

## Acquisition to diversify current brand portfolio

Rating	<b>BUY</b>	Maintain
Target price	<b>HK\$53.40</b>	From HK\$54.66
Current price	<b>HK\$34.35</b>	Upside:55.4%

### ■ To acquire Finnish Amer Sports at 39% premium

ANTA announced on Sept 12 before market opened that they and FountainVest (a PE firm) has submitted a non-binding preliminary indication of interest to acquire Finnish sports equipment maker, Amer Sports (AMEAS.HE), at EUR 40.00/ share (~39% premium to Amers' Sept 10 market close), and would be valued at EUR4.66bn (equivalent to RMB ~37.2bn). The bid translates into 25.1x/21.4x FY18E/19E PE, (vs. international peers average at 30.0x/23.0x) which we view it as fair.

The tender offer would subject to a number of conditions, including due diligence investigation, approval by shareholders holding at least 90% of shares of Amer Sports, approval by FountainVest's investment committee and the receipt of all necessary regulatory approvals. Market rumours stating the deal would be finalized by the end of 2018.

### ■ To duplicate FILA story and further adopting multi-brand strategy

Founded in Finland in 1950 and listed in Nasdaq Helsinki in March 1977, Amer Sports is a sporting goods company with internationally recognized brands including Wilson, Salomon, Arc'teryx, Atomic, Mavic, Suunto, Precor and recently acquired Peak Performance. Amer currently sells its products to trade customers (including sporting goods chains, specialty retailers, mass merchants, fitness clubs and distributors) and directly to consumers through brand stores, factory outlets, and e-commerce. Amer Sports own sales organization covered 34 countries (including China) in end 2017. Upon successful completion of the deal, Amer sports will further enrich ANTA's current product and brand portfolio, which already consists of Descente, Kolon Sprandi and Kingkow (acquired in 3Q17).

Amer's net sales and EBIT grew at 5.8%/2.0% CAGR in 2013-2017, which was slower than ANTA (23.0%/23.7% CAGR in FY13-FY17), while both GM and EBIT margin were also lower than ANTA's. We noticed that Amer's China revenue grew 15% to EUR120mn in 1H18 and accounted for 4.4% of Amer's net sales/ 30% of Asia Pacific's net sales (vs. ~4%/28% in 1H17), and Amer target a long term sales target at EUR 200mn. We believe ANTA targets to duplicate FILA's successful story in China market, through enhancing Amer's operation in China thanks to ANTA's regional network, supply chain resources and logistics infrastructure, which would lift sales and bring cost-savings to Amer Sports in the long run.

### ■ Market woes on near term financing and lack of managing international brand experience weigh on share price

Since the deal was announced by ANTA, their share price has been down by ~10% on near term financing concerns. Assuming ANTA to acquire 51% stake in Amer Sports, which means ANTA would have to pay RMB18.9bn for the deal, with RMB9.0bn net cash on hand in 1H18, we believe part of the deal would make use of the net cash, while the remaining would make use of other funding sources. Management provided some colours on the deal that it would be financed through internal source and existing banking facilities, while capital market action would be at a lower pecking order. However, we believe the final stake in the acquisition and hence the amount of debt financing) would remain an overhang on share price. In addition, market also worries that ANTA is inexperienced in managing international brand would also weigh on share price.

### ■ FY19E 13.6x ex-cash PE, Maintain BUY on solid fundamentals

We maintained our FY18E/19E EPS forecast, which means ANTA is expected to deliver a 25.5% EPS CAGR in FY17-20E, therefore ANTA's FY19E 13.6x ex-cash PE looks attractive to us (~53% discount to international peers at 29.2x). We slightly lower ANTA's TP to HK\$53.40 on lower RMB assumption, implying an unchanged 23.4x FY19E ex-cash PE (20% discount to international peers), plus FY18E net cash (RMB\$4.27/share). We maintain ANTA's rating at BUY.

## Company Update

18 September 2018

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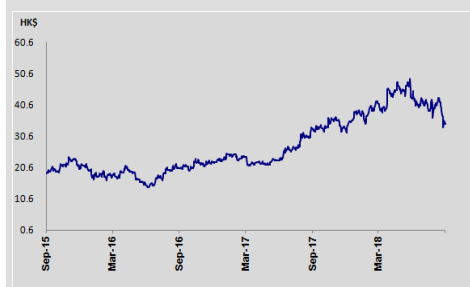
### Trading Data

52-Week Range (HK\$)	49.30/31.29
3 Mth Avg Daily Vol (m)	8.17
No of Shares (m)	2,684.6
Market Cap (HK\$m)	9,222.6
Major Shareholders (%)	S.Z. Ding and Asso (51.19%)
Auditors	KPMG
Result Due	FY18:Mar 2019

### Company description

Founded in 1994, ANTA Sports is one of the leading PRC players in manufacturing, trading and distribution of sporting goods, including footwear, apparel and accessories. As of Jun 30 2018, ANTA's retail network comprises of 9,650 ANTA brand POS.

### Price Chart



Sources: Bloomberg, CIRC

**Exhibit 1: Market consensus for Amer Sports**

Year Ended Dec (EUR Mn)	FY17	FY18E	FY19E	FY20E
<b>Sales</b>	2,685	2,809	2,988	3,114
<b>Yoy(%)</b>		4.6%	6.4%	4.2%
<b>Gross profit</b>	1,207	1,275	1,360	1,425
<b>Yoy(%)</b>		5.7%	6.7%	4.8%
<b>GM(%)</b>	44.9%	45.4%	45.5%	45.8%
<b>Operating profit</b>	215	240	276	299
<b>Yoy(%)</b>		11.7%	15.0%	8.1%
<b>OPM(%)</b>	8.0%	8.5%	9.2%	9.6%
<b>Net Profit</b>	131	157	186	204
<b>Yoy(%)</b>		19.9%	18.9%	9.7%
<b>Net Margin (%)</b>	4.9%	5.6%	6.2%	6.6%
<b>ROE</b>	9.9%	16.7%	18.2%	18.2%
<b>ROA</b>	3.5%	5.9%	6.5%	6.6%

Source: Bloomberg Consensus, CIRC

**Exhibit 2: Current brand under Amer Sports**

**Amer Sports Corporation**
**Outdoor**

Footwear	Salomon, Arc'teryx
Apparel	Salomon, Arc'teryx, PeakPerformance®
Winter Sports Equipment	Salomon, Atomic, Armada Skis
Cycling	Mavic, ENVE Composites
Sports Instrument	Suunto, Sports Trackers

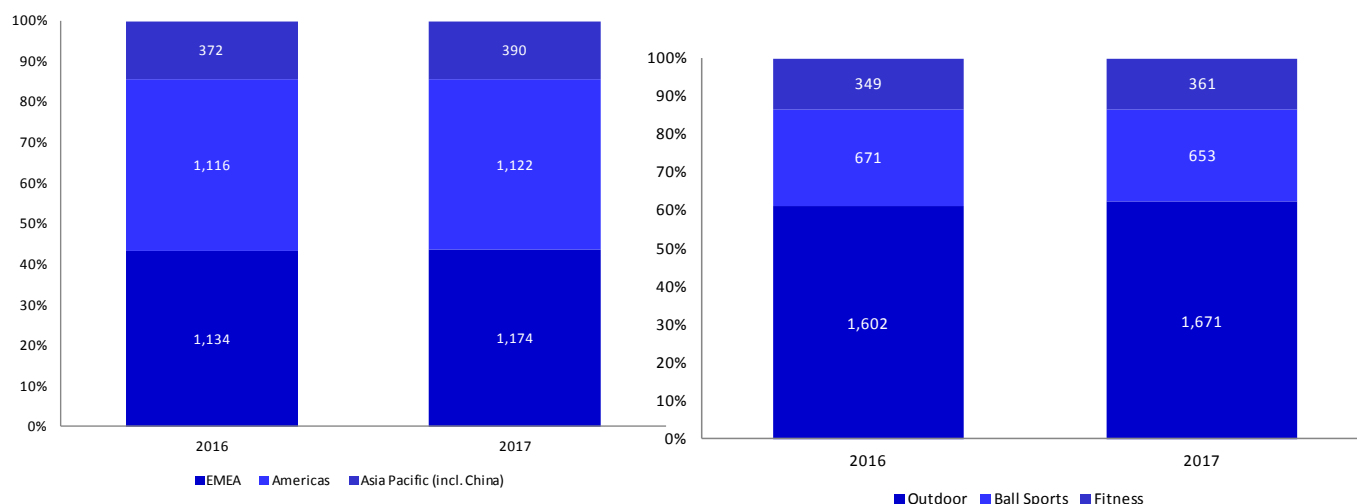
**Ball Sports**

Individual ball sports	Wilson
Team sports	Wilson (Tennis, squash, baseball, American football, golf, basketball etc) , Louisville Slugger (Baseball Bats), DeMarini (Baseball Bats), Evoshield

**Fitness**

Fitness Equipment	Precor
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Source: Amer Sports

**Exhibit 3: Amer Sport's geographical and product revenue breakdown in 2017**


Source: Amer Sports, CIRL

**Exhibit 4: ANTA's earnings forecast for FY18E- FY20E (excl. Amer Sports contribution)**

Year to Dec (RMB mn)	FY15A	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Growth rate (%)</b>						
Revenue	24.7%	20.0%	25.1%	38.3%	25.9%	24.4%
EBITDA	32.8%	18.9%	23.9%	32.1%	27.9%	26.1%
EBIT	24.7%	20.0%	25.1%	38.3%	25.9%	24.4%
Net profit	20.0%	16.9%	29.4%	25.9%	27.8%	24.7%
Fully diluted EPS	19.9%	16.7%	22.7%	23.8%	27.8%	24.7%
<b>Margins (%)</b>						
Gross margin (reported)	46.6%	48.4%	49.4%	52.1%	53.8%	55.7%
EBITDA	25.6%	25.4%	25.2%	24.0%	24.4%	24.7%
EBIT	24.2%	24.0%	23.7%	22.6%	22.9%	23.3%
Net margin	18.8%	18.3%	18.9%	17.3%	17.6%	17.8%

Source: Company data, CIRL estimates

**Exhibit 5: Major Assumptions for ANTA's revenue and segment GM**

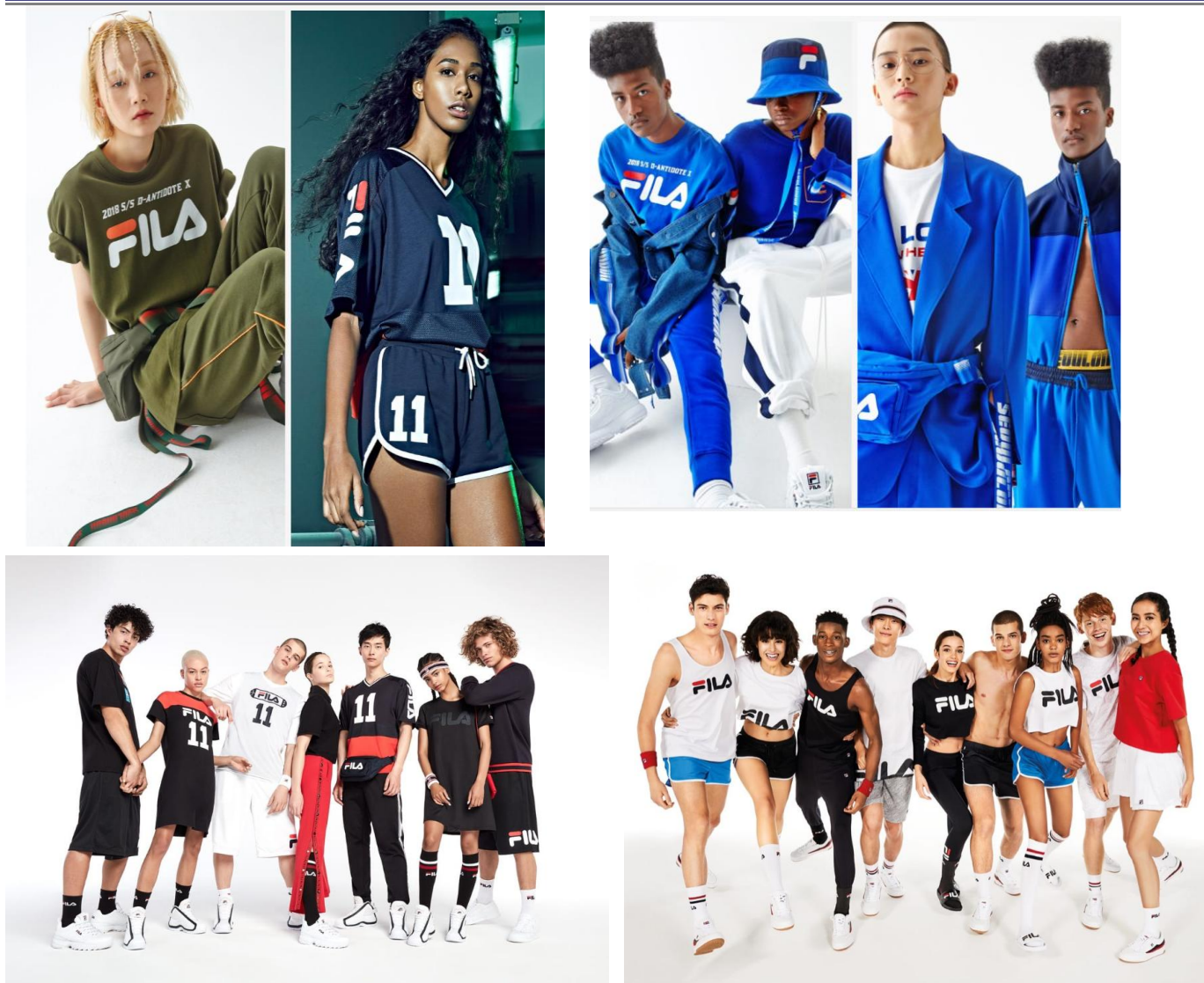
Year to Dec (RMB mn)	FY15A	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Segment Revenue</b>						
Shoes	5,074	6,001	7,049	8,561	10,216	11,827
Apparel	5,592	6,886	9,116	13,808	18,083	23,485
Accessories	460	459	528	713	768	847
<b>Segment Gross Margin</b>						
Shoes	46.2%	46.3%	46.7%	48.0%	49.0%	50.0%
Apparel	47.8%	51.0%	52.0%	55.0%	57.0%	59.0%
Accessories	37.5%	37.2%	39.4%	43.8%	43.8%	43.8%
<b>Group</b>	<b>46.6%</b>	<b>48.4%</b>	<b>49.4%</b>	<b>52.1%</b>	<b>53.8%</b>	<b>55.7%</b>

Source: Company data, CIRL estimates

**Exhibit 6: ANTA's retail sales value (RSV) growth maintained at double-digit for the second consecutive quarter**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
LiNing (Retail)	flat	mid-single	low-single	high single	-ve mid-single	flat	-ve mid single digit	+ve low teens	+ve low teens	+ve low teens
LiNing (Wholesale)	flat	mid-single	low-single	low single	-ve mid-single	low single	-ve mid single digit	+ve high single digit	+ve mid single digit	+ve mid single digit
LiNing (e-commerce)	low 60s	low 70s	low 80s	mid 90s	low 50s	mid 90s	30-40% (low 30's)	+ high teens	high 30's	mid 30's
LiNing (blended)	low-single digit	high-single digit	high-single digit	high-single digit	flat	high-single digit	-ve low single digit	+low teens	+low teens	+high single digit
DongXiang	N/A	-	-	-	-	-	-	-	-	-
ANTA (SSSG)	-	-	-	-	-	-	-	-	-	-
ANTA (ANTA brand retail sales growth)	mid-single digit	high-single	low-double	high-teens	low-double	20-30%	mid-double	20-25%	20-25%	low double
- ANTA core online	>50%	30%	>60%	>50%	>60%	>50%	50%	>40%	>40%	>30%
- ANTA kids	>50%	30%	>30%	>30%	>30%	20-30%	20-30%	>40%	>40%	>40%
ANTA (non-ANTA brand retail sales growth, mainly from Fila)	50%	50%	60-70%	50-60%	40-50%	50-60%	40-50%	85-90%	80-85%	90-95%
Xtep	+ve mid-single digit	+ve mid-single digit	+ve mid-single digit	+ve mid-single digit	+ve low-single digit	+ve mid-single digit	+ve mid-single digit	+high single digit	+low double digit	+mid double digit
361 Degrees (retail sales growth)	-	-	-	-	-	high-single	high-single	high-single	high-single	high-single
361 Degrees Kids	-	-	-	-	-	high-single	high-single	high-single	high-single	low-double
362 Degrees - One Way	-	-	-	-	-	high-single	high-double	high-single	low-double	high-single

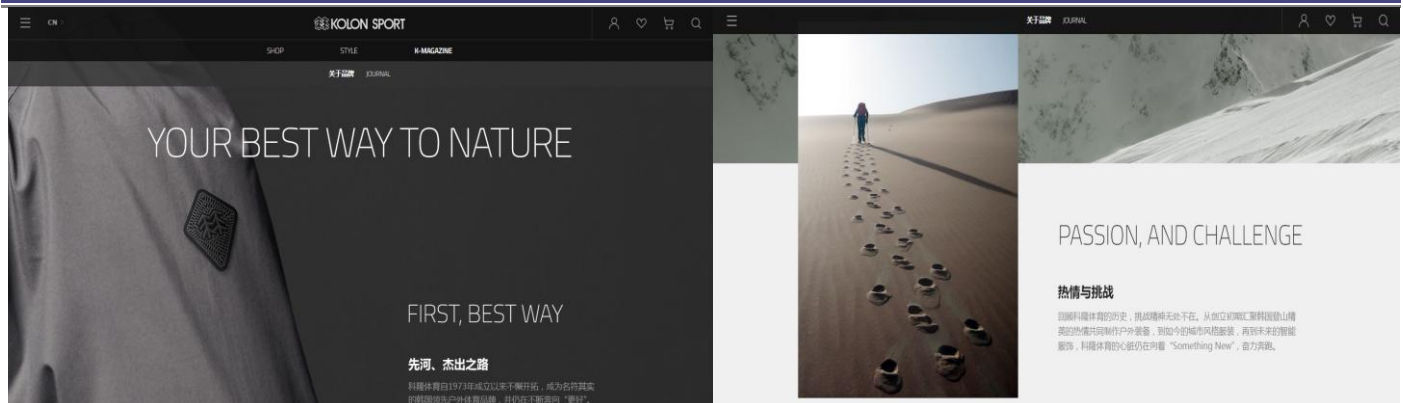
Sources: Company Data, CIRL

**Exhibit 7: FILA launched FILA Fusion to tap into youth market**


Source: FILA.ocm.hk,



#### Exhibit 8: ANTA completed the set up of 50/50 JV with Kolon Sports



Source: Kolon Sport website,

#### Exhibit 9: ANTA acquired Kingkow to deepen their exposure in kids' segment



Source: Kingkow website,

**Exhibit 10: Financial forecast**
**Income statement**

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Revenue</b>	<b>13,346</b>	<b>16,692</b>	<b>23,082</b>	<b>29,067</b>	<b>36,159</b>
Gross profit (reported)	6,459	8,240	12,016	15,649	20,141
<b>EBITDA</b>	<b>3,390</b>	<b>4,201</b>	<b>5,548</b>	<b>7,096</b>	<b>8,949</b>
Depreciation	187	250	335	429	529
<b>EBIT</b>	<b>3,203</b>	<b>3,950</b>	<b>5,214</b>	<b>6,668</b>	<b>8,420</b>
Net interest income (exp.)	238	316	260	359	407
Associates	0	0	0	0	0
Exceptionals/others	0	0	0	0	0
<b>Profit before tax</b>	<b>3,310</b>	<b>4,310</b>	<b>5,518</b>	<b>7,071</b>	<b>8,871</b>
Tax expenses	866	1,152	1,517	1,944	2,440
Minority interest	59	71	114	158	235
<b>Net profit</b>	<b>2,385</b>	<b>3,087</b>	<b>3,887</b>	<b>4,968</b>	<b>6,196</b>
Dividends	(1,675)	(2,168)	(2,730)	(3,490)	(4,352)
EPS (RMB)	0.95	1.17	1.45	1.85	2.31

**Balance sheet**

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash & equiv	5,830	6,968	8,627	9,949	11,957
Trade receivables	2,641	3,733	4,770	6,086	7,710
Other receivables	0	0	0	0	0
Inventories	1,295	2,155	2,182	2,778	3,438
Other current assets	1,687	2,586	2,995	2,670	2,670
Fixed assets	1,170	1,203	1,275	1,331	1,331
Intangible assets	478	705	705	705	705
Investment, associates etc	1,123	1,724	1,724	1,724	1,724
<b>Total assets</b>	<b>14,224</b>	<b>19,074</b>	<b>22,278</b>	<b>25,243</b>	<b>29,535</b>
Account payables	3,060	3,978	5,293	6,665	8,291
Other payables	7	19	19	19	19
Short-term debt	938	148	148	148	148
Other current liabs	267	353	337	344	378
Long-term debts	40	0	0	0	0
Deferred tax and others	14	215	215	215	215
Other long-term liabs	0	0	0	0	0
<b>Total liabilities</b>	<b>4,327</b>	<b>4,714</b>	<b>6,012</b>	<b>7,391</b>	<b>9,052</b>
Share capital	243	259	259	259	259
Reserves	9,306	13,447	15,352	16,939	19,570
<b>Shareholders' equity</b>	<b>9,549</b>	<b>13,706</b>	<b>15,611</b>	<b>17,198</b>	<b>19,829</b>
Minorities	348	654	654	654	654
<b>Total equity</b>	<b>9,896</b>	<b>14,361</b>	<b>16,266</b>	<b>17,852</b>	<b>20,483</b>
Net cash (debt)	5,979	9,406	11,474	12,471	14,479

**Cash flow**

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Pre-tax profit	3,311	4,311	5,518	7,071	8,871
Taxes paid	(948)	(1,013)	(1,502)	(1,921)	(2,324)
Depreciation	187	208	335	429	529
Associates & Others	(11)	(97)	(101)	(231)	(287)
CFO bef. WC change	3,487	4,421	5,752	7,268	9,113
Change in working cap	(63)	(182)	511	(211)	(249)
<b>Cashflow from operation</b>	<b>1,911</b>	<b>2,476</b>	<b>3,226</b>	<b>4,760</b>	<b>5,136</b>
CAPEX	(573)	(547)	(791)	(842)	(1,115)
<b>Free cash flow</b>	<b>1,338</b>	<b>1,929</b>	<b>2,435</b>	<b>3,918</b>	<b>4,022</b>
Dividends	(1,572)	(1,976)	(2,525)	(3,203)	(4,010)
Balance sheet adj.	695	3,433	2,132	251	1,969
Share issued	15	41	26	31	28
Others	0	0	0	0	0
<b>Net cash flow</b>	<b>476</b>	<b>3,427</b>	<b>2,068</b>	<b>996</b>	<b>2,009</b>
Net cash (debt) start	5,503	5,979	9,406	11,474	12,471
Net cash (debt) at year-end	5,979	9,406	11,474	12,471	14,479

**Ratios**

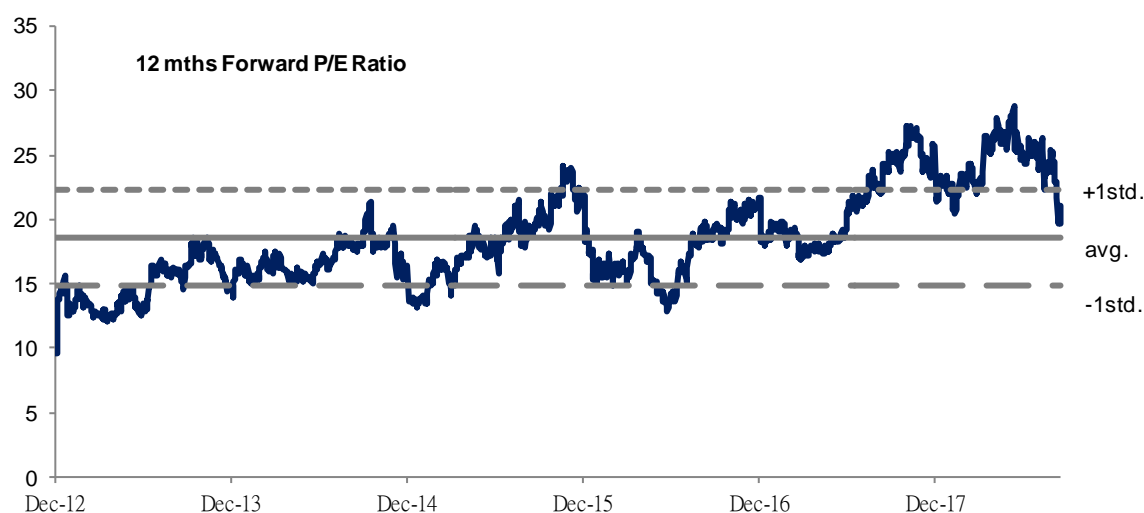
Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Growth rate (%)</b>					
Revenue	20.0%	25.1%	38.3%	25.9%	24.4%
EBITDA	18.9%	23.9%	32.1%	27.9%	26.1%
EBIT	20.0%	25.1%	38.3%	25.9%	24.4%
Net profit	16.9%	29.4%	25.9%	27.8%	24.7%
Fully diluted EPS	16.7%	22.7%	23.8%	27.8%	24.7%
<b>Margins (%)</b>					
Gross margin (reported)	48.4%	49.4%	52.1%	53.8%	55.7%
EBITDA	25.4%	25.2%	24.0%	24.4%	24.7%
EBIT	24.0%	23.7%	22.6%	22.9%	23.3%
Net margin	18.3%	18.9%	17.3%	17.6%	17.8%
<b>Other ratios</b>					
ROE (%)	25.5%	25.5%	25.4%	29.1%	32.3%
ROA (%)	17.8%	18.5%	18.8%	20.9%	22.6%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Interest coverage (x)	49.0	(180.7)	(238.4)	(304.9)	(385.1)
Receivables days	66.3	69.7	67.2	68.2	69.6
Payables days	128.6	137.9	152.5	155.7	163.6
Inventory days	61.2	74.5	71.5	67.5	70.8
Effective tax rate (%)	26.2%	26.7%	27.5%	27.5%	27.5%

Source: Company data, CIRC estimates

**Exhibit 11: Peers comparison**

	bloomberg code	Year End	Mkt Cap (HKD mn)	Price (HKD)	Share Price Movement (%)		YTD	PER (x)					Yield (%)				
					3M	1YR		FY15	FY16	FY17	FY18E	FY19E	FY15	FY16	FY17E	FY18E	FY19E
<b>PRC - Sportswear peers</b>																	
LI NING CO LTD	2331 HK	12/2017	15,114	6.91	(23.9)	5.2	9.2	835.4	42.2	25.3	20.8	12.0	0.0%	0.0%	0.0%	0.8%	1.1%
XTEP INTL	1368 HK	12/2017	9,576	4.27	(22.1)	61.5	42.9	13.8	15.5	15.0	13.4	11.2	4.4%	3.8%	5.3%	4.7%	5.6%
361 DEGREES	1361 HK	12/2017	4,073	1.97	(18.3)	(47.3)	(27.0)	6.5	8.8	5.6	7.1	6.4	6.9%	5.0%	6.4%	3.5%	6.7%
HONMA GOLF LTD	6858 HK	03/2018	4,495	7.38	(13.2)	(4.5)	(5.6)	-	-	17.5	12.4	11.4	0.0%	0.0%	0.0%	0.0%	2.0%
HOSA INTL LTD	2200 HK	12/2017	484	0.29	(87.6)	(87.6)	(89.0)	1.5	1.6	1.5	1.3	1.2	39.2%	42.4%	28.9%	22.9%	0.0%
YUE YUEN IND	551 HK	12/2017	35,156	21.50	(8.7)	(30.0)	(30.0)	11.6	8.4	8.4	8.1	12.2	5.2%	5.4%	5.6%	6.6%	18.3%
POU SHENG INTL	3813 HK	12/2017	8,013	1.50	0.7	7.1	32.7	16.6	12.5	18.0	14.6	11.5	0.0%	2.5%	1.3%	1.5%	2.0%
Average			10,987		(24.7)	(13.7)	(9.5)	147.5	14.8	13.1	11.1	9.4	13.9%	11.8%	9.5%	6.7%	5.9%
ANTA SPORTS PROD	2020 HK	12/2017	92,226	34.35	(20.1)	3.2	(2.8)	35.6	32.2	21.6	17.6	13.7	2.0%	2.2%	2.8%	3.4%	4.3%
<b>International - Sportswear peers</b>																	
NIKE INC -CL B	NKE US	05/2018	1,048,637	655.18	10.1	55.0	33.5	89.0	38.2	71.8	35.5	31.3	0.5%	0.6%	0.3%	0.7%	0.8%
ADIDAS AG	ADS GR	12/2017	398,042	1,902.55	3.8	5.0	24.4	70.2	43.6	43.6	25.6	22.0	0.8%	0.8%	0.7%	0.9%	1.3%
UNDER ARMO-C	UA US	12/2017	63,887	139.21	(17.4)	7.8	33.2	-	-	-	104.4	54.6	0.0%	0.0%	0.0%	0.0%	0.0%
LULULEMON ATH	LULU US	01/2018	159,667	1,206.22	19.7	153.6	95.6	93.7	81.9	-	60.9	43.0	0.0%	0.0%	0.0%	0.0%	0.0%
PUMA SE	PUM GR	12/2017	58,976	3,910.29	(14.5)	33.9	21.3	183.2	109.1	-	32.8	25.2	0.1%	0.1%	0.1%	0.2%	0.3%
ASICS CORP	7936 JP	12/2017	22,220	111.18	(10.0)	(4.1)	(11.7)	32.2	18.9	85.2	23.5	20.3	1.0%	1.2%	1.4%	1.5%	1.5%
MIZUNO CORP	8022 JP	03/2018	5,166	194.39	(32.9)	(14.8)	(16.3)	20.6	36.3	85.8	37.5	12.7	2.4%	2.0%	1.8%	1.7%	1.8%
YONEX CO LTD	7906 JP	03/2018	5,270	56.29	2.8	(4.7)	10.9	40.7	34.0	112.6	34.5	33.7	0.6%	0.5%	0.6%	0.5%	0.7%
DESCENTE LTD	8114 JP	03/2018	11,679	151.84	4.8	50.2	11.2	24.6	22.5	163.1	25.1	23.9	0.5%	0.5%	0.7%	0.7%	0.8%
AMER SPORTS	AMEAS FH	12/2017	36,353	312.00	21.6	56.6	52.0	34.9	33.6	-	25.3	21.6	1.3%	1.5%	1.5%	1.5%	1.9%
COLUMBIA SPORTSW	COLM US	12/2017	50,355	719.76	0.1	55.4	27.6	37.4	33.7	-	26.5	23.6	0.5%	0.6%	0.7%	0.8%	0.8%
Average			81,161		(2.2)	33.9	24.8	62.6	45.2	93.7	39.2	28.4	0.9%	0.9%	0.9%	1.0%	
ANTA SPORTS PROD	2020 HK	12/2015	92,226	34.35	(20.1)	12.4	(2.8)	35.6	32.2	21.6	17.6	13.7	2.0%	2.2%	2.8%	3.4%	4.3%

Source: Bloomberg, CIRC

**Exhibit 7: ANTA's 12 month forward P/E Ratio**


Source: Bloomberg, CIRC

## Risk Factors

Downside risks include: 1) Higher than expected stake in Amer Sports acquisition; 2) 2H18 RSV softens; 3) excess inventory in distribution channels; 4) rising production costs 5) increasing competition from international and PRC peers; 6) higher marketing spending and execution risks of FILA, Kolon JV and KingKow

## Rating Policy

	Rating	Definition
<b>Stock Rating</b>	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
<b>Sector Rating</b>	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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## Analyst Certification

I, Hayman Chiu, Research Director of Cinda International Research Limited., hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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