

### Some workout ahead

#### Key points:

- October sales slowdown signals some short-term pressure from the global economic crisis.
- Long-term outlook intact.
- Declining raw material costs to help boost gross margin.
- Target price cut to HK\$5.76.

**Momentum decelerates.** China's retail sales of sports & recreation articles edged up 2.1% in October (1-3Q: 18.0%), while brands' same-store-sales (SSS) growth declined during the month. Both facts signal that China's sportswear sector is losing its growth momentum. We believe the effects of the current economic slowdown have yet to be fully reflected in consumption and expect short-term demand for sportswear to decline further, before a likely recovery in 2010.

**Table 1: SSS growth**

Company name	Ticker	SSS growth in Oct (%)	SSS growth in 3Q (%)
Xtep	1368 HK	10	25
Anta	2020 HK	Double-digit	27
Li Ning	2331 HK	n.a.	32
Pou Sheng	3813 HK	n.a.	n.a.
China Dongxiang	3818 HK	0	18
Belle (sportswear division)	1880 HK	0	15

Source: Company data

**Long-term prospects unchanged.** Anta's mid & long-term outlook should be intact, in our view, given:

- sector CAGR of 20.0%+ in 2005 – 2007
- low sportswear spending in China - average of US\$3.0 in 2006 compared with US\$57.7 in Japan, Korea and Singapore.

**Anta's October results.** SSS growth declined in October from 27% in 3Q but remained at double digits (31% during the Golden Week), according to the management. Its trade fair scheduled for 2Q FY12/09F received positive response from distributors, with revenue up over 30%, including a 6.5% and 10.0% ASP increase for footwear and apparel, respectively.

**Outlook.** During the downturn, we expect consumption to gravitate towards strong brands including Anta.

- FY12/08F – as a wholesaler, Anta's results are unlikely to be affected by the market slowdown. However, inventory may start to pile up at the distributor level due to weakening demand.
- FY12/09F – despite the encouraging response from the trade fair, we estimate full-year sales growth at 14.6% (18.3% for the continuing operation) to RMB5,539.8m. At the distributor level, growth will be mainly driven by sales network expansion, especially in secondary cities, and inventory levels might rise.
- FY12/10F – the retail sector may start recovering but the

#### China Consumer

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#### Stock data

Price	HK\$2.82
Target price	HK\$5.76 (+104%)
12 mth range	HK\$2.16-12.20
Market cap.	US\$902.4m
Daily t/o, 3 mth	US\$2.8m
Free float %	27.4%
Ticker	2020.HK/2020 HK

#### Financial summary

Year to Dec	06A	07A	08F	09F	10F
T/O (RMBm)	1,250.13	1,825.54	826.85	539.86	1,617.1
NP (RMBm)	147.4	537.8	851.2	1,119.3	1,196.6
EPS (RMB)	0.082	0.253	0.342	0.450	0.481
EPS Δ%	203.3	208.4	35.3	31.5	6.9
P/E (x)	30.5	9.9	7.3	5.6	5.2
P/B (x)	18.88	1.50	1.29	1.14	1.05
EV/EBITDA (x)	38.3	6.7	3.6	2.3	1.9
Yield (%)	-	2.8	7.8	11.0	14.2
ROE (%)	84.5	24.5	19.0	21.8	21.0
ROCE (%)	73.7	21.3	18.5	22.6	22.6
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

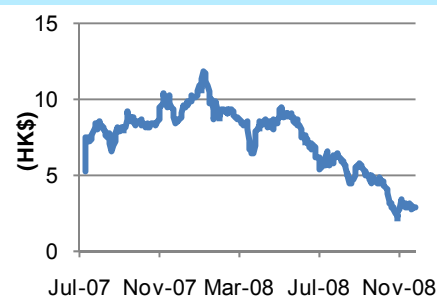
#### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+2.5	-43.8	-66.1
Actual price changes (%)	+0.5	-36.3	-30.1

	08F	09F	10F
Consensus EPS (RMB)	0.325	0.425	0.516
Previous forecasts (RMBm)	843.9	1,159.0	1,483.4
Previous EPS (RMB)	0.339	0.465	0.596

#### Price Chart



wholesale segment may remain under pressure due to distributors' inventory clearance.

**Margin to improve.** We reckon ASP increases are not sustainable under the current market conditions. However, we still expect Anta's gross margin to widen in FY12/09F thanks to declining raw material costs, especially rubber, which accounts for around 70% of COGS.

**Forecast and target price adjustment.** We have fine tuned our earnings forecast for FY12/08F, and cut our estimates by 3.4% to RMB1,119.3m for FY12/09F and 19.3% to RMB1,196.6m for FY12/10F. We have lowered our target price to HK\$5.76 from HK\$8.29.

**Table 2: Forecast adjustments**

	08F	09F	10F	Note
<b>New forecast</b>				
Number of stores	5,568	6,168	6,768	Expansion in secondary cities
Turnover (RMBm)	4,826.8	5,539.8	6,161.7	Lower turnover due to the economic slowdown
Gross margin (%)	38.0	41.3	41.2	Better gross margin due to declining raw materials costs
Operating margin (%)	19.6	23.3	23.2	Mainly affected by the gross margin
<b>Old forecast</b>				
Number of stores	5,500	6,100	6,700	
Turnover (RMBm)	4,703.5	6,182.2	7,829.0	
Gross margin (%)	38.3	39.3	40.1	
Operating margin (%)	20.0	21.6	22.6	

Source: SBI E2-Capital

**Table 3: Peer 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	902.4	9.9	7.3	5.6	24.5
Xtep	1368 HK	12/2007	446.7	9.2	6.5	4.5	95.0
Li Ning	2331 HK	12/2007	1,417.5	15.9	14.0	10.9	30.1
Pou Sheng	3813 HK	09/2007	307.2	3.6	4.8	4.3	36.5
China Dongxiang	3818 HK	12/2007	1,747.6	13.3	11.7	9.9	23.6
Nike	NKE US	05/2008	24,416.4	13.8	12.7	11.3	25.4
Adidas	ADS GR	12/2007	2,996.4	7.8	7.7	7.3	18.8

Source: Bloomberg, SBI E2-Capital

**Table 4: P&L**

Year to Dec (RMBm)	06A	07A	08F	09F	10F
Revenue	1,250.1	3,182.5	4,826.8	5,539.8	6,161.7
Anta brand	1,250.1	2,988.7	4,683.5	5,539.8	6,161.7
International brands	0.0	193.7	143.3	0.0	0.0
COGS	(936.9)	(2,127.2)	(2,992.8)	(3,253.7)	(3,620.9)
Gross profit	313.2	1,055.3	1,834.0	2,286.1	2,540.8
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)	(820.6)	(886.4)	(985.9)
Administrative expenses	(35.3)	(114.5)	(231.8)	(246.2)	(272.8)
Profit from operations	148.3	600.9	948.3	1,290.0	1,428.6
Finance costs	(0.3)	(1.7)	0.0	0.0	0.0
Profit before tax	148.0	599.1	948.3	1,290.0	1,428.6
Tax	(0.6)	(61.3)	(97.1)	(170.8)	(232.0)
Net profit	147.4	537.8	851.2	1,119.3	1,196.6

Source: Company data, SBI E2-Capital

P & L (RMBm)	06A	07A	08F	09F	10F	Cash Flow (RMBm)	06A	07A	08F	09F	10F
<b>Year to Dec</b>						<b>Year to Dec</b>					
<b>Turnover</b>	<b>1,250.1</b>	<b>3,182.5</b>	<b>4,826.8</b>	<b>5,539.8</b>	<b>6,161.7</b>	EBIT	147.0	473.6	828.3	1,160.0	1,288.6
% chg	86.5	154.6	51.7	14.8	11.2	Depre./amort.	12.2	29.8	42.4	49.4	59.4
Gross profit	313.2	1,055.3	1,834.0	2,286.1	2,540.8	Net int. paid	1.0	125.5	120.0	130.0	140.0
EBITDA	159.2	503.4	870.7	1,209.4	1,348.0	Tax paid	(1.0)	(38.5)	(119.9)	(170.8)	(232.0)
Depre./amort.	(12.2)	(29.8)	(42.4)	(49.4)	(59.4)	Dividends received					
EBIT	147.0	473.6	828.3	1,160.0	1,288.6	<b>Gross cashflow</b>	<b>159.3</b>	<b>590.4</b>	<b>870.8</b>	<b>1,168.7</b>	<b>1,256.0</b>
Net int. income/(exp.)	1.0	125.5	120.0	130.0	140.0	Chgs. in working cap.	(2.7)	(335.6)	(256.7)	(146.3)	(97.7)
Exceptionals						<b>Operating cashflow</b>	<b>156.5</b>	<b>254.8</b>	<b>614.1</b>	<b>1,022.4</b>	<b>1,158.3</b>
Associates						Capex	(83.4)	(264.4)	(144.2)	(178.2)	(133.7)
Jointly-controlled entit.						<b>Free cashflow</b>	<b>73.1</b>	<b>(9.5)</b>	<b>469.9</b>	<b>844.1</b>	<b>1,024.6</b>
<b>Pre-tax profit</b>	<b>148.0</b>	<b>599.1</b>	<b>948.3</b>	<b>1,290.0</b>	<b>1,428.6</b>	Dividends paid	(1.6)	(21.3)	(181.1)	(498.0)	(701.7)
Tax	(0.6)	(61.3)	(97.1)	(170.8)	(232.0)	Net distribution to MI					
Minority interests						Investments	(1.2)	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>147.4</b>	<b>537.8</b>	<b>851.2</b>	<b>1,119.3</b>	<b>1,196.6</b>	Disposals	1.1	0.1	6.0	0.0	0.0
% chg	206.9	264.8	58.3	31.5	6.9	New shares	0.0	3,371.5	0.0	0.0	0.0
Dividends	(22.9)	(181.9)	(498.0)	(701.7)	(905.5)	Others	(11.6)	(238.9)	0.0	0.0	0.0
Retained earnings	124.6	355.9	353.2	417.5	291.2	<b>Net cashflow</b>	<b>59.8</b>	<b>3,101.9</b>	<b>294.8</b>	<b>346.1</b>	<b>322.9</b>
EPS (RMB) - Basic	0.082	0.253	0.342	0.450	0.481	Net (debt)/cash - Beg.	71.4	131.2	3,233.1	3,527.9	3,874.1
EPS (RMB) - F.D.	0.082	0.252	0.341	0.449	0.480	Net (debt)/cash - End.	131.2	3,233.1	3,527.9	3,874.1	4,196.9
DPS (HK\$)		0.080	0.220	0.310	0.400	<b>Interim Results (RMBm)</b>	<b>06A</b>	<b>07A</b>	<b>07A</b>		
No. sh.s o/s (m) - W.A.	1,800.0	2,129.3	2,490.0	2,490.0	2,490.0	<b>Six months to Jun</b>					
No. sh.s o/s (m) - Y.E.	1,800.0	2,490.0	2,490.0	2,490.0	2,490.0	<b>Turnover</b>	<b>494.2</b>	<b>1,497.7</b>			
No. sh.s o/s (m) - F.D.		2,133.2	2,493.9	2,493.9	2,493.9	% chg		203.1			
<b>Margins (%)</b>						Profit from operations	53.7	234.3			
Gross	25.1	33.2	38.0	41.3	41.2	Interest expenses	(0.2)	(1.4)			
EBITDA	12.7	15.8	18.0	21.8	21.9	Associates					
EBIT	7.0	14.9	17.2	20.9	20.9	Jointly-controlled entit.					
Pre-tax	11.8	18.8	19.6	23.3	23.2	<b>Pre-tax profit</b>	<b>53.5</b>	<b>232.9</b>			
Net	11.8	16.9	17.6	20.2	19.4	Tax	(0.6)	(29.6)			
<b>Balance Sheet (RMBm)</b>	<b>06A</b>	<b>07A</b>	<b>08F</b>	<b>09F</b>	<b>10F</b>	Minority interests					
<b>Year to Dec</b>						<b>Net profit</b>	<b>52.9</b>	<b>203.3</b>			
Fixed assets	160.8	328.4	423.0	542.9	628.2	% chg		284.6			
Intangible assets	3.6	4.2	3.9	3.5	3.2	EPS (RMB) - Basic	0.029	0.113			
Other LT assets	100.8	162.1	139.4	148.7	138.1	DPS (RMB)					
Cash	181.2	3,233.1	3,527.9	3,874.1	4,196.9	<b>Shareholding Structure</b>					
Accounts receivable	202.1	467.7	709.4	814.2	905.6						
Other receivables											
Inventories	154.5	434.8	659.4	756.8	841.8						
Due from related co.s	52.2	0.3	0.3	0.3	0.3						
Other current assets	1.2	0.0	0.0	0.0	0.0						
<b>Total assets</b>	<b>856.4</b>	<b>4,630.7</b>	<b>5,463.4</b>	<b>6,140.6</b>	<b>6,714.1</b>						
Accounts payable	(325.1)	(455.7)	(641.2)	(697.1)	(775.7)						
Other payable											
Tax payable											
Due to related co.s	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)						
ST debts	(50.0)	0.0	0.0	0.0	0.0						
Other current liab.	(241.8)	(22.9)	0.0	0.0	0.0						
LT debts											
Other LT liabilities	0.0	0.0	0.0	0.0	0.0						
<b>Total liabilities</b>	<b>(618.4)</b>	<b>(480.0)</b>	<b>(642.6)</b>	<b>(698.5)</b>	<b>(777.2)</b>						
Share capital	51.2	241.7	249.0	249.0	249.0						
Reserves	186.7	3,909.0	4,571.8	5,193.0	5,688.0						
<b>Shareholders' funds</b>	<b>237.9</b>	<b>4,150.7</b>	<b>4,820.8</b>	<b>5,442.0</b>	<b>5,937.0</b>						
Minority interest											
<b>Total</b>	<b>237.9</b>	<b>4,150.7</b>	<b>4,820.8</b>	<b>5,442.0</b>	<b>5,937.0</b>						
Capital employed	287.9	4,150.7	4,820.8	5,442.0	5,937.0						
Net (debt)/cash	131.2	3,233.1	3,527.9	3,874.1	4,196.9						
						<b>Key Ratios</b>	<b>06A</b>	<b>07A</b>	<b>08F</b>	<b>09F</b>	<b>10F</b>
						Net gearing (%)	Cash	Cash	Cash	Cash	Cash
						Net ROE (%)	84.5	24.5	19.0	21.8	21.0
						EBIT ROCE (%)	73.7	21.3	18.5	22.6	22.6
						Dividend payout (%)	15.5	33.8	58.5	62.7	75.7
						Effective tax rate (%)	0.4	10.2	10.2	13.2	16.2
						Net interest coverage (x)	na	na	na	na	na
						A/R turnover (days)	45.0	38.4	44.5	50.2	50.9
						A/P turnover (days)	61.5	44.8	41.5	44.1	43.6
						Stock turnover (days)	41.6	50.6	66.7	79.4	80.6

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