

LI NING (2331 HK)

Profit alert for 1H21, revenue and profit beat Hong Kong | Consumer (Sportswear) | Update Report

14 July 2021

Investment Summary

Li Ning announced on June 25 that the company expects to record a net profit of no less than RMB 1.8 billion for the six months ending June 30, 2021, an increase of 163% Yoy, mainly due to the company's revenue growth of more than 60% in 1H and the OPM continues to improve. The Xinjiang cotton incident stimulated the company's sales growth in 1H. The overall revenue slightly beat our expectations, and the net profit beat our expectations, mainly due to better profitability than we expected. (Previously expected: 2021 NPM:12%)

OPM improved significantly, and profit in 1H was better than expected

The company's revenue in 1H21 recorded a growth of no less than 60% over the same period last year. The company's revenue in 1H20 recorded approximately RMB 6.18 billion. Based on this, the company's revenue in 1H should be no less than RMB 9.89 billion, mainly due to low base in the same period last year, and the company was stimulated by events such as Xinjiang cotton in 1H. In terms of net profit, the company expects to be no less than RMB 1.8 billion, an Yoy increase of approximately 163.4%. The NPM is estimated to be approximately 18.2%, an increase of approximately 7.1 ppts over the same period last year.

The company's profitability performance is better than we expected. We believe that the main reasons can be divided into three aspects. First is the improvement of the company's retail discounts. The company was affected by the epidemic in the same period last year. With the improvement of terminal discounts, profitability has also improved. On the other hand, after the Xinjiang cotton incident, the sales of Li-Ning products are hot. Among them, the sales of China Li-Ning have recorded a significant increase. According to Ali data, during March to May 2021, the sales of China Li-Ning flagship store recorded up to 312%/813%/192% Yoy increase. As China Li Ning's unit price and GPM are higher than other products, the change in income structure is expected to increase the company's overall GPM during the period. In the third aspect, the Xinjiang cotton incident has brought a one-time sales stimulus and organic traffic to the company. Distribution expenses and administrative expenses can be converted more effectively, and the expense of period ratio is expected to be improved.

Good performance in 1H21, adjust the company's valuation model

The company's profit performance in 1H was better than we expected, but we believe that the advantageous performance in 1H would not last till the second half of the year. As the company's performance during the period was affected by a one-off event. In the long run, the company needs to invest additional resources in marketing, in order to further enhance the brand image. For the FY21, the company had expected sales growth of 20%-25% at the beginning of the year; on the profit side, it is expected to increase the NPM by 1 ppts in 2021. Based on the company's performance in 1H, we believe that the company's guidance is relatively conservative. In 1H, the company seized the opportunity to upgrade its brand, providing room for product price increases. In summary, we have adjusted the valuation model and raised the company's revenue in FY21/FY22/FY23 to RMB 196.6/245.8/30.72 billion (previously: RMB 182.0/227.6/28.44 billion); FY21/FY22/FY23 GPM Adjusted to 54%/54%/55% (previously 51%/51%/52%). FY21/FY22/FY23 net profit was revised up to RMB 32.4/36.4/47.4 billion (previously RMB 23.3/30.4/3.77 billion).

Neutral (Downgrade)

CMP HKD 87.5

(Closing price as at 12 July)

Target HKD 91.82 (+4.80%)

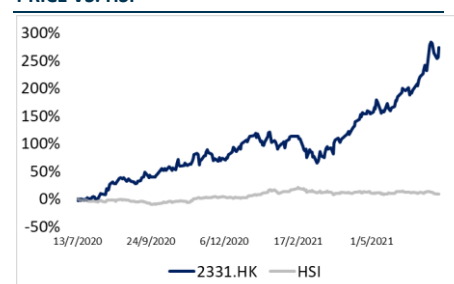
COMPANY DATA

O/S SHARES (MN) :	2,494
MARKET CAP (HKD MN) :	218,255
52 - WK HI/LO (HKD):	105.00/23.05

SHARE HOLDING PATTERN, %

VIVA CHINA HOLDINGS LIMITED (08032)	10.87
BlackRock, Inc.	5.19

PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

Key Financials

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	13,870	14,457	19,660	24,575
Net Profit	1,499	1,698	3,238	3,640
EPS, CNY cent	60.13	68.24	130.08	146.26
P/E, x	123.68	108.99	57.17	50.85
BVPS, CNY	286.23	349.12	455.96	568.08
P/BV, x	25.98	21.30	16.31	13.09
DPS (HKD cent)	18.20	20.07	38.26	43.02
Div. Yield (%)	0.21%	0.23%	0.44%	0.49%

Source: Company reports, Phillip Securities Est.

Research Analyst

Timothy Chong (+ 852 2277 6515)

timothy_chong@phillip.com.hk

Valuation and investment advice

The company's revenue and profit side in 1H were better than our expectations. The Xinjiang cotton incident brought opportunities to the company, brought short-term stimulus to product sales, and also brought opportunities for the company to upgrade its brand. In 1H, due to the company's revenue growth and improved OPM, the company recorded a high percentage increase in the profit side. We believe that although the profitability in 1H would not last for the whole year, the profitability for the whole year will also be improved compared to last year. It is expected that the company will also raise the new performance guidance during the interim results meeting. As the company's revenue structure changes and brand image is established, the company's GPM is expected to further improve. The GPM in FY21/FY22/FY23 is forecast to be 54%/54%/55%. We raise the company's FY21/FY22 EPS forecast to RMB 130.08/146.26 cent (previously: RMB 93.66/122.28 cent). Maintain the target P/E to 60x in 2021, and raise the target price to HK\$91.82, which corresponds to 60.00/53.36 times the expected P/E in FY21/FY22, corresponding to the current price, downgrades to a Neutral rating.

(Current price as of July 12)

Risk

- 1) A small increase in performance guidance
- 2) Weak consumer demand

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13,870	14,457	19,660	24,575	30,719
COGS	(7,064)	(7,363)	(9,044)	(11,305)	(13,824)
Gross Profit	6,805	7,094	10,617	13,271	16,895
S&D expense	(4,445)	(4,425)	(5,603)	(7,373)	(9,216)
Admin expense	(968)	(805)	(983)	(1,352)	(1,690)
Other operating gain/(loss)	139	331	139	139	139
Operating Profit	1,531	2,196	4,169	4,685	6,129
Net finance income	(18)	(32)	25	34	46
Profit before tax	1,513	2,164	4,194	4,719	6,175
Tax	(357)	(549)	(1,049)	(1,180)	(1,544)
Associated companies & JVs	343	83	92	101	111
Profit for the year	1,499	1,698	3,238	3,640	4,742
EPS	60.13	68.24	130.08	146.26	190.53

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	123.68	108.99	57.17	50.85	39.04
P/B ratio, x	25.98	21.30	16.31	13.09	10.36
Dividend Yield, %	0.21%	0.23%	0.44%	0.49%	0.64%
Per share data (RMB cent)					
EPS	60.13	68.24	130.08	146.26	190.53
BVPS	286.23	349.12	455.96	568.08	717.62
DPS (HKD cent)	18.20	20.07	38.26	43.02	56.04
Growth & Margin					
Growth					
Revenue Growth	32%	4%	36%	25%	25%
Operating income Growth	102%	43%	90%	12%	31%
Net income Growth	110%	13%	91%	12%	30%
Margin					
Gross Profit Margin	49%	49%	54%	54%	55%
Operating profit Margin	11%	15%	21%	19%	20%
Net Profit Margin	8%	11%	16%	14%	15%
Key Ratios					
ROE	21%	20%	29%	26%	27%
ROA	12%	12%	19%	17%	18%

(Closing price as at 12 July)

Source: Phillip Securities Est.

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
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
Total Non Current Assets	4,008	4,817	4,692	4,684	4,764
Current Asset					
T/R	687	659	916	1,145	1,431
Inventories	1,407	1,346	1,685	2,106	2,575
Restricted Bank deposits	1	1	1	1	1
Cash and cash equivalents	5,961	7,187	9,614	13,002	17,421
Others	483	584	519	519	519
Total Current Assets	8,539	9,777	12,735	16,772	21,947
Total Assets	12,547	14,594	17,426	21,457	26,711
Non Current Liabilities					
Loan	-	-	-	-	-
Operating Lease	557	689	692	695	698
Others	149	201	201	201	201
Total Non Current Liabilities	707	889	892	895	898
Current Liabilities					
Loan	-	-	-	-	-
T/P	1,348	1,227	1,611	2,013	2,462
Bill Payable	2,174	2,501	2,165	2,868	3,585
Others	1,195	1,287	1,410	1,541	1,905
Total Current Liabilities	4,717	5,015	5,185	6,422	7,952
Equity					
Share capital	214	228	228	228	228
Reserve	6,907	8,459	11,118	13,908	17,630
Non controlling interest	3	3	3	3	3
Total Equity	7,124	8,689	11,349	14,139	17,861
Total Liabilities and Equity	12,547	14,594	17,426	21,457	26,711

Consolidated Statement of Cash Flows

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	2,388	3,209	5,012	5,471	6,894
Chg in working cap	1,176	138	(817)	455	410
Others	82	6	25	34	46
Tax	(144)	(589)	(592)	(1,049)	(1,180)
CFO	3,503	2,763	3,628	4,911	6,170
Capex	(682)	(738)	(575)	(627)	(683)
Others	109	(254)	-	-	-
CFI	(573)	(992)	(575)	(627)	(683)
Issue of Bond	56	189	-	-	-
Dividends paid	(215)	(378)	(579)	(850)	(1,020)
Others	(490)	(325)	(47)	(47)	(47)
CFF	(649)	(513)	(626)	(897)	(1,067)
Net Change in Cash	2,282	1,258	2,427	3,388	4,420
Foreign exchange	8	(33)	-	-	-
Cash and CE at Y/E	5,961	7,187	9,614	13,002	17,421

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2021 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm