

China Lilang (1234 HK)

Resilient given pandemic plus decent yield

2Q22 was hit by pandemic but trend is better in Jul-Aug 2022. Despite a more conservative guidance, we still find its valuation attractive (7x 22E P/E and 11% FY22E yield), vs 5-year average of 8x P/E, we maintain BUY but lowered TP to HK\$ 4.94, based on 7x FY23E P/E (rolled over from 8x FY22E P/E).

- **1H22 net profit was roughly inline, while inventory was healthy.** Sales increased by 3% YoY to RMB 1.354bn, 13% below CMBI est., mostly dragged by sales decline during pandemic and the delayed shipments to distributors in 2Q22. But net profit only fell by 5% YoY to RMB 250mn, 3% above CMBI est., due to: 1) better than expected GP margin (rising markup rate for particular products with better designs), 2) better tax rate but 3) slightly higher than expected opex. In fact, we are still satisfied by this resilient result in 1H22, thanks to: 1) maintained absolute amount of dividend (payout ratio raised to 72% vs 66% last year), 2) fairly stable inventory days at 217, only 9 days higher 208 in 1H21 (very healthy considering the delayed orders and higher sales mix from the self-owned smart causal collection).
- **Retail sales improved healthily in Jul-Aug 2022.** Management highlighted the trend was better in Jul-Aug 2022 than in 1H22, hence we estimated retail sales may have resumed to MSD to HSD growth in Jul-Aug 2022, comparing to LSD decline in 2Q22 and MSD- HSD growth in 1Q22 (and LSD to MSD growth in 1H22).
- **Revising down the FY22E guidance.** Management had cut its FY22 retail sales growth target from 10% to single digit, as well as revising down its net new stores target from 50-150 to roughly flat, in order to factor in the drags by pandemics and a cautious view of declining consumer purchasing power.
- **Growth drivers in 2H22E: reopening, smart causal and e-commerce.** However, we remained positive about 2H22E, as the management also stated that retail sales trend in Jul-Aug 2022 is inline with the trade fair orders growth in Fall 2022, hence the chance of trade fair orders cancellation is low. Moreover, the smart causal collection is still improving, evidenced by YoY decrease in inventory day, enhanced store network and display space, after the change in business model. For e-commerce, more online only and special edition SKUs were launched and received rather decent receptions, more investments will be made on live-streaming channels in the near future.
- **Maintain BUY but cut TP to HK\$ 4.46.** We maintain BUY but lowered TP to HK\$ 4.46, based on 7x FY23E P/E (rolled over from 8x FY22E P/E). The counter is cheap at 7x FY22E P/E and 11% FY22E yield. We cut our FY22E/ 23E/ 24E net profit estimates by 12%/ 10%/ 10% to factor in 1) weaker wholesale sales, 2) lower GP margin and 3) higher opex.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,681	3,379	3,611	4,036	4,442
YoY growth (%)	(26.7)	26.1	6.9	11.8	10.1
Net income (RMB mn)	557	468	539	636	744
EPS (RMB)	0.465	0.390	0.449	0.529	0.618
YoY growth (%)	(31.4)	(16.1)	15.1	17.8	16.8
Consensus EPS (RMB)	n/a	n/a	0.535	0.623	0.687
P/E (x)	7.0	8.0	7.1	6.0	5.2
P/B (x)	1.1	1.0	1.0	1.0	0.9
Yield (%)	11.6	8.9	10.5	12.4	14.5
ROE (%)	15.3	12.7	14.0	15.8	17.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.46
(Previous TP	HK\$4.94)
Up/Downside	+16.0%
Current Price	HK\$3.85

China Apparel Sector

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Stock Data

Mkt Cap (HK\$ mn)	4,610
Avg 3 mths t/o (HK\$ mn)	1.50
52w High/Low (HK\$)	5.03/3.51
Total Issued Shares (mn)	1,197.5
Source: Bloomberg	

Shareholding Structure

Mr Wang & Family	67.26%
Value Partners	1.13%
Free Float	31.61%
Source: Bloomberg, HKEx	

Share Performance

	Absolute	Relative
1-mth	-0.5%	5.1%
3-mth	2.4%	7.3%
6-mth	-15.4%	4.1%
12-mth	-22.1%	-2.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. China Lilang (1234 HK, BUY) – Likely bottomed out, with decent yield - 21 Mar 2022
2. China Lilang (1234 HK, BUY) – A transition year but with attractive yield - 24 Aug 2021
3. China Lilang (1234 HK, BUY) – A prudent retail sales target but attractive yield - 19 Mar 2021

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,611	4,036	4,442	3,922	4,335	4,700	-7.9%	-6.9%	-5.5%
Gross profit	1,634	1,894	2,145	1,818	2,063	2,264	-10.2%	-8.2%	-5.3%
EBIT	642	785	924	737	870	1,024	-12.8%	-9.8%	-9.8%
Net profit att.	539	636	744	615	702	822	-12.4%	-9.5%	-9.5%
Diluted EPS (RMB)	0.449	0.529	0.618	0.513	0.585	0.683	-12.4%	-9.5%	-9.5%
Gross margin	45.2%	46.9%	48.3%	46.4%	47.6%	48.2%	-1.1ppt	-0.7ppt	0.1ppt
EBIT margin	17.8%	19.4%	20.8%	18.8%	20.1%	21.8%	-1ppt	-0.6ppt	-1ppt
Net profit att. margin	14.9%	15.8%	16.7%	15.7%	16.2%	17.5%	-0.8ppt	-0.5ppt	-0.7ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,611	4,036	4,442	3,786	4,216	4,678	-4.6%	-4.3%	-5.0%
Gross profit	1,634	1,894	2,145	1,718	1,949	2,195	-4.9%	-2.8%	-2.3%
EBIT	642	785	924	793	934	1,030	-19.0%	-16.0%	-10.3%
Net profit att.	539	636	744	654	770	803	-17.6%	-17.4%	-7.4%
Diluted EPS (RMB)	0.449	0.529	0.618	0.535	0.623	0.687	-16.0%	-15.0%	-10.0%
Gross margin	45.2%	46.9%	48.3%	45.4%	46.2%	46.9%	-0.1ppt	0.7ppt	1.4ppt
EBIT margin	17.8%	19.4%	20.8%	20.9%	22.1%	22.0%	-3.2ppt	-2.7ppt	-1.2ppt
Net profit att. margin	14.9%	15.8%	16.7%	17.3%	18.3%	17.2%	-2.4ppt	-2.5ppt	-0.4ppt

Source: Company data, CMBIGM estimates

Valuation

Figure 3: Peers' valuation

			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 Apparel														
China Lilang	1234 HK	BUY	4.46	3.85	16%	4,610	Dec-21	7.1	6.0	1.0	0.9	12.2	0.4	10.5
Bosideng Int'l	3998 HK	BUY	5.89	4.50	31%	48,990	Mar-22	16.9	14.3	3.2	2.9	17.7	1.0	4.3
Jnby Design	3306 HK	BUY	14.51	7.22	101%	3,745	Jun-21	5.4	4.6	1.8	1.6	37.1	0.8	13.2
Cosmo Lady	2298 HK	NR	n/a	0.21	n/a	468	Dec-21	9.0	3.0	0.2	0.2	(23.2)	0.0	0.0
Giordano	709 HK	NR	n/a	1.86	n/a	2,938	Dec-21	14.3	10.9	n/a	n/a	9.7	0.8	n/a
Koradior	3709 HK	NR	n/a	10.70	n/a	7,533	Dec-21	8.9	7.9	1.5	1.3	15.3	0.6	5.1
Esprit Holdings	330 HK	NR	n/a	1.58	n/a	4,473	Dec-21	n/a	n/a	n/a	n/a	9.7	0.0	n/a
La Chapelle	6116 HK	NR	n/a	0.28	n/a	153	Dec-21	n/a	n/a	n/a	n/a	n/a	0.0	n/a
Bauhaus Intl	483 HK	NR	n/a	0.86	n/a	316	Mar-22	n/a	n/a	n/a	n/a	44.8	0.0	n/a
Avg.								10.3	7.8	1.5	1.4	15.4	0.4	6.6
Med.								8.9	7.0	1.5	1.3	13.7	0.4	5.1
A-shares Apparel														
Ningbo Peacebird	603877 CH	NR	n/a	19.09	n/a	10,473	Dec-21	11.7	9.7	1.9	1.7	15.5	0.8	4.2
Joeone Co Ltd	601566 CH	NR	n/a	8.10	n/a	5,357	Dec-21	19.5	12.6	1.2	1.1	0.9	0.7	5.3
Fujian Septwolves	002029 CH	NR	n/a	5.42	n/a	4,713	Dec-21	12.6	11.5	n/a	n/a	3.5	0.0	n/a
Hla Corp Ltd	600398 CH	NR	n/a	4.45	n/a	22,121	Dec-21	7.1	6.2	1.2	1.1	15.7	0.7	7.9
Jiangsu Hongdou	600400 CH	NR	n/a	6.05	n/a	16,035	Dec-21	128.7	100.8	4.2	4.1	1.7	4.2	n/a
Lancy Co Ltd	002612 CH	NR	n/a	30.24	n/a	15,398	Dec-21	93.3	56.9	4.4	4.1	3.5	5.8	0.6
Shenzhen Huijie	002763 CH	NR	n/a	8.34	n/a	3,934	Dec-21	n/a	n/a	n/a	n/a	12.4	0.0	n/a
Ellassay Fashion	603808 CH	NR	n/a	8.97	n/a	3,810	Dec-21	10.4	8.1	1.1	1.0	9.9	0.8	2.6
Bobaolon Co	002776 CH	NR	n/a	2.58	n/a	1,597	Dec-21	n/a	n/a	n/a	n/a	(135.0)	0.0	n/a
Avg.								40.5	29.4	2.3	2.2	(8.0)	1.4	4.1
Med.								12.6	11.5	1.6	1.4	3.5	0.7	4.2
International Apparel														
Hugo Boss	BOSS GR	NR	n/a	56.96	n/a	31,576	Dec-21	20.1	17.1	3.7	3.2	23.1	1.0	2.0
Ted Baker	TED LN	NR	n/a	108.60	n/a	1,860	Jan-22	n/a	108.6	n/a	n/a	(26.1)	0.0	n/a
Next	NXT LN	NR	n/a	6164.00	n/a	73,924	Jan-22	11.2	11.4	6.7	5.6	81.1	(7.7)	3.3
Hennes & Mauritz	HMB SS	NR	n/a	127.48	n/a	155,703	Nov-21	18.5	15.7	3.6	3.5	23.6	3.7	5.3
Industria De Diseno	ITX SM	NR	n/a	24.78	n/a	608,133	Jan-22	20.0	18.6	4.7	4.6	24.7	3.3	4.5
Ovs Spa	OVS IM	NR	n/a	1.63	n/a	3,732	Jan-22	7.5	6.5	0.5	0.4	5.8	0.5	2.9
Pvh Corp	PVH US	NR	n/a	67.50	n/a	35,463	Jan-22	7.8	6.8	0.8	0.7	19.5	17.9	0.1
Vf Corp	VFC US	NR	n/a	45.55	n/a	138,842	Apr-22	14.9	13.4	4.6	4.3	30.4	7.7	4.4
Marks & Spencer	MKS LN	NR	n/a	131.30	n/a	23,926	Apr-22	8.0	8.0	0.9	0.9	11.8	18.7	4.6
Avg.								13.5	22.9	3.2	2.9	21.5	5.0	3.4
Med.								13.1	13.4	3.7	3.3	23.1	3.3	3.9

Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 4: China Lilang's key assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
Sales by segment (RMB mn)					
LILANZ	2,198	2,737	2,905	3,238	3,557
Smart Casual	483	642	706	798	886
Total	2,681	3,379	3,611	4,036	4,442
Sales by segment growth (%)					
LILANZ	-32.6%	24.6%	6.1%	11.5%	9.8%
Smart Casual	21.3%	32.9%	10.0%	13.0%	11.0%
Total	-26.7%	26.1%	6.9%	11.8%	10.1%
Sales network by segment					
LILANZ	2,466	2,443	2,433	2,513	2,593
Smart Casual	295	290	307	317	327
Total	2,761	2,733	2,740	2,830	2,920
Sales network by segment growth (%)					
LILANZ	-2.3%	-0.9%	-0.4%	3.3%	3.2%
Smart Casual	1.7%	-1.7%	5.9%	3.3%	3.2%
Total	-1.9%	-1.0%	0.3%	3.3%	3.2%
Trade fair sales growth (%)					
Spring Summer	-40.0%	20.0%	3.5%	10.0%	0.0%
Fall	-10.0%	15.0%	5.0%	10.0%	0.0%
Winter	-5.0%	10.0%	5.0%	10.0%	0.0%
GP margins by segment	44.9%	41.9%	45.2%	46.9%	48.3%
Opex breakdown					
Staff costs	2.1%	3.3%	3.6%	3.5%	3.4%
D & A	1.1%	3.0%	3.5%	3.7%	3.8%
R & D	4.5%	3.8%	4.3%	4.5%	4.5%
Provision (write back)	0.0%	0.0%	0.0%	0.0%	0.0%
A & P	10.3%	8.9%	9.0%	9.5%	10.0%
Selling & distribution costs / sales	18.3%	23.5%	23.1%	22.9%	22.9%
Admin expenses / sales	4.0%	5.1%	5.8%	5.7%	5.7%
OP margins	24.3%	15.8%	17.8%	19.4%	20.8%
Effective tax rate	19.8%	16.6%	19.0%	21.0%	21.0%
NP att. margins	20.8%	13.9%	14.9%	15.8%	16.7%
NP att. growth (%)	-31.4%	-16.0%	15.1%	18.0%	17.0%

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,681	3,379	3,611	4,036	4,442
LILANZ	2,198	2,737	2,905	3,238	3,557
L2	-	-	-	-	-
Smart Casual	483	642	706	798	886
Cost of goods sold	(1,477)	(1,964)	(1,977)	(2,143)	(2,298)
Gross profit	1,204	1,415	1,634	1,894	2,145
Other income	106	89	58	65	80
Operating expenses	(658)	(971)	(1,049)	(1,174)	(1,301)
D & A	(22)	(52)	(80)	(88)	(76)
Staff costs	(62)	(81)	(86)	(88)	(94)
S & D costs (ex-staff,	(452)	(743)	(778)	(869)	(958)
Admin exp. (ex-staff,	(63)	(91)	(98)	(113)	(146)
Other operating	(58)	(5)	(7)	(16)	(27)
EBIT	651	533	642	785	924
Finance costs, net	43	28	23	20	18
JVs & associates	-	-	-	-	-
Exceptional	-	-	-	-	-
Pre-tax profit	695	561	665	805	942
Income tax	(138)	(93)	(126)	(169)	(198)
Less: Minority interests	0	0	0	0	0
Net profit	557	468	539	636	744

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	651	533	642	785	924
D & A	31	100	158	174	150
Change in working capital	175	(69)	(152)	(118)	(113)
Income tax paid	(155)	(100)	(126)	(169)	(198)
Others	71	135	31	29	26
Net cash from operating	773	599	553	700	789
Capex & investments	(225)	(302)	(323)	(361)	(397)
Associated companies	-	-	-	-	-
Interest received	45	34	-	-	-
Others	(11)	(12)	-	-	-
Net cash from investing	(191)	(280)	(323)	(361)	(397)
Equity raised	-	-	-	-	-
Net change in bank loans	-	73	-	-	-
Dividend paid	(521)	(446)	(372)	(443)	(521)
Others	(69)	(109)	(8)	(8)	(8)
Net cash from financing	(590)	(483)	(380)	(451)	(529)
Net change in cash	(8)	(164)	(150)	(112)	(137)
Beginning cash balance	1,751	1,739	1,572	1,422	1,309
Exchange difference	(4)	(3)	-	-	-
Cash at the end of the year	1,739	1,572	1,422	1,309	1,172

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,394	1,735	1,900	2,086	2,334
Fixed asset	924	1,200	1,367	1,555	1,804
Intangible assets &	130	126	124	122	120
Prepaid lease payments	3	21	21	21	21
Interest in joint ventures	-	-	-	-	-
Other non-current assets	337	389	389	389	389
Current assets	3,618	3,273	3,280	3,360	3,404
Cash and cash equivalents	1,739	1,572	1,422	1,309	1,172
Inventories	667	894	758	822	881
Trade and other	1,210	795	1,088	1,216	1,339
Prepayments	-	-	-	-	-
Other current assets	2	12	12	12	12
Current liabilities	1,288	1,261	1,267	1,340	1,409
Bank loans	37	119	119	119	119
Trade payables	1,036	870	876	949	1,018
Accruals & other payables	-	-	-	-	-
Tax payables	152	175	175	175	175
Others	62	98	98	98	98
Non-current liabilities	70	73	73	73	73
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	8	9	9	9	9
Others	62	64	64	64	64
Minority Interest	-	-	-	-	-
Total net assets	3,654	3,673	3,840	4,033	4,256
Shareholders' equity	3,654	3,673	3,840	4,033	4,256

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
LILANZ	82.0	81.0	80.4	80.2	80.1
L2	-	-	-	-	-
Smart Casual	18.0	19.0	19.6	19.8	19.9
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	44.9	41.9	45.2	46.9	48.3
Operating margin	24.3	15.8	17.8	19.4	20.8
Pre-tax margin	25.9	16.6	18.4	19.9	21.2
Net margin	20.8	13.9	14.9	15.8	16.7
Effective tax rate	19.8	16.6	19.0	21.0	21.0
Balance sheet ratios					
Current ratio (x)	2.8	2.6	2.6	2.5	2.4
Quick ratio (x)	2.3	1.9	2.0	1.9	1.8
Cash ratio (x)	1.4	1.2	1.1	1.0	0.8
Inventory turnover days	165	166	140	140	140
Trade receivables days	165	86	110	110	110
Trade payables days	256	162	162	162	162
Total debt / total equity ratio (%)	3	6	6	5	5
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	15.3	12.7	14.0	15.8	17.5
ROA	11.1	9.3	10.4	11.7	13.0
Per share					
EPS (RMB)	0.47	0.39	0.45	0.53	0.62
DPS (RMB)	0.38	0.28	0.34	0.40	0.46
BVPS (RMB)	3.05	3.07	3.20	3.35	3.53

Source: Company data, CMBIGM estimates

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