



# Anta Sports (2020 HK) 3Q17 saw decent growth; announced acquisition of Kingkow

- Retail sales value of Anta branded products and non-Anta branded products showed mid-teens and 40-50% growth YoY
- 3Q17 growth of the Group outperformed that of 361 Degree and national retail sales growth of apparel and textile
- The Group announced the acquisition of Kingkow, spearheading its development in the kidswear business; JV formation with Kolon has also been completed
- Maintain **BUY**; current TP represents 27.81x/23.30x FY17E/FY18E P/E and 6.47x/5.98x FY17E/FY18E P/B

**Solid performance in 3Q17.** In 3Q17, retail sales value of Anta branded products grew by mid-teens YoY, while retail sales value growth of the non-Anta branded products was in the range of 40-50% YoY. The Anta-branded products retail sales growth was lower than that of 2Q17 but maintained at a double-digit level; the non-Anta branded products' growth in 3Q17 provided support for the overall performance.

**Growth remained above peer and industry averages.** The Group is still leading the industry with high growth rates. According to 361 Degree, its retail sales value of 361 core branded products and the 361 kids branded products recorded high-single-digit growth YoY in 3Q17. Meanwhile, the national retail sales growth of apparel and textile were 6.4% YoY, 8.9% YoY, and 6.2% YoY in July, Aug, and Sep this year.

**Acquisition of Kingkow.** On Oct 22, 2017, the Group announced that it had completed the acquisition of the business of Kingkow, including the relevant trademarks. Kingkow is a kidswear brand targeted at the mid- to high-end market for children aged 0-14. This is the first acquisition effort by the Group in the kidswear business. Details regarding Kingkow's financial status and the deal structure have not been disclosed. With its strong brand management capability, we believe the acquisition would open a new frontier that allows it to capitalize on the growing kidswear demand driven by the two-child policy.

**Formation of JV completed.** The Group also announced the completion of JV with Kolon Industries and Kolon Corporation (Kolon parties). The IP and licensing of trademark, together with others assets injected by the Kolon parties to the JV, are valued at US\$ 40mn. The Group, through its wholly-owned subsidiary ANKO, contributed US\$ 40mn to the JV and obtained a 50% interest while the Kolon parties had the remaining stakes. The Kolon brand specializes in outdoor sportswear and equipment targeting at the mid to high-end market. We believe the JV will expand the Group's brand portfolio as well as delivering a boost to growth and margins. As of the report date, details of Kolon's financials have not been disclosed.

**Maintain BUY; raise TP to HK\$ 37.6.** We remain positive on the Group's outlook as it continues to demonstrate above-peer and industry growth. The Group's revenue, gross profit and net profit would expand at a CAGR of 19.52%, 21.45%, and 22.69%, over 2016-19E, respectively. Maintain **BUY** and upgrade TP to HK\$ 37.6, which represents 27.81x/23.30x FY17E/FY18E P/E and 6.47x/5.98x FY17E/FY18E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Commodity price risk 4) Changing consumer taste in China, 5) Acquisition risk; 6) Brand management risk.

## Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	11,126	13,346	15,862	19,014	22,786
Chg (% YoY)	24.69	19.95	18.86	19.87	19.84
Net Profit (RMB mn)	2,041	2,386	3,086	3,682	4,406
Chg (% YoY)	20.01	16.91	29.36	19.33	19.64
Basic EPS (RMB cent)	81.66	95.36	114.96	137.17	164.11
Chg (% YoY)	19.88	16.78	20.55	19.33	19.64
P/E (x)	35.24	30.18	25.03	20.98	17.53
BVPS (RMB)	3.43	3.82	4.94	5.35	5.84
P/B (x)	8.39	7.54	5.83	5.38	4.93
DPS(HKD cent)	68.00	76.00	95.13	113.13	135.57
Yield (%)	2.01	2.25	2.81	3.34	4.00
ROAA (%)	17.49	18.29	19.71	19.98	21.50
ROAE (%)	24.92	26.32	27.06	26.67	29.34

Source(s): Bloomberg, ABCI Securities estimates

## Company Report Oct 26, 2017 Rating: BUY TP: HK\$ 37.6

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Share price (HK\$)	33.85
52 wk High/Low	35/20.273
Est. share price return	11.08%
Est. dividend yield	2.81%
Est. total return	13.89%
Previous Rating and TP	BUY;HK\$33.7
Previous Report Date	Aug 29,2017

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (mn)	2,684.50
Mkt cap (HK\$m)	90,870.17
3 mth days ADT (HK\$m)	168.22
Shareholding (%)	
Anta International	51.18
Anda Holdings	5.99
Anda Investments	4.30
Blackrock	2.21
CI Investments	1.75

Source(s): Company, Bloomberg, HKEX

% to total revenue	FY17E
Footwear	44.07
Apparel	52.95
Accessories	2.97

Source(s): ABCI Securities estimates

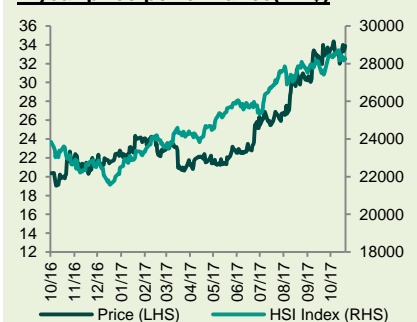
### Share performance (%)

	Absolute	Relative*
1-mth	5.95	3.32
3-mth	27.53	21.68
6-mth	53.15	34.70

\* Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

\* All pricing and market data as of end-Oct 26, 2017



**Exhibit 1: Retail sales value growth by brands (YoY %)**

	3Q16	4Q16	1Q17	2Q17	3Q17
Anta brand	Low teens	High teens	Low teens	20-30%	Mid-teens
Non-anta brand	60-70%	50-60%	40-50%	50-60%	40-50%

Source(s): Company, ABCI Securities

**Consolidated income statement (2015A-2019E)**

FY ends at Dec 31 (RMB mn, except per share data)	2015A	2016A	2017E	2018E	2019E	1H16	1H17
<b>Revenue</b>	<b>11,126</b>	<b>13,346</b>	<b>15,862</b>	<b>19,014</b>	<b>22,786</b>	<b>6,143</b>	<b>7,323</b>
- Footwear	5,074	6,001	6,991	8,306	9,790	2,867	3,387
- Apparel	5,592	6,886	8,400	10,222	12,499	3,027	3,685
- Accessories	460	459	472	485	497	249	251
COGS	(5,941)	(6,887)	(7,907)	(9,423)	(11,216)	(3,201)	(3,619)
<b>Gross profit</b>	<b>5,185</b>	<b>6,459</b>	<b>7,955</b>	<b>9,591</b>	<b>11,570</b>	<b>2,941</b>	<b>3,704</b>
- Footwear	2,342	2,723	3,348	4,013	4,733	1,294	1,632
- Apparel	2,671	3,508	4,427	5,392	6,646	1,559	1,973
- Accessories	172	168	180	186	191	89	99
Other net income/(loss)	227	260	316	375	452	107	173
S&D expenses	(2,212)	(2,831)	(3,379)	(4,200)	(5,039)	(1,261)	(1,524)
Admin expenses	(504)	(685)	(771)	(892)	(1,082)	(299)	(455)
<b>Operating profit</b>	<b>2,697</b>	<b>3,203</b>	<b>4,121</b>	<b>4,874</b>	<b>5,901</b>	<b>1,488</b>	<b>1,897</b>
Net finance income/(expense)	133	108	173	240	220	88	112
<b>Pretax profit</b>	<b>2,829</b>	<b>3,311</b>	<b>4,295</b>	<b>5,114</b>	<b>6,121</b>	<b>1,577</b>	<b>2,009</b>
Tax	(741)	(866)	(1,140)	(1,345)	(1,612)	(415)	(528)
<b>Net profit</b>	<b>2,088</b>	<b>2,445</b>	<b>3,155</b>	<b>3,769</b>	<b>4,509</b>	<b>1,162</b>	<b>1,481</b>
- Owners of the company	2,041	2,386	3,086	3,682	4,406	1,129	1,451
- Minority interest	48	59	69	86	104	33	30
Dividend	1,424	1,675	2,171	2,582	3,094	740	962
<b>EPS (RMB cent)</b>							
- Basic	81.66	95.36	114.96	137.17	164.11	45.15	55.98
- Diluted	81.48	95.16	114.78	136.96	163.86	45.05	55.94
<b>DPS (HKD cent)</b>	<b>68</b>	<b>76</b>	<b>95</b>	<b>113</b>	<b>136</b>	<b>34</b>	<b>41</b>

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2015A-2019E)**

<b>FY ends at Dec 31 (RMB mn, except per share data)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>1H16</b>	<b>1H17</b>
Cash and cash equivalent	5,166	5,830	9,486	9,598	11,202	5,463	9,560
Other ST deposit	1,568	1,687	906	878	845	1,353	1,072
Trade and other receivables	2,207	2,641	2,612	4,081	3,642	2,263	2,391
Inventory	1,016	1,295	1,548	1,812	2,217	1,244	1,444
Others	200	12	0	0	0	0	0
<b>Current assets</b>	<b>10,157</b>	<b>11,465</b>	<b>14,552</b>	<b>16,369</b>	<b>17,906</b>	<b>10,324</b>	<b>14,467</b>
PP&E	1,121	1,170	1,425	1,759	2,055	1,128	1,169
Construction in progress	45	157	124	157	150	97	505
Intangible assets	464	478	451	421	390	490	467
Others	715	954	1,236	1,232	1,515	945	889
<b>Non-current assets</b>	<b>2,345</b>	<b>2,759</b>	<b>3,237</b>	<b>3,569</b>	<b>4,110</b>	<b>2,659</b>	<b>3,031</b>
<b>Total assets</b>	<b>12,502</b>	<b>14,224</b>	<b>17,789</b>	<b>19,938</b>	<b>22,016</b>	<b>12,983</b>	<b>17,497</b>
Trade and other payables	1,990	3,060	3,505	3,911	4,562	2,554	3,303
ST borrowings	1,330	938	110	627	542	938	110
Others	243	275	358	400	486	225	303
<b>Current liabilities</b>	<b>3,563</b>	<b>4,273</b>	<b>3,973</b>	<b>4,939</b>	<b>5,590</b>	<b>3,716</b>	<b>3,715</b>
LT payable to non-controlling interests	39	40	42	43	45	41	40
Deferred tax assets	86	14	140	95	105	52	107
<b>Total non-current liabilities</b>	<b>124</b>	<b>55</b>	<b>181</b>	<b>138</b>	<b>150</b>	<b>93</b>	<b>148</b>
Shareholders' equity	8,580	9,549	13,257	14,357	15,669	8,907	13,257
Minority interest	235	348	417	503	607	268	378
<b>Total equity</b>	<b>8,814</b>	<b>9,896</b>	<b>13,634</b>	<b>14,861</b>	<b>16,276</b>	<b>9,174</b>	<b>13,634</b>
<b>Total liabilities and equity</b>	<b>12,502</b>	<b>14,224</b>	<b>17,789</b>	<b>19,938</b>	<b>22,016</b>	<b>12,983</b>	<b>17,497</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2015A-2019E)**

<b>FY ends at Dec 31 (RMB mn, except per share data)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>1H16</b>	<b>1H17</b>
Pretax profit	2,829	3,311	4,295	5,114	6,121	1,577	2,009
Depreciation & amortization	188	226	265	342	458	107	116
Change in working capital	(415)	(216)	221	(1,327)	685	277	347
Others	(700)	(853)	(1,106)	(1,372)	(1,596)	(862)	(414)
<b>Cash flow from operating activities</b>	<b>1,903</b>	<b>2,468</b>	<b>3,675</b>	<b>2,757</b>	<b>5,668</b>	<b>1,098</b>	<b>2,058</b>
CapEx	(461)	(628)	(427)	(506)	(505)	(373)	(283)
Others	48	113	(280)	(644)	(1,045)	391	665
<b>Cash flow from investing activities</b>	<b>(413)</b>	<b>(515)</b>	<b>(707)</b>	<b>(1,150)</b>	<b>(1,550)</b>	<b>18</b>	<b>382</b>
Bank borrowing	(18)	(392)	(828)	517	(85)	(392)	(828)
Dividend paid	(1,356)	(1,572)	(2,171)	(2,582)	(3,094)	(801)	(1,007)
Others	81	566	3,918	685	753	377	3,282
<b>Cash flow from financing activities</b>	<b>(1,294)</b>	<b>(1,398)</b>	<b>919</b>	<b>(1,380)</b>	<b>(2,426)</b>	<b>(817)</b>	<b>1,447</b>
<b>Net change in cash</b>	<b>196</b>	<b>555</b>	<b>3,887</b>	<b>227</b>	<b>1,691</b>	<b>300</b>	<b>3,887</b>
ForEx effect	36	109	(231)	(116)	(87)	(2)	(157)
<b>Cash at the end of FY</b>	<b>5,166</b>	<b>5,830</b>	<b>9,486</b>	<b>9,598</b>	<b>11,202</b>	<b>5,463</b>	<b>9,560</b>

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (2015A-2019E)**

<b>FY ends at Dec 31</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>1H16</b>	<b>1H17</b>
<b>Growth (YoY %)</b>							
Revenue	24.69	19.95	18.86	19.87	19.84	20.21	19.22
- Footwear	23.44	18.26	16.50	18.82	17.86	19.43	18.15
- Apparel	25.62	23.14	21.99	21.70	22.28	22.48	21.72
- Accessories	27.47	(0.18)	2.74	2.81	2.46	4.56	1.04
Gross profit	28.77	24.56	23.17	20.56	20.63	23.48	25.92
- Footwear	22.76	16.28	22.97	19.87	17.92	17.65	26.19
- Apparel	34.78	31.34	26.19	21.79	23.27	30.67	26.57
- Accessories	25.66	-2.71	7.41	3.12	2.66	(0.78)	10.79
EBIT	33.57	18.79	28.66	18.27	21.07	17.47	27.50
EBITDA	32.45	17.52	29.37	18.93	21.90	17.67	26.24
Net profit (to owners of the company)	20.01	16.91	29.36	19.33	19.64	16.98	28.53
EPS - basic	19.88	16.78	20.55	19.33	19.64	16.82	23.99
<b>Profitability ratios (%)</b>							
GPM	46.61	48.40	50.15	50.44	50.78	47.88	50.58
- Footwear	46.15	45.38	47.90	48.32	48.34	45.12	48.19
- Apparel	47.77	50.95	52.70	52.75	53.18	51.49	53.54
- Accessories	37.47	36.52	38.18	38.29	38.37	35.80	39.25
OPM	24.24	24.00	25.98	25.63	25.90	24.23	25.91
EBITDA margin	25.93	25.40	27.65	27.43	27.90	25.96	27.49
Pretax	25.43	24.81	27.07	26.90	26.86	25.67	27.44
NPM (to owners of the company)	18.34	17.87	19.46	19.37	19.33	18.38	19.82
<b>Revenue contribution (%)</b>							
- Footwear	45.61	44.96	44.07	43.69	42.96	46.67	46.25
- Apparel	50.26	51.59	52.95	53.76	54.85	49.28	50.32
- Accessories	4.14	3.44	2.97	2.55	2.18	4.05	3.43
<b>Return ratios (%)</b>							
ROAA	17.49	18.29	19.71	19.98	21.50	17.72	18.30
ROAE	24.92	26.32	27.06	26.67	29.34	25.83	25.46
ROIC	28.50	28.05	31.28	31.74	33.08	27.54	29.58
<b>Liquidity ratio (x)</b>							
Current ratio	2.85	2.68	3.66	3.31	3.20	2.78	3.89
Quick ratio	2.57	2.38	3.27	2.95	2.81	2.44	3.51
Cash ratio	1.89	1.76	2.62	2.12	2.16	1.83	2.86
<b>Cash conversion cycle (days)</b>							
Days of outstanding receivable	33	35	36	36	36	37	36
Days of inventory on hand	58	61	66	65	66	64	69
Days of outstanding payable	40	42	47	47	47	42	48
CCC	51	54	54	54	55	59	58
<b>Leverage ratios (%)</b>							
Total debt/Equity	15.09	9.48	0.81	4.22	3.33	10.22	0.81
Total debt/Total assets	10.64	6.59	0.62	3.15	2.46	7.22	0.63
Net cash/Equity	60.17	60.42	70.57	61.39	65.78	58.63	73.57
Net cash/Total assets	42.42	42.04	54.09	45.75	48.63	41.43	57.33

Source(s): Company, ABCI Securities estimates

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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