

Equity Research  
 Sportswear/ China

# Li-Ning (2331 HK)

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## Company Update

### HOLD

**UNCHANGED**
**Close price:** HK\$13.28

**Target Price:** HK\$12.10 (-9%)

**Prior TP:** HK\$12.10

#### Key Data

HKEx code	2331
12 Months High (HK\$)	13.68
12 Month Low (HK\$)	6.33
3M Avg Dail Vol. (mn)	19.12
Issue Share (mn)	2,192.76
Market Cap (HK\$m)	29,119.84
Fiscal Year	12/2018
Major shareholder (s)	VIVA China (13.7%)

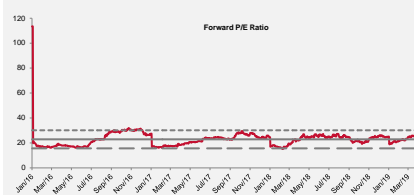
Source: Company data, Bloomberg, OP Research  
 Closing price are as of 17/04/2019

#### Price Chart



	1mth	3mth	6mth
Absolute %	13.3	36.9	94.2
Rel. MSCI CHINA %	10.4	20.7	72.2

#### PE Chart



#### Company Profile

Li Ning Company Limited researches, designs, manufactures, distributes, and retails sports footwear, apparel and accessories for sport and leisure use.

## Upbeat 1Q19E sales performance

- Li-Ning delivered upbeat 1Q19E operations performance with core brand retail sell-through/overall SSSG up low-twenties/mid-teens percentage yoy.
- Trade fair orders keep robust growth of mid-teens percentage.
- Maintain HOLD with TP HK\$12.1 based on same 20x FY20E P/E.

**1Q19E saw stronger than expected sales performance.** Li Ning saw overall SSSG of MTS (mid-teens percentage), of which offline direct operation/offline wholesale/e-commerce each registered HSD (high-single digit)/LTS (low-teens percentage)/high-thirties percentage growth respectively. Retail **sell-through** of core brand increased by low-twenties, of which offline direct operation/offline wholesales/e-commerce each up LTS/low-twenties/low-forties respectively. Number of Li-Ning **POS** slightly edged down to 6,310 and that for Li-Ning Young edged up by 22 to 815.

**Trade fair order for 4Q19E up MTS yoy.** Li-Ning saw MTS growth in order value of 4Q19E trade fair vs LTS for 3Q19E and LTS for 4Q18, which indicates increasing franchised distributor confidence and echoes with the strong wholesale SSSG performance during latest quarters.

**Maintain HOLD.** We update the historical share award expenses and fine-tune our FY19E share-award expenses estimate. Maintain HOLD with target price HK\$12.10 unchanged based on 20x FY20x P/E, at par to Anta (2020 HK, BUY).

**Risks:** (1) deflated consumer confidence and muted consumption growth in China; (2) aggressive discounts offered by peers; (3) channel inventory build-up.

#### Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	8,873.9	10,510.9	12,476.9	14,330.9	16,203.6
Growth (%)	10.7	18.4	18.7	14.9	13.1
Net Profit	515.2	715.3	944.1	1,162.6	1,335.5
Growth (%)	(19.9)	38.8	32.0	23.1	14.9
Diluted EPS (HK\$)	0.279	0.406	0.483	0.583	0.637
EPS growth (%)	37.2	45.3	19.2	20.6	9.2
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.485	0.617	
ROE (%)	11.4	13.1	15.3	16.6	16.9
P/E (x)	47.6	32.7	27.5	22.8	20.9
P/B (x)	4.6	4.0	3.7	3.3	2.9
Yield (%)	0.0	0.7	1.1	1.8	2.4
DPS (HK\$)	0.000	0.088	0.145	0.233	0.318

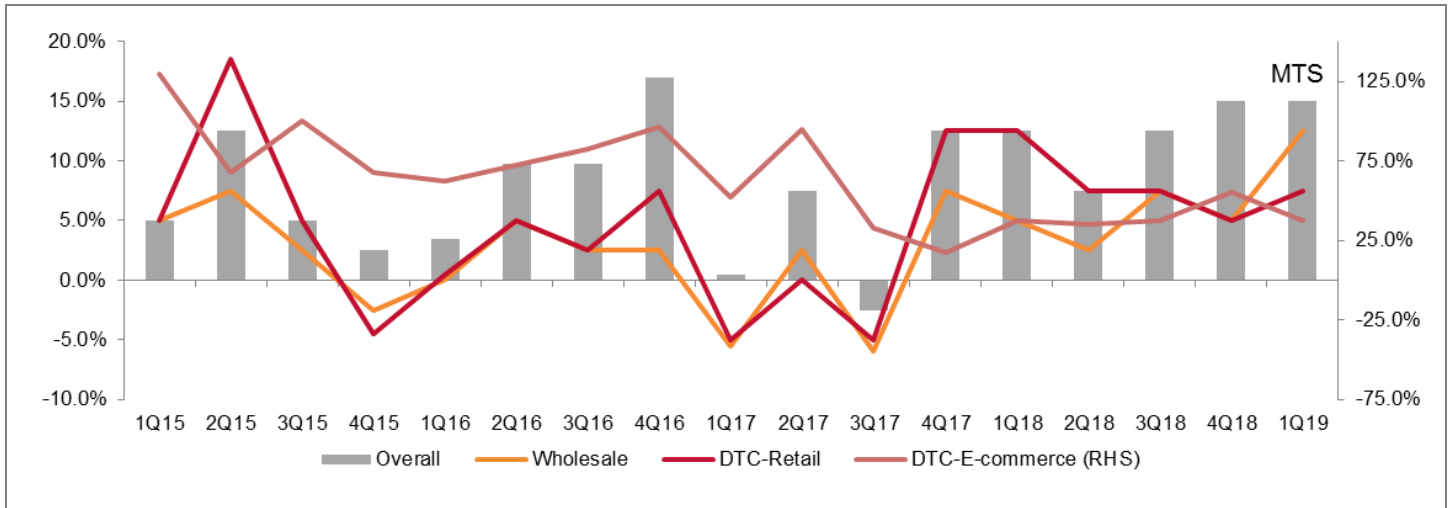
Source: Bloomberg, OP Research

**Exhibit 2: Earnings Revision**

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
<b>Revenue</b>	<b>12,477</b>	<b>12,477</b>	<b>0.0</b>	<b>14,331</b>	<b>14,331</b>	<b>0.0</b>	
Li-Ning Brand	11,981	11,981	0.0	13,646	13,646	0.0	
Li-Ning Young	474	474	0.0	661	661	0.0	
Other brands	22	22	0.0	24	24	0.0	
Gross profit	6,091	6,091	0.0	7,079	7,079	0.0	
Gross margin	48.8%	48.8%	0.0	49.4%	49.4%	0.0	
Opex	(5,063)	(5,063)	0.0	(5,774)	(5,774)	0.0	
EBIT	1,085	1,085	0.0	1,362	1,362	0.0	
Net profit from continued operation	944	944	0.0	1,163	1,163	(0.0)	
Adjusted net profit	1,034	1,014	2.0	1,223	1,223	(0.0)	Revised up share-award expenses
Diluted EPS (HK\$)	0.493	0.483	2.0	0.583	0.583	0.0	

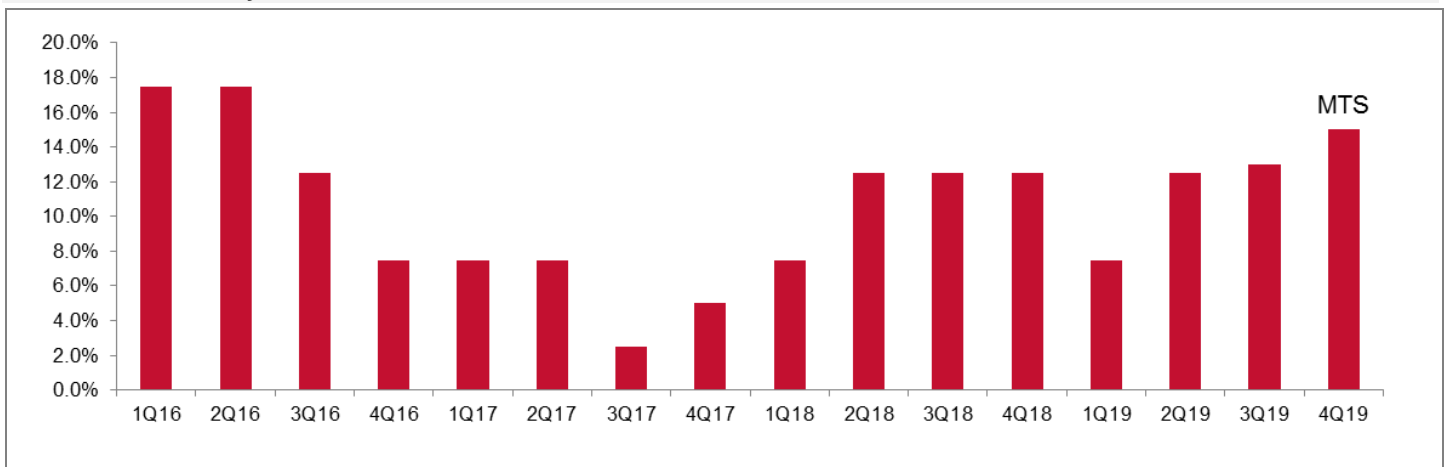
Source: Company, OP Research

**Exhibit 3: Summary of Same Store Sales Growth (SSSG)**



Source: Company

**Exhibit 4: Summary of Trade Fair Order Growth**



Source: Company

## Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E	Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
<b>Income Statement (RMB mn)</b>						<b>Ratios</b>					
Footwear	4,146	4,601	4,912	5,595	6,310	Gross margin (%)	47.1	48.1	48.8	49.4	49.6
Apparel	4,172	5,316	6,350	7,232	8,156	Operating margin (%)	5.0	7.0	8.7	9.5	9.7
Accessories	501	594	719	819	923	Net margin (%)	5.8	6.8	7.6	8.1	8.2
Other brands	55	0	496	685	814	Selling & dist'n exp/Sales (%)	36.9	35.3	34.2	33.7	33.0
<b>Turnover</b>	<b>8,874</b>	<b>10,511</b>	<b>12,477</b>	<b>14,331</b>	<b>16,204</b>	Admin exp/Sales (%)	5.6	6.3	6.4	6.6	7.2
YoY%	10.7	18.4	18.7	14.9	13.1	R&D/Sales (%)	1.9	2.2	2.0	2.0	2.0
COGS	(4,697)	(5,458)	(6,386)	(7,251)	(8,171)	A&P/Sales (%)	11.1	10.4	10.4	10.4	10.4
<b>Gross profit</b>	<b>4,176</b>	<b>5,053</b>	<b>6,091</b>	<b>7,079</b>	<b>8,033</b>	Payout ratio (%)	0.0	21.2	30.0	40.0	50.0
Gross margin	47.1%	48.1%	48.8%	49.4%	49.6%	Effective tax (%)	4.8	17.2	25.0	25.0	25.0
Other income	44	48	57	57	57	Total debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Selling & distribution	(3,273)	(3,708)	(4,268)	(4,824)	(5,342)	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Admin	(501)	(662)	(795)	(950)	(1,171)	Current ratio (x)	2.4	2.3	2.2	2.2	2.2
Other opex	0	0	0	0	0	Quick ratio (x)	1.9	1.9	1.8	1.8	1.8
<b>Total opex</b>	<b>(3,774)</b>	<b>(4,370)</b>	<b>(5,063)</b>	<b>(5,774)</b>	<b>(6,513)</b>	Inventory T/O (days)	86	83	83	83	83
<b>Operating profit (EBIT)</b>	<b>446</b>	<b>731</b>	<b>1,085</b>	<b>1,362</b>	<b>1,576</b>	AR T/O (days)	47	34	35	35	35
Operating margin	5.0%	7.0%	8.7%	9.5%	9.7%	AP T/O (days)	89	82	80	80	80
Provisions	0	0	0	0	0	Cash conversion cycle (days)	44	34	38	38	38
Interest Income	44	70	89	103	119	Asset turnover (x)	1.3	1.3	1.3	1.3	1.3
Finance costs	(26)	(14)	0	0	0	Financial leverage (x)	1.6	1.5	1.5	1.5	1.5
Profit after financing costs	464	787	1,174	1,465	1,696	EBIT margin (%)	5.0	7.0	8.7	9.5	9.7
Associated companies & JVs	74	64	64	64	64	Interest burden (x)	1.2	1.2	1.1	1.1	1.1
Pre-tax profit	538	850	1,238	1,529	1,759	Tax burden (x)	1.0	0.8	0.8	0.8	0.8
Tax	(22)	(135)	(294)	(366)	(424)	<b>Return on equity (%)</b>	<b>11.4</b>	<b>13.1</b>	<b>15.3</b>	<b>16.6</b>	<b>16.9</b>
Discontinued operation	0	0	0	0	0	<b>ROIC (%)</b>	<b>15.8</b>	<b>25.3</b>	<b>35.1</b>	<b>40.8</b>	<b>44.1</b>
Minority interests	0	0	0	0	0						
<b>Net profit from continued operation</b>	<b>515</b>	<b>715</b>	<b>944</b>	<b>1,163</b>	<b>1,335</b>	<b>Year to Dec</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
YoY%	(20)	39	32	23	15	<b>Balance Sheet (RMB mn)</b>					
Add back: Share Award expenses	29	98	70	60	0	Fixed assets	838	830	1,117	1,322	1,562
Adjusted net profit	544	813	1,014	1,223	1,335	Intangible assets & land use rights	334	308	319	334	348
Adjusted net margin	6.1%	7.7%	8.1%	8.5%	8.2%	Associated companies & JVs	689	728	792	856	919
<b>EBITDA</b>	<b>815</b>	<b>1,142</b>	<b>1,461</b>	<b>1,767</b>	<b>2,020</b>	Long-term investments	101	103	103	103	103
EBITDA margin	9.2%	10.9%	11.7%	12.3%	12.5%	Deferred income tax assets	234	239	239	239	239
<b>EPS (RMB)</b>	<b>0.212</b>	<b>0.292</b>	<b>0.375</b>	<b>0.462</b>	<b>0.530</b>	Other non-current assets	14	132	132	132	132
YoY%	37	49	17	21	9	<b>Non-current assets</b>	<b>2,211</b>	<b>2,341</b>	<b>2,703</b>	<b>2,986</b>	<b>3,304</b>
DPS (HK\$)	0.000	0.088	0.145	0.233	0.318	Inventories	1,103	1,240	1,450	1,647	1,856
						AR	1,138	966	1,196	1,374	1,554
<b>Year to Dec</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	Prepayments & deposits	340	0	0	0	0
<b>Cash Flow (RMB mn)</b>						Other current assets	1	509	509	509	509
EBITDA	815	1,142	1,461	1,767	2,020	Cash	2,529	3,672	4,184	4,931	5,640
Chg in working cap	(441)	402	(14)	59	60	<b>Current assets</b>	<b>5,110</b>	<b>6,386</b>	<b>7,340</b>	<b>8,461</b>	<b>9,558</b>
Others	812	137	0	0	0	Tax	1,145	1,231	1,400	1,589	1,791
<b>Operating cash</b>	<b>1,186</b>	<b>1,681</b>	<b>1,447</b>	<b>1,826</b>	<b>2,080</b>	Tax	20	134	294	366	424
Tax	(27)	(9)	(134)	(294)	(366)	Accruals & other payables	929	1,383	1,642	1,886	2,132
<b>Net cash from operations</b>	<b>1,159</b>	<b>1,672</b>	<b>1,312</b>	<b>1,532</b>	<b>1,713</b>	Bank loans & leases	0	0	0	0	0
Capex	(389)	(431)	(624)	(573)	(648)	CB & othe debts	0	0	0	0	0
Investments	(38)	(54)	(50)	(50)	(50)	Other current liabilities	33	29	29	29	29
Dividends received	53	51	0	0	0	<b>Current liabilities</b>	<b>2,128</b>	<b>2,777</b>	<b>3,364</b>	<b>3,870</b>	<b>4,376</b>
Sales of assets	4	4	0	0	0	Bank loans & leases	57	54	54	54	54
Interests received	29	62	89	103	119	CB & othe debts	0	0	0	0	0
Others	(0)	(115)	0	0	0	Deferred tax & others	63	77	77	77	77
<b>Investing cash</b>	<b>(343)</b>	<b>(483)</b>	<b>(585)</b>	<b>(520)</b>	<b>(579)</b>	MI	3	3	3	3	3
<b>FCF</b>	<b>817</b>	<b>1,189</b>	<b>727</b>	<b>1,012</b>	<b>1,135</b>	<b>Non-current liabilities</b>	<b>122</b>	<b>133</b>	<b>133</b>	<b>133</b>	<b>133</b>
Issue of shares	17	51	0	0	0	<b>Total net assets</b>	<b>5,071</b>	<b>5,817</b>	<b>6,547</b>	<b>7,444</b>	<b>8,354</b>
Buy-back	(42)	(117)	0	0	0	<b>Shareholder's equity</b>	<b>5,071</b>	<b>5,817</b>	<b>6,547</b>	<b>7,444</b>	<b>8,354</b>
Interests paid	(8)	0	0	0	0	Share capital	203	204	204	204	204
Dividends paid	0	0	(215)	(265)	(426)	Reserves	4,868	5,613	6,342	7,240	8,149
Net change in bank loans	(200)	0	0	0	0	<b>BVPS (HK\$)</b>	<b>2.91</b>	<b>3.32</b>	<b>3.58</b>	<b>4.07</b>	<b>4.57</b>
Others	0	0	0	0	0	Total debts	0	0	0	0	0
<b>Financing cash</b>	<b>(232)</b>	<b>(66)</b>	<b>(215)</b>	<b>(265)</b>	<b>(426)</b>	Net cash/(debts)	2,530	3,672	4,184	4,931	5,640
<b>Net change in cash</b>	<b>584</b>	<b>1,123</b>	<b>513</b>	<b>747</b>	<b>709</b>		47.1	48.1	48.8	49.4	49.6
Exchange rate or other Adj	(9)	19	0	0	0						
Cash of disposal group classified as HFS	0	0	0	0	0						
Opening cash	1,954	2,529	3,672	4,184	4,931						
<b>Closing cash</b>	<b>2,529</b>	<b>3,672</b>	<b>4,184</b>	<b>4,931</b>	<b>5,640</b>						
<b>CFPS (HK\$)</b>	<b>0.595</b>	<b>0.853</b>	<b>0.626</b>	<b>0.730</b>	<b>0.817</b>						

Source: Company, OP Research

**Exhibit 5: Peer Group Comparison**

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS		3-Yr Cagr (%)	PEG (x)	Div yld		P/B		EV/		Net gearing	Gross margin	Net margin	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
					Hist (x)	FY1 (x)	FY2 (x)	FY1 YoY%	FY2 YoY%			Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr							
Li Ning Co Ltd	2331 HK	13.28	3,712	27.7	26.9	22.8	18.8	18.2	9.3	2.9	0.7	1.1	4.0	3.7	22.3	17.1	Net cash	48.1	6.8	13.1	15.3	26.9	14.9	36.9
HSI		30,124.68			11.7	11.7	10.8	0.8	8.2	5.8	1.99	3.3	3.5	1.40	1.28						11.9	11.0	3.8	12.6
HSCEI		11,848.98			9.8	9.0	8.3	7.9	8.3	8.1	1.12	3.5	3.8	1.21	1.08						12.4	11.9	3.0	12.7
CSI300		4,087.24			15.5	12.9	11.5	19.8	12.4			2.0	2.4	2.0	1.7						12.6	13.1	9.1	31.4
<b>Domestic peers</b>																								
<b>Adjusted sector avg*</b>					<b>23.8</b>	<b>20.3</b>	<b>15.0</b>	<b>15.6</b>	<b>17.1</b>	<b>20.6</b>	<b>0.9</b>	<b>4.0</b>	<b>3.8</b>	<b>2.4</b>	<b>2.8</b>	<b>16.1</b>	<b>13.9</b>	<b>0.0</b>	<b>45.0</b>	<b>12.2</b>	<b>11.7</b>	<b>10.5</b>	<b>4.9</b>	<b>20.4</b>
361 Degrees	1361 HK	1.68	443	0.7	9.7	7.5	6.7	30.6	11.5	17.4	0.4	6.7	5.9	0.5	0.5	0.1	0.1	0.0	40.6	5.9	5.3	6.6	10.5	(3.4)
Xtep Intl	1368 HK	4.88	1,552	8.5	13.8	12.4	10.7	11.0	15.5	14.1	0.9	5.1	4.8	1.8	1.6	8.0	7.1	0.0	44.3	10.3	12.4	13.5	(18.0)	6.6
Anta Sports Prod	2020 HK	55.40	18,961	38.7	30.9	24.7	20.4	25.2	20.8	20.7	1.2	1.4	1.5	8.0	6.5	19.7	16.4	0.0	52.6	17.0	27.8	29.2	8.3	51.6
Shenzhou Intl Gp	2313 HK	103.40	19,812	27.3	29.2	24.6	20.7	18.5	19.1	18.7	1.3	1.5	2.1	5.9	5.2	22.4	18.6	0.0	31.6	21.7	21.7	22.5	(1.2)	14.9
China Dongxiang	3818 HK	1.20	900	0.9	18.8	9.1	9.3	107.7	(2.7)	30.2	0.3	9.1	7.6	0.6	0.6	32.0	11.7	0.0	57.3	18.5	3.3	6.3	2.6	2.6
Annil Co Ltd-A	002875 CH	20.77	409	21.2	33.0	26.6	21.9	24.1	21.2	22.5	1.2	0.7	N/A	3.3	2.8	N/A	15.7	N/A	55.0	6.9	10.0	11.0	(0.6)	43.0
Guirenniao Co-A	603555 CH	7.77	730	10.3	31.1	37.0	32.4	(16.1)	14.3	6.2	5.9	3.2	0.5	2.2	2.2	14.3	N/A	74.7	33.8	4.9	1.1	3.3	9.7	27.6
<b>International peers</b>																								
<b>Adjusted sector avg*</b>					<b>48.1</b>	<b>32.0</b>	<b>31.0</b>	<b>47.8</b>	<b>17.9</b>	<b>24.8</b>	<b>1.5</b>	<b>1.0</b>	<b>0.7</b>	<b>9.5</b>	<b>8.9</b>	<b>21.6</b>	<b>19.5</b>	<b>0.0</b>	<b>48.9</b>	<b>6.2</b>	<b>22.6</b>	<b>25.0</b>	<b>6.4</b>	<b>13.6</b>
Nike Inc -Cl B	NKE US	87.80	138,000	521.3	75.3	34.2	29.0	120.5	17.7	44.9	0.8	1.0	1.0	15.4	16.8	26.5	24.0	0.0	43.8	5.3	44.6	40.7	1.2	11.0
Under Armour-A	UAA US	21.80	9,225	104.0	N/A	65.9	46.5	N/A	41.7	(288.0)	N/A	N/A	0.0	4.8	4.5	59.9	22.7	8.5	45.1	(0.9)	(2.3)	6.2	(1.8)	8.8
Lululemon Ath	LULU US	169.33	22,174	344.9	46.6	37.1	31.4	25.8	18.0	18.2	2.0	N/A	0.0	15.3	12.7	25.7	22.2	0.0	55.2	14.7	31.8	36.0	19.4	16.7
Adidas Ag	ADS GR	228.20	51,740	133.3	27.0	23.8	21.1	13.6	12.8	12.3	1.9	1.1	1.6	7.1	6.2	15.5	13.8	0.0	51.9	7.8	27.4	27.8	7.7	14.1
Puma Se	PUM GR	543.50	9,274	19.2	43.3	33.0	26.8	31.3	23.3	24.1	1.4	N/A	0.8	4.8	4.4	18.9	14.7	0.0	48.4	4.0	11.3	14.2	5.5	17.5

\* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	BUY	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin
06/03/2019	Xtep Intl	1368	JV with Wolverine for multi-brand portfolio	BUY	Dallas Cai/Megan Jin
05/03/2019	CH Display OPT	334	Foldable smartphone play backed by CSOT	BUY	Yuji Fung/Dallas Cai
27/02/2019	Anta Sports	2020	FY18 revenue strong beat, profits in-line	BUY	Dallas Cai/Megan Jin
22/02/2019	Ausnutria Dairy	1717	FY18 profit surprise on margin expansion	BUY	Dallas Cai
20/02/2019	Q Tech	1478	Jan shipments growth was solid	BUY	Yuji Fung/Dallas Cai
19/02/2019	Tongda	698	FY18E profit warning	BUY	Yuji Fung/Dallas Cai

## Historical recommendations and target price: Li-Ning (2331 HK)

(as of 17/04/2019)

(HK\$)



DATE	RATING	TP (HK\$)	CLOSE (HK\$)
1 29 May 2018	BUY	11.50	9.25
2 14 Aug 2018	BUY	9.80	8.50
3 22 Oct 2018	BUY	9.80	7.39
4 30 Jan 2019	HOLD	9.80	9.80
5 25 Mar 2019	HOLD	12.10	12.70

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