

ANTA SPORTS (2020 HK)

Spin off sub-brands and focus on core business of the JV

Hong Kong | Consumer (Sportswear) | Update Report

4 JAN 2021

Investment Summary

The joint venture company divested its sub-brands

The company announced on December 22 that the joint venture company Amer Sports Holding (Cayman) Limited (AS Holding) sold its brand Precor to Peloton Interactive, Inc. (PTON.US) for a total cash consideration of US\$420 million (Approximately HKD 3.27 billion), corresponding to the P/E of FY18/19 is 40.0x/6.7x respectively. Precor's main business is the design, production and sales of fitness equipment.

The transaction is expected to be completed in 2021, after completion, Precor will be 100% owned by Peloton. As of October 31, 2020, the net asset value and intellectual property book value of Precor's business was approximately US\$312 million. It is expected that after the completion of the transaction, it will generate approximately US\$20 million in profits for the joint venture group. Based on a 52.70% shareholding ratio, the transaction is expected to contribute approximately RMB 69 million in net profit to Anta in 2021.

Sub-brands are not closely related to the company's core business

We believe that this disposal of sub-brands will help the joint venture to focus on its core business in the future. When acquiring Amer, Anta plans to focus on the development of footwear and apparel brands, while Precor's main business is less connected to Amer's core business. The divestiture of non-core assets also enables Amer to focus its resources on the three core brands (Arc'teryx, Solomon and Wilson) in the future. The proceeds from this transaction will help improve Amer's cash flow, build directly-operated stores for the three core brands, and develop footwear and apparel product lines. On the other hand, the average EBIT margin of the Precor brand for the past years is about 3%, which is lower than the loan interest rate of the joint venture and the overall EBIT margin of Amer Sports. The profitability of the joint venture is expected to increase after the disposal.

Double 11 shows the company's digital operation capabilities

During the Double 11 Shopping Festival, Anta Group's e-commerce GMV reached RMB 2.84 billion, a year-on-year increase of 53%. Among them, the GMV of its online flagship store on Tmall recorded a year-on-year increase of 93.36%. The company's e-commerce turnover this year also exceeded RMB 10 billion at 11 November. The company's digital transformation is accelerated under the epidemic. During Double 11, the company's multi-brands reached 160 million consumers, of which new customers accounted for more than 83%, reflecting the ability of digitalizing new customer groups to operate.

Valuation and investment advice

We believe that this transaction can effectively improve the cash flow level of the JV and accelerate its development of the three core brands. However, the basic factors in Anta's main business have little impact. Taking into account the one-time disposal gains of the Precor brand by AS Holding, for profit and loss, we adjusted the company's 2021 profit forecast and maintained the 2020 profit forecast unchanged. It is expected that the company's net profit attributable to the parent in 2020/21/22 will be RMB 47.6/83.4/11.15 billion (previously RMB 47.6/82.5/11.15 billion), and the corresponding EPS will be RMB 1.76/3.08/4.12 respectively.

ACCUMULATE (Maintain)

CMP HKD 123.20

(Closing price as of 30 Dec)

Target Price HKD 144.94 (+17.6%)

COMPANY DATA

O/S SHARES (MN) :	2,703
MARKET CAP (HKD MN) :	333,050
52 - WK HI/LO (HKD):	123.20/41.43

SHARE HOLDING PATTERN, %

Ding Shi Zhong	61.40
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PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	33,928	37,138	46,240	57,679
Net Profit	5,344	4,758	8,336	11,146
EPS, CNY cent	198.70	176.03	308.41	412.34
P/E, x	52.70	59.49	33.95	25.40
BVPS, CNY cent	746.67	867.70	1061.62	1298.97
P/BV, x	14.02	12.07	9.86	8.06
DPS (HKD cent)	67.00	52.81	92.52	123.70
Div. Yield (%)	0.54%	0.43%	0.75%	1.00%

Source: Company reports, Phillip Securities Est.

Research Analyst

Timothy Chong (+852 2277 6515)

timothy.chong@phillip.com.hk

Since December 7th, Anta Sports has been included as a constituent stock of the Hang Seng Index, becoming the only Chinese sports goods company in the Hang Seng Index, reflecting the recognition of the company by the capital market and attracting capital inflows from passive funds. The company's long-term investment value has not changed, focusing on the growth brought about by the company's main brand channel upgrade and the cultivation of new brands. Recently, the valuation of sportswear sector in Hong Kong stocks has been restored. The market is optimistic about the recovery of the industry after the epidemic. In addition, the policy risk of the industry is relatively low. Considering the company's short-term growth momentum and the large potential development space, we revise up the company's 2021 target P/E to 40.0x, corresponding to a target price of HK\$144.94, which corresponds to 69.32x/40.0x/29.61x for 2020/2021/2022, and the Accumulate rating is maintain.

Risk

- 1) The impact of COVID-19 continues
- 2) Growth of newly acquired brands is not as expected

Peer Comparison

Peer Comparison											
Company	Ticker	CMP	Mkt Cap.	P/E				P/B			
				TTM	2020	2021	2022	TTM	2020	2021	2022
(Base Currency: ('mn CNY)											
ANTA SPC	2020 hk equity	123.20	333,050	61.8x	53.9x	35.7x	28.1x	13.1x	11.7x	9.4x	7.7x
LI NING	2331 hk equity	51.95	129,310	76.6x	67.9x	49.5x	38.5x	14.2x	12.8x	10.6x	8.6x
XTEP INT'L	1368 hk equity	3.90	9,883	15.7x	17.4x	11.8x	9.7x	1.2x	1.1x	1.1x	1.0x
CHINA DO	3818 hk equity	0.82	4,827	3.1x	6.3x	4.8x	4.5x	0.4x	-	0.4x	0.3x
361 DEGR	1361 hk equity	1.13	2,336	5.4x	4.9x	4.5x	4.0x	0.3x	0.3x	0.3x	0.3x
			Mean	32.5x	30.1x	21.3x	16.9x	5.8x	6.5x	4.3x	3.6x
			Median	15.7x	17.4x	11.8x	9.7x	1.2x	6.4x	1.1x	1.0x

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	24,100	33,928	37,138	46,240	57,679
COGS	(11,413)	(15,269)	(16,922)	(19,246)	(23,697)
Gross Profit	12,687	18,659	20,216	26,994	33,982
S&D expense	(6,525)	(9,721)	(10,770)	(13,410)	(16,727)
Admin expense	(1,223)	(1,313)	(1,783)	(1,757)	(2,192)
Other operating gain/(loss)	760	1,070	230	190	190
Operating Profit	5,700	8,695	7,894	12,018	15,253
Net finance income	68	(53)	69	208	324
Associated companies & JVs	-	(633)	(733)	(218)	200
Profit before tax	5,767	8,008	7,230	12,008	15,777
Tax	(1,533)	(2,384)	(2,150)	(3,301)	(4,206)
NCI	(131)	(280)	(322)	(370)	(426)
Profit for the year	4,103	5,344	4,758	8,336	11,146
EPS (RMB cent)	152.82	198.70	176.03	308.41	412.34

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	68.53	52.70	59.49	33.95	25.40
P/B ratio, x	17.82	14.02	12.07	9.86	8.06
Dividend Yield, %	0.54%	0.54%	0.43%	0.75%	1.00%

Per share data (RMB cent)

EPS	152.82	198.70	176.03	308.41	412.34
BVPS	587.62	746.67	867.70	1061.62	1298.97
DPS (HKD cent)	78.00	67.00	52.81	92.52	123.70

Growth & Margin

Growth					
Revenue Growth	44%	41%	9%	25%	25%
Operating income Growth	43%	53%	-9%	52%	27%
Net income Growth	33%	30%	-11%	75%	34%
Margin					
Gross Profit Margin	53%	55%	54%	58%	59%
Operating profit Margin	24%	26%	21%	26%	26%
Net Profit Margin	17%	18%	15%	19%	19%

Key Ratios

ROE	25%	25%	19%	27%	30%
ROA	17%	13%	10%	16%	18%

(Closing price as of 30 Dec)

Source: PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	1,787	2,148	2,259	2,377	2,500
GoodWill	367	53	53	53	53
LT investment	-	10,551	9,818	9,600	9,800
Other	2,936	5,146	4,037	3,283	2,768
Total Non Current Assets	5,090	17,898	16,167	15,313	15,121
Current Asset					
T/R	2,505	3,896	5,291	6,588	8,217
Inventories	2,892	4,405	5,100	5,115	6,298
Restricted Bank deposits	808	4,382	4,382	4,382	4,382
Cash and cash equivalents	9,284	8,221	15,150	20,953	26,712
Others	3,796	2,417	4	4	4
Total Current Assets	19,284	23,321	29,927	37,041	45,613
Total Assets	24,374	41,218	46,094	52,354	60,735
Non Current Liabilities					
Loan	70	6,644	6,644	6,644	6,644
Deferred tax liabilities	236	256	256	256	256
Others	-	846	846	846	846
Total Non Current Liabilities	306	7,746	7,746	7,746	7,746
Current Liabilities					
Loan	201	174	174	174	174
T/P	112	122	214	360	539
B/P	1,741	243	243	243	243
Others	5,494	11,873	12,963	13,464	14,825
Total Current Liabilities	7,548	12,412	13,593	14,241	15,780
Equity					
Share capital	259	261	261	261	261
Reserve	15,518	19,821	23,193	28,435	34,851
Non controlling interest	743	979	1,301	1,672	2,098
Total Equity	16,520	21,061	24,755	30,367	37,209
Total Liabilities and Equity	24,374	41,218	46,094	52,354	60,735

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	6,042	10,163	9,561	13,359	16,387
Chg in working cap	(444)	(802)	580	(1,815)	(2,178)
Others	130	257	-	-	-
Tax	(1,288)	(2,133)	(1,225)	(2,150)	(3,301)
CFO	4,440	7,485	8,916	9,394	10,907
Capex	(808)	(1,087)	(670)	(705)	(742)
Others	(393)	(11,978)	165	303	419
CFI	(1,201)	(13,065)	(506)	(402)	(322)
Issue of Shares	4	709	-	-	-
Dividends paid	(2,468)	(1,514)	(1,386)	(3,095)	(4,730)
Others	1,327	5,475	(95)	(95)	(95)
CFF	(1,136)	4,670	(1,481)	(3,190)	(4,825)
Net Change in Cash	2,102	(910)	6,930	5,802	5,760
Foreign exchange	214	(153)	-	-	-
Cash and CE at Y/E	9,284	8,221	15,150	20,953	26,712

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

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

L 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