

Hong Kong

ADD (no change)

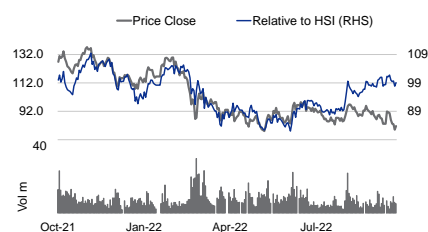
Consensus ratings*: Buy 51 Hold 3 Sell 0

Current price:	HK\$81.60
Target price:	HK\$136.0
Previous target:	HK\$136.0
Up/downside:	66.7%
CGI / Consensus:	13.2%
Reuters:	2020.HK
Bloomberg:	2020 HK
Market cap:	US\$28,208m
	HK\$221,432m
Average daily turnover:	US\$68.74m
	HK\$539.5m
Current shares o/s:	2,776m
Free float:	38.2%

*Source: Bloomberg

Key changes in this note

➤ NA.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12.5	-13.3	-33.6
Relative (%)	-0.5	6.8	0

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

Analyst

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Anta Sports

3Q22 operating data in line

- Anta reported that Anta brand 3Q22 retail sales grew by mid-single digits yoy, slightly below our expectation, due to the Covid resurgence in Sep.
- The Fila brand's retail sales grew by low-teens yoy in 3Q22, up from high-single digits yoy in 2Q22, driven mainly by strong online sales growth of 65% yoy in 3Q22.
- The Descente and Kolon brands achieved quite strong retail sales growth of 40-45% yoy in 3Q22, supported by the increasing popularity of outdoor activities, like camping.
- Management maintains its previous guidance for 2H22F, but has become more conservative for 4Q22F and FY23F, due to the Covid situation and weak macro.
- We reiterate Add with an unchanged DCF-based TP of HK\$136.

Anta brand's 3Q22 retail sales slightly below our expectation

Anta brand's 3Q22 retail sales grew by mid-single digits yoy, in line with that in 2Q22, but slower than the high-teens yoy growth in 1Q22. The 3Q22 growth was slightly below our expectation, due to the Covid resurgence in Sep. For the Anta brand, retail sales of both Anta mass market and kids products grew by mid-single digits yoy in 3Q22, and online sales grew by high-single digits yoy, faster than the offline channel. The inventory turnover period was higher than 5x by the end of Sep, slightly higher than the normal level; management aims to return it to the normal level by end-FY22F. The discount level did not increase yoy for Anta mass market products, but the discount rate for Anta Kids improved by 2-3pts yoy in 3Q22, which should help Anta maintain a stable gross margin.

Fila brand 3Q22 retail sales in line with our expectation

Retail sales of the Fila brand grew by the low teens yoy in 3Q22, up from high-single digits yoy in 2Q22, driven mainly by strong online sales growth of 65% yoy in 3Q22. Although the Sep Covid resurgence in large cities, like Shenzhen and Chengdu, had a negative impact on Fila's offline stores, strong online sales growth helped the brand achieve better growth than that of its international peers. In Sep, Fila hosted a series of online marketing activities with Tmall, and the company strengthened its cooperation with Douyin and Little Red Book for live-broadcasting activities. Currently, Fila's inventory turnover is 7-8x, also higher than its normal level, but management aims to reduce it to the normal level by the end of FY22F. The Fila brand increased its discount rate in 3Q22, to 74-75% for the online channel and 85-86% for the offline channel.

Strong 3Q22 growth for the Descente and Kolon brands

Driven by strong growth of outdoor activities, Descente and Kolon brands achieved over 35% and 55% yoy retail sales growth in 3Q22, better than we expected. Kolon brand returned to positive earnings in 1H22, and mgmt. expects its profitability to continue to improve in 2H22F.

The 4Q22F outlook has become more conservative

Owing to the current weak macro situation and still tight Covid policy, management has become more conservative for the 4Q22F and FY23F outlook. For the upcoming Nov 11 online shopping festival, Anta will make sales growth the first priority and increase its discount level a bit to reduce its inventory. Management said its Amer business was in line with expectations in 3Q22 with profitability expected to further improve.

Reiterate Add with an unchanged DCF-based TP of HK\$136

We maintain our earnings forecasts for Anta. For 2H22F, we expect sales to grow by 14.5% yoy (1H22: 13.8%) and NP to rise by 18.0% yoy (1H22: -6.6%). We reiterate our Add rating for Anta, as we believe Anta still has large room to improve its market share and margins in the long run. The key positive catalyst will be better-than-expected exps. control. Key risks include 1) weaker-than-expected demand and 2) deeper discounts in more competitive environment. We used the DCF valuation for our target price.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	35,512	49,328	56,334	66,870	79,769
Operating EBITDA (Rmbm)	9,566	11,432	14,136	17,338	20,803
Net Profit (Rmbm)	5,162	7,720	8,168	10,390	12,758
Normalised EPS (Rmb)	1.86	2.78	2.94	3.74	4.60
Normalised EPS Growth	(6.1%)	49.1%	5.8%	27.2%	22.8%
FD Normalised P/E (x)	39.53	26.84	25.40	19.97	16.26
DPS (Rmb)	0.57	1.32	0.91	1.16	1.42
Dividend Yield	0.76%	1.76%	1.22%	1.55%	1.90%
EV/EBITDA (x)	21.20	17.39	13.32	10.25	7.96
P/FCFE (x)	102.4	29.6	14.7	14.6	12.3
Net Gearing	(22.9%)	(36.0%)	(59.8%)	(73.3%)	(83.4%)
P/BV (x)	8.62	7.17	6.04	4.95	4.05
ROE	23.4%	29.2%	25.8%	27.2%	27.4%
Normalised EPS/consensus EPS (x)			0.96	0.97	0.98

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

3Q22 operating data in line

Figure 1: Quarterly retail sales yoy growth

Period	1Q 2022	2Q 2022	3Q 2022
YoY			
ANTA Brand - RSV	+High-teens	-Mid-single digit	+Mid single-digits
FILA Brand - RSV	+Mid-single digit	-High-single digit	+Low-teens
Other Brands - RSV	+40-45%	+20-25%	+40-45%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: Semi-annual results and 2H22F forecasts

FYE Dec (Rmb m)	1H 2022F	2H 2022F	yoy
Revenues	25,965.0	30,368.9	14.5%
Cost of Sales	(9,856.0)	(11,750.5)	11.7%
Gross Profit/loss	16,109.0	18,618.4	16.4%
GPM	62%	61%	1.0% pts
Selling & Distribution Expenses	(9,437.0)	(11,175.4)	9.6%
% to sales	36%	37%	-1.7% pts
Administrative Expenses	(1,701.0)	(1,811.9)	10.3%
% to sales	7%	6%	-0.2% pts
Other Net Income/(loss)	821.0	445.0	-52.0%
Operating Income (Loss)	5,792.0	6,076.2	19.5%
OPM	22%	20%	0.8% pts
Finance Income (cost), Net	(22.0)	154.8	53.3%
Share of JV / Asso	(178.0)	98.0	-63.0%
Earnings before Taxes	5,592.0	6,329.0	16.1%
Provision for Income Tax	(1,642.0)	(1,562.0)	14.6%
Net Profit after Tax	3,950.0	4,766.9	16.6%
Minority Interest (Profit)	(362.0)	(186.9)	-9.7%
Net Income Attributable to Shareholders	3,588.0	4,580.0	18.0%
NPM	14%	15%	0.4% pts

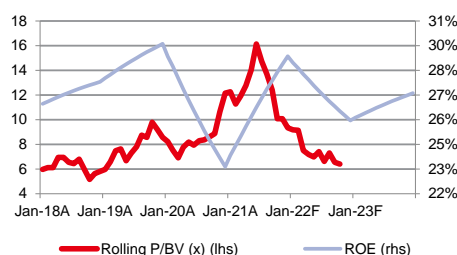
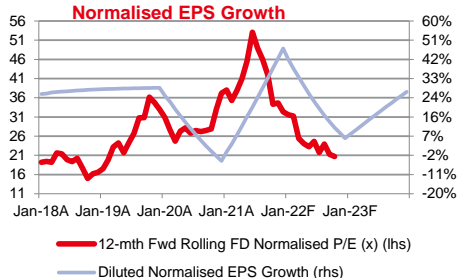
SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

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Figure 3: Reiterate Add with an unchanged DCF-based TP of HK\$136

(Rmb m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	11,868	14,969	18,290	19,552	20,901	22,343	23,885	25,533	27,295	29,178	31,191
Add: Depreciation & amortization	2,267	2,369	2,513	2,563	2,615	2,667	2,720	2,775	2,830	2,887	2,945
Less: Tax	3,204	4,041	4,934	5,278	5,643	6,032	6,448	6,893	7,369	7,877	8,421
Less: Capex	399	368	329	335	342	349	356	363	370	378	385
Less: Net change in working capital	(2,616)	(413)	(575)	(581)	(587)	(592)	(598)	(604)	(610)	(616)	(623)
Unlevered FCF	13,148	13,342	16,116	17,082	18,117	19,222	20,399	21,656	22,996	24,426	25,952
Terminal value											400,825
DCF	13,148	12,165	13,399	12,951	12,525	12,116	11,725	11,350	10,990	10,644	10,312
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							
		Cost of Equity		10.5%							
PV for the forecasted period	131,325										
PV for the terminal value	159,263										
Enterprise Value	290,588	Pre-tax Cost of Debt		3.0%							
Minus: Net debt + Minority interest	(12,238)	Tax Rate		27%							
NPV to equity shareholders	302,827	After-tax Cost of Debt		2.2%							
Divided by: # of shares outstanding (m)	2,690										
NPV per share to equity shareholders (Rmb)	112.6										
CNY/HKD	0.83										
NPV per share to equity shareholders (HKD)	136.0										

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	56,334	66,870	79,769
Gross Profit	20,651	30,404	34,727	41,605	49,909
Operating EBITDA	9,566	11,432	14,136	17,338	20,803
Depreciation And Amortisation	-414	-443	-2,267	-2,369	-2,513
Operating EBIT	9,152	10,989	11,868	14,969	18,290
Financial Income/(Expense)	-462	332	133	146	146
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	11,921	15,035	18,356
Exceptional Items					
Pre-tax Profit	8,089	11,240	11,921	15,035	18,356
Taxation	-2,520	-3,021	-3,204	-4,041	-4,934
Exceptional Income - post-tax					
Profit After Tax	5,569	8,219	8,717	10,994	13,422
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	8,168	10,390	12,758
Normalised Net Profit	5,569	8,219	8,717	10,994	13,422
Fully Diluted Normalised Profit	5,162	7,720	8,168	10,390	12,758

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,566	11,432	14,136	17,338	20,803
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-2,343	-300	2,616	413	575
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2,878	3,406	2,747	2,760	2,760
Net Interest (Paid)/Received	-462	0	0	0	0
Tax Paid	-2,181	-2,677	-3,204	-4,041	-4,934
Cashflow From Operations	7,458	11,861	16,295	16,470	19,205
Capex	-851	-1,493	-2,437	-2,609	-2,794
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	-2,437	-2,609	-2,794
Debt Raised/(repaid)	-3,543	-196	248	338	424
Proceeds From Issue Of Shares	7,699	0	0	0	0
Shares Repurchased					
Dividends Paid	-1,481	-2,456	-2,750	-2,784	-3,472
Preferred Dividends					
Other Financing Cashflow	-1,446	-2,295	-0	0	0
Cash Flow From Financing	1,229	-4,947	-2,502	-2,446	-3,048
Total Cash Generated	6,764	2,245	11,356	11,415	13,363
Free Cashflow To Equity	1,992	6,996	14,106	14,199	16,835
Free Cashflow To Firm	5,997	7,192	13,858	13,861	16,411

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	35,933	47,348	60,711
Total Debtors	6,614	6,914	8,233	9,164	10,421
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	50,159	63,706	79,547
Fixed Assets	2,729	3,779	3,948	4,189	4,469
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	14,826	12,424	10,041
Total Non-current Assets	19,150	22,766	20,305	18,143	16,041
Short-term Debt	1,968	1,748	1,996	2,334	2,758
Current Portion of Long-Term Debt					
Total Creditors	6,915	10,076	11,507	13,659	16,294
Other Current Liabilities	2,832	4,119	4,229	4,732	5,269
Total Current Liabilities	11,715	15,943	17,732	20,725	24,321
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	3,677	3,858	4,052
Total Non-current Liabilities	14,328	15,062	15,102	15,283	15,477
Total Provisions	0	0	0	0	0
Total Liabilities	26,043	31,005	32,834	36,008	39,798
Shareholders' Equity	24,013	28,923	34,341	41,948	51,234
Minority Interests	1,811	2,740	3,289	3,893	4,557
Total Equity	25,824	31,663	37,630	45,840	55,791

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	4.7%	38.9%	14.2%	18.7%	19.3%
Operating EBITDA Growth	5.3%	19.5%	23.6%	22.7%	20.0%
Operating EBITDA Margin	26.9%	23.2%	25.1%	25.9%	26.1%
Net Cash Per Share (Rmb)	2.14	4.11	8.11	12.10	16.76
BVPS (Rmb)	8.67	10.42	12.37	15.11	18.46
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	49.07	47.48	44.93
Inventory Days	121.8	126.6	108.7	84.2	86.3
Accounts Payables Days	178.5	163.9	182.3	181.8	183.6
ROIC (%)	49%	50%	50%	80%	114%
ROCE (%)	26.0%	26.6%	25.0%	27.3%	28.5%
Return On Average Assets	13.0%	13.8%	12.9%	14.2%	15.0%

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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	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)

— Price Close



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