

# Anta Sports (2020 HK)

## Solid profitability and promising guidance

Maintain BUY and raised TP to HK\$ 101.84, based on 32x FY21E P/E (up from 30x given a promising outlook). We are highly confident for a post pandemic turnaround following an impressive GP and OP margin 1H20 and a more encouraging sales and inventory guidance in 2H20E. Investors might be skeptical, but we believe the fact that Anta is ready to take on the more challenging direct retail business is a midterm positive sign. Therefore we believe current valuation of 27x FY21E P/E is still attractive, vs Li Ning/ Nike/ Adidas's 35x/ 34x/ 29x.

- **Solid GP margin and operating income in 1H20.** Even though the 27% net profit drop was in line with profit warning, Anta group (mainly Anta, FILA and Descente) delivered a solid beat on GP margin (up 0.7ppt YoY to 56.8%, beat CMBI est. by 5.8ppt) and operating profit (fell only by 15% YoY, beat CMBI est. by 20%) plus slightly higher-than-expected losses from Amer.
- **Retail sales improved in Jul- Aug 2020 and guidance (on both retail sales and inventory) turned more positive.** Mgmt. mentioned retail sales growth in Jul-Aug 2020 is slightly better than 2Q20 and is confident on achieving 20%+/ 5% growth for FILA/ Anta in 2H20E. Provided no virus outbreak again, a faster growth in FY21E is highly likely. Moreover, since the primary KPI is now "healthiness" of the brands, mgmt. is now targeting its whole channel inventory to reach a lower than FY19's level by FY20E.
- **Launched the Direct to Customer ("DTC") transformation.** As part of the plan to grow its DTC business to ~70% of group sales by 2025, the Group is now restructuring the ownership of 3,500 Anta branded offline stores, located in 11 regions in China (Shanghai, Guangdong, Zhejiang, Chongqing, etc). ~2,100 (60% of those) distributor stores will be sold to the Group for a consideration of RMB 2.0bn, while ~1,400 franchised stores will remain largely unchanged. As a result, ~RMB 1.0bn of sales and ~RMB 200mn operating profit will be cancelled in FY20E, but would become accretive for FY21E given more direct sales and profit. Also, thanks to this flattening, Anta's wholesale discount can be reduced and hence benefiting its GP margin in FY21E-22E.
- **Amer performance in 1H20 was also resilient.** Despite a slightly greater JV losses vs 1H19, Amer's sales in 1H20 only fell by ~20%, better than mgmt.'s expectation of ~30%, while the cost control was also effective. Moreover, mgmt. is optimistic on the turnaround given an earlier-than-expected re-opening of offline stores and hence forecasting at least a breakeven for 2H20E.
- **Maintain BUY and raised TP to HK\$ 101.84.** We revised up our FY20E/ 21E/ 22E diluted EPS estimates by 3%/ 3%/ 4%, to factor in: 1) DTC transformation and 2) robust profitability. We maintain BUY and lifted TP to HK\$ 101.84, based on 32x FY21E P/E (up from 30x). The valuation is justifiable at 27x FY21E P/E, given a 22% NP CAGR during FY19-22E.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	24,100	33,928	36,030	44,331	51,789
YoY growth (%)	44.4	40.8	6.2	23.0	16.8
Net income (RMB mn)	4,103	5,344	5,359	7,809	9,793
EPS (RMB)	1.525	1.917	1.922	2.801	3.512
YoY growth (%)	32.8	25.7	0.3	45.7	25.4
Consensus EPS (RMB)	n/a	n/a	2.003	2.844	3.567
P/E (x)	50.2	39.9	39.8	27.3	21.8
P/B (x)	13.0	10.3	8.6	7.2	6.2
Yield (%)	0.9	0.8	0.7	2.3	2.9
ROE (%)	27.8	29.8	24.4	29.7	31.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$101.84**  
 (Previous TP **HK\$92.78**)  
 Up/Downside **+17.1%**  
 Current Price **HK\$86.95**

### China Sportswear Sector

#### Walter Woo

(852) 3761 8776

walterwoo@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	235,027
Avg 3 mths t/o (HK\$ mn)	611.48
52w High/Low (HK\$)	88.15/42.0
Total Issued Shares (mn)	2,703.0

Source: Bloomberg

#### Shareholding Structure

Mr. Ding Shizhong (CEO), Mr. Ding Shijia (V-Chairman), Mr. Lai Shixian (CFO) & Family	61.06%
Free Float	38.94%

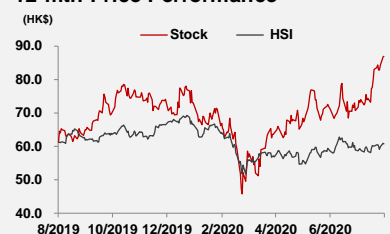
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	22.9%	19.1%
3-mth	30.7%	17.7%
6-mth	30.0%	37.1%
12-mth	40.0%	43.8%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

#### Related Reports

1. Anta Sports (2020 HK, BUY) - Prudent guidance as inventory issue lingers – 16 Jul 2020
2. Anta Sports (2020 HK, BUY) - Expecting a strong 2Q, driven by e-commerce – 10 Jul 2020
3. Anta Sports (2020 HK, BUY) - Strong beat in 1Q and likely turnaround in 2Q – 25 Apr 2020

## Results Preview

Figure 1: Results summary – Half Year

Half yearly (Rmb mn)	1H19	2H19	1H20	2H20E	1H19 YoY	2H19 YoY	1H20 YoY	2H20 E YoY	1H20E CMBIS	Actual vs CMBIS
<b>Revenue</b>	<b>14,811</b>	<b>19,117</b>	<b>14,669</b>	<b>21,361</b>	<b>40%</b>	<b>41%</b>	<b>-1%</b>	<b>12%</b>	<b>14,850</b>	<b>-1%</b>
COGS	(6,509)	(8,760)	(6,330)	(9,487)					(7,267)	
<b>Gross profit</b>	<b>8,302</b>	<b>10,357</b>	<b>8,339</b>	<b>11,874</b>	<b>45%</b>	<b>49%</b>	<b>0%</b>	<b>15%</b>	<b>7,583</b>	<b>10%</b>
<b>GP margins</b>	<b>56.1%</b>	<b>54.2%</b>	<b>56.8%</b>	<b>55.6%</b>					<b>51.1%</b>	
Other income & gains	538	531	710	594					446	59%
S & D expenses	(4,123)	(5,598)	(4,395)	(6,371)	49%	49%	7%	14%	(4,466)	-2%
<b>S &amp; D exp / sales</b>	<b>-27.8%</b>	<b>-29.3%</b>	<b>-30.0%</b>	<b>-29.8%</b>					<b>-30.1%</b>	
Admin expenses	(460)	(853)	(1,050)	(1,155)	-11%	21%	128%	35%	(552)	90%
<b>Admin exp / sales</b>	<b>-3.1%</b>	<b>-4.5%</b>	<b>-7.2%</b>	<b>-5.4%</b>					<b>-3.7%</b>	
Other opex	0	0	0	0					0	
<b>Operating profit (EBIT)</b>	<b>4,257</b>	<b>4,437</b>	<b>3,604</b>	<b>4,943</b>	<b>58%</b>	<b>47%</b>	<b>-15%</b>	<b>11%</b>	<b>3,010</b>	<b>20%</b>
<b>OP margins</b>	<b>28.7%</b>	<b>23.2%</b>	<b>24.6%</b>	<b>23.1%</b>					<b>20.3%</b>	
Other items	0	0	0	0					0	
Net finance income	9	(62)	(65)	(85)					(45)	46%
<b>Net finance income / sales</b>	<b>0.1%</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>-0.4%</b>					<b>-0.3%</b>	
Profit after financing costs	4,267	4,375	3,539	4,858					2,966	
Associated coms	0	0	0	0					0	
Jointly controlled coms	(719)	86	(719)	75					(550)	31%
<b>Pre-tax profit</b>	<b>3,548</b>	<b>4,461</b>	<b>2,820</b>	<b>4,933</b>	<b>28%</b>	<b>48%</b>	<b>-21%</b>	<b>11%</b>	<b>2,416</b>	<b>17%</b>
Tax	(1,193)	(1,192)	(1,040)	(1,131)					(713)	
<b>Tax / sales</b>	<b>-8.1%</b>	<b>-6.2%</b>	<b>-7.1%</b>	<b>-5.3%</b>					<b>-4.8%</b>	
<b>Effective tax rate</b>	<b>-33.6%</b>	<b>-26.7%</b>	<b>-36.9%</b>	<b>-22.9%</b>					<b>-29.5%</b>	
Minority interests	99	181	122	101					60	105%
<b>Net profit att.</b>	<b>2,256</b>	<b>3,088</b>	<b>1,658</b>	<b>3,701</b>	<b>16%</b>	<b>43%</b>	<b>-27%</b>	<b>20%</b>	<b>1,643</b>	<b>1%</b>
<b>NP margins</b>	<b>15.2%</b>	<b>16.2%</b>	<b>11.3%</b>	<b>17.3%</b>					<b>11.1%</b>	
<b>Sales</b>										
Anta	7,590	9,860	6,777	10,042	18%	25%	-11%	2%	7,112	-5%
FILA	7,221	9,257	7,892	11,319	75%	64%	9%	22%	7,738	2%
<b>GP margins</b>										
Anta	42.5%	40.3%	41.6%	40.4%					37.9%	3.7ppt
FILA	71.5%	69.5%	70.5%	69.7%					64.0%	6.5ppt
<b>OP margins</b>										
Anta	32.2%	23.2%	26.8%	22.9%					24.9%	1.9ppt
FILA	29.0%	25.9%	24.7%	25.7%					18.0%	6.7ppt

Source: Company data, CMBIS estimates

Figure 2: Results preview - Full Year

Full yearly (RMB mn)	FY18	FY19	FY20E	FY21E	FY19 YoY	FY20E YoY	FY21E YoY
Revenue	24,100	33,928	36,030	44,331	41%	6%	23%
COGS	(11,413)	(15,269)	(15,817)	(18,708)			
Gross profit	12,687	18,659	20,213	25,623	47%	8%	27%
<b>GP margins</b>	<b>52.6%</b>	<b>55.0%</b>	<b>56.1%</b>	<b>57.8%</b>			
Other income & gains	760	1,070	1,304	1,640			
S & D expenses	(6,525)	(9,721)	(10,766)	(13,382)	49%	11%	24%
<b>S &amp; D exp / sales</b>	<b>-27.1%</b>	<b>-28.7%</b>	<b>-29.9%</b>	<b>-30.2%</b>			
Admin expenses	(1,223)	(1,313)	(2,205)	(2,549)	7%	68%	16%
<b>Admin exp / sales</b>	<b>-5.1%</b>	<b>-3.9%</b>	<b>-6.1%</b>	<b>-5.7%</b>			
Other opex	0	0	0	0			
Operating profit (EBIT)	5,700	8,695	8,547	11,332	53%	-2%	33%
<b>OP margins</b>	<b>23.7%</b>	<b>25.6%</b>	<b>23.7%</b>	<b>25.6%</b>			
Other items	0	0	0	0			
Net finance income	68	(53)	(150)	(14)			
<b>Net fin. income / sales</b>	<b>0.3%</b>	<b>-0.2%</b>	<b>-0.4%</b>	<b>0.0%</b>			
Profit after financing costs	5,767	8,642	8,397	11,318			
Associated coms	0	0	0	0			
Jointly controlled coms	0	(633)	(644)	(175)			
Pre-tax profit	5,767	8,008	7,753	11,142	39%	-3%	44%
Tax	(1,533)	(2,384)	(2,171)	(3,008)			
<b>Tax / sales</b>	<b>-6.4%</b>	<b>-7.0%</b>	<b>-6.0%</b>	<b>-6.8%</b>			
<b>Effective tax rate</b>	<b>-26.6%</b>	<b>-29.8%</b>	<b>-28.0%</b>	<b>-27.0%</b>			
Minority interests	131	280	223	325			
<b>Net profit att.</b>	<b>4,103</b>	<b>5,344</b>	<b>5,359</b>	<b>7,809</b>	<b>30%</b>	<b>0%</b>	<b>46%</b>
<b>NP margins</b>	<b>17.0%</b>	<b>15.8%</b>	<b>14.9%</b>	<b>17.6%</b>			
<b>Sales</b>							
Anta	14,321	17,450	16,819	20,317	22%	-4%	21%
FILA	9,779	16,478	19,211	24,014	69%	17%	25%
<b>GP margins</b>							
Anta	42.0%	41.3%	40.9%	42.9%			
FILA	69.9%	70.4%	70.0%	71.0%			
<b>OP margins</b>							
Anta	25.9%	27.1%	24.5%	26.6%			
FILA	25.3%	27.2%	25.3%	27.0%			

Source: Company data, CMBIS estimates

## Earnings revision

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	36,030	44,331	51,789	36,831	44,906	52,399	-2.2%	-1.3%	-1.2%
Gross profit	20,213	25,623	30,414	19,456	24,757	29,288	3.9%	3.5%	3.8%
EBIT	8,410	11,252	13,552	8,230	10,925	13,029	2.2%	3.0%	4.0%
Reported Net profit	5,359	7,809	9,793	5,230	7,588	9,408	2.5%	2.9%	4.1%
Diluted EPS (RMB)	1.922	2.801	3.512	1.876	2.722	3.374	2.5%	2.9%	4.1%
Gross margin	56.1%	57.8%	58.7%	52.8%	55.1%	55.9%	3.3ppt	2.7ppt	2.8ppt
EBIT margin	23.3%	25.4%	26.2%	22.3%	24.3%	24.9%	1ppt	1.1ppt	1.3ppt
Net profit att. margin	14.9%	17.6%	18.9%	14.2%	16.9%	18.0%	0.7ppt	0.7ppt	1ppt

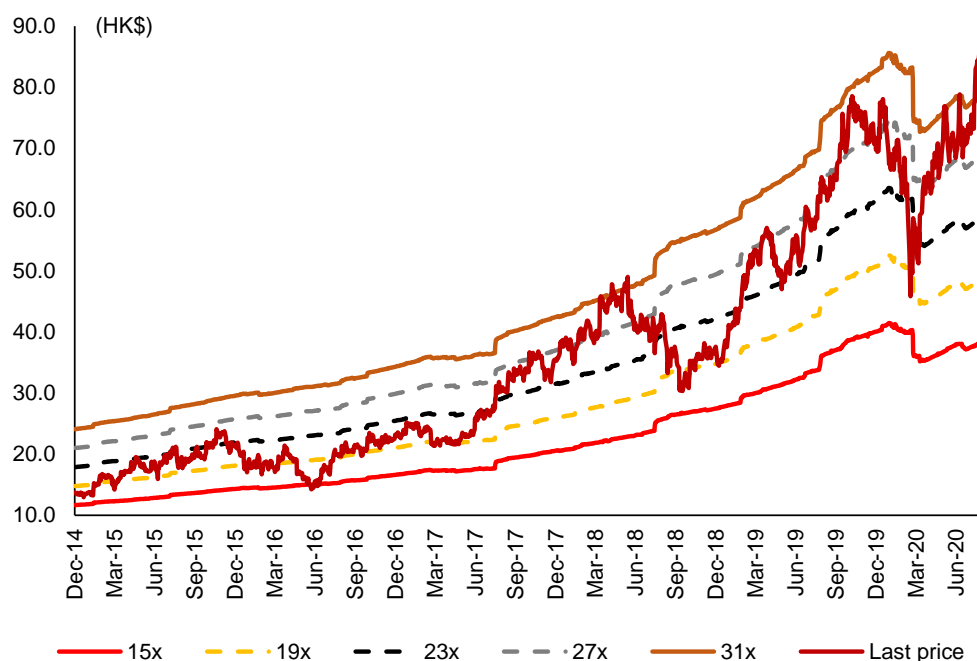
Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	36,030	44,331	51,789	36,544	45,584	54,957	-1.4%	-2.7%	-5.8%
Gross profit	20,213	25,623	30,414	19,465	25,292	30,986	3.8%	1.3%	-1.8%
EBIT	8,410	11,252	13,552	8,427	11,356	13,792	-0.2%	-0.9%	-1.7%
Net profit att.	5,359	7,809	9,793	5,397	7,849	9,825	-0.7%	-0.5%	-0.3%
Diluted EPS (RMB)	1.922	2.801	3.512	2.003	2.844	3.567	-4.0%	-1.5%	-1.5%
Gross margin	56.1%	57.8%	58.7%	53.2%	55.4%	56.2%	2.9ppt	2.4ppt	2.5ppt
EBIT margin	23.3%	25.4%	26.2%	23.5%	25.0%	25.2%	-0.2ppt	0.3ppt	0.9ppt
Net profit att. margin	14.9%	17.6%	18.9%	15.2%	17.3%	18.0%	-0.3ppt	0.3ppt	0.9ppt

Source: Bloomberg, CMBIS estimates

Figure 5: Forward 1 years P/E band



Source: Company data, Bloomberg, CMBIS estimates

Figure 6: Sportswear brands sales growth trend

Operating numbers	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	3Q20E	4Q20E
Nike China sales	15.0%	16.0%	12.0%	15.0%	19.0%	25.0%	20.0%	31.0%	24.0%	22.0%	27.0%	23.0%	-4.0%	1.0%		
Adidas China sales	30.3%	27.7%	28.0%	32.0%	26.0%	27.0%	26.0%	23.0%	16.0%	14.0%	11.0%	15.0%	-58.0%	0.0%		
Anta brand's SSSG																
Anta brand's retail sales	+ve Low-teens	+ve 20%-30%	+ve Mid-teens	+ve 20%-25%	+ve 20%-25%	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	-ve 20%-25%	-ve LSD	5.0%	10.0%
Core brand	+ve LSD	+ve Mid-teens	+ve MSD	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve HSD	-ve 20%-25%	-ve LSD		
Kids	over 30%	25%-30%	over 30%	over 40%	over 40%	over 25%	Over 25%	Over 25%	Over 20%	30%	Over 25%	25%	-ve 20%-25%	+ve MSD		
Online	over 50%	over 50%	over 50%	over 40%	over 40%	over 25%	Over 20%	Over 25%	+ve Mid-teens	25%	35%	Over 40%	+ve MSD	Over 40%		
Non-Anta brands (FILA)	+ve 40%-50%	+ve 50%-60%	+ve 40%-50%	+ve 85%-90%	+ve 80%-85%	+ve 90%-95%	+ve 90%-95%	+ve 80%-85%	+ve 65%-70%	+ve 55%-60%						
FILA brand's retail sales											50%-55%	50%-55%	-ve MSD	+ve MSD	20.0%	30.0%
Classic/ Core brand												Over 40%	-ve 20%-25%	+ve MSD		
Kids												Over 70%	-ve LSD	Over 30%		
Fusion												Over 100%	+ve MSD	Over 70%		
Online												Over 70%	160%	Over 80%		
Other brands											30%-35%	25%-30%	-ve HSD	25%-30%		
Li Ning group's SSSG	Flat	+ve HSD	-ve LSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	n/a	-ve MSD		
Direct retail	-ve MSD	Flat	-ve MSD	+ve Low-teens	+ve Low-teens	+ve HSD	+ve HSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Low-teens	+ve High-teens	n/a	-ve High-teens		
Wholesales	-ve MSD	+ve LSD	-ve MSD	+ve HSD	+ve MSD	+ve LSD	+ve HSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	n/a	-ve Low-teens		
E- Commerce	Mid-60%	Mid-90%	Low 30%	+ve High-teens	+ve High 30%	+ve Mid 30%	+ve High 30%	+ve Mid 50%	+ve Mid 30%	+ve Mid 30%	+ve Mid 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%		
Li Ning group's retail sales				+ve Mid-teens	+ve Low-teens	+ve Mid-teens	+ve High-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	-ve High-teens	-ve LSD	7.0%	12.0%
Direct retail				Low 20%-30%	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve Low-teens	+ve HSD	+ve Mid-teens	+ve High-teens	-ve Mid 30%	-ve Low-teens			
Wholesales				+ve MSD	+ve MSD	+ve Low-teens	+ve Low-teens	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	-ve High-teens	-ve HSD			
E- Commerce				+ve High 30%	+ve High 30%	+ve Low 30%	+ve Mid 50%	+ve Low 40%	+ve High 20%	+ve Low 50%	+ve Low 40%	+ve Low-teens	+ve Mid 20%			
Xtep's SSSG	+ve LSD	+ve MSD	+ve MSD	+ve HSD	+ve Low-teens	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve Low-teens	+ve Low-teens	10%	+ve Low-teens				
Xtep's retail sales									Over 20%	Over 20%	20%	Over 20%	-ve 20%-25%	-ve LSD	3.0%	5.0%
361 Degrees' SSSG	7.0%	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve HSD	+ve MSD	Flat	+ve LSD	+ve LSD	+ve LSD	+ve LSD				
361 Degree's retail sales													-ve 20%-25%	-ve Low-teens		
Pou Sheng's SSSG	1.9%	5.6%	1.5%	12.0%	10.1%	2.2%	8.9%	8.7%	8.4%	4.2%	6.0%	1.9%				
Pou Sheng's sales	14.4%	14.5%	13.4%	21.6%	17.7%	17.7%	24.4%	22.0%	19.9%	18.9%	21.9%	19.1%	-25.1%	3.0%	6.0%	9.0%
Dong Xiang's SSSG	Flat	-ve LSD	-ve MSD	+ve LSD	+ve Mid to High	-ve Mid to High	+ve MSD	+ve LSD	-ve LSD	+ve MSD	+ve Mid to High	+ve Mid to High	-ve Low-Mid SD	-ve Mid SD		
Direct retail					+ve HSD	Flat	+ve Low-teens	+ve HSD	Flat	+ve LSD	+ve HSD	+ve Low-teens	-ve LSD	-ve Low to Mid-teens		
E- Commerce									+ve 35%-45%	+ve 30%-35%	+ve 55%-60%	+ve 40%-45%	-ve Low-teens	+ve 30%-35%		

Source: Company data, CMBIS estimates, \*Nike's year end is at May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Assumptions

Figure 7: Anta's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales by segment growth (%)</b>					
Shoes	22.5%	32.2%	5.0%	21.0%	13.0%
Apparels	61.4%	45.5%	6.6%	25.0%	19.0%
Accessories	43.9%	47.5%	10.0%	6.0%	12.0%
Total	44.4%	40.8%	6.2%	23.0%	16.8%
<b>Sales by brand growth (%)</b>					
Anta	8.7%	9.2%	-23.0%	14.0%	7.0%
Anta Kids	29.0%	27.0%	-21.0%	27.0%	18.0%
FILA	100.0%	73.8%	17.0%	25.0%	19.0%
Descente & Others	155.9%	33.3%	13.0%	25.0%	23.0%
E-commerce	45.0%	45.0%	35.0%	25.0%	18.0%
Total	44.4%	40.8%	6.2%	23.0%	16.8%
<b>Sales network</b>					
Anta	7,271	7,341	6,791	6,871	6,921
Anta Kids	2,786	3,175	3,059	3,209	3,359
FILA	1,652	1,951	2,050	2,200	2,400
Descente & Others	479	476	465	660	855
Total	12,188	12,943	12,365	12,940	13,535
<b>GP margins</b>					
Anta	42.0%	41.3%	40.9%	42.9%	44.1%
FILA	69.9%	70.4%	70.0%	71.0%	71.2%
Total	52.6%	55.0%	56.1%	57.8%	58.7%
<b>Opex breakdown</b>					
A&P Expenses / sales	12.1%	10.6%	10.0%	11.6%	11.4%
Labour costs / sales	10.9%	11.7%	12.5%	12.0%	12.2%
R & D expenses / sales	5.2%	5.2%	5.4%	5.5%	5.6%
Rental expenses/ sales	7.2%	8.8%	9.5%	9.8%	10.0%
Selling & distribution costs / sales	27.1%	28.7%	29.9%	30.2%	30.2%
Admin expenses / sales	5.1%	3.9%	6.1%	5.7%	5.8%
<b>OP margin</b>					
Anta	25.9%	27.1%	24.5%	26.6%	27.3%
FILA	25.3%	27.2%	25.3%	27.0%	28.0%
Total	23.7%	25.6%	23.7%	25.6%	26.3%
Effective tax rate	26.6%	29.8%	28.0%	27.0%	26.0%
<b>NP att. margin</b>	<b>17.0%</b>	<b>15.8%</b>	<b>14.9%</b>	<b>17.6%</b>	<b>18.9%</b>
<b>NP att. growth (%)</b>	<b>32.9%</b>	<b>30.3%</b>	<b>0.3%</b>	<b>45.7%</b>	<b>25.4%</b>

Source: Company data, CMBIS estimates

## Valuation

Figure 8: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Anta Sports	2020 HK	BUY	101.84	86.95	17%	235,027	Dec-19	39.8	27.3	8.8	7.1	29.8	1.8	0.8
Li Ning Co	2331 HK	BUY	36.52	34.40	6%	85,402	Dec-19	47.9	35.3	9.0	7.4	19.8	2.4	0.6
Xtep Intl	1368 HK	HOLD	2.70	2.62	3%	6,601	Dec-19	11.6	8.3	0.8	0.8	11.9	4.0	4.9
361 Degrees Intl	1361 HK	NR	n/a	1.09	n/a	2,254	Dec-19	5.1	4.4	0.3	0.3	n/a	1.0	8.6
Topsports Intl	6110 HK	NR	n/a	10.50	n/a	65,113	Feb-20	23.8	18.4	4.9	4.2	36.9	1.8	2.1
Pou Sheng Intl	3813 HK	NR	n/a	1.74	n/a	9,321	Dec-19	19.6	7.4	1.0	0.9	5.6	1.1	0.9
China DX	3818 HK	NR	n/a	0.97	n/a	5,710	Mar-20	11.5	10.2	0.5	0.5	n/a	0.7	5.8
Avg.								22.8	15.9	3.6	3.0	20.8	1.8	3.4
Med.								19.6	10.2	1.0	0.9	19.8	1.8	2.1
International Sportswear														
Nike	NKE US	NR	n/a	111.97	n/a	1,353,708	May-20	47.7	34.0	22.0	19.3	29.7	1.5	0.9
Adidas	ADS GY	NR	n/a	257.20	n/a	472,507	Dec-19	98.6	29.3	7.1	6.2	8.5	24.5	0.9
Puma	PUM GY	NR	n/a	70.16	n/a	96,999	Dec-19	167.4	37.3	5.4	4.9	3.3	11.9	0.3
Under Armour	UAA US	NR	n/a	10.18	n/a	33,808	Dec-19	n/a	94.2	3.2	3.2	(39.5)	0.0	0.0
Lululemon	LULU US	NR	n/a	377.22	n/a	380,674	Feb-20	87.4	59.8	21.0	18.3	36.1	5.9	0.0
Skechers	SKX US	NR	n/a	29.57	n/a	36,182	Dec-19	45.6	13.2	1.8	1.6	6.6	9.9	0.0
Vf Corp	VFC US	NR	n/a	65.21	n/a	196,932	Mar-20	61.2	25.5	8.8	9.0	9.8	3.0	3.0
Columbia	COLM US	NR	n/a	84.32	n/a	43,227	Dec-19	44.3	20.5	3.1	2.5	11.1	(43.9)	0.5
Wolverine	WWW US	NR	n/a	24.77	n/a	15,719	Dec-19	23.7	12.3	2.7	2.3	7.4	1.7	1.6
Mizuno Corp	8022 JP	NR	n/a	1930.00	n/a	3,732	Mar-20	n/a	14.8	0.5	0.5	2.3	0.0	2.6
Asics Corp	7936 JP	NR	n/a	1494.00	n/a	20,640	Dec-19	n/a	36.8	2.0	1.9	(3.1)	0.0	1.7
Avg.								72.0	34.3	7.0	6.3	6.6	1.3	1.1
Med.								54.5	29.3	3.2	3.2	7.4	1.7	0.9

Source: Bloomberg, CMBIS estimates



## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>24,100</b>	<b>33,928</b>	<b>36,030</b>	<b>44,331</b>	<b>51,789</b>
Footwear	8,631	11,410	11,980	14,496	16,381
Apparel	14,70	21,39	22,81	28,52	33,94
Accessories	759	1,120	1,232	1,306	1,463
<b>Cost of goods sold</b>	<b>(11,413)</b>	<b>(15,269)</b>	<b>(15,817)</b>	<b>(18,708)</b>	<b>(21,375)</b>
<b>Gross profit</b>	<b>12,687</b>	<b>18,659</b>	<b>20,213</b>	<b>25,623</b>	<b>30,414</b>
<b>Other income</b>	<b>652</b>	<b>1,127</b>	<b>1,167</b>	<b>1,560</b>	<b>1,771</b>
<b>Operating expenses</b>	<b>(7,748)</b>	<b>(11,034)</b>	<b>(12,971)</b>	<b>(15,931)</b>	<b>(18,634)</b>
D & A	(159)	(210)	(186)	(225)	(235)
Staff costs	(1,238)	(1,859)	(2,117)	(2,500)	(2,969)
S & D costs (ex-staff, D&A)	(5,655)	(8,443)	(10,152)	(12,574)	(14,719)
Admin exp. (ex-staff, D&A)	(440)	(247)	(225)	(272)	(290)
Other operating expenses	(256)	(275)	(292)	(359)	(420)
<b>EBIT</b>	<b>5,592</b>	<b>8,752</b>	<b>8,410</b>	<b>11,252</b>	<b>13,552</b>
Finance costs, net	175	(110)	(13)	66	149
JVs & associates	-	(633)	(644)	(175)	84
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>5,767</b>	<b>8,008</b>	<b>7,753</b>	<b>11,142</b>	<b>13,786</b>
Income tax	(1,533)	(2,384)	(2,171)	(3,008)	(3,584)
Less: Minority interests	131	280	223	325	408
<b>Net profit</b>	<b>4,103</b>	<b>5,344</b>	<b>5,359</b>	<b>7,809</b>	<b>9,793</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>5,592</b>	<b>8,752</b>	<b>8,410</b>	<b>11,252</b>	<b>13,552</b>
D & A	342	448	327	416	468
Change in working capital	866	1,178	(321)	76	(444)
Income tax paid	(1,288)	(2,133)	(2,171)	(3,008)	(3,584)
Others	(1,072)	(759)	268	307	390
<b>Net cash from operating</b>	<b>4,440</b>	<b>7,485</b>	<b>6,513</b>	<b>9,043</b>	<b>10,383</b>
Capex & investments	(1,319)	(11,28)	(3,534)	(1,444)	(1,480)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	118	(1,783)	-	-	-
<b>Net cash from investing</b>	<b>(1,201)</b>	<b>(13,06)</b>	<b>(3,534)</b>	<b>(1,444)</b>	<b>(1,480)</b>
Equity raised	4	709	-	-	-
Net change in bank loans	1,165	7,733	(2,000)	-	-
Dividend paid	(2,425)	(1,417)	(1,539)	(3,007)	(5,400)
Others	119	(2,356)	(281)	(241)	(241)
<b>Net cash from financing</b>	<b>(1,136)</b>	<b>4,670</b>	<b>(3,820)</b>	<b>(3,248)</b>	<b>(5,641)</b>
<b>Net change in cash</b>	<b>2,102</b>	<b>(910)</b>	<b>(841)</b>	<b>4,350</b>	<b>3,262</b>
Beginning cash balance	6,968	9,284	8,221	7,380	11,730
Exchange difference	214	(153)	-	-	-
<b>Cash at the end of the year</b>	<b>9,284</b>	<b>8,221</b>	<b>7,380</b>	<b>11,730</b>	<b>14,992</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>5,090</b>	<b>17,898</b>	<b>20,461</b>	<b>21,313</b>	<b>22,409</b>
Fixed asset	1,787	2,148	2,927	3,413	3,757
Intangible assets & goodwill	1,106	678	1,106	1,648	2,316
Prepaid lease payments	367	53	2,053	2,053	2,053
Interest in joint ventures	-	10,551	9,907	9,732	9,816
Other non-current assets	1,830	4,468	4,468	4,468	4,468
<b>Current assets</b>	<b>19,284</b>	<b>23,321</b>	<b>23,449</b>	<b>29,741</b>	<b>35,274</b>
Cash and cash equivalents	9,284	8,221	7,380	11,730	14,992
Inventories	2,892	4,405	4,983	5,382	6,266
Trade and other receivables	4,638	6,309	6,700	8,243	9,630
Prepayments	-	-	-	-	-
Other current assets	2,470	4,386	4,386	4,386	4,386
<b>Current liabilities</b>	<b>7,548</b>	<b>12,412</b>	<b>13,060</b>	<b>15,078</b>	<b>16,905</b>
Bank loans	1,244	1,359	1,359	1,359	1,359
Trade payables	1,792	2,963	3,250	3,844	4,392
Accruals & other payables	3,841	5,821	6,181	7,605	8,885
Tax payables	650	1,225	1,225	1,225	1,225
Others	21	1,044	1,044	1,044	1,044
<b>Non-current liabilities</b>	<b>306</b>	<b>7,746</b>	<b>5,746</b>	<b>5,746</b>	<b>5,746</b>
Bank loans	70	6,644	4,644	4,644	4,644
Deferred income	-	-	-	-	-
Deferred tax	236	256	256	256	256
Others	-	846	846	846	846
<b>Minority Interest</b>	<b>743</b>	<b>979</b>	<b>1,203</b>	<b>1,528</b>	<b>1,936</b>
<b>Total net assets</b>	<b>15,777</b>	<b>20,082</b>	<b>23,902</b>	<b>28,703</b>	<b>33,096</b>
<b>Shareholders' equity</b>	<b>15,777</b>	<b>20,082</b>	<b>23,902</b>	<b>28,703</b>	<b>33,096</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Footwear	35.8	33.6	33.3	32.7	31.6
Apparel	61.0	63.1	63.3	64.4	65.5
Accessories	3.2	3.3	3.4	2.9	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	52.6	55.0	56.1	57.8	58.7
Operating margin	23.2	25.8	23.3	25.4	26.2
Pre-tax margin	23.9	23.6	21.5	25.1	26.6
Net margin	17.0	15.8	14.9	17.6	18.9
Effective tax rate	26.6	27.6	25.9	26.6	26.2
<b>Balance sheet ratios</b>					
Current ratio (x)	2.6	1.9	1.8	2.0	2.1
Quick ratio (x)	2.2	1.5	1.4	1.6	1.7
Cash ratio (x)	123	66	57	78	89
Inventory turnover days	93	105	115	105	107
Trade receivables days	70	68	68	68	68
Trade payables days	57	71	75	75	75
Total debt / total equity ratio (%)	8	40	25	21	18
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	26.0	26.6	22.4	27.2	29.6
ROA	16.8	13.0	12.2	15.3	17.0
<b>Per share</b>					
EPS (RMB)	1.53	1.92	1.92	2.80	3.51
DPS (RMB)	0.68	0.61	0.53	1.79	2.24
BVPS (RMB)	5.87	7.43	8.85	10.6	12.2

Source: Company data, CMBIS estimates



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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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