Li Ning (2331 HK)

1H26: Net Profit Better Than Feared; Lowered Revenue And Net Margin Guidance

Highlights

- Li Ning's 1H26 net profit was better than feared. Looking ahead, with the challenging consumption environment, management lowers the full-year revenue growth guidance to low single-digit from high single-digit.
- In addition, with the stepped up A&P expenses in 2H26, primarily driven by Stephen Curry's partnership, net margin expectation is lowered to mid- to high single-digit range from the previously high single-digit range.
- **Maintain BUY, cut target price by 6% to HK$21.80.**

1H26 Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy chg (%)	hoh chg (%)
Total revenue	15,235	14,782	14,817	2.8	3.1
Gross profit	7,751	7,074	7,415	4.5	9.6
Gross margin (%)	50.9	47.9	50.0	0.9	3.0
Operating profit	2,452	1,460	2,438	0.5	68.0
Operating profit margin (%)	16.1	9.9	16.5	(0.4)	6.2
Attributable net profit	1,816	1,198	1,737	4.5	51.6
Attributable net margin (%)	11.9	8.1	11.7	0.2	3.8

Source: Li Ning, UOB Kay Hian

Analysis

- **1H26 net profit better than feared.** Li Ning reported 1H26 revenue of Rmb15,235m (+3% yoy; +3% hoh). Gross margin was 50.9% (+0.9ppt yoy, +3.0ppt hoh), as cost optimisation in the wholesale and e-commerce channels more than offset deeper discounts in the direct retail channel. Operating profit was Rmb2,452m (+1% yoy, +68% hoh), with an operating margin at 16.1% (-0.4ppt yoy, +6.2ppt hoh). The yoy decline in operating margin was primarily due to higher advertising and promotion expenses (A&P ratio at 11.2%, +2.2ppt yoy), given that the company continued to focus on Olympic and national team partnerships, while deepening professional sports areas. Net profit was Rmb1,816m (+5% yoy, +52% hoh), 5% above VA consensus, with a net margin at 11.9% (+0.2ppt yoy, +3.8ppt hoh), thanks to lower income taxes (effective tax rate lowered to 25.8% from 33.3% in 1H25). Net operating cash inflow was Rmb954m, down 60% yoy, primarily due to rising A&P expenses, including prepayment for Stephen Curry's partnership, and lower government subsidies. The company declared an interim dividend of Rmb35.12 cents per share, implying a payout ratio of 50% (vs 50% in 1H25).

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	28,676	29,598	30,501	31,717	32,971
EBITDA	6,379	6,161	4,739	5,263	5,770
Operating profit	3,678	3,898	3,171	3,540	3,920
Net profit (rep./act.)	3,013	2,936	2,418	2,682	2,958
Net profit (adj.)	3,013	2,936	2,418	2,682	2,958
EPS (Fen)	116.5	113.5	93.5	103.7	114.4
PE (x)	10.5	10.8	13.1	11.8	10.7
P/B (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	3.8	2.4	3.1	2.6	2.2
Dividend yield (%)	4.8	4.7	3.8	4.3	4.7
Net margin (%)	10.5	9.9	7.9	8.5	9.0
Net debt/(cash) to equity (%)	(71.9)	(74.3)	(71.8)	(71.2)	(71.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	11.9	10.9	8.6	9.1	9.6
Consensus net profit	-	-	2,733.9	3,079.9	3,430.6
UOBKH/Consensus (x)	-	-	0.88	0.87	0.86

Source: Li Ning, Bloomberg, UOB Kay Hian
n.m.: not meaningful; negative PE, EV/EBITDA reflected as "n.m."

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BUY (Maintained)

Share Price	HK$14.25
Target Price	HK$21.80
Upside	+53.0%
Previous TP	HK$23.30

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	2331 HK
Shares issued (m)	2,584.8
Market cap (HK$m)	36,833.6
Market cap (US$m)	4,697.4
3-mth avg daily t'over (US$m)	44.5

Price Performance (%)

52-week high/low				HK$23.42/HK$13.93
1mth	3mth	6mth	1yr	YTD
(4.0)	(22.1)	(33.7)	(22.4)	(23.7)

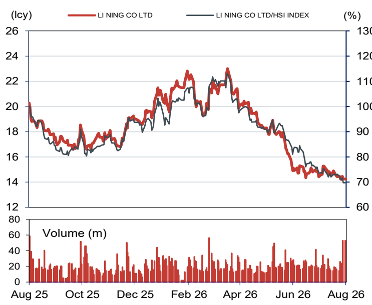
Major Shareholders (%)

Viva China	10.40
Brown Brothers Harriman	6.00

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	11.15
FY26 Net Cash/Share (Rmb)	7.85

Price Chart



Source: Bloomberg

Company Description

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

- **Increasing challenges in 2H26; lowers revenue growth guidance to low single-digit.** In 1H26, the company achieved low single-digit retail sell-through growth. Management noted that since 2Q26, frequent weather disruption, softening demand and deepening discounts have weighed on sell-through. In 3Q26 to date, this pressure has shown no signs of easing and retail sell-through was lower than the internal targets, leading management to expect increasing operational challenges in 2H26. Therefore, management has lowered the full-year revenue growth guidance to low single-digit (vs previously high single-digit growth).
- **Gross margin improvement driven by cost optimisation; aims to achieve a flat to slightly positive gross margin level for the year.** In 1H26, gross margin rose 0.9ppt yoy to 50.9%, primarily driven by cost optimisation (+0.8ppt in the wholesale channel, +0.2ppt in e-commerce channel, -0.3ppt in direct retail channel, +0.2ppt for others), while discounts deepened as competition intensified. Offline discounts widened by around 3.5ppt in 1H26, and e-commerce discounts deepened by a low single-digit ppt. Against a challenging consumption environment, management targets a flat to slightly positive gross margin level for the full year.
- **A&P to increase significantly in 2H26; lowers net margin guidance to mid- to high single-digit range.** Management views A&P as essential for securing sports resources and enhancing brand value, considering the signing of Stephen Curry as a long-term strategic brand partnership, rather than a near-term sales driver for a specific product line. In 2H26, costs from Curry's partnership will largely begin to be recognised, and together with new national team signings, A&P expenses are expected to increase significantly yoy. As a result, net margin guidance is lowered to mid- to high single-digit range (vs a previously high single-digit range).

Earnings Revision/Risk

- **Lower our 2026/27 earnings forecasts by 17%/15% respectively.** We lower our 2026/27 revenue forecasts both by 2%, to reflect weaker-than-expected demand. We lift our 2026/27 gross margin estimates both by 0.1ppt to reflect cost optimisation. We raise our 2026/27 opex estimates by 1.6ppt/1.3ppt, respectively, to reflect higher A&P costs. Thus, our 2026/27 earnings forecasts are cut by 17%/15% respectively.

Valuation/Recommendation

- **Maintain BUY but cut target price by 6% to HK$21.80.** Our DCF-based target price implies 20.7x 2026F PE and 18.7x 2027F PE. The stock currently trades at 13.1x 2026F PE and 11.8x 2027F PE.

Profit & loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	29,598.4	30,500.8	31,716.6	32,970.6
EBITDA	6,160.9	4,739.1	5,263.4	5,770.2
Deprec. & amort.	2,004.8	1,439.0	1,591.6	1,716.3
EBIT	3,898.2	3,171.4	3,540.4	3,919.8
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	257.9	128.8	131.4	134.0
Net interest income/(expense)	33.1	150.5	154.8	166.6
Pre-tax profit	4,189.2	3,450.6	3,826.6	4,220.5
Tax	(1,253.5)	(1,032.5)	(1,145.0)	(1,262.8)
Minorities	0.0	0.0	0.0	0.0
Net profit	2,935.7	2,418.1	2,681.7	2,957.6
Net profit (adj.)	2,935.7	2,418.1	2,681.7	2,957.6

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	4,753.7	5,191.7	5,573.7	5,906.7
Other LT assets	10,010.7	10,433.8	10,760.2	11,010.8
Cash/ST investment	16,716.6	16,984.1	17,705.9	18,681.0
Other current assets	6,233.1	6,389.8	6,600.9	6,818.7
Total assets	37,714.1	38,999.4	40,640.7	42,417.2
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	8,061.1	8,243.9	8,490.1	8,731.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	2,025.5	2,025.5	2,025.5	2,025.5
Shareholders' equity	27,627.5	28,730.1	30,125.1	31,660.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	37,714.1	38,999.4	40,640.7	42,417.2

Cash flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	4,851.5	2,883.2	3,308.4	3,697.1
Pre-tax profit	4,189.2	3,450.6	3,826.6	4,220.5
Tax	(1,253.5)	(1,032.5)	(1,145.0)	(1,262.8)
Deprec. & amort.	2,004.8	1,439.0	1,591.6	1,716.3
Working capital changes	162.3	26.1	35.1	23.1
Non-cash items	657.0	0.0	0.0	0.0
Other operating cashflows	(942.2)	(1,000.0)	(1,000.0)	(1,000.0)
Investing	6,634.0	(1,300.0)	(1,300.0)	(1,300.0)
Capex (growth)	(1,293.0)	(1,300.0)	(1,300.0)	(1,300.0)
Investments	(69.4)	(50.0)	(50.0)	(50.0)
Proceeds from sale of assets	14.9	0.0	0.0	0.0
Others	7,981.4	50.0	50.0	50.0
Financing	(2,155.0)	(1,315.6)	(1,286.6)	(1,422.0)
Dividend payments	(1,399.9)	(1,315.6)	(1,286.6)	(1,422.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	5,920.0	0.0	0.0	0.0
Loan repayment	(5,920.0)	0.0	0.0	0.0
Others/interest paid	(755.1)	0.0	0.0	0.0
Net cash inflow (outflow)	9,330.5	267.6	721.8	975.1
Beginning cash & cash equivalent	7,498.6	16,716.6	16,984.1	17,705.9
Changes due to forex impact	(112.5)	0.0	0.0	0.0
Ending cash & cash equivalent	16,716.6	16,984.1	17,705.9	18,681.0

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	20.8	15.5	16.6	17.5
Pre-tax margin	14.2	11.3	12.1	12.8
Net margin	9.9	7.9	8.5	9.0
ROA	8.0	6.3	6.7	7.1
ROE	10.9	8.6	9.1	9.6
Growth				
Turnover	3.2	3.0	4.0	4.0
EBITDA	(3.4)	(23.1)	11.1	9.6
Pre-tax profit	1.9	(17.6)	10.9	10.3
Net profit	(2.6)	(17.6)	10.9	10.3
Net profit (adj.)	(2.6)	(17.6)	10.9	10.3
EPS	(2.6)	(17.6)	10.9	10.3
Leverage				
Debt to total capital	n.a.	n.a.	n.a.	n.a.
Debt to equity	n.a.	n.a.	n.a.	n.a.
Net debt/(cash) to equity	(74.3)	(71.8)	(71.2)	(71.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.