

Hong Kong

**ADD** (no change)

Consensus ratings\*: Buy 43 Hold 1 Sell 1

Current price:	HK\$60.60
Target price:	HK\$120.0
Previous target:	HK\$117.0
Up/downside:	98.0%
CGI / Consensus:	14.2%
Reuters:	2331.HK
Bloomberg:	2331 HK
Market cap:	US\$20,274m
	HK\$158,581m
Average daily turnover:	US\$144.2m
	HK\$1,126m
Current shares o/s:	2,472m
Free float:	85.1%

\*Source: Bloomberg

**Key changes in this note**

- FY22F EPS increased by 8.45%.
- FY23F EPS increased by 9.54%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	-22.9	-27.9	24.7
Relative (%)	-10.9	-20.2	51.9

<b>Major shareholders</b>	% held
VIVA CHINA HOLDINGS LIMITED	14.9

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# Li Ning Company

## Prudent guidance with large upside opportunity

- FY21 revenue was Rmb22.6bn, up 56.1% yoy (1H21 and 2H21: 65% and 50% yoy), and net profit was up 136% yoy to Rmb4bn (1H21 and 2H21: 187% and 102% yoy), above our expectations, because of a stronger top line and higher margins.
- We expect FY22F top-line and earnings growth of 19% and 15% yoy, respectively, given the uncertainties of the pandemic situation and domestic consumption, and FY22F gross margin to possibly drop by 0.8% pt due to cost pressure.
- Management said 1Q22F retail growth was better than that in 2H21 and conservatively expects 2Q22F revenue to grow by mid-single-digits yoy because of last year's high base.
- Reiterate Add with a new DCF-based TP of HK\$120.

### Results above expectations because of higher margins

FY21 sales in the wholesale, retail and e-commerce channels grew by 56.7%, 53.5% and 58.4% yoy, respectively, accounting for 48%, 22% and 28% of total revenue (FY20: 48%, 23% and 28%). The GPM expanded by 4.0% pts yoy because of a higher sell-through contribution of new products and a mid-single-digit ppt and high-single-digit ppt yoy improvement in the retail and e-commerce discount rate, respectively. Channel inventory turnover days decreased from 4.2 months in Dec 2020 to 3.9 months in Dec 2021; inventory aged six months or less accounted for 92% of total inventory (Dec 2020: 78%). The distribution and administrative expenses ratios fell by 3.4% and 0.7% pts yoy, respectively, amid efficient cost control, increasing the OPM 7.6% pts yoy and NPM 6.0% pts yoy to 17.8%, above our expectation. We expect FY22F top-line and earnings growth of 19% and 15% yoy, given the uncertainties of the pandemic and domestic consumption.

### Prudent guidance, given pandemic uncertainty and macro pressure

2Q21 had a relatively high base due to the Xinjiang cotton issue. Meanwhile, many cities in China are undergoing a pandemic rebound and lockdowns. Although 1Q22F retail sell-through growth will be better than that in 2H21, to be more prudent regarding the uncertainties, management expects 2Q22F revenue to grow by mid-single-digits yoy, and the NPM of FY22F to remain in the high teens. We now expect the FY22F GPM to drop by 0.8% pt yoy and the NPM to be 17.2% owing to the weak macro-environment and raw material price hikes. We consider management's guidance to be prudent.

### Upside opportunity still large given the YTD performance

In Jan–Feb 2022, Li Ning's offline sell-through growth was in the high-thirties to low-forties yoy, but growth slowed down to the mid-teens in March due to the lockdowns. Online sell-through growth still remained in the sixties yoy in March and has not been largely affected by the lockdowns. We are confident that the high growth trend will continue if the pandemic situation is controlled. Li Ning Young and China Li Ning's strong growth and new product categories, like women's sportswear and skates, will continue to drive Li Ning's sales growth in FY22F. Li Ning's current discount level has improved to only mid-70%, the same level as in 2019; we see the further improvement potential. In recent months, Li Ning's new product mix sell-through reached 90%. The high new product mix will also help to drive up margins. Management expects the operating expenses ratio to remain flattish or fall a bit yoy in FY22F.

### Reiterate Add with a new DCF-based TP of HK\$120

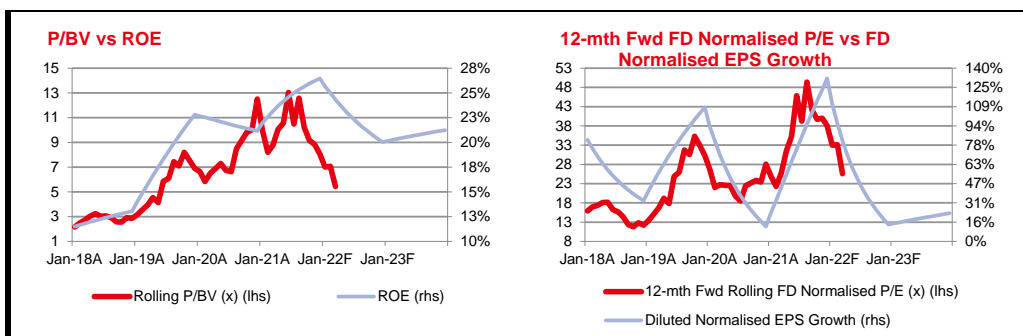
We raised our FY22–23F earnings forecast by 8.45% and 9.54% to reflect higher sales growth and better margins. Management said Li Ning does not do business with any suppliers that use illegal labor. We believe Li Ning will continue to deliver strong growth by strengthening its brand and distribution, and more efficient cost control. Key positive catalysts are 1) strong growth momentum in 1H22F, and 2) better cost control.

<b>Financial Summary</b>	<b>Dec-20A</b>	<b>Dec-21A</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Revenue (Rmbm)	14,457	22,572	26,910	32,626	38,564
Operating EBITDA (Rmbm)	2,768	5,770	6,651	8,228	9,802
Net Profit (Rmbm)	1,698	4,011	4,642	5,769	6,900
Normalised EPS (Rmb)	0.70	1.62	1.84	2.27	2.69
Normalised EPS Growth	12%	132%	14%	23%	18%
FD Normalised P/E (x)	70.73	30.47	26.74	21.73	18.35
DPS (Rmb)	0.20	0.46	0.55	0.68	0.80
Dividend Yield	0.42%	0.93%	1.11%	1.37%	1.62%
EV/EBITDA (x)	40.43	18.39	15.64	12.19	9.72
P/FCFE (x)	67.81	23.28	24.00	19.69	15.67
Net Gearing	(82.3%)	(69.6%)	(75.7%)	(81.1%)	(87.1%)
P/BV (x)	13.93	5.85	5.08	4.35	3.73
ROE	21.5%	26.9%	20.3%	21.6%	21.9%
% Change In Normalised EPS Estimates			8.45%	9.54%	
Normalised EPS/consensus EPS (x)			1.03	1.00	1.03

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG



## BY THE NUMBERS



### Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>14,457</b>	<b>22,572</b>	<b>26,910</b>	<b>32,626</b>	<b>38,564</b>
<b>Gross Profit</b>	<b>7,094</b>	<b>11,969</b>	<b>14,048</b>	<b>17,196</b>	<b>20,449</b>
<b>Operating EBITDA</b>	<b>2,768</b>	<b>5,770</b>	<b>6,651</b>	<b>8,228</b>	<b>9,802</b>
Depreciation And Amortisation	(572)	(634)	(747)	(897)	(1,052)
<b>Operating EBIT</b>	<b>2,196</b>	<b>5,136</b>	<b>5,903</b>	<b>7,331</b>	<b>8,751</b>
Financial Income/(Expense)	(32)	33	83	134	199
Pretax Income/(Loss) from Assoc.	83	159	175	193	212
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>2,248</b>	<b>5,328</b>	<b>6,161</b>	<b>7,658</b>	<b>9,161</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>2,248</b>	<b>5,328</b>	<b>6,161</b>	<b>7,658</b>	<b>9,161</b>
Taxation	(549)	(1,317)	(1,519)	(1,889)	(2,261)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,698</b>	<b>4,011</b>	<b>4,642</b>	<b>5,769</b>	<b>6,900</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
<b>Net Profit</b>	<b>1,698</b>	<b>4,011</b>	<b>4,642</b>	<b>5,769</b>	<b>6,900</b>
Normalised Net Profit	1,698	4,011	4,642	5,769	6,900
<b>Fully Diluted Normalised Profit</b>	<b>1,698</b>	<b>4,011</b>	<b>4,642</b>	<b>5,769</b>	<b>6,900</b>

### Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>2,768</b>	<b>5,770</b>	<b>6,651</b>	<b>8,228</b>	<b>9,802</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	551	880	888	469	903
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	116	19	(292)	(77)	(81)
Other Operating Cashflow	(16)	1,036	254	385	387
Net Interest (Paid)/Received	(66)	(112)	(112)	(112)	(112)
Tax Paid	(589)	(1,317)	(1,519)	(1,889)	(2,261)
<b>Cashflow From Operations</b>	<b>2,763</b>	<b>6,276</b>	<b>5,869</b>	<b>7,003</b>	<b>8,637</b>
Capex	(647)	(1,000)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(345)	(24)	302	365	441
<b>Cash Flow From Investing</b>	<b>(992)</b>	<b>(1,024)</b>	<b>(698)</b>	<b>(635)</b>	<b>(559)</b>
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	189	0	0	0	0
Shares Repurchased					
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(703)	(615)	(1,264)	(1,500)	(1,838)
<b>Cash Flow From Financing</b>	<b>(513)</b>	<b>(615)</b>	<b>(1,264)</b>	<b>(1,500)</b>	<b>(1,838)</b>
Total Cash Generated	1,258	4,637	3,907	4,867	6,239
<b>Free Cashflow To Equity</b>	<b>1,772</b>	<b>5,252</b>	<b>5,171</b>	<b>6,367</b>	<b>8,078</b>
<b>Free Cashflow To Firm</b>	<b>1,838</b>	<b>5,364</b>	<b>5,283</b>	<b>6,480</b>	<b>8,190</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	7,187	14,745	18,651	23,519	29,758
Total Debtors	1,243	1,752	1,925	2,491	2,720
Inventories	1,346	1,773	2,010	2,528	2,800
Total Other Current Assets	1	402	402	402	402
<b>Total Current Assets</b>	<b>9,777</b>	<b>18,672</b>	<b>22,988</b>	<b>28,939</b>	<b>35,679</b>
Fixed Assets	1,065	1,626	1,923	2,071	2,064
Total Investments	1,101	1,437	1,505	1,580	1,662
Intangible Assets	191	188	147	106	65
Total Other Non-Current Assets	2,460	8,353	8,457	8,652	8,848
<b>Total Non-current Assets</b>	<b>4,817</b>	<b>11,603</b>	<b>12,032</b>	<b>12,409</b>	<b>12,640</b>
Short-term Debt	39	50	50	50	50
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	3,737	5,633	6,638	8,114	9,437
Other Current Liabilities	1,239	2,021	2,221	2,589	2,957
<b>Total Current Liabilities</b>	<b>5,015</b>	<b>7,704</b>	<b>8,910</b>	<b>10,753</b>	<b>12,445</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component	0	0	0	0	0
Total Other Non-Current Liabilities	787	1,040	1,040	1,040	1,040
<b>Total Non-current Liabilities</b>	<b>787</b>	<b>1,040</b>	<b>1,040</b>	<b>1,040</b>	<b>1,040</b>
Total Provisions	103	427	492	612	733
<b>Total Liabilities</b>	<b>5,904</b>	<b>9,171</b>	<b>10,442</b>	<b>12,405</b>	<b>14,217</b>
Shareholders' Equity	8,687	21,102	24,576	28,941	34,099
Minority Interests	3	3	3	3	3
<b>Total Equity</b>	<b>8,689</b>	<b>21,104</b>	<b>24,578</b>	<b>28,944</b>	<b>34,102</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	4.2%	56.1%	19.2%	21.2%	18.2%
Operating EBITDA Growth	38%	108%	15%	24%	19%
Operating EBITDA Margin	19.1%	25.6%	24.7%	25.2%	25.4%
Net Cash Per Share (Rmb)	2.91	5.87	7.35	9.18	11.51
BVPS (Rmb)	3.54	8.42	9.71	11.32	13.21
Gross Interest Cover	33.15	45.67	52.49	65.19	77.81
Effective Tax Rate	24.4%	24.7%	24.7%	24.7%	24.7%
Net Dividend Payout Ratio	29.8%	28.3%	29.2%	28.9%	28.7%
Accounts Receivables Days	17.03	12.63	13.35	13.11	13.10
Inventory Days	68.42	53.67	53.67	53.67	53.82
Accounts Payables Days	64.01	48.65	48.65	48.65	48.78
ROIC (%)	260%	386%	92%	122%	158%
ROCE (%)	27.8%	34.7%	26.1%	27.7%	28.1%
Return On Average Assets	12.7%	17.7%	14.0%	14.8%	14.9%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total number of stores	6,933.0	7,137.0	7,437.0	7,737.0	8,037.0
Overall SSSG (%)	4.2%	56.1%	19.2%	21.2%	18.2%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

**Spitzer Chart for stock being researched ( 2 year data )**

**Li Ning Company (2331 HK)**

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Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
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*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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#### Definition:

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#11