	-	-	-	-	-
Trade payables	1,348	1,227	1,485	1,733	1,965
Accruals & other payables	2,205	2,540	3,180	3,749	4,272
Tax payables	531	592	669	788	894
Others	633	656	656	656	656
Non-current liabilities	707	889	889	889	889
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	54	64	64	64	64
Others	653	825	825	825	825
Minority Interest	-	-	-	-	-
Total net assets	7,124	8,689	10,684	13,112	16,038
Shareholders' equity	7,124	8,689	10,684	13,112	16,038

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Franchises	49.5	47.9	45.9	44.4	43.6
Self-owned	26.1	22.6	22.6	22.4	22.4
E-commerce	22.5	28.0	30.2	32.0	32.9
International	1.9	1.5	1.3	1.2	1.1
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	49.1	49.1	50.8	51.3	51.5
Operating margin	11.1	15.2	16.9	17.8	18.7
Pre-tax margin	13.4	15.5	17.3	18.4	19.5
Net margin	10.8	11.7	13.8	14.9	16.0
Effective tax rate	23.6	25.4	20.6	19.6	18.6
Balance sheet ratios					
Current ratio (x)	1.8	1.9	2.1	2.2	2.4
Quick ratio (x)	1.5	1.7	1.8	2.0	2.1
Cash ratio (x)	1.3	1.4	1.5	1.7	1.9
Inventory turnover days	105	105	105	105	105
Trade receivables days	60	60	60	60	60
Trade payables days	40	40	40	40	40
Total debt / total equity ratio (%)	1	1	1	1	1
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	21.0	19.5	23.4	24.2	24.2
ROA	11.9	11.6	14.3	15.2	15.7
Per share					
EPS (RMB)	0.60	0.68	1.00	1.27	1.54
DPS (RMB)	0.15	0.21	0.31	0.39	0.47
BVPS (RMB)	2.90	3.54	4.35	5.34	6.53

Source: Company data, CMBIS estimates

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.

Disclosure

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS 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 CMBIS
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 Securities Limited

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

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.