

Anta Sports (2020 HK)

Solid results and guidance despite M&A costs

SUMMARY. Maintain BUY and raised TP to HK\$ 71.46, based on 25x FY20E P/E (rolled over from FY19E). We believe sales momentum to remain strong and NP growth to be even faster in 2H19E. The counter trades only at 21x FY20E P/E and 1.0x 3 year PEG, which is attractive, vs intl. peers' avg. of 22x and 1.4x.

- **1H19 results inline.** Net profit grew by 27% YoY to RMB 2,483mn, inline with CMBI's est. and the 25%+ pre-announced growth in its profit alert.
- **...but operating income was impressive.** However, excluding effects of JV for Amer sports (losses of ~RMB 492mn consolidated since 2Q19 as second quarters are always loss-making seasonally), operating profit actually rocketed by 58% YoY, boosted by: 1) rapid sales growth (Anta/ FILA/ other brands jumped by 18%/ 80%/ 36%), 2) higher government grants (skewed more to 1H in FY19E), 3) lower-than-expected A&P expenses (fell to 10% in 1H19, vs 11.7% in 1H18), as quite a lot of marketing fees were saved due to the cancellation of Klay Thompson China tour after his knee injury.
- **Robust sales growth guided for both Anta & FILA in 2H19E.** Following stunning growth of FILA (65%/ 75-80%/ 30x/ 100% for Classic/ Kids/ Fusion/ E-commerce) and Anta (low teens/ 35-40%/ high teens for Adult/ Kids/ E-commerce) in 1H19, management now expects a 50%+/ accelerating (CMBI est.: 19%) sales growth for FILA/ Anta in 2H19E, thanks to 1) excellent growth momentum in Jul-Aug 2019, 2) buying back stores previously owned by FILA's distributors, and 3) further store expansion (FILA to 1,900-2,000 and Anta to 10,300-10,400, or +18% and +2% YoY).
- **... while OP margin in 2H19E should at least be stable.** We expect OP margin to at least remain stable at 22.1% in 2H19E, vs 22.2% in 2H18, despite a 3.3ppt jump to 28.7% in 1H19, because: 1) series of marketing campaigns will soon be rolled out, such as FILA and Anta kids' fashion shows, Tokyo Olympics, etc., 2) Anta's Shanghai office is still ramping up and more staffs will be hired, also 3) less government grants should be expected. If sales growth beat again, OP margin will improve accordingly. We expect NP growth to even speed up (CMBI est.: 36%), as drag from JV will reverse and Descente will begin to contribute higher profit in 2H19E.
- **Maintain BUY and raised TP to HK\$ 71.46.** We maintain BUY and raised TP to HK\$ 71.46, based on 25x FY20E P/E (rolled over), implying a 1.2x 3 years PEG. The counter is attractive, at 21x P/E or 1.0x PEG. We lifted our FY19E/20E/21E EPS estimates by 2.8%/2.2%/4.8%, to factor in 1) stronger-than-expected FILA and Anta sales growth, and 2) greater-than-expected economies of scale and operating leverage.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,692	24,100	31,904	39,520	46,332
YoY growth (%)	25.1	44.4	32.4	23.9	17.2
Net income (RMB mn)	3,088	4,103	5,427	6,766	8,203
EPS (RMB)	1.148	1.525	2.018	2.516	3.050
YoY growth (%)	21.0	32.8	32.3	24.7	21.2
P/E (x)	45.0	35.3	26.7	21.4	17.7
P/B (x)	9.7	8.8	7.3	6.0	5.2
Yield (%)	1.6	1.3	1.5	1.9	4.0
ROE (%)	25.5	26.6	29.8	30.7	31.6
Net gearing (%)	Net cash	Net cash	2.3	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$71.46**
 (Previous TP **HK\$69.91**)
 Up/Downside **+16.7%**
 Current Price **HK\$61.25**

China Sportswear Sector

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Stock Data

Mkt Cap (HK\$ mn)	165,452
Avg 3 mths t/o (HK\$ mn)	416.60
52w High/Low (HK\$)	63.0/29.05
Total Issued Shares (mn)	2,701.3
Source: Bloomberg	

Shareholding Structure

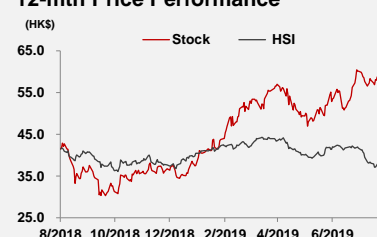
Mr. Ding Shizhong (CEO), Mr. Ding Shijia (V-Chairman), Mr. Lai Shixian (CFO) & Family	62.06%
Free Float	37.94%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	1.8%	12.6%
3-mth	23.9%	31.9%
6-mth	39.2%	56.0%
12-mth	52.6%	64.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

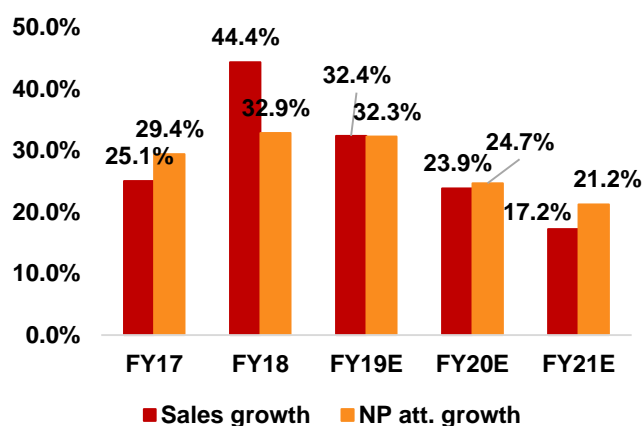
Auditor: KPMG

Related Reports

1. China Sportswear 1H19 preview : growing at full speed – 24 Jul 2019
2. Anta Sports (2020 HK) – Nothing new from the short seller – 3 Jun 2019
3. Anta Sports (2020 HK) – A conservative but reasonable guidance for FY19E - 27 Feb 2019

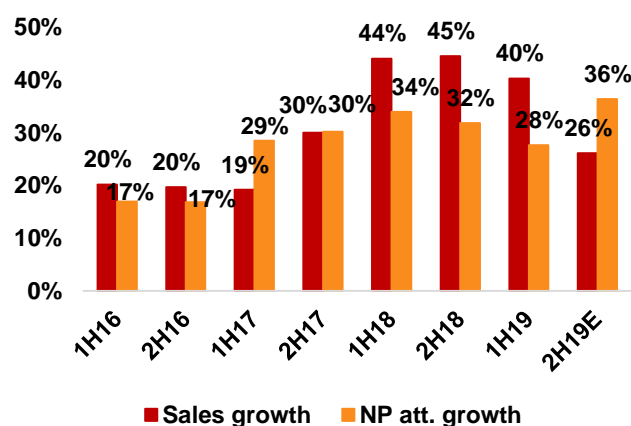
Focus Charts

Figure 1: Sales/ net profit growth - Full year



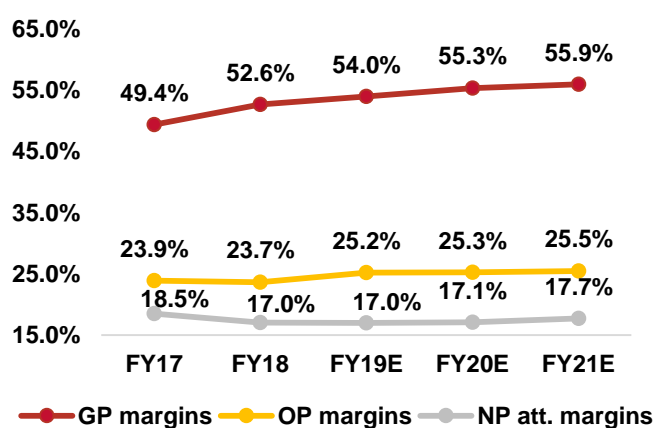
Source: Company data, CMBIS estimates

Figure 2: Sales/ net profit growth - Half year



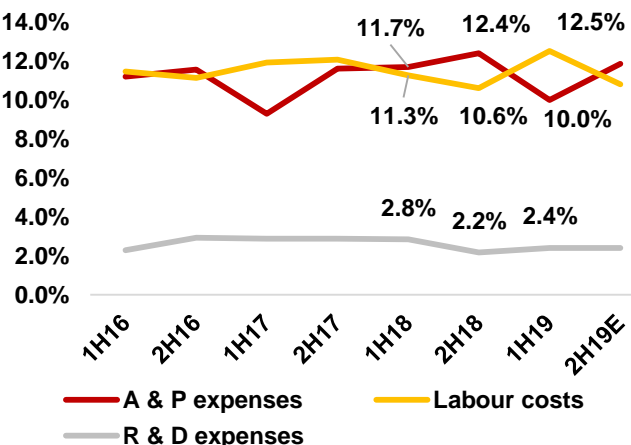
Source: Company data, CMBIS estimates

Figure 3: GP/ OP/ NP margin



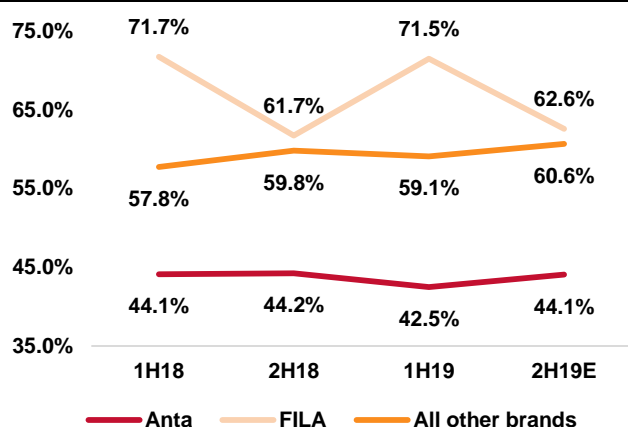
Source: Company data, CMBIS estimates

Figure 4: Opex breakdown



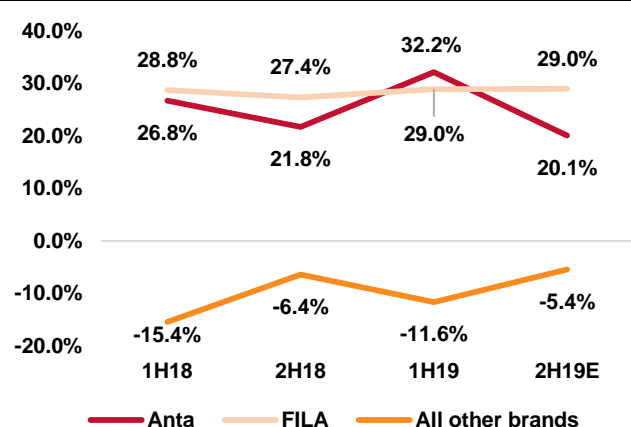
Source: Company data, CMBIS estimates

Figure 5: GP margin by brand



Source: Company data, CMBIS estimates

Figure 6: OP margin by band



Source: Company data, CMBIS estimates

Results Summary

Figure 7: Results summary – Half Year

Half yearly (Rmb mn)	1H18	2H18	1H19	2H19E	1H18 yoy	2H18 yoy	1H19 yoy	2H19 E yoy	1H19E CMBI	Actual vs CMBI
Revenue	10,554	13,547	14,811	17,093	44%	45%	40%	26%	14,266	4%
COGS	(4,827)	(6,586)	(6,509)	(8,174)					(6,473)	
Gross profit	5,726	6,961	8,302	8,919	55%	53%	45%	28%	7,793	7%
GP margins	54.3%	51.4%	56.1%	52.2%					54.6%	
Other income & gains	245	515	538	431					317	70%
S & D expenses	(2,765)	(3,760)	(4,123)	(5,011)	81%	65%	49%	33%	(3,738)	10%
S & D exp / sales	-26.2%	-27.8%	-27.8%	-29.3%					-26.2%	
Admin expenses	(518)	(705)	(460)	(555)	14%	58%	-11%	-21%	(728)	-37%
Admin exp / sales	-4.9%	-5.2%	-3.1%	-3.2%					-5.1%	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	2,689	3,011	4,257	3,785	42%	44%	58%	26%	3,644	17%
OP margins	25.5%	22.2%	28.7%	22.1%					25.5%	
Other items	0	0	0	0					0	
Net finance income	72	(5)	9	(186)					(86)	-111%
Net finance income / sales	0.7%	0.0%	0.1%	-1.1%					-0.6%	
Profit after financing costs	2,761	3,007	4,267	3,598					3,559	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	(492)	524					0	
Pre-tax profit	2,761	3,007	3,774	4,122	37%	31%	37%	37%	3,559	6%
Tax	(759)	(774)	(1,193)	(1,097)					(996)	
Tax / sales	-7.2%	-5.7%	-8.1%	-6.4%					-7.0%	
Effective tax rate	-27.5%	-25.7%	-31.6%	-26.6%					-28.0%	
Minority interests	57	74	99	81					88	12%
Net profit att.	1,945	2,158	2,483	2,944	34%	32%	28%	36%	2,474	0%
NP margins	18.4%	15.9%	16.8%	17.2%					17.3%	

Source: Company data, CMBIS estimates

Figure 8: Results summary - Full Year

Full yearly (Rmb mn)	FY17	FY18	FY19E	FY18 yoy	FY19 E yoy
Revenue	16,692	24,100	31,904	44%	32%
COGS	(8,451)	(11,413)	(14,682)		
Gross profit	8,241	12,687	17,221	54%	36%
GP margins	49.4%	52.6%	54.0%		
Other income & gains	458	760	970		
S & D expenses	(3,809)	(6,525)	(9,134)	71%	40%
S & D exp / sales	-22.8%	-27.1%	-28.6%		
Admin expenses	(901)	(1,223)	(1,015)	36%	-17%
Admin exp / sales	-5.4%	-5.1%	-3.2%		
Other opex	0	0	0		
Operating profit (EBIT)	3,989	5,700	8,042	43%	41%
OP margins	23.9%	23.7%	25.2%		
Other items	0	0	0		
Net finance income	322	68	(177)		
Net finance income / sales	1.9%	0.3%	-0.6%		
Profit after financing costs	4,311	5,767	7,865		
Associated coms	0	0	0		
Jointly controlled coms	0	0	32		
Pre-tax profit	4,311	5,767	7,897	34%	37%
Tax	(1,152)	(1,533)	(2,290)		
Tax / sales	-6.9%	-6.4%	-7.2%		
Effective tax rate	-26.7%	-26.6%	-29.0%		
Minority interests	71	131	179		
Net profit att.	3,088	4,103	5,427	33%	32%
NP margins	18.5%	17.0%	17.0%		

Source: Company data, CMBIS estimates

Earnings revision

Figure 9: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	31,904	39,520	46,332	30,940	37,500	43,698	3.1%	5.4%	6.0%
Gross profit	17,221	21,869	25,919	16,600	20,405	24,033	3.7%	7.2%	7.8%
EBIT	7,978	10,023	11,850	7,514	9,559	11,177	6.2%	4.9%	6.0%
Reported Net profit	5,427	6,766	8,203	5,278	6,619	7,825	2.8%	2.2%	4.8%
Diluted EPS (RMB)	2.018	2.516	3.050	1.962	2.461	2.909	2.8%	2.2%	4.8%
Gross margin	54.0%	55.3%	55.9%	53.7%	54.4%	55.0%	0.3ppt	0.9ppt	0.9ppt
EBIT margin	25.0%	25.4%	25.6%	24.3%	25.5%	25.6%	0.7ppt	-0.1ppt	0ppt
Net profit att. margin	17.0%	17.1%	17.7%	17.1%	17.7%	17.9%	0ppt	-0.5ppt	-0.2ppt

Source: Company data, CMBIS estimates

Figure 10: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	31,904	39,520	46,332	30,560	36,682	43,176	4.4%	7.7%	7.3%
Gross profit	17,221	21,869	25,919	16,355	19,909	23,727	5.3%	9.8%	9.2%
EBIT	7,978	10,023	11,850	7,341	8,860	10,317	8.7%	13.1%	14.9%
Net profit att.	5,427	6,766	8,203	5,323	6,539	7,758	2.0%	3.5%	5.7%
Diluted EPS (RMB)	2.018	2.516	3.050	1.980	2.422	2.867	1.9%	3.9%	6.4%
Gross margin	54.0%	55.3%	55.9%	53.5%	54.3%	55.0%	0.5ppt	1.1ppt	1ppt
EBIT margin	25.0%	25.4%	25.6%	24.0%	24.2%	23.9%	1ppt	1.2ppt	1.7ppt
Net profit att. margin	17.0%	17.1%	17.7%	17.4%	17.8%	18.0%	-0.4ppt	-0.7ppt	-0.3ppt

Source: Bloomberg, CMBIS estimates

Valuation

Figure 11: 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	71.46	61.25	16.7%	165,452	Dec-18	26.7	21.4	7.6	6.2	28.6	1.0	1.3
Li Ning	2331 HK	BUY	24.43	22.15	10.3%	51,137	Dec-18	36.6	30.5	7.0	5.9	20.9	0.9	0.8
Xtep Intl	1368 HK	BUY	6.72	4.66	44.2%	11,649	Dec-18	13.2	11.0	1.6	1.5	12.2	1.1	4.5
361 Degrees	1361 HK	NR	n/a	1.48	n/a	3,060	Dec-18	6.2	5.5	0.5	0.4	5.5	0.3	6.9
Pou Sheng	3813 HK	NR	n/a	2.33	n/a	12,481	Dec-18	15.4	11.9	1.5	1.4	9.6	0.6	1.4
China DX	3818 HK	NR	n/a	0.84	n/a	4,944	Mar-19	7.0	9.7	0.4	0.5	3.3	0.0	13.1
Avg.								17.5	15.0	3.1	2.6	13.3	0.7	4.7
Med.								14.3	11.5	1.6	1.4	10.9	0.8	2.9
International Sportswear														
Nike Inc	NKE US	NR	n/a	82.16	n/a	1,040,079	May-19	28.3	24.2	12.7	11.7	42.7	1.8	1.1
Adidas	ADS GY	NR	n/a	261.40	n/a	456,170	Dec-18	26.6	23.6	7.2	6.4	30.5	2.1	1.5
Puma	PUM GY	NR	n/a	66.40	n/a	87,202	Dec-18	38.4	31.1	5.3	4.8	13.8	1.6	0.7
Under Armour	UAA US	NR	n/a	18.03	n/a	60,501	Dec-18	53.2	37.6	3.7	3.4	4.3	(0.2)	0.0
Lululemon	LULU US	NR	n/a	182.09	n/a	186,103	Feb-19	39.2	33.0	14.8	11.8	33.7	1.8	0.0
Skechers	SKX US	NR	n/a	29.67	n/a	36,486	Dec-18	13.3	11.9	2.0	1.8	15.7	1.0	0.0
Vf Corp	VFC US	NR	n/a	79.65	n/a	248,809	Mar-19	23.1	20.7	6.8	6.5	29.1	2.1	2.2
Columbia	COLM US	NR	n/a	94.11	n/a	49,878	Dec-18	19.7	18.0	3.5	3.0	18.9	1.3	1.0
Wolverine	WWW US	NR	n/a	25.05	n/a	16,761	Dec-18	11.0	10.1	2.1	1.8	19.0	2.4	1.5
Mizuno Corp	8022 JP	NR	n/a	2715.00	n/a	5,337	Mar-19	11.7	10.6	0.7	0.7	6.9	1.6	1.8
Asics Corp	7936 JP	NR	n/a	1345.00	n/a	18,886	Dec-18	33.3	22.7	1.5	1.4	(10.3)	(0.2)	2.1
Avg.								27.1	22.1	5.5	4.8	18.6	1.4	1.1
Med.								26.6	22.7	3.7	3.4	18.9	1.6	1.1

Source: Bloomberg, CMBIS estimates

Assumption

Figure 12: Anta's key assumptions

Major assumptions	FY17A	FY18A	FY19E	FY20E	FY21E
Sales by segment (RMB mn)					
Shoes	7,049	8,631	10,617	12,634	14,655
Apparels	9,116	14,709	20,452	25,934	30,667
Accessories	528	759	835	952	1,009
Total	16,692	24,100	31,904	39,520	46,332
Sales by segment growth (%)					
Shoes	17.5%	22.5%	23.0%	19.0%	16.0%
Apparels	32.4%	61.4%	39.0%	26.8%	18.3%
Accessories	14.9%	43.9%	10.0%	14.0%	6.0%
Total	25.1%	44.4%	32.4%	23.9%	17.2%
Sales by brand growth (%)					
Anta	0.0%	9.0%	11.0%	5.0%	4.0%
Anta Kids	25.0%	29.0%	30.0%	25.0%	20.0%
FILA	55.0%	100.0%	55.0%	35.0%	20.0%
Descente & Others	275.2%	150.3%	30.0%	27.0%	25.0%
E-commerce	70.0%	45.0%	30.0%	27.0%	25.0%
Total	25.1%	44.4%	32.4%	23.9%	17.2%
Sales network					
Anta	7,258	7,271	7,311	7,371	7,451
Anta Kids	2,209	2,786	2,936	3,136	3,316
FILA	1,086	1,652	1,952	2,202	2,432
Descente & Others	529	479	564	724	919
Total	11,082	12,188	12,763	13,433	14,118
GP margins	49.4%	52.6%	54.0%	55.3%	55.9%
Opex breakdown					
A&P Expenses / sales	10.6%	12.1%	11.0%	11.6%	11.8%
Labour costs / sales	12.0%	10.9%	11.6%	11.8%	12.0%
R & D expenses / sales	5.7%	5.2%	5.2%	5.3%	5.4%
Rental expenses/ sales	5.4%	7.2%	8.4%	9.2%	9.5%
Selling & distribution costs / sales	22.8%	27.1%	28.6%	29.8%	30.0%
Admin expenses / sales	5.4%	5.1%	3.2%	3.3%	3.3%
OP margin	23.9%	23.7%	25.2%	25.3%	25.5%
Effective tax rate	26.7%	26.6%	29.0%	28.0%	27.0%
NP att. margin	18.5%	17.0%	17.0%	17.1%	17.7%
NP att. growth (%)	29.4%	32.9%	32.3%	24.7%	21.2%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,692	24,100	31,904	39,520	46,332
Footwear	7,049	8,631	10,61	12,63	14,65
Apparel	9,116	14,70	20,45	25,93	30,66
Accessories	528	759	835	952	1,009
Cost of goods sold	(8,451)	(11,413)	(14,682)	(17,651)	(20,413)
Gross profit	8,241	12,687	17,221	21,869	25,919
Other income	625	652	906	1,241	1,399
Operating expenses	(4,710)	(7,748)	(10,149)	(13,087)	(15,468)
D & A	(146)	(175)	(221)	(281)	(327)
Staff costs	(942)	(1,238)	(1,739)	(2,191)	(2,613)
S & D costs (ex-staff, D&A)	(3,122)	(5,639)	(7,278)	(9,480)	(11,200)
Admin exp. (ex-staff, D&A)	(281)	(440)	(572)	(715)	(836)
Other operating expenses	(219)	(256)	(339)	(420)	(493)
EBIT	4,156	5,592	7,978	10,023	11,850
Finance costs, net	155	175	(113)	(354)	(288)
JVs & associates	-	-	32	40	46
Exceptional	-	-	-	-	-
Pre-tax profit	4,311	5,767	7,897	9,708	11,608
Income tax	(1,152)	(1,533)	(2,290)	(2,718)	(3,134)
Less: Minority interests	71	131	179	224	271
Net profit	3,088	4,103	5,427	6,766	8,203

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	4,156	5,592	7,978	10,023	11,850
D & A	234	278	354	458	542
Change in working capital	1	866	(573)	(538)	(492)
Income tax paid	(1,013)	(1,288)	(2,290)	(2,718)	(3,134)
Others	(196)	(1,008)	211	207	273
Net cash from operating	3,181	4,440	5,679	7,431	9,039
Capex & investments	(675)	(1,319)	(14,180)	(1,107)	(834)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(903)	118	-	-	-
Net cash from investing	(1,579)	(1,201)	(14,180)	(1,107)	(834)
Equity raised	3,435	4	-	-	-
Net change in bank loans	148	1,165	7,300	-	-
Dividend paid	(1,937)	(2,425)	(2,052)	(2,512)	(4,655)
Others	(1,649)	119	(324)	(561)	(561)
Net cash from financing	(2)	(1,136)	4,924	(3,073)	(5,216)
Net change in cash	1,601	2,102	(3,577)	3,251	2,989
Beginning cash balance	5,830	6,968	9,284	5,707	8,958
Exchange difference	(463)	214	-	-	-
Cash at the end of the year	6,968	9,284	5,707	8,958	11,947

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	3,632	5,090	18,948	19,636	19,975
Fixed asset	1,203	1,787	2,652	3,337	3,660
Intangible assets & goodwill	1,136	1,170	1,132	1,095	1,064
Prepaid lease payments	105	367	13,367	13,367	13,367
Interest in joint ventures	-	-	32	71	118
Other non-current assets	1,188	1,766	1,766	1,766	1,766
Current assets	15,442	19,284	18,038	23,508	28,508
Cash and cash equivalents	6,968	9,284	5,707	8,958	11,947
Inventories	2,155	2,892	3,721	4,473	5,174
Trade and other receivables	3,733	4,638	6,140	7,606	8,917
Prepayments	-	-	-	-	-
Other current assets	2,586	2,470	2,470	2,470	2,470
Current liabilities	4,498	7,548	9,305	10,985	12,505
Bank loans	148	1,244	1,244	1,244	1,244
Trade payables	1,447	1,792	2,306	2,772	3,206
Accruals & other payables	2,531	3,841	5,085	6,299	7,384
Tax payables	353	650	650	650	650
others	19	21	21	21	21
Non-current liabilities	215	306	7,606	7,606	7,606
Bank loans	-	70	7,370	7,370	7,370
Deferred income	-	-	-	-	-
Deferred tax	215	236	236	236	236
Others	-	-	-	-	-
Minority Interest	-	-	179	403	674
Total net assets	14,361	16,520	19,895	24,149	27,697
Shareholders' equity	14,361	16,520	19,895	24,149	27,697

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Footwear	42.2	35.8	33.3	32.0	31.6
Apparel	54.6	61.0	64.1	65.6	66.2
Accessories	3.2	3.2	2.6	2.4	2.2
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	49.4	52.6	54.0	55.3	55.9
Operating margin	24.9	23.2	25.0	25.4	25.6
Pre-tax margin	25.8	23.9	24.8	24.6	25.1
Net margin	18.5	17.0	17.0	17.1	17.7
Effective tax rate	26.7	26.6	29.1	28.1	27.1
Balance sheet ratios					
Current ratio (x)	3.4	2.6	1.9	2.1	2.3
Quick ratio (x)	3.0	2.2	1.5	1.7	1.9
Cash ratio (x)	155	123	61	82	96
Inventory turnover days	93	93	93	93	93
Trade receivables days	82	70	70	70	70
Trade payables days	62	57	57	57	57
Total debt / total equity ratio (%)	1	8	43	36	31
Net debt / equity ratio (%)	Net cash	Net cash	2	Net cash	Net cash
Returns (%)					
ROE	21.5	24.8	27.3	28.0	29.6
ROA	16.2	16.8	14.7	15.7	16.9
Per share					
EPS (RMB)	1.15	1.53	2.02	2.52	3.05
DPS (RMB)	0.81	0.69	0.81	1.01	2.13
BVPS (RMB)	5.35	6.15	7.41	8.99	10.3

Source: Company data, CMBIS estimates

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