

## Market turned strong in July

**HOLD (from BUY)**

### Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (RMBm)	2,988.74	626.85	921.37	148.58	677.8
Net Profit (RMBm)	416.3	902.61	162.01	291.81	456.7
EPS (RMB)	0.253	0.359	0.467	0.519	0.585
EPS Δ %	208.4	42.3	29.8	11.2	12.8
P/E (x)	33.6	23.6	18.2	16.4	14.5
P/B (x)	5.10	4.72	4.21	3.81	3.46
EV/EBITDA (x)	47.9	18.9	13.7	11.6	9.5
Yield (%)	0.8	2.9	3.6	4.2	4.7
ROE (%)	19.0	20.9	24.4	24.4	25.0
ROCE (%)	15.9	21.6	27.5	29.5	32.3
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2-Capital

### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-14.1	+3.7	+88.3
Actual price changes (%)	-17.6	+12.6	+74.7

	09F	10F	11F
Consensus EPS (RMB)	0.449	0.550	0.655
Previous forecasts (RMBm)	1,031.6	1,070.0	1,183.2
Previous EPS (RMB)	0.450	0.468	0.517

### Price Chart



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thanks to a higher ASPs (3.1% increase for footwear and 5.7% for apparels). A&P expenses temporarily dropped 2.8pcp to 11.2% of turnover because more sponsorship events will be held in the second half. Effective tax rate rose from 8.3% one year ago to 14.3%. Overall, net profit increased 40.1% to RMB608.3m. The results are slightly ahead of our expectation, which can be attributed to faster-than-expected expansion in sales network. The company opened 462 new stores in 1H, bringing total number to 6,129 (our previous full-year estimates: 733 new stores and 6,400 in total).

**Estimates revised up.** In consideration of both the market recovering signal and better-than-expected 1H results, we have raised up our earnings forecast for the counter by 3.6% for FY12/09F, 10.9% for FY12/10F and 13.1% for FY12/11F. Under an improved discount rate of 11.5% (previous: 16.0%), we have our new DCFE fair value at

Ticker:	2020.HK	12 mth range:	HK\$2.13-12.70
Price:	HK\$9.57	Market cap:	US\$3,056.2m
Target:	HK\$9.88 (+3%)	Daily t/o, 3 mth:	US\$8.0m
		Free float %:	27.4%

### Key points:

- ★ Improved sportswear market in Jul.
- ★ Recovery might come earlier than expected.
- ★ 1H results slightly ahead of previous estimates.
- ★ Target price raised to HK\$9.88.
- ★ Recommendation changed to HOLD after recent price rally.

**Encouraging retail figure in Jul.** Domestic retail sales of consumable goods in China increased 15.2% in Jul. For the sub-sector of sports & entertainment items, the growth was 10.3%, representing an apparent improvement from 7.9% in 1H (8.4% in 1Q). Together with likely bottoming-out economy both in China and worldwide, we reckon it could be signal of a gradual recovery in the sportswear market as well as other discretionary merchandises, which is around ~6 months earlier than we expected.

Table 1: Selected retail figures in China

Growth (%)	Jul	1H	1Q
Domestic retail sales of consumable goods	15.2	15.0	15.0
Sports & entertainment items	10.3	7.9	8.4

Source: National Bureau of Statistics

**Unchanged recovery picture.** We re-iterate our view regarding the recovery pattern that, due to generally adopted wholesales business model, inventories might have been piled up at distribution level during the market downturn. Our channel check also suggests that sportswear distributors suffered severe sales and earnings retreat in 1H. As distributors will probably try to clear out inventories first, we think it is still possible to observe some pressure on brands at the beginning stage of recovery (2H 09 or even 1H 10).

**Ongoing brand building.** Other than existing sponsorship and endorsements, Anta signed Jelena Jankovic in Jan and Zheng Jie in Apr as its female tennis endorsed players. So far, the company has been proved quite skillful and successful in brand building. In long run, we believe it has to keep increasing A&P expenses to raise brand reputation and expand market occupancy.

**Better-than-expected 1H results.** Revenue increased 27.7% to RMB2,817.0m in 1H FY12/09A. Gross margin widened 2.6pcp to 41.5%,

HK\$9.88 per share, which is also our new target price. Anta's share price has rebounded 162% since our last update ("Keep expanding", 3<sup>rd</sup> Mar 09). We change our recommendation from BUY to HOLD.

**Table 2: P & L**

Year to Dec (RMBm)	07A	08A	09F	10F	11F
<b>Continuing operations</b>					
Turnover	2,988.7	4,626.8	5,921.3	7,148.5	8,677.8
Cost of sales	(1,988.8)	(2,778.2)	(3,419.1)	(4,107.8)	(4,953.1)
Gross profit	999.9	1,848.6	2,502.2	3,040.7	3,724.7
Other revenue	9.3	21.1	17.2	19.7	22.8
Other net (loss) / income	(1.6)	(0.8)	0.5	0.5	0.5
Selling and distribution expenses	(425.7)	(758.4)	(977.0)	(1,215.2)	(1,518.6)
Administrative expenses	(102.5)	(179.9)	(236.9)	(285.9)	(347.1)
Profit from operations	479.3	930.7	1,306.1	1,559.8	1,882.3
Finance costs, net	125.4	39.6	53.0	55.0	60.0
Profit before taxation	604.7	970.2	1,359.1	1,614.8	1,942.3
Income tax	(61.3)	(67.6)	(197.1)	(323.0)	(485.6)
Profit from continuing operations	543.5	902.6	1,162.0	1,291.8	1,456.7
<b>Discontinued operations</b>					
Loss from discontinued operations	(5.6)	(7.9)			
Profit for the period	537.8	894.8	1,162.0	1,291.8	1,456.7
Attributable to:					
Equity holders of the Company	537.8	894.8	1,162.0	1,291.8	1,456.7
Minority interests					
EPS - Basic (RMB)	0.253	0.359	0.467	0.519	0.585
EPS - Diluted (RMB)	0.252	0.359	0.466	0.518	0.584
Proposed DPS (HK\$)	0.080	0.280	0.350	0.400	0.450

Source: Company data and SBI E2-Capital

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