

Topsports INTL. (6110 HK)

Optimized channel to promote online and offline interaction

Hong Kong | Consumer (Sportswear) | Update Report

5 November 2020

Investment Summary

The company's revenue in 1H21 was in line with expectations, and costs were properly managed

In 1H21, the company's revenue recorded RMB 15.77 billion, a YoY decrease of 7.0%. The adjusted net profit attributable to the parent was approximately RMB 1.31 billion, comparing to the adjusted net profit of the same period last year (excluding listing expenses and amortization of intangible assets from business mergers), a decrease of about 14.6%. The company's GPM for the 1H fell by 1.9 pct to 41.6% compared to the same period last year, mainly due to the impact of the epidemic and extra discounts to customers. The company's cost control during the period was adequate. During the period, the sales expense ratio/administrative expense ratio decreased by 1.2/0.5 pct to 26.7%/3.8%, and the rental expense decreased by about 1.2 pct YoY. The main reason for the decrease in administrative expenses was the listed expenses recorded in last year, about RMB 50.7 million; net profit margin dropped by 0.4 pct to 8.3%.

Strategically increase wholesale business proportion, principle brands perform better

In terms of sales channels, the company strategically increased the proportion of wholesale business during the epidemic. Revenue from wholesale business increased by 22.9% YoY to RMB 2.62 billion, accounting for 16.6% of total revenue, an increase of 4.0 pct YoY; while from retail Revenue from the business decreased by 11.5% YoY to RMB 12.997 billion, accounting for 82.4% of the total revenue, a decrease of 4.1 pct YoY. In terms of brands, the company's revenue mainly comes from principle brands, accounting for 87.9% of total revenue. Revenue from main brands decreased by 7.0% compared with the same period last year to RMB 13.857 billion; while revenue from other brands decreased by 8.4% YoY to RMB 1.762 billion yuan.

Stores continue to be optimized, and the proportion of large stores continues to increase

Affected by the epidemic, many new stores opening plans lag behind in the 1H. In addition, there are expansion opportunities in store locations and distributors. The company focuses on its own strategy and continues to optimize stores. In terms of the number of stores, 1H21 direct-sale physical stores decreased by 239 compared with 2H20, but the gross sales area remained basically the same. In terms of the scale of directly-operated stores, the proportion of large stores above 300 square meters continued to increase, and the number of 1H21 increased by 37 month-on-month, and the proportion increased by 0.7 pct to 8.0%; the proportion of stores from 150 square meters to 300 square meters also continued to increase; Most of the closed stores were small stores below 150 square meters, which decreased by 254 from the previous month, and the proportion was also reduced to 67.1%.

Promote online and offline integration

During the epidemic, the company continued to expand its online membership. As of August 31, 2020, the company's cumulative registered members increased by 2.9 million quarterly to 33.1 million. In Q1/Q2 members contributed for 96.7%/ 97.3% of the in-store retail. On February 14th, the Top Sports App was launched to present member functions completely. As of August 31, the number of users exceeded 1.1 million. In the future, the company will focus on online and offline integration to achieve seamless interaction with consumers in the physical and the virtual realm, including increasing the coverage of store-based social programs and mobile payment. Based on offline stores, the company allows employees to conduct live broadcasts in stores, and continues to expand its reach with consumers.

Accumulate (Maintain)

CMP HKD 10.50

(Closing price as at 3 November)

TARGET HKD 12.53 (+19.33%)

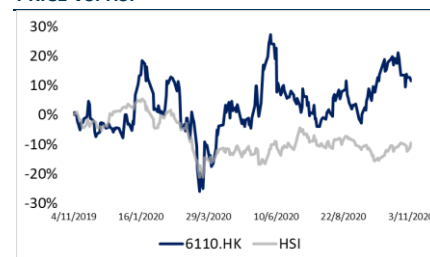
COMPANY DATA

O/S SHARES (MN) :	6,201.22
MARKET CAP (HKD MN) :	65,733
52 - WK HI/LO (HKD):	12.09/6.24

SHARE HOLDING PATTERN, %

Belle Sports Limited	82.91
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PRICE VS. HSI



Source: Wind, Phillip Securities (HK) Research

Key Financial

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	32,564	33,690	37,366	45,103
Net Profit	2,200	2,303	2,767	3,112
EPS, CNY cent	N/A	40.88	44.61	50.19
P/E, x	N/A	22.86	20.95	18.62
BVPS, CNY	N/A	1.70	1.56	1.82
P/BV, x	N/A	5.50	6.00	5.12
DPS (HKD cent)	N/A	21	68	25
Div. Yield (%)	N/A	2.0	6.5	2.4

Source: Company reports, Phillip Securities Est.

Research Analyst

Timothy Chong (+ 852 22776515)

timotheychong@phillip.com.hk

Valuation and investment advice

The company's performance in the 1H21 was affected by the COVID-19, and revenue recorded a high single-digit decline, in line with our previous expectations. The management stated that the company's sales growth accelerated during the period from September to October, and the progress was satisfactory. It is expected to accelerate sales through online and offline interactive strategies during Double 11, but the operating environment in the second half of the year is uncertain. Maintaining our forecast on company's full-year revenue, it is expected that the company's annual revenue will record low double-digit growth YoY. The company's cost control in the first half of the year is adequate. We raise the company's eps forecast FY21/FY22 to RMB 44.61/ 50.19 cent, and raise the target price to HKD 12.53, corresponding to the FY21E/FY22E P/E ratio of 25.0x/22.2x.

(Closing Price as at 3 November 2020)

Risk

- 1) The impact of COVID-19 continues
- 2) The business relies on two major brands
- 3) The cash level is low due to the dividend policy

Peer Comparison

Company	Ticker	CMP	Mkt Cap.	P/E			P/B				
				TTM	2019	2020	2021	TTM	2019	2020	2021
(Base Currency) ('mn HKD)											
ANTA SPORTS	2020 hk equity	87.50	236,541	45.0x	36.9x	38.8x	26.0x	9.5x	10.3x	8.6x	6.9x
SHENZHOU INTL	2313 hk equity	137.80	207,144	34.4x	34.4x	34.0x	28.4x	6.8x	7.2x	6.4x	5.7x
LI NING	2331 hk equity	40.45	100,654	61.2x	58.5x	54.2x	39.9x	11.3x	11.8x	10.2x	8.4x
TOPSPORTS	6110 hk equity	10.50	65,113	22.2x	-	21.8x	23.1x	5.3x	-	5.6x	5.2x
YUE YUEN IND	551 hk equity	13.60	21,926	-	9.1x	-	11.4x	0.8x	0.7x	0.7x	0.7x
POU SHENG INT'L	3813 hk equity	1.82	9,749	19.7x	10.3x	21.5x	8.0x	1.1x	1.1x	1.0x	0.9x
XTEP INT'L	1368 hk equity	2.63	6,664	10.8x	7.6x	11.3x	8.1x	0.8x	0.9x	0.8x	0.7x
CHINA DONGXIANG	3818 hk equity	0.96	5,651	13.3x	-	7.5x	11.0x	0.5x	-	-	0.5x
361 DEGREES	1361 hk equity	0.92	1,902	4.5x	3.7x	4.2x	3.7x	0.2x	0.3x	0.2x	0.2x
Lululemon Athletica	LULU US equity	315.50	318,649	75.3x	84.2x	64.5x	75.0x	20.7x	25.7x	21.6x	17.5x
Nike Inc.	Nike US equity	122.39	1,489,100	65.5x	47.5x	53.6x	42.2x	20.8x	23.5x	24.2x	19.8x
adidas AG	ADS GR equity	2402.24	481,447	92.6x	27.2x	113.9x	30.7x	8.3x	7.5x	7.3x	6.4x
			Mean	40.4x	31.9x	38.7x	25.6x	7.2x	8.9x	7.9x	6.1x
			Median	34.4x	30.8x	34.0x	24.5x	6.0x	7.3x	6.4x	5.4x

source : Bloomberg, Phillip Securities Research

FYE FEB	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio	N/A	22.86	20.95	18.62	15.82
P/B ratio	N/A	5.50	6.00	5.12	4.35
Dividend Yield (%)	N/A	2.00%	6.48%	2.39%	2.81%
Per share data (RMB)					
EPS	N/A	40.88	44.61	50.19	59.07
BVPS	N/A	1.70	1.56	1.82	2.15
DPS (HKD)	N/A	0.21	0.68	0.25	0.30
Growth & Margin					
Growth					
Revenue	22.7%	3.5%	10.9%	20.7%	20.7%
Operating income	44.2%	3.3%	16.8%	9.5%	17.1%
Net income	53.2%	4.7%	20.1%	12.5%	17.7%
Margins					
Gross Profit Margin	41.8%	42.1%	41.6%	41.4%	41.2%
Operating profit Margin	10.0%	10.0%	10.5%	9.5%	9.2%
Net Profit Margin	6.8%	6.8%	7.4%	6.9%	6.7%
Key Ratios					
ROE	113%	22%	29%	28%	28%
ROA	14%	10%	15%	15%	16%

source : Phillip Securities Research

Financials

Income Statement (CNY\$ mn)

	FY19A	FY20A	FY21E	FY22E	FY23E
Sale of Good	28,974	29,171	32,088	38,506	46,207
Concessionaire fee income & others	3,357	4,223	5,278	6,598	8,247
Revenue	32,564	33,690	37,366	45,103	54,454
Growth (%) YoY	23%	3%	11%	21%	21%
COGS	(18,957)	(19,503)	(21,819)	(26,432)	(32,027)
Gross Profit	13,607	14,188	15,547	18,672	22,426
Gross margin (%)	42%	42%	42%	41%	41%
other income	204	191	230	190	190
Selling & distribution	(9,248)	(9,644)	(10,463)	(12,854)	(15,519)
Admin	(1,283)	(1,361)	(1,420)	(1,714)	(2,069)
impairment of trade receivable	(34)	(19)	24	-	-
Total opex	(10,564)	(11,024)	(11,858)	(14,568)	(17,589)
Operating income (EBIT)	3,247	3,355	3,919	4,293	5,028
Operating Margin(%)	10%	10%	10%	10%	9%
Finance income	20	55	150	85	95
Finance costs	(212)	(272)	(172)	(172)	(172)
Pre-tax profit	3,045	3,086	3,897	4,206	4,950
Tax	(846)	(783)	(1,130)	(1,093)	(1,287)
Minority interest	-	-	-	-	-
Net profit	2,200	2,303	2,767	3,112	3,663
Net margin(%)	6.8%	6.8%	7.4%	6.9%	6.7%
EPS (CNY\$ cent)	41.73	40.88	44.61	50.19	59.07

Cash Flow Statement (CNY\$ mn)

	FY19A	FY20E	FY21E	FY22E	FY23E
Operating cash flow					
EBIT DA	5,342	5,831	4,992	4,867	5,709
Chg in working cap	(1,268)	1,056	(1,296)	(998)	(1,851)
Others	18	89	-	-	-
Cash from operating	4,092	6,976	3,696	3,869	3,857
Tax	(946)	(528)	(820)	(1,130)	(1,093)
Net Cash from operation	3,146	6,448	2,876	2,739	2,764
Capex	(908)	(702)	(537)	(689)	(817)
Acquisition	(94)	(21)	-	-	-
Placement of structured bank deposit	(400)	(3,595)	571	-	-
Others	420	22	150	117	133
Cash from investing	(983)	(4,297)	184	(604)	(722)
FCF	2,164	2,151	3,060	2,135	2,042
Financing cash flow					
Issue of Shares	-	7,076	-	-	-
Dividends paid	-	(744)	(3,659)	(1,452)	(1,666)
Others	(1,777)	(7,544)	(1,748)	(172)	(172)
Cash from financing	(1,777)	276	(5,406)	(1,625)	(1,838)
Net increase (decrease) in cash	387	2,427	(2,346)	510	203
Exchange rate or other adj	-	(53)	-	-	-
Opening cash balance	464	651	2,824	478	988
Closing cash balance	851	3,024	478	988	1,191

source : Phillip Securities Research

Balance Sheet (CNY\$ mn)

	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets					
Property & Equipment	1,116	1,154	617	732	868
LT investment and Receivables	215	256	256	256	256
Other Long Term Asset	4,725	5,250	5,250	5,250	5,250
Total non-current assets	6,056	6,659	6,122	6,237	6,373
Current assets					
Restricted Bank deposits	2,518	1,487	1,945	2,719	3,282
Accounts Receivable	52	-	-	-	-
Inventory	6,139	6,649	7,173	7,242	8,775
Cash	651	2,824	478	988	1,191
Other Short Term Asset	802	4,417	3,024	3,024	3,024
Total current asset	10,161	15,376	12,620	13,972	16,272
Total Assets	16,216	22,035	18,742	20,209	22,645
Liabilities					
Current Liabilities					
Accounts Payable	642	1,106	1,315	1,159	1,404
Tax Payable	402	820	1,130	1,093	1,287
Bank and other borrowing	1,300	2,400	2,460	2,460	2,460
other Liabilities	9,495	4,573	1,593	1,593	1,593
	11,839	8,899	6,498	6,305	6,744
Non-current Liabilities					
Debt	-	-	-	-	-
Deferred tax liabilities	127	73	73	73	73
Operating lease	2,301	2,520	2,520	2,520	2,520
	2,428	2,593	2,593	2,593	2,593
Total Liabilities	14,268	11,492	9,091	8,898	9,337
Shareholder's Equity					
Equity Capital	-	0	0	0	0
Retained Earnings	491	1,950	1,057	2,717	4,714
Reserves	1,458	8,593	8,593	8,593	8,593
Shareholder's Equity	1,949	10,543	9,651	11,311	13,308
Total Liabilities & Shareholder's Equity	16,216	22,035	18,742	20,209	22,645

source : Phillip Securities Research

(Closing Price as at 3 November 2020)

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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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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