

ANTA SPORTS (2020 HK)

The DTC transformation of the main brand is smooth and Rebranding Anta main brand in the future

Hong Kong | Consumer (Sportswear) | Update Report

3 May 2021

Investment Summary

Anta Sports announced the company's annual results for the year ended December 31, 2020 on March 24. Revenue in 2020 recorded an MSD growth Yoy to CNY 35.51 billion, which was lower than our expectation (previous expected: CNY 36.27 billion). The GPM increased by 3.2 ppts to 58.2% Yoy, which was better than our expectation (previous expected: 55%), mainly due to the increase in GPM of Anta's DTC transformation during the year and the increase in the proportion of revenue from FILA. Affected by the epidemic in Europe and the United States, the JVs suffered a loss of approximately CNY 600 million. The net profit attributable for the year was CNY 5.16 billion, a Yoy decrease of 3.4%, which beat our expectations (previous expected: CNY 4.77 billion). The annual dividend per share was 68 HK cents, and the dividend payout ratio remained at 30%.

Anta's annual revenue was CNY 35.51 billion, an increase of 4.7% Yoy. In terms of brand revenue, Anta's main brand revenue was CNY 15.75 billion, a Yoy decrease of 9.7%, while FILA's revenue surpassed Anta's main brand for the first time at CNY 17.45 billion, an increase of 18.1% Yoy. Revenue from other brands was CNY 2.31 billion, an increase of 35.4%. From the perspective of revenue structure, the revenue from Anta/FILA/other brands accounted for 44.3%/49.1%/6.6%, and the change was -7.1/5.6/1.5 ppts.

The gross profit for the year was CNY 20.65 billion, an increase of 10.7% Yoy. The overall GPM was 58.2%, which was better than our expectation (previous expected: 55%). This was mainly due to the fact that we originally expected the company to give discounts due to the epidemic during the year to affect gross profit, however, the company's DTC transformation of Anta's main brand led to an increase in GPM. In addition, the increase in the proportion of FILA business income, which has a higher GPM, also led to an increase in the company's overall GPM. From the perspective of brand classification, the GPM of Anta and other brands have improved, increasing by 3.4 ppts/4.1ppts to 44.7%/65.9%, but FILA's GPM was affected by the epidemic, which decreased slightly by 1.1ppts to 69.3%.

Focus on reshaping the main brand in the future, and the performance in the Q1 exceeded expectations

In 2021, the company will continue to carry out retail transformation and channel optimization on Anta's main brand, and will rebrand with the help of the 2021 Olympics and the 2022 Winter Olympics, with the new domestic products as the new positioning of "technology-led mass professional sports". To improve the brand image, the company plans to increase the promotion expense rate by 1-3 ppts and use it for both Olympic marketing. In the operating situation for the first quarter of 2021, the turnover of Anta/FILA/other brands increased by 40%-45%/75%-80%/115%-120%, respectively, and the offline turnover of Anta's bulk goods and children increased is 35%-40%/45%-50% Yoy. There still an LDD growth when compared with 2019. Anta's retail discount and inventory-to-sales ratio in 1Q21 were 73% and 5x, respectively, which was a significant improvement over 1Q20 and better than 1Q19; while FILA's retail discount and inventory-to-sales ratio in 1Q21 were 78%, respectively. The discount of 6x has returned to the pre-epidemic level.

ACCUMULATE (Maintain)

CMP HKD 141.20

(Closing price as of 29 Apr)

Target Price HKD 152.24 (+7.82%)

COMPANY DATA

O/S SHARES (MN) :	2,703
MARKET CAP (HKD MN) :	381,710
52 - WK HI/LO (HKD):	154.30/61.28

SHARE HOLDING PATTERN, %

Ding Shi Zhong	61.39
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PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	33,928	35,512	46,240	56,527
Net Profit	5,344	5,162	7,773	10,195
EPS, CNY cent	198.70	190.97	287.57	377.16
P/E, x	60.40	62.85	41.74	31.82
BVPS, CNY cent	746.67	888.38	1061.14	1276.60
P/BV, x	16.07	13.51	11.31	9.40
DPS (HKD cent)	67.00	68.00	101.50	133.12
Div. Yield (%)	0.47%	0.48%	0.72%	0.94%

Source: Company reports, Phillip Securities Est.

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Valuation and investment advice

The company's overall revenue last year was slightly lower than our previous expectations, but the company's DTC transformation during the period has effectively improved the company's profitability and offset the impact of the epidemic. The company's DTC transformation of the main brand is progressing well. Last year's performance reflects that the DTC model has effectively improved the company's profitability. In terms of future development, the company plans to rebrand the main brand and its profitability is expected to be further improved in the future. The continued high growth of FILA under the epidemic also confirms the development potential of the brand. Recently, the company's controlling shareholder plans to place shares at a discount of up to 7.7%. With reference to the company's past history of allotment and reduction, it is expected that the company's short-term stock price will be under pressure, but the company's long-term investment logic remains unchanged, focusing on the company's main brand channel upgrade. The coming growth and the cultivation of new brands. In order to further reflect the cost of rebranding and promotion, we adjusted the company's 2021/2022 period expenses, and raised the sales expense ratio by 2ppts to 31% (previous: 29%). Reduce the company's 2021/2022 EPS to CNY 2.88/3.77 (previous: CNY 3.08/4.12). It is estimated that the company's EPS in 2021/2022/2023 will be CNY 2.88/3.77/4.64. Taking into account the company's future brand image enhancement, DTC's transformation will further enhance its profitability. The company's target P/E is revised up to 45x FY21 (previous: 40x FY21), and the 12-month target price is raised to HK\$152.24 (previous: HK\$144.94) corresponding to 2021/2022/2023 45.00x/34.31x/27.91x expected P/E, maintain the Accumulated rating.

(Closing price as of 29 Apr)

Risk

- 1) The newly acquired brands grow slower than expected
- 2) Rebranding has not been recognized by consumers

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	33,928	35,512	46,240	56,527	68,092
COGS	(15,269)	(14,861)	(18,827)	(22,872)	(27,243)
Gross Profit	18,659	20,651	27,413	33,655	40,849
S&D expense	(9,721)	(10,766)	(14,334)	(17,523)	(21,109)
Admin expense	(1,313)	(2,122)	(1,850)	(2,261)	(2,724)
Other operating gain/(loss)	1,070	1,389	190	190	190
Operating Profit	8,695	9,152	11,419	14,061	17,207
Net finance income	(53)	(462)	169	368	507
Associated companies & JVs	(633)	(601)	(218)	200	300
Profit before tax	8,008	8,089	11,370	14,629	18,014
Tax	(2,384)	(2,520)	(3,129)	(3,896)	(4,783)
NCI	(280)	(407)	(468)	(538)	(700)
Profit for the year	5,344	5,162	7,773	10,195	12,531
EPS (RMB cent)	198.70	190.97	287.57	377.16	463.60

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	60.40	62.85	41.74	31.82	25.89
P/B ratio, x	16.07	13.51	11.31	9.40	7.82
Dividend Yield, %	0.47%	0.48%	0.72%	0.94%	0.98%

Per share data (RMB cent)

EPS	198.70	190.97	287.57	377.16	463.60
BVPS	746.67	888.38	1061.14	1276.60	1534.33
DPS (HKD cent)	67.00	68.00	101.50	133.12	139.08

Growth & Margin

Growth					
Revenue Growth	41%	5%	30%	22%	20%
Operating income Growth	53%	5%	25%	23%	22%
Net income Growth	30%	-3%	51%	31%	23%
Margin					
Gross Profit Margin	55%	58%	59%	60%	60%
Operating profit Margin	26%	26%	25%	25%	25%
Net Profit Margin	18%	16%	17%	18%	18%

Key Ratios

ROE	25%	20%	25%	27%	28%
ROA	13%	10%	13%	15%	16%

(Closing price as of 29 Apr)

Source: PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	2,148	2,184	2,298	2,417	2,543
GoodWill	53	46	46	46	46
LT investment	10,551	9,658	9,440	9,640	9,940
Other	5,146	7,262	5,812	4,814	4,122
Total Non Current Assets	17,898	19,150	17,595	16,917	16,651
Current Asset					
T/R	3,896	3,731	6,588	8,053	9,701
Inventories	4,405	5,486	5,003	6,078	7,240
Restricted Bank deposits	4,382	5,023	5,023	5,023	5,023
Cash and cash equivalents	8,221	15,323	25,290	32,241	40,072
Others	2,417	3,154	1	1	1
Total Current Assets	23,321	32,717	41,905	51,396	62,036
Total Assets	41,218	51,867	59,500	68,314	78,687
Non Current Liabilities					
Loan	6,644	12,456	12,456	12,456	12,456
Deferred tax liabilities	256	527	527	527	527
Others	846	1,345	1,345	1,345	1,345
Total Non Current Liabilities	7,746	14,328	14,328	14,328	14,328
Current Liabilities					
Loan	1,359	1,968	1,968	1,968	1,968
T/P	2,963	2,376	2,682	3,258	3,881
B/P	5,821	4,539	5,158	6,266	7,464
Others	2,269	2,832	4,402	5,169	6,056
Total Current Liabilities	12,412	11,715	14,210	16,661	19,369
Equity					
Share capital	261	261	261	261	261
Reserve	19,821	23,752	28,422	34,246	41,212
Non controlling interest	979	1,811	2,279	2,817	3,517
Total Equity	21,061	25,824	30,962	37,324	44,990
Total Liabilities and Equity	41,218	51,867	59,500	68,314	78,687

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	10,163	10,819	13,437	15,655	18,527
Chg in working cap	(802)	(2,212)	1,652	(856)	(989)
Others	257	1,032	306	506	645
Tax	(2,133)	(2,181)	(1,507)	(3,129)	(3,896)
CFO	7,485	7,458	13,889	12,176	14,287
Capex	(1,087)	(851)	(681)	(717)	(754)
Others	(11,978)	(1,072)	-	-	-
CFI	(13,065)	(1,923)	(681)	(717)	(754)
Issue of Shares	709	-	-	-	-
Dividends paid	(1,514)	(1,404)	(3,103)	(4,371)	(5,565)
Others	5,475	2,633	(138)	(138)	(138)
CFF	4,670	1,229	(3,241)	(4,509)	(5,702)
Net Change in Cash	(910)	6,764	9,967	6,951	7,831
Foreign exchange	(153)	338	-	-	-
Cash and CE at Y/E	8,221	15,323	25,290	32,241	40,072

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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