

Picking up the pace

BUY (unchanged)

1H FY12/08A results summary. Turnover rose 39.8% to RMB2,348.5m, including RMB143.3m from the discontinued retail operation, which was disposed of in June. The sales of its core branded business hit RMB2,205.2m, up 52.3% YoY, while the gross margin widened 5.1pcp to 38.9% thanks to improving ASPs. Overall net profit increased 113.6% to RMB434.3m.

China Consumer

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Table 1: 1H results

Six-month to Jun (RMBm)	08A	07A	YoY change (%)
Turnover	2,348.5	1,497.7	56.8
Anta brand	2,205.2	1,447.7	52.3
Retail of international brands	143.3	50.1	186.3
Gross profit	893.3	502.4	77.8
Anta brand	857.0	488.6	75.4
Retail of international brands	36.3	13.8	162.2
SG&A	(504.0)	(270.8)	86.1
Anta brand	(454.2)	(254.1)	78.8
Retail of international brands	(49.8)	(16.8)	197.2
Net profit	434.3	203.3	113.6
Anta brand	442.1	206.4	114.2
Retail of international brands	(7.9)	(3.1)	150.8
			(pcp)
Gross margin (%)	38.0	33.5	4.5
Anta brand	38.9	33.7	5.1
Retail of international brands	25.3	27.6	(2.3)

Source: Company data

Rising selling prices. The ASP of footwear increased 7.2% to RMB92.1 and of apparel 5.5% to RMB43.8, backed by increases in retail prices (8.0 – 10.0%) and lower discounts to distributors (from about 59.0% to 58.5%), thanks to, in our view, the company's strengthening brand. With rich marketing resources in hand, we expect this trend to continue.

Expanding sales network. The number of retail stores reached 5,193 in Jun 2008 (net increase of 955 in last 12 months). The company's plan to add 600 – 800 new stores each year is feasible given its solid market position and the 20.0 – 25.0% annual organic growth rate of China's sportswear market in the next five years.

Increased expenses. SG&A expenses rose 86.1% in 1H FY12/08A to RMB504.0m, including RMB49.8m from the retail division. Despite the disposal of the retail division in June, we expect SG&A expenses in 2H to increase further on a HoH basis, given the extra spending

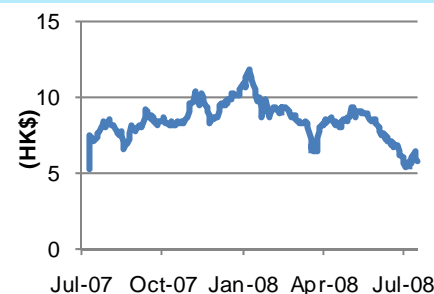
Stock data

Price	HK\$5.62
Target price	HK\$8.29 (+48%)
12 mth range	HK\$4.15-12.20
Market cap.	US\$1,798.5m
Daily t/o, 3 mth	US\$4.2m
Free float %	27.7%
Ticker	2020.HK/2020 HK

Financial summary

Year to Dec	06A	07A	08F	09F	10F
Turnover (RMBm)	1,250.13	1,825.47	703.56	1,822.7	829.0
Net profit (RMBm)	147.4	537.8	843.91	1,159.01	1,483.4
EPS (RMB)	0.082	0.253	0.339	0.465	0.596
EPS Δ %	203.3	208.4	34.2	37.3	28.0
P/E (x)	62.4	20.2	15.1	11.0	8.6
P/B (x)	38.65	3.06	2.64	2.32	2.03
EV/EBITDA (x)	79.2	19.4	11.0	7.4	5.2
Yield (%)	-	1.4	3.9	5.5	7.1
ROE (%)	84.5	24.5	18.8	22.5	25.3
ROCE (%)	73.7	21.3	18.3	23.4	27.8
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Price Chart



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during the Beijing Olympic Games.

Forecast and valuation. We maintain our previous turnover forecast for the counter, but raise net profit estimates by 7.4%, for FY12/08F, 7.2% for FY12/09F and 7.2% for FY12/10F to reflect the better-than-expected gross margin and more other income, mainly interest income, in 1H FY12/08A. In our new estimates, the company's net profit will reach RMB843.9m in FY12/08F. Accordingly, we have lifted our target price up to HK\$8.29 from HK\$7.81. BUY unchanged.

Table 2: Estimates adjustments for FY12/08F

(RMBm)	New	Old	Adjustment (%)
Turnover	4,703.5	4,981.1	(5.6)
Anta brand	4,560.2	4,586.1	(0.6)
Retail of international brands	143.3	395.0	(63.7)
Gross profit	1,800.1	1,854.2	(2.9)
Anta brand	1,763.8	1,730.7	1.9
Retail of international brands	36.3	123.5	(70.6)
Other income	166.7	92.1	81.0
Operating profit	940.2	892.6	5.3
Net profit	843.9	785.5	7.4
			(pcp)
Gross margin (%)	38.3	37.2	1.0
Operating margin (%)	20.0	17.9	2.1
Net margin (%)	17.9	15.8	2.2

Source: SBI E2-Capital

Table 3: Peers comparison

Company name	Ticker	Fiscal Year end	Mkt Cap (US\$m)	His P/E(x)	Curr-Yr Fwd P/E(x)	Nxt-Yr Fwd P/E(x)	ROE (%)
Anta*	2020 HK	12/2007	1,798.5	19.5	15.7	11.1	24.5
Xtep	1368 HK	12/2007	624.9	12.8	9.2	6.0	95.0
Li Ning	2331 HK	12/2007	2,579.2	28.7	25.5	19.2	30.1
Pou Sheng	3813 HK	09/2007	793.2	9.2	7.4	9.6	36.5
China Dongxiang	3818 HK	12/2007	2,315.5	17.5	17.8	13.4	23.6

Source: Bloomberg, SBI E2-Capital

Note: * estimates from SBI E2-Capital

Recent developments

- Jul 2008 – launched trade fairs for kids' sportswear series and trendy sneaker series. Corresponding retail sales will start in 4Q.
- May 2008 – disposed of Shanghai Fengxian, a subsidiary responsible for retailing international brands, for RMB187.4m.

Table 4: P&L

Year to Dec (RMBm)	06A	07A	08F	09F	10F
Turnover	1,250.1	3,182.5	4,703.5	6,182.2	7,829.0
Cost of sales	(936.9)	(2,127.2)	(2,903.4)	(3,752.7)	(4,690.6)
Gross profit	313.2	1,055.3	1,800.0	2,429.5	3,138.3
Other revenue	2.0	137.8	166.7	136.5	146.5
Other net (loss) / income	0.5	(1.6)	0.0	0.0	0.0
Selling and distribution expenses	(132.3)	(476.1)	(813.7)	(989.1)	(1,252.6)
Administrative expenses	(35.3)	(114.5)	(212.8)	(241.0)	(261.2)
Profit from operations	148.3	600.9	940.2	1,335.8	1,770.9
Finance costs	(0.3)	(1.7)	0.0	0.0	0.0
Profit before taxation	148.0	599.1	940.2	1,335.8	1,770.9
Income tax	(0.6)	(61.3)	(96.3)	(176.8)	(287.6)
Profit for the period	147.4	537.8	843.9	1,159.0	1,483.4
Attributable to:					
Equity holders of the Company	147.4	537.8	843.9	1,159.0	1,483.4
Minority interests	-	-	-	-	-
EPS - Basic (RMB)	0.082	0.253	0.339	0.465	0.596
EPS - Diluted (RMB)		0.252	0.338	0.465	0.595
Proposed DPS (HK\$)		0.080	0.220	0.310	0.400
Proposed dividend	22.9	181.9	498.0	701.7	905.5

Source: Company data, SBI E2-Capital