

Anta Sports (2020 HK) Multi-brand strategy to spur growth

- FY23E-26E development strategy and growth targets were presented during Investor Day event; in FY23E-26E, ANTA and FILA brand are expected to achieve retail sales CAGRs of 10-15%; targeted retail sales CAGR of DESCENTE is 20-25%; and targeted retail sales CAGR of KOLON is 30-35%
- Recent acquisition of MAIA ACTIVE would help fill in the gap in yoga active wear
- 3Q23 retail sales growth remained steady amid macro challenges, showing the Group's solid ability to generate growth
- Maintain **BUY**; current TP implies 29.48x/24.66x 23E/24E P/E, or 5.78x/5.11x 23E/24E P/B

Future strategy laid out. The Group hosted an Investor Day event on Oct 17 laying out future plans and targets. Multi-brand strategy will be maintained to capture diverse consumer demand, with different positioning for each brand. It will increase international presence by leveraging the brands of AMER Sports and expand into the SE Asian market. In FY23E-26E, the targeted retail sales CAGRs for ANTA and FILA are at 10-15%; DESCENTE retail sales CAGR target is 20-25%; KOLON retail sales CAGR target is 30-35%. DESCENTE is also expected to achieve RMB 10bn retail sales by FY26E. The growth targets are in line with our previous expectations and we believe they can be achieved with the strong management team and development strategy in place.

Acquisition of MAIA ACTIVE to boost brand portfolio. Complementing the Group's multi-brand strategy, the Group announced the acquisition of 75.13% of equity stakes in MAIA ACTIVE. Based in Shanghai, the brand was founded in 2016 and focuses on female active wear for Asia region with a specialization in yoga active wear. Asian fitting, fashionable design, and innovative fabrics are the brand's main features. As the Group currently does not have any brand that focuses on yoga active wear, the acquisition would help broaden product range and strengthen its brand portfolio.

Steady growth in 3Q23. In 3Q23, ANTA brand, FILA brand, and all other brands recorded high-single-digit, low-teens, and 45-50% YoY retail sales growth. Considering 3Q22 was not a weak quarter and a relatively subdued macroeconomic environment in 3Q23, we believe the Group's ability to generate growth sustain the growth momentum. We expect 4Q23 retail sales growth will likely be boosted by the low base in 4Q22 and the Group's ability to generate growth.

Maintain BUY; TP at HK\$ 108.0. We believe the Group would benefit from the rising health awareness and the resulting demand for sports apparel products. Its multi-brand strategy has been successful and solidifies the Group's leading position. However, the challenging macro environment and the weakened consumer market may dampen the Group's momentum, especially for the premium brands. We project FY23E revenue growth to be 15.4% YoY. FY23E revenue growth of ANTA, FILA, and all other brands would be 9.5% YoY, 16.3% YoY, and 47.5% YoY. FY22-25E revenue CAGR would be 15.3%. Current TP represents 29.48x/24.66x 23E/24E P/E, or 5.78x/5.11x 23E/24E P/B. Our TP is unchanged due to the same revenue and profit projections as previous report.

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

As of 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 ⁽³⁾ (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)	29.67	30.20	24.83	20.77	17.49
BVPS (RMB)	10.70	12.68	17.50	19.80	22.58
P/B (x)	7.96	6.72	4.87	4.30	3.77
DPS (HK cent)	158	134	155	192	223
Yield (%)	1.7	1.5	1.7	2.1	2.4
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 Oct 18, 2023

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

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Share price (HK\$)	90.95
52 wk High/Low (HK\$)	125.3/67.85
Est. share price return	18.7%
Est. dividend yield	1.7%
Est. total return	20.4%
Previous Rating & TP	BUY; HK\$108.0
Previous Report Date	Aug 25, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.8
Mkt cap (HK\$ bn)	257.63
3 mth days ADT (HK\$mn)	543.3
Shareholding (%)	
Anta International	44.43
Anda Holdings	5.95

Source(s): The Group, Bloomberg, HKEX

Share performance (%)

	Absolute	Relative*
1-mth	1.0	3.3
3-mth	7.6	16.1
6-mth	(19.6)	(6.5)

* 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 Oct 17, 2023
- RMB/HKD: 1.0681
- refers to net profit attributable to shareholders of the Company)



Exhibit 1: Quarterly retail sales YoY change

Brand	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
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 +	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 +	low teens +
Others	115-120% +	70-75% +	35-40% +	30-35% +	40-45% +	20-25% +	40-45% +	20-25% +	75%-80% +	70%-75% +	45-50% +

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	
D/A (%)	16.7	13.6	16.7	13.6	N/A
Tax rate (%)	27.4	27.4	27.4	27.4	
Valuations					
TP (HK\$)	108.0		108.0		TP is unchanged due to revenue and profit
P/E (x)	29.48	24.66	29.26	24.48	projections remain the same as previous
P/B (x)	5.78	5.11	5.74	5.07	report

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	61,891	71,804	82,344	0.00	0.00	0.00
Net profit (to owners of the Company) (RMB mn)	9,715	11,615	13,792	9,715	11,615	13,792	0.00	0.00	0.00
EPS (RMB)	3.43	4.10	4.87	3.43	4.10	4.87	0.00	0.00	0.00

Note: previous report was published on Aug 25, 2023

Source(s): ABCI Securities estimates

Exhibit 4: Growth targets and strategy for major brands

Brand	FY23-26E retail sales growth targets	Development strategy
ANTA	FY26E retail sales target: RMB 60bn FY23E-26E retail sales CAGR: 10-15%	Positioning: Mass-market brand Action Plan for the Next 12 Months <ul style="list-style-type: none"> ➢ Further develop channel matrix into various levels, including elementary level, standard level, elite level, prestigious level, and arena level ➢ Integrate brand resources, product IP and channel in product category development ➢ Breakthroughs in the field of performance sports and brand upgrade ➢ Focus on breakthroughs in core categories of running and basketball ➢ Increase investment in innovation and digitalization to strengthen product's cost-effectiveness and enhance end-user experience
FILA	FY23E-26E retail sales target: RMB 40-50bn FY23E-26E retail sales CAGR: 10-15%	Positioning: premium athletic leisure brand Action Plan for the Next 12 Months <ul style="list-style-type: none"> ➢ Three TOPS strategies – Top marketing, Top products, and Top channels Strengthening high-end brand perception Engaging elite customer base ➢ Consumer interaction Enhancing efficiency for existing customers Expanding to attract new potential customers ➢ Breakthrough in categories Strengthening fashion sense Seizing emerging opportunities ➢ Retail excellence Adhering to Brand + Retail operations Bolstering differentiation of multiple channels
DESCENTE	FY26E retail sales target: RMB 10bn FY23E-26E retail sales CAGR: 20-25%	Positioning: premium and top-quality functional sportswear brand Action Plan for the Next 12 Months <ul style="list-style-type: none"> ➢ Three key focuses Leading brand awareness in specific sports Continuous iteration of functional sportswear Stronghold at functional sportswear community ➢ High-quality products Continuous innovation and quality upgrade Leverage global R&D and design resources ➢ Retail Excellence Elevate premium experience Delicacy management in membership program Enhance service for end-customers
KOLON	FY23E-26E retail sales CAGR: 30-35%	Positioning: premium, quality outdoor, lifestyle brand Action Plan for the Next 12 Months <ul style="list-style-type: none"> ➢ Product Breakthrough Embark on the era of waterproof jackets Revitalize camping aesthetics Footwear surges from “1” to “n” ➢ Territory to the new Scale presence in emerging markets Expedite brand's transformation and upgrade ➢ Culture Cultivation Evolution of brand communities

Source(s): the Group, 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	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	155	192	223

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 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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