

LI NING (2331 HK)

1H21 results beat, core categories sell-through grew rapid Hong Kong | Consumer (Sportswear) | Update Report

3 September 2021

Investment summary

Li Ning announced the company's interim results as of June 30, 2021. During the period, revenue increased by 65% Yoy to CNY 10.20 billion, overall GPM increased by 6.4 ppts to 55.9%, and net profit attributable to the parent recorded CNY 1.96 billion, a Yoy increase 187%, mainly due to the company's increased operating leverage, OPM increased by 10.4 ppts to 24.9%. The overall performance is better than the profit alert announcement. The company's operating performance continues to improve, and the cash cycle is further shortened by 17 days to 13 days.

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

From the perspective of retail sell-through growth, the company's overall sell-through (including online and offline) in 1H recorded a low-nineties growth, while offline channels recorded a high-eighties growth. The company's direct operating sell-through recorded an 88.5% growth, and the wholesale channel sell-through recorded a high-eighties. By category, the company's core category retail sell-through increased by 92% in total. Among the core categories, sports fashion/running/basketball category sell-through increased by 116%/87%/80% Yoy respectively. During the period, the company's revenue recorded CNY 10.20 billion, a Yoy increase of 65%, mainly due to the recovery of demand after the epidemic and the Xinjiang cotton incident to stimulate sales growth. Net profit increased by 187% Yoy to CNY 1.962 billion, mainly due to the company's significant Yoy increase in OPM by 10.4ppts to 24.9%; under operating leverage, NPM increased by 8.1 ppts to 19.2%.

In terms of POS, the company's total number of POS decreased by 188 from the previous month to 6,745, among which Li-Ning brand POS decreased by 208, from 5,912 at the end of last year to 5,704 at the end of June. Li-Ning brand wholesale/direct-operated stores decreased by 147/61 respectively. Channels continued to optimize through opening large stores and closing low-efficiency stores, the overall store area still recorded a low double-digit increase despite the decrease in the total number of stores. During the period, the company's sales efficiency improved, and the overall inventory turnover months improved from 4.2 months at the end of last year to 3.1 months. In the inventory structure, new products with an age of 6 months or less accounted for 83% of the inventory at the end of the period. An increase of 5ppts from 78% at the end of last year; Among them, the proportion of inventories older than 12 months fell to 7%, an improvement of 2ppts from the end of last year, mainly due to the company's adjustment of new product handling policies, and the new products began to be cleared 3 months after they were put on the shelves. For promotion, the overall discount is controlled in the middle of 10%-20% off, and the 3-month sales rate of new products is mid-sixties.

The management updated the FY21 guidance. The management raised the revenue growth to more than 40%. If calculated based on the revenue growth of 65% in the first half of the year, the revenue growth in the second half of the year is expected to be no less than 20%. The annual NPM was 16% to 17.5%. The revenue growth in the next 2 to 3 years is expected to exceed a CAGR of 20%. We believe that the updated guidelines are in line with our previous expectations. The excellent performance in the first half of the year is not expected to continue throughout the year, but the overall performance will still be improved compared to last year.

Accumulate (Upgrade)

CMP HKD 104.50

(Closing price as at 31 August)

Target HKD 118.45 (+13.35%)

COMPANY DATA

O/S SHARES (MN) :	2,494
MARKET CAP (HKD MN) :	249,538
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	20,388	25,485
Net Profit	1,499	1,698	3,350	4,188
EPS, CNY cent	60.13	68.07	134.23	167.81
P/E, x	138.88	122.69	62.21	49.76
BVPS, CNY	285.50	348.22	458.82	589.72
P/BV, x	29.25	23.98	18.20	14.16
DPS (HKD cent)	18.20	24.07	47.38	59.23
Div. Yield (%)	0.19%	0.24%	0.48%	0.60%

Source: Company reports, Phillip Securities Est.

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Valuation and investment advice

The company's revenue and profit side in the first half of the year were beat 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 the first half of the year, due to the company's revenue growth and improved operating margins, the company recorded a high percentage increase in the profit side. As the company's revenue structure changes and brand image is established, the company's GPM is expected to further improve. The FY21/FY22/FY23 GPM is predicted to be 54%/54%/55%. In response to the first half of the performance, we adjusted the company's valuation model and raised the company's FY21/FY22 earnings per share forecast to CNY 134.23/167.81 cent (previously: CNY 130.08/146.26 cent). Move the target P/E one year later to FY2022 60x, and raise the target price to HK\$118.45, which corresponds to 75.00/60.00 times the expected price-earnings ratio in 2021/2022, corresponding to the current price, and upgrade to Accumulate rating.

Risk

- 1) Another wave of epidemic
- 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	20,388	25,485	31,857
COGS	(7,064)	(7,363)	(9,379)	(11,723)	(14,336)
Gross Profit	6,805	7,094	11,010	13,762	17,521
S&D expense	(4,445)	(4,425)	(5,811)	(7,136)	(8,920)
Admin expense	(968)	(805)	(1,019)	(1,351)	(1,688)
Other operating gain/(loss)	139	331	139	139	139
Operating Profit	1,531	2,196	4,319	5,414	7,052
Net finance income	(18)	(32)	25	34	48
Profit before tax	1,513	2,164	4,344	5,449	7,100
Tax	(357)	(549)	(1,086)	(1,362)	(1,775)
Associated companies & JVs	343	83	92	101	111
Profit for the year	1,499	1,698	3,350	4,188	5,436
EPS	60.13	68.07	134.23	167.81	217.84

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	147.71	130.50	66.17	52.93	40.78
P/B ratio, x	31.11	25.51	19.36	15.06	11.68
Dividend Yield, %	0.17%	0.23%	0.45%	0.57%	0.74%

Per share data (RMB cent)

EPS	60.13	68.07	134.23	167.81	217.84
BVPS	285.50	348.22	458.82	589.72	760.60
DPS (HKD cent)	18.20	24.07	47.38	59.23	76.88

Growth & Margin

Growth					
Revenue Growth	32%	4%	41%	25%	25%
Operating income Growth	102%	43%	97%	25%	30%
Net income Growth	110%	13%	97%	25%	30%
Margin					
Gross Profit Margin	49%	49%	54%	54%	55%
Operating profit Margin	11%	15%	21%	21%	22%
Net Profit Margin	8%	11%	16%	16%	17%

Key Ratios

ROE	21%	20%	29%	28%	29%
ROA	12%	12%	19%	19%	19%

(Closing price as at 31 August)

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	950	1,187	1,484
Inventories	1,407	1,346	1,747	2,184	2,671
Restricted Bank deposits	1	1	1	1	1
Cash and cash equivalents	5,961	7,187	9,796	13,637	18,616
Others	483	584	519	519	519
Total Current Assets	8,539	9,777	13,012	17,528	23,291
Total Assets	12,547	14,594	17,704	22,212	28,055
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	1,670	2,088	2,553
Bill Payable	2,174	2,501	2,246	2,790	3,488
Others	1,195	1,287	1,447	1,723	2,136
Total Current Liabilities	4,717	5,015	5,363	6,601	8,176
Equity					
Share capital	214	228	228	228	228
Reserve	6,907	8,459	11,219	14,485	18,749
Non controlling interest	3	3	3	3	3
Total Equity	7,124	8,689	11,449	14,716	18,980
Total Liabilities and Equity	12,547	14,594	17,704	22,212	28,055

Consolidated Statement of Cash Flows

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	2,388	3,209	5,161	6,200	7,817
Chg in working cap	1,176	138	(774)	288	379
Others	82	6	25	34	48
Tax	(144)	(589)	(592)	(1,086)	(1,362)
CFO	3,503	2,763	3,820	5,436	6,882
Capex	(682)	(738)	(575)	(627)	(683)
Others	109	(254)	-	-	-
CFI	(573)	(992)	(575)	(627)	(683)
Issue of Bond	56	189	-	-	-
Dividends paid	(215)	(378)	(590)	(921)	(1,172)
Others	(490)	(325)	(47)	(47)	(47)
CFF	(649)	(513)	(637)	(968)	(1,219)
Net Change in Cash	2,282	1,258	2,609	3,841	4,980
Foreign exchange	8	(33)	-	-	-
Cash and CE at Y/E	5,961	7,187	9,796	13,637	18,616

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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