

Anta Sports (2020 HK)

Megan Jin

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Company Update

HOLD

Unchanged

Close price: HK\$111.90

Target Price: HK\$105.00 (-6%)

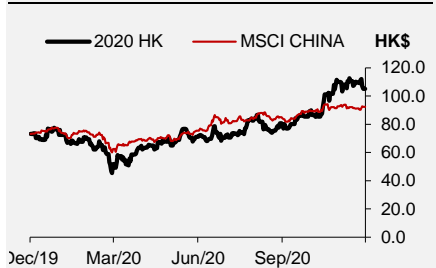
Prior TP: HK\$90.90

Key Data

HKEx code	2020 HK
12 Months High (HK\$)	114.50
12 Month Low (HK\$)	42.00
3M Avg Dail Vol. (mn)	7.36
Issue Share (mn)	2,703.33
Market Cap (HK\$mn)	302,502.52
Fiscal Year	12/2019
Major shareholder (s)	Director Ding & asso (61.40%)

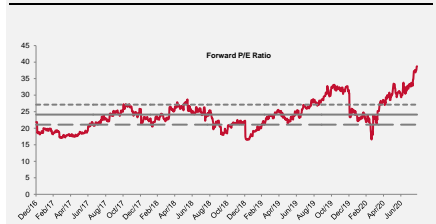
Source: Company data, Bloomberg, OP Research
 Closing price are as of 22/12/2020

Price Chart



	1mth	3mth	6mth
Absolute %	1.7	39.6	55.9
Rel. MSCI CHINA %	2.3	29.2	35.1

PE



Company Profile

ANTA Sports Products Limited designs, develops, manufactures, and markets sportswear, including sports footwear and apparel for professionals and the general public.

Precor disposal in plan of Amer brand restructuring

- Anta announced JV Amer's disposal of non-core fitness equipment brand Precor for US\$ 420 mn and expected more restructuring in the future. This move will improve Amer's financial positions, and mgmt remained confident for a profitable 2H20E for Amer.
- Maintain HOLD with TP lifted to HK\$105, on higher 30x (from 26x) FY21E PE, as we are less upbeat in near term with the less expansionary outlook of Anta and uncertain retail recovery of Amer.

JV Amer disposed non-core fitness equipment brand Precor for US\$ 420 mn. On Dec. 22nd, Anta (holding 52.7% of Amer Sports) announced Amer's disposal of Precor to Peloton (PTON US), as part of the restructure plan to better focus on footwear and apparels. The consideration implies 1.3x PB by Oct 2020. As the deal is scheduled to complete in early FY21E, it will leave a net gain of est. US\$ 20 mn for Amer Sports. Net proceeds (est. US\$ 360 mn) will be used for general corporate purposes of Amer that may include repayment of debts. **The Company expects more non-core brand restructuring in Amer. We think this move strengthens Amer's financial position and further alleviates concerns on debt covenant triggering.**

Maintain expectation for profitable 2H20E of Amer despite worsened pandemic, more positive than expected due to: 1) stringent cost controls e.g. setting up new expense standards; 2) faster store re-openings; 3) continuous strong online performance. We believe as wholesale constitutes major revenue for Amer, retail impact from the pandemic is not immediate.

Maintain HOLD with TP lifted to HK\$105 on higher 30x (from 26x) FY21E PE for lessened concerns on Amer. We maintain our earnings forecasts unchanged with adj. earnings CAGR of 27% FY19-22E, which is well reflected in the valuation. **We are less upbeat than the market regarding near term outlook** as: 1) DTC reform on Anta brand weighs on both POS expansion (that also weakens competitiveness as peer brands gain market shares) and margins (we estimate HK\$ 50 mn negative earnings impact in FY21E), 2) uncertain retail recovery in Amer may cause shipment pressure as the pandemic worsens. These uncertainties shall offset the robust performance of Fila and other brands.












Risks: (1) disappointing consumption rebound; (2) slower than expected channel inventory normalization; (3) accelerated channel inventory pressure of Amer

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	24,100.0	33,927.8	36,981.1	46,575.9	55,202.2
Growth (%)	44.4	40.8	9.0	25.9	18.5
Adj. net Profit	4,102.9	5,290.2	4,642.6	8,222.5	10,859.0
Growth (%)	32.9	28.9	(12.2)	77.1	32.1
Diluted adj. EPS (HK\$)	1.909	2.283	1.974	3.496	4.617
Diluted adj. EPS growth (%)	30.7	19.6	(13.5)	77.1	32.1
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			2.216	3.344	
ROE (%)	27.8	29.8	21.6	31.4	32.9
P/E (x)	58.6	49.0	56.7	32.0	24.2
P/B (x)	15.2	13.1	11.4	9.0	7.1
Yield (%)	0.7	0.6	0.5	0.9	1.2
DPS (HK\$)	0.780	0.670	0.592	1.049	1.385

Source: Bloomberg, OP Research

Exhibit 2: OP estimate of likeliness to be sold among other brands in Amer

 ARC'TERYX	 salomon	Strategic focus of high-end outdoor apparels and footwear
 ATOMIC	 ARMADA	Strategic focus of high-end winter sports equipment
PeakPerformance	 Wilson	Have high proportion of apparel, footwear, and popular sports segments (e.g. tennis)
 SPORTS TRACKER		Sports tracking app, have synergy with Anta's current products
 DeMARINI	 LOUISVILLE Slugger	Likely, as baseball is not a popular sport in China
 EVC		Likely, though cycling tends to be popular in China, but high focus on rims could be too separate from core business
 SUUNTO		Likely, professional sports watches may be too niche for pop sportswear
 PRECOR		Sold, fitness equipment are too separate in terms of distribution channels

Source: Amer company website, OP Research

Financial Summary

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E	Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Income Statement (RMB mn)						Ratios					
Footwear	8,631	11,410	14,315	17,420	20,292	Gross margin (%)	52.6	55.0	54.6	57.0	58.1
Apparel	14,709	21,398	21,143	27,115	32,393	Operating margin (%)	23.7	25.6	20.5	25.7	27.6
Accessories	759	1,120	1,523	2,040	2,518	Net margin (%)	17.0	15.8	12.6	17.7	19.7
Turnover	24,100	33,928	36,981	46,576	55,202	Selling & dist'n exp/Sales (%)	27.1	28.7	30.1	28.7	28.5
YoY%	44.4	40.8	9.0	25.9	18.5	Admin exp/Sales (%)	5.1	3.9	6.1	4.7	4.0
COGS	(11,413)	(15,269)	(16,803)	(20,012)	(23,143)	Staff exp/Sales (%)	10.9	11.6	12.9	11.9	11.4
Gross profit	12,687	18,659	20,178	26,564	32,059	R&D/Sales (%)	2.5	2.3	2.0	2.0	2.0
Gross margin	52.6%	55.0%	54.6%	57.0%	58.1%	A&P/Sales (%)	12.1	10.6	10.5	12.0	12.0
Other income	760	1,070	997	997	1,097	Payout ratio (%)	44.8	30.7	30.0	30.0	30.0
Selling & distribution	(6,525)	(9,721)	(11,139)	(13,371)	(15,730)	Effective tax (%)	26.6	27.6	28.0	28.0	28.0
Admin	(1,223)	(1,313)	(2,255)	(2,187)	(2,190)	Total debt/equity (%)	8.5	45.1	55.8	44.2	35.1
R&D	(599)	(789)	(740)	(932)	(1,104)	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other opex	0	0	(200)	(50)	0	Current ratio (x)	2.6	1.9	2.3	2.3	2.5
Total opex	(7,748)	(11,034)	(13,594)	(15,608)	(17,920)	Quick ratio (x)	2.2	1.5	1.8	1.9	2.1
Operating profit (EBIT)	5,700	8,695	7,581	11,953	15,236	Inventory T/O (days)	93	105	140	120	105
Operating margin	23.7%	25.6%	20.5%	25.7%	27.6%	AR T/O (days)	70	68	68	68	68
Provisions	0	0	0	0	0	AP T/O (days)	180	210	210	210	210
Interest Income	225	225	266	349	461	Cash conversion cycle (days)	(17)	(37)	(2)	(22)	(37)
Finance costs	(158)	(278)	(346)	(414)	(417)	Asset turnover (x)	1.1	1.0	0.8	0.9	0.9
Profit after financing costs	5,767	8,642	7,500	11,887	15,280	Financial leverage (x)	1.5	1.8	2.1	2.0	1.9
Associated companies & JVs	0	(633)	(555)	(37)	242	EBIT margin (%)	23.7	25.6	20.5	25.7	27.6
Pre-tax profit	5,767	8,008	6,945	11,850	15,522	Interest burden (x)	1.0	0.9	0.9	1.0	1.0
Tax	(1,533)	(2,384)	(2,100)	(3,328)	(4,278)	Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Minority interests	(131)	(280)	(189)	(299)	(385)	Return on equity (%)	27.8	29.8	21.6	31.4	32.9
Net profit	4,103	5,344	4,657	8,223	10,859	ROIC (%)	74.5	52.8	28.0	39.7	48.1
Net margin	17.0%	15.8%	12.6%	17.7%	19.7%	Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Adj. net profit*	4,103	5,290	4,643	8,223	10,859	Balance Sheet (RMB mn)					
Adj. net profit margin	17.0%	15.6%	12.6%	17.7%	19.7%	Fixed assets	2,536	2,569	4,125	4,856	5,344
YoY%	33	29	(12)	77	32	Intangible assets & goodwill	1,106	678	607	541	482
EBITDA	6,042	9,151	9,175	13,756	17,179	Associated companies & JVs	0	10,551	9,996	9,959	10,201
EBITDA margin	25.1%	27.0%	24.8%	29.5%	31.1%	Long-term investments	367	53	53	53	53
EPS (RMB)	1.527	1.985	1.717	3.040	4.015	Right of use of assets	0	3,237	3,868	4,903	6,124
YoY%	31	20	(14)	77	32	Other non-current assets	1,081	810	810	810	810
DPS (HK\$)	0.780	0.670	0.592	1.049	1.385	Non-current assets	5,090	17,898	19,460	21,121	23,014
Year to Dec	FY18	FY19	FY20E	FY21E	FY22E	Inventories	2,892	4,405	6,445	6,579	6,658
Cash Flow (RMB mn)						AR	4,638	6,309	6,876	8,660	10,264
EBITDA	6,042	9,151	9,175	13,756	17,179	Prepayments & deposits	0	0	0	0	0
Chg in working cap	(444)	(802)	(1,887)	678	681	Other current assets	2,470	4,386	4,386	4,386	4,386
Others	(84)	1,069	0	0	0	Cash	9,284	8,221	11,848	17,215	23,992
Operating cash	5,514	9,418	7,287	14,434	17,859	Current assets	19,284	23,321	29,556	36,841	45,300
Interest received	214	200	253	341	455	AP	5,633	8,783	9,666	11,512	13,313
Tax	(1,288)	(2,133)	(2,100)	(3,328)	(4,278)	Tax	650	1,225	1,062	1,813	2,374
Net cash from operations	4,440	7,485	5,440	11,446	14,036	Accruals & other payables	0	0	0	0	0
Capex	(462)	(512)	(1,849)	(1,164)	(828)	Bank loans & leases	1,244	2,377	2,377	2,377	2,377
Investments	(673)	(11,633)	0	0	0	CB & othe debts	21	26	26	26	26
Net change in fixed deposits and pledged deposits	116	(1,794)	0	0	0	Other current liabilities	0	0	0	0	0
Payment for leasehold	0	(24)	(1,849)	(2,329)	(2,760)	Current liabilities	7,548	12,412	13,132	15,728	18,090
Sales of assets	0	863	0	0	0	Bank loans & leases	70	6,644	10,494	10,494	10,494
Interests paid	0	0	0	0	0	CB & othe debts	0	0	0	0	0
Others	(183)	35	0	0	0	Deferred tax & others	236	1,102	1,102	1,102	1,102
Investing cash	(1,201)	(13,065)	(3,698)	(3,493)	(3,588)	MI	743	979	1,168	1,467	1,852
FCF	3,239	(5,580)	1,742	7,953	10,447	Non-current liabilities	1,049	8,725	12,764	13,063	13,448
Issue of shares	0	692	0	0	0	Bank loans & leases	70	6,644	10,494	10,494	10,494
Buy-back	0	(445)	0	0	0	CB & othe debts	0	0	0	0	0
Minority interests	0	54	0	0	0	Deferred tax & others	236	1,102	1,102	1,102	1,102
Dividends paid	(2,468)	(1,514)	(1,618)	(2,171)	(3,255)	MI	743	979	1,168	1,467	1,852
Interest paid	(15)	(110)	(346)	(414)	(417)	Non-current liabilities	1,049	8,725	12,764	13,063	13,448
Net change in bank loans	1,008	6,436	3,850	0	0	Total net assets	15,777	20,082	23,120	29,172	36,776
Others	339	(444)	0	0	0	Shareholder's equity	15,777	20,082	23,120	29,172	36,776
Financing cash	(1,136)	4,670	1,885	(2,585)	(3,671)	Share capital	259	261	261	261	261
Net change in cash	2,102	(910)	3,627	5,367	6,776	Reserves	15,518	19,821	22,860	28,911	36,516
Exchange rate or other Adj	214	(153)	0	0	0	BVPS (HK\$)	7.35	8.55	9.84	12.42	15.65
Opening cash	6,968	9,284	8,221	11,848	17,215	Total debts	1,335	9,047	12,897	12,897	12,897
Closing cash	9,284	8,221	11,848	17,215	23,992	Net cash/(debts)	10,419	3,560	3,338	8,705	15,481
CFPS (HK\$)	2.065	3.197	2.313	4.867	5.968						

*Adj. net profit excluded disposal gain of JV interests in FY19 FY20E; Rev didn't reflect DTC reform changes.

Source: Company, OP Research

Exhibit 3: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS		3-Yr			P/B		EV/		Net gearing	Gross margin	Net margin	ROE	ROE FY1	Sh px 1-mth	Sh px 3-mth		
					Hist (x)	PER FY1 (x)	PER FY2 (x)	FY1 YoY%	FY2 YoY%	EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist								Ebitda Cur Yr	Hist (%)
Anta Sports Prod	2020 HK	111.90	39,018	93.9	49.0	56.7	32.0	(13.5)	77.1	26.5	2.1	0.6	0.5	13.1	11.4	32.7	32.6	Net cash	55.0	15.6	29.8	21.6	1.7	45.6	
HSI		26,119.25			14.8	14.0	11.8	6.3	18.5	12.9	1.08	2.5	2.7	1.13	1.18					7.6	8.4	(1.3)	10.1		
HSCEI		10,384.18			10.4	10.4	9.2	(0.1)	13.2	8.4	1.24	3.1	3.2	1.14	1.16					11.1	11.1	(1.6)	8.4		
CSI300		4,964.77			19.1	17.4	14.7	9.5	18.1			1.7	1.8	2.3	2.2					11.9	12.4	0.4	7.1		
Domestic peers																									
Adjusted sector avg*					13.9	10.6	6.2	(23.6)	24.9	13.3	1.8	4.7	5.2	2.0	0.6	3.6	2.3	12.2	45.0	8.9	7.9	6.3	(5.9)	6.6	
361 Degrees	1361 HK	0.93	248	0.1	3.8	4.0	3.7	(6.7)	9.2	4.7	0.9	1.6	8.8	0.2	0.3	(1.9)	(2.1)	0.0	40.3	7.7	5.8	6.1	0.0	(7.0)	
Xtep Intl	1368 HK	3.20	1,046	3.2	8.8	14.3	9.7	(38.5)	46.6	3.4	4.2	4.4	4.2	1.0	0.9	4.3	6.7	0.0	43.4	8.9	7.4	6.7	(6.7)	37.3	
Li Ning Co Ltd	2331 HK	47.35	15,202	51.9	64.5	61.8	45.1	4.3	37.0	22.5	2.7	0.4	0.4	12.9	11.7	40.0	36.0	0.0	49.1	10.8	19.8	20.4	3.5	37.6	
Pou Sheng Intl	3813 HK	1.73	1,195	1.1	9.2	19.7	7.1	(53.4)	177.0	18.8	1.0	N/A	0.6	1.0	1.0	3.9	5.6	73.3	34.1	3.1	5.6	4.9	(14.4)	(9.4)	
China Dongxiang	3818 HK	0.78	592	2.0	10.5	4.5	4.2	132.0	6.9	17.0	0.3	12.6	12.2	0.3	0.3	(4.6)	(1.2)	0.0	60.2	19.9	11.8	7.7	(7.1)	(18.8)	
Annil Co Ltd-A	002875 CH	9.13	238	2.0	37.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.8	N/A	25.1	N/A	0.0	52.6	3.2	(2.9)	N/A	(10.8)	(16.7)	
Guirenniao Co-A	603555 CH	2.65	255	1.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.6	N/A	(5.3)	N/A	495.7	35.5	(64.4)	(126.8)	N/A	21.6	23.3	
International peers																									
Adjusted sector avg*					66.1	107.8	43.0	(17.7)	161.1	18.2	19.93			0.3	12.22	12.49	28.5	37.5	24.4	49.4	7.6	5.3	14.7	6.0	16.9
Nike Inc -Cl B	NKE US	144.02	226,086	872.4	88.4	48.0	37.3	84.2	28.5	40.3	1.2	0.7	0.7	17.0	22.2	51.6	34.2	52.5	43.4	6.8	28.3	51.1	8.3	23.2	
Under Armour-A	UAA US	17.35	7,326	96.4	86.8	N/A	127.6	N/A	N/A	16.3	N/A	N/A	0.0	5.4	5.2	14.7	328.0	23.8	46.9	1.7	(41.3)	(14.9)	3.7	58.9	
Lululemon Ath	LULU US	373.40	48,668	556.0	75.4	81.2	55.3	(7.1)	47.0	17.8	4.6	N/A	0.0	22.5	20.1	39.9	48.5	0.0	55.9	16.2	29.2	27.2	8.0	19.1	
Adidas Ag	ADS GR	290.70	71,276	129.5	29.1	136.7	33.6	(78.7)	307.1	2.2	62.5	N/A	0.7	8.7	8.1	15.9	33.0	26.6	52.0	8.4	6.6	6.1	3.8	6.6	
Puma Se	PUM GR	89.46	16,507	23.7	50.8	165.4	45.7	(69.3)	261.9	14.4	11.5	N/A	0.2	7.6	6.9	20.6	34.4	19.2	48.8	4.8	3.8	3.9	5.9	18.6	

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

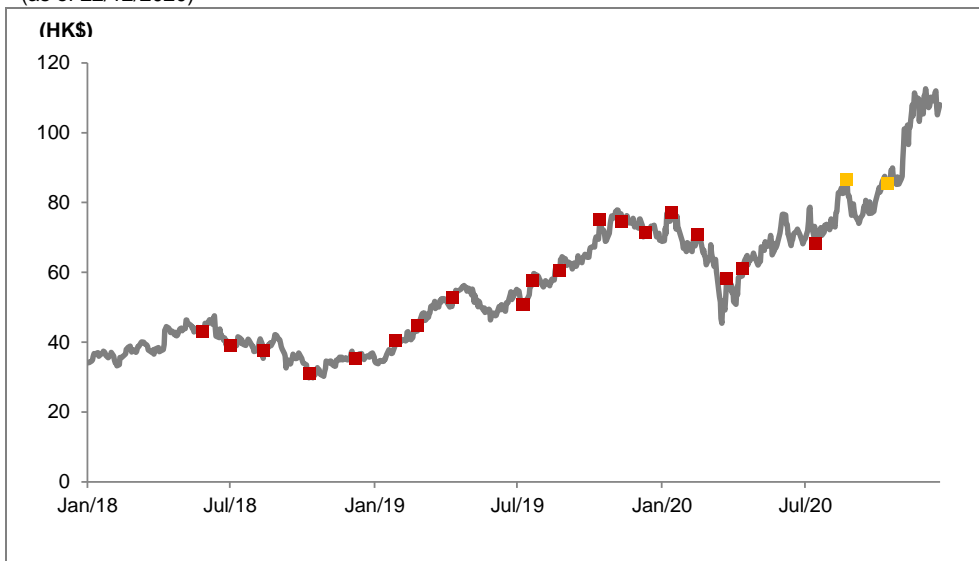
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
21/12/2020	Scholar Edu	1769	Extraordinary growth expected to continue	NR	John Siah
14/12/2020	CG Services	6098	Placement for strategic deployment	BUY	Megan Jin
09/12/2020	Edvantage Group	382	Expansion begins	BUY	Megan Jin
08/12/2020	HKTV	1137	Satisfactory November GMV	BUY	Kevin Tam/Megan Jin
26/11/2020	China Edu Group	839	Robust growth outlook on surging new students	BUY	John Siah
20/11/2020	China Edu Group	839	A fast rising education giant grabbing ample opportunities in China education market	BUY	John Siah
19/11/2020	Ausnutria Dairy	1717	More to expect from FY21E	BUY	Megan Jin
11/11/2020	Edvantage Group	382	Robust organic growth with more boosters ahead	BUY	Megan Jin
10/11/2020	HKTV	1137	All fronts speeding up	BUY	Kevin Tam/Megan Jin
05/11/2020	TCL Electronics	1070	Falcom Network as a cream on top	BUY	Kevin Tam
02/11/2020	Razer	1337	Winner from "stay-at-home" life	NR	John Siah
27/10/2020	Greentown Mgmt	9979	New treasures in the property market	BUY	John Siah
21/10/2020	Li-Ning	2331	Resumed store openings bodes full recovery	BUY	Megan Jin
19/10/2020	Xtep Intl	1368	Recovery speeded up	BUY	Megan Jin
16/10/2020	Anta Sports	2020	More visible outlook of full revival	HOLD	Megan Jin
16/10/2020	Kerry Logistics	636	Grabbing opportunities in spite of COVID headwind	NR	Kevin Tam
15/10/2020	Edvantage Group	382	Room of more earnings surprise	BUY	Megan Jin
08/10/2020	Innovent	1801	PD-1 front runner setting off	BUY	Kevin Tam
01/09/2020	Yeahka	9923	1H20 soft patch, but still encouraging growth in technology services	HOLD	Kevin Tam
31/08/2020	Xtep Intl	1368	More confident on new brands and 2H20E recovery	BUY	Megan Jin
28/08/2020	HKTV	1137	Management vision beyond domestic e commerce	BUY	Kevin Tam/Megan Jin
27/08/2020	CG Services	6098	Leader aims higher	BUY	Megan Jin
26/08/2020	Anta Sports	2020	Less foreseeable catalysts	HOLD	Megan Jin
24/08/2020	GT Services	2869	1H20 steady on track	HOLD	Megan Jin
21/08/2020	A-Living	3319	Undervalued acquisition synergies	BUY	Megan Jin
20/08/2020	Sunny Optical	2382	Less convincing earnings outlook	HOLD	Kevin Tam
17/08/2020	Ausnutria Dairy	1717	2Q20 fluctuations to be under control by 4Q20	BUY	Megan Jin

Historical recommendations and target price: Anta Sports (2020 HK)

(as of 22/12/2020)



DATE	RATING	TARGET PRICE	CLOSE PRICE	DATE	RATING	TARGET PRICE	CLOSE PRICE
1	17 Oct 2019	BUY	HK\$81.00	6	25 Mar 2020	BUY	HK\$76.00
2	14 Nov 2019	BUY	HK\$81.00	7	16 Apr 2020	BUY	HK\$80.00
3	13 Dec 2019	BUY	HK\$85.80	8	16 Jul 2020	BUY	HK\$90.10
4	15 Jan 2020	BUY	HK\$85.80	9	26 Aug 2020	HOLD	HK\$91.50
5	18 Feb 2020	BUY	HK\$85.80	10	16 Oct 2020	HOLD	HK\$90.90

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