Equity Research
Sportswear/ China

Li-Ning (2331 HK)

FY18E results preview

- **We estimate FY18 Li-Ning sales/ earnings to be up 16.5%/37.9% yoy to RMB10,341mn/RMB710mn respectively with 1.1ppts improvement in GPM to 48.2%.**
- **We fine-tune our FY18/19E earnings estimate by -5.2%/+0.6% to RMB710mn/RMB933mn.**
- **Downgrade to HOLD on fair valuation, TP HK$9.80 unchanged based on same 20x FY19E P/E.**

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Company Update

HOLD

DOWNGRADE

Close price:	**HK$9.80**
Target Price:	**HK$9.80 (+0%)**
Prior TP:	**HK$9.80**

Key Data

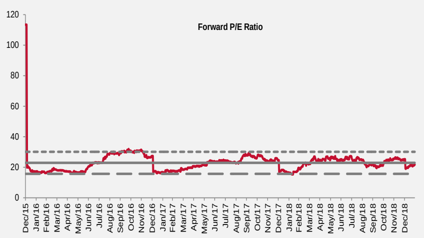
HKEx code		2331
12 Months High	(HK$)	10.50
12 Month Low	(HK$)	5.48
3M Avg Dail Vol.	(mn)	9.94
Issue Share	(mn)	2,192.01
Market Cap	(HK$mn)	21,481.69
Fiscal Year		12/2017
Major shareholder (s)		VIVA China (14.9%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 29/01/2019

Price Chart

	1mth	3mth	6mth
Absolute %	**17.1**	**33.5**	**19.4**
Rel. MSCI CHINA %	**7.7**	**24.2**	**25.3**

PE Chart



Company Profile

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

We expect solid set of FY18E results as story of improving efficiency continues. We estimate FY18E revenue to post a 16.5% yoy growth thanks to robust sales momentum: Li-Ning has seen LTS/HSD/LTS increase in 1Q/2Q/3Q18 offline SSSG vs flat/HSD/negative LSD growth during the same periods in FY17 and we expect LTS growth for 4Q18E amid cooling consumption sentiment. We estimate 1.1ppts expansion in GPM to 48.2% from 47.1% in FY17 on (1) higher contribution from direct-operated stores, and (2) higher portion of new season products in retail sales mix. Overall, with operating leverage, we expect 37.9% yoy increase in FY18E earnings.

In mid-January, Viva China Sports, a fellow company of Li-Ning under the same holding parent Viva China Holding announced to acquire a Chongqing based e-sports club Snake which competes in League of Legends (LPL) and PUBG. We read the move as another effort of Li-Ning to gain young consumers' favor and we expect Li-Ning brand to benefit from higher exposure in young generations as the apparel sponsor of this e-sports team. Prior to that, Li-Ning had already been the apparel sponsor of Edward Gaming and Royal Never Give-Up's Dota 2 team.

We fine-tune our FY18/19E earnings estimate by -5.2%/+0.6% to RMB710mn/RMB933mn. We keep our FY18E revenue unchanged while lift FY19E sales by 1.2% as we expect a more resilient sales growth momentum from offline channels. We revise up our FY18/19E opex by 1.2%/1.2% to RMB4,281mn/RMB4,722mn on higher A&P outgoings. As a result, our FY18/19E diluted EPS is fine-tuned by -5.2%/0.5% to HK$0.392/HK$0.493 respectively.

Downgrade to HOLD. Li-Ning shares outperformed HSI by 21% since our initiation at BUY on 29 May 2018. We still remain attracted to Li-Ning's margin expansion potentials while with the stock now trading at 19.7x forward P/E, we believe the street's high expectations have been fairly in the price. We need more visibility from mgmt FY19E guidance and the execution progress for FY18E for potential re-rating.

Risks: (1) Slower than expected ramp-up of Li-Ning Young; (2) deflated consumer confidence and muted China consumption growth; (3) channel inventory build-up.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	**FY16A**	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Revenue	8,015.3	8,873.9	10,341.3	11,660.6	13,030.7
Growth (%)	13.1	10.7	16.5	12.8	11.8
Net Profit	643.3	515.2	710.4	933.4	1,147.7
Growth (%)	4,395.5	(19.9)	37.9	31.4	23.0
Diluted EPS (HK$)	0.362	0.264	0.392	0.493	0.599
EPS growth (%)	4,267.2	(26.9)	48.4	25.7	21.6
Change to previous EPS (%)			(5.2)	0.5	
Consensus EPS (HK$)			0.368	0.484	
ROE (%)	17.9	11.4	13.1	15.1	16.3
P/E (x)	27.1	37.1	25.0	19.9	16.3
P/B (x)	3.9	3.4	3.0	2.6	2.3
Yield (%)	0.0	0.0	0.8	1.5	2.4
DPS (HK$)	0.000	0.000	0.078	0.148	0.240

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

	FY18E			FY19E			OP Comments
(RMB mn)	**New**	**Old**	**% Chg**	**New**	**Old**	**% Chg**	
Revenue	**10,341**	**10,341**	**0.0**	**11,661**	**11,520**	**1.2**	
Li-Ning Brand	9,806	9,806	0.0	11,001	10,861	1.3	
Li-Ning Young	375	375	0.0	495	495	0.0	
Other brands	160	160	0.0	165	165	0.0	
Gross profit	4,984	4,984	0.0	5,700	5,636	1.1	
Gross margin	48.2%	48.2%	0.0	48.9%	48.9%	(0.1)	
Opex	(4,271)	(4,219)	1.2	(4,722)	(4,665)	1.2	
EBIT	765	816	(6.3)	1,021	1,014	0.8	
Net profit from continued operation	710	754	(5.8)	933	928	0.6	
Adjusted net profit	790	834	(5.2)	993	988	0.6	
Diluted EPS (HK$)	0.392	0.414	(5.2)	0.493	0.490	0.5	

Source: OP Research

Financial Summary

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Footwear	3,947	4,146	4,764	5,344	5,954
Apparel	3,514	4,172	4,511	5,060	5,638
Accessories	464	501	531	596	664
Other brands	90	55	535	660	775
Turnover	**8,015**	**8,874**	**10,341**	**11,661**	**13,031**
YoY%	13.1	10.7	16.5	12.8	11.8
COGS	(4,310)	(4,697)	(5,357)	(5,961)	(6,588)
Gross profit	**3,705**	**4,176**	**4,984**	**5,700**	**6,443**
Gross margin	46.2%	47.1%	48.2%	48.9%	49.4%
Other income	74	44	51	43	43
Selling & distribution	(2,969)	(3,273)	(3,674)	(4,036)	(4,477)
Admin	(424)	(501)	(597)	(686)	(742)
Other opex	0	0	0	0	0
Total opex	**(3,393)**	**(3,774)**	**(4,271)**	**(4,722)**	**(5,219)**
Operating profit (EBIT)	**386**	**446**	**765**	**1,021**	**1,268**
Operating margin	4.8%	5.0%	7.4%	8.8%	9.7%
Provisions	0	0	0	0	0
Interest Income	7	44	55	67	79
Finance costs	(115)	(26)	0	0	0
Profit after financing costs	278	464	820	1,088	1,347
Associated companies & JVs	10	74	30	30	30
Pre-tax profit	288	538	850	1,118	1,377
Tax	(32)	(22)	(139)	(185)	(229)
Discontinued operation	445	0	0	0	0
Minority interests	(58)	0	0	0	0
Net profit from continued operation	**643**	**515**	**710**	**933**	**1,148**
YoY%	4,395	(20)	38	31	23
Add back: Share Award expenses	0	0	80	60	60
Adjusted net profit	643	515	790	993	1,208
Adjusted net margin	8.0%	5.8%	7.6%	8.5%	9.3%
EBITDA	**703**	**815**	**1,127**	**1,389**	**1,654**
EBITDA margin	8.8%	9.2%	10.9%	11.9%	12.7%
EPS (RMB)	**0.289**	**0.212**	**0.282**	**0.371**	**0.456**
YoY%	4,267	(27)	48	26	22
DPS (HK$)	0.000	0.000	0.078	0.148	0.240

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	703	815	1,127	1,389	1,654
Chg in working cap	541	(441)	(72)	(75)	(78)
Others	(185)	812	0	0	0
Operating cash	**1,059**	**1,186**	**1,054**	**1,314**	**1,576**
Tax	(64)	(27)	(20)	(139)	(185)
Net cash from operations	**995**	**1,159**	**1,034**	**1,175**	**1,391**
Capex	(383)	(389)	(414)	(466)	(521)
Investments	(95)	(38)	(50)	(50)	(50)
Dividends received	0	53	0	0	0
Sales of assets	6	4	0	0	0
Interests received	8	29	55	67	79
Others	144	(0)	0	0	0
Investing cash	**(320)**	**(343)**	**(408)**	**(449)**	**(492)**
FCF	**675**	**817**	**626**	**725**	**899**
Issue of shares	7	17	0	0	0
Buy-back	(53)	(42)	0	0	0
Interests paid	(56)	(8)	0	0	0
Dividends paid	(42)	0	0	(138)	(259)
Net change in bank loans	(365)	(200)	0	0	0
Others	0	0	0	0	0
Financing cash	**(509)**	**(232)**	**0**	**(138)**	**(259)**
Net change in cash	**166**	**584**	**626**	**588**	**640**
Exchange rate or other Adj	2	(9)	0	0	0
Cash of disposal group classified as HFS	(204)	0	0	0	0
Opening cash	1,989	1,954	2,529	3,155	3,743
Closing cash	**1,954**	**2,529**	**3,155**	**3,743**	**4,382**
CFPS (HK$)	**0.560**	**0.595**	**0.513**	**0.583**	**0.690**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	46.2	47.1	48.2	48.9	49.4
Operating margin (%)	4.8	5.0	7.4	8.8	9.7
Net margin (%)	8.0	5.8	6.9	8.0	8.8
Selling & dist'n exp/Sales (%)	37.0	36.9	35.5	34.6	34.4
Admin exp/Sales (%)	5.3	5.6	5.8	5.9	5.7
R&D/Sales (%)	1.6	1.9	1.8	1.8	1.8
A&P/Sales (%)	12.3	11.1	11.3	11.0	11.0
Payout ratio (%)	0.0	0.0	20.0	30.0	40.0
Effective tax (%)	11.7	4.8	17.0	17.0	17.0
Total debt/equity (%)	19.2	0.0	0.0	0.0	0.0
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.7	2.4	2.4	2.5	2.5
Quick ratio (x)	1.4	1.9	1.9	2.0	2.0
Inventory T/O (days)	82	86	85	85	85
AR T/O (days)	62	47	45	45	45
AP T/O (days)	89	89	89	89	89
Cash conversion cycle (days)	55	44	41	41	41
Asset turnover (x)	1.3	1.3	1.3	1.3	1.3
Financial leverage (x)	1.8	1.6	1.5	1.5	1.4
EBIT margin (%)	4.8	5.0	7.4	8.8	9.7
Interest burden (x)	0.7	1.2	1.1	1.1	1.1
Tax burden (x)	2.2	1.0	0.8	0.8	0.8
Return on equity (%)	**17.9**	**11.4**	**13.1**	**15.1**	**16.3**
ROIC (%)	**11.9**	**15.8**	**24.2**	**30.6**	**35.1**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Balance Sheet (RMB mn)					
Fixed assets	828	838	934	1,074	1,246
Intangible assets & land use rights	361	334	339	349	361
Associated companies & JVs	625	689	719	749	779
Long-term investments	95	101	101	101	101
Deferred income tax assets	207	234	234	234	234
Other non-current assets	14	14	14	14	14
Non-current assets	**2,130**	**2,211**	**2,342**	**2,521**	**2,737**
Inventories	965	1,103	1,248	1,388	1,534
AR	1,370	1,138	1,275	1,438	1,607
Prepayments & deposits	360	340	396	447	499
Other current assets	1	1	1	1	1
Cash	1,954	2,529	3,155	3,743	4,382
Current assets	**4,650**	**5,110**	**6,074**	**7,016**	**8,023**
AP	1,047	1,145	1,306	1,453	1,606
Tax	9	20	139	185	229
Accruals & other payables	808	929	1,034	1,166	1,303
Bank loans & leases	200	0	0	0	0
CB & othe debts	568	0	0	0	0
Other current liabilities	42	33	33	33	33
Current liabilities	**2,674**	**2,128**	**2,513**	**2,838**	**3,171**
Bank loans & leases	57	57	57	57	57
CB & othe debts	0	0	0	0	0
Deferred tax & others	53	63	63	63	63
MI	3	3	3	3	3
Non-current liabilities	**112**	**122**	**122**	**122**	**122**
Total net assets	**3,995**	**5,071**	**5,781**	**6,577**	**7,466**
Shareholder's equity	**3,995**	**5,071**	**5,781**	**6,577**	**7,466**
Share capital	188	203	203	203	203
Reserves	3,807	4,868	5,578	6,374	7,262
BVPS (HK$)	**2.49**	**2.91**	**3.30**	**3.75**	**4.26**
Total debts	768	0	0	0	0
Net cash/(debts)	1,187	2,530	3,156	3,744	4,383

Source: Company, OP Research

Exhibit 3: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Li Ning Co Ltd	**2331 HK**	**9.80**	**2,738**	**10.8**	**37.1**	**24.7**	**19.7**	**48.4**	**25.7**	**19.6**	**1.26**	**0.0**	**0.8**	**3.37**	**2.94**	**23.1**	**16.0**	**Net cash**	**47.1**	**5.8**	**11.4**	**13.1**	**17.1**	**42.6**
HSI		27,531.68			10.5	10.6	9.7	(0.9)	9.1	(0.8)	(13.78)	3.6	3.8	1.28	1.17						12.3	11.1	7.9	11.0
HSCEI		10,867.42			8.4	8.0	7.3	5.2	9.6	(1.6)	(5.05)	3.9	4.2	1.10	0.96						13.0	12.0	8.8	8.5
CSI300		3,193.97			11.9	10.1	8.8	18.6	14.5			2.5	3.1	1.5	1.3						13.0	13.2	6.1	3.8
Domestic peers																								
Adjusted sector avg*					**20.5**	**18.1**	**15.5**	**4.3**	**17.6**	**12.7**	**1.3**	**4.5**	**4.0**	**2.7**	**2.5**	**12.6**	**10.4**	**0.0**	**44.4**	**11.3**	**11.8**	**10.4**	**1.9**	**3.5**
361 Degrees	1361 HK	1.61	424	0.3	6.3	6.8	6.1	(8.6)	12.9	2.8	2.5	7.0	6.9	0.5	0.5	0.4	0.5	0.0	41.8	8.9	8.1	8.0	0.0	(11.0)
Xtep Intl	1368 HK	4.94	1,412	1.2	22.5	14.8	12.7	52.6	16.7	26.5	0.6	5.1	3.9	1.8	1.7	10.1	7.0	0.0	43.9	8.0	8.9	11.8	21.1	16.2
Anta Sports Prod	2020 HK	41.10	14,064	21.1	30.2	23.6	19.2	27.7	23.0	23.2	1.0	2.6	3.0	6.6	6.0	20.4	15.3	0.0	49.4	18.5	25.8	27.3	10.5	32.8
Shenzhou Intl Gp	2313 HK	92.35	17,693	35.6	30.7	25.4	21.2	21.1	19.5	19.9	1.3	1.7	2.0	5.7	5.2	22.7	19.2	0.0	31.4	20.8	21.2	22.3	4.2	10.1
China Dongxiang	3818 HK	1.18	885	0.4	7.0	7.9	7.9	(11.8)	0.0	(6.1)	N/A	9.3	7.7	0.6	0.6	6.0	9.9	0.0	55.7	59.5	7.3	7.7	(1.7)	0.0
Annil Co Ltd-A	002875 CH	15.05	295	6.7	25.4	22.4	18.7	13.6	19.3	16.2	1.4	1.0	N/A	2.4	2.2	16.9	N/A	0.0	55.1	6.7	10.0	9.5	5.0	11.2
Guirenniao Co-A	603555 CH	5.38	502	8.6	21.5	25.6	22.4	(16.1)	14.3	6.2	4.1	4.6	0.7	1.5	1.5	11.4	N/A	74.7	33.8	4.9	1.1	3.3	(6.8)	(5.1)
International peers																								
Adjusted sector avg*					**59.4**	**32.8**	**27.1**	**80.3**	**26.5**	**36.1**	**0.9**	**1.6**	**0.7**	**8.8**	**8.4**	**28.8**	**20.7**	**0.0**	**47.9**	**4.5**	**15.4**	**24.1**	**15.5**	**9.1**
Nike Inc -Cl B	NKE US	80.32	126,407	582.6	68.9	30.3	25.6	127.5	18.2	46.1	0.7	1.0	1.1	14.5	14.8	24.2	21.4	0.0	43.8	5.3	21.0	46.0	9.5	11.3
Under Armour-A	UAA US	21.34	9,088	123.4	N/A	99.3	66.7	N/A	48.8	(262.5)	N/A	N/A	0.0	4.8	4.8	48.2	28.5	29.9	45.0	(1.0)	(6.7)	4.1	21.8	17.3
Lululemon Ath	LULU US	149.70	19,821	350.9	78.8	39.9	33.9	97.7	17.4	39.2	1.0	N/A	0.0	14.1	11.9	33.9	23.0	0.0	52.8	9.8	27.2	33.0	23.3	10.2
Adidas Ag	ADS GR	202.80	46,501	133.6	37.4	24.2	21.2	54.4	14.2	26.3	0.9	1.3	1.6	6.3	6.0	15.5	13.8	0.0	50.4	5.2	24.7	25.4	11.2	(0.8)
Puma Se	PUM GR	477.00	8,231	15.8	52.5	37.0	27.6	41.7	34.0	32.7	1.1	2.6	0.7	4.2	4.3	22.1	16.7	0.0	47.3	3.3	10.6	12.0	11.7	7.7

** 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
15/01/2019	361 Degrees Intl	1361	FY18E results preview	BUY	Yuji Fung/Dallas Cai
15/01/2019	Xtep Intl	1368	FY18E results preview	BUY	Dallas Cai
14/01/2019	Sinosoft Tech	1297	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Sunny Optical	2382	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Q Tech	1478	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Tian Lun Gas	1600	FY18E results preview	BUY	Yuji Fung/Dallas Cai
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai
03/12/2018	Ju Teng Intl	3336	Positive profit alert for FY18E	BUY	Yuji Fung/Dallas Cai
26/11/2018	Truly Intl	732	3Q18 turnover flat as expected	BUY	Yuji Fung/Dallas Cai
19/11/2018	Ausnutria Dairy	1717	Nurturing by global layout	BUY	Dallas Cai
13/11/2018	361 Degrees Intl	1361	Introduce new investor to kids' wear business	BUY	Yuji Fung/Dallas Cai
12/11/2018	Sunny Optical	2382	Oct shipments up to expectations	BUY	Yuji Fung/Dallas Cai
12/11/2018	Q Tech	1478	Shipment growth looms on horizon	BUY	Yuji Fung/Dallas Cai
07/11/2018	China Youzan	8083	3Q18 results in line with expectations	BUY	Yuji Fung/Dallas Cai
02/11/2018	CH Display OPT	334	TCL Group ups stakes for turnaround and advance on opportunities	BUY	Yuji Fung/Dallas Cai
30/10/2018	TCL Electronics	1070	Revised up full year shipments target	BUY	Yuji Fung/Dallas Cai
26/10/2018	CH Display OPT	334	New client order lifts Sept shipments to record high	BUY	Yuji Fung/Dallas Cai
23/10/2018	Li Ning	2331	Solid set of 3Q18 operations data	BUY	Dallas Cai
23/10/2018	361 Degrees Intl	1361	3Q18 operations data in-line with expectations	BUY	Yuji Fung/Dallas Cai
16/10/2018	TCL Electronics	1070	3Q18 shipments set record high	BUY	Yuji Fung/Dallas Cai
12/10/2018	Sunny Optical	2382	Upbeat September handset-related shipments	BUY	Yuji Fung/Dallas Cai
12/10/2018	Anta Sports	2020	Solid 3Q18 operations data	BUY	Dallas Cai

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

(as of 29/01/2019)

	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				
5				

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