

China Lilang (1234 HK)

DTC transformation has started to bear fruit

Lilang's FY24 results were weak, but both industry and company trends are improving in FY25E. Considering the decent 10% FY25E dividend yield, we still find China Lilang attractive.

- **The FY25E guidance is somewhat impressive.** China Lilang's management is now aiming for: 1) 10% retail sales growth, 2) 15% new retail channel sales growth and 3) 80% new product mix on the e-commerce channel (from 70% in FY24). Given the high base last year and unfavorable weather, we do find this target impressive.
- **However, we do find it reasonable given series of growth drivers:** 1) decent sales growth momentum from the smart casual (+27% in FY24, compared to -3% for core collection), thanks to product innovations and effective marketing, 2) DTC transformation starts to bear fruit, where sales per store growth was flattish/ negative for the consignment/ wholesale stores in FY24, 3) greater use of the new retail channels, the Company has started to sell more and market more through Douyin and outlet (also added PDD and "POIZON" in late FY24), 4) encouraging more distributors to open larger-sized stores or shift their stores to better locations, 5) absence of one-off sales reductions and payment for DTC transformation.
- **Margin-wise, we do see some upside as well.** We believe GP margin in FY24E can be boosted by: 1) absence of one-off DTC transformation related fees, 2) reduction in retail discounts on e-commerce channel through a better new old product mix and a more accurate and efficient placement of the trade fair orders. And the OP margin should also be benefited though greater operating leverage (core collection SSSG to turn positive while that of smart casual to accelerate).
- **Maintain BUY with TP of HK\$ 4.96, based on 10x FY25E P/E.** We revise down our net profit forecasts in FY25E/ 26E by 6%/ 5%, in order to factor in the earnings miss, a better recovery in GP margin but a higher opex. Thanks to the improving macro trend, plus the various benefits yielded from DTC transformation, we are positive for a potential turnaround for China Lilang in FY25E. The stock is now trading attractively at 8x FY25E P/E with a yield of 10%, as the downside is rather protected.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	3,544	3,650	4,066	4,429	4,707
YoY growth (%)	14.8	3.0	11.4	8.9	6.3
Operating profit (RMB mn)	610.6	552.5	664.9	758.3	821.1
Net profit (RMB mn)	530.4	460.8	557.8	632.3	682.4
EPS (Reported) (RMB)	0.44	0.38	0.47	0.53	0.57
YoY growth (%)	18.4	(13.1)	21.1	13.3	7.9
P/E (x)	8.0	9.2	7.6	6.7	6.2
P/B (x)	1.1	1.0	1.0	1.0	0.9
Yield (%)	9.4	8.0	9.9	11.2	12.1
ROE (%)	13.7	11.5	13.6	14.7	15.3
Net gearing (%)	(3.2)	15.2	16.4	17.3	17.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.96
(Previous TP)	HK\$4.85)
Up/Downside	30.5%
Current Price	HK\$3.80

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Stock Data

Mkt Cap (HK\$ mn)	4,550.4
Avg 3 mths t/o (HK\$ mn)	2.6
52w High/Low (HK\$)	5.10/3.71
Total Issued Shares (mn)	1197.5

Source: FactSet

Shareholding Structure

Mr. Wang & Family	67.3%
The Vanguard Group	1.3%

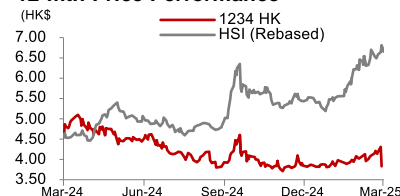
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.5%	-11.9%
3-mth	-0.5%	-19.0%
6-mth	-3.6%	-27.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

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- **FY24 results missed expectation, primarily dragged by one-off DTC transformation.** In FY24, China Lilang's sales increased by 3% YoY to RMB 3.66bn, missing CMBI est. by 5%, due to sales reduction following the buyback of distributor operations in Northeast China and Jiangsu plus the weak macro in 2H24. At the same time, net profit dropped by 13% YoY to RMB 461mn, also missing CMBI est. by 13%, mostly due to the one-off payment to the relevant purchase of distribution rights and stores. However, if we adjust for this DTC transformation, the sales growth may be reversed to HSD (wholesale growth can return to positive for all regions in China). Inventory days climbed to 183 days in FY24 (from 170 days in FY23), partly due to the sluggish sales growth last year (esp. during the warm winter), but it is still within a healthy range.

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,066	4,429	4,707	4,169	4,485	n/a	-2.5%	-1.2%	n/a
Gross profit	1,977	2,184	2,335	1,982	2,169	n/a	-0.3%	0.7%	n/a
EBIT	665	758	821	716	809	n/a	-7.2%	-6.3%	n/a
Net profit att.	558	632	682	593	664	n/a	-5.9%	-4.8%	n/a
Diluted EPS (RMB)	0.466	0.528	0.570	0.495	0.555	n/a	-5.9%	-4.8%	n/a
Gross margin	48.6%	49.3%	49.6%	47.5%	48.4%	n/a	1.1ppt	0.9ppt	n/a
EBIT margin	16.4%	17.1%	17.4%	17.2%	18.0%	n/a	-0.8ppt	-0.9ppt	n/a
Net profit att. margin	13.7%	14.3%	14.5%	14.2%	14.8%	n/a	-0.5ppt	-0.5ppt	n/a

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,066	4,429	4,707	4,258	4,658	4,828	-4.5%	-4.9%	-2.5%
Gross profit	1,977	2,184	2,335	2,061	2,277	2,343	-4.1%	-4.1%	-0.3%
EBIT	665	758	821	716	809	883	-7.1%	-6.3%	-7.0%
Net profit att.	558	632	682	630	706	727	-11.5%	-10.5%	-6.1%
Diluted EPS (RMB)	0.466	0.528	0.570	0.530	0.593	0.610	-12.1%	-11.0%	-6.6%
Gross margin	48.6%	49.3%	49.6%	48.4%	48.9%	48.5%	0.2ppt	0.4ppt	1.1ppt
EBIT margin	16.4%	17.1%	17.4%	16.8%	17.4%	18.3%	-0.5ppt	-0.2ppt	-0.8ppt
Net profit att. margin	13.7%	14.3%	14.5%	14.8%	15.2%	15.1%	-1.1ppt	-0.9ppt	-0.6ppt

Source: Bloomberg, CMBIGM estimates

Results Review

Figure 3: Results review – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24	1H23 yoy	2H23 yoy	1H24 yoy	2H24 yoy	2H24E CMBI	Actual vs CMBI
Revenue	1,491	2,053	1,600	2,050	7%	22%	7%	0%	2,245	-9%
COGS	-719	-1,118	-800	-1,111					-1,250	
Gross profit	773	934	801	939	13%	26%	4%	0%	995	-6%
GP margin	51.8%	45.5%	50.0%	45.8%					44.3%	
Other income & gains	5	46	66	4					18	
S & D expenses	-398	-559	-466	-593	26%	18%	17%	6%	-574	3%
S & D exp / sales	-26.7%	-27.2%	-29.1%	-28.9%					-25.6%	
Admin expenses	-73	-104	-80	-108	-14%	10%	9%	4%	-110	-1%
Admin exp / sales	-4.9%	-5.1%	-5.0%	-5.3%					-4.9%	
Other opex	-1	-12	-7	-3					-9	
Operating profit (EBIT)	305	305	314	239	4%	36%	3%	-22%	320	-25%
OP margin	20.5%	14.9%	19.6%	11.6%					14.3%	
Other items	0	0	0	0					0	
Net finance income	22	25	28	28					7	331%
Net finance income / sales	1.5%	1.2%	1.7%	1.4%					0.3%	
Profit after financing costs	328	330	342	267					327	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	328	330	342	267	5%	41%	4%	-19%	327	-18%
Tax	-57	-70	-62	-86					-79	10%
Tax / sales	-3.8%	-3.4%	-3.8%	-4.2%					-3.5%	
Effective tax rate	-17.5%	-21.2%	-18.0%	-32.3%					-24.1%	
Minority interests	0	0	0	0					0	
Net profit att.	270	260	280	181	5%	36%	4%	-31%	248	-27%
NP margin	18.1%	12.7%	17.5%	8.8%					11.0%	

Source: Company data, CMBIGM estimates

Figure 4: Result review - Full Year

Full yearly (Rmb mn)	FY23	FY24	FY25E	FY23 yoy	FY24 yoy	FY25E yoy	FY24E CMBI	Actual vs CMBI
Revenue	3,544	3,650	4,066	15%	3%	11%	3,845	-5%
COGS	-1,837	-1,911	-2,089				-2,050	
Gross profit	1,707	1,739	1,977	20%	2%	14%	1,795	-3%
GP margin	48.2%	47.7%	48.6%				46.7%	
Other income & gains	51	70	65				85	
S & D expenses	-957	-1,059	-1,163	21%	11%	10%	-1,041	2%
S & D exp / sales	-27.0%	-29.0%	-28.6%				-27.1%	
Admin expenses	-177	-188	-203	-1%	6%	8%	-190	-1%
Admin exp / sales	-5.0%	-5.2%	-5.0%				-4.9%	
Other opex	-13	-10	-11				-15	
Operating profit (EBIT)	611	552	665	18%	-10%	20%	634	-13%
OP margin	17.2%	15.1%	16.4%				16.5%	
Other items	0	0	0				0	
Net finance income	47	56	60				34	63%
Net finance income / sales	1.3%	1.5%	1.5%				0.9%	
Profit after financing costs	658	609	724				668	
Associated coms	0	0	0				0	
Jointly controlled coms	0	0	0				0	
Pre-tax profit	658	609	724	20%	-7%	19%	668	-9%
Tax	-127	-148	-167				-140	5%
Tax / sales	-3.6%	-4.1%	-4.1%				-3.7%	
Effective tax rate	-19.4%	-24.3%	-23.0%				-21.0%	
Minority interests	0	0	0				0	
Net profit att.	530	461	558	18%	-13%	21%	528	-13%
NP margin	15.0%	12.6%	13.7%				13.7%	

Source: Company data, CMBIGM estimates

Assumptions

Figure 5: China Lilang's key assumptions

Major assumptions	FY23A	FY24A	FY25E	FY26E	FY27E
Sales by segment (RMB mn)					
LILANZ	2,566	2,841	2,756	2,904	3,035
Smart Casual	520	703	894	1,162	1,394
Total	3,086	3,544	3,650	4,066	4,429
Sales by segment growth (%)					
LILANZ	-6.2%	10.7%	-3.0%	5.4%	4.5%
Smart Casual	-19.0%	35.2%	27.2%	30.0%	20.0%
Total	-8.7%	14.8%	3.0%	11.4%	8.9%
Sales network by segment					
LILANZ	2,393	2,393	2,451	2,501	2,551
Smart Casual	251	302	322	372	422
Total	2,644	2,695	2,773	2,873	2,973
Sales network by segment growth (%)					
LILANZ	-2.0%	0.0%	2.4%	2.0%	2.0%
Smart Casual	-13.4%	20.3%	6.6%	15.5%	13.4%
Total	-3.3%	1.9%	2.9%	3.6%	3.5%
GP margins by segment	46.0%	48.2%	47.7%	48.6%	49.3%
Opex breakdown					
Staff costs	3.7%	3.7%	4.7%	4.7%	4.7%
D & A	3.7%	3.4%	3.9%	4.0%	4.0%
R & D	4.0%	3.2%	3.6%	3.6%	3.6%
Provision (write back)	0.0%	0.0%	0.0%	0.0%	0.0%
A & P	13.0%	14.7%	13.2%	14.2%	14.2%
Selling & distribution costs / sales	25.7%	27.0%	29.0%	28.6%	28.6%
Admin expenses / sales	5.8%	5.0%	5.2%	5.0%	4.9%
OP margins	16.8%	17.2%	15.1%	16.4%	17.1%
Effective tax rate	18.1%	19.4%	24.3%	23.0%	23.0%
NP att. margins	14.5%	15.0%	12.6%	13.7%	14.3%
NP att. growth (%)	-4.3%	18.4%	-13.1%	21.1%	13.3%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	3,086	3,544	3,650	4,066	4,429	4,707
Cost of goods sold	(1,666)	(1,837)	(1,911)	(2,089)	(2,245)	(2,372)
Gross profit	1,420	1,707	1,739	1,977	2,184	2,335
Operating expenses	(973)	(1,147)	(1,257)	(1,377)	(1,496)	(1,590)
Selling expense	(792)	(957)	(1,059)	(1,163)	(1,267)	(1,349)
Admin expense	(55)	(62)	(58)	(59)	(61)	(61)
R&D expense	(124)	(115)	(130)	(145)	(157)	(167)
Others	(2)	(13)	(10)	(11)	(12)	(13)
Operating profit	519	611	552	665	758	821
Other income	72	51	70	65	71	75
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	523	614	554	667	760	823
Other amortisation	(4)	(3)	(2)	(2)	(2)	(2)
Interest income	52	82	84	88	91	94
Interest expense	(24)	(35)	(28)	(29)	(29)	(29)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	547	658	609	724	821	886
Income tax	(99)	(127)	(148)	(167)	(189)	(204)
Minority interest	0	0	0	0	0	0
Net profit	448	530	461	558	632	682

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	2,772	2,678	3,838	4,112	4,350	4,523
Cash & equivalents	960	1,077	827	905	973	1,010
Account receivables	843	733	828	922	1,004	1,068
Inventories	885	826	1,087	1,188	1,277	1,349
Prepayment	0	0	0	0	0	0
ST bank deposits	81	40	1,091	1,091	1,091	1,091
Other current assets	3	2	5	5	5	5
Non-current assets	2,706	3,825	3,016	3,021	3,057	3,146
PP&E	1,213	1,194	1,163	1,171	1,208	1,299
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	5	4	3	1	(1)	(3)
Other non-current assets	1,488	2,628	1,849	1,849	1,849	1,849
Total assets	5,478	6,503	6,854	7,133	7,407	7,669
Current liabilities	1,439	1,623	2,051	2,158	2,251	2,328
Short-term borrowings	279	315	555	555	555	555
Account payables	888	1,009	1,147	1,254	1,348	1,424
Tax payable	197	224	266	266	266	266
Other current liabilities	75	75	82	82	82	82
Non-current liabilities	256	913	748	748	748	748
Long-term borrowings	187	853	671	671	671	671
Other non-current liabilities	69	59	76	76	76	76
Total liabilities	1,695	2,535	2,798	2,905	2,999	3,075
Share capital	106	106	106	106	106	106
Retained earnings	0	0	0	172	353	538
Other reserves	3,677	3,862	3,920	3,920	3,920	3,920
Total shareholders equity	3,782	3,967	4,026	4,198	4,378	4,564
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,478	6,503	6,824	7,103	7,378	7,640

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	547	658	609	724	821	886
Depreciation & amortization	115	120	143	120	101	56
Tax paid	(85)	(82)	(96)	(167)	(189)	(204)
Change in working capital	0	348	(183)	(89)	(77)	(59)
Others	77	56	54	29	29	29
Net cash from operations	654	1,101	527	618	684	708
Investing						
Capital expenditure	(379)	(132)	(113)	(126)	(137)	(145)
Acquisition of subsidiaries/ investments	(2)	(2)	(2)	0	0	0
Others	(795)	(1,078)	(191)	0	0	0
Net cash from investing	(1,175)	(1,212)	(306)	(126)	(137)	(145)
Financing						
Dividend paid	(341)	(349)	(398)	(386)	(452)	(497)
Net borrowings	361	688	20	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(111)	(111)	(94)	(29)	(29)	(29)
Net cash from financing	(90)	228	(472)	(414)	(480)	(525)
Net change in cash						
Cash at the beginning of the year	1,572	960	1,077	827	905	973
Exchange difference	0	0	0	0	0	0
Others	(612)	117	(251)	78	67	38
Cash at the end of the year	960	1,077	827	905	973	1,010
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(8.7%)	14.8%	3.0%	11.4%	8.9%	6.3%
Gross profit	0.4%	20.2%	1.9%	13.7%	10.5%	6.9%
Operating profit	(2.6%)	17.6%	(9.5%)	20.3%	14.0%	8.3%
EBITDA	(2.5%)	17.4%	(9.7%)	20.3%	14.0%	8.3%
Net profit	(4.3%)	18.4%	(13.1%)	21.1%	13.3%	7.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	46.0%	48.2%	47.7%	48.6%	49.3%	49.6%
Operating margin	16.8%	17.2%	15.1%	16.4%	17.1%	17.4%
EBITDA margin	16.9%	17.3%	15.2%	16.4%	17.2%	17.5%
Return on equity (ROE)	12.0%	13.7%	11.5%	13.6%	14.7%	15.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.1	(0.0)	0.2	0.2	0.2	0.2
Current ratio (x)	1.9	1.7	1.9	1.9	1.9	1.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	9.5	8.0	9.2	7.6	6.7	6.2
P/E (diluted)	9.5	8.0	9.2	7.6	6.7	6.2
P/B	1.1	1.1	1.0	1.0	1.0	0.9
P/CFPS	6.5	3.8	8.0	6.9	6.2	6.0
Div yield (%)	7.9	9.4	8.0	9.9	11.2	12.1
EV	4,050.2	4,677.1	3,940.4	3,862.2	3,794.9	3,757.3
EV/Sales	1.3	1.3	1.1	0.9	0.9	0.8
EV/EBITDA	7.7	7.6	7.1	5.8	5.0	4.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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