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## Chinese Sportswear | Asia Pacific

ANTA and Li Ning 3Q Preview:  
Robust Sales Expected

A sell-off of ANTA and Li Ning stocks speaks to market concerns over a potential sharp deceleration in 2H18. However, we think the 3Q18 trading update will provide reassurance of a robust sales trend for both companies.

**Market caution about potential sales deceleration ...:** On Oct. 9, ANTA was down 10.6% and Li Ning was down 5.2%, worse than HSI's -0.1%. While we cannot find specific news that triggered the stock plunge, we think market now factors in a sales miss for 3Q18 and a significant downward revision in consensus forecasts. It appears market concerns were prompted by: 1) higher channel inventory, deeper retail discount and sales deceleration for some other international sportswear brands; 2) a weak property market in tier 3-4 cities that could hurt demand for general softgoods and sportswear; 3) deceleration in e-commerce growth across the board, with 30% in 1H18 vs. 25% in July + August; 4) less consumer credit yoy in June and July; and 5) specifically on ANTA, its non-binding offer to acquire Amer Sports adds uncertainty to its future risk/reward, perhaps prompting long-term investors to lower their risk appetite.

## ... but we predict robust sales growth for 3Q18 (Exhibit 1):

**For ANTA,** we expect ANTA brand to report >10% retail sales growth and non-ANTA brands (mainly FILA) to report 80-90% retail sales growth. We expect combined retail sales growth of 30-35% for 3Q, which would still make it the fastest-growing branded consumer company in China. Despite the base and absolute revenue size being big, we think ANTA is still able to grow fast, thanks to favorable industry dynamics and its multi-brand platform. Sequentially, sales trends in September picked up vs. those in July and August, when we think sales were adversely impacted by 1) a slowdown after the 6.18 promotion in June, 2) negative impact from less consumer credit in July/August, and 3) unquantifiable weather impact.

While some market concerns highlight a sales slowdown for ANTA Core offline, which contributed 40% of total sales in 1H18 (lower than 52% in 1H17), we think they may underestimate FILA brand strength, and ANTA's Kids and E-commerce segments. Within FILA, Classics, Fusion, and Kids lines, targeting different consumers, all grew strongly. Successful opening of Descente stores also adds to the strong topline.

**For Li Ning,** we expect the brand to deliver mid-high teens retail sell-through growth. We think LN's performance in Sep. was stronger thanks to a lower base (favorable calendar shift of Mid-Autumn festival this year), better product assortment for the South, and a stronger push on *Zhongguo Li Ning*.

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## China/Hong Kong Consumer

Asia Pacific

IndustryView

In-Line

## Exhibit 1: Key Metrics

### Chart 1: Key Metrics

	ANTA (2020.HK)	Li Ning (2331.HK)		
Shr price, close (Oct 9, 2018)	HK\$30.50	HK\$6.53		
Price target	HK\$48.20	HK\$7.40		
Rating	Overweight	Equal-Weight		
52-Week Range	HK\$49.30-30.50	HK\$9.99-5.48		
Sh out, dil, curr (mn)	2,643	2,508		
Mkt cap, curr (mn)	US\$10,288	US\$2,090		
EV, curr (mn)	US\$9,025	US\$1,610		
Avg daily trading value (mn)	US\$28	US\$11		
ANTA (2020.HK)				
Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (Rmb)	1.17	1.5	1.85	2.27
Consensus EPS (Rmb)\$	1.14	1.5	1.85	2.22
Revenue, net (Rmb mn)	16,692	23,245	29,539	36,053
EBITDA (Rmb mn)	4,262	5,903	7,253	8,863
ModelWare net inc (Rmb mn)	3,088	3,973	4,896	5,994
P/E	25.2	18	14.6	11.9
P/BV	5.7	4.8	4.4	3.9
RNOA (%)	79.6	74.2	73.8	76.8
ROE (%)	32.3	29	32.9	36.7
EV/EBITDA	16.1	10.6	8.6	7
Li Ning (2331.HK)				
Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (Rmb)	0.21	0.29	0.35	0.45
Consensus EPS (Rmb)\$	0.21	0.29	0.38	0.47
Revenue, net (Rmb mn)	8,874	10,300	11,598	12,958
EBITDA (Rmb mn)	816	1,147	1,414	1,753
ModelWare net inc (Rmb mn)	515	698	859	1,097
P/E	24.9	20.2	16.4	12.8
P/BV	2.5	2.4	2.1	1.8
RNOA (%)	22.1	30.2	37.6	48.6
ROE (%)	12.9	13.8	14.9	16.6
EV/EBITDA	11.7	9.2	6.8	4.9

Source: Unless otherwise noted, all metrics are based on Morgan Stanley

ModelWare framework. \$ = Consensus data is provided by Thomson Reuters

Estimates: e = Morgan Stanley Research estimates.

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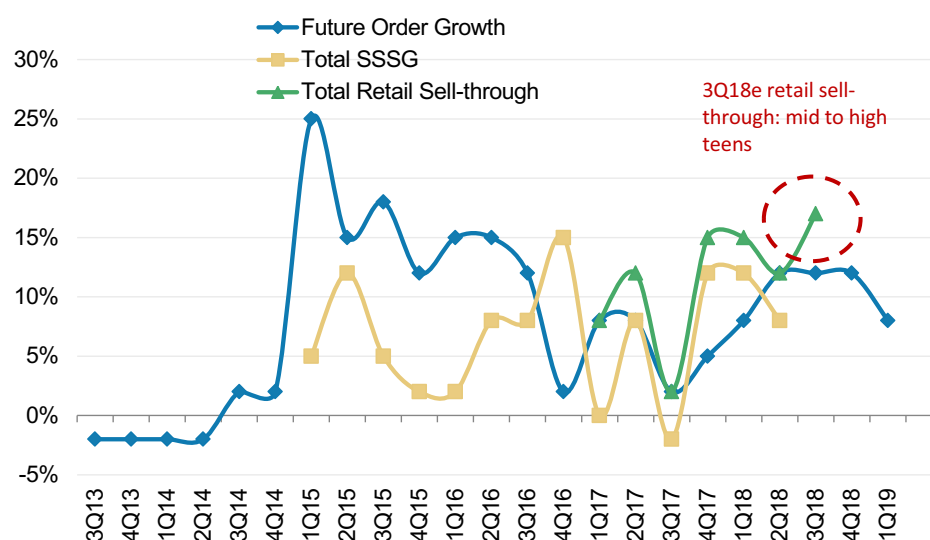
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## 3Q18 Estimates

**Exhibit 2: ANTA's Quarterly Retail Sell-through - MS estimate for 3Q18**

	3Q16		4Q16		1Q17		2Q17		3Q17		4Q17		1Q18		2Q18		3Q18e	
	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY	Sales mix	Growth % YoY
<b>Anta-branded retail sales growth</b>	100%	12%	100%	18%	100%	12%	100%	21%	100%	15%	100%	22%	100%	25%	100%	13.5%	100%	12%
Anta core brand	80%	4%	76%	10%	76%	2%	75%	14%	72%	6%	70%	14%	66%	14%	66%	8%	66%	7%
Anta kids	10%	33%	12%	33%	12%	33%	12%	30%	16%	30%	15%	43%	15%	50%	15%	25%	15%	25%
e-commerce	10%	55%	12%	55%	12%	55%	13%	55%	12%	50%	15%	43%	20%	43%	20%	25%	20%	20%
<b>Non-Anta-branded retail sales growth</b>	100%	65%	100%	55%	100%	45%	100%	55%	100%	45%	100%	87%	100%	84%	100%	92%	100%	88%
FILA	95%	55%	95%	52%	95%	38%	95%	48%	95%	40%	95%	80%	95%	70%	94%	85%	93%	80%
Others	10%	128%	5%	112%	5%	178%	5%	188%	5%	140%	5%	220%	5%	350%	6%	200%	7%	200%

Source: Company Data, e=Morgan Stanley Research Estimates

**Exhibit 3: Li Ning's Quarterly Sales Trend - MS estimate for 3Q18**

Source: Company Data, e=Morgan Stanley Research Estimates

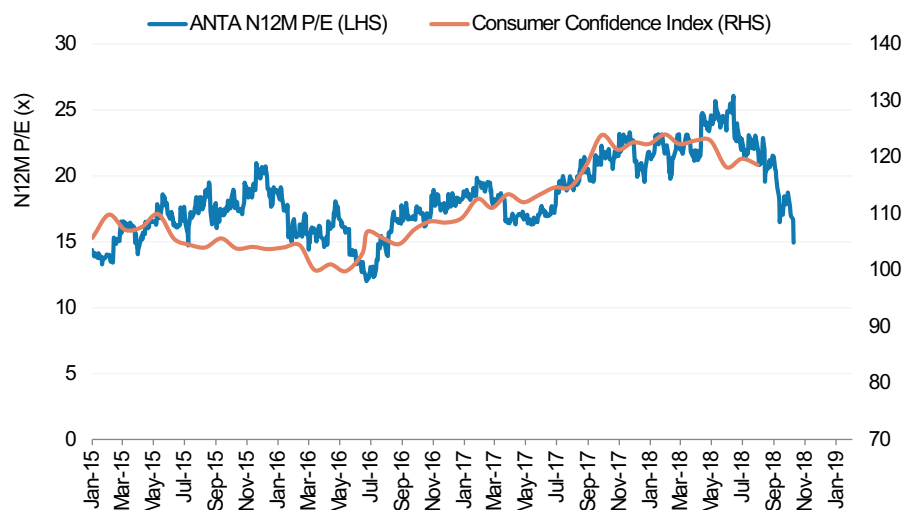
## Valuation and Key Charts

**Valuation:** ANTA is trading at an attractive level and Li Ning increasingly so. ANTA is trading at 14x 2019e P/E with PEG of 0.63, and Li Ning is trading at 16x 2019e P/E with PEG of 0.63. Based on our 3Q preview, we do not foresee EPS downside risk to consensus forecasts for the near-term for both ANTA and Li Ning. We expect their respective 3Q results to be positive for the stocks.

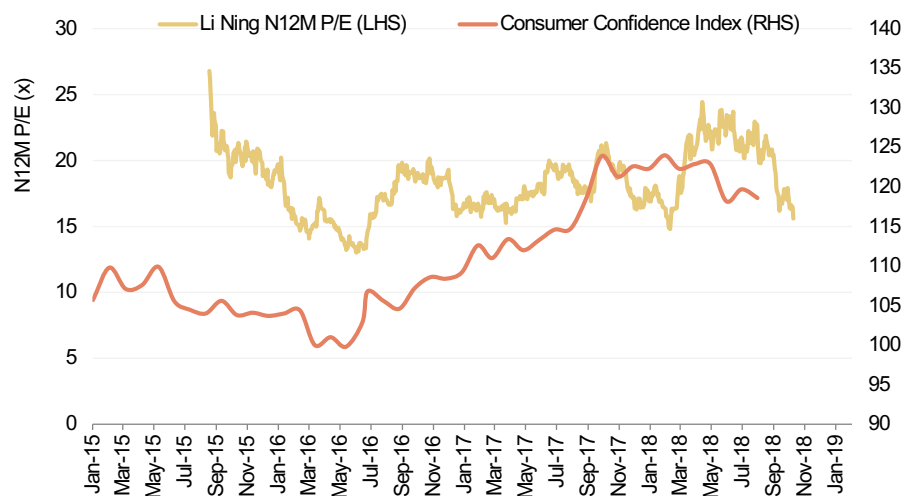
It also appears that ANTA's valuation (China consumer discretionary industry as well) is correlated with the Consumer Confidence Index. However, the stock appears to have been overly derated in recent months compared to where the index is currently standing. Some may compare the current status to that in 2016 when valuation was at record low, but we would highlight that ANTA is in a now much stronger shape.

**Reporting dates for 3Q:** For ANTA, it is due to report on Oct. 11th. For Li Ning, it is Oct. 22nd.

**Exhibit 4:** ANTA: N12M P/E vs Consumer Confidence Index



Source: Datastream, National Bureau of Statistics of China,

**Exhibit 5:** Li Ning: N12M P/E vs Consumer Confidence Index

Source: Datastream, National Bureau of Statistics of China

## Valuation Methodology and Risks

### 2331.HK

Our price target of HK\$7.40 is our base case scenario value. We apply a 20x target P/E multiple to our fully diluted EPS estimate for 2018/9e, which represents a 20% discount to our target multiple for to Anta. We think such a discount is reasonable because of greater earnings volatility for Li Ning owing to weaker sales visibility vs. ANTA.

#### Key downside risks to our price target:

- Sales growth slows or decline due to underinvestment in brand and products
- Higher-than-expected costs, cash outflow from new brands ramp-up
- Heightened competition from international peers as the latter introduce higher discounts
- Failure to improve SSSG and store economics of its distributors

#### Key upside risks:

- Stronger-than-expected recovery of Li Ning brand sell-through at retail level
- Faster-than-expected margin recovery

### 2020.HK

Our price target of HK\$48.2 is our base case scenario value, which is derived by applying a target P/E of 25x to the average of our 2018 and 2019 base case EPS estimates. We think it is reasonable since we project a 23% earnings CAGR for 2017-19, mainly driven by strong sales growth.

#### Key downside risks to our price target:

- Inventory buildup in the industry, or heavy competition from sportswear peers and casual wear brands.
- Failure to ramp up FILA brand, or margin erosion from increased discounting.
- ANTA's store closures depress order growth.
- Heavy investment in e-commerce eats into margins.

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Equal-weight/Hold	1378	44%	343	46%	25%	625	44%
Not-Rated/Hold	49	2%	5	1%	10%	7	0%
Underweight/Sell	554	18%	83	11%	15%	224	16%
<b>TOTAL</b>	<b>3,159</b>		<b>739</b>			<b>1418</b>	

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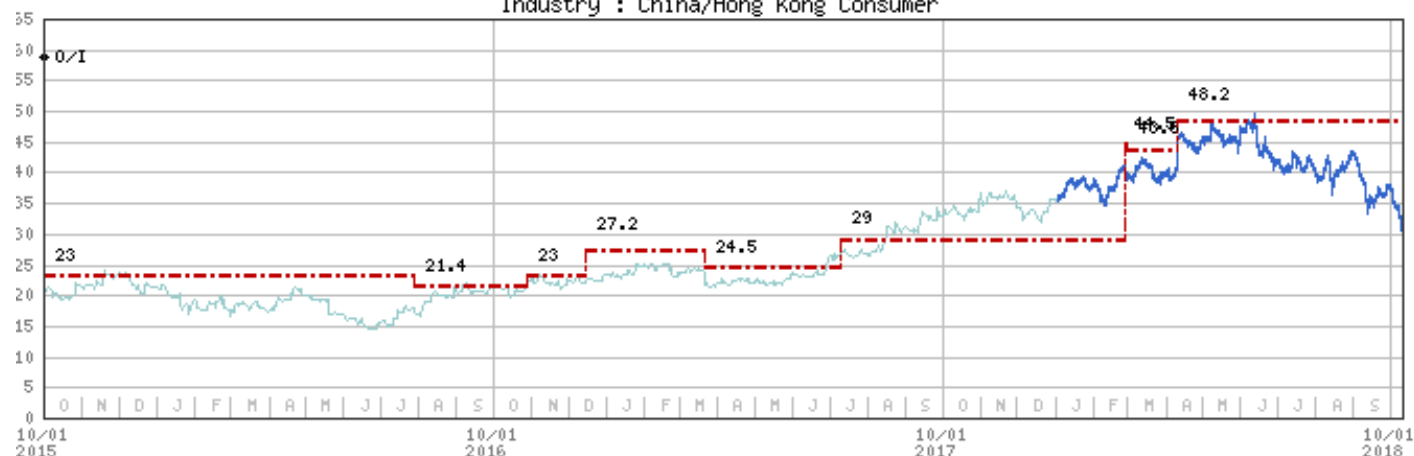
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Industry : China/Hong Kong Consumer



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Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---  
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## INDUSTRY COVERAGE: China/Hong Kong Consumer

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/09/2018)
<b>Dustin Wei</b>		
ANTA Sports Products (2020.HK)	O (08/04/2015)	HK\$30.50
Bestway Global Holding Inc (3358.HK)	O (12/21/2017)	HK\$3.50
Goodbaby International Holdings (1086.HK)	E (09/07/2018)	HK\$2.99
Hengan International Group (1044.HK)	O (02/16/2017)	HK\$66.70
Li Ning (2331.HK)	E (08/13/2015)	HK\$6.53
Samsonite International (1910.HK)	E (05/31/2018)	HK\$26.30
Sun Art Retail Group Limited (6808.HK)	O (08/01/2017)	HK\$9.82
Yashili (1230.HK)	U (08/17/2016)	HK\$1.46
Yonghui Superstores (601933.SS)	E (08/01/2017)	Rmb8.00
Zhou Hei Ya International Holdings (1458.HK)	U (08/02/2018)	HK\$4.35
<b>Leaf Liu</b>		
Xiabuxiabu Catering Management China Ltd (0520.HK)	O (05/25/2018)	HK\$11.18
<b>Lillian Lou</b>		
China Agri-Industries (0606.HK)	E (06/02/2014)	HK\$2.83
China Foods Limited (0506.HK)	E (09/22/2015)	HK\$3.69
China Mengniu Dairy (2319.HK)	O (09/14/2017)	HK\$23.30
COFCO Meat Holdings Ltd (1610.HK)	U (08/02/2018)	HK\$1.14
Dali Foods (3799.HK)	O (01/03/2016)	HK\$5.82
Foshan Haitian Flavouring and Food (603288.SS)	E (01/28/2016)	Rmb74.90
Kweichow Moutai Company Ltd. (600519.SS)	O (10/17/2014)	Rmb695.00
Luzhou Lao Jiao Co. Ltd (000568.SZ)	O (02/16/2017)	Rmb44.51
Midea Group Co Ltd. (000333.SZ)	O (07/12/2017)	Rmb40.30
Shuanghui Development (000895.SZ)	E (02/01/2015)	Rmb25.09
Tingyi (Cayman Islands) (0322.HK)	U (03/11/2016)	HK\$13.28
Uni-President China (0220.HK)	U (03/11/2016)	HK\$7.84
Want Want China Holdings Ltd (0151.HK)	E (04/11/2013)	HK\$6.12
WH Group (0288.HK)	O (09/08/2014)	HK\$5.81
Wuliangye Yibin Company Ltd. (000858.SZ)	O (07/24/2017)	Rmb63.36
Yanghe Brewery (002304.SZ)	O (05/12/2015)	Rmb121.00
Yanjing Brewery (000729.SZ)	U (09/02/2015)	Rmb6.23
Yili Industrial (600887.SS)	O (01/29/2014)	Rmb24.86
Yum China Holdings Inc. (YUMC.N)	O (03/20/2018)	US\$33.30
<b>Terence Cheng</b>		
Crystal International Group Ltd. (2232.HK)	E (06/26/2018)	HK\$4.92
Honma Golf Limited (6858.HK)	O (11/09/2016)	HK\$6.62
Regina Mrcle International (Holdings) (2199.HK)	E (01/08/2018)	HK\$4.97
Shenzhen International Group Holdings (2313.HK)	O (07/13/2017)	HK\$89.70
Yue Yuen Industrial Hldg (0551.HK)	O (06/26/2018)	HK\$20.55

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.