Equity Research
Sportswear/ China

Li-Ning (2331 HK)

Upgrade on surprise in revenue growth

- **Li-Ning is expecting over RMB 509mn 1H19E net operation profits thanks to over 30% growth in revenue, beat street/OP expectations.**
- **We revise up FY19/20E earnings estimate by 28.2%/29.8% to RMB1,326mn/RMB1,659mn respectively.**
- **Upgrade to BUY with TP HK$18.20 revised up from HK$12.10 based on 24x FY20E P/E.**

1H19E profit surprise on strong revenue growth and improved operation efficiency. Li Ning expects over RMB790mn 1H19E net profits, implying a yoy increase of at least RMB440mn, of which (1) RMB240mn comes from continuing operations thanks to over 30% growth in revenue (vs high-teens percentage FY19E full-year guidance/market consensus) and improved operation efficiency, and (2) another RMB200mn from one-off non-operation income. Excluding the non-recurring items, the net operation profit is estimated at RMB509mn, representing 90% yoy growth.

Revise up FY19/20E earnings estimate by 28.2%/35.7% to RMB1,326mn/ RMB1,659mn mainly on stronger sales growth. We revise up FY19/20E revenue by 5.4%/9.3% to RMB13,150mn/RMB15,669mn respectively to reflect upbeat topline growth momentum. We are now forecasting 25%/High-teens percentage FY19/20E yoy sales growth. Meanwhile, we tune up FY19/20E GPM by 0.9ppts/0.8ppts to 49.3%/49.8%. As a result, our FY19/20E diluted EPS is revised up by 22.7%/29.8% to HK$0.605/HK$0.757 after we factor in the dilution effects from the exercise of share options.

Upgrade to BUY on solid execution and strong growth momentum. We upgrade Li Ning to BUY with new TP HK$18.20 lifted from HK$12.10 based on 24x FY20E P/E (previously 20x FY20E P/E) on outperforming sales growth, solid execution on efficiency improvement, and high visibility of increasingly strong cash flow position.

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	13,150.5	15,668.8	18,474.8
Growth (%)	10.7	18.4	25.1	19.2	17.9
Net Profit	515.2	715.3	1,436.2	1,598.6	2,062.4
Growth (%)	(19.9)	38.8	100.8	11.3	29.0
Diluted EPS (HK$)	0.279	0.415	0.605	0.757	0.941
EPS growth (%)	37.2	48.6	45.8	25.1	24.3
Change to previous EPS (%)			22.7	29.8	
Consensus EPS (HK$)			0.485	0.616	
ROE (%)	11.4	13.1	22.3	20.9	22.8
P/E (x)	54.7	36.8	25.3	20.2	16.2
P/B (x)	5.3	4.6	4.2	3.5	3.0
Yield (%)	0.0	0.6	1.2	2.0	3.1
DPS (HK$)	0.000	0.088	0.181	0.303	0.470

Source: Bloomberg, OP Research

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Company Update

BUY

UPGRADE

Close price: HK$15.28
Target Price: HK$18.20 (+19%)
Prior TP: HK$12.10

Key Data

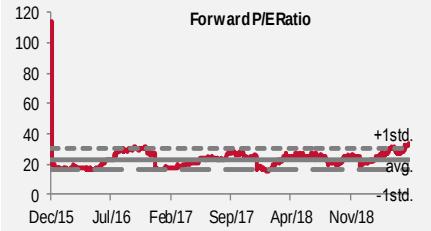
HKEx code		2331
12 Months High	(HK$)	15.36
12 Month Low	(HK$)	6.33
3M Avg Dail Vol.	(mn)	24.19
Issue Share	(mn)	2,306.16
Market Cap	(HK$mn)	35,238.06
Fiscal Year		12/2018
Major shareholder (s)		VIVA China (13.7%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 24/06/2019

Price Chart

	1mth	3mth	6mth
Absolute %	22.4	26.7	84.8
Rel. MSCI CHINA %	16.6	30.5	73.1

PE Chart



Company Profile

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

Exhibit 2: Earnings Revision

	FY19E			FY20E			OP Comments
(RMB mn)	New	Old	% Chg	New	Old	% Chg	
Revenue	**13,150**	**12,477**	**5.4**	**15,669**	**14,331**	**9.3**	On stronger than expected sales growth
Li-Ning Brand	12,654	11,981	5.6	14,983	13,646	9.8	
Li-Ning Young	474	474	0.0	661	661	0.0	
Other brands	22	22	0.0	24	24	0.0	
Gross profit	6,480	6,091	6.4	7,799	7,079	10.2	
Gross margin	49.3%	48.8%	0.9	49.8%	49.4%	0.8	
Opex	(5,125)	(5,063)	1.2	(5,951)	(5,774)	3.1	
EBIT	1,411	1,085	30.0	1,905	1,362	39.8	
Net profit from continued operation	1,436	944	52.1	1,599	1,163	37.5	
Adjusted net profit	1,326	1,034	28.2	1,659	1,223	35.7	
Diluted EPS (HK$)	0.605	0.493	22.7	0.757	0.583	29.8	We factor in the dilution effects from the exercise of share options

Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Footwear	4,146	4,601	5,188	6,143	7,241
Apparel	4,172	5,316	6,707	7,941	9,360
Accessories	501	594	759	899	1,060
Other brands	55	0	496	685	814
Turnover	**8,874**	**10,511**	**13,150**	**15,669**	**18,475**
YoY%	10.7	18.4	25.1	19.2	17.9
COGS	(4,697)	(5,458)	(6,671)	(7,869)	(9,267)
Gross profit	**4,176**	**5,053**	**6,480**	**7,799**	**9,207**
Gross margin	47.1%	48.1%	49.3%	49.8%	49.8%
Other income	44	48	57	57	57
Selling & distribution	(3,273)	(3,708)	(4,361)	(5,086)	(5,806)
Admin	(501)	(662)	(764)	(865)	(971)
Other opex	0	0	0	0	0
Total opex	**(3,774)**	**(4,370)**	**(5,125)**	**(5,951)**	**(6,777)**
Operating profit (EBIT)	**446**	**731**	**1,411**	**1,905**	**2,487**
Operating margin	5.0%	7.0%	10.7%	12.2%	13.5%
Provisions	0	0	0	0	0
Interest Income	44	70	92	115	143
Finance costs	(26)	(14)	0	0	0
Profit after financing costs	464	787	1,503	2,020	2,630
Associated companies & JVs	74	64	264	64	64
Pre-tax profit	538	850	1,767	2,083	2,694
Tax	(22)	(135)	(331)	(485)	(631)
Discontinued operation	0	0	0	0	0
Minority interests	0	0	0	0	0
Net profit from continued operation	**515**	**715**	**1,436**	**1,599**	**2,062**
YoY%	(20)	39	101	11	29
Add back: Share Award expenses	29	98	90	60	0
Adjusted net profit	544	813	1,326	1,659	2,062
Adjusted net margin	6.1%	7.7%	10.1%	10.6%	11.2%
EBITDA	**815**	**1,142**	**1,788**	**2,315**	**2,944**
EBITDA margin	9.2%	10.9%	13.6%	14.8%	15.9%
EPS (RMB)	**0.212**	**0.292**	**0.546**	**0.608**	**0.784**
YoY%	37	49	46	25	24
DPS (HK$)	0.000	0.088	0.181	0.303	0.470

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	815	1,142	1,788	2,315	2,944
Chg in working cap	(441)	402	8	80	89
Others	812	137	0	0	0
Operating cash	**1,186**	**1,681**	**1,796**	**2,396**	**3,033**
Tax	(27)	(9)	(134)	(331)	(485)
Net cash from operations	**1,159**	**1,672**	**1,661**	**2,065**	**2,549**
Capex	(389)	(431)	(658)	(627)	(739)
Investments	(38)	(54)	(50)	(50)	(50)
Dividends received	53	51	0	0	0
Sales of assets	4	4	0	0	0
Interests received	29	62	92	115	143
Others	(0)	(115)	0	0	0
Investing cash	**(343)**	**(483)**	**(615)**	**(562)**	**(646)**
FCF	**817**	**1,189**	**1,046**	**1,503**	**1,902**
Issue of shares	17	51	0	0	0
Buy-back	(42)	(117)	0	0	0
Interests paid	(8)	0	0	0	0
Dividends paid	0	0	(215)	(349)	(582)
Net change in bank loans	(200)	0	0	0	0
Others	0	0	0	0	0
Financing cash	**(232)**	**(66)**	**(215)**	**(349)**	**(582)**
Net change in cash	**584**	**1,123**	**832**	**1,154**	**1,321**
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	4,503	5,657
Closing cash	**2,529**	**3,672**	**4,503**	**5,657**	**6,978**
CFPS (HK$)	**0.595**	**0.853**	**0.758**	**0.942**	**1.162**

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	47.1	48.1	49.3	49.8	49.8
Operating margin (%)	5.0	7.0	10.7	12.2	13.5
Net margin (%)	5.8	6.8	10.9	10.2	11.2
Selling & dist'n exp/Sales (%)	36.9	35.3	33.2	32.5	31.4
Admin exp/Sales (%)	5.6	6.3	5.8	5.5	5.3
R&D/Sales (%)	1.9	2.2	2.0	2.0	2.0
A&P/Sales (%)	11.1	10.4	10.0	10.2	10.2
Payout ratio (%)	0.0	21.2	30.0	40.0	50.0
Effective tax (%)	4.8	17.2	22.0	24.0	24.0
Total debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.4	2.3	2.2	2.2	2.2
Quick ratio (x)	1.9	1.9	1.8	1.8	1.8
Inventory T/O (days)	86	83	83	83	83
AR T/O (days)	47	34	35	35	35
AP T/O (days)	89	82	80	80	80
Cash conversion cycle (days)	44	34	38	38	38
Asset turnover (x)	1.3	1.3	1.4	1.3	1.3
Financial leverage (x)	1.6	1.5	1.5	1.5	1.5
EBIT margin (%)	5.0	7.0	10.7	12.2	13.5
Interest burden (x)	1.2	1.2	1.3	1.1	1.1
Tax burden (x)	1.0	0.8	0.8	0.8	0.8
Return on equity (%)	**11.4**	**13.1**	**22.3**	**20.9**	**22.8**
ROIC (%)	**15.8**	**25.3**	**46.1**	**54.9**	**68.4**

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	838	830	1,149	1,401	1,719
Intangible assets & land use rights	334	308	319	334	348
Associated companies & JVs	689	728	992	1,056	1,119
Long-term investments	101	103	103	103	103
Deferred income tax assets	234	239	239	239	239
Other non-current assets	14	132	132	132	132
Non-current assets	**2,211**	**2,341**	**2,935**	**3,265**	**3,661**
Inventories	1,103	1,240	1,515	1,787	2,105
AR	1,138	966	1,261	1,502	1,772
Prepayments & deposits	340	0	0	0	0
Other current assets	1	509	509	509	509
Cash	2,529	3,672	4,503	5,657	6,978
Current assets	**5,110**	**6,386**	**7,788**	**9,456**	**11,363**
AP	1,145	1,231	1,462	1,725	2,031
Tax	20	134	331	485	631
Accruals & other payables	929	1,383	1,730	2,062	2,431
Bank loans & leases	0	0	0	0	0
CB & othe debts	0	0	0	0	0
Other current liabilities	33	29	29	29	29
Current liabilities	**2,128**	**2,777**	**3,552**	**4,300**	**5,122**
Bank loans & leases	57	54	54	54	54
CB & othe debts	0	0	0	0	0
Deferred tax & others	63	77	77	77	77
MI	3	3	3	3	3
Non-current liabilities	**122**	**133**	**133**	**133**	**133**
Total net assets	**5,071**	**5,817**	**7,039**	**8,289**	**9,769**
Shareholder's equity	**5,071**	**5,817**	**7,039**	**8,289**	**9,769**
Share capital	203	204	204	204	204
Reserves	4,868	5,613	6,834	8,084	9,565
BVPS (HK$)	**2.91**	**3.32**	**3.66**	**4.31**	**5.08**
Total debts	0	0	0	0	0
Net cash/(debts)	2,530	3,672	4,503	5,658	6,978

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**	**15.28**	**4,511**	**40.3**	**36.8**	**25.3**	**20.2**	**45.8**	**25.1**	**23.3**	**1.1**	**0.6**	**1.2**	**4.6**	**4.2**	**26.1**	**17.2**	**Net cash**	**48.1**	**6.8**	**13.1**	**22.3**	**22.4**	**20.3**
HSI		28,513.00			11.2	11.3	10.4	(0.8)	7.8	5.3	2.14	3.4	3.6	1.26	1.23						11.3	11.0	4.2	(2.1)
HSCEI		10,952.94			8.9	8.7	8.0	2.8	8.3	6.7	1.29	3.6	3.9	1.10	1.06						12.3	12.2	4.9	(4.9)
CSI300		3,841.27			14.3	12.5	11.0	14.9	13.8			2.1	2.5	1.8	1.6						12.4	13.2	6.9	0.2
Domestic peers																								
Adjusted sector avg*					**21.2**	**19.1**	**15.9**	**(7.7)**	**76.1**	**18.0**	**1.0**	**3.6**	**5.8**	**2.3**	**1.6**	**15.5**	**7.3**	**0.0**	**44.2**	**13.4**	**13.4**	**10.3**	**9.4**	**(12.4)**
361 Degrees	1361 HK	1.49	394	0.5	8.9	7.0	6.0	27.9	15.4	16.9	0.4	5.1	6.5	0.5	0.4	(0.2)	(0.2)	0.0	40.6	5.9	5.3	6.5	8.0	(2.6)
Xtep Intl	1368 HK	4.42	1,412	10.0	12.9	11.6	10.0	11.3	16.1	14.4	0.8	4.5	5.1	1.6	1.5	7.4	6.5	0.0	44.3	10.3	12.4	13.6	10.2	(33.0)
Anta Sports Prod	2020 HK	54.35	18,684	41.8	31.3	24.8	20.5	(40.5)	157.1	21.9	1.1	1.4	N/A	8.1	N/A	20.0	N/A	0.0	52.6	17.0	27.8	N/A	9.9	5.0
Shenzhou Intl Gp	2313 HK	105.70	20,340	32.1	30.8	26.2	22.0	(48.0)	170.1	18.9	1.4	1.7	N/A	6.3	N/A	24.7	N/A	0.0	31.6	21.7	21.7	N/A	11.1	(1.7)
China Dongxiang	3818 HK	0.91	686	0.6	14.7	N/A	N/A	N/A	N/A	N/A	N/A	8.1	N/A	0.5	N/A	16.4	N/A	0.0	57.3	18.5	3.3	N/A	(7.1)	(22.9)
Annil Co Ltd-A	002875 CH	20.19	387	8.3	28.6	25.8	21.2	11.0	21.7	18.0	1.4	0.8	N/A	3.1	2.7	24.6	15.5	0.0	55.0	6.9	10.1	11.0	15.2	(3.9)
Guirenniao Co-A	603555 CH	5.35	489	8.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.1	N/A	(19.6)	N/A	146.8	28.0	(24.6)	(37.6)	N/A	1.7	(27.7)
International peers																								
Adjusted sector avg*					**50.0**	**33.4**	**28.3**	**(68.2)**	**498.9**	**26.1**	**1.5**	**1.0**	**0.4**	**10.1**	**10.4**	**23.1**	**89.5**	**0.0**	**48.9**	**6.2**	**23.5**	**25.3**	**3.8**	**19.7**
Nike Inc -Cl B	NKE US	85.75	134,778	574.7	73.5	33.2	28.5	(43.6)	357.3	44.4	0.7	1.0	0.3	15.1	17.0	25.9	89.5	0.0	43.8	5.3	44.6	46.4	4.4	4.3
Under Armour-A	UAA US	26.15	11,044	107.6	N/A	75.4	53.7	N/A	N/A	(288.1)	N/A	N/A	N/A	5.7	5.3	76.9	495.5	8.5	45.1	(0.9)	0.3	(0.2)	11.1	26.2
Lululemon Ath	LULU US	181.87	23,693	425.0	50.1	39.2	33.0	(75.6)	521.9	21.1	1.9	N/A	N/A	17.3	16.7	28.7	125.6	0.0	55.2	14.7	33.7	38.1	5.3	27.0
Adidas Ag	ADS GR	268.20	61,234	145.5	31.8	27.4	24.4	(73.0)	383.7	14.0	2.0	1.2	N/A	7.7	8.3	18.3	66.0	0.0	51.9	7.8	26.9	28.1	3.3	28.3
Puma Se	PUM GR	55.90	9,605	17.9	44.6	33.8	27.4	(80.5)	732.7	24.9	1.4	0.6	0.6	4.9	4.9	19.7	76.9	0.0	48.4	4.0	12.2	14.1	2.1	12.7

** 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
24/06/2019	361 Degrees Intl	1361	Rebranding starts from building basketball half-courts	BUY	Megan Jin
21/06/2019	Q Tech	1478	Kunshan reverse road show takeaways	SELL	Yuji Fung/Dallas Cai
19/06/2019	Sunny Optical	2382	Conference call takeaways	BUY	Yuji Fung/Dallas Cai
18/06/2019	TCL Electronics	1070	Overseas shipments keep steam	BUY	Yuji Fung/Dallas Cai
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
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	SELL	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

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

(as of 24/06/2019)

	DATE	RATING	TP (HK$)	CLOSE (HK$)		DATE	RATING	TP (HK$)	CLOSE (HK$)
1	29 May 2018	BUY	11.50	9.25	6	17 Apr 2019	HOLD	12.10	13.28
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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