

ANTA SPORTS (2020 HK)

Shows the resilience of the leader under the epidemic

Hong Kong | Consumer (Sportswear) | Initial Coverage Research Report

10 September 2020

Investment Summary

Anta Sports, a leading domestic brand sportswear company, was established in 1991 in Jinjiang, Fujian. Its main business involves the design, development, manufacturing and marketing of sportswear. At the beginning of its establishment, the company was mainly a shoe OEM factory. Since 1999, it has changed from manufacturing to brand wholesale, launching its own clothing and sports accessories products. In FY19, the company's annual revenue reached RMB 33.9 billion, and grew at a CAGR of 18% over the past ten years, leading the industry in the industry. In the same year, it was also ranked 21st in Brand Finance's "2019 World's Most Valuable Apparel Brands" ranking and was selected as the "BrandZ™ 2019 Top 100 Most Valuable Chinese Brands" released by WPP and Kantar China, becoming the only one selected in the sporting goods industry. The brand ranks first in the "Apparel" category.

In 2016, the company put forward the strategic policy of 'Single-Focus, Multi-Brand and Omni-Channel', taking sports as the company's development focus, expanding the company's brand matrix, and comprehensively deploying street shops, shopping malls, department stores, and Outlet and e-commerce platforms. Through the synergy between multi-brand strategies, Anta can cover different needs in all aspects, from mass to high-end, from fashion to sports, from children to adults.

Build an Omni-channel sales network

With the policy of developing Omni-channels, the company continues to strengthen its retail management capabilities and sales network, and uses the characteristics of different stores to package the images of different brands to highlight brand differences. In addition, the company continues to optimize the membership system to provide members with a more personalized retail experience and strengthen customers' trust and loyalty to the brand. Continue to adjust the store structure, integrate smaller and less efficient stores, and continue to open larger and more attractive stores in superior locations to improve overall store efficiency.

Anta's main brand pilots DTC model

In the past 20 years, Anta's main brand business has been developed in the Chinese market under a wholesale distribution model. Under this model, distributors with a strong regional network and local resources can meet different local business cultures and consumer preferences in various regions, so that the Anta brand can achieve national coverage, thereby effectively promoting the Anta brand business. In recent years, market consumption habits have changed rapidly, and companies need to take a more proactive transformation and change to cope with the uncertainty of the external environment so as to achieve sustainable high-quality growth. In mid-2020, the company proposed to transform the business model of the Anta brand from a wholesale distribution model to a direct-to-consumer model (DTC), enabling the company to mobilize resources more flexibly in retail, channel, merchandise, finance, and human resources, and improve operational efficiency.

Valuation and Investment Recommendation

After FILA's successful experience, Descente also began to record profits, confirming that the company can effectively carry out post-investment management and introduce brands into the Greater China region. The company's newly acquired Amer Sport has great potential in the Greater China region. Considering that the company's brands have huge growth potential and future revenue growth potential, we expect the company's FY20E/FY21E earnings per share to be RMB 1.76/3.05. The target price of HK\$94.90 corresponds to the expected P/E of 48.53/28.00 times for 2020/2021 and a buy rating is given.

Buy (initiation)

CMP HKD 75.10

(Closing price as at 8 September)

TARGET HKD 94.90 (+26.4%)

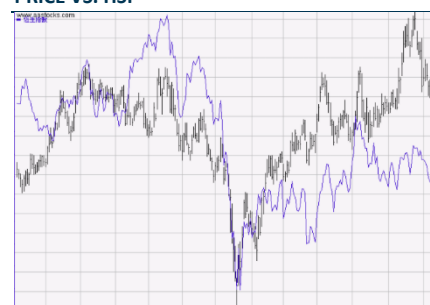
COMPANY DATA

O/S SHARES (MN) :	2,703
MARKET CAP (HKD MN) :	203,123
52 - WK HI/LO (HKD):	87.94/41.43

SHARE HOLDING PATTERN, %

Ding Shi Zhong	61.42
----------------	-------

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

財務資料

CNY mn	FY19	FY20	FY21
Net Sales	33,928	37,138	46,240
Net Profit	5,344	4,758	8,254
EPS, CNY cent	198.70	176.03	305.38
P/E, x	34.02	38.40	22.13
BVPS, CNY	779.17	915.84	1121.04
P/BV, x	8.67	7.38	6.03
DPS (HKD cent)	67.00	52.81	91.61
Div. Yield (%)	0.89%	0.70%	1.22%

Source: Company reports, Phillip Securities Est.

Research Analyst

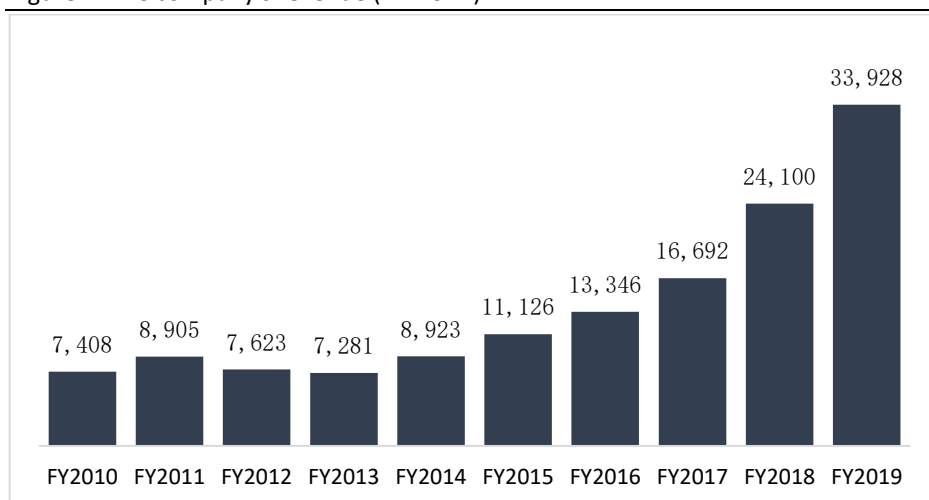
Timothy Chong (+ 852 22776515)

timothyong@phillip.com.hk

Company Profile

Anta Sports, a leading domestic brand sportswear company, was established in 1991 in Jinjiang, Fujian. Its main business involves the design, development, manufacturing and marketing of sportswear. At the beginning of its establishment, the company was mainly an shoe OEM factory. Since 1999, it has changed from manufacturing to brand wholesale, launching its own clothing and sports accessories products. In FY19, the company's annual revenue reached RMB 33.9 billion, and grew at a CAGR of 18% over the past ten years, leading the industry in the industry. In the same year, it was also ranked 21st in Brand Finance's "2019 World's Most Valuable Apparel Brands" ranking and was selected as the "BrandZ™ 2019 Top 100 Most Valuable Chinese Brands" released by WPP and Kantar China, becoming the only one selected in the sporting goods industry. The brand ranks first in the "Apparel" category.

Figure 1: The company's revenue ('mn CNY)



source : Company · Phillip Securities Research

Company development process

Initial stage: OEM processing started

In 1991, the company's predecessor, Anta (Fujian) Footwear, conducted OEM production for multinational companies in Jinjiang, and established Anta (Fujian) Footwear Co., Ltd. in 1994. The company expanded its production scale from hand-crafted workshops and entered large-scale industrial production stage.

Development stage: own brand product development

The company's business shifted from manufacturing to brand wholesale, launching clothing and sports accessories products, and gradually improving the brand's product matrix. At this stage, the company continued to establish its brand image through advertising and marketing, and signed a number of spokespersons across different sports sectors, such as table tennis world champion Kong Linghui, NBA star Kevin Maurice Garnett, tennis superstar Jelena Janković and others.

At the same time, the company began to operate in the form of franchise and expanded its channels. As of the end of 2012, the company's main brand had a total of 8,075 stores across China.

Transition stage:

Since 2012, the industry has entered a period of adjustment, and the sportswear industry has entered a hard time. The company has recorded negative revenue growth in FY12 and FY13. The company took the lead in switching industries. In 2013, it implemented a comprehensive retail-oriented strategy, initiated retail reforms, and strengthened retail management, includes a series of measures such as streamlining the distribution structure, adjusting sales channels and establishing product differentiation. In 2014, Anta took the lead in going out of adjustments and its performance resumed growth. The company also surpassed Li Ning to become the local brand with the largest market share in China's sporting goods industry, second only to Nike and adidas.

Expansion stage:

In 2016, the company put forward the strategic policy of 'Single-Focus, Multi-Brand and Omni-Channel', taking sports as the company's development focus, expanding the company's brand matrix, and comprehensively deploying street shops, shopping malls, department stores, and Outlet and e-commerce platforms. Through the synergy between multi-brand strategies, Anta can cover different needs in all aspects, from mass to high-end, from fashion to sports, from children to adults.

Focus in sport

The company positions itself as a 'multi-brand company focusing on sporting goods', and its overall development strategy focuses on sports. Although it has different sub-brands, different product lines and different professional directions, Anta develops its unified brand image through sports. In the process of brand expansion, the company continues to focus on sports itself. Starting in 2019, the company has divided its business into three major brand business groups—professional sports, fashion sports and outdoor sports.

Figure 2:: Brands Group

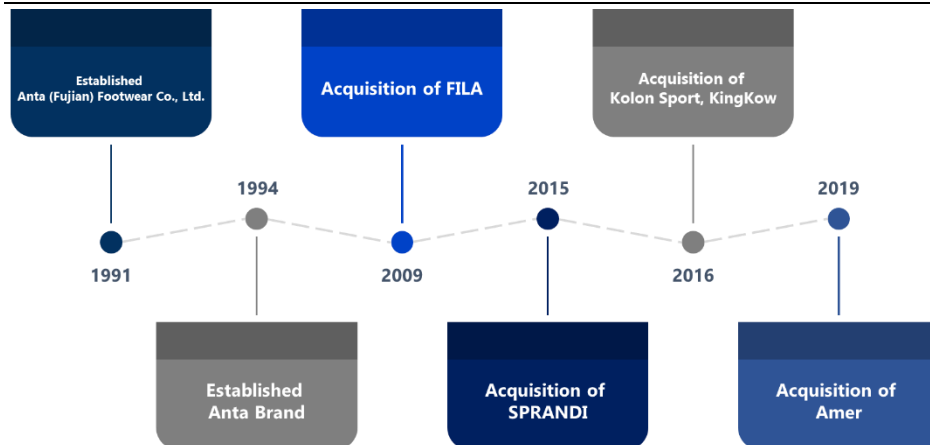


source : Company · Phillip Securities Research

Expand its product matrix through acquisition

In addition to its own brands, the company expands its brand matrix through acquisitions. The company completed its first brand acquisition in 2009, and obtained the distribution of FILA trademark products in China and retail business in China, Hong Kong and Macau from Belle International. In 2015, it successively acquired DESCENTE, Kolon and other brands. The company further acquired Amer Sport in 2019.

Figure 3: Company acquisition history









source : Company · Phillip Securities Research

Anta main brand target mass market

Anta's main brand mainly targets the mass market, with products that take into account sports performance and price, covering different sports fields, such as running, basketball and football. Since the establishment of the brand in 1994, the positioning has been clear, and the price of the main brand basketball shoes is mainly between 300-800, and the price of the main brand basketball shoes is mainly between 300-800. Klay Thompson's newly launched KT5 series is priced at RMB 649-999, which is about 10% higher than the KT4 series. The newly launched Star Series uses Chinese style and Anta's technology to launch Xingyue basketball shoes, Xingluan running shoes and Xinglan running shoes, priced at RMB 999, RMB 899 and RMB 599 respectively.

Figure 4: Anta series of sports shoes sales price

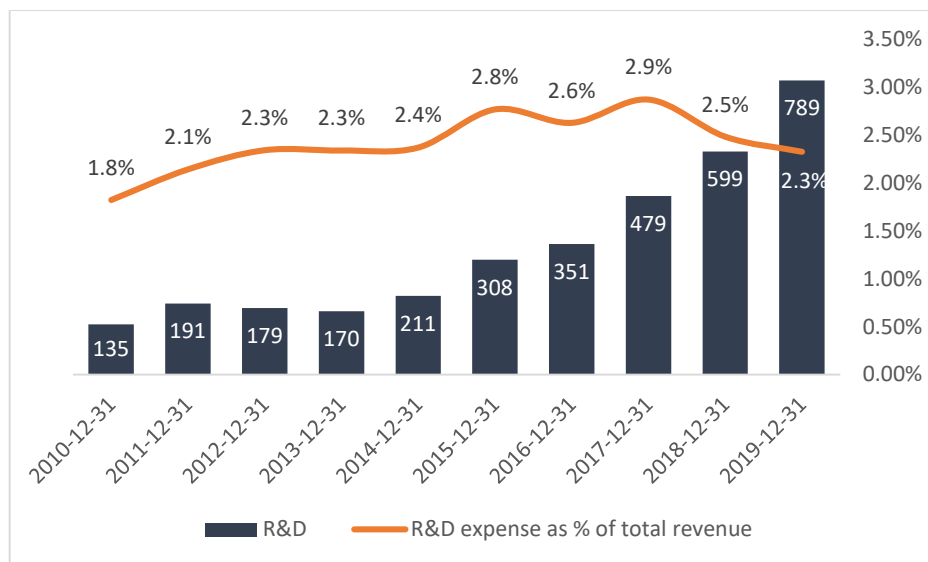
Xingluan running shoes		899 元
Xingyue basketball shoes		1,299 元
KT5 "Disco Ball" Limited High Basketball Shoes		999 元
KT4 2019 Playoffs Men's Basketball Sneakers		899 元
KT5 "Valentine's Day" Basketball Sneakers		699 元
Xinglan running shoes		599 元

source : Company , Phillip Securities Research

Deploy resource to research and development

In terms of R&D expenses, the company has continuously invested resources in product R&D in the past few years. R&D expenses accounted for an average of 2-3% of the company's sales, and the capital invested was also higher than other domestic leaders.

Figure 5: The company's past research and development expenses (million RMB)



source : Company · Phillip Securities Research

In 2017, the company developed a new cushioning technology-A-FLASHFOAM, and applied it in wormhole running shoes and KT series basketball shoes since KT4. The emergence of FLASHFOAM technology has increased the evaluation of Anta sneakers. Consumers compare it with adidas' Bounce and Boost, and believe that it is between the two in terms of elasticity, and impact protection can be even more evenly matched with Boost.

Figure 6: A-FLASHFOAM's press conference and wormhole running shoes



Source: Company, Phillip Securities Research

Company is highest level of sponsor of 2022 Olympic Winter Games

In terms of brand promotion, the company uses brand sponsorship as the main promotion method. Since 2009, it has cooperated with the China Asian Games and the Olympic Games to sponsor athletes to increase brand exposure. In 2017, the company officially became the official sportswear partner of the Beijing 2022 The Olympic Winter Games and the Paralympics, the highest level of sponsorship.

FILA has a clear positioning under company management

After the company completed the acquisition of FILA's China business in 2009, it took 5 years to turn the brand from loss to profit. Since then, revenue has continued to increase. In FY19, revenue reached 14.77 billion yuan, accounting for the company's total revenue. 43.5%. FILA is positioned as a high-end sports fashion brand, targeting people between 25 and 45 years old. FILA subdivides two sub-brands, FILA FUSION and FILA KIDS, respectively, targeting young people aged 20-30 and children aged 3-14.

FILA FUSION takes the street fashion brand as its positioning and announced its launch in 2017. Based on the 1+N model, one core main line product + multiple cross-border product lines, respectively, cooperate with the international fashion brand AAPE by A Bathing Ape and the Korean brand D-ANTIDOTE to launch new products. In terms of spokespersons for FILA, Gao Yuanyuan, Huang Jingyu and Wu Jinyan act as the brand's high-end sports fashion positioning. FILA FUSION uses Kōki Kimura Mitsuki as its spokesperson, presenting the brand with a young, sunny, trendy and sporty style.

Figure 7: Brand's commercial endorser



Source: Frost & Sullivan, Phillip Securities Research

Build an Omni-channel sales network

With the policy of developing omni-channels, the company continues to strengthen its retail management capabilities and sales network, and uses the characteristics of different stores to package the images of different brands to highlight brand differences. In addition, the company continues to optimize the membership system to provide members with a more personalized retail experience and strengthen customers' trust and loyalty to the brand. Continue to adjust the store structure, integrate smaller and less efficient stores, and continue to open larger and more attractive stores in superior locations to improve overall store efficiency.

The company launched new ninth-generation stores in Shanghai and Chongqing in 2019. The company has fully upgraded its brand image, store image and consumer experience, and injected "digitalization", "rejuvenation" and "specialization" as new The core element of the first generation store. At the same time, Anta Children also launched 4.0 stores. The store is also equipped with Anta Children's 4.0 new physical test system, using science to choose the most suitable products for children.

As of June 30, 2020, Anta (including Anta Children's Independent Store) had a total of 10,197 stores in mainland China and overseas countries, a decrease of 319 stores from the end of last year. The number of FILA stores (including FILA KIDS and FILA FUSION standalone stores) in Mainland China, Hong Kong, Macau and Singapore totaled 1,930, a decrease of 21 compared to the end of last year, and the number of DESCENTE stores in Mainland China increased by 9 compared to the end of last year to 145. The number of KOLON SPORT stores in Mainland China and Hong Kong decreased by 30 to 155 from the end of last year. Except for Anta's main brand, which mainly focuses on street shops, the others are mainly operated in the form of shop-in-shop.

Anta's main brand pilots DTC model

In the past 20 years, Anta's main brand business has been developed in the Chinese market under a wholesale distribution model. Under this model, distributors with a strong regional network and local resources can meet different local business cultures and consumer preferences in various regions, so that the Anta brand can achieve national coverage, thereby effectively promoting the Anta brand business. In recent years, market consumption habits have changed rapidly, and companies need to take a more proactive transformation and change to cope with the uncertainty of the external environment so as to achieve sustainable high-quality growth. In mid-2020, the company proposed to transform the business model of the Anta brand from a wholesale distribution model to a direct-to-consumer model (DTC), enabling the company to mobilize resources more flexibly in retail, channel, merchandise, finance, and human resources, and improve operational efficiency.

In the first phase of the plan, the company will develop a mixed operation model (direct-operated Anta brand stores and franchisees) in 11 regions of China, including Changchun, Changsha, Chengdu, Chongqing, Guangdong, Kunming, Nanjing, Shanghai, Wuhan, Xi'an and Zhejiang Operating Anta brand stores) and terminated cooperation with distributors in these regions. When selecting relevant regions, a number of factors are considered, including its contribution to the Anta brand business, the past and recent performance of Anta brand stores in these regions, the strategic value of individual markets, the long-term plans of the Group, and negotiations with relevant distributors.

There are approximately 3,500 Anta brand stores involved, accounting for approximately 35% of the total Anta brand stores in China on June 30, 2020. The work related to the termination will take approximately 6 to 9 months to complete in batches. About 60% of the stores will be directly operated by the company, and 40% will be operated by franchisees in accordance with Anta brand operating standards. All current distribution agreements with these distributors will be terminated, and these distributors will terminate all franchise agreements with their franchisees, and the Group will enter into new franchise agreements with the franchisees.

FILA's experience in DTC model

Since 2011, FILA in China took 3 years to take back most of its stores from dealers and changed them to direct management. At present, nearly 80% of FILA stores are directly operated by the company. The direct management reform has flattened FILA's management and made management more flexible from headquarters to retail. The branch teams across the country directly report their business plans and results to the headquarters, and the headquarters also directly determines the level of support based on the completion of each team's performance indicators.

The direct-sales model helps the brand to have more effective control over the image of the terminal and retail management. FILA stores are concentrated in the first- and second-tier core business districts. The store decoration design and product display layout enable FILA to abandon the rigid style of general sports product stores, and to reflect the sense of fashion more. The store image is upgraded every two years on average, and will be in the country in the future. Key core shopping malls to expand a multi-store or large-scale integrated flagship store (1000-1500 square meters).

Effectively expand online sales

In terms of e-commerce, in addition to the full coverage of mainstream e-commerce channels such as Tmall, JD.com, and Vipshop, Anta has also established its own official e-commerce channel and has formed a coverage of more than 250 million people through the company's big data system. In the early stage of the epidemic, the company promoted online sales and e-commerce through marketing models such as "all-employee retail" and "live broadcast + e-commerce", using customer traffic through social channels.

In many e-commerce shopping festival activities this year, Anta has achieved good results and set new records. In the 618 shopping festival, according to Anta Group's e-commerce data, the total transaction volume of the event was RMB 1.43 billion, YoY increase of 78%. Official information from the Tmall backend shows that in terms of total sales of shoes and apparel, Anta ranks third in the sports category and first among domestic brands; FILA ranks fifth in the sports category; Anta children ranks the mother The baby category is fourth, FILA KIDS ranks ninth; in addition, Amer Sports Group's Archaeopteryx, SALOMON and other brands have entered the current top 12 outdoor category.

Figure 8: 618 sales arouse internet attention



Source: NetEase, Phillip Securities Research

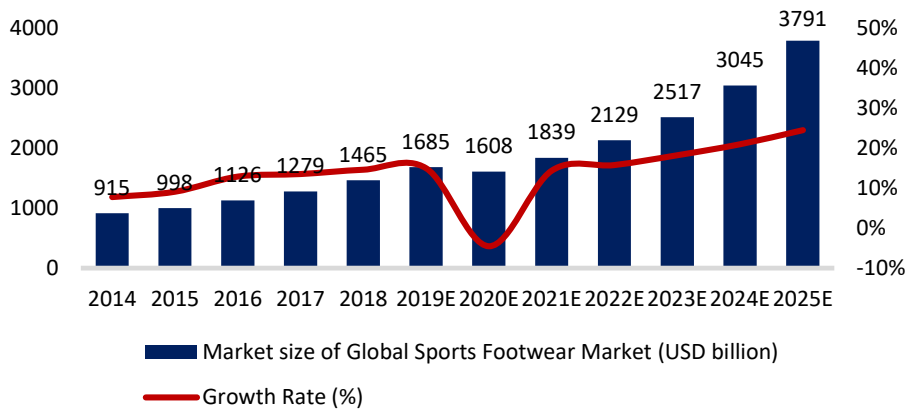
Industry analysis

The sportswear industry is steadily improving

In the past ten years, the global sports shoe market has steadily expanded, and the concept of national sports has driven the growth of global sports consumption. According to a report by China Forward Industry Research Institute (中國前瞻產業研究院), the global sports shoe industry market size has risen from US\$66.7 billion in 2010 to US\$146.5 billion in 2018, growing at a CAGR of 10.3%, and it is estimated that the market is close to the level of 170 billion US dollars in 2019. Affected by the COVID-19, this year, the sports shoe market is expected to decline in 2020. With the continuous recovery of the world economy, emerging markets with huge consumption potential such as India and China will drive the global economy. The institute also predicts that the global sports shoe market will maintain a medium-speed and steady

growth, and is expected to reach a scale of US\$379.1 billion in 2025, with a compound annual growth rate of about 18.7%.

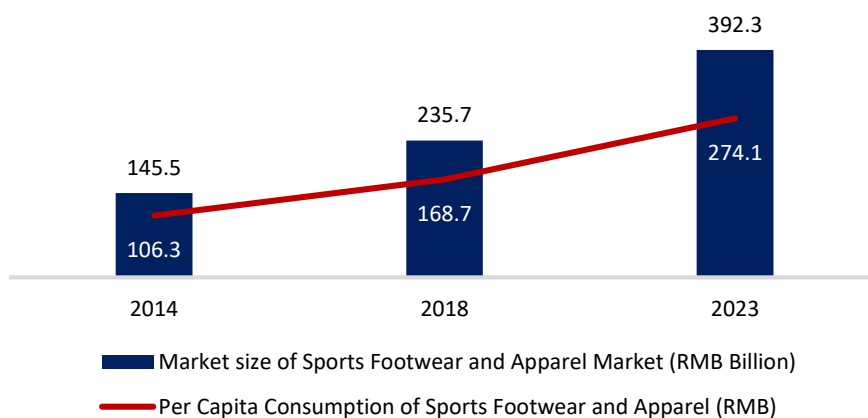
Figure 9: Global sports shoe market specifications



Source: China Forward Industry Research Institute · Phillip Securities Research

According to Frost & Sullivan's report, in terms of total retail sales (including value-added tax) in 2018, China has become the second largest sports footwear retail market after the United States. The total retail sales (including value-added tax) of China's sports shoes and apparel retail market increased from RMB 145.5 billion in 2014 to RMB 235.7 billion in 2018. At the same time, China's per capita annual consumption expenditure on sports shoes and apparel products also increased from RMB 106.3 in 2014 to RMB 168.7 in 2018, representing a compound annual growth rate of 12.2%. It is estimated that by 2023, total retail sales (including value-added tax) and per capita annual consumption expenditure will reach RMB 392.3 billion and 274.1 respectively. Nevertheless, China's consumption expenditure on sports shoes and clothing is lagging behind other major developed economies. According to Frost & Sullivan's data, in 2018, China's per capita annual consumption of sports shoes and clothing accounted for all types of shoes and clothing. The per capita annual consumption is only 12.5%, while the United Kingdom, the United States and Japan are 27.7%, 31.8% and 24.3% respectively. At this stage, there is still great potential for growth.

Figure 10: China's sports shoes and apparel market and per capita annual consumption



Source: Frost & Sullivan, Phillip Securities Research

Company competitive advantage

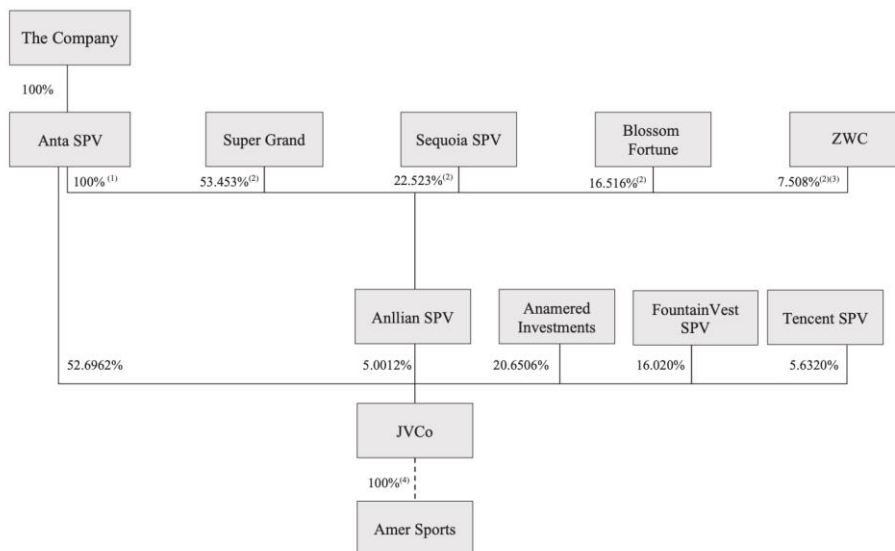
The company has acquired a large European sports brand in recent years

The company takes a firm lead in the domestic retail industry

A consortium led by Anta Sports (2020) acquired Finnish sports brand Amer Sports at the end of 2018. The purchase price is 40 euros per share, which is a 39% premium to the closing price of Amer Sports shares on the Nasdaq Helsinki Stock Exchange, involving approximately 4.6 billion euros (about 40.86 billion Hong Kong dollars). The consortium's acquisition of all shares in Amer Group is the largest merger and acquisition in the history of China's apparel industry.

At the end of last year, Anta indirectly sold approximately 5.0012% equity in Amer Sports to Super Grand, Blossom Fortune, Sequoia SPV and ZWC for a total cash consideration of approximately 133 million Euros, and indirectly sold approximately 0.2505% equity in Amer Sports to FountainVest SPV. At present, Amer Sports is owned 52.70% by Anta, FountainVest SPV and Tencent (700) hold 16.02% and 5.63% respectively, Anllian holds 5.00%, and Chip Wilson, founder of Canadian yoga apparel brand Lululemon, owns 20.65%.

Figure 11: Amer's current shareholding structure



Source: Frost & Sullivan, Phillip Securities Research

Amer Sports is an internationally renowned sporting goods company founded in 1950. Amer's brands include luxury outdoor equipment brand Arc'teryx (Archaeopteryx), French mountain outdoor cross-country brand Salomon (Salomon), Austrian snowboard brand Atomic Skis, Finnish sports watch brands Suunto, Wilson, Precor, etc., covering tennis, Special equipment for badminton, golf, alpine skiing, skateboarding, trail running, diving, etc.

Figure 12: Amer Sport's brands



Source: Google, Phillip Securities Research

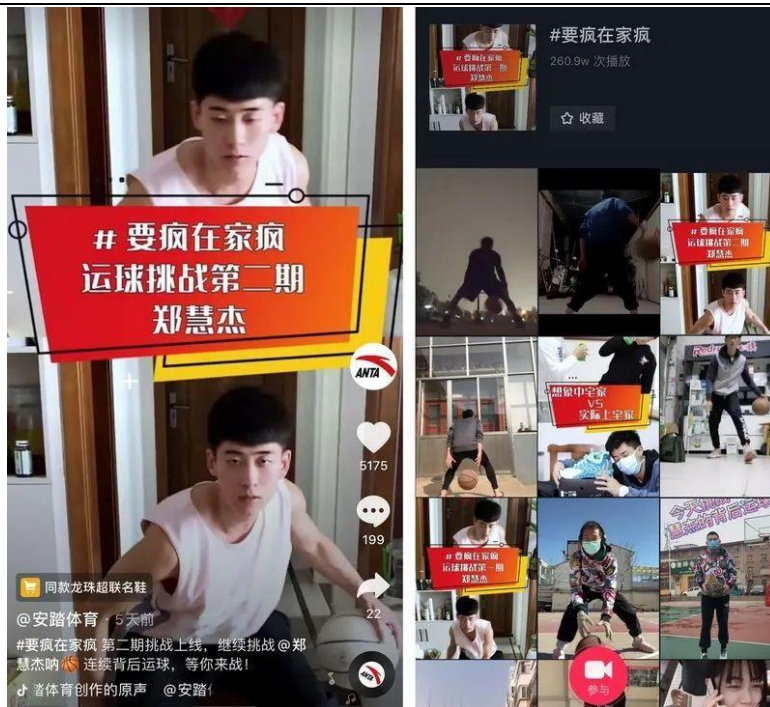
Cooperate with the promotion of the Winter Olympics

Amer Sports' brands are mostly high-end outdoor sports products, with professional images but a narrow market. From a commercial point of view, the niche target customer group has not brought considerable revenue to the company. In addition, when Anta acquired Amer Sports, Amer Sports' operating status was not ideal, its performance recorded a regression, and the company also had a lot of debt. But at the end of 2017, Anta became the official sports product partner of the 2022 Beijing Winter Olympics. This means that the company needs to provide snow sports/ice sports equipment support to the national team for many years. It is expected that in 2022, Anta will receive large orders for outdoor sports products. In the field of outdoor sports, on the one hand, industry leaders such as Nike and adidas pay less attention. On the other hand, Anta has acquired Amer Sports by acquiring the opportunity of cooperation with the Winter Olympics to win an entire top brand management group, which can improve its own Product quality will help the company develop the outdoor sports market in the next few years in China.

During the epidemic, the company actively expanded online channels

After the outbreak, almost all brands have shifted the battlefield to online, so the quality and good continuity of content are the key factors to maintain user stickiness. Throughout February, Anta posted more than 30 public welfare and service content on Weibo, ranking first among domestic sports brands, and about 10 more than Xtep, which ranked second. Although Li Ning, 361°, Peak and other brands' official microblogs also released related content, the update frequency was relatively low, with a total of about 10. Most of the fitness teaching videos launched by Anta's contracted athletes are updated daily to maintain a high level of brand activity.

Figure 13: Athletes promote Anta through live broadcast during the epidemic



Source: Sina

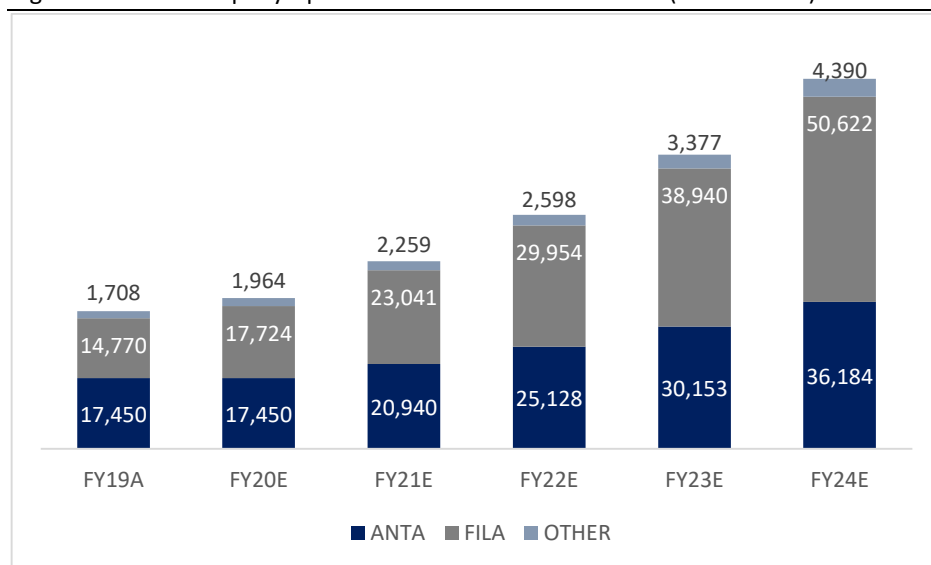
During the epidemic, Anta’s official WeChat official account will embed a link in daily tweets. When reading the content of the WeChat official account, users can directly click on the link to enter the mini program Anta Mall. Orders include the same models and new products of the spokesperson. According to the official information provided by Anta, Anta’s WeChat public account has attracted 21,000 UVs to the WeChat mall, an increase of 61% year-on-year. Among them, a single article brought a 20% increase in daily traffic in the mall.

Financial Analysis

Revenue analysis

In the past 5 years, the company’s total revenue has increased year-on-year, with a CAGR of 32.1%, from RMB 11.13 billion in 2015 to RMB 33.93 billion in 2019. This was mainly due to the rapid expansion of the market share of its FILA brand. In fiscal year 2019, revenue reached RMB 14.77 billion, an increase of nearly 73.9% over the same period in 2018. On the other hand, Anta’s main brand revenue increased from RMB 14.33 billion in fiscal year 2018 to RMB 17.45 billion in fiscal year 2019, an increase of approximately 21.8%. The company’s other brands also recorded a year-on-year growth of 33.2% in fiscal 2019.

Figure 14: The company's past revenue and future forecast (million RMB)



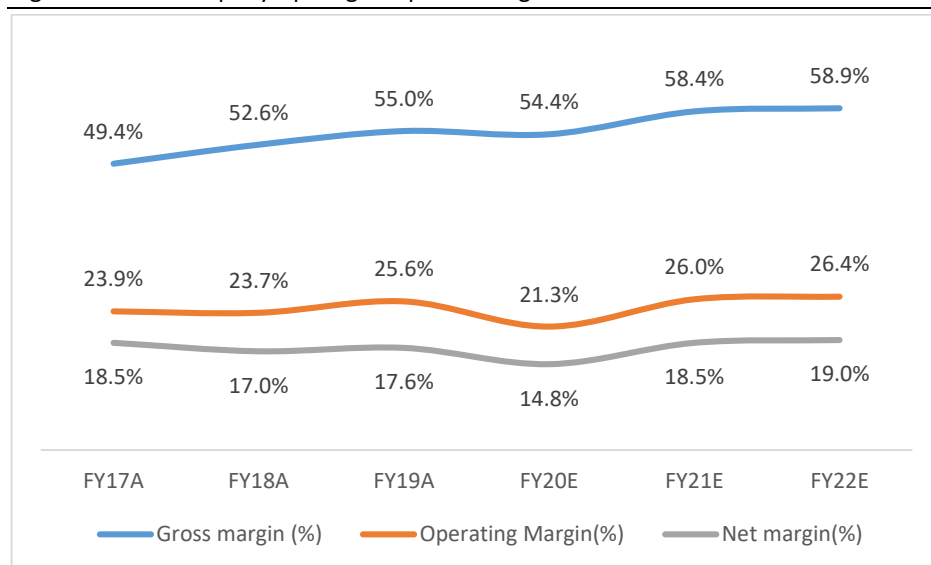
source : Company · Phillip Securities Research

At the beginning of 2020, the COVID-19 broke out in mainland China. Many merchants closed business in the Q1 of this year at the request of the government. The market is expected to have a greater impact on Anta. In Anta's 2020 1H20 results, the company's total revenue in the 1H fell 1% from the same period last year to RMB 14.67 billion. Among them, the main brand dropped by 10.7% from the same period last year, while FILA and other brands recorded high single-digit growth, which was better than market expectations. Mainland China's economy has begun to recover, and the main brands are expected to recover from the negative growth in the first half of the year. Total revenue is about the same as the same period last year. FILA and other brands are expected to record high double-digit growth throughout the year. In the long-term, the company's main brand image has been enhanced, and the company's technological research and development has also allowed its products to gain market recognition. It is expected that the company will maintain a 20% year-on-year increase in the future. The FILA has grown rapidly in the Mainland in the past few years, and the growth rate is expected to slow down. The company's other brands such as Descente and Amer are expected to accelerate their expansion after the 2022 Winter Olympics.

Profitability

The company's GPM has continued to improve in the past five years, mainly due to an improvement in its revenue structure. An increase of 8.4 percentage points from 46.6% in 2015 to approximately 55.0% in FY19. Among them, the GPM of the main brand business was about 42%, while the GPM of the FILA brand exceeded 70% on average. The GPM of other brands is about 60%. Affected by the COVID-19, the company's GPM in Anta and FILA fell by about 1% in the 1H, but the GPM of other brands increased by 5.4%. As FILA's proportion of the company's total revenue increased, the company's 1H20 overall GPM still increased by 0.7 percentage point from last year to 56.8%. As the company decided to switch its main brand to DTC mode operation on a trial basis in some regions this year, which involved approximately RMB 1.7 billion of inventory repurchase, the company's inventory turnover days in the first half of the year rose from 48 days to 135 days. In the second half of the year, the main brand's inventory pressure has increased. It is expected that the GPM in the second half of the year will be affected by discount promotions. It is expected that the GPM of the segment for the whole year will be 38%, and the overall GPM will also be slightly lower than last year.

Figure 15: The company's past gross profit margin and forecast



source : Company · Phillip Securities Research

Expenses for the period

The company's sales expenses are at an average of 21% compared to before 2018. Since 2018, the company's increased sponsorship of the Chinese Olympic Committee has increased the company's sales expense ratio to 27.1%. The current selling expenses are also comparable to the industry level and are expected to remain at 29% in the future. The performance discount of administrative expenses over the past three years has improved, mainly due to the large increase in income in 2019, which reduced the administrative expenses ratio from an average of 5.0% to 3.9% in 2019. Affected by the epidemic, the proportion of administrative expenses has increased due to the decrease in income, and it is expected to be about 4% in the future.

Company valuation

In the past, the company developed a multi-brand strategy through the acquisition of different brands. After FILA's successful experience, Desecente also began to record profits, confirming that the company can effectively carry out post-investment management and introduce brands into the Greater China region. The company's newly acquired Amer Sport still has great potential in the Greater China region. The cooperative relationship between the branch company and the 2022 Winter Olympics is expected to be able to take advantage of the Winter Olympics and seize the domestic outdoor sports market within 5 years. The results for the first half of the year also reflect the company's resilience and ability to respond to the market. It is expected that the company can respond quickly after the epidemic. Companies Anta Sports, Li Ning and Baosheng International, which also focus on functional apparel in Hong Kong stocks, have an average valuation of 31.03x earnings.

Considering that the company's brands have huge growth potential and future revenue growth potential, we expect the company's FY20E/FY21E earnings per share to be RMB 1.76/3.05. The target price of HK\$94.9 corresponds to the expected P/E of 48.53/28.00 times for 2020/2021 and a buy rating is given. (Closing Price as at 8 September)

Risk

- 1) The impact of COVID-19 continues
- 2) The conflict between US and China

Peer Comparison

Company	Ticker	CMP	Mkt Cap.	P/E			P/B				
				TTM	2019	2020	2021	TTM	2019	2020	2021
		(Base Currency)		('mn CNY)							
ANTA SPORTS	2020 hk equity	75.10	203,015	39.5x	32.4x	33.9x	23.1x	8.4x	9.1x	7.6x	6.1x
SHENZHOU INTL	2313 hk equity	124.30	186,851	31.8x	31.8x	31.6x	26.4x	6.2x	6.6x	5.9x	5.2x
LINING	2331 hk equity	32.00	79,512	49.5x	47.3x	44.0x	32.4x	9.1x	9.6x	8.3x	6.8x
TOPSPORTS	6110 hk equity	9.28	57,547	20.0x	-	19.7x	21.1x	4.8x	-	5.1x	4.3x
YUE YUEN IND	551 hk equity	12.42	20,023	-	8.3x	-	9.7x	0.7x	0.6x	0.7x	0.6x
POU SHENG INT'L	3813 hk equity	1.84	9,857	20.4x	10.6x	20.5x	7.7x	1.1x	1.1x	1.1x	0.9x
XTEP INT'L	1368 hk equity	2.38	5,996	10.0x	7.0x	10.1x	7.5x	0.8x	0.8x	0.7x	0.7x
CHINA DONGXIANG	3818 hk equity	0.97	5,710	13.7x	-	7.8x	11.4x	0.5x	-	-	0.5x
361 DEGREES	1361 hk equity	1.03	2,130	5.1x	4.2x	4.8x	4.1x	0.3x	0.3x	0.3x	0.2x
Lululemon Athletica	LULU US equity	361.41	364,724	81.8x	96.5x	73.9x	81.7x	25.6x	29.4x	24.8x	20.5x
Nike Inc.	Nke US equity	112.40	1,358,900	63.2x	43.6x	49.2x	47.9x	21.7x	21.5x	22.2x	22.1x
adidas AG	ADS GR equity	2410.69	483,141	91.9x	27.0x	110.1x	30.7x	8.2x	7.5x	7.2x	6.3x
Mean				38.8x	30.9x	36.9x	25.3x	7.3x	8.7x	7.6x	6.2x
Median				31.8x	29.4x	31.6x	22.1x	5.5x	7.0x	5.9x	4.8x

source : Bloomberg, Phillip Securities Research

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio	44.23	34.02	38.40	22.13	16.39
P/B ratio	11.06	8.67	7.38	6.03	4.92
Dividend Yield (%)	1.04%	0.89%	0.70%	1.22%	1.65%
Per share data (RMB)					
EPS (cent)	152.82	198.70	176.03	305.38	412.35
BVPS (cent)	611.16	779.17	915.84	1,121.04	1,375.06
DPS (HKD cent)	78.00	67.00	52.81	91.61	123.71
Growth & Margin					
Growth					
Revenue	44.4%	40.8%	9.5%	24.5%	24.7%
Operating income	42.9%	52.5%	-9.2%	52.2%	26.9%
Net income	32.9%	30.2%	-11.0%	73.5%	35.0%
Margins					
Gross Profit Margin	52.6%	55.0%	54.4%	58.4%	58.9%
Operating profit Margin	23.7%	25.6%	21.3%	26.0%	26.4%
Net Profit Margin	17.0%	17.6%	14.8%	18.5%	19.0%
Key Ratios					
ROE	25%	25%	19%	27%	30%
ROA	17%	13%	10%	16%	18%

source : Phillip Securities Research

Financials

Income Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
ANTA	14,327	17,450	17,450	20,940	25,128
All other brands	1,282	1,708	1,964	2,259	2,598
Revenue	24,100	33,928	37,138	46,240	57,679
Growth (%) YoY	44%	41%	9%	25%	25%
COGS	(11,413)	(15,269)	(16,922)	(19,246)	(23,697)
Gross Profit	12,687	18,659	20,216	26,994	33,982
Gross margin (%)	53%	55%	54%	58%	59%
other income	760	1,070	230	190	190
Selling & distribution	(6,525)	(9,721)	(10,770)	(13,410)	(16,727)
Admin	(1,223)	(1,313)	(1,783)	(1,757)	(2,192)
	-	-	-	-	-
Total opex	(7,748)	(11,034)	(12,553)	(15,167)	(18,919)
Operating income (EBIT)	5,700	8,695	7,894	12,018	15,253
Operating Margin(%)	24%	26%	21%	26%	26%
Finance income	225	225	165	303	419
Finance costs	(158)	(278)	(95)	(95)	(95)
Pre-tax profit	5,767	8,008	7,230	11,926	15,778
Tax	(1,533)	(2,384)	(2,150)	(3,301)	(4,206)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net profit	4,103	5,344	4,758	8,254	11,146
Net margin(%)	17.0%	17.6%	14.8%	18.5%	19.0%
EPS (CNY\$ cent)	152.82	198.70	176.03	305.38	412.35

source : Phillip Securities Research

Balance Sheet (CNY\$ mn)

	FY19A	FY20A	FY21E	FY22E	FY23E
Total non-current assets	5,090	17,898	16,167	15,231	15,039
Trade Receivable	2,505	3,896	5,291	6,588	8,217
Inventory	2,892	4,405	5,100	5,115	6,298
Cash	9,284	8,221	15,150	20,969	26,754
Total current asset	19,284	23,321	29,927	37,057	45,655
Total Assets	24,374	41,218	46,094	52,288	60,694

Liabilities

Current Liabilities	7,548	12,412	13,593	14,241	15,780
Non-current Liabilities	306	7,746	7,746	7,746	7,746
Shareholder's Equity					
Equity Capital	259	261	261	261	261
Reserve	15,518	19,821	23,193	28,370	34,810
Non-controlling interest	743	979	1,301	1,672	2,098
Shareholder's Equity	16,520	21,061	24,755	30,302	37,168
Total Liabilities & Shareholder's Equity	24,374	41,218	46,094	52,288	60,694

source : Phillip Securities Research

Cash Flow Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Operating cash flow					
Cash from operating	5,728	9,618	10,141	11,544	14,208
Tax	(1,288)	(2,133)	(1,225)	(2,150)	(3,301)
Net Cash from operation	4,440	7,485	8,916	9,394	10,907
Cash from investing					
Cash from investing	(1,201)	(13,065)	(506)	(402)	(322)
FCF	3,239	(5,580)	8,410	8,992	10,585
Financing cash flow					
Cash from financing	(1,136)	4,670	(1,481)	(3,173)	(4,801)
Net increase (decrease) in cash	2,102	(910)	6,930	5,819	5,785
Exchange rate or other adj	214	(153)	-	-	-
Opening cash balance	6,968	9,284	8,221	15,150	20,969
Closing cash balance	9,284	8,221	15,150	20,969	26,754
CFPS (CNY\$)	0.18	0.29	0.30	0.34	0.42

source : Phillip Securities Research

(Closing Price as at 8 September)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2020 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

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 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

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

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 (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm