

LI NING (2331 HK)

Rising with China trend, the Former King set sail again

Hong Kong | Consumer (Sportswear) | Initial Coverage Research Report

16 DEC 2020

Investment Summary

Li Ning Company was founded in 1990 and has a history of 30 years. It was founded by the famous domestic gymnast Li Ning. In the 30-year history, the brand has experienced rise, peaks, adjustments, and then started again. In recent years, it has successfully completed the brand upgrade with the rise of sports fashion and national fashion. After three years of reform, the company's revenue has returned to positive growth. The company recorded a revenue of RMB 13.870 billion in 2019, an increase of approximately 138.15% from 5.82 billion in 2013 in the past six years.

"single brand, multi-category, and multi-channel"

In 2018, Li Ning proposed a "single brand, multi-category, and multi-channel" development strategy, and extended the product lines of Li Ning, China Li Ning and Li Ning Young from the "Li Ning" brand to cover different positions, accounting for nearly 99% of total revenue. In addition to the core brands, the company also owns, licenses or joint ventures with third parties other brand sports products, including DHS table tennis, AIGLE outdoor sports products, DANSKIN dance and yoga fashion fitness products and Kason badminton products.

Core categories accounted for most of the company's revenue

The company's product categories cover five core categories, including basketball, running, training, badminton and sports fashion. In terms of products, it takes into account the brand's sports genes while enhancing the product's fashion and cultural attributes. Among the core categories, the badminton business is mainly sold through professional channels, while the others are mainly sold through retail. In terms of retail sales, the company's retail sales of core categories accounted for 98% of the overall retail sales in 1H20. When continuously investing resources in core products, the company can more effectively improve product competitiveness and create product differentiation in a market that tends to be homogeneous.

Rising with China trend, brand image improved

In February 2018, during the New York Fashion Week, Tmall and the American Fashion Designers Association jointly organized the "Tmall China Day", and Li Ning became the first Chinese sports brand to land in New York Fashion Week. Overnight, China Li-Ning became a popular keyword in online social media. China Li-Ning first appeared at the end of October 2017 and was mentioned in the official WeChat account. As the company's deployment in the sports fashion series, it emphasizes being "Li Ning's original endorsement" and "Being Li Ning of China". Prior to this, China trend has been promoted by niche designer brands. After Li Ning joined, a new wave of China trend has been set off.

Valuation and Investment Recommendation

The company has completed a number of reforms in recent years. With more efficient operating capabilities and the rise of the national trend, we expect the company's revenue growth in FY20/FY21/FY22 to be 5%/25%/25%. During the epidemic, the company's direct business has a greater impact, but it is expected that the overall year-round will still record a mid-single-digit positive growth. With the increase in the proportion of the company's direct operation and the establishment of its brand image, the company's GPM is expected to increase YoY. The GPM in FY20/FY21/FY22 is predicted to be 50%/51%/52%. Considering that the company's brand has huge growth potential and future revenue growth potential, we expect the company's FY20/FY21/FY22 EPS be RMB 66.58/82.54/107.58 cents. The target price of HK\$48.55 corresponds to the expected P/E of 61.98/50.00/38.36x for 2020/2021/2022, and the current price is given a Accumulate I rating. (Closing price as at 14 December)

Accumulate (Initiation)

CMP HKD 45.90

(Closing price as at 14 December)

Target HKD 48.55 (+5.77%)

COMPANY DATA

O/S SHARES (MN) :	2,489
MARKET CAP (HKD MN) :	112,376
52 - WK HI/LO (HKD):	47.70/14.63

SHARE HOLDING PATTERN, %

VIVA CHINA HOLDINGS LIMITED (08032)	13.48
FMR LLC	5.41
BlackRock, Inc.	4.88

PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

Key Financials

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	13,870	14,563	18,204	22,755
Net Profit	1,499	1,657	2,054	2,678
EPS, CNY cent	60.13	66.58	82.54	107.58
P/E, x	64.88	58.60	47.27	36.26
BVPS, CNY	286.23	330.90	395.19	479.64
P/BV, x	13.63	11.79	9.87	8.13
DPS (HKD cent)	18.20	19.58	24.28	31.64
Div. Yield (%)	0.40%	0.43%	0.53%	0.69%

Source: Company reports, Phillip Securities Est.

Research Analyst

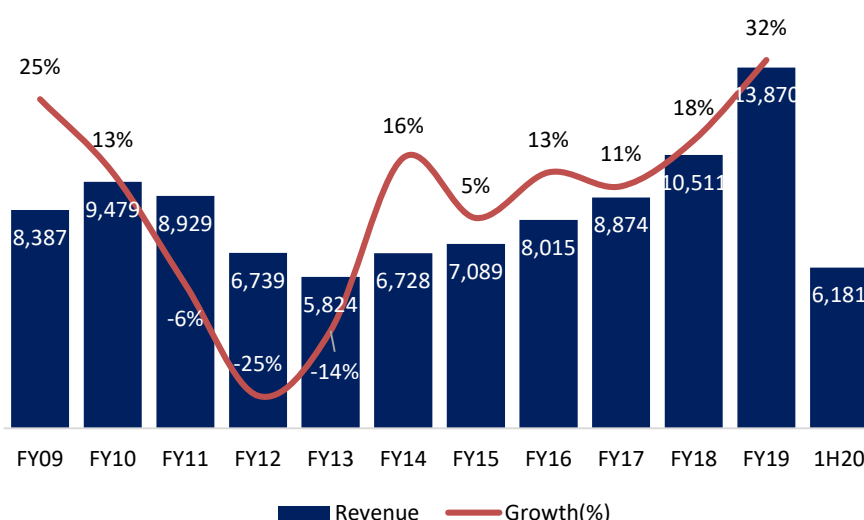
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Company Profile

Li Ning Company was founded in 1990 and has a history of 30 years. It was founded by the famous domestic gymnast Li Ning. In the 30-year history, the brand has experienced rise, peaks, adjustments, and then started again. In recent years, it has successfully completed the brand upgrade with the rise of sports fashion and national fashion. After three years of reform, the company's revenue has returned to positive growth. The company recorded a revenue of RMB 13.870 billion in 2019, an increase of approximately 138.15% from 5.82 billion in 2013 in the past six years with CAGR 15.56%.

Figure 1: The company's revenue ('mn CNY)



Source: company report, PSHK

Company development process

Initial Stage: 1990-2003

The company was founded in 1990, after the company's founder Li Ning announced his retirement in 1988. At the 1990 Asian Games, brand Li Ning, which was established less than a year ago, successfully became the designated clothing sponsor for the Asian Games torch relay, the Chinese national team's participation in the Asian Games award clothing and Chinese and foreign journalists. In 1992, Li Ning also became the sponsors of China in the Barcelona Olympic Games. It ended the era of Chinese athletes using foreign brand sport product in the Olympics. In the four consecutive Olympic Games, Chinese athletes all wore Li Ning sportswear on the podium. While the market developing, the old brands were eliminated by the trend. In 1995, Li Ning became the number one sports brand in China. Since 2001, Mr. Zhang Zhiyong has been the general manager of the company and has been actively expanding channels. The company's turnover in 2003 also exceeded RMB 1 billion for the first time, approximately RMB 1.28 billion.

Development Stage: 2004-2010

The company was listed on the Hong Kong main board in 2004. With the rapid development of the sporting goods industry, the company's aggressive channel expansion strategy has enabled it to grow rapidly. In addition, in the 2008 Beijing Olympics, the founder of the company, Mr. Li Ning, was responsible for igniting the main platform, gathering the attention of all the media, and achieving a promotional effect that other brands cannot achieve. The company's operating income has increased by approximately 640% in 6 years, with a CAGR of approximately 33.1%. The total revenue in 2010 reached 9.49 billion yuan.

Adjustment Stage: 2011-2014

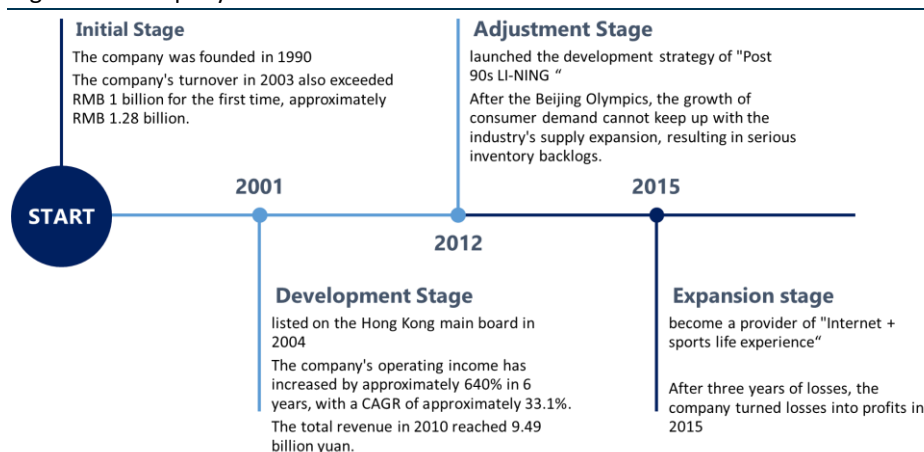
In 2010, the company launched the development strategy of "Post 90s LI-NING ", hoping to further shift the target customer group to young consumers. The company's slogan also changed from "Anything is possible" to "Make the change". However, starting from the way of publicity alone, the company's positioning was not changed effectively because of the unchanged product. On the one hand, young consumers did not buy it. On the other hand, the company's original users were 60, 70, and some of the post-80s. Under the new slogan, the original users also felt that the brand image was no longer suitable and partly lost. In addition, the sports goods industry has entered a period of adjustment since 2012, and the sportswear industry has entered a cold winter. After the Beijing Olympics, the growth of consumer demand cannot keep up with the industry's supply expansion, resulting in serious inventory backlogs.

From 2012 to 2014, the company suffered losses for three consecutive years, and the total loss for the three years reached RMB 3.06 billion. In 2012, Mr. Zhang Zhiyong retired as the general manager of the company and was replaced by TPG partner Jin Zhenjun. At the end of 2014, the founder Mr. Li Ning returned to the company as CEO.

Expansion Stage: 2015 -

After the return of the founder, Mr. Li Ning, the company is different from the previous strategy of channel expansion and changed its positioning to enhance the value of Li Ning's brand experience. It is no longer just a provider of sports goods, but has further become a provider of "Internet + sports life experience". The company's slogan was changed back to the original "Anything Is Possible". With the rise of Athleisure styles in recent years, Mr. Li Ning, as the first personal IP in China's sports, the brand he leads also stands on the spotlight, using China Li Ning to create a national trend that belongs to him, accomplishing what the company wanted to do in the past but failed to complete. The brand was upgraded and gained the favor of young people. After three years of losses, the company turned losses into profits in 2015, and its net profit increased from RMB 60 million in 2015 to RMB 15.0 in 2019, with a CAGR of approximately 122.1%.

Figure 2: Company' Milestone



Source: company report, PSHK

Company Business

In 2018, Li Ning proposed a "single brand, multi-category, and multi-channel" development strategy, and extended the product lines of Li Ning, China Li Ning and Li Ning Young from the "Li Ning" brand to cover different positions, accounting for nearly 99% of total revenue. In addition to the core brands, the company also owns, licenses or joint ventures with third parties other brand sports products, including DHS table tennis, AIGLE outdoor sports products, DANSKIN dance and yoga fashion fitness products and Kason badminton products.

Figure 3: Brand matrix

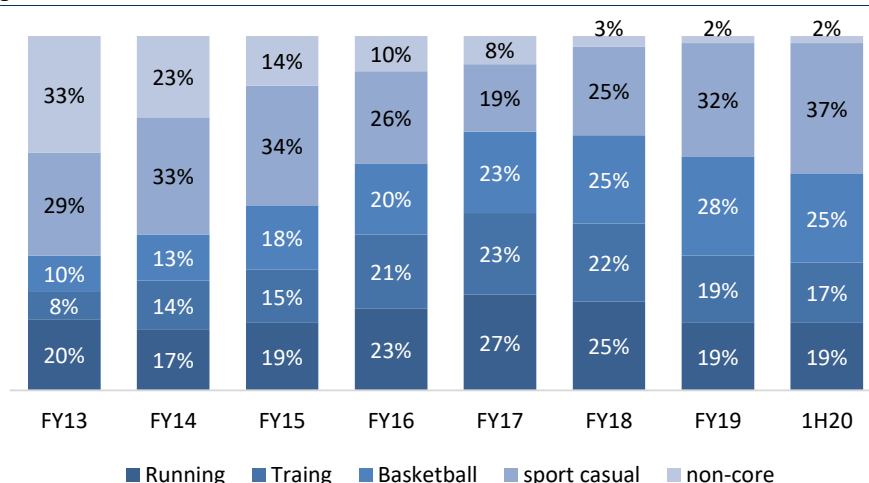


Source: company report, PSHK

Five core categories

The company's product categories cover five core categories, including basketball, running, training, badminton and sports fashion. In terms of products, it takes into account the brand's sports genes while enhancing the product's fashion and cultural attributes. Among the core categories, the badminton business is mainly sold through professional channels, while the others are mainly sold through retail. In terms of retail sales, the company's retail sales of core categories accounted for 98% of the overall retail sales in 1H20. When continuously investing resources in core products, the company can more effectively improve product competitiveness and create product differentiation in a market that tends to be homogeneous.

Figure 4: retail sales distribution



Source: company report, PSHK

While developing new products, the company also continues to invest resources in technical research and development. There are many in-house research and development technologies on shoe uppers, midsoles, outsoles and facets, covering everything from structural technology to material technology. Some technologies are even closer to international brands. Li Ning Bow, Li Ning Arc and Li Ning Cloud have also become a symbol of Li Ning products.

Figure 5: LINING core techniques



Source: company report, PSHK

Technology not only brings differences to the company's products, but higher technological power allows the company's product prices to catch up with international brands. In 2019, Li Ning released the "Li Ning 䨻" (李宁䨻) series of running shoes, using the midsole material "Li Ning 䨻" developed in 2019, with a GCU material outsole and an embedded full palm heterogeneous carbon plate. In addition to technical applications, the two running shoes of this series, "Boom" (飞电) and "Pegasus" (天马), are priced at RMB 2,099 and RMB 1,299 respectively. The price is basically benchmarked against international brands, and it has also attracted attention from online social media. The high price not only reflects Li Ning's confidence in his own technology, but also raises a new price band for domestic sports goods.

Figure 6: LINING running shoe series in 2019

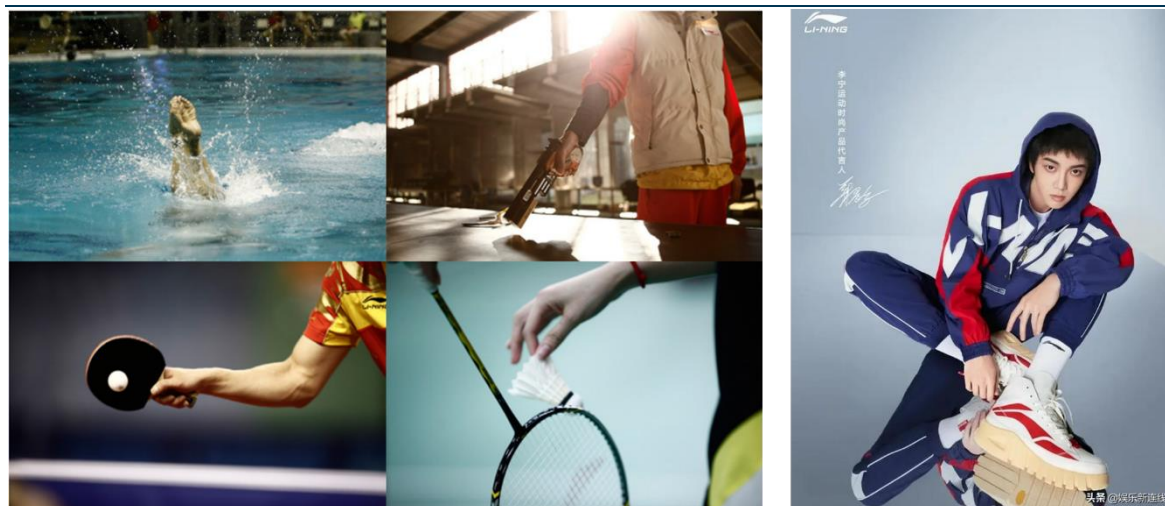


Source: company report, PSHK

Promotion

In terms of brand promotion, the company, like Anta, has a wealth of domestic sports sponsorship resources in the country. Its contracted national teams include the four national teams "Dream Team"-table tennis, diving, gymnastics and shooting teams. The company also cooperated with NBA star Thompson Wade to launch the Way of Wade series of basketball shoes, which is the company's high-end series of basketball shoes.

Figure 7: company promotion with professional sports and entertainment



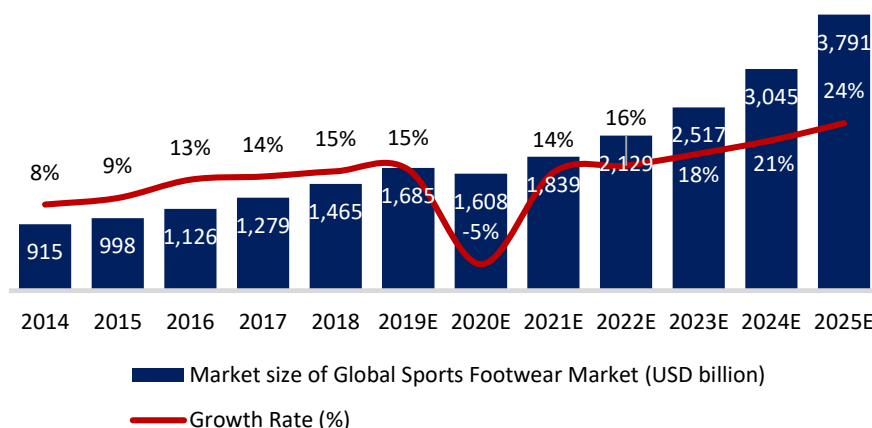
Source: company report, PSHK

Industry analysis

The sportswear industry is steadily improving

In the past ten years, the global sports shoe market has steadily expanded, and the concept of national sports has driven the growth of global sports consumption. According to a report by China Forward Industry Research Institute (中國前瞻產業研究院), the global sports shoe industry market size has risen from US\$66.7 billion in 2010 to US\$146.5 billion in 2018, growing at a CAGR of 10.3%, and it is estimated that the market is close to the level of 170 billion US dollars in 2019. Affected by the COVID-19, this year, the sports shoe market is expected to decline in 2020. With the continuous recovery of the world economy, emerging markets with huge consumption potential such as India and China will drive the global economy. The institute also predicts that the global sports shoe market will maintain a medium-speed and steady growth, and is expected to reach a scale of US\$379.1 billion in 2025, with a compound annual growth rate of about 18.7%.

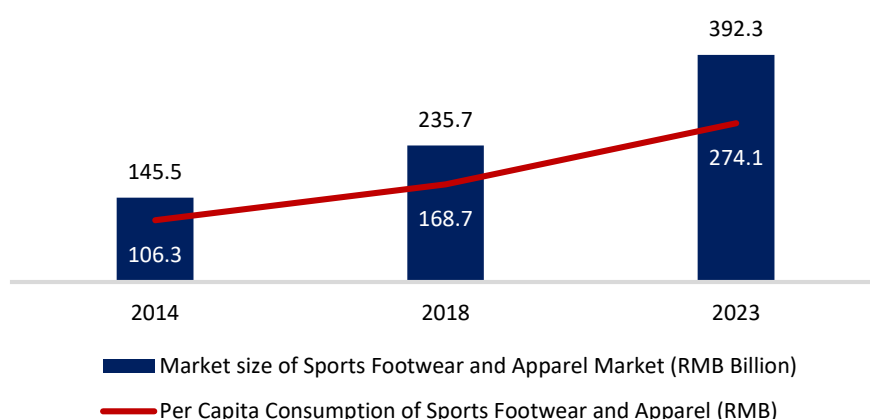
Figure 8: Global sports shoe market specifications



Source: China Forward Industry Research Institute · Phillip Securities Research

According to Frost & Sullivan's report, in terms of total retail sales (including value-added tax) in 2018, China has become the second largest sports footwear retail market after the United States. The total retail sales (including value-added tax) of China's sports shoes and apparel retail market increased from RMB 145.5 billion in 2014 to RMB 235.7 billion in 2018. At the same time, China's per capita annual consumption expenditure on sports shoes and apparel products also increased from RMB 106.3 in 2014 to RMB 168.7 in 2018, representing a compound annual growth rate of 12.2%. It is estimated that by 2023, total retail sales (including value-added tax) and per capita annual consumption expenditure will reach RMB 392.3 billion and 274.1 respectively. Nevertheless, China's consumption expenditure on sports shoes and clothing is lagging behind other major developed economies. According to Frost & Sullivan's data, in 2018, China's per capita annual consumption of sports shoes and clothing accounted for all types of shoes and clothing. The per capita annual consumption is only 12.5%, while the United Kingdom, the United States and Japan are 27.7%, 31.8% and 24.3% respectively. At this stage, there is still great potential for growth.

Figure 9: China's sports shoes and apparel market and per capita annual consumption



Source: Frost & Sullivan, Phillip Securities Research

Company competitive advantage

Rising with China trend, brand image improved

In February 2018, during the New York Fashion Week, Tmall and the American Fashion Designers Association jointly organized the "Tmall China Day", and Li Ning became the first Chinese sports brand to land in New York Fashion Week. Overnight, China Li-Ning became a popular keyword in online social media. China Li-Ning first appeared at the end of October 2017 and was mentioned in the official WeChat account. As the company's deployment in the sports fashion series, it emphasizes being "Li Ning's original endorsement" and "Being Li Ning of China". Prior to this, China trend has been promoted by niche designer brands. After Li Ning joined, a new wave of China trend has been set off.

Figure 10: China Lining Lands at Fashion Week

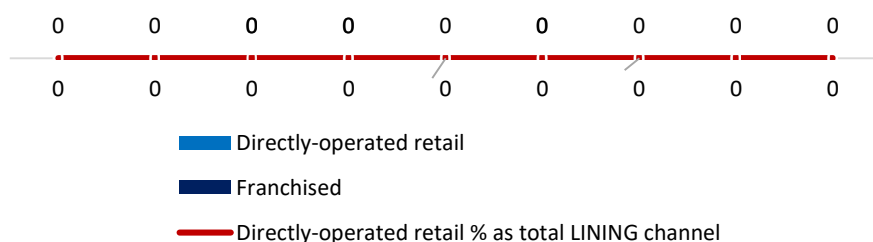


Source: internet photo, Phillip Securities Research

Channel optimization and implementation of direct sales mode

In terms of channels, the company is different from other Jinjiang sports brands started out as outsourcing channels and production at the beginning of the company's establishment. On the one hand, adopting the wholesale model in the channel aggravated the company's inventory problems, and on the other hand, it also prevented the company from receiving feedback from the market. When the industry adjusted, the company also misjudged the market situation. The company also began to implement the "retail business model" after 2012, reforming its sales channels, and setting the direction for the company to switch to a direct sales model. At the same time, the company also started a "channel revitalization plan". On the one hand, it repurchased inventory from dealers with inventory problems. On the other hand, it also streamlined the number of dealers and ended some of the dealers with problems. In 2019, the company also transferred some of its directly-operated stores to distributors with better operating performance, while the company will guide the store image and implement a similar direct-operating model to balance financial pressure and operating efficiency.

Figure 11: LINING sales channels



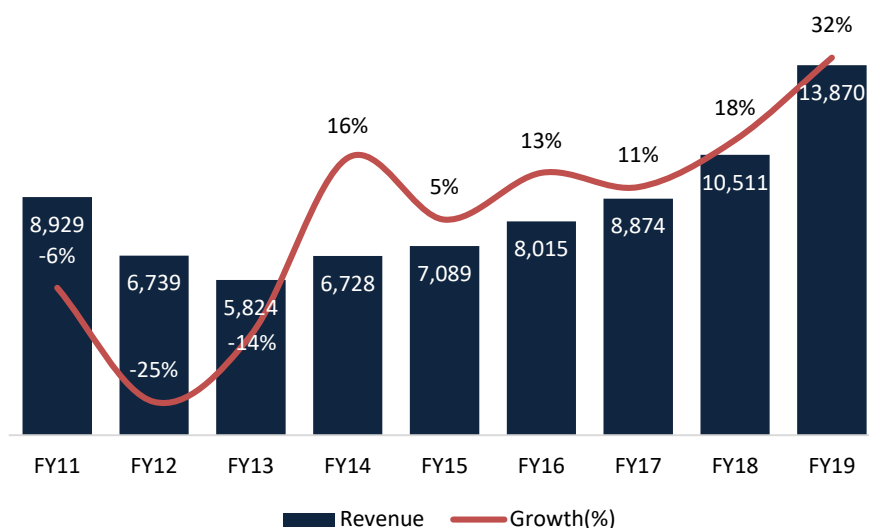
Source: company report, PSHK

Financial Analysis

Revenue analysis

The company's revenue dropped significantly during the industry adjustment period, and it recorded negative growth for three consecutive years from 2011 to 2013, from RMB 9.479 billion in operating income in 2010 to RMB 5.824 billion in 2013. With the reforms started in 2012, the company's revenue returned to a positive growth track in 2014. The company's revenue increased from RMB 5.824 billion in 2013 by approximately RMB 8.046 billion to RMB 13.870 billion in 2019, with a CAGR of 15.57%.

Figure 12: The company's revenue ('mn RMB)



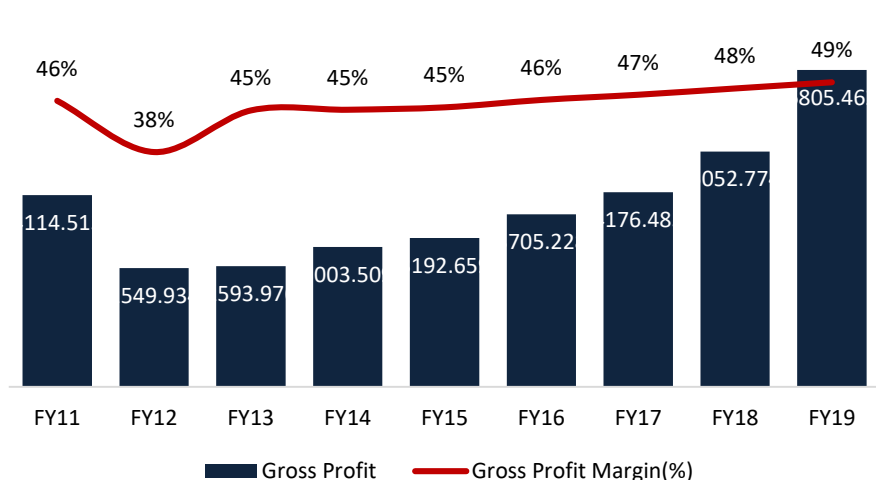
Source: company report, PSHK

In the first half of 2020, the company's revenue was RMB 6.18 billion, a decrease of 1.18% from the same period last year. Among the offline channels, the revenue was affected by the new crown epidemic. Revenue fell by 7.36% from the same period last year to 4.44 billion yuan. Offline revenue accounted for the total. Revenue was 71.90%, a year-on-year decrease of 4.80 pp. The revenue of the offline direct sales channels was even more affected, with a year-on-year decrease of 24.04% to RMB 1.34 billion, mainly due to the fact that direct sales channels are generally located in first- and second-tier cities and the impact of customer traffic is greater. Online channels achieved rapid growth during the epidemic, increasing by 22.96% year-on-year to RMB 1.36 billion in the first half of the year, accounting for 27.00% of total revenue.

Profitability

The company's gross profit margin has been maintained at a similar level, with an average of about 45%. In 2012, due to the inventory backlog problem, the company repurchased the inventory backlogged in the channel from the dealers, set up a special inventory clearing channel, and gave it when destocking Discounts put pressure on the company's gross profit margin. After the company's reform, the company's gross profit margin increased by about 1% year-on-year. Mainly because the company's increase in the proportion of direct sales, coupled with the company's brand image in recent years, has provided room for the company to increase prices. The company's management stated that the gross profit margin in the next three years can maintain a growth of at least 1.0 pp.

Figure 13: Company's Gross profit ('mn RMB) and GPM



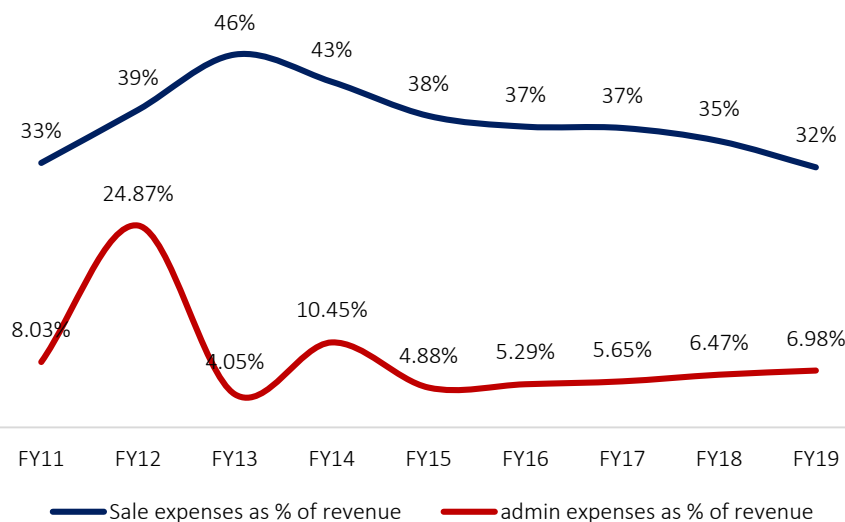
Source: company report, PSHK

During the first half of 2020, the company's gross profit margin was basically the same as last year, mainly due to the improvement in wholesale gross profit margin, which increased by 1,4 pp compared with last year. The increase in the average markup rate of the company's products also eased the pressure on gross profit margin.

Expenses for the period

In terms of period expenses, the company's sales expense ratio after the reform has continued to drop. This is mainly due to the company's concentrated development of the main brand and the more effective use of marketing and promotion expenditures. At the same time, the company has properly controlled advertising and market promotion so that the Resources can increase income more effectively. In terms of administrative expenses, the company's administrative expense ratio in 2012 and 2014 increased significantly due to the company's increase in the provision for impairment of accounts receivable. Since 2015, the company has continued to hire professionals in order to further improve operating efficiency and enhance the supply chain. On the other hand, the company's expenditure on R&D and innovation has also continued to increase, and the company's administrative expenses as a percentage of revenue has also increased year-on-year.

Figure 14: The company's expenses of the period



Source: company report, PSHK

Valuation and Investment Recommendation

The company has completed a number of reforms in recent years. With more efficient operating capabilities and the rise of the national trend, we expect the company's revenue growth in FY20/FY21/FY22 to be 5%/25%/25%. During the epidemic, the company's direct business has a greater impact, but it is expected that the overall year-round will still record a mid-single-digit positive growth. With the increase in the proportion of the company's direct operation and the establishment of its brand image, the company's GPM is expected to increase YoY. The GPM in FY20/FY21/FY22 is predicted to be 50%/51%/52%. The company's brand image has continued to improve in recent years, and its first-half performance also reflects the company's resilience and ability to respond to the market. It is expected that the company can quickly recover after the epidemic. Companies such as Anta Sports and Xtep, which also focus on functional apparel in Hong Kong stocks, have an average valuation of 24.8x earnings ratio. The company's earnings ratio is at a relatively high level in the industry, mainly due to the market's expectation on the company's future. The brand image also provides a premium for it, benchmarking international sports brands.

Considering that the company's brand has huge growth potential and future revenue growth potential, we expect the company's FY20/FY21/FY22 EPS be RMB 66.58/82.54/107.58 cents. The target price of HK\$48.55 corresponds to the expected P/E of 61.98/50.00/38.36x for 2020/2021/2022, and the current price is given an Accumulate I rating.

(Closing price as at 14 December)

Risk

- 1) The impact of COVID-19 continues
- 2) Conflict between China and the United States

Peer Comparison

Company	Ticker	CMP	Mkt Cap.	P/E				P/B			
				TTM	2019	2020	2021	TTM	2019	2020	2021
(Base Currency: ('mn CNY))											
ANTA SPORTS	2020 hk equity	109.10	294,933	54.9x	45.0x	47.9x	31.5x	11.6x	12.6x	10.4x	8.4x
SHENZHOU INT	2313 hk equity	138.40	208,046	33.8x	33.8x	32.7x	27.6x	6.6x	7.0x	6.2x	5.5x
LI NING	2331 hk equity	45.90	114,242	67.9x	64.9x	59.8x	43.4x	12.5x	13.1x	11.3x	9.4x
TOPSPORTS	6110 hk equity	10.20	63,252	21.1x	-	20.7x	21.8x	5.1x	-	5.3x	5.0x
YUE YUEN IND	551 hk equity	16.78	27,052	-	11.2x	-	14.0x	-	0.9x	0.9x	0.9x
POU SHENG IN	3813 hk equity	1.85	9,910	19.6x	10.2x	21.1x	7.6x	1.1x	1.1x	1.0x	0.9x
XTEP INT'L	1368 hk equity	3.20	8,109	12.9x	9.1x	14.2x	9.7x	1.0x	1.1x	0.9x	0.9x
CHINA DONGXI	3818 hk equity	0.83	4,885	3.2x	-	6.4x	4.8x	0.4x	-	-	0.4x
361 DEGREES	1361 hk equity	0.93	1,923	4.4x	3.7x	4.0x	3.7x	0.2x	0.3x	0.3x	0.2x
Lululemon Athle	LULU US equity	2669.00	347,885	78.4x	91.9x	70.4x	75.5x	20.7x	28.0x	23.6x	18.6x
NIKE	Nke US equity	1065.13	1,672,100	73.5x	53.3x	60.2x	47.5x	23.3x	26.3x	27.1x	22.3x
ADIDAS AG	ADS GR equity	2652.44	538,912	118.7x	29.3x	133.8x	33.1x	8.5x	8.1x	7.9x	7.0x
Mean				44.4x	35.2x	42.8x	26.7x	8.3x	9.9x	8.6x	6.6x
Median				33.8x	31.6x	32.7x	24.7x	6.6x	7.6x	6.2x	5.3x

Source: Bloomberg, Phillip Securities Research

(Closing price as at 14 December)

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	10,511	13,870	14,563	18,204	22,755
COGS	(5,458)	(7,064)	(7,282)	(8,920)	(10,922)
Gross Profit	5,053	6,805	7,282	9,284	11,833
S&D expense	(3,708)	(4,445)	(4,587)	(5,643)	(6,940)
Admin expense	(680)	(968)	(1,019)	(1,365)	(1,820)
Other operating gain/(loss)	95	139	239	139	139
Operating Profit	759	1,531	1,914	2,414	3,211
Net finance income	28	(18)	21	22	27
Profit before tax	787	1,513	1,935	2,437	3,238
Tax	(135)	(357)	(484)	(609)	(809)
Associated companies & JVs	64	343	206	227	249
Profit for the year	715	1,499	1,657	2,054	2,678
EPS	29.19	60.13	66.58	82.54	107.58

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	133.67	64.88	58.60	47.27	36.26
P/B ratio, x	16.69	13.63	11.79	9.87	8.13
Dividend Yield, %	0.23%	0.40%	0.43%	0.53%	0.69%

Per share data (RMB cent)

EPS	29.19	60.13	66.58	82.54	107.58
BVPS	233.82	286.23	330.90	395.19	479.64
DPS (HKD cent)	10.33	18.20	19.58	24.28	31.64

Growth & Margin

Growth					
Revenue Growth	18%	32%	5%	25%	25%
Operating income Growth	70%	102%	25%	26%	33%
Net income Growth	39%	110%	11%	24%	30%
Margin					
Gross Profit Margin	48%	49%	50%	51%	52%
Operating profit Margin	7%	11%	13%	13%	14%
Net Profit Margin	6%	8%	10%	10%	11%

Key Ratios

ROE	12%	21%	20%	21%	22%
ROA	8%	12%	13%	13%	15%

(Closing price as at 14 December)

Source: Phillip Securities Research

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	830	1,039	1,109	1,208	1,317
GoodWill	234	193	182	171	161
LT investment	728	1,176	1,382	1,609	1,858
Other	549	1,600	1,326	1,143	1,020
Total Non Current Assets	2,341	4,008	3,999	4,131	4,356
Current Asset					
T/R	929	687	838	1,047	1,309
Inventories	1,240	1,407	1,596	1,955	2,394
Restricted Bank deposits	0	1	1	1	1
Cash and cash equivalents	3,672	5,961	6,359	7,679	9,415
Others	546	483	443	443	443
Total Current Assets	6,386	8,539	9,238	11,126	13,563
Total Assets	8,727	12,547	13,236	15,257	17,919
Non Current Liabilities					
Loan	-	-	-	-	-
Operating Lease	-	557	560	563	566
Others	130	149	149	149	149
Total Non Current Liabilities	130	707	710	713	716
Current Liabilities					
Loan	-	-	-	-	-
T/P	1,133	1,348	1,297	1,588	1,945
Bill Payable	1,383	2,174	2,174	2,174	2,174
Others	261	1,195	821	946	1,146
Total Current Liabilities	2,777	4,717	4,291	4,708	5,265
Equity					
Share capital	204	214	214	214	214
Reserve	5,613	6,907	8,019	9,619	11,721
Non controlling interest	3	3	3	3	3
Total Equity	5,820	7,124	8,236	9,836	11,938
Total Liabilities and Equity	8,727	12,547	13,236	15,257	17,919

Consolidated Statement of Cash Flows

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	1,170	2,388	2,717	3,158	3,938
Chg in working cap	448	1,176	(679)	(277)	(344)
Others	63	82	21	22	27
Tax	(9)	(144)	(531)	(484)	(609)
CFO	1,672	3,503	1,528	2,420	3,011
Capex	(597)	(682)	(537)	(599)	(653)
Others	114	109	-	-	-
CFI	(483)	(573)	(537)	(599)	(653)
Issue of Bond	51	56	-	-	-
Dividends paid	-	(215)	(545)	(454)	(576)
Others	(117)	(490)	(47)	(47)	(47)
CFF	(66)	(649)	(592)	(501)	(623)
Net Change in Cash	1,123	2,282	398	1,320	1,736
Foreign exchange	19	8	-	-	-
Cash and CE at Y/E	3,672	5,961	6,359	7,679	9,415

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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