

Anta Sports (2020 HK) Growth outlook to face uncertainty

- Growth outlook to face uncertainty due to macroeconomic condition, despite 4Q23 retail sales growth performance
- Amer Sports, which was acquired by the Group in 2019, announced plan to list in the US; IPO proceed is mainly for repaying all outstanding borrowings under its existing shareholder loans; growth outlook and profitability of Amer Sports are our major concerns going forward based the F-1 form filing
- Maintain **BUY**; TP implies 25.03x/22.50x 23E/24E P/E, or 4.82x/4.25x 23E/24E P/B

Growth outlook to face uncertainty. In terms of retail sales, the Group registered high-teens, 25-30%, and 55-60% YoY growth in 4Q23 and high-single digit, high-teens, and 60-65% YoY growth in FY23 for ANTA brand, FILA brand, and all other brands, respectively. Amer Sports, which is not consolidated in the Group's financial, saw revenue growth reached 29.9% YoY in 9M23 and 35.3% YoY in 3Q23 according to F-1 form. We believe the Group's leading position, execution of growth strategy, and improving channel management were the major contributor to the FY23 growth performance. However, we believe consumer behavior has turned more conservative and value conscious amid uncertainty in income growth prospect, which is reflected in the per capita disposable income growth dropping from 8.4% YoY in 2Q23 to 5.9% YoY in 3Q23, according to NBS. The sportswear industry would also be impacted as well. Once the macroeconomic condition improves and income growth trajectory is boosted, we believe overall consumption would pick up and sportswear industry would also be benefited. We lower our revenue growth projection for FY24E and FY25E to 13.1% YoY and 13.0% YoY, mainly due to the current macroeconomic condition. We also expect the competitive landscape in the sportswear industry to intensify due to consumers' value-conscious purchasing behavior, and raise S&D expense-to-revenue ratio accordingly.

Amer Sports' IPO to help improve the Group financial performance. Amer Sports, which was acquired by the Group in 2019, announced filing of registration statement on Form F-1 for a proposed IPO with the SEC. According to the Form F-1, Amer Sports intended to use the net proceeds from the IPO to mainly repay all outstanding borrowings under its existing shareholder loans after giving effect to the Equitization. We believe the successful listing and repayment of borrowings would help reduce the financial costs for the Group given the high interest-rate environment. However, we are concerned with the growth prospect of Amer Sports, as global athletic apparel market and global athletic footwear market are expected to register 6.4% 2022-27E CAGR and 6.8% 2022-27E CAGR, according to Euromonitor International data cited by the F-1 Form. In addition, the F-1 form shows it recorded net loss from 2020 to 9M23, which we believe can be attributed to the fact that compared to the Group, it has relatively low GPM while operating expenses-to-revenue ratio has been at similar levels.

Maintain BUY; TP at HK\$ 93.4. We believe the Group's leading position and execution capability would continue to support growth, despite macroeconomic challenges. Maintain **BUY**. We lower our DCF-derived TP (WAC:20.09%; terminal growth: 5%) to reflect lower revenue and profit projections. Current TP represents 25.03x/22.50x 23E/24E P/E, or 4.82x/4.25x 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) Intensifying competition in the market; 7) Fluctuations in EPS and DPS growth.

Results and Valuation

As of Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	49,328	53,651	62,488	70,762	80,225
Chg (% YoY)	38.9	8.8	16.5	13.2	13.4
Net Profit ⁽³⁾ (RMB mn)	7,720	7,590	9,707	10,798	12,742
Chg (% YoY)	49.6	(1.7)	27.9	11.2	18.0
Basic EPS (RMB)	2.87	2.82	3.43	3.81	4.50
Chg (% YoY)	49.5	(1.7)	21.5	11.2	18.0
P/E (x)	22.82	23.23	19.11	17.18	14.56
BVPS (RMB)	10.70	12.68	17.80	20.17	22.99
P/B (x)	6.12	5.17	3.68	3.25	2.85
DPS(HK cent)	158	134	157	182	210
Yield (%)	2.2	1.9	2.2	2.6	2.9
ROAA (%)	14.4	12.5	12.7	11.8	13.3
ROAE (%)	29.2	24.0	22.9	20.1	20.8

Source(s): The Group, ABCI Securities estimates

Company Report Jan 11, 2024 Rating: BUY TP: HK\$ 93.4

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Share price (HK\$)	71.3
52 wk High/Low (HK\$)	125.3/68
Est. share price return	30.9%
Est. dividend yield	2.2%
Est. total return	33.1%
Previous Rating & TP	BUY; HK\$108.0
Previous Report Date	Oct 18, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	201.97
3 mth days ADT (HK\$mn)	567.50
Shareholding (%)	
Anta International	44.43
Anda Holdings	5.95

Source(s): The Group, Bloomberg, HKEX

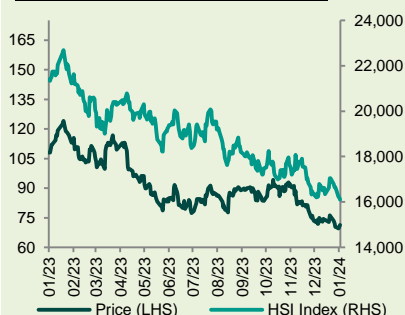
Share performance (%)

	Absolute	Relative*
1-mth	(2.9)	(1.4)
3-mth	(16.4)	(8.3)
6-mth	(7.8)	4.6

* 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 Jan 10, 2024
- 2) RMB/HKD: 1.0886
- 3) refers to net profit attributable to shareholders of the Company

Exhibit 1: Quarterly retail sales YoY change

Brand	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
ANTA	high-teens +	mid-single digit -	mid-single digit +	high-single digit -	mid-single digit +	high-single digit +	high-single digit +	high-teens +
FILA	mid-single digit +	high-single digit -	low teens +	low teens -	high-single digit +	high-teens +	low teens +	25-30% +
Others	40-45% +	20-25% +	40-45% +	20-25%+	75%-80%+	70%-75%+	45-50% +	55-60% +

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	28.9	22.5	N/A
D/A (%)	16.7	13.6	16.7	13.6	
Tax rate (%)	27.4	27.4	27.4	27.4	
Valuations					
TP (HK\$)	93.4		108.0		TP is lower due to lower revenue and profit projections
P/E (x)	25.03	22.50	29.48	24.66	
P/B (x)	4.82	4.25	5.78	5.11	

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)	62,488	70,762	80,225	61,891	71,804	82,344	1.0	(1.5)	(2.6)
Net profit (to owners of the Company) (RMB mn)	9,707	10,798	12,742	9,715	11,615	13,792	(0.1)	(7.0)	(7.6)
EPS (RMB)	3.43	3.81	4.50	3.43	4.10	4.87	(0.1)	(7.0)	(7.6)

Note: previous report was published on Oct 18, 2023

Source(s): ABCI Securities estimates

Exhibit 4: Amer Sports revenue

	2020	2021	2022	9M22	9M23	2021	2022	9M23
	Revenue (US\$m)					Chg (YoY %)		
By product categories								
Technical Apparel	685.4	950.7	1,095.5	658.8	1,042.7	38.7	15.2	58.3
Outdoor Performance	1,091.6	1,235.7	1,416.5	902.8	1,144.4	13.2	14.6	26.8
Ball & Racquet Sports	669.3	880.1	1,036.7	788.5	866.3	31.5	17.8	9.9
Selected brands								
Arc'teryx	547.7	783.1	952.6	569.4	941.2	43.0	21.6	65.3
Peak Performance	137.7	167.6	142.9	89.3	101.5	21.7	-14.7	13.7
Salomon	852.1	961.2	1,073.5	705.5	949.3	12.8	11.7	34.6
Atomic	194.6	218.5	286.0	156.9	160.7	12.3	30.9	2.4
Others (Armada and ENVE)	44.9	56.0	57.0	40.4	34.3	24.7	1.8	-15.1

Source(s): Amer Sports F-1 form, ABCI Securities

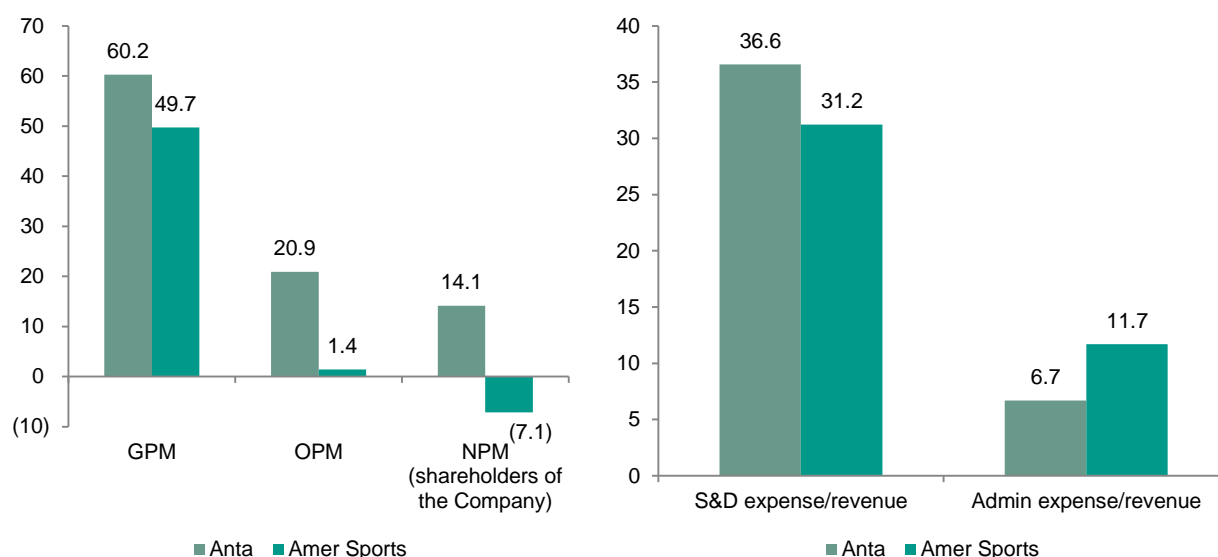
Exhibit 5: Profitability of Amer Sports (%)

	2020	2021	2022	9M22	9M23
GPM	47.0	49.1	49.7	49.4	52.2
OPM	5.1	6.1	1.4	4.6	7.9
EBITDA margin	11.5	12.7	6.4	10.0	13.1
Adj EBITDA margin	12.7	13.6	12.8	11.1	13.8
NPM (shareholders of the Company)	(9.7)	(4.1)	(7.1)	(4.4)	(3.8)
S&D expense/revenue	30.0	31.4	31.2	32.1	31.3
Admin expense/revenue	11.3	11.9	11.7	12.8	12.8

Note: Adj EBITDA is EBITDA adjusted for the effects of loss from discontinued operations, restructuring expenses, impairment losses on goodwill and intangible assets, expenses related to M&A activities, expenses related to certain legal proceedings, and share-based payments

Source(s): Amer Sports F-1 form, ABCI Securities

Exhibit 6: Profitability comparison – FY22 (%)



Source(s): Amer Sports F-1 form, the Group ABCI Securities

Exhibit 7: Interest-bearing liabilities of Amer Sports

	2020	2021	2022	9M23
Total (US\$ mn)	6,985.5	6,295.5	6,236.0	6,438.9
Loans from financial institutions (US\$ mn)	2,359.6	1,896.2	1,965.5	2,116.8
Loans from related parties (US\$ mn)	4,364.9	4,139.8	4,039.0	4,012.8 ⁽¹⁾
Lease liabilities (US\$ mn)	261.0	224.7	196.5	259.4
Other interest-bearing liabilities (US\$ mn)	0.0	34.8	35.0	50.0

Interest-bearing liabilities/total assets (%) 81.0 79.2 79.0 79.0

Note: Shareholder loans include JVCo Loan 1 US\$ 2.6bn, JVCo Loan 2 US\$ 1.4bn, Co-Invest Loan 1 US\$ 7.5mn, and Co-Invest Loan 2 US\$ 3.9mn

Source(s): Amer Sports F-1 form, ABCI Securities

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	62,488	70,762	80,225
- ANTA brand	24,012	27,723	30,367	33,023	36,012
- FILA brand	21,822	21,523	25,029	28,915	33,387
- Other brands	3,494	4,405	7,093	8,823	10,826
COGS	(18,924)	(21,333)	(24,086)	(26,691)	(29,826)
Gross profit	30,404	32,318	38,402	44,071	50,399
Other net income/(loss)	1,266	2,128	2,067	2,321	2,822
S&D expenses	(17,753)	(19,629)	(22,504)	(26,228)	(29,619)
Admin expenses	(2,928)	(3,587)	(4,057)	(4,594)	(5,187)
Operating profit	10,989	11,230	13,908	15,571	18,415
Net finance income/(expense)	332	97	407	375	457
Share of gain/(loss) of JV	(81)	28	34	40	48
Pretax profit	11,240	11,355	14,348	15,986	18,920
Tax	(3,021)	(3,110)	(3,930)	(4,382)	(5,183)
Net profit	8,219	8,245	10,418	11,604	13,737
- Owners of the company	7,720	7,590	9,707	10,798	12,742
- Minority interest	499	655	711	806	995
Dividend	3,524	3,220	4,097	4,736	5,458
EPS (RMB)					
- Basic	2.87	2.82	3.43	3.81	4.50
- Diluted	2.81	2.76	3.43	3.81	4.50
DPS (HK cent)	158	134	157	182	210

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	27,811	29,946	27,110
Trade receivables	3,296	2,978	4,554	3,785	5,752
Inventory	7,644	8,490	8,753	12,674	10,044
Others	11,371	13,750	24,209	24,983	26,635
Current assets	39,903	42,596	65,327	71,388	69,542
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	672	704	736
Investment in JV	9,027	9,343	9,563	9,795	10,039
Others	1,818	2,987	2,801	3,136	3,414
Non-current assets	22,766	26,599	29,157	31,523	34,104
Total assets	62,669	69,195	94,484	102,911	103,646
Trade payables	3,146	2,750	4,315	4,490	2,073
ST borrowings	1,748	12,198	5,526	13,446	5,251
Others	11,049	11,259	13,022	14,194	14,840
Current liabilities	15,943	26,207	22,863	32,130	22,164
LT borrowings	11,425	492	10,263	560	649
Deferred tax liabilities	655	691	646	618	746
Others	2,982	3,966	6,012	7,395	8,879
Total non-current liabilities	15,062	5,149	16,922	8,574	10,274
Shareholders' equity	28,924	34,400	50,430	57,130	65,136
Minority interest	2,740	3,439	4,270	5,077	6,071
Total equity	31,664	37,839	54,700	62,207	71,207
Total liabilities and equity	62,669	69,195	94,484	102,911	103,646

Note: items may not sum up due to rounding; we assume no exchange of shares upon convertible bond maturity

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	14,348	15,986	18,920
Depreciation & amortization	3,266	4,464	4,488	5,118	5,777
Change in working capital	(282)	(1,598)	(578)	(1,348)	(2,248)
Others	(2,363)	(2,074)	(3,803)	(4,269)	(5,119)
Cash flow from operating activities	11,861	12,147	14,456	15,486	17,330
Change in PP&E	(779)	(974)	(732)	(767)	(752)
Others	(3,890)	(3,800)	(10)	(3,637)	(3,153)
Cash flow from investing activities	(4,669)	(4,774)	(742)	(4,404)	(3,905)
Change in borrowing	(196)	(1,403)	3,099	(1,782)	(8,106)
Dividend paid	(2,456)	(3,950)	(3,758)	(4,337)	(4,988)
Others	(2,295)	(2,488)	(2,737)	(3,010)	(3,312)
Cash flow from financing activities	(4,947)	(7,841)	(3,396)	(9,130)	(16,406)
Net change in cash	2,245	(468)	10,317	1,952	(2,980)
Forex effect	24	254	116	183	144
Cash at the end of FY	17,592	17,378	27,811	29,946	27,110

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	16.5	13.2	13.4
- ANTA Brand	52.5	15.5	9.5	8.7	9.1
- FILA Brand	25.1	(1.4)	16.3	15.5	15.5
- Other brands	51.1	26.1	61.0	24.4	22.7
Gross profit	47.2	6.3	18.8	14.8	14.4
EBIT	20.1	2.2	23.8	12.0	18.3
Net profit (to owners of the company)	49.6	(1.7)	27.9	11.2	18.0
Profitability ratios (%)					
GPM	61.6	60.2	61.5	62.3	62.8
OPM	22.3	20.9	22.3	22.0	23.0
Pretax	22.8	21.2	23.0	22.6	23.6
NPM (to owners of the company)	15.7	14.1	15.5	15.3	15.9
Revenue contribution (%)					
- ANTA Brand	48.7	51.7	48.6	46.7	44.9
- FILA Brand	44.2	40.1	40.1	40.9	41.6
- Other brands	7.1	8.2	11.4	12.5	13.5
Return ratios (%)					
ROAA	14.4	12.5	12.7	11.8	13.3
ROAE	29.2	24.0	22.9	20.1	20.8
Liquidity ratio (x)					
Current ratio	2.5	1.6	2.9	2.2	3.1
Quick ratio	2.0	1.3	2.5	1.8	2.7
Cash ratio	1.5	1.1	2.0	1.6	2.2
Cash conversion cycle (days)					
Days of outstanding receivable	26	21	22	22	22
Days of inventory on hand	127	132	131	147	139
Days of outstanding payable	53	53	53	52	44
CCC	99	100	100	116	117
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	5.7
Net cash/Equity	(36.0)	(39.6)	(56.4)	(58.9)	(58.8)
Net cash/Total assets	(18.2)	(21.7)	(32.6)	(35.6)	(40.4)

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 ($\sim 7\%$)
Hold	- Market return ($\sim 7\%$) \leq Stock return $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (HSI total return index 2005-23 averaged at 7.4%)

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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