

Anta Sports (2020 HK) Challenges in 2020 weigh on growth

- FY19 revenue grew 40.8% YoY, mainly supported by 73.9% YoY growth in the FILA brand
- GPM and OPM improved, while Amer Sports acquisition weigh on NPM
- Expect FY20E revenue to increase by 7.9% YoY and margins to decline on COVID-19 outbreak. Assuming recovery in 2021, FY19-22E revenue CAGR would be 22.0%
- Downgrade to **HOLD** on near-term challenges in FY20; TP implies 30.80x/19.60x 20E/21E P/E or 6.71x/5.50x 20E/21E P/B

FY19 revenue grew 40.8% YoY. Revenue of the ANTA and FILA brands grew 21.8% and 73.9% YoY. By product category, apparel, accessories, and footwear revenue increased by 51.4%, 39.0%, and 23.9% YoY. The Group's strong growth in FY19 continues to strengthen its leading position in the sports apparel market.

Amer Sports acquisition slashed NPM. In FY19, overall GPM increased to 55.0% vs. 52.6% in FY18, mainly supported by improved GPM of the FILA brand (+0.6ppt YoY) and other brands combined (+4.6ppt YoY). Overall OPM increased by 2.0ppt YoY to 25.6% due to enhanced profitability of the ANTA and FILA brands. NPM was affected by related expenses and one-time loss resulted from the acquisition of Amer Sports. Excluding any gain or loss related to the Amer Sports acquisition, the Group's NPM would have been 17.8% vs. 16.6% as reported (FY18: 17.6%).

Efficient working capital management. The Group's inventory turnover days increased to 87 in FY19 from 81 in FY18, reflecting increasing revenue contribution from the FILA brand with a direct sales model. Overall CCC was 65 days in FY19 vs. 64 days in FY18. We believe the Group's working capital management remained efficient in FY19.

2020 will be challenging. According to the Group, 2020 would be a challenging year because the COVID-19 outbreak had disrupted factory production and sales plans in 1Q20. As the pandemic continues worldwide, economic activities will be hampered. We expect total revenue would grow by 7.9% YoY in FY20E, mainly supported by the revenue growth of the FILA brand (+15.8% YoY). Margins would be pressured on higher costs resulted from the disruptions. FY19-22E revenue CAGR would be 22.0% based on our estimates.

Downgrade to HOLD, TP adjusted to HK\$64.2. Pandemic-related uncertainties weigh on our growth projections and valuation. Downgrade to **HOLD**. Our DCF-derived TP represents 30.80x/19.60x 20E/21E P/E or 6.71x/5.50x 20E/21E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3); Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk; 6) Prolonged COVID-19 pandemic

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	24,100	33,928	36,613	46,737	61,615
Chg (% YoY)	44.38	40.78	7.91	27.65	31.83
Net Profit (RMB mn)	4,103	5,344	5,137	8,073	11,860
Chg (% YoY)	32.79	30.25	(3.89)	57.17	46.91
Basic EPS (RMB cent)	152.82	198.70	190.10	298.79	438.96
Chg (% YoY)	30.60	30.02	(4.33)	57.17	46.91
P/E (x)	35.23	27.10	28.32	18.02	12.27
BVPS (RMB)	5.88	7.43	8.73	10.65	13.49
P/B (x)	9.16	7.24	6.17	5.05	3.99
DPS(HK cent)	78.00	67.00	66.00	117.19	170.10
Yield (%)	1.32	1.13	1.12	2.18	2.88
ROAA (%)	19.49	17.15	12.37	17.32	20.81
ROAE (%)	27.83	29.81	23.52	30.83	36.37

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 9, 2020

Rating: **HOLD**

TP: **HK\$ 64.2**

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Share price (HK\$)	59.05
52 wk High/Low	79.9/42
Est. share price return	8.76%
Est. dividend yield	1.12%
Est. total return	9.88%
Previous Rating and TP	BUY;HK\$80.3
Previous Report Date	Feb 11, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,701.95
Mkt cap (HK\$m)	159,550.21
3 mth days ADT (HK\$m)	721.87
Shareholding (%)	
Anta International	50.84
Anda Holdings	5.95
Anda Investments	4.27

Source(s): Company, Bloomberg, HKEX

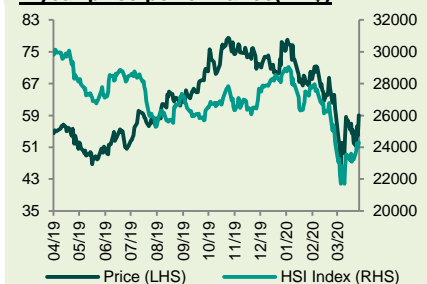
Share performance (%)

	Absolute	Relative*
1-mth	(5.06)	(2.22)
3-mth	(23.81)	(9.06)
6-mth	(12.91)	(7.99)

* 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 Apr 9, 2020
- 2) RMB/HKD: 1.0968

Exhibit 1: Changes in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
Assumptions					
GPM (%)	50.13	52.55	53.85	54.22	Adjusted based on FY19 margin profile and impact of COVID-19 outbreak
Pretax margin (%)	19.85	24.37	24.57	26.37	
NPM (to shareholders of the Company) (%)	14.03	17.27	17.63	18.93	
D/E (%)	33.07	27.43	44.85	38.07	Adjusted based on FY19 ratio
D/A (%)	18.67	15.96	32.17	33.56	Adjusted based on FY19 rate
Tax rate (%)	27.69	27.46	26.60	26.56	
Revenue growth (YoY %)	7.91	27.65	42.49	43.85	Adjusted based on FY19 growth performance and impact of COVID-19 outbreak
- Footwear	3.92	21.75	26.36	28.10	
- Apparel	10.09	29.61	50.91	50.74	
- Accessories	7.14	47.50	28.06	29.89	
Projections					
DRO (days)	38.6	35.9	40.0	37.6	Adjusted based on FY19 performance and impact of COVID-19 outbreak in FY20
DIH (days)	96.9	84.0	71.1	74.1	
DPO (days)	56.7	53.9	46.0	47.0	
CCC (days)	78.8	66.1	65.1	64.6	
ROAA (%)	12.37	17.32	21.01	25.36	Thinning margins reduce returns
ROAE (%)	23.52	30.83	39.96	47.86	
EPS (RMB cent)	190.10	298.79	318.29	491.57	Adjusted based on slowdown in earnings growth due to the impact of COVID-19 outbreak in 2020, and updated number of shares
Valuations					
TP (HK\$)	64.2		80.3		Lower growth and margins projection weigh down overall valuation; the higher P/E and P/B in the near term is caused by lower earnings estimates
P/E (x)	30.80	19.60	22.71	14.70	
P/B (x)	6.71	5.50	8.14	6.20	

Note: 1) Previous report was published on Feb 11, 2020

Source(s): The Company, ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	2018A	2019A	2020E	2021E	2022E
Revenue	24,100	33,928	36,613	46,737	61,615
- Footwear	8,631	11,410	11,857	14,436	18,111
- Apparel	14,709	21,398	23,556	30,531	41,167
- Accessories	759	1,120	1,200	1,770	2,337
COGS	(11,413)	(15,269)	(18,258)	(22,177)	(28,185)
Gross profit	12,687	18,659	18,355	24,561	33,430
- Footwear	4,226	5,661	5,571	7,070	9,227
- Apparel	8,131	11,852	12,263	16,729	23,153
- Accessories	330	497	521	762	1,049
Other net income/(loss)	760	1,070	1,117	1,402	1,864
S&D expenses	(6,525)	(9,721)	(10,636)	(13,750)	(17,260)
Admin expenses	(1,223)	(1,313)	(1,771)	(2,323)	(2,999)
Operating profit	5,700	8,695	7,065	9,889	15,035
Net finance income/(expense)	68	(53)	342	340	396
Pretax profit	5,767	8,008	7,268	11,389	16,731
Tax	(1,533)	(2,384)	(2,013)	(3,127)	(4,594)
Net profit	4,234	5,624	5,255	8,262	12,137
- Owners of the company	4,103	5,344	5,137	8,073	11,860
- Minority interest	131	280	119	189	277
Dividend	1,842	1,642	1,626	2,887	4,190
EPS (RMB cent)					
- Basic	153	199	190	299	439
- Diluted	153	199	190	299	439
DPS (HK cent)	78	67	66	117	170

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Cash and cash equivalent	9,284	8,221	12,624	13,015	16,916
Other ST deposit	2,470	4,386	3,217	3,312	4,295
Trade and other receivables	4,638	6,309	4,480	8,136	10,445
Inventory	2,892	4,405	5,290	4,923	8,486
Current assets	19,284	23,321	25,611	29,386	40,143
PP&E	1,787	2,148	2,318	2,938	3,494
Construction in progress	749	421	464	618	717
Intangible assets	685	678	658	641	618
Others	1,868	14,651	14,684	18,103	20,004
Non-current assets	5,090	17,898	18,125	22,299	24,832
Total assets	24,374	41,218	43,736	51,685	64,975
Trade and other payables	5,633	8,783	8,064	9,565	13,122
ST borrowings	1,244	1,359	1,521	1,603	2,461
Others	671	2,269	1,784	2,456	3,154
Current liabilities	7,548	12,412	11,370	13,624	18,737
LT debt	70	6,644	6,644	6,644	6,644
Deferred tax assets	236	256	105	177	185
Others	0	846	927	1,175	1,397
Total non-current liabilities	306	7,746	7,676	7,996	8,226
Shareholders' equity	15,777	20,082	23,592	28,778	36,448
Minority interest	743	979	1,098	1,287	1,564
Total equity	16,520	21,061	24,690	30,065	38,012
Total liabilities and equity	24,374	41,218	43,736	51,685	64,975

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Pretax profit	5,767	8,008	7,268	11,389	16,731
Depreciation & amortization	342	1,469	1,668	2,094	2,504
Change in working capital	(444)	(802)	226	(1,787)	-2,314
Others	(1,226)	(1,190)	(1,765)	(4,068)	-5,798
Cash flow from operating activities	4,440	7,485	7,397	7,628	11,123
CapEx	808	1,087	170	620	556
Others	(2,009)	(14,152)	(1,509)	(4,861)	(4,431)
Cash flow from investing activities	(1,201)	(13,065)	(1,339)	(4,241)	(3,875)
Bank borrowing	1,008	6,436	162	82	858
Dividend paid	(2,468)	(1,514)	(1,466)	(2,654)	(3,837)
Others	324	(252)	(277)	(305)	(335)
Cash flow from financing activities	(1,136)	4,670	(1,581)	(2,877)	(3,314)
Net change in cash	2,102	(910)	4,477	509	3,934
ForEx effect	214	(153)	(73)	(119)	(33)
Cash at the end of FY	9,284	8,221	12,624	13,015	16,916

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	2018A	2019A	2020E	2021E	2022E
Growth (YoY %)					
Revenue	44.38	40.78	7.91	27.65	31.83
- Footwear	22.45	32.20	3.92	21.75	25.46
- Apparel	61.35	45.48	10.09	29.61	34.84
- Accessories	43.95	47.56	7.14	47.50	32.03
Gross profit	53.95	47.07	(1.63)	33.81	36.11
- Footwear	28.43	33.95	(1.59)	26.90	30.52
- Apparel	71.45	45.76	3.47	36.41	38.41
- Accessories	58.63	50.44	4.87	46.38	37.58
EBIT	42.90	52.54	(18.75)	39.98	52.04
EBITDA	42.53	68.21	(14.08)	37.22	46.37
Net profit (to owners of the company)	32.79	30.25	(3.89)	57.17	46.91
Profitability ratios (%)					
GPM	52.64	55.00	50.13	52.55	54.26
- Footwear	49.00	49.62	46.99	48.97	50.95
- Apparel	55.30	55.39	52.06	54.79	56.24
- Accessories	43.50	44.32	43.39	43.08	44.88
OPM	23.65	25.63	19.30	21.16	24.40
EBITDA margin	25.07	29.96	23.85	25.64	28.47
Pretax	23.93	23.60	19.85	24.37	27.15
NPM (to owners of the company)	17.02	15.75	14.03	17.27	19.25
Revenue contribution (%)					
- Footwear	35.81	33.63	32.38	30.89	29.39
- Apparel	61.03	63.07	64.34	65.33	66.81
- Accessories	3.15	3.30	3.28	3.79	3.79
Return ratios (%)					
ROAA	19.49	17.15	12.37	17.32	20.81
ROAE	27.83	29.81	23.52	30.83	36.37
Liquidity ratio (x)					
Current ratio	2.55	1.88	2.25	2.16	2.14
Quick ratio	2.17	1.52	1.79	1.80	1.69
Cash ratio	1.56	1.02	1.39	1.20	1.13
Cash conversion cycle (days)					
Days of outstanding receivable	34.8	34.4	38.6	35.9	34.8
Days of inventory on hand	80.7	87.2	96.9	84.0	86.8
Days of outstanding payable	51.8	56.8	56.7	53.9	54.7
CCC	63.7	64.8	78.8	66.1	66.9
Leverage ratios (%)					
Total debt/Equity	7.95	38.00	33.07	27.43	23.95
Total debt/Total assets	5.39	19.41	18.67	15.96	14.01
Net cash/Equity	60.36	19.41	28.79	24.80	30.04
Net cash/Total assets	40.91	9.92	16.25	14.42	17.58

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

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 2008 (HSI total return index 2008-19 CAGR at 10%)

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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