

Li Ning (2331 HK)

We see long-term value but short-term risks

In the short run, we are still quite cautious about Li Ning in 2H24E, because of: 1) risks of greater retail discounts or promotion, 2) risks of trade fair orders adjustments, 3) unfavorable channel mix and operating deleverage and 4) relatively fixed opex. However, from the long run prospective, we can still see the value in Li Ning, esp. when we consider its ex-cash FY24E P/E, which is only at 5-6x (excluding the net cash of RMB 17.6bn, in fact, we can also adjust for its RMB2.0-3.0bn worth of property investment in HK & SH). Maintain BUY but trim our TP to HK\$ 16.18, based on 12x FY24E P/E (cut from 15x, to factor in the industry de-rating). It is trading at 10x FY24E P/E.

■ **Even though the FY24E guidance was revised down, we still see some risks and pressure.** Management pointed out that the retail sales were weak and fell by HSD in Jul to mid-Aug 2024 (the completion rate is obviously below 100%), and therefore they have decided to revise down the FY24E guidance to LSD sales growth (cut from MSD) and a low-teen net profit margin (maintained). However, from our point of view, we are still quite cautious about 2H24E. On sales, we are cutting our retail sales growth forecasts in 3Q24E/ 4Q24E to -4%/ +6% (from +3%/ +13%) because the recovery rate (vs 2019) continued to weaken and the value for money product strategy was not too effective (sales mix of product priced between RMB 300-600 did increase from 56% to 62%, but the overall retail was growth was still at negative). Moreover, since the top priority right now is to preserve the healthiness of the Company (that includes keeping the inventory to sales ratio at about 4x in 2H24E), under such a weak retail sales growth environment, we believe the risks of potential trade fair orders adjustment and increases in retail discounts in 2H24E have become much higher, this would likely translate into lower sales or GP margin. On top of these, we believe there is still certain pressure on OP margins, because of: 1) unfavorable channel mix (direct retail could continue to outperform just because of sales growth in outlets), 2) operating deleverage (SSSG in the regular stores for both wholesale/ direct-retail channel could still be falling), 3) limited improvement in rental expenses (we do see some room for rental costs reductions as the shopping mall vacancy increases, but Li Ning may not benefit too much as it is already enjoying the low rent since the launch of China Li Ning in 2018 and XJ cotton incident in 2021), and 4) relatively fixed opex (D&A expenses could still increase YoY in 2H24E and so as the A&P expenses, due to the advertising around the 2024 Paris Olympics).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	25,803	27,598	28,162	30,195	32,722
YoY growth (%)	14.3	7.0	2.0	7.2	8.4
Operating profit (RMB mn)	4,886.8	3,559.1	3,659.0	4,037.2	4,557.6
Net profit (RMB mn)	4,063.8	3,187.0	3,103.5	3,419.4	3,843.3
EPS (Reported) (RMB)	1.54	1.23	1.19	1.32	1.48
YoY growth (%)	(2.3)	(20.5)	(2.6)	10.2	12.4
P/E (x)	7.8	9.8	10.1	9.2	8.1
P/B (x)	1.3	1.3	1.2	1.1	1.0
Yield (%)	3.9	4.5	4.4	4.9	5.5
ROE (%)	17.9	13.1	12.3	12.6	13.2
Net gearing (%)	30.9	34.1	36.0	39.3	43.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$16.18**

(Previous TP) **HK\$22.17**

Up/Downside **23.5%**

Current Price **HK\$13.10**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	34,276.8
Avg 3 mths t/o (HK\$ mn)	427.3
52w High/Low (HK\$)	40.75/13.10
Total Issued Shares (mn)	2616.5

Source: FactSet

Shareholding Structure

Viva China Holdings	10.4%
GIC Pte Ltd.	5.0%

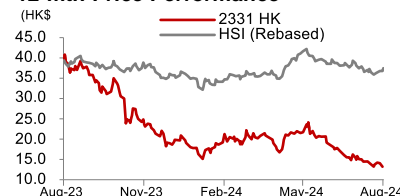
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.2%	-10.7%
3-mth	-39.6%	-32.9%
6-mth	-38.4%	-42.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **Maintain BUY but trim TP to HK\$ 16.18, based on 12x FY24E P/E (cut from 15x).** We have revised down our FY24E/ 25E/ 26E net profit by 9%/ 12%/ 13%, to factor in: 1) weaker-than-expected retail sales growth, 2) less-than-expected improvement in retail discounts, 3) less operating leverage, 4) higher A&P expenses and 5) some potential impairment losses. The stock is now trading at 10x FY24E P/E and 9x FY25E P/E. Considering the 5x-6x ex-cash P/E, plus our long-term positive view, we still have a BUY rating on Li Ning.
- **1H24 results beat on GP margin and dividends.** Li Ning's sales grew by 2% YoY to RMB 14.35bn, inline with CMBI/ BBG est., while net profit dropped by 7% YoY to RMB 1.96bn, beating CMBI/ BBG est. by 7%/ 17%, mostly thanks to the better-than-expected GP margin expansion (+1.7ppt to 50.4% vs CMBI est. of 49.5%), but slightly offset by higher-than-expected admin costs and tax. However, the OP margin has still decreased slightly to 16.8%, from 17.7% in 1H23, largely due to changes in channel mix (wholesale business has dropped the most while it has the highest OP margin). Noted that the DPS has actually increased by 4% YoY to RMB 0.3775 (from RMB 0.3620 in 1H23), thanks to buyback of shares and increased payout ratio to 50% (from 45% last year).
- **Online growth was the fastest while direct retail continued to outperform wholesale.** In terms of channel, sales growth for e-commerce/ direct-retail/ wholesale were 11%/ 3%/ -2% in 1H24. We believe that the direct retail growth was mainly driven by robust performance in the outlet channel. In terms of categories, sales growth for running/ fitness/ sports casual/ basketball were at 25%/ 7%/ -7%/ -20%, all had slowed down from the 40%/ 25%/ flat/ flat in FY23.
- **But the retail sales growth was a miss and inventory condition has worsened.** The Company also reported a LSD retail sales decline, which is actually a miss vs CMBI est. of LSD increases. The drop was a mixture of LSD increase in ASP (tag price was flattish) and MSD decrease in volume. We attributed this to the weaker-than-expected macro, rising competition, lack of popular new products and ineffective marketing. Although the condition of channel inventory is still very healthy, where the retail sale to inventory ratio was at 3.9x in 1H24, vs 3.6x in 2H23 and 3.8x in 1H23, we have become slightly worried as the new product inventory mix has just started to fall to 83% in 1H24, vs 87% in 2H23 and also 87% in 1H23.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	28,162	30,195	32,722	29,523	32,070	34,931	-4.6%	-5.8%	-6.3%
Gross profit	13,805	14,849	16,237	14,485	15,920	17,481	-4.7%	-6.7%	-7.1%
EBIT	3,659	4,098	4,623	4,165	4,764	5,358	-12.1%	-14.0%	-13.7%
Net profit att.	3,103	3,466	3,895	3,402	3,938	4,484	-8.8%	-12.0%	-13.1%
Diluted EPS (RMB)	1.19	1.33	1.50	1.31	1.52	1.73	-8.8%	-12.0%	-13.1%
Gross margin	49.0%	49.2%	49.6%	49.1%	49.6%	50.0%	0ppt	-0.5ppt	-0.4ppt
EBIT margin	13.0%	13.6%	14.1%	14.1%	14.9%	15.3%	-1.1ppt	-1.3ppt	-1.2ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.5%	12.3%	12.8%	-0.5ppt	-0.8ppt	-0.9ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	28,162	30,195	32,722	28,919	31,304	33,848	-2.6%	-3.5%	-3.3%
Gross profit	13,805	14,849	16,237	14,142	15,395	16,769	-2.4%	-3.6%	-3.2%
EBIT	3,659	4,098	4,623	3,822	4,359	4,865	-4.3%	-6.0%	-5.0%
Net profit att.	3,103	3,466	3,895	3,361	3,783	4,240	-7.7%	-8.4%	-8.1%
Diluted EPS (RMB)	1.19	1.33	1.50	1.31	1.47	1.66	-8.7%	-9.4%	-9.5%
Gross margin	49.0%	49.2%	49.6%	48.9%	49.2%	49.5%	0.1ppt	0ppt	0.1ppt
EBIT margin	13.0%	13.6%	14.1%	13.2%	13.9%	14.4%	-0.2ppt	-0.4ppt	-0.2ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.6%	12.1%	12.5%	-0.6ppt	-0.6ppt	-0.6ppt

Source: Company data, CMBIGM estimates

Results review

Figure 3: Results summary – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24E	1H23 YoY	2H23 YoY	1H24 YoY	2H24E YoY	1H24E CMBIG M	Actual vs CMBIGM
Revenue	14,019	13,580	14,345	13,817	13%	1%	2%	2%	14,381	0%
COGS	-7,181	-7,065	-7,110	-7,247					-7,256	
Gross profit	6,838	6,514	7,236	6,569	10%	4%	6%	1%	7,125	2%
GP margins	48.8%	48.0%	50.4%	47.5%					49.5%	
Other income & gains	176	368	184	367					187	-2%
S & D expenses	-3,948	-5,132	-4,327	-5,091	17%	31%	10%	-1%	-4,366	-1%
S & D exp / sales	-28.2%	-37.8%	-30.2%	-36.9%					-30.4%	
Admin expenses	-591	-665	-680	-598	14%	12%	15%	-10%	-652	4%
Admin exp / sales	-4.2%	-4.9%	-4.7%	-4.3%					-4.5%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,474	1,085	2,412	1,247	-6%	-52%	-3%	15%	2,293	5%
OP margins	17.7%	8.0%	16.8%	9.0%					15.9%	
Other items	0	0	0	0					0	
Net finance income	224	95	100	99					72	40%
Net finance income / sales	1.6%	0.7%	0.7%	0.7%					0.5%	
Profit after financing costs	2,698	1,180	2,513	1,346					2,365	
Associated coms	0	0	0	0					0	
Jointly controlled coms	102	276	111	114					72	54%
Pre-tax profit	2,800	1,456	2,623	1,460	-4%	-42%	-6%	0%	2,437	8%
Tax	-680	-390	-661	-319					-609	9%
Tax / sales	-4.8%	-2.9%	-4.6%	-2.3%					-4.2%	
Effective tax rate	-24.3%	-26.8%	-25.2%	-21.8%					-25.0%	
Minority interests	0	0	0	0					0	
Net profit att.	2,121	1,066	1,962	1,141	-3%	-43%	-7%	7%	1,827	7%
NP margins	15.1%	7.9%	13.7%	8.3%					12.7%	
Sales by channels										
Franchises	6,724	5,904	6,590	5,785	14%	-11%	-2%	-2%	6,556	1%
Self-owned	3,410	3,498	3,503	3,543	22%	38%	3%	1%	3,580	-2%
E-commerce	3,595	3,936	4,004	4,205	2%	0%	11%	7%	3,955	1%
International	290	242	248	283	56%	-10%	-14%	17%	290	-14%
Total	14,019	13,580	14,345	13,817	13%	1%	2%	2%	14,381	0%
Breakdown by segment										
A & P	-1,042	-1,454	-1,249	-1,455	6%	12%	20%	0%	-1,294	-4%
Labour	-1,161	-1,231	-1,217	-1,247	27%	14%	5%	1%	-1,150	6%
Rent	-948	-983	-966	-969	37%	30%	2%	-1%	-978	-1%
D & A	-455	-616	-501	-857	23%	49%	10%	39%	-575	-13%
R & D	-291	-327	-317	-314	22%	11%	9%	-4%	-302	5%
Others	-632	-862	-687	-777	-11%	26%	9%	-10%	-719	-4%
As % of total sales										
A & P	-7.4%	-10.7%	-8.7%	-10.5%					-9.0%	
Labour	-8.3%	-9.1%	-8.5%	-9.0%					-8.0%	
Rent	-6.8%	-7.2%	-6.7%	-7.0%					-6.8%	
D & A	-3.2%	-4.5%	-3.5%	-6.2%					-4.0%	
R & D	-2.1%	-2.4%	-2.2%	-2.3%					-2.1%	
Others	-4.5%	-6.3%	-4.8%	-5.6%					-5.0%	

Source: Company data, CMBIGM estimates

Figure 4: Results summary - Full Year

Full yearly (RMB mn)	FY23	FY24E	FY25E	FY24E YoY	FY25E YoY
Revenue	27,598	28,162	30,195	2%	7%
COGS	-14,246	-14,357	-15,347		
Gross profit	13,352	13,805	14,849	3%	8%
GP margins	48.4%	49.0%	49.2%		
Other income & gains	543	551	591		
S & D expenses	-9,080	-9,418	-10,009	4%	6%
S & D exp / sales	-32.9%	-33.4%	-33.1%		
Admin expenses	-1,256	-1,279	-1,333	2%	4%
Admin exp / sales	-4.6%	-4.5%	-4.4%		
Other opex	0	0	0		
Operating profit (EBIT)	3,559	3,659	4,098	3%	12%
OP margins	12.9%	13.0%	13.6%		
Other items	0	0	0		
Net finance income	319	199	222		
Net finance income / sales	1.2%	0.7%	0.7%		
Profit after financing costs	3,878	3,858	4,320		
Associated coms	0	0	0		
Jointly controlled coms	378	225	242		
Pre-tax profit	4,256	4,084	4,561	-4%	12%
Tax	-1,069	-980	-1,095		
Tax / sales	-3.9%	-3.5%	-3.6%		
Effective tax rate	-25.1%	-24.0%	-24.0%		
Minority interests	0	0	0		
Net profit att.	3,187	3,103	3,466	-3%	12%
NP margins	11.5%	11.0%	11.5%		
Sales by channels					
Franchises	12,628	12,375	13,118	-2%	6%
Self-owned	6,907	7,046	7,680	2%	9%
E-commerce	7,531	8,209	8,866	9%	8%
International	532	532	532	0%	0%
Total	27,598	28,162	30,195	2%	7%
Breakdown by segment					
A & P	-2,496	-2,704	-2,869	8%	6%
Labour	-2,392	-2,464	-2,654	3%	8%
Rent	-1,930	-1,935	-2,053	0%	6%
D & A	-1,071	-1,358	-1,611	27%	19%
R & D	-618	-631	-676	2%	7%
Others	-1,494	-1,464	-1,480	-2%	1%
As % of total sales					
A & P	-9.0%	-9.6%	-9.5%		
Labour	-8.7%	-8.8%	-8.8%		
Rent	-7.0%	-6.9%	-6.8%		
D & A	-3.9%	-4.8%	-5.3%		
R & D	-2.2%	-2.2%	-2.2%		
Others	-5.4%	-5.2%	-4.9%		

Source: Company data, CMBIGM estimates

Operating numbers

Figure 5: Historical sales growth trend, by brand

Operating numbers	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E
Nike China sales	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%	6%	7%	-5%	-3%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	11%	13%
Anta brand's SSSG																
Anta brand's retail sales	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	+ve MSD	+ve HSD	+ve HSD	+ve High-teens	+ve MSD	+ve HSD	12%	15%
Core brand	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens	+ve HSD	+ve HSD	+ve HSD	25%-30%	+ve LSD	+ve LSD		
Kids	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	30%-35%	Flat	-ve LSD		
Online	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	+ve MSD	20%-25%	20%-25%		
FILA brand's retail sales																
FILA brand's retail sales	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	+ve Low-teens	25%-30%	+ve HSD	+ve MSD	10%	15%
Classic/ Core brand	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	40%-45%	+ve MSD	+ve HSD		
Kids	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD	+ve HSD	30%-35%	-ve LSD	-ve LSD		
Fusion	150%	Over 80%	+ve Mid-teens	+ve Mid-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	20%-25%	-ve MSD	+ve MSD		
Online	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	+ve Mid-teens	20%	20%		
Other brands																
Other brands	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%	55%-60%	25%-30%	40%-45%		
Descente	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	+ve Low-teens	70%-75%	60%-65%	40%-45%	50%-55%	20-25%	35%-40%		
Kolon	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	+ve High-teens	100%	100%	60%-65%	65%-70%	50%	60%		
Li Ning group's SSSG																
Li Ning group's retail sales	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens	-ve HSD	+ve LSD	-ve MSD	+ve Low-teens	-ve MSD	-ve HSD		
Direct retail	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD	+ve MSD	+ve High 30%	-ve LSD	-ve MSD		
Wholesales	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD	-ve Low-teens	+ve MSD	-ve Mid-teens	-ve High-teens		
E- Commerce	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD	-ve LSD	+ve MSD	+ve Low 20%	+ve Low-teens		
Li Ning group's retail sales																
Li Ning group's retail sales	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve High 30%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	+ve Mid-teens	+ve MSD	+ve Low 20%	+ve LSD	-ve LSD	-4%	6%
Direct retail	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%	+ve Low 20%	+ve Low 50%	+ve MSD	Flat		
Wholesales	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	-ve Low 20%	+ve MSD	+ve Mid-teens	+ve LSD	+ve High-teens	-ve MSD	-ve HSD		
E- Commerce	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	+ve MSD	-ve Low-teens	+ve Low-teens	-ve LSD	+ve MSD	+ve Low 20%	+ve HSD		
Xtep brand's SSSG																
Xtep brand's retail sales	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%-35%	+ve HSD	10%	10%	16%
361 Degree brand's SSSG																
361 Degree brand's offli	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	Flat	+ve Low-teens	+ve Low-teens	15.0%	20.0%	+ve High-teens	10.0%	13%	12%
Kids	20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	40%	20%-25%	+ve Mid-teens		
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%		
Pou Sheng's SSSG																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%			
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-6%	2%
Topsports' retail sales																
Topsports' retail sales			-ve 20%-25%	-ve High-teens	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low-20%	-ve LSD	+ve Low-teens	+ve LSD	-ve MSD	-3%	0%
Dong Xiang's SSSG																
Dong Xiang's SSSG	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid SD	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens	+ve Low to Mid SD	25% to 30%	-ve HSD	-ve MSD		
Dong Xiang's retail sale	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens	+ve LSD	-ve Mid 20% to 30%	+ve Low to Mid-teens	+ve Mid-teens	+ve MSD	Mid 40% to 50%	-ve Low 10% to 20%	-ve LSD to MSD		
Direct retail	70%-75%															
E- Commerce	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)

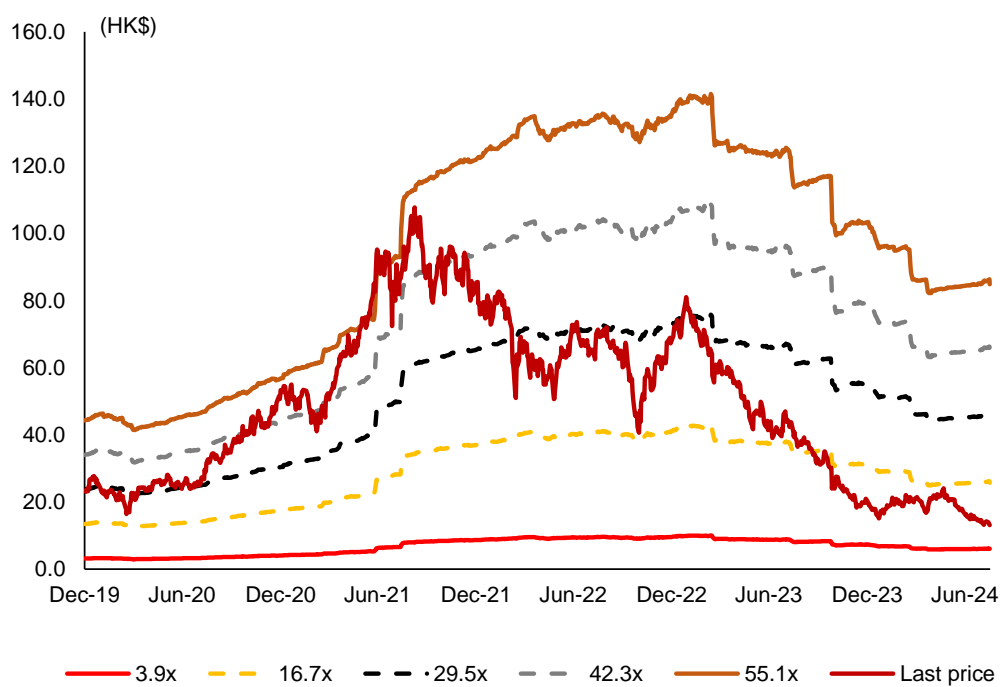
Valuation

Figure 6: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. (%)	
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY0	FY1E	FY1E	FY1E	
H shares Sportswear															
Li Ning	2331 HK	BUY	16.18	13.10	24%	33,857	Dec-23	9.5	9.7	1.2	16.7	(2.0)	4.6	(36.7)	
Anta Sports	2020 HK	BUY	101.38	68.10	49%	192,902	Dec-23	13.8	12.6	2.9	23.8	0.9	3.8	(10.1)	
Xtep Intl	1368 HK	BUY	7.32	4.75	54%	12,561	Dec-23	9.5	8.3	1.2	12.0	0.7	5.2	7.7	
361 Degrees	1361 HK	BUY	5.15	3.58	44%	7,402	Dec-23	6.1	5.2	0.7	11.5	0.5	4.9	3.2	
Topsports	6110 HK	BUY	6.78	3.02	125%	18,728	Feb-24	7.4	6.7	1.7	22.5	0.9	12.4	(48.1)	
Pou Sheng	3813 HK	NR	n/a	0.62	n/a	3,302	Dec-23	5.2	4.4	0.3	6.0	0.3	10.4	(8.8)	
China DX	3818 HK	NR	n/a	0.29	n/a	1,707	Mar-24	n/a	16.6	0.2	(6.8)	0.0	7.5	1.8	
								Avg.	8.6	9.1	1.2	12.3	0.2	7.0	(13.0)
								Med.	8.4	8.3	1.2	12.0	0.5	5.2	(8.8)
International Sportswear															
Nike Inc	NKE US	NR	n/a	83.23	n/a	972,888	May-24	26.7	23.2	8.7	40.1	11.5	1.8	(23.3)	
Adidas	ADS GY	NR	n/a	217.00	n/a	335,089	Dec-23	61.5	29.5	7.5	4.9	(0.2)	0.6	17.8	
Puma	PUM GY	NR	n/a	36.84	n/a	47,667	Dec-23	16.8	13.1	2.0	10.2	0.9	2.2	(27.1)	
Under Armour	UAA US	NR	n/a	8.00	n/a	26,722	Mar-24	35.4	21.9	1.8	(4.4)	(16.3)	0.0	(9.0)	
Lululemon	LULU US	NR	n/a	258.10	n/a	251,526	Jan-24	18.3	16.7	6.1	41.9	1.6	0.0	(49.5)	
Skechers	SKX US	NR	n/a	64.84	n/a	77,172	Dec-23	15.5	13.1	2.1	14.4	0.8	0.0	4.0	
On Holding	ONON US	NR	n/a	42.54	n/a	105,715	Dec-23	49.7	44.5	8.5	13.7	0.9	n/a	57.7	
Decker Outdoor	DECK US	NR	n/a	950.53	n/a	188,303	Mar-24	29.9	26.2	9.7	41.9	2.6	0.0	42.2	
Vf Corp	VFC US	NR	n/a	16.88	n/a	51,216	Mar-24	29.0	16.1	3.3	(57.0)	(0.2)	2.0	(10.2)	
Columbia	COLM US	NR	n/a	80.08	n/a	36,555	Dec-23	20.8	18.3	2.4	12.3	3.6	1.5	0.7	
Wolverine	WWW US	NR	n/a	13.11	n/a	8,178	Dec-23	15.6	10.4	3.3	(27.2)	(0.1)	3.3	47.5	
Mizuno Corp	8022 JP	NR	n/a	8440.00	n/a	11,816	Mar-24	14.6	13.5	1.4	10.7	2.4	1.5	114.8	
Asics Corp	7936 JP	NR	n/a	2622.00	n/a	104,898	Dec-23	31.8	27.9	9.5	22.9	1.1	1.5	137.4	
								Avg.	28.1	21.1	5.1	9.6	0.7	1.2	23.3
								Med.	26.7	18.3	3.3	12.3	0.9	1.5	4.0

Source: Bloomberg, CMBIGM estimates

Figure 7: Forward 12M P/E valuation band



Source: Bloomberg, CMBIGM estimates

Assumptions

Figure 8: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by segment (RMB mn)					
Shoes	13,479	13,389	13,875	15,074	16,462
Clothes	10,709	12,411	12,038	12,761	13,782
Equipment	1,616	1,799	2,248	2,361	2,479
Others	0	0	0	0	0
Total	25,803	27,598	28,162	30,195	32,722
Sales by segment growth (%)					
Shoes	41.8%	-0.7%	3.6%	8.6%	9.2%
Clothes	-9.4%	15.9%	-3.0%	6.0%	8.0%
Equipment	30.1%	11.3%	25.0%	5.0%	5.0%
Others	n/a	n/a	n/a	n/a	n/a
Total	14.3%	7.0%	2.0%	7.2%	8.4%
Sales by channel growth (%)					
Franchises	15.7%	0.6%	-2.0%	6.0%	8.0%
Self-owned	6.4%	29.6%	2.0%	9.0%	10.0%
E-commerce	16.4%	0.9%	9.0%	8.0%	8.0%
International	53.9%	16.6%	0.0%	0.0%	0.0%
Total	14.3%	7.0%	2.0%	7.2%	8.4%
Sales network by segment					
Self-owned	1,430	1,498	1,458	1,473	1,488
Franchise	4,865	4,742	4,827	4,912	4,997
Sub-total	6,295	6,240	6,285	6,385	6,485
LN Young	1,308	1,428	1,508	1,588	1,668
Total	7,603	7,668	7,793	7,973	8,153
GP margins	48.4%	48.4%	49.0%	49.2%	49.6%
Opex breakdown					
A & P/ sales	8.8%	9.0%	9.6%	9.5%	9.4%
Labour/ sales	7.7%	8.7%	8.8%	8.8%	8.7%
Rental/ sales	5.6%	7.0%	6.9%	6.8%	6.8%
D & A/ sales	3.0%	3.9%	4.8%	5.3%	5.6%
R & D/ sales	2.1%	2.2%	2.2%	2.2%	2.2%
Provision/ sales	0.0%	1.2%	0.5%	0.0%	0.0%
Selling & distribution costs / sales	28.3%	32.9%	33.4%	33.1%	33.1%
Admin expenses / sales	4.3%	4.6%	4.5%	4.4%	4.3%
OP margins	18.9%	12.9%	13.0%	13.6%	14.1%
Effective tax rate	25.0%	25.1%	24.0%	24.0%	24.0%
Net profit margins	15.7%	11.5%	11.0%	11.5%	11.9%
Net profit att. growth (%)	1.3%	-21.6%	-2.6%	11.7%	12.4%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	22,572	25,803	27,598	28,162	30,195	32,722
Cost of goods sold	(10,603)	(13,319)	(14,246)	(14,357)	(15,347)	(16,485)
Gross profit	11,969	12,485	13,352	13,805	14,849	16,237
Operating expenses	(7,249)	(8,428)	(10,336)	(10,697)	(11,402)	(12,319)
Selling expense	(6,138)	(7,314)	(9,080)	(9,418)	(10,062)	(10,896)
Admin expense	(697)	(579)	(638)	(648)	(664)	(690)
R&D expense	(414)	(534)	(618)	(631)	(676)	(733)
Operating profit	5,136	4,887	3,559	3,659	4,037	4,558
Other income	416	829	543	551	591	640
Share of (losses)/profits of associates/JV	159	201	378	225	242	262
EBITDA	5,767	5,668	4,642	5,017	5,648	6,405
Depreciation	(589)	(732)	(1,016)	(1,304)	(1,567)	(1,814)
Other amortisation	(41)	(49)	(67)	(54)	(44)	(34)
Interest income	145	448	501	419	440	457
Interest expense	(112)	(121)	(181)	(220)	(220)	(220)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	5,328	5,415	4,256	4,084	4,499	5,057
Income tax	(1,317)	(1,351)	(1,069)	(980)	(1,080)	(1,214)
Minority interest	0	0	0	0	0	0
Net profit	4,011	4,064	3,187	3,103	3,419	3,843
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	18,672	12,395	13,653	14,793	16,758	19,150
Cash & equivalents	14,745	7,382	5,444	6,520	8,147	10,136
Account receivables	903	1,020	1,206	1,230	1,319	1,429
Inventories	1,773	2,428	2,493	2,513	2,686	2,885
Prepayment	849	920	1,016	1,037	1,111	1,204
ST bank deposits	402	644	3,494	3,494	3,494	3,494
Other current assets	0	0	0	0	0	0
Non-current assets	11,603	21,252	20,555	21,101	21,531	21,896
PP&E	1,626	3,235	4,124	4,583	4,905	5,139
Investment in JVs & assos	0	0	0	142	293	458
Intangibles	188	217	221	167	122	87
Other non-current assets	9,789	17,800	16,210	16,210	16,211	16,212
Total assets	30,275	33,647	34,208	35,894	38,289	41,046
Current liabilities	7,704	7,241	7,268	7,260	7,727	8,306
Short-term borrowings	0	0	0	0	0	0
Account payables	1,599	1,584	1,790	1,804	1,928	2,071
Tax payable	1,308	1,037	915	826	926	1,060
Other current liabilities	4,797	4,619	4,563	4,631	4,873	5,175
Non-current liabilities	1,467	2,074	2,533	2,533	2,533	2,533
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,467	2,074	2,533	2,533	2,533	2,533
Total liabilities	9,171	9,315	9,801	9,793	10,260	10,838
Share capital	239	240	240	240	240	240
Retained earnings	3	2	0	1,228	3,108	5,222
Other reserves	20,863	24,089	24,167	24,634	24,682	24,745
Total shareholders equity	21,104	24,332	24,407	26,101	28,029	30,207
Minority interest	0	0	0	0	0	0
Total equity and liabilities	30,275	33,647	34,208	35,894	38,289	41,046

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	5,328	5,415	4,256	4,084	4,499	5,057
Depreciation & amortization	630	782	1,082	1,358	1,611	1,848
Tax paid	(456)	(1,316)	(1,155)	(1,069)	(980)	(1,080)
Change in working capital	826	(1,133)	(31)	16	30	42
Others	197	167	535	(424)	(462)	(499)
Net cash from operations	6,525	3,914	4,688	3,964	4,698	5,367
Investing						
Capital expenditure	(985)	(1,757)	(1,727)	(1,762)	(1,890)	(2,048)
Acquisition of subsidiaries/ investments	(43)	(74)	(88)	0	0	0
Others	(5,511)	(7,651)	(634)	502	530	554
Net cash from investing	(6,539)	(9,481)	(2,449)	(1,260)	(1,360)	(1,493)
Financing						
Dividend paid	(515)	(1,195)	(2,175)	(1,409)	(1,491)	(1,666)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	8,667	97	7	0	0	0
Share repurchases	0	(159)	(1,159)	0	0	0
Others	(1,071)	(1,826)	(3,066)	(1,629)	(1,711)	(1,885)
Net cash from financing	7,081	(3,082)	(6,392)	(3,038)	(3,202)	(3,551)
Net change in cash						
Cash at the beginning of the year	7,187	14,745	7,382	5,444	6,520	8,147
Exchange difference	(25)	93	40	0	0	0
Others	7,583	(7,455)	(1,978)	1,076	1,628	1,989
Cash at the end of the year	14,745	7,382	5,444	6,520	8,147	10,136
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.1%	14.3%	7.0%	2.0%	7.2%	8.4%
Gross profit	68.7%	4.3%	6.9%	3.4%	7.6%	9.3%
Operating profit	133.9%	(4.9%)	(27.2%)	2.8%	10.3%	12.9%
EBITDA	108.0%	(1.7%)	(18.1%)	8.1%	12.6%	13.4%
Net profit	136.1%	1.3%	(21.6%)	(2.6%)	10.2%	12.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	53.0%	48.4%	48.4%	49.0%	49.2%	49.6%
Operating margin	22.8%	18.9%	12.9%	13.0%	13.4%	13.9%
EBITDA margin	25.5%	22.0%	16.8%	17.8%	18.7%	19.6%
Return on equity (ROE)	26.9%	17.9%	13.1%	12.3%	12.6%	13.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.7	0.3	0.3	0.4	0.4	0.4
Current ratio (x)	2.4	1.7	1.9	2.0	2.2	2.3
Receivable turnover days	14.6	14.4	15.9	15.9	15.9	15.9
Inventory turnover days	61.0	66.5	63.9	63.9	63.9	63.9
Payable turnover days	55.1	43.4	45.9	45.9	45.9	45.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	7.6	7.8	9.8	10.1	9.2	8.1
P/E (diluted)	7.6	7.8	9.8	10.1	9.2	8.1
P/B	1.5	1.3	1.3	1.2	1.1	1.0
P/CFPS	4.7	8.1	6.7	7.9	6.7	5.8
Div yield (%)	3.8	3.9	4.5	4.4	4.9	5.5
EV	19,556.8	26,769.0	25,965.6	24,889.9	23,262.1	21,273.1
EV/Sales	0.9	1.0	0.9	0.9	0.8	0.7
EV/EBITDA	3.4	4.7	5.6	5.0	4.1	3.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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