

Anta Sports (2020 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$57.30

Target Price: HK\$65.00 (+13%)

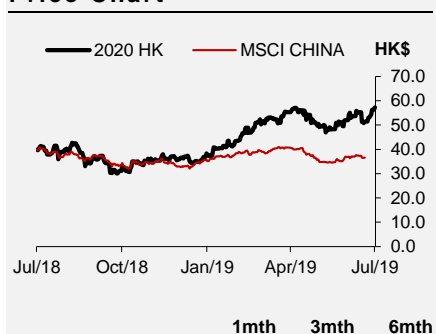
Prior TP: HK\$57.00

Key Data

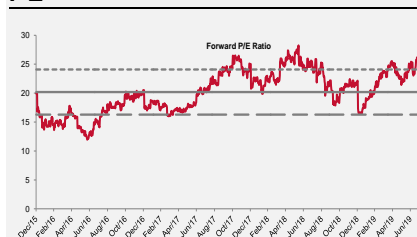
HKEx code	2020 HK
12 Months High (HK\$)	59.40
12 Month Low (HK\$)	29.05
3M Avg Dail Vol. (mn)	7.65
Issue Share (mn)	2,701.23
Market Cap (HK\$m)	154,780.54
Fiscal Year	12/2018
Major shareholder (s)	Director Ding & asso (61.81%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 22/07/2019

Price Chart



PE



Company Profile

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

Upgrade on 1H19E profits surprise

- Anta released profits surprise, expecting at least 35%/50%/25% yoy increase in revenue/operating profits/net earnings respectively.
- We revise up our FY19/20E earnings estimate by 3.9%/7.5% to RMB5,395mn/RMB6,910mn respectively.
- Reiterate BUY with target price HK\$65.0 revised up from HK\$57.0 based on 22x FY20E P/E (previously 20x FY20E P/E).

1H19E results preview beat market expectations. Anta expects at least 25% yoy increase in net earnings to RMB2,689mn or higher for 1H19E thanks to (1) over 35% yoy growth in consolidated sales mainly driven by outstanding sales performance of FILA (est. 60% retail sales growth in 1H19E vs mgmt guidance of over 30% for FY19E full year), (2) improved GPM with more contribution from direct-operated stores, (3) early receipt of government grants, despite drag from acquisition-related one-off expenses and shared operation loss from JV. The mgmt promises no less than 30% payout for interim dividends.

Revise up FY19/20E earnings estimate by 3.9%/7.5% to RMB5,395mn /RMB6,910mn respectively. We revise up our FY19/20E revenue estimates by 5.7%/9.3% to RMB32,233mn/RMB40,467mn respectively mainly on higher expectations on FILA sales growth: we are now projecting 55%/34% yoy FY19/20E sales growth for FILA series as we see FILA sub-brands are ramping up better than expected. As a result, our FY19/20E diluted EPS revised by -0.5%/3.0% to HK\$2.294/HK\$2.938 respectively.

Reiterate BUY We reiterate BUY on Anta with TP revised up to HK\$65.0 from HK\$57.0 based on revised up 22x FY20E P/E (vs previously 20x FY20E P/E). We expect Anta mgmt to revise up full-year guidance on its interim results presentation at the end of August.

Risks: (1) Execution risks 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	32,232.7	40,467.4	49,067.4
Growth (%)	25.1	44.4	33.7	25.5	21.3
Net Profit	3,087.8	4,102.9	5,395.1	6,909.8	8,375.6
Growth (%)	29.4	32.9	31.5	28.1	21.2
Diluted EPS (HK\$)	1.460	1.909	2.294	2.938	3.561
EPS growth (%)	22.8	30.7	20.2	28.1	21.2
Change to previous EPS (%)			(0.5)	3.0	
Consensus EPS (HK\$)			2.220	2.712	
ROE (%)	26.6	27.8	30.7	31.9	31.2
P/E (x)	39.2	30.0	25.0	19.5	16.1
P/B (x)	9.0	7.8	7.0	5.6	4.5
Yield (%)	1.7	1.4	1.2	1.5	1.9
DPS (HK\$)	0.980	0.780	0.688	0.881	1.068

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	32,233	30,488	5.7	40,467	37,008	9.3	
Anta	16,524	16,524	0.0	18,340	18,340	0.0	
FILA	13,282	12,144	9.4	17,759	16,120	10.2	On higher expectation on FILA sales growth
Gross profit	17,306	16,267	6.4	21,772	19,914	9.3	product mix improvement
Gross margin	53.7%	53.4%	0.6	53.8%	53.8%	(0.0)	
Opex	(10,479)	(9,676)	8.3	(13,158)	(11,388)	15.5	
EBIT	7,632	7,296	4.6	9,419	9,231	2.0	
Net Profit	5,395	5,194	3.9	6,910	6,429	7.5	
Diluted EPS (HK\$)	2.294	2.304	(0.5)	2.938	2.853	3.0	HKD/RMB = 1.15

Source: OP Research

Exhibit 3: 1H19E results preview

(RMB mn)	1H17	2H17	1H18	2H18A	1H19E
Revenue	7,323	9,369	10,554	13,547	14,247
COGS	(3,619)	(4,832)	(4,827)	(6,586)	(6,269)
Gross profit	3,704	4,537	5,726	6,961	7,978
Other income & gains	173	459	245	515	350
Selling exp	(1,524)	(2,285)	(2,765)	(3,760)	(3,733)
Admin exp	(455)	(446)	(518)	(705)	(712)
Other opex	0	0	0	0	0
Operating profit (EBIT)	1,897	2,265	2,689	3,011	3,883
Provisions or other items	0	0	0	0	0
Interest income	129	41	107	118	102
Finance costs	(17)	(5)	(35)	(123)	(160)
Profit after financing costs	2,009	2,301	2,761	3,007	3,825
Associated cos	0	0	0	0	0
Jointly controlled cos	0	0	0	0	(300)
Pre-tax profit	2,009	2,301	2,761	3,007	3,525
Tax	(528)	(624)	(759)	(774)	(938)
Minority interests	(30)	(41)	(57)	(74)	(60)
Adj. net profit	1,451	1,636	1,945	2,158	2,528
HoH%					
Revenue	2%	28%	13%	28%	5%
Gross profit	5%	23%	26%	22%	15%
Net profit	16%	13%	19%	11%	17%
YoY%					
Revenue	19%	30%	44%	45%	35%
Gross profit	26%	29%	55%	53%	39%
Net profit	29%	30%	34%	32%	30%
Key ratios					
GPM	50.6%	48.4%	54.3%	51.4%	56.0%
Selling exp	20.8%	24.4%	26.2%	27.8%	26.2%
Admin exp	6.2%	4.8%	4.9%	5.2%	5.0%
EIT	26.3%	27.1%	27.5%	25.7%	26.6%
Net margin	19.8%	17.5%	18.4%	15.9%	17.7%

Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Footwear	7,049	8,631	12,676	15,832	18,896
Apparel	9,116	14,709	18,325	22,916	27,898
Accessories	528	759	1,232	1,719	2,273
Turnover	16,692	24,100	32,233	40,467	49,067
YoY%	25.1	44.4	33.7	25.5	21.3
COGS	(8,451)	(11,413)	(14,927)	(18,695)	(22,945)
Gross profit	8,241	12,687	17,306	21,772	26,122
Gross margin	49.4%	52.6%	53.7%	53.8%	53.2%
Other income	631	760	805	805	805
Selling & distribution	(3,809)	(6,525)	(8,698)	(10,911)	(13,131)
Admin	(901)	(1,223)	(1,781)	(2,247)	(2,452)
R&D	(479)	(593)	(806)	(1,012)	(1,227)
Other opex	0	0	0	0	0
Total opex	(4,710)	(7,748)	(10,479)	(13,158)	(15,582)
Operating profit (EBIT)	4,162	5,700	7,632	9,419	11,345
Operating margin	24.9%	23.7%	23.7%	23.3%	23.1%
Provisions	0	0	0	0	0
Interest Income	170	225	220	222	293
Finance costs	(22)	(158)	(323)	(556)	(556)
Profit after financing costs	4,311	5,767	7,530	9,085	11,081
Associated companies & JVs	0	0	33	440	484
Pre-tax profit	4,311	5,767	7,563	9,525	11,565
Tax	(1,152)	(1,533)	(2,002)	(2,415)	(2,946)
Minority interests	(71)	(131)	(166)	(200)	(244)
Net profit	3,088	4,103	5,395	6,910	8,376
YoY%	29	33	31	28	21
Net margin	18.5%	17.0%	16.7%	17.1%	17.1%
EBITDA	4,410	6,042	7,908	9,779	11,786
EBITDA margin	26.4%	25.1%	24.5%	24.2%	24.0%
EPS (RMB)	1.168	1.527	1.995	2.555	3.097
YoY%	23	31	20	28	21
DPS (HK\$)	0.980	0.780	0.688	0.881	1.068
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	4,410	6,042	7,908	9,779	11,786
Chg in working cap	(381)	(444)	(519)	(459)	(404)
Others	11	(84)	0	0	0
Operating cash	4,041	5,514	7,389	9,320	11,381
Interest received	154	214	220	222	293
Tax	(1,013)	(1,288)	(2,002)	(2,415)	(2,946)
Net cash from operations	3,181	4,440	5,607	7,127	8,728
Capex	(551)	(462)	(1,128)	(1,012)	(981)
Investments	(129)	(673)	(12,013)	(521)	(631)
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)	(13,141)	(1,532)	(1,613)
FCF	1,603	3,239	(7,534)	5,594	7,115
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)	(1,844)	(2,192)	(2,705)
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)	4,852	(2,748)	(3,261)
Net change in cash	1,601	2,102	(2,682)	2,847	3,854
Exchange rate or other Adj	(463)	214	0	0	0
Opening cash	5,830	6,968	9,284	6,601	9,448
Closing cash	6,968	9,284	6,601	9,448	13,303
CFPS (HK\$)	1.505	2.065	2.384	3.030	3.711

Source: Company, OP Research

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	49.4	52.6	53.7	53.8	53.2
Operating margin (%)	24.9	23.7	23.7	23.3	23.1
Net margin (%)	18.5	17.0	16.7	17.1	17.1
Selling & dist'n exp/Sales (%)	22.8	27.1	27.0	27.0	26.8
Admin exp/Sales (%)	5.4	5.1	5.5	5.6	5.0
Staff exp/Sales (%)	12.0	10.9	11.2	11.3	11.0
R&D/Sales (%)	2.9	2.5	2.5	2.5	2.5
A&P/Sales (%)	10.6	12.1	12.5	12.5	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	43.2	34.7	28.1
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.4	2.6	2.0	2.1	2.2
Quick ratio (x)	3.0	2.2	1.6	1.7	1.8
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	1.0	1.0
Financial leverage (x)	1.4	1.5	1.7	1.9	1.8
EBIT margin (%)	24.9	23.7	23.7	23.3	23.1
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	30.7	31.9	31.2
ROIC (%)	72.4	74.5	43.3	33.4	36.5
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	1,909	2,536	3,414	4,087	4,644
Intangible assets & goodwill	1,136	1,106	1,495	1,996	2,610
Associated companies & JVs	0	0	11,631	12,071	12,555
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	17,988	19,601	21,257
Inventories	2,155	2,892	3,783	4,738	5,815
AR	3,733	4,638	6,203	7,788	9,443
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	6,601	9,448	13,303
Current assets	15,442	19,284	19,058	24,445	31,031
AP	3,978	5,633	7,368	9,228	11,326
Tax	353	650	852	1,073	1,303
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	9,485	11,566	13,894
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	908	1,108	1,353
Non-current liabilities	869	1,049	8,233	8,433	8,677
Total net assets	13,706	15,777	19,329	24,047	29,718
Shareholder's equity	13,706	15,777	19,329	24,047	29,718
Share capital	259	259	259	259	259
Reserves	13,447	15,518	19,070	23,788	29,459
BVPS (HK\$)	6.38	7.35	8.23	10.24	12.65
Total debts	167	1,335	8,353	8,353	8,353
Net cash/(debts)	9,387	10,419	719	3,566	7,420

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS FY1	EPS FY2	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B		EV/		Net gearing	Gross margin	Net margin	ROE	ROE	Sh px	Sh px
					Hist (x)	FY1 (x)	FY2 (x)					Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr							
Anta Sports Prod	2020 HK	57.30	19,824	51.0	30.0	25.0	19.5	20.2	28.1	23.1	1.1	1.4	1.2	7.8	7.0	23.7	19.5	Net cash	52.6	17.0	27.8	30.7	10.3	3.6
HSI		28,371.26			11.1	11.2	10.4	(0.7)	7.7	5.2	2.15	3.4	3.7	1.25	1.23						11.3	11.0	(0.4)	(5.3)
HSCEI		10,770.31			8.8	8.5	7.9	2.7	8.1	6.7	1.28	3.7	4.0	1.08	1.04						12.3	12.2	(1.4)	(8.5)
CSI300		3,781.68			14.1	12.3	10.8	14.7	14.0			2.2	2.5	1.8	1.6						12.4	13.2	(1.4)	(6.1)
Domestic peers																								
Adjusted sector avg*					16.5	13.2	16.1	24.6	18.8	17.0	0.9	3.0	3.5	1.5	1.5	14.9	10.0	6.6	43.8	8.5	8.7	11.4	(1.2)	(12.8)
361 Degrees	1361 HK	1.38	365	0.3	8.3	6.2	5.5	33.3	13.8	16.9	0.4	5.5	7.0	0.4	0.4	(0.4)	(0.4)	0.0	40.6	5.9	5.3	6.5	(8.0)	(19.8)
Xtep Intl	1368 HK	4.91	1,571	5.2	14.3	12.9	11.0	11.3	17.3	15.2	0.8	4.1	4.6	1.8	1.6	8.4	7.4	0.0	44.3	10.3	12.4	13.4	8.1	0.4
Li Ning Co Ltd	2331 HK	19.92	5,885	36.2	59.2	38.5	32.1	53.9	20.0	32.4	1.2	0.5	0.8	6.5	6.2	31.0	22.7	0.0	48.1	6.8	13.1	17.9	31.4	40.5
Pou Sheng Intl	3813 HK	2.01	1,379	0.3	17.0	15.0	12.4	13.6	21.2	17.8	0.8	1.2	1.5	1.4	1.3	8.5	6.1	39.8	33.5	2.4	8.2	8.4	8.6	4.7
China Dongxiang	3818 HK	1.01	761	0.4	16.4	8.1	N/A	102.2	N/A	N/A	N/A	5.6	N/A	0.5	N/A	19.4	N/A	0.0	57.3	18.5	3.3	N/A	6.3	(15.8)
Annil Co Ltd-A	002875 CH	18.54	355	7.5	26.3	23.7	19.5	11.0	21.7	18.1	1.3	0.9	N/A	2.8	2.5	22.4	14.1	0.0	55.0	6.9	10.1	11.0	(8.3)	(8.4)
Guirenniao Co-A	603555 CH	4.65	425	4.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.8	N/A	(18.0)	N/A	146.8	28.0	(24.6)	(37.6)	N/A	(13.9)	(38.2)
International peers																								
Adjusted sector avg*					41.9	33.9	28.7	22.4	17.9	19.1	1.81	0.9	0.6	9.83	9.41	24.1	21.7	0.0	49.0	7.2	23.2	27.2	4.5	12.7
Nike Inc -CI B	NKE US	86.55	136,035	561.9	33.9	29.9	25.5	13.6	17.1	15.8	1.9	1.0	1.1	12.0	13.7	26.0	21.5	0.0	44.7	10.3	42.7	46.4	0.9	(0.9)
Under Armour-A	UAA US	26.95	11,417	114.3	N/A	77.4	54.8	N/A	41.4	(288.1)	N/A	N/A	0.0	5.9	5.5	79.2	29.3	8.5	45.1	(0.9)	0.3	6.6	3.1	22.8
Lululemon Ath	LULU US	187.94	24,484	362.3	51.8	40.5	34.1	27.9	18.7	21.4	1.9	N/A	0.0	17.9	15.2	29.7	25.3	0.0	55.2	14.7	33.7	40.2	3.3	8.6
Adidas Ag	ADS GR	282.25	63,435	149.4	33.4	28.7	25.5	16.4	12.6	14.5	2.0	1.2	1.3	8.1	7.8	19.3	16.1	0.0	51.9	7.8	26.9	28.9	5.2	21.6
Puma Se	PUM GR	60.60	10,250	17.7	48.3	36.7	29.7	31.8	23.3	24.9	1.5	0.6	0.8	5.3	4.9	21.4	16.1	0.0	48.4	4.0	12.2	14.0	9.7	11.5

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

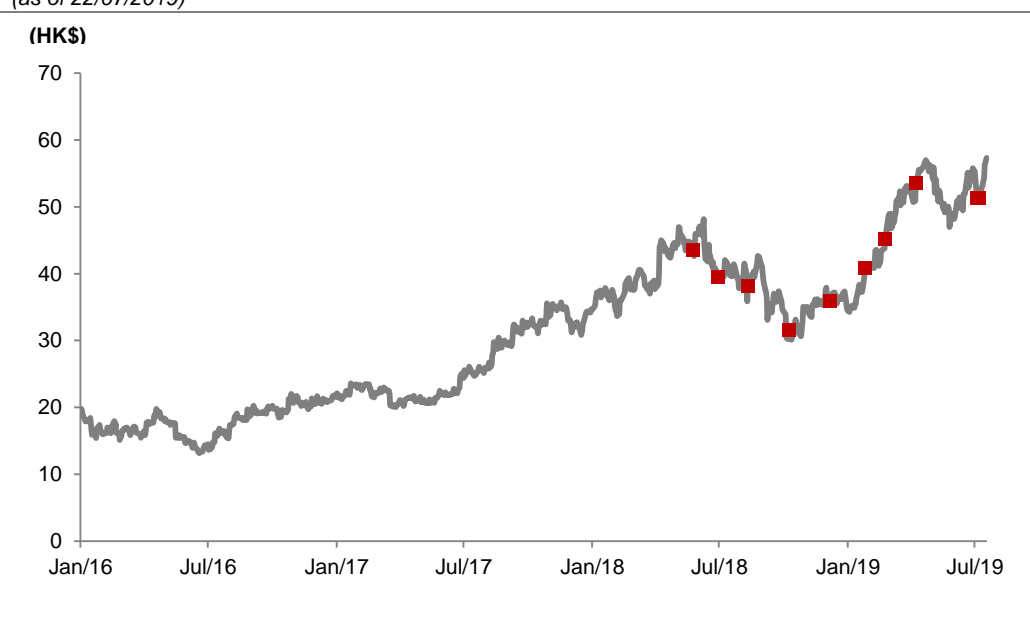
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
17/07/2019	361 Degrees Intl	1361	2Q19E online sales slowed on product mix shift	BUY	Megan Jin
15/07/2019	Xtep Intl	1368	2Q19E keeps up robust growth momentum	BUY	Dallas Cai/Megan Jin
12/07/2019	Anta Sports	2020	2Q19E operations on track	BUY	Dallas Cai/Megan Jin
10/07/2019	Anta Sports	2020	Clearing up Muddy Waters	BUY	Dallas Cai/Megan Jin
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

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

(as of 22/07/2019)



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	9 09 Jul 2019	BUY	HK\$57.00	HK\$51.35
5 10 Dec 2018	BUY	HK\$48.00	HK\$36.05	10 12 Jul 2019	BUY	HK\$57.00	HK\$51.30

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