

Near-term correction offers entry opportunity

Rating	BUY	Maintain
Target price	HK\$144.80	
Current price	HK\$122.20	Upside: +18.4%

Significant improvement on discount despite slower growth

We held a call with Anta after the release of their 3Q21 operational update on 18th Oct, Anta and FILA brands recorded RSV growth of low-teens and mid-single-digits YoY, respectively. Management have revised down their FY21 RSV growth guidance for FILA to 20-25% YoY (vs. 30% previously) due to lower-than-expected RSV growth in 3Q21, implying still targeting >10% growth for 4Q21. The other brands overall RSV recorded 35-40% growth YoY, with Descente/Kolon grew 50%/~38% YoY.

Meanwhile, Anta/FILA's retail discount remain stable QoQ at 26%/24% (improved ~5% YoY for both), thanks to DTC transformation on Anta brand and successful Olympic themed marketing strategies. While Anta/FILA's inventory to sales ratio at 5.0x/6.5x months respectively as stockpiling ahead of shopping festivals in 4Q.

Retail Sales to pick-up post national week

Management highlighted that both Anta and FILA brand are seeing better RSV growth post gold week attributed to colder weather in Oct21. They remain confident that FILA's medium-to-long term RSV target of RMB40-50bn is achievable, implying 5-year CAGR of 18-24%.

Raw material pressure to be controllable

For the cotton price surge in 3Q21, management see some margin pressure in FY22. Nevertheless, they planned to enhance both in-house and suppliers' production efficiency to mitigate part of the impact. Besides, they believe FILA still have ample room to lift ASP, while Anta will alleviate the impact through product category optimization. Therefore, management foresees the raw material impact to be controllable.

Maintain "BUY" with TP at HK\$144.8 based on 31.0x FY22E P/E

Anta Sports' share price has corrected ~36% from peak since Jul21 due to: 1) higher base and potentially slower growth for Anta and FILA; 2) higher than peers' inventory level may result higher retail discount; and 3) sharp rise on cotton price in 3Q21. It appears the majority of concern have already priced-in. Our estimate on Anta Sports's FY21/22/23 revenue and earnings at RMB46.3bn/58.5bn/72.6bn and RMB7.8bn/10.5bn/13.9bn respectively, corresponding to 35.0x/26.2x FY21/22 P/E. We maintain "BUY" rating on Anta as both Anta and FILA brands' long-term demand and structural growth remain solid, with FILA still be the beneficiary of the athleisure trend in China.

Year ended 31 Dec	2019A	2020A	2021E	2022E	2023E
Sales (RMB'm)	33,928	35,512	46,393	58,456	72,595
EBIT (RMB'm)	8,695	9,152	11,511	14,863	19,485
Net profit (RMB'm)	5,344	5,162	7,836	10,462	13,906
EPS (RMB cents)	198.7	191.9	291.3	389.0	517.0
YoY change (%)	30%	-3%	52%	34%	33%
PER (x)	61.5	63.7	41.9	31.4	23.6
DPS (HK cents)	67.0	68.0	104.9	140.0	186.1
PB (x)	6.6	5.3	4.9	4.1	3.3
Yield (%)	0.5	0.6	0.9	1.1	1.5
ROE (%)	25.4	20.0	24.6	26.2	27.5
Net debt/equity (%)	38.0	51.8	42.0	33.5	26.4

Source: Company data, CIRC estimates

Company Update

4 Nov 2021

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Trading data

52-Week Range (HK\$)	87.2/191.9
3 Mth Avg Daily Vol (m)	9.9
No of Shares (m)	2,703.33
Market Cap (HK\$m)	330,347
Major Shareholders (%)	Ding's family (58.17)
Auditors	KPMG
Result Due	FY21E: Mar 2022

Company description

Founded in 1994, Anta Sports is one of the leading PRC players in manufacturing, trading and distribution of sporting goods, including apparel, footwear and accessories for professional and leisure purpose under ANTA, FILA, DESCENTE, KOLON brand and etc.. As of June 2021, Anta Sports' retail network comprises of 9,788 ANTA brand POS and 1,979 FILA stores.

Price chart

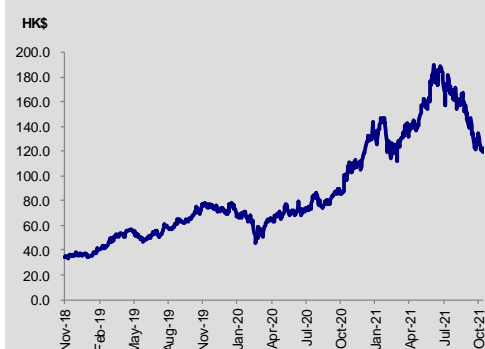


Exhibit 1: Anta Sports' Quarterly Retail Sales YoY, retail discount and channel inventory

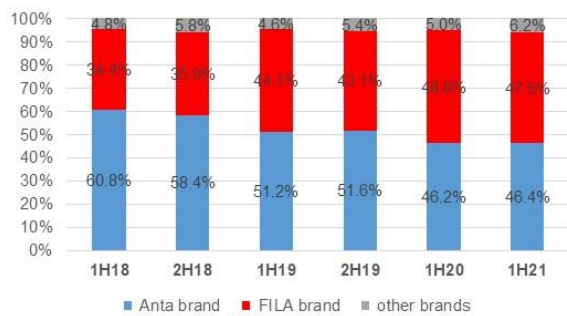
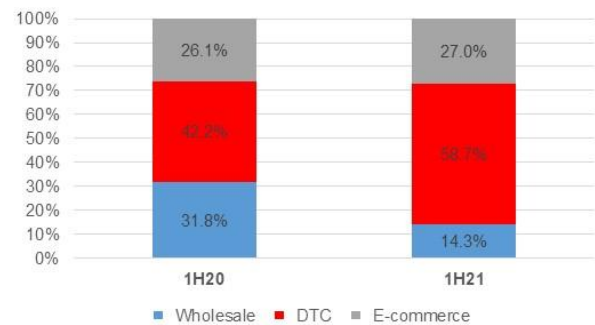
Quarterly Retail Sales YoY	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Anta (including core, e-com & kids)	12.0%	5.0%	15.0%	18.0%	22.5%	-2.0%	2.0%	2.0%	42.5%	37.5%	12.0%
Core brand offline	9.0%	12.0%	12.0%	8.0%	-27.5%	-12.0%	-8.0%	-5.0%	37.5%	32.5%	8.0%
Anta kids	26.0%	31.0%	26.0%	25.0%	-25.0%	-5.0%	-2.0%	-11.0%	47.5%	27.5%	5.0%
e-commerce	15.0%	25.0%	35.0%	41.0%	5.0%	40.0%	49.0%	25.0%	62.5%	47.5%	28.0%
FILA and other brands	67.5%	57.5%	-	-	-	-	-	-	-	-	-
FILA brand	-	-	52.5%	52.5%	-5.0%	12.0%	22.5%	27.5%	78.5%	32.5%	5.0%
Other brands	-	-	32.5%	27.5%	-8.0%	27.5%	52.5%	57.5%	117.5%	72.5%	38.0%
Descente	71.0%	95.0%	60.0%	66.0%	12.5%	60.0%	88.0%	80.0%	150.0%	92.5%	50.0%
Retail discount	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Anta	28.0%	27.0%	28.0%	28.0%	32.0%	30.0%	31.0%	30.0%	27.0%	26.0%	26.0%
FILA brand	25.0%	25.0%	26.0%	26.0%	26.0%	28.0%	28.0%	28.0%	22.5%	23.0%	24.0%
Channel Inventory	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Anta	4.0	4.0	4.5	4.5	5.5	6.0	6.5	6.4	5.0	5.0	5.0
FILA brand	5.5	5.0	6.0	5.5	8.0	8.0	8.6	7.2	6.0	6.0	6.5

Source: Company data, CIRL

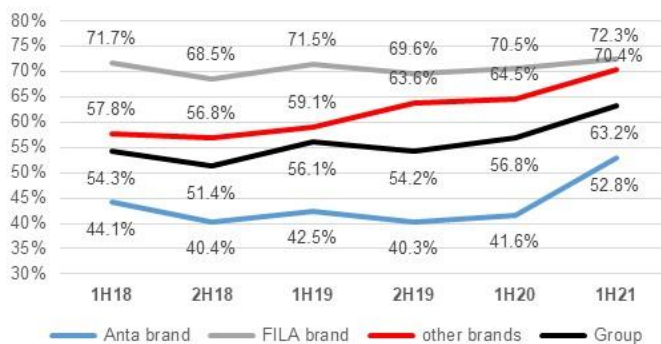
Exhibit 2: Anta Sports' store count and changes

Store changes	1H18	2H18	1H19	2H19	1H20	2H20	1H21
Total stores count	11,172	12,007	12,299	12,788	12,427	12,260	12,096
Anta	9,650	10,057	10,223	10,516	10,197	9,922	9,788
FILA	1,248	1,652	1,788	1,951	1,930	2,006	1,979
Descente	85	117	115	136	145	175	178
Kolon Sport	189	181	173	185	155	157	151
Store changes	555	835	292	489	(361)	(167)	(164)
Anta	183	407	166	293	(319)	(275)	(134)
FILA	162	404	136	163	(21)	76	(27)
Descente	21	32	(2)	21	9	30	3
Kolon Sport	189	(8)	(8)	12	(30)	2	(6)
% change QoQ							
Anta	5.2%	7.5%	2.4%	4.0%	-2.8%	-1.3%	-1.3%
FILA	1.9%	4.2%	1.7%	2.9%	-3.0%	-2.7%	-1.4%
Descente	14.9%	32.4%	8.2%	9.1%	-1.1%	3.9%	-1.3%
Kolon Sport	32.8%	37.6%	-1.7%	18.3%	6.6%	20.7%	1.7%

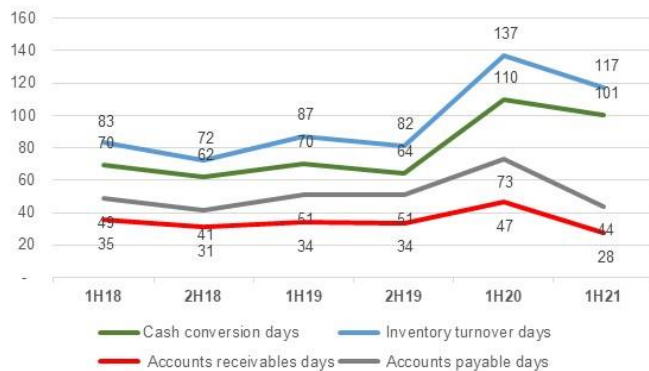
Source: The Company, CIRL

Exhibit 3: Anta Sports' revenue mix by brand

Exhibit 4: Anta Sports' revenue mix by channel


Source: The Company, CIRL

Exhibit 5: GPM by brand

Exhibit 6: OPM by brand


Source: The Company, CIRL

Exhibit 7: Cash conversion turnover


Source: The Company, CIRL

Exhibit 8: Peers' valuation

Name		3M Avg		Mkt cap (US\$m)	P/E				3-yr EPS CAGR	PEG	Div yield FY20E (%)	EV/EBITDA				P/B				Net gearing Hist (%)
		Last Price	Turnover (USDm)		FY20E (x)	FY21E (x)	FY22E (x)	FY23E (x)				FY20E (x)	FY21E (x)	FY22E (x)	FY23E (x)	FY20E (x)	FY21E (x)	FY22E (x)	FY23E (x)	
Anta Sports Prod	2020 HK	122.2	187.5	42,445	36.8	35.1	27.5	21.9	33.6	1.0	0.8	19.0	20.2	16.4	13.6	10.06	9.00	7.29	5.89	(13.8)
Li Ning Co Ltd	2331 HK	87.3	228.7	29,346	59.7	49.6	39.2	31.2	49.3	1.0	0.3	37.8	32.8	26.1	21.3	17.29	15.12	11.52	8.85	(69.9)
Xtep Intl	1368 HK	10.44	32.3	3,528	30.8	25.1	19.7	15.8	37.6	0.7	1.8	15.3	13.7	10.9	8.9	2.98	2.82	2.62	2.41	(15.2)
361 Degrees	1361 HK	3.64	2.1	967	12.0	10.7	9.4	8.5	20.3	0.5	N/A	3.0	3.0	2.7	2.5	0.90	0.87	0.82	0.78	(58.8)
Topssports Intern	6110 HK	9.28	14.1	7,394	16.4	15.3	13.0	10.9	16.0	1.0	7.9	7.4	N/A	6.7	5.8	4.56	4.27	3.68	3.13	38.7
Pou Sheng Intl	3813 HK	1.25	0.4	860	5.8	4.8	3.8	3.1	79.4	0.1	N/A	2.7	N/A	2.3	2.1	0.66	0.61	0.52	0.45	42.4

Source: The Company, CIRL

Exhibit 8: Financial Summary

Year ended 31 Dec	2019	2020	2021E	2022E	2023E	Year ended 31 Dec	2019	2020	2021E	2022E	2023E
Income Statement (RMBm)						Ratios					
Turnover	33,928	35,512	46,393	58,456	72,595	Gross margin (%)	55.0	58.2	63.5	63.9	64.6
YoY%	40.8	4.7	30.6	26.0	24.2	Operating margin (%)	25.6	25.8	24.8	25.4	26.8
COGS	(15,269)	(14,861)	(16,950)	(21,113)	(25,725)	Net margin (%)	15.8	14.5	16.9	17.9	19.2
Gross profit	18,659	20,651	29,443	37,344	46,870	SD&A exp/Sales (%)	32.5	36.3	41.6	40.9	40.3
Gross margin	55.0%	58.2%	63.5%	63.9%	64.6%	Payout ratio (%)	25.7	24.9	24.7	24.7	24.7
Other income	1,070	1,389	1,379	1,418	1,848	Effective tax (%)	29.8	31.2	23.6	23.2	23.0
SD&A	(11,034)	(12,888)	(19,311)	(23,898)	(29,233)	Total debt/equity (%)	38.0	51.8	42.0	33.5	26.4
Total opex	(9,964)	(11,499)	(17,932)	(22,480)	(27,385)	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Operating profit (EBIT)	8,695	9,152	11,511	14,863	19,485	Current ratio (x)	1.9	2.8	4.4	4.7	5.2
Operating margin	25.6%	25.8%	24.8%	25.4%	26.8%	Quick ratio (x)	1.5	2.4	3.7	4.1	4.5
Finance income/(costs)	(53)	(462)	(247)	(200)	(122)	Inventory T/O (days)	87	121	116	112	110
Profit after financing costs	8,642	8,690	11,264	14,663	19,362	AR T/O (days)	34	39	29	27	25
Share of Profit/(Loss) of a JV	(633)	(601)	(300)	(100)	-	AP T/O (days)	57	66	86	84	80
Pre-tax profit	8,009	8,089	10,964	14,563	19,362	Cash conversion cycle (days)	65	95	59	55	55
Tax	(2,384)	(2,520)	(2,591)	(3,373)	(4,453)	Asset turnover (x)	0.8	0.7	0.8	0.9	0.9
Less: Minority interests	280	407	538	729	1003	Financial leverage (x)	2.0	2.0	1.8	1.7	1.6
Net profit	5,344	5,162	7,836	10,462	13,906	EBIT margin (%)	25.6	25.8	24.8	25.4	26.8
YoY%	30.3	(3.4)	51.8	33.5	32.9	Tax burden (x)	0.67	0.64	0.71	0.72	0.72
Net margin	15.8%	14.5%	16.9%	17.9%	19.2%	Return on equity (%)	25.4%	20.0%	24.6%	26.2%	27.5%
EBITDA	10,164	11,231	14,085	18,071	23,409	ROIC (%)	16.7%	14.1%	20.5%	22.3%	24.0%
EBITDA margin	30.0%	31.6%	30.4%	30.9%	32.2%						
EPS (RMB Cents)	198.7	191.9	291.3	389.0	517.0						
YoY%	30.0	-3.4	51.8	33.5	32.9						
DPS (HK Cents)	62.0	58.1	87.4	116.7	155.1						
Cash Flow (RMBm)						Balance Sheet (RMBm)					
Net Profit	8,009	8,089	10,964	14,563	19,362	PP&E	2,148	2,184	2,374	2,681	3,100
Depreciation & Amortization	1,469	2,079	2,574	3,208	3,924	Net intangibles	678	1,579	1,531	1,572	1,609
Chg in working cap	(802)	(2,212)	(710)	(818)	(1,096)	Investment in a JV	10,551	9,658	9,358	9,258	9,258
Others	743	1,425	547	300	122	Other long-term assets	4,521	5,729	7,155	8,736	10,578
Operating cash	9,419	9,381	13,375	17,253	22,313	Non-current assets	17,898	19,150	20,418	22,248	24,545
Tax	(2133)	(2181)	(2591)	(3373)	(4453)	Cash	8,221	15,324	20,247	26,961	35,934
Net cash from operating activities	7,285	7,200	10,784	13,881	17,859	Inventories	4,405	5,486	5,387	6,478	7,753
Capex	(1,087)	(851)	(1,500)	(1,000)	(1,000)	Account receivables	6,309	6,448	3,686	4,324	4,972
Purchase of intangible assets	(56)	(84)	(98)	(195)	(205)	Other current assets	4,386	5,024	6,052	7,262	8,714
Others	31	(317)	(33)	(33)	(265)	Current assets	23,321	32,282	35,372	45,026	57,372
Net cash from investing activities	(13,065)	(1,922)	(1,498)	(1,425)	(1,470)	Account payables	8,784	7,612	3,994	4,859	5,638
FCF	(5,780)	5,278	9,287	12,456	16,390	Bank Loan	1,359	928	928	928	928
Dividends paid	(1,417)	(1,404)	(2,351)	(3,139)	(4,172)	Other current liabilities	3,628	3,727	4,052	4,652	5,346
Others	6,086	2,633	(2,348)	(2,937)	(3,580)	Current liabilities	12,413	11,339	8,046	9,511	10,985
Net cash from financing activities	4,670	1,229	(4,698)	(6,076)	(7,752)	Lease liabilities	1,019	1,273	1,663	2,095	2,602
Net change in cash	(1,110)	6,507	4,589	6,380	8,638	Bank Loan	6,644	12,456	12,456	12,456	12,456
Adj	-153	338	0	0	0	Other long-term liabilities	11,394	10,066	6,383	7,415	8,382
Opening cash	9,284	8,221	15,324	20,247	26,961	Non-current liabilities	12,413	11,339	8,046	9,511	10,985
Closing cash	8,021	15,066	19,913	26,627	35,599	Retained earnings	19,821	23,752	29,237	36,561	46,295
CFPS (RMB)	(0.41)	2.42	1.71	2.37	3.21	Others	261	261	261	261	261
						Shareholders' equity	20,082	24,013	29,498	36,822	46,556
						Minority interest	979	1,811	2,349	3,077	4,080
						Total Equity	21,061	25,824	31,847	39,899	50,636

Source: Company, CIRL estimates

Rating Policy

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

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Analyst Certification

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