

# Li Ning (2331 HK)

## FY24E target maintained but we are cautious

3Q24 retail sales growth slightly beat our expectation. We are still cautious about its FY24E guidance (due to weak demand and pile-up of inventory), but we still think a gradual improvement into FY25E is likely. And given its not-so-demanding valuation of 11x FY25E P/E and 4% FY25E yield, we maintain BUY.

■ **The Company maintained its FY24E target but we are rather prudent.** Management has reiterated the listco level guidance (LSD sales growth and low-teen NP margin) in FY24E but we tend to be more prudent (expect only 2% sales growth and an 11% NP margin). Even though management highlighted that retail sales growth had finally turned positive in Oct 2024 (for both offline and online channels), in order to deliver a LSD sales growth in FY24E, a strong growth of 10%+ may be needed in 4Q24E, but we are very conservative about that (CMBI est. of 7%) given the low recovery rate (vs 2019) in 3Q24. At the same time, performance during the Double 11 festival is critical as well. We do agree that the Company is very determined in terms of cost savings (e.g. cut in A&P expenses) and efficiency gains (e.g. more closures of direct-retail stores) in FY24E, but we are still fairly cautious on its OP margin, because of the following pressure: 1) worsening retail discounts (in order to achieve a healthy inventory to sales ratio of 4 months by FY24E), 2) an unfavorable channel mix, 3) greater-than-expected operating deleverage and 4) relatively fixed opex (esp. the D&A expenses of new factories and offices), etc.

■ **3Q24 retail sales slowed down but slightly better than expected.** Li Ning's retail sales dropped by MSD in 3Q24, worsening from the LSD decline in 2Q24, but we do think that is better than the street's expectation (given the depressed numbers from peers recently). In terms of segments, the e-commerce growth was at MSD, much more resilient than offline segment, where sales dropped by HSD (MSD drop/ HSD decline for direct retail/ wholesale). Also, sales of function products did outperform that of fashion products (the China Li Ning series was still under pressure). Noted that both outlet and non-outlet retail sales growth slowed down in 3Q24.

■ **Retail discounts deepened as the inventory level rebounded.** In 3Q24, retail discounts widened in the offline channel by LSD YoY, while these were still improving YoY in the e-commerce channel, supported by its positive growth. Inventory to sales ratio was at around 5 months in 3Q24, increased QoQ from the 4.5 months in 2Q24 but was similar to that back in 3Q23.

### 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	4,097.6	4,623.1
Net profit (RMB mn)	4,063.8	3,187.0	3,103.5	3,466.4	3,895.4
EPS (Reported) (RMB)	1.54	1.23	1.19	1.33	1.50
YoY growth (%)	(2.3)	(20.5)	(2.6)	11.7	12.4
P/E (x)	9.4	11.9	12.2	10.9	9.7
P/B (x)	1.6	1.6	1.5	1.4	1.3
Yield (%)	3.2	3.8	3.7	4.1	4.6
ROE (%)	17.9	13.1	12.3	12.8	13.4
Net gearing (%)	30.9	34.1	36.0	39.4	43.2

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$19.58</b>
(Previous TP)	HK\$16.18)
<b>Up/Downside</b>	<b>23.3%</b>
<b>Current Price</b>	<b>HK\$15.88</b>

### China Consumer Discretionary

#### Walter WOO

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#### Stock Data

Mkt Cap (HK\$ mn)	41,550.7
Avg 3 mths t/o (HK\$ mn)	587.7
52w High/Low (HK\$)	27.55/12.92
Total Issued Shares (mn)	2616.5

Source: FactSet

#### Shareholding Structure

Viva China Holdings	10.4%
GIC Pte Ltd.	5.0%

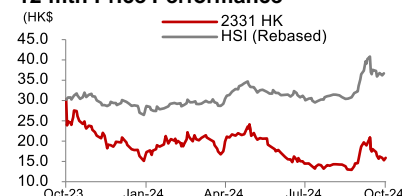
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	2.8%	-4.4%
3-mth	8.6%	-10.3%
6-mth	-20.2%	-33.0%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

#### Recent Reports:

[Anta Sports \(2020 HK\) - All eyes on 4Q24E for the room of re-rating](#)  
(14 Oct 24)

[Anta Sports \(2020 HK\) - Takeaways from the Anta Superstore visit](#)  
(27 Sep 24)

[Topsports \(6110 HK\) - Grim outlook but dividend is attractive](#)  
(12 Sep 24)

[JNBY Design \(3306 HK\) - Prudent guidance and generous dividends](#)  
(9 Sep 24)

[Xtep \(1368 HK\) - Better margins despite cautious sales growth](#)  
(21 Aug 24)

[Li Ning \(2331 HK\) - We see long-term value but short-term risks](#)  
(19 Aug 24)

- Setting up a JV with Mr. Li Ning and HongShan Co. to develop the overseas business.** The Company has announced a JV with Founder Mr. Li Ning and Hongshan Co, to grow its brand in the Belt and Road regions (such as Southeast Asia and the Middle East). Li Ning Co/ Mr. Li Ning/ Hongshan Venture/ Hongshan Motivation will invest roughly HK\$ 58mn/ HK\$ 52mn/ HK\$ 62.7mn/ HK\$ 27.3mn in this JV (total consideration of HK\$ 200mn). Li Ning Co also has the rights to repurchase part of stakes (from the Hongshan Co) if the JV fails to achieve its minimal sales target (around US\$ 1bn or HK\$ 7.8bn) in the 4th year and the rights to repurchase all of the stakes in its 8th or later year. In fact, Anta do have a plan to develop the overseas market and its 5 years target is to achieve around US\$ 1.5bn or HK\$ 11.7bn retail sales, therefore adjusting for the wholesale discount, we think the goals for Anta and Li Ning are quite similar.
- Maintain BUY and raise TP to HK19.58, based on 13x FY25E P/E (rolled over from 12x FY24E P/E).** The stock is currently trading at 11x FY25E P/E and a 4% FY25E yield, which is still undemanding to us. Due to the improved sentiment, a potential turnaround in FY25E and our long-term positive view on the Company, we maintain BUY.

## 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	28,162	30,195	32,722	0.0%	0.0%	0.0%
Gross profit	13,805	14,849	16,237	13,805	14,849	16,237	0.0%	0.0%	0.0%
EBIT	3,659	4,098	4,623	3,659	4,098	4,623	0.0%	0.0%	0.0%
Net profit att.	3,103	3,466	3,895	3,103	3,466	3,895	0.0%	0.0%	0.0%
Diluted EPS (RMB)	1.19	1.33	1.50	1.19	1.33	1.50	0.0%	0.0%	0.0%
Gross margin	49.0%	49.2%	49.6%	49.0%	49.2%	49.6%	0ppt	0ppt	0ppt
EBIT margin	13.0%	13.6%	14.1%	13.0%	13.6%	14.1%	0ppt	0ppt	0ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.0%	11.5%	11.9%	0ppt	0ppt	0ppt

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	28,152	29,886	31,907	0.0%	1.0%	2.6%
Gross profit	13,805	14,849	16,237	13,830	14,744	15,817	-0.2%	0.7%	2.7%
EBIT	3,659	4,098	4,623	3,497	3,948	4,349	4.6%	3.8%	6.3%
Net profit att.	3,103	3,466	3,895	3,099	3,472	3,866	0.1%	-0.2%	0.8%
Diluted EPS (RMB)	1.19	1.33	1.50	1.19	1.34	1.49	0.0%	-0.4%	0.9%
Gross margin	49.0%	49.2%	49.6%	49.1%	49.3%	49.6%	-0.1ppt	-0.2ppt	0ppt
EBIT margin	13.0%	13.6%	14.1%	12.4%	13.2%	13.6%	0.6ppt	0.4ppt	0.5ppt
Net profit att. margin	11.0%	11.5%	11.9%	11.0%	11.6%	12.1%	0ppt	-0.1ppt	-0.2ppt

Source: Company data, CMBIGM estimates

## Operating numbers

### Figure 3: 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%	-3%	-5%
Adidas China sales	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	6%	37%	8%	9%	11%	13%
<b>Anta brand's SSSG</b>																
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	+ve MSD	16%
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	-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	-ve HSD	
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%	20%-25%	
<b>FILA brand's retail sales</b>																
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	-ve LSD	10%
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	-ve MSD	
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	-ve Low-teens	
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	+ve HSD	
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%	+ve HSD	
<b>Other brands</b>																
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%	45%-50%	30%
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%	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%	65%-70%	
<b>Li Ning group's SSSG</b>																
Li Ning group's SSSG	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	-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	-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	-ve HSD	
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	+ve MSD	
<b>Li Ning group's retail sales</b>																
Li Ning group's retail sales	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 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	-ve MSD	7%
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	-ve MSD	
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	-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	+ve MSD	
<b>Xtep brand's SSSG</b>																
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%	+ve MSD	10%
<b>361 Degree brand's SSSG</b>																
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%	10.0%	14%
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	10%	
E- Commerce				35%-40%	50%	40%	45%	25%	35%	30%	30%	Over 30%	20%-25%	30%-35%	Over 20%	
<b>Pou Sheng's SSSG</b>																
Pou Sheng's SSSG	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%	-3%	12%	-17%	-16%		
Pou Sheng's sales	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	9%	-7%	-11%	-11%	-8%
<b>Topsports' retail sales</b>																
Topsports' retail sales				-ve 20%-25%	-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	-ve Low-teens	-8%
<b>Dong Xiang's SSSG</b>																
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-teens	-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	-ve HSD	
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	-ve Low 10% to 20%	
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)

## Assumptions

Figure 4: Major assumptions

Major assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment (RMB mn)</b>					
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
<b>Sales by segment growth (%)</b>					
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%
<b>Sales by channel growth (%)</b>					
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%
<b>Sales network by segment</b>					
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 margin	48.4%	48.4%	49.0%	49.2%	49.6%
<b>Opex breakdown</b>					
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%
<b>OP margin</b>	<b>18.9%</b>	<b>12.9%</b>	<b>13.0%</b>	<b>13.6%</b>	<b>14.1%</b>
Effective tax rate	25.0%	25.1%	24.0%	24.0%	24.0%
<b>Net profit margin</b>	<b>15.7%</b>	<b>11.5%</b>	<b>11.0%</b>	<b>11.5%</b>	<b>11.9%</b>
<b>Net profit att. growth (%)</b>	<b>1.3%</b>	<b>-21.6%</b>	<b>-2.6%</b>	<b>11.7%</b>	<b>12.4%</b>

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>22,572</b>	<b>25,803</b>	<b>27,598</b>	<b>28,162</b>	<b>30,195</b>	<b>32,722</b>
Cost of goods sold	(10,603)	(13,319)	(14,246)	(14,357)	(15,347)	(16,485)
<b>Gross profit</b>	<b>11,969</b>	<b>12,485</b>	<b>13,352</b>	<b>13,805</b>	<b>14,849</b>	<b>16,237</b>
<b>Operating expenses</b>	<b>(7,249)</b>	<b>(8,428)</b>	<b>(10,336)</b>	<b>(10,697)</b>	<b>(11,342)</b>	<b>(12,254)</b>
Selling expense	(6,138)	(7,314)	(9,080)	(9,418)	(10,009)	(10,838)
Admin expense	(697)	(579)	(638)	(648)	(657)	(683)
R&D expense	(414)	(534)	(618)	(631)	(676)	(733)
<b>Operating profit</b>	<b>5,136</b>	<b>4,887</b>	<b>3,559</b>	<b>3,659</b>	<b>4,098</b>	<b>4,623</b>
Other income	416	829	543	551	591	640
Share of (losses)/profits of associates/JV	159	201	378	225	242	262
<b>EBITDA</b>	<b>5,767</b>	<b>5,668</b>	<b>4,642</b>	<b>5,017</b>	<b>5,708</b>	<b>6,471</b>
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	441	460
Interest expense	(112)	(121)	(181)	(220)	(220)	(220)
Other income/expense	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>5,328</b>	<b>5,415</b>	<b>4,256</b>	<b>4,084</b>	<b>4,561</b>	<b>5,126</b>
Income tax	(1,317)	(1,351)	(1,069)	(980)	(1,095)	(1,230)
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>4,011</b>	<b>4,064</b>	<b>3,187</b>	<b>3,103</b>	<b>3,466</b>	<b>3,895</b>
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>18,672</b>	<b>12,395</b>	<b>13,653</b>	<b>14,793</b>	<b>16,806</b>	<b>19,228</b>
Cash & equivalents	14,745	7,382	5,444	6,520	8,195	10,215
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
<b>Non-current assets</b>	<b>11,603</b>	<b>21,252</b>	<b>20,555</b>	<b>21,101</b>	<b>21,531</b>	<b>21,896</b>
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
<b>Total assets</b>	<b>30,275</b>	<b>33,647</b>	<b>34,208</b>	<b>35,894</b>	<b>38,337</b>	<b>41,124</b>
<b>Current liabilities</b>	<b>7,704</b>	<b>7,241</b>	<b>7,268</b>	<b>7,260</b>	<b>7,742</b>	<b>8,322</b>
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	941	1,076
Other current liabilities	4,797	4,619	4,563	4,631	4,873	5,175
<b>Non-current liabilities</b>	<b>1,467</b>	<b>2,074</b>	<b>2,533</b>	<b>2,533</b>	<b>2,533</b>	<b>2,533</b>
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
<b>Total liabilities</b>	<b>9,171</b>	<b>9,315</b>	<b>9,801</b>	<b>9,793</b>	<b>10,275</b>	<b>10,855</b>
Share capital	239	240	240	240	240	240
Retained earnings	3	2	0	1,228	3,134	5,277
Other reserves	20,863	24,089	24,167	24,634	24,689	24,753
<b>Total shareholders equity</b>	<b>21,104</b>	<b>24,332</b>	<b>24,407</b>	<b>26,101</b>	<b>28,062</b>	<b>30,270</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>30,275</b>	<b>33,647</b>	<b>34,208</b>	<b>35,894</b>	<b>38,337</b>	<b>41,124</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	5,328	5,415	4,256	4,084	4,561	5,126
Depreciation & amortization	630	782	1,082	1,358	1,611	1,848
Tax paid	(456)	(1,316)	(1,155)	(1,069)	(980)	(1,095)
Change in working capital	826	(1,133)	(31)	16	30	42
Others	197	167	535	(424)	(463)	(503)
<b>Net cash from operations</b>	<b>6,525</b>	<b>3,914</b>	<b>4,688</b>	<b>3,964</b>	<b>4,759</b>	<b>5,418</b>
<b>Investing</b>						
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	531	558
<b>Net cash from investing</b>	<b>(6,539)</b>	<b>(9,481)</b>	<b>(2,449)</b>	<b>(1,260)</b>	<b>(1,358)</b>	<b>(1,490)</b>
<b>Financing</b>						
Dividend paid	(515)	(1,195)	(2,175)	(1,409)	(1,505)	(1,688)
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)	(1,725)	(1,908)
<b>Net cash from financing</b>	<b>7,081</b>	<b>(3,082)</b>	<b>(6,392)</b>	<b>(3,038)</b>	<b>(3,230)</b>	<b>(3,596)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	7,187	14,745	7,382	5,444	6,520	8,195
Exchange difference	(25)	93	40	0	0	0
Others	7,583	(7,455)	(1,978)	1,076	1,676	2,020
<b>Cash at the end of the year</b>	<b>14,745</b>	<b>7,382</b>	<b>5,444</b>	<b>6,520</b>	<b>8,195</b>	<b>10,215</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%	12.0%	12.8%
EBITDA	108.0%	(1.7%)	(18.1%)	8.1%	13.8%	13.4%
Net profit	136.1%	1.3%	(21.6%)	(2.6%)	11.7%	12.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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%	13.6%	14.1%
EBITDA margin	25.5%	22.0%	16.8%	17.8%	18.9%	19.8%
Return on equity (ROE)	26.9%	17.9%	13.1%	12.3%	12.8%	13.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	9.2	9.4	11.9	12.2	10.9	9.7
P/E (diluted)	9.2	9.4	11.9	12.2	10.9	9.7
P/B	1.8	1.6	1.6	1.5	1.4	1.3
P/CFPS	5.7	9.8	8.1	9.5	7.9	7.0
Div yield (%)	3.2	3.2	3.8	3.7	4.1	4.6
EV	26,830.8	34,043.0	33,239.6	32,163.9	30,488.3	28,468.3
EV/Sales	1.2	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	4.7	6.0	7.2	6.4	5.3	4.4

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



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