



Anta Sports (2020 HK) COVID-19 still the major overhang

- Retail sales of ANTA / FILA brands declined by 20%-25% / mid-single-digit in 1Q20.
- COVID-19 pandemic continues to be the major overhang
- Revise up revenue growth projection for FY20E to 12.0%, based on the better-than-expected 1Q20 performance indicated by the Group; expect FY19-22E revenue CAGR to be at 23.7%
- Maintain **HOLD**; TP implies 31.19x/20.01x 20E/21E P/E and 7.06x/5.75x 20E/21E P/B

Retail sales affected by COVID-19 outbreak. Retail sales of the ANTA brand fell by 20%-25% while the FILA brand suffered a mid-single-digit decline in 1Q20; meanwhile, retail sales of other brands recorded a high-single-digit drop. The performance in 1Q20 shows the COVID-19 pandemic has significant impact on the Group. Nonetheless, 1Q20 retail sales performance of the FILA brand and other brands were better than expected, according to the Group, who also indicated ecommerce sales growth was a major driver that partly offset the negative impact of the COVID-19 outbreak.

COVID-19 continues to be the major overhang. The COVID-19 pandemic has been largely contained in China while signs of tapering have been seen in some overseas regions. The concern, however, lies on potential resurgence of outbreak in autumn and fall, which could once again traumatize the global consumer market. Amer Sports, which was acquired by a consortium set up by the Group, could be severely affected since a substantial proportion of its sales are derived from autumn and winter sportswear. We remain cautiously optimistic on the situation and we maintain that gradual improvement of the consumer market in 2H20 would be more realistic. In our model, we project that 1H20 revenue would decline by 7.7% YoY (1H19: +40.3% YoY), while 2H20 revenue would increase by 27.3% YoY. (2H19: +41.1% YoY)

Revise up growth projection based on 1Q20. Based on the Group's retail sales growth in 1Q20 and the COVID-19 situation, we revise up the growth forecasts. We expect FY20 revenue growth to reach 12.0% YoY, supported by 24.2% growth of FILA Brand and 3.4% YoY growth of ANTA Brand. We assume the recovery in the consumer market is sustainable and the pandemic would subside starting from Jul 2020 on the global level. For FY19-22E, revenue CAGR estimated at 23.7%.

Maintain HOLD, TP at HK\$ 67.7. In light of the 1Q20 results and the receding pandemic in China, we expect sentiment in the consumer market to recover. Nonetheless, uncertain global situations prompt us to maintain HOLD rating. We raise the DCF-derived TP to reflect the upward adjustment in FY20 growth. Current TP represents 31.19x/20.01x 20E/21E P/E and 7.06x/5.75x 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	37,996	48,623	64,291
Chg (% YoY)	44.38	40.78	11.99	27.97	32.22
Net Profit (RMB mn)	4,103	5,344	5,376	8,379	12,369
Chg (% YoY)	32.79	30.25	0.60	55.85	47.62
Basic EPS (RMB cent)	152.82	198.70	198.98	310.10	457.77
Chg (% YoY)	30.60	30.02	0.14	55.85	47.62
P/E (x)	37.52	28.85	28.81	18.49	12.52
BVPS (RMB)	5.88	7.43	8.79	10.78	13.74
P/B (x)	9.76	7.71	6.52	5.32	4.17
DPS(HK cent)	78.00	67.00	68.72	120.99	176.45
Yield (%)	1.25	1.07	1.10	2.11	2.82
ROAA (%)	19.49	17.15	12.86	17.79	21.34
ROAE (%)	27.83	29.81	24.53	31.68	37.32

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 21, 2020

Rating: **HOLD**

TP: **HK\$ 67.7**

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Share price (HK\$)	62.55
52 wk High/Low	79.9/42
Est. share price return	8.23%
Est. dividend yield	1.10%
Est. total return	9.33%
Previous Rating & TP	HOLD; HK\$64.2
Previous Report Date	Apr 9, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,701.95
Mkt cap (HK\$mn)	169,007.04
3 mth days ADT (HK\$mn)	733.11
Shareholding (%)	
Anta International	50.84
Anta Holdings	5.95
Anta Investments	4.27

Source(s): Company, Bloomberg, HKEX

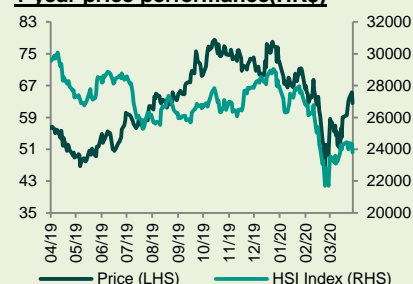
Share performance (%)

	Absolute	Relative*
1-mth	19.94	15.57
3-mth	(14.32)	0.49
6-mth	(13.72)	(3.06)

* 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 Apr 21, 2020
- 2) RMB/HKD: 1.091



Exhibit 1: Changes in assumptions, projections, and valuations

Exhibit 11: Changes in assumptions, projections, and valuations					
FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
Assumptions					
GPM (%)	50.33	52.62	50.13	52.55	Higher growth projections drive up profitability
Pretax margin (%)	20.02	24.31	19.85	24.37	
NPM (to shareholders of the Company) (%)	14.15	17.23	14.03	17.27	
D/E (%)	32.89	27.16	33.07	27.43	Adjusted based on FY19 ratio
D/A (%)	18.46	15.87	18.67	15.96	
Tax rate (%)	27.69	27.46	27.69	27.46	N/A
Revenue growth (YoY %)	11.99	27.97	7.91	27.65	Changes mainly come from upward adjustment in FY20E growth projection
- - Footwear	7.85	22.06	3.92	21.75	
- - Apparel	14.24	29.94	10.09	29.61	
- - Accessories	11.17	47.81	7.14	47.50	
Projections					
DRO (days)	38.6	35.9	38.6	35.9	N/A
DIH (days)	96.9	84.0	96.9	84.0	
DPO (days)	56.7	53.9	56.7	53.9	
CCC (days)	78.8	66.1	78.8	66.1	
ROAA (%)	12.86	17.79	12.37	17.32	Better growth projections enhance returns
ROAE (%)	24.53	31.68	23.52	30.83	
EPS (RMB cent)	198.98	310.10	190.10	298.79	Better growth projections lead to EPS enhancement
Valuations					
TP (HK\$)	67.7		64.2		TP and valuation increase on higher growth projections
P/E (x)	31.19	20.01	30.80	19.60	
P/B (x)	7.06	5.75	6.71	5.50	

Note: 1) Previous report was published on Apr 9, 2020

Source(s): The Company, 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	37,996	48,623	64,291
- Footwear	8,631	11,410	12,305	15,019	18,897
- Apparel	14,709	21,398	24,446	31,764	42,955
- Accessories	759	1,120	1,246	1,841	2,439
COGS	(11,413)	(15,269)	(18,872)	(23,040)	(29,351)
Gross profit	12,687	18,659	19,124	25,584	34,940
- Footwear	4,226	5,661	5,817	7,370	9,654
- Apparel	8,131	11,852	12,766	17,421	24,191
- Accessories	330	497	540	793	1,094
Other net income/(loss)	760	1,070	1,159	1,459	1,945
S&D expenses	(6,525)	(9,721)	(11,038)	(14,305)	(18,009)
Admin expenses	(1,223)	(1,313)	(1,838)	(2,417)	(3,129)
Operating profit	5,700	8,695	7,407	10,320	15,747
Net finance income/(expense)	68	(53)	339	340	402
Pretax profit	5,767	8,008	7,607	11,820	17,448
Tax	(1,533)	(2,384)	(2,107)	(3,245)	(4,791)
Net profit	4,234	5,624	5,501	8,575	12,657
- Owners of the company	4,103	5,344	5,376	8,379	12,369
- Minority interest	131	280	124	196	289
Dividend	1,842	1,642	1,702	2,996	4,370
EPS (RMB cent)					
- Basic	153	199	199	310	458
- Diluted	153	199	199	310	457
DPS (HK cent)	78	67	69	121	176

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	12,455	13,196	17,147
Other ST deposit	2,470	4,386	3,174	3,358	4,354
Trade and other receivables	4,638	6,309	4,887	8,238	11,151
Inventory	2,892	4,405	5,616	4,994	8,970
Current assets	19,284	23,321	26,133	29,786	41,621
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	14,724	18,116	20,082
Non-current assets	5,090	17,898	18,164	22,313	24,911
Total assets	24,374	41,218	44,297	52,099	66,531
Trade and other payables	5,633	8,783	8,413	9,543	13,851
ST borrowings	1,244	1,359	1,532	1,623	2,507
Others	671	2,269	1,812	2,492	3,213
Current liabilities	7,548	12,412	11,757	13,658	19,572
LT debt	70	6,644	6,644	6,644	6,644
Deferred tax assets	236	256	110	184	193
Others	0	846	927	1,175	1,397
Total non-current liabilities	306	7,746	7,680	8,002	8,234
Shareholders' equity	15,777	20,082	23,756	29,139	37,137
Minority interest	743	979	1,104	1,300	1,588
Total equity	16,520	21,061	24,860	30,438	38,726
Total liabilities and equity	24,374	41,218	44,297	52,099	66,531

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	7,607	11,820	17,448
Depreciation & amortization	342	1,469	1,668	2,094	2,504
Change in working capital	(444)	(802)	(159)	(1,597)	(2,578)
Others	(1,226)	(1,190)	(1,858)	(4,182)	(5,994)
Cash flow from operating activities	4,440	7,485	7,258	8,135	11,380
CapEx	808	1,087	170	620	556
Others	(2,009)	(14,152)	(1,481)	(4,927)	(4,501)
Cash flow from investing activities	(1,201)	(13,065)	(1,311)	(4,307)	(3,945)
Bank borrowing	1,008	6,436	173	91	884
Dividend paid	(2,468)	(1,514)	(1,535)	(2,755)	(4,001)
Others	324	(252)	(277)	(305)	(335)
Cash flow from financing activities	(1,136)	4,670	(1,639)	(2,968)	(3,452)
Net change in cash	2,102	(910)	4,308	860	3,983
ForEx effect	214	(153)	(73)	(119)	(33)
Cash at the end of FY	9,284	8,221	12,455	13,196	17,147

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	2018A	2019A	2020E	2021E	2022E
Growth (YoY %)					
Revenue	44.38	40.78	11.99	27.97	32.22
- Footwear	22.45	32.19	7.85	22.06	25.82
- Apparel	61.35	45.47	14.24	29.94	35.23
- Accessories	43.95	47.54	11.17	47.81	32.45
Gross profit	53.95	47.07	2.49	33.78	36.57
- Footwear	28.43	33.95	2.76	26.68	31.00
- Apparel	71.45	45.76	7.72	36.46	38.86
- Accessories	58.63	50.44	8.83	46.74	37.99
EBIT	42.90	52.54	(14.81)	39.33	52.58
EBITDA	42.53	68.21	(10.71)	36.80	47.01
Net profit (to owners of the company)	32.79	30.25	0.60	55.85	47.62
Profitability ratios (%)					
GPM	52.64	55.00	50.33	52.62	54.35
- Footwear	49.00	49.62	47.28	49.07	51.09
- Apparel	55.30	55.39	52.22	54.85	56.32
- Accessories	43.50	44.32	43.39	43.08	44.88
OPM	23.65	25.63	19.49	21.22	24.49
EBITDA margin	25.07	29.96	23.88	25.53	28.39
Pretax	23.93	23.60	20.02	24.31	27.14
NPM (to owners of the company)	17.02	15.75	14.15	17.23	19.24
Revenue contribution (%)					
- Footwear	35.81	33.63	32.38	30.89	29.39
- Apparel	61.03	63.07	64.34	65.33	66.81
- Accessories	3.15	3.30	3.28	3.79	3.79
Return ratios (%)					
ROAA	19.49	17.15	12.86	17.79	21.34
ROAE	27.83	29.81	24.53	31.68	37.32
Liquidity ratio (x)					
Current ratio	2.55	1.88	2.22	2.18	2.13
Quick ratio	2.17	1.52	1.75	1.82	1.67
Cash ratio	1.56	1.02	1.33	1.21	1.10
Cash conversion cycle (days)					
Days of outstanding receivable	34.8	34.4	38.6	35.9	34.8
Days of inventory on hand	80.7	87.2	96.9	84.0	86.8
Days of outstanding payable	51.8	56.8	56.7	53.9	54.7
CCC	63.7	64.8	78.8	66.1	66.9
Leverage ratios (%)					
Total debt/Equity	7.95	38.00	32.89	27.16	23.63
Total debt/Total assets	5.39	19.41	18.46	15.87	13.75
Net cash/Equity	60.36	19.41	27.70	25.17	30.12
Net cash/Total assets	40.91	9.92	15.55	14.71	17.53

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq 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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