

COMPANY UPDATE

Anta Sports (2020 HK)

2023 Sales Meet Expectations; Expect Amer Spin-Off And Separate Listing To Happen Before Mar 24

Anta's 2023 sales met expectations, with discounts and inventories remaining healthy and manageable. Management is confident that Anta will achieve a net profit growth of at least 28% in 2023. We expect Amer's spin-off and separate listing to be completed no later than Mar 24. After the IPO, Amer's debt burdens will be significantly lowered. Anta remains our top pick in the sportswear sector. However, considering the industry headwinds, we cut its target price to HK\$109.60. Maintain BUY.

WHAT'S NEW

- Anta announced 4Q23 operational updates.

STOCK IMPACT

- **2023 retail sales met expectations; 2023 earnings to grow at least 28% yoy.** In 4Q23, retail sales of Anta brand/FILA/all other brands recorded high-teens%, 25-30%, and 55-60% yoy growth respectively, thus bringing full-year sales growth to high-single digit%, high-teens%, and 60-65% respectively. This set of sales results met the company's annual targets despite the weak consumption recovery. Specifically, FILA demonstrated better-than-expected sales momentum (high-teens% growth vs targeted teens% growth), showing FILA's great brand attractiveness and the company's strong execution. With the set of satisfactory sales results, management is confident that the company will achieve at least Rmb9.7b net profit in 2023, implying 28% yoy growth (2H23: 25% yoy net profit growth).
- **Inventories improved in 4Q23; Anta brand discounts deepened slightly but manageable.** Although the industry has been experiencing destocking since 3Q23, Anta still maintained relatively stable discounts and its inventories were still healthy. In 4Q23, Anta's offline discount remained stable qoq at 28% off, while online discount deepened by 1ppt qoq to 49% off, due to the more intense competition during the Double 11 shopping festival in 2023. FILA's discounts improved slightly qoq with online discount at <40% off and offline discount at 23% off. By the end of 4Q23, inventory turnovers for both Anta brand and FILA slightly improved qoq to below five months (vs end-3Q23: Anta brand at around five months and FILA slightly above five months), which were quite healthy.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	49,328	53,651	61,422	71,395	82,592
EBITDA	14,026	15,346	19,386	21,922	25,244
Operating profit	10,889	11,005	14,368	16,575	19,664
Net profit (rep./act.)	7,720	7,590	9,892	12,036	14,389
Net profit (adj.)	7,720	7,590	9,892	12,036	14,389
EPS (Fen)	278.1	276.0	356.7	424.9	500.5
PE (x)	23.1	23.3	18.0	15.1	12.8
P/B (x)	6.0	5.1	3.5	3.1	2.7
EV/EBITDA (x)	11.8	10.8	8.5	7.6	6.6
Dividend yield (%)	2.1	1.8	2.3	2.8	3.3
Net margin (%)	15.7	14.1	16.1	16.9	17.4
Net debt/(cash) to equity (%)	2.5	6.2	(27.5)	(36.5)	(45.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	29.2	24.0	23.0	21.7	22.5
Consensus net profit	-	-	9,746	11,675	13,741
UOBKH/Consensus (x)	-	-	1.01	1.03	1.05

Source: Anta Sports, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$70.15
Target Price	HK\$109.60
Upside	+56.2%
(Previous TP)	HK\$128.00

COMPANY DESCRIPTION

Anta is a leading sportswear company in China. It has the main brand - Anta, and has the brands - FILA, Descente, and Kolon. It also owns more than 50% equity stake of Amer Sports, which has the brands of Arc'teryx, Salomon, and Wilson.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2020 HK
Shares issued (m):	2,832.6
Market cap (HK\$m):	198,708.5
Market cap (US\$m):	25,437.6
3-mth avg daily t'over (US\$m):	69.8

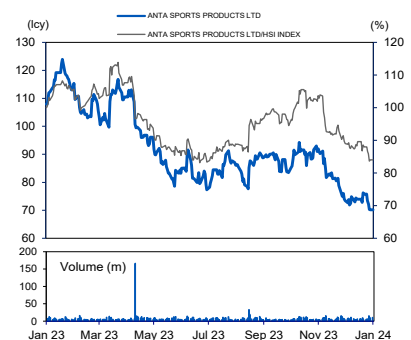
Price Performance (%)

52-week high/low	HK\$124.00/HK\$70.15			
1mth	3mth	6mth	1yr	YTD
(6.5)	(16.1)	(15.5)	(35.0)	(7.4)

Major Shareholders

Anta International Limited	42.40
FY24 NAV/Share (Rmb)	20.95
FY24 Net Cash/Share (Rmb)	7.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

Stella Guo
 +852 2236 6798
 stella.guo@uobkayhian.com.hk

Ng Jo Yee
 +603 2147 1984
 joyee@uobkayhian.com

Shirley Wang
 +8621 54047225*804
 shirleywang@uobkayhian.com

- **Expect Amer spin-off and separate listing to be completed before Mar 24.** Amer Sports (Amer) has filed a registration statement with the US Securities and Exchange Commission (SEC). According to the statement, Amer achieved revenue of US\$3,053m in 9M23, implying 30% yoy growth. By brand, Arc'teryx/Salomon/Wilson achieved revenue growth of +65%/+35%/+10% yoy, contributing 31%/31%/28% of total revenue. By channel, wholesale/E-commerce/DTC recorded revenue growth of +20%/+47%/+66% yoy, contributing 67%/15%/18% of total revenue. Amer recorded a net loss of US\$114m in 9M23 mainly on the heavy interest payments incurred for the acquisition. However, management expects Amer's loan burdens to be alleviated, and to see savings on interest payments after the IPO, as US\$2.6b (JVCo Loan 1) will be converted to equity and US\$1.4b (JVCo Loan 2) that matures in Mar 24 will be repaid with proceeds from the IPO.

ANTA RETAIL SALES GROWTH RATE (YOY)

	Anta	FILA	Other Brands
1Q21	(+) 40-45%	(+) 75-80%	(+) 115-120%
2Q21	(+) 35-40%	(+) 30-35%	(+) 70-75%
3Q21	(+) low-teens	(+) mid-SD	(+) 35-40%
4Q21	(+) mid-teens	(+) high-SD	(+) 30-35%
1Q22	(+) high-teens	(+) mid-SD	(+) 40-45%
2Q22	(-) mid-SD	(-) high-SD	(+) 20-25%
3Q22	(+) mid-SD	(+) low-teens	(+) 40-45%
4Q22	(-) high-SD	(-) low-teens	(+) low-teens
1Q23	(+) mid-SD	(+) high-SD	(+) 75-80%
2Q23	(+) high-SD	(+) high-teens	(+) 70-75%
3Q23	(+) high-SD	(+) low-teens	(+) 45-50%
4Q23	(+) high-teens	(+) 25-30%	(+) 55-60%

Source: Anta, UOB Kay Hian

Hence, we estimate that the IPO will be completed no later than Mar 24. After the IPO, Amer's interest-bearing debts will decline to US\$1.8b. We expect Amer to maintain strong growth momentum going forward, and contribute ~Rmb550m-600m profit to Anta in 2024 (based on the assumption that Amer is still considered as a JV of Anta, using the equity method).

EARNINGS REVISION/RISK

- **Fine-tune 2023 earnings by 2% and keep 2024 earnings forecasts unchanged.** For 2023, we remain our revenue and gross margin forecasts unchanged, while we raise our SG&A estimate by 0.5ppt to reflect the higher A&P fees due to rising industry competition. Thus, our earnings estimate is cut by 2%. For 2024, we remain our revenue estimate largely unchanged, but cut our gross margin estimate by 0.1ppt to reflect the ongoing industry deepening discounts. We also raise our SG&A estimate by 0.5ppt to reflect the higher A&P fees due to the Olympics. We estimate that Amer will contribute Rmb550m in JV gains. Thus, our earnings estimate remains unchanged.
- **Risks.** a) Later-than-expected Amer IPO; b) lower contribution from Amer; c) lower-than-expected sales recovery; d) higher A&P expenses.

VALUATION/RECOMMENDATION

- **Maintain BUY but cut target price by 14% to HK\$109.60.** Anta's sales performances in 2023 met expectations, with inventories and discounts remaining at healthy and manageable levels. We maintain Anta as our top pick in the sportswear sector as we like its diverse brand strategy, and management's strong execution and good track record. However, for the overall sportswear sector, the negative sentiment on the industry's ongoing destocking and peers' weaker-than-expected results may continue to weigh on the sector's share prices in the short term.

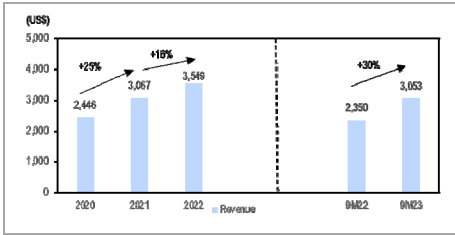
We revise up the WACC to 14.1% from 11.4% to reflect the industry's higher risk premium, and we roll over the target price to 2024. Our new target price is HK\$109.60, 14% lower than the previous target price. The stock currently trades at 15.1x 2024F PE.

DCF VALUATION TABLE

(Rmbm)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	16,575	19,664	22,767	26,484	30,150	34,506	39,714	45,972	53,532	62,708	73,900
D&A	5,347	5,580	5,743	5,859	5,940	5,937	5,935	5,934	5,933	5,933	5,933
Capex	-6,133	-6,133	-6,133	-6,133	-5,933	-5,933	-5,933	-5,933	-5,933	-5,933	-5,933
W.C. change	-582	-737	-834	-1,008	-989	-1,186	-1,429	-1,732	-2,108	-2,578	-3,165
FCFF	10,667	12,988	15,308	17,948	20,910	23,873	27,409	31,650	36,762	42,955	50,494
NPV of FCFF	10,667	11,385	11,762	12,088	12,345	12,354	12,433	12,585	12,813	13,123	13,522
PV of terminal value	114,154										
Enterprise value	249,231										
Net debt	-31,991										
MI	5,331										
Equity value	275,891										
# of shares O/S (in m)	2,833										
Value per share (Rmb)	97										
Value per share (HK\$)	109.60										

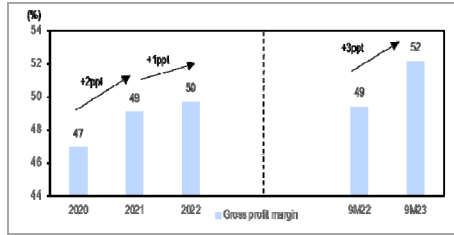
Source: Anta, UOB Kay Hian

REVENUE OF AMER



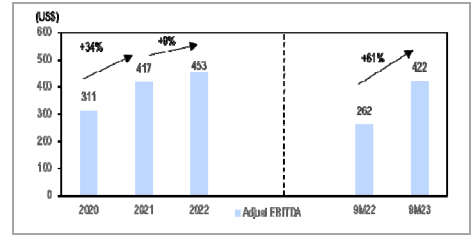
Source: Amer, UOB Kay Hian

GROSS PROFIT MARGIN OF AMER



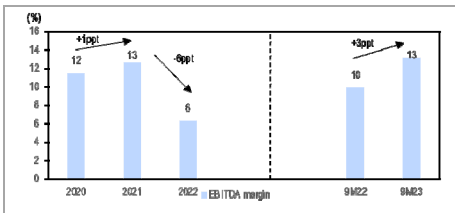
Source: Amer, UOB Kay Hian

ADJUST EBITDA OF AMER



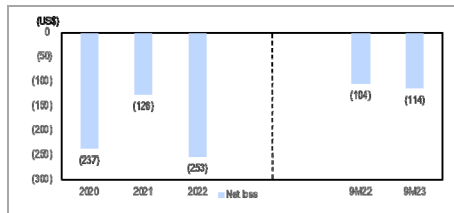
Source: Amer, UOB Kay Hian

EBITDA MARGIN OF AMER



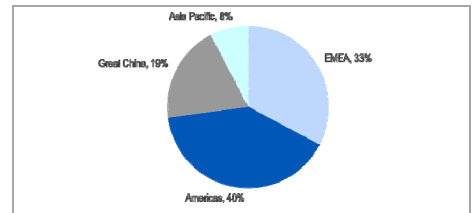
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NET LOSS OF AMER



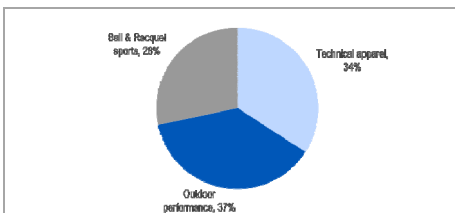
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AMER REVENUE BREAKDOWN BY GEOGRAPHIC REGION



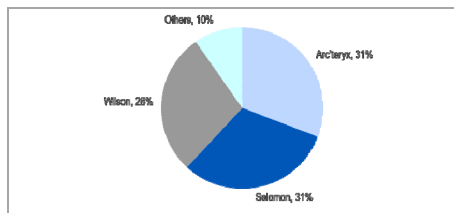
Source: Amer, UOB Kay Hian

AMER REVENUE BY SEGMENT



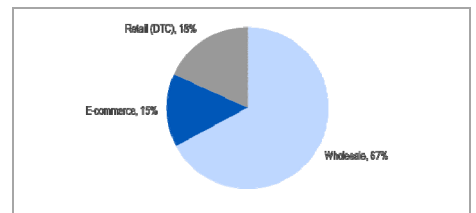
Source: Amer, UOB Kay Hian

AMER REVENUE BY BRAND



Source: Amer, UOB Kay Hian

AMER REVENUE BY CHANNEL



Source: Amer, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	53,651.0	61,422.2	71,394.7	82,592.2
EBITDA	15,346.0	19,385.7	21,922.0	25,243.6
Deprec. & amort.	4,341.0	5,017.3	5,347.4	5,579.8
EBIT	11,005.0	14,368.4	16,574.6	19,663.8
Associate contributions	28.0	28.0	550.0	600.0
Net interest income/(expense)	97.0	177.8	657.3	1,037.5
Pre-tax profit	11,355.0	14,799.2	18,006.9	21,526.3
Tax	(3,110.0)	(4,053.3)	(4,931.9)	(5,895.8)
Minorities	(655.0)	(853.7)	(1,038.7)	(1,241.7)
Net profit	7,590.0	9,892.2	12,036.3	14,388.8
Net profit (adj.)	7,590.0	9,892.2	12,036.3	14,388.8

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	12,147.0	15,193.5	17,840.0	20,473.1
Pre-tax profit	11,355.0	14,799.2	18,006.9	21,526.3
Tax	(3,046.0)	(4,053.3)	(4,931.9)	(5,895.8)
Deprec. & amort.	4,464.0	5,017.3	5,347.4	5,579.8
Working capital changes	(1,598.0)	(569.7)	(582.4)	(737.2)
Non-cash items	383.0	0.0	0.0	0.0
Other operating cashflows	589.0	0.0	0.0	0.0
Investing	(4,774.0)	(6,133.0)	(6,133.0)	(6,133.0)
Capex (growth)	(1,621.0)	(1,000.0)	(1,000.0)	(1,000.0)
Investments	(321.0)	(5,133.0)	(5,133.0)	(5,133.0)
Proceeds from sale of assets	6.0	0.0	0.0	0.0
Others	(2,838.0)	0.0	0.0	0.0
Financing	(7,841.0)	2,370.5	(3,706.6)	(11,938.2)
Dividend payments	(3,950.0)	(3,214.7)	(4,187.7)	(5,096.7)
Issue of shares	0.0	10,438.2	0.0	0.0
Proceeds from borrowings	3,305.0	3,000.0	3,000.0	3,000.0
Loan repayment	(4,208.0)	(7,853.0)	(2,518.9)	(9,841.6)
Others/interest paid	(2,988.0)	0.0	0.0	0.0
Net cash inflow (outflow)	(468.0)	11,431.0	8,000.4	2,401.9
Beginning cash & cash equivalent	17,592.0	17,378.0	28,809.0	36,809.4
Changes due to forex impact	254.0	0.0	0.0	0.0
Ending cash & cash equivalent	17,378.0	28,809.0	36,809.4	39,211.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,716.0	3,595.9	3,511.9	3,453.3
Other LT assets	22,883.0	24,118.8	24,988.4	25,600.2
Cash/ST investment	17,378.0	28,809.0	36,809.4	39,211.3
Other current assets	25,218.0	26,679.8	28,779.1	31,136.2
Total assets	69,195.0	83,203.5	94,088.8	99,401.0
ST debt	15,065.0	9,730.9	9,841.6	2,714.8
Other current liabilities	11,142.0	12,039.4	13,565.3	15,194.9
LT debt	4,430.0	4,911.1	5,281.5	5,566.8
Other LT liabilities	719.0	719.0	719.0	719.0
Shareholders' equity	34,400.0	51,510.4	59,350.0	68,632.5
Minority interest	3,439.0	4,292.7	5,331.4	6,573.1
Total liabilities & equity	69,195.0	83,203.5	94,088.8	99,401.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	28.6	31.6	30.7	30.6
Pre-tax margin	21.2	24.1	25.2	26.1
Net margin	14.1	16.1	16.9	17.4
ROA	11.5	13.0	13.6	14.9
ROE	24.0	23.0	21.7	22.5
Growth				
Turnover	8.8	14.5	16.2	15.7
EBITDA	9.4	26.3	13.1	15.2
Pre-tax profit	1.0	30.3	21.7	19.5
Net profit	(1.7)	30.3	21.7	19.5
Net profit (adj.)	(1.7)	30.3	21.7	19.5
EPS	(0.8)	29.2	19.1	17.8
Leverage				
Debt to total capital	34.0	20.8	19.0	9.9
Debt to equity	56.7	28.4	25.5	12.1
Net debt/(cash) to equity	6.2	(27.5)	(36.5)	(45.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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