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Report Review of August 2022

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

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This month I released 4 reports of Topsports INT. (6110), Chinasoft (0354), Xtep International (1368) & Vinda International (3331).

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.

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.

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.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20220803	06110 HK	TOPSPORTS INT.	EL	Accumulate	6.65	7.54	13.38%	6.09	-8.42%	6.21	-1.93%

A stock is calculated by RMB yuan.
 Source: Phillip Securities Research

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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