

Peak Sport (1968.HK)

Improvement of Retail Outlet Efficiency Supports Continued Growth

Hong Kong | Retailing | Company report

13 MAY 2016

"Star Strategy" Gains Significant Achievements and Growing Profits

The revenue of Peak Sport in 2015 increased by 9.4% compared with 2014, to RMB3.11 billion, mainly thanks to revenue growth in both Chinese (11.2%) and international markets (3.1%). The international sales income amounted to RMB670million, accounting for 21.6% of the total revenue, making Peak sport gain the best percentage of overseas sales in total revenue among Chinese sports brands. In terms of product types, three types of products achieved steady growth in revenue, especially footwear products. The specialized R&D experience in basketball shoes and sponsor for professional running events contributed to the popularity of basketball and running shoes, resulting in a revenue growth of 16.1%. Besides, revenue of apparel and accessories rose respectively by 4.3% and 19.1%.

Buy

CMP: HKD 1.83
(Closing price as at 11 May 2016)
TARGET: HKD 2.25 (23%)

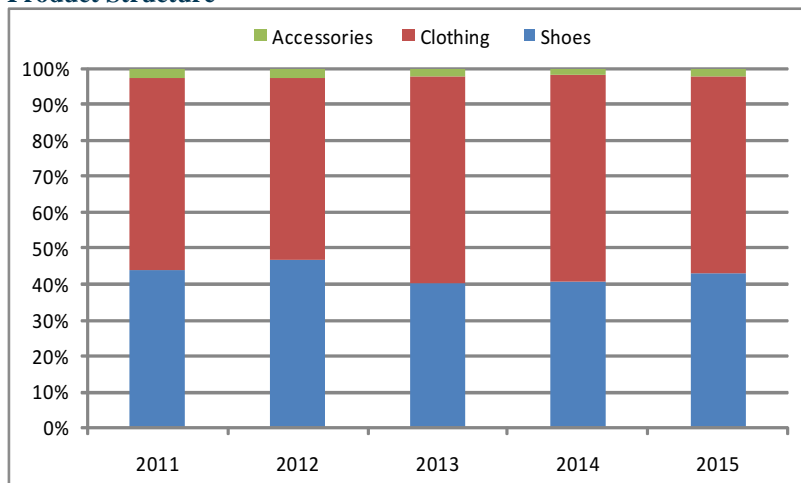
COMPANY DATA

O/S SHARES (MN) :	2,389.15
MARKET CAP (HKDMN) :	4,372.1
52 - WK HI/LO (HKD):	2.86/1.30

SHARE HOLDING PATTERN , %

Yong sound development co., LTD	38.16
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Product Structure



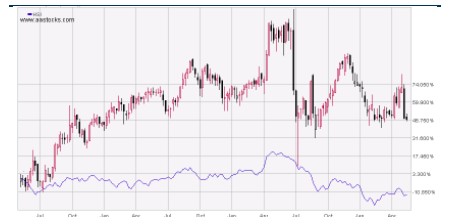
Source: Bloomberg, Phillip Securities (HK) Research

As for profitability, both the gross profit and gross profit margin grew by different degrees. The gross profit increased by 11.4% to RMB1.202 billion, and the gross profit margin grew by 0.7% to 38.7% with a 8% decrease in sales and distribution expenses. The profit attributable to shareholders also grew to nearly RMB392 million, up by 22.3%, while the net profit margin grew by 1.3% to 12.6%. The substantial growth in profit was attributed to the successful marketing of "Star Strategy". The earning per share was RMB0.18; the annual dividends paid were RMB0.13 per share, with a YoY increase of 25%.

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Peak Sport	-10.58	-6.53	-30.86
HSI	-9.53	-11.04	-3.95

PRICE VS. HSI



Source: Phillip Securities (HK) Research

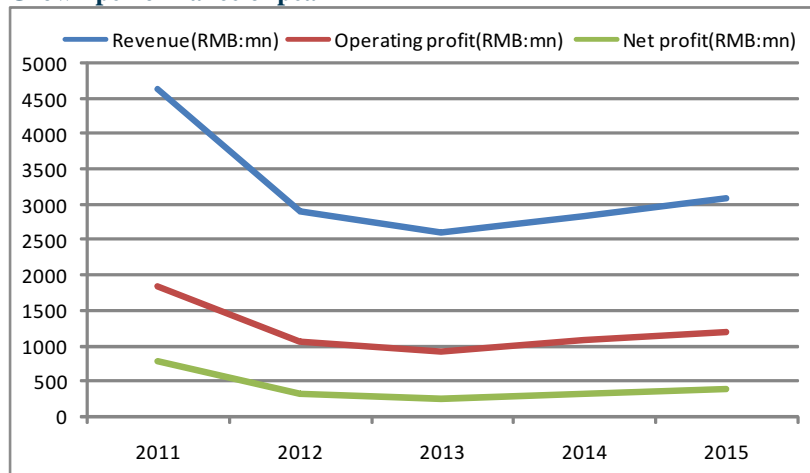
KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	2,841	3,107	3,411	3,719
Net Profit	321	392	434	476
P/E,x	10.3	8.5	8.5	7.7
EPS, HKD	0.15	0.18	0.18	0.20
P/B, x	0.8	0.8	0.7	0.7
BVPS, HKD	2.02	2.04	2.10	2.19
ROE, %	7.56%	8.02%	8.57%	9.12%

Source: Company reports, Phillip Securities Est.

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Grown performance of peak

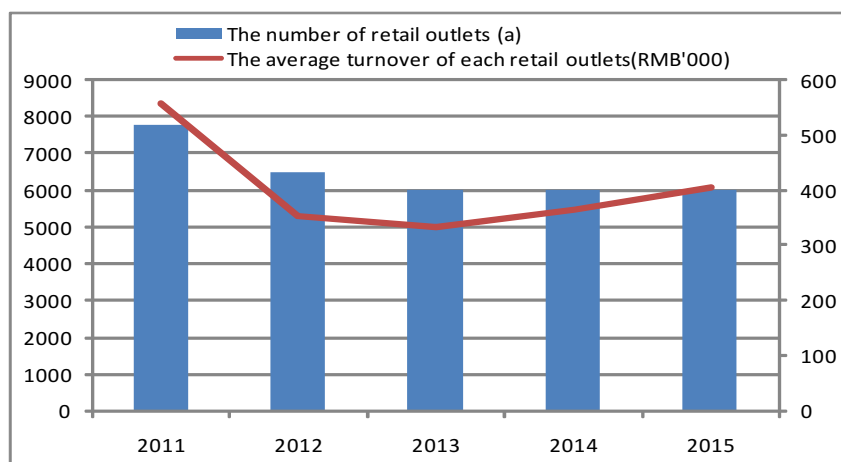


Source: Bloomberg, Phillip Securities (HK) Research

"Channel Flattening" Strategy Facilitates Improvement of Retail Outlet Efficiency

The Company has been carrying out the "Channel Flattening" strategy to positively adjust and increase the number of distributors, aiming at the efficiency improvement at retail terminals. In respect of off-line sales, Peak totally authorized 5,999 retail outlets in 2015, 5 less than the same period in last year. The number of Chinese distributors, however, increased from 88 to 100. Comparing with 2014, the average revenue of retail outlets in the China region increased by 11.5% in 2015 and the revenue per square meter of retail floor area saw a growth of 12.5%. All these figures represented a gradual enhancement of the operational efficiency of the Company's retail network.

The retail outlets operating efficiency



Source: Bloomberg, Phillip Securities (HK) Research

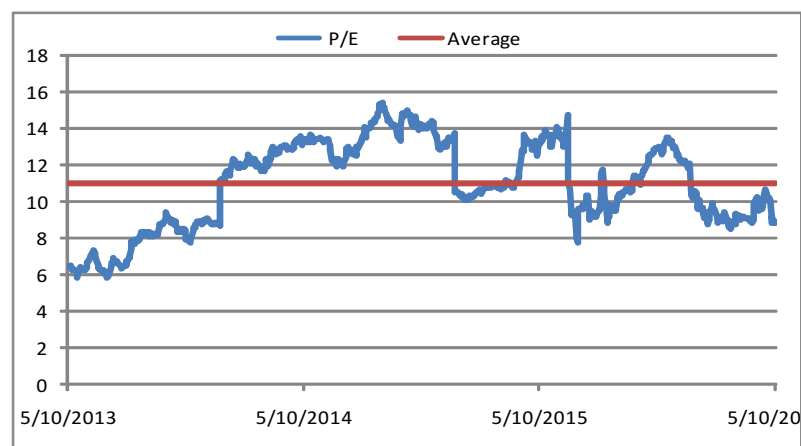
Sports Ecosystem Building Accelerates Transformation

Peak will streamline the operation of its official group-buying website, deepen its strengths in the basketball sector, and plan for expanding into businesses such as sports stars management, sports events sponsor, fitness camps and training programs in the future. Investment in technology development and talent resources will continue so as to transform the Company from a sportswear manufacturer into a comprehensive sports solution provider. Up to now, Peak has launched "PEAK+", a public platform for events promotion and application, communicated with many international sports organizations, events owners, domestic sports authorities and Chinese cities, expanded its recruitment of sports talents, planned to organize and undertake several international sports events and started building up its own training network for basketball, football, tennis and other sports.

Valuation and Rating

The sportswear sector has entered into a new round of growth as supported by China's policies and spurred by changes in people's lifestyles. It is predicted that both the profitability of retail outlets and market shares of the Peak will continue growing, thanks to the integration of marketing resources, optimizing of sales network, enhancement of product R&D and strengthened presence in second and third-tier cities. We give the Company an estimation of 10.5x PE in 2016 and the target price is HKD2.25. Also, the "Buy" rating is given. (Closing price as at 11 May 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Peer comparison

Ticker	Name	PE	ROE(%)	Net margin(%)
1968.HK	PEAK SPORT	9.39	8.03	12.62
1361.HK	361 DEGREES	8.53	9.8	11.88
1368.HK	XTEP INT'L	12.28	12.83	12.02
2020.HK	ANTA SPORTS	19.72	23.78	18.77
2331.HK	LI NING	357.68	0.45	0.87

Source: Bloomberg, Phillip Securities (HK) Research

Risk Warnings

Exchange rate fluctuations;

Increased competition in second and third-tier cities;

Higher costs caused by marketing and promotion.

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	12.8	10.3	8.5	8.5	7.7
Price to Book(P/B)	0.8	0.8	0.8	0.7	0.7
Per share data(RMB)					
EPS, Adjusted	0.12	0.15	0.18	0.18	0.20
Book Value Per Share	1.96	2.02	2.04	2.10	2.19
Dividends Per Share	0.06	0.10	0.12	0.13	0.14
Growth & Margins(%)					
Growth					
Revenue	-10.0%	8.7%	9.4%	9.8%	9.0%
Operating income	-7.8%	25.1%	31.2%	10.3%	13.5%
Net profit	-21.5%	31.6%	22.1%	11.2%	9.3%
Margins					
Gross profit margin	35.5%	38.0%	38.7%	39.3%	40.0%
Operating profit margin	13.5%	15.6%	18.7%	18.8%	19.6%
Net income margin	9.3%	11.3%	12.6%	12.8%	12.8%
Key Ratios					
ROE(%)	5.92%	7.56%	8.02%	8.57%	9.12%
ROA(%)	4.65%	5.67%	6.33%	6.54%	6.95%
Income Statement(RMB m)					
Revenue	2,613	2,841	3,107	3,411	3,719
- Cost of Goods Sold	1,686	1,762	1,906	2,071	2,231
Gross Income	927	1,079	1,202	1,341	1,487
- Operating Expenses	585	651	625	630	680
Operating Income	354	443	581	641	727
- Net Non-Operating Losses	-43	-57	-51	-55	-45
Pretax Income	390	489	603	659	731
- Income Tax Expense	146	168	210	225	255
Net profit	244	321	392	434	476

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 11 May 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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