

# TOPSPORTS INT. (06110)

Frequent pandemic outbreaks and global supply chain disruption,  
FY2022 sales dropped by 12%

China | Consumer | Sportswear

3 August 2022

## Frequent pandemic outbreaks and global supply chain disruption, sales dropped by 12%

For the financial year ended 28 February 2022, Topsports recorded revenue of RMB31,876.5mn (2021: RMB36,009.0mn), a decrease of 11.5% YoY, below our estimates of RMB4,104mn. operating profit of RMB3,430.1mn, a decrease of 14.0% YoY. The profit attributable to the shareholders during the year amounted to RMB2,446.5mn, a decrease of 11.7%, also below consensus. Final dividend for the FY2022 of RMB7.00 cents per ordinary share and a special dividend of RMB23.00 cents per ordinary share, full year dividend of \$0.43, equivalent to a payout ratio of 109% (2021: 143%).

The decline of revenue was mainly due to the impact of frequent pandemic outbreaks and global supply chain disruption, since late July and the second half of the financial year respectively. When broken down by brand categories, revenue from the Principal brands (including Nike and Adidas) was RMB27,569.3mn, down 12.3% YoY, and represents 86.5% of total revenue. Other brands (including Puma, Converse, VF Corporation's brands: i.e. VANS, The North Face and Timberland, ASICS, Onitsuka Tiger, Skechers and LI-NING) generated revenue of RMB4,005.2mn, down 6.1% YoY, and accounted for 12.6% of total revenue. Revenue from e-Sports income was RMB66.0mn, down 19.0% YoY and accounted for 0.2% of total revenue. When broken down by sales channel, retail operations decreased by 14.2% to RMB26,354.3mn, while Wholesales operations increased by 5.4% to RMB5,202.2mn and Concessionaire fee income decreased by 1.7% to RMB236.0mn.

## Gross profit margin hit a record high

The gross profit margin was 43.4%, increased by 2.6ppt. Increase in gross profit margin primarily resulted in disciplined markdown control of retail operations, improved wholesales discount YoY, as well as more integrated cooperation with the brand partners. Selling and distribution expenses accounting for 29.6% of the total revenue (2021: 26.8%). Increase in a percentage of revenue was mainly due to the adverse impact of the pandemic and global supply chain disruption on sales which increased operating leverage, decrease in the rent concessions. General and administrative expenses accounting for 4.1% of the total revenue (2021: 3.5%). The increase primarily due to decrease in the government policy of provisional reduction and exemption of social insurance premium as the impact of the pandemic during the year.

Continued Optimization of Directly-Operated Retail Network remains the core focus. Consistently rolled out large format stores in joint efforts with our strategic brand partners in major commercial areas with high potentials, revamped and upgraded high potential stores and closed the low-productivity and loss-making stores to mitigate the long-tail impact imposed by low efficient ones within our store network. As of 28 February 2022, Topsports operated a network of 7695 directly-operated stores. As compared with 28 February 2021, a net decrease of 311 stores was registered with gross selling area increasing by 5.4% YoY. Large format stores over 300sq.m accounted for 12.9%, representing an increase by 3.5ppt. For those stores equipped with WeChat mini programs, private domain contributed to mid-teens of the total direct retail sales (before VAT) of these stores.

## Accumulate

CMP HKD6.65

(Closing price as of 28 July)

Target HKD 7.54 (+13.4%)

### COMPANY DATA

O/S SHARES (MN) :	6201.222
MARKET CAP (HKD MN) :	41238.1
52 - WK HI/LO (HKD):	12.344/5.300

### SHARE HOLDING PATTERN, %

Hillhouse HHHH Holdings Limited	34.89%
---------------------------------	--------

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY21	FY22	FY23E	FY24E
Revenue	36,009	31,877	33,534	36,662
Shareholders Net profit	2,770	2,447	2,514	2,695
Reported EPS	0.45	0.39	0.41	0.46
P/E ratio, x	12.4	13.6	14.0	12.4
Dividend Yield, %	11.1%	7.6%	6.8%	7.2%

Source: Company reports, Phillip Securities Est.

### Sr. Research Analyst

Eric Li (+852 2277 6516)

erichyli@phillip.com.hk

To compensate the impact from fluctuating offline traffic as a result of recurrent pandemic outbreaks were offset by member acquisition from online and offline. As a comprehensive membership management and service platform that integrates content marketing, online shopping, membership services and other functions, the TOPSPORTS app garnered over 4.1 million cumulative users, cumulative number of enrolled members reached 55.5 million. During the latest quarter as of 28 February 2022, the total in-store retail sales (inclusive of VAT) contributed by members was maintained at a high level of 96.4%.

### Company valuation

With reference to Nike, one of Topsports 's major customers, reported 4Q results for the period ending May 2022, with the Greater China region experiencing a nearly 20% decline in sales (excluding the impact of exchange rates) due to the impact of the outbreak prevention and control policy, recording only US1.56bn, below market expectations. Meanwhile, Nike management said that company would take a cautious approach to the Greater China region due to the uncertainty brought by the pandemic. Topsports provide the operational update on the business for 1Q2023 (three months from 1 March 2022 to 31 May 2022), the total sales of retail and wholesale operations registered a high-twenties decline on a year-on-year basis. As at 31 May 2022, the gross selling area of directly-operated stores declined by 2.0% since the end of previous quarter, and increased by 2.8% on a YoY basis. In other words, Topsports in 1Q2023 is expected to have more negatively impacted. In addition, since March 2022, Shanghai and other first-tier cities have been temporarily closed due to pandemic. Although the prevention and control has been gradually relaxed, it is expected to affect consumer confidence and slow down the pace of recovery. In view of the above impact, we cut FY2023E-FY2024E EPS to RMB0.41 and RMB0.46 respectively, with new TP is HKD7.54, implies a FY2023E P/E of 15.9x and FY2023E yield of ~6%. Our investment rating is "Accumulate".

### Risk factors

1) The pandemic has worsened more than expected; 2) Intensified competition in the industry; and 3) the slowdown in international brand sales is worse than expected.

## Financial

### Consolidated Statement of Profit or Loss

Feb Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	33,690	36,009	31,877	33,534	36,662
COGS	(19,503)	(21,328)	(18,052)	(19,422)	(21,261)
<b>Gross Profit</b>	14,188	14,681	13,824	14,112	15,402
S&D expense	(9,644)	(9,655)	(9,439)	(9,507)	(10,398)
Administrative expenses	(1,413)	(1,243)	(1,293)	(1,259)	(1,376)
Other (losses)/gains, net	(19)	(26)	10	(17)	(19)
Other income	191	232	327	205	263
<b>Operating Profit</b>	3,303	3,989	3,430	3,535	3,871
Financial cost, net	(217)	(139)	(104)	(80)	(123)
<b>Profit before tax</b>	3,086	3,851	3,326	3,456	3,748
Income tax	(783)	(1,081)	(880)	(942)	(1,053)
<b>Shareholders Net profit</b>	2,303	2,770	2,447	2,514	2,695
<b>Reported EPS</b>	0.41	0.45	0.39	0.41	0.46
<b>DPS</b>	0.19	0.64	0.43	0.39	0.41
<b>Payout ratio</b>	46%	143%	109%	95%	90%
<b>Shares outstanding</b>	5,634	6,201	6,201	6,201	6,201

### Key Financial Data

Feb Y/E	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratio</b>					
P/S ratio, x	1.0	1.0	1.0	1.1	1.0
P/E ratio, x	14.6	12.4	13.6	14.0	12.4
Dividend Yield, %	3.1%	11.1%	7.6%	6.8%	7.2%

### Per share data (RMB)

EPS	0.41	0.45	0.39	0.41	0.46
BVPS	1.87	1.57	1.71	1.68	1.75
DPS (HKD)	0.21	0.74	0.50	0.45	0.48

### Growth & Margin

<b>Growth</b>					
Revenue Growth	3.5%	6.9%	-11.5%	5.2%	9.3%
Gross Profit Growth	4.3%	3.5%	-5.8%	2.1%	9.1%
Operating Profit Growth	2.0%	20.8%	-14.0%	3.1%	9.5%
Net Profit Growth	4.7%	20.3%	-11.7%	2.7%	12.9%
<b>Margin</b>					
Gross Profit Margin	42.1%	40.8%	43.4%	42.1%	42.0%
Operating Profit Margin	9.8%	11.1%	10.8%	10.5%	10.6%
Net Profit Margin	6.8%	7.7%	7.7%	7.5%	7.4%

### Key Ratios

ROE	36.9%	27.4%	24.1%	23.9%	25.3%
ROA	12.0%	13.9%	13.8%	14.2%	15.2%

### Consolidated Statement of Financial Position

Feb Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non Current Asset</b>					
PPE	1,154	1,020	1,009	1,021	1,032
Right-of-use asset	3,909	3,625	3,100	3,012	3,172
Others	1,596	2,622	2,707	2,712	2,717
<b>Total Non-Current Assets</b>	6,659	7,266	6,816	6,744	6,921
<b>Current Asset</b>					
Inventory	6,649	6,211	6,686	6,387	6,752
Trade and other receivables	1,487	2,177	1,107	1,717	1,952
Bank balance and cash	2,824	1,229	1,753	1,866	1,421
Others	4,417	823	1,435	970	816
<b>Total Current Assets</b>	15,376	10,440	10,980	10,940	10,941
<b>Total Assets</b>	22,035	17,706	17,796	17,685	17,862
<b>Current Liabilities</b>					
Payables	1,106	445	927	722	831
Interest-bearing Borrowings	2,400	1,337	518	664	424
Other Non-current Liabilities	5,394	3,643	3,428	3,428	3,428
<b>Total Non-current Liabilities</b>	8,899	5,426	4,873	4,814	4,682
<b>Non Current Liabilities</b>					
Long-term debt	-	-	-	-	-
Others	2,593	2,575	2,342	2,442	2,302
<b>Total Current Liabilities</b>	2,593	2,575	2,342	2,442	2,302
<b>Equity</b>					
Shareholders' equity	10,543	9,706	10,582	10,429	10,878
Non-controlling interests	-	-	-	-	-
<b>Total equity</b>	10,543	9,706	10,582	10,429	10,878
<b>Total Liabilities and Equity</b>	22,035	17,706	17,796	17,685	17,862

### Consolidated Statement of Cash Flow

Feb Y/E, RMB mn	FY20	FY21	FY22	FY23E	FY24E
<b>CFO</b>					
Profit before income tax	3,086	3,851	3,326	3,456	3,890
D&A add-back	2,527	2,652	2,536	2,035	2,116
Others	307	121	162	80	123
Net (inc)/dec working capital	1,056	(968)	568	(51)	(337)
Tax	(528)	(950)	(903)	(842)	(1,193)
<b>Net cash flow from operating activities</b>	6,448	4,706	5,690	4,678	4,599
<b>CFI</b>					
Purchase of PP&E and Investment	(712)	(643)	(716)	(622)	(629)
Others	(3,585)	2,741	45	116	46
<b>Net cash flow from investing activities</b>	(4,297)	2,098	(671)	(505)	(582)
<b>CCF</b>					
Net Borrowings	(700)	(63)	(805)	146	(240)
Others	976	(8,336)	(3,690)	(4,205)	(4,222)
<b>Net cash flows from financing activities</b>	276	(8,398)	(4,494)	(4,059)	(4,462)
<b>Net Change in Cash</b>	2,427	(1,595)	524	114	(445)
<b>Cash and CE at Y/E</b>	2,824	1,229	1,753	1,866	1,421

Current Price as of: July 28

Source: PSHK Est.

**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

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2022 Phillip Securities (Hong Kong) Limited

**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](http://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](http://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](http://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](http://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](http://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](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

L Level 10, 330 Collins Street  
Melbourne VIC 3000 Australia

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

[www.phillipcapital.com.au](http://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](http://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](http://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](http://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](http://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

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)