

Hong Kong
ADD

Consensus ratings*: Buy 31 Hold 5 Sell 1

Current price:	HK\$51.4
Target price:	HK\$55.7
Previous target:	HK\$55.7
Up/downside:	8.5%
CGS-CIMB / Consensus:	N/A
Reuters:	
Bloomberg:	2020 HK
Market cap:	US\$17,783m
	HK\$138,708m
Average daily turnover:	US\$40.1m
	HK\$335.0m
Current shares o/s:	2,687m
Free float:	38.2%
*Source: Bloomberg	

Key changes in this note

➤ No change



Price performance	1M	3M	12M
Absolute (%)	6.3	-1.7	25.9
Relative (%)	2	5.1	27.9

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

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Anta Sports

Legacy issues do not hinder its way forward

- Muddy Waters (MW) attacked Anta on two issues: (1) the independence of its distributors, and (2) a transaction related to Shanghai Fengxian in 2008.
- The allegations are mostly about certain legacy issues that are not commonly practiced outside China, but we believe Anta has responded properly.
- Back to the core business, sales of the core ANTA brand and FILA during Q2 2019 were in line with management expectations.
- We maintain our ADD rating with a TP of HK\$55.7, based on 20x 2020E PER.

Muddy Waters attacked Anta's distributor system

On 8 July 2019, MW issued a report attacking Anta's wholesale distributor system. Key issues raised by MW were that: (1) the distributors of the ANTA brand are not operated by independent third parties, but related parties, such as close relatives of controlling shareholder Ding Shizhong or former employees of Anta; (2) Anta has financial interests in its distributors; and (3) Anta has control on the internal management of its distributors. On 9 July 2019, MW attacked a transaction in 2008 related to a company called Shanghai Fengxian, a retailer of international brands such as Adidas. MW questioned Anta's disposal of Fengxian to a shareholder of a distributor and its valuation. For these reasons, MW questioned Anta's higher margins than its industry peers'.

Anta denied any wrongdoing or non-compliance with listing rules

Anta held two conference calls on 9 July 2019 to refute MW's allegations. The key refutations were that (1) Anta does not have any financial interest in its distributors; (2) Anta does not have control over the internal management of its distributors; (3) its transactions with distributors comply with the HKEx's Listing Rules and have been audited by KPMG for more than a decade; and (4) it disposed of Fengxian because it was losing money.

It requires an understanding of Anta's legacy issues and culture

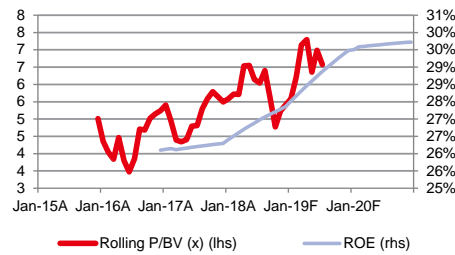
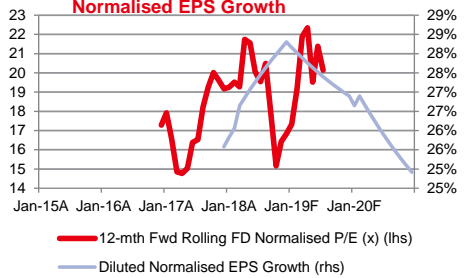
We believe Anta responded to the allegations properly and that the attacks by MW are related mostly to legacy issues of Anta. Originally, Anta was an OEM. When it started to develop its own brand in the 1990s, the founders had to rely on people with a close relationship with management. It is not uncommon in the industry for veteran employees to become distributors. While some actions taken by distributors (such as claiming to be a subsidiary of Anta) are not good practices of corporate governance, they help the distributors communicate with other parties and develop the business more easily. We view the disposal of Fengxian as reasonable since Fengxian was loss making, and it did not have an edge to compete with large distributors, such as Pou Sheng or Belle.

Core business still intact in Q2 2019

To sum up, we do not think MW's attacks are solid, but it may raise some investors' awareness of Chinese business practices not commonly found in well-developed markets. Management also commented that retail sales of the core ANTA brand and FILA during Q2 2019 were good, and in line with their expectations. Therefore, we maintain our view that Anta could achieve 20% YoY growth in revenue in FY2019E. We maintain our ADD rating with a TP of HK\$55.7, based on 20x FY2020E PER. Anta will report its 2019 interim earnings in late August 2019. We believe the key focus will be on its consolidation of Amer Sports. Key downside risk will be worse-than-expected profitability of Amer Sports.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	16,692	24,100	29,035	34,833	41,586
Operating EBITDA (Rmbm)	4,239	6,042	7,512	9,261	11,029
Net Profit (Rmbm)	3,088	4,103	5,267	6,621	7,936
Normalised EPS (Rmb)	1.17	1.53	1.95	2.45	2.94
Normalised EPS Growth	22.8%	30.7%	28.0%	25.4%	19.9%
FD Normalised P/E (x)	37.77	29.42	23.14	18.46	15.42
DPS (Rmb)	0.83	0.68	0.59	0.74	0.88
Dividend Yield	1.84%	1.50%	1.29%	1.62%	1.95%
EV/EBITDA (x)	26.21	18.81	16.38	12.81	10.24
P/FCFE (x)	663.9	25.6	NA	15.7	12.9
Net Gearing	(64.5%)	(53.1%)	0.4%	(18.6%)	(33.8%)
P/BV (x)	8.73	7.71	6.23	5.01	4.05
ROE	26.6%	27.8%	29.8%	30.1%	29.1%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			1.02	1.05	1.06

SOURCES: CGIS RESEARCH, 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-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	16,692	24,100	29,035	34,833	41,586
Gross Profit	8,241	12,687	16,007	19,571	23,679
Operating EBITDA	4,239	6,042	7,512	9,261	11,029
Depreciation And Amortisation	(250)	(342)	(624)	(708)	(765)
Operating EBIT	3,989	5,700	6,888	8,553	10,264
Financial Income/(Expense)	322	68	(32)	(101)	(49)
Pretax Income/(Loss) from Assoc.	0	0	506	764	802
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	4,311	5,767	7,362	9,216	11,017
Exceptional Items					
Pre-tax Profit	4,311	5,767	7,362	9,216	11,017
Taxation	(1,152)	(1,533)	(1,957)	(2,450)	(2,929)
Exceptional Income - post-tax					
Profit After Tax	3,159	4,234	5,405	6,766	8,088
Minority Interests	(71)	(131)	(138)	(145)	(152)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	3,088	4,103	5,267	6,621	7,936
Normalised Net Profit	3,159	4,234	5,405	6,766	8,088
Fully Diluted Normalised Profit	3,088	4,103	5,267	6,621	7,936

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	4,239	6,042	7,512	9,261	11,029
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(381)	(444)	(384)	51	76
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	336	130	579	873	964
Net Interest (Paid)/Received	0	0	(105)	(211)	(211)
Tax Paid	(1,013)	(1,288)	(1,957)	(2,450)	(2,929)
Cashflow From Operations	3,181	4,440	5,645	7,525	8,930
Capex	(585)	(498)	(962)	(933)	(877)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0	(184)	(12,097)	0	0
Other Investing Cashflow	(993)	(519)	0	0	0
Cash Flow From Investing	(1,579)	(1,201)	(13,059)	(933)	(877)
Debt Raised/(repaid)	(1,427)	1,477	5,742	1,210	1,432
Proceeds From Issue Of Shares	3,435	4	0	0	0
Shares Repurchased					
Dividends Paid	(1,976)	(2,468)	(1,444)	(1,783)	(2,184)
Preferred Dividends					
Other Financing Cashflow	(34)	(150)	0	0	0
Cash Flow From Financing	(2)	(1,136)	4,298	(574)	(751)
Total Cash Generated	1,601	2,102	(3,116)	6,019	7,302
Free Cashflow To Equity	176	4,716	(1,672)	7,802	9,485
Free Cashflow To Firm	1,603	3,239	(7,309)	6,803	8,263

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	9,404	10,091	6,976	12,994	20,296
Total Debtors	3,733	4,638	5,015	5,253	5,546
Inventories	2,155	2,892	4,166	5,387	6,748
Total Other Current Assets	150	1,662	1,662	1,662	1,662
Total Current Assets	15,442	19,284	17,819	25,297	34,252
Fixed Assets	1,909	2,536	2,884	3,119	3,241
Total Investments	0	0	0	0	0
Intangible Assets	705	685	12,783	12,783	12,783
Total Other Non-Current Assets	1,018	1,868	1,969	2,089	2,205
Total Non-current Assets	3,632	5,090	17,636	17,991	18,228
Short-term Debt	148	1,244	7,056	8,266	9,698
Current Portion of Long-Term Debt					
Total Creditors	3,978	5,633	6,787	8,142	9,720
Other Current Liabilities	373	671	830	1,038	1,241
Total Current Liabilities	4,498	7,548	14,672	17,446	20,660
Total Long-term Debt		70	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	215	236	302	378	452
Total Non-current Liabilities	215	306	302	378	452
Total Provisions	0	0	0	0	0
Total Liabilities	4,714	7,854	14,974	17,824	21,112
Shareholders' Equity	13,706	15,777	19,601	24,438	30,191
Minority Interests	654	743	880	1,025	1,177
Total Equity	14,361	16,520	20,481	25,464	31,368

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	25.1%	44.4%	20.5%	20.0%	19.4%
Operating EBITDA Growth	23.6%	42.5%	24.3%	23.3%	19.1%
Operating EBITDA Margin	25.4%	25.1%	25.9%	26.6%	26.5%
Net Cash Per Share (Rmb)	3.50	3.27	(0.03)	1.75	3.92
BVPS (Rmb)	5.19	5.87	7.27	9.05	11.18
Gross Interest Cover	N/A	N/A	65.42	40.61	48.74
Effective Tax Rate	26.7%	26.6%	26.6%	26.6%	26.6%
Net Dividend Payout Ratio	71.3%	44.4%	30.0%	30.0%	30.0%
Accounts Receivables Days	69.69	63.39	60.68	53.94	47.39
Inventory Days	74.5	80.7	98.9	114.6	123.7
Accounts Payables Days	152.0	153.7	174.0	179.0	182.0
ROIC (%)	112%	107%	86%	41%	49%
ROCE (%)	34.0%	35.7%	30.7%	28.3%	27.9%
Return On Average Assets	17.0%	19.2%	18.2%	17.4%	17.0%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
No. of POS (main prod/serv)	9,467	10,057	10,200	10,455	10,716
SSS grth (% , main prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
No. of POS (2ndary prod/serv)	1,086	1,652	1,900	2,090	2,194
SSS grth (% , 2ndary prrod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

- BUY : share price will increase by >20% within 12 months in absolute terms
SELL : share price will decrease by >20% within 12 months in absolute terms
HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

- ADD : The stock's total return is expected to exceed 10% over the next 12 months.
REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.
HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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