Anta Sports Products

Anta Sports Products
Ticker: 2020:HK
6 Month Avg. Daily Vol. (USD mn): 18.82

Recommendation: Buy
Closing Price (7/19/2016): HKD17.26
Estimated Annualized Return: 11-13%

INVESTMENT THESIS

Anta is the largest Chinese sportswear company with an 11.1% market share. Anta's size gives it an advantage over all domestic peers as there are fixed costs in the form of advertising and research and development allowing the company to outspend peers on brand building and improving the company's product. Anta's size and strong brand allows the company to generate an average pre-tax ROIC over four times its Chinese sportswear peers. The company expected annualized return is somewhere between 11.0%-12.5% leading to an initial 2.0% position size.

KEY STATISTICS

Key Statistics	TTM	7Yr Avg
Current price (HKD)	**17.26**	
Price range		
Ave daily volume (USD mn, 6 mth)	18.82	
Shares outstanding (mn) basic	2,501	
Shares outstanding (mn) diluted	2,501	
Market cap (HKD mn) diluted	**43,167**	
Net debt (HKD mn)	(6,498)	
Other claims (HKD mn)	(235)	
Enterprise value (HKD mn)	**41,436**	
EV per share	16.57	
Net Debt/equity	(0.65)	
Net Debt/EBIT	(2.24)	
Per Share Values	**TTM**	**7Yr Avg**
Net current asset value per share	2.97	2.27
Invested capital per share	1.03	0.61
Tangible book value per share	4.09	3.01
Net financial assets per share	3.02	2.33
Sales per share	5.31	5.16
EBIT per share	1.19	1.16
NOPAT per share	0.84	0.82
Earnings per share		
FCF per share	0.54	0.52
Residual income per share	0.71	0.69
Dividend per share		
Insider ownership	66.4%	
Fiscal year end	December	

Valuation Metrics	TTM	7Yr Avg
P/NCAV	5.8	7.6
EV/IC	16.1	27.3
EV/EBIT	13.9	14.3
EV/NOPAT	19.7	20.3
EV/FCF	30.8	31.7
EBIT yield	7.2%	7.0%
NOPAT yield	5.1%	4.9%
FCF yield	3.3%	3.2%
Dividend yield	2.8%	2.3%
Profitability	**TTM**	**7Yr Avg**
ROIC	116%	136%
FCF ROIC	66%	92%
Gross margin	47%	42%
Operating margin	23%	21%
NOPAT margin	16%	17%
FCF margin	10%	17%
Working capital turnover	11.2	40.9
Fixed capital turnover	9.5	9.5
IC turnover	5.2	6.3
Growth	**TTM**	**7Yr Avg**
Sales growth	24.7%	13.4%
Operating profit growth	27.5%	15.6%
NOPAT growth	21.2%	11.1%
FCF growth	879.2%	1.5%
Invested capital growth	-17.4%	15.8%

Source: Company data, Reperio Capital estimates

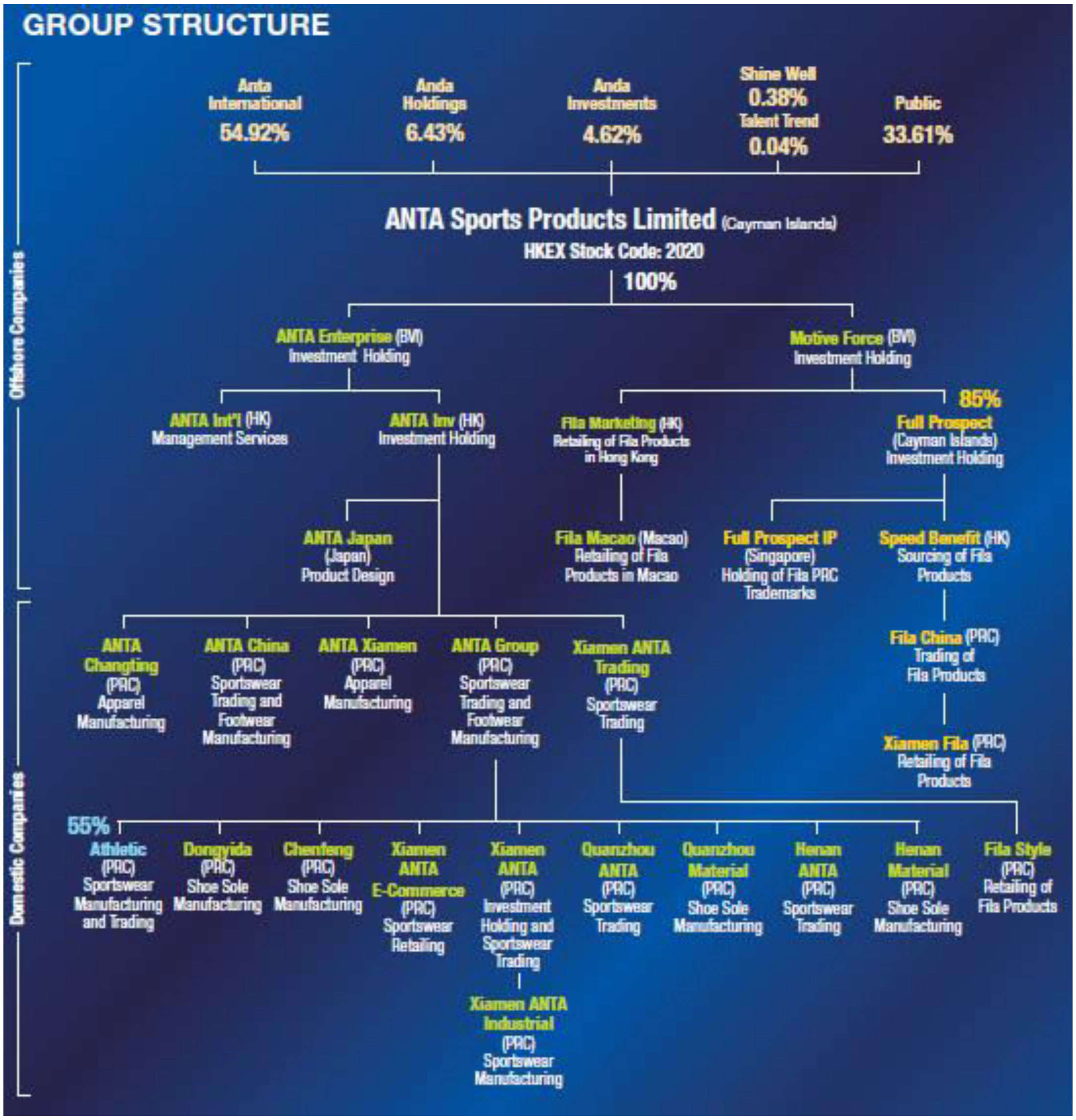
FACTOR RATINGS

Factor	Rating	Comment
Financial Health	5	The company's operating cash flow is 2.25 ttm operating profit
Business Quality	4	Economies of scale and brand advantage over domestic peers but lagging Nike and Adidas
Management Quality	4	
Operations	5	Management has done a great job executing operationally and is well above peers on all profitability measures
Capital Allocation	3	The company is doing a good job outspending peers on fixed costs but cash is far too high and should be spent or returned to shareholders.
Corporate Governance	4	The company has insignificant amount of related party transaction and is very good value for money as salaries are below 1% of operating profit
Valuation	3	Anta offers roughly 11.0%-13.0% annualized return
Growth Prospects	4	The sportswear segment is one of the most mature apparel segments in China, but penetration levels are very low relative to other countries

Scale 1 = worst 5 = best
Source: Reperio Capital Research

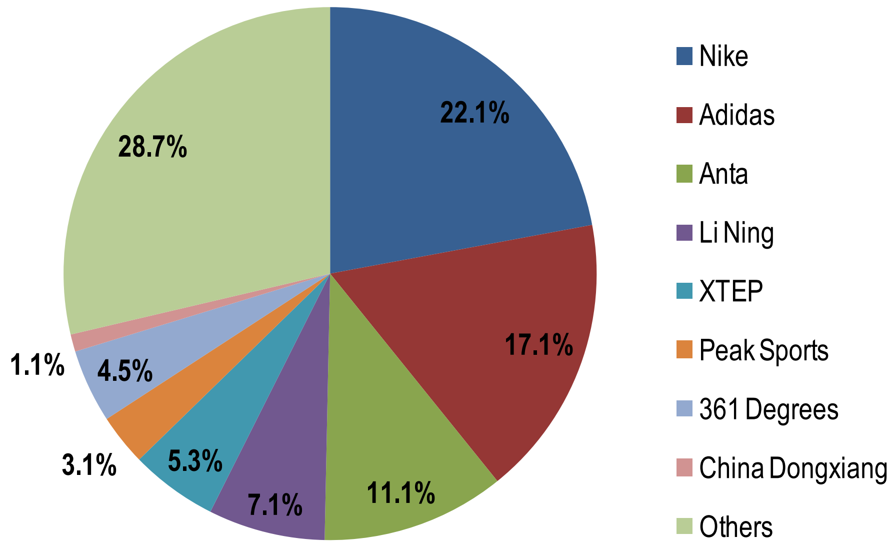
COMPANY DESCRIPTION

Anta was founded in 1994 by Mr. Ding Siren, the father-in-law of the company’s current Executive Director Mr. Ding Shizhong. He incorporated ANTA Fujian and ANTA China in 1994 and 2000 and the company went public in 2007.



The company is a leading sportswear company with an estimated 11.1% market share at the end of 2015.

2015 Chinese Sportswear Market Share



Source: Company data, Fitch Ratings

The company uses a combination of internal production and outsourced production to allow for more flexibility in periods of strong demand. The threat of vertical integration also gives the company bargaining power of its suppliers. In 2015, 49.0% of footwear and apparel is produced internally.

Advertising and research and development are done internally while distribution and retail is outsourced to exclusive partners with the company monitoring operations. At the end of 2015, Anta had 9,080 stores including 7,031 Anta stores, 1,458 Anta kids stores, and 591 FILA stores.

The company has positioned its product as a high performance, value for money brand. It partners with the Chinese Olympic Committee, Chinese Sports Delegation, and many of the Chinese Olympic teams allowing it to be perceived as the Chinese national brand. It is also the official partner of the NBA in China and endorses many NBA players including Klay Thompson, one of the best players on one of the best teams in the league, Chandler Parson, Rajon Rondo, and Luis Scola. The Anta brand is consistently voted the most valuable sportswear brand and one of the top three most valuable apparel brands in China.

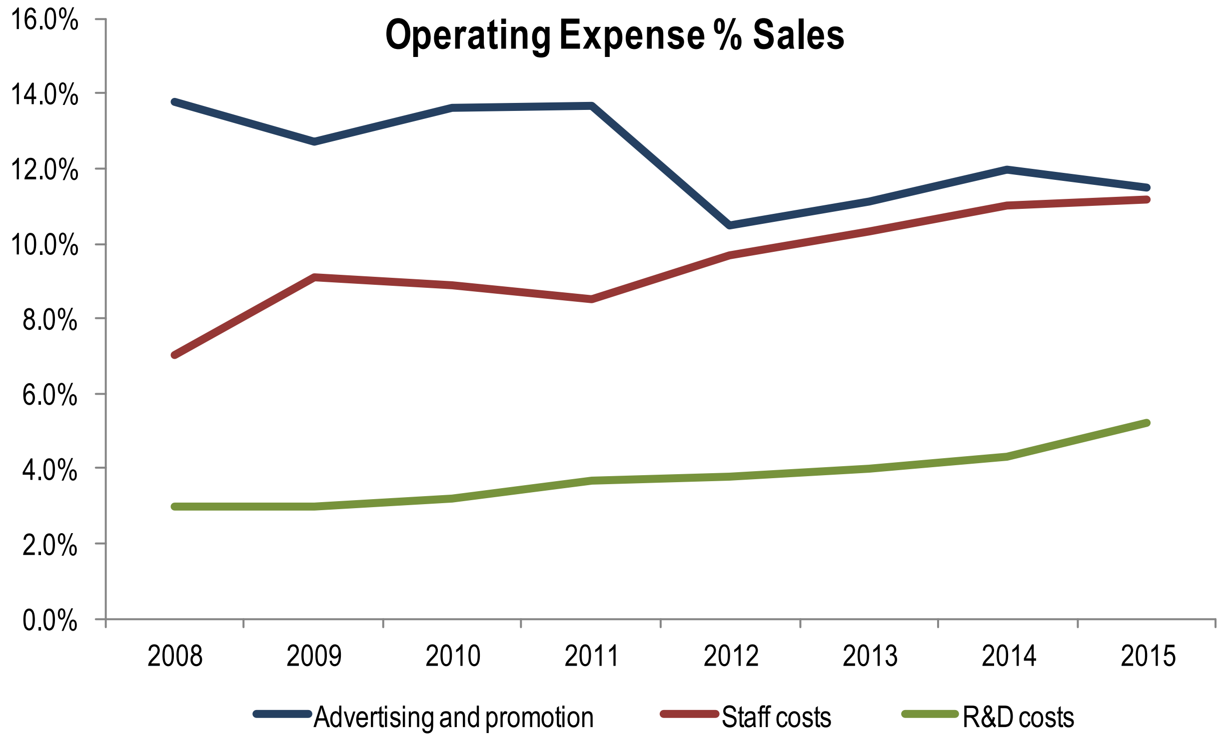
In 2015, the company generated 45.6% of sales from footwear, 50.3% of sales from apparel, and the remainder from accessories. Since 2008, Anta grew sales at a compound annual growth rate of 13.4%.

In 2015, gross profit breakdown is similar to sales breakdown with footwear accounting for 45.2% of gross profit, apparel accounting for 51.5% of gross profit, and accessories accounting for the remainder of gross profit.

Revenue Breakdown (RMB mn)	2008	2009	2010	2011	2012	2013	2014	2015
Footwear	2,522	3,315	3,825	4,335	3,706	3,421	4,111	5,074
Apparel	1,932	2,410	3,333	4,288	3,677	3,575	4,451	5,592
Accessories	173	149	250	282	240	286	361	460
Total	4,627	5,875	7,408	8,905	7,623	7,281	8,923	11,126
Gross Profit Breakdown (RMB mn)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Footwear	1,042	1,471	1,707	1,848	1,444	1,523	1,908	2,342
Apparel	735	940	1,359	1,801	1,369	1,417	1,982	2,671
Accessories	71	62	105	113	80	100	137	172
Total	1,849	2,473	3,171	3,762	2,893	3,039	4,027	5,185
Gross Profit Margin	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Footwear	41.3%	44.4%	44.6%	42.6%	39.0%	44.5%	46.4%	46.2%
Apparel	38.0%	39.0%	40.8%	42.0%	37.2%	39.6%	44.5%	47.8%
Accessories	41.2%	41.4%	42.1%	40.2%	33.5%	34.8%	38.0%	37.5%
Total	40.0%	42.1%	42.8%	42.3%	38.0%	41.7%	45.1%	46.6%

Source: Company data

Anta's three largest operating expenses are advertising, staff costs, and research and development. Anta spends heavily on advertising and research and development. Over the past four years, the company spent 11.3% of sales on advertising and 4.3% of sales on research and development.



Source: Company data

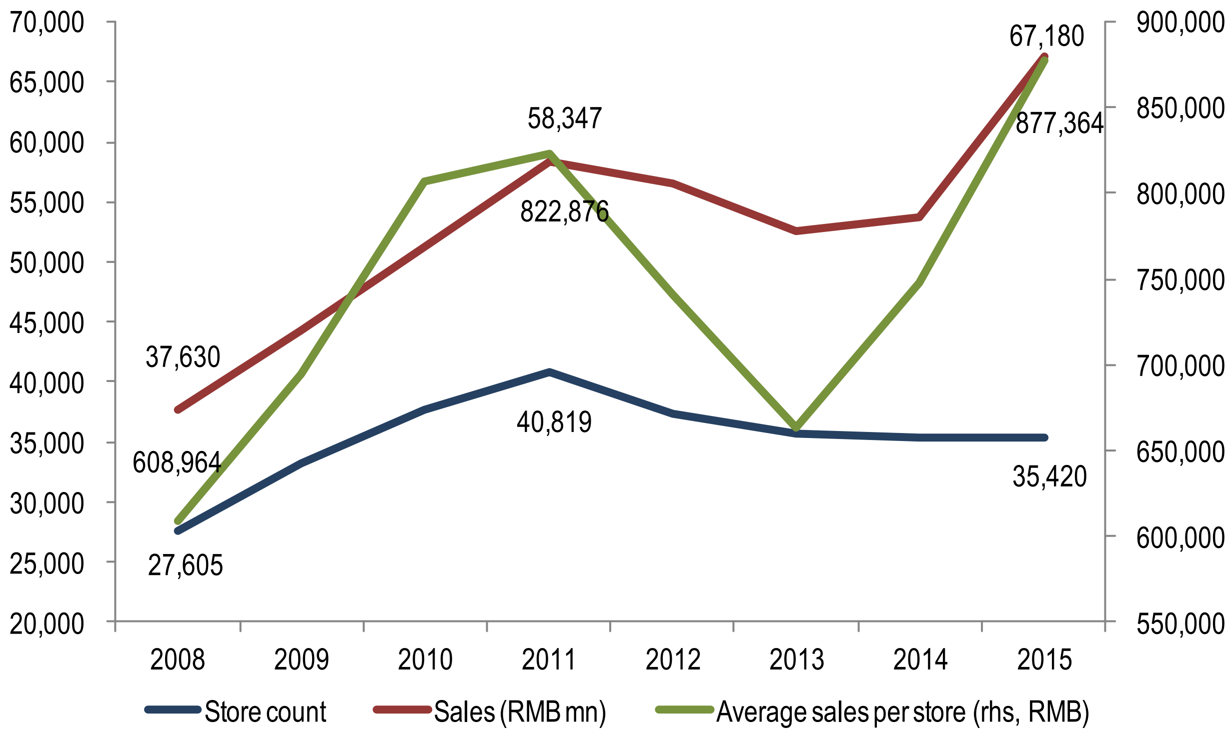
Since 2008, the company's operating margin averaged 21.5% with low variability. The company's highest operating margin was 23.3% in 2009 and the lowest was 19.3% in 2012.

Anta has low investment requirements. Since 2008, working capital averaged 6.2% of sales and fixed capital averaged 10.7% of sales meaning invested capital averaged 17.9%. Overall, Anta average return on invested capital is 127.8%.

INDUSTRY ANALYSIS

Industry History

The Chinese sportswear industry went through a rapid period of growth from 2008 until 2011 supported by the Beijing Olympics. During that period, the industry saw an increase in store count at the largest domestic players from 27,605 stores in 2008 to 40,819 stores in 2011, representing a 13.9% compound annual growth rate (CAGR). Sales at the largest seven players increased from RMB37.63 billion in 2008 to RMB58.35 billion in 2011, or 15.7% per year.

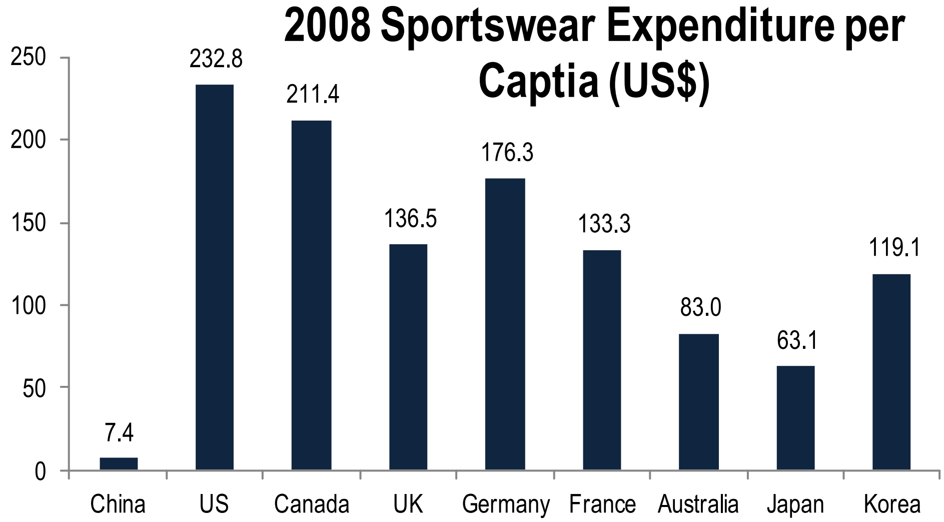


Source: Company data

After the period of rapid growth, 2011 to 2014 saw a period of consolidation with the store count decreasing 4.6% per year from 40,819 to 35,428 and sales decreasing 2.7% per year from RMB58.35 billion to RMB53.71 billion.

2015 may have marked the end of the consolidation as started a return to growth with store count stagnating around 35,000 and sales at the seven largest players increasing by 25% from RMB53.71 billion to RMB67.18 billion.

The sportswear industry is one of the most mature segments of the apparel industry and is expected to grow around mid-single digits. Despite the maturity, the sportswear industry is still underpenetrated in China.



Source: Frost & Sullivan

Barriers To Entry

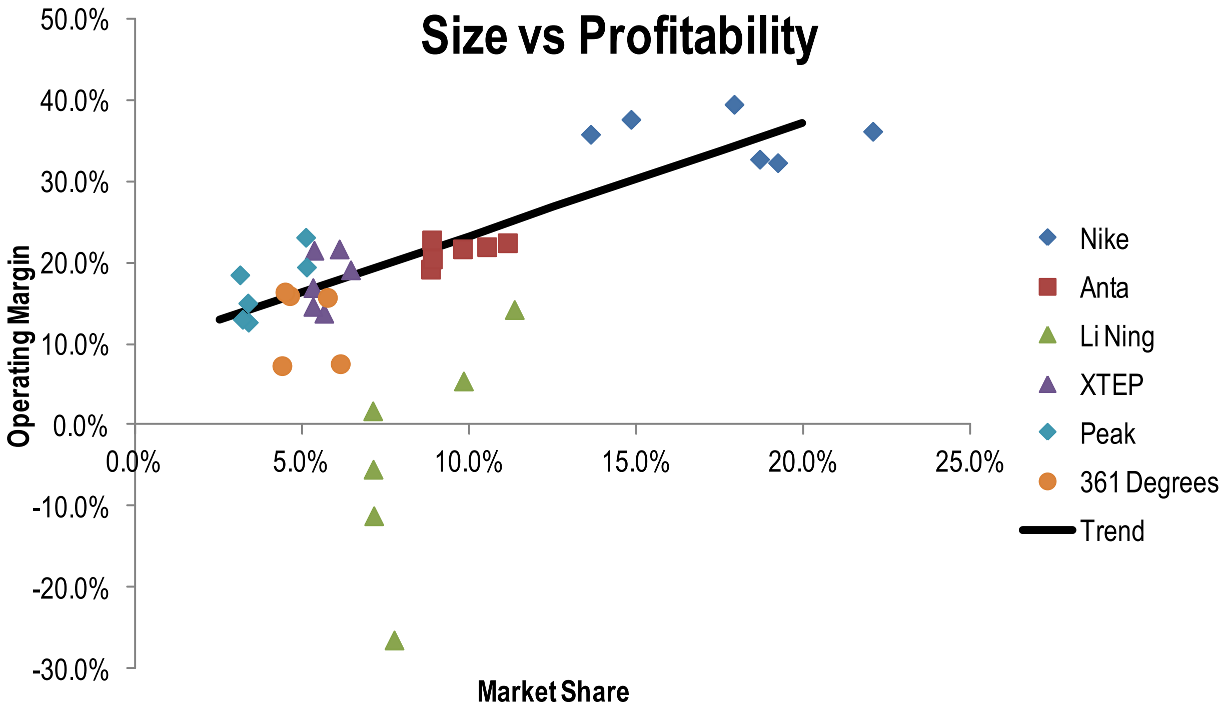
In the sportswear industry, size is a key driver of profitability and growth as there are significant fixed costs in the form of advertising and promotion and research and development creating economies of scale. There are many estimates for the Chinese sportswear market size with Fitch's estimating the market reached RMB100 billion in 2015, which is 5-10% lower than the average of estimates from Euromonitor, Fung Business Intelligence Centre, Research InChina, and ATKearney. The table below illustrates market shares of the largest players in the Chinese Sportswear market assuming a RMB100 billion market size with the market size from previous years estimated to grow at the same rate as the largest players in the market.

China Sportswear Market Share	2010	2011	2012	2013	2014	2015	10-15 ∆
Nike	16.5%	14.9%	19.6%	19.0%	20.0%	22.1%	5.6%
Adidas	11.3%	12.8%	15.8%	18.6%	17.8%	17.1%	5.8%
Anta	9.5%	10.3%	9.5%	10.0%	10.9%	11.1%	1.7%
Li Ning	12.1%	10.3%	8.3%	8.0%	7.4%	7.1%	-5.0%
XTEP	5.7%	6.4%	6.9%	6.0%	5.9%	5.3%	-0.4%
Peak Sports	5.4%	5.4%	3.6%	3.6%	3.5%	3.1%	-2.3%
361 Degrees	6.2%	6.4%	6.2%	4.9%	4.8%	4.5%	-1.7%
China Dongxiang	4.7%	2.4%	1.4%	1.2%	1.0%	1.1%	-3.6%
Others	28.7%	31.2%	28.7%	28.7%	28.7%	28.7%	0.0%
Market Size (RMB mn)	**78,378**	**86,785**	**80,359**	**72,752**	**81,627**	**100,000**	**5.0%**

Source: Company data, Fitch Ratings, Reperio Capital Research estimates

In 2015, Nike was the largest sportswear company in China with an estimated 17.1%. Adidas followed in second place with a 17.2% market share. The largest domestic player was Anta with an 11.1% market share. The second largest domestic player is Li Ning with a 7.1% market share. Due to its size and the presence of economies of scale, Anta is competitively disadvantaged to Nike and Adidas but has a competitive advantage to domestic players. From 2010 to 2015, Nike, Adidas, and Anta gained 5.8%, 5.6%, and 1.7%, respectively. The smaller domestic players all lost market share with a cumulative market share loss of 8.0% between 2010 and 2015.

Interestingly, Li Ning lost 5.0% of market despite starting the examined period with the second highest market share. With the exception of Li Ning, market share movements point to economies of scale as larger firms spend more on the fixed costs needed to educate customers and improve the product.



Source: Company data, Reperio Capital Research estimates

The chart above plots market share for each Chinese sportswear competitor compared to their operating margin from 2010 to 2015. Adidas does not report operating margin for China. As shown, there is a strong correlation between size and operating margin with Li Ning's poor profitability being the only outlier.

Advertising and promotional expense is partially an expense that needs to be adapted to local markets given differences in cultures and tastes creating a need to customize advertising and promotion to adhere to those local cultures and tastes eliminating the size advantage from global markets for Nike and Adidas. A big part of advertising and promotions in sportswear is endorsements of brands by athletes. Endorsements are primarily global as illustrated by Chinese domestic sportswear companies trying to sign NBA stars from the United States rather than relying on local basketball players. Given the global nature of endorsements and the fixed nature of the cost, the true measure of Nike and Adidas's size are the companies' global sales giving them a much bigger size advantage than estimated by looking at the local market. Similar to endorsements, research and development in the design of new products is global as the product innovations produced from one market can be used in many other markets, making the true measure of Adidas and Nike's size their global scale. Nike and Adidas do not report fixed costs on a local basis but the tables below show spending on fixed costs by domestic peers.

Advertising & Promotion Expense (RMB mn)	2010	2011	2012	2013	2014	2015	∑ 10-15
Anta	1,008	1,220	800	808	1,071	1,279	6,186
Li Ning	1,431	1,572	1,308	1,409	1,228	1,014	7,962
XTEP	521	626	633	486	626	778	3,671
Peak	459	660	406	280	301	270	2,376
361 Degrees	529	607	728	581	652	571	3,667
Research & Development Expense (RMB mn)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**∑ 10-15**
Anta	237	329	290	291	384	579	2,110
Li Ning	246	232	194	175	163	135	1,145
XTEP	80	100	94	113	105	122	614
Peak	21	46	46	60	63	62	299
361 Degrees	58	84	84	86	94	138	544
Fixed Costs (Advertising & R&D, RMB mn)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**∑ 10-15**
Anta	1,245	1,549	1,090	1,099	1,454	1,858	8,296
Li Ning	1,678	1,804	1,502	1,584	1,391	1,148	9,107
XTEP	602	726	727	599	731	900	4,285
Peak	480	706	453	340	364	333	2,675
361 Degrees	587	691	812	667	746	709	4,211

Source: Company data

Li Ning was the biggest spender on advertising and promotion from 2010 to 2015 although the pace of spending slowed in 2014 and 2015 due to RMB 2.8 billion in operating losses in 2012, 2013, & 2014 allowing Anta to overtake them as the largest spender in advertising and promotion in 2015. From 2010 to 2015, smaller domestic peers spent less than half of Li Ning on advertising and promotion and just over half of Anta.

From 2010 to 2015, Anta was by far the biggest spender on research and development spending RMB2.1 billion almost twice the amount spent by Li Ning and almost five times the average of smaller players.

Despite spending the most on advertising and the second most on research and development of domestic peers and having the highest market share, Li Ning lost 5.0% market share between 2010 and 2015 illustrating that while size is important, execution matters as well. The other big market share losers were the smaller domestic players unable to compete on fixed cost spending. Collectively, Li Ning and the smaller domestic players lost an estimated 13.0% of market share. Nike and Adidas were the largest market share gainers winning 5.8% and 5.6%, respectively. Anta increased its share by 1.7% between 2010 and 2015. Fixed cost spending, market share movements, and the relationship between size and profitability all point to the presence of economies of scale.

Brand advantage is present in the Chinese sportswear market. Brand advantage is often illustrated by premium pricing and market share as it points to a customer's increased willingness to pay. Many companies do not give the average selling price (ASP) for products sold so tmall.com was referenced. For better comparability, footwear was categorized into running and basketball shoes, two of the most popular sports categories. The tables below illustrate the average selling price (ASP) for each companies top selling shoes.

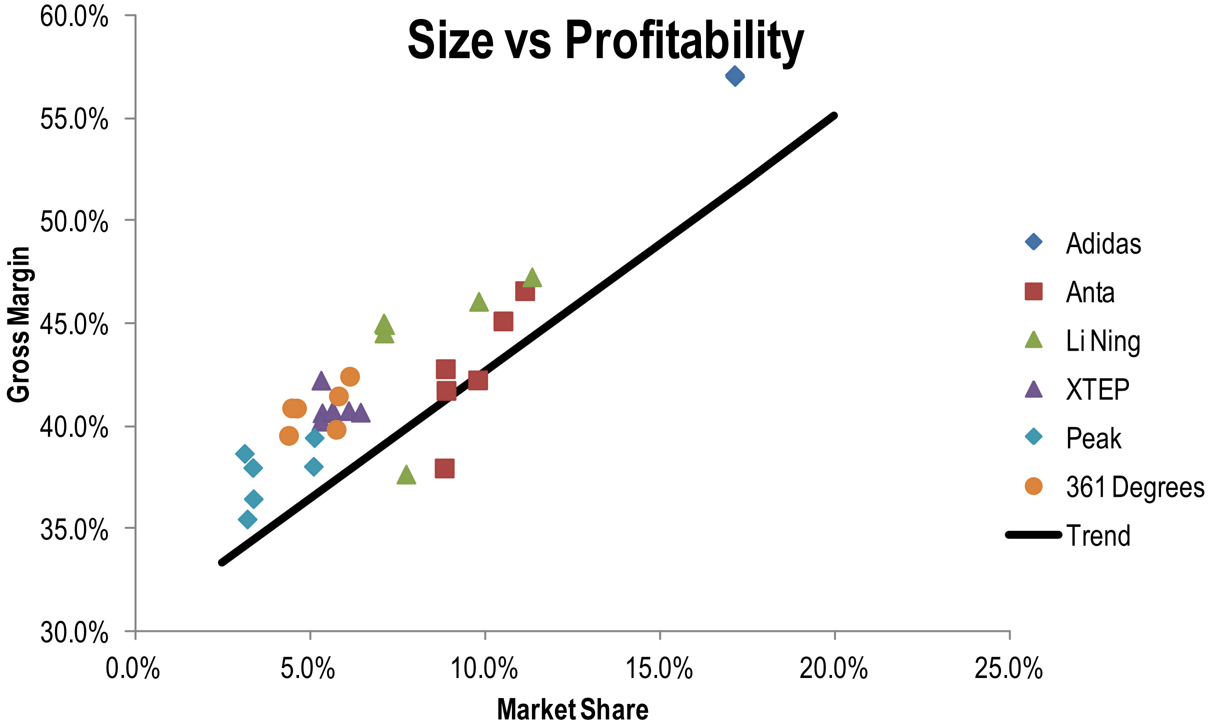
Price of 5 Most Popular Men's Running Shoes (RMB)	Nike	Adidas	ANTA	Li Ning	XTEP	Peak	361 Degrees
1	649	249	329	199	299	239	169
2	899	359	209	239	359	179	129
3	1,299	359	189	369	599	219	209
4	969	196	369	239	339	139	149
5	1,599	497	259	279	359	149	169
Average	**1,083**	**332**	**271**	**265**	**391**	**185**	**165**
Price of 5 Most Popular Men's Basketball Shoes (RMB)	**Nike**	**Adidas**	**ANTA**	**Li Ning**	**XTEP**	**Peak**	**361 Degrees**
1	639	1,199	359	239	199	369	179
2	639	479	499	399	189	249	189
3	719	729	419	569	239	179	259
4	949	799	259	299	239	219	219
5	1,039	769	459	299	219	199	199
Average	**797**	**795**	**399**	**361**	**217**	**243**	**209**

Source: Tmall.com

Nike shoes have the highest average price in both categories at RMB1,083 in the running segment and RMB797 in the basketball segment. Nike's prices in running are at a significant premium peers with the closest competitor's ASP at a 64% discount to Nike's ASP and the average peer price 25% of Nike's running ASP. In basketball, Nike's ASP is level with Adidas and roughly three times the average of its other peers. Adidas ASP is a 30% premium to running peers other than Nike and three times the average of non-Nike peers in basketball. The combination of ASP premium for Nike and Adidas and market share advantage points to a significant brand advantage over the remaining peers in the industry.

Anta ASP is at 10% premium to the average price of non-Nike and Adidas peers in running pointing to little or no ASP premium in the running segment. In the basketball segment, Anta's price is roughly 55% higher than peers other than Nike and Adidas. Anta's pricing premium with a market share advantage points to a potential brand advantage to competitors other than Nike and Adidas but the evidence is not as strong as the brand advantage held by Nike and Adidas.

Brand advantage should also show up in a gross margin advantage relative to peers as a branded company can charge a higher price as customers have an increased willingness to pay. A higher gross margin may also point to a manufacturing advantage over peers. Given all companies do not report volume statistics; it is difficult to compare manufacturing costs. It is probably difficult to have a sustained cost advantage as much the production function is outsourced. The outsourcing points to no internal costs advantage and the ability of peers to outsource production to the same provider of a competitor. If there were any unique activities within production, it could easily be replicated by peers as there is no complexity or unique processes associated with manufacturing footwear and apparel. The true cost advantage could come from lower labor costs but given the ease of outsourcing that could be obtained from any competitor. Given the production function can be outsourced, there is potential purchasing power from the larger competitors leading to lowering the cost of production.



Source: Company data, Reperio Capital Research estimates

Adj. R Squared = 0.787

The chart above plots market share compared to gross margin for Chinese competitors between 2010 and 2015. Nike does not report gross margin for China and Adidas only started reporting it in 2014. As illustrated, there is a strong correlation between size and gross margin with an adjusted R squared equaling 0.787. Unfortunately, higher gross margins due to size can be either purchasing power on raw materials, premium pricing from the ability to spend more on fixed costs in the form of advertising and promotion and research and development, or a combination of both.

There are also many firms estimating brand value of Chinese companies. The Hurun Institute estimates brand value for Chinese apparel companies as illustrated below.

Most Valuable Chinese Apparel Brands Rank	2010	2011	2012	2013	2014
Anta	2	3	3	1	2
Li Ning	1	4	8	12	5
Xtep	8	7	11	NA	NA
361 Degrees	6	12	17	NA	NA
Peak	9	10	NA	NA	NA
Brand Value (RMB bn)	**2010**	**2011**	**2012**	**2013**	**2014**
Anta	NA	8.8	5.7	NA	6.4
Li Ning	NA	4.2	2.4	NA	1.7
Xtep	NA	2.7	1.7	NA	NA
361 Degrees	NA	1.8	1.2	NA	NA
Peak	NA	2.1	NA	NA	NA

Source: Hurun Research Institute, Fung Business Intelligence Centre

According to Hurun Research Institute, Anta consistently ranks as on the three most valuable apparel brands with an estimated brand value of RMB6.4 billion at the end of 2014, illustrating Anta's brand strength relative to domestic peers.

Interbrand reports annually Chinese 100 most valuable brands. Anta continually shows up as the highest sportswear brand on the list. Interbrand is much more conservative with Anta's estimated brand value of RMB3.77 billion at the end of 2015.

Interbrand Most Valuable Chinese Brands	2012	2013	2014	2015
Brand Value (RMB mn)	1,951	2,046	2,482	3,766
Rank		73	71	70

Source: Interbrands

Further evidence of Anta's competitive advantages is seen in its profitability relative to domestic peers.

Operating Margin	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Nike	37.7%	35.9%	32.8%	39.6%	32.4%	36.2%	35.8%	2.8%	7.8%
Anta	22.9%	21.8%	19.3%	20.5%	22.0%	22.5%	21.5%	1.4%	6.3%
Li Ning	14.3%	5.5%	-26.5%	-5.4%	-11.2%	1.8%	-3.6%	14.2%	-396.4%
XTEP	21.6%	21.7%	19.2%	17.0%	13.8%	14.7%	18.0%	3.4%	18.9%
Peak Sports	23.2%	19.5%	12.7%	13.1%	15.1%	18.5%	17.0%	4.1%	24.2%
361 Degrees	NA	7.6%	15.8%	7.3%	16.0%	16.4%	12.6%	4.7%	37.3%
Average	**20.5%**	**15.2%**	**8.1%**	**10.5%**	**11.1%**	**14.8%**	**13.1%**	**5.6%**	**-61.9%**

Source: Company data

Relative to domestic peers, Anta had the highest operating margin by 3.5 percentage point with the lowest variability by a very wide margin. Between 2010 and 2015, Anta's operating margin only decline by 40 basis points. The next best margin decline was at Peak Sports, whose margins declined by 3.7%. The company's operating margin saw minimal variability with a coefficient of variation of 6.3% below all peers including Nike and a third of the closest domestic peer.

IC Turnover	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Anta	7.93	6.35	7.08	4.94	4.96	5.16	6.07	1.26	0.21
Li Ning	6.52	3.92	3.95	3.52	3.49	4.05	4.24	1.14	0.27
XTEP	4.81	2.85	3.66	2.69	2.44	2.96	3.24	0.87	0.27
Peak Sports	5.29	3.38	1.79	1.87	2.10	2.33	2.79	1.35	0.48
361 Degrees	NA	1.72	2.05	1.53	1.80	1.65	1.75	0.20	0.11
Average	**6.14**	**3.64**	**3.71**	**2.91**	**2.96**	**3.23**	**3.62**	**0.96**	**0.27**

Source: Company data

Anta was also by far the most efficient user of capital with an average invested capital turnover ratio of 6.07 with the second best stability behind 361 Degrees.

Working Capital Turnover	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Anta	26.38	12.33	48.00	13.51	12.20	11.24	20.61	14.57	0.71
Li Ning	12.94	6.17	8.01	6.76	6.94	7.01	7.97	2.51	0.31
XTEP	6.11	3.29	4.91	4.07	3.47	4.42	4.38	1.04	0.24
Peak Sports	10.43	5.19	2.70	3.03	3.36	3.61	4.72	2.93	0.62
361 Degrees	2.37	3.40	2.61	3.49	2.91	2.95	2.95	0.44	0.15
Average	**11.65**	**6.08**	**13.25**	**6.17**	**5.78**	**5.85**	**8.13**	**4.30**	**0.41**
Fixed Capital Turnover	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**10-15 Avg**	**10-15 StDev**	**10-15 CV**
Anta	11.34	13.09	8.31	7.79	8.36	9.54	9.74	2.08	0.21
Li Ning	13.15	10.74	7.79	7.36	7.02	9.58	9.27	2.38	0.26
XTEP	22.62	21.52	14.34	7.97	8.16	8.95	13.93	6.73	0.48
Peak Sports	10.73	9.64	5.35	4.90	5.61	6.55	7.13	2.45	0.34
361 Degrees	6.24	5.17	3.68	3.72	3.80	4.52	4.52	1.03	0.23
Average	**12.82**	**12.03**	**7.89**	**6.35**	**6.59**	**7.83**	**8.92**	**2.93**	**0.30**

Source: Company data

Anta's efficient use of capital is driven by its working capital efficiency as there is minimal differential in fixed capital turnover among domestic peers.

Working Capital Breakdown	Anta	Li Ning	XTEP	Peak	361 Degrees	Average
Inventory turnover 2011	14.4	7.9	8.3	11.0	12.3	10.8
Inventory turnover 2015	10.9	7.4	13.3	10.0	8.1	9.9
Receivables turnover 2011	11.7	4.3	4.6	4.7	2.6	5.6
Receivables turnover 2015	9.5	4.9	3.3	3.2	2.2	4.6
Other current asset turnover 2011	9.4	23.9	10.4	49.8	5.4	19.8
Other current asset turnover 2015	10.7	22.9	7.9	42.6	5.1	17.8
Payables turnover 2011	15.5	6.1	11.1	8.3	17.6	11.7
Payables turnover 2015	14.8	7.1	5.9	7.2	6.1	8.2
Other current liabilities turnover 2011	8.6	12.9	24.4	85.2	6.0	27.4
Other current liabilities turnover 2015	7.5	10.1	9.1	40.1	3.8	14.1

Source: Company data

Anta big differential with peers is in receivables management with the company turning over receivables 11.7 times in 2011 compared to a peer group average of 4.0 times. Similarly, in 2015, Anta turned over receivables 9.5 times compared to a peer group average of 3.4 times. Anta is almost three times more efficient than peers in managing receivables. The downturn in the industry created receivables issues at most peers but the strength of Anta's brand, product, and pricing allowed the company to continue to push product through the channel without distributors having any issues selling the product.

Pre-tax ROIC	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Anta	181.3%	138.1%	136.3%	101.3%	109.2%	116.1%	130.4%	28.9%	22.2%
Li Ning	93.1%	21.4%	-104.6%	-19.1%	-39.0%	7.2%	-6.8%	65.9%	-964.8%
XTEP	103.8%	62.0%	70.1%	45.7%	33.7%	43.4%	59.8%	25.3%	42.3%
Peak	122.6%	65.9%	22.8%	24.4%	31.7%	43.2%	51.8%	38.2%	73.7%
361 Degrees		32.3%	11.2%	28.7%	27.1%	22.5%	24.4%	8.2%	33.5%
Average	**125.2%**	**63.9%**	**27.2%**	**36.2%**	**32.5%**	**46.5%**	**51.9%**	**33.3%**	**-158.6%**

Source: Company data

Anta's superior profitability and capital efficiency leads to the highest ROIC every year with the lowest variability. Anta's pre-tax ROIC is over four times the average of domestic peers.

Profitability well above peers states customers are either more willing to pay for the company's products or the company manufacturers products more efficient than peers.

The evidence points to barriers to entry in the form of economies of scale and brand with the economies of scale reinforcing the brand advantage as the company can spend more on fixed costs to build its brand by having a greater size. Anta is on the right side of the virtuous feedback loop against domestic peers but on the wrong side of the feedback loop against Nike and Adidas.

Anta has a size advantage and seems to have a brand advantage over other domestic peers but the strength of its advantage is nowhere near the strength of Nike's and Adidas' advantages.

Competitive Advantage Period

Economies of scale combined with a brand advantage create very strong barriers to entry as they combine to create a feedback loop that is difficult to overcome. The size advantage allows a competitor to outspend its peer on fixed costs. In sportswear, the fixed costs are advertising and promotion and research and development. These costs build and reinforce a company's brand creating a feedback loop that is difficult to overcome. Fixed costs, such as endorsements and product development, can be used in many different markets making global scale, the true measure of a competitor's size, and making it even more difficult for local players to compete.

Nike and Adidas' competitive advantages should persist for decades. Anta's disadvantage to Nike and Adidas should continue but its advantage over domestic peers should strengthen over time.

Global Sportswear Market Share 2011	Apparel		Footwear
Adidas	11.2%	Nike	33.6%
Nike	9.9%	Adidas	19.1%
VF Corp	4.9%	Asics	4.7%
Gildan	2.4%	Puma	4.3%
Bilabong	2.3%	VF Corp	3.7%
Hanesbrands	2.0%	Skechers	3.5%
Puma	1.8%	New Balance	3.5%
Columbia	1.7%	Wolverine World Wide	2.8%
Quiksilver	1.7%	Crocs	2.2%
Under Armour	1.6%	Collective Brands	1.7%
Others	60.5%	Others	20.9%

Source: Statista, BOA Merril Lynch, NPD

Globally, the sportswear markets are fragmented with Nike and Adidas garnering a 21.1% market share in apparel and a 52.7% market share in footwear. The relative fragmentation of apparel illustrates the apparel market is much more competitive. Given the presence of economies of scale in the sportswear industry, the industry should be more consolidated given fixed costs associated with economies of scale create a minimum efficient scale to compete. It seems some customers are not willing to pay a premium price for a brand and are much more price sensitive. Customers have diverse taste and the larger organizations do not produce goods to cover all tastes in the market. The barriers to entry are not strong and companies can survive with a very lower market share due to the asset light nature of the business.

Anta's competitive advantage over domestic peers should also continue for decades but profitability will deteriorate as it starts competing with Nike and Adidas. At the moment, it has positioned itself as a brand among the mass market segment, while Nike and Adidas are in the high-end segment making direct competition not an issue for the moment.

Other Four Forces

Intensity of rivalry is high particularly among firms competing for more price sensitive customers as these customers are only worried about price making operating efficiency the key strategic goal within this segment. For firms competing more on brand, their offering is differentiated making the intensity of rivalry less intense.

Although the sportswear industry is fragmented, suppliers in the form of sportswear manufacturers are typically smaller, more fragmented, and at risk of vertical integration leaving them with very little bargaining power. In the case of companies that manufacture their own products, raw material suppliers are commodity producers that are very fragmented and sell their product solely on price.

Suppliers of labor seem to have bargaining power over the sportswear companies. From 2010 to 2015, Staff costs have increased as a percentage of sales at all Chinese sportswear companies by a minimum of 2.3%. The rise in cost points to employees having bargaining power over suppliers.

Staff costs (% Sales)	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 ∆	10-15 CAGR
Anta	8.9%	8.5%	9.7%	10.3%	11.0%	11.2%	9.9%	2.3%	13.6%
Li Ning	7.5%	8.7%	10.9%	11.5%	12.0%	9.9%	10.1%	2.4%	-0.3%
XTEP	4.7%	4.8%	7.1%	9.3%	9.4%	9.0%	7.4%	4.3%	17.9%
Peak	6.3%	8.0%	12.1%	13.9%	15.8%	14.7%	11.8%	8.4%	11.3%
361 Degrees	5.4%	7.5%	6.9%	8.3%	8.4%	8.3%	7.5%	2.9%	7.2%

Source: Company data

Customers in the form of distributors are fragmented and in the case of Anta are exclusive sellers of Anta's products. The fragmentation and exclusivity greatly decreases the bargaining power of customers. While the bargaining power of distributors is low, Anta relies on the distributors to sell their products; therefore, they are more partners whose health is vital to Anta.

The threat of substitutes is high for more casual sportswear as customers can easily switch and buy similar product from more fashion oriented companies. More performance oriented sportswear has a lower threat of substitution as athletes are less likely to give up on performance features.

MANAGEMENT

Anta's executives are owner-operators with five of the executive directors owning at least 6% of the company allowing management incentives to be aligned with minority shareholders.

Strategy

The company's strategy is to be the leader in the value for money segment by having a stronger brand and more innovative products than peers competing in the value for money segment. The company strategy has been consistent since their IPO. Management understands the key strategic drivers in the industry spending the most among domestic peers on fixed costs to build a brand and improve products allowing the company to continually win market share allowing the feedback loop of greater size allowing for greater spending on fixed costs to build a brand and improve products to continue.

Operations

Key Value Drivers, (average 2010-2015)	ANTA	Li Ning	XTEP	Peak	361
Revenue per store	948,035	1,088,687	686,794	509,528	605,243
Sales growth	9.7%	-4.5%	4.7%	-4.0%	-1.7%
Store count growth	2.0%	-4.3%	0.0%	-3.3%	0.0%
Revenue per store growth	7.5%	-0.4%	4.5%	-1.6%	-0.5%
Gross profit growth	10.3%	-6.6%	4.3%	-5.8%	-1.9%
Operating profit growth	21.5%	-3.6%	18.0%	17.0%	14.7%
Gross margin	42.7%	44.3%	40.9%	37.7%	40.8%
Operating margin	21.5%	-3.6%	18.0%	17.0%	10.5%
OCF margin	18.8%	-0.5%	11.5%	14.5%	7.9%
FCF margin	16.8%	-4.6%	9.3%	11.5%	5.4%
Working capital turnover	20.6	8.0	4.4	4.7	3.0
Fixed capital turnover	9.7	9.3	13.9	7.1	4.5
Invested capital turnover	6.1	4.2	3.2	2.8	1.7
ROIC	130.4%	-6.8%	59.8%	51.8%	22.5%
FCF ROIC	104.7%	-13.9%	32.5%	37.4%	13.3%

Source: Company data, Reperio Capital Research estimates

Over the last five years, ANTA outperformed peers on all key value drivers. It comes out on top in sales growth, operating profit growth, operating margin, capital efficiency and its ROIC is more than double its closest competitor. It comes in second only in gross margin to Li Ning.

Pre-tax ROIC	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Anta	181.3%	138.1%	136.3%	101.3%	109.2%	116.1%	130.4%	28.9%	22.2%
Li Ning	93.1%	21.4%	-104.6%	-19.1%	-39.0%	7.2%	-6.8%	65.9%	-964.8%
XTEP	103.8%	62.0%	70.1%	45.7%	33.7%	43.4%	59.8%	25.3%	42.3%
Peak	122.6%	65.9%	22.8%	24.4%	31.7%	43.2%	51.8%	38.2%	73.7%
361 Degrees		32.3%	11.2%	28.7%	27.1%	22.5%	24.4%	8.2%	33.5%
Average	**125.2%**	**63.9%**	**27.2%**	**36.2%**	**32.5%**	**46.5%**	**51.9%**	**33.3%**	**-158.6%**

Source: Company data

As illustrated, with the exception of Li Ning, Chinese sportswear companies were able to generate an average pre-tax return on invested capital of 51.9% between 2010 and 2015. Anta's average pre-tax ROIC was four times the average of its peers over that time due to higher margins and capital efficiency.

Operating Margin	2010	2011	2012	2013	2014	2015	10-15 Avg	10-15 StDev	10-15 CV
Anta	22.9%	21.8%	19.3%	20.5%	22.0%	22.5%	21.5%	1.4%	6.3%
Li Ning	14.3%	5.5%	-26.5%	-5.4%	-11.2%	1.8%	-3.6%	14.2%	-396.4%
XTEP	21.6%	21.7%	19.2%	17.0%	13.8%	14.7%	18.0%	3.4%	18.9%
Peak Sports	23.2%	19.5%	12.7%	13.1%	15.1%	18.5%	17.0%	4.1%	24.2%
361 Degrees	NA	7.6%	15.8%	7.3%	16.0%	16.4%	12.6%	4.7%	37.3%
Average	**20.5%**	**15.2%**	**8.1%**	**10.5%**	**11.1%**	**14.8%**	**13.1%**	**5.6%**	**-61.9%**
IC Turnover	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**10-15 Avg**	**10-15 StDev**	**10-15 CV**
Anta	7.93	6.35	7.08	4.94	4.96	5.16	6.07	1.26	0.21
Li Ning	6.52	3.92	3.95	3.52	3.49	4.05	4.24	1.14	0.27
XTEP	4.81	2.85	3.66	2.69	2.44	2.96	3.24	0.87	0.27
Peak Sports	5.29	3.38	1.79	1.87	2.10	2.33	2.79	1.35	0.48
361 Degrees	NA	1.72	2.05	1.53	1.80	1.65	1.75	0.20	0.11
Average	**6.14**	**3.64**	**3.71**	**2.91**	**2.96**	**3.23**	**3.62**	**0.96**	**0.27**

Source: Company data

From 2010 to 2015, the average operating margin in the Chinese sportswear industry averaged 13.1% with Anta averaging 21.0% and its peers averaging 11.0%. Peers were dragged down by Li Ning with Anta having only a few percentage points edge over XTEP and Peak Sports. Although Anta had a small advantage in average operating margin, the company's stability is far superior to the peer group.

Anta's IC turnover surpassed domestic peers IC turnover by a wide margin, averaging 6.07 times compared to a peer group average of 3.00 times.

Overall, management is executing its value for money strategy much better than peers leading to market share gains and profitability much higher than peers.

Capital Allocation

Capital Allocation (RMB mn)	2008	2009	2010	2011	2012	2013	2014	2015	08-15 ∑	% of CF
Capital allocation cash flow	**1,793**	**2,611**	**2,677**	**2,997**	**3,055**	**2,228**	**3,140**	**3,761**	**22,262**	**100%**
Advertising and promotional expense	(638)	(746)	(1,008)	(1,220)	(800)	(808)	(1,071)	(1,279)	(7,571)	-34%
Research and development expense	(139)	(176)	(237)	(329)	(290)	(291)	(384)	(579)	(2,425)	-11%
Working capital	62	313	(295)	(454)	430	(421)	(68)	(415)	(848)	-4%
Capital expenditures	(172)	(113)	(89)	(127)	(146)	(174)	(263)	(231)	(1,314)	-6%
Acquisitions	-	(400)	-	-	-	-	-	(29)	(429)	-2%
Dividends	(400)	(658)	(940)	(1,055)	(996)	(878)	(1,090)	(1,356)	(7,373)	-33%
Share issuance/(buyback)	-	7	6	1	-	4	3	131	152	1%
Debt issued/(repayment)	-	1	(2)	(2)	1,010	(508)	858	(18)	1,339	6%
Cash transferred to the balance sheet	**505**	**839**	**113**	**(189)**	**2,263**	**(849)**	**1,125**	**(15)**	**3,792**	**17%**

Source: Company data, Capital allocation cash flow = operating cash flow + working capital+ advertising expense + R&D expense

Capital allocation cash flow is operating cash flow + working capital + advertising and promotion expense + research and development expenses. Capital allocation cash flow is the amount of cash flow available for capital allocation decisions.

Advertising is the largest capital allocation decision at 34% of capital allocation cash flow. Given the company's size advantage over peers and the importance of brand in the industry, advertising expenses should be maximized. The company is doing a good job taking advantage of its market share and outspending peers on fixed costs but with a net cash position of roughly 2.25 times operating profit the company could increase advertising expenses.

The second largest capital allocation decision is the payment of dividends accounting for 33% of capital allocation cash flow. Given the asset light nature of the business and the company's net cash position, higher dividends could be paid.

The third largest capital allocation decision is research and development accounting for 11% of capital allocation cash flow. Research and development is a fixed cost to improve the product and the company's brand, given the company's size advantage and the ability to build a brand from product innovations, Anta could increase its research and development as it has a large net cash position.

All other capital expenses are minimal with working capital investment and capital expenditures combine to 10% of capital allocation cash flow.

The company made two acquisitions between 2008 and 2015 equaling 2% of capital allocation cash flow. Both times the company paid book value. In 2009, the company purchased the right to distribute FILA in the greater China area. At the time, the acquired company was losing making. The company does not segment out sales and profits by brand so we unable to determine how good of an acquisition it was. The acquisition does not makes sense strategically. FILA is a high end brand that is more fashion oriented. The high end nature puts in direct competition with Nike and Adidas, while its fashion orientation makes it more open to competition from more fashion oriented clothing. If the company's goal is to be the leading value for money brand, the FILA acquisition brings the distraction of worrying about a high end product that does not provide any additional size advantage. Also, given you have little or no input into product innovation and marketing, the key activities in the sportswear value chain are out of the company's control.

Overall, the company has made no major capital allocation missteps. The biggest misstep is having a net cash position equal to 2.25 times 2015 operating profit. The company has a size advantage over all players within its segment and ideally the company would increase spending on either advertising and promotion or research and development. If the company believes it is at the optimal level of spending on fixed costs it could increase dividends paid.

Corporate Governance

Related Party Transaction (RMB mn)	2008	2009	2010	2011	2012	2013	2014	2015	08-15 Avg
Quanzhou Anda (Packaging)	10.63	7.38	14.91	20.57	20.32	23.99	30.24	47.14	21.90
Mr. Ding Shijia service fees	-	-	-	-	-	10.84	13.57	13.57	4.75
Amount due to Quanzhou Anda	1.43	0.81	2.75	1.90	2.43	4.33	6.23	8.98	3.61
Amount due to Ding Shijia	0.50	-	-	-	-	2.51	-	-	0.38
Amount due to Fujian Light Industrial	0.70	0.70	-	-	-	-	-	-	0.18
Key management renumeration	5.55	8.51	9.45	14.56	12.98	9.89	11.88	12.01	10.60
Total related party transactions	**18.81**	**17.41**	**27.11**	**37.03**	**35.73**	**51.56**	**61.92**	**81.71**	**41.41**
% of revenue	**0.41%**	**0.30%**	**0.37%**	**0.42%**	**0.47%**	**0.71%**	**0.69%**	**0.73%**	**0.51%**
% of assets	**0.38%**	**0.29%**	**0.38%**	**0.45%**	**0.36%**	**0.51%**	**0.54%**	**0.65%**	**0.45%**

Source: Company data

The company's related party transactions are insignificant. Quanzhou Anda is a related company that provides packaging, while the service fee to Mr. Ding Shijia is related to lease payments for the use of facilities.

Since 2010, the top five highest paid employees' average pay was only 0.75% of operating profit. The company's management is not extracting too much value from salaries on an absolute basis. Below 1.0% is actually extremely good value given the strength of management strategically and operationally. Relative to the industry, Anta has the lowest salaries relative to operating profit and sales.

Top 5 Salaries % Operating Profit	2012	2013	2014	2015	12-15 Avg
Anta	0.96%	0.79%	0.69%	0.54%	0.74%
Li Ning	-1.10%	-7.58%	-6.91%	14.03%	-0.39%
XTEP	1.17%	1.20%	0.89%	0.97%	1.06%
Peak	1.82%	2.01%	1.88%	1.38%	1.77%
361 Degrees	1.36%	3.04%	1.51%	1.25%	1.79%
Top 5 Salaries % Sales	**2012**	**2013**	**2014**	**2015**	**12-15 Avg**
Anta	0.19%	0.13%	0.18%	0.18%	0.17%
Li Ning	0.21%	0.27%	0.70%	0.30%	0.37%
XTEP	0.28%	0.16%	0.11%	0.17%	0.18%
Peak	0.16%	0.15%	0.28%	0.30%	0.22%
361 Degrees	0.22%	0.14%	0.19%	0.25%	0.20%

Source: Company data

Anta's accounting assumptions are in line with peers across the board so there are no concerns over inflated earnings due to accounting assumptions.

VALUATION

Given Anta is competitively advantaged against the Chinese sportswear companies, the best valuation method is an earnings based valuation. In case of Anta competitive advantage does not exist, reproduction value would be the best method of valuing the company. If the industry were not viable, liquidation value would be the best valuation technique.

Valuation Methodology	2015 Target Price (HKD)	Upside
Liquidation value	2.89	-83%
Reproduction value	7.76	-55%

Source: Reperio Capital Research estimates

As illustrated above there is 83% downside to liquidation value and 55% downside to reproduction value.

The key assumptions used in the earnings based valuations are the discount rate, sales growth, operating margin, tax rate, working capital turnover, and fixed capital turnover. The discount rate, tax rate, working capital turnover, and fixed capital turnover are assumed to be constant at the values below.

Key Assumptions	Forecast Period	Terminal Year 10	Current	Average	Peak	Trough	St Dev
Discount Rate	10.0%	10.0%					
Tax Rate	-25.0%	-25.0%	-26.2%	-18.9%	-7.0%	-26.2%	6.4%
Working capital turnover	40.9	40.9	11.2	40.9	192.2	11.2	62.4
Fixed capital turnover	9.5	9.5	9.5	9.5	13.1	7.8	1.8

Source: Reperio Capital Research

We always assume a discount rate of 10%, a regulatory tax rate of 25%, an average working capital turnover of 40.9 times, an average fixed capital turnover of 9.5 times. Working capital turnover and fixed capital turnover averages are from 2008 to 2015.

Sales growth and operating margin are assumed to vary to get an understanding of what the market is pricing in. The values of sales growth and operating margin for each scenario are listed below.

Key Assumptions	Current	Average	Peak	Trough
Sales growth	24.7%	13.4%	27.0%	-14.4%
Operating margin	22.5%	21.6%	23.3%	19.3%

Source: Reperio Capital Research

The target prices for 2016 and 2021 along with their upsides are illustrates below.

Earnings Based Valuations (DCF/EVA/EPV)	2016 Target Price (HKD)	Upside	2021 Target Price (HKD)	Upside
0% growth, trough margins	11.76	-32%	14.65	-15%
0% growth, average margins	12.79	-26%	16.04	-7%
0% growth, current margins	13.20	-24%	16.59	-4%
0% growth, peak margins	13.53	-22%	17.04	-1%
5% forecast growth, 0% terminal growth, average margins	14.67	-15%	19.84	15%
10% forecast growth, 0% terminal growth, average margins	17.06	-1%	24.71	43%
5% growth, trough margins	19.80	15%	27.53	59%
5% growth, average margins	21.87	27%	30.59	77%
15% forecast growth, 0% terminal growth, average margins	20.09	16%	30.92	79%
5% growth, current margins	22.68	31%	31.79	84%
5% growth, peak margins	23.35	35%	32.77	90%
10% forecast growth, 5% terminal growth, average margins	26.14	51%	39.34	128%
15% forecast growth, 5% terminal growth, average margins	31.60	83%	50.58	193%
Average Earnings Valuations Upside	**19.12**	**11%**	**27.11**	**57%**

Source: Reperio Capital Research estimates

The worst case scenario is assumed to be zero growth into perpetuity with operating margin compressing from the current 22.5% to a 19.3%. Under the worst case scenario, the 2016 target price is HKD11.76 leading to 32% downside and the 2021 target price is HKD14.65 leading to 15% downside. The most optimistic scenario assumed 15% growth over the next five years before fading to a 5% terminal growth rate with average operating margins since 2008. Under the most optimistic scenario, the 2016 target price is HKD31.60 representing 83% upside and the 2021 target price is HKD50.58 representing 193% upside.

Overall, the average 2016 target price is HKD19.12 representing 11% upside and the average 2021 target price is HKD27.11 representing 57% upside. There company offers a decent average return. The average return seems a bit conservative with a more reasonable base case between 5% perpetuity growth and average margins and 10% forecast period growth fading to 5% terminal growth with average margins. The 2016 target price and 2021 target price for the lower end of the base case is HKD21.87 and HKD30.59 representing 27% and 77% upside, respectively. The 2016 target price and 2021 target price for the upper end of the base case is HKD26.14 and HKD39.34 representing 51% and 128% upside, respectively. Under the base case, there is just about 15% annualized return, the company is slightly undervalued.

On an expected return basis, assuming a return on reinvested earnings of 50% and an organic growth rate of 2.5%, less than half of the company's current ROIC, the company's expected return in 16.5% as the company has a NOPAT yield of 5.1%, 2.8% of which is paid in dividends and the remaining 2.2% is reinvested.

Expected Annualized Return					
Adjusted NOPAT yield	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**
- Dividend yield	2.8%	2.8%	2.8%	2.8%	2.8%
= Reinvestment earnings yield	2.2%	2.2%	2.2%	2.2%	2.2%
Return on reinvestment	**25%**	**50%**	**75%**	**100%**	**125%**
= Value of reinvested earnings	5.6%	11.2%	16.8%	22.4%	28.0%
Dividend yield	2.8%	2.8%	2.8%	2.8%	2.8%
+ Value of reinvested earnings yield	5.6%	11.2%	16.8%	22.4%	28.0%
+ Organic growth	2.5%	2.5%	2.5%	2.5%	2.5%
= Expected return	**10.9%**	**16.5%**	**22.1%**	**27.7%**	**33.3%**
Adjusted FCF yield	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
+ 5 year growth	2.5%	5.0%	7.5%	10.0%	12.5%
= Expected return	**5.8%**	**8.3%**	**10.8%**	**13.3%**	**15.8%**

Source: Reperio Capital Research estimates

The company has a current free cash flow yield of 3.3% with expected growth of roughly 7.5% leads to a 10.8% expected return.

The company is slightly undervalued and offering roughly a 12% annualized return at the lower end of the base case scenario, which is confirmed with expected return of roughly 10.8%.

RISKS

If perceived barriers to entry do not exist, the company's profitability would be less sustainable than originally expected and the company's valuation would suffer potentially causing a permanent loss of capital as the company is trading above its reproduction value.

If Adidas and Nike are able to attack the mass market segment without hurting their premium brand image, Anta could find itself on the wrong side of economies of scale.

Li Ning was once larger than Anta but lost market share over the past five years and is suffered significant losses over the past few years. These losses forced Li Ning to cut back on advertising and research and development. In 2015, the company returned to profitability and soon it could find the formula that made it a market share leader increasing competition for Anta.

Given economies of scale are present in the industry, market share is one of the most important variables in profitability. If Anta loses market share, it will not be able to spend on crucial fixed costs of advertising and R&D leading to weaker brand and product and more market share loses.

Management has done a good job of allocating capital and executing operationally but if they stop taking advantage of their size over smaller domestic peers by decreasing spending on fixed costs or become inefficient operationally, profitability will suffer.

Advertising and brand building is a crucial to achieving excess returns. If the company overpays endorsers, excess returns could fade.

Anta is in the consumer goods industry and if the macroeconomic situation deteriorates in China, consumers could stop buying sportswear.

The more fashion oriented sportswear faces competition from non-sportswear apparel makers.

Anta outsources part of its production and all of its distribution and retail activities. If value chain partners do not perform then the company's image may be hurt.

Anta's corporate governance is not an issue. If management starts extracting more value from related party transactions and high executive pay, the company's multiple will suffer.

CONTACT:

Marc Melendez, CFA
Founder and Head of Research
Reperio Capital Research, LLC.
www.reperiocapital.com
(718) 705-4969
marcmelendez@reperiocapital.com

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