

Analyst: Kelvin Li

## Main Board Listing – Research

安踏體育用品有限公司

**ANTA Sports Products Limited [Stock Code: 2020]**
**Sole Global Coordinator, Bookrunner, Sponsor and Lead Manager** : Morgan Stanley

**Sector** : Consumer Durables & Apparel

**Business** : Design and manufacture of sportswear

<b>Total share offer:</b> <u>600,000,000</u> shares (25% of the enlarged share capital) <b>Public Offer:</b> 60,000,000 shares (10%) <b>Placing:</b> 540,000,000 shares (90%) <b>Greenshoe:</b> 90,000,000 shares <b>Price:</b> HK\$4.28 – HK\$5.28 per share <b>Market Cap:</b> HK\$10.27 billion–HK\$12.67 billion <b>Pro forma FY2007E PER:</b> 26.8x to 33.0x <b>Adjusted NTA per share:</b> HK\$1.11 – HK\$1.35 <b>Staffing:</b> 7,243 (as of 31 <sup>st</sup> March 2007)	<b><u>Business of ANTA Sports</u></b> <p>ANTA Sports is one of the leading branded sports footwear companies in the Mainland China. It is mainly engaged in the design, develop, manufacture and market sportswear, including sports footwear and apparel for professional athletes and the general public under the “ANTA” brand. ANTA also design, market and sell accessories under the “ANTA” brand.</p> <p>ANTA mainly sells its products on a wholesale basis to distributors, who are then distributing the products to authorized ANTA retail outlets selling to the Mainland consumers. Its production facilities are located in Jinjiang, Fujian, while it also outsources its apparel and accessory products to contract manufacturers.</p> <p>ANTA's distributors directly operate their authorized ANTA retail outlets or appointed 3<sup>rd</sup> party operators to manage, subject to the ANTA's approval. Both of these retail outlets are subject to retail policies governing sales and expansion targets, product pricing, stock management, store layout, promotion, customer and after-sale services set out by ANTA.</p>
<b>HK Public Offer period:</b> 26 <sup>th</sup> June 2007 – 29 <sup>th</sup> June 2007 noon <b>Receiving bank:</b> Bank of China (Hong Kong) ICBC (Asia) <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 10 <sup>th</sup> July 2007	

### Shareholders after Listing (Assuming the over-allotment option is not exercised)

Anta International (BVI)*	62.44%
Anda Investments (BVI)^	5.25%
Anda Holdings (BVI)#	7.31%
Public	25.00%
	<u>100.00%</u>

Remark: (\*) It is 41.44% owned by a family trust of Mr. Ding Shizhong – ANTA's chairman and CEO, 40.84%, 11.41% and 6.01% by family trusts of ANTA's executive directors Mr. Ding Shijia, Mr. Wang Wenmo and Mr. Wu Yonghua, respectively, and 0.30% by a family trust of Mr. Ke Yufa – a vice president. (^) It is owned by a family of Mr. Ding Hemu – father of chairman Mr. Ding. (#) It is owned by a family trust of Ms. Ding Yali – sister of chairman Mr. Ding.

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### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,746 million (Assuming an offer price of HK\$4.78, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For organising trade fairs, brand promotion, sponsorship of major sports leagues and events, media advertising, marketing campaigns and activities and endorsements of up-and-coming athletes	1,100
For retail network expansion, opening retail sports complexes and setting up ANTA flagship stores in major cities in China	550
For further developing regional sales offices, expanding and improving the coverage of distribution network and providing renovation subsidies in the form of standardized promotional materials and display equipment to authorized ANTA retail outlets	440
For acquiring land use rights, plant and machinery, and staff quarters	250
For establishing a new information management system to gather operating information and inventory data from the retail outlets	70
For investing in design capabilities and applying for intellectual property rights	70
For general working capital	266

### Financial Highlights

(RMB '000)	2004	2005	2006
Turnover	311,499	670,349	1,250,142
Gross profit	43,775	125,871	313,228
Operating profit/(loss)	(5,097)	51,136	148,279
<b>Profit/(loss) for the year</b>	<b>(8,403)</b>	<b>48,033</b>	<b>147,417</b>
Gross profit margin	14.05%	18.78%	25.06%
Operating profit margin	(1.64%)	7.63%	11.86%
Net profit margin	(2.70%)	7.17%	11.79%

### Breakdown of sales in terms of product

	2004		2005		2006	
(RMB '000)		%		%		%
Footwear	265,930	85.4%	446,021	66.5%	797,749	63.8%
Apparel	41,170	13.2%	215,032	32.1%	409,928	32.8%
Accessories	4,399	1.4%	9,296	1.4%	42,465	3.4%
Total	311,499	100.0%	670,349	100.0%	1,250,142	100.0%

### Strengths/Opportunities

- ✓ ANTA is a well-known sportswear brand in the Mainland. It has also established long-term sponsorship with major sports leagues in the Mainland like the Chinese Basketball Associate, China National Volleyball League and China Table Tennis Super League.
- ✓ The Group's gross profit margin is at a healthy trend, rising from 18.8% in 2005 to 25.1% in 2006, thanks to a strong volume growth and contained costs in the footwear segment. Besides, the Group also experienced a rapid rise in the product prices, thanks to better recognition of its brand as well as stronger purchasing power in the Mainland. Riding on the 2008 Beijing Olympic games, ANTA's business outlook should stay robust in the next couple of years.
- ✓ To be priced at 33x (at the top end of the indicative price range) 07E P/E, ANTA is at a discount to peer Li Ning (2331)'s 48x forward P/E but at a big premium to Yue Yuen (0551)'s 13x estimated P/E. Nonetheless, the valuation is still attractive given the business potential in retailing and a pleasant growth outlook.

### Weaknesses/Threats

- × Rising labour and raw materials costs are the key operational risks. However, booming consumption in the Mainland, greater acceptance of the "ANTA" brand as well as business opportunities arising from the Beijing Olympics should help maintain the Group's profit margins.

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