

Hong Kong

ADD (no change)

Consensus ratings*: Buy 49 Hold 3 Sell 2

Current price: HK\$92.30
 Target price: HK\$144.0
 Previous target: HK\$142.0
 Up/downside: 56.0%
 CGI / Consensus: 18.7%

Reuters: 2020.HK
 Bloomberg: 2020 HK
 Market cap: US\$31,908m
 HK\$250,467m

Average daily turnover: US\$104.0m
 HK\$815.8m

Current shares o/s: 2,776m
 Free float: 38.2%

*Source: Bloomberg

Key changes in this note

- FY22F EPS increased by 1.3%.
- FY23F EPS increased by 0.8%.
- FY24F EPS increased by 1.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	8.3	-50.2
Relative (%)	3.9	8.7	-27.4

Major shareholders	% held
Ding Shizhong (alias Ding Zhizhong) & ASSO	61.8

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Anta Sports

2Q22 performance slightly better than expected

- The 2Q22 yoy retail sales drop for the Anta and Fila brands was in the mid-single digits and high-single digits, respectively, slightly better than we expected, while retail sales for Anta's other brands maintained positive yoy growth of 20–25%.
- 2Q22 yoy online sales growth of the Anta brand was in the high-single digits, driving double-digit yoy growth in 1H22F.
- We now expect Anta brand sales to achieve mid-single-digit yoy growth in 1H22F, and Fila brand sales to drop by low-single digits yoy. We expect both brands to see a good recovery 2H22F. Management said June sales growth was back from 10% to the low teens yoy.
- For the first time, Anta announced its carbon balance plan for 2030 and 2050.
- Reiterate Add for Anta with a new DCF-based TP of HK\$144, as we are positive about the large growth potential of its DTC model and mix upgrade trend.

2Q22 sales performance slightly better than expected

1H22 retail sales growth for the Anta brand and other brands was in the mid-single digits and 30–35% yoy, respectively, while the retail sales drop for the Fila brand was in the low-single digits yoy, as the pandemic hit top-tier cities, where most of Fila's stores are located. Anta saw a robust sales recovery in Jun, with sales growth returning to double digits yoy.

Accelerating growth of the Anta brand with the Lead to Win plan

2Q22 online sales growth for the Anta brand was in the high-single digits yoy, plus 50% yoy growth in 2Q21, driving double-digit yoy online growth in 1H22F. Retail sales of Anta Kids remained positive in 2Q22. Compared with 2020, the sell-through rate of the Anta brand grew by over 30% in both 2Q and 1H. Anta enjoyed higher brand recognition and a better product mix in 2Q22 thanks to the 'Lead to Win' plan launched a year ago. The 2Q22 discount rate was about 75%, improving both qoq and yoy, but the inventory to sales ratio increased qoq to slightly over five times. In 2H22F, Anta said during the call it will continue to stream its low-performing stores and continue its direct to consumer (DTC) reform process.

Better-than-expected 2Q22 performance of the Fila brand

Because Fila stores are located mostly in top-tier cities, which were more seriously hit by the Omicron outbreaks, we previously expected the yoy sales drop in 2Q22 to be 15–20%, but Fila's actual performance of a high-single-digit drop was better than we expected. About 20% of Fila stores were temporarily closed during the pandemic lockdown period. But Fila enjoyed a significant recovery in the Jun 18 online shopping festival and achieved double-digit yoy sales growth in Jun. Compared with 2020, the sell-through rate of the Fila brand grew by 50% in 1H. Fila's offline discount was over 75%, and its online discount was about 60% in the quarter. Fila's inventory level, affected by the pandemic, increased about a month to slightly above seven times, higher than the normal level of six times in 2Q21.

Reiterate Add with a new DCF-based TP of HK\$144

We raised our FY22–24F net profit forecast by 1.3%, 0.8% and 1.4%, respectively, to reflect Fila's better-than-expected sales recovery. We adjusted up our DCF-based TP to HK\$144 (risk-free rate: 4.0%, beta: 1.0, WACC: 9.7%) as we are positive on Anta's long-term growth because of the large potential of its DTC model and mix upgrade trend. The key risks are a longer COVID-19 impact that impacts the topline growth and a higher expenses ratio that hurts margins.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	35,512	49,328	54,165	66,075	81,109
Operating EBITDA (Rmbm)	9,566	11,432	14,411	16,656	19,805
Net Profit (Rmbm)	5,162	7,720	8,576	11,013	13,596
Normalised EPS (Rmb)	1.86	2.78	3.09	3.97	4.90
Normalised EPS Growth	(6.1%)	49.1%	11.1%	28.4%	23.5%
FD Normalised P/E (x)	41.76	28.35	25.56	19.90	16.12
DPS (Rmb)	0.57	1.32	0.96	1.23	1.52
Dividend Yield	0.72%	1.67%	1.21%	1.56%	1.92%
EV/EBITDA (x)	22.42	18.41	13.69	11.13	8.69
P/FCFE (x)	108.2	31.3	13.1	13.9	12.0
Net Gearing	(22.9%)	(36.0%)	(66.2%)	(80.7%)	(90.3%)
P/BV (x)	9.10	7.58	6.32	5.13	4.16
ROE	23.4%	29.2%	27.0%	28.4%	28.5%
% Change In Normalised EPS Estimates			1.28%	0.85%	1.44%
Normalised EPS/consensus EPS (x)			1.01	1.01	1.02

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

2Q22 performance slightly better than expected

Rise of camping activity stimulated sales of Anta's other brands

Limited by the pandemic controls, more people turned to local camping activities for weekend leisure. Stimulated by the trend, Kolon brand saw 2Q22 online sales growth about 100% yoy. Amer brand achieved strong growth in the international market in 1H22F, and its China sales also maintained positive growth yoy. Amer still had a loss in 1H22F, but management expects it to break even in FY22F.

Figure 1: ANTA earnings revision

FYE Dec (Rmb m)	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	54,119.7	54,164.8	0.1%	67,178.8	66,074.7	-1.6%	82,908.7	81,109.2	-2.2%
Gross margin	61.6%	61.7%	0.1% pts	62.0%	62.2%	0.2% pts	62.3%	62.4%	0.1% pts
Operating margin	22.0%	22.4%	0.4% pts	22.8%	23.5%	0.7% pts	22.9%	23.6%	0.7% pts
Net profit	8,467.2	8,575.6	1.3%	10,920.3	11,012.7	0.8%	13,403.0	13,596.3	1.4%
Net profit margin	15.6%	15.8%	0.2% pts	16.3%	16.7%	0.4% pts	16.2%	16.8%	0.6% pts
EPS (Rmb)	3.15	3.19	1.3%	4.06	4.09	0.8%	4.98	5.05	1.4%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

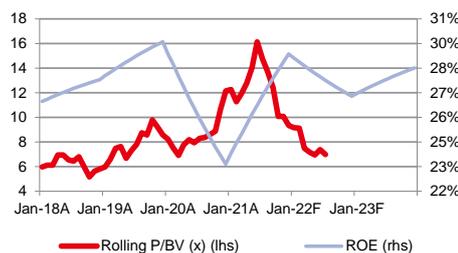
Figure 2: ANTA DCF valuation

(Rmb m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	12,143	15,510	19,126	20,866	22,765	24,836	27,097	29,562	32,253	35,188	38,390
Add: Depreciation & amortization	2,267	1,147	680	693	707	721	736	750	765	781	796
Less: Tax	3,354	4,270	5,242	5,763	6,287	6,860	7,484	8,165	8,908	9,718	10,603
Less: Capex	399	368	329	335	342	349	356	363	370	378	385
Less: Net change in working capital	(2,868)	(335)	(433)	(438)	(442)	(447)	(451)	(456)	(460)	(465)	(469)
Unlevered FCF	13,526	12,353	14,668	15,899	17,285	18,796	20,444	22,241	24,200	26,337	28,667
Terminal value											442,880
DCF	13,526	11,264	12,196	12,054	11,950	11,849	11,752	11,658	11,567	11,478	11,393
Target debt to total capital	10.0%			Assumptions							
WACC	9.7%			Risk-free Rate of Return				4.0%			
Terminal growth ("g")	3.0%			Equity Risk Premium				6.5%			
				Company Beta				1.00			
PV for the forecasted period	130,686			Cost of Equity				10.5%			
PV for the terminal value	176,003			Pre-tax Cost of Debt				3.0%			
Enterprise Value	306,689			Tax Rate				28%			
Minus: Net debt + Minority interest	(14,874)			After-tax Cost of Debt				2.2%			
NPV to equity shareholders	321,563										
Divided by: # of shares outstanding (m)	2,690										
NPV per share to equity shareholders (Rmb)	119.5										
CNY/HKD	0.83										
NPV per share to equity shareholders (HKD)	144.0										

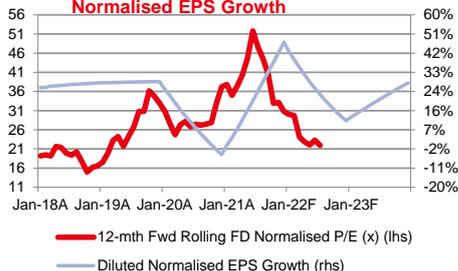
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	35,512	49,328	54,165	66,075	81,109
Gross Profit	20,651	30,404	33,424	41,087	50,648
Operating EBITDA	9,566	11,432	14,411	16,656	19,805
Depreciation And Amortisation	(414)	(443)	(2,267)	(1,147)	(680)
Operating EBIT	9,152	10,989	12,143	15,510	19,126
Financial Income/(Expense)	(462)	332	415	457	457
Pretax Income/(Loss) from Assoc.	(601)	(81)	(80)	(80)	(80)
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	8,089	11,240	12,478	15,886	19,502
Exceptional Items					
Pre-tax Profit	8,089	11,240	12,478	15,886	19,502
Taxation	(2,520)	(3,021)	(3,354)	(4,270)	(5,242)
Exceptional Income - post-tax					
Profit After Tax	5,569	8,219	9,124	11,616	14,261
Minority Interests	(407)	(499)	(549)	(604)	(664)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	5,162	7,720	8,576	11,013	13,596
Normalised Net Profit	5,569	8,219	9,124	11,616	14,261
Fully Diluted Normalised Profit	5,162	7,720	8,576	11,013	13,596

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,566	11,432	14,411	16,656	19,805
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,343)	(300)	2,868	335	433
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2,878	3,406	3,029	3,071	3,071
Net Interest (Paid)/Received	(462)	0	0	0	0
Tax Paid	(2,181)	(2,677)	(3,354)	(4,270)	(5,242)
Cashflow From Operations	7,458	11,861	16,954	15,792	18,068
Capex	(851)	(1,493)	(399)	(368)	(329)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	0	0	0	0	0
Other Investing Cashflow	(1,072)	(3,176)	0	0	0
Cash Flow From Investing	(1,923)	(4,669)	(399)	(368)	(329)
Debt Raised/(repaid)	(3,543)	(196)	168	392	506
Proceeds From Issue Of Shares	7,699	0	0	0	0
Shares Repurchased					
Dividends Paid	(1,481)	(2,456)	(2,811)	(2,938)	(3,691)
Preferred Dividends					
Other Financing Cashflow	(1,446)	(2,295)	0	0	0
Cash Flow From Financing	1,229	(4,947)	(2,643)	(2,546)	(3,186)
Total Cash Generated	6,764	2,245	13,912	12,878	14,553
Free Cashflow To Equity	1,992	6,996	16,722	15,816	18,244
Free Cashflow To Firm	5,997	7,192	16,555	15,424	17,739

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	20,346	24,577	38,489	51,367	65,920
Total Debtors	6,614	6,914	7,609	8,935	10,807
Inventories	5,486	7,644	5,225	6,426	7,648
Total Other Current Assets	271	767	767	767	767
Total Current Assets	32,717	39,902	52,090	67,495	85,142
Fixed Assets	2,729	3,779	1,911	1,133	782
Total Investments	0	0	0	0	0
Intangible Assets	1,579	1,531	1,531	1,531	1,531
Total Other Non-Current Assets	14,842	17,456	14,878	12,503	10,148
Total Non-current Assets	19,150	22,766	18,320	15,167	12,461
Short-term Debt	1,968	1,748	1,916	2,308	2,814
Current Portion of Long-Term Debt					
Total Creditors	6,915	10,076	11,064	13,497	16,568
Other Current Liabilities	2,832	4,119	4,319	4,870	5,454
Total Current Liabilities	11,715	15,943	17,299	20,675	24,835
Total Long-term Debt	12,456	11,425	11,425	11,425	11,425
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,872	3,637	3,709	3,908	4,118
Total Non-current Liabilities	14,328	15,062	15,134	15,333	15,543
Total Provisions	0	0	0	0	0
Total Liabilities	26,043	31,005	32,433	36,007	40,379
Shareholders' Equity	24,013	28,923	34,688	42,762	52,667
Minority Interests	1,811	2,740	3,289	3,893	4,557
Total Equity	25,824	31,663	37,977	46,655	57,224

Key Ratios					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	4.7%	38.9%	9.8%	22.0%	22.8%
Operating EBITDA Growth	5.3%	19.5%	26.1%	15.6%	18.9%
Operating EBITDA Margin	26.9%	23.2%	26.6%	25.2%	24.4%
Net Cash Per Share (Rmb)	2.14	4.11	9.06	13.56	18.62
BVPS (Rmb)	8.67	10.42	12.50	15.40	18.97
Gross Interest Cover	19.81	N/A	N/A	N/A	N/A
Effective Tax Rate	31.2%	26.9%	26.9%	26.9%	26.9%
Net Dividend Payout Ratio	30.4%	47.3%	31.0%	31.0%	31.0%
Accounts Receivables Days	66.59	50.05	48.93	45.69	44.54
Inventory Days	121.8	126.6	113.2	85.1	84.6
Accounts Payables Days	178.5	163.9	186.0	179.4	180.6
ROIC (%)	49%	50%	51%	94%	148%
ROCE (%)	26.0%	26.6%	26.1%	28.6%	29.7%
Return On Average Assets	13.0%	13.8%	13.1%	14.6%	15.3%

Key Drivers					
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total number of stores	12,103.0	11,639.0	12,133.2	13,301.0	14,614.2
SSSG - Anta (%)	10.0%	10.0%	10.0%	9.0%	9.0%
SSSG - FILA (%)	15.0%	15.0%	30.0%	0.0%	0.0%
SSSG - Other Brands (%)	0.0%	0.0%	10.0%	10.0%	10.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2022		
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Anta Sports (2020 HK)

RECOMMENDATION FRAMEWORK

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