

# LI NING (2331 HK)

## 2020 performance is in line with expectations, operating efficiency continues to improve

Hong Kong | Consumer (Sportswear) | Update Report

16 April 2020

### Investment Summary

Li Ning announced on March 19 the company's annual results for the year ended December 31, 2020. The company's 2020 revenue was RMB 14.46 billion, an increase of 4.2% year-on-year, which was in line with our previous expectations (previous expectations: RMB 14.56 billion), the annual net profit was 1.70 billion yuan, slightly better than our expectation (previously expected: 1.66 billion yuan), an increase of 13.3% year-on-year (including one-off non-operating gains of CNY 234 million in 2019). If the relevant items are excluded, the company Core attributable net profit increased by 34.2% year-on-year. NPM increased from 10.8% to 11.7%, an increase of 0.9 ppts year-on-year, mainly due to the company's proper control of operating costs. The company declared a final dividend of CNY 20.46 cent per share, with a full-year dividend payout ratio of approximately 29.6%.

### The annual revenue growth MSD, and cost control offsets the impact of the epidemic

Li Ning's annual revenue was RMB 14.46 billion, an increase of 4.2% year-on-year. In terms of distribution channels, the company's revenue from retail/wholesale/e-commerce changed by 0.9%/-9.7%/29.9% year-on-year, accounting for 48%/23%/29%, respectively, and the proportion of revenue from e-commerce increased by 5 ppts to 29%. From the perspective of core categories, in terms of retail sell-through, the overall increase was 1% year-on-year compared to last year, but only sports casual recorded a positive growth, an increase of 23% year-on-year, accounting for 39%, and an increase of 7 ppts. Other core categories such as running/training/basketball/non-core are reduced by 9%/16%/4%/9% respectively, and the proportion of retail turnover is 17%/16%/26%/2%.

The company's net profit for the year was CNY 1.70 billion, a year-on-year increase of 34.2% based on core net profit, and a NPM of 11.7%, an increase of 0.9 ppts. The GPM was the same as last year, at 49.1%, mainly due to the company's adjustment of the wholesale business price increase during the year, which increased the GPM and offset the negative impact of increased discounts on the GPM due to the epidemic. During the year, the company controlled expenses appropriately, research expenses, advertising and market promotion expenses, and staff costs, accounting for 2.2%, 8.9%, and 9.1% of revenue, respectively, representing a year-on-year decrease of 0.4/0.7/ 1.8 ppts. From the perspective of operating, the company's inventory turnover days were 68 days, same as FY19, reflecting that the inventory of channels affected by the epidemic during the year has also been digested. During the year, the company also adjusted its channels and reduced its low-efficiency offline franchise stores. The total number of stores decreased by 617 year-on-year to 6,933 as of December 31, 2020.

### Good performance in the 1Q21, conservative revenue guidance

For the FY21, the company expects sales growth of 20%-25%, while retail sell-through in various channels will increase by 18%-23%. On the profit side, the company expects to increase its NPM by 1 ppts in 2021. We believe that the company's guidance is relatively conservative. The company's offline retail sales from January to mid-March increased by about 70% year-on-year, compared to a 30% increase in 2019, and the recovery of offline channels is progressing well. As the brand image improves, the room for price increases on products will also be further expanded in the future.

### Accumulate (Maintain)

**CMP HKD 57.8**

(Closing price as at 14 April)

Target HKD 66.11 (+14.37%)

#### COMPANY DATA

O/S SHARES (MN) :	2,489
MARKET CAP (HKD MN) :	143,962
52 - WK HI/LO (HKD):	59.10/22.38

#### SHARE HOLDING PATTERN, %

VIVA CHINA HOLDINGS LIMITED (08032)	13.30
BlackRock, Inc.	4.96

#### PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

#### Key Financials

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	13,870	14,457	18,204	22,755
Net Profit	1,499	1,698	2,331	3,044
EPS, CNY cent	60.13	68.24	93.66	122.28
P/E, x	81.70	71.99	52.46	40.18
BVPS, CNY	286.23	349.12	423.18	519.19
P/BV, x	17.16	14.07	11.61	9.46
DPS (HKD cent)	18.20	20.07	27.55	35.97
Div. Yield (%)	0.31%	0.35%	0.48%	0.62%

Source: Company reports, Phillip Securities Est.

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**Valuation and investment advice**

The company's revenue and profit in FY20 were in line with our expectations. Under the epidemic, revenue still recorded a single-digit positive growth. In addition, cost control and price adjustments also offset the negative impact of discount promotions. With the improvement of operating capacity and the rise of the national trend, we maintain our previous expectation that the company's revenue growth in the next three years will be 25%. With the increase in the company's direct sales ratio and the establishment of brand image, the company's GPM is expected to increase year-on-year. The GPM in FY21/FY22 is expected to be 51%/52%. The company's earnings ratio is at a relatively high level in the industry, mainly because the market has higher expectations for the company's future growth, and the brand image also provides a premium for it, benchmarking against international sports brands. Considering that the company's brand has huge growth potential, profitability will be further improved in the future, and the future earnings growth potential is huge. We have raised the company's FY21/FY22 earnings per share to CNY 93.66/122.28 cents (previously: CNY 82.54/107.58 cents). Based on the company's future revenue growth higher than our previous expectations, we raise our target P/E to FY21 60x. Raise the target price to HKD 66.11, corresponding to 60.00/45.95 times expected earnings ratio in 2021/2022, corresponding to the current price, and maintain the Accumulate rating. (Current price as of April 14)

## Financials

### Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	13,870	14,457	18,204	22,755	28,444
COGS	(7,064)	(7,363)	(8,920)	(10,922)	(13,653)
<b>Gross Profit</b>	6,805	7,094	9,284	11,833	14,791
S&D expense	(4,445)	(4,425)	(5,461)	(6,826)	(8,533)
Admin expense	(968)	(805)	(1,001)	(1,252)	(1,564)
Other operating gain/(loss)	139	331	139	139	139
<b>Operating Profit</b>	1,531	2,196	2,961	3,894	4,832
Net finance income	(18)	(32)	25	30	40
<b>Profit before tax</b>	1,513	2,164	2,986	3,923	4,872
Tax	(357)	(549)	(746)	(981)	(1,218)
Associated companies & JVs	343	83	92	101	111
<b>Profit for the year</b>	1,499	1,698	2,331	3,044	3,765
<b>EPS</b>	60.13	68.24	93.66	122.28	151.28

### Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
<b>Valuation Ratio</b>					
P/E ratio, x	81.70	71.99	52.46	40.18	32.48
P/B ratio, x	17.16	14.07	11.61	9.46	7.71
Dividend Yield, %	0.31%	0.35%	0.48%	0.62%	0.77%

### Per share data (RMB cent)

EPS	60.13	68.24	93.66	122.28	151.28
BVPS	286.23	349.12	423.18	519.19	637.00
DPS (HKD cent)	18.20	20.07	27.55	35.97	44.50

### Growth & Margin

<b>Growth</b>					
Revenue Growth	32%	4%	26%	25%	25%
Operating income Growth	102%	43%	35%	32%	24%
Net income Growth	110%	13%	37%	31%	24%
<b>Margin</b>					
Gross Profit Margin	49%	49%	51%	52%	52%
Operating profit Margin	11%	15%	16%	17%	17%
Net Profit Margin	8%	11%	12%	13%	13%

### Key Ratios

ROE	21%	20%	22%	24%	24%
ROA	12%	12%	14%	15%	16%

(Current price as of April 14)

Source: Phillip Securities Research

### Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>Non Current Asset</b>					
PPE	1,039	1,065	1,161	1,265	1,379
GoodWill	193	191	179	169	158
LT investment	1,176	1,216	1,308	1,409	1,520
Other	1,600	2,345	2,043	1,841	1,706
<b>Total Non Current Assets</b>	4,008	4,817	4,692	4,684	4,764
<b>Current Asset</b>					
T/R	687	659	848	1,060	1,325
Inventories	1,407	1,346	1,662	2,035	2,544
Restricted Bank deposits	1	1	1	1	1
Cash and cash equivalents	5,961	7,187	8,524	11,461	14,931
Others	483	584	519	519	519
<b>Total Current Assets</b>	8,539	9,777	11,554	15,076	19,319
<b>Total Assets</b>	12,547	14,594	16,246	19,760	24,083
<b>Non Current Liabilities</b>					
Loan	-	-	-	-	-
Operating Lease	557	689	692	695	698
Others	149	201	201	201	201
<b>Total Non Current Liabilities</b>	707	889	892	895	898
<b>Current Liabilities</b>					
Loan	-	-	-	-	-
T/P	1,348	1,227	1,588	1,945	2,431
Bill Payable	2,174	2,501	2,125	2,656	3,320
Others	1,195	1,287	1,107	1,342	1,579
<b>Total Current Liabilities</b>	4,717	5,015	4,820	5,943	7,330
<b>Equity</b>					
Share capital	214	228	228	228	228
Reserve	6,907	8,459	10,302	12,691	15,624
Non controlling interest	3	3	3	3	3
<b>Total Equity</b>	7,124	8,689	10,533	12,922	15,854
<b>Total Liabilities and Equity</b>	12,547	14,594	16,246	19,760	24,083

### Consolidated Statement of Cash Flows

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
<b>EBITDA</b>	<b>2,388</b>	<b>3,209</b>	<b>3,803</b>	<b>4,679</b>	<b>5,597</b>
Chg in working cap	1,176	138	(789)	303	377
Others	82	6	25	30	40
Tax	(144)	(589)	(592)	(746)	(981)
<b>CFO</b>	<b>3,503</b>	<b>2,763</b>	<b>2,447</b>	<b>4,265</b>	<b>5,033</b>
Capex	(682)	(738)	(575)	(627)	(683)
Others	109	(254)	-	-	-
<b>CFI</b>	<b>(573)</b>	<b>(992)</b>	<b>(575)</b>	<b>(627)</b>	<b>(683)</b>
Issue of Bond	56	189	-	-	-
Dividends paid	(215)	(378)	(488)	(654)	(833)
Others	(490)	(325)	(47)	(47)	(47)
<b>CFF</b>	<b>(649)</b>	<b>(513)</b>	<b>(535)</b>	<b>(701)</b>	<b>(880)</b>
<b>Net Change in Cash</b>	<b>2,282</b>	<b>1,258</b>	<b>1,337</b>	<b>2,937</b>	<b>3,470</b>
Foreign exchange	8	(33)	-	-	-
<b>Cash and CE at Y/E</b>	<b>5,961</b>	<b>7,187</b>	<b>8,524</b>	<b>11,461</b>	<b>14,931</b>

**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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