

Anta Sports (2020 HK)

Growth momentum to improve in 2H22

- We expect revenue growth to pick up in 2H22 as COVID situation is more manageable and economy improves; there will be uneven growth among the Group's brands; weak FILA brand revenue growth in 1H22 will weigh on overall growth in FY22E
- Inflating raw material cost and elevated operating cost ratios will pressure margins
- Maintain **BUY**; current TP implies 35.53x/29.47x 22E/23E P/E, or 8.85x/7.36x 22E/23E P/B

Revenue growth to pick up in 2H22. The Group was able to maintain strong revenue growth of 13.8% YoY despite COVID resurgence in 1H22; revenue of ANTA brand and other brands increased 26.3% YoY and 29.9% YoY, while revenue of FILA brand fell 0.5% YoY as it suffered from more store closures during the pandemic. We believe as COVID situation becomes more manageable and economy improves, revenue growth would pick up in 2H22. We expect FY22E revenue to increase 15.5% YoY, and that of ANTA, FILA, and other brands would climb 18.8% YoY, 9.1% YoY, and 32.6% YoY. Based on our current projections, 2H22 revenue growth would be 17.0% YoY, while that of ANTA, FILA, and other brands would be 12.9% YoY, 18.6% YoY, and 34.5% YoY. FY21-24E revenue CAGR is projected at 16.1%, supported by 17.6% and 11.1% CAGRs for ANTA and FILA.

Raw material and operating cost pressure to persist in 2H22. GPM decreased from 63.2% in 1H21 to 62.0% in 1H22, while NPM (to shareholders of the Company) decreased from 16.8% in 1H21 to 13.8% in 1H22. GPM of ANTA brand and other brands improved to 55.1% and 74.2% in 1H22 from 52.8% and 70.4% in 1H21, while FILA's GPM declined 3.7ppt YoY to 68.6% in 1H22. FILA brand's weak GPM performance was mainly due to store closures resulting from the COVID resurgence, and SG&A/revenue ratio (42.9%) was the major cause for the net margin decline. We expect raw material cost and operating cost pressure would persist in 2H22 and would affect overall margin profile. We project 2022E GPM and NPM (to shareholders of the Company) to be 61.8% (FY21A: 61.6%) and 14.8% (FY21A: 15.7%) in FY22E and 62.7% and 15.7% in FY24E. In 2H22, higher raw material cost pressure would result in overall GPM to slightly drop to 61.6%; GPM of ANTA brand, FILA, and other brands to slightly decrease to 53.5%, 68.4%, and 73.8%; NPM (to shareholders of the Company) would improve to 15.5%, as we expect the Group to record profit from JV of AS Holding that owns Amer Sports.

Maintain BUY; TP at HK\$ 124.7. Based on our current projections, basic EPS is expected to increase 7.9% YoY in FY22E and expand at 15.8% CAGR in FY21-24E. Maintain **BUY**. We maintain our DCF-derived TP as impact of higher profit levels in FY22E & FY23E are offset by lower profit level in FY24E. Current TP represents 35.53x/29.47x 22E/23E P/E, or 8.85x/7.36x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) COVID Resurgence; 3) Commodity price risk; 4) Regulatory risk; 5) Changing consumer taste in China, 6) Business acquisition risk; 7) Fluctuations in EPS and DPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	35,512	49,328	56,982	66,184	77,205
Chg (% YoY)	4.7	38.9	15.5	16.1	16.7
Net Profit (to shareholders of the Company) (RMB mn)	5,162	7,720	8,408	10,136	12,088
Chg (% YoY)	(3.4)	49.6	8.9	20.5	19.3
Basic EPS (RMB)	1.92	2.87	3.10	3.74	4.45
Chg (% YoY)	(3.4)	49.5	8.0	20.5	19.3
P/E (x)	43.74	29.25	27.09	22.48	18.85
BVPS (RMB)	8.88	10.70	12.44	14.96	17.92
P/B (x)	9.45	7.85	6.75	5.61	4.69
DPS (HK cent)	68	158	113	139	169
Yield (%)	0.7	1.9	1.2	1.5	1.8
ROAA (%)	12.0	14.3	13.6	14.8	15.4
ROAE (%)	23.4	29.2	26.8	27.3	27.1

Source(s): The Group, ABCI Securities estimates

Company Report

Aug 30, 2022

Rating: **BUY**

TP: **HK\$ 124.7**

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Share price (HK\$)	95.10
52 wk High/Low (HK\$)	170/75.75
Est. share price return	31.1%
Est. dividend yield	1.2%
Est. total return	32.3%
Previous Rating&TP	BUY; HK\$124.7
Previous Report Date	Apr 20, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	2.7
Mkt cap (HK\$ bn)	258.07
3 mth days ADT (HK\$mn)	760.68
Shareholding (%)	
Anta International	44.26
Anda Holdings	5.93

Source(s): The Group, Bloomberg, HKEx

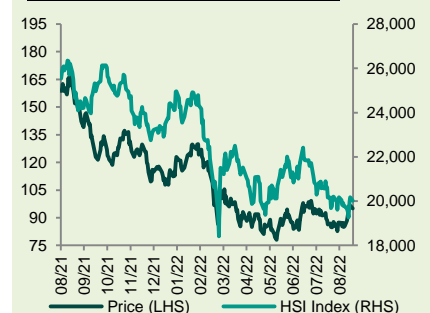
Share performance (%)

	Absolute	Relative*
1-mth	7.34	10.24
3-mth	15.98	19.23
6-mth	(20.02)	(8.17)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Aug 29, 2022
- 2) RMB/HKD: 1.1328

Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	30.8	23.9	33.7	26.9	Adjusted based on the 1H22 rates
D/A (%)	17.0	13.8	19.1	16.1	
Tax rate (%)	28.4	28.8	28.4	28.8	
Valuations					
TP (HK\$)	124.7		124.7		TP is unchanged as higher profit levels in FY22E & FY23E are offset by lower ones in FY24E
P/E (x)	35.53	29.47	39.14	28.79	
P/B (x)	8.85	7.36	8.21	6.89	

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (RMB mn)	56,982	66,184	77,205	57,680	68,729	82,993	(1.2)	(3.7)	(7.0)
Net profit (to owners of the Company) (RMB mn)	8,408	10,136	12,088	7,079	9,622	12,351	18.8	5.3	(2.1)
EPS (RMB)	3.10	3.74	4.45	2.61	3.55	4.55	18.7	5.2	(2.1)

Note: previous report was published on Apr 20, 2022

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	35,512	49,328	56,982	66,184	77,205
- ANTA brand	15,749	24,012	28,531	33,514	39,102
- FILA brand	17,450	21,822	23,817	26,508	29,890
- Other brands	2,313	3,494	4,634	6,162	8,213
COGS	(14,861)	(18,924)	(21,759)	(24,849)	(28,760)
Gross profit	20,651	30,404	35,223	41,335	48,446
Other net income/(loss)	1,389	1,266	1,463	1,716	1,989
S&D expenses	(10,766)	(17,753)	(20,386)	(23,548)	(27,624)
Admin expenses	(2,122)	(2,928)	(3,654)	(4,256)	(4,964)
Operating profit	9,152	10,989	12,646	15,248	17,846
Net finance income/(expense)	(462)	332	(127)	(81)	16
Share of gain/(loss) of JV	(601)	(81)	91	102	114
Pretax profit	8,089	11,240	12,610	15,269	17,976
Tax	(2,520)	(3,021)	(3,654)	(4,428)	(5,084)
Net profit	5,569	8,219	8,956	10,840	12,891
- Owners of the company	5,162	7,720	8,408	10,136	12,088
- Minority interest	407	499	548	705	803
Dividend	1,563	3,524	2,702	3,322	4,054
EPS (RMB)					
- Basic	1.92	2.87	3.10	3.74	4.45
- Diluted	1.89	2.81	3.01	3.62	4.32
DPS (HK cent)	68	158	113	139	169

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	15,323	17,592	16,118	20,141	24,816
Trade receivables	3,731	3,296	4,780	5,144	6,010
Inventory	5,486	7,644	8,050	9,738	10,552
Others	8,177	12,007	14,146	18,279	21,641
Current assets	32,717	40,539	43,094	53,302	63,019
PP&E and CIP	2,729	3,779	4,453	4,555	4,745
Right-of-use assets	4,108	6,611	7,298	6,983	7,716
Intangible assets	1,579	1,531	1,476	1,458	1,442
Investment in JV	9,658	9,027	8,847	9,125	9,422
Others	1,076	1,818	3,115	2,897	2,757
Non-current assets	19,150	22,766	25,189	25,018	26,081
Total assets	51,867	63,305	68,282	78,320	89,100
Trade payables	2,376	3,146	3,255	4,444	4,061
ST borrowings	1,968	1,748	10,957	10,250	10,534
Others	7,371	11,049	11,216	12,374	13,659
Current liabilities	11,715	15,943	25,428	27,068	28,255
LT borrowings	12,456	11,425	650	539	554
Deferred tax liabilities	527	655	589	728	718
Others	1,345	2,982	3,922	4,772	5,524
Total non-current liabilities	14,328	15,062	5,160	6,040	6,796
Shareholders' equity	24,013	28,924	33,770	40,584	48,618
Minority interest	1,811	3,376	3,924	4,629	5,432
Total equity	25,824	32,300	37,694	45,212	54,049
Total liabilities and equity	51,867	63,305	68,282	78,320	89,100

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	8,089	11,240	12,610	15,269	17,976
Depreciation & amortization	2,079	3,266	3,000	2,938	3,201
Change in working capital	(2,212)	(282)	(1,302)	(1,645)	(1,078)
Others	(498)	(2,363)	(3,632)	(4,345)	(5,007)
Cash flow from operating activities	7,458	11,861	10,676	12,216	15,091
Change in PP&E	(424)	(779)	(293)	(346)	(366)
Others	(1,499)	(3,890)	(5,400)	(1,284)	(3,718)
Cash flow from investing activities	(1,923)	(4,669)	(5,692)	(1,630)	(4,085)
Change in borrowing	(3,343)	(196)	(1,566)	(818)	299
Dividend paid	(1,481)	(2,456)	(2,474)	(3,047)	(3,713)
Others	6,053	(2,295)	(2,525)	(2,777)	(3,055)
Cash flow from financing activities	1,229	(4,947)	(6,564)	(6,642)	(6,468)
Net change in cash	6,764	2,245	(1,580)	3,944	4,539
ForEx effect	338	24	106	79	137
Cash at the end of FY	15,323	17,592	16,118	20,141	24,816

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	4.7	38.9	15.5	16.1	16.7
- ANTA Brand	(9.7)	52.5	18.8	17.5	16.7
- FILA Brand	18.1	25.1	9.1	11.3	12.8
- Other brands	35.4	51.1	32.6	33.0	33.3
Gross profit	10.7	47.2	15.8	17.4	17.2
EBIT	5.3	20.1	15.1	20.6	17.0
Net profit (to owners of the company)	(3.4)	49.6	8.9	20.5	19.3
Profitability ratios (%)					
GPM	58.2	61.6	61.8	62.5	62.7
OPM	25.8	22.3	22.2	23.0	23.1
Pretax	22.8	22.8	22.1	23.1	23.3
NPM (to owners of the company)	14.5	15.7	14.8	15.3	15.7
Revenue contribution (%)					
- ANTA Brand	44.3	48.7	50.1	50.6	50.6
- FILA Brand	49.1	44.2	41.8	40.1	38.7
- Other brands	6.5	7.1	8.1	9.3	10.6
Return ratios (%)					
ROAA	12.0	14.3	13.6	14.8	15.4
ROAE	23.4	29.2	26.8	27.3	27.1
Liquidity ratio (x)					
Current ratio	2.8	2.54	1.69	1.97	2.23
Quick ratio	2.3	2.06	1.38	1.61	1.86
Cash ratio	1.7	1.54	1.06	1.25	1.49
Cash conversion cycle (days)					
Days of outstanding receivable	39	26	26	27	26
Days of inventory on hand	121	127	132	131	129
Days of outstanding payable	66	53	53	53	52
CCC	95	99	105	105	103
Leverage ratios (%)					
Total debt/Equity	55.9	40.8	30.8	23.9	20.5
Total debt/Total assets	27.8	20.8	17.0	13.8	12.4
Net cash/Equity	(22.9)	(35.3)	(40.5)	(50.8)	(57.2)
Net cash/Total assets	(11.4)	(18.0)	(22.4)	(29.3)	(34.7)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return ($\sim 10\%$) \leq Stock return $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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