

## Li Ning Co Ltd

### FY14 Result – Analysing Positives/Negatives of Company Commentary Following 12% Move Today

Li Ning reported an FY14 net loss of RMB781m, in line with company guidance of a net loss no greater than RMB820m. Following the ~12% share price rise today, we analyse some of the underlying trends reported by the company in this note. We continue to believe execution risks remain.

- FY14 result in line with guidance although share price up ~12%.** Li Ning reported an FY14 NPAT loss of RMB781m (JPMf RMB811m loss, Consensus RMB779m loss). This result was in line with guidance issued in early Jan-15 of an FY14 net loss of not more than RMB820m. At the EBIT level, Li Ning reported FY14 EBIT of RMB529m loss (JPMf RMB613m loss, Consensus RMB598m loss). The share price increased ~12% following this result (vs HSI up 1.45%). We think this was driven by some improving top-line trends reported by the company.
- Positives from the result.** (1) SSSG momentum is improving with MSD SSSG reported for 4Q14. (2) Trade fair order growth has been positive for first three quarters of 2015, with growth ranging between mid-teens and mid-twenties. (3) New product sell-through mix is improving. All of the above do support the view that the company is making progress with respect to its turnaround.
- Negatives from the result.** (1) While SSSG momentum is improving, this is to be expected given recent changes in the company's store profile (significant franchisee store closures, own-retail store openings). (2) Gross margins in 1H15 will likely be negatively impacted by sourcing cost pressure. (3) While inventory mix did improve, inventory turnover days continued to increase, highlighting management risks associated with more company-owned retail. (4) Ongoing uncertainty with respect to a permanent CEO remains a risk.
- Retain Neutral.** While the company is reporting a number of data points showing progress, the negatives from this result continue to highlight that the Li Ning turnaround will not be smooth and execution risks remain. Nevertheless, we believe the share price will benefit from some more positive data points in the near term.

## Neutral

2331.HK, 2331 HK

Price: HK\$4.04

▲ **Price Target: HK\$3.70**  
Previous: HK\$3.20

### China

#### Consumer

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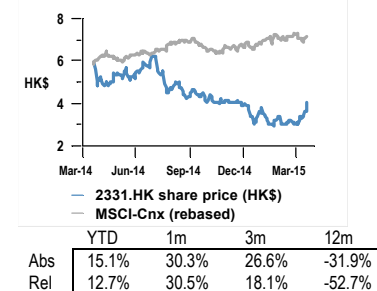
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### Price Performance



### Li Ning Co Ltd (Reuters: 2331.HK, Bloomberg: 2331 HK)

Rmb in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (Rmb mn)	5,824	6,728	8,302	9,761	10,708
Net Profit (Rmb mn)	(392)	(781)	59	337	516
Diluted EPS (Rmb)	(0.27)	(0.50)	0.03	0.15	0.23
Recurring EPS (Rmb)	(0.27)	(0.50)	0.03	0.15	0.23
DPS (Rmb)	0.00	0.00	0.00	0.04	0.12
Revenue growth (%)	(12.8%)	15.5%	23.4%	17.6%	9.7%
Net Profit growth (%)	(80.2%)	99.6%	(107.6%)	469.6%	53.1%
Recurring profit growth	(80.2%)	99.6%	(107.6%)	469.6%	53.1%
EPS growth (%)	(84.4%)	85.7%	(105.3%)	469.6%	53.1%
ROE	(16.6%)	(30.9%)	2.3%	11.0%	15.1%
ROA	(6.5%)	(13.0%)	0.9%	4.7%	6.8%
P/E (x)	NM	NM	121.4	21.3	13.9
P/BV (x)	1.5	2.8	2.5	2.2	2.0
EV/EBITDA (x)	NM	NM	29.0	15.3	11.5
Dividend Yield	0.0%	0.0%	0.0%	1.2%	3.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

### Company Data

Shares O/S (mn)	2,216
Market Cap (Rmb mn)	7,189
Market Cap (\$ mn)	1,154
Price (HK\$)	4.04
Date Of Price	19 Mar 15
Free Float(%)	
3M - Avg daily vol (mn)	5.76
3M - Avg daily val (HK\$ mn)	18.35
3M - Avg daily val (\$ mn)	2.4
MSCI-Cnx	7033.26
Exchange Rate	7.76
Price Target End Date	31-Dec-15
Price Target (HK\$)	3.70

### See page 15 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalyst for the stock price:	Upside risks to our view:	Downside risks to our view:
(1) Further update on the progress of the Group's turnaround (2) Upcoming trade fair sales results	(1) Better-than-expected implementation of Li Ning turnaround strategy (2) Higher-than-expected improvement in sales (3) Significant improvement with respect to gross margins (4) Significant reduction of the competitive environment for sportswear in China	(1) Significant downturn in the retail environment; (2) Unsuccessful implementation of the Li Ning turnaround strategy (3) Increase in the competitive environment for sportswear in China (4) Significant loss of market share (5) Higher-than-expected sourcing costs (6) Higher-than-expected capex expenditure

Key financial metrics	FY14A	FY15E	FY16E	FY17E
Revenues (LC)	6,728	8,302	9,761	10,708
Revenue growth (%)	16%	23%	18%	10%
EBITDA (LC)	-330	416	803	1,067
EBITDA margin (%)	-5%	5%	8%	10%
Tax rate (%)	-12%	23%	24%	24%
Net profit (LC)	-781	59	337	516
EPS (LC)	-0.50	0.03	0.15	0.23
EPS growth (%)	86%	-105%	470%	53%
DPS (LC)	0.00	0.00	0.04	0.12
BVPS (LC)	1.15	1.32	1.46	1.62
Operating cash flow (LC mn)	-394	-709	115	529
Free cash flow (LC mn)	-571	-1,046	-145	298
Interest cover (X)	NM	3.33x	6.34x	8.34x
Net margin (%)	-12%	1%	3%	5%
Sales/assets (X)	1.12x	1.29x	1.37x	1.41x
Debt/equity (%)	70%	52%	47%	42%
Net debt/equity (%)	23%	32%	37%	32%
ROE (%)	-31%	2%	11%	15%

Key model assumptions	FY15E	FY16E	FY17E
Revenue growth (%)	23.4%	17.6%	9.7%
Gross Margins	46.4%	48.0%	51.0%
EBIT Margins	2.3%	5.8%	7.5%

Source: Company data, J.P. Morgan estimates

Sensitivity analysis	EBIT		EPS	
	FY15E	FY16E	FY15E	FY16E
5% decrease in ML China Sales	-34.0%	-21.5%	-183.8%	-39.0%
1% decrease in gross margins	-20.0%	-12.2%	-108.1%	-22.1%
1% decrease in EBITDA margins	-20.0%	-12.2%	-108.1%	-22.1%

Source: Company data, J.P. Morgan estimates

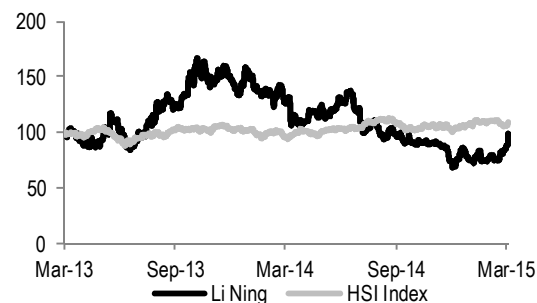
Comparative metrics	CMP	Mkt Cap	P/E		EV/EBITDA		P/BV		YTD Stock perf.
			LC	\$Mn	FY15E	FY16E	FY15E	FY16E	
China Dongxiang	1.4	1,013.3	27.0x	24.7x	20.1x	15.3x	0.7x	0.7x	2.9%
Anta	16.4	5,291.2	16.7x	14.7x	10.9x	9.3x	3.8x	3.5x	20.0%
Xtep	2.3	640.1	6.9x	6.5x	3.0x	2.5x	0.8x	0.8x	-26.9%
Belle	8.8	9,577.6	13.1x	12.7x	7.7x	7.2x	2.2x	2.0x	1.0%
361 Degrees	2.3	620.9	10.2x	6.5x	3.6x	2.5x	0.7x	0.7x	12.0%
Peak	2.3	622.1	11.0x	9.8x	2.7x	2.3x	0.9x	0.8x	7.0%

Source: Bloomberg, Company and J.P. Morgan estimates. Prices are as of 19 March 2015

#### Valuation and price target basis

Our Dec-15 price target is HK\$3.70. Given that the company is undergoing a turnaround, it is difficult to apply an earnings multiple to near-term earnings forecasts (as earnings forecasts are so volatile). Hence, our PT is based on discounted earnings forecasts for FY18 (when earnings forecasts are more normalized). We apply a target P/E multiple of 14x to this EPS number and a discount factor of 20%. Our target P/E is in line with the multiple we apply for Anta. We apply a 20% discount factor to reflect some risk of an unsuccessful turnaround

#### Li Ning vs HSI



Source: Bloomberg, Company data

#### JPM vs consensus, change in estimates

EPS	FY15E	FY16E
JPM old	0.04	0.12
JPM new	0.03	0.15
% chg	-31.3%	31.5%
Consensus	0.02	0.17

Source: Bloomberg, Company data, J.P. Morgan estimates

## FY14 results summary

Li Ning released its FY14 result in line with company guidance provided in Jan-15. The company's underlying result was somewhat better than JPMf, but we highlight a significant lack of visibility with respect to operating EBIT given the company is currently loss-making.

- FY14 revenues RMB6,728m (JPMf RMB6,619m, Consensus RMB6,425m), up 15.5% yoy (JPMf +13.7%). This implies 2H14 revenues of RMB3,591m (JPMf RMB3,482m), up 23.0% yoy (JPMf +19.3%).
- FY14 gross profit RMB3,004m (JPMf RMB3,088m), implying gross margin of 44.6% (JPMf 46.7%). 2H14 gross margins were 44.7% (JPMf 48.5%).
- FY14 EBIT RMB529m loss (JPMf RMB613m loss).
- FY14 NPAT RMB781m loss (JPMf RMB811m loss, Consensus RMB779m loss). The company previously issued guidance in early Jan-15 stating that it expected FY14 net loss to be not more than RMB820m, with this result being in line with company guidance.
- No dividend was declared in line with JPMf and consensus.

Table 1: Li Ning – Summary P&L Statement

RMBm	1H13	2H13	FY13	1H14	2H14	FY14
Turnover	2,906	2,918	5,824	3,137	3,591	6,728
% Growth	-24.6%	3.4%	-12.8%	8.0%	23.0%	15.5%
COGS	-1,639	-1,591	-3,230	-1,737	-1,987	-3,724
Gross profit	1,266	1,328	2,594	1,400	1,604	3,004
Gross margin	43.58%	45.49%	44.54%	44.62%	44.67%	44.64%
Other revenue & gains	28	85	113	19	15	34
CODB	-1,367	-1,543	-2,910	-1,867	-1,700	-3,567
CODB/Sales	47.04%	52.87%	49.96%	59.51%	47.34%	53.02%
EBIT	-72	-131	-203	-448	-81	-529
EBIT margin	-2.49%	-4.47%	-3.48%	-14.29%	-2.25%	-7.86%
EBIT growth	-164.8%	-92.7%	-87.8%	520.3%	-38.2%	160.8%
Asset disposal	34	0	34	0	0	0
Net interest	-90	-60	-150	-62	-81	-143
Equity accounted profit	0	2	2	2	5	7
PBT	-129	-188	-317	-508	-157	-665
Income tax expense	-33	-9	-42	-54	-24	-79
Non-controlling interests	-22	-10	-32	-23	-15	-38
NPAT	-184	-207	-391	-586	-196	-781
NPAT growth	-515.9%	-89.8%	-80.2%	217.9%	-5.5%	99.7%
DPS (RMBcps)	0.00	0.00	0.00	0.00	0.00	0.00

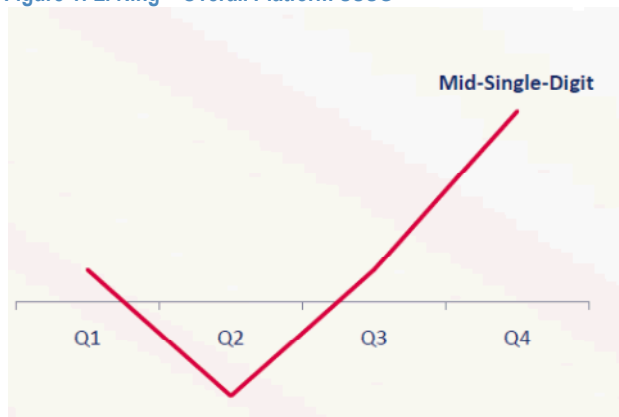
Source: Company reports December year end.

The company provided some more detail with respect to current financial performance, which we believe is worth analysing in more depth. We detail positives and negatives from the company's result briefing following this result.

### Positive #1 – SSSG momentum is improving

- Li Ning provided the market with a more comprehensive understanding of its sales performance over recent years.
- In particular, SSSG grew at MSD in 4Q14 for the company as a whole. Company-owned retail grew HSD while franchised stores grew MSD. We think it is a positive that SSSG is improving.

Figure 1: Li Ning – Overall Platform SSSG



Source: Company reports

Figure 2: Li Ning – SSSG by Channel

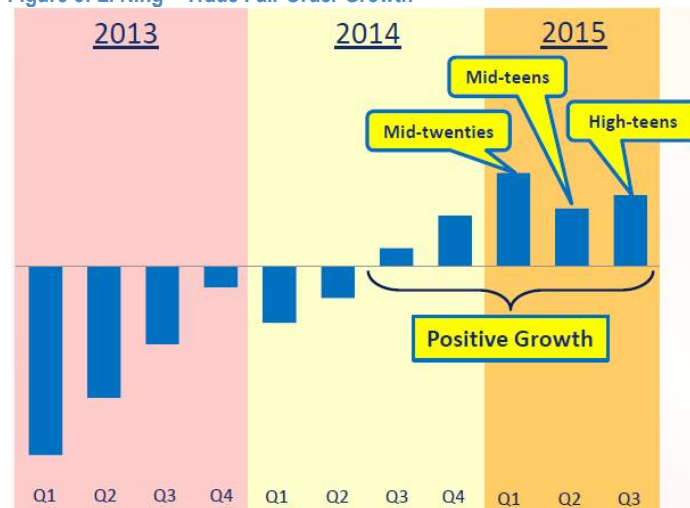


Source: Company reports

### Positive #2 – Trade fair order growth for 2015 is now positive

- The company provided more detail with respect to the trend in trade fair order growth. For the first three quarters of 2015, trade fair order growth was positive, with the company reporting growth between mid-teens and mid-twenties.

Figure 3: Li Ning – Trade Fair Order Growth



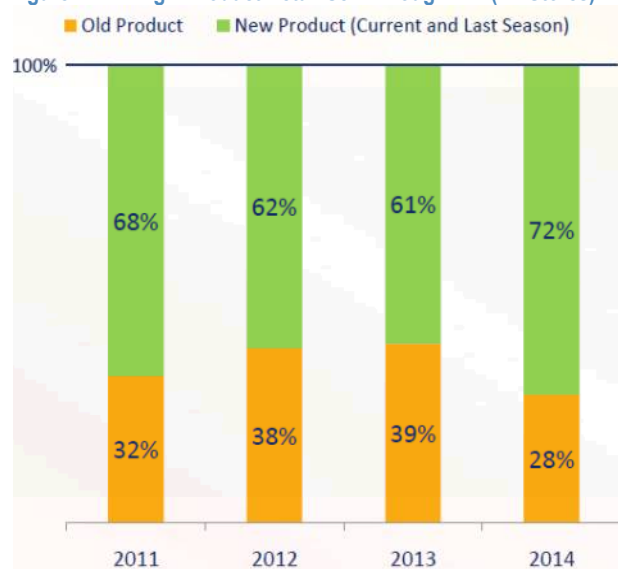
Source: Company reports

- This is a positive and could highlight distributors are becoming more optimistic with respect to ordering.
- However, management did indicate that the company planned to open ~500 stores in FY15 with a majority of these stores franchisee stores. This represents an increase of ~11% on the company's store base and hence we note a majority of trade fair order growth may be driven by new store growth.

### Positive #3 – New product sell-through mix is improving

- Management indicated that new product sell-through mix has been steadily improving (new products defined as current and last season products).

Figure 4: Li Ning – Product Retail Sell-Through Mix (All Stores)



Source: Company reports

- While this is a positive, management noted that this number needs to increase to ~80% for the company's turnaround efforts to be successful.
- We note the company should have had the opportunity to introduce its new designs throughout 2014. We are cautious about the company's ability to achieve this goal as historical experience in 2014 does not seem to show this goal to be achieved.

Figure 5: Li Ning – performance review over the past three years

		FY12	FY13	FY14
Channel	Inventory Amount YoY % (Tag Price)	◆ ↓ 17%	◆ ↓ 15%	◆ ↓ 5%
	Inventory Mix	◆ New*: Over 30% ◆ Over 12 months: Approx. 40%	◆ New*: Over 45% ◆ Over 12 months: Approx. 40%	◆ New*: Over 55% ◆ Over 12 months: Approx. 25%
Product	New Product* Retail Sales Growth, YoY %	◆ ↓ High-teens	◆ ↓ Low-twenties	◆ ↑ Mid-teens
	New Product* Retail Sell-through Mix, %	◆ 62%	◆ 61%	◆ 72%
Retail Capability	Overall Discount Rate (% of Tag Price)	◆ High-sixties	◆ Mid-sixties	◆ High-sixties
	Full Year New Product* Weighted Average Sell Out Rate <sup>▲</sup>	◆ 3 months: 26% ◆ 6 months: 50%	◆ 3 months: 30% ◆ 6 months: 55%	◆ 3 months: 31% ◆ 6 months: 58%
	Full Year Overall SSSG	◆ ↓ High Single Digit	◆ ↓ Low-teens	◆ ↑ Low Single Digit
Financials	Platform Operating Cost (% of Revenue)	◆ 36%	◆ 39%	◆ 32%
	A&P Expenses (% of Revenue)	◆ 20%	◆ 24%	◆ 19%
	Reported Net Loss (RMB)	◆ RMB 1,979mn Loss	◆ RMB 392 mn Loss	◆ RMB 781 mn Loss
	Adjusted EBITDA <sup>▲</sup> (RMB)	◆ RMB 445 mn Loss	◆ RMB 399 mn Loss	◆ RMB 206 mn Loss
	Net Cash / (Debt) Position (RMB)	◆ Net Debt RMB (206) mn	◆ Net Cash RMB 881 mn	◆ Net Cash RMB 34 mn

Source: Company reports

### Negative #1 – While SSSG momentum is improving, this is to be expected given recent changes in the company’s store profile

- For franchisee stores, we highlight that the company reported 565 net closures from Dec-13 to Dec-14. This represented ~11% of the company’s Dec-13 store base. Hence, we would naturally expect improving SSSG momentum for franchised stores. In fact, with so many stores closed over recent years, we query whether SSSG momentum should be higher.

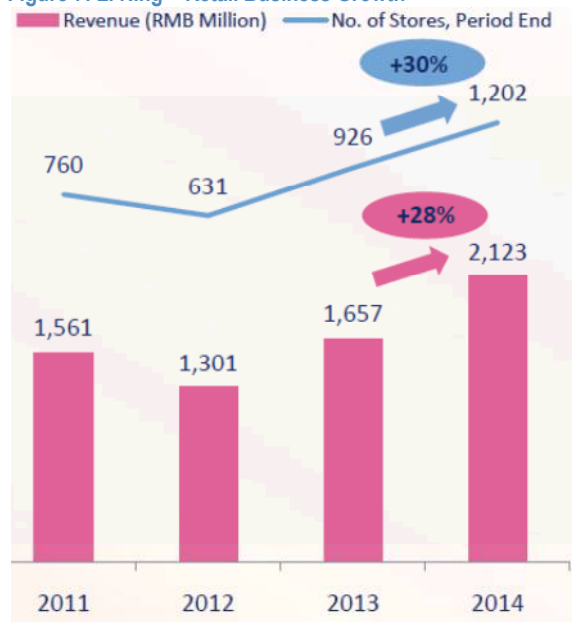
Figure 6: Li Ning – Wholesale Business Growth



Source: Company reports

- For the company’s retail business, we would highlight that the total number of stores increased by ~30% from FY13 to FY14. From FY12 to FY13, total direct store count increased by ~50%. Hence, we expect the company's SSSG to benefit from the maturation of recently opened stores.

Figure 7: Li Ning – Retail Business Growth



Source: Company reports

## Negative #2 – Gross margins in 1H15 will likely be negatively impacted by sourcing cost pressure

- Despite the company mix shift towards company-owned retail and improved current-season sell-through helping gross margins, gross margins declined ~80bps in 2H14 relative to 2H13.
- The company attributed this to increased sourcing costs as suppliers passed on increased labour costs relatively late in 2H14 with the company not passing through the higher cost to end customers. The company noted ~300bps negative impact in 2H14 from increased sourcing costs and expects sourcing cost increases to have an ongoing negative impact in 1H15.
- We were somewhat surprised with this commentary as Li Ning is one of the few companies within our coverage universe noting margin pressure from sourcing cost increases. We query whether the sourcing cost increase is also partly a function of the changes in volume associated with the company's newly transformed model. The company has previously indicated that it will engage in smaller production runs in order to better manage inventories and we wonder whether a reduction in scale also negatively impacted the company's bargaining power with suppliers.

## Negative #3 – Inventory turnover days increased, although inventory mix did improve

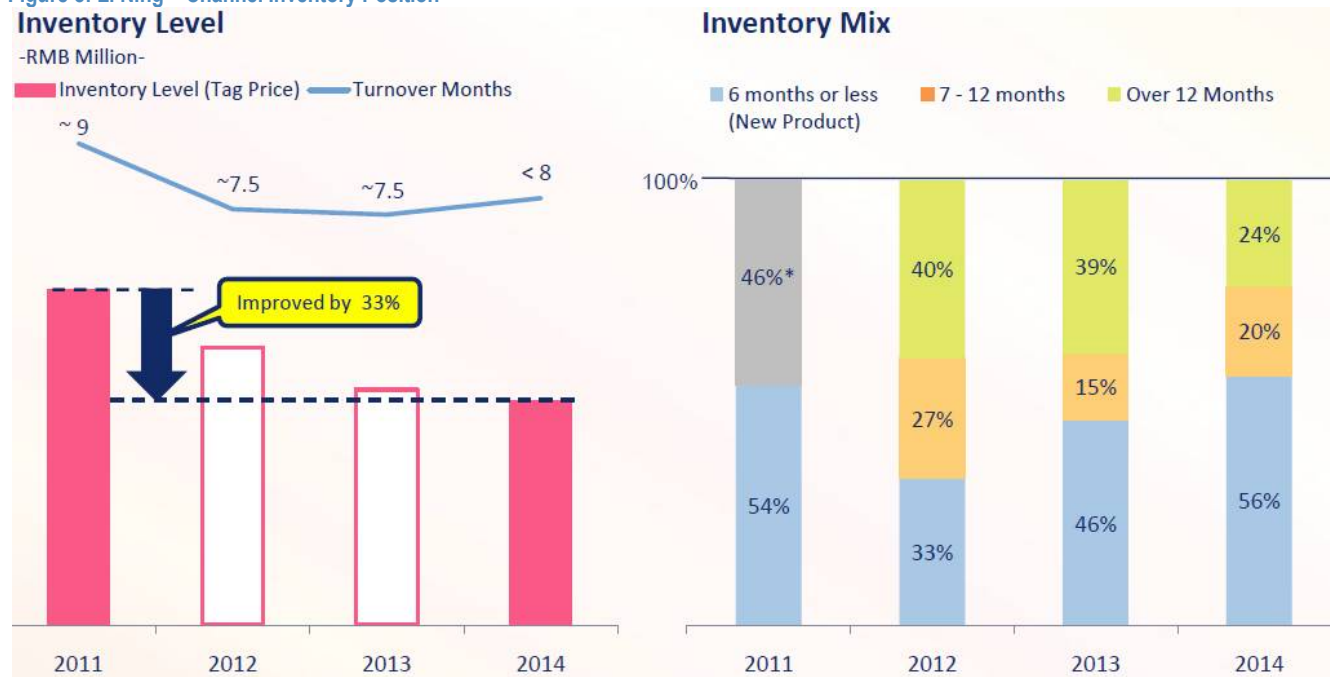
- The inventory position both at the company level as well as channel level actually deteriorated in FY14 relative to FY13.

### Channel inventory position

- At the channel level, inventory turnover months increased from ~7.5 months in 2013 to less than 8 months in 2014. Inventory mix did improve with inventory older than 12 months ~24% of total inventory at the channel level (v 39% in 2013).
- We note the company did report strong sales growth to franchisees in 2H14, with sales to franchisees growing ~24% in 2H14 (v ~3% decline in 1H14). We wonder whether part of this strong growth in sales drove the increase in channel inventory levels in FY14.
- Channel inventory mix did improve with inventory over 12 months in FY14 ~24%, below ~39% in FY13. However, we continue to highlight that this is a materially high number. We note management has previously indicated that it believes ~6 months channel inventory level is a more healthy number. Hence, we believe there remains significant room for improvement in this area.



Figure 8: Li Ning – Channel Inventory Position

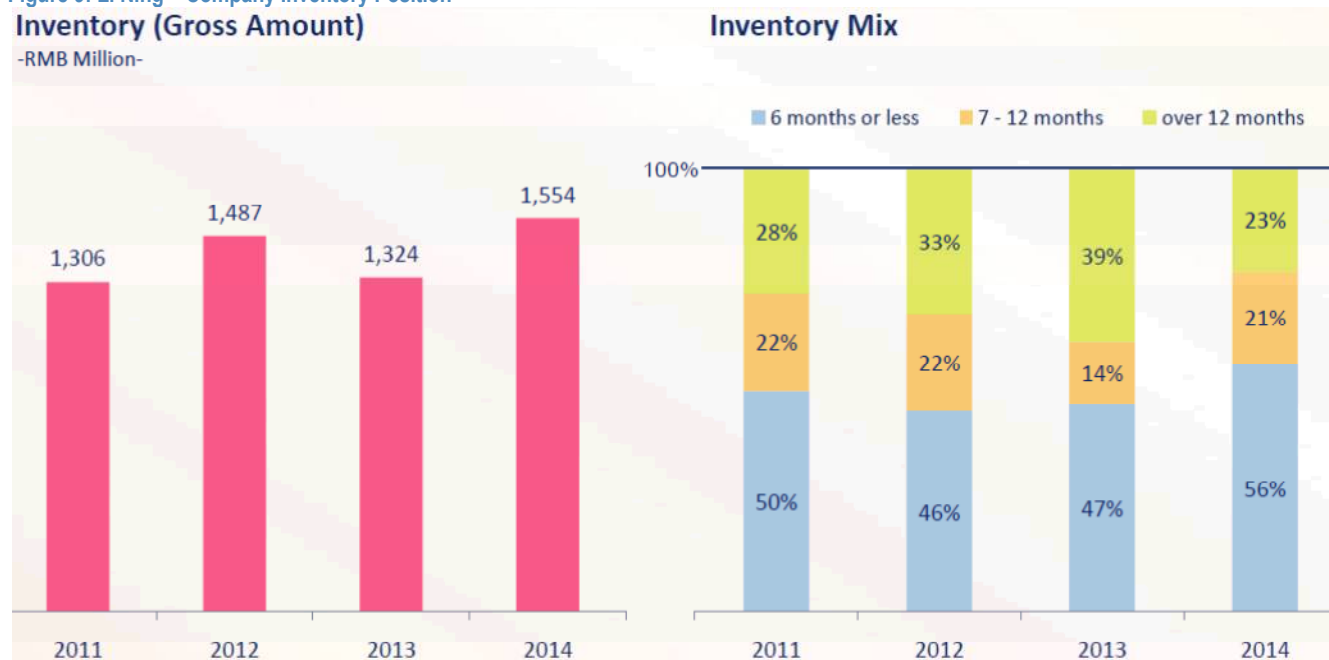


Source: Company reports

### Company inventory position

- At the company level, inventory turnover days increased from ~104 days in FY13 to ~109 days in FY14.
- This increase in inventory turnover days can be explained by reduced inventory provisions (FY14 provision RMB264m v FY13 provision RMB382m).
- Nevertheless, the gross inventory position of the company continued to increase and is now higher than 2012 levels. Management recognised that this has been driven by the shift in mix towards more company-owned retail.
- The company indicated that there is still opportunity for mix shift towards company-owned retail to increase. We are worried that the company's inventory position will continue to increase as the proportion of company owned retail increases.

Figure 9: Li Ning – Company Inventory Position



Source: Company reports

#### Negative #4 – We think there is still uncertainty with respect to the company’s CEO position

- The company also announced that Chairman Mr Li Ning has been appointed Interim CEO with effect from 18 March 2015.
- The announcement noted that Mr Li had performed the CEO’s duties (supported by incumbent senior management of the company) since Mr Jin-Goon Kim had stepped down from the Interim CEO position in mid Nov-14.
- When asked about the length of his tenure during the result briefing, Mr Li stated that one could interpret today’s announcement as suggesting that Mr Li will stay at the helm until Li Ning can revive its fortunes. Although Mr Li qualified by saying the company continues to look for a permanent CEO.
- We interpret Mr Li’s comments as suggesting he will continue to be Interim CEO for the next ~1-2 years.
- At the time of Mr Kim’s departure we had stated our view that we had found the fact that Mr Kim had stepped down before a new permanent CEO was in place somewhat unusual. We noted that there may be concerns among investors if it takes a significant period of time before a new CEO is put in place.
- We continue to believe this to be the case. We believe the vacancy in the permanent CEO role at Li Ning raises a number of questions/issues:
  - It raises questions about whether Li Ning is able to attract adequate talent.
  - Secondly, as Li Ning transforms to become a more retail-orientated model, we believe it requires a different skillset relative to simply being a brand wholesaler. Hence, we query whether Li Ning currently has the right retail execution capability in house.

## Earnings revisions

Following this result, we have changed our forecasts as detailed in the table below.

- We have increased our sales forecasts to reflect better-than-expected 2H14 sales performance.
- We reduce our gross margin assumptions to reflect sourcing cost pressure in FY15. We also become more cautious on gross margin expansion going forward.
- We increase our operating margin assumptions from FY16 onwards to reflect operating leverage as a result of higher sales growth expectations.

Table 2: Li Ning – Earnings Revisions

RMB in millions

	Old			New			% Change		
	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Revenue	6,619	7,595	8,555	6,728	8,302	9,761	1.6%	9.3%	14.1%
Revenue growth	13.7%	14.7%	12.6%	15.5%	23.4%	17.6%			
Gross profit	3,088	3,780	4,363	3,004	3,853	4,685	-2.8%	1.9%	7.4%
Gross margin	46.7%	49.8%	51.0%	44.6%	46.4%	48.0%			
Operating profit	-613	200	423	-529	194	563	-13.8%	-2.8%	33.0%
Operating margin	-9.3%	2.6%	4.9%	-7.9%	2.3%	5.8%			
NPAT	-811	86	256	-781	59	337	-3.7%	-31.3%	31.5%
NPAT growth	107.2%	-110.6%	197.6%	99.6%	-107.6%	469.6%			
Diluted EPS(RMB cps)	-57.7	3.9	11.6	-50.0	2.7	15.2	-13.3%	-31.3%	31.5%
DPS(RMB cps)	0.0	0.0	3.0	0.0	0.0	4.0			

Source: J.P. Morgan estimates. December year-end

## Investment Thesis, Valuation and Risks

### Li Ning Co Ltd *(Neutral; Price Target: HK\$3.70)*

#### **Investment Thesis**

We have a Neutral recommendation on Li Ning for the following reasons: 1) the recent announcement of a capital raising has removed an overhang on the stock and implies there is less potential for negative catalysts in the near term; and 2) the company is reporting some positive data points which may support the share price. Nevertheless, we remain cautious on execution risks associated with the turnaround.

#### **Valuation**

Our Dec-15 price target is HK\$3.70. Given that the company is undergoing a turnaround, it is difficult to apply an earnings multiple to near-term earnings forecasts (as earnings forecasts are so volatile). Hence, our PT is based on discounted earnings forecasts for FY18 (when earnings forecasts are more normalized). We apply a target P/E multiple of 14x to this EPS number and a discount factor of 20%. Our target P/E is in line with the multiple we apply for Anta. We apply a 20% discount factor to reflect some risk of an unsuccessful turnaround.

#### **Risks to Rating and Price Target**

Upside risks to our rating and price target include: 1) better-than-expected implementation of Li Ning's turnaround plan; 2) a better-than-expected improvement in sales; 3) a significant improvement with respect to gross margins; and 4) a significant reduction of the competitive environment for sportswear in China.

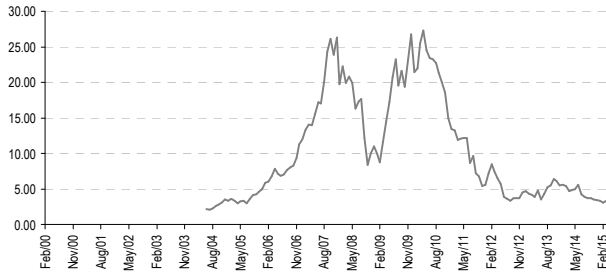
Downside risks include: 1) worse-than-expected implementation of the Li Ning turnaround plan; 2) a downturn in the Chinese sportswear market; and 3) increased intensity of competition in the sportswear industry in China.

**JPM Q-Profile**  
**Li Ning Co. Ltd. (CHINA / Consumer Discretionary)**  
 As Of: 13-Mar-2015

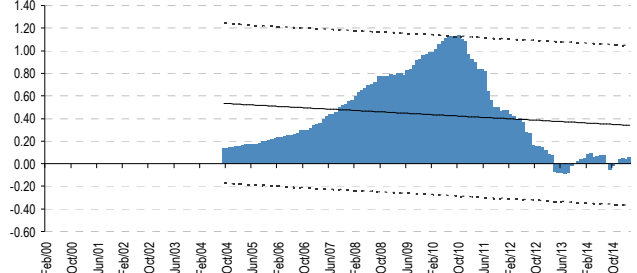
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

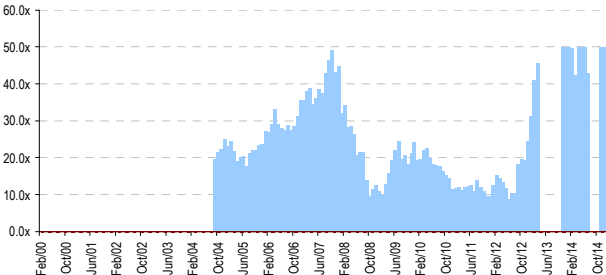
**Local Share Price** **Current: 3.39**



**12 Mth Forward EPS** **Current: 0.06**



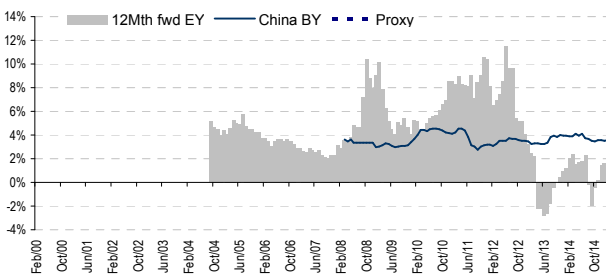
**PE (1Yr Forward)** **Current: 48.6x**



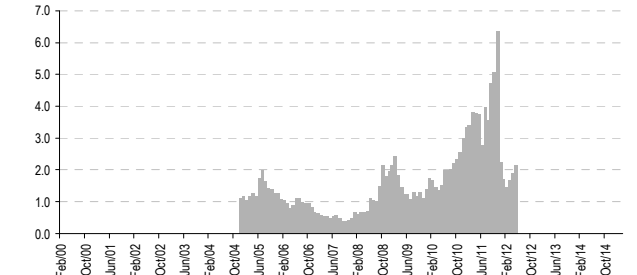
**P/E Relative to China Index** **Current: 3.00**



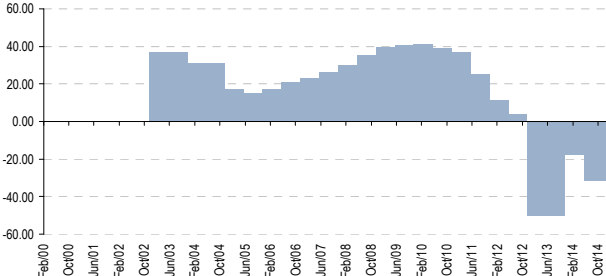
**Earnings Yield (& Local Bond Yield)** **Current: 2%**



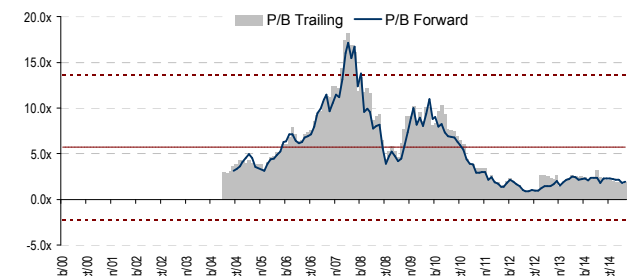
**Dividend Yield (Trailing)** **Current: 0.00**



**ROE (Trailing)** **Current: -31.61**



**Price/Book (Value)** **Current: 1.9x**



**Summary**

<b>Li Ning Co. Ltd.</b>		<b>CHINA</b>		<b>TICKER 2331 HK</b>		<b>As Of: 13-Mar-15</b>					
<b>Consumer Discretionary</b>						<b>Local Price: 3.39</b>					
						<b>EPS: 0.06</b>					
<b>12mth Forward PE</b>	<b>Latest</b>	<b>Min</b>	<b>Max</b>	<b>Median</b>	<b>Average</b>	<b>2 S.D.+</b>	<b>2 S.D. -</b>	<b>% to Min</b>	<b>% to Max</b>	<b>% to Med</b>	<b>% to Avg</b>
P/BV (Trailing)	1.93	0.88	18.64	4.30	5.69	13.66	-2.28	-54%	866%	123%	195%
Dividend Yield (Trailing)	0.00x	0.00	6.36	1.02	1.13	3.52	-1.26				
ROE (Trailing)	-31.61	-50.46	41.33	25.04	15.70	71.25	-39.84	-60%	231%	179%	150%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

## Li Ning Co Ltd: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	5,824	6,728	8,302	9,761	10,708	PBT	(317)	(665)	77	444	679
% change Y/Y	(12.8%)	15.5%	23.4%	17.6%	9.7%	Depr. & amortization	193	198	221	240	267
Gross Profit	2,594	3,004	3,853	4,685	5,461	Change in working capital	(106)	(213)	(886)	(487)	(276)
% change Y/Y	3.2%	15.8%	28.3%	21.6%	16.6%	Tax & Other	183	402	(104)	25	22
Gross margin	44.5%	44.6%	46.4%	48.0%	51.0%	Cash flow from operations	(121)	(394)	(709)	115	529
Other operating income	113	34	34	34	34	Capex	(286)	(340)	(433)	(356)	(329)
EBITDA	(10)	(330)	416	803	1,067	Sale of assets	63	3	0	0	0
% change Y/Y	(99.2%)	3254.1%	(225.9%)	93.2%	32.8%	Acquisition of subsidiaries/intangibles	(5)	0	0	0	0
EBITDA Margin	(0.2%)	(4.9%)	5.0%	8.2%	10.0%	Other	0	(14)	0	0	0
EBIT	(203)	(529)	194	563	800	Cash flow from investing	(228)	(351)	(433)	(356)	(329)
% change Y/Y	(87.8%)	160.5%	(136.8%)	189.5%	42.0%	Equity raised/(repaid)	1,482	0	689	0	0
EBIT Margin	(3.5%)	(7.9%)	2.3%	5.8%	7.5%	Debt raised/(repaid)	(1,045)	351	0	0	0
Net Interest	(150)	(143)	(125)	(127)	(128)	Dividends paid	(24)	0	0	(22)	(155)
Share of JVs	2	7	7	7	8	Other	(25)	0	0	0	0
Other non operating income	34	0	0	0	0	Cash flow from financing	388	351	689	(22)	(155)
Earnings before tax	(317)	(665)	77	444	679	FX gain/(loss)				-	-
% change Y/Y	(82.4%)	109.5%	(111.6%)	477.1%	53.1%	Net change in cash	39	(394)	(452)	(263)	45
Tax	(42)	(79)	(18)	(106)	(163)	Ending cash	1,281	1,031	579	316	361
as % of EBT	(13.3%)	(11.9%)	23.0%	24.0%	24.0%	DPS	0.00	0.00	0.00	0.04	0.12
Minorities	(32)	(38)	0	0	0						
Net income (reported)	(392)	(781)	59	337	516						
% change Y/Y	(80.2%)	99.6%	(107.6%)	469.6%	53.1%						
Recurring Net Income	(392)	(781)	59	337	516						
% change Y/Y	(80.2%)	99.6%	(107.6%)	469.6%	53.1%						
Diluted EPS	(0.27)	(0.50)	0.03	0.15	0.23						
% change Y/Y	(84.4%)	85.7%	(105.3%)	469.6%	53.1%						
Recurring EPS	(0.27)	(0.50)	0.03	0.15	0.23						
% change Y/Y	(84.4%)	85.7%	(105.6%)	448.3%	53.1%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	1,281	1,031	579	316	361	Gross margin	44.5%	44.6%	46.4%	48.0%	51.0%
Accounts receivable	1,734	1,639	2,426	2,840	3,101	EBITDA margin	(0.2%)	(4.9%)	5.0%	8.2%	10.0%
Inventories	942	1,289	1,514	1,772	1,823	Operating Margin	(3.5%)	(7.9%)	2.3%	5.8%	7.5%
Others	5	3	3	3	3	Net margin	(6.7%)	(11.6%)	0.7%	3.5%	4.8%
Current assets	3,962	3,963	4,522	4,929	5,288	Recurring net profit margin	(6.7%)	(11.6%)	0.7%	3.5%	4.8%
Goodwill	0	0	0	0	0	Sales growth	(12.8%)	15.5%	23.4%	17.6%	9.7%
Intangible assets	381	446	446	446	446	Net profit growth	(80.2%)	99.6%	(107.6%)	469.6%	53.1%
Long term investments	13	21	28	36	43	Recurring net profit growth	(80.2%)	99.6%	(107.6%)	469.6%	53.1%
Net fixed assets	1,142	1,233	1,445	1,561	1,622	EPS growth	(84.4%)	85.7%	(105.3%)	469.6%	53.1%
Other assets	518	377	397	397	397	Interest coverage (x)	NM	NM	3.3	6.3	8.3
Total Assets	6,017	6,040	6,838	7,369	7,796	Net debt to equity	(8.1%)	22.8%	32.4%	37.4%	32.4%
Liabilities						Sales/assets	1.0	1.1	1.3	1.4	1.4
Short-term loans	200	551	551	551	551	Assets/equity	255.9%	238.2%	253.1%	231.0%	222.1%
Trade & other payables	1,751	2,058	2,184	2,367	2,404	ROE	(16.6%)	(30.9%)	2.3%	11.0%	15.1%
Others	67	70	57	89	119	ROCE	(5.9%)	(15.5%)	3.7%	9.3%	12.3%
Total current liabilities	2,018	2,679	2,791	3,007	3,074						
Long-term debt	846	975	975	975	975						
Others	198	154	154	154	154						
Total Liabilities	3,125	3,870	3,920	4,136	4,202						
Minorities											
Shareholders' equity	2,892	2,169	2,918	3,233	3,594						
BVPS	2.11	1.15	1.32	1.46	1.62						

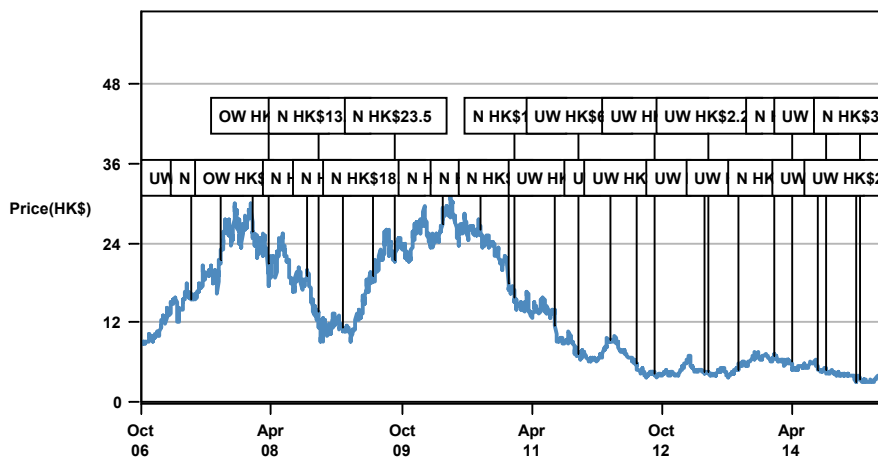
Source: Company reports and J.P. Morgan estimates.

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Li Ning Co Ltd (2331.HK, 2331 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Apr 30, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
30-Apr-07	UW	15.46	12.00
29-Aug-07	N	21.45	23.50
15-Jan-08	OW	25.85	30.20
20-Mar-08	OW	20.90	31.20
28-Aug-08	N	19.18	21.00
13-Oct-08	N	13.66	13.90
22-Jan-09	N	11.16	11.20
29-May-09	N	18.98	18.50
27-Aug-09	N	21.40	23.50
18-Mar-10	N	26.95	26.00
27-Aug-10	N	25.95	25.10
20-Dec-10	N	17.88	19.40
17-Jan-11	N	15.80	15.60
07-Jul-11	UW	11.54	8.00
12-Oct-11	UW	7.20	6.40
22-Feb-12	UW	9.32	7.00
12-Jun-12	UW	5.71	4.50
24-Aug-12	UW	4.26	3.30
26-Mar-13	UW	4.46	2.75
05-Apr-13	UW	4.46	2.20
12-Aug-13	UW	4.91	2.60
10-Jan-14	N	7.10	6.60
24-Mar-14	N	5.96	5.40
18-Jul-14	UW	4.93	4.00
14-Aug-14	UW	4.76	3.80
17-Dec-14	UW	3.06	2.70
09-Jan-15	N	3.18	3.20

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IB clients*	75%	67%	52%

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