

TOPSPORTS INT. (06110)

Revenue and Profitability Under Pressure, Cash Flow Stable
China | Consumer | Sportswear

28 January 2024

Summary

Topsports International's interim results for 2024 highlight the significant impact of China's weak retail market on its business performance. Revenue declined by 7.9% year-on-year to RMB 13,054.7 million, while gross profit margin dropped from 44.7% to 41.1%. Profit attributable to equity holders fell by 34.7% year-on-year to RMB 873.8 million. Despite the challenges, the company demonstrated robust cash flow management, with operating cash inflows increasing by 2.5% year-on-year and cash and cash equivalents rising to RMB 2,839.6 million. The board declared an interim dividend of RMB 14.00 cents per share, representing a payout ratio of 99.4%, significantly higher than the 74.2% recorded in the prior year.

In response to market headwinds, Topsports actively implemented an omnichannel retail strategy by optimizing its offline store network, enhancing online operations, and improving inventory management. During the period, online sales accounted for 30% of total retail revenue, with livestreaming sales on the Douyin platform growing approximately 200% year-on-year. Looking ahead, the company remains focused on digital transformation and expanding into emerging markets such as outdoor sports and IP cultural segments to drive its next phase of growth. While short-term profitability remains under pressure, Topsports' solid financial foundation and flexible operational strategies provide a strong platform for sustainable long-term growth.

Revenue and Profitability Under Pressure, Cash Flow Stable

For the six months ended August 31 2024, Topsports' revenue declined by 7.9% year-on-year to RMB 13,054.7 million, primarily due to weak offline foot traffic and higher discounting in online channels. Inventory write-downs and changes in the business mix further compressed margins, with gross profit margin declining by 3.6 percentage points to 41.1%. Operating profit fell by 35.1% to RMB 1,120.9 million, while profit attributable to equity holders decreased to RMB 873.8 million, with net profit margin dropping from 9.4% to 6.7%.

Despite the revenue and profit challenges, the company displayed strong cost control. Selling and distribution expenses, as well as general and administrative expenses, fell by 7.4% year-on-year. However, due to lower operating leverage from declining offline traffic, the expense ratio slightly increased by 0.2 percentage points to 33.1%.

Cash flow remained a bright spot during the period. Operating cash inflows rose by 2.5% year-on-year to RMB 2,613.5 million, representing 3x the profit attributable to equity holders. At the end of the period, cash and cash equivalents increased to RMB 2,839.6 million, underscoring the company's strong cash management. Supported by this robust cash flow, the board declared an interim dividend of RMB 14.00 cents per share, reflecting a payout ratio of 99.4%, significantly higher than the 74.2% recorded in the prior year.

Accumulate

CMP HKD2.94
(Closing price as of 24 January)
Target HKD 3.36 (+14.3%)

COMPANY DATA

O/S SHARES (MN) :	6201.222
MARKET CAP (HKD MN) :	41238.1
52 - WK HI/LO (HKD):	5.566/1.959

SHARE HOLDING PATTERN, %

Hillhouse HHHB Holdings Limited	34.89%
TMF (Cayman) Ltd.	9.07%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY23	FY24	FY25E	FY26E
Revenue	27,073.2	28,933.2	25,189.6	25,802.7
Net profit	1,836.6	2,213.0	1,626.0	1,884.5
Reported EPS	0.30	0.36	0.26	0.30
P/E ratio, x	8.8	7.6	10.3	8.9
Dividend Yield, %	2.2%	13.0%	9.7%	11.2%

Source: Company reports, Phillip Securities Est.

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Omnichannel Retail and Digital Transformation

In response to declining offline traffic, Topsports has continued to optimize its store network by closing underperforming locations and focusing on high-performing stores for its core brands. As of August 31, 2024, the number of directly operated stores decreased by 6.4% year-on-year to 5,813, while the total sales area declined by 1.9%. This store rationalization strategy has effectively mitigated the negative impact of low-efficiency assets on profitability, highlighting the company's focus on operational efficiency.

On the digital front, Topsports has aggressively expanded its online operations, leveraging a comprehensive omnichannel strategy that includes platform e-commerce, content-driven e-commerce, and private-domain traffic management. During the period, the number of mini-program stores expanded significantly, while livestreaming sales on Douyin grew approximately 200% year-on-year. Online sales accounted for 30% of total retail revenue, demonstrating the company's ability to capitalize on growth opportunities in the digital space.

In terms of inventory management, the company adopted a "one inventory" strategy to improve stock turnover efficiency. As of August 31, 2024, inventory levels decreased by 2.6% quarter-on-quarter to RMB 6,119.9 million, signaling gradual relief from inventory pressure. Additionally, the company expanded its brand portfolio by partnering with HOKA ONE ONE, KAILAS, and Fanatics, further advancing into niche markets such as outdoor sports and IP-driven cultural products.

China's retail market remains under pressure in the short term. In the first half of 2024, GDP grew by 5.0% year-on-year, but social retail sales only increased by 3.7%, reflecting weak consumer confidence and spending power. The sportswear market is undergoing a shift from incremental growth to a more competitive, stock-driven environment. Offline channels are challenged by lower foot traffic, while online channels face intense competition and price wars, further squeezing margins.

Despite these challenges, the long-term growth potential of China's sportswear market remains intact, driven by rising awareness of health and fitness. Topsports is well-positioned to capture this growth opportunity, thanks to its leading position in omnichannel retail, digital transformation, and brand portfolio expansion, which are expected to serve as new growth drivers in the coming years.

Company valuation

Topsports' short-term performance reflects the challenges posed by a weak consumption environment and intense industry competition. However, its strong cash flow and high dividend payout ratio make it an attractive option for defensive investors. The company's progress in digital transformation, inventory optimization, and brand expansion will be key to its future recovery. In view of the above impact, we expect FY2025E-FY2026E EPS to RMB 0.26 and RMB 0.30 respectively, with TP is HKD3.36, implies a FY2025E P/E of 11.8x (~2-yrs historical average). 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	FY22	FY23	FY24	FY25E	FY26E
Revenue	31,876.5	27,073.2	28,933.2	25,189.6	25,802.7
COGS	(18,052.1)	(15,789.0)	(16,852.4)	(14,842.6)	(15,122.1)
Gross Profit	13,824.4	11,284.2	12,080.8	10,347.0	10,680.6
S&D expense	(9,438.5)	(8,051.9)	(8,356.0)	(7,408.4)	(7,588.7)
Administrative expenses	(1,293.3)	(1,101.4)	(1,115.4)	(970.9)	(995.5)
Other (losses)/gains, net	10.2	1.5	1.2	(1.9)	(7.8)
Other income	327.3	298.5	175.9	154.3	156.3
Operating Profit	3,430.1	2,430.9	2,786.5	2,120.2	2,245.0
Finance income	113.8	104.0	120.0	96.1	121.4
Finance costs	(217.8)	(212.5)	(147.3)	(120.7)	(108.7)
Financial cost, net	(104.0)	(108.5)	(27.3)	(24.7)	12.7
Profit before tax	3,326.1	2,322.4	2,759.2	2,095.5	2,257.7
Income tax	(879.6)	(485.8)	(547.9)	(469.5)	(544.2)
Shareholders Net profit	2,446.5	1,836.6	2,211.3	1,626.0	1,884.5
Reported EPS	0.39	0.30	0.36	0.26	0.30
DPS	0.43	0.33	0.36	0.26	0.30
Payout ratio	109%	111%	101%	100%	100%

Key Financial Data

Feb Y/E	FY22	FY23	FY24	FY25E	FY26E
Valuation Ratio					
P/S ratio, x	0.5	0.6	0.6	0.7	0.6
P/E ratio, x	6.0	8.8	7.6	10.3	8.9
Dividend Yield, %	17.1%	12.2%	13.0%	9.7%	11.2%

Per share data (RMB)

EPS	0.39	0.30	0.36	0.26	0.30
BVPS	1.71	1.59	1.59	1.49	1.53
DPS (HKD)	0.50	0.36	0.38	0.28	0.33

Growth & Margin

Growth					
Revenue Growth	-11.5%	-15.1%	6.9%	-12.9%	2.4%
Gross Profit Growth	-5.8%	-18.4%	7.1%	-14.4%	3.2%
Operating Profit Growth	-14.0%	-29.1%	14.6%	-23.9%	5.9%
Net Profit Growth	-11.7%	-24.9%	20.5%	-26.5%	15.9%
Margin					
Gross Profit Margin	43.4%	41.7%	41.8%	41.1%	41.4%
Operating Profit Margin	10.8%	9.0%	9.6%	8.4%	8.7%
Net Profit Margin	7.7%	6.8%	7.6%	6.5%	7.3%

Key Ratios

ROE	24.1%	18.0%	22.5%	17.0%	20.1%
ROA	13.8%	10.6%	14.1%	11.4%	13.6%

Consolidated Statement of Financial Position

Feb Y/E, RMB mn	FY22	FY23	FY24	FY25E	FY26E
Non Current Asset					
PPE	1,009.1	733.2	638.7	554.2	481.0
Right-of-use asset	3,099.7	2,424.6	1,821.4	1,450.2	1,202.2
Others	2,707.3	1,561.6	1,524.8	1,514.1	1,503.6
Total Non Current Assets	6,816.1	4,719.4	3,984.9	3,518.6	3,186.7
Current Asset					
Inventory	6,686.2	6,247.3	6,283.8	5,633.2	5,444.3
Trade and other receivables	1,106.9	1,054.9	1,329.6	1,021.8	1,117.3
Bank balance and cash	1,752.6	2,357.4	1,956.0	2,565.9	2,712.6
Others	1,434.5	2,441.7	989.7	1,190.3	1,257.1
Total Current Assets	10,980.2	12,101.3	10,559.1	10,411.3	10,531.3
Total Assets	17,796.3	16,820.7	14,544.0	13,929.9	13,718.0
Current Liabilities					
Payables	926.7	991.0	387.1	754.1	719.9
Interest-bearing Borrowings	518.2	1,545.0	720.1	485.4	221.2
Other current Liabilities	3,427.6	2,732.3	2,239.3	2,149.3	2,079.3
Total current Liabilities	4,872.5	5,268.3	3,346.5	3,388.8	3,020.4
Non Current Liabilities					
Deferred income tax liabilities	372.1	237.4	249.0	349.0	309.0
Lease liabilities	1,970.2	1,481.4	1,098.1	948.1	878.1
Total Non-Current Liabilities	2,342.3	1,718.8	1,347.1	1,297.1	1,187.1
Equity					
Shareholders' equity	10,581.5	9,833.6	9,848.9	9,242.5	9,509.1
Non-controlling interests	-	-	1.5	1.5	1.5
Total equity	10,581.5	9,833.6	9,850.4	9,244.0	9,510.6
Total Liabilities and Equity	17,796.3	16,820.7	14,544.0	13,929.9	13,718.0

Consolidated Statement of Cash Flow

Feb Y/E, RMB mn	FY22	FY23	FY24	FY25E	FY26E
CFO					
Profit before income tax	3,326.1	2,322.4	2,759.2	2,095.5	2,428.8
D&A add-back	2,535.7	2,216.9	1,674.6	1,267.7	1,070.1
Others	162.2	217.1	162.0	24.7	(12.7)
Net (inc)/dec working capital	568.3	483.2	(866.9)	1,124.8	(7.6)
Tax	(902.8)	(890.8)	(600.4)	(369.5)	(584.2)
Net cash flow from operating activities	5,689.5	4,348.8	3,129.0	4,143.1	2,894.4
CFI					
Purchase of PP&E and Investment	(716.4)	(357.0)	(396.9)	(298.8)	(259.3)
Others	45.1	51.4	201.3	96.1	121.4
Net cash flow from investing activities	(671.3)	(305.6)	(195.6)	(202.8)	(138.0)
CCF					
Net Borrowings	(804.5)	1,024.0	(824.9)	(234.7)	(264.3)
Others	(3,689.9)	(4,178.3)	(3,667.3)	(3,095.7)	(2,345.5)
Net cash flows from financing activities	(4,494.4)	(3,154.3)	(4,492.2)	(3,330.4)	(2,609.8)
Net Change in Cash	523.8	888.9	(1,558.8)	609.9	146.6
Cash and CE at Y/E	1,752.6	2,357.4	1,956.0	2,565.9	2,712.6

Current Price as of: January 24

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

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