

Topsports (6110 HK)

Turnaround continues with more digital opportunities

We believe turnaround is in sight for Topsports in 2H21E and there are more digital sales opportunities to unlock in FY22E-23E. Given the massive dividend and a valuation at 16x FY22E P/E (only 16% premium over int'l peers' avg. of 14x, while JD sports (JD LN) is at 21x), we think its risk reward is attractive.

- 1H8/21 net profit inline but the special dividend was a beat.** Topsports sales/ net profit att. fell by 7%/ 11% YoY in 1H8/21, roughly inline with BBG est, and improved from the 16% YoY net profit drop in 2H20. The drop in GP margin was offset by more savings in opex. Moreover, dividend announced (RMB 0.12 interim and RMB 0.4 special, equal to payout ratios of 57% and 189%) was a positive surprise, implying a 6.2% FY21E yield. Management focuses more on ROIC and believe excessive cash can be used better.
- Both retail sales growth and retail discounts trended better in Sep-Oct 2020 and inventory level stayed healthy.** Management highlighted that both retail sales growth and retail discounts improved in Sep-Oct 2020 (vs Jul-Aug). The inventory level was not particularly low but healthy and controllable enough, as the top brands are getting ready for 10-1 golden week and double 11 festival in 2H21E.
- Digital channel sales growth was fast in 1H21 and should continue in 2H21E.** Topsports' digital sales growth should remained strong in 1H21, as its contribution to direct retail sales remained high at 10-20% during 1H21, similar to the level back in Mar-May 2020 and much higher than M-LSD in FY20. The Company will continue to strengthen its digital capability and customer engagement by: 1) deepening the O2O inventory sharing (eps. for the upcoming double 11 festival), 2) cultivating more employees to host more live-streaming events and 3) refining its store-level wechat Mini-programs and its off-store selling functions.
- Store numbers should remain stable in FY21E but area growth will slightly accelerate onwards.** Total retail area still managed to grow by 5% YoY in 1H21, despite a 3% drop in store numbers. Because some of the expansions were delayed due to COVID-19, we believe the area growth could slightly speed up in the future when it normalizes.
- Undemanding valuation premium plus an attractive yield.** Given a more certain recovery ahead, we expect sentiment to be boosted. Together with the massive special dividend, Topsports' current valuation of 16x FY2/22E (Based on BBG's est), in our view, is attractive.

Earnings Summary

(YE 28 Feb)	FY18A	FY19A	FY20A
Revenue (RMB mn)	26,550	32,564	33,690
YoY growth (%)	22.4	22.7	3.5
Net income (RMB mn)	1,436	2,200	2,303
EPS (RMB)	n/a	0.4173	0.4088
YoY growth (%)	n/a	n/a	(2.0)
P/E (x)	n/a	21.6	22.5
P/B (x)	n/a	28.5	5.4
Yield (%)	n/a	1.2	2.0
ROE (%)	33.1	76.8	36.9
Net gearing (%)	64.0	202.7	32.6

Source: Company data, CMBIS

NOT RATED

Current Price

HK\$10.30

China Sportswear Sector

Walter Woo

(852) 3761 6974

walterwoo@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	63,873
Avg 3 mths t/o (HK\$ mn)	71.67
52w High/Low (HK\$)	11.28/6.31
Total Issued Shares (mn)	6,201.2

Source: Bloomberg

Shareholding Structure

Hillhouse Capital	78.45%
Free Float	21.55%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.3%	-1.3%
3-mth	18.3%	17.4%
6-mth	10.7%	8.4%
12-mth	13.7%	22.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

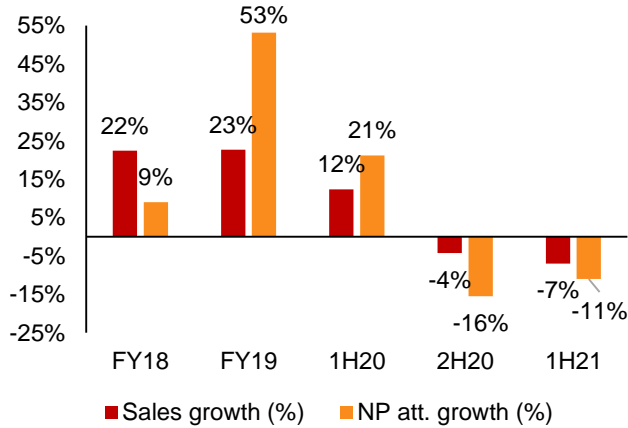
Auditor: PricewaterhouseCoopers

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Topsports (6110 HK, NR) - Business to normalize from July 2020 - 27 May 2020

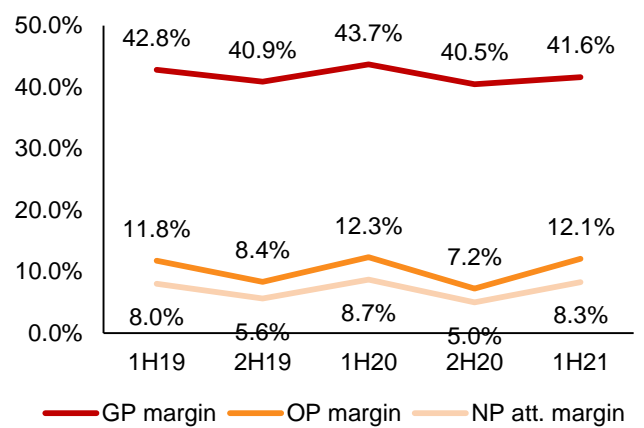
Focus Charts

Figure 1: Sales/ net profit att. growth



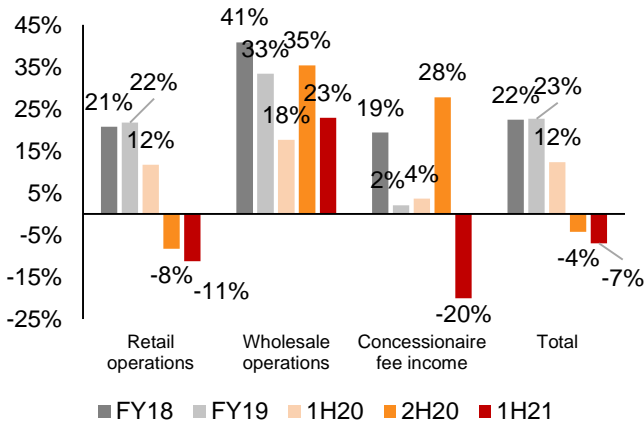
Source: Company data, CMBIS estimates

Figure 2: GP/ OP / NP att. margin



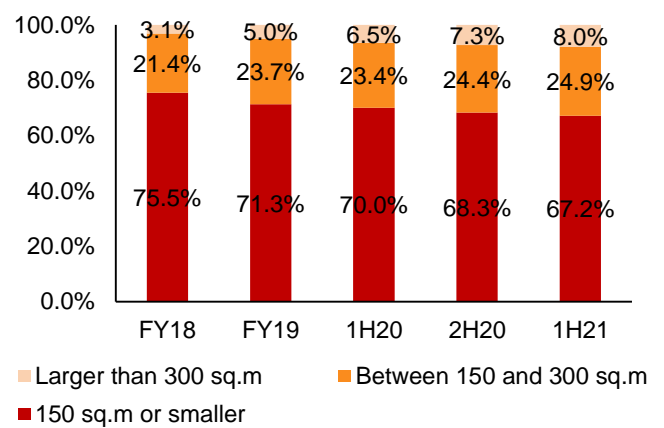
Source: Company data, CMBIS estimates

Figure 3: Sales growth by channel



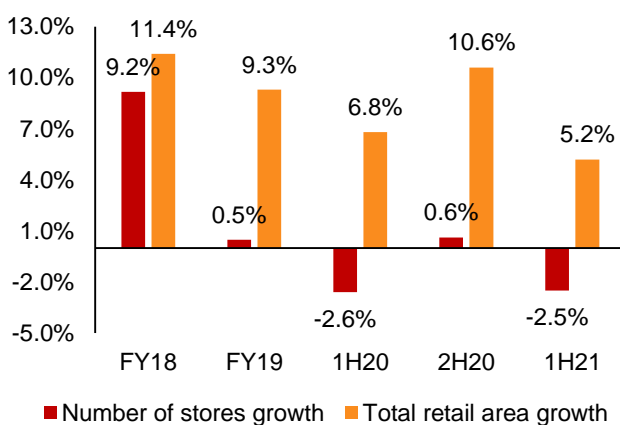
Source: Company data, CMBIS estimates

Figure 4: Store number mix by store size



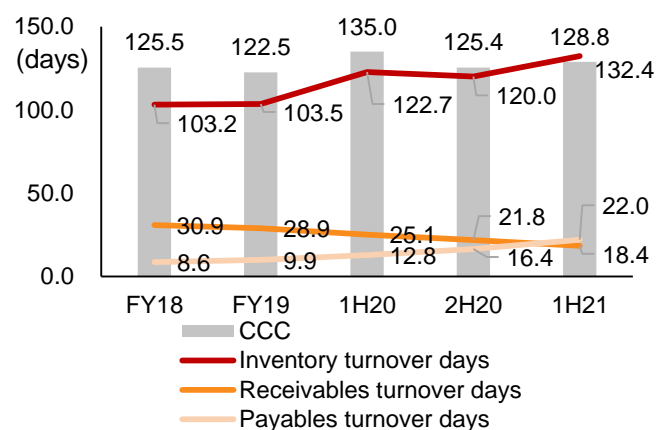
Source: Company data, CMBIS estimates

Figure 5: Number of stores and retail area growth



Source: Company data, CMBIS estimates

Figure 6: Working capital conditions



Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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