

# ANTA SPORTS (2020 HK)

## Improved operation of the main brand, Descente and FILA drives annual growth

Hong Kong | Consumer (Sportswear) | Update Report

29 JAN 2021

### Investment Summary

#### The operating performance of the Anta brand in Q4 is slightly lower than expected

The company announced on January 13 the operating performance of the 4Q20 and the whole year. In the Q4, the retail sales of Anta's main brand, FILA and other brands recorded a LSD /25%-30%/55% - 60% growth YoY. In term of the whole year, the retail sales of Anta's main brand, FILA and other brands were negative growth in MSD, positive growth in MDD and positive growth of 35%-40%, respectively.

#### Increase efforts to eliminate seasonal inventory, major brand recorded LSD growth in Q4

The Anta brand's overall turnover recorded a LSD positive growth in a single quarter. Among them, Anta's adult and children's clothing both recorded LSD growth in Q4, which was lower than we expected (Previous expectation was LDD growth). Company's Q1/Q2/Q3 year-on-year growth of 20% + negative growth/negative Low single digit/positive growth. In terms of channels, Anta's offline retail sales still recorded a negative growth YoY. In terms of discounts and inventory-to-sales ratios, as the company repurchased some seasonal products from distributors while DTC conversion. In order to speed up destocking, in the fourth quarter, the company increased retail discounts. The Anta brand discount rate increased 2-3ppt to 30% off. The inventory-to-sales ratio improved further from 6 in the first three quarters to 5, which was in line with the company's target.

Overall, the annual retail sales of Anta's main brands were recorded negative growth in MSD, mainly due to the impact of the epidemic and the DTC transformation during the year. The company focused on destocking and reduced some Q4 product orders. At the end of December, the company's inventory-to-sales ratio and the sales rate have improved, and the company has made remarkable achievements in inventory management. The transformation of the DTC model of Anta's main brand is progressing smoothly. As of the end of December, the company has completed 82% of store handovers, which is faster than the company expected. The company is expected to complete the handover in the first quarter of next year.

#### The multi-brand strategy brought growth to the company under the epidemic

FILA as a whole achieved 25%-30% growth in Q4, online sales continued to exert strength, and FILA's online pipeline growth rate exceeded 70%. In term of the product line, FILA Core's retail sales volume grew by MDD, FILA KID grew by more than 20%, and FILA Fusion grew significantly, with retail sales growth exceeding 50%. In the whole year, FILA's turnover growth rate was in double digits. In terms of inventory-to-sales ratio and discounts, FILA's regular price discount returned to about 8.3%, and the inventory-to-sales ratio was more than 6 times in the Q4. The overall offline store performance is better than before the epidemic.

Other brands recorded a 55%-60% increase in overall sales in Q4, in line with expectations. Among them, sales from the Descente brand increased by more than 80% year-on-year, and Kolon Sport also recorded a year-on-year growth of more than 40%. The cumulative retail sales of other brands throughout the year increased by 35%-40% year-on-year.

### ACCUMULATE (Maintain)

CMP HKD 130.60

(Closing price as of 27 Jan)

Target Price HKD 144.94 (+9.01%)

#### COMPANY DATA

O/S SHARES (MN) :	2,703
MARKET CAP (HKD MN) :	353,055
52 - WK HI/LO (HKD):	144.00/41.43

#### 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	36,266	46,240	57,679
Net Profit	5,344	4,716	8,315	11,134
EPS, CNY cent	198.70	174.46	307.62	411.91
P/E, x	55.87	63.63	36.09	26.95
BVPS, CNY cent	746.67	866.44	1060.20	1297.44
P/BV, x	14.87	12.81	10.47	8.56
DPS (HKD cent)	67.00	52.34	92.28	123.57
Div. Yield (%)	0.51%	0.40%	0.71%	0.95%

Source: Company reports, Phillip Securities Est.

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In 4Q20 results, the main brand sales were lower than market expectations, but the FILA brand and other brands maintained high growth during the period. In the fourth quarter, Amer Group made a positive contribution to the company's profit, and its annual loss narrowed, which is expected to offset the negative growth of the main brand. The company's long-term investment logic remains unchanged, focusing on the growth brought about by the company's main brand channel upgrade and the cultivation of new brands. We adjusted the company's profit forecast for 2020 by lowering the annual revenue growth of the main brand to -5% (previously expected to be flat). In addition, we have also reduced the JV's expected loss for the company. We expect the company's EPS in 2020/2021/2022 to be CNY 1.74/3.08/4.12 (Previous: CNY 1.76/3.08/4.12). Maintain the 12-month target price of HK\$144.94 corresponding to the expected P/E of 70.80/40.00/29.61 times for 2020/2021/2022, and maintain the Accumulate rating.

#### Risk

- 1) Mainland encounter second wave of COVID-19
- 2) Growth of newly acquired brands is not as expected

## Financials

**Consolidated Statement of Profit or Loss**

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	24,100	33,928	36,266	46,240	57,679
COGS	(11,413)	(15,269)	(16,381)	(19,246)	(23,697)
<b>Gross Profit</b>	12,687	18,659	19,885	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
<b>Operating Profit</b>	5,700	8,695	7,562	12,018	15,253
Net finance income	68	(53)	69	179	308
Associated companies & JVs	-	(633)	(533)	(218)	200
<b>Profit before tax</b>	5,767	8,008	7,098	11,978	15,762
Tax	(1,533)	(2,384)	(2,060)	(3,293)	(4,202)
NCI	(131)	(280)	(322)	(370)	(426)
<b>Profit for the year</b>	4,103	5,344	4,716	8,315	11,134
<b>EPS (RMB cent)</b>	152.82	198.70	174.46	307.62	411.91

**Key Financial Data**

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratio</b>					
P/E ratio, x	72.64	55.87	63.63	36.09	26.95
P/B ratio, x	18.89	14.87	12.81	10.47	8.56
Dividend Yield, %	0.60%	0.51%	0.40%	0.71%	0.95%

**Per share data (RMB cent)**

EPS	152.82	198.70	174.46	307.62	411.91
BVPS	587.62	746.67	866.44	1060.20	1297.44
DPS (HKD cent)	78.00	67.00	52.34	92.28	123.57

**Growth & Margin**

<b>Growth</b>					
Revenue Growth	44%	41%	7%	28%	25%
Operating income Growth	43%	53%	-13%	59%	27%
Net income Growth	33%	30%	-12%	76%	34%
<b>Margin</b>					
Gross Profit Margin	53%	55%	55%	58%	59%
Operating profit Margin	24%	26%	21%	26%	26%
Net Profit Margin	17%	18%	14%	18%	19%

**Key Ratios**

ROE	25%	25%	19%	27%	30%
ROA	17%	13%	11%	16%	18%

(Closing price as of 27 Jan)

Source: PSHK

**Consolidated Statement of Financial Position**

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
<b>Non Current Asset</b>					
PPE	1,787	2,148	2,259	2,377	2,500
GoodWill	367	53	53	53	53
LT investment	-	10,551	10,018	9,800	10,000
Other	2,936	5,146	4,037	3,283	2,768
<b>Total Non Current Assets</b>	5,090	17,898	16,367	15,513	15,321
<b>Current Asset</b>					
T/R	2,505	3,896	5,167	6,588	8,217
Inventories	2,892	4,405	4,937	5,115	6,298
Restricted Bank deposits	808	4,382	4,382	4,382	4,382
Cash and cash equivalents	9,284	8,221	13,678	20,158	27,139
Others	3,796	2,417	4	4	4
<b>Total Current Assets</b>	19,284	23,321	28,167	36,247	46,040
<b>Total Assets</b>	24,374	41,218	44,535	51,760	61,361
<b>Non Current Liabilities</b>					
Loan	70	6,644	6,644	6,644	6,644
Deferred tax liabilities	236	256	256	256	256
Others	-	846	846	846	846
<b>Total Non Current Liabilities</b>	306	7,746	7,746	7,746	7,746
<b>Current Liabilities</b>					
Loan	1,244	1,359	1,359	1,359	1,359
T/P	1,792	2,963	3,142	2,742	3,376
B/P	3,841	5,821	4,488	5,273	6,492
Others	671	2,269	3,079	4,311	5,220
<b>Total Current Liabilities</b>	7,548	12,412	12,067	13,685	16,447
<b>Equity</b>					
Share capital	259	261	261	261	261
Reserve	15,518	19,821	23,160	28,397	34,810
Non controlling interest	743	979	1,301	1,672	2,098
<b>Total Equity</b>	16,520	21,061	24,722	30,329	37,168
<b>Total Liabilities and Equity</b>	24,374	41,218	44,535	51,760	61,361

**Consolidated Statement of Cash Flow**

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
<b>EBITDA</b>	<b>6,042</b>	<b>10,163</b>	<b>9,229</b>	<b>13,359</b>	<b>16,387</b>
Chg in working cap	(444)	(802)	(569)	(1,214)	(959)
Others	130	257	-	-	-
Tax	(1,288)	(2,133)	(1,225)	(2,060)	(3,293)
<b>CFO</b>	<b>4,440</b>	<b>7,485</b>	<b>7,435</b>	<b>10,085</b>	<b>12,135</b>
Capex	(808)	(1,087)	(670)	(705)	(742)
Others	(393)	(11,978)	165	274	403
<b>CFI</b>	<b>(1,201)</b>	<b>(13,065)</b>	<b>(506)</b>	<b>(431)</b>	<b>(338)</b>
Issue of Shares	4	709	-	-	-
Dividends paid	(2,468)	(1,514)	(1,377)	(3,078)	(4,721)
Others	1,327	5,475	(95)	(95)	(95)
<b>CFF</b>	<b>(1,136)</b>	<b>4,670</b>	<b>(1,472)</b>	<b>(3,173)</b>	<b>(4,816)</b>
<b>Net Change in Cash</b>	<b>2,102</b>	<b>(910)</b>	<b>5,457</b>	<b>6,481</b>	<b>6,980</b>
Foreign exchange	214	(153)	-	-	-
<b>Cash and CE at Y/E</b>	<b>9,284</b>	<b>8,221</b>	<b>13,678</b>	<b>20,158</b>	<b>27,139</b>

**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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