

Anta Sports (2020.HK)

FY18 Results Beyond Market Expectations; Conservatively Optimistic Guidance for FY19

Hong Kong | Consumer | Company report

1 March 2019

Investment Summary

Anta reported 2018 operating results beating market expectation. Anta brand realized mid-teens growth and non-Anta brand delivered yoy growth between 80% to 85%. Benefiting from rising same store sales and operation efficiency, we expect the turnover to stably grow in future. In 2019, it targets to deliver over 20% topline growth. We estimate 19E/20E EPS to be RMB1.82/2.20 respectively, and raise TP to HKD50.8, Accumulating rating. (Closing price at 27 Feb 2019)

Company Business

2018 results beating expectations. Anta's revenue rose by 44% to RMB24.1bn. GPM rose by 3.3ppts reaching 52.6%, but OPM declined by 0.2ppts to 23.7%, due to climbing selling expenses. Net profit attributable reaching RMB4.1bn, up by 33%. Net operating cash flow grew by 40% to RMB4.44bn. Dividend pay-out ratio dropped from 70% in 2017 to 45% in 2018.

Figure: Operating results

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

Source: Company, Phillip Securities

Improving store sales and efficiency. As up to the end of 2018, the amount of Anta/non-Anta stores reached 10,057/1,652 respectively, exceeding previous guidance (Anta 9700-9800, Fila 14000-15000). Meanwhile, we see that same stores sales growth served as one main driver, given Anta/ Anta Kids delivering monthly sales of RMB220k/ 130k per single store (by 10% yoy), and Fila/Fila Kids recording sales of RMB700k/ 300k (up by 40%/ 50% yoy). Currently inventory level is getting better, with inventory days of key biz Anta maintained at around 4.2 months, and Fila's inventory days dropping from 150 days to 130 days. Improving efficiency is expected to go on to contribute to steady sales growth.

2019 guidance. The company aims to realize sales growth of 20% in 2019E, with Anta and Fila respectively growing by min-teens and 30%. As up tp 2020, the total turnover CAGR is targeted to be 15%~20%. For other bizs, Descent is going to actively explore and strive for turning profit in 2019E. While other new brands like Amer Sports and Kolon still contribute little to sales and profit.

Figure: Main bizs

Brand	Target market	Products
Anta	Mass market	Functional sportswear products for running, cross-training, basketball and soccer
Anta Kids		Kid's sportswear products
Sprandi		Fashion and lifestyle sportswear products
Fila	High-end market	Sports fashion products
Descente		High performance sportswear products for skiing, cross-training and running
Kolon		Outdoor sportswear products
Amer Sports		Comprehensive sports products (focusing on overseas markets)

Accumulate

CMP HKD45.4

(Closing price at 27 Feb 2019)

TARGET HKD50.8 (+12%)

COMPANY DATA

O/S SHARES (MN)	2,639
MARKET CAP (HKMDN)	121,895
52 - WK HI/LO (HKD)	48.8 / 29.05

SHARE HOLDING PATTERN , %

Direct Ding and Associates.	51.19
Ding Yall	5.99

PRICE PERFORMANCE , %

	1M	3M	1Y
ANTA	15.08	27.71	18.25
HSI	4.28	8.72	-8.03

RETURN VS. HSI



Source: Aastocks, Phillip Securities

KEY FINANCIALS

RMB mn	FY17	FY18	FY19E	FY20E
Net Sales	16,692	24,100	30,125	36,150
Net Profit	3,088	4,103	4,794	5,799
EPS, RMB	1.17	1.55	1.82	2.20
PER, x	38.80	29.20	24.99	20.67
BVPS, RMB	6.12	5.44	5.76	6.14
P/BV, x	7.42	8.34	7.88	7.39
ROE, %	22.53	26.98	29.56	33.25

Source: Company, Phillip Securities Est.

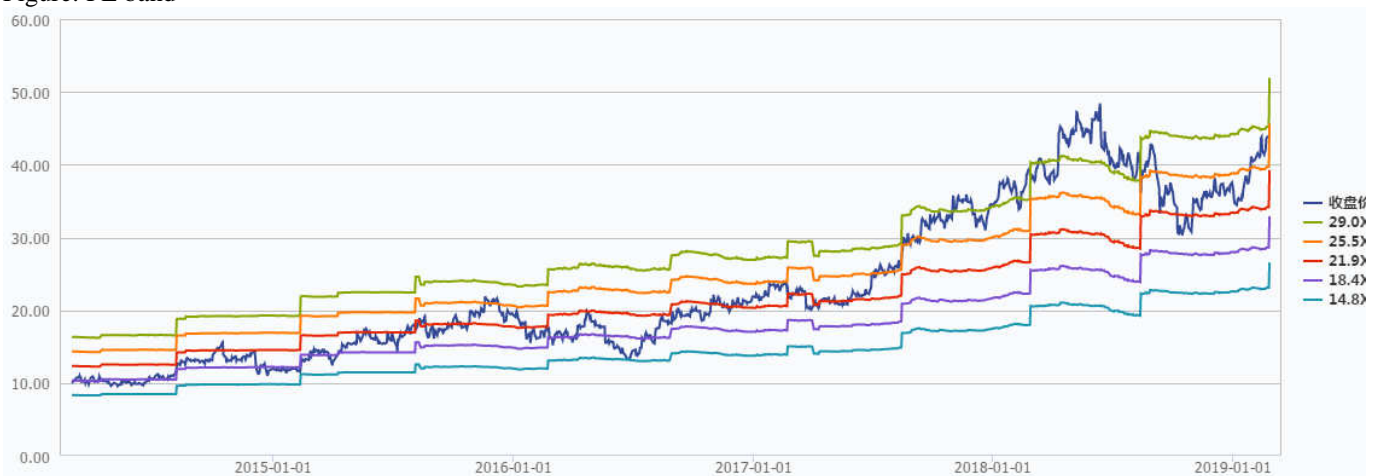
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Acquisition progress smoothly. The company announced that the acquisition of Amer Sports have been approved in related national regulations globally. The trade will be settled in March. We highlight this transaction is an important step in Anta's exploration in overseas market.

Valuation & Risks

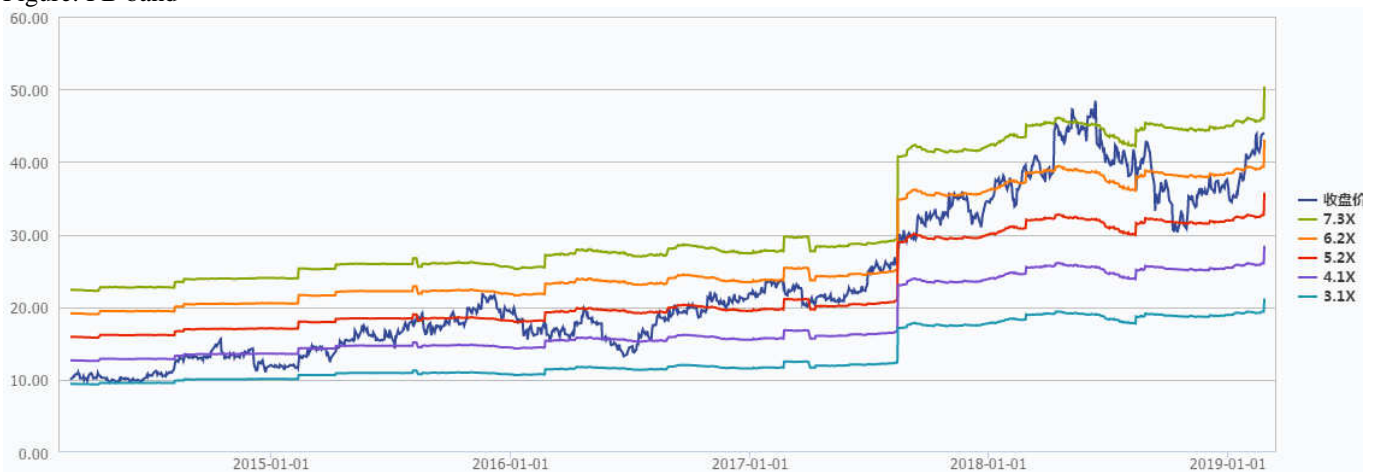
We raise target price to HKD50.8: Future momentum comes from rising store efficiency, rapid growth of Kids' product and further exploration of Fila and its subsidiary bizs. Projected EPS is RMB1.82/2.20 in 19E/ 20E and target price is raised to HKD50.8. **Risks include:** Rising selling and R&D expenses; Sluggish retail market; Inefficiency resulting from so many brands under operation.

Figure: PE band



Source: Wind ((as at 27th Feb), Phillip Securities

Figure: PB band



Source: Wind (as at 27th Feb), Phillip Securities

Financials

FYE	FY2016	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratios					
Price to Earnings (P/E)	47.61	38.80	29.20	24.99	20.67
Price to Book (P/B)	10.71	7.42	8.34	7.88	7.39
Per Share Data (RMB)					
EPS	0.95	1.17	1.55	1.82	2.20
Book Value Per Share	4.24	6.12	5.44	5.76	6.14
Dividend Per Share	0.76	0.98	1.24	1.45	1.76
Growth (%)					
Revenue	19.95	25.08	44.38	25.00	20.00
Gross Profit	24.56	27.59	53.95	23.47	21.15
Operating Income	18.79	24.52	42.88	16.41	22.03
Net Profit	16.91	29.44	32.88	16.84	20.95
Margins (%)					
Gross Profit Margin	48.40	49.37	52.64	52.00	52.50
Operating Profit Margin	24.00	23.90	23.65	22.02	22.39
Net Profit Margin	17.87	18.50	17.02	15.91	16.04
Key Ratios					
ROE (%)	24.98	22.53	26.98	29.56	33.25
ROA (%)	18.37	21.71	23.45	25.13	28.60
Income Statement (RMB Mn)					
Revenue	13,346	16,692	24,100	30,125	36,150
- Cost of Goods Sold	-6,887	-8,451	-11,413	-14,460	-17,171
Gross Income	6,459	8,241	12,687	15,665	18,979
- Operating Expenses	-3,256	-4,252	-6,988	-9,031	-10,884
Operating Income	3,203	3,989	5,699	6,634	8,095
-Interest Expenses	108	322	68	279	324
Pretax Income	3,311	4,311	5,767	6,913	8,419
-Tax	-866	-1,152	-1,533	-1,867	-2,315
- Minority Interest	-59	-71	-199	-252	-305
Net Profit	2,386	3,088	4,103	4,794	5,799

Source: Company, Phillip Securities (HK) Research Estimates

Exchange rate assumption is 0.8586RMB/HKD, one year HKD/CNY forward price on 27 Feb.

(Financial figures as at 27 Feb 2019)

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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