

Anta Sports (2020 HK) Expect better margin performance

- 1H23 revenue growth of brand varied, and ANTA brand's growth was lower than others; varying growth momentum among brands may weigh on the Group's overall growth performance
- 1H23 overall margin performance improved and those of FILA brand and other brands saw sizeable improvement, proving the Group's ability to enhance cost efficiency during challenging macro environment
- Maintain **BUY**; current TP implies 29.26x/24.48x 23E/24E P/E, or 5.74x/5.07x 23E/24E P/B

Growth momentum varied among brands. 1H23 revenue growth was 14.2% YoY and total revenue reached RMB 29,645mn; revenue of ANTA brand and FILA brand grew by 6.1% YoY and 13.5% YoY; revenue of other brands combined continued to outperform with growth of 77.6% YoY. Despite the high growth, revenue contribution from other brands combined was 10.9% in 1H23, while ANTA brand and FILA brand contributed to 47.8% and 41.3% of total revenue in 1H23. We believe the overall slowdown of consumer market growth partly affected the Group's growth performance. In addition, the low growth momentum of ANTA brand, if persists, would weigh on the Group's growth performance in the future. Based on the 1H23 revenue growth performance and our expectation of the consumer market in general, we lower our growth forecast. We expect FY23E revenue to grow by 15.4% YoY; revenue of ANTA brand and FILA brand is expected to grow by 9.5% YoY and 16.3% YoY. 2H23 revenue is expected to grow by 16.5% YoY; 2H23 revenue of ANTA brand and FILA brand is expected to grow by 12.8% YoY and 19.1% YoY.

Margin improvement showed higher cost efficiency. In 1H23, the Group's GPM, OPM, NPM (to shareholders of the Company) increased to 63.3%, 25.7%, and 16.0% from 62.0%, 22.3%, and 13.8% in 1H22. Net profit (to shareholders of the Company) reached RMB 4,748mn in 1H23. Margins of the brands varied. The OPM of FILA brand and other brands saw significant improvement to 29.7% and 30.3% in 1H23 compared to 22.5% and 21.6% in 1H22, while ANTA brand's OPM declined by 1ppt to 21.0%. We believe the higher overall margins showed the Group's ability to push for higher cost efficiency in a challenging macro environment, while the varying margin performance of different brands showed ANTA brand's weakness is not limited to growth. We currently project GPM, OPM, and NPM (to shareholders of the Company) to reach 61.3%, 22.5%, and 15.8% in FY23E.

Maintain BUY; TP at HK\$ 108.0. We believe the Group would continue to see stable margin performance despite that growth performance may experience volatility. Maintain **BUY**. Our DCF-derived TP is lower now due to the decrease of revenue and profit level forecasts. Current TP represents 29.26x/24.48x 23E/24E P/E, or 5.74x/5.07x 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	FY22E	FY23E	FY24E	FY25E
Revenue (RMB mn)	49,328	53,651	61,891	71,804	82,344
Chg (% YoY)	38.9	8.8	15.4	16.0	14.7
Net Profit (to shareholders of the Company) (RMB mn)	7,720	7,590	9,715	11,615	13,792
Chg (% YoY)	49.6	(1.7)	28.0	19.6	18.7
Basic EPS (RMB)	2.87	2.82	3.43	4.10	4.87
Chg (% YoY)	49.5	(1.7)	21.6	19.6	18.7
P/E (x)	28.40	28.90	23.76	19.88	16.74
BVPS (RMB)	10.70	12.68	17.50	19.80	22.58
P/B (x)	7.62	6.43	4.66	4.12	3.61
DPS(HK cent)	158	134	156	194	224
Yield (%)	1.9	1.5	1.8	2.2	2.6
ROAA (%)	14.4	12.5	12.8	12.8	14.5
ROAE (%)	29.2	24.0	23.1	22.0	23.0

Source(s): The Group, ABCI Securities estimates

Company Report Aug 25, 2023

Rating: **BUY**
TP: HK\$ 108.0

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Share price (HK\$)	87.70
52 wk High/Low (HK\$)	125.3/67.85
Est. share price return	23.1%
Est. dividend yield	1.8%
Est. total return	24.9%
Previous Rating&TP	BUY;HK\$112.0
Previous Report Date	Jul 20, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	248.42
3 mth days ADT (HK\$mn)	593.6
Shareholding (%)	
Anta International	42.4
Anda Holdings	5.7

Source(s): The Group, Bloomberg, HKEX

Share performance (%)

	Absolute	Relative*
1-mth	4.2	8.7
3-mth	2.5	8.8
6-mth	(16.0)	(5.5)

* 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 Aug 24, 2023
- RMB/HKD: 1.0761

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% +	20-25% +	75%-80%	70%-75%

Note: + = growth; - = decline

Source(s): the Group, ABCI Securities

Exhibit 2: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
Assumptions					
D/E (%)	28.9	22.5	27.9	22.5	
D/A (%)	16.7	13.6	15.3	13.1	Adjusted based on 1H23 figures
Tax rate (%)	27.4	27.4	27.4	27.4	
Valuations					
TP (HK\$)	108.0		112.0		
P/E (x)	29.26	24.48	29.74	24.68	Lower TP is mainly due to lower revenue and profit projection
P/B (x)	5.74	5.07	7.12	5.98	

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)	61,891	71,804	82,344	63,767	74,905	87,467	(2.94)	(4.14)	(5.86)
Net profit (to owners of the Company) (RMB mn)	9,715	11,615	13,792	9,822	11,838	14,293	(1.09)	(1.88)	(3.51)
EPS (RMB)	3.43	4.10	4.87	3.47	4.18	5.05	(1.09)	(1.88)	(3.51)

Note: previous report was published on Jul 20, 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	61,891	71,804	82,344
- ANTA brand	24,012	27,723	30,367	34,085	37,686
- FILA brand	21,822	21,523	25,029	29,065	33,648
- Other brands	3,494	4,405	6,495	8,653	11,010
COGS	(18,924)	(21,333)	(23,924)	(27,208)	(30,526)
Gross profit	30,404	32,318	37,967	44,596	51,818
Other net income/(loss)	1,266	2,128	2,047	2,355	2,897
S&D expenses	(17,753)	(19,629)	(22,053)	(25,486)	(29,397)
Admin expenses	(2,928)	(3,587)	(4,018)	(4,661)	(5,324)
Operating profit	10,989	11,230	13,942	16,804	19,994
Net finance income/(expense)	332	97	385	351	437
Share of gain/(loss) of JV	(81)	28	34	40	48
Pretax profit	11,240	11,355	14,361	17,195	20,479
Tax	(3,021)	(3,110)	(3,934)	(4,713)	(5,611)
Net profit	8,219	8,245	10,427	12,482	14,869
- Owners of the company	7,720	7,590	9,715	11,615	13,792
- Minority interest	499	655	712	867	1,077
Dividend	3,524	3,220	4,101	5,094	5,908
EPS (RMB)					
- Basic	2.87	2.82	3.43	4.10	4.87
- Diluted	2.81	2.76	3.43	4.10	4.87
DPS (HK cent)	158	134	156	194	224

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	26,798	29,418	26,483
Trade receivables	3,296	2,978	4,482	4,429	5,491
Inventory	7,644	8,490	8,637	10,558	11,083
Others	11,371	13,750	23,452	24,813	26,195
Current assets	39,903	42,596	63,370	69,219	69,253
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	2,756	3,297	3,454
Non-current assets	22,766	26,599	29,914	32,438	34,838
Total assets	62,669	69,195	93,283	101,657	104,092
Trade payables	3,146	2,750	4,234	4,144	3,349
ST borrowings	1,748	12,198	5,438	13,232	5,175
Others	11,049	11,259	13,025	14,454	15,065
Current liabilities	15,943	26,207	22,697	31,830	23,589
LT borrowings	11,425	492	10,099	551	640
Deferred tax liabilities	655	691	647	665	807
Others	2,982	3,966	6,012	7,395	8,879
Total non-current liabilities	15,062	5,149	16,758	8,612	10,326
Shareholders' equity	28,924	34,400	49,557	56,077	63,962
Minority interest	2,740	3,439	4,271	5,138	6,215
Total equity	31,664	37,839	53,828	61,216	70,177
Total liabilities and equity	62,669	69,195	93,283	101,657	104,092

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Pretax profit	11,240	11,355	14,361	17,195	20,479
Depreciation & amortization	3,266	4,464	4,508	5,146	5,809
Change in working capital	(282)	(1,598)	(397)	(487)	(2,802)
Others	(2,363)	(2,074)	(3,810)	(4,601)	(5,550)
Cash flow from operating activities	11,861	12,147	14,662	17,252	17,937
Change in PP&E	(779)	(974)	(732)	(767)	(752)
Others	(3,890)	(3,800)	(974)	(4,619)	(3,585)
Cash flow from investing activities	(4,669)	(4,774)	(1,706)	(5,386)	(4,337)
Change in borrowing	(196)	(1,403)	2,847	(1,754)	(7,969)
Dividend paid	(2,456)	(3,950)	(3,761)	(4,665)	(5,399)
Others	(2,295)	(2,488)	(2,737)	(3,010)	(3,312)
Cash flow from financing activities	(4,947)	(7,841)	(3,651)	(9,429)	(16,679)
Net change in cash	2,245	(468)	9,304	2,437	(3,079)
ForEx effect	24	254	116	183	144
Cash at the end of FY	17,592	17,378	26,798	29,418	26,483

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	15.4	16.0	14.7
- ANTA Brand	52.5	15.5	9.5	12.2	10.6
- FILA Brand	25.1	(1.4)	16.3	16.1	15.8
- Other brands	51.1	26.1	47.5	33.2	27.2
Gross profit	47.2	6.3	17.5	17.5	16.2
EBIT	20.1	2.2	24.2	20.5	19.0
Net profit (to owners of the company)	49.6	(1.7)	28.0	19.6	18.7
Profitability ratios (%)					
GPM	61.6	60.2	61.3	62.1	62.9
OPM	22.3	20.9	22.5	23.4	24.3
Pretax	22.8	21.2	23.2	23.9	24.9
NPM (to owners of the company)	15.7	14.1	15.7	16.2	16.7
Revenue contribution (%)					
- ANTA Brand	48.7	51.7	49.1	47.5	45.8
- FILA Brand	44.2	40.1	40.4	40.5	40.9
- Other brands	7.1	8.2	10.5	12.1	13.4
Return ratios (%)					
ROAA	14.4	12.5	12.8	12.8	14.5
ROAE	29.2	24.0	23.1	22.0	23.0
Liquidity ratio (x)					
Current ratio	2.5	1.6	2.8	2.2	2.9
Quick ratio	2.0	1.3	2.4	1.8	2.5
Cash ratio	1.5	1.1	2.0	1.6	2.0
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	28.9	22.5	8.3
Total debt/Total assets	21.0	18.3	16.7	13.6	5.6
Net cash/Equity	(36.0)	(39.6)	(54.6)	(58.8)	(58.2)
Net cash/Total assets	(18.2)	(21.7)	(31.5)	(35.4)	(39.2)

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 -10%) \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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