

Li Ning (2331 HK)

Shifting gears from margin to sales

We are again impressed by the margin expansion in 1H21. Despite the bumpy sales during Jul-Aug 2021, we still find the mid-term outlook highly positive. Hence we reiterate BUY and fine-tuned TP to HK\$102.84, based on 50x FY22E P/E (vs prior 55x FY22E P/E for recent sector de-rating amid slowdown).

- Excellent 1H21 boosted by rapid sales growth, decent margin and operating leverage.** Li Ning's NP grew by 187% YoY to RMB 1.96n, beating its profit alert and BBG est. by 9%, supported by 65%/ 183% sales/ OP growth, 3%/ 8% above BBG est.. OP margin rocketed to 24.9% in 1H21 (vs CMBI est. of 22.3%), thanks to: 1) HSD improvement in retail discounts, 2) lower inventory provision and 3) better channel mix operating leverage.
- We remain confident on 2H21E growth despite a bumpy Jul-Aug 2021.** 2Q21 retail sales growth speeded up to 90-95% YoY (vs 85-90% in 1Q21) despite the high base and slowdown to 60-65% in Jul-Aug 2021 (~35% in Aug 2021 due to COVID-19 outbreak). But we are still confident, considering: 1) enlarged client base after XJ cotton incident and high retention rate thanks to decent product quality, 2) effective marketing like opening of the largest flagship store in Chengdu, which has a rich Chinese culture, 3) opening of more larger-sized stores, as there were only 850 by 1H21 (out of a total of 6,000 stores).
- Target 40-50% sales growth in FY21E (revised up from 20-25%) and aim for a 20% sales CAGR in mid-term.** This is totally achievable as we only expect 24% sales growth in 2H21E, supported by: 1) heavy consumer demand, as many popular or hot-selling items actually went out of stocks, and 2) potentially more re-orders given low channel inventory (inventory to sales ratio at only ~3x while 47% sell-in growth vs 90-95% sell-out growth in 2Q21). Also, key driver for future growth may shift from margin improvement to sales growth.
- FY21E NP margin target revised up to 16-17.5% (from ~13%) and we still see some room.** We think the margins can still improve, but at a moderate pace, thanks to: 1) better retail discounts (at 15-20% off in 1H21 vs mid-term target of 10-15% off), 2) better new/ old product mix (at 15%/ 85% in 1H21 vs mid-term target of 10%/ 90%) and 3) greater operational and supply chain efficiency, e.g. more frequent sales review for both self-owned and distributors' stores, optimizing numbers of SKUs and inventory sharing.
- Fine-tuned TP to HK\$ 102.84.** We maintain BUY and fine-tuned TP to HK\$ 102.84, based on 50x FY22E P/E (from 55x FY22E), given a 3-year core NP att. CAGR of 43%. Current valuation at 42x FY22E P/E, in our view, is still attractive. We revised up our FY21E/ 22E/ 23E NP att. estimates by 8%/ 9%/ 6% to factor in faster sales growth and better GP margin.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,870	14,457	20,466	25,128	28,628
YoY growth (%)	32.0	4.2	41.6	22.8	13.9
Net income (RMB mn)	1,499	1,698	3,502	4,288	4,963
EPS (RMB)	0.60	0.68	1.39	1.71	1.98
YoY growth (%)	106.0	12.5	106.2	22.4	15.7
Consensus EPS (RMB)	n/a	n/a	1.30	1.57	1.87
P/E (x)	129.9	108.8	52.0	42.5	36.7
P/B (x)	26.9	20.8	15.3	11.9	9.6
Yield (%)	0.2	0.3	0.6	0.7	0.8
ROE (%)	21.0	19.5	30.0	28.7	26.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$102.84**
 (Previous TP **HK\$103.82**)
 Up/Downside **+17.7%**
 Current Price **HK\$87.40**

China Sportswear Sector

Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	218,059
Avg 3 mths t/o (HK\$ mn)	1,383.33
52w High/Low (HK\$)	105.0/ 29.9
Total Issued Shares (mn)	2,495.0

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%

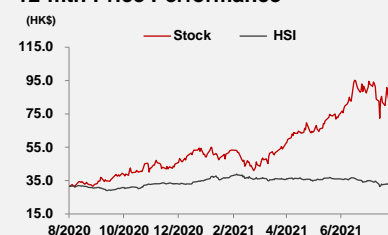
Source: Bloomberg, HKEX

Share Performance

	Absolute	Relative
1-mth	-2.4%	3.4%
3-mth	36.6%	43.4%
6-mth	63.7%	87.1%
12-mth	200.3%	187.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Li Ning (2331 HK, BUY) – Continuing to leverage on domestic fashion - 28 Jun 2021
- Li Ning (2331 HK, BUY) – Impressive retail sales growth YTD - 22 Mar 2021

Please cast your valuable vote for CMBIS research team in the 2021 Asiamoney Brokers Poll:

<https://euromoney.com/brokers>

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	20,466	25,128	28,628	19,884	24,432	27,846	2.9%	2.9%	2.8%
Gross profit	10,781	13,311	15,238	10,178	12,456	14,245	5.9%	6.9%	7.0%
EBIT	4,269	5,129	5,839	3,985	4,701	5,512	7.1%	9.1%	5.9%
Net profit att.	3,502	4,288	4,963	3,255	3,935	4,687	7.6%	9.0%	5.9%
Diluted EPS (RMB)	1.39	1.71	1.98	1.30	1.57	1.87	7.6%	9.0%	5.9%
Gross margin	52.7%	53.0%	53.2%	51.2%	51.0%	51.2%	1.5ppt	2ppt	2.1ppt
EBIT margin	20.9%	20.4%	20.4%	20.0%	19.2%	19.8%	0.8ppt	1.2ppt	0.6ppt
Net profit att. margin	17.1%	17.1%	17.3%	16.4%	16.1%	16.8%	0.7ppt	1ppt	0.5ppt

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	20,466	25,128	28,628	20,238	24,590	29,379	1.1%	2.2%	-2.6%
Gross profit	10,781	13,311	15,238	10,373	12,714	15,340	3.9%	4.7%	-0.7%
EBIT	4,269	5,129	5,839	3,992	5,094	6,443	6.9%	0.7%	-9.4%
Net profit att.	3,502	4,288	4,963	3,104	3,961	4,996	12.8%	8.3%	-0.7%
Diluted EPS (RMB)	1.39	1.71	1.98	1.21	1.52	1.98	15.6%	12.1%	-0.2%
Gross margin	52.7%	53.0%	53.2%	51.3%	51.7%	52.2%	1.4ppt	1.3ppt	1ppt
EBIT margin	20.9%	20.4%	20.4%	19.7%	20.7%	21.9%	1.1ppt	-0.3ppt	-1.5ppt
Net profit att. margin	17.1%	17.1%	17.3%	15.3%	16.1%	17.0%	1.8ppt	1ppt	0.3ppt

Source: Company data, CMBIS estimates

Results preview

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H20	2H20	1H21	2H21E	1H20 YoY	2H20 YoY	1H21 YoY	2H21E YoY	1H21E CMBIS	Actual vs CMBIS
Revenue	6,181	8,276	10,197	10,270	-1%	9%	65%	24%	9,941	3%
COGS	(3,124)	(4,238)	(4,498)	(5,188)					(4,763)	
Gross profit	3,057	4,038	5,699	5,082	-2%	9%	86%	26%	5,178	10%
GP margins	49.5%	48.8%	55.9%	49.5%					52.1%	
Other income & gains	136	195	134	112					119	12%
S & D expenses	(1,949)	(2,476)	(2,857)	(2,954)	-4%	2%	47%	19%	(2,650)	8%
S & D exp / sales	-31.5%	-29.9%	-28.0%	-28.8%					-26.7%	
Admin expenses	(346)	(459)	(437)	(509)	-23%	-9%	26%	11%	(431)	1%
Admin exp / sales	-5.6%	-5.5%	-4.3%	-5.0%					-4.3%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	898	1,298	2,538	1,731	32%	50%	183%	33%	2,215	15%
OP margins	14.5%	15.7%	24.9%	16.9%					22.3%	
Other items	0	0	0	0					0	
Net finance income	(12)	(19)	7	(22)					(7)	-207%
Net finance income / sales	-0.2%	-0.2%	0.1%	-0.2%					-0.1%	
Profit after financing costs	885	1,279	2,546	1,709					2,208	
Associated coms	0	0	0	0					0	
Jointly controlled coms	22	62	80	43					50	60%
Pre-tax profit	907	1,341	2,625	1,752	-7%	53%	189%	31%	2,258	16%
Tax	(224)	(325)	(663)	(212)					(452)	47%
Tax / sales	-3.6%	-3.9%	-6.5%	-2.1%					-4.5%	
Effective tax rate	-24.7%	-24.3%	-25.3%	-12.1%					-20.0%	
Minority interests	0	0	0	0					0	
Net profit att.	683	1,015	1,962	1,540	-14%	44%	187%	52%	1,807	9%
NP margins	11.1%	12.3%	19.2%	15.0%					18.2%	
Sales by channels										
Franchises	3,109	3,816	4,588	4,760	2%	0%	48%	25%	4,353	5%
Self-owned	1,335	1,932	2,519	2,480	-24%	4%	89%	28%	2,670	-6%
E-commerce	1,669	2,379	2,967	2,902	23%	35%	78%	22%	2,837	5%
International	68	149	122	127	-32%	-9%	80%	-15%	82	50%
Total	6,181	8,276	10,197	10,270	-1%	9%	65%	24%	9,941	3%
Breakdown by segment										
A & P	(556)	(724)	(747)	(993)	0%	-6%	34%	37%	(805)	-7%
Labour	(623)	(688)	(839)	(1,108)	-14%	-13%	35%	61%	(875)	-4%
Rent	(409)	(507)	(567)	(602)	-13%	-2%	39%	19%	(596)	-5%
D & A	(270)	(306)	(299)	(355)	28%	23%	10%	16%	(328)	-9%
R & D	(139)	(184)	(188)	(222)	5%	-20%	35%	21%	(179)	5%
Others	(298)	(527)	(656)	(183)	-21%	43%	120%	-65%	(298)	120%
As % of total sales										
A & P	-9.0%	-8.7%	-7.3%	-9.7%					-8.1%	
Labour	-10.1%	-8.3%	-8.2%	-10.8%					-8.8%	
Rent	-6.6%	-6.1%	-5.6%	-5.9%					-6.0%	
D & A	-4.4%	-3.7%	-2.9%	-3.5%					-3.3%	
R & D	-2.2%	-2.2%	-1.8%	-2.2%					-1.8%	
Others	-4.8%	-6.4%	-6.4%	-1.8%					-3.0%	

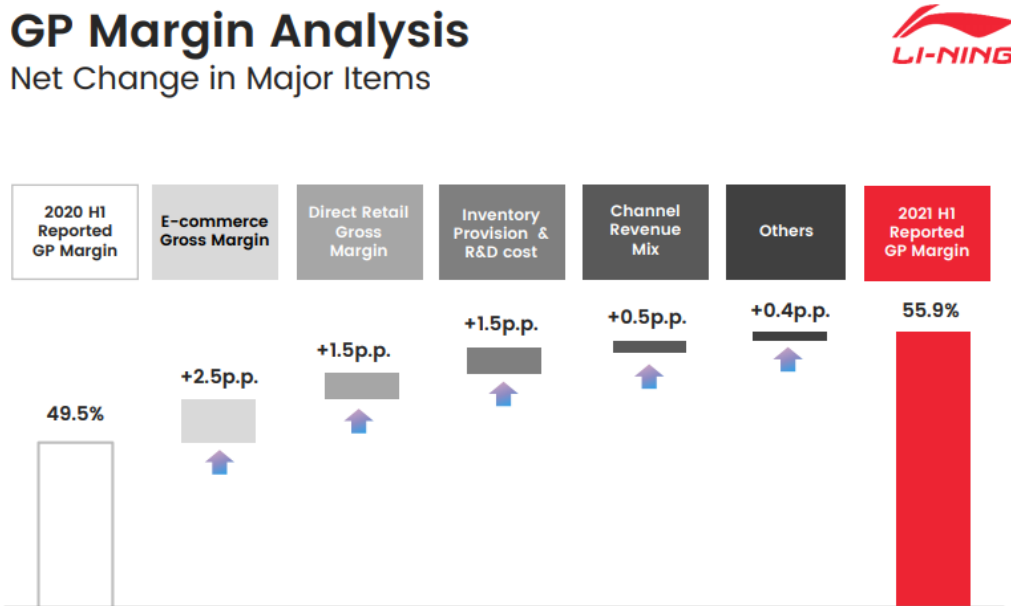
Source: Company data, CMBIS estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY20	FY21E	FY22E	FY21E YoY	FY22E YoY
Revenue	14,457	20,466	25,128	42%	23%
COGS	(7,363)	(9,686)	(11,817)		
Gross profit	7,094	10,781	13,311	52%	23%
GP margins	49.1%	52.7%	53.0%		
Other income & gains	331	246	302		
S & D expenses	(4,425)	(5,811)	(7,296)	31%	26%
S & D exp / sales	-30.6%	-28.4%	-29.0%		
Admin expenses	(805)	(946)	(1,188)	18%	26%
Admin exp / sales	-5.6%	-4.6%	-4.7%		
Other opex	0	0	0		
Operating profit (EBIT)	2,196	4,269	5,129	94%	20%
OP margins	15.2%	20.9%	20.4%		
Other items	0	0	0		
Net finance income	(32)	(14)	14		
Net finance income / sales	-0.2%	-0.1%	0.1%		
Profit after financing costs	2,164	4,255	5,143		
Associated coms	0	0	0		
Jointly controlled coms	83	123	151		
Pre-tax profit	2,248	4,378	5,294	95%	21%
Tax	(549)	(876)	(1,006)		
Tax / sales	-3.8%	-4.3%	-4.0%		
Effective tax rate	-24.4%	-20.0%	-19.0%		
Minority interests	0	0	0		
Net profit att.	1,698	3,502	4,288	106%	22%
NP margins	11.7%	17.1%	17.1%		
Sales by channels					
Franchises	6,925	9,349	11,125	35%	19%
Self-owned	3,267	4,999	6,099	53%	22%
E-commerce	4,048	5,870	7,630	45%	30%
International	217	249	274	15%	10%
Total	14,457	20,466	25,128	42%	23%
Breakdown by segment					
A & P	(1,280)	(1,740)	(2,262)	36%	30%
Labour	(1,311)	(1,947)	(2,377)	49%	22%
Rent	(915)	(1,169)	(1,289)	28%	10%
D & A	(576)	(653)	(747)	13%	14%
R & D	(323)	(409)	(603)	27%	47%
Others	(825)	(839)	(1,206)	2%	44%
As % of total sales					
A & P	-8.9%	-8.5%	-9.0%		
Labour	-9.1%	-9.5%	-9.5%		
Rent	-6.3%	-5.7%	-5.1%		
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

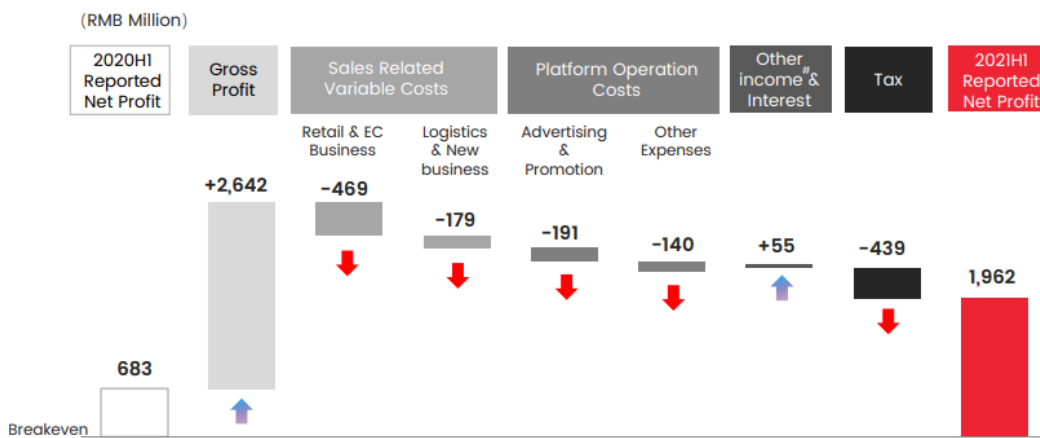
Figure 5: Breakdown of GP margin and OP margin drivers



Gross margin expansion largely driven by discount improvement at retail end

Profitability Analysis

Net Change of Major P&L Items



Significant revenue growth and gross margin rate expansion drive substantial profit growth

Source: Company data, CMBIS estimates

Figure 6: Image of Li Ning's Flagship store in Chengdu



Source: Company data, CMBIS estimates

Figure 7: Image of Li Ning's Flagship store in Chengdu



Source: Company data, CMBIS estimates

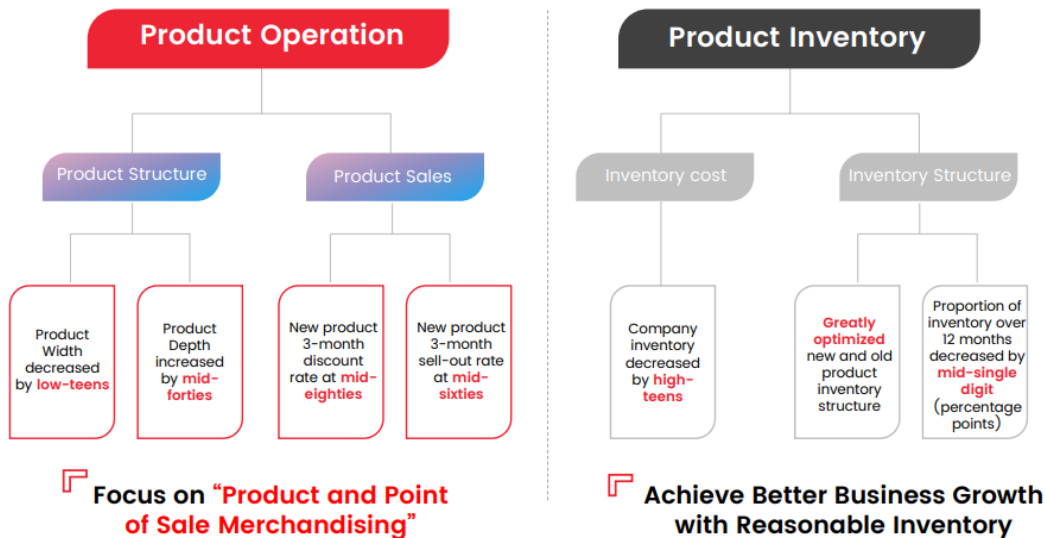
Figure 8: Image of Li Ning's Flagship store in Chengdu



Source: Company data, CMBIS estimates

Figure 9: Reform on product planning and development

Product Merchandising: Strengthen Product Management, Unleash Product Efficiency



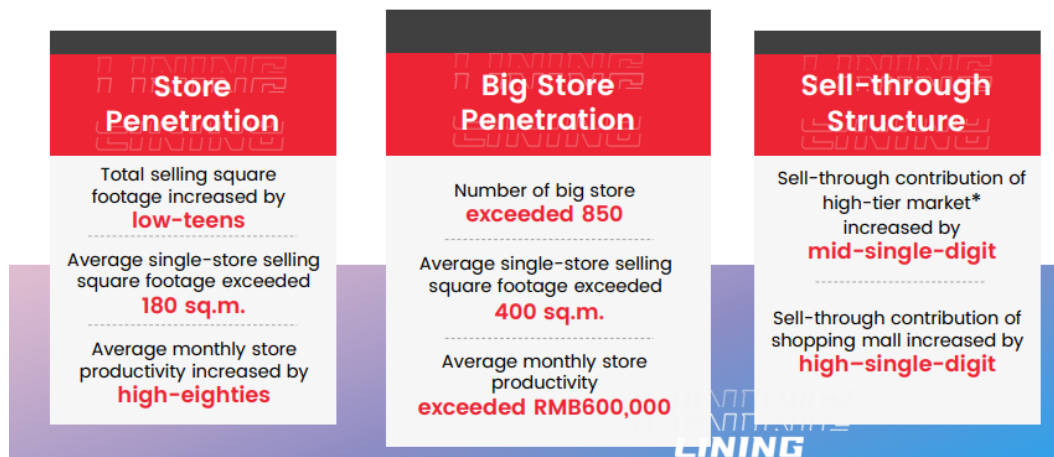
Source: Company data, CMBIS estimates

Figure 10: Reform on channel expansion and optimization

Channel: Expand High-Quality Profitable Stores, Enhance Channel Efficiency



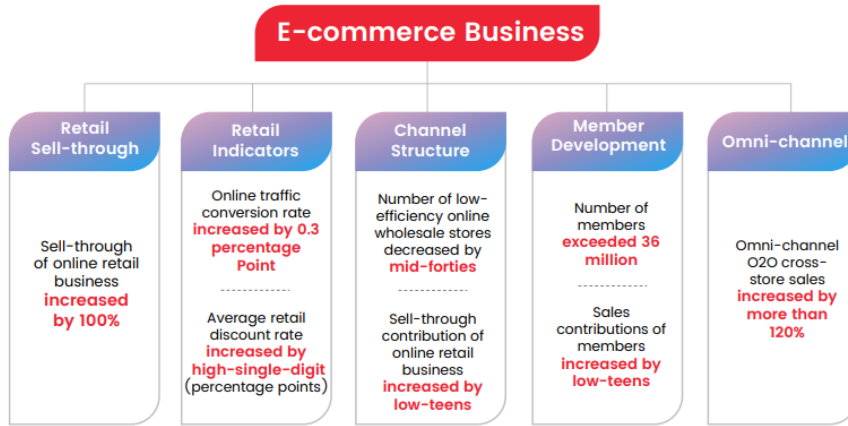
Open High-Quality Stores , Accelerate the Channel Upgrade



Source: Company data, CMBIS estimates

Figure 11: Reform on omni-channel strategy

E-commerce: Continuously Drive the Development of Li Ning Omni-Channel Business Model

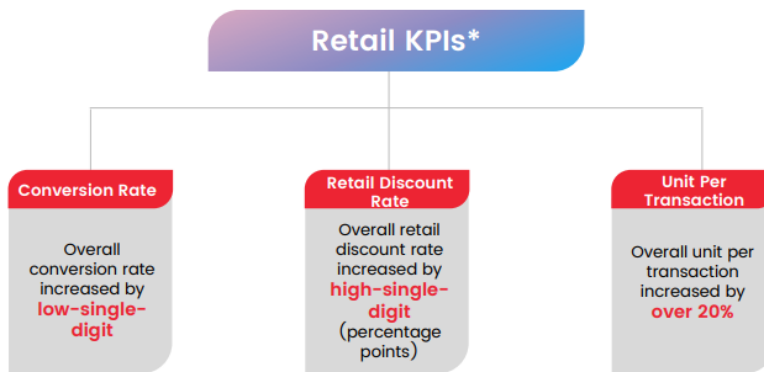


Specify the Omni-channel business strategy, Enhance integration and synergy of online and offline businesses

Source: Company data, CMBIS estimates

Figure 12: Reform on store operation

Retail Operation: Focus on KPIs, Drive the Enhancement of Retail Operation Capability

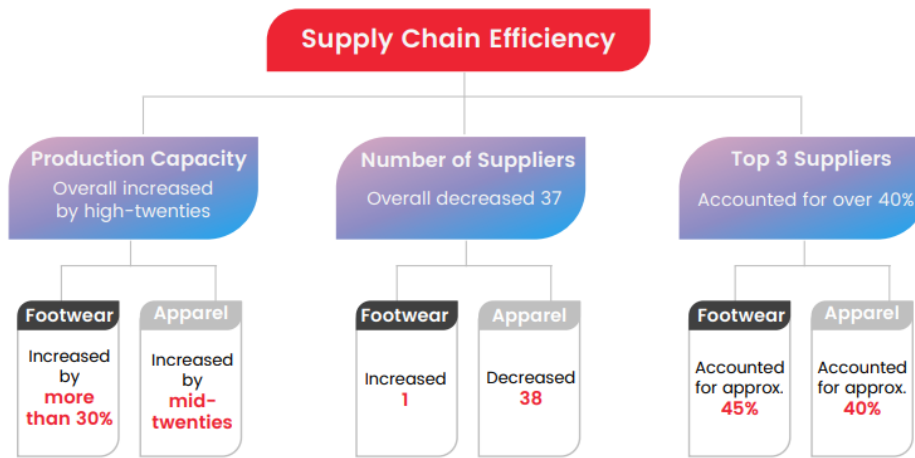


Progressively Develop Single-Store Business Model
Remain Focused on "Products and Point of Sale Merchandising" and "Efficiency"

Source: Company data, CMBIS estimates

Figure 13: Reform on supply chain management

Supply Chain: Continuously Optimize Supply Chain Organization



Transition from **Passive Production** to **Proactive Production**
Ensure Production Capacity and Flexible Supply

Source: Company data, CMBIS estimates

Figure 14: Historical sales growth trend, by brand

Operating numbers	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	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%	-16.0%		
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%	35%-40%	10.0%	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%	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%	Over 20%		
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%	Over 45%		
Non-Anta brands (FILA/) 80%-85% 90%-95% 90%-95% 80%-85% 65%-70% 55%-60%																
FILA brand's retail sales							50%-55%	50%-55%	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	15.0%	10.0%
Classic/ Core brand							Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%			
Kids							Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%			
Fusion							Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%			
Online							Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%			
Other brands 30%-35% 25%-30% -ve HSD 25%-30% 50%-55% 55%-60% 115%-120% 70%-75%																
Descente				Over 100%	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%		
Kolon						15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	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	n/a	80%-85%		
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	n/a	90%-95%		
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	n/a	70%-75%		
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%	n/a	85%-90%		
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	85%-90%	90%-95%	20.0%	15.0%
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	90%-95%	85%-90%		
Wholesales	+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	80%-85%	90%-95%		
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%	95%-100%		
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	Mid 50%-60%	30%-35%	8.0%	6.0%	
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	+ve High-teens	15%-20%		
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%	-15.0%	-5.0%	-1.0%
Dong Xiang's SSSG	+ve Mid to High SD	-ve Mid to High SD	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid to High SD	+ve Mid to High SD	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD		
Dong Xiang's retail sales				+ve MSD	+ve MSD	+ve Mid-teens	+ve Low-teens	-ve 25%-30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens			
Direct retail	+ve HSD	Flat	+ve Low-teens	+ve HSD	Flat	+ve LSD	+ve HSD	+ve MSD	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%			
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%	35%-40%				

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 15: 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	102.84	87.40	18%	218,059	Dec-20	52.0	42.5	15.3	11.9	19.5	1.2	0.6	
Anta Sports	2020 HK	BUY	212.74	166.40	28%	449,834	Dec-20	47.1	36.1	12.3	9.9	23.4	1.2	0.8	
Xtep Intl	1368 HK	BUY	18.17	12.30	48%	32,335	Dec-20	33.6	27.6	3.4	3.2	7.3	1.0	1.9	
361 Degrees	1361 HK	NR	n/a	3.39	n/a	7,009	Dec-20	13.0	11.6	0.8	0.7	6.4	1.2	1.6	
Topsports	6110 HK	NR	n/a	10.72	n/a	66,477	Feb-21	16.8	14.2	4.9	4.1	27.4	0.8	3.1	
Pou Sheng	3813 HK	NR	n/a	1.71	n/a	9,160	Dec-20	6.6	5.0	0.8	0.7	3.9	0.1	1.8	
China DX	3818 HK	NR	n/a	1.03	n/a	6,064	Mar-21	n/a	n/a	n/a	n/a	16.4	0.0	n/a	
								Avg.	28.2	22.8	6.2	5.1	14.9	0.8	1.6
								Med.	25.2	20.9	4.1	3.7	16.4	1.0	1.7
International Sportswear															
Nike Inc	NKE US	NR	n/a	171.69	n/a	2,115,218	May-21	39.6	33.9	16.3	13.2	55.0	2.3	0.7	
Adidas	ADS GY	NR	n/a	319.30	n/a	587,646	Dec-20	40.9	31.2	8.6	7.6	24.8	0.5	1.0	
Puma	PUM GY	NR	n/a	108.50	n/a	150,275	Dec-20	54.9	37.7	8.4	7.4	15.8	0.6	0.5	
Under Armour	UAA US	NR	n/a	25.45	n/a	84,822	Dec-20	49.3	41.0	6.3	5.5	22.0	(0.3)	0.0	
Lululemon	LULU US	NR	n/a	408.72	n/a	413,990	Jan-21	59.1	48.4	17.4	13.7	31.5	2.0	0.0	
Skechers	SKX US	NR	n/a	53.33	n/a	64,674	Dec-20	19.7	17.1	2.6	2.3	14.3	0.2	0.0	
Vf Corp	VFC US	NR	n/a	80.81	n/a	246,922	Mar-21	25.0	21.3	8.1	7.6	32.9	0.4	2.5	
Columbia	COLM US	NR	n/a	103.08	n/a	52,918	Dec-20	22.2	19.1	3.7	3.3	14.5	0.4	0.9	
Wolverine	WWW US	NR	n/a	37.16	n/a	23,775	Jan-21	16.0	13.2	5.1	4.2	(9.9)	(0.1)	1.2	
Mizuno Corp	8022 JP	NR	n/a	2710.00	n/a	5,111	Mar-21	20.3	15.2	0.7	0.7	7.5	1.4	1.8	
Asics Corp	7936 JP	NR	n/a	2669.00	n/a	35,960	Dec-20	89.7	38.2	3.7	3.5	1.7	(0.5)	0.9	
								Avg.	39.7	28.8	7.4	6.2	19.1	0.6	0.9
								Med.	39.6	31.2	6.3	5.5	15.8	0.4	0.9

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 16: Major assumptions

Major assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by segment (RMB mn)					
Shoes	6,085	6,338	8,883	10,730	12,154
Clothes	7,110	7,365	10,680	13,349	15,352
Equipment	674	754	904	1,049	1,123
Others	0	0	0	0	0
Total	13,870	14,457	20,466	25,128	28,628
Sales by segment growth (%)					
Shoes	32.3%	4.2%	40.1%	20.8%	13.3%
Clothes	33.7%	3.6%	45.0%	25.0%	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%	41.6%	22.8%	13.9%
Sales by channel growth (%)					
Franchises	39.9%	0.9%	35.0%	19.0%	12.0%
Self-owned	15.6%	-9.7%	53.0%	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%	41.6%	22.8%	13.9%
Sales network by segment					
Self-owned	1,292	1,149	1,174	1,199	1,219
Franchise	5,157	4,763	4,818	4,873	4,923
Sub-total	6,449	5,912	5,992	6,072	6,142
LN Young	1,101	1,021	1,171	1,271	1,371
Total	7,550	6,933	7,163	7,343	7,513
GP margins	49.1%	49.1%	52.7%	53.0%	53.2%
Opex breakdown					
A & P/ sales	9.6%	8.9%	8.5%	9.0%	9.2%
Labour/ sales	10.9%	9.1%	9.5%	9.5%	9.4%
Rental/ sales	7.1%	6.3%	5.7%	5.1%	4.9%
D & A/ sales	3.3%	4.0%	3.2%	3.0%	3.0%
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%	28.4%	29.0%	29.3%
Admin expenses / sales	6.9%	5.6%	4.6%	4.7%	4.8%
OP margins	11.1%	15.2%	20.9%	20.4%	20.4%
Effective tax rate	19.3%	24.4%	20.0%	19.0%	18.0%
Net profit margins	10.8%	11.7%	17.1%	17.1%	17.3%
Net profit att. growth (%)	109.6%	13.3%	106.2%	22.4%	15.7%

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	20,466	25,128	28,628	EBIT	1,543	2,196	4,269	5,129	5,839
Franchises	6,865	6,925	9,349	11,125	12,460	D & A	461	576	653	747	870
Self-owned	3,620	3,267	4,999	6,099	6,953	Change in working capital	1,176	142	749	277	308
E-commerce	3,121	4,048	5,870	7,630	8,928	Income tax paid	(144)	(589)	(549)	(876)	(1,006)
International	264	217	249	274	288	Others	467	439	-	-	-
Cost of goods sold	(7,064)	(7,363)	(9,686)	(11,817)	(13,390)	Net cash from operating	3,503	2,763	5,122	5,278	6,011
Gross profit	6,805	7,094	10,781	13,311	15,238	Capex & investments	(636)	(594)	(921)	(1,005)	(1,145)
Other income	139	331	246	302	344	Associated companies	(50)	(53)	-	-	-
Operating expenses	(5,401)	(5,230)	(6,757)	(8,484)	(9,743)	Interest received	15	31	75	92	105
D & A	(461)	(576)	(653)	(603)	(687)	Others	97	(376)	(92)	(106)	(113)
Staff costs	(1,519)	(1,311)	(1,947)	(2,377)	(2,689)	Net cash from investing	(573)	(992)	(938)	(1,019)	(1,153)
S & D costs (ex-staff, D&A)	(3,252)	(3,398)	(4,276)	(5,417)	(6,249)	Equity raised	56	189	-	-	-
Admin exp. (ex-staff, D&A)	(170)	55	119	(87)	(117)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(215)	(378)	(510)	(1,051)	(1,286)
EBIT	1,543	2,196	4,269	5,129	5,839	Others	(490)	(325)	(62)	(51)	(41)
Finance costs, net	(30)	(32)	(14)	14	42	Net cash from financing	(649)	(513)	(571)	(1,102)	(1,327)
JVs & associates	343	83	123	151	172	Net change in cash	2,282	1,258	3,613	3,157	3,531
Exceptional	-	-	-	-	-	Beginning cash balance	3,672	5,961	7,187	10,800	13,957
Pre-tax profit	1,857	2,248	4,378	5,294	6,052	Exchange difference	8	(33)	-	-	-
Income tax	(357)	(549)	(876)	(1,006)	(1,089)	Cash at the end of the year	5,961	7,187	10,800	13,957	17,488
Less: Minority interests	0	0	0	0	0						
Net profit	1,499	1,698	3,502	4,288	4,963						

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	5,273	5,761	6,298	Sales mix (%)					
Fixed asset	1,039	1,065	1,384	1,683	1,994	Franchises	49.5	47.9	45.7	44.3	43.5
Intangible assets & goodwill	265	357	446	576	736	Self-owned	26.1	22.6	24.4	24.3	24.3
Prepaid lease payments	115	384	384	384	384	E-commerce	22.5	28.0	28.7	30.4	31.2
Interest in joint ventures	-	-	48	106	173	International	1.9	1.5	1.2	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	13,928	17,948	22,023	P&L ratios (%)					
Cash and cash equivalents	5,961	7,187	10,800	13,957	17,488	Gross margin	49.1	49.1	52.7	53.0	53.2
Inventories	1,407	1,346	1,459	1,943	2,201	Operating margin	11.1	15.2	20.9	20.4	20.4
Trade and other receivables	687	659	841	1,033	1,176	Pre-tax margin	13.4	15.5	21.4	21.1	21.1
Prepayments	483	584	827	1,015	1,157	Net margin	10.8	11.7	17.1	17.1	17.3
Other current assets	1	1	1	1	1	Effective tax rate	23.6	25.4	20.6	19.6	18.5
Current liabilities	4,717	5,015	6,630	7,900	8,836	Balance sheet ratios					
Bank loans	-	-	-	-	-	Current ratio (x)	1.8	1.9	2.1	2.3	2.5
Trade payables	1,348	1,227	1,459	1,781	2,018	Quick ratio (x)	1.5	1.7	1.9	2.0	2.2
Accruals & other payables	2,205	2,540	3,597	4,416	5,031	Cash ratio (x)	1.3	1.4	1.6	1.8	2.0
Tax payables	531	592	918	1,048	1,132	Inventory turnover days	73	67	55	60	60
Others	633	656	656	656	656	Trade receivables days	18	17	15	15	15
Non-current liabilities	707	889	889	889	889	Trade payables days	70	61	55	55	55
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	30.0	28.7	26.7
Minority Interest	-	-	-	-	-	ROA	11.9	11.6	18.2	18.1	17.5
Total net assets	7,124	8,689	11,682	14,919	18,596	Per share					
Shareholders' equity	7,124	8,689	11,682	14,919	18,596	EPS (RMB)	0.60	0.68	1.39	1.71	1.98
						DPS (RMB)	0.15	0.21	0.43	0.52	0.61
						BVPS (RMB)	2.90	3.54	4.76	6.07	7.57

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.

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.