

Anta Sports (2020 HK)

More resilient than the industry and recovering

Maintain BUY but cut TP to HK\$ 62.26, based on 26x FY20E P/E (revised down from 30x due to sector de-rating). We believe Anta could outperform the industry and recover quickly in 2H20E. Also, drags by virus outbreak on Amer sports could be less thanks to its focus in winter sports products. All in All, we think its valuation is not demanding at 22x FY20E P/E, vs international peers' average of 25x.

- **FY19 result roughly inline.** FY19 net profit grew by 30% YoY to RMB 5.3bn, 1%/2% below CMBI/ BBG's est., while sales was 2% above CMBI est. but offset by higher-than-expected labour costs and minority interest.
- **Management expects healthy recovery in 2Q20E and normalize in 2H20E.** Retail sales recovery in Mar 20 was better than management's expectation, thanks to timely change in strategy amid virus outbreak (e.g. more e-commerce innovations and pro-active community marketing). They foresee decline of 20-30%/ 10%-20% in retail sales growth for Anta/ FILA in 1Q20E and double-digit/ 30%+ in 2H20E, resulting in mid-single digit drop/ 20%+ growth in FY20E. They also aim for 50% e-commerce sales growth in FY20E.
- **Supportive measures to distributors are needed but will affect profitability in 1H20E.** In order to ease cash flow and inventory pressure of its distributors, Anta allowed: 1) up to 10-15% orders cut and 10-15% SKU buybacks for 2Q-3Q20E, 2) shift of SKUs in 1Q-2Q20E to 3Q-4Q20E and 3) lengthening credit period for distributors (target to lower inventory to sales ratio back to 5.5-6 months by 1H20E). We do expect Anta and FILA's GP margins to be hurt, due to the above measures and greater retail discounts.
- **Cost savings mode is now on.** The Company is actively limiting operating expenses in FY20E, such as reducing travelling expenses by RMB 60mn vs last year, and they are more cautious on A&P budgeting and staff hiring.
- **Amer is not affected much due to its focus in winter sports products.** According to management, since Amer sports is highly skewed to winter sports. Therefore as long as the virus impact does not last later than Jul 2020, the sales and delivery of its product shall not be affected meaningfully.
- **Maintain BUY but cut TP to HK\$ 62.26.** We cut our FY20E/ 21E diluted EPS estimates by 20%/ 6%, to factor in 1) cut in sales, 2) greater retail discounts, 3) more cost savings and 4) slowdown of store expansions in FY20E. We maintain BUY and cut TP to HK\$ 62.26, based on 26x FY20E P/E (down from 30x). The valuation is undemanding at 22x FY20E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	24,100	33,928	39,305	47,259	53,462
YoY growth (%)	44.4	40.8	15.9	20.2	13.1
Net income (RMB mn)	4,103	5,344	5,876	8,529	10,155
EPS (RMB)	1.53	1.92	2.11	3.06	3.64
YoY growth (%)	32.8	25.7	9.9	45.2	19.1
Consensus EPS (RMB)	n/a	n/a	2.55	3.27	n/a
P/E (x)	31.0	24.6	22.4	15.4	13.0
P/B (x)	8.0	6.4	5.3	4.5	3.9
Yield (%)	1.5	1.3	1.8	4.5	5.4
ROE (%)	27.8	29.8	26.6	32.4	33.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$62.26
(Previous TP)	HK\$90.26)
Up/Downside	+16.0%
Current Price	HK\$53.65

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	144,959
Avg 3 mths t/o (HK\$ mn)	304.77
52w High/Low (HK\$)	79.9/42.0
Total Issued Shares (mn)	2,701.9

Source: Bloomberg

Shareholding Structure

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

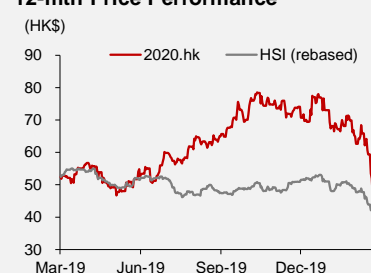
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.8%	-15.7%
3-mth	-27.6%	-18.7%
6-mth	-17.5%	-12.6%
12-mth	6.4%	-20.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

1. Anta Sports (2020 HK) - Impressive 4Q sales and CB was well accepted - 15 Jan 2020
2. Anta Sports (2020 HK) - Solid FILA growth and operating leverage - 16 Oct 2019
3. Anta Sports (2020 HK) - Solid results and guidance despite M&A costs - 27 Aug 2019

Results Summary

Figure 1: Results preview – Half Year

Half yearly (RMB mn)	1H18	2H18	1H19	2H19	1H18 YoY	2H18 YoY	1H19 YoY	2H19 YoY	2H19E CMBI	Actual vs CMBI
Revenue	10,554	13,547	14,811	19,117	44%	45%	40%	41%	18,498	3%
COGS	(4,827)	(6,586)	(6,509)	(8,760)					(8,717)	
Gross profit	5,726	6,961	8,302	10,357	55%	53%	45%	49%	9,781	6%
GP margins	54.3%	51.4%	56.1%	54.2%					52.9%	
Other income & gains	245	515	538	531					508	5%
S & D expenses	(2,765)	(3,760)	(4,123)	(5,598)	81%	65%	49%	49%	(5,440)	3%
S & D exp / sales	-26.2%	-27.8%	-27.8%	-29.3%					-29.4%	
Admin expenses	(518)	(705)	(460)	(853)	14%	58%	-11%	21%	(603)	41%
Admin exp / sales	-4.9%	-5.2%	-3.1%	-4.5%					-3.3%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,689	3,011	4,257	4,437	42%	44%	58%	47%	4,246	5%
OP margins	25.5%	22.2%	28.7%	23.2%					23.0%	
Other items	0	0	0	0					0	
Net finance income	72	(5)	9	(62)					(50)	23%
Net fin. income / sales	0.7%	0.0%	0.1%	-0.3%					-0.3%	
Profit after financing costs	2,761	3,007	4,267	4,375					4,196	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	(492)	(141)					(141)	
Pre-tax profit	2,761	3,007	3,774	4,234	37%	31%	37%	41%	4,055	4%
Tax	(759)	(774)	(1,193)	(1,192)					(1,078)	
Tax / sales	-7.2%	-5.7%	-8.1%	-6.2%					-5.8%	
Effective tax rate	-27.5%	-25.7%	-31.6%	-28.1%					-26.6%	
Minority interests	57	74	99	181					79	129%
Net profit att.	1,945	2,158	2,483	2,861	34%	32%	28%	33%	2,898	-1%
NP margins	18.4%	15.9%	16.8%	15.0%					15.7%	

Source: Company data, CMBIS estimates

Figure 2: Results preview - Full Year

Full yearly (RMB mn)					FY18	FY19	FY20E	FY19E	Actual
	FY17	FY18	FY19	FY20E	YoY	YoY	YoY	CMBI	vs CMBI
Revenue	16,692	24,100	33,928	39,305	44%	41%	16%	33,309	1.9%
COGS	(8,451)	(11,413)	(15,269)	(18,352)				(15,226)	
Gross profit	8,241	12,687	18,659	20,954	54%	47%	12%	18,083	3.2%
GP margins	49.4%	52.6%	55.0%	53.3%				54.3%	
Other income & gains	458	760	1,070	1,226				1,046	2.3%
S & D expenses	(3,809)	(6,525)	(9,721)	(11,481)	71%	49%	18%	(9,563)	1.7%
S & D exp / sales	-22.8%	-27.1%	-28.7%	-29.2%				-28.7%	
Admin expenses	(901)	(1,223)	(1,313)	(1,566)	36%	7%	19%	(1,063)	23.5%
Admin exp / sales	-5.4%	-5.1%	-3.9%	-4.0%				-3.2%	
Other opex	0	0	0	0				0	
Operating profit (EBIT)	3,989	5,700	8,695	9,133	43%	53%	5%	8,503	2.2%
OP margins	23.9%	23.7%	25.6%	23.2%				25.5%	
Other items	0	0	0	0				0	
Net finance income	322	68	(53)	(240)				(41)	28.5%
Net fin. income / sales	1.9%	0.3%	-0.2%	-0.6%				-0.1%	
Profit after financing costs	4,311	5,767	8,642	8,893				8,462	
Associated coms	0	0	0	0				0	
Jointly controlled coms	0	0	(633)	(160)				(633)	
Pre-tax profit	4,311	5,767	8,008	8,733	34%	39%	9%	7,829	2.3%
Tax	(1,152)	(1,533)	(2,384)	(2,533)				(2,270)	
Tax / sales	-6.9%	-6.4%	-7.0%	-6.4%				-6.8%	
Effective tax rate	-26.7%	-26.6%	-29.8%	-29.0%				-29.0%	
Minority interests	71	131	280	325				178	57.3%
Net profit att.	3,088	4,103	5,344	5,876	33%	30%	10%	5,381	-0.7%
NP margins	18.5%	17.0%	15.8%	14.9%				16.2%	

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	39,305	47,259	53,462	41,589	48,896	n/a	-5.5%	-3.3%	n/a
Gross profit	20,954	26,415	30,267	23,004	27,351	n/a	-8.9%	-3.4%	n/a
EBIT	9,062	12,293	14,286	10,738	12,821	n/a	-15.6%	-4.1%	n/a
Reported Net profit	5,876	8,529	10,155	7,382	9,115	n/a	-20.4%	-6.4%	n/a
Diluted EPS (RMB)	2.107	3.059	3.642	2.648	3.269	n/a	-20.4%	-6.4%	n/a
Gross margin	53.3%	55.9%	56.6%	55.3%	55.9%	n/a	-2ppt	0ppt	n/a
EBIT margin	23.1%	26.0%	26.7%	25.8%	26.2%	n/a	-2.8ppt	-0.2ppt	n/a
Net profit att. margin	14.9%	18.0%	19.0%	17.7%	18.6%	n/a	-2.8ppt	-0.6ppt	n/a

Source: Company data, CMBIS estimates

Figure 4: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	39,305	47,259	53,462	39,414	48,329	n/a	-0.3%	-2.2%	n/a
Gross profit	20,954	26,415	30,267	21,636	27,070	n/a	-3.2%	-2.4%	n/a
EBIT	9,062	12,293	14,286	9,361	11,941	n/a	-3.2%	2.9%	n/a
Net profit att.	5,876	8,529	10,155	6,935	8,832	n/a	-15.3%	-3.4%	n/a
Diluted EPS (RMB)	2.107	3.059	3.642	2.549	3.273	n/a	-17.3%	-6.5%	n/a
Gross margin	53.3%	55.9%	56.6%	54.9%	56.0%	n/a	-1.6ppt	-0.1ppt	n/a
EBIT margin	23.1%	26.0%	26.7%	23.8%	24.7%	n/a	-0.7ppt	1.3ppt	n/a
Net profit att. margin	14.9%	18.0%	19.0%	17.6%	18.3%	n/a	-2.6ppt	-0.2ppt	n/a

Source: Bloomberg, CMBIS estimates

Assumptions

Figure 5: Anta's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (RMB mn)					
Shoes	8,631	11,410	12,551	14,559	16,160
Apparels	14,709	21,398	25,478	31,346	35,785
Accessories	759	1,120	1,277	1,354	1,516
Total	24,100	33,928	39,305	47,259	53,462
Sales by segment growth (%)					
Shoes	22.5%	32.2%	10.0%	16.0%	11.0%
Apparels	61.4%	45.5%	19.1%	23.0%	14.2%
Accessories	43.9%	47.5%	14.0%	6.0%	12.0%
Total	44.4%	40.8%	15.9%	20.2%	13.1%
Sales by brand growth (%)					
Anta	8.7%	9.2%	-5.0%	7.0%	4.0%
Anta Kids	29.0%	27.0%	0.0%	25.0%	15.0%
FILA	100.0%	73.8%	20.0%	23.0%	15.0%
Descente & Others	155.9%	33.3%	0.0%	25.0%	20.0%
E-commerce	45.0%	45.0%	50.0%	25.0%	15.0%
Total	44.4%	40.8%	15.9%	20.2%	13.1%
Sales network					
Anta	7,271	7,341	7,191	7,271	7,321
Anta Kids	2,786	3,175	3,100	3,280	3,430
FILA	1,652	1,951	2,051	2,281	2,511
Descente & Others	479	476	521	716	911
Total	12,188	12,943	12,863	13,548	14,173
GP margins	52.6%	55.0%	53.3%	55.9%	56.6%
Opex breakdown					
A&P Expenses / sales	12.1%	10.6%	11.0%	11.6%	11.6%
Labour costs / sales	10.9%	11.7%	12.1%	11.8%	12.0%
R & D expenses / sales	5.2%	5.2%	5.3%	5.4%	5.5%
Rental expenses/ sales	7.2%	8.8%	9.5%	9.1%	9.1%
Selling & distribution costs / sales	27.1%	28.7%	29.2%	29.1%	29.2%
Admin expenses / sales	5.1%	3.9%	4.0%	3.6%	3.6%
OP margin	23.7%	25.6%	23.2%	26.2%	26.9%
Effective tax rate	26.6%	29.8%	29.0%	27.0%	26.0%
NP att. margin	17.0%	15.8%	14.9%	18.0%	19.0%
NP att. growth (%)	32.9%	30.3%	9.9%	45.2%	19.1%

Source: Company data, CMBIS estimates

Valuation

Figure 6: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
H shares Sportswear															
Anta Sports	2020 HK	BUY	62.26	53.65	16%	144,959	Dec-19	22.4	15.4	5.3	4.5	28.6	0.9	1.8	
Li Ning Co*	2331 HK	BUY	24.43	18.54	32%	45,512	Dec-18	24.3	18.9	4.9	4.2	22.0	1.1	1.4	
Xtep Intl	1368 HK	BUY	2.90	2.34	24%	5,879	Dec-19	6.8	5.5	0.8	0.7	11.9	0.9	8.0	
361 Degrees Intl	1361 HK	NR	n/a	1.20	n/a	2,481	Dec-19	5.2	4.3	0.3	0.3	7.2	0.6	9.1	
Topsports Intl	6110 HK	NR	n/a	7.77	n/a	48,183	Feb-19	16.6	14.2	4.5	3.5	76.8	0.0	3.4	
Pou Sheng Intl*	3813 HK	NR	n/a	1.32	n/a	7,071	Dec-18	8.5	5.2	0.8	0.8	13.2	0.3	2.2	
China DX	3818 HK	NR	n/a	0.63	n/a	3,708	Mar-19	5.6	5.7	0.3	0.3	n/a	0.0	13.1	
								Avg.	12.8	9.9	2.4	2.0	26.6	0.6	5.6
								Med.	8.5	5.7	0.8	0.8	17.6	0.6	3.4
International Sportswear															
Nike	NKE US	NR	n/a	72.33	n/a	873,346	May-19	29.6	24.0	14.6	14.7	48.0	2.5	1.3	
Adidas	ADS GY	NR	n/a	195.32	n/a	327,231	Dec-19	21.9	17.5	5.2	4.5	30.0	3.7	2.0	
Puma	PUM GY	NR	n/a	49.74	n/a	62,712	Dec-19	25.0	20.1	3.6	3.3	14.7	1.5	1.1	
Under Armour	UAA US	NR	n/a	9.15	n/a	29,876	Dec-19	81.7	32.1	1.8	1.7	4.4	2.3	0.0	
Lululemon	LULU US	NR	n/a	192.74	n/a	194,704	Feb-19	39.4	36.2	13.2	10.7	37.1	1.7	0.0	
Skechers	SKX US	NR	n/a	23.29	n/a	28,332	Dec-19	9.9	8.3	1.3	1.2	15.9	1.2	0.0	
Vf Corp	VFC US	NR	n/a	52.43	n/a	160,452	Mar-20	16.1	14.4	4.5	4.2	29.1	1.8	3.6	
Columbia	COLM US	NR	n/a	63.01	n/a	32,928	Dec-19	14.2	12.6	2.0	1.6	18.8	9.3	1.7	
Wolverine	WWW US	NR	n/a	14.60	n/a	9,274	Dec-19	6.2	5.6	1.3	1.1	14.4	0.3	2.7	
Mizuno Corp	8022 JP	NR	n/a	1840.00	n/a	3,413	Mar-19	7.9	7.2	0.5	0.5	6.6	1.4	2.7	
Asics Corp	7936 JP	NR	n/a	1003.00	n/a	13,319	Dec-19	26.6	17.0	1.2	1.2	4.5	1.4	2.8	
								Avg.	25.3	17.7	4.5	4.1	20.3	2.5	1.6
								Med.	21.9	17.0	2.0	1.7	15.9	1.7	1.7

Source: Bloomberg, CMBIS estimates, *FY1 and FY2 are referring to FY20E and FY21E for Li Ning and Xtep

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	24,100	33,928	39,305	47,259	53,462
Footwear	8,631	11,410	12,551	14,559	16,160
Apparel	14,70	21,39	25,47	31,34	35,78
Accessories	759	1,120	1,277	1,354	1,516
Cost of goods sold	(11,413)	(15,269)	(18,352)	(20,844)	(23,195)
Gross profit	12,687	18,659	20,954	26,415	30,267
Other income	652	1,127	1,156	1,333	1,561
Operating expenses	(7,748)	(11,034)	(13,047)	(15,455)	(17,542)
D & A	(175)	(212)	(269)	(328)	(376)
Staff costs	(1,238)	(1,859)	(2,241)	(2,925)	(3,365)
S & D costs (ex-staff, D&A)	(5,639)	(8,441)	(9,910)	(11,444)	(12,939)
Admin exp. (ex-staff, D&A)	(440)	(247)	(308)	(375)	(429)
Other operating expenses	(256)	(275)	(319)	(383)	(433)
EBIT	5,592	8,752	9,062	12,293	14,286
Finance costs, net	175	(110)	(169)	(11)	35
JVs & associates	-	(633)	(160)	47	160
Exceptional	-	-	-	-	-
Pre-tax profit	5,767	8,008	8,733	12,329	14,481
Income tax	(1,533)	(2,384)	(2,533)	(3,329)	(3,765)
Less: Minority interests	131	280	325	471	561
Net profit	4,103	5,344	5,876	8,529	10,155

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	5,592	8,752	9,062	12,293	14,286
D & A	278	331	418	514	593
Change in working capital	866	1,178	(369)	(350)	(311)
Income tax paid	(1,288)	(2,133)	(2,533)	(3,329)	(3,765)
Others	(1,008)	(642)	158	169	214
Net cash from operating	4,440	7,485	6,737	9,297	11,016
Capex & investments	(1,319)	(11,28)	(1,673)	(1,539)	(1,528)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	118	(1,783)	-	-	-
Net cash from investing	(1,201)	(13,06)	(1,673)	(1,539)	(1,528)
Equity raised	4	709	-	-	-
Net change in bank loans	1,165	7,733	(5,000)	-	-
Dividend paid	(2,425)	(1,417)	(1,938)	(3,910)	(6,299)
Others	119	(2,356)	(328)	(180)	(180)
Net cash from financing	(1,136)	4,670	(7,266)	(4,090)	(6,478)
Net change in cash	2,102	(910)	(2,202)	3,668	3,010
Beginning cash balance	6,968	9,284	8,221	6,019	9,687
Exchange difference	214	(153)	-	-	-
Cash at the end of the year	9,284	8,221	6,019	9,687	12,697

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	5,090	17,898	18,993	20,066	21,161
Fixed asset	1,787	2,148	2,894	3,301	3,533
Intangible assets & goodwill	1,170	421	930	1,548	2,252
Prepaid lease payments	367	53	53	53	53
Interest in joint ventures	-	10,551	10,391	10,438	10,599
Other non-current assets	1,766	4,725	4,725	4,725	4,725
Current assets	19,284	23,321	23,008	28,874	33,716
Cash and cash equivalents	9,284	8,221	6,019	9,687	12,697
Inventories	2,892	4,405	5,295	6,014	6,692
Trade and other receivables	4,638	6,309	7,308	8,787	9,941
Prepayments	-	-	-	-	-
Other current assets	2,470	4,386	4,386	4,386	4,386
Current liabilities	7,548	12,412	13,932	15,780	17,301
Bank loans	1,244	1,359	1,359	1,359	1,359
Trade payables	1,792	2,963	3,561	4,044	4,501
Accruals & other payables	3,841	5,821	6,743	8,108	9,172
Tax payables	650	1,225	1,225	1,225	1,225
others	21	1,044	1,044	1,044	1,044
Non-current liabilities	306	7,746	2,746	2,746	2,746
Bank loans	70	6,644	1,644	1,644	1,644
Deferred income	-	-	-	-	-
Deferred tax	236	256	256	256	256
Others	-	846	846	846	846
Minority Interest	743	979	1,304	1,776	2,337
Total net assets	15,777	20,082	24,019	28,638	32,494
Shareholders' equity	15,777	20,082	24,019	28,638	32,494

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Footwear	35.8	33.6	31.9	30.8	30.2
Apparel	61.0	63.1	64.8	66.3	66.9
Accessories	3.2	3.3	3.2	2.9	2.8
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	52.6	55.0	53.3	55.9	56.6
Operating margin	23.2	25.8	23.1	26.0	26.7
Pre-tax margin	23.9	23.6	22.2	26.1	27.1
Net margin	17.0	15.8	14.9	18.0	19.0
Effective tax rate	26.6	27.6	28.5	27.1	26.3
Balance sheet ratios					
Current ratio (x)	2.6	1.9	1.7	1.8	1.9
Quick ratio (x)	2.2	1.5	1.3	1.4	1.6
Cash ratio (x)	123	66	43	61	73
Inventory turnover days	93	105	105	105	105
Trade receivables days	70	68	68	68	68
Trade payables days	57	71	71	71	71
Total debt / total equity ratio (%)	8	40	13	11	9
Net debt / equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	26.0	26.6	24.5	29.8	31.3
ROA	16.8	13.0	14.0	17.4	18.5
Per share					
EPS (RMB)	1.53	1.92	2.11	3.06	3.64
DPS (RMB)	0.68	0.61	0.84	2.14	2.55
BVPS (RMB)	5.87	7.43	8.89	10.6	12.0

Source: Company data, CMBIS estimates

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