

## Company Report

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

### Anta Sports (2020 HK)

#### Strength in Outdoor mitigated a weak Fila

- Fila's guidance cut was not totally unexpected
- Strength in Outdoor Sport mitigates the risk and drives growth
- Maintain BUY; multi-brand portfolio a structural merit

#### 1H in-line; a lower Fila offset by stronger Outdoor brands

Fila's FY revenue guidance cut, notably from DD% growth to HSD% growth, was well expected given the brand only achieved a sub-optimal MSD% growth for 2Q, as we note in the company's 2Q operational date put out in early July. Other than that, Anta's 1H results were largely in line, with predicted strength coming from Descente/Kolon, as well as its associate Amer Sports (AS US, NR) which reportedly raised its 3Q guidance by as much as 10% thanks to strong China demand in Outdoor Sports. While macro uncertainties likely prevail and weigh on consumption sentiment, Anta's multi-brand portfolio enables the company to achieve idiosyncratic growth unparalleled to its local peers. This structural merit justifies our BUY.

#### Key analyst call takeaway

- Anta brand showed improved performance in July/August, with sales growth guidance maintained at double-digit growth
- FY guidance of Fila's growth was revised to HSD %
- FY OPM for Anta/Fila remained unchanged at 20-25%/25-30%

#### Key 1H results data

- 1H revenue grew by 13.8% yoy, with Anta/Fila/Descente/Kolon growing by 13.5%/6.8%/30%+/50%+ yoy; NP grew by 17% yoy
- GPM improved by 0.8pp to 64.1%; OPM recorded flat despite the 0.4pp increase in A&P expense from Olympic marketing
- Anta Group announced that it will repurchase up to HKD10bn worth of shares over the next 18 months.

#### Earnings change

- We trim our 2H Fila brand revenue growth from 14% to 9% yoy. Coupled with other housekeeping items, net-net our 2024E net profits change was muted.
- We also lower our 2025-26E Fila brand revenue by 10-13% to reflect slower growth outlook for Fila Kids and Fila Fusion.

#### Valuation and risks

- Our new TP of HKD101.5 (from previously HKD99.8) is now based on 18.5x roll-forward mid-25E P/E (from previously 19.6x end-24 P/E), which represents -1sd below long term average since 2019.
- **Key risks:** Irrational destocking; slow-down in Outdoor Sport sales.

#### Financials

Year ended 31 Dec (RMB mn)	2022	2023	2024E	2025E	2026E
Revenue	53,651	62,356	71,139	81,213	92,949
yoy growth	8.8%	16.2%	14.1%	14.2%	14.5%
Attributable net profit	7,590	10,236	14,606	15,649	18,355
Basic EPS (RMB)	2.82	3.69	5.20	5.40	6.33
yoy growth	-2%	31%	41%	4%	17%
P/E	25.4x	19.4x	13.8x	13.3x	11.3x

Sources: Company data, CMS (HK) estimates; share price as of Aug 27, 2024

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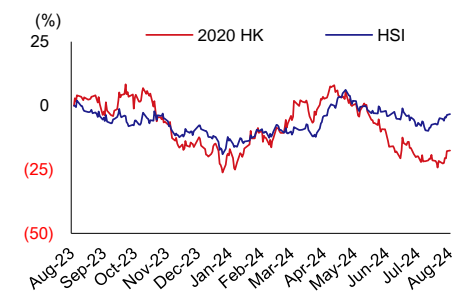
#### WHAT'S NEW

1H result in-line. Fila's guidance cut was not totally unexpected. Strength in Outdoor Sport mitigates the risk and drives growth. Maintain BUY; multi-brand portfolio a structural merit. New TP of HKD 101.5.

#### BUY

Previous	BUY
Price	HKD 71.65
12-month Target Price (Potential up/downside)	HKD 101.5 (+41.7%)
Previous	HKD 99.8

#### Price Performance



Source: Bloomberg; share price as of Aug 27, 2024

%	1m	6m	12m
2020 HK	2.8	(8.7)	(18.1)
HSI	5.0	6.5	(0.5)

#### Sector: Consumer

Hang Seng Index (Aug 27, 2024)	17,875
HSCEI (Aug 27, 2024)	6,306

#### Key Data

52-week range (HKD)	60.2 – 96
Market cap (HKD mn)	202,957
Avg. daily volume (mn)	6.4
BVPS (RMB)	18.17

#### Shareholding Structure

Anta International Group	42.40%
Anda Holdings	5.68%
Anda Investment	4.08%
Others	1.95%
No. of shares outstanding (mn)	2,833
Free float	47.4%

Source: Bloomberg

#### Related Research

1. Li Ning (2331 HK) - 1H beat on GPM; FY top-line grow LSD% on guided (BUY) (Aug 16, 2024)
2. Xtep International (1368 HK) - 2Q in-line; K&P disposal reorientates quality growth (BUY) (Aug 20, 2024)

### Key conference call takeaway and guidance

- **2024 Guidance:**
  - **Anta brand's** performance has shown recovery in July/August, and the Group maintains its previous sales guidance of double-digit growth; The management remained confident in achieving an FY OPM of over 20-25% for Anta.
  - Sales growth for Fila was guided down to a high-single-digit %, partially due to the weaker expectation for Fila Fusion and Fila Kids brands. Full-year OPM expectation for Fila remained at 25-30%.
  - Sales guidance for Other brands remained unchanged
  - Net profit guidance remained unchanged
- **Targeted number of stores by the end of 2024:**
  - Anta: 7,100-7,200
  - Anta Kids: 2,800-2,900
  - Fila: 2,100-2,200
  - Discente: 220-230
  - Kolon: 190-200

### Key 1H24 results data points

The Group's 1H24 revenue grew by 13.8% yoy, with net profit attributable to shareholders up by 17% yoy. By product category, Footwear/Apparel/Accessories grew by 18%/10.8%/10.1% yoy, accounting for 43.4%/53.6%/3% of total revenue. GPM improved by 0.8pp to 64.1%, and OPM recorded flat yoy at 25.7%. A&P expense ratio increased by 0.4pp to 7.5% due to leveraging the marketing opportunities from the Olympic Games.

- **Revenue by brand:**
  - **Anta** revenue grew by 13.5% yoy, with double-digit sales growth seen in shopping malls in Tier1/2 cities. Anta and Anta Kids brands accounted for 77% and 23% of the segmental revenue.
  - **Fila** revenue grew by 6.8% yoy. Sales of Fila/Fila Fusion/Fila Kids accounted for 70%/15%/15% of segmental revenue, respectively.
  - All other brands revenue grew by 41.8% yoy, with **Discente** brand growing by over 30% yoy and **Kolon** brand growing by over 50% yoy, and accounted for 70% and 30% of the segmental revenue
- **Inventory level:** All brands have recorded inventory levels **less than 5x**
- Overall **gross margin** improved by 0.8pp:
  - Anta GPM lifted by 0.8pp to 56.6%, benefiting from the rise in revenue mix of shoes and online sales
  - Fila GPM was down by 1.1pp to 70.2%, mainly due to the increased investment spending in products.
  - All other brands recorded GPM down by 0.7pp to 72.7%
- Overall **operating margin** was flat yoy at 25.7%:
  - Anta's OPM improved by 0.8pp to 21.8%
  - Fila's OPM declined by 1.1pp to 28.6%
  - All other brands' OPM recorded 0.4pp lower at 29.9%
- **Store count** as of 1H24 (versus in FY23):
  - Anta: 7,073 (7,053)
  - Anta Kids: 2,831 (2,778)
  - Fila: 1,981 (1,972)
  - Discente: 197 (187)
  - Kolon: 160 (164)
- **Sales per store** in 1H24 (in RMB):
  - Fila: 1mn+
  - Discente: 2.2mn+
  - Kolon: 550k+ in the northern and eastern regions of China
- **An interim dividend** of HKD1.18 per share was to be dispensed, representing a payout ratio of 50.1%
- Anta Group announced a **share repurchase plan**, intending to repurchase its shares up to **HKD10bn** over the next 18 months.

Figure 1: Earnings revision summary

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,139	81,213	92,949	72,728	84,275	97,672	-2.2%	-3.6%	-4.8%
Gross Profit	44,760	51,271	58,884	45,763	53,295	62,079	-2.2%	-3.8%	-5.1%
Operating Profit	17,475	20,123	23,234	18,162	21,313	25,013	-3.8%	-5.6%	-7.1%
Net profit	14,606	15,649	18,355	14,769	16,086	19,129	-1.1%	-2.7%	-4.0%
GPM	62.9%	63.1%	63.4%	62.9%	63.2%	63.6%	0ppt	-0.1ppt	-0.2ppt
OPM	24.6%	24.8%	25.0%	25.0%	25.3%	25.6%	-0.4ppt	-0.5ppt	-0.6ppt
NPM	20.5%	19.3%	19.7%	20.3%	19.1%	19.6%	0.2ppt	0.2ppt	0.2ppt

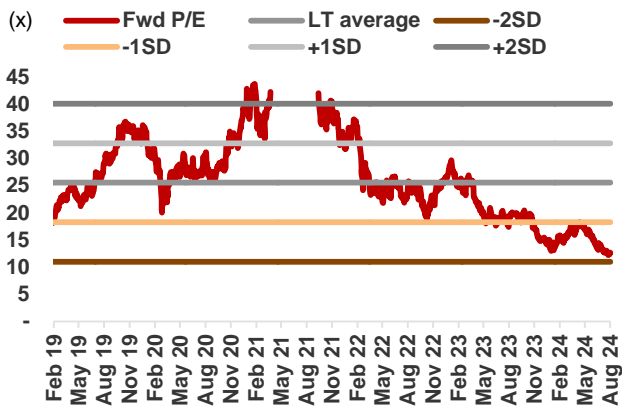
Sources: Company data, CMS (HK) estimates

Figure 2: CMS estimates vs. consensus

RMB mn	CMS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,139	81,213	92,949	70,438	78,779	87,604	1.0%	3.1%	6.1%
Gross Profit	44,760	51,271	58,884	44,376	49,631	55,191	0.9%	3.3%	6.7%
Operating Profit	17,475	20,123	23,234	16,502	18,609	20,795	5.9%	8.1%	11.7%
Net profit	14,606	15,649	18,355	12,922	13,887	15,690	13.0%	12.7%	17.0%
GPM	62.9%	63.1%	63.4%	63.0%	63.0%	63.0%	-0.1ppt	0.1ppt	0.4ppt
OPM	24.6%	24.8%	25.0%	23.4%	23.6%	23.7%	1.1ppt	1.2ppt	1.3ppt
NPM	20.5%	19.3%	19.7%	18.3%	17.6%	17.9%	2.2ppt	1.6ppt	1.8ppt

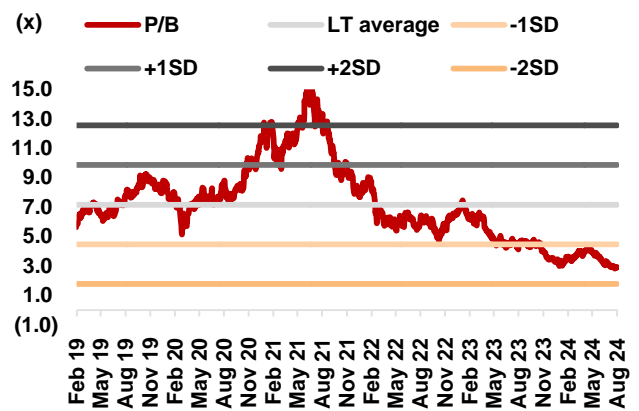
Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 3: Forward P/E



Sources: Bloomberg, CMS (HK)

Figure 4: Historical P/B



Sources: Bloomberg, CMS (HK)

## Financial statement

### Balance Sheet

RMB mn	2022	2023	2024E	2025E	2026E
PP&E	3,716	4,143	3,832	3,544	3,278
Right of use assets	8,015	8,085	8,509	8,955	9,424
Investment in associate/JV	9,343	9,283	9,283	9,283	9,283
Other non-current assets	5,525	18,577	18,580	18,768	18,771
<b>Non-current assets</b>	<b>26,599</b>	<b>40,088</b>	<b>40,204</b>	<b>40,550</b>	<b>40,756</b>
Inventories	8,490	7,210	8,153	9,254	10,528
Receivables and prepayments	5,800	6,916	7,890	9,007	10,309
Other financial assets	618	1,333	1,333	1,333	1,333
Deposits	10,310	21,453	21,453	21,453	21,453
Bank Balances and Cash	17,378	15,228	26,365	37,603	51,771
<b>Current assets</b>	<b>42,596</b>	<b>52,140</b>	<b>65,194</b>	<b>78,651</b>	<b>95,394</b>
<b>Total assets</b>	<b>69,195</b>	<b>92,228</b>	<b>105,397</b>	<b>119,201</b>	<b>136,150</b>
Account Payable	8,895	11,008	12,448	14,129	16,074
Due to Related Parties	53	29	29	29	29
Bank Borrowings	12,198	3,996	3,996	3,996	3,996
Other current liabilities	5,061	5,558	5,558	5,558	5,558
<b>Current liabilities</b>	<b>26,207</b>	<b>20,591</b>	<b>22,031</b>	<b>23,712</b>	<b>25,657</b>
Deferred Tax Liabilities	691	855	855	855	855
Lease Liabilities	3,938	3,824	3,824	3,824	3,824
Bank Borrowing	492	10,948	10,948	10,948	10,948
Other Borrowing	4	4	4	4	5
Provision and other liabilities	24	(4)	(4)	(4)	(5)
<b>Non-current liabilities</b>	<b>5,149</b>	<b>15,627</b>	<b>15,627</b>	<b>15,627</b>	<b>15,627</b>
<b>Total liabilities</b>	<b>31,356</b>	<b>36,218</b>	<b>37,658</b>	<b>39,339</b>	<b>41,284</b>
Share Capital	262	272	272	272	272
Reserves	34,138	51,188	61,597	72,305	85,649
Non-controlling interests	3,439	4,550	5,870	7,285	8,944
<b>Total equity</b>	<b>37,839</b>	<b>56,010</b>	<b>67,739</b>	<b>79,862</b>	<b>94,866</b>
<b>Total equity and liabilities</b>	<b>69,195</b>	<b>92,228</b>	<b>105,397</b>	<b>119,201</b>	<b>136,150</b>

### Cashflow Statement

RMB mn	2022	2023	2024E	2025E	2026E
Profit before tax	7,590	10,236	14,606	15,649	18,355
Finance Costs	-97	-991	-1,344	-1,245	-1,619
Shares of profit of associate/JV	-28	718	-575	-1,029	-1,362
D&A	-4,464	-4,987	-5,180	-5,114	-5,449
Changes in OWC	-1,596	1,652	-477	-537	-630
Others	13,852	17,369	18,646	19,247	21,740
Income tax paid and others	-3,110	-4,363	-5,046	-5,332	-6,202
<b>CF from operating activities</b>	<b>12,147</b>	<b>19,634</b>	<b>20,630</b>	<b>21,640</b>	<b>24,832</b>
Capital expenditure	-1,621	-1,161	-824	-762	-705
Investments	-115	-160	-171	-171	-186
Others	-3,038	-24,472	-4,301	-4,527	-4,764
<b>CF from investing activities</b>	<b>-4,774</b>	<b>-25,793</b>	<b>-5,296</b>	<b>-5,460</b>	<b>-5,655</b>
Dividend paid	-3,950	-4,250	-4,197	-4,941	-5,010
Equity financing	0	0	0	0	0
Others	-3,891	7,721	0	0	0
<b>CF from financing activities</b>	<b>-7,841</b>	<b>3,471</b>	<b>-4,197</b>	<b>-4,941</b>	<b>-5,010</b>
<b>Net cash flow</b>	<b>-468</b>	<b>-2,688</b>	<b>11,137</b>	<b>11,239</b>	<b>14,167</b>

### Profit & Loss

RMB mn	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>53,651</b>	<b>62,356</b>	<b>71,139</b>	<b>81,213</b>	<b>92,949</b>
Cost of Sales	-21,333	-23,328	-26,379	-29,942	-34,065
<b>Gross profits</b>	<b>32,318</b>	<b>39,028</b>	<b>44,760</b>	<b>51,271</b>	<b>58,884</b>
Selling expenses	-19,629	-21,673	-25,059	-28,608	-32,742
General & Admin expenses	-3,587	-3,693	-4,256	-4,858	-5,560
Others	6,592	1,705	2,030	2,318	2,653
<b>Operating profits</b>	<b>15,694</b>	<b>15,367</b>	<b>17,475</b>	<b>20,123</b>	<b>23,234</b>
Finance costs	97	991	1,344	1,245	1,619
Other income/expenses	-4,436	-718	2,154	1,029	1,362
<b>Profit before tax</b>	<b>11,355</b>	<b>15,640</b>	<b>20,973</b>	<b>22,396</b>	<b>26,216</b>
Income tax expense	-3,110	-4,363	-5,046	-5,332	-6,202
<b>Net profit</b>	<b>8,245</b>	<b>11,277</b>	<b>15,927</b>	<b>17,064</b>	<b>20,014</b>
Non-controlling interest	-655	-1,041	-1,320	-1,415	-1,659
<b>Attributable net profit</b>	<b>7,590</b>	<b>10,236</b>	<b>14,606</b>	<b>15,649</b>	<b>18,355</b>
Basic EPS (RMB)	2.82	3.69	5.20	5.40	6.33
Dividend per share (RMB)	1.34	1.97	1.45	1.47	1.70

### Financial Ratio

	2022	2023	2024E	2025E	2026E
<b>yoy growth rate</b>					
Revenue	8.8%	16.2%	14.1%	14.2%	14.5%
Gross Profit	8.8%	16.2%	14.1%	14.2%	14.5%
Operating profit	2.2%	36.8%	13.7%	15.2%	15.5%
Net profit	-1.7%	34.9%	42.7%	7.1%	17.3%
EPS	-1.8%	30.9%	40.8%	3.9%	17.3%
<b>Profitability</b>					
Gross margin	60.2%	62.6%	62.9%	63.1%	63.4%
Operating margin	20.9%	24.6%	24.6%	24.8%	25.0%
Net margin	14.1%	16.4%	20.5%	19.3%	19.7%
<b>Liquidity</b>					
AR days	20.3	21.8	21.8	21.8	21.8
Inventory days	145.3	112.8	112.8	112.8	112.8
AP days	152.2	172.2	172.2	172.2	172.2
Cash conversion cycle	13.3	-37.6	-37.6	-37.6	-37.6
<b>Cash flow &amp; leverage</b>					
Free cash low	10,526	18,473	19,806	20,878	24,127
Net debt to equity	-40.9%	-58.4%	-64.7%	-68.9%	-73.0%
Dividend payout ratio	45.4%	51.6%	30.2%	25.4%	25.2%
Dividend yield	1.9%	2.7%	2.0%	2.0%	2.4%
<b>Return analysis</b>					
ROE	24.0%	23.8%	25.8%	23.3%	23.2%
Asset turnover	0.8	0.7	0.7	0.7	0.7
Net margin	14.1%	16.4%	20.5%	19.3%	19.7%
Financial leverage	1.8	1.6	1.6	1.5	1.4
ROA	11.5%	12.7%	14.8%	13.9%	14.4%
ROCE	16.9%	17.9%	18.8%	17.5%	17.8%
<b>Valuation ratios</b>					
P/E	25.4x	19.4x	13.8x	13.3x	11.3x
P/B	5.1x	3.7x	3.1x	2.6x	2.2x

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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### Hong Kong

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