



Anta Sports (2020 HK)

Growing beyond its roots

- The Group's FY16 revenue growth slowed but was higher than that of national retail sales and national clothing retail sales
- GPM improved on Fila's premium-priced products; stable OPM indicates effective cost control
- The success of newly acquired brands would be the new growth and earnings driver
- We expect the Group to maintain the current growth pace and margins
- Upgrade to **BUY**; current TP represents 28.31x 17E P/E and 7.07x 17E P/B, or 24.07x 18E P/E and 6.51x 18E P/B

Growth momentum remained strong. FY16 revenue grew 19.95% YoY, slower than FY15's 24.69% YoY. Nonetheless, such growth is still higher than that of the national retail sales (+10.4% YoY) and the clothing retail sales (+7% YoY) in 2016. Apparel segment sales remained strong, growing by 23.14% YoY, while footwear segment sales growth declined from 23.4% YoY to 18.3% YoY and accessories sale declined by 0.18% YoY. Despite the slower growth in FY16 compared to FY15, the Group still outperformed sales growth at the national level. We believe its market leadership remains unshaken.

Stable margins indicate effective pricing strategies and cost control. FY16 growth in gross profit, operating profit, and net profit attributable to shareholders were 24.6% YoY, 18.8% YoY, and 16.9% YoY, respectively, lower than those in FY15. However, GPM rose from 46.6% to 48.4%, thanks to higher contribution from Fila's premium-priced products. The stable OPM at ~24% also showed the Group had been able to control its SG&A expenses amid challenging market environment.

Growing beyond its roots. Effectiveness of tier branding strategy and the resulting price differentiation were reflected in the FY16 performance. Based on disclosure by management during the results conference, revenue from the Fila brand was up over 50% YoY and contributed to ~20% of total revenue; revenue from the Anta brand delivered a low-teen growth, accounting for ~70% of total revenue. In addition, OPM of the Fila brand improved to ~22%, closing in with the ~25% of the Anta Brand. In the future, effective brand management, especially for new brands such as Fila and Descente, would be the revenue and margin growth driver.

Expecting stable growth and margins. Going forward, we believe the new brands would achieve higher growth and pricing level than the Anta brand. Their financial contribution to the Group would also increase. Hence, decent growth in revenue and profit can be expected for the Group.

Upgrade from HOLD to BUY. Based on our projections, we upgrade our rating to **BUY** with TP adjusted to HK\$ 27.0, which represents 28.31x 17E P/E and 7.07x 17E P/B, or 24.07x 18E P/E and 6.51x 18E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Commodity price risk 4) Unpredictability of consumer taste change in China, 5) Business acquisition risk; 6) Brand management risk

Results and Valuation

FY ended Dec 31	2015A	2016E	2017E	2018E	2019E
Revenue (RMB mn)	11,126	13,346	15,862	18,833	22,497
Chg (% YoY)	24.69	19.95	18.86	18.73	19.46
Net Profit (RMB mn)	2,041	2,386	2,807	3,343	3,866
Chg (% YoY)	20.01	16.91	17.68	19.09	15.66
Basic EPS (RMB cent)	81.66	95.36	112.18	133.59	154.50
Chg (% YoY)	19.88	16.78	17.64	19.09	15.66
P/E (x)	24.99	21.40	18.19	15.28	13.21
BVPS (RMB)	3.43	3.82	4.15	4.55	5.01
P/B (x)	5.95	5.35	4.92	4.49	4.08
DPS(HKD cent)	68.00	76.00	89.13	105.79	122.55
Yield (%)	2.95	3.30	3.87	4.59	5.32
ROAA (%)	17.49	18.29	18.91	20.35	21.09
ROAE (%)	24.92	26.32	28.17	30.72	32.34

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 24, 2017

Rating: **BUY**

TP: HK\$ 27.0

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Share price (HK\$)	23.05
52 wk High/Low	25.85/14.04
Est. share price return	17.14%
Est. dividend yield	3.30%
Est. total return	20.43%

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,502.47
Mkt cap (HK\$m)	57,681.96
30 days ADT (HK\$m)	109.60
Shareholding (%)	
Anta International	54.89
Anda Holdings	6.43
Anda Investments	4.62
Shine Well	0.38
Talent Trend	0.04

Source(s): Company, Bloomberg

% to total revenue	FY17E
Footwear	44.07
Apparel	52.95
Accessories	2.97

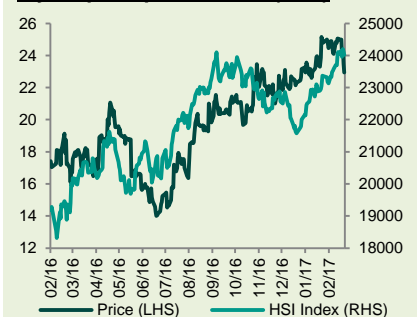
Source(s): ABCI Securities estimates

Share performance (%)

	Absolute	Relative*
1-mth	(3.35)	(8.21)
3-mth	8.22	1.76
6-mth	17.76	11.52

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of end-Feb 24, 2017



Exhibit 1: Trade fair order growth

	1Q	2Q	3Q	4Q
2014	high single-digit	high single-digit	high single-digit	low double-digit
2015	low double-digit	low double-digit	low double-digit	low double-digit
2016	low double-digit	low double-digit	high single-digit	low double-digit
2017	mid single-digit	mid single-digit	low single-digit	

Source(s): Company, ABCI Securities

Exhibit 2: Store number

	End 2013	End 2014	End 2015	End 2016	2017 target
Anta + Anta Kids	8,638	8,850	8,489	8,860	9,000-9,100
Fila + Fila Kids	416	519	591	802	950-1,000
Descente	N/A	N/A	N/A	6	50-60

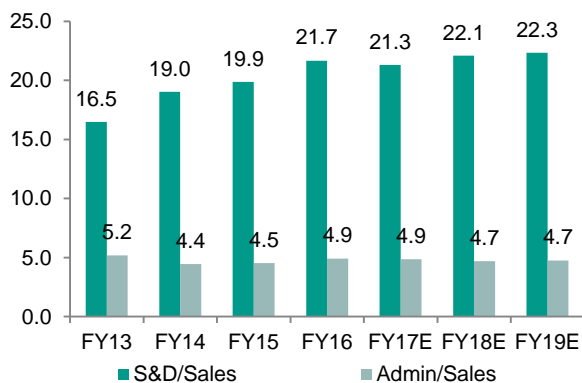
Source(s): Company, ABCI Securities

Exhibit 3: Self-production ratio

	2012	2013	2014	2015	2016
Footwear	46	48.9	54.4	49	42.9
Apparel	15.5	17	15.9	15.9	16.7

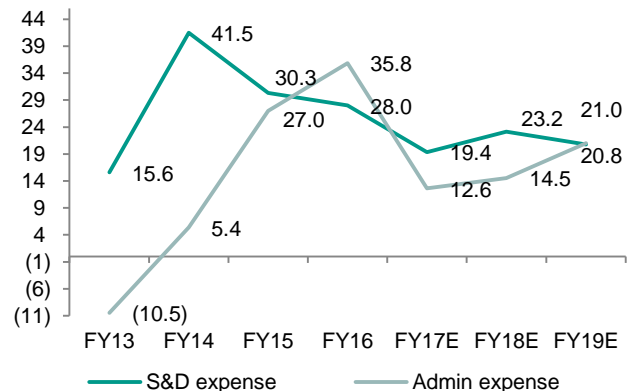
Source(s): Company, ABCI Securities

Exhibit 4: S&D expense and Admin. expense to sales ratio (%)



Source(s): Company, ABCI Securities estimates

Exhibit 5: S&D expense and Admin. expense growth (YoY %)



Source(s): Company, ABCI Securities estimates

Exhibit 6: Dividend payout history

	2012	2013	2014	2015	2016
Interim (HKD cent)	23	19	25	30	34
Final (HKD cent)	17	22	28	30	34
Special (HKD cent)	8	7	8	8	8
Dividend payout (%)	71.7	72.4	71.1	69.8	70.2

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
Revenue	11,126	13,346	15,862	18,833	22,497
- Footwear	5,074	6,001	6,991	8,225	9,662
- Apparel	5,592	6,886	8,400	10,123	12,338
- Accessories	460	459	472	485	497
COGS	(5,941)	(6,887)	(8,231)	(9,636)	(11,576)
Gross profit	5,185	6,459	7,631	9,197	10,921
- Footwear	2,342	2,723	3,189	3,774	4,421
- Apparel	2,671	3,508	4,269	5,248	6,318
- Accessories	172	168	173	175	182
Other net income/(loss)	227	260	316	371	446
S&D expenses	(2,212)	(2,831)	(3,379)	(4,162)	(5,026)
Admin expenses	(504)	(685)	(771)	(883)	(1,068)
Operating profit	2,697	3,203	3,797	4,524	5,272
Net finance income/(expense)	133	108	110	119	100
Pretax profit	2,829	3,311	3,907	4,642	5,372
Tax	(741)	(866)	(1,037)	(1,221)	(1,415)
Net profit	2,088	2,445	2,870	3,422	3,957
- Owners of the company	2,041	2,386	2,807	3,343	3,866
- Minority interest	48	59	63	79	91
Dividend	1,424	1,675	1,975	2,344	2,715
EPS (RMB cent)					
- Basic	81.66	95.36	112.18	133.59	154.50
- Diluted	81.48	95.16	111.67	132.99	153.81
DPS (HKD cent)	68.00	76.00	89.13	105.79	122.55

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2015A	2016A	2017E	2018E	2019E
Cash and cash equivalent	5,166	5,830	6,466	7,230	7,250
Other ST deposit	1,568	1,687	1,666	2,151	2,074
Trade and other receivables	2,207	2,641	3,166	3,022	4,357
Inventory	1,016	1,295	1,665	1,531	2,350
Others	200	12	0	0	0
Current assets	10,157	11,465	12,963	13,933	16,031
PP&E	1,121	1,170	1,425	1,759	2,055
Construction in progress	45	157	124	157	150
Intangible assets	464	478	451	421	390
Others	715	954	1,171	1,214	1,415
Non-current assets	2,345	2,759	3,172	3,551	4,010
Total assets	12,502	14,224	16,135	17,485	20,041
Trade and other payables	1,990	3,060	3,636	3,593	4,792
ST borrowings	1,330	938	1,297	1,585	1,637
Others	243	275	327	364	428
Current liabilities	3,563	4,273	5,260	5,543	6,857
LT payable to non-controlling interests	39	40	42	43	45
Deferred tax assets	86	14	42	29	28
Total non-current liabilities	124	55	84	73	73
Shareholders' equity	8,580	9,549	10,381	11,380	12,531
Minority interest	235	348	410	489	580
Total equity	8,814	9,896	10,791	11,869	13,111
Total liabilities and equity	12,502	14,224	16,135	17,485	20,041

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2015A	2016A	2017E	2018E	2019E
Pretax profit	2,829	3,311	3,907	4,642	5,372
Depreciation & amortization	188	226	265	342	458
Change in working capital	(415)	(216)	(318)	235	(955)
Others	(700)	(853)	(997)	(1,231)	(1,378)
Cash flow from operating activities	1,903	2,468	2,856	3,989	3,497
CapEx	(461)	(628)	(427)	(506)	(505)
Others	48	113	(30)	1	(12)
Cash flow from investing activities	(413)	(515)	(457)	(505)	(517)
Bank borrowing	(18)	(392)	(359)	(288)	(52)
Dividend paid	(1,356)	(1,572)	(1,975)	(2,344)	(2,715)
Others	81	566	622	685	753
Cash flow from financing activities	(1,294)	(1,398)	(1,712)	(1,947)	(2,014)
Net change in cash	196	555	687	1,536	966
ForEx effect	36	109	(51)	(773)	(946)
Cash at the end of FY	5,166	5,830	6,466	7,230	7,250

Source(s): Company, ABCI Securities estimates

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

FY ends at Dec 31 (RMB mn, except per share data)	2015A	2016A	2017E	2018E	2019E
Growth (YoY %)					
Revenue	24.69	19.95	18.86	18.73	19.46
- Footwear	23.44	18.26	16.50	17.66	17.47
- Apparel	25.62	23.14	21.99	20.52	21.88
- Accessories	27.47	-0.18	2.74	2.81	2.46
Gross profit	28.77	24.56	18.14	20.53	18.75
- Footwear	22.76	16.28	17.11	18.36	17.14
- Apparel	34.78	31.34	21.68	22.94	20.38
- Accessories	25.66	-2.71	3.28	0.99	4.25
EBIT	33.57	18.79	18.53	19.14	16.55
EBITDA	32.45	17.52	19.79	19.80	17.76
Net profit (to owners of the company)	20.01	16.91	17.68	19.09	15.66
EPS - basic	19.88	16.78	17.64	19.09	15.66
Profitability ratios (%)					
GPM	46.61	48.40	48.11	48.83	48.54
- Footwear	46.15	45.38	45.62	45.89	45.76
- Apparel	47.77	50.95	50.82	51.84	51.20
- Accessories	37.47	36.52	36.71	36.06	36.69
OPM	24.24	24.00	23.94	24.02	23.44
EBITDA margin	25.93	25.40	25.60	25.83	25.47
Pretax	25.43	24.81	24.63	24.65	23.88
NPM (to owners of the company)	18.34	17.87	17.70	17.75	17.19
Revenue contribution (%)					
- Footwear	45.61	44.96	44.07	43.67	42.95
- Apparel	50.26	51.59	52.95	53.75	54.84
- Accessories	4.14	3.44	2.97	2.58	2.21
Return ratios (%)					
ROAA	17.49	18.29	18.91	20.35	21.09
ROAE	24.92	26.32	28.17	30.72	32.34
ROIC	28.50	28.05	27.41	29.98	29.77
Liquidity ratio (x)					
Current ratio	2.85	2.68	2.46	2.51	2.34
Quick ratio	2.57	2.38	2.15	2.24	2.00
Cash ratio	1.89	1.76	1.55	1.69	1.36
Cash conversion cycle (days)					
Days of outstanding receivable	33.48	35.19	35.44	34.84	34.72
Days of inventory on hand	57.86	61.24	65.62	60.53	61.19
Days of outstanding payable	39.93	42.30	47.97	45.08	43.61
CCC	51.41	54.13	53.09	50.29	52.30
Leverage ratios (%)					
Total debt/Equity	15.09	9.48	12.02	13.36	12.49
Total debt/Total assets	10.64	6.59	8.04	9.07	8.17
Net cash/Equity	61.30	66.48	63.34	65.67	58.63
Net cash/Total assets	43.22	46.26	42.36	44.58	38.36

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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