

# Anta Sports (2020.HK)

## FILA continues to drive growth and launches new sub-brand positioning younger generation

Hong Kong | Consumer | Company report

17 July 2018

### Investment Summary

We highlight that 1) 1Q18 operation results beat our expectation while 2Q18 growth may slow down given higher base; 2) FILA biz focuses on expanding store coverage, launching new sub-brand catering for younger generation and improving portfolio mix; 3) For new brands, the company continues to adjust store structure and expect the loss to narrow down looking forward. We increase EPS estimates thus raise target price to HKD47.3, even given a lower target PE 23.3x (roughly par to 2-y historical average minus 0.5x SD) vs. previous 26x to factor into recent market volatility. (Closing price at 13 July 2018)

### Business Overview

**18Q1 results beat expectation.** Anta biz realized +20%~25% YoY growth while non-Anta biz achieve +80%~85% growth, which is attributable to the fast development of FILA and Anta kids as well as relatively lower base in 17Q1. Mgt commented that the current inventory level is healthy but flagged 2Q18 growth may be lower than 1Q18.

**FILA biz continues to serve as a key driver.** FILA now makes up 25% of total revenue and maintain higher than 80% growth rate. We highlight FILA's great momentum at least in short term considering 1) The improving store coverage and penetration (FY17 1086 stores; FY18E 1300-1400 stores). 2) To cater for current fashion trend, the company launches FILA Fusion (a sub-brand of FILA) which targets from teens to 30s. FILA Fusion is expected to grasp more young customers and cultivate new drivers for FILA. 3) Continuously improving portfolio mix. Now majority of FILA products is apparel while more footwear will be added to improve product structure.

**New brands.** The company closes down inefficient stores and continues to adjust store network for relatively new brands (Descente, Kolon, Kingcow and Sprandi), with potential loss of RMB10mn/40mn/20mn/5mn for FY18E. Mgt highlights that Descente is likely to realize breakeven in FY19E. These new brands are expected to improve earnings quality through continuous brand cultivation and store adjustment.

**Rising A&P expenses.** It is due to amortization of COC sponsorship (started from 17Q4), which will drive selling expenses ratio to pick up in FY18E. Meanwhile, the company will increase advertising investment to new brands.

**E-commerce.** Mgt cautioned that online promotion events did not contribute much to sales. We expect 2H18 online promotion activities will help more to boost sales. The company indicates that as up to FY22E, the percentage of e-commerce sales in topline is expected to reach 20%.

Figure: Quarter performance

	18Q1	17Q4	17Q3	17Q2	17Q1
<b>Anta</b>	+20%~25%	+20%~25%	Mid-teens growth	+20%~30%	Mid-single-digit growth
<b>Non-Anta</b>	+80%~85%	+85%~90%	+40%~50%	+50%~60%	-

Source: Company, Phillip Securities

### Accumulate

CMP HKD42.8

(Closing price at 13 July 2018)

TARGET HKD47.3 (+17%)

#### COMPANY DATA

O/S SHARES (MN) :	2,639
MARKET CAP (HKDMN) :	114,913
52 - WK HI/LO (HKD):	49.3 / 41.25

#### SHARE HOLDING PATTERN · %

Direct Ding and Associates.	51.19
Ding Yall	5.99

#### PRICE PERFORMANCE · %

	1M	3M	1Y
ANTA	12.66	-6.55	61.24
HSI	-7.16	-7.41	8.27

#### RETURN VS. HSI



Source: Aastocks, Phillip Securities

#### KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	13,346	16,692	20,699	25,459
<b>Net Profit</b>	2,386	3,088	3,881	4,853
<b>EPS, RMB</b>	0.95	1.17	1.47	1.84
<b>PER, x</b>	44.88	36.58	29.11	23.27
<b>BVPS, RMB</b>	4.24	6.12	5.44	5.74
<b>P/BV, x</b>	10.09	6.99	7.87	7.45
<b>ROE, %</b>	24.98	22.53	25.61	30.06

Source: Company, Phillip Securities Est.

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**Valuation**

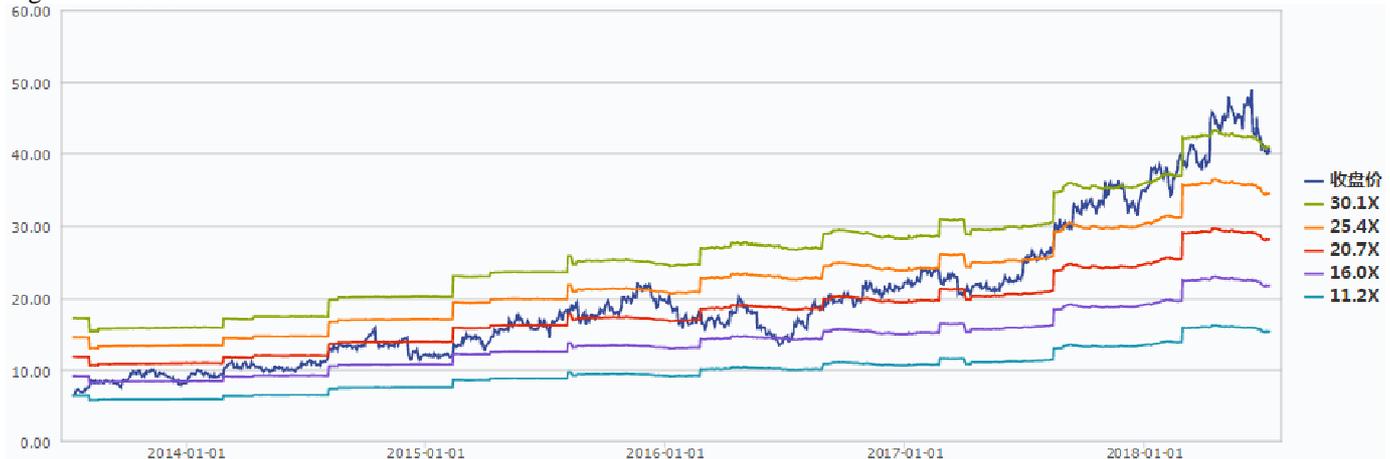
**We increase target price to HKD47.3.** Anta maintains CAGR guidance for future three years of 15%~20% (mid-teens for Anta while above 30% for FILA). We notice that A&H peers` expected PE is around 17x. Considering Anta`s excellent operation efficiency and multi-brand advantage, some premium should be added to its valuation. We give target PE of 23.3x (roughly par to 2-y historical average minus 0.5x SD) to factor into recent intensifying market volatility (vs. previous target PE 26x). We increase topline and expenses estimation thus derive 18E/19E EPS of RMB1.47/1.84, thus we give 2019 target price HKD47.3. **Risks include:** Rising selling expenses and R&D costs; fierce competition in retail industry; operational inefficiency due to multiple brands. (Exchange rate=0.8575RMB/HKD)

Figure: Fila Fusion



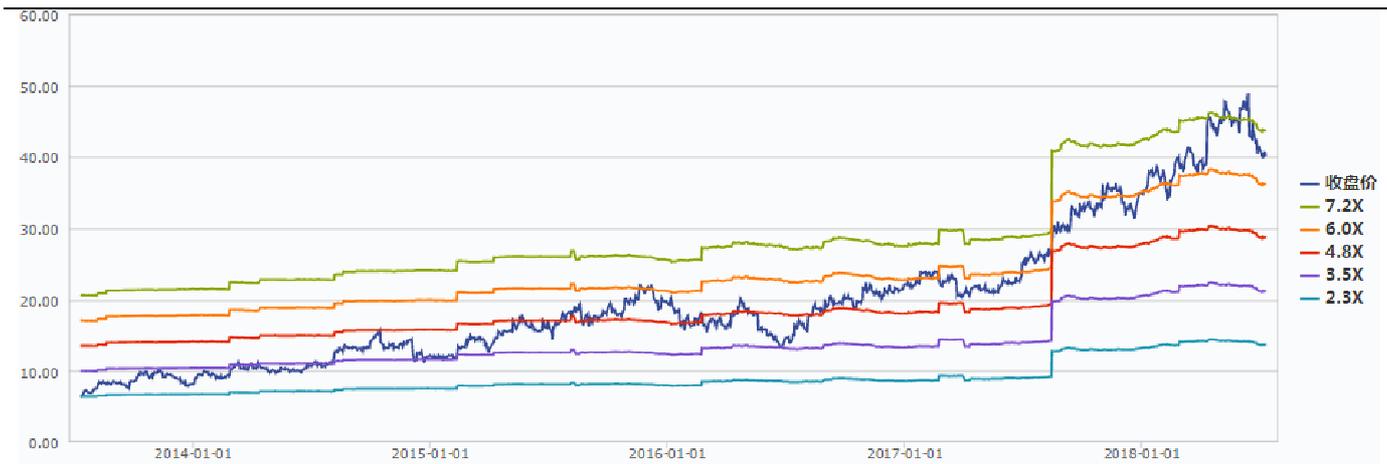
Source: Company, Phillip Securities

Figure: PE band



Source: Company, Phillip Securities

Figure: PB band



Source: Company, Phillip Securities

Figure: Peers valuation

Code	Firm	Mkt Cap /mn	Free Float /mn	PE			PB (MRQ)	EV /EBITDA
				TTM	18E	19E		
2020.HK	安踏體育	93,360.01	93,360.01	29.73	25.12	20.52	6.70	22.48
H share (10)								
	Max	124,350.34	124,350.34	184.74	36.70	30.08	20.19	25.74
	Medium	24,843.92	24,843.92	31.57	21.98	<b>17.23</b>	3.28	17.79
	Average	44,573.73	44,573.73	43.53	20.73	16.90	5.07	18.05
2313.HK	申洲國際	124,350.34	124,350.34	32.49	27.25	22.46	6.23	25.74
1913.HK	普拉達	79,513.10	79,513.10	40.24	36.70	30.08	3.52	17.79
1910.HK	新秀丽	33,802.93	33,802.93	14.85	18.93	14.88	2.72	12.36
0551.HK	裕元集團	30,931.84	30,931.84	9.46	9.41	9.79	1.09	--
2299.HK	百宏實業	18,756.00	18,756.00	35.73	--	--	3.36	22.77
0136.HK	恒騰網路	18,078.50	18,078.50	184.74	--	--	20.19	--
0494.HK	利豐	17,570.41	17,570.41	--	13.23	9.65	1.57	7.61
2331.HK	李寧	16,543.79	16,543.79	31.57	25.04	19.57	3.21	17.57
2232.HK	晶苑國際	12,830.43	12,830.43	13.00	10.20	8.23	2.12	--
A share (10)								
	Max	55,395.71	55,395.71	66.66	25.93	22.57	11.46	61.51
	Medium	15,756.17	15,606.63	28.87	20.90	<b>17.23</b>	3.81	22.93
	Average	24,054.02	22,107.01	30.63	18.82	15.84	4.17	24.90
600398.SH	海瀾之家	55,395.71	55,395.71	16.06	14.93	13.42	4.50	10.96
002563.SZ	森馬服飾	38,431.13	38,431.13	32.08	24.81	20.62	3.69	24.99
600655.SH	豫園股份	37,601.89	37,601.89	52.08	14.39	12.59	3.35	44.64
601718.SH	際華集團	17,522.60	17,522.60	27.77	--	--	0.92	29.72
603877.SH	太平鳥	15,909.24	15,909.24	29.98	24.13	18.57	4.60	20.91
900905.SH	老鳳祥 B	15,603.09	681.68	9.96	8.94	7.85	1.82	2.01
600612.SH	老鳳祥	15,603.09	11,054.44	15.73	14.11	12.40	3.05	8.36
002867.SZ	周大生	15,304.02	15,304.02	24.37	20.90	17.30	4.32	21.18
603587.SH	地素時尚	15,262.06	15,262.06	31.61	25.93	22.57	11.46	24.68
002699.SZ	美盛文化	13,907.37	13,907.37	66.66	21.25	17.23	3.94	61.51
US (10)								
	Max	832,085.39	662,202.22	110.43	18.76	--	12.71	30.88
	Medium	72,789.34	71,342.45	53.26	18.76	--	4.88	14.68
	Average	164,375.72	143,395.31	52.34	18.76	--	6.67	18.97

NKE.N	NIKE	832,085.39	662,202.22	64.51	--	--	12.71	--
VFC.N	VF	220,303.70	220,303.70	50.13	18.76	--	8.95	20.12
LULU.O	LULU	113,828.27	105,627.04	56.38	--	--	10.43	26.70
TPR.N	TAPESTRY	87,632.07	87,632.07	38.91	--	--	4.19	13.70
PVH.N	PVH	76,233.64	76,233.64	17.66	--	--	2.05	14.68
RL.N	RALPH LAUREN	69,345.04	47,338.46	63.84	--	--	3.01	10.45
KORS.N	MICHAEL KORS	66,451.25	66,451.25	16.83	--	--	4.94	9.76
UA.N	UNDER ARMOUR-C	62,897.00	56,110.79	--	--	--	4.52	30.88
UAA.N	UNDER ARMOUR-A	62,897.00	59,970.11	--	--	--	4.83	30.88
HBI.N	HANESBRANDS	52,083.79	52,083.79	110.43	--	--	11.06	13.53

Source: Wind (as at Jul 11), Phillip Securities

## Financials

<b>FYE</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018E</b>	<b>FY2019E</b>
<b>Valuation Ratios</b>					
Price to Earnings (P/E)	52.41	44.88	36.58	29.11	23.27
Price to Book (P/B)	10.61	10.09	6.99	7.87	7.45
<b>Per Share Data (RMB)</b>					
EPS	0.82	0.95	1.17	1.47	1.84
Book Value Per Share	4.03	4.24	6.12	5.44	5.74
Dividend Per Share	0.68	0.76	0.98	1.18	1.47
<b>Growth (%)</b>					
Revenue	24.69	19.95	25.08	24.00	23.00
Gross Profit	28.77	24.56	27.59	24.07	23.25
Operating Income	33.57	18.79	24.52	28.03	25.06
Net Profit	20.01	16.91	29.44	25.68	25.06
<b>Margins (%)</b>					
Gross Profit Margin	46.61	48.40	49.37	49.40	49.50
Operating Profit Margin	24.24	24.00	23.90	24.67	25.09
Net Profit Margin	18.34	17.87	18.50	18.75	19.06
<b>Key Ratios</b>					
ROE (%)	23.78	24.98	22.53	25.61	30.06
ROA (%)	16.32	18.37	21.71	22.18	25.44
<b>FYE</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018E</b>	<b>FY2019E</b>
<b>Income Statement (RMB Mn)</b>					
Revenue	11,125.9	13,345.8	16,692.5	20,698.7	25,459.4
- Cost of Goods Sold	-5,940.5	-6,886.7	-8,451.3	10,473.5	12,857.0
Gross Income	5,185.4	6,459.0	8,241.1	10,225.2	12,602.4
- Operating Expenses	-2,488.7	-3,255.7	-4,252.4	-5,118.3	-6,215.8
Operating Income	2,696.7	3,203.4	3,988.7	5,106.9	6,386.6
-Interest Expenses	132.6	107.5	321.8	255.3	319.3
Pretax Income	2,829.3	3,310.9	4,310.6	5,362.2	6,705.9
-Tax	-741.1	-866.3	-1,151.7	-1,394.2	-1,743.5
- Minority Interest	-47.7	-59.0	-71.0	-87.3	-109.2
Net Profit	2,040.6	2,385.5	3,087.8	3,880.7	4,853.2

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate (0.8575) is HKDCNY1Y forward contract price on 11 Jul from Wind.

(Financial figures as at 13 Jul 2018)

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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

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