

## Anta Sports (2020 HK)

**Buy** (maintained)

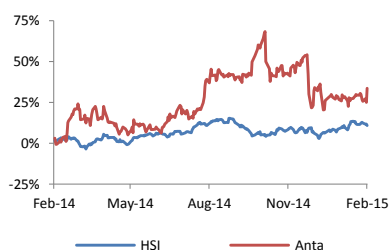
Target price: HK\$18.50



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### Stock performance



Source: Bloomberg

### Key data

Feb 12 close (HK\$)	14.10
Shares in issue (m)	2496.9
Major shareholder	Ding Shizhong (55.4%)
Market cap (HK\$ bn)	35.2
3M avg. vol. (m)	7.4
52W high/low (HK\$)	18.00/10.36

Source: Bloomberg

**Strong FY14 results; order book momentum maintained**

**FY14 results above expectation** Net profit jumped 29% YoY in FY14, 3% above our and market expectation mainly due to a lower-than-expected effective tax rate (22.7% vs our estimate of 25.2%), followed by further write-backs for inventory and doubtful debt. Revenue climbed 23% YoY, 2% above market consensus due to stronger-than-expected e-commerce sales growth and store growth for its FILA and kids segments. GM widened 3.4pp to 45.1%, 0.4pp above market consensus. Excluding inventory write-backs, GM still increased 2.6pp to 44.5%, driven by an increased revenue mix from its high-GM FILA segment and reduced subsidies to distributors. OP margin increased by 1.1pp to 22.6% driven by GM expansion, but partly offset by a 0.9ppt and 0.7ppt increase in A&P and staff expenses ratio, respectively.

**E-commerce and FILA led revenue growth** We estimate the Anta brand and other segments delivered 11% and 71% YoY revenue growth, respectively. E-commerce revenue growth came in at nearly 100% YoY in FY14. We believe growth accelerated in 2H14 led by online events in 4Q14. In the long-term, management expects 20% of revenue to come from e-commerce. FILA also saw strong revenue growth driven by 25% store growth and very good SSSG. Management revealed that sales per unit area for FILA was highest among high-end brands in shopping malls in China.

**Strong operating cash flow** Operating cash flow jumped 49% YoY on good working capital control. A/R days dropped 3 days to 35 days. Only 5% of A/R was past due in FY14 (vs 9% in 1H14 and 15% in FY13).

**Order book momentum maintained** Anta reported low double-digit order book growth in 3Q15, in line with our expectation. This was the first trade fair held since the allegations about the company's chairman, Mr Ding. Footwear order book growth was also at low double-digit. Basketball footwear accounted for a high single-digit to low-teen percentage of footwear order volume, while NBA-branded footwear accounted for 20-30% of basketball footwear order volume.

**Market share gain** Anta's market share is expected to have increased in 4Q14 as it continued to outperform peers with high single-digit SSSG (6% for 361 Degrees and low single-digit growth for Peak).

**Store expansion plan** The FILA store number grew from 416 in FY13 to 519 in FY14. The company expects to have 550-600 FILA stores in FY15. For its kids segment, the store number jumped from 881 in FY13 to 1,228 in FY14 and the store number target in FY15 is set at 1,500-1,600. For the Anta brand, management plans to further trim its store number from 7,622 (vs 7,757 in FY13) to 7,400-7,500 by closing low-efficiency stores and merging small stores into large stores in FY15. That said, management is aiming for better SSSG in FY15.

**Maintain Buy** We forecast net profit growth of 19% in FY15 led by 21% revenue growth (11% and 44% growth from the Anta brand and other segments, respectively) and expect its net profit to outperform its peer average of 11% growth. We like Anta's diversified growth drivers from various segments and its market share expansion underpinned by strong execution and rising brand equity. Mr Ding attended yesterday's analyst presentation and reiterated that the allegations about his involvement in a tax corruption investigation are untrue. The company's execution looks unaffected by the allegations given the solid 3Q15 order book growth and that the company is set to soon endorse a new NBA all-star player, according to news reports. We believe these factors could restore investor confidence. We maintain our TP of HK\$18.50, still based on 18X FY15 P/E.

### Stock valuation

	Turnover (RMB m)	Net profit (RMB m)	EPS (RMB)	EPS YoY (%)	P/E	Yield (%)	BPS (RMB)	P/B	ROE (%)
2012	7,623	1,359	0.545	-21	20.8	3.4	2.8	4.1	20.7
2013	7,281	1,315	0.527	-3	21.2	3.4	2.9	3.8	18.9
2014	8,923	1,700	0.681	29	16.4	4.3	3.2	3.5	22.7
2015E	10,761	2,031	0.814	19	13.8	4.5	3.5	3.2	24.8
2016E	12,475	2,361	0.946	16	11.7	5.3	4.0	2.8	25.9

Sources: Company data, GF Securities (HK)

**Figure 1: Anta's low double-digit order book growth in 1Q15 followed a high base**

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Anta	20-30% decline	15-25% decline	10-20% decline	5-15% decline	high single-digit growth	high single-digit growth	high single-digit growth	low double-digit growth	low double-digit growth	low double-digit growth	low double-digit growth
Li Ning	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Xtep	15-20% decline	15-20% decline	20% decline	15-17% decline	high single-digit decline	mid single-digit decline	low single-digit decline	0%	low single-digit growth	low single-digit growth	NA
Peak	0%	25-30% decline	NA	NA	low single-digit decline	high single-digit growth	mid-teens growth	mid-teens growth	mid-teens growth	mid-teens growth	mid-teens growth
361 Degrees	23% decline	23% decline	NA	17% decline	11% decline	11% decline	7% decline	8%	11%	11%	16%

Sources: Company data, GF Securities (HK)

**Figure 2: Anta's better-than-peer SSSG**

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Anta	0%	0%	0%	mid single-digit growth	mid single-digit growth	low double-digit growth	high single-digit growth	high single-digit growth
Li Ning	9%		NA	NA	NA	NA	NA	NA
Xtep	0%	0%	0%	0%	low single-digit growth	mid single-digit growth	mid single-digit growth	NA
Peak	0%	0%	low single-digit growth	low single-digit growth	low single-digit growth	low single-digit growth	low single-digit growth	low single-digit growth
361 Degrees	-2%	-1%	0%	2%	2%	3%	5%	6%

Sources: Company data, GF Securities (HK)

**Figure 3: FY14 results review**

Y/E Dec (Rmb m)	FY14	FY13	% change	2H14	2H13	% change	1H14	1H13	% change
<b>Revenue</b>	<b>8,923</b>	<b>7,281</b>	<b>23%</b>	<b>4,801</b>	<b>3,915</b>	<b>23%</b>	<b>4,122</b>	<b>3,367</b>	<b>22%</b>
Cost of sales	(4,896)	(4,242)	15%	(2,634)	(2,260)	17%	(2,262)	(1,982)	14%
Gross profit	4,027	3,039	32%	2,167	1,655	31%	1,860	1,384	34%
Other income	97	110	-12%	55	81	-32%	42	29	44%
Other net gains/(losses)	(11)	(8)	41%	(10)	(2)	489%	(2)	(6)	-74%
Selling and distribution expenses	(1,697)	(1,199)	41%	(978)	(706)	38%	(719)	(493)	46%
Administrative expenses	(397)	(376)	5%	(202)	(199)	1%	(195)	(178)	10%
Operating profit	2,019	1,566	29%	1,033	829	25%	986	736	34%
Adjusted operating profit (excl write-down/write-back of inventory and doubtful debts provisions)	1,914	1,599	20%	988	828	19%	926	771	20%
Finance income	248	212	17%	131	102	29%	117	110	6%
Finance costs	(24)	(25)	-4%	(10)	(9)	12%	(14)	(16)	-14%
Profit before tax	2,243	1,753	28%	1,154	922	25%	1,089	831	31%
Tax expense	(510)	(423)	21%	(236)	(223)	6%	(274)	(200)	37%
Profit after tax	1,733	1,330	30%	918	699	31%	815	630	29%
Non-controlling interests	(32)	(15)	120%	(20)	(10)	101%	(12)	(5)	162%
<b>Net profit</b>	<b>1,700</b>	<b>1,315</b>	<b>29%</b>	<b>898</b>	<b>689</b>	<b>30%</b>	<b>803</b>	<b>626</b>	<b>28%</b>
EPS (RMB)	0.68	0.53	29%	0.36	0.28	30%	0.32	0.25	28%
DPS (HK\$)	0.61	0.48	27%				0.25	0.19	32%
<b>Margin &amp; Ratio (%)</b>									
Gross margin	45.1	41.7	3.4	45.1	42.3	2.9	45.1	41.1	4.0
Adjusted gross margin (excluding write-down/write back of inventories provisions)	44.5	41.8	2.6	44.6	42.3	2.3	44.4	41.3	3.1
Operating margin	22.6	21.5	1.1	21.5	21.2	0.3	23.9	21.9	2.0
Adjusted operating margin (excluding write-down/write back of inventories and doubtful debts provisions)	21.5	22.0	(0.5)	20.6	21.2	(0.6)	22.5	22.9	(0.4)
SG&A expenses ratio	23.5	21.6	1.8	24.6	23.1	1.4	22.2	19.9	2.3
A&P expenses ratio	12.0	11.1	0.9	13.0	12.1	0.9	10.8	9.9	0.9
Staff expenses ratio	11.0	10.3	0.7	10.5	10.6	(0.2)	11.6	9.9	1.7
Net margin	19.1	18.1	1.0	18.7	17.6	1.1	19.5	18.6	0.9
Effective tax rate	22.7	24.1	(1.4)	20.5	24.2	(3.7)	25.2	24.1	1.1
Payout ratio	71.0	71.7	(0.7)				61.7	60.2	1.5
	<b>FY14</b>	<b>FY13</b>	<b>change</b>				<b>1H14</b>	<b>1H13</b>	<b>change</b>
Inventory days	58	59	(1)				59	58	1
A/C receivables days	35	38	(3)				38	39	(1)
A/C payable days	54	65	(11)				69	59	10
	<b>FY14</b>	<b>FY13</b>	<b>change</b>				<b>1H14</b>	<b>FY13</b>	<b>change</b>
Anta stores	7,622	7,757	-2%				7,701	7,757	-1%
FILA stores	519	416	25%				441	416	6%
Net cash (RMB m)	5,431	5,074	7%				5,299	5,062	5%

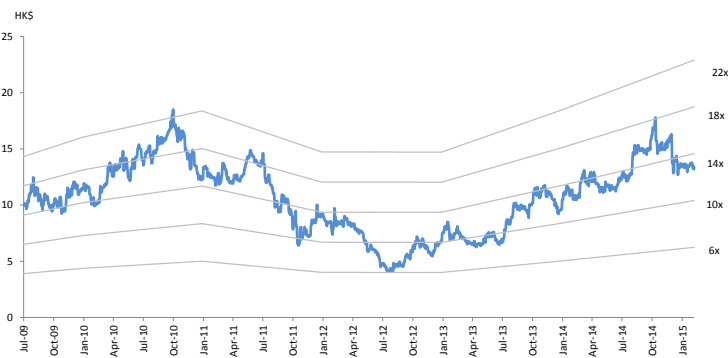
Sources: Company data, GF Securities (HK)

Figure 4: Major assumptions

(Rmb m)	FY11	FY12	FY13	FY14	FY15E	FY16E
<b>Total revenue</b>	<b>8,905</b>	<b>7,623</b>	<b>7,281</b>	<b>8,923</b>	<b>10,761</b>	<b>12,475</b>
growth %	20.2%	-14.4%	-4.5%	22.5%	20.6%	15.9%
- Anta products	7,886	6,808	5,823	6,435	7,169	7,965
growth %	16.5%	-13.7%	-14.5%	10.5%	11.4%	11.1%
- Other products	1,019	815	1,458	2,488	3,592	4,511
growth %	58.9%	-20.1%	79.0%	70.6%	44.4%	25.6%
-- FILA			692	1,223	1,678	2,053
growth %				76.8%	37.1%	22.4%
-- Kids			451	680	984	1,213
growth %				50.5%	44.8%	23.3%
-- E-commerce			255	497	820	1,107
growth %				95.0%	65.0%	35.0%
-- Others			60	88	110	138
growth %				25.0%	25.0%	25.0%
Gross profit	3,762	2,893	3,039	4,027	4,882	5,693
Gross margin	42.3%	38.0%	41.7%	45.1%	45.4%	45.6%
- Anta products				41.2%	43.0%	43.6%
- Other products				44.2%	48.9%	49.2%
Selling & distribution expenses ratio	16.3%	13.6%	16.5%	19.0%	19.4%	19.7%
Administrative expenses ratio	4.2%	5.5%	5.2%	4.4%	4.6%	4.4%
Operating profit margin	22.6%	20.5%	21.5%	22.6%	22.5%	22.7%
Effective tax rate	20.2%	21.6%	24.1%	22.7%	23.0%	23.0%
<b>Net profit</b>	<b>1,730</b>	<b>1,359</b>	<b>1,315</b>	<b>1,700</b>	<b>2,031</b>	<b>2,361</b>
growth %	11.5%	-21.5%	-3.2%	29.3%	19.5%	16.2%
Net profit margin	19.4%	17.8%	18.1%	19.1%	18.9%	18.9%
Payout ratio	61.1%	71.7%	71.7%	71.0%	61.7%	61.7%

Sources: Company data, GF Securities (HK) estimates

Figure 5: P/E band



Sources: Bloomberg, GF Securities (HK) estimates

Figure 6: Valuation comparison for sportswear companies

Sportswear	Ticker	Rating	Price (Feb 11 2015)	TP (HK\$)	Mkt Cap (HK\$ m)	FY13	FY14E	FY15E	FY16E	EPS growth (%)	Revenue growth (%)	Yield (%)	P/B (x)	ROE (%)						
Anta	2020 HK	Buy	14.10	18.50	35,207	21.2	16.4	13.8	11.6	29	19	17	23	21	17	4.3	4.5	5.3	3.2	24.8
Peak	1968 HK	Accumulate	2.16	2.27	4,532	14.7	12.9	10.8	9.7	15	20	9	9	9	9	4.3	5.2	5.7	0.8	7.7
Xtep	1368 HK	Hold	2.59	3.66	5,641	7.4	7.8	7.3	6.7	(5)	7	7	3	6	7	6.6	7.2	7.9	0.9	12.4
China Dongxiang	3818 HK	NR	1.29	na	7,142	26.8	26.9	24.3	22.6	(0)	10	8	(7)	7	10	5.7	3.0	3.0	0.7	2.6
Li Ning	2331 HK	NR	3.03	na	5,711	na	na	94.7	13.3	na	na	613	10	15	13	0.0	0.5	1.9	1.8	2.7
361 Degrees	1361 HK	NR	2.26	na	4,673	17.6	10.4	9.5	6.0	69	9	58	6	14	16	3.8	3.8	4.4	0.7	9.8
Pou Sheng Intl	3813 HK	NR	0.62	na	3,335	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
<b>Average</b>						<b>17.5</b>	<b>14.9</b>	<b>26.7</b>	<b>11.7</b>	<b>22</b>	<b>13</b>	<b>118</b>	<b>7</b>	<b>12</b>	<b>12</b>	<b>4.1</b>	<b>4.0</b>	<b>4.7</b>	<b>1.3</b>	<b>10.0</b>

Sources: Bloomberg, GF Securities (HK) estimates



## Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

### Company ratings

<b>Buy</b>	Stock expected to outperform benchmark by more than 15%
<b>Accumulate</b>	Stock expected to outperform benchmark by more than 5% but not more than 15%
<b>Hold</b>	Expected stock relative performance ranges between -5% and 5%
<b>Underperform</b>	Stock expected to underperform benchmark by more than 5%

### Sector ratings

<b>Positive</b>	Sector expected to outperform benchmark by more than 10%
<b>Neutral</b>	Expected sector relative performance ranges between -10% and 10%
<b>Cautious</b>	Sector expected to underperform benchmark by more than 10%

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