

Operating quality to drive earnings growth

Rating	BUY	Maintain
Target price	HK\$29.40	
Current price	HK\$21.25	Upside: +38.4%

■ FY23 results met expectations

Li Ning (LN) FY23 results on 20th Mar with revenue and net profit of RMB27.6bn (+7% YoY) and RMB3,187mn (-21.6% YoY) respectively. And they declared a final dividend of RMB19cents, implying dividend payout ratio reached 45% (FY22: 30%). We joined their post result presentation, management provided a conservative guidance, with sales growth target at ~5% and NPM at 12-13% in FY24.

■ FY23 results highlights:

- GPM was flattish as deeper online channel retail discount offset the followings:
 1. +0.4 ppt from DTC mix reached 25.0% (vs. 20.7% in FY22)
 2. +0.2 ppt from retail discount improvement in DTC
 3. +0.2ppt from operating efficiency enhancement
- 3-month new product discount down to 20% (vs. 22-23% in FY22), with improved sell-out rate at 78% (vs. 52% in FY22)
- OPM contracted by 6.0ppt mainly due to S&D to sales ratio up 4.6ppt to 32.9%
- Channel inventory down to 3.6 months (vs. 3.8/4.2 months in Jun23/Dec22)
- Cash conversion cycle extended 5 days to 35 days, while operating cash flow reached 4.7bn, up 20% YoY

■ FY24 targets and operational improvement plans:

- Management targets 5% YoY topline growth and steady online sales growth despite low base, while NPM at 12-13% in FY24. And they will continue to focus on business quality improvement through active orders control to distributors
- Latest offline discount see contraction despite retail sell-through remain flattish
- For store optimization plan, they expect DTC/China LN net closure of >20/~30, while franchised/LN Young/LN 1990 net opening at ~100/150/5-10
- The leased assets and store related PPE impairment (RMB323m in FY23) will depend on the foot traffic and store productivity in FY24, we foresee gradual write back along with sales efficiency improvement starting from 2H24
- New measures have been taking effect on unauthorized sales activities which discovered in FY23, 28 core footwear SKUs (equiv. to ~45% of new products) has been controlled in 1Q24, and they are targeting 50-60%/100% by 2Q/4Q24

■ Maintain “BUY” with TP at HK\$29.4 based on 20.0x FY24E P/E

LN's share price has dropped ~58% since mid-2023 due to unauthorized sales issue and lower consumption sentiment. Our estimate on LN's FY24E/25E/26E revenue and earnings at RMB29.3bn/31.3bn/34.6bn and RMB3.52bn/4.10bn/4.92bn respectively, corresponding to 15.7x/13.5x FY24E/25E P/E. We maintain “BUY” rating on LN with TP at HK\$29.4 based on 20.0x FY24E P/E, equivalent to 1s.d. below 5-year average P/E, as their operational quality improvement initiatives have been taking effect. We believe it is likely to drive NPM towards 15% in mid-to-long term supported by healthy inventory level and well-planned store network.

Company update

22 Mar 2024

Hugo Suen

hugo.suen@cinda.com.hk

(852) 2235 7617

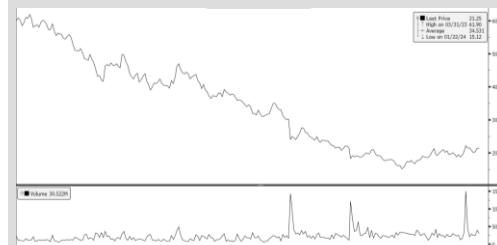
Trading data

52-Week Range (HK\$)	14.94/65.0
3 Mth Avg Daily Vol (m)	19.0
No of Shares (m)	2,584.48
Market Cap (HK\$m)	54,920
Major Shareholders (%)	Viva China (10.3)
Auditors	PWC
Result Due	1H24E: Aug 2024

Company description

Established in 1989, Li Ning is one of the leading sportswear brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes under the **LI-NING**, **China LI-NING** and **LI-LING YOUNG** brand. As of Dec23, Li Ning's retail network comprises of 7,668.

Price chart



Source: Bloomberg

Exhibit 1: LN's FY23 and 2H23 results snapshot

	2H23	YoYΔ	FY23	YoYΔ
Revenue (RMB'm)	13,580	1.4%	27,598	7.0%
Gross profit (RMB'm)	6,513	3.6%	13,352	6.9%
GPM (%)	48.0	1.0ppt	48.4	0.0ppt
Operating profit (RMB'm)	1,084	-51.8%	3,559	-27.2%
OPM (%)	8.0	-8.8ppt	12.9	-6.0ppt
Net profit (RMB'm)	1,066	-43.4%	3,187	-21.6%
NPM (%)	7.8	-6.2ppt	11.5	-4.2ppt
*Adj. Net profit (RMB'm)	1,790	-5.5%	4,298	-8.6%
*Adj. NPM (%)	13.2	-1.0ppt	15.6	-14.5%
Basic EPS (RMB'cents)	41.2	-42.8%	123.2	-20.7%

*excluding non-operational one-off profit and loss

Source: Company data, CIRL

Exhibit 2: Li Ning's Quarterly SSS and Sell-through YoY growth

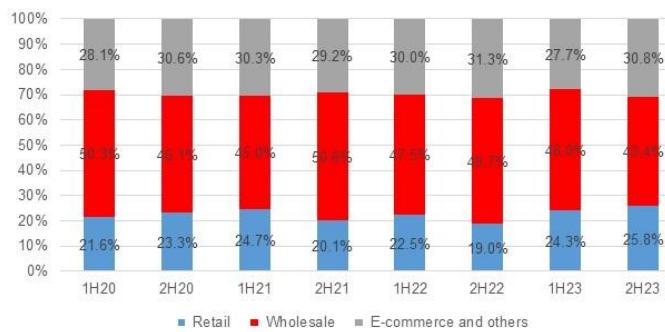
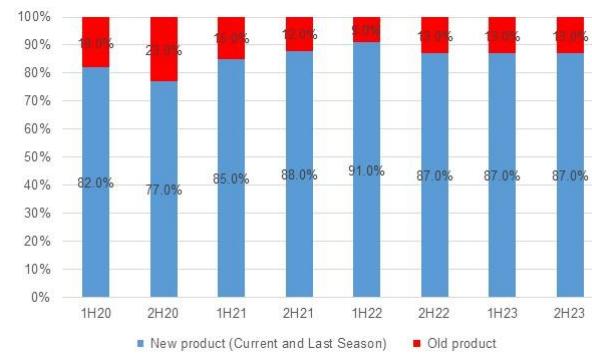
Quarterly SSS YoY	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Directly operated stores	-	92.0%	32.0%	25.0%	25.0%	-18.0%	5.0%	-28.0%	-2.0%	8.0%	5.0%	38.0%
Franchised stores	-	72.0%	25.0%	18.0%	12.0%	-18.0%	8.0%	-22.0%	-2.0%	2.0%	-12.0%	5.0%
Overall Offline	-	77.0%	25.0%	22.0%	15.0%	-18.0%	6.0%	-25.0%	-2.0%	2.0%	5.0%	15.0%
Online	88.0%	88.0%	35.0%	28.0%	35.0%	2.0%	15.0%	-2.0%	-25.0%	2.0%	-2.0%	5.0%
Overall SSS	-	82.0%	28.0%	22.0%	22.0%	-12.0%	8.0%	-18.0%	-8.0%	2.0%	-5.0%	12.0%
Quarterly Sell-through YoY	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Directly operated stores	92.0%	88.0%	35.0%	28.0%	35.0%	-8.0%	22.0%	-15.0%	15.0%	28.0%	22.0%	52.0%
Franchised stores	81.0%	93.0%	38.0%	28.0%	22.0%	-8.0%	12.0%	-22.0%	5.0%	15.0%	2.0%	18.0%
Overall Offline	83.0%	91.0%	38.0%	28.0%	25.0%	-8.0%	15.0%	-18.0%	8.0%	18.0%	8.0%	28.0%
Online	100.0%	98.0%	55.0%	42.0%	35.0%	-5.0%	25.0%	-5.0%	12.0%	12.0%	-2.0%	5.0%
Overall Sell-through	88.0%	92.0%	42.0%	58.0%	28.0%	-7.0%	15.0%	-12.0%	5.0%	15.0%	5.0%	12.0%

Source: Company data, CIRL

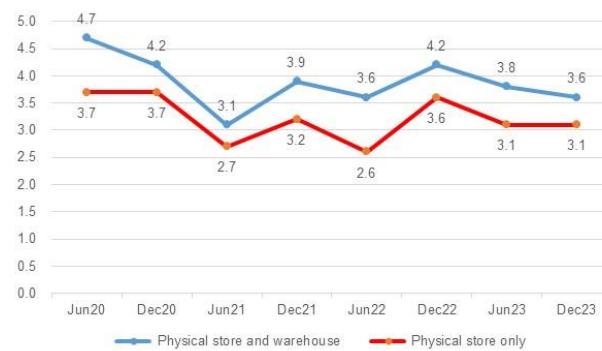
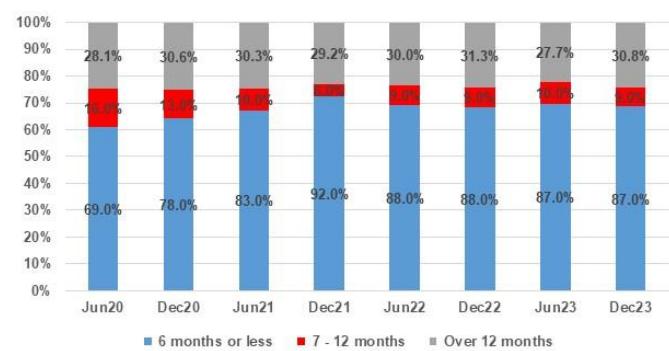
Exhibit 3: LI-NING's store count and changes

Store changes	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Total stores count	6,799	6,745	6,940	7,137	7,007	7,112	7,341	7,603	7,459	7,448	7,664	7,668
Li-Ning Brand	5,784	5,704	5,803	5,935	5,872	5,937	6,103	6,295	6,206	6,167	6,294	6,240
Franchised stores	4,659	4,616	4,707	4,770	4,695	4,870	4,857	4,865	4,756	4,744	4,686	4,742
Directly operated stores	1,125	1,088	1,096	1,165	1,177	1,067	1,246	1,430	1,450	1,423	1,480	1,498
Li-Ning Young	1,015	1,041	1,137	1,202	1,135	1,175	1,238	1,308	1,253	1,281	1,370	1,428
Stores changes	(134)	(54)	195	197	(130)	105	229	262	(144)	(11)	216	4
Li-Ning Brand	(128)	(80)	99	132	(63)	65	166	192	(89)	(39)	127	(54)
Franchised stores	(104)	(43)	91	63	(75)	175	(13)	8	(109)	(12)	(58)	56
Directly operated stores	(24)	(37)	8	69	12	(110)	179	184	20	(27)	57	18
Li-Ning Young	(6)	26	96	65	(67)	40	63	70	(55)	28	89	58
% change (QoQ)	-1.9%	-0.8%	2.9%	2.8%	-1.8%	1.5%	3.2%	3.6%	-1.9%	-0.1%	2.9%	0.1%
Li-Ning Brand	-2.2%	-1.4%	1.7%	2.3%	-1.1%	1.1%	2.8%	3.1%	-1.4%	-0.6%	2.1%	-0.9%
Franchised stores	-2.2%	-0.9%	2.0%	1.3%	-1.6%	3.7%	-0.3%	0.2%	-2.2%	-0.3%	-1.2%	1.2%
Directly operated stores	-2.1%	-3.3%	0.7%	6.3%	1.0%	-9.3%	16.8%	14.8%	1.4%	-1.9%	4.0%	1.2%
Li-Ning Young	-0.6%	2.6%	9.2%	5.7%	-5.6%	3.5%	5.4%	5.7%	-4.2%	2.2%	6.9%	4.2%
% of Li-Ning stores												
Franchised stores	80.5%	80.9%	81.1%	80.4%	80.0%	82.0%	79.6%	77.3%	76.6%	76.9%	74.5%	76.0%
Directly operated stores	19.5%	19.1%	18.9%	19.6%	20.0%	18.0%	20.4%	22.7%	23.4%	23.1%	23.5%	24.0%

Source: The Company, CIRL

Exhibit 4: Li Ning's revenue mix by channel

Exhibit 5: Li Ning's Sell-through mix by category


Source: The Company, CIRL

Exhibit 6: Channel inventory level (months)

Exhibit 7: Channel inventory mix


Source: The Company, CIRL

Exhibit 8: Financial Summary

Year ended 31 Dec	2022	2023	2024E	2025E	2026E	Year ended 31 Dec	2022	2023	2024E	2025E	2026E
Income Statement (RMBm)											
Turnover	25,803	27,598	29,254	31,302	34,589	Ratios					
YoY%	14.3	7.0	6.0	7.0	10.5	Gross margin (%)	48.4	48.4	49.4	50.4	51.4
COGS	(13,319)	(14,246)	(14,809)	(15,532)	(16,817)	Operating margin (%)	19.0	13.0	12.9	13.9	15.0
Gross profit	12,485	13,352	14,446	15,770	17,772	Net margin (%)	15.8	11.6	12.0	13.1	14.2
Gross margin	48.4%	48.4%	49.4%	50.4%	51.4%	Selling & dist'n exp/Sales (%)	19.5	23.9	24.0	23.9	23.8
Other income	829	543	569	594	617	Admin exp/Sales (%)	4.2	4.5	4.4	4.6	4.6
Selling & distribution	(5,035)	(6,584)	(7,021)	(7,481)	(8,232)	Payout ratio (%)	32.9	37.5	44.8	44.8	44.8
A&P	(2,279)	(2,496)	(2,925)	(3,099)	(3,390)	Effective tax (%)	24.8	25.0	23.6	23.2	22.6
Admin	(1,089)	(1,237)	(1,287)	(1,440)	(1,591)						
Total opex	(7,574)	(9,773)	(10,665)	(11,426)	(12,596)						
Operating profit (EBIT)	4,911	3,579	3,781	4,344	5,175						
Operating margin	19.0%	13.0%	12.9%	13.9%	15.0%						
Finance costs	327	319	330	347	358						
Profit after financing costs	5,238	3,898	4,111	4,691	5,533						
Share of Profit/(Loss) of investments	201	378	491	639	830						
Pre-tax profit	5,439	4,276	4,602	5,330	6,364						
Tax	(1351)	(1069)	(1084)	(1235)	(1437)						
Minority interests	0	(0)	0	0	0						
Net profit	4,088	3,207	3,518	4,095	4,927						
YoY%	1.5	(21.6)	9.7	16.4	20.3						
Net margin	15.8%	11.6%	12.0%	13.1%	14.2%						
EBITDA	6,280	5,392	6,001	6,926	8,162						
EBITDA margin	24.3%	19.5%	20.5%	22.1%	23.6%						
EPS (RMB Cents)	155.4	123.2	136.0	158.3	190.5						
YoY%	-2.9	-20.7	10.4	16.4	20.3						
DPS (HK Cents)	55.5	50.2	66.2	77.0	92.7						
Year ended 31 Dec											
Cash Flow (RMBm)											
Net Profit	5,415	4,256	4,602	5,330	6,364	Year ended 31 Dec	2022	2023	2024E	2025E	2026E
Depreciation & Amortization	1,393	1,833	2,220	2,582	2,987	Balance Sheet (RMBm)					
Chg in working cap	(975)	(45)	(189)	90	(315)	PP&E	3,235	4,124	4,743	5,217	5,634
Others	(603)	(287)	(450)	(447)	(395)	Net intangibles	2,398	2,560	2,887	3,138	3,359
Operating cash	5,230	5,757	6,183	7,555	8,642	Total investments	1,802	1,560	1,593	1,629	1,668
Tax	(1316)	(1069)	(1084)	(1235)	(1437)	Other long-term assets	3,112	12,311	13,338	14,551	15,184
Net cash from operating activities	3,914	4,688	5,099	6,320	7,205	Non-current assets	21,252	20,555	22,560	24,535	25,845
Capex	(1,757)	(1,100)	(1,150)	(1,200)	(1,250)	Cash	7,382	5,444	8,732	12,920	18,413
Purchase of intangible assets	(74)	(50)	(50)	(50)	(50)	Inventories	2,428	2,493	2,515	2,596	2,718
Others	(7,651)	(1,299)	(637)	(128)	267	Account receivables	1,021	1,206	1,282	1,458	1,706
Net cash from investing activities	(9,481)	(2,449)	(1,837)	(1,378)	(1,033)	Other current assets	1,564	4,510	4,510	4,510	4,510
FCF	(5,568)	2,239	3,262	4,942	6,172	Current assets	12,396	13,654	17,040	21,484	27,347
Dividends paid	0	(1,416)	(1,576)	(1,834)	(2,207)	Account payables	1,584	1,790	1,699	2,045	2,101
Others	(1,887)	(1,937)	738	1,080	1,528	Other current liabilities	5,656	5,479	8,125	10,863	13,973
Net cash from financing activities	(1,887)	(3,353)	(838)	(754)	(679)	Current liabilities	7,241	7,268	9,824	12,908	16,074
Net change in cash	(7,455)	(1,114)	2,424	4,188	5,493	Lease liabilities	1,474	1,825	2,190	2,628	3,154
Adj	93	40	0	0	0	Other long-term liabilities	600	707	833	983	1,164
Opening cash	14,745	7,382	6,308	8,732	12,920	Non-current liabilities	2,074	2,533	3,023	3,612	4,318
Closing cash	7,382	6,308	8,732	12,920	18,413	Retained earnings	10,897	13,011	14,953	17,213	19,933
CFPS (RMB)	(2.83)	(0.43)	0.93	1.61	2.11	Others	13,433	11,396	11,800	12,285	12,867
Net change in cash	(7,455)	(1,114)	2,424	4,188	5,493	Shareholders' equity	24,329	24,407	26,753	29,498	32,800
Adj	93	40	0	0	0	Minority interest	2	0	0	0	0
Opening cash	14,745	7,382	6,308	8,732	12,920	Total Equity	24,332	24,407	26,753	29,498	32,800

Source: Company, CIRL estimates

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
Sector Rating	Sell	Underperform HSI by -15%
	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

Analysts List

Hayman Chiu	Research Director	(852) 2235 7677	hayman.chiu@cinda.com.hk
Lewis Pang	Associate Director	(852) 2235 7847	lewis.pang@cinda.com.hk
Edith Li	Senior Research Analyst	(852) 2235 7515	edith.li@cinda.com.hk
Hugo Suen	Senior Research Analyst	(852) 2235 7617	hugo.suen@cinda.com.hk
Tracy Chan	Senior Research Analyst	(852) 2235 7170	Tracy.chan@cinda.com.hk

Analyst Certification

I, Hugo Suen hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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