

Anta Sports (2020.HK)

2017 Results Exceed Expectation

Hong Kong | Consumer | Company report

15 March 2018

Investment Summary

We highlight that 1) 2017 results remain robust; inventory level comes back to be normal; non-Anta brands kept high growth; expenses may continue to rise; product innovation may be key driver for future development. We estimate the expenses to go up in future and revise target price to HKD43.68 based on target PE 26x. (Closing price as at 13 Mar 2018)

Business Overview

2017 results kept strong. Anta reported 2017 revenue of RMB16.69bn implying YoY growth of 25%, higher than our previous expectation by 4.23%. Gross profit recorded RMB8.24bn growing by 27.59% YoY. Gross profit margin increased by 1% than 2016 GPM. We see that 2H17 GPM is higher than first half (1H17: 50.57%; 2H17: 48.4%), attributable to raw material price hike in second half. The management expects that in future gross profit margin will be stable.

Rising expenses. We see OPM decreasing by 0.1% YoY and expenses rising, which is mainly due to the increase in selling and distribution expenses and administrative expenses as a result of the expansion of retail operations. Administrative fees increased by 31.6% to RMB901mn and its percentage in revenue increased from 5.13% to 5.4%. Staff costs ratio rose by 0.6%, due to increasing R&D expenses in order to enhance innovation power. The management is confident to keep future expenditure around acceptable level. We highlight that expenses may be in rising trajectory given intensifying investment in R&D. Considering good track record, we expect the company to achieve stable profit margin.

Inventory. We see inventory turnover days increased dramatically (75 days in 2017, 61 days in 2016). The management attributed this to festival effect and emphasized that the majority of inventory has been delivered till now.

Brands. Anta brand kept growth, especially Anta Kids which grew dramatically by 40% YoY in 2017. Non-Anta brands developed quickly and FILA contributed over 80% to 17Q4 growth. As at end of 2017, the number of Anta stores reached 9467, while FILA has 1086 stores and Descente 58 stores.

R&D accelerating brand image upgrading. The company will make efforts to enhance brand image and strengthen innovation power. We highlight the importance to increase product quality and brand reputation under the consumption upgrade trend, given stronger consumption demand and power. If the strategy succeeded, we expect ASP to further increase and enlarge the topline.

Valuation

We maintain our target PE 26x and highlight the expense expectation to derive 18E/19E EPS of RMB1.22/1.38, thus we get 2019 target price to be HKD43.68. **Risks include:** Rising expenses; fierce competition in retail industry; operational inefficiency due to multiple brands. (Exchange rate=0.8248RMB/HKD)

Neutral

CMP HKD41.85

(Closing price as at 13 Mar 2018)

TARGET HKD43.68 (+4.4%)

COMPANY DATA

O/S SHARES (MN) :	2,639
MARKET CAP (HKDMN) :	112,080
52 - WK HI/LO (HKD):	42.10 / 20.75

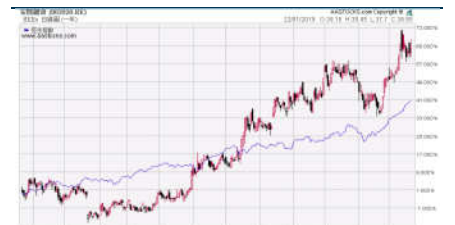
SHARE HOLDING PATTERN , %

Direct Ding and Associates.	51.19
Ding Yall	5.99

PRICE PERFORMANCE , %

	1M	3M	1Y
ANTA	12.38	24.07	75.79
HSI	5.72	7.54	33.85

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	13,346	16,692	20,532	24,638
Net Profit	2,386	3,088	3,232	3,654
EPS, RMB	0.95	1.17	1.22	1.38
PER, x	43.88	35.77	34.17	30.23
BVPS, RMB	4.24	6.12	5.44	5.69
P/BV, x	9.87	6.84	7.69	7.35
ROE, %	24.98	22.53	21.52	23.17

Source: Company, Phillip Securities Est.

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Financials

FYE	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratios					
Price to Earnings (P/E)	51.25	43.88	35.77	34.17	30.23
Price to Book (P/B)	10.37	9.87	6.84	7.69	7.35
Per Share Data (RMB)					
EPS	0.82	0.95	1.17	1.22	1.38
Book Value Per Share	4.03	4.24	6.12	5.44	5.69
Dividend Per Share	0.68	0.76	0.98	0.98	1.11
Growth (%)					
Revenue	24.69	19.95	25.08	23.00	20.00
Gross Profit	28.77	24.56	27.59	19.59	17.50
Operating Income	33.57	18.79	24.52	6.64	13.03
Net Profit	20.01	16.91	29.44	4.68	13.03
Margins (%)					
Gross Profit Margin	46.61	48.40	49.37	48.00	47.00
Operating Profit Margin	24.24	24.00	23.90	20.72	19.51
Net Profit Margin	18.34	17.87	18.50	15.74	14.83
Key Ratios					
ROE (%)	23.78	24.98	22.53	21.52	23.17
ROA (%)	16.32	18.37	21.71	18.47	19.16
Income Statement (RMB Mn)					
Revenue	11,125.9	13,345.8	16,692.5	20,531.8	24,638.1
- Cost of Goods Sold	-5,940.5	-6,886.7	-8,451.3	10,676.5	13,058.2
Gross Income	5,185.4	6,459.0	8,241.1	9,855.2	11,579.9
- Operating Expenses	-2,488.7	-3,255.7	-4,252.4	-5,601.6	-6,771.9
Operating Income	2,696.7	3,203.4	3,988.7	4,253.7	4,808.1
-Interest Expenses	132.6	107.5	321.8	212.7	240.4
Pretax Income	2,829.3	3,310.9	4,310.6	4,466.4	5,048.5
-Tax	-741.1	-866.3	-1,151.7	-1,161.3	-1,312.6
- Minority Interest	-47.7	-59.0	-71.0	-72.7	-82.2
Net Profit	2,040.6	2,385.5	3,087.8	3,232.4	3,653.7

Source: Bloomberg, Phillip Securities (HK) Research Estimates

Exchange rate (0.8248) is HKDCNY1Y forward contract price on 13 Mar from Wind.

(Financial figures as at 13 Mar 2018)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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