

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Anta Sports (2020 HK)

Recent COVID restrictions negatively affect GMV

- COVID restrictions affecting offline traffic
- Discount rates unlikely to improve in short term
- Maintain BUY and TP of HKD 104.5

COVID restrictions affecting offline traffic

The recent COVID are likely to negatively affect Anta's GMV for the remainder of 4Q22 and 1Q23. While Anta's overall retail sales during Singles Day grew c. 30% yoy (where ANTA brand likely grew less than 30% yoy while FILA brand grew more than 30% yoy), we believe offline sales likely grew at a lower rate as some 15% of ANTA brand stores and 10% of FILA and DESCENTE stores have been affected by COVID restriction policies.

Prioritizing inventory management

Post the Singles Day sales festival, Anta's overall inventory levels have improved from that of 3Q22. However, while inventory levels are manageable and should mostly consist of newer items, they are still above optimal levels. With the recent increase in COVID cases and restrictions, Anta will likely remain cautious and will prioritize inventory management.

Discount rates unlikely to improve in short term

The discount rate for Anta during the Singles Day Sales festival were flattish yoy. With inventory management a priority, we would not expect discount rates to narrow for the rest of 4Q22 and 1Q23. With some offline stores closed due to COVID restrictions, the proportion of online sales should increase, while could also lead to higher discount rates as the discount rates for online products are higher than offline.

Maintain BUY and TP of HKD104.5

We cut our FY22/23/24 EPS forecasts by 4%/15%/9% due to COVID related lower sales growth and lower GPM assumptions. We maintain our TP at HKD104.5 (previous HKD104.5), which implies a target multiple of 29.6x the forward 12 months' EPS. As we believe the underlying demand for sportswear in China is still strong, we would expect growth to rebound strongly when COVID restrictions are lifted. Maintain BUY.

Key catalysts: Better-than-expected retail sales growth for 4Q22 and 1Q23. Higher-than-expected contribution from Amer Sports; **Key risks:** More COVID-19 related restrictions.

Financials

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenue	35,512	49,328	55,395	65,638	82,123
yoy growth	4.7%	38.9%	12.3%	18.5%	25.1%
Attributable net profit	5,162	7,720	7,962	9,653	12,572
Adj. diluted EPS (RMB)	1.92	2.87	2.87	3.48	4.53
yoy growth	-3.4%	49.5%	-0.1%	21.2%	30.2%
P/E	39.7x	26.6x	26.6x	21.9x	16.8x
ROE	23.4%	29.2%	25.2%	25.9%	28.7%
Net debt (cash)/ equity	-71.2%	-72.1%	-45.4%	-53.1%	-59.4%

Sources: Company data, CMS (HK) estimates; share price as of Nov 24, 2022

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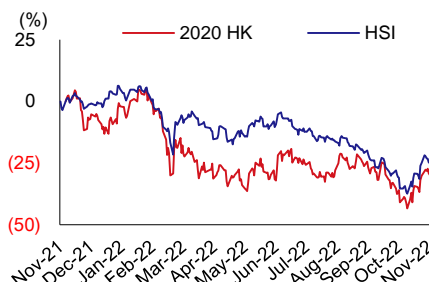
WHAT'S NEW

Recent COVID restrictions likely to negatively affect offline sales. We cut our FY22/23/24 EPS forecasts by 4%/15%/9%

BUY

Previous	BUY
Price	HKD 83.35
12-month Target Price (Potential up/downside)	HKD 104.5 (+25.4%)
Previous	HKD 104.5

Price Performance



Source: Bloomberg; share price as of Nov 24, 2022

%	1m	6m	12m
2020 HK	15.6	5.8	(35.5)
HSI	16.3	(12.2)	(28.5)

Sector: Consumer

Hang Seng Index (Nov 24, 2022)	17,661
HSCEI (Nov 24, 2022)	5,992

Key Data

52-week range (HKD)	67.85 - 134.2
Market cap (HKD mn)	226,181
Avg. daily volume (mn)	9.0
BVPS (RMB)	11.76

Shareholding Structure

Anta International Group	50.8%
Anda Holdings	6.0%
Anda Investment	4.3%
Others	0.4%
No. of shares outstanding (mn)	2,776
Free float	38.5%

Source: Bloomberg

Related Research

1. China Sportswear Sector - Singles Day sales likely good but companies remain cautious (OVERWEIGHT) (Nov 15, 2022)
2. Anta Sports (2020 HK) - 3Q22 retail sales grew; 4Q22 discounts to widen (BUY) (Oct 17, 2022)

Figure 1: Earnings adjustment table

Unit: RMB mn	22E			23E			24E		
	Original	New	% change	Original	New	% change	Original	New	% change
Revenue	56,006	55,395	-1.1%	70,139	65,638	-6.4%	85,738	82,123	-4.2%
Anta	28,099	28,026	-0.3%	34,812	32,295	-7.2%	42,596	40,917	-3.9%
Fila	23,157	22,618	-2.3%	27,946	26,405	-5.5%	32,297	31,013	-4.0%
Others	4,750	4,750	0.0%	7,381	6,937	-6.0%	10,845	10,193	-6.0%
GPM	61.6%	61.0%	-0.5ppt	62.8%	61.2%	-1.6ppt	63.2%	61.9%	-1.3ppt
Anta	54.1%	53.4%	-0.7ppt	55.0%	53.5%	-1.4ppt	55.5%	54.4%	-1.0ppt
FILA	68.4%	68.2%	-0.3ppt	69.9%	67.5%	-2.4ppt	70.1%	68.2%	-1.9ppt
Others	72.2%	72.2%	0.0ppt	72.9%	72.7%	-0.2ppt	73.1%	72.9%	-0.2ppt
OPM	22.2%	21.6%	-0.6ppt	23.8%	21.7%	-2.2ppt	23.6%	22.4%	-1.2ppt
Attributable net profit	8,275	7,962	-3.8%	11,309	9,653	-14.6%	13,815	12,572	-9.0%
EPS (RMB)	2.98	2.87	-3.8%	4.07	3.48	-14.6%	4.98	4.53	-9.0%

Sources: Company data, CMS (HK) estimates

Figure 2: Target price and valuation table

Stock price (HKD)	83.35			
HKD to RMB	0.92			
Price date	11/24/2022			
		FY21	FY22E	FY23E
Basic EPS (RMB)		2.87	2.87	3.48
P/E		26.6x	26.6x	21.9x
EPS CAGR since 2021			-0.1%	10.1%
ANTA FY21-24E EPS CAGR			16.4%	
Target PE			31.5x	
Fwd 12-month EPS			3.04	
Target price (HKD)			104.5	
Price upside			25.4%	

Sources: Company data, Bloomberg, CMS (HK) estimates

Financial statement

Balance Sheet

RMB mn	2020	2021	2022E	2023E	2024E
PP&E	2,184	2,853	2,960	3,085	3,215
Right of use assets	4,108	6,611	7,178	6,282	5,498
Investment in associate/JV	9,658	9,027	8,836	8,836	8,836
Other non-current assets	3,200	4,275	5,625	6,160	6,763
Non-current assets	19,150	22,766	24,599	24,363	24,311
Inventories	5,486	7,644	7,255	8,514	10,286
Receivables and prepayments	6,614	6,914	7,157	8,606	10,524
Other financial assets	270	763	613	613	613
Deposits	5,024	6,989	7,757	9,327	11,406
Bank Balances and Cash	15,323	17,592	21,279	26,208	32,175
Current assets	32,717	39,902	44,062	53,269	65,004
Total assets	51,867	62,668	68,660	77,632	89,315
Account Payable	6,915	10,076	9,430	11,066	13,368
Due to Related Parties	33	39	47	47	47
Bank Borrowings	1,968	1,748	11,782	11,782	11,782
Other current liabilities	2,799	4,080	3,757	4,135	4,532
Current liabilities	11,715	15,943	25,016	27,031	29,730
Deferred Tax Liabilities	527	655	772	986	1,211
Lease Liabilities	1,246	2,908	4,030	4,030	4,030
Bank Borrowing	12,456	11,425	793	793	793
Other Borrowing	2	3	4	4	4
Provision and other liabilities	97	71	50	50	50
Non-current liabilities	14,328	15,062	5,649	5,863	6,088
Total liabilities	26,043	31,005	30,665	32,894	35,818
Share Capital	261	261	262	262	262
Reserves	23,752	28,662	34,102	39,871	47,362
Non-controlling interests	1,811	2,740	3,631	4,605	5,874
Total equity	25,824	31,663	37,995	44,738	53,497
Total equity and liabilities	51,867	62,668	68,660	77,632	89,315

Cashflow Statement

RMB mn	2020	2021	2022E	2023E	2024E
Profit before tax	8,089	11,240	12,014	14,538	18,972
Finance Costs	136	51	64	-97	-252
Shares of profit of associate/JV	601	81	-122	-222	-322
D&A	2,079	3,266	4,799	5,000	4,519
Changes in OWC	-2,212	-282	-501	-1,071	-1,388
Others	688	-172	137	-1,070	-1,281
Income tax paid and others	-1,923	-2,323	-3,608	-3,437	-4,483
CF from operating activities	7,458	11,861	12,784	13,641	15,765
Capital expenditure	-649	-1,360	-1,444	-1,187	-1,277
Investments	151	-100	-50	-82	-80
Others	-1,425	-3,209	-2,392	-4,533	-4,630
CF from investing activities	-1,923	-4,669	-3,886	-5,802	-5,987
Dividend paid	-1,481	-2,456	-3,906	-3,884	-5,081
Equity financing	-443	0	0	0	0
Debt financing (repaid)	4,135	-196	-435	0	0
Others	-982	-2,295	-1,020	974	1,268
CF from financing activities	1,229	-4,947	-5,361	-2,910	-3,812
Net cash flow	6,764	2,245	3,537	4,929	5,966

Profit & Loss

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	35,512	49,328	55,395	65,638	82,123
Cost of Sales	-14,861	-18,924	-21,578	-25,475	-31,277
Gross profits	20,651	30,404	33,817	40,163	50,846
Selling expenses	-10,766	-17,753	-20,083	-23,397	-28,888
General & Admin expenses	-2,122	-2,928	-3,526	-4,176	-5,228
Others	1,389	1,266	1,748	1,629	1,669
Operating profits	9,152	10,989	11,956	14,219	18,398
Finance costs	-462	332	-64	97	252
Other income/expenses	-601	-81	122	222	322
Profit before tax	8,089	11,240	12,014	14,538	18,972
Income tax expense	-2,520	-3,021	-3,248	-3,912	-5,132
Net profit	5,569	8,219	8,766	10,626	13,840
Non-controlling interest	-407	-499	-803	-974	-1,268
Attributable net profit	5,162	7,720	7,962	9,653	12,572
Basic EPS (RMB)	1.92	2.87	2.87	3.48	4.53
Dividend per share (RMB)	0.68	1.58	1.22	1.40	1.83

Financial Ratio

	2020	2021	2022E	2023E	2024E
yoy growth rate					
Revenue	4.7%	38.9%	12.3%	18.5%	25.1%
Gross Profit	10.7%	47.2%	11.2%	18.8%	26.6%
Operating profit	5.3%	20.1%	8.8%	18.9%	29.4%
Net profit	-3.4%	49.6%	3.1%	21.2%	30.2%
EPS	-3.4%	49.5%	-0.1%	21.2%	30.2%
Profitability					
Gross margin	58.2%	61.6%	61.0%	61.2%	61.9%
Operating margin	25.8%	22.3%	21.6%	21.7%	22.4%
Net margin	14.5%	15.7%	14.4%	14.7%	15.3%
Liquidity					
AR days	39.2	26.0	22.8	22.2	21.5
Inventory days	121.5	126.6	126.0	113.0	109.7
AP days	65.6	45.8	42.5	41.2	40.0
Cash conversion cycle	95.1	106.8	106.3	94.0	91.2
Cash flow & leverage					
Free cash low	4,881	9,880	11,667	13,279	15,513
Net debt to equity	-71.2%	-72.1%	-45.4%	-53.1%	-59.4%
Dividend payout ratio	32.9%	51.4%	38.9%	36.8%	37.0%
Dividend yield	0.8%	1.9%	1.5%	1.7%	2.2%
Return analysis					
ROE	23.4%	29.2%	25.2%	25.9%	28.7%
Asset turnover	0.8	0.9	0.8	0.9	1.0
Net margin	14.5%	15.7%	14.4%	14.7%	15.3%
Financial leverage	2.1	2.2	2.1	2.0	1.9
ROA	11.1%	13.5%	12.1%	13.2%	15.1%
ROCE	15.0%	17.8%	17.6%	20.5%	22.8%
Valuation ratios					
P/E	39.7x	26.6x	26.6x	21.9x	16.8x
P/B	8.2x	6.7x	5.6x	4.7x	3.3x

Sources: Company data, Bloomberg, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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