



Anta Sports (2020 HK)

Growing from strength to strength

- The Group's margin continued to improve despite a slight slowdown in growth momentum; superior brand management provided support to growth
- Segmental results were in line with the Group's overall performance
- Despite the shorter CCC, the Group's inventory turnover days increased by 5 days
- Maintain **BUY**; current TP represents 27.72x/23.66x FY17E/FY18E P/E and 8.07x/7.32x FY17E/FY18E P/B

Strong momentum in 1H17. The Group's revenue grew by 19.2% YoY in 1H17, slightly lower than the 20.2% YoY growth in 1H16. However, profit growth accelerated, resulting in higher margins. GPM, OPM and NPM (to owners of the parent) increased by 2.7ppt, 1.7ppt, and 1.4ppt to 50.6%, 25.9% and 19.8% in 1H17. Retail sales value growth revved up for both the Anta and non-Anta brand products, reflecting the Group's superior brand management capability.

Segmental results in line with the Group's overall performance. Revenue growth of the three segments slowed down in 1H17. Revenue growth of accessories segment fell 3.4ppt YoY, compared to the 1.3ppt/0.8ppt decline in footwear/apparel. However, GPM of these segments improved, thanks to effective cost-cutting measures in 1H17.

Working capital management presented a mixed picture. The Group's CCC dropped slightly to 58 days, compared to 59 days in 1H16. Inventory turnover days increased from 64 in 1H16 to 69 in 1H17, which was partially offset by the increase in payable turnover days from 42 in 1H16 to 48 in 1H17. Lengthening of the inventory turnover days, which coincided with the slower sales growth, suggests a challenging operating environment in the short term.

A strong cash position. The Group maintained a net cash position of RMB 10bn by end-1H17, which was ~2x of the net cash position by end-FY16. In addition, 1H17 cash flow from operation was also 2x of that in 1H16 while net profit only increased by 27.5% YoY in 1H17. We believe the Group's strengthened cash position and cash flow management would give it more flexibility amid the changing business environment.

Revise up TP on brand management capability, improved profitability, stronger cash position, and working capital management. Based on our forecasts, the Group's revenue would continue to grow at ~19% YoY in 2016-19E, which would be mainly supported by the Group's ability to manage the brand portfolio; GPM, OPM and NPM in FY17E would be 50.2%, 26.0%, and 19.2%; for 2017E-19E, the receivable, inventory, and payable turnover days would be 36, ~66, and 47, respectively, hence the CCC would be ~54 days. The stronger cash position would enable to Group to lower its debt-to-equity ratio to 3.8% in FY19E. Maintain **BUY** and upgrade TP to HK\$ 33.7, which represents 27.72x/23.66x FY17E/FY18E P/E and 8.07x/7.32x FY17E/FY18E 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) 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	3,042	3,565	4,272
Chg (% YoY)	20.01	16.91	27.53	17.17	19.83
Basic EPS (RMB cent)	81.66	95.36	121.57	142.45	170.69
Chg (% YoY)	19.88	16.78	27.49	17.17	19.83
P/E (x)	32.96	28.22	22.14	18.89	15.77
BVPS (RMB)	3.43	3.82	4.18	4.60	5.11
P/B (x)	7.85	7.05	6.44	5.85	5.27
DPS(HKD cent)	68.00	76.00	96.60	112.80	135.39
Yield (%)	2.24	2.50	3.18	3.71	4.45
ROAA (%)	17.49	18.29	21.05	22.63	24.35
ROAE (%)	24.92	26.32	30.42	32.46	35.15

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 29, 2017

Rating: BUY

TP: HK\$ 33.70

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Share price (HK\$)	30.40
52 wk High/Low	32.3/19.37
Est. share price return	10.86%
Est. dividend yield	2.50%
Est. total return	13.36%
Previous Rating and TP	BUY;HK\$27.0
Previous Report Date	Feb 24,2017

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,684.06
Mkt cap (HK\$mn)	81,863.79
3 mth days ADT (HK\$mn)	149.74
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

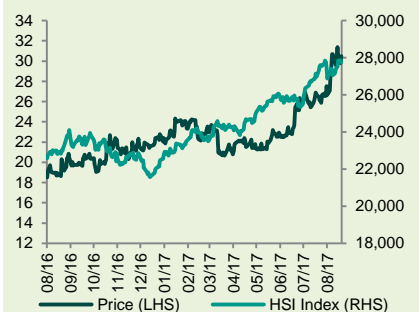
Share performance (%)

	Absolute	Relative*
1-mth	13.90	10.64
3-mth	36.93	26.84
6-mth	33.68	13.72

* 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-Aug 29, 2017



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

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

Source(s): Company, ABCI Securities

Exhibit 2: Store number

	End 2013	End 2014	End 2015	End 2016	End 1H17	2017 target
Anta + Anta Kids	8,638	8,850	8,489	8,860	9,041	9,000-9,100
Fila + Fila Kids	416	519	591	802	869	950-1,000
Descente	N/A	N/A	N/A	6	21	50-60

Source(s): Company, ABCI Securities

Exhibit 3: Self-production ratio (%)

	2012	2013	2014	2015	2016	1H16	1H17
Footwear	46	48.9	54.4	49	42.9	40.9	39.1
Apparel	15.5	17	15.9	15.9	16.7	17.3	16.7

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	N/A
Special (HKD cent)	8	7	8	8	8	N/A
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	N/A

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
Revenue	11,126	13,346	15,862	18,833	22,497	6,143	7,323
- Footwear	5,074	6,001	6,991	8,225	9,662	2,867	3,387
- Apparel	5,592	6,886	8,400	10,123	12,338	3,027	3,685
- Accessories	460	459	472	485	497	249	251
COGS	(5,941)	(6,887)	(7,907)	(9,334)	(11,075)	(3,201)	(3,619)
Gross profit	5,185	6,459	7,955	9,499	11,423	2,941	3,704
- Footwear	2,342	2,723	3,348	3,974	4,671	1,294	1,632
- Apparel	2,671	3,508	4,427	5,339	6,561	1,559	1,973
- Accessories	172	168	180	186	191	89	99
Other net income/(loss)	227	260	316	371	446	107	173
S&D expenses	(2,212)	(2,831)	(3,379)	(4,160)	(4,975)	(1,261)	(1,524)
Admin expenses	(504)	(685)	(771)	(883)	(1,068)	(299)	(455)
Operating profit	2,697	3,203	4,121	4,827	5,825	1,488	1,897
Net finance income/(expense)	133	108	112	123	110	88	112
Pretax profit	2,829	3,311	4,234	4,950	5,935	1,577	2,009
Tax	(741)	(866)	(1,124)	(1,302)	(1,563)	(415)	(528)
Net profit	2,088	2,445	3,110	3,648	4,372	1,162	1,481
- Owners of the company	2,041	2,386	3,042	3,565	4,272	1,129	1,451
- Minority interest	48	59	68	84	100	33	30
Dividend	1,424	1,675	2,140	2,499	3,000	740	962
EPS (RMB cent)							
- Basic	81.66	95.36	121.57	142.45	170.69	45.15	55.98
- Diluted	81.48	95.16	121.02	141.80	169.92	45.05	55.94
DPS (HKD cent)	68	76	97	113	135	34	41

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	1H16	1H17
Cash and cash equivalent	5,166	5,830	5,821	6,127	6,526	5,463	9,560
Other ST deposit	1,568	1,687	1,530	1,888	1,899	1,353	1,072
Trade and other receivables	2,207	2,641	3,229	3,575	4,307	2,263	2,391
Inventory	1,016	1,295	1,548	1,781	2,198	1,244	1,444
Others	200	12	0	0	0	0	0
Current assets	10,157	11,465	12,128	13,370	14,931	10,324	14,467
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	1,205	1,201	1,476	945	889
Non-current assets	2,345	2,759	3,206	3,538	4,070	2,659	3,031
Total assets	12,502	14,224	15,333	16,908	19,001	12,983	17,497
Trade and other payables	1,990	3,060	3,504	3,875	4,553	2,554	3,303
ST borrowings	1,330	938	522	555	512	938	110
Others	243	275	353	388	472	225	303
Current liabilities	3,563	4,273	4,380	4,818	5,537	3,716	3,715
LT payable to non-controlling interests	39	40	42	43	45	41	40
Deferred tax assets	86	14	46	31	31	52	107
Total non-current liabilities	124	55	87	75	76	93	148
Shareholders' equity	8,580	9,549	10,451	11,516	12,788	8,907	13,257
Minority interest	235	348	416	499	600	268	378
Total equity	8,814	9,896	10,866	12,016	13,388	9,174	13,634
Total liabilities and equity	12,502	14,224	15,333	16,908	19,001	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)	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Pretax profit	2,829	3,311	4,234	4,950	5,935	1,577	2,009
Depreciation & amortization	188	226	265	342	458	107	116
Change in working capital	(415)	(216)	(397)	(207)	(472)	277	347
Others	(700)	(853)	(1,087)	(1,324)	(1,556)	(862)	(414)
Cash flow from operating activities	1,903	2,468	3,015	3,761	4,364	1,098	2,058
CapEx	(461)	(628)	(427)	(506)	(505)	(373)	(283)
Others	48	113	(30)	1	(12)	391	665
Cash flow from investing activities	(413)	(515)	(457)	(505)	(517)	18	382
Bank borrowing	(18)	(392)	415	(33)	43	(392)	(828)
Dividend paid	(1,356)	(1,572)	(2,140)	(2,499)	(3,000)	(801)	(1,007)
Others	81	566	622	685	753	377	3,282
Cash flow from financing activities	(1,294)	(1,398)	(1,102)	(1,847)	(2,203)	(817)	1,447
Net change in cash	196	555	1,455	1,408	1,645	300	3,887
ForEx effect	36	109	(1,464)	(1,102)	(1,245)	(2)	(157)
Cash at the end of FY	5,166	5,830	5,821	6,127	6,526	5,463	9,560

Source(s): Company, ABCI Securities estimates



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

FY ends at Dec 31	2015A	2016A	2017E	2018E	2019E	1H16	1H17
Growth (YoY %)							
Revenue	24.69	19.95	18.86	18.73	19.46	20.21	19.22
- Footwear	23.44	18.26	16.50	17.66	17.47	19.43	18.15
- Apparel	25.62	23.14	21.99	20.52	21.88	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	19.41	20.25	23.48	25.92
- Footwear	22.76	16.28	22.97	18.69	17.54	17.65	26.19
- Apparel	34.78	31.34	26.19	20.61	22.87	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	17.13	20.67	17.47	27.50
EBITDA	32.45	17.52	29.37	17.86	21.54	17.67	26.24
Net profit (to owners of the company)	20.01	16.91	27.53	17.17	19.83	16.98	28.53
EPS - basic	19.88	16.78	27.49	17.17	19.83	16.82	23.99
Profitability ratios (%)							
GPM	46.61	48.40	50.15	50.44	50.77	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	25.89	24.23	25.91
EBITDA margin	25.93	25.40	27.65	27.45	27.93	25.96	27.49
Pretax	25.43	24.81	26.69	26.28	26.38	25.67	27.44
NPM (to owners of the company)	18.34	17.87	19.18	18.93	18.99	18.38	19.82
Revenue contribution (%)							
- Footwear	45.61	44.96	44.07	43.67	42.95	46.67	46.25
- Apparel	50.26	51.59	52.95	53.75	54.84	49.28	50.32
- Accessories	4.14	3.44	2.97	2.58	2.21	4.05	3.43
Return ratios (%)							
ROAA	17.49	18.29	21.05	22.63	24.35	17.72	18.30
ROAE	24.92	26.32	30.42	32.46	35.15	25.83	25.46
ROIC	28.50	28.05	29.93	30.69	32.03	27.54	29.58
Liquidity ratio (x)							
Current ratio	2.85	2.68	2.77	2.78	2.70	2.78	3.89
Quick ratio	2.57	2.38	2.42	2.41	2.30	2.44	3.51
Cash ratio	1.89	1.76	1.68	1.66	1.52	1.83	2.86
Cash conversion cycle (days)							
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
Leverage ratios (%)							
Total debt/Equity	15.09	9.48	4.81	4.62	3.82	15.67	4.40
Total debt/Total assets	11.44	10.81	7.71	7.58	6.90	11.07	3.43
Net cash/Equity	60.17	60.42	56.77	56.04	53.14	58.63	73.57
Net cash/Total assets	42.42	42.04	40.23	39.82	37.44	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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