

Anta Sports (2020 HK)

Stellar growth in 1H19; maintain BUY

- 1H19 revenue growth was 40.3% YoY, supported by increased income in footwear (+24.7% YoY), apparel (+50.9% YoY), and accessories (+41.0% YoY); revenue from Anta Brand and Fila Brand grew 18.3% and 79.9% YoY
- Mixed margin performance in Group level and portfolio brands
- Acquisition of Amer Sports led to higher D/E ratio at 40.1% by end-1H19 from 8.0% by end-2018; the acquisition structure prevents the full impact of the transaction to be reflected on Anta's financial statements at this point
- Expect 2018-21E revenue CAGR to be 41.4% based on the current brand portfolio
- Maintain **BUY**; current TP represents 33.46x/21.69x 19E/20E P/E or 9.66x/7.69x 19E/20E P/B

1H19 revenue growth reached 40.3% YoY. Revenue growth was driven by increases in footwear (+24.7% YoY), apparel (+50.9% YoY), and accessories (+41.0% YoY) segments. Revenue of Anta Brand and Fila Brand grew 18.3% and 79.9% YoY, while combined revenue of other brands was up 36.0% YoY. 1H19 results solidify Anta's dominant position in China's sportswear market and reflect resilience of its business model.

Mixed margin performance. Overall GPM and OPM improved to 56.1% and 28.8% in 1H19, attributable to increasing contribution from the Fila Brand with higher GPM (71.5%) and reduction in SG&A expense/revenue ratio. However, GPM of Anta Brand and Fila Brand decreased by 1.6ppt YoY and 0.24ppt YoY in 1H19, reflecting pricing pressure amid languishing sentiment in the consumer market.

Lengthened cash conversion cycle (CCC) a concern. The Group's cash conversion cycle (CCC) increased from 66.5 days in 1H18 to 74.3 days in 1H19. Inventory turnover days increased by ~4 days to 87.6 days, which could be related to the challenging consumer environment. The Group may face slower working capital turnover as the economy cools further.

Acquisition of Amer Sports. The acquisition led to higher D/E ratio of 40.1% at end-1H19 from 8.0% at end-2018, which would increase finance cost in the future. Since the Group acquires Amer Sports through a JV, impact of the integration may not be fully reflected on the Group's financial reports at present.

Expect revenue CAGR of 41.4% in FY18-21E. We expect revenue of the footwear, apparel, and accessories segments to grow at 24.9%, 50.0%, and 30.6% CAGRs in FY18-21E. Margins would be suppressed by SG&A expense, and the initial costs related to the Amer Sports acquisition would result in lower NPM in FY19E. Increased financial costs related to the higher leverage resulted from the acquisition would also lower the Group's margins in the medium term.

Maintain BUY; TP at HK\$74.9. The Group's 1H19 results were largely resilient despite margin contraction in certain brands. The acquisition of Amer Sports presents a growth driver and helps elevate the Group's status in the international sportswear market. Maintain **BUY**. Our DCF-derived TP HK\$ 74.9, which represents 33.46x/21.69x 19E/20E P/E or 9.66x/7.69x 19E/20E P/B, was raised to mainly reflect the new potential brought by the Amer acquisition.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	16,692	24,100	33,853	48,024	68,118
Chg (% YoY)	25.08	44.38	40.47	41.86	41.84
Net Profit (RMB mn)	3,090	4,103	5,447	8,402	12,894
Chg (% YoY)	29.52	32.79	32.77	54.25	53.46
Basic EPS (RMB cent)	117.01	152.82	202.91	312.98	480.31
Chg (% YoY)	22.70	30.60	32.78	54.25	53.46
P/E (x)	50.01	38.29	28.84	18.69	12.18
BVPS (RMB)	5.11	5.88	7.03	8.83	11.55
P/B (x)	11.46	9.96	8.33	6.62	5.07
DPS (HKD cent)	98.00	78.00	96.94	146.11	230.54
Yield (%)	1.52	1.21	1.50	2.26	3.57
ROAA (%)	18.97	19.49	18.40	21.05	25.44
ROAE (%)	26.57	27.83	31.45	39.47	47.14

Source(s): Bloomberg, ABCI Securities estimates

Company Report Sep 19, 2019

Rating: **BUY**
TP: **HK\$ 74.9**

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Share price (HK\$)	64.55
52 wk High/Low	66.4/29.05
Est. share price return	16.03%
Est. dividend yield	1.50%
Est. total return	17.54%
Previous Rating and TP	BUY; HK\$54.0
Previous Report Date	Mar 4, 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,701.27
Mkt cap (HK\$m)	174,366.91
3 mth days ADT (HK\$m)	415.33
Shareholding (%)	
Anta International	50.85
Anda Holdings	5.95
Anda Investments	4.28

Source(s): Company, Bloomberg, HKEX

% to total revenue	FY19E
Footwear	31.43
Apparel	65.46
Accessories	3.11

Source(s): ABCI Securities estimates

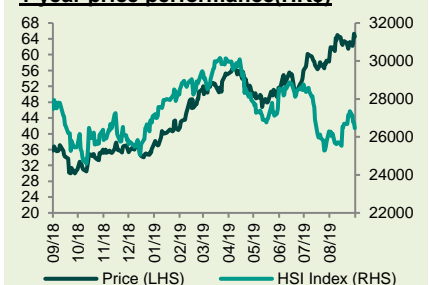
Share performance (%)

	Absolute	Relative*
1-mth	10.88	9.57
3-mth	24.99	29.72
6-mth	26.49	34.05

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of end-Sep 19, 2019

** RMB/HKD: 1.1032



Exhibit 1: Anta's retail sales value growth by brand (YoY %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Anta brand	Low-teens	20%-30%	Mid-teens	20%-25%	20%-25%	Low-teens	Mid-teens	Mid-teens	Low-teens	Mid-teens
Non-anta brand	40%-50%	50%-60%	40%-50%	85%-90%	80%-85%	90 %-95%	90 %-95%	80%-85%	65%-70%	55%-60%

Source(s): Company, ABCI Securities

Exhibit 2: Interim results comparison

	1H18	1H19
Growth (YoY %)		
Total revenue	44.11	40.34
By product category		
Footwear	21.29	24.71
Apparel	64.59	50.88
Accessories	51.34	41.00
By brand		
ANTA	N/A	18.28
FILA	N/A	79.85
Others	N/A	36.13
Gross profit	54.61	44.98
Operating profit	41.69	58.35
Net profit (to owners of the Company)	34.00	27.66

Margins (%)

GPM	54.26	56.05
By product category		
Footwear	50.07	49.57
Apparel	57.75	60.25
Accessories	43.77	46.41
By brand		
ANTA	44.10	42.50
FILA	71.72	71.48
Others	57.75	59.11
OPM	25.48	28.75
ANTA	26.79	32.18
FILA	28.80	28.98
Others	(15.41)	(11.61)
NPM (to owners of the Company)	18.43	16.76

Revenue composition (%)

By product category		
Footwear	38.93	34.59
Apparel	57.47	61.79
Accessories	3.60	3.62
By brand		
ANTA	60.80	51.25
FILA	34.44	44.14
Others	4.75	4.61

Cash conversion cycle (annualized)

Receivable turnover days	36.1	34.5
Inventory turnover days	83.7	87.6
Payable turnover days	53.4	47.9
CCC	66.5	74.3

Source(s): Company, ABCI Securities

Financial Statements

Consolidated income statement (2017A-2021E)

FY ends at Dec 31 (RMB mn, except per share data)	2017A	2018A	2019E	2020E	2021E
Revenue	16,692	24,100	33,853	48,024	68,118
- Footwear	7,049	8,631	10,640	13,329	16,800
- Apparel	9,116	14,709	22,160	33,359	49,626
- Accessories	528	759	1,054	1,336	1,693
COGS	(8,451)	(11,413)	(15,883)	(22,247)	(31,236)
Gross profit	8,241	12,687	17,970	25,777	36,882
- Footwear	3,291	4,226	5,229	6,565	8,328
- Apparel	4,743	8,131	12,274	18,633	27,825
- Accessories	208	330	467	580	729
Other net income/(loss)	458	760	998	1,465	2,043
S&D expenses	(3,809)	(6,525)	(9,517)	(13,951)	(20,040)
Admin expenses	(901)	(1,223)	(1,687)	(2,471)	(3,438)
Operating profit	3,989	5,700	7,765	10,820	15,448
Net finance income/(expense)	322	68	460	753	862
Pretax profit	4,311	5,767	7,585	11,711	17,967
Tax	(1,152)	(1,533)	(2,009)	(3,115)	(4,771)
Net profit	3,159	4,234	5,576	8,597	13,196
- Owners of the company	3,090	4,103	5,447	8,402	12,894
- Minority interest	69	131	128	194	301
Dividend	2,178	1,842	2,359	3,556	5,610
EPS (RMB cent)					
- Basic	117.01	152.82	202.91	312.98	480.31
- Diluted	116.84	152.69	202.60	312.51	479.57
DPS (HKD cent)	98	78	97	146	231

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash and cash equivalent	6,968	9,284	14,884	19,171	22,723
Other ST deposit	2,586	2,470	5,479	6,541	7,437
Trade and other receivables	3,733	4,638	7,187	7,328	11,662
Inventory	2,155	2,892	3,274	5,394	7,287
Others	0	0	0	0	0
Current assets	15,442	19,284	30,825	38,434	49,109
PP&E	1,203	1,787	1,985	2,318	2,938
Construction in progress	706	749	585	831	1,218
Intangible assets	705	685	677	658	641
Others	1,018	1,868	2,165	3,208	4,394
Non-current assets	3,632	5,090	5,413	7,015	9,192
Total assets	19,074	24,374	36,238	45,449	58,301
Trade and other payables	3,978	5,633	7,486	9,489	12,372
ST borrowings	148	1,244	8,211	10,001	11,739
Others	373	671	616	949	1,487
Current liabilities	4,498	7,548	16,312	20,439	25,598
LT debt	0	70	70	70	70
Deferred tax assets	215	236	119	162	270
Total non-current liabilities	215	306	189	232	340
Shareholders' equity	13,706	15,777	18,866	23,712	30,997
Minority interest	654	743	871	1,065	1,366
Total equity	14,361	16,520	19,736	24,777	32,363
Total liabilities and equity	19,074	24,374	36,238	45,449	58,301

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2017A-2021E)

FY ends at Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Pretax profit	4,311	5,767	7,585	11,711	17,967
Depreciation & amortization	250	342	435	486	596
Change in working capital	(381)	(444)	(1,077)	(256)	(3,343)
Others	(999)	(1,226)	(1,897)	(2,931)	(4,419)
Cash flow from operating activities	3,181	4,440	5,046	9,010	10,800
CapEx	(585)	(678)	(704)	(928)	(1,383)
Others	(994)	(523)	(3,294)	(1,442)	(5,316)
Cash flow from investing activities	(1,579)	(1,201)	(3,998)	(2,370)	(6,699)
Bank borrowing	(827)	1,008	6,967	1,790	1,738
Dividend paid	(1,976)	(2,468)	(2,182)	(3,206)	(5,158)
Others	2,801	324	356	392	431
Cash flow from financing activities	(2)	(1,136)	5,141	(1,025)	(2,989)
Net change in cash	1,601	2,102	6,189	5,615	1,112
ForEx effect	(463)	214	(589)	(441)	(73)
Cash at the end of FY	6,968	9,284	14,884	19,171	22,723

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (2017A-2021E)

FY ends at Dec 31	2017A	2018A	2019E	2020E	2021E
Growth (YoY %)					
Revenue	25.08	44.38	40.47	41.86	41.84
- Footwear	17.47	22.45	23.27	25.28	26.03
- Apparel	32.39	61.35	50.65	50.54	48.76
- Accessories	14.86	43.95	38.74	26.78	26.73
Gross profit	27.59	53.95	41.64	43.45	43.08
- Footwear	20.84	28.43	23.74	25.53	26.87
- Apparel	35.18	71.45	50.95	51.81	49.33
- Accessories	24.07	58.63	41.47	24.12	25.82
EBIT	24.52	42.90	36.23	39.35	42.77
EBITDA	23.61	42.53	35.71	37.88	41.91
Net profit (to owners of the company)	29.52	32.79	32.77	54.25	53.46
Profitability ratios (%)					
GPM	49.37	52.64	53.08	53.68	54.14
- Footwear	46.70	49.00	49.15	49.25	49.57
- Apparel	52.00	55.30	55.39	55.86	56.07
- Accessories	39.40	43.50	44.32	43.39	43.08
OPM	23.90	23.65	22.94	22.53	22.68
EBITDA margin	25.39	25.07	24.22	23.54	23.55
Pretax	25.82	23.93	22.40	24.39	26.38
NPM (to owners of the company)	18.51	17.02	16.09	17.50	18.93
Revenue contribution (%)					
- Footwear	42.23	35.81	31.43	27.76	24.66
- Apparel	54.61	61.03	65.46	69.46	72.85
- Accessories	3.16	3.15	3.11	2.78	2.49
Return ratios (%)					
ROAA	18.97	19.49	18.40	21.05	25.44
ROAE	26.57	27.83	31.45	39.47	47.14
Liquidity ratio (x)					
Current ratio	3.43	2.55	1.89	1.88	1.92
Quick ratio	2.95	2.17	1.69	1.62	1.63
Cash ratio	2.12	1.56	1.25	1.26	1.18
Cash conversion cycle (days)					
Days of outstanding receivable	41.0	34.8	39.5	40.0	37.6
Days of inventory on hand	74.5	80.7	70.9	71.1	74.1
Days of outstanding payable	46.2	48.7	47.3	46.0	47.0
CCC	69.4	66.9	63.1	65.1	64.6
Leverage ratios (%)					
Total debt/Equity	0.77	7.95	41.60	40.36	36.27
Total debt/Total assets	0.58	5.39	22.85	22.16	20.26
Net cash/Equity	65.76	60.36	58.60	60.83	54.77
Net cash/Total assets	49.51	40.91	31.92	33.17	30.40

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

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%)

Notes: 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 2005 (HSI total return index 2005-17 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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