

Li Ning (2331 HK)

A solid guidance, considering the pandemic

Investors are concerned about slowdown in retail sales growth and lack of margin improvements. However, we believe the growth target could be achieved even with some Covid-19 outbreaks, thanks to its prudent but solid track record. As the long-term growth remains intact, we reiterate BUY and lowered TP to HK\$81.04, based on 35x FY22E P/E (vs prior 50x due to macro slowdown and uncertainty).

- FY21 net profit beat by 15%.** Li Ning sales grew by 56% YoY to RMB 22.6bn, beating CMBI/ BBG est. by 10%/ 7%, due to stronger than expected wholesale and e-commerce sales. Net profit rocketed by 136% YoY to RMB 4.01bn, beating CMBI/ BBG est. by 15%/ 10%, with better than expected other income and finance income but partly offset by higher opex and tax rate. NP margin reached 17.8%, beating CMBI/ BBG est. of 17.1%/ 17.2%.
- Guidance for 2Q22E retail sales growth is decent enough, given the pandemic.** Jan–Mar 2022 retail sales growth was strong and even accelerated vs 2H21 (~40% YoY before lockdown in Mar 2022, but slowed down to mid-teens afterwards, while e-commerce sales growth stayed fast at ~60%). Management is now targeting a MSD retail sales growth in 2Q22E, which is at least in-line with market expectation, in our view.
- FY22E target of high-teens to low 20% retail sales growth remained unchanged.** Despite high base, management maintained FY22E guidance, driven by: 1) HSD to low-teens growth for Li Ning core brand, 2) 40%-60% growth for China Li Ning and LN young, 3) ~20% growth for e-commerce, 4) growth from new categories like the 1990 series and women sports (~ LSD ppt of sales) and 5) inventory and business model optimization (~ LSD ppt of sales). Moreover, potential partnerships with new distributors and higher penetration into higher tier cities and shopping malls are important drivers as well.
- Targeting high-teens NP margin in FY22E even though sustainability is now more important.** Li Ning's focus is to build a system that can generate sustainable growth, and FY22E NP margin target is not too aggressive (even with 0-1 ppt drop in GP margin due to costs inflation), in our view, thanks to: 1) decent new/ old product mix (6 months mix was extremely healthy), 2) better retail discounts (improved 3ppt YoY for new products in 4Q21, but only back to FY19 level for overall discount in FY21), 3) organic and reform driven operating leverage (even with only high-teens sales growth), 4) 1ppt to 1.5ppt margin improvement from higher finance income.
- Fine-tuned TP to HK\$ 81.04.** We maintain BUY and fine-tuned TP to HK\$ 81.04, based on 35x FY22E P/E (from 50x), given a 3-year NP CAGR of 19%. Currently at 26x FY22E P/E, in our view, is no too demanding vs 5 year-average of 25x. We revised up our FY22E/ 23E NP est. by 15%/ 16% to factor in faster sales growth, better OP margin, other and finance income.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,457	22,572	27,269	31,639	35,533
YoY growth (%)	4.2	56.1	20.8	16.0	12.3
Net income (RMB mn)	1,698	4,011	4,977	5,807	6,744
EPS (RMB)	0.68	1.58	1.92	2.20	2.56
YoY growth (%)	12.5	133.6	21.7	14.6	16.1
Consensus EPS (RMB)	n/a	n/a	1.81	2.26	2.94
P/E (x)	75.4	31.9	26.2	22.8	19.7
P/B (x)	14.4	10.1	7.7	6.1	4.9
Yield (%)	0.4	1.0	1.2	1.4	1.6
ROE (%)	19.5	32.9	31.2	28.6	26.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$81.04
(Previous TP)	HK\$102.84)
Up/Downside	+33.7%
Current Price	HK\$60.60

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Stock Data

Mkt Cap (HK\$ mn)	158,581
Avg 3 mths t/o (HK\$ mn)	1,173.20
52w High/Low (HK\$)	108.2/ 44.6
Total Issued Shares (mn)	2,616.8

Source: Bloomberg

Shareholding Structure

Mr Li Ning & Family	12.79%
BlackRock Inc.	6.13%
JP Morgan Chase & Co	5.21%
FMR LLC.	4.70%
Schroders Plc.	4.70%
Free Float	66.47%

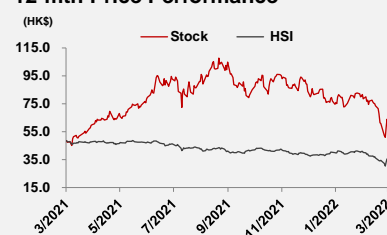
Source: Bloomberg, HKEX

Share Performance

	Absolute	Relative
1-mth	-21.7%	-9.7%
3-mth	-23.9%	-17.9%
6-mth	-39.0%	-29.3%
12-mth	34.5%	81.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Li Ning (2331 HK, BUY) – Shifting gears from margin to sales - 16 Aug 2021
- 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

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY25E	FY22E	FY23E	FY24E
Revenue	27,269	31,639	35,533	25,128	28,628	n/a	8.5%	10.5%	n/a
Gross profit	14,284	16,627	18,732	13,311	15,238	n/a	7.3%	9.1%	n/a
EBIT	6,195	7,172	8,068	5,129	5,839	n/a	20.8%	22.8%	n/a
Net profit att.	4,977	5,807	5,807	4,288	4,963	n/a	16.1%	17.0%	n/a
Diluted EPS (RMB)	1.92	2.20	2.20	1.71	1.98	n/a	12.6%	11.5%	n/a
Gross margin	52.4%	52.6%	52.7%	53.0%	53.2%	n/a	-0.6ppt	-0.7ppt	n/a
EBIT margin	22.7%	22.7%	22.7%	20.4%	20.4%	n/a	2.3ppt	2.3ppt	n/a
Net profit att. margin	18.3%	18.4%	18.4%	17.1%	17.3%	n/a	1.2ppt	1ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	27,269	31,639	35,533	26,064	31,659	38,213	4.6%	-0.1%	-7.0%
Gross profit	14,284	16,627	18,732	13,953	17,133	21,209	2.4%	-3.0%	-11.7%
EBIT	6,195	7,172	8,068	5,814	7,248	8,247	6.5%	-1.1%	-2.2%
Net profit att.	4,977	5,807	5,807	4,597	5,753	7,255	8.3%	0.9%	0.9%
Diluted EPS (RMB)	1.92	2.20	2.20	1.81	2.26	2.94	6.4%	-2.5%	-2.5%
Gross margin	52.4%	52.6%	52.7%	53.5%	54.1%	55.5%	-1.2ppt	-1.6ppt	-2.8ppt
EBIT margin	22.7%	22.7%	22.7%	22.3%	22.9%	21.6%	0.4ppt	-0.2ppt	1.1ppt
Net profit att. margin	18.3%	18.4%	18.4%	17.6%	18.2%	19.0%	0.6ppt	0.2ppt	0.2ppt

Source: Company data, CMBIGM estimates

Results preview

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H20	2H20	1H21	2H21	1H20 YoY	2H20 YoY	1H21 YoY	2H21 YoY	2H21E CMBIGM	Actual vs CMBIGM
Revenue	6,181	8,276	10,197	12,376	-1%	9%	65%	50%	10,270	21%
COGS	(3,124)	(4,238)	(4,498)	(6,106)					(5,188)	
Gross profit	3,057	4,038	5,699	6,270	-2%	9%	86%	55%	5,082	23%
GP margins	49.5%	48.8%	55.9%	50.7%					49.5%	
Other income & gains	136	195	134	282					112	152%
S & D expenses	(1,949)	(2,476)	(2,857)	(3,281)	-4%	2%	47%	33%	(2,954)	11%
S & D exp / sales	-31.5%	-29.9%	-28.0%	-26.5%					-28.8%	
Admin expenses	(346)	(459)	(437)	(673)	-23%	-9%	26%	47%	(509)	32%
Admin exp / sales	-5.6%	-5.5%	-4.3%	-5.4%					-5.0%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	898	1,298	2,538	2,598	32%	50%	183%	100%	1,731	50%
OP margins	14.5%	15.7%	24.9%	21.0%					16.9%	
Other items	0	0	0	0					0	
Net finance income	(12)	(19)	7	25					(22)	-216%
Net finance income / sales	-0.2%	-0.2%	0.1%	0.2%					-0.2%	
Profit after financing costs	885	1,279	2,546	2,623					1,709	
Associated coms	0	0	0	0					0	
Jointly controlled coms	22	62	80	80					43	84%
Pre-tax profit	907	1,341	2,625	2,703	-7%	53%	189%	102%	1,752	54%
Tax	(224)	(325)	(663)	(654)					(212)	208%
Tax / sales	-3.6%	-3.9%	-6.5%	-5.3%					-2.1%	
Effective tax rate	-24.7%	-24.3%	-25.3%	-24.2%					-12.1%	
Minority interests	0	0	0	0					0	
Net profit att.	683	1,015	1,962	2,049	-14%	44%	187%	102%	1,540	33%
NP margins	11.1%	12.3%	19.2%	16.6%					15.0%	
Sales by channels										
Franchises	3,109	3,815	4,588	6,264	2%	0%	48%	64%	4,760	32%
Self-owned	1,335	1,930	2,519	2,492	-24%	4%	89%	29%	2,480	0%
E-commerce	1,669	2,380	2,967	3,446	23%	35%	78%	45%	2,902	19%
International	68	152	122	174	-32%	-7%	80%	15%	127	37%
Total	6,181	8,276	10,197	12,376	-1%	9%	65%	50%	10,270	21%
Breakdown by segment										
A & P	(556)	(724)	(747)	(1,033)	0%	-6%	34%	43%	(993)	4%
Labour	(623)	(688)	(839)	(973)	-14%	-13%	35%	41%	(1,108)	-12%
Rent	(409)	(507)	(567)	(589)	-13%	-2%	39%	16%	(602)	-2%
D & A	(270)	(306)	(299)	(332)	28%	23%	10%	8%	(355)	-6%
R & D	(139)	(184)	(188)	(226)	5%	-20%	35%	23%	(222)	2%
Others	(298)	(527)	(656)	(802)	-21%	43%	120%	52%	(183)	337%
As % of total sales										
A & P	-9.0%	-8.7%	-7.3%	-8.3%					-9.7%	
Labour	-10.1%	-8.3%	-8.2%	-7.9%					-10.8%	
Rent	-6.6%	-6.1%	-5.6%	-4.8%					-5.9%	
D & A	-4.4%	-3.7%	-2.9%	-2.7%					-3.5%	
R & D	-2.2%	-2.2%	-1.8%	-1.8%					-2.2%	
Others	-4.8%	-6.4%	-6.4%	-6.5%					-1.8%	

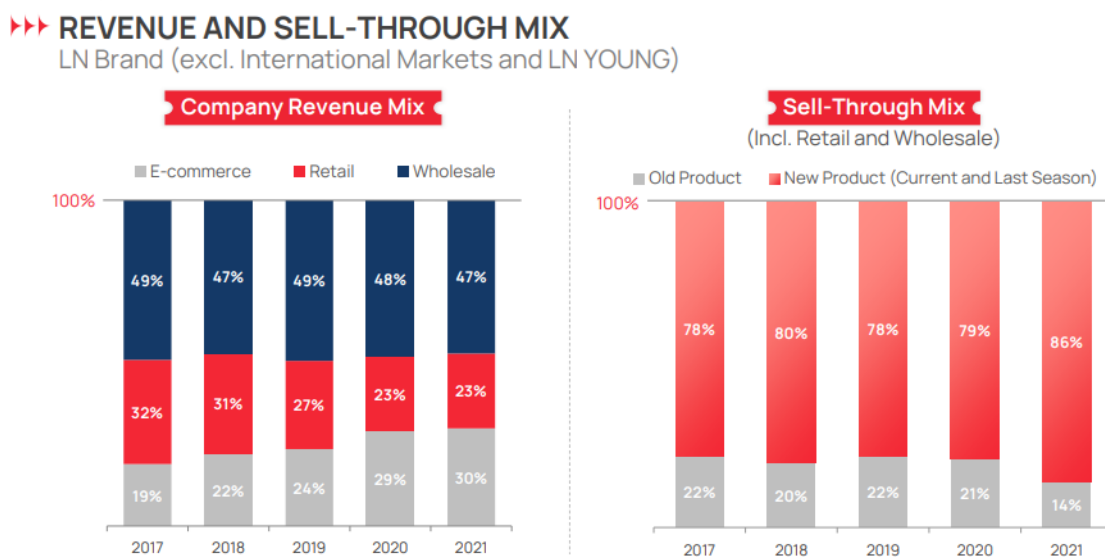
Source: Company data, CMBIGM estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY20	FY21	FY22E	FY21 YoY	FY22E YoY	2H21E CMBIGM	Actual vs CMBIGM
Revenue	14,457	22,572	27,269	56%	21%	20,466	10%
COGS	(7,363)	(10,603)	(12,985)			(9,686)	
Gross profit	7,094	11,969	14,284	69%	19%	10,781	11%
GP margins	49.1%	53.0%	52.4%			52.7%	
Other income & gains	331	416	627			246	69%
S & D expenses	(4,425)	(6,138)	(7,452)	39%	21%	(5,811)	6%
S & D exp / sales	-30.6%	-27.2%	-27.3%			-28.4%	
Admin expenses	(805)	(1,111)	(1,264)	38%	14%	(946)	17%
Admin exp / sales	-5.6%	-4.9%	-4.6%			-4.6%	
Other opex	0	0	0			0	
Operating profit (EBIT)	2,196	5,136	6,195	134%	21%	4,269	20%
OP margins	15.2%	22.8%	22.7%			20.9%	
Other items	0	0	0			0	
Net finance income	(32)	33	105			(14)	-329%
Net finance income / sales	-0.2%	0.1%	0.4%			-0.1%	
Profit after financing costs	2,164	5,169	6,300			4,255	
Associated coms	0	0	0			0	
Jointly controlled coms	83	159	164			123	30%
Pre-tax profit	2,248	5,328	6,464	137%	21%	4,378	22%
Tax	(549)	(1,317)	(1,487)			(876)	50%
Tax / sales	-3.8%	-5.8%	-5.5%			-4.3%	
Effective tax rate	-24.4%	-24.7%	-23.0%			-20.0%	
Minority interests	0	0	0			0	
Net profit att.	1,698	4,011	4,977	136%	24%	3,502	15%
NP margins	11.7%	17.8%	18.3%			17.1%	
Sales by channels							
Franchises	6,924	10,853	12,915	57%	19%	9,349	16%
Self-owned	3,265	5,010	6,012	53%	20%	4,999	0%
E-commerce	4,049	6,413	8,016	58%	25%	5,870	9%
International	220	296	326	35%	10%	249	19%
Total	14,457	22,572	27,269	56%	21%	20,466	10%
Breakdown by segment							
A & P	(1,280)	(1,779)	(2,318)	39%	30%	(1,740)	2%
Labour	(1,311)	(1,812)	(2,138)	38%	18%	(1,947)	-7%
Rent	(915)	(1,156)	(1,358)	26%	17%	(1,169)	-1%
D & A	(576)	(630)	(749)	9%	19%	(653)	-4%
R & D	(323)	(414)	(573)	28%	38%	(409)	1%
Others	(825)	(1,457)	(1,582)	77%	9%	(839)	74%
As % of total sales							
A & P	-8.9%	-7.9%	-8.5%			-8.5%	
Labour	-9.1%	-8.0%	-7.8%			-9.5%	
Rent	-6.3%	-5.1%	-5.0%			-5.7%	
D & A	-4.0%	-2.8%	-2.7%			-3.2%	
R & D	-2.2%	-1.8%	-2.1%			-2.0%	
Others	-5.7%	-6.5%	-5.8%			-4.1%	

Source: Company data, CMBIGM estimates

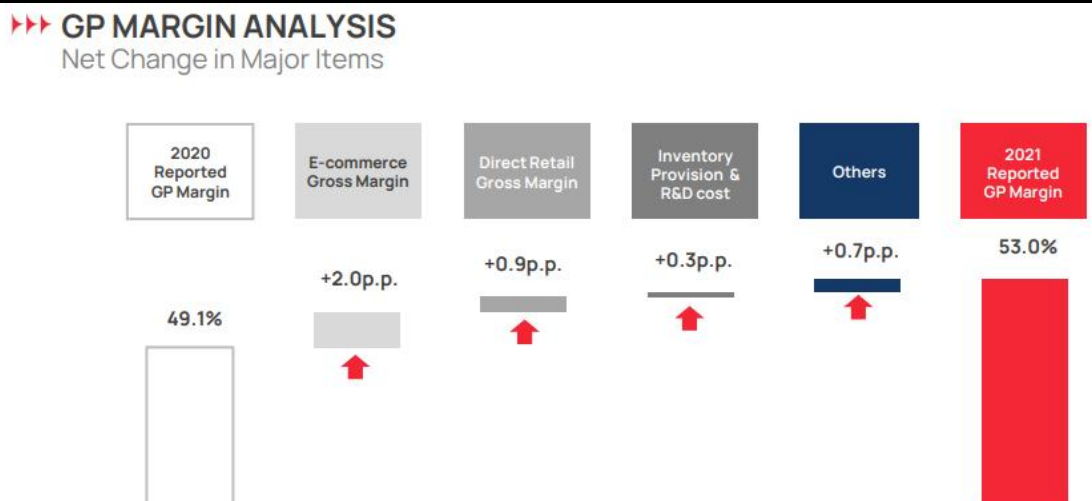
Figure 5: Sales and retail sales through mix



Consistent strong growth in all channels with improved new product mix

Source: Company data, CMBIGM estimates

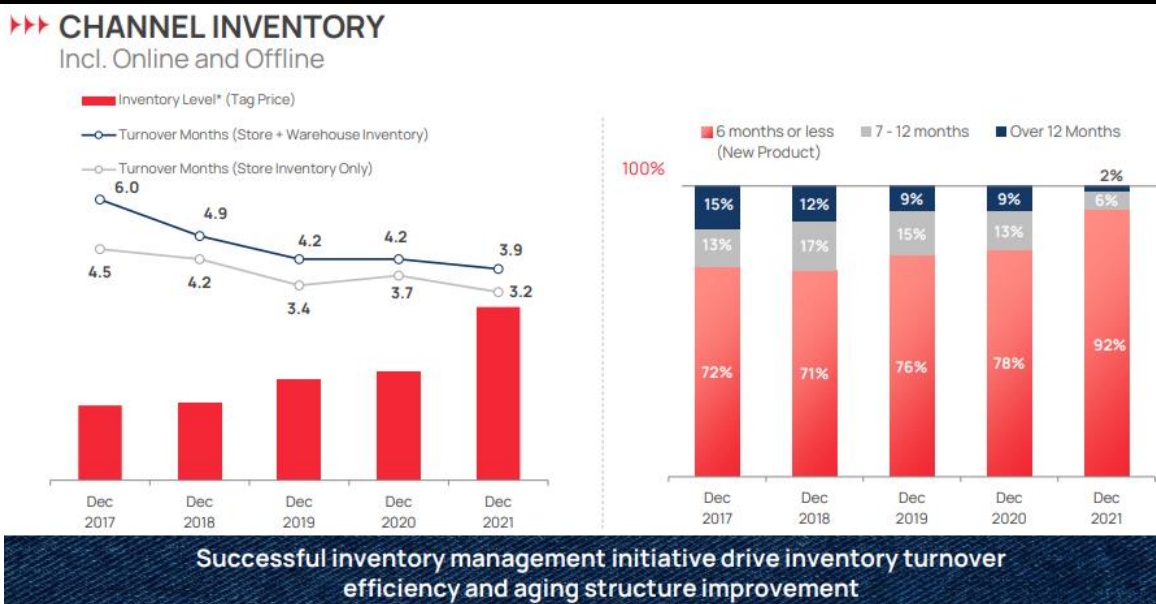
Figure 6: Breakdown of GP margin drivers



Gross margin expansion largely driven by discount improvement at retail end

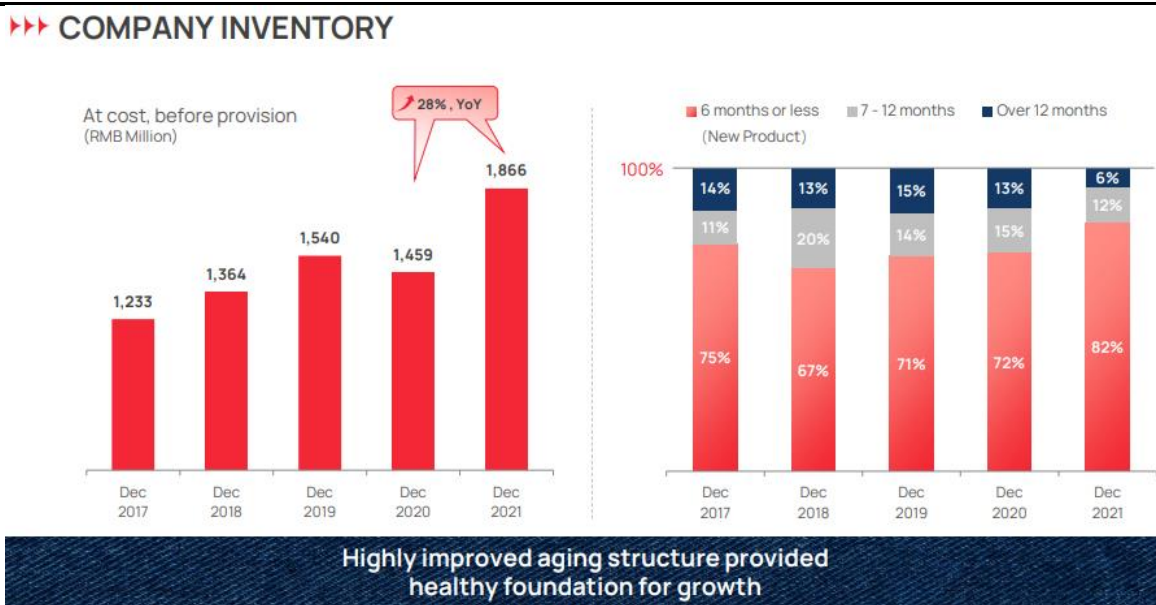
Source: Company data, CMBIGM estimates

Figure 7: Channel inventory mix by product age



Source: Company data, CMBIGM estimates

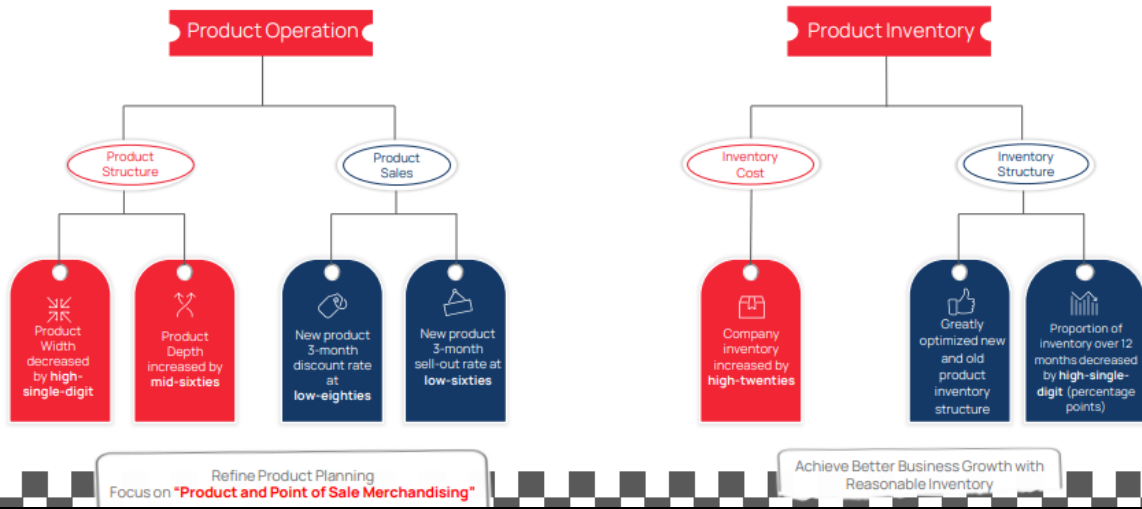
Figure 8: Company inventory by product age



Source: Company data, CMBIGM estimates

Figure 9: Reform on product merchandising

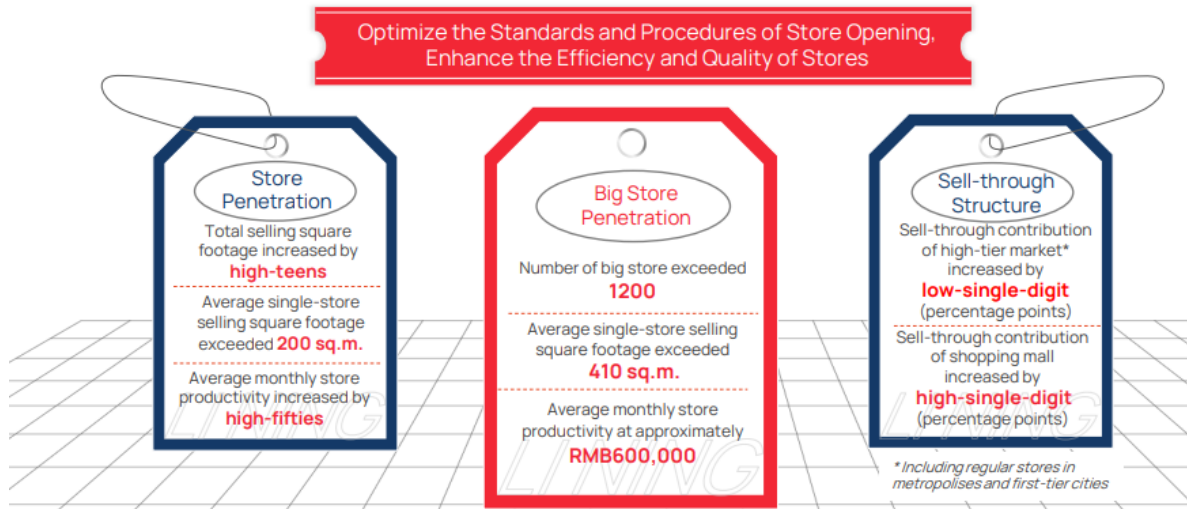
Product Merchandising: Strengthen Product Operation Management, Optimize Product Planning System



Source: Company data, CMBIGM estimates

Figure 10: Reform on channel and stores images

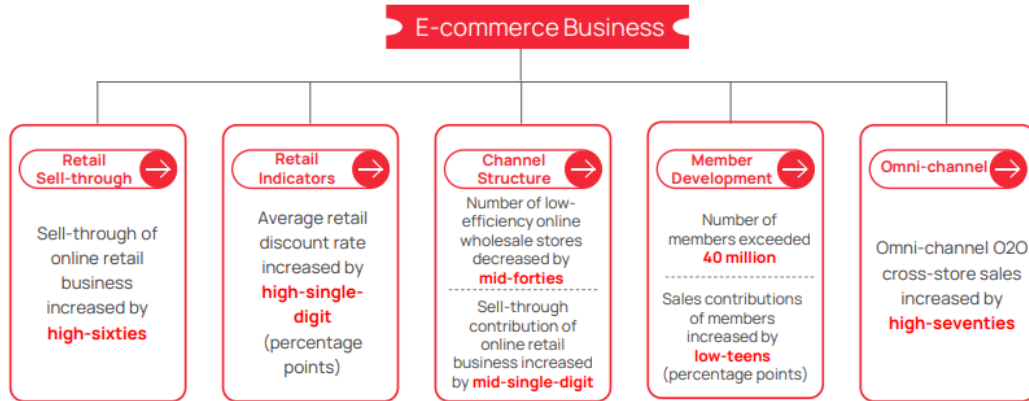
Channel: Expand High-Quality Profitable Stores, Accelerate Development of High-Quality Channels



Source: Company data, CMBIGM estimates

Figure 11: Reform on E-commerce and Omni-channel

▶▶▶ **E-Commerce: Promote the Establishment of Li Ning Omni-Channel Business Model**

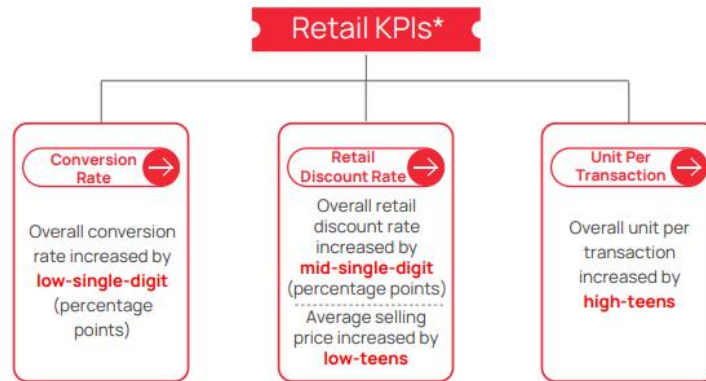


Establish a Cross-functional Communication Mechanism between E-commerce and Offline, Enhance Integration and Synergy of Omni-Channel

Source: Company data, CMBIGM estimates

Figure 12: Reform on retail operation

▶▶▶ **Retail Operation: Progressively Develop Single-Store Business Model to Improve Retail Performance**

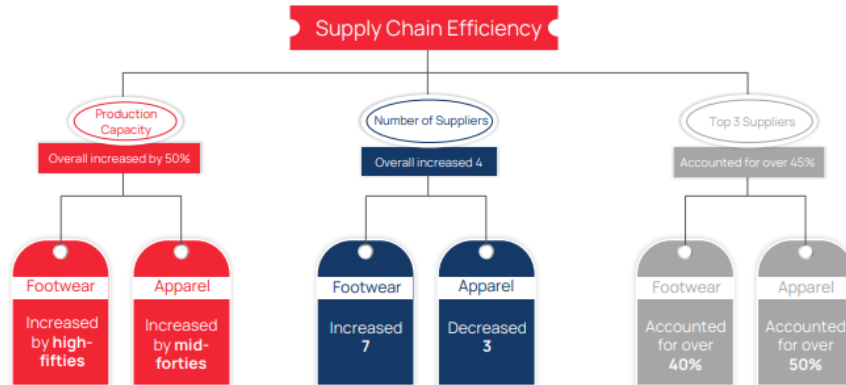


Focus on **"Products and Point of Sale Merchandising"** and **"Efficiency"**, Cultivate Retail Talents and Develop Retail Culture

Source: Company data, CMBIGM estimates

Figure 13: Reform on supply chain

▶▶▶ **Supply Chain: Continuously Integrate and Optimize Supply Chain Organization**



Transition from Passive Production to **Proactive Production**
Consolidate Advantages and Resources, and Strengthen Flexible Supply

Source: Company data, CMBIGM estimates

Figure 14: Reform on kidswear



Source: Company data, CMBIGM estimates

Figure 15: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	2Q22E	3Q22E	4Q22E
Nike China sales	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%	8.0%	19.0%	42.0%	9.0%	1.0%	-24.0%				
Adidas China sales	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%	-5.0%	7.0%	156.0%	-16.0%	-15.0%	-24.0%				
Anta brand's SSSG																
Anta brand's retail sales	+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%	+ve Low-teens	+ve Mid-teens	22.0%	0.0%	20.0%	15.0%
Core brand	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD				
Kids	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens				
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%				
Non-Anta brands (FILA 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%	+ve MSD	+ve HSD	17.0%	10.0%	20.0%	15.0%
Classic/ Core brand				Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat				
Kids				Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens				
Fusion				Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens				
Online				Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%				
Other brands																
			30%-35%	25%-30%	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%				
Descente	Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%				
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens				
Li Ning group's SSSG																
	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%				
Direct retail	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%				
Wholesales	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens				
E- Commerce	+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	+ve High 80%	+ve Mid 30%	+ve High 20%				
Li Ning group's retail sa																
	+ve Low 20%-25%	+ve Low 20%-25%	+ve Low 30%-35%	+ve Mid 30%-40%	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	28.0%	5.0%	25.0%	20.0%
Direct retail	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%				
Wholesales	+ve Low 20%-25%	+ve Mid 20%	+ve Mid 30%	+ve Low 40%	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%				
E- Commerce	+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%	+ve High 90%	+ve Mid 50%	+ve Low 40%				
Xtep's SSSG																
	+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%	+ve Mid-teens	20%-25%	28.0%	10.0%	25.0%	20.0%
361 Degrees' SSSG																
	+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%	+ve Low-teens	+ve High-teens				
Pou Sheng's SSSG																
	8.4%	4.2%	6.0%	1.9%	-32.5%	-17.8%										
Pou Sheng's sales	19.9%	18.9%	21.9%	19.1%	-25.1%	0.3%	-0.3%	1.0%	47.8%	-15.0%	-25.1%	-26.7%	-10.0%	0.0%	10.0%	15.0%
Dong Xiang's SSSG																
	-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	-ve High-teens					
Dong Xiang's retail sale																
	+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	-ve Mid to High-teens					
Direct retail	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, CMBIGM estimates, *Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

Valuation

Figure 16: 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	81.04	60.60	34%	158,581	Dec-21	26.2	22.8	7.7	6.1	32.9	1.5	1.1	
Anta Sports	2020 HK	BUY	132.66	100.80	32%	272,496	Dec-20	28.9	22.9	7.3	6.0	30.5	0.8	1.3	
Xtep Intl	1368 HK	BUY	16.21	10.96	48%	28,828	Dec-21	19.8	15.9	2.7	2.5	12.0	0.8	3.0	
361 Degrees	1361 HK	NR	n/a	3.43	n/a	7,092	Dec-20	10.4	9.2	0.8	0.7	7.7	0.5	2.0	
Topsports	6110 HK	NR	n/a	6.39	n/a	39,626	Feb-21	11.4	9.5	2.9	2.5	26.5	0.7	4.5	
Pou Sheng	3813 HK	NR	n/a	0.88	n/a	4,687	Dec-21	4.9	3.5	0.4	0.4	4.5	0.1	3.4	
China DX	3818 HK	NR	n/a	0.46	n/a	2,708	Mar-21	n/a	3.4	0.2	0.2	(0.5)	0.0	n/a	
								Avg.	16.9	12.5	3.2	2.6	16.2	0.6	2.5
								Med.	15.6	9.5	2.7	2.5	12.0	0.7	2.5
International Sportswear															
Nike Inc	NKE US	NR	n/a	131.24	n/a	1,623,605	May-21	35.7	28.0	14.7	13.7	48.3	2.5	0.9	
Adidas	ADS GY	NR	n/a	216.60	n/a	360,000	Dec-21	22.3	18.4	5.6	5.2	30.3	3.6	1.8	
Puma	PUM GY	NR	n/a	78.26	n/a	102,124	Dec-21	28.3	22.3	4.9	4.3	15.7	1.2	1.2	
Under Armour	UAA US	NR	n/a	17.50	n/a	61,217	Dec-21	23.2	21.7	n/a	3.2	19.1	2.6	n/a	
Lululemon	LULU US	NR	n/a	316.93	n/a	320,585	Jan-21	41.2	34.7	13.9	10.9	36.1	1.3	0.0	
Skechers	SKX US	NR	n/a	39.57	n/a	48,308	Dec-21	13.6	10.9	1.6	1.4	25.8	(6.3)	0.0	
Vf Corp	VFC US	NR	n/a	57.49	n/a	174,917	Apr-21	17.9	15.9	6.6	6.1	41.1	0.3	3.4	
Columbia	COLM US	NR	n/a	93.65	n/a	47,267	Dec-21	16.3	14.5	2.8	2.6	18.5	1.5	1.3	
Wolverine	WWW US	NR	n/a	24.91	n/a	15,920	Jan-22	9.6	8.5	2.7	2.3	11.3	0.2	2.5	
Mizuno Corp	8022 JP	NR	n/a	2204.00	n/a	3,846	Mar-21	18.5	13.5	0.5	0.5	7.6	1.8	2.3	
Asics Corp	7936 JP	NR	n/a	2216.00	n/a	27,625	Dec-21	26.1	19.5	2.7	2.5	6.9	0.7	1.3	
								Avg.	23.0	18.9	5.6	4.8	23.7	0.8	1.5
								Med.	22.3	18.4	3.9	3.2	19.1	1.3	1.3

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 17: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
Shoes	6,338	9,506	11,285	12,878	14,242
Clothes	7,365	11,824	14,543	17,161	19,564
Equipment	754	1,242	1,441	1,600	1,728
Others	0	0	0	0	0
Total	14,457	22,572	27,269	31,639	35,533
Sales by segment growth (%)					
Shoes	4.2%	50.0%	18.7%	14.1%	10.6%
Clothes	3.6%	60.5%	23.0%	18.0%	14.0%
Equipment	11.7%	64.9%	16.0%	11.0%	8.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	4.2%	56.1%	20.8%	16.0%	12.3%
Sales by channel growth (%)					
Franchises	0.9%	56.7%	19.0%	14.0%	11.0%
Self-owned	-9.8%	53.5%	20.0%	17.0%	12.0%
E-commerce	29.7%	58.4%	25.0%	19.0%	15.0%
International	-16.7%	34.9%	10.0%	5.0%	0.0%
Total	4.2%	56.1%	20.8%	16.0%	12.3%
Sales network by segment					
Self-owned	1,149	1,165	1,190	1,210	1,230
Franchise	4,763	4,770	4,825	4,875	4,915
Sub-total	5,912	5,935	6,015	6,085	6,145
LN Young	1,021	1,202	1,302	1,402	1,482
Total	6,933	7,137	7,317	7,487	7,627
GP margins	49.1%	53.0%	52.4%	52.6%	52.7%
Opex breakdown					
A & P/ sales	8.9%	7.9%	8.5%	8.7%	8.9%
Labour/ sales	9.1%	8.0%	7.8%	7.8%	7.7%
Rental/ sales	6.3%	5.1%	5.0%	4.8%	4.7%
D & A/ sales	4.0%	2.8%	2.7%	2.8%	3.0%
R & D/ sales	2.2%	1.8%	2.1%	2.2%	2.2%
Provision/ sales	0.0%	0.0%	0.0%	0.0%	0.0%
Selling & distribution costs / sales	30.6%	27.2%	27.3%	27.5%	27.5%
Admin expenses / sales	5.6%	4.9%	4.6%	4.5%	4.5%
OP margins	15.2%	22.8%	22.7%	22.7%	22.7%
Effective tax rate	24.4%	24.7%	23.0%	22.0%	20.0%
Net profit margins	11.7%	17.8%	18.3%	18.4%	19.0%
Net profit att. growth (%)	13.3%	136.1%	24.1%	16.7%	16.1%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	14,457	22,572	27,269	31,639	35,533
Franchises	6,924	10,853	12,915	14,723	16,342
Self-owned	3,265	5,010	6,012	7,035	7,879
E-commerce	4,049	6,413	8,016	9,539	10,970
International	220	296	326	342	342
Cost of goods sold	(7,363)	(10,603)	(12,985)	(15,012)	(16,801)
Gross profit	7,094	11,969	14,284	16,627	18,732
Other income	331	416	627	664	711
Operating expenses	(5,230)	(7,249)	(8,716)	(10,119)	(11,375)
D & A	(576)	(630)	(573)	(696)	(782)
Staff costs	(1,311)	(1,812)	(2,138)	(2,468)	(2,724)
S & D costs (ex-staff, D&A)	(3,449)	(4,783)	(5,837)	(6,822)	(7,697)
Admin exp. (ex-staff, D&A)	106	(24)	(169)	(132)	(171)
Other operating expenses	-	-	-	-	-
EBIT	2,196	5,136	6,195	7,172	8,068
Finance costs, net	(32)	33	105	83	148
JVs & associates	83	159	164	190	213
Exceptional	-	-	-	-	-
Pre-tax profit	2,248	5,328	6,464	7,444	8,430
Income tax	(549)	(1,317)	(1,487)	(1,638)	(1,686)
Less: Minority interests	0	0	0	0	0
Net profit	1,698	4,011	4,977	5,807	6,744

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	2,196	5,136	6,195	7,172	8,068
D & A	576	630	749	898	1,049
Change in working capital	142	948	265	384	342
Income tax paid	(589)	(549)	(1,317)	(1,487)	(1,638)
Others	439	-	-	-	-
Net cash from operating	2,763	6,165	5,891	6,967	7,822
Capex & investments	(594)	(1,016)	(1,091)	(1,266)	(1,421)
Associated companies	(53)	-	-	-	-
Interest received	31	97	100	116	130
Others	(376)	(9)	22	(41)	(22)
Net cash from investing	(992)	(927)	(969)	(1,190)	(1,313)
Equity raised	189	-	-	-	-
Net change in bank loans	-	-	-	-	-
Dividend paid	(378)	(510)	(1,203)	(1,464)	(1,678)
Others	(325)	(112)	(103)	(92)	(72)
Net cash from financing	(513)	(622)	(1,306)	(1,556)	(1,750)
Net change in cash	1,258	4,616	3,616	4,221	4,759
Beginning cash balance	5,961	7,187	11,803	15,419	19,639
Exchange difference	(33)	-	-	-	-
Cash at the end of the year	7,187	11,803	15,419	19,639	24,399

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,817	5,419	6,011	6,668	7,365
Fixed asset	1,065	1,502	1,886	2,289	2,689
Intangible assets & goodwill	357	460	604	784	999
Prepaid lease payments	384	384	384	384	384
Interest in joint ventures	-	62	126	199	282
Other non-current assets	3,011	3,011	3,011	3,011	3,011
Current assets	9,777	15,241	19,777	24,687	30,057
Cash and cash equivalents	7,187	11,803	15,419	19,639	24,399
Inventories	1,346	1,598	2,135	2,468	2,762
Trade and other receivables	659	928	1,121	1,300	1,460
Prepayments	584	912	1,102	1,278	1,436
Other current assets	1	1	1	1	1
Current liabilities	5,015	7,580	8,933	10,158	11,160
Bank loans	-	-	-	-	-
Trade payables	1,227	1,598	1,957	2,262	2,532
Accruals & other payables	2,540	3,967	4,792	5,560	6,244
Tax payables	592	1,360	1,529	1,680	1,728
Others	656	656	656	656	656
Non-current liabilities	889	889	889	889	889
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	64	64	64	64	64
Others	825	825	825	825	825
Minority Interest	-	-	-	-	-
Total net assets	8,689	12,191	15,964	20,307	25,374
Shareholders' equity	8,689	12,191	15,964	20,307	25,374

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Franchises	47.9	48.1	47.4	46.5	46.0
Self-owned	22.6	22.2	22.0	22.2	22.2
E-commerce	28.0	28.4	29.4	30.2	30.9
International	1.5	1.3	1.2	1.1	1.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	49.1	53.0	52.4	52.6	52.7
Operating margin	15.2	22.8	22.7	22.7	22.7
Pre-tax margin	15.5	23.6	23.7	23.5	23.7
Net margin	11.7	17.8	18.3	18.4	19.0
Effective tax rate	25.4	25.5	23.6	22.6	20.5
Balance sheet ratios					
Current ratio (x)	1.9	2.0	2.2	2.4	2.7
Quick ratio (x)	1.7	1.8	2.0	2.2	2.4
Cash ratio (x)	1.4	1.6	1.7	1.9	2.2
Inventory turnover days	67	55	60	60	60
Trade receivables days	17	15	15	15	15
Trade payables days	61	55	55	55	55
Total debt / total equity ratio (%)	1	1	1	1	0
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	19.5	32.9	31.2	28.6	26.6
ROA	11.6	19.4	19.3	18.5	18.0
Per share					
EPS (RMB)	0.68	1.58	1.92	2.20	2.56
DPS (RMB)	0.21	0.49	0.60	0.68	0.79
BVPS (RMB)	3.54	4.96	6.50	8.27	10.3

Source: Company data, CMBIGM estimates

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