

COMPANY RESULTS

Anta (2020 HK)

2023: Results Beat On Margin; On Track To Fulfil Three-year Targets

Anta's 2023 results beat expectations on operating margin expansion, with Fila demonstrating a strong performance. In 2024, management expects both the Anta brand and Fila to deliver 10-15% retail sales growth, on track to fulfil the company's three-year targets. Operating margin will remain at a reasonable level, thanks to the healthy inventory level, new product launches, alleviated pressure from competitors and operating leverage. Maintain BUY and target price of HK\$109.60.

2H23/2023 RESULTS

Year to 31 Dec (Rmbm)	2H23	1H23	2H22	yoy chg (%)	hoh chg (%)	2023	2022	yoy chg (%)
Total revenue	32,711	29,645	27,686	18.1	10.3	62,356	53,651	16.2
Gross profit	20,273	18,755	16,209	25.1	8.1	39,028	32,318	20.8
Gross margin (%)	62.0	63.3	58.5	3.4	(1.3)	62.6	60.2	2.4
EBIT	7,744	7,623	5,438	42.4	1.6	15,367	11,230	36.8
EBIT margin (%)	23.7	25.7	19.6	4.0	(2.0)	24.6	20.9	3.7
Attributable net profit	5,488	4,748	4,002	37.1	15.6	10,236	7,590	34.9
Attributable net margin (%)	16.8	16.0	14.5	2.3	0.8	16.4	14.1	2.3

Source: Anta, UOB Kay Hian

RESULTS

- **2023 results beat on operating margin expansion.** Anta reported 2023 revenue of Rmb62.4b (+16% yoy), in line with consensus and beating our estimates by 2%. Gross margin was 62.6% (+2.4ppt yoy), mainly driven by: a) Anta brand's continued direct to consumers (DTC) model transformation, and b) Fila's better retail discount. Operating profit was Rmb15.4b (+37% yoy), and operating margin was 24.6% (+3.7ppt yoy), thanks to the higher operating leverage. Net profit was Rmb10.2b (+35% yoy), beating consensus by 4% and our estimates by 3%, and net margin was 16.4% (+2.3ppt yoy).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	53,651	62,356	72,170	83,528	94,997
EBITDA	15,571	20,229	21,912	24,940	28,106
Operating profit	11,230	15,367	16,911	19,989	23,195
Net profit (rep./act.)	7,590	10,236	13,095	14,838	16,955
Net profit (adj.)	7,590	10,236	13,095	14,838	16,955
EPS (Fen)	276.0	360.0	462.3	516.1	581.2
PE (x)	27.9	21.4	16.7	14.9	13.3
P/B (x)	6.1	4.2	3.7	3.3	2.9
EV/EBITDA (x)	13.4	9.4	7.6	6.9	5.8
Dividend yield (%)	1.5	2.4	3.0	3.3	3.8
Net margin (%)	14.1	16.4	18.1	17.8	17.8
Net debt/(cash) to equity (%)	(21.7)	(48.3)	(56.0)	(61.7)	(66.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	24.0	23.8	23.6	23.4	23.5
Consensus net profit	-	-	11,738	13,797	16,007
UOBKH/Consensus (x)	-	-	1.12	1.08	1.06

Source: Anta Sports, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$83.55
Target Price	HK\$109.60
Upside	+31.2%

COMPANY DESCRIPTION

Anta is a leading sportswear company in China. It has its main brand Anta and brands like Fila, Descente, and Kolon. It also owns more than 50% equity of Amer Sports, which has the brands 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):	236,665.7
Market cap (US\$m):	30,251.8
3-mth avg daily t'over (US\$m):	81.8

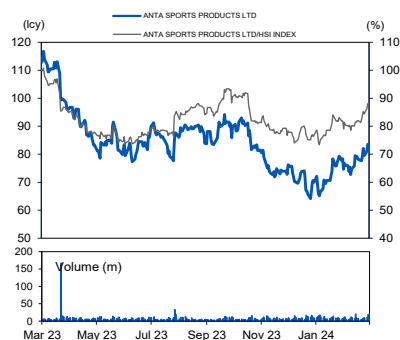
Price Performance (%)

52-week high/low	HK\$116.80/HK\$64.15
1mth	7.5
3mth	13.0
6mth	(0.4)
1yr	(26.1)
YTD	10.3

Major Shareholders

Anta International Group	44.26%
FY24 NAV/Share (Rmb)	20.96
FY24 Net Cash/Share (Rmb)	1.14

PRICE CHART



Source: Bloomberg

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SEGMENTAL RESULTS

Year to 31 Dec (Rmbm)	2H23	1H23	2H22	hoh chg (%)	yoy chg (%)	2023	2022	yoy chg (%)
Revenue								
- Anta	16,136	14,170	14,363	13.9	12.3	30,306	27,723	9.3
- Fila	12,874	12,229	10,746	5.3	19.8	25,103	21,523	16.6
- All other brands	3,701	3,246	2,577	14.0	43.6	6,947	4,405	57.7
Gross profit								
- Anta	8,736	7,912	7,514	10.4	16.3	16,648	14,872	11.9
- Fila	8,854	8,461	6,888	4.6	28.5	17,315	14,283	21.2
- All other brands	2,683	2,382	1,807	12.6	48.5	5,065	3,163	60.1
Gross margin								
- Anta	54.1	55.8	52.3	(1.7)	1.8	54.9	53.6	1.3
- Fila	68.8	69.2	64.1	(0.4)	4.7	69.0	66.4	2.6
- All other brands	72.5	73.4	70.1	(0.9)	2.4	72.9	71.8	1.1
Operating profit								
- Anta	3,759	2,972	2,983	26.5	26.0	6,731	5,925	13.6
- Fila	3,278	3,638	1,875	(9.9)	74.8	6,916	4,301	60.8
- All other brands	901	985	512	(8.5)	76.0	1,886	907	107.9
Operating profit margin								
- Anta	23.3	21.0	20.8	2.3	2.5	22.2	21.4	0.8
- Fila	25.5	29.7	17.4	(4.3)	8.0	27.6	20.0	7.6
- All other brands	24.3	30.3	19.9	(6.0)	4.5	27.1	20.6	6.6
Anta brand sales by channel								
- DTC	8,920	8,085	7,047	10.3	26.6	17,005	13,687	24.2
- E-commerce	5,296	4,635	5,108	14.3	3.7	9,931	9,677	2.6
- Wholesale and others	1,920	1,450	2,208	32.4	(13.0)	3,370	4,359	(22.7)
Number of stores								
- Anta (including Anta Kids)	9,831	9,633	9,603	198	228	9,831	9,603	228
- Fila (including Fila Kids and Fila Fusion)	1,972	1,942	1,984	30	(12)	1,972	1,984	(12)
- Descente	187	183	191	4	(4)	187	191	(4)
- Kolon Sport	164	160	161	4	3	164	161	3

Source: Anta, UOB Kay Hian

Note: number of stores hoh and yoy changes are net change

STOCK IMPACT

- 10-15% retail sales targets for Anta and Fila in 2024 driven by improving store efficiency.** Retail sales gradually improved in the recent two weeks compared to the weak momentum after the CNY holidays and were in line with the company's internal targets. Despite the lukewarm consumption recovery, management expects both Anta brand and Fila to achieve 10-15% retail sales growth in 2024, consistent with the three-year targets for 2024-26. Furthermore, management also expects Descente and Kolon to achieve >20% and >30% retail sales growth in 2024. While the company proposes faster-than-industry growth targets, it emphasizes high-quality growth driven by improved store efficiency. The company's full-year store opening plan is relatively conservative, aiming for the store counts of 7,100-7,200 for Anta brand (vs 7,053 by end-23), 2,800-2,900 for Anta Kids (vs 2,778 by end-23), 2,100-2,200 for Fila (vs 1,972 by end-23), 220-230 for Descente (vs 187 by end-23), and 180-190 for Kolon (vs 164 by end-23).
- Operating margin improvement a bright spot.** Operating margin expanded to 24.6% in 2023 (+3.7ppt yoy), with Fila's operating margin improving 7.6ppt yoy to 27.6%, thanks to the narrowing discounts and operating leverage. Management expects Anta's operating margin to stay at around 20% (2023: 22.2%), with slight improved discount, given: a) the healthy inventory level, b) new product launches for the Olympics, and c) alleviated competition pressure from other industry competitors with less destocking pressure. For Fila and other brands, management expects the operating margin to stay at around 25% in 2024 (vs 27.6% for Fila and 27.1% for other brands in 2023).
- Expect Amer to contribute profit of Rmb2b to Anta in 2024.** In 2023, Anta recorded a loss of Rmb718m (vs a gain of Rmb28m in 2022) from Amer JV. In 2024, management expects Amer to contribute a profit of Rmb450m-550m to the company. In addition to that, the company will also record a one-off non-cash item gain of Rmb1.6b in 1H24, as a result of the listing of Amer.

EARNINGS REVISION/RISK

- Earnings revision.** We raise our 2023-24F earnings forecasts by 9%/3% to reflect improving operating profitability and profit brought by Amer's listing.
- Risks.** a) Lower-than-expected sales recovery, b) higher A&P expenses, and c) less contribution from Amer.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of HK\$109.60.** We are in favour of Anta's decent retail sales momentum and the steady business operation. Anta is our top pick in the sportswear sector. We maintain our target price of HK\$109.60, which implies 21.1x 2024F PE. The stock currently trades at 16.7x 2024F PE.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	62,356.0	72,170.2	83,528.2	94,996.8
EBITDA	20,229.0	21,911.8	24,940.1	28,105.9
Deprec. & amort.	4,862.0	5,000.9	4,951.6	4,910.9
EBIT	15,367.0	16,910.9	19,988.5	23,195.1
Associate contributions	(718.0)	500.0	600.0	720.0
Net interest income/(expense)	991.0	785.8	1,870.3	1,991.6
Pre-tax profit	15,640.0	20,008.8	22,670.9	25,906.7
Tax	(4,363.0)	(5,581.7)	(6,324.4)	(7,227.0)
Minorities	(1,041.0)	(1,331.8)	(1,509.0)	(1,724.4)
Net profit	10,236.0	13,095.2	14,837.5	16,955.3
Net profit (adj.)	10,236.0	13,095.2	14,837.5	16,955.3

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	19,634.0	19,422.9	21,103.9	23,393.9
Pre-tax profit	15,640.0	20,008.8	22,670.9	25,906.7
Tax	(3,584.0)	(5,581.7)	(6,324.4)	(7,227.0)
Deprec. & amort.	4,987.0	5,000.9	4,951.6	4,910.9
Working capital changes	1,659.0	(5.1)	(194.2)	(196.7)
Non-cash items	(48.0)	0.0	0.0	0.0
Other operating cashflows	980.0	0.0	0.0	0.0
Investing	(25,793.0)	(4,764.0)	(4,764.0)	(4,764.0)
Capex (growth)	(1,161.0)	(500.0)	(500.0)	(500.0)
Investments	(2,138.0)	(4,264.0)	(4,264.0)	(4,264.0)
Proceeds from sale of assets	(6.0)	0.0	0.0	0.0
Others	(22,488.0)	0.0	0.0	0.0
Financing	3,471.0	(3,668.8)	(16,742.1)	(9,746.6)
Dividend payments	(4,250.0)	(5,183.8)	(6,632.5)	(7,515.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	1,500.0	1,000.0	1,000.0	1,000.0
Loan repayment	(2,058.0)	515.0	(11,109.6)	(3,231.1)
Others/interest paid	8,279.0	0.0	0.0	0.0
Net cash inflow (outflow)	(2,688.0)	10,990.0	(402.2)	8,883.2
Beginning cash & cash equivalent	17,378.0	15,228.0	26,218.0	25,815.8
Changes due to forex impact	538.0	0.0	0.0	0.0
Ending cash & cash equivalent	15,228.0	26,218.0	25,815.8	34,699.0

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	4,143.0	3,508.0	3,047.0	2,712.3
Other LT assets	35,945.0	36,343.1	36,616.5	36,804.4
Cash/ST investment	15,228.0	26,218.0	25,815.8	34,699.0
Other current assets	36,912.0	38,634.2	40,627.2	42,639.7
Total assets	92,228.0	104,703.3	106,106.6	116,855.4
ST debt	6,697.0	11,109.6	3,231.1	2,718.0
Other current liabilities	13,894.0	15,615.2	17,418.8	19,239.3
LT debt	14,772.0	11,874.4	9,643.3	7,925.4
Other LT liabilities	855.0	855.0	855.0	855.0
Shareholders' equity	51,460.0	59,367.2	67,567.6	77,002.7
Minority interest	4,550.0	5,881.8	7,390.8	9,115.1
Total liabilities & equity	92,228.0	104,703.3	106,106.6	116,855.4

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	32.1	32.6	29.9	29.6
Pre-tax margin	25.1	27.7	27.1	27.3
Net margin	16.4	18.1	17.8	17.8
ROA	12.7	13.3	14.1	15.2
ROE	23.8	23.6	23.4	23.5
Growth				
Turnover	16.2	15.7	15.7	13.7
EBITDA	30.4	17.5	6.1	12.7
Pre-tax profit	37.7	27.9	13.3	14.3
Net profit	34.9	27.9	13.3	14.3
Net profit (adj.)	34.9	27.9	13.3	14.3
EPS	30.4	28.4	11.6	12.6
Leverage				
Debt to total capital	27.7	26.0	14.7	11.0
Debt to equity	41.7	38.7	19.1	13.8
Net debt/(cash) to equity	(48.3)	(56.0)	(61.7)	(66.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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