

Li Ning (2331 HK)

Continuing to leverage on domestic fashion

We are again impressed by the retail sales and operating leverage in 1H21E. Although NP margin in 1H21E already exceeded its long-term target, we stay positive as the mania of domestic fashion continues to open up more room for brand elevation. Hence we reiterate BUY and raised TP to HK\$103.82, based on 55x FY22E P/E (vs prior 45x FY22E P/E for recent sector re-rating).

- 1H21 positive profit alert issued, a significant beat despite high expectation.** Li Ning expects its net profit to grow by 160%+ YoY to at least RMB 1.8bn in 1H21E, which beat BBG est. by 25%, driven by: 1) significant sales growth of 60%+ (vs Anta group's 50%+) and 2) OP margin improvement (implying a significant operating leverage). We attributed this to: 1) Xinjiang cotton Incident, 2) recent brand upgrades (e.g. signing of new brand ambassador Xiao Zhan/肖戰) and 3) improved retail discounts.
- We estimate no meaningful slowdown of retail sales growth in 2Q21E and ~50% YoY growth vs 1H19.** Given Li Ning's wholesale businesses nature (~48% of FY20 sales), 60% YoY sales growth in 1H21E effectively implies a faster retail sales growth, which is as fast as 70%+ YoY in 2Q21E, according to our est., comparing to 85-90% YoY in 1Q21. This also implies a 50% retail sales growth vs 1H19 according to our est..
- We stay optimistic on 2H21E and its long-term margin potential.** Retail sales growth in Jun 2021 was still fast (e.g. ~38% YoY sales growth on Tmall during 618 Festival), but we are not surprised to see some slowdown vs Apr 2021. However, we are still optimistic on the earnings growth onwards in 2H21E given the rather conservative consensus, especially on the level of operating leverage and NP margin expansions (already achieved 18% NP margin in 1H21, vs 12% in FY20 and exceeded the long term target of 15%+ by management) supported by various growth drivers: 1) domestic fashion continues to gain tractions, 2) further ASP increases by brand elevation, and 3) boost in efficiency under the new CEO, etc.
- Our FY21-23E EPS is 15-30% above consensus; Lifted TP to HK\$ 103.82.** We maintain BUY and lifted TP to HK\$ 103.82, based on 55x FY22E P/E (from 45x FY22E), given a 3-year core NP att. CAGR of 40%. Current valuation at 44x FY22E P/E, in our view, is still attractive. We revised up our FY21E/ 22E/ 23E NP att. estimates by 30%/ 24%/ 21% 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	19,884	24,432	27,846
YoY growth (%)	32.0	4.2	37.5	22.9	14.0
Net income (RMB mn)	1,499	1,698	3,255	3,935	4,687
EPS (RMB)	0.60	0.68	1.30	1.57	1.87
YoY growth (%)	106.0	12.5	91.6	20.9	19.1
Core NP (RMB mn)	1,265	1,698	3,255	3,935	4,687
YoY growth (%)	76.9	34.3	91.6	20.9	19.1
Consensus EPS (RMB)	n/a	n/a	0.99	1.29	1.63
P/E (x)	122.8	102.8	52.9	43.8	36.7
P/B (x)	25.5	19.6	14.7	11.7	9.4
Yield (%)	0.2	0.3	0.6	0.7	0.8
ROE (%)	21.0	19.5	28.5	27.3	26.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$103.82
(Previous TP)	HK\$68.62)
Up/Downside	+25.7%
Current Price	HK\$82.60

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	205,992
Avg 3 mths t/o (HK\$ mn)	1,046.38
52w High/Low (HK\$)	86.15/ 23.3
Total Issued Shares (mn)	2,493.9

Source: Bloomberg

Shareholding Structure

Mr Li Ning & Family	10.95%
Citigroup Inc.	5.22%
BlackRock Inc.	5.08%
FMR LLC.	4.93%
Schroders Plc.	4.93%
Free Float	68.89%

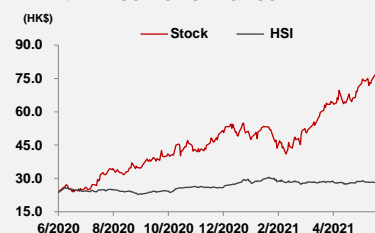
Source: Bloomberg, HKEX

Share Performance

	Absolute	Relative
1-mth	19.7%	19.2%
3-mth	60.5%	55.3%
6-mth	65.2%	48.8%
12-mth	230.4%	176.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Li Ning (2331 HK, BUY) – Impressive retail sales growth YTD - 22 Mar 2021
- Li Ning (2331 HK, BUY) - Solid brand elevation and reform plan - 18 Feb 2021

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Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,884	24,432	27,846	18,097	21,333	24,313	9.9%	14.5%	14.5%
Gross profit	10,178	12,456	14,245	9,190	10,937	12,525	10.8%	13.9%	13.7%
EBIT	3,985	4,701	5,512	3,058	3,793	4,558	30.3%	24.0%	20.9%
Net profit att.	3,255	3,935	4,687	2,504	3,179	3,880	30.0%	23.8%	20.8%
Diluted EPS (RMB)	1.30	1.57	1.87	1.00	1.27	1.54	30.0%	23.8%	20.8%
Gross margin	51.2%	51.0%	51.2%	50.8%	51.3%	51.5%	0.4ppt	-0.3ppt	-0.4ppt
EBIT margin	20.0%	19.2%	19.8%	16.9%	17.8%	18.7%	3.1ppt	1.5ppt	1ppt
Net profit att. margin	16.4%	16.1%	16.8%	13.8%	14.9%	16.0%	2.5ppt	1.2ppt	0.9ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,884	24,432	27,846	18,930	22,932	27,433	5.0%	6.5%	1.5%
Gross profit	10,178	12,456	14,245	9,556	11,722	14,144	6.5%	6.3%	0.7%
EBIT	3,985	4,701	5,512	3,263	4,302	5,366	22.1%	9.3%	2.7%
Net profit att.	3,255	3,935	4,687	2,490	3,241	4,091	30.7%	21.4%	14.6%
Diluted EPS (RMB)	1.30	1.57	1.87	0.99	1.29	1.63	30.5%	21.5%	14.7%
Gross margin	51.2%	51.0%	51.2%	50.5%	51.1%	51.6%	0.7ppt	-0.1ppt	-0.4ppt
EBIT margin	20.0%	19.2%	19.8%	17.2%	18.8%	19.6%	2.8ppt	0.5ppt	0.2ppt
Net profit att. margin	16.4%	16.1%	16.8%	13.2%	14.1%	14.9%	3.2ppt	2ppt	1.9ppt

Source: Company data, CMBIS estimates

Results preview

Figure 3: Results preview – Half Year

Half yearly (RMB mn)	1H20	2H20	1H21E	2H21E	1H20 YoY	2H20 YoY	1H21E YoY	2H21E YoY
Revenue	6,181	8,276	9,941	9,942	-1%	9%	61%	20%
COGS	(3,124)	(4,238)	(4,763)	(4,942)				
Gross profit	3,057	4,038	5,178	5,000	-2%	9%	69%	24%
GP margins	49.5%	48.8%	52.1%	50.3%				
Other income & gains	136	195	119	119				
S & D expenses	(1,949)	(2,476)	(2,650)	(2,656)	-4%	2%	36%	7%
S & D exp / sales	-31.5%	-29.9%	-26.7%	-26.7%				
Admin expenses	(346)	(459)	(431)	(694)	-23%	-9%	25%	51%
Admin exp / sales	-5.6%	-5.5%	-4.3%	-7.0%				
Other opex	0	0	0	0				
Operating profit (EBIT)	898	1,298	2,215	1,769	32%	50%	147%	36%
OP margins	14.5%	15.7%	22.3%	17.8%				
Other items	0	0	0	0				
Net finance income	(12)	(19)	(7)	(9)				
Net finance income / sales	-0.2%	-0.2%	-0.1%	-0.1%				
Profit after financing costs	885	1,279	2,208	1,761				
Associated coms	0	0	0	0				
Jointly controlled coms	22	62	50	50				
Pre-tax profit	907	1,341	2,258	1,810	-7%	53%	149%	35%
Tax	(224)	(325)	(452)	(362)				
Tax / sales	-3.6%	-3.9%	-4.5%	-3.6%				
Effective tax rate	-24.7%	-24.3%	-20.0%	-20.0%				
Minority interests	0	0	0	0				
Net profit att.	683	1,015	1,807	1,448	-14%	44%	164%	43%
NP margins	11.1%	12.3%	18.2%	14.6%				
Sales by channels								
Franchises	3,109	3,816	4,353	4,511	2%	0%	40%	18%
Self-owned	1,335	1,932	2,670	2,231	-24%	4%	100%	15%
E-commerce	1,669	2,379	2,837	3,032	23%	35%	70%	27%
International	68	149	82	168	-32%	-9%	20%	13%
Total	6,181	8,276	9,941	9,942	-1%	9%	61%	20%
Breakdown by segment								
A & P	(556)	(724)	(805)	(925)	0%	-6%	45%	28%
Labour	(623)	(688)	(875)	(803)	-14%	-13%	40%	17%
Rent	(409)	(507)	(596)	(572)	-13%	-2%	46%	13%
D & A	(270)	(306)	(328)	(315)	28%	23%	21%	3%
R & D	(139)	(184)	(179)	(219)	5%	-20%	29%	19%
Others	(298)	(527)	(298)	(517)	-21%	43%	0%	-2%
As % of total sales								
A & P	-9.0%	-8.7%	-8.1%	-9.3%				
Labour	-10.1%	-8.3%	-8.8%	-8.1%				
Rent	-6.6%	-6.1%	-6.0%	-5.8%				
D & A	-4.4%	-3.7%	-3.3%	-3.2%				
R & D	-2.2%	-2.2%	-1.8%	-2.2%				
Others	-4.8%	-6.4%	-3.0%	-5.2%				

Source: Company data, CMBIS estimates

Figure 4: Results preview - Full Year

Full yearly (RMB mn)	FY20	FY21E	FY22E	FY21E YoY	FY22E YoY
Revenue	14,457	19,884	24,432	38%	23%
COGS	(7,363)	(9,705)	(11,976)		
Gross profit	7,094	10,178	12,456	43%	22%
GP margins	49.1%	51.2%	51.0%		
Other income & gains	331	239	293		
S & D expenses	(4,425)	(5,307)	(6,639)	20%	25%
S & D exp / sales	-30.6%	-26.7%	-27.2%		
Admin expenses	(805)	(1,126)	(1,408)	40%	25%
Admin exp / sales	-5.6%	-5.7%	-5.8%		
Other opex	0	0	0		
Operating profit (EBIT)	2,196	3,985	4,701	81%	18%
OP margins	15.2%	20.0%	19.2%		
Other items	0	0	0		
Net finance income	(32)	(16)	11		
Net finance income / sales	-0.2%	-0.1%	0.0%		
Profit after financing costs	2,164	3,969	4,712		
Associated coms	0	0	0		
Jointly controlled coms	83	99	147		
Pre-tax profit	2,248	4,068	4,858	81%	19%
Tax	(549)	(814)	(923)		
Tax / sales	-3.8%	-4.1%	-3.8%		
Effective tax rate	-24.4%	-20.0%	-19.0%		
Minority interests	0	0	0		
Net profit att.	1,698	3,255	3,935	92%	21%
NP margins	11.7%	16.4%	16.1%		
Sales by channels					
Franchises	6,925	8,864	10,548	28%	19%
Self-owned	3,267	4,901	5,979	50%	22%
E-commerce	4,048	5,870	7,630	45%	30%
International	217	249	274	15%	10%
Total	14,457	19,884	24,432	38%	23%
Breakdown by segment					
A & P	(1,280)	(1,730)	(2,321)	35%	34%
Labour	(1,311)	(1,678)	(1,952)	28%	16%
Rent	(915)	(1,169)	(1,289)	28%	10%
D & A	(576)	(643)	(726)	12%	13%
R & D	(323)	(398)	(586)	23%	47%
Others	(825)	(815)	(1,173)	-1%	44%
As % of total sales					
A & P	-8.9%	-8.7%	-9.5%		
Labour	-9.1%	-8.4%	-8.0%		
Rent	-6.3%	-5.9%	-5.3%		
D & A	-4.0%	-3.2%	-3.0%		
R & D	-2.2%	-2.0%	-2.4%		
Others	-5.7%	-4.1%	-4.8%		

Source: Company data, CMBIS estimates

Figure 5: Historical sales growth trend, by brand

Operating numbers	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	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%	9.0%			
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%	156.0%				
Anta brand's SSSG																	
Anta brand's retail sales	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	40%-45%	38.0%	8.0%	6.0%	
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	35%-40%				
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	45%-50%				
Online	over 40%	over 25%	Over 20%	Over 25%	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%				
Non-Anta brands (FILA/)																	
FILA brand's retail sales	80%-85%	90%-95%	90%-95%	80%-85%	65%-70%	55%-60%	50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	48.0%	18.0%	15.0%	
Classic/ Core brand								Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%				
Kids								Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%				
Fusion								Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%				
Online								Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%				
Other brands																	
Descente				Over 100%	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%				
Kolon						15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%				
Li Ning group's SSSG																	
Li Ning group's retail sales	+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 30%	+ve Low 40%	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%					
Li Ning group's retail sales																	
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	Low-90%				
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	Low-80%				
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%	100%				
Xtep's SSSG																	
Xtep's retail sales	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Low-teens	10%	+ve Low-teens		-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	43.0%	8.0%	6.0%
361 Degree's retail sales	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD		-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD	+ve High-teens			
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%	47.8%	-14.0%	-5.0%	-1.0%	
Dong Xiang's SSSG																	
Direct retail	+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 MSD	+ve Low-Mid SD	+ve MSD	+ve HSD				
E- Commerce	+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 LSD	-ve MSD				
					+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	+ve High 30%				

Source: Company data, CMBIS 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

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	
H shares Sportswear															
Li Ning	2331 HK	BUY	103.82	82.60	26%	205,992	Dec-20	52.9	43.8	14.7	11.7	28.5	1.3	0.6	
Anta Sports	2020 HK	BUY	198.84	179.90	11%	486,329	Dec-20	50.7	39.4	13.6	10.9	23.4	1.3	0.7	
Xtep Intl	1368 HK	BUY	16.32	13.30	23%	34,872	Dec-20	40.5	33.2	3.7	3.5	7.3	1.4	1.5	
361 Degrees	1361 HK	NR	n/a	4.20	n/a	8,684	Dec-20	16.1	14.4	1.0	0.9	6.4	1.5	1.3	
Topsports	6110 HK	NR	n/a	12.34	n/a	76,523	Feb-21	19.6	16.4	5.6	4.8	27.4	1.0	2.6	
Pou Sheng	3813 HK	NR	n/a	1.73	n/a	9,267	Dec-20	6.6	5.3	0.8	0.7	3.9	0.1	1.3	
China DX	3818 HK	NR	n/a	1.23	n/a	7,240	Mar-21	6.6	10.2	0.5	0.5	16.4	0.0	7.8	
								Avg.	27.6	23.2	5.7	4.7	14.9	0.9	2.2
								Med.	19.6	16.4	3.7	3.5	16.4	1.3	1.3
International Sportswear															
Nike Inc	NKE US	NR	n/a	154.35	n/a	1,892,732	May-21	36.6	31.2	16.5	14.9	55.0	2.4	0.8	
Adidas	ADS GY	NR	n/a	311.35	n/a	578,111	Dec-20	40.8	31.1	8.4	7.3	13.8	0.5	1.1	
Puma	PUM GY	NR	n/a	98.64	n/a	137,834	Dec-20	52.5	35.9	7.6	6.7	7.8	0.6	0.6	
Under Armour	UAA US	NR	n/a	21.69	n/a	71,883	Dec-20	65.3	44.5	5.4	4.9	7.1	(0.4)	0.0	
Lululemon	LULU US	NR	n/a	363.69	n/a	367,390	Jan-21	53.3	43.7	15.4	12.2	31.5	1.8	0.0	
Skechers	SKX US	NR	n/a	50.24	n/a	60,486	Dec-20	23.7	18.6	2.6	2.2	6.0	0.3	0.0	
Vf Corp	VFC US	NR	n/a	82.88	n/a	252,386	Mar-21	26.9	22.5	9.6	8.7	12.7	0.5	2.4	
Columbia	COLM US	NR	n/a	101.35	n/a	52,274	Dec-20	22.9	19.6	3.3	2.9	9.2	0.4	1.1	
Wolverine	WWW US	NR	n/a	33.87	n/a	21,773	Jan-21	15.9	13.9	3.9	3.2	(16.9)	(0.1)	1.2	
Mizuno Corp	8022 JP	NR	n/a	2318.00	n/a	4,314	Mar-21	17.7	12.5	0.6	0.6	3.7	0.0	2.2	
Asics Corp	7936 JP	NR	n/a	2715.00	n/a	36,100	Dec-20	86.0	40.4	3.9	3.7	(3.7)	(0.4)	0.9	
								Avg.	40.1	28.5	7.0	6.1	11.5	0.5	0.9
								Med.	36.6	31.1	5.4	4.9	7.8	0.4	0.9

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 7: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)					
Shoes	6,085	6,338	9,036	11,252	12,773
Clothes	7,110	7,365	9,943	12,130	13,950
Equipment	674	754	904	1,049	1,123
Others	0	0	0	0	0
Total	13,870	14,457	19,884	24,432	27,846
Sales by segment growth (%)					
Shoes	32.3%	4.2%	42.6%	24.5%	13.5%
Clothes	33.7%	3.6%	35.0%	22.0%	15.0%
Equipment	13.6%	11.7%	20.0%	16.0%	7.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	32.0%	4.2%	37.5%	22.9%	14.0%
Sales by channel growth (%)					
Franchises	39.9%	0.9%	28.0%	19.0%	12.0%
Self-owned	15.6%	-9.7%	50.0%	22.0%	14.0%
E-commerce	40.7%	29.7%	45.0%	30.0%	17.0%
International	4.5%	-17.7%	15.0%	10.0%	5.0%
Total	32.0%	4.2%	37.5%	22.9%	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%	51.2%	51.0%	51.2%
Opex breakdown					
A & P/ sales	9.6%	8.9%	8.7%	9.5%	9.5%
Labour/ sales	10.9%	9.1%	8.4%	8.0%	7.9%
Rental/ sales	7.1%	6.3%	5.9%	5.3%	5.1%
D & A/ sales	3.3%	4.0%	3.2%	3.0%	2.6%
R & D/ sales	2.6%	2.2%	2.0%	2.4%	2.4%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	32.0%	30.6%	26.7%	27.2%	26.9%
Admin expenses / sales	6.9%	5.6%	5.7%	5.8%	5.7%
OP margins	11.1%	15.2%	20.0%	19.2%	19.8%
Effective tax rate	19.3%	24.4%	20.0%	19.0%	18.0%
Net profit margins	10.8%	11.7%	16.4%	16.1%	16.8%
Net profit att. growth (%)	109.6%	13.3%	91.6%	20.9%	19.1%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,870	14,457	19,884	24,432	27,846	EBIT	1,543	2,196	3,985	4,701	5,512
Franchises	6,865	6,925	8,864	10,548	11,814	D & A	461	576	643	726	735
Self-owned	3,620	3,267	4,901	5,979	6,816	Change in working capital	1,176	142	449	372	280
E-commerce	3,121	4,048	5,870	7,630	8,928	Income tax paid	(144)	(589)	(549)	(814)	(923)
International	264	217	249	274	288	Others	467	439	-	-	-
Cost of goods sold	(7,064)	(7,363)	(9,705)	(11,976)	(13,601)	Net cash from operating	3,503	2,763	4,527	4,985	5,604
Gross profit	6,805	7,094	10,178	12,456	14,245	Capex & investments	(636)	(594)	(817)	(1,004)	(1,144)
Other income	139	331	239	293	334	Associated companies	(50)	(53)	-	-	-
Operating expenses	(5,401)	(5,230)	(6,432)	(8,048)	(9,067)	Interest received	15	31	61	90	102
D & A	(461)	(576)	(643)	(586)	(668)	Others	97	(376)	(90)	(105)	(112)
Staff costs	(1,519)	(1,311)	(1,678)	(1,952)	(2,190)	Net cash from investing	(573)	(992)	(846)	(1,019)	(1,154)
S & D costs (ex-staff, D&A)	(3,252)	(3,398)	(3,986)	(5,099)	(5,750)	Equity raised	56	189	-	-	-
Admin exp. (ex-staff, D&A)	(170)	55	(125)	(409)	(458)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(215)	(378)	(510)	(976)	(1,181)
EBIT	1,543	2,196	3,985	4,701	5,512	Others	(490)	(325)	(62)	(51)	(41)
Finance costs, net	(30)	(32)	(16)	11	37	Net cash from financing	(649)	(513)	(571)	(1,028)	(1,222)
JVs & associates	343	83	99	147	167	Net change in cash	2,282	1,258	3,110	2,938	3,228
Exceptional	-	-	-	-	-	Beginning cash balance	3,672	5,961	7,187	10,297	13,236
Pre-tax profit	1,857	2,248	4,068	4,858	5,716	Exchange difference	8	(33)	-	-	-
Income tax	(357)	(549)	(814)	(923)	(1,029)	Cash at the end of the year	5,961	7,187	10,297	13,236	16,464
Less: Minority interests	0	0	0	0	0						
Net profit	1,499	1,698	3,255	3,935	4,687						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	4,008	4,817	5,166	5,667	6,332	Sales mix (%)					
Fixed asset	1,039	1,065	1,290	1,609	2,054	Franchises	49.5	47.9	44.6	43.2	42.4
Intangible assets & goodwill	265	357	442	567	722	Self-owned	26.1	22.6	24.6	24.5	24.5
Prepaid lease payments	115	384	384	384	384	E-commerce	22.5	28.0	29.5	31.2	32.1
Interest in joint ventures	-	-	39	96	161	International	1.9	1.5	1.3	1.1	1.0
Other non-current assets	2,589	3,011	3,011	3,011	3,011	Total	100.0	100.0	100.0	100.0	100.0
Current assets	8,539	9,777	13,782	17,526	21,345	P&L ratios (%)					
Cash and cash equivalents	5,961	7,187	10,297	13,236	16,464	Gross margin	49.1	49.1	51.2	51.0	51.2
Inventories	1,407	1,346	1,774	2,189	2,486	Operating margin	11.1	15.2	20.0	19.2	19.8
Trade and other receivables	687	659	906	1,113	1,269	Pre-tax margin	13.4	15.5	20.5	19.9	20.5
Prepayments	483	584	803	987	1,125	Net margin	10.8	11.7	16.4	16.1	16.8
Other current assets	1	1	1	1	1	Effective tax rate	23.6	25.4	20.5	19.6	18.5
Current liabilities	4,717	5,015	6,623	7,911	8,887	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	1.8	1.9	2.1	2.2	2.4
Trade payables	1,348	1,227	1,618	1,996	2,267	Quick ratio (x)	1.5	1.7	1.8	1.9	2.1
Accruals & other payables	2,205	2,540	3,494	4,293	4,893	Cash ratio (x)	1.3	1.4	1.6	1.7	1.9
Tax payables	531	592	856	966	1,071	Inventory turnover days	105	105	105	105	105
Others	633	656	656	656	656	Trade receivables days	60	60	60	60	60
Non-current liabilities	707	889	889	889	889	Trade payables days	40	40	40	40	40
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	1	1	1	1	1
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	54	64	64	64	64	Returns (%)					
Others	653	825	825	825	825	ROE	21.0	19.5	28.5	27.3	26.2
Minority Interest	-	-	-	-	-	ROA	11.9	11.6	17.2	17.0	16.9
Total net assets	7,124	8,689	11,435	14,394	17,900	Per share					
Shareholders' equity	7,124	8,689	11,435	14,394	17,900	EPS (RMB)	0.60	0.68	1.30	1.57	1.87
						DPS (RMB)	0.15	0.21	0.40	0.48	0.57
						BVPS (RMB)	2.90	3.54	4.66	5.86	7.29

Source: Company data, CMBIS estimates

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