

Anta Sports (2020 HK) Growth momentum to face hurdles

- 2Q23 retail sales YoY growth of ANTA and FILA improved slightly from 1Q23, but the figures reflect slowdown of growth momentum considering 2Q22's low-base effect
- Macroeconomic condition is slowing down consumer market recovery and impacting consumer behavior; the Group is likely to face a more competitive market; 2H23 sales growth would benefit from more policy support and 4Q22's low-base effect
- Maintain **BUY**; current TP implies 29.74x/24.68x 23E/24E P/E, or 7.12x/5.98x 23E/24E P/B

Growth momentum to be challenged. In 2Q23, retail sales of ANTA saw high-single digit growth YoY while that of FILA grew by high-teens rate; retail sales of other branded products were up 70%-75% YoY. Retail sales growth rates of ANTA and FILA improved QoQ while other brands saw high and consistent YoY growth rates. Considering 2Q22's low-base effect, retail sales growth of ANTA and FILA is frail in our view, reflecting the overall slowdown in apparel industry retail sales and the lethargic consumption appetite in a challenging macro environment. Based on the operating results in 1Q and 2Q, we lower FY23E revenue growth to 18.9% YoY (vs. 21.6% previously). We lower the FY23E revenue growth of ANTA and FILA to 15.8% YoY and 16.9% YoY (vs. 18.8% YoY and 19.9% YoY previously).

Challenging macroeconomic condition may trigger more competition. According to the NBS, "Garments, Footwear, Hats, Knitwear" retail sales of enterprises above designated size saw YoY growth jumping from 5.4% in 2M23 to 32.4% in Apr 2023 before declining to 6.9% YoY in Jun 2023. National retail sales growth shows a diminishing impact of the low-base effect from 2Q22 and points to the fading momentum of consumer market recovery. We believe consumers would in general remain conservative due to the uncertainty in income growth and employment outlook in the short term. Slowdown in the consumer market will trigger more competition among industry participants. Margins could be affected if aggressive sales promotions and discounts are deployed.

Maintain BUY, TP at HK\$ 112.0. We believe the Group would be able to leverage its leading position in the market to weather the short term challenges. We expect the Group's sales growth would benefit from more policy support for the consumer market and 4Q22's low-base effect. Maintain **BUY**. However, we lower our DCF-derived TP based on the lowered revenue growth projections and the resulting decline in profit level. Current TP represents 29.74x/24.68x 23E/24E P/E, or 7.12x/5.98x 23E/24E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Regulatory risk; 4) Changing consumer taste in China, 5) Business acquisition risk; 6) Fluctuations in EPS and DPS growth.

Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	49,328	53,651	63,767	74,905	87,467
Chg (% YoY)	38.9	8.8	18.9	17.5	16.8
Net Profit (to shareholders of the Company) (RMB mn)	7,720	7,590	9,822	11,838	14,293
Chg (% YoY)	49.6	(1.7)	29.4	20.5	20.7
Basic EPS (RMB)	2.87	2.82	3.47	4.18	5.05
Chg (% YoY)	49.5	(1.7)	23.0	20.5	20.7
P/E (x)	26.60	27.07	22.01	18.26	15.13
BVPS (RMB)	10.70	12.68	14.48	17.25	20.79
P/B (x)	7.13	6.02	5.27	4.42	3.67
DPS(HK cent)	158	134	123	152	164
Yield (%)	2.1	1.6	1.5	1.8	2.0
ROAA (%)	14.4	12.5	13.9	14.6	16.0
ROAE (%)	29.2	24.0	26.1	26.3	26.5

Source(s): The Group, ABCI Securities estimates

Company Report Jul 20, 2023

Rating: **BUY**
TP: HK\$ 112.0

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Share price (HK\$)	82.90
52 wk High/Low (HK\$)	125.3/67.85
Est. share price return	35.1%
Est. dividend yield	1.5%
Est. total return	36.6%
Previous Rating&TP	BUY; HK\$132.0
Previous Report Date	Mar 23, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	234.82
3 mth days ADT (HK\$mn)	611.14
Shareholding (%)	
Anta International	44.43
Anda Holdings	5.95

Source(s): The Group, Bloomberg, HKEX

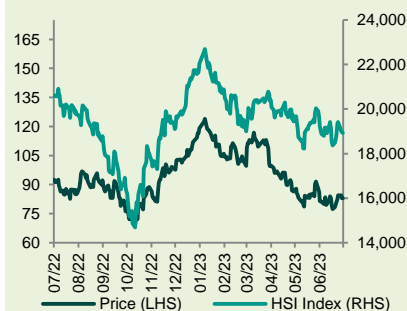
Share performance (%)

	Absolute	Relative*
1-mth	(5.7)	(0.7)
3-mth	(16.6)	(9.6)
6-mth	(28.8)	(16.3)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- All pricing and market data as of Jul 20, 2023
- RMB/HKD: 1.0861

Exhibit 1: Quarterly retail sales YoY change

Brand	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
ANTA	40-45% +	35-40% +	low-teens +	mid-teens +	high-teens +	mid-single digit -	mid-single digit +	high-single digit -	mid-single digit +	high-single digit +
FILA	75-80% +	30-35% +	mid-single digit +	high-single digit +	mid-single digit +	high-single digit -	low teens +	low teens -	high-single digit +	high-teens +
Others	115-120% +	70-75% +	35-40% +	30-35% +	40-45% +	20-25% +	40-45% +	low teens+	75%-80%	70%-75%

Note: + = growth; - = decline

Source(s): the Group, ABCI Securities

Exhibit 2: Changes in assumptions, projections, and valuations

Exhibit 2: Changes in assumptions, projections, and valuations					
As of Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
Assumptions					
D/E (%)	27.9	22.5	27.9	22.5	N/A
D/A (%)	15.3	13.1	15.3	13.1	
Tax rate (%)	27.4	27.4	27.4	27.4	
Valuations					
TP (HK\$)	112.0		132.0		Lower TP due to reduced revenue and profit projections
P/E (x)	29.74	24.68	31.35	25.00	
P/B (x)	7.12	5.98	7.64	6.35	

Source(s): ABCI Securities estimates

Exhibit 3: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (RMB mn)	63,767	74,905	87,467	65,244	79,619	93,779	(2.26)	(5.92)	(6.73)
Net profit (to owners of the Company) (RMB mn)	9,822	11,838	14,293	10,030	12,576	15,352	(2.07)	(5.87)	(6.90)
EPS (RMB)	3.47	4.18	5.05	3.70	4.63	5.66	(6.18)	(9.82)	(10.81)

Note: previous report was published on Mar 23, 2023

Source(s): ABCI Securities estimates

Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	49,328	53,651	63,767	74,905	87,467
- ANTA brand	24,012	27,723	32,113	37,037	42,636
- FILA brand	21,822	21,523	25,158	29,215	33,821
- Other brands	3,494	4,405	6,495	8,653	11,010
COGS	(18,924)	(21,333)	(24,763)	(28,581)	(32,765)
Gross profit	30,404	32,318	39,004	46,324	54,702
Other net income/(loss)	1,266	2,128	2,109	2,457	3,077
S&D expenses	(17,753)	(19,629)	(22,721)	(26,587)	(31,226)
Admin expenses	(2,928)	(3,587)	(4,140)	(4,863)	(5,655)
Operating profit	10,989	11,230	14,251	17,331	20,898
Net finance income/(expense)	332	97	234	153	277
Share of gain/(loss) of JV	(81)	28	34	40	48
Pretax profit	11,240	11,355	14,519	17,525	21,223
Tax	(3,021)	(3,110)	(3,977)	(4,804)	(5,814)
Net profit	8,219	8,245	10,542	12,721	15,409
- Owners of the company	7,720	7,590	9,822	11,838	14,293
- Minority interest	499	655	720	884	1,116
Dividend	3,524	3,220	3,220	3,970	4,269
EPS (RMB)					
- Basic	2.87	2.82	3.47	4.18	5.05
- Diluted	2.81	2.76	3.47	4.18	5.05
DPS (HK cent)	158	134	123	152	164

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalent	17,592	17,378	19,690	23,841	22,762
Trade receivables	3,296	2,978	4,708	4,588	5,950
Inventory	7,644	8,490	9,237	10,927	12,302
Others	11,371	13,750	18,875	21,098	23,786
Current assets	39,903	42,596	52,511	60,454	64,800
PP&E and CIP	3,779	4,774	5,802	6,415	7,384
Right-of-use assets	6,611	8,015	10,319	11,473	12,531
Intangible assets	1,531	1,480	1,473	1,458	1,430
Investment in JV	9,027	9,343	9,563	9,795	10,039
Others	1,818	2,987	2,454	3,096	3,367
Non-current assets	22,766	26,599	29,612	32,237	34,751
Total assets	62,669	69,195	82,123	92,691	99,552
Trade payables	3,146	2,750	4,651	4,055	4,183
ST borrowings	1,748	12,198	12,080	11,654	4,797
Others	11,049	11,259	13,060	14,510	15,209
Current liabilities	15,943	26,207	29,791	30,219	24,190
LT borrowings	11,425	492	503	486	593
Deferred tax liabilities	655	691	654	678	837
Others	2,982	3,966	6,012	7,395	8,879
Total non-current liabilities	15,062	5,149	7,170	8,559	10,309
Shareholders' equity	28,924	34,400	41,003	48,870	58,895
Minority interest	2,740	3,439	4,159	5,043	6,159
Total equity	31,664	37,839	45,161	53,913	65,053
Total liabilities and equity	62,669	69,195	82,123	92,691	99,552

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

ANTA Sports Products Limited (2020 HK, BUY)

China Sports Apparel

Jul 20, 2023

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Pretax profit	11,240	11,355	14,519	17,525	21,223
Depreciation & amortization	3,266	4,464	4,508	5,146	5,809
Change in working capital	(282)	(1,598)	(1,019)	(604)	(3,281)
Others	(2,363)	(2,074)	(3,872)	(4,712)	(5,762)
Cash flow from operating activities	11,861	12,147	14,136	17,355	17,989
Change in PP&E	(779)	(974)	(732)	(767)	(752)
Others	(3,890)	(3,800)	(5,412)	(5,529)	(4,499)
Cash flow from investing activities	(4,669)	(4,774)	(6,144)	(6,296)	(5,251)
Change in borrowing	(196)	(1,403)	(106)	(445)	(6,749)
Dividend paid	(2,456)	(3,950)	(2,953)	(3,636)	(3,901)
Others	(2,295)	(2,488)	(2,737)	(3,010)	(3,312)
Cash flow from financing activities	(4,947)	(7,841)	(5,796)	(7,091)	(13,961)
Net change in cash	2,245	(468)	2,196	3,968	(1,223)
ForEx effect	24	254	116	183	144
Cash at the end of FY	17,592	17,378	19,690	23,841	22,762

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY %)					
Revenue	38.9	8.8	18.9	17.5	16.8
- ANTA Brand	52.5	15.5	15.8	15.3	15.1
- FILA Brand	25.1	(1.4)	16.9	16.1	15.8
- Other brands	51.1	26.1	47.5	33.2	27.2
Gross profit	47.2	6.3	20.7	18.8	18.1
EBIT	20.1	2.2	26.9	21.6	20.6
Net profit (to owners of the company)	49.6	(1.7)	29.4	20.5	20.7
Profitability ratios (%)					
GPM	61.6	60.2	61.2	61.8	62.5
OPM	22.3	20.9	22.3	23.1	23.9
Pretax	22.8	21.2	22.8	23.4	24.3
NPM (to owners of the company)	15.7	14.1	15.4	15.8	16.3
Revenue contribution (%)					
- ANTA Brand	48.7	51.7	50.4	49.4	48.7
- FILA Brand	44.2	40.1	39.5	39.0	38.7
- Other brands	7.1	8.2	10.2	11.6	12.6
Return ratios (%)					
ROAA	14.4	12.5	13.9	14.6	16.0
ROAE	29.2	24.0	26.1	26.3	26.5
Liquidity ratio (x)					
Current ratio	2.5	1.6	1.8	2.0	2.7
Quick ratio	2.0	1.3	1.5	1.6	2.2
Cash ratio	1.5	1.1	1.1	1.3	1.7
Cash conversion cycle (days)					
Days of outstanding receivable	26	21	22	23	22
Days of inventory on hand	127	132	131	129	129
Days of outstanding payable	53	53	53	52	44
CCC	99	100	100	99	107
Leverage ratios (%)					
Total debt/Equity	41.6	33.5	27.9	22.5	8.3
Total debt/Total assets	21.0	18.3	15.3	13.1	5.4
Net cash/Equity	(36.0)	(39.6)	(45.2)	(52.3)	(53.4)
Net cash/Total assets	(18.2)	(21.7)	(24.9)	(30.4)	(34.9)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 9\%$)
Hold	- Market return ($\sim 9\%$) \leq Stock return $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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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