ORIENTAL PATRON

Equity Research
Sportswear / China

Anta Sports (2020 HK)

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Company Update

BUY

UNCHANGED

Close price:	**HK$53.50**
Target Price:	**HK$57.00 (+7%)**
Prior TP:	**HK$49.00**

Key Data

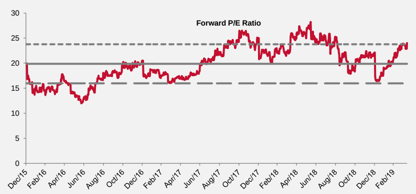
HKEx code		2020 HK
12 Months High	(HK$)	54.00
12 Month Low	(HK$)	29.05
3M Avg Dail Vol.	(mn)	6.45
Issue Share	(mn)	2,685.21
Market Cap	(HK$mn)	143,658.52
Fiscal Year		12/2018
Major shareholder (s)		Director Ding & asso (61.81%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 12/04/2019

Price Chart

	1mth	3mth	6mth
Absolute %	9.3	53.0	69.7
Rel. MSCI CHINA %	5.0	36.6	51.1

PE



Company Profile

ANTA Sports Products Limited designs, develops, manufactures, and markets sportswear, including sports footwear and apparel for professionals and the general public.

1Q19E retail performance in line

- **Anta saw 1Q19E retail sales value for Anta brands/other brands increased low-teens percentage/65-70% yoy respectively.**
- **We fine tune our FY19/20E earnings estimate by -2.1%/-1.6% to RMB5,194mn/RMB6,429mn on a higher budget for A&P.**
- **Maintain BUY with TP HK$57.0 revised up from HK$49.0 based on rolled forward 20x FY20E P/E (previously 20x FY19E P/E).**

1Q19E retail performance in-line. Anta saw 1Q19E retail sales for Anta brands up low-teens percentage yoy, of which core Anta offline sales/Anta Kids/Anta online each registered HSD (high-single digit percentage)/~25%/MTS (mid-teens percentage) growth respectively. Growth for e-commerce slowed down slightly from up 40%+/20%+ in 1Q18/4Q18 as the Company strategically chose to weigh more on exclusive products and gave less discounts. Sales of other brands overall grew 65%-70% yoy, of which FILA kept robust growth of over 70% with no sign of slow down compared to 1Q18.

Offline **retail discounts** were largely stable compared with the same period last year (i.e. 27-28% off for core Anta and 31-32% off for Anta Kids). **Channel inventory** level for core Anta/Anta Kids/FILA was maintained at healthy level of less than 4 months/around 4 months/5-6 months respectively despite of some worries in the market on the clearing of winter products.

We fine tune our FY19/20E earnings estimate by -2.1%/-1.6% to RMB5,194mn/RMB6,429mn. We slightly tune up our FY19/20E opex by 1.6%/1.3% to RMB9,676mn/RMB11,388mn and therefore fine tune our FY19/20E earnings estimate by -2.1%/-1.6% respectively.

Maintain BUY. Maintain BUY on Anta with target price HK$57.0 revised up from HK$49.0 based on rolled forward 20x FY20E P/E (previously 20x FY19E P/E).

Risks: (1) Execution risk after the acquisition of Amer Sports; (2) Weak consumption growth in China market; (3) Unfavorable interest rate fluctuations; (4) Channel inventory build-up

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	16,692.5	24,100.0	30,488.4	37,008.4	42,303.1
Growth (%)	25.1	44.4	26.5	21.4	14.3
Net Profit	3,087.8	4,102.9	5,193.7	6,429.2	7,253.5
Growth (%)	29.4	32.9	26.6	23.8	12.8
Diluted EPS (HK$)	1.460	1.909	2.318	2.869	3.237
EPS growth (%)	22.8	30.7	21.4	23.8	12.8
Change to previous EPS (%)			(6.0)	(5.6)	
Consensus EPS (HK$)			2.286	2.753	
ROE (%)	26.6	27.8	29.8	30.2	28.1
P/E (x)	36.6	28.0	23.1	18.6	16.5
P/B (x)	8.4	7.3	6.3	5.1	4.3
Yield (%)	1.8	1.5	1.3	1.6	1.8
DPS (HK$)	0.980	0.780	0.695	0.861	0.971

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY19E			FY20E			OP Comments
(RMB mn)	**New**	**Old**	**% Chg**	**New**	**Old**	**% Chg**	
Revenue	**30,488**	**30,488**	**0.0**	**37,008**	**37,008**	**0.0**	
Anta	16,524	16,524	0.0	18,340	18,340	0.0	
FILA	12,144	12,144	0.0	16,120	16,120	0.0	
Gross profit	16,267	16,267	0.0	19,914	19,914	0.0	
Gross margin	**53.4%**	**53.4%**	**0.0**	**53.8%**	**53.8%**	**0.0**	
Opex	(9,676)	(9,524)	1.6	(11,388)	(11,240)	1.3	As we tune up A&P outgoings
EBIT	7,296	7,449	(2.0)	9,231	9,379	(1.6)	
Net Profit	**5,194**	**5,303**	**(2.1)**	**6,429**	**6,536**	**(1.6)**	
Diluted EPS (HK$)	**2.318**	**2.466**	**(6.0)**	**2.869**	**3.039**	**(5.6)**	New RMB/HKD rate of 1.20

Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Footwear	7,049	8,631	12,138	14,603	16,469
Apparel	9,116	14,709	17,217	20,926	24,043
Accessories	528	759	1,134	1,480	1,790
Turnover	**16,692**	**24,100**	**30,488**	**37,008**	**42,303**
YoY%	25.1	44.4	26.5	21.4	14.3
COGS	(8,451)	(11,413)	(14,222)	(17,095)	(19,782)
Gross profit	**8,241**	**12,687**	**16,267**	**19,914**	**22,521**
Gross margin	49.4%	52.6%	53.4%	53.8%	53.2%
Other income	631	760	705	705	705
Selling & distribution	(3,809)	(6,525)	(8,325)	(9,834)	(11,183)
Admin	(901)	(1,223)	(1,351)	(1,554)	(1,739)
R&D	(479)	(593)	(762)	(925)	(1,058)
Other opex	0	0	0	0	0
Total opex	**(4,710)**	**(7,748)**	**(9,676)**	**(11,388)**	**(12,922)**
Operating profit (EBIT)	**4,162**	**5,700**	**7,296**	**9,231**	**10,304**
Operating margin	24.9%	23.7%	23.9%	24.9%	24.4%
Provisions	0	0	0	0	0
Interest Income	170	225	220	222	292
Finance costs	(22)	(158)	(323)	(556)	(556)
Profit after financing costs	4,311	5,767	7,193	8,897	10,039
Associated companies & JVs	0	0	33	46	51
Pre-tax profit	4,311	5,767	7,226	8,943	10,090
Tax	(1,152)	(1,533)	(1,912)	(2,365)	(2,669)
Minority interests	(71)	(131)	(120)	(149)	(168)
Net profit	**3,088**	**4,103**	**5,194**	**6,429**	**7,254**
YoY%	29	33	27	24	13
Net margin	18.5%	17.0%	17.0%	17.4%	17.1%
EBITDA	**4,410**	**6,042**	**7,569**	**9,580**	**10,723**
EBITDA margin	26.4%	25.1%	24.8%	25.9%	25.3%
EPS (RMB)	**1.168**	**1.527**	**1.931**	**2.391**	**2.697**
YoY%	23	31	21	24	13
DPS (HK$)	0.980	0.780	0.695	0.861	0.971

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	4,410	6,042	7,569	9,580	10,723
Chg in working cap	(381)	(444)	(391)	(371)	(244)
Others	11	(84)	0	0	0
Operating cash	**4,041**	**5,514**	**7,178**	**9,209**	**10,478**
Interest received	154	214	220	222	292
Tax	(1,013)	(1,288)	(1,912)	(2,365)	(2,669)
Net cash from operations	**3,181**	**4,440**	**5,485**	**7,066**	**8,101**
Capex	(551)	(462)	(1,067)	(925)	(846)
Investments	(129)	(673)	(11,990)	(476)	(544)
Net change in fixed deposits and pledged deposits	(899)	116	0	0	0
Sales of assets	0	0	0	0	0
Interests paid	0	0	0	0	0
Others	0	(183)	0	0	0
Investing cash	**(1,579)**	**(1,201)**	**(13,057)**	**(1,401)**	**(1,390)**
FCF	**1,603**	**3,239**	**(7,572)**	**5,664**	**6,711**
Issue of shares	3,435	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(1,976)	(2,468)	(1,852)	(2,152)	(2,501)
Interest paid	(31)	(15)	(323)	(556)	(556)
Net change in bank loans	(827)	1,008	7,018	0	0
Others	(604)	339	0	0	0
Financing cash	**(2)**	**(1,136)**	**4,843**	**(2,708)**	**(3,057)**
Net change in cash	**1,601**	**2,102**	**(2,729)**	**2,956**	**3,654**
Exchange rate or other Adj	(463)	214	0	0	0
Opening cash	5,830	6,968	9,284	6,555	9,511
Closing cash	**6,968**	**9,284**	**6,555**	**9,511**	**13,165**
CFPS (HK$)	**1.505**	**2.065**	**2.448**	**3.153**	**3.615**

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	49.4	52.6	53.4	53.8	53.2
Operating margin (%)	24.9	23.7	23.9	24.9	24.4
Net margin (%)	18.5	17.0	17.0	17.4	17.1
Selling & dist'n exp/Sales (%)	22.8	27.1	27.3	26.6	26.4
Admin exp/Sales (%)	5.4	5.1	4.4	4.2	4.1
Staff exp/Sales (%)	12.0	10.9	11.5	11.2	10.6
R&D/Sales (%)	2.9	2.5	2.5	2.5	2.5
A&P/Sales (%)	10.6	12.1	12.5	12.4	12.5
Payout ratio (%)	70.5	44.9	30.0	30.0	30.0
Effective tax (%)	26.7	26.6	26.6	26.6	26.6
Total debt/equity (%)	1.2	8.5	43.7	35.7	29.7
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.4	2.6	2.0	2.2	2.4
Quick ratio (x)	3.0	2.2	1.6	1.8	2.0
Inventory T/O (days)	93	93	93	93	93
AR T/O (days)	82	70	70	70	70
AP T/O (days)	172	180	180	180	180
Cash conversion cycle (days)	3	(17)	(17)	(17)	(17)
Asset turnover (x)	1.0	1.1	1.0	0.9	0.9
Financial leverage (x)	1.4	1.5	1.7	1.9	1.8
EBIT margin (%)	24.9	23.7	23.9	24.9	24.4
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Return on equity (%)	**26.6**	**27.8**	**29.8**	**30.2**	**28.1**
ROIC (%)	**72.4**	**74.5**	**41.7**	**33.5**	**35.0**

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	1,909	2,536	3,356	3,953	4,396
Intangible assets & goodwill	1,136	1,106	1,473	1,929	2,457
Associated companies & JVs	0	0	11,631	11,677	11,728
Long-term investments	16	326	326	326	326
Other non-current assets	572	1,121	1,121	1,121	1,121
Non-current assets	**3,632**	**5,090**	**17,908**	**19,006**	**20,028**
Inventories	2,155	2,892	3,604	4,333	5,014
AR	3,733	4,638	5,868	7,122	8,141
Prepayments & deposits	0	0	0	0	0
Other current assets	2,586	2,470	2,470	2,470	2,470
Cash	6,968	9,284	6,555	9,511	13,165
Current assets	**15,442**	**19,284**	**18,497**	**23,436**	**28,790**
AP	3,978	5,633	7,020	8,438	9,764
Tax	353	650	814	1,008	1,137
Accruals & other payables	0	0	0	0	0
Bank loans & leases	148	1,244	1,244	1,244	1,244
CB & other debts	19	21	21	21	21
Other current liabilities	0	0	0	0	0
Current liabilities	**4,498**	**7,548**	**9,099**	**10,710**	**12,166**
Bank loans & leases	0	70	7,088	7,088	7,088
CB & other debts	0	0	0	0	0
Deferred tax & others	215	236	236	236	236
MI	654	743	863	1,012	1,179
Non-current liabilities	**869**	**1,049**	**8,187**	**8,336**	**8,504**
Total net assets	**13,706**	**15,777**	**19,119**	**23,396**	**28,148**
Shareholder's equity	**13,706**	**15,777**	**19,119**	**23,396**	**28,148**
Share capital	259	259	259	259	259
Reserves	13,447	15,518	18,860	23,137	27,889
BVPS (HK$)	**6.38**	**7.35**	**8.54**	**10.46**	**12.58**
Total debts	167	1,335	8,353	8,353	8,353
Net cash/(debts)	9,387	10,419	672	3,628	7,282

Source: Company, OP Research

Exhibit 3: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Anta Sports Prod	**2020 HK**	**53.50**	**18,316**	**37.6**	**28.0**	**23.1**	**18.6**	**21.4**	**23.8**	**19.3**	**1.2**	**1.5**	**1.3**	**7.3**	**6.3**	**22.0**	**18.9**	**Net cash**	**52.6**	**17.0**	**27.8**	**29.8**	**11.5**	**52.2**
HSI		29,909.76			11.7	11.6	10.7	0.9	8.2	6.0	1.94	3.3	3.5	1.39	1.27						11.9	11.0	3.4	12.2
HSCEI		11,659.84			9.6	8.9	8.2	8.0	8.4	8.2	1.08	3.5	3.8	1.19	1.06						12.4	11.9	1.7	11.5
CSI300		3,988.62			15.2	12.6	11.2	20.2	12.3			2.0	2.5	1.9	1.7						12.7	13.1	6.2	28.9
Domestic peers																								
Adjusted sector avg*					**23.0**	**19.4**	**14.0**	**14.4**	**19.2**	**19.2**	**0.8**	**4.3**	**3.6**	**1.6**	**1.5**	**9.5**	**9.3**	**8.0**	**44.7**	**6.2**	**7.6**	**9.2**	**6.2**	**19.4**
361 Degrees	1361 HK	1.69	446	0.7	9.8	7.8	6.8	26.5	15.1	17.4	0.4	6.6	5.8	0.5	0.5	0.1	0.1	0.0	40.6	5.9	5.3	6.6	11.2	(8.2)
Xtep Intl	1368 HK	4.99	1,428	8.2	14.1	12.7	11.0	11.3	15.5	14.1	0.9	5.0	4.7	1.8	1.6	7.3	6.5	0.0	44.3	10.3	12.4	13.6	(5.8)	4.6
Li Ning Co Ltd	2331 HK	13.42	3,752	27.6	38.7	28.4	22.3	36.3	27.2	27.4	1.0	N/A	1.1	4.3	4.1	18.1	14.5	0.0	48.1	6.8	13.1	15.7	14.7	47.5
Pou Sheng Intl	3813 HK	1.93	1,318	0.3	15.9	15.3	12.5	3.9	22.2	16.4	0.9	1.0	1.7	1.3	1.2	8.0	7.5	39.8	33.5	2.4	8.2	8.2	19.9	27.8
China Dongxiang	3818 HK	1.19	893	0.7	18.7	9.0	9.3	107.7	(2.7)	30.2	0.3	9.2	7.7	0.6	0.6	31.9	11.6	0.0	57.3	18.5	3.3	6.3	2.6	1.7
Annil Co Ltd-A	002875 CH	20.83	409	20.8	33.1	26.6	22.0	24.1	21.2	22.5	1.2	0.7	N/A	3.3	2.8	N/A	15.7	N/A	55.0	6.9	10.0	11.0	(4.4)	39.5
Guirenniao Co-A	603555 CH	7.60	712	10.2	30.4	36.2	31.7	(16.1)	14.3	6.2	5.8	3.3	0.5	2.2	2.1	14.1	N/A	74.7	33.8	4.9	1.1	3.3	5.1	23.0
International peers																								
Adjusted sector avg*					**47.2**	**31.7**	**30.6**	**47.1**	**17.9**	**24.6**	**1.55**	**1.5**	**0.7**	**9.33**	**8.74**	**21.3**	**19.2**	**0.0**	**48.9**	**6.2**	**22.6**	**25.0**	**5.7**	**15.8**
Nike Inc -Cl B	NKE US	85.00	133,599	527.1	72.9	33.1	28.1	120.2	17.7	44.9	0.7	1.0	1.0	14.9	16.3	25.6	23.3	0.0	43.8	5.3	44.6	40.7	(0.5)	11.8
Under Armour-A	UAA US	21.40	9,104	105.1	N/A	64.7	45.6	N/A	41.7	(288.1)	N/A	N/A	0.0	4.8	4.4	59.2	22.4	8.5	45.1	(0.9)	(2.3)	6.3	(2.0)	8.8
Lululemon Ath	LULU US	168.00	22,000	357.2	46.3	36.8	31.2	25.8	18.0	17.4	2.1	N/A	0.0	15.2	12.6	25.5	22.0	0.0	55.2	14.7	31.8	36.0	15.2	27.1
Adidas Ag	ADS GR	225.75	51,171	132.9	26.7	23.9	21.2	12.0	12.8	12.3	1.9	1.2	1.6	7.1	6.1	15.3	13.6	0.0	51.9	7.8	27.4	27.8	7.1	14.7
Puma Se	PUM GR	538.00	9,177	18.5	42.9	32.9	26.7	30.5	23.3	23.7	1.4	2.3	0.9	4.7	4.3	18.7	14.6	0.0	48.4	4.0	11.3	14.2	8.5	16.7

** Outliners and "N/A" entries are in red and excl. from the calculation of averages*

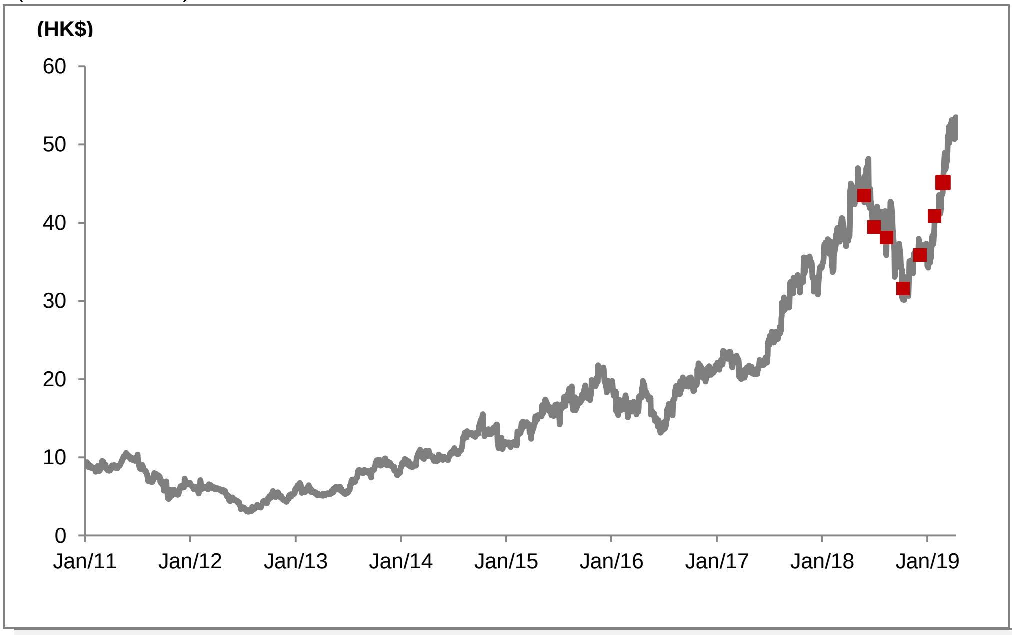
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
10/04/2019	Q Tech	1478	March saw improving product mix	BUY	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin
06/03/2019	Xtep Intl	1368	JV with Wolverine for multi-brand portfolio	BUY	Dallas Cai/Megan Jin
05/03/2019	CH Display OPT	334	Foldable smartphone play backed by CSOT	BUY	Yuji Fung/Dallas Cai
27/02/2019	Anta Sports	2020	FY18 revenue strong beat, profits in-line	BUY	Dallas Cai/Megan Jin
22/02/2019	Ausnutria Dairy	1717	FY18 profit surprise on margin expansion	BUY	Dallas Cai
20/02/2019	Q Tech	1478	Jan shipments growth was solid	BUY	Yuji Fung/Dallas Cai
19/02/2019	Tongda	698	FY18E profit warning	BUY	Yuji Fung/Dallas Cai
18/02/2019	Sunny Optical	2382	Earnings growth momentum likely resume in 2019	BUY	Yuji Fung/Dallas Cai

Historical recommendations and target price: Anta Sports (2020 HK)

(as of 12/04/2019)



	DATE	RATING	TARGET PRICE	CLOSE PRICE		DATE	RATING	TARGET PRICE	CLOSE PRICE
1	29 May 2018	BUY	HK$51.40	HK$44.25	6	30 Jan 2019	BUY	HK$48.00	HK$41.10
2	04 Jul 2018	BUY	HK$51.40	HK$40.75	7	27 Feb 2019	BUY	HK$49.00	HK$44.10
3	15 Aug 2018	BUY	HK$55.00	HK$38.28					
4	12 Oct 2018	BUY	HK$55.00	HK$31.70					
5	10 Dec 2018	BUY	HK$48.00	HK$36.05					

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