

Anta Sports (2020.HK)

Strong 18H1 Results with FILA Continuing Rapid Growth
Hong Kong | Consumer | Company report

21 August 2018

Investment Summary

Anta announced interim results and we highlight that 1) Fila performance exceeds expectation; 2) new brands continue improving store network; 3) E-commerce will account for 20%-30% of revenue in future. We expect that the company will leverage on strong distribution channels and store network as well as the launch of new popular products to consolidate its leading position. (Closing price at 17 Aug 2018)

Event

Solid 18H1 results. The company revenue increased by 44% YoY, and gross profit was up by 54% YoY due to effective cost control, while net profit attributable to shareholders climbed by just 34% YoY. By products, sales of footwear/apparel/accessories was up by 21.3%/64.6%/51.3% respectively, with GPM rising by 1.9/4.3/4.5ppts.

Comment

Rising expenses dragging down profit margin currently. OPM decreased by 0.4ppts, due to rising expenditures regards to A&P amortization and retail level marketing and promotional activities as well as R&D. We see NPM was down by 1.4ppts, which is because exchange loss and hiking tax rate.

Improving operation efficiency. Although inventory days raised by 15 days to 83 days, which is mainly resulting from higher percentage of Fila sales in topline (after all Fila has higher inventory days around 120 days while Anta around 50~60 days). Mgt emphasized that inventory days of Fila is decreasing while that of Anta is rising for e-commerce hike, which overall indicates a healthy inventory level. Meanwhile, AR days dropped to 35 days while AP days remain unchanged around 49 days.

Net operating cash flow decreased to RMB1.475bn (vs. 2.058bn in 17H1), attributable to inventory hike of Fila and new brands, and mounting account receivables due to advanced purchase of raw materials (mainly eider down) for winner production. Mgt indicated that cash flow condition would be normal throughout the year.

Fila growth higher than expected. Fila biz recorded over 85% YoY growth in 18H1 with extending same store sales (from RMB400k to RMB600k now) and climbing stocks. The company also launches Fila Fusion, a trendy sportswear series which targets youth market, as a new momentum. Therefore, Fila now has complete product lines to cater for different customer demand involving adults, youth and kids.

Development of new brand. Anta operates four relatively new brands for various markets. 1) Descente, focusing on high-end sportswear products for customers aged 25~35, now owns 85 store and expands smoothly in Northeastern China. 2) Sprandi provides fashion and lifestyle footwear products, to focus on mid-end clients with 81 stores in China. 3) Kolon offers outdoor sportswear, located in tier 2-3 cities with 189 stores. 4) Kingkow, positioned into mid- to high-end kidswear market, was acquired in 2017 and operating 63 store in greater China area. The company is adjusting and developing store network of these new brands.

Accumulate

CMP HKD39.65

(Closing price at 17 Aug 2018)

TARGET HKD47.30 (+19%)

COMPANY DATA

O/S SHARES (MN)	:	2,639
MARKET CAP (HKMDN)	:	106,456
52 - WK HI/LO (HKD):		49.3 / 27.86

SHARE HOLDING PATTERN, %

Direct Ding and Associates.	51.19
Ding Yall	5.99

PRICE PERFORMANCE, %

	1M	3M	1Y
ANTA	-2.09	-11.69	30.88
HSI	-3.58	-12.87	0.62

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	13,346	16,692	20,699	25,459
Net Profit	2,386	3,088	3,881	4,853
EPS, RMB	0.95	1.17	1.47	1.84
PER, x	41.58	33.89	26.96	21.56
BVPS, RMB	4.24	6.12	5.44	5.74
P/BV, x	9.35	6.48	7.29	6.90
ROE, %	24.98	22.53	25.61	30.06

Source: Company, Phillip Securities Est.

Eurus Zhou

+852 2277 6515
euruszhou@phillip.com.hk

Figure: Quarterly performance

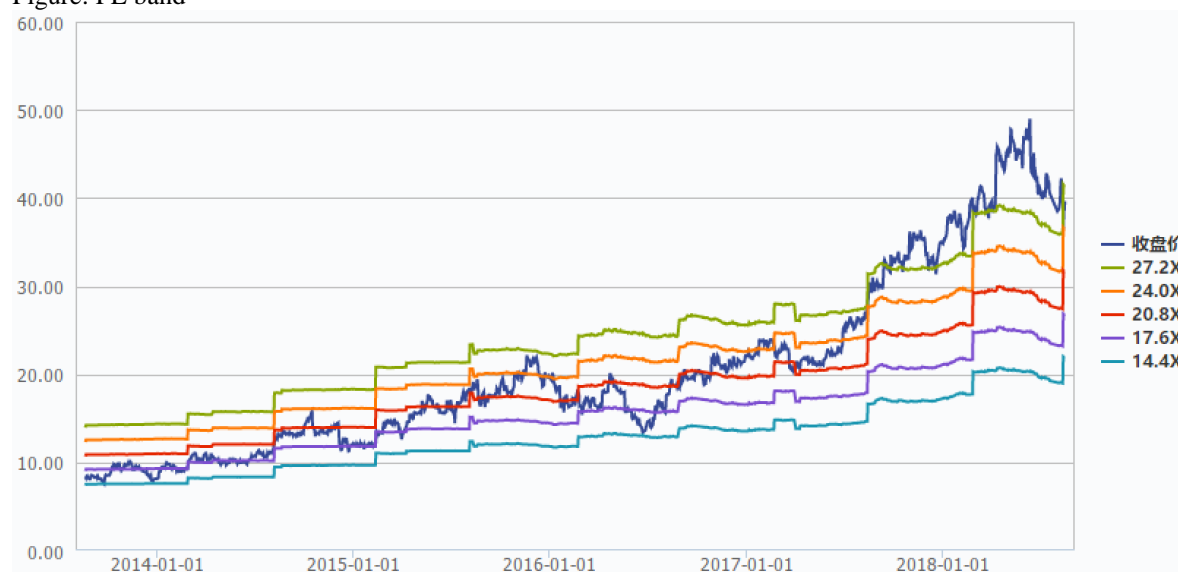
	18Q2	18Q1	17Q4	17Q3	17Q2	17Q1
Anta	Low-teens growth	+20%~25%	+20%~25%	Mid-teens growth	+20%~30%	Mid-single-digit growth
Non-Anta	+90%~95%	+80%~85%	+85%~90%	+40%~50%	+50%~60%	-

Source: Company, Phillip Securities

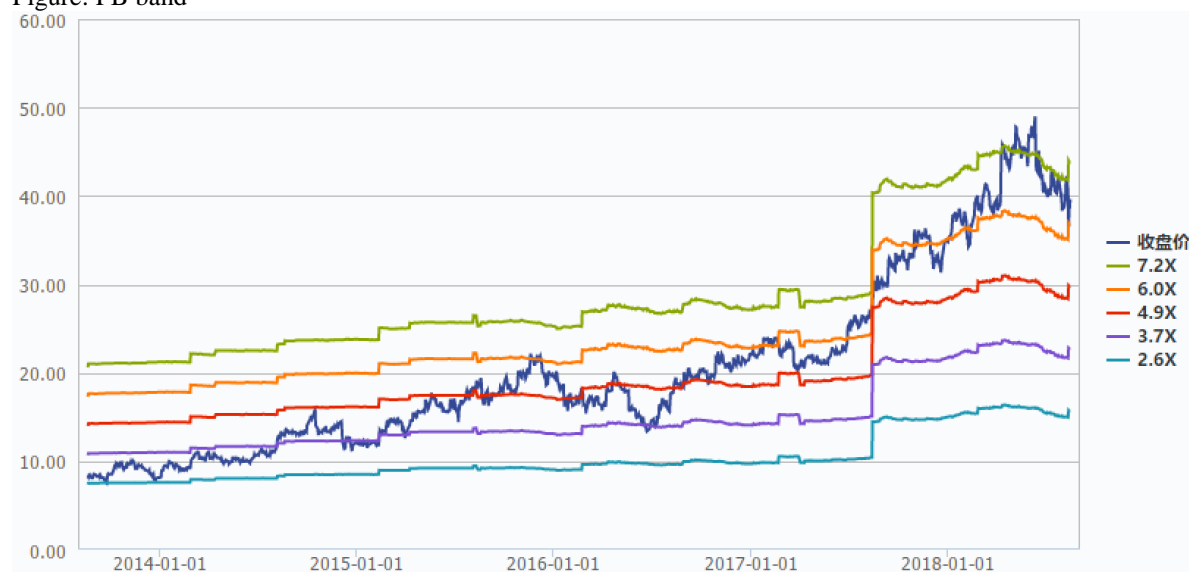
Valuation

We maintain target price to HKD47.3: Forecasted EPS is RMB1.47/1.84 in 18E/19E and target price is maintained as HKD47.3. (Closing price at 17 Aug 2018)

Risks include: Rising selling and R&D expenses; Fierce competition in retail market; Inefficiency resulting from multi-brand operation.

Figure: PE band


Source: Wind (as at Aug 17th), Phillip Securities

Figure: PB band


Source: Wind (as at Aug 17th), Phillip Securities

Financials

FYE	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratios					
Price to Earnings (P/E)	48.55	41.58	33.89	26.96	21.56
Price to Book (P/B)	9.83	9.35	6.48	7.29	6.90
Per Share Data (RMB)					
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
Growth (%)					
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
Margins (%)					
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
Key Ratios					
ROE (%)	23.78	24.98	22.53	25.61	30.06
ROA (%)	16.32	18.37	21.71	22.18	25.44
FYE	FY2015	FY2016	FY2017	FY2018E	FY2019E
Income Statement (RMB Mn)					
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 assumption is 0.857RMB/HKD.

(Financial figures as at 17 Aug 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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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005