



Anta Sports (2020 HK)

High growth in FY17; maintain BUY

- Overall revenue was up 25% YoY, mainly supported by the 32% YoY growth in the apparel segment; revenue growth in footwear segment slowed in 2H17, while apparel and accessories segments showed improved momentum for the same period
- Margin was weighed down by higher operating expenses and raw material costs; GPM of the accessories segment improved in 2H17 compared to 1H17
- Despite the increase in working capital turnover days, the Group still maintain a strong cash position of over RMB 9bn by end-2017
- Maintain **BUY**; current TP represents 27.07x/21.08x FY18E/FY19E P/E and 6.70x/6.13x FY18E/FY19E P/B

Maintaining high growth in FY17. Revenue grew 25.1% YoY in FY17; more specifically, revenue growth accelerated to 30.1% YoY in 2H17 from 19.2% YoY in 1H17. Business segments saw varying growth. Revenue from footwear segment was up 16.8% YoY in 2H17, down slightly compared to growth in 1H17; revenue from apparel and accessories segments significantly increased 40.8% YoY and 31.2% YoY in 2H17, compared to 21.7% YoY and 1.0% YoY in 1H17.

Margin fell in 2H17. 2H17 GPM, OPM and NPM (to owners of Company) decreased to 48.4% (1H17: 50.6%), 22.3%(1H17: 25.9%), and 17.5% (1H17: 18.4%) on higher S&D expenses, R&D expenses, and raw material costs. Segment-wise, GPM of apparel and footwear segments were lower in 2H17, but GPM of accessories segment climbed from 39.3% in 1H17 to 43.2% in 2H17.

Stronger cash position despite lower working capital efficiency. Inventory turnover days of the Group increased by 14 to 75, while receivable/payable turnover days increased by 2/4 to 41/46. The higher inventory turnover days was due to the deferred product shipment for 2018 Spring Festival, which landed later in Feb this year compared to Jan in 2017. The Group maintained a strong cash position of over RMB 9bn and its operating cash flow grew to exceed RMB 3bn.

The RMB 100bn target. The Group announced a revenue target of RMB 100bn by 2025, which represents 2017-25E CAGR of 25%. In addition, according to the Group, the total revenue CAGR target during 2020-2025 is 15-20%; the total volume of footwear/apparel sold will reach 100mn pairs /130 million pieces; e-commerce will account for 20% of total sales. We believe that the Group would be able to achieve these targets as long as it is able to improve its management system and enhance its product innovation capability.

Maintain BUY, TP at HK\$ 45.5. We believe raw material and other operating costs are likely to increase in the short term. Margins in 2018 would be stable, and we estimate overall sales growth would be ~25% each year for the next three years. Future catalysts of the Group include: 1) cost synergies among its portfolio brands; 2) increased R&D efforts may translate into more room for growth in the future; 3) its new logistic center and ERP system that help streamline its operation and further reduce costs. Maintain **BUY** and revise TP up to HK\$ 45.5, which represents 27.07x/21.08x FY18E/FY19E P/E and 6.70x/6.13x FY18E/FY19E P/B.

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

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	13,346	16,692	20,905	26,328	32,873
Chg (% YoY)	19.95	25.08	25.24	25.94	24.86
Net Profit (RMB mn)	2,386	3,090	3,660	4,699	5,994
Chg (% YoY)	16.91	29.52	18.44	28.41	27.55
Basic EPS (RMB cent)	95.36	117.01	136.32	175.05	223.28
Chg (% YoY)	16.78	22.70	16.50	28.41	27.55
P/E (x)	33.59	27.37	23.50	18.30	14.35
BVPS (RMB)	3.82	5.11	5.51	6.02	6.68
P/B (x)	8.39	6.27	5.82	5.32	4.80
DPS(HKD cent)	76.00	98.00	118.52	152.73	194.33
Yield (%)	1.92	2.48	3.00	3.87	4.92
ROAA (%)	18.29	18.97	19.11	22.17	25.46
ROAE (%)	26.32	26.57	25.69	30.37	35.17

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 1, 2018

Rating: **BUY**
TP: HK\$ 45.50

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Share price (HK\$)	39.50
52 wk High/Low	41.7/20.672
Est. share price return	15.19%
Est. dividend yield	2.48%
Est. total return	17.67%
Previous Rating and TP	BUY;HK\$37.6
Previous Report Date	Oct 26,2017

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,684.57
Mkt cap (HK\$m)	103,892.80
3 mth days ADT (HK\$m)	168.13
Shareholding (%)	
Anta International	51.17
Anda Holdings	5.99
Anda Investments	4.30
Shine Well	0.35
Talent Trend	0.04

Source(s): Company, Bloomberg, HKEX

% to total revenue	FY18E
Footwear	39.84
Apparel	57.29
Accessories	2.87

Source(s): ABCI Securities estimates

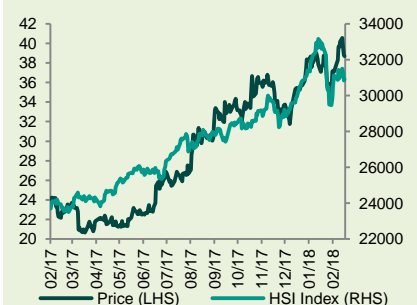
Share performance (%)

	Absolute	Relative*
1-mth	4.50	9.20
3-mth	16.18	9.15
6-mth	27.63	15.69

* 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-Mar 1, 2018



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

	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Anta brand	Low teens	High teens	Low teens	20%-30%	Mid-teens	20%-25%
Non-anta brand	60%-70%	50%-60%	40%-50%	50%-60%	40%-50%	85%-90%

Source(s): Company, ABCI Securities

Exhibit 2: The no. of stores under the Group

	2013	2014	2015	2016	2017	2017 target	2018 target	2020 target
Anta + Anta Kids	8,638	8,850	8,489	8,860	9,467	9,000-9,100	9,700-9,800	N/A
Fila + Fila Kids	416	519	591	802	1,086	950-1,000	1,300-1,400	N/A
Descente	N/A	N/A	N/A	6	64	50-60	100-110	N/A
Kingkow	N/A	N/A	N/A	N/A	N/A	N/A	60-70	N/A
Sprandi	N/A	N/A	N/A	N/A	N/A	N/A	190-200	N/A
Kolon Sport	N/A	N/A	N/A	N/A	N/A	N/A	200-210	N/A
Total	9,054	9,369	9,080	9,668	10,617	10,000-10,160	11,550-11,790	Over 11,000

*As of end of period

Source(s): Company, ABCI Securities

Exhibit 3: Self-production ratio (%)

	2012	2013	2014	2015	2016	2017
Footwear	46	48.9	54.4	49	42.9	37.8
Apparel	15.5	17	15.9	15.9	16.7	15.5

Source(s): Company, ABCI Securities

Exhibit 4: Dividend payout history

	2012	2013	2014	2015	2016	2017
Interim (HKD cent)	23	19	25	30	34	41
Final (HKD cent)	17	22	28	30	34	41
Special (HKD cent)	8	7	8	8	8	16
Interim DPO (%)	60.9	60.3	61.9	64.5	65.5	66.3
Total DPO (%)	71.7	72.4	71.1	69.8	70.2	70.5

Source(s): Company, ABCI Securities



Consolidated income statement (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2016A	2017A	2018E	2019E	2020E	1H16	1H17
Revenue	13,346	16,692	20,905	26,328	32,873	6,143	7,323
- Footwear	6,001	7,049	8,328	9,853	11,731	2,867	3,387
- Apparel	6,886	9,116	11,977	15,793	20,375	3,027	3,685
- Accessories	459	528	601	681	767	249	251
COGS	(6,887)	(8,451)	(10,631)	(13,202)	(16,369)	(3,201)	(3,619)
Gross profit	6,459	8,241	10,274	13,126	16,504	2,941	3,704
- Footwear	2,723	3,292	3,806	4,531	5,438	1,294	1,632
- Apparel	3,508	4,740	6,228	8,320	10,748	1,559	1,973
- Accessories	168	208	241	275	318	89	99
Other net income/(loss)	260	458	490	670	804	107	173
S&D expenses	(2,831)	(3,809)	(4,841)	(6,139)	(7,593)	(1,261)	(1,524)
Admin expenses	(685)	(901)	(1,142)	(1,459)	(1,769)	(299)	(455)
Operating profit	3,203	3,989	4,782	6,197	7,945	1,488	1,897
Net finance income/(expense)	108	322	304	339	399	88	112
Pretax profit	3,311	4,311	5,086	6,536	8,343	1,577	2,009
Tax	(866)	(1,152)	(1,341)	(1,726)	(2,211)	(415)	(528)
Net profit	2,445	3,159	3,745	4,810	6,133	1,162	1,481
- Owners of the company	2,386	3,090	3,660	4,699	5,994	1,129	1,451
- Minority interest	59	69	86	111	139	33	30
Dividend	1,675	2,178	2,580	3,325	4,230	740	962
EPS (RMB cent)							
- Basic	95.36	117.01	136.32	175.05	223.28	45.15	55.98
- Diluted	95.16	116.84	136.11	174.78	222.94	45.05	55.94
DPS (HKD cent)	76	98	119	153	194	34	41

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2016A	2017A	2018E	2019E	2020E	1H16	1H17
Cash and cash equivalent	5,830	6,968	7,469	8,642	8,739	5,463	9,560
Other ST deposit	1,687	2,586	2,014	2,366	2,374	1,353	1,072
Trade and other receivables	2,641	3,733	4,709	4,680	5,571	2,263	2,391
Inventory	1,295	2,155	2,012	2,980	3,182	1,244	1,444
Others	0	0	0	0	0	0	0
Current assets	11,453	15,442	16,204	18,668	19,867	10,324	14,467
PP&E	1,170	1,203	1,343	1,428	1,546	1,128	1,169
Construction in progress	157	706	307	353	462	97	505
Intangible assets	478	705	725	744	766	490	467
Others	966	1,018	1,548	2,075	2,265	945	889
Non-current assets	2,770	3,632	3,922	4,600	5,038	2,659	3,031
Total assets	14,224	19,074	20,127	23,268	24,905	12,983	17,497
Trade and other payables	3,060	3,978	3,970	5,501	5,154	2,554	3,303
ST borrowings	938	148	131	167	114	938	110
Others	275	373	394	503	632	225	303
Current liabilities	4,273	4,498	4,495	6,171	5,900	3,716	3,715
LT payable to non-controlling interests	40	0	0	0	0	41	40
Deferred tax assets	14	215	105	86	92	52	107
Total non-current liabilities	55	215	105	86	92	93	148
Shareholders' equity	9,549	13,706	14,786	16,160	17,924	8,907	13,257
Minority interest	348	654	740	851	989	268	378
Total equity	9,896	14,361	15,526	17,011	18,913	9,174	13,634
Total liabilities and equity	14,224	19,074	20,127	23,268	24,905	12,983	17,497

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2015A-2019E)

FY ends at Dec 31 (RMB mn, except per share data)	2016A	2017A	2018E	2019E	2020E	1H16	1H17
Pretax profit	3,311	4,311	5,086	6,536	8,343	1,577	2,009
Depreciation & amortization	226	250	312	375	455	107	116
Change in working capital	(216)	(381)	(839)	592	-1,439	277	347
Others	(853)	(999)	(1,380)	(1,715)	-2,199	(862)	(414)
Cash flow from operating activities	2,468	3,181	3,179	5,787	5,161	1,098	2,058
CapEx	(628)	(585)	(583)	(677)	(861)	(373)	(283)
Others	113	(994)	(521)	(1,243)	-973	391	665
Cash flow from investing activities	(515)	(1,579)	(1,104)	(1,920)	-1,834	18	382
Bank borrowing	(392)	(827)	21	36	-53	(392)	(828)
Dividend paid	(1,572)	(1,976)	(2,385)	(3,075)	-3,814	(801)	(1,007)
Others	566	2,801	685	753	828	377	3,282
Cash flow from financing activities	(1,398)	(2)	(1,680)	(2,286)	-3,039	(817)	1,447
Net change in cash	555	1,601	396	1,581	288	300	3,887
ForEx effect	109	(463)	106	(409)	(191)	(2)	(157)
Cash at the end of FY	5,830	6,968	7,469	8,642	8,739	5,463	9,560

Source(s): Company, ABCI Securities estimates



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

FY ends at Dec 31	2016A	2017A	2018E	2019E	2020E	1H16	1H17
Growth (YoY %)							
Revenue	19.95	25.08	25.24	25.94	24.86	20.21	19.22
- Footwear	18.26	17.47	18.15	18.32	19.05	19.43	18.15
- Apparel	23.14	32.39	31.38	31.87	29.01	22.48	21.72
- Accessories	-0.18	14.86	13.84	13.44	12.59	4.56	1.04
Gross profit	24.56	27.59	24.67	27.75	25.74	23.48	25.92
- Footwear	16.28	20.89	15.61	19.05	20.03	17.65	26.19
- Apparel	31.34	35.12	31.38	33.60	29.17	30.67	26.57
- Accessories	-2.71	23.93	15.91	13.93	15.75	(0.78)	10.79
EBIT	18.79	24.52	19.90	29.59	28.20	17.47	27.50
EBITDA	18.87	23.61	20.19	29.00	27.82	17.67	26.24
Net profit (to owners of the company)	16.91	29.52	18.44	28.41	27.55	16.98	28.53
EPS - basic	16.78	22.70	16.50	28.41	27.55	16.82	23.99
Profitability ratios (%)							
GPM	48.40	49.37	49.15	49.85	50.20	47.88	50.58
- Footwear	45.38	46.70	45.70	45.98	46.36	45.12	48.19
- Apparel	50.95	52.00	52.00	52.68	52.75	51.49	53.54
- Accessories	36.52	39.40	40.12	40.29	41.43	35.80	39.25
OPM	24.00	23.90	22.88	23.54	24.17	24.23	25.91
EBITDA margin	25.70	25.39	24.37	24.96	25.55	25.96	27.49
Pretax	24.81	25.82	24.33	24.83	25.38	25.67	27.44
NPM (to owners of the company)	17.87	18.51	17.51	17.85	18.23	18.38	19.82
Revenue contribution (%)							
- Footwear	44.96	42.23	39.84	37.43	35.69	46.67	46.25
- Apparel	51.59	54.61	57.29	59.99	61.98	49.28	50.32
- Accessories	3.44	3.16	2.87	2.59	2.33	4.05	3.43
Return ratios (%)							
ROAA	18.29	18.97	19.11	22.17	25.46	17.72	18.30
ROAE	26.32	26.57	25.69	30.37	35.17	25.83	25.46
ROIC	28.07	27.62	27.10	30.45	34.22	27.54	29.58
Liquidity ratio (x)							
Current ratio	2.68	3.43	3.60	3.03	3.37	2.78	3.89
Quick ratio	2.38	2.95	3.16	2.54	2.83	2.44	3.51
Cash ratio	1.76	2.12	2.11	1.78	1.88	1.83	2.86
Cash conversion cycle (days)							
Days of outstanding receivable	39	41	40	41	42	37	36
Days of inventory on hand	61	75	72	69	69	64	69
Days of outstanding payable	42	46	46	47	45	42	48
CCC	58	69	65	63	65	59	58
Leverage ratios (%)							
Total debt/Equity	9.48	0.77	0.84	0.98	0.60	15.67	4.40
Total debt/Total assets	6.59	0.58	0.65	0.72	0.46	11.07	3.43
Net cash/Equity	60.42	65.76	60.24	63.73	58.15	58.63	73.57
Net cash/Total assets	42.04	49.51	46.47	46.59	44.16	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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