

Anta Sports (2020 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$51.35

Target Price: HK\$57.00 (+11%)

Prior TP: HK\$57.00

Key Data

HKEx code	2020 HK
12 Months High (HK\$)	59.40
12 Month Low (HK\$)	29.05
3M Avg Dail Vol. (mn)	6.68
Issue Share (mn)	2,701.23
Market Cap (HK\$mn)	138,708.21
Fiscal Year	12/2018
Major shareholder (s)	Director Ding & asso (61.81%)

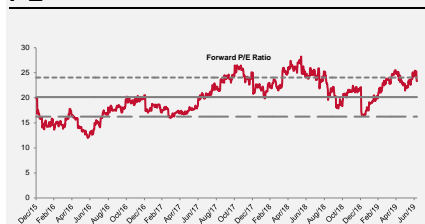
Source: Company data, Bloomberg, OP Research
Closing price are as of 09/07/2019

Price Chart



	1mth	3mth	6mth
Absolute %	6.3	-1.0	45.9
Rel. MSCI CHINA %	1.0	9.5	40.2

PE



Company Profile

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

Clearing up Muddy Waters

- Anta stock fell 7.1% in the last two days (vs -2.3% for IHS) due to Muddy Waters' accusation of the company's undue control over its distributors. Anta had denied all allegations and saw stabilized stock price by yesterday's close.
- We believe close relationship with distributors deserve careful watch, but labelling it as financial manipulation is unfair and overlooks the merits of supporting effective regional expansion and unified branding strategy.
- Reiterate BUY with TP HK\$57.0 unchanged based on same 20x FY20E P/E.

Muddy Waters eye on connected distributors. Muddy Waters ("MW") issued 2 short-sell reports in 2 days accusing Anta of (1) its secret control of 27 distributors in order to manipulate sales figures, and (2) stripping listed company's assets for Chairman's personal benefits. Triggered by this, Anta's stock price once fell as much as 13% when compared to period before the release of reports.

The mgmt have denied all MW allegations, key points: (1) the company appropriately follows the disclosure requirements and the definitions of connected parties made by the Listing Rules even though certain distributors may have close personal relationships with the chairman's family; (2) the company only provides strategic guidance and operational advice to its distributors while leaving their financial and human resources independent; (3) there is no direct shareholding, mgmt influence, or inter-company borrowing between Anta and its distributors.

Doubt is understandable; presumption of fake earnings is unfair. The close cooperation between sportswear brands and its distributors is not news to investors. Such business model was embraced from the fierce competition among domestic brands at the very beginning of this century and was a key contributor to the swift regional expansion and penetration in hundreds of low-tier cities. By contrast, international brands avoided such earnings manipulation concerns by outsourced channel works to powerful dealers/agents, but at the price of less say in top-down channel adjustment and regulation (e.g. Benz's awkward situation in customer disputes in Xi'an). In the longer term, we believe improving corporate governance will help reduce investors' concerns.

Reiterate BUY. Reiterate BUY on Anta with target price HK\$57.0 unchanged based on same 20x FY20E 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	6,429.3	7,253.6
Growth (%)	29.4	32.9	26.6	23.8	12.8
Diluted EPS (HK\$)	1.460	1.909	2.304	2.853	3.218
EPS growth (%)	22.8	30.7	20.7	23.8	12.8
Change to previous EPS (%)			(0.6)	(0.6)	
Consensus EPS (HK\$)			2.329	2.839	
ROE (%)	26.6	27.8	29.8	30.2	28.1
P/E (x)	35.2	26.9	22.2	18.0	15.9
P/B (x)	8.0	7.0	6.0	4.9	4.1
Yield (%)	1.9	1.5	1.3	1.7	1.9
DPS (HK\$)	0.980	0.780	0.691	0.856	0.966

Source: Bloomberg, 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 2: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B		EV/		Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
					Hist (x)	FY1 (x)	FY2 (x)					Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr							
Anta Sports Prod	2020 HK	51.35	17,757	44.6	26.9	22.2	18.0	20.7	23.8	19.0	1.2	1.5	1.3	7.0	6.0	21.1	18.2	Net cash	52.6	17.0	27.8	29.8	6.3	(1.7)
HSI		28,116.28			11.0	11.1	10.3	(0.5)	7.8	5.3	2.10	3.5	3.7	1.24	1.22						11.3	11.0	4.3	(6.8)
HSCEI		10,650.63			8.7	8.5	7.8	2.5	8.2	6.6	1.27	3.7	4.0	1.07	1.03						12.3	12.2	3.1	(9.9)
CSI300		3,793.13			14.1	12.3	10.8	14.7	13.9			2.2	2.5	1.8	1.6						12.4	13.2	6.4	(6.9)
Domestic peers																								
Adjusted sector avg*					16.5	13.3	15.8	22.4	19.3	16.7	0.9	2.9	3.4	1.5	1.5	14.5	9.8	6.6	43.8	8.5	8.7	11.5	8.7	(11.8)
361 Degrees	1361 HK	1.51	400	0.4	9.1	7.1	6.1	27.9	15.4	16.9	0.4	5.0	6.4	0.5	0.5	(0.1)	(0.1)	0.0	40.6	5.9	5.3	6.5	5.6	(12.2)
Xtep Intl	1368 HK	4.67	1,494	6.0	13.6	12.1	10.4	12.6	16.5	15.1	0.8	4.3	4.8	1.7	1.6	7.9	7.0	0.0	44.3	10.3	12.4	13.5	18.8	(8.6)
Li Ning Co Ltd	2331 HK	18.48	5,457	35.7	55.0	36.5	30.4	50.9	20.1	31.2	1.2	0.5	0.9	6.1	5.7	28.6	21.2	0.0	48.1	6.8	13.1	18.2	37.5	38.9
Pou Sheng Intl	3813 HK	1.91	1,310	0.3	16.2	14.8	12.0	9.7	22.8	16.9	0.9	1.3	1.5	1.3	1.2	8.2	6.2	39.8	33.5	2.4	8.2	8.4	7.3	4.4
China Dongxiang	3818 HK	1.00	754	0.6	16.2	8.0	N/A	102.2	N/A	N/A	N/A	5.6	N/A	0.5	N/A	19.1	N/A	0.0	57.3	18.5	3.3	N/A	1.0	(13.0)
Annil Co Ltd-A	002875 CH	19.32	370	8.1	27.4	24.7	20.3	11.0	21.7	18.1	1.4	0.8	N/A	2.9	2.6	23.4	14.8	0.0	55.0	6.9	10.1	11.0	14.6	(4.4)
Guirenniao Co-A	603555 CH	5.07	463	5.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0	N/A	(19.0)	N/A	146.8	28.0	(24.6)	(37.6)	N/A	4.8	(36.8)
International peers																								
Adjusted sector avg*					41.7	33.8	28.6	22.4	17.9	19.1	1.81	0.9	0.6	9.81	9.43	24.0	21.5	0.0	49.0	7.2	23.2	27.3	5.8	16.5
Nike Inc -CI B	NKE US	88.48	139,068	558.9	34.7	30.4	26.1	14.0	16.8	16.0	1.9	1.0	1.0	12.3	14.0	26.6	21.8	0.0	44.7	10.3	42.7	46.9	6.1	5.0
Under Armour-A	UAA US	26.49	11,122	113.2	N/A	76.1	53.8	N/A	41.4	(288.1)	N/A	N/A	0.0	5.8	5.4	77.4	28.6	8.5	45.1	(0.9)	0.3	6.6	2.3	27.8
Lululemon Ath	LULU US	186.80	24,335	366.2	51.5	40.3	33.9	27.7	18.7	21.1	1.9	N/A	0.0	17.8	15.2	29.5	25.1	0.0	55.2	14.7	33.7	40.2	8.3	11.5
Adidas Ag	ADS GR	280.45	62,952	150.0	33.2	28.6	25.4	16.3	12.6	14.3	2.0	1.2	1.4	8.0	7.9	19.1	16.0	0.0	51.9	7.8	26.9	28.8	5.9	25.0
Puma Se	PUM GR	59.40	10,034	18.8	47.4	35.9	29.1	31.8	23.3	24.9	1.4	0.6	0.8	5.2	4.8	21.0	15.8	0.0	48.4	4.0	12.2	14.0	6.6	13.4

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

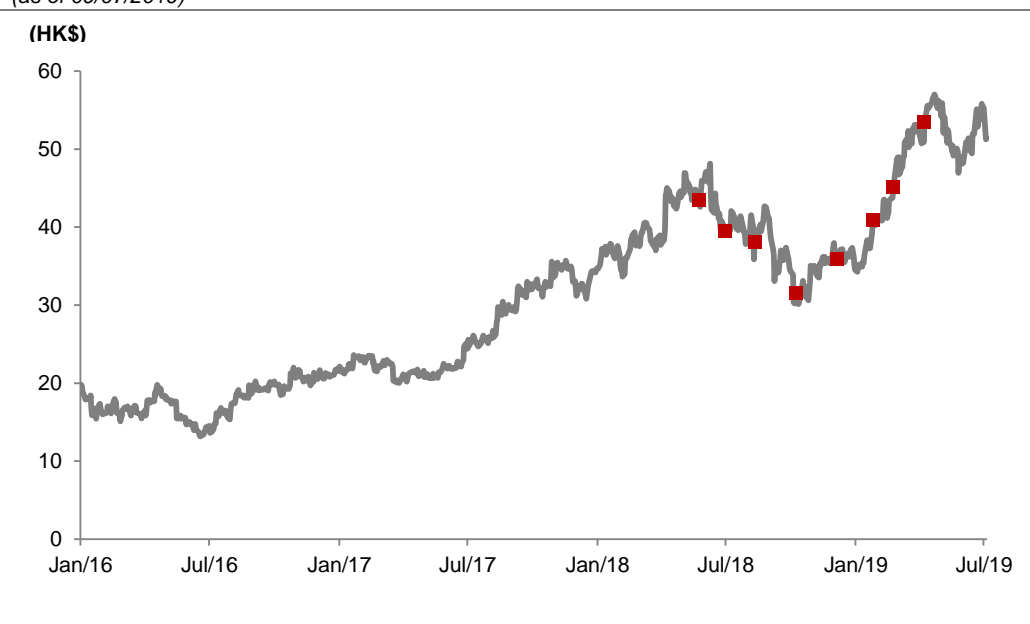
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
08/07/2019	Kingdee Intl	268	Downgrade on unexpected profit warning	SELL	Yuji Fung/Dallas Cai
01/07/2019	Q Tech	1478	Upgrade on better downstream demand outlook	BUY	Yuji Fung/Dallas Cai
25/06/2019	Li Ning	2331	Upgrade on surprise in revenue growth	BUY	Dallas Cai/Megan Jin
24/06/2019	361 Degrees Intl	1361	Rebranding starts from building basketball half-courts	BUY	Megan Jin
21/06/2019	Q Tech	1478	Kunshan reverse road show takeaways	SELL	Yuji Fung/Dallas Cai
19/06/2019	Sunny Optical	2382	Conference call takeaways	BUY	Yuji Fung/Dallas Cai
18/06/2019	TCL Electronics	1070	Overseas shipments keep steam	BUY	Yuji Fung/Dallas Cai
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin

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

(as of 09/07/2019)



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	8 15 Apr 2019	BUY	HK\$57.00	HK\$53.50
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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