

Keep expanding

BUY (unchanged)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (RMBm)	2,988.74	6,266.85	4,023.36	1,508.7	4,411.2
Net Profit (RMBm)	416.3	902.61	1,216.1	1,165.01	288.2
EPS (RMB)	0.253	0.359	0.450	0.468	0.517
EPS Δ%	208.4	42.3	25.3	3.9	10.6
P/E (x)	12.8	9.0	7.2	6.9	6.2
P/B (x)	1.94	1.79	1.61	1.50	1.39
EV/EBITDA (x)	13.6	5.3	4.5	4.3	3.6
Yield (%)	2.2	7.7	9.6	11.0	12.3
ROE (%)	19.0	20.9	23.7	22.5	23.1
ROCE (%)	15.9	21.6	24.6	24.3	26.1
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2-Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+10.1	+20.2	-16.0
Actual price changes (%)	+4.6	+7.4	-56.8

	09F	10F	11F
Consensus EPS (RMB)	0.419	0.496	0.559
Previous forecasts (RMBm)	1,119.3	1,196.6	
Previous EPS (RMB)	0.450	0.481	

Price Chart



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and 43.7% for apparels. In FY12/09F, the company plans to open 533 new stores. Despite the economy slowdown, the target looks feasible considering target areas for expansion are non-prime areas in China.

Brand building. We regard brand influence as a key issue to support expansion. Anta, in our view, has a track record for its effective marketing and brand building. The company maintained a sound media exposure during FY12/08A by sponsoring mainstream sports events. Advertisement & promotion expenses jumped 1.4pcp to 13.8% of turnover, which will further increase to 15.0% in FY12/09F, according to the company's budget. We expect this to become a long-term trend given: 1) competition; 2) the huge potential of China's sportswear consumption and 3) still relatively fragmented market.

New business lines. The company introduced two new lines, trendy sneaker and kids series, into its portfolio in

Ticker:	2020.HK	12 mth range:	HK\$2.16-9.50
Price:	HK\$3.65	Market cap:	US\$1,165.2m
Target:	HK\$5.76 (+58%)	Daily t/o, 3 mth:	US\$1.7m
		Free float %:	27.4%

Key points:

- * FY12/08A results in line.
- * Unit cost down behind 6.5pcp gross margin expansion.
- * Further margin improvement likely due to cost down.
- * Expand store count from 5,667 to 6,200 in FY12/09F.
- * Trendy sneaker and kids series have been well accepted since launched.
- * Strengthening brand influence.
- * Target price unchanged at HK\$5.76.

Results highlight. Turnover rose 54.8% to RMB4,626.8m. Blended gross margin widened 6.5pcp to 40.0%, thanks to enhanced selling price (footwear: up 6.8%; apparels: up 6.3%) and decline in unit cost (footwear: down 5.8%; apparels: down 0.8%). The company booked RMB41.7m one-off loss from foreign currency deposits during the period. Effective tax rate dropped 3.1pcp to 7.0%. Net profit increased 66.4% to RMB894.8m. A special dividend of HK\$0.08 has been declared together with HK\$0.10 final dividend.

Table 1: Results highlight

(RMBm)	07A	08A	YoY (%)	Reasons
Turnover	2,988.7	4,626.8	54.8	Increase in ASP Additional products offerings Expansion of distribution network
Gross profit	999.9	1,848.6	84.9	Strengthened brand reputation, Shoe sole factory in full capacity, Purchase of raw materials together with OEM suppliers
Operating profit	479.3	930.7	94.2	Gross margin expansion
Net profit	537.8	894.8	66.4	RMB41.7m one-off loss Effective tax rate down to 7.0%

Source: Company data

Expanding network. Number of Anta stores enlarged from 4,716 to 5,667. Most of the 951 new stores are large sized (above 100sqm), bringing the average sales floor area up by 9.6% to 100.8sqm. Per sqm sales volume of footwear and apparels increased 11.4% and 9.0%, respectively. As a result, shipment volume went up 46.8% for footwear

2008. These new products are sold under Anta brand either together with existing ones in standard stores or separately in a specialty store. Market response is positive according to the management, and the two businesses were both profitable in FY12/08A. The company plans to further expand them this year (number of stores: trendy sneaker from 33 to 200; kids series from 81 to 200) and estimates contribution to be ~2% of total sales.

2009 outlook. The management is confident in its performance in FY12/09F, expecting double-digit same-store-sales (SSS) growth (FY12/08A: ~22%). We admit that based on the feedback from trading fairs (20%+ growth in quantity and single-digit enhancement in ASP), the company should be able to deliver a sound growth. Nevertheless, in view of the weak economy, we are cautious about sales at street level (i.e. sales to end users), which might push distributors to cut purchase volume or re-negotiate terms. However margin expansion could be another earnings driver after sharp decline in raw materials costs, especially rubber. For FY12/10F, inventory accumulated in hand will probably affect retailers' procurement, despite an expected economy recovery in that year.

Target price unchanged. We fine tuned our forecast and expect the generous dividend to remain given the company's strong balance sheet (net cash: RMB3,493.5m at end-FY12/08A) We still see Anta as a well-positioned domestic brand to benefit from the growth of sportswear market in China. Our target price is unchanged at HK\$5.76. BUY.

Table 2: Forecasts review

(RMBm)	08A	08F	Difference (%)	Remarks
Turnover				
Anta	4,626.8	4,683.5	1.2	Over-estimated contribution from accessories
Retail*	143.3	143.3		
Gross profit				
Anta	1,848.6	1,797.7	(2.8)	Unexpected decline in unit cost
Retail*	36.3	36.3		
Net profit	894.8	851.2	(4.9)	

Source: Company data, SBI E2-Capital

Note: * the company disposed retail business in 2008.

Table 3: Estimates adjustments

(RMBm)	09F	10F	Remarks
Turnover (RMBm)	5,402.3	6,150.8	Revised down sales of accessories
Gross margin (%)	42.9	42.9	Better-than-expected gross margin in FY12/08A, Further improvement due to decline in raw material cost
Net profit (RMBm)	1,121.6	1,165.0	
Old forecast			
Turnover (RMBm)	5,539.8	6,161.7	
Gross margin (%)	41.3	41.2	
Net profit (RMBm)	1,119.3	1,196.6	

Source: Company data, SBI E2-Capital

Table 4: P & L

Year to Dec (RMBm)	07A	08A	09F	10F	11F
Continuing operations					
Turnover	2,988.7	4,626.8	5,402.3	6,150.8	7,441.2
Cost of sales	(1,988.8)	(2,778.2)	(3,083.3)	(3,513.0)	(4,241.9)
Gross profit	999.9	1,848.6	2,318.9	2,637.9	3,199.3
Other revenue	9.3	21.1	5.2	5.2	5.2
Other net (loss) / income	(1.6)	(0.8)	0.0	0.0	0.0
Selling and distribution expenses	(425.7)	(758.4)	(918.4)	(1,076.4)	(1,339.4)
Administrative expenses	(102.5)	(179.9)	(243.1)	(307.5)	(409.3)
Profit from operations	479.3	930.7	1,162.7	1,259.1	1,455.8
Finance costs, net	125.4	39.6	90.0	95.0	105.0
Profit before taxation	604.7	970.2	1,252.7	1,354.1	1,560.8
Income tax	(61.3)	(67.6)	(131.1)	(189.1)	(272.6)
Profit from continuing operations	543.5	902.6	1,121.6	1,165.0	1,288.2
Discontinued operations					
Loss from discontinued operations	(5.6)	(7.9)			
Profit for the period	537.8	894.8	1,121.6	1,165.0	1,288.2
Attributable to:					
Equity holders of the Company	537.8	894.8	1,121.6	1,165.0	1,288.2
Minority interests					
EPS - Basic (RMB)	0.253	0.359	0.450	0.468	0.517
EPS - Diluted (RMB)	0.252	0.359	0.450	0.467	0.517
Proposed DPS (HK\$)	0.080	0.280	0.350	0.400	0.450

Source: Company data and SBI E2-Capital

P & L (RMBm)	07A	08A	09F	10F	11F	Cash Flow (RMBm)	07A	08A	09F	10F	11F
Year to Dec						Year to Dec					
Turnover	2,988.7	4,626.8	5,402.3	6,150.8	7,441.2	EBIT	352.1	930.7	1,162.7	1,259.1	1,455.8
% chg	139.1	54.8	16.8	13.9	21.0	Depre./amort.	29.8	36.3	51.4	60.9	69.2
Gross profit	999.9	1,848.6	2,318.9	2,637.9	3,199.3	Net int. paid	125.4	39.6	90.0	95.0	105.0
EBITDA	381.9	966.9	1,214.1	1,320.0	1,525.0	Tax paid	(38.5)	(67.9)	(131.1)	(189.1)	(272.6)
Depre./amort.	(29.8)	(36.3)	(51.4)	(60.9)	(69.2)	Dividends received					
EBIT	352.1	930.7	1,162.7	1,259.1	1,455.8	Gross cashflow	468.9	938.6	1,173.0	1,225.9	1,357.4
Net int. income/(exp.)	125.4	39.6	90.0	95.0	105.0	Chgs. in working cap.	(335.6)	62.1	(438.1)	(118.4)	(206.1)
Exceptionals						Operating cashflow	133.3	1,000.6	734.9	1,107.5	1,151.4
Associates						Capex	(264.4)	(410.3)	(484.5)	(548.6)	(120.1)
Jointly-controlled entit.						Free cashflow	(131.1)	590.3	250.4	558.9	1,031.3
Pre-tax profit	477.6	970.2	1,252.7	1,354.1	1,560.8	Dividends paid	(21.3)	(400.3)	(617.0)	(771.2)	(881.4)
Tax	(61.3)	(67.6)	(131.1)	(189.1)	(272.6)	Net distribution to MI					
Minority interests						Investments	0.0	0.0	0.0	0.0	0.0
Net profit	416.3	902.6	1,121.6	1,165.0	1,288.2	Disposals	0.1	3.4	0.0	0.0	0.0
% chg	182.4	116.8	24.3	3.9	10.6	New shares	3,371.5	0.0	0.0	0.0	0.0
Dividends	(181.9)	(613.5)	(771.2)	(881.4)	(991.6)	Change in loans	(117.3)	(154.6)	0.0	0.0	(0.0)
Retained earnings	234.4	289.1	350.3	283.6	296.6	Others	3,101.9	38.8	(366.6)	(212.4)	149.9
EPS (HK\$) - Basic	0.253	0.359	0.450	0.468	0.517	Net cashflow	131.2	3,233.1	3,271.9	2,905.3	2,692.9
EPS (HK\$) - F.D.	0.252	0.359	0.450	0.467	0.517	Net (debt)/cash - Beg.	3,233.1	3,271.9	2,905.3	2,692.9	2,842.8
DPS (HK\$)	0.080	0.280	0.350	0.400	0.450	Net (debt)/cash - End.	352.1	930.7	1,162.7	1,259.1	1,455.8
No. sh.s o/s (m) - W.A.	2,129.3	2,129.3	2,490.0	2,490.0	2,490.0	Interim Results (RMBm)	07A	08A			
No. sh.s o/s (m) - Y.E.	2,490.0	2,490.0	2,490.0	2,490.0	2,490.0	Six months to Jun					
No. sh.s o/s (m) - F.D.	2,133.2	2,133.2	2,493.9	2,493.9	2,493.9	Turnover	1,497.7	2,348.5			
Margins (%)						% chg	203.1	56.8			
Gross	33.5	40.0	42.9	42.9	43.0	Profit from operations	234.3	410.9			
EBITDA	12.8	20.9	22.5	21.5	20.5	Interest expenses	(1.4)	63.6			
EBIT	11.8	20.1	21.5	20.5	19.6	Associates					
Pre-tax	16.0	21.0	23.2	22.0	21.0	Jointly-controlled entit.					
Net	13.9	19.5	20.8	18.9	17.3	Pre-tax profit	232.9	474.5			
						Tax	(29.6)	(27.4)			
						Minority interests					
						Net profit	203.3	447.1			
						% chg	284.6	120.0			
Balance Sheet (RMBm)	07A	08A	09F	10F	11F	EPS (HK\$) - Basic	0.113	0.174			
Year to Dec						DPS (HK\$)	1,497.7	2,348.5			
Fixed assets	328.4	452.2	588.8	628.8	674.1	Shareholding Structure					
Intangible assets	4.2	4.1	3.3	2.5	1.7						
Other LT assets	162.1	136.2	155.1	103.6	110.0						
Cash	3,233.1	3,493.5	3,405.3	3,692.9	3,842.8						
Accounts receivable	467.7	524.0	831.1	946.3	1,144.8						
Other receivables											
Inventories	434.8	332.5	540.2	615.1	744.1						
Due from related co.s	0.3	0.0	0.0	0.0	0.0						
Other current assets	0.0	0.0	0.0	0.0	0.0						
Total assets	4,630.7	4,942.5	5,523.8	5,989.2	6,517.5						
Accounts payable	(455.7)	(437.2)	(513.9)	(585.5)	(707.0)						
Other payable											
Tax payable											
Due to related co.s	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)						
ST debts	0.0	0.0	0.0	0.0	0.0						
Other current liab.	(22.9)	(22.9)	(22.9)	(22.9)	(22.9)						
LT debts											
Other LT liabilities	0.0	0.0	0.0	0.0	0.0						
Total liabilities	(480.0)	(461.6)	(538.3)	(610.0)	(731.4)						
Share capital	241.7	241.7	241.7	241.7	241.7						
Reserves	3,909.0	4,239.2	4,743.8	5,137.6	5,544.4						
Shareholders' funds	4,150.7	4,480.9	4,985.5	5,379.3	5,786.1						
Minority interest											
Total	4,150.7	4,480.9	4,985.5	5,379.3	5,786.1						
Capital employed	4,150.7	4,480.9	4,985.5	5,379.3	5,786.1						
Net (debt)/cash	3,233.1	3,493.5	3,405.3	3,692.9	3,842.8						
						Key Ratios	07A	08A	09F	10F	11F
						Net gearing (%)	Cash	Cash	Cash	Cash	Cash
						Net ROE (%)	19.0	20.9	23.7	22.5	23.1
						EBIT ROCE (%)	15.9	21.6	24.6	24.3	26.1
						Dividend payout (%)	43.7	68.0	68.8	75.7	77.0
						Effective tax rate (%)	12.8	7.0	10.5	14.0	17.5
						Net interest coverage (x)	na	na	na	na	na
						A/R turnover (days)	40.9	39.1	45.8	52.7	51.3
						A/P turnover (days)	47.7	35.2	32.1	32.6	31.7
						Stock turnover (days)	54.1	50.4	51.7	60.0	58.5

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