

## COMPANY UPDATE

### Li Ning (2331 HK)

Cut Full-year Revenue Guidance To Single-digit % Growth; Key Priority Is Distributor Control

Li Ning's disappointing 3Q23 business operations can be attributed to distributors' cross-region and channel sales. Management cut the company's full-year revenue guidance to single-digit % yoy growth (vs mid-teens % previously), and implied that margins should be under pressure. We think the company will take a long time to strengthen its control on distributors. We cut target price by 10% to HK\$48.80. Maintain BUY on its cheap valuation.

#### WHAT'S NEW

- Li Ning announced its 3Q23 operational updates.

#### STOCK IMPACT

- Operations disappointed, particularly in the e-commerce channel.** In 3Q23, Li Ning recorded mid-single-digit % retail sell-through yoy growth, with retail/wholesale channels increasing by low-twenties % and low-single-digit % yoy, respectively. Management attributed the better direct retail performances to the good sales momentum in its outlet stores and the faster expansion of directly-operated stores. However, sell-through of e-commerce channel declined by low-single-digit yoy, below management's expectations, which was affected by a high base and offline distributors' cross-region and channel sales. Same-store sales were weak in 3Q23 as well. Same-store sales for the overall platform recorded a mid-single-digit % yoy decline, with retail and wholesale channels registering mid-single-digit % increase and low-teens % decrease yoy respectively, while e-commerce platforms registered low-single-digit % yoy decline.
- Online discounts under pressure.** Inventory turnover trended up to around five months by the end of 3Q23 from 3.8 months as of end-2Q23, with inventory structure remaining stable. Offline discounts narrowed by low-single-digit yoy in 3Q23, with retail channel discounts improving more than wholesale channel discounts (retail channel: <30% off vs wholesale channel: <25% off). Although online discounts improved qoq in 3Q23, it deepened by low-single-digit yoy. Looking ahead, we expect online discounts to remain under pressure given the company's destocking initiatives amid the challenging operation backdrop. Li Ning targets to bring inventory turnover to 4.5 months by 4Q23.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	22,572	25,803	27,875	30,141	33,567
EBITDA	5,896	5,668	6,176	7,006	8,053
Operating profit	4,736	4,082	4,327	4,920	5,748
Net profit (rep./act.)	4,011	4,064	4,041	4,535	5,217
Net profit (adj.)	4,011	4,064	4,041	4,535	5,217
EPS (Fen)	158.0	154.3	153.4	172.1	198.0
PE (x)	17.9	18.3	18.4	16.4	14.3
P/B (x)	3.5	3.1	2.7	2.4	2.2
EV/EBITDA (x)	11.4	11.8	10.9	9.6	8.3
Dividend yield (%)	1.6	1.6	1.6	1.8	2.1
Net margin (%)	17.8	15.7	14.5	15.0	15.5
Net debt/(cash) to equity (%)	(63.3)	(21.3)	(26.9)	(32.8)	(38.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	26.9	17.9	15.7	15.7	16.1
Consensus net profit	-	-	4,485	5,400	6,402
UOBKH/Consensus (x)	-	-	0.90	0.84	0.81

Source: Li Ning, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$30.20
Target Price	HK\$48.80
Upside	+61.6%
(Previous TP)	HK\$54.20)

#### COMPANY DESCRIPTION

Li Ning is one of the leading sportswear brands in China. Li Ning brand is its main brand.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2331 HK
Shares issued (m):	2,636.0
Market cap (HK\$m):	79,608.6
Market cap (US\$m):	10,177.8
3-mth avg daily t'over (US\$m):	84.0

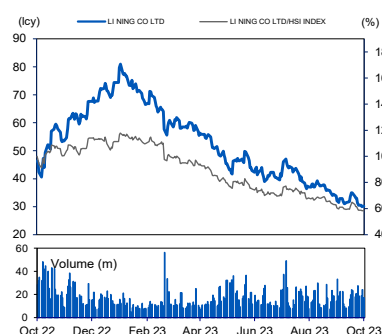
#### Price Performance (%)

52-week high/low		HK\$81.00/HK\$30.00		
1mth	3mth	6mth	1yr	YTD
(10.7)	(27.8)	(45.5)	(34.5)	(55.4)

#### Major Shareholders

	%
Viva China	10.29
FY23 NAV/Share (Rmb)	10.30
FY23 Net Cash/Share (Rmb)	2.78

#### PRICE CHART



Source: Bloomberg

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- **Cut full-year revenue guidance; expect margins to miss.** Due to the worse-than-expected sales momentum, management has revised down its full-year revenue guidance of mid-teens % yoy growth to single-digit % yoy growth. Although management did not mention the revision of mid-teens% net margin guidance, we think Li Ning will face challenges achieving this, as we expect: a) the deepening discounts online will lead to a deterioration in gross margin in 2H23, and b) the company will incur higher selling expenses on 2024 Paris Olympics starting from 2H23.

#### EARNINGS REVISION/RISK

- **Cut 2023-24 earnings forecasts by 8/11%.** We cut our 2023-24 revenue forecasts by 3%/6% respectively, on worse-than-expected sales momentum. Our new 2023 revenue forecast implies a 3% revenue yoy growth in 2H23. We lower our 2023-24 gross margin forecasts by 0.2ppt/0.4ppt respectively on the deepening online discounts. We raise our 2023-24 selling expense ratio estimates by 0.3ppt/0.1ppt, as we expect the company to incur more expenses related to the 2024 Paris Olympics. Thus, our 2023-24 earnings forecasts are lowered by 8%/11% respectively. Our new 2023 earnings forecast implies a 2% earnings yoy growth in 2H23 and a full-year net margin of 14.5%.

#### VALUATION/RECOMMENDATION

- **Cut target price by 10% to HK\$48.80.** Li Ning's share price has corrected by 23% since Sep 23 (vs the HIS's -9%), reflecting reflects capital market concerns on the distributors' cross-region and channel sales issue. In our view, Li Ning will take a long time to strengthen its control on distributors and enhance product competitiveness, which will achieve the normalisation of business operations of its sales channels, and thus support long-term business expansion. We cut our target price by 10% to HK\$48.80, and maintain BUY rating on its cheap valuation. The stock currently trades at 18.4x 2023F PE, 1SD below the five-year historical average.

#### LI NING SELL-THROUGH GROWTH RATE (YOY)

	Overall platform	Offline	Retail	Wholesale	e-commerce
1Q21	(+) high-eighties	(+) low-eighties	(+) low-nineties	(+) low-eighties	(+) 100%
2Q21	(+) low-nineties	(+) low-nineties	(+) high-eighties	(+) low-nineties	(+) high-nineties
3Q21	(+) low-forties	(+) high-thirties	(+) mid-thirties	(+) high-thirties	(+) mid-fifties
4Q21	(+) low-thirties	(+) high-twenties	(+) high-twenties	(+) high-twenties	(+) low-forties
1Q22	(+) high-twenties	(+) mid-twenties	(+) mid-thirties	(+) low-twenties	(+) mid-thirties
2Q22	(-) high-SD	(-) high-SD	(-) high-SD	(-) high-SD	(+) mid-SD
3Q22	(+) mid-teens	(+) mid-teens	(+) low-20s	(+) low-teens	(+) mid-20s
4Q22	(-) low-teens	(-) high-teens	(-) mid-teens	(-) low-twenties	(+) mid-SD
1Q23	(+) mid-SD	(+) high-SD	(+) mid-teens	(+) mid-SD	(-) low-teens
2Q23	(+) mid-teens	(+) high-teens	(+) high-twenties	(+) mid-teens	(+) low-teens
3Q23	(+) mid-SD	(+) high-SD	(+) low-twenties	(+) low-SD	(-) low-SD

Source: Li Ning, UOB Kay Hian

## PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	25,803.4	27,874.5	30,140.6	33,566.6
EBITDA	5,668.2	6,176.3	7,006.4	8,052.9
Deprec. & amort.	1,586.6	1,849.2	2,086.3	2,305.0
EBIT	4,081.6	4,327.2	4,920.1	5,747.9
Total other non-operating income	671.6	671.6	671.6	671.6
Associate contributions	201.2	301.7	301.7	301.7
Net interest income/(expense)	327.2	84.0	149.1	230.6
<b>Pre-tax profit</b>	<b>5,415.1</b>	<b>5,384.5</b>	<b>6,042.5</b>	<b>6,951.8</b>
Tax	(1,351.3)	(1,343.7)	(1,507.9)	(1,734.8)
Minorities	(0.1)	0.0	0.0	0.0
<b>Net profit</b>	<b>4,063.7</b>	<b>4,040.8</b>	<b>4,534.6</b>	<b>5,217.0</b>
Net profit (adj.)	4,063.7	4,040.8	4,534.6	5,217.0

## CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>3,913.6</b>	<b>5,124.2</b>	<b>5,658.5</b>	<b>6,418.3</b>
Pre-tax profit	5,415.1	5,384.5	6,042.5	6,951.8
Tax	(1,316.4)	(1,343.7)	(1,507.9)	(1,734.8)
Deprec. & amort.	781.5	959.4	1,107.6	1,228.4
Working capital changes	(1,133.2)	326.3	238.8	217.7
Non-cash items	17.9	(202.2)	(222.4)	(244.7)
Other operating cashflows	148.8	0.0	0.0	0.0
<b>Investing</b>	<b>(9,481.4)</b>	<b>(1,762.4)</b>	<b>(1,762.4)</b>	<b>(1,762.4)</b>
Capex (growth)	(1,822.2)	(1,712.4)	(1,712.4)	(1,712.4)
Investments	(73.7)	(50.0)	(50.0)	(50.0)
Proceeds from sale of assets	7.7	0.0	0.0	0.0
Others	(7,593.3)	0.0	0.0	0.0
<b>Financing</b>	<b>(1,887.4)</b>	<b>(1,219.2)</b>	<b>(1,212.2)</b>	<b>(1,360.4)</b>
Dividend payments	(1,194.7)	(1,219.2)	(1,212.2)	(1,360.4)
Issue of shares	96.7	0.0	0.0	0.0
Proceeds from borrowings	600.0	0.0	0.0	0.0
Loan repayment	(600.0)	0.0	0.0	0.0
Others/interest paid	(789.4)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(7,455.3)</b>	<b>2,142.7</b>	<b>2,683.8</b>	<b>3,295.5</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>14,744.9</b>	<b>7,382.2</b>	<b>9,524.9</b>	<b>12,208.7</b>
Changes due to forex impact	92.6	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>7,382.2</b>	<b>9,524.9</b>	<b>12,208.7</b>	<b>15,504.2</b>

## BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,234.6	4,033.9	4,685.7	5,217.1
Other LT assets	18,017.1	18,223.0	18,448.6	18,695.8
Cash/ST investment	7,382.2	9,524.9	12,208.7	15,504.2
Other current assets	5,012.7	5,084.6	5,232.5	5,619.8
<b>Total assets</b>	<b>33,646.5</b>	<b>36,866.3</b>	<b>40,575.4</b>	<b>45,037.0</b>
ST debt	718.3	718.3	718.3	718.3
Other current liabilities	6,522.5	6,920.7	7,307.4	7,912.3
LT debt	1,489.4	1,489.4	1,489.4	1,489.4
Other LT liabilities	584.3	584.3	584.3	584.3
Shareholders' equity	24,329.4	27,151.1	30,473.5	34,330.1
Minority interest	2.5	2.5	2.5	2.5
<b>Total liabilities &amp; equity</b>	<b>33,646.5</b>	<b>36,866.3</b>	<b>40,575.4</b>	<b>45,037.0</b>

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	22.0	22.2	23.2	24.0
Pre-tax margin	21.0	19.3	20.0	20.7
Net margin	15.7	14.5	15.0	15.5
ROA	12.7	11.5	11.7	12.2
ROE	17.9	15.7	15.7	16.1
<b>Growth</b>				
Turnover	14.3	8.0	8.1	11.4
EBITDA	(3.9)	9.0	13.4	14.9
Pre-tax profit	1.6	(0.6)	12.2	15.0
Net profit	1.3	(0.6)	12.2	15.0
Net profit (adj.)	1.3	(0.6)	12.2	15.0
EPS	(2.3)	(0.6)	12.2	15.0
<b>Leverage</b>				
Debt to total capital	8.3	7.5	6.8	6.0
Debt to equity	9.1	8.1	7.2	6.4
Net debt/(cash) to equity	(21.3)	(26.9)	(32.8)	(38.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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