Anta Sports (2020 HK)
Continuous growth improvement in 3Q20

- Retail sales of ANTA Brand and FILA Brand recorded a low single-digit rate and 20-25% growth in 3Q20; retail sales of other brands rose 50-55%
- Retail sales growth rates of ANTA brand and FILA Brand in 3Q20 has not recovered to 3Q19 level
- Expect revenue CAGR of 20.1% in FY19-22E
- Upgrade to **BUY**; current TP implies 39.65x/26.89x 20E/21E P/E, or 9.32x/7.41x 20E/21E P/B

Company Report

Oct 19, 2020

Rating: BUY

TP: HK$ 98.9

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Growth continues in 3Q20. Overall, 3Q20 retail sales shows continuous improvement from 1Q and 2Q on the resumption of economic activities in China and the Group's effort to boost sales. The ANTA and FILA brands recorded a low single-digit rate and 20-25% increase. Sales of other branded products increased by 50-55% in 3Q20. However, we believe that the Group still needs time for growth recovery, as the 3Q20 retail sales growth rates have not recovered to 3Q19 levels. In particular, the ANTA and FILA brand registered 3Q19 retail sales growth of mid-teens and 50%-55% YoY.

Expect revenue CAGR of 20.1% in FY19-22E. Based on our estimates, the FY19-22E revenue CAGRs for ANTA and FILA would be 9.1% and 29.1%, mainly supported by the Group's strong brand portfolio and execution ability. We adjust down the revenue growth expected but revise up the earnings forecasts based on better-than-expected margin profile in 1H20 and expected margin improvement in 2H20. Our projected FY20E and FY21E revenue growth rates are revised down by 1.6ppt and 3.3ppt to 10.4% YoY and 24.6% YoY. We revise up GPM and NPM (to shareholders of the Company) by 7.0ppt and 1.4ppt to 57.4% and 15.5% for FY20E; FY20E net profit (to shareholders of the Company) is up by 8.3% compared to our previous forecast.

Upgrade to BUY, TP at HK$ 98.9. We are confident that the Group would be able to maintain its leadership in China's sports apparel market and would be able to deliver better growth performance in coming years. Upgrade to **BUY** based on better earnings expectations. Current TP represents 39.65x/26.89x 20E/21E P/E, or 9.32x/7.41x 20E/21E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3); Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk; 6) Prolonged COVID-19 pandemic.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	24,100	33,928	37,460	46,687	58,789
Chg (%,YoY)	44.4	40.8	10.4	24.6	25.9
Net Profit (RMB mn)	4,103	5,344	5,824	8,585	12,225
Chg (%,YoY)	32.8	30.3	9.0	47.4	42.4
Basic EPS (RMB cent)	152.82	198.70	215.42	317.57	452.22
Chg (% YoY)	30.6	30.0	8.4	47.4	42.4
P/E (x)	48.26	37.12	34.23	23.22	16.31
BVPS (RMB)	5.88	7.43	9.16	11.53	14.69
P/B (x)	12.55	9.92	8.05	6.39	5.02
DPS(HK cent)	78.00	67.00	48.59	93.27	158.29
Yield (%)	0.9	0.8	0.6	1.3	1.9
ROAA (%)	19.5	17.1	12.6	14.9	17.9
ROAE (%)	27.8	29.8	26.0	30.7	34.5

Source(s): Bloomberg, ABCI Securities estimates

Share price (HK$)	85.40
52 wk High/Low	90.9/42
Est. share price return	15.81%
Est. dividend yield	0.57%
Est. total return	16.38%
Previous Rating&TP	HOLD;HK$67.7
Previous Report Date	Apr 21, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,703.33
Mkt cap (HK$mn)	230,864.30
3 mth days ADT (HK$mn)	498.23
Shareholding (%)	
Anta International	50.82
Anda Holdings	5.95
Anda Investments	4.27

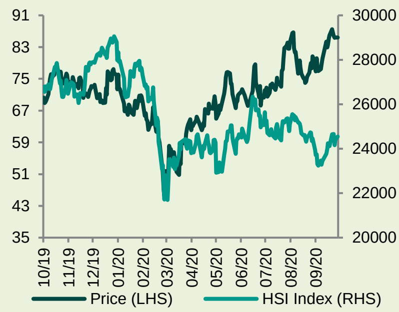
Source(s): Company, Bloomberg, HKEX

Share performance (%)

	Absolute	Relative*
1-mth	5.89	5.47
3-mth	21.30	22.88
6-mth	34.63	30.99

* Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-year price performance(HK$)



Source(s): Bloomberg, ABCI Securities

Note:
1) All pricing and market data as of Oct 19, 2020
2) RMB/HKD: 1.158

Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report FY20E	Current report FY21E	Previous report FY20E	Previous report FY21E	Rationale
Assumptions					
GPM (%)	57.4	58.0	50.3	52.6	
Pretax margin (%)	22.0	25.9	20.0	24.3	Higher margins based on 1H20 results
NPM (to shareholders of the Company) (%)	15.5	18.4	14.2	17.2	
D/E (%)	68.6	54.3	32.9	27.2	Adjusted based on 1H20 figure
D/A (%)	33.1	27.4	18.5	15.9	
Tax rate (%)	27.7	27.5	27.7	27.5	N/A
Revenue growth (YoY %)	10.4	24.6	12.0	28.0	Adjusted based on first three quarter growth performance
Valuations					
TP (HK$)	98.9		67.7		TP and valuation increase on higher earnings estimates in FY20E and FY21E
P/E (x)	39.65	26.89	31.19	20.01	
P/B (x)	9.32	7.41	7.06	5.75	

Note: 1) Previous report was published on Apr 21, 2020
Source(s): The Company, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report FY20E	Current report FY21E	Current report FY22E	Previous report FY20E	Previous report FY21E	Previous report FY22E	Change (%) FY20E	Change (%) FY21E	Change (%) FY22E
Revenue (RMB mn)	37,460	46,687	58,789	37,996	48,623	64,291	(1.4)	(4.0)	(8.6)
Net profit (to owners of the Company) (RMB mn)	5,824	8,585	12,225	5,376	8,379	12,369	8.3	2.5	(1.2)
EPS (RMB cent)	215	318	452	199	310	458	8.3	2.4	(1.3)

Source(s): ABCI Securities estimates

Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	2018A	2019A	2020E	2021E	2022E
Revenue	**24,100**	**33,928**	**37,460**	**46,687**	**58,789**
COGS	(11,413)	(15,269)	(15,970)	(19,629)	(23,858)
Gross profit	**12,687**	**18,659**	**21,490**	**27,058**	**34,931**
Other net income/(loss)	760	1,070	1,143	1,400	1,779
S&D expenses	(6,525)	(9,721)	(10,882)	(13,926)	(16,674)
Admin expenses	(1,223)	(1,313)	(2,429)	(2,509)	(3,156)
Operating profit	**5,700**	**8,695**	**9,322**	**12,024**	**16,880**
Net finance income/(expense)	68	(53)	(943)	(1,073)	(933)
Pretax profit	**5,767**	**8,008**	**8,240**	**12,111**	**17,246**
Tax	(1,533)	(2,384)	(2,282)	(3,325)	(4,735)
Net profit	**4,234**	**5,624**	**5,958**	**8,786**	**12,510**
- Owners of the company	4,103	5,344	5,824	8,585	12,225
- Minority interest	131	280	135	201	285
Dividend	**1,842**	**1,642**	**1,134**	**2,177**	**3,695**
EPS (RMB cent)					
- Basic	153	199	215	318	452
- Diluted	153	199	209	308	439
DPS (HK cent)	**78**	**67**	**49**	**93**	**158**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Cash and cash equivalent	9,284	8,221	21,375	23,091	27,422
Other ST deposit	2,470	4,386	5,444	5,872	6,960
Trade and other receivables	4,638	6,309	4,397	8,110	9,925
Inventory	2,892	4,405	4,075	4,964	5,846
Current assets	**19,284**	**23,321**	**35,291**	**42,037**	**50,152**
PP&E	1,787	2,148	2,318	2,938	3,494
Construction in progress	749	421	464	618	717
Intangible assets	685	678	658	641	618
Others	1,868	14,651	14,917	18,212	20,223
Non-current assets	**5,090**	**17,898**	**18,357**	**22,408**	**25,051**
Total assets	**24,374**	**41,219**	**53,648**	**64,446**	**75,204**
Trade and other payables	5,633	7,584	7,099	10,439	10,431
ST borrowings	1,244	2,559	3,927	3,806	4,852
Others	671	2,269	1,864	2,517	3,196
Current liabilities	**7,548**	**12,412**	**12,890**	**16,762**	**18,480**
LT debt	70	6,644	13,827	13,827	13,827
Deferred tax assets	236	256	119	188	191
Others	0	846	927	1,175	1,397
Total non-current liabilities	**306**	**7,746**	**14,873**	**15,190**	**15,415**
Shareholders' equity	15,777	20,082	24,771	31,178	39,708
Minority interest	743	979	1,114	1,315	1,600
Total equity	**16,520**	**21,061**	**25,885**	**32,493**	**41,308**
Total liabilities and equity	**24,374**	**41,219**	**53,648**	**64,446**	**75,204**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Pretax profit	5,767	8,008	8,240	12,111	17,246
Depreciation & amortization	342	1,469	1,668	2,094	2,504
Change in working capital	(444)	(802)	(2,461)	(2,520)	(2,703)
Others	(1,226)	(1,190)	(3,086)	(4,083)	(5,814)
Cash flow from operating activities	**4,440**	**7,485**	**4,360**	**7,601**	**11,233**
CapEx	(808)	(1,087)	(714)	(820)	(956)
Others	(393)	(11,978)	2,330	(2,519)	(3,242)
Cash flow from investing activities	**(1,201)**	**(13,065)**	**1,616**	**(3,339)**	**(4,197)**
Bank borrowing	1,008	6,436	8,552	(121)	1,046
Dividend paid	(2,468)	(1,514)	(1,023)	(2,002)	(3,383)
Others	324	(252)	(277)	(305)	(335)
Cash flow from financing activities	**(1,136)**	**4,670**	**7,251**	**(2,428)**	**(2,672)**
Net change in cash	**2,102**	**(910)**	**13,227**	**1,835**	**4,363**
ForEx effect	214	(153)	(73)	(119)	(33)
Cash at the end of FY	**9,284**	**8,221**	**21,375**	**23,091**	**27,422**

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	2018A	2019A	2020E	2021E	2022E
Growth (YoY %)					
Revenue	44.4	40.8	10.4	24.6	25.9
- ANTA Brand	N/A	21.8	0.9	13.4	13.5
- FILA Brand	N/A	73.9	19.0	34.2	34.8
Gross profit	54.0	47.1	15.2	25.9	29.1
EBIT	42.9	52.5	7.2	29.0	40.4
Net profit (to owners of the company)	32.8	30.3	9.0	47.4	42.4
Profitability ratios (%)					
GPM	52.6	55.0	57.4	58.0	59.4
OPM	23.7	25.6	24.9	25.8	28.7
Pretax	23.9	23.6	22.0	25.9	29.3
NPM (to owners of the company)	17.0	15.8	15.5	18.4	20.8
Revenue contribution (%)					
- ANTA Brand	59.4	51.4	47.0	42.8	38.6
- FILA Brand	35.2	43.5	46.9	50.5	54.0
- Other brands	5.3	5.0	6.1	6.7	7.4
Return ratios (%)					
ROAA	19.5	17.1	12.6	14.9	17.9
ROAE	27.8	29.8	26.0	30.7	34.5
Liquidity ratio (x)					
Current ratio	2.55	1.88	2.74	2.51	2.71
Quick ratio	2.17	1.52	2.42	2.21	2.40
Cash ratio	1.56	1.02	2.08	1.73	1.86
Cash conversion cycle (days)					
Days of outstanding receivable	34.8	34.4	37.0	35.6	35.8
Days of inventory on hand	80.7	87.2	96.9	84.0	82.7
Days of outstanding payable	51.8	56.8	56.7	53.9	54.7
CCC	63.7	64.8	77.2	65.7	63.7
Leverage ratios (%)					
Total debt/Equity	8.0	43.7	68.6	54.3	45.2
Total debt/Total assets	5.4	22.3	33.1	27.4	24.8
Net cash/Equity	60.4	13.7	32.8	32.9	36.3
Net cash/Total assets	40.9	7.0	15.8	16.6	20.0

Note: The Group has not disclosed the FY17 revenue breakdown by brands
Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate (10%)
Hold	- Market return (-10%) ≤ Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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