



Anta Sports (2020 HK)

Upbeat FY18 results boost confidence

- FY18 revenue grew 44.4% YoY, supported by accelerated growth in all three product categories
- In FY18, GPM expanded to 52.6%; OPM and NPM (to owners of the Company) fell slightly to 23.7% and 17.0% due to the 71.3% YoY increase in S&D expenses
- The pending acquisition of Amer Sports would increase the need for external funding, resulting in higher leverage and financing costs and lower dividend payout
- Revenue is expected to increase at 19.6% 18-21E CAGR based on the current brand portfolio
- Upgrade to **BUY**; current TP represents 24.92x/21.14x 19E/20E P/E, or 6.88x/5.79x 19E/20E P/B

Revenue grew 44.4% YoY in FY18. Accelerated revenue growth was recorded in all three product categories (Footwear: +22.5% YoY; Apparel: +61.4% YoY; Accessories +44.0% YoY) in FY18. Non-Anta brand retail sales increased by 80%-85% YoY in 4Q18 and FY18 85%-90% YoY in FY18. Mid-teens growth was recorded for retail sales of Anta brand products in 4Q18 and FY18. The newly acquired brands were the growth engines in FY18. We believe that store network expansion and product differentiation have enabled the Group to achieve rapid revenue growth.

Margin expansion slowed. GPM rose from 49.4% in FY17 to 52.6% in FY18, but OPM was down from 23.9% in FY17 to 23.7% in FY18, while NPM (to owners of Company) fell from 18.5% in FY17 to 17.0% in FY18. The contracted margin can be attributed to S&D expenses, which increased by 71.3% YoY, equivalent to 27.8% of total revenue. The substantial increase in S&D expenses was a result of the store expansion as well as intensified competition in the market. As retail sales growth in China slows and economic pace moderates, marketing and distribution expenses may increase further.

Acquisition of Amer Sports increases funding need. The Group's D/E ratio increased to 8.0% in FY18 from 0.77% in FY17. As the Group proceeds with the acquisition of Amer Sports, leverage would increase. Based on the cash position by end-FY18, the Group would need another RMB~10bn to acquire 50% of Amer's stakes and finance costs would increase. In addition, FY18 dividend payout declined to HK\$ 0.78 from HK\$ 0.98 in FY17, reflecting the need for capital. We believe dividend payout may drop further.

Revenue CAGR of 19.6% in 2018-21E. We expect the expanded store network and existing non-Anta brands to be the revenue growth drivers in the next three year. S&D expenses would increase as retail sales environment turns more challenging and competition among sportswear brands intensifies, hence OPM and NPM (to owners of the Company) would trend down to 21.7% and 16.7% in FY21E. The acquisition of Amer Sports, if successful, would double the Group's revenue size based on the FY18 figures.

Upgrade to BUY, TP at HK\$ 54.0. Upgrade to **BUY** based on strong performance in FY18, strong growth of non-Anta brands and the potential scale-up of revenue after acquiring Amer Sports. DCF-derived TP is revised to HK\$ 54.0, which represents 24.92x/21.14x 19E/20E P/E, or 6.88x/5.79x 19E/20E P/B.

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	2017E	2018E	2019E	2020E	2020E
Revenue (RMB mn)	16,692	24,100	30,400	35,553	41,199
Chg (% YoY)	25.08	44.38	26.14	16.95	15.88
Net Profit (RMB mn)	3,090	4,103	5,160	6,083	6,861
Chg (% YoY)	29.52	32.79	25.77	17.89	12.79
Basic EPS (RMB cent)	117.01	152.82	192.22	226.60	255.59
Chg (% YoY)	22.70	30.60	25.78	17.89	12.79
P/E (x)	37.14	28.44	22.61	19.18	17.01
BVPS (RMB)	5.11	5.88	6.97	8.27	9.72
P/B (x)	8.51	7.40	6.24	5.25	4.47
DPS(HKD cent)	98.00	78.00	93.85	108.10	125.37
Yield (%)	2.00	1.59	1.92	2.21	2.56
ROAA (%)	18.97	19.49	19.87	19.79	19.16
ROAE (%)	26.57	27.83	29.93	29.74	28.41

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 4, 2019

Rating: **BUY**
TP: **HK\$ 54.0**

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Share price (HK\$)	49.00
52 wk High/Low	49.50/29.05
Est. share price return	10.20%
Est. dividend yield	2.00%
Est. total return	12.20%
Previous Rating and TP	HOLD;HK\$34.6
Previous Report Date	Oct 30,2018

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,684.90
Mkt cap (HK\$m)	131,560.30
3 mth days ADT (HK\$m)	221.29
Shareholding (%)	
Anta International	51.16
Anda Holdings	5.99
Anda Investments	4.30
Shine Well	0.35
Talent Trend	0.04

Source(s): Company, Bloomberg

% to total revenue	FY19E
Footwear	32.80
Apparel	64.22
Accessories	2.98

Source(s): ABCI Securities estimates

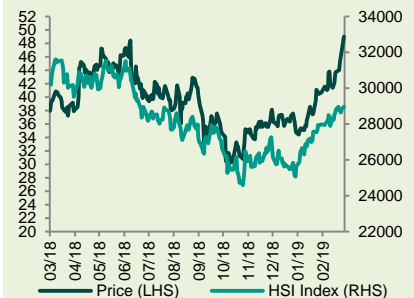
Share performance (%)

	Absolute	Relative*
1-mth	20.39	16.66
3-mth	29.80	23.27
6-mth	18.36	13.93

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

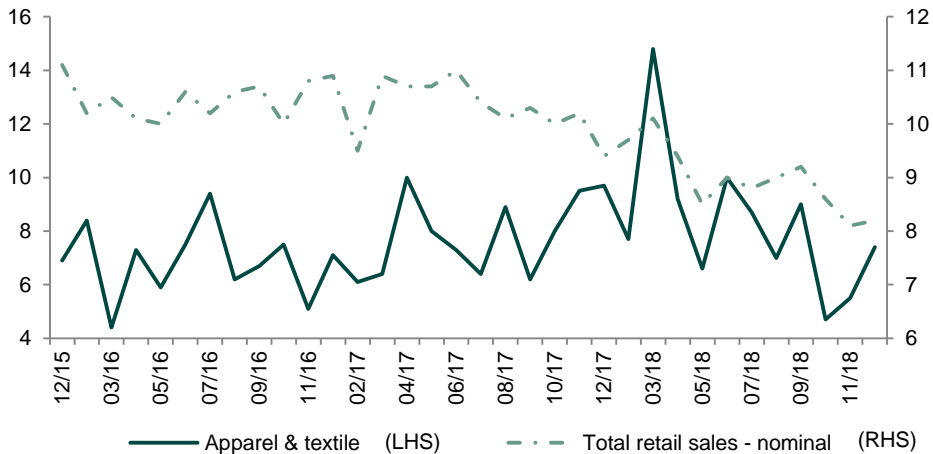
* All pricing and market data as of end-Mar 4, 2019

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

	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Anta brand	High teens	Low teens	20%-30%	Mid-teens	20%-25%	20%-25%	Low-teens	Mid-teens	Mid-teens
Non-anta brand	50%-60%	40%-50%	50%-60%	40%-50%	85%-90%	80%-85%	90 %-95%	90 %-95%	80%-85%

Source(s): Company, ABCI Securities

Exhibit 2: Apparel & textile retail sales growth (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 3: Store number

	2013	2014	2015	2016	2017	2018	2019 target
Anta + Anta Kids	8,638	8,850	8,489	8,860	9,467	10,057	10,100-10,200
Fila + Fila Kids + Fila Fusion	416	519	591	802	1,086	1,652	1,800-1,900
Descente	N/A	N/A	N/A	6	64	117	130-140
Kingkow	N/A	N/A	N/A	N/A	N/A	77	90-100
Sprandi	N/A	N/A	N/A	N/A	N/A	104	140-150
Kolon Sport	N/A	N/A	N/A	N/A	N/A	181	170-180
Total	9,054	9,369	9,080	9,668	10,617	12,188	12,430-12,670

*As of end of period

Source(s): Company, ABCI Securities

Exhibit 4: Projected Anta and Amer consolidated results

Size (RMB mn)	Anta and Amer consolidated results (RMB mn)			Anta stand-alone results (RMB mn)		
	2018A	2019E	2020E	2018A	2019E	2020E
Sales	45,199	52,988	59,259	24,100	30,400	35,553
Gross profit	22,277	26,434	29,844	12,687	16,115	18,982
EBIT	7,339	8,932	10,227	5,700	6,782	7,926
NP	5,350	6,597	7,707	4,234	5,282	6,224
Profitability (%)	2018A	2019E	2020E	2018A	2019E	2020E
GPM	49.29	49.89	50.36	52.64	53.01	53.39
OPM	16.24	16.86	17.26	23.65	22.31	22.29
NPM	11.84	12.45	13.01	17.02	16.97	17.11
Growth (YoY %)	2018A	2019E	2020E	2018A	2019E	2020E
Sales	19.43	17.23	11.84	44.38	26.14	16.95
Gross profit	25.51	18.66	12.90	53.95	27.02	17.78
EBIT	38.08	21.72	14.50	42.90	18.98	16.87
NP	27.73	23.31	16.83	30.60	25.78	17.89
Return ratios (%)	2018A	2019E	2020E	2018A	2019E	2020E
ROAA	11.32	13.01	12.42	19.49	19.87	19.79
ROAE	22.51	23.72	23.64	27.83	29.93	29.74

Note:

1) Anta results are our own estimates; Amer results are Bloomberg consensus 2) Anta results assumes it would take a loan of RMB 9.51bn to acquire 50% of Amer Sports in 2019; the acquisition would be completed in 2019; the total consideration would be completely paid out to Amer Sports

3) EUR/RMB: 7.8785

Source(s): Bloomberg, ABCI Securities estimates

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	30,400	35,553	41,199
- Footwear	7,049	8,631	9,971	11,260	12,789
- Apparel	9,116	14,709	19,523	23,227	27,166
- Accessories	528	759	907	1,066	1,244
COGS	(8,451)	(11,413)	(14,285)	(16,571)	(19,091)
Gross profit	8,241	12,687	16,115	18,982	22,108
- Footwear	3,291	4,226	4,900	5,545	6,340
- Apparel	4,743	8,131	10,813	12,974	15,232
- Accessories	208	330	402	462	536
Other net income/(loss)	458	760	896	1,085	1,236
S&D expenses	(3,809)	(6,525)	(8,670)	(10,298)	(12,295)
Admin expenses	(901)	(1,223)	(1,560)	(1,843)	(2,098)
Operating profit	3,989	5,700	6,782	7,926	8,950
Net finance income/(expense)	322	68	403	553	611
Pretax profit	4,311	5,767	7,185	8,479	9,561
Tax	(1,152)	(1,533)	(1,903)	(2,255)	(2,539)
Net profit	3,159	4,234	5,282	6,224	7,022
- Owners of the company	3,090	4,103	5,160	6,083	6,861
- Minority interest	69	131	121	141	160
Dividend	2,178	1,842	2,235	2,574	2,985
EPS (RMB cent)					
- Basic	117.01	152.82	192.22	226.60	255.59
- Diluted	116.84	152.69	191.92	226.25	255.20
DPS (HKD cent)	98	78	94	108	125

* All forecasts assume no acquisition of Amer Sports

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	10,480	13,764	14,701
Other ST deposit	2,586	2,470	4,350	5,165	5,398
Trade and other receivables	3,733	4,638	5,981	4,765	6,721
Inventory	2,155	2,892	2,654	3,803	3,948
Current assets	15,442	19,284	23,465	27,496	30,768
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	2,071	2,800	3,619
Non-current assets	3,632	5,090	5,319	6,607	8,416
Total assets	19,074	24,374	28,783	34,103	39,184
Trade and other payables	3,978	5,633	6,821	7,851	8,404
ST borrowings	148	1,244	1,628	2,154	2,510
Others	373	671	584	694	803
Current liabilities	4,498	7,548	9,034	10,699	11,717
LT debt	0	70	70	70	70
Deferred tax assets	215	236	113	118	144
Total non-current liabilities	215	306	183	188	214
Shareholders' equity	13,706	15,777	18,703	22,212	26,088
Minority interest	654	743	864	1,005	1,165
Total equity	14,361	16,520	19,567	23,216	27,253
Total liabilities and equity	19,074	24,374	28,783	34,103	39,184

* All forecasts assume no acquisition of Amer Sports

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	7,185	8,479	9,561
Depreciation & amortization	250	342	435	486	596
Change in working capital	(381)	(444)	85	1,098	(1,546)
Others	(999)	(1,226)	(1,866)	(2,211)	(2,444)
Cash flow from operating activities	3,181	4,440	5,838	7,851	6,166
CapEx	(585)	(678)	(704)	(928)	(1,383)
Others	(994)	(523)	(2,486)	(284)	(682)
Cash flow from investing activities	(1,579)	(1,201)	(3,190)	(1,212)	(2,065)
Bank borrowing	(827)	1,008	384	526	356
Dividend paid	(1,976)	(2,468)	(2,067)	(2,321)	(2,745)
Others	2,801	324	356	392	431
Cash flow from financing activities	(2)	(1,136)	(1,327)	(1,403)	(1,958)
Net change in cash	1,601	2,102	1,322	5,236	2,143
ForEx effect	(463)	214	(126)	(411)	(141)
Cash at the end of FY	6,968	9,284	10,480	13,764	14,701

* All forecasts assume no acquisition of Amer Sports

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	26.14	16.95	15.88
- Footwear	17.47	22.45	15.51	12.93	13.57
- Apparel	32.39	61.35	32.73	18.97	16.96
- Accessories	14.86	43.95	19.37	17.55	16.75
Gross profit	27.59	53.95	27.02	17.78	16.47
- Footwear	20.84	28.43	15.95	13.17	14.33
- Apparel	35.18	71.45	32.99	19.98	17.41
- Accessories	24.07	58.63	21.72	15.09	15.92
EBIT	24.52	42.90	18.98	16.87	12.92
EBITDA	23.61	42.53	19.44	16.56	13.49
Net profit (to owners of the company)	29.52	32.79	25.77	17.89	12.79
EPS - basic	22.70	30.60	25.78	17.89	12.79
Profitability ratios (%)					
GPM	49.37	52.64	53.01	53.39	53.66
- 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	22.31	22.29	21.72
EBITDA margin	25.39	25.07	23.74	23.66	23.17
Pretax	25.82	23.93	23.63	23.85	23.21
NPM (to owners of the company)	18.51	17.02	16.97	17.11	16.65
Revenue contribution (%)					
- Footwear	42.23	35.81	32.80	31.67	31.04
- Apparel	54.61	61.03	64.22	65.33	65.94
- Accessories	3.16	3.15	2.98	3.00	3.02
Return ratios (%)					
ROAA	18.97	19.49	19.87	19.79	19.16
ROAE	26.57	27.83	29.93	29.74	28.41
ROIC	27.62	27.23	27.76	29.30	28.71
DPO	68.93	43.51	42.31	41.36	42.52
Liquidity ratio (x)					
Current ratio	3.43	2.55	2.60	2.57	2.63
Quick ratio	2.95	2.17	2.30	2.21	2.29
Cash ratio	2.12	1.56	1.64	1.77	1.72
Cash conversion cycle (days)					
Days of outstanding receivable	41	35	40	40	38
Days of inventory on hand	75	81	71	71	74
Days of outstanding payable	46	49	47	46	47
CCC	69	67	63	65	65
Leverage ratios (%)					
Total debt/Equity	0.77	7.95	8.32	9.28	9.21
Total debt/Total assets	0.58	5.39	5.90	6.52	6.59
Net cash/Equity	65.76	60.36	64.47	69.50	61.99
Net cash/Total assets	49.51	40.91	43.83	47.32	43.12

* All forecasts assume no acquisition of Amer Sports

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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