

# Li Ning (2331 HK)

## Guidance maintained but we are conservative

3Q22 results were roughly inline with the already low market expectation. While management is still confident about 4Q22 and keeps the FY22E guidance, we are relatively more conservative due to industry-level competition. We reiterate BUY but cut our TP to HK\$73.08, based on a 29x FY23E P/E (vs 32x due to sector de-rating). Its current valuation of 21x FY23E P/E is not too demanding.

- 3Q22 roughly inline with slight QoQ increase in inventory and retail discounts.** Li Ning reported mid-teens retail YoY sales growth in 3Q22 (direct retail/ wholesale/ e-commerce increased by low-20s/ low-teens/ mid-20s), roughly inline with the already conservative market expectation. Also, the faster direct retail growth was driven by more store opening and Li Ning Young (Kid)'s YoY growth was highly impressive at around 50%. For retail discounts, while it is still increasing slightly in 3Q22 (vs 2Q22) or by LSD ppt (vs 3Q21), the gap is already smaller (vs 2Q22). For inventory to sales ratio, it also climbed slightly to 4+ months, compared to 3.6 months in 1H22, but the mix is still healthy (6 months or below improved) and was partly due to preparation for 10-1 golden week, according to management.
- Management is still confident about 4Q22E and kept their FY22E guidance, but we are somewhat more conservative.** Management has reiterated their FY22E listed co level guidance (high-teens to low-20s sales growth and high-teens net profit margin) and is also positive on 4Q22E. However, we are somewhat more conservative, because: 1) retail sales growth was still fairly moderate, at 15%+ in Sep and ~15% during the 10-1 golden week, even though the bases are much lower than Jul and Aug 2022; 2) retail discounts could still increase QoQ vs 3Q22E, given both inventory pressure from the Company and industry prospective.
- Still too early to place a FY23E guidance but we think it could be mixed.** While management is still confident about the 2025 target, they are still formulating their FY23E guidance. We believe it could be a bit mixed, considering the following positive factors: 1) distributors are still optimistic and placing decent orders during trade fairs, 2) ASP could still be increasing (In fact, ASP hike can still more than offset the increasing retail discounts in 3Q22), 3) likely to have more efforts on costs savings AND negative factors: 1) guidance is likely to reflect more of the currently soft economic conditions, 2) China Li Ning and Li Ning 1990 are still undergoing adjustments.
- Maintain BUY but revised down TP to HK\$ 73.08.** We maintain BUY and cut TP to HK\$ 73.08, based on a 29x FY23E P/E (from 32x FY22E P/E to factor in the sector de-rating). Current valuation is at 21x FY23E P/E, which is not too demanding, in our view, vs 5-year average of 30x.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	14,457	22,572	26,910	31,350	35,802
YoY growth (%)	4.2	56.1	19.2	16.5	14.2
Net income (RMB mn)	1,698	4,011	4,752	5,514	6,585
EPS (RMB)	0.68	1.58	1.83	2.09	2.50
YoY growth (%)	12.5	133.6	16.1	14.0	19.4
Consensus EPS (RMB)	n/a	n/a	1.83	2.28	2.80
P/E (x)	65.9	27.8	24.0	21.0	17.6
P/B (x)	12.6	8.9	6.9	5.4	4.3
Yield (%)	0.5	1.1	1.3	1.5	1.8
ROE (%)	19.5	32.9	30.2	27.8	26.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$73.08
(Previous TP)	HK\$80.64)
Up/Downside	+38.0%
Current Price	HK\$52.95

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#### Stock Data

Mkt Cap (HK\$ mn)	138,757
Avg 3 mths t/o (HK\$ mn)	720.54
52w High/Low (HK\$)	98.0/ 48.6
Total Issued Shares (mn)	2,620.5

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	-12.8%	-3.3%
3-mth	-17.0%	2.3%
6-mth	-11.5%	12.6%
12-mth	-35.4%	-2.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PricewaterhouseCoopers

#### Related Reports

- Li Ning (2331 HK, BUY) – Guidance maintained with healthy inventory - 15 Aug 2022
- Li Ning (2331 HK, BUY) – A resilient 1Q22 but we are prudent on 2Q22E - 20 Apr 2022

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	26,910	31,350	35,802	26,910	31,350	35,802	0.0%	0.0%	0.0%
Gross profit	13,673	16,019	18,359	13,673	16,019	18,359	0.0%	0.0%	0.0%
EBIT	5,776	6,717	7,766	5,776	6,717	7,766	0.0%	0.0%	0.0%
Net profit att.	4,752	5,514	6,585	4,752	5,514	6,585	0.0%	0.0%	0.0%
Diluted EPS (RMB)	1.83	2.09	2.50	1.83	2.09	2.50	0.0%	0.0%	0.0%
Gross margin	50.8%	51.1%	51.3%	50.8%	51.1%	51.3%	0ppt	0ppt	0ppt
EBIT margin	21.5%	21.4%	21.7%	21.5%	21.4%	21.7%	0ppt	0ppt	0ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.7%	17.6%	18.4%	0ppt	0ppt	0ppt

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	26,910	31,350	35,802	27,142	32,960	39,440	-0.9%	-4.9%	-9.2%
Gross profit	13,673	16,019	18,359	13,846	17,213	20,738	-1.2%	-6.9%	-11.5%
EBIT	5,776	6,717	7,766	5,830	7,444	9,141	-0.9%	-9.8%	-15.0%
Net profit att.	4,752	5,514	6,585	4,741	5,945	7,283	0.2%	-7.2%	-9.6%
Diluted EPS (RMB)	1.83	2.09	2.50	1.83	2.28	2.80	0.3%	-8.1%	-10.9%
Gross margin	50.8%	51.1%	51.3%	51.0%	52.2%	52.6%	-0.2ppt	-1.1ppt	-1.3ppt
EBIT margin	21.5%	21.4%	21.7%	21.5%	22.6%	23.2%	0ppt	-1.2ppt	-1.5ppt
Net profit att. margin	17.7%	17.6%	18.4%	17.5%	18.0%	18.5%	0.2ppt	-0.4ppt	-0.1ppt

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 3: Historical sales growth trend, by brand

Operating numbers	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	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%	-8.0%	-20.0%	-13.0%	5.0%
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%	-35.0%	-35.0%	-20.0%	-5.0%
<b>Anta brand's SSSG</b>																
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	+ve High-teens	-ve MSD	+ve MSD	8.0%
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	+ve Mid-teens	-ve Low-teens	+ve LSD	
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	20%-25%	+ve LSD	+ve HSD	
Online	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	
<b>Non-Anta brands (FILA   65%-70% 55%-60%)</b>																
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	+ve MSD	-ve HSD	+ve Low-teens	11.0%	
Classic/ Core brand	Over 40%		Over 40%	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD		
Kids	Over 70%		Over 70%	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD		
Fusion	Over 100%		Over 100%	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD		
Online	Over 70%		Over 70%	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%		
<b>Other brands</b>																
Descente		Over 100%	Over 90%	50%	50%	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%
Kolon		15%	20%	20%	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	
<b>Li Ning group's SSSG</b>																
Li Ning group's retail sales	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-twenties	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	
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 Mid 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	
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	+ve Low-teens	-ve High-teens	+ve HSD	
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%	+ve Mid 20%	+ve LSD	+ve Low-teens	
<b>Li Ning group's retail sales</b>																
Li Ning group's retail sales	+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%	+ve High 20%	-ve HSD	+ve Mid-teens	15.0%
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%	+ve Mid 30%	-ve HSD	+ve Low 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%	+ve Low 20%	-ve HSD	+ve Low-teens	
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%	+ve Mid 30%	+ve MSD	+ve Mid 20%	
<b>Xtep's SSSG</b>																
Xtep's retail sales	+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%	30%-35%	+ve Mid-teens	20%-25%	14.0%
<b>361 Degrees' SSSG</b>																
361 Degree's retail sales	+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	+ve High-teens	+ve Low-teens	+ve Mid-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%	-25.0%	-24.1%	-8.0%	0.0%
<b>Topsports' retail sales</b>																
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	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens		
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	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-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)

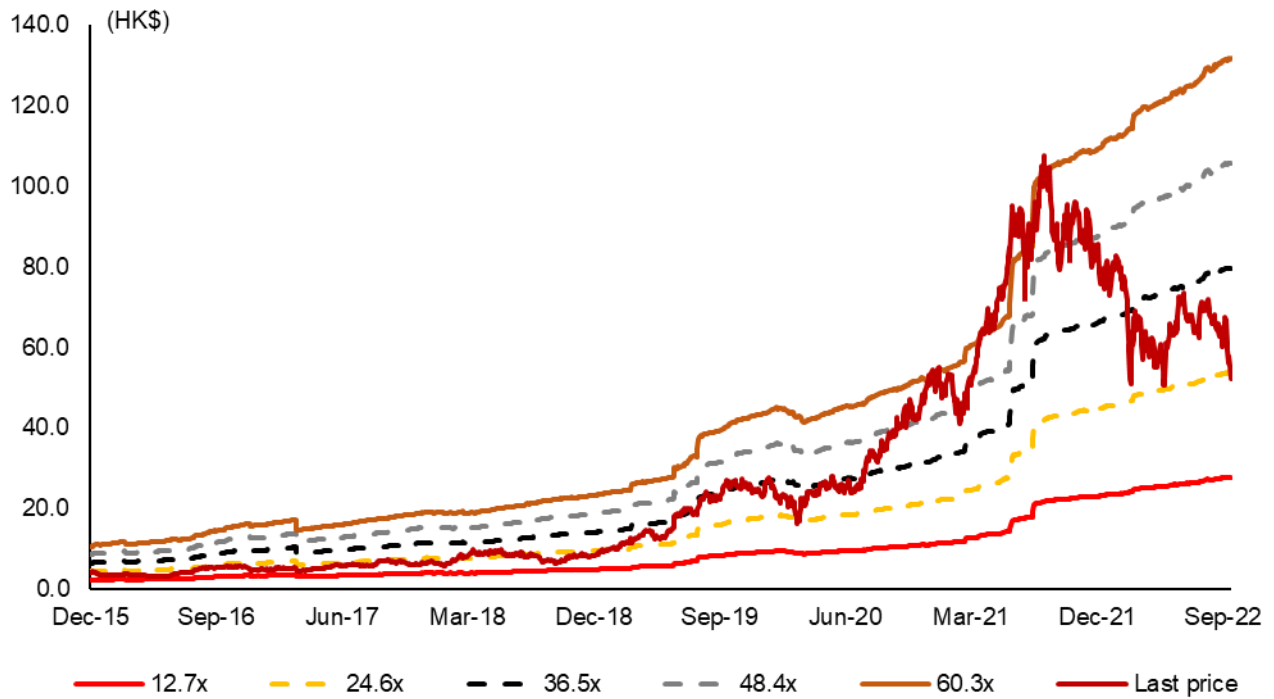
## Valuation

Figure 4: 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	
<b>H shares Sportswear</b>															
Li Ning	2331 HK	BUY	73.08	52.95	38%	138,757	Dec-21	24.0	21.0	6.9	5.4	32.9	1.5	1.2	
Anta Sports	2020 HK	BUY	115.47	76.20	52%	206,778	Dec-21	23.3	18.6	5.4	4.5	25.5	1.8	1.9	
Xtep Intl	1368 HK	BUY	17.04	7.62	124%	20,078	Dec-21	16.5	13.8	2.1	1.9	13.5	1.0	3.3	
361 Degrees	1361 HK	NR	n/a	3.34	n/a	6,906	Dec-21	8.4	7.2	0.8	0.7	10.3	0.6	3.5	
Topsports	6110 HK	NR	n/a	5.40	n/a	33,487	Feb-22	11.8	9.8	2.7	2.4	24.1	1.3	5.9	
Pou Sheng	3813 HK	NR	n/a	0.45	n/a	2,370	Dec-21	9.1	3.2	0.3	0.2	(3.2)	0.3	2.9	
China DX	3818 HK	NR	n/a	0.30	n/a	1,737	Mar-22	n/a	3.4	0.2	0.2	(16.7)	0.0	7.4	
								<b>Avg.</b>	<b>15.5</b>	<b>11.0</b>	<b>2.6</b>	<b>2.2</b>	<b>12.4</b>	<b>0.9</b>	<b>3.7</b>
								<b>Med.</b>	<b>14.2</b>	<b>9.8</b>	<b>2.1</b>	<b>1.9</b>	<b>13.5</b>	<b>1.0</b>	<b>3.3</b>
<b>International Sportswear</b>															
Nike Inc	NKE US	NR	n/a	88.57	n/a	1,087,779	May-22	29.3	23.0	9.0	8.2	37.4	4.4	1.4	
Adidas	ADS GY	NR	n/a	115.68	n/a	170,268	Dec-21	17.5	14.7	3.3	3.1	29.5	(2.1)	2.6	
Puma	PUM GY	NR	n/a	46.81	n/a	54,095	Dec-21	18.3	16.1	2.9	2.6	16.0	1.3	1.8	
Under Armour	UAA US	NR	n/a	6.92	n/a	23,319	Mar-23	13.7	9.8	1.6	1.4	n/a	0.6	0.0	
Lululemon	LULU US	NR	n/a	296.87	n/a	297,133	Jan-22	29.7	25.8	11.1	8.3	39.9	1.4	0.0	
Skechers	SKX US	NR	n/a	35.70	n/a	43,642	Dec-21	13.5	10.6	1.5	1.3	23.3	(3.0)	0.0	
Vf Corp	VFC US	NR	n/a	28.45	n/a	86,760	Apr-22	11.0	9.7	3.1	3.0	30.4	(8.8)	7.2	
Columbia	COLM US	NR	n/a	72.68	n/a	35,424	Dec-21	14.1	12.6	2.3	2.0	18.5	1.9	1.6	
Wolverine	WWW US	NR	n/a	16.10	n/a	9,951	Jan-22	7.3	6.5	1.9	1.5	18.4	0.1	2.7	
Mizuno Corp	8022 JP	NR	n/a	2593.00	n/a	3,611	Mar-22	10.2	9.0	0.6	0.6	7.6	(2.6)	2.3	
Asics Corp	7936 JP	NR	n/a	2378.00	n/a	23,655	Dec-21	23.9	19.8	2.8	2.6	6.4	0.9	1.3	
								<b>Avg.</b>	<b>17.1</b>	<b>14.3</b>	<b>3.6</b>	<b>3.1</b>	<b>22.7</b>	<b>(0.5)</b>	<b>1.9</b>
								<b>Med.</b>	<b>14.1</b>	<b>12.6</b>	<b>2.8</b>	<b>2.6</b>	<b>20.9</b>	<b>0.6</b>	<b>1.6</b>

Source: Bloomberg, CMBIGM estimates

**Figure 5: P/E valuation band**



Source: Bloomberg, CMBIGM estimates

## Assumptions

Figure 6: Major assumptions

Major assumptions	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales by segment (RMB mn)</b>					
Shoes	6,338	9,506	12,537	15,006	17,261
Clothes	7,365	11,824	13,006	14,827	16,903
Equipment	754	1,242	1,367	1,517	1,638
Others	0	0	0	0	0
Total	14,457	22,572	26,910	31,350	35,802
<b>Sales by segment growth (%)</b>					
Shoes	4.2%	50.0%	31.9%	19.7%	15.0%
Clothes	3.6%	60.5%	10.0%	14.0%	14.0%
Equipment	11.7%	64.9%	10.0%	11.0%	8.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales by channel growth (%)</b>					
Franchises	0.9%	56.7%	18.0%	15.0%	13.0%
Self-owned	-9.8%	53.5%	15.0%	17.0%	15.0%
E-commerce	29.7%	58.4%	25.0%	19.0%	16.0%
International	-16.7%	34.9%	10.0%	5.0%	0.0%
Total	4.2%	56.1%	19.2%	16.5%	14.2%
<b>Sales network by segment</b>					
Self-owned	1,149	1,165	1,310	1,350	1,380
Franchise	4,763	4,770	4,775	4,805	4,835
Sub-total	5,912	5,935	6,085	6,155	6,215
LN Young	1,021	1,202	1,277	1,377	1,457
Total	6,933	7,137	7,362	7,532	7,672
GP margins	49.1%	53.0%	50.8%	51.1%	51.3%
<b>Opex breakdown</b>					
A & P/ sales	8.9%	7.9%	8.2%	8.4%	8.6%
Labour/ sales	9.1%	8.0%	7.7%	7.8%	7.5%
Rental/ sales	6.3%	5.1%	5.2%	5.1%	4.9%
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%	27.1%	27.5%	27.4%
Admin expenses / sales	5.6%	4.9%	4.8%	4.7%	4.6%
<b>OP margins</b>	<b>15.2%</b>	<b>22.8%</b>	<b>21.5%</b>	<b>21.4%</b>	<b>21.7%</b>
Effective tax rate	24.4%	24.7%	23.0%	22.0%	20.0%
<b>Net profit margins</b>	<b>11.7%</b>	<b>17.8%</b>	<b>17.7%</b>	<b>17.6%</b>	<b>18.4%</b>
<b>Net profit att. growth (%)</b>	<b>13.3%</b>	<b>136.1%</b>	<b>18.5%</b>	<b>16.0%</b>	<b>19.4%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>14,457</b>	<b>22,572</b>	<b>26,910</b>	<b>31,350</b>	<b>35,802</b>	<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>
Franchises	6,924	10,853	12,806	14,727	16,642	D & A	576	630	747	894	1,045
Self-owned	3,265	5,010	5,762	6,742	7,753	Change in working capital	142	948	227	390	391
E-commerce	4,049	6,413	8,016	9,539	11,065	Income tax paid	(589)	(549)	(1,317)	(1,419)	(1,555)
International	220	296	326	342	342	Others	439	-	-	-	-
<b>Cost of goods sold</b>	<b>(7,363)</b>	<b>(10,603)</b>	<b>(13,237)</b>	<b>(15,331)</b>	<b>(17,443)</b>	<b>Net cash from operating</b>	<b>2,763</b>	<b>6,165</b>	<b>5,433</b>	<b>6,582</b>	<b>7,646</b>
<b>Gross profit</b>	<b>7,094</b>	<b>11,969</b>	<b>13,673</b>	<b>16,019</b>	<b>18,359</b>	Capex & investments	(594)	(1,016)	(1,076)	(1,254)	(1,432)
<b>Other income</b>	<b>331</b>	<b>416</b>	<b>686</b>	<b>768</b>	<b>841</b>	Associated companies	(53)	-	-	-	-
<b>Operating expenses</b>	<b>(5,230)</b>	<b>(7,249)</b>	<b>(8,583)</b>	<b>(10,069)</b>	<b>(11,435)</b>	Interest received	31	97	99	115	131
D & A	(576)	(630)	(565)	(690)	(788)	Others	(376)	(9)	153	42	78
Staff costs	(1,311)	(1,812)	(2,067)	(2,447)	(2,694)	<b>Net cash from investing</b>	<b>(992)</b>	<b>(927)</b>	<b>(825)</b>	<b>(1,097)</b>	<b>(1,223)</b>
S & D costs (ex-staff, D&A)	(3,449)	(4,783)	(5,737)	(6,746)	(7,739)	Equity raised	189	-	-	-	-
Admin exp. (ex-staff, D&A)	106	(24)	(214)	(186)	(214)	Net change in bank loans	-	-	-	-	-
Other operating expenses	-	-	-	-	-	Dividend paid	(378)	(510)	(1,203)	(1,398)	(1,593)
<b>EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,776</b>	<b>6,717</b>	<b>7,766</b>	Others	(325)	(112)	(103)	(92)	(72)
Finance costs, net	(32)	33	234	164	250	<b>Net cash from financing</b>	<b>(513)</b>	<b>(622)</b>	<b>(1,306)</b>	<b>(1,490)</b>	<b>(1,665)</b>
JVs & associates	83	159	161	188	215	<b>Net change in cash</b>	<b>1,258</b>	<b>4,616</b>	<b>3,302</b>	<b>3,995</b>	<b>4,758</b>
Exceptional	-	-	-	-	-	Beginning cash balance	5,961	7,187	11,803	15,105	19,100
<b>Pre-tax profit</b>	<b>2,248</b>	<b>5,328</b>	<b>6,171</b>	<b>7,070</b>	<b>8,231</b>	Exchange difference	(33)	-	-	-	-
Income tax	(549)	(1,317)	(1,419)	(1,555)	(1,646)	<b>Cash at the end of the year</b>	<b>7,187</b>	<b>11,803</b>	<b>15,105</b>	<b>19,100</b>	<b>23,858</b>
Less: Minority interests	0	0	0	0	0						
<b>Net profit</b>	<b>1,698</b>	<b>4,011</b>	<b>4,752</b>	<b>5,514</b>	<b>6,585</b>						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>4,817</b>	<b>5,419</b>	<b>5,994</b>	<b>6,642</b>	<b>7,356</b>	<b>Sales mix (%)</b>					
Fixed asset	1,065	1,502	1,873	2,269	2,683	Franchises	47.9	48.1	47.6	47.0	46.5
Intangible assets & goodwill	357	460	602	780	996	Self-owned	22.6	22.2	21.4	21.5	21.7
Prepaid lease payments	384	384	384	384	384	E-commerce	28.0	28.4	29.8	30.4	30.9
Interest in joint ventures	-	62	125	198	281	International	1.5	1.3	1.2	1.1	1.0
Other non-current assets	3,011	3,011	3,011	3,011	3,011	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>9,777</b>	<b>15,241</b>	<b>19,475</b>	<b>24,176</b>	<b>29,644</b>	<b>P&amp;L ratios (%)</b>					
Cash and cash equivalents	7,187	11,803	15,105	19,100	23,858	Gross margin	49.1	53.0	50.8	51.1	51.3
Inventories	1,346	1,598	2,176	2,520	2,867	Operating margin	15.2	22.8	21.5	21.4	21.7
Trade and other receivables	659	928	1,106	1,288	1,471	Pre-tax margin	15.5	23.6	22.9	22.6	23.0
Prepayments	584	912	1,087	1,267	1,446	Net margin	11.7	17.8	17.7	17.6	18.4
Other current assets	1	1	1	1	1	Effective tax rate	25.4	25.5	23.6	22.6	20.5
<b>Current liabilities</b>	<b>5,015</b>	<b>7,580</b>	<b>8,841</b>	<b>10,073</b>	<b>11,264</b>	<b>Balance sheet ratios</b>					
Bank loans	-	-	-	-	-	Current ratio (x)	1.9	2.0	2.2	2.4	2.6
Trade payables	1,227	1,598	1,995	2,310	2,628	Quick ratio (x)	1.7	1.8	2.0	2.1	2.4
Accruals & other payables	2,540	3,967	4,729	5,509	6,291	Cash ratio (x)	1.4	1.6	1.7	1.9	2.1
Tax payables	592	1,360	1,462	1,598	1,689	Inventory turnover days	67	55	60	60	60
Others	656	656	656	656	656	Trade receivables days	17	15	15	15	15
<b>Non-current liabilities</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>	<b>889</b>	Trade payables days	61	55	55	55	55
Bank loans	-	-	-	-	-	Total debt / total equity ratio (%)	1	1	1	1	0
Deferred income	-	-	-	-	-	Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax	64	64	64	64	64	<b>Returns (%)</b>					
Others	825	825	825	825	825	ROE	19.5	32.9	30.2	27.8	26.5
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	ROA	11.6	19.4	18.7	17.9	17.8
<b>Total net assets</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>8,689</b>	<b>12,191</b>	<b>15,739</b>	<b>19,856</b>	<b>24,847</b>	EPS (RMB)	0.68	1.58	1.83	2.09	2.50
						DPS (RMB)	0.21	0.49	0.57	0.65	0.77
						BVPS (RMB)	3.54	4.96	6.41	8.08	10.1

Source: Company data, CMBIGM estimates

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