

# Topsports (6110 HK)

## Localization and efficiency-led turnaround

We initiate BUY on Topsports with TP based on 18x FY2/25E P/E and put it as our sector top pick. We forecast 12%/ 20% of sales/ NP CAGR in FY2/23-26E vs -5%/ -4% during FY2/19-23, driven by major improvements in: 1) international brand sales (Nike to maintain its leadership and Adidas to see turnaround with effective strategy in China), 2) sales per store (driven by higher sales per sq. and increase in store size) and 3) the associated operating leverage.

- **Topsports is the largest sportswear distributor for international brands in China.** It was part of Belle, now owned by both Hillhouse Capital and Belle Int'l, and relisted in HKEX in 2019. In FY23 (ending Feb), it has more than 6,500 stores and about 1,500 franchise stores, generated RMB 27.0bn/ 1.8bn sales/ net profit. It had 15.9% market share in 2018 but only 7.3% in FY2/23.
- **Fundamentals for international brands are turning around.** After three years of negative growth, we expect sales growth (avg. of Nike & Adidas) to resume to 9%/ 11% in 2023E/ 2024E and Topsports could grow even faster (aided by more de-stocking), as external drags (excessive inventory and macro weakness) gradually improve and internal drags (weak brand equity, lack of product innovation (esp. Adidas) and worsened relationship with Chinese government/ celebrities/ athletes after Xinjiang cotton incident) being addressed by strong actions and strategy (e.g. more China for China design, production and marketing). In fact, Topsports/ Pou Sheng already recorded low 20%/ roughly 30% sales growth in Mar-May/ Mar 2023 while inventory to sales ratio also returned to 4-5 months. Hence, we are confident on Topsports' FY24E guidance: 1) sales growth inline with industry average, 2) sales recovery rate (pre-Covid level) at 80%-85% and 3) GP margin to improve YoY.
- **Topsports' efficiency has been outstanding but it is still improving.** We believe Topsports can be even more efficient, driven by: 1) resumption of net store openings in FY24E, 2) greater mix of larger sized and higher tier stores with better locations, 3) more online sales (including many new retail channels) and 4) more high quality sales from members.
- **We forecast 12% sales and 20% NP CAGR in FY23-26E.** Key drivers are: 1) sales per store recovery (including all principal and other brands), 2) increases in sales area, 3) growth in concessionaire fees, 4) GP margin improvement from better retail discounts and 5) operating leverage.
- **Initiate BUY with TP of HK\$ 9.03, based on an 18x FY2/25E P/E, roughly at par to avg. of Anta & Li Ning and 49% discounts to Nike & Adidas.** Our target multiple (18x) is roughly at par to avg. of Anta & Li Ning (17x), because it is well supported by Topsports' 3 years NP CAGR of 20% and that is also similar to Anta & Li Ning (21% & 19%) and it still has a 49% discount to avg. Nike & Adidas, We find Topsports attractive not only due to turnaround but also decent dividend yield. It is trading at 14.1x FY2/25E P/E and 5.4% yield.

### Earnings Summary

(YE 28 Feb)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	31,877	27,073	31,060	34,620	38,343
YoY growth (%)	(11.5)	(15.1)	14.7	11.5	10.8
Net income (RMB mn)	2,447	1,837	2,314	2,750	3,181
Diluted EPS (RMB)	0.395	0.296	0.373	0.444	0.513
YoY growth (%)	(11.7)	(24.9)	26.0	18.8	15.6
Consensus EPS (RMB)	n/a	n/a	0.398	0.473	0.551
P/E (x)	14.5	21.1	16.7	14.1	12.2
P/B (x)	3.3	4.0	3.8	3.5	3.1
Yield (%)	7.5	5.3	4.2	5.4	5.7
ROE (%)	24.1	18.1	23.2	25.7	27.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Initiation)

Target Price	HK\$9.03
Up/Downside	+23.8%
Current Price	HK\$7.30

### China Sportswear Sector

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### Stock Data

Mkt Cap (HK\$ mn)	45,269
Avg 3 mths t/o (HK\$ mn)	58.00
52w High/Low (HK\$)	8.19/3.88
Total Issued Shares (mn)	6,201.2

Source: Bloomberg

### Shareholding Structure

Belle Int'l	39.4%
Hillhouse Capital	37.8%
CDH V Holdings	7.8%
Free Float	15.0%

Source: Bloomberg, HKEX

### Share Performance

	Absolute	Relative
1-mth	22.6%	20.0%
3-mth	-0.1%	2.0%
6-mth	12.5%	15.1%
12-mth	2.4%	18.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

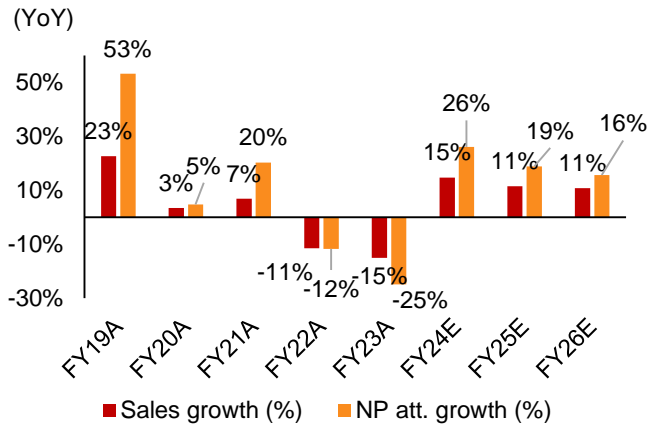
Auditor: PricewaterhouseCoopers

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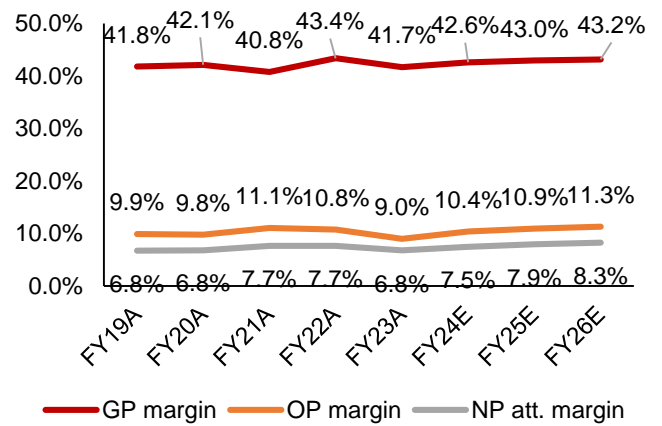
## Focus Charts and Tables

**Figure 1: Sales and net profit att. (yearly)**



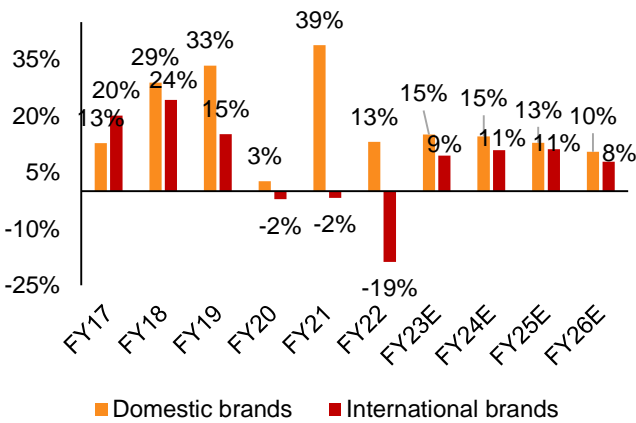
Source: Company data, CMBIGM estimates

**Figure 2: GP/ OP/ NP att. margin (yearly)**



Source: Company data, CMBIGM estimates

**Figure 3: Sales growth, by listed domestic and international brands**



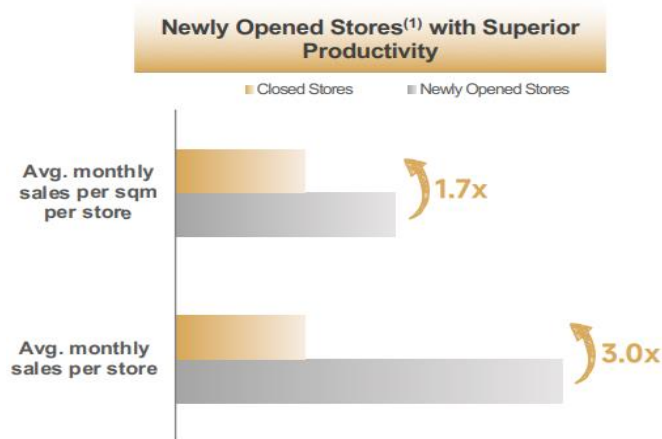
Source: Company data, CMBIGM estimates

**Figure 4: Adidas's strategy in China since FY23E**

Strategy	Remarks
1 More products designed for the locals/ 重点关注本地设计的产品	Adidas has a design team of about 80 people in its Asia Creative Center (CCA) in Shanghai, responsible for the R&D, and plans to have at least 30% of all product sold next year being locally designed, up from less than 5%.
2 More local productions in China/ 更高份额的生产转移至中国	Adidas also hopes to move more production to China to shorten the delivery times, allowing it to respond more quickly to fashion trends and consumer changes.
3 Focus more on professional sports than fashion/ 更多地关注运动装备而非时尚系列	Adidas is working actively to expand its portfolio of and sign more athletes.

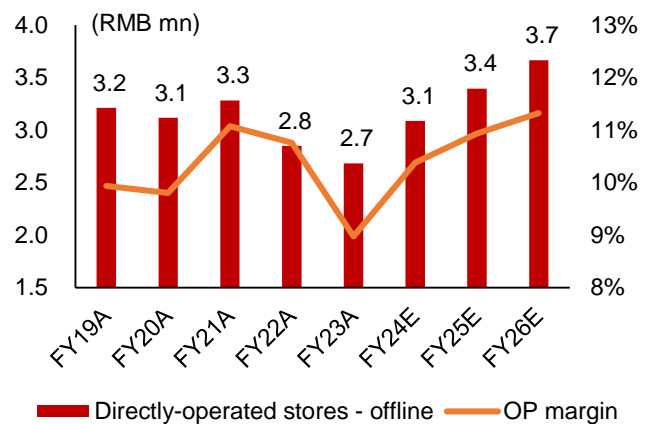
Source: Company data, CMBIGM estimates

**Figure 5: Sales per store or sales per sqm for new/ closed stores**



Source: Company data, CMBIGM estimates

**Figure 6: Retail sales per direct-operated store and OP margin**



Source: Company data, CMBIGM estimates

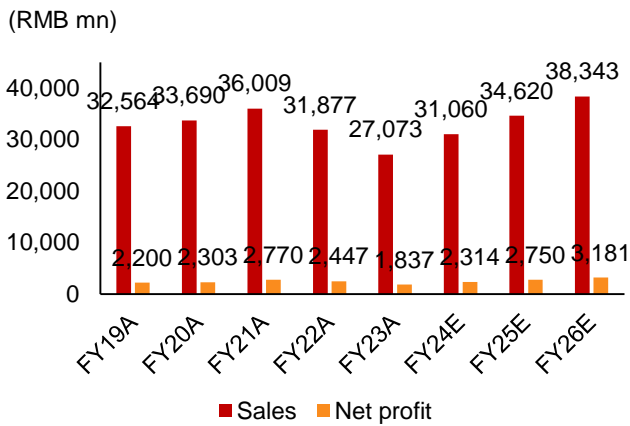
## Company Overview

**Topsports is the largest sportswear retailer for international brands in China.**

Topsports has started its sportswear distribution business and opened stores for Nike in China since 1999, and very soon in 2004, it has already become Nike's largest partner. In the same year, it began to work with Adidas as well. Since the Company (previously named Belle Sports) was part of the business of Belle International (sales of ladies' shoes is the main business), it was also being listed on the HKEX in 2007. But by the year of 2017, the Belle International was sold to and privatized by Hillhouse Capital and Belle's management. In 2019, it was renamed as Topsports and being listed again in HKEX.

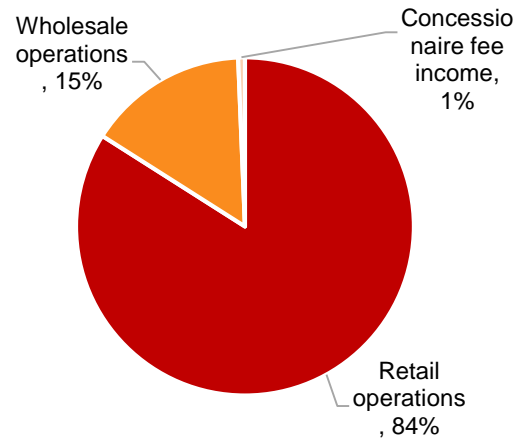
In FY23 (ending in Feb 2023), Topsports has a network of more than 6,500 stores (mainly the mono-brand, and some multi brands) plus about 1,500 franchisee stores and together generated sales of RMB 27.0bn and net profit of RMB 1.84bn. Based on industry sales (estimated by Frost & Sullivan) and Topsports retail sales (estimated by CMBI), the Company's market share was about 15.9% in 2018 and fell to 7.3% in FY2/23.

**Figure 7: Sales and net profit att. (yearly)**



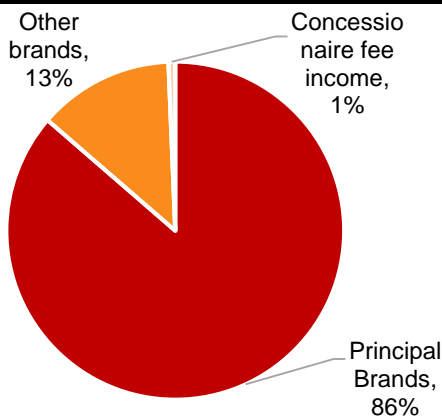
Source: Company data, CMBIGM estimates

**Figure 8: Sales mix by brand, FY2/23**



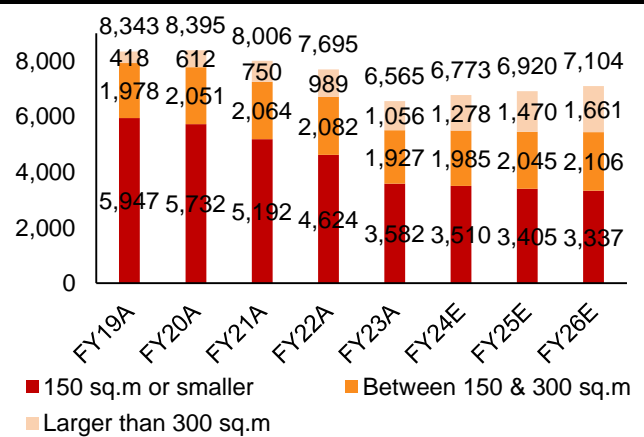
Source: Company data, CMBIGM estimates

**Figure 9: Sales mix by tier city and HK, F2/Y23**



Source: Company data, CMBIGM estimates













**Figure 10: Number of stores, by size**



Source: Company data, CMBIGM estimates

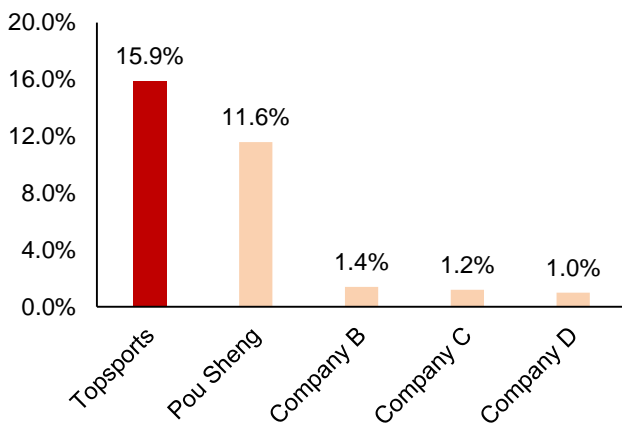
During its course of development, the Company also established businesses relationships with many other quality brands such as Puma, Converse, Vans, Asics, Onitsuka Tiger, The North Face, Timberland, Skechers, Li Ning and Team China.

**Figure 11: Brand Topsports' partnership with various brands**

Principal Brands (& year that partnership begun)				
Nike	Adidas			
1999	2004			
				
Other Brands (& year that partnership begun)				
Puma	Converse	Vans	Skechers	Asics
2006	2007	2013	2018	2015
				
Onitsuka Tiger	The North Face	Timberland	Li Ning	Team CHINA
2015	2015	2015	2022	2022
				

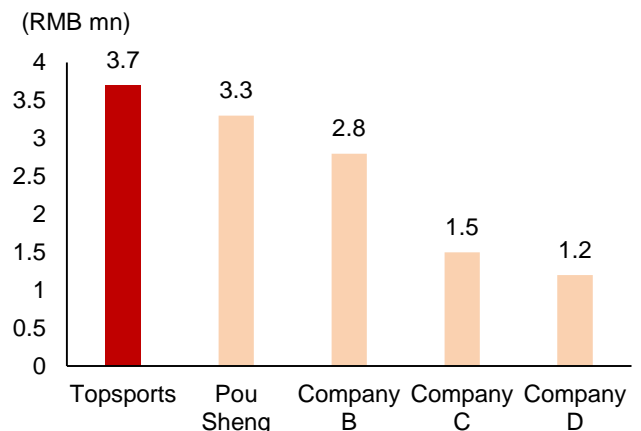
Source: Company data, CMBIGM estimates

**Figure 12: Market share, by sportswear distributors in 2018**



Source: Frost & Sullivan, Company data, CMBIGM estimates

**Figure 13: Sales per store, by sportswear distributors in 2018**



Source: Frost & Sullivan, Company data, CMBIGM estimates

**Figure 14: Topsports' milestones**

Year	Key business milestones of Topsports
1999	·The Company commenced business relationship with Nike
2004	·The Company started business relationship with Adidas and became the largest retail partner and customer for Nike in China in terms of wholesale value
2006	·Belle International acquired the Company's business from its then affiliate and became Top Sport's holding company and a Controlling Shareholder
2006-2007	·The Company further expanded its brand portfolio and started business relationship with brands such as Puma, etc.
2007	·Belle International was listed on the Hong Kong Stock Exchange.
2012	·The Company became the largest retail partner and customer of Adidas globally in terms of wholesale value
2015	·The Company's business extended to various brands, including The North Face, Timberland, ASICS and Onitsuka Tiger
2017	·Belle International was delisted from the Stock Exchange. Upon completion of the Privatization, Hillhouse HHBH became one of the Controlling Shareholders of the Company
2018	·The Company entered into the urban sportswear market by acquiring the multi-brand retailer "FOSS"
2019	·The Company established the largest NBA flagship store outside of North America
2019	·Topsports was listed on the Hong Kong Stock Exchange.

Source: Company data, CMBIGM estimates

## Company's key positives and growth drivers

### 1) Fundamentals for international brands are turning around

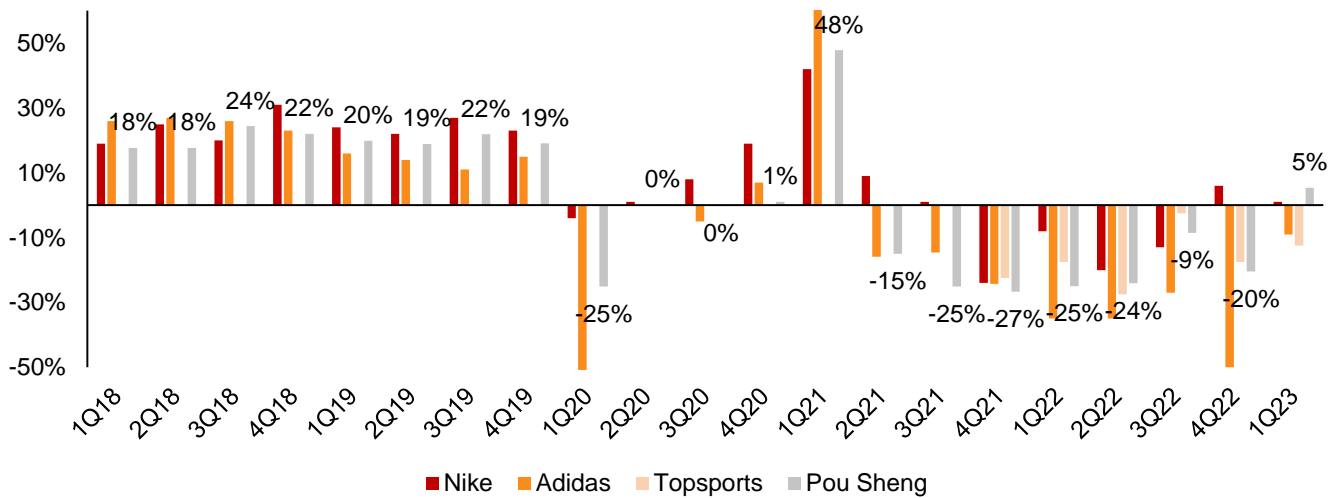
After three years of negative growth, we are quite confident that leading international brands like Nike and Adidas, could resume 9% growth in 2023E and 11% in both 2024E-25E. Similarly, their leading distributors like Topsports should be benefited and we are now forecasting 15% sales growth in FY2/24E and 11% in both FY2/25E-26E. We believe Adidas's "China for China" strategy and its expansion to the premium segment are totally workable and reasonable.

■ **1.1 Positive sales growth has already been resumed since 3Q22 and inventory level is getting healthier.**

In our view, thanks to: 1) China's reopening, 2) normalization of supply chain, new product launches and marketing activities (impact of the Xinjiang Cotton incident has faded out gradually), the Greater China sales for Nike finally returned to growth in 4Q22, which is the first positive in about 1.5 years since 3Q21. And for Adidas, their Greater China sales also returned to positive, but in the later time in 2Q23.

And the trend is also true for their distributors like Pou Sheng (achieved 30% growth in Mar 2023), and therefore Topsports should experience the same trend (in fact, retail sales growth was 20%-30% during Mar-Apr 2023).

**Figure 15: International brands and their distributors' sales growth**



Source: Company data, CMBIGM estimates

We can also tell from the Baidu Index that the search counts of “Xinjiang Cotton/ 新疆棉” have been decreasing since May 2021.

**Figure 16: Baidu Index on key word “Xinjiang Cotton/ 新疆棉”**

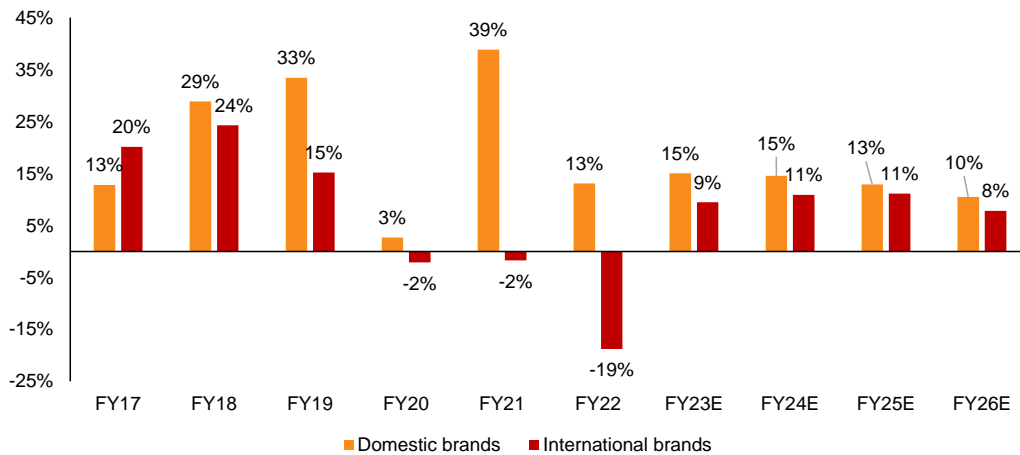


Source: Company data, CMBIGM estimates

If we look at other international brands (excluding the top two), the growth was not only better but had already turned around in 1Q23, which could serve as a good leading indicator.

We are fairly certain that the Company has reached the bottom of the cycle, and we can expect Topsports' sales growth to be at 15% and 11% in FY2/23E and FY2/24E (after -11% and -15% in previous two years). To err on the side of caution, we are assuming the international brands could only be growing at a pace slower than the domestic brands in the coming years.

**Figure 17: Sales growth, by listed domestic and international brands**



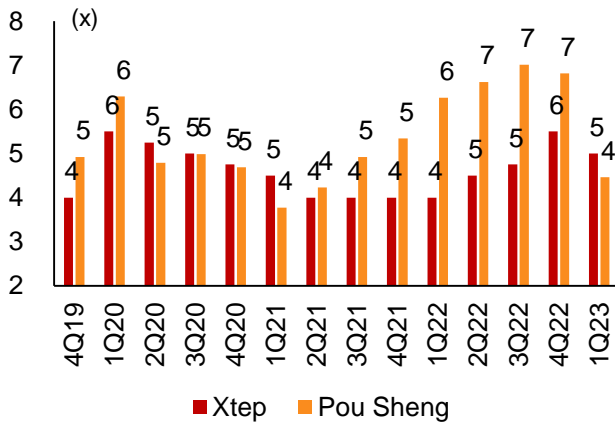
Source: Company data, CMBIGM estimates



On the other hand, we can also refer to inventory cycle, where we can clearly see the inventory level for brands like Xtep and Pou Sheng had already peaked out in 4Q22 and improved significantly in 1Q23.

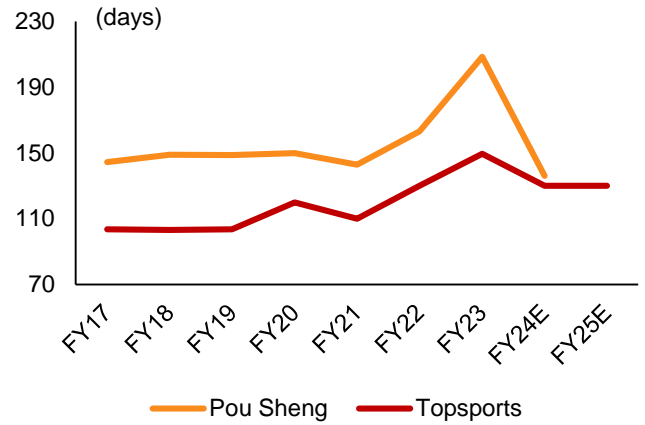
Based on our channel check, the de-stocking is still on-going for the industry in 2023, because the trade fair orders sale growth for many brands was still fast (at least faster than the retail sales growth YTD) and there is pressure to digest those inventories. However, these short-term issues will not change the tide of this turnaround, in our view.

**Figure 18: Inventory to sales ratio, Xtep & Pou Sheng**



Source: Company data, CMBIGM estimates

**Figure 19: Topsports & Pou Sheng’s inventory days**



Source: Company data, CMBIGM estimates, \*Numbers of 1Q23 were used for FY23E

■ **1.2 We are confident about Adidas’s transformation and its China for China Strategy.**

In the past few years, some external and internal factors are holding back the international brands’ development, but now, many of those are improving healthily.

Regarding **external drags** such as: 1) *inventory pile-up* and 2) *macro weakness* (due to Covid-19)

Adidas and Topsports have both carried out measures such as:

- 1) re-sizing the trade fair orders, 2) buying back excessive inventories, accelerating clearance through outlets and online platforms,
- 3) closing down the non-performing stores and 4) downsizing its workforce and other costs etc., and we have seen their sales and profit margin improved in YTD 2023.

**Figure 20: Adidas’s plan to turnaround in China since FY22**



Source: Company data, CMBIGM estimates

**Figure 21: Adidas’ strategy in China since FY22**

	Focus	Strategy
1	Inventory	1. Reducing the trade fair orders and conduct inventory buybacks 2. Accelerate inventory clearance through outlets and online
2	Channel	1. Right-sizing the China organization 2. Closing down unprofitable stores and focus on key cities
3	Reconnecting with Chinese Customers	1. Increase the leverage of local creatives and marketing
4	Marketing and sponsorships	2. Increase grass roots marketing spend on sports partners

Source: Company data, CMBIGM estimates

But more importantly, in our view, the market is more concerned about the **internal drags** like: 1) its brand equity within the youth in China (esp. how young customers see them), 2) its product quality and innovation (e.g. products in the pipeline) and 3) its relationships with the Chinese government as well as different sports stars and celebrities.

In fact, we are relatively confident about Adidas’s solutions for the China market announced in FY22, which include: 1) leveraging the local creative and marketing power and 2) investing more on its sports partners.

And to be more specific, three major actions are carried out in FY23E, namely:

- 1) to have more China’s designs (the % of products designed by local designers will increase from less than 5% in the past to about 30% in 2023),
- 2) to have more products produced in China, which would help shortening the lead time and make the brand more responsive to fashion trends and
- 3) to sponsor more athletes than celebrities.

**Figure 22: Adidas’s strategy in China since FY23E**

	Focus	Strategy	Remarks
1	More products designed for the locals	重点关注本地设计的产品	Adidas has a design team of about 80 people in its Asia Creative Center (CCA) in Shanghai, responsible for the R&D, and plans to have at least 30% of all product sold next year being locally designed, up from less than 5%.
2	More local production in China	更高份额的生产转移至中国	Adidas also hopes to move more production to China to shorten the delivery times, allowing it to respond more quickly to fashion trends and consumer changes.
3	Focus more on professional sports than fashion	更多地关注运动装备而非时尚系列	Adidas is working actively to expand its portfolio of and sign more athletes.

Source: Company data, CMBIGM estimates

Since Adidas has already executed its plan and began to deliver results in 1H23E, we are getting more confident about its outlook in 2H23E and even FY24E.

**Figure 23: Adidas’s plan for its turnaround globally**

## IN 2023, WE WILL BUILD THE BASE FOR 2024 AND 2025

### OUR FOCUS AREAS IN 2023



PEOPLE



PRODUCT



CONSUMERS



RETAILERS



ATHLETES

Source: Company data, CMBIGM estimates

**Figure 24: Adidas' products with Chinese style and fashion**

Date	Series name	Images	Remarks
2022年12月27日	adidas Originals「典」系列		<p>近日, adidas Originals 围绕中华民族传说中的神性动物麒麟进行了第二季「典」系列的产品设计。设计灵感来源于中国北方孩童的传统围兜。在北方地区,人们习惯把麒麟兽放在婴儿的衣服和饰物上,代表人们对勇敢、权力、驱邪和吉祥的渴望。</p>
2022年12月27日	中国定制书法系列		<p>阿迪达斯汲取中国书法元素中“铁画银钩,行云流水”的精髓,将五大豪门俱乐部经典元素与传承精神相融合,在即将到来的癸卯年新春,为球迷创造出绝妙的新年“霸服”。本次中国定制·俱乐部书法系列将分别为曼联、皇马、拜仁、尤文和阿森纳五家俱乐部推出设计,系列将包含夹克外套、连帽卫衣、长裤等适合秋冬季节上身穿搭的单品。</p>
2023年春季	阿迪达斯“武极”系列		<p>将古老的《孙子兵法》智慧融入时尚设计,以风、林、火、山为四季主题,呈现出一系列充满中国传统文化特色的作品。通过东方美学传承武学设计,共同领略“吾自在”的中式哲学生活之美。</p>
2023 4月及5月	中国元素 adidas (三叶草) Tracksuit 运动套装		<p>AdidasOriginals运动套装新品将陆续在4月及5月登陆adidas天猫及微信官方旗舰店及线下门店渠道发售</p>

Source: Company data, CMBIGM estimates

**Figure 25: Adidas’s Valentine, Samba day and Tour of China marketing**



Source: Company data, CMBIGM estimates

**Figure 26: Adidas’s recent marketing, sports events and sponsorships in China**

Localized marketing	Date	Remarks
Marketing events/ 營銷活動	2022年11月	为庆祝「女生节」的到来，adidas Originals 于 2023 年 3 月 7 日，择址上海武康路 55 号（近安福路）打造「SAMBA DAY」主题快闪。作为 adidas Originals 举办的第一个「SAMBA DAY」，Samba OG 经典双色还将在快闪店限时发售以女生为主的尺码。
	2023年5月	由中国文学艺术基金会、《百年巨匠》组委会、中国青年创业就业基金会联合主办的“百年巨匠携手阿迪达斯送文体进校园”在中央团校举行启动仪式。此次活动由中国关心下一代工作委员会办公室、中国教育发展基金会作为支持单位，《百年巨匠》摄制组承办，阿迪达斯体育（中国）有限公司赞助支持。
Sports events/ 體育賽事	2022年11月	2022年也是阿迪达斯与北京马拉松携手的第13个年头，体现了品牌对赛事和跑步运动的恒久支持。今年以“北马，当快不让”的态度主张，激励跑者勇创佳绩。
	2023年4月	阿迪达斯与中国田径协会合作举办了一系列田径赛事，包括最近的上海半程马拉松赛，目的是在市区推广田径运动
Sponsorships/ 娛樂體育明星贊助	2021年9月	签约CBA 篮球新星胡明轩
	2022年8月	签约赢得达拉斯公开赛的网球明星吴易昺，中国排名第一
	2022年11月	Adidas Originals 联合日本潮流艺术家长场雄和北京冬奥会上获得单板滑雪金牌的苏翊鸣合作推出新产品系列
	2023年3月	中国女子排球运动员李盈莹成为了阿迪达斯的全球形象代言人

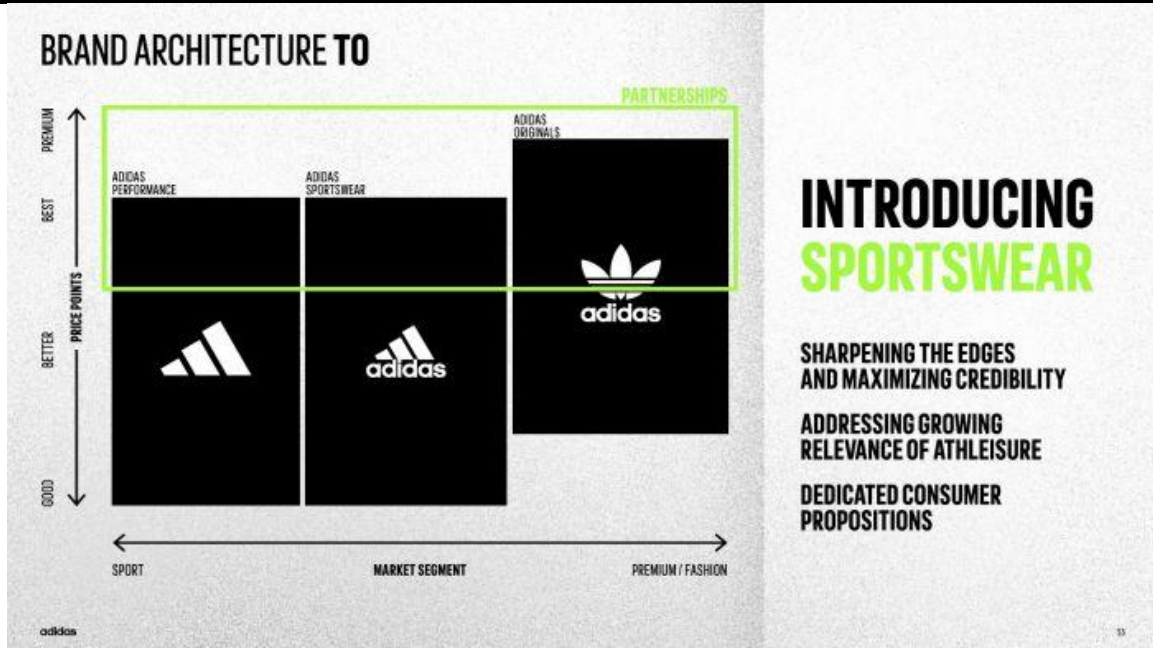
Source: Company data, CMBIGM estimates

■ **1.3 Adidas is investing more on partnerships with luxury brands**

In Adidas’s 2025 strategy, it will sharpen its market position through a clearer brand architecture. Therefore, Adidas brand will be separated into three major sub-brands, which are Adidas performance, Adidas sportswear and Adidas original.

While Adidas will focus and invest more on the more functional and professional sports products, the lifestyle or sports fashion products will be handled under the Adidas sportswear label. And the Adidas originals will be extended into the premium segment, in order to have a stronger distinction.

**Figure 27: Adidas’s brand architecture**



Source: CMBIGM estimates

One clear strategy for Adidas original is to launch various collaborations with different luxury brands, such as Prada, Gucci, Balenciaga and Moncler etc..

We believe this strategy has been successful as it can help Adidas to elevate its brand image and tap into more prestige and high-end fashion markets. It can also let teams from different brands to bring together their expertise, design aesthetics and craftsmanship to create more innovative and visually striking products that can better attract and excite the consumers.

**Figure 28: Adidas original’s crossovers with luxury brands since 2019**

Date	Dec 2019	Jan 2022	May 2022	Mar 2023
Brands	Prada	Gucci	Balenciaga	Moncler Genius
Images				

Source: CMBIGM estimates

Figure 29: Adidas original's crossovers with luxury brands since 2019



Source: CMBIGM estimates

## 2) Topsports' efficiency has been outstanding and it is still improving

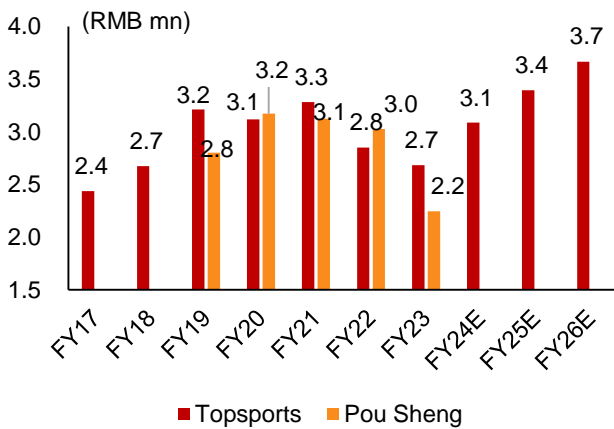
While we have great appreciation on Topsports' superior resiliency in terms of sales per store and profitability (vs peers like Pou Sheng), the room for further recovery and improvement is still there in the near future. Going forward, we do believe offline sales per directly-operated store could recover to about 99%/ 109%/ 118% in FY24E/ 25E/ 26E, driven by: 1) greater mix of larger-sized stores, 2) opening of more higher-tier stores with better locations and 3) closures of many underperforming stores. Moreover, as China re-opens, we believe total sales area could resume its growth, at least just stabilize.

### ■ 2.1 Topsports has been resilient vs its peers, in terms of productivity and margins

Historically, even though both Topsports and Pou Sheng are the top and clearing leading distributors for Nike and Adidas in China, Topsports still tends to outperform Pou Sheng in many areas, such as the inventory days, sales per store, as well as net profit margin.

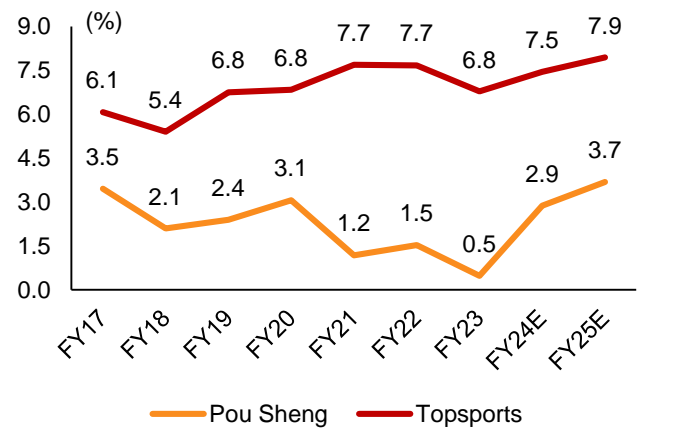
We believe the leadership achieved by Topsports is the result of: 1) more investments in technology and digitalization (with better data analytic, it can make more precise trade fair orders, which can effectively reduce the level of off-seasons inventory), 2) higher sales mix from Nike (which has faster and better quality sales growth in China than Adidas in recent years), and 3) more in-depth partnership with the leading brands (therefore it can open more higher-tier stores which will have better product allotments and hence better sales and retail discounts).

**Figure 30: Offline retail sales per store, by sportswear distributor**



Source: Company data, CMBIGM estimates

**Figure 31: Net profit margins, by sportswear distributor**



Source: Company data, CMBIGM estimates

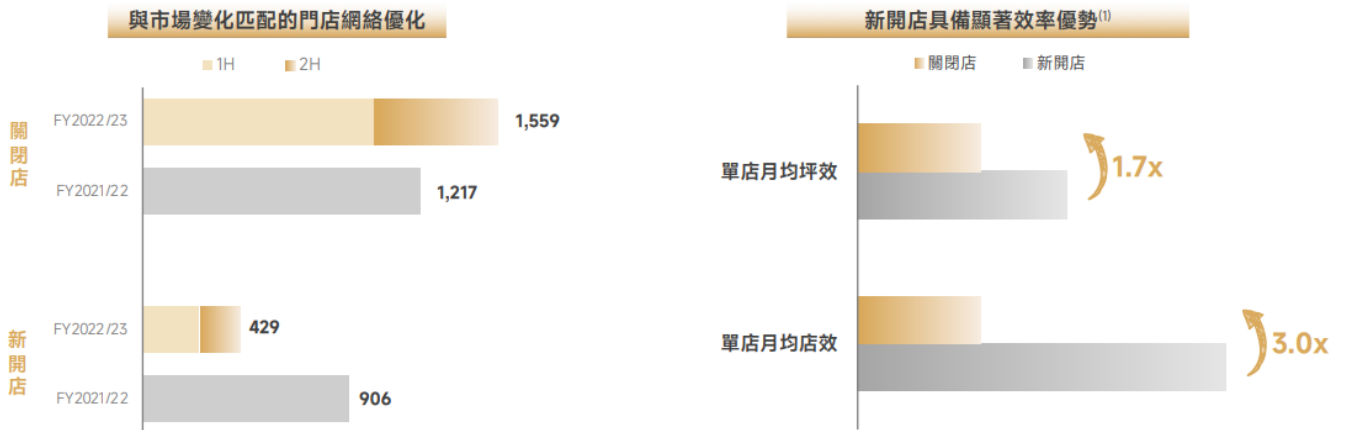


■ 2.2 Topsports's sales per store can still recover and grow further in the future

Firstly, sales per store had not reached 100% vs 2019 and we do think that would come in the future.

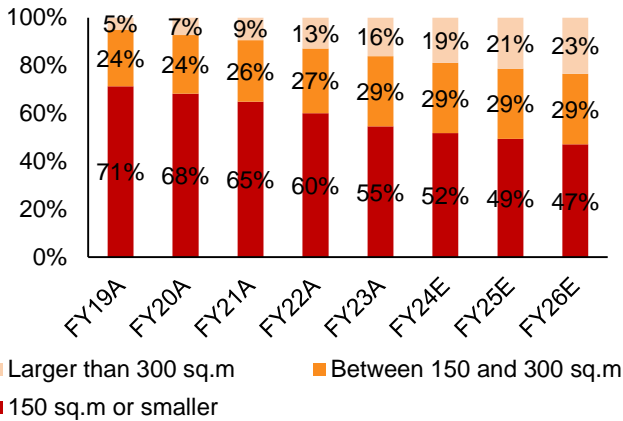
Secondly, in the past few years, Topsports has been closing down the non-performing stores and opened many larger-sized stores, which tend to have better productivity (strongly evidenced by the much higher sales per sq.m for new stores vs the stores being closed).

Figure 32: Topsports' sales per sq.m for large stores vs small stores



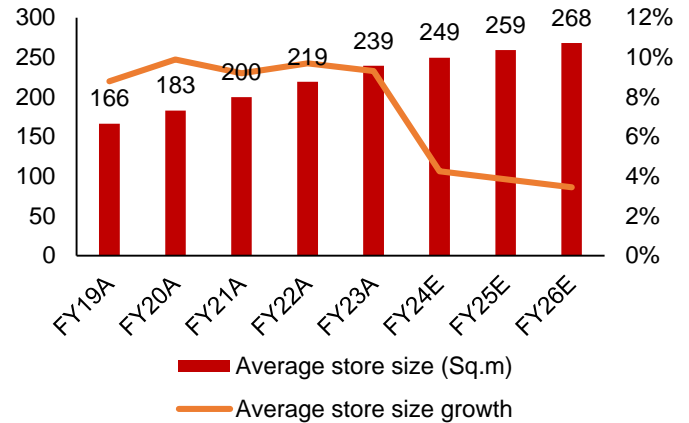
Source: dianping.com, CMBIGM estimates

Figure 33: Mix of stores, by size



Source: Company data, CMBIGM estimates

Figure 34: Size per store and growth



Source: Company data, CMBIGM estimates

Thirdly, given Topsports' quality and its relationship with Nike and Adidas, we believe it can continue to open more higher tier stores.

Nike had opened a few innovative and stunning concept stores around the world, most of which are self-owned stores. However, out of these stores, one was co-opened by Nike and Topsports, which is the Nike RISE concept store opened in Beijing in Feb 2022. We believe this is an excellent example to demonstrate the strong bond between Nike and Topsports, as well as Topsports' ability to operate such a higher tier store.

**Figure 35: Different tier of concept stores, by Nike (some were opened by Topsports)**

Types of Nike stores	Features	Average size (Sq.m)	Date of first store in China	Remarks
House of Innovation	Innovation, technology, mega size, custom-made	2400 to 6300	Oct 2018	First in Shanghai
Rise	City's communities, digital, personalize	2000 to 2800	Jul 2020	First in Guangzhou and <b>second in Beijing (by Topsports, instead of Nike direct retail)</b>
Live	Faster product launches, club services, O2O	370 to 460	Jan 2021	First in Shanghai and second in Beijing
Style	AR experience, unisex, custom-made	~ 350	Sep 2022	First in Shanghai
Unite	Local communities	~ 1000	2021	First in Shanghai and second in Beijing

Source: dianping.com, CMBIGM estimates

**Figure 36: Image of Nike Rise store in Beijing**



Source: retailinasia.com, CMBIGM

**Figure 37: Image of Adidas SWC store in Suzhou**



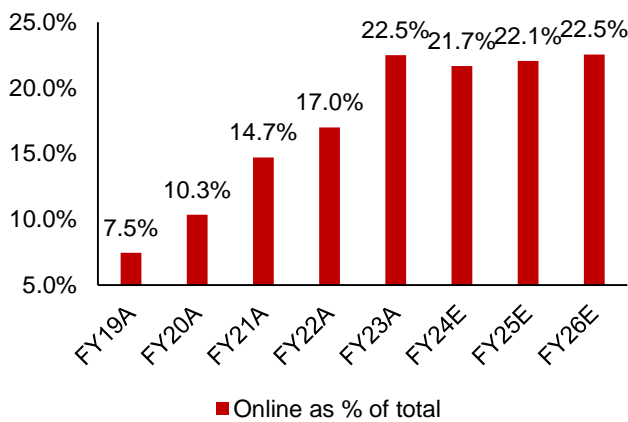
Source: XinShangye LAB/ 新商业 LAB, CMBIGM

Moreover, there are still many other drivers for sales per stores, such as the online (or off-premises) sales generated through the WeChat mini stores or live streaming etc.

We can clearly see the online sales mix to surge from 7.5% in FY19A to 22.5% in FY23A, which could stay flattish for a while because of the rebound of offline customer traffic. But in the long run, it should still continue to go up, to 30%+ (CMBI est.) in the future. We can also refer to Topsports' peers in the overseas markets. For example, Foot Locker had a high-teens sales mix from the online channel and it is aiming to boost that to about 25% by FY26E.

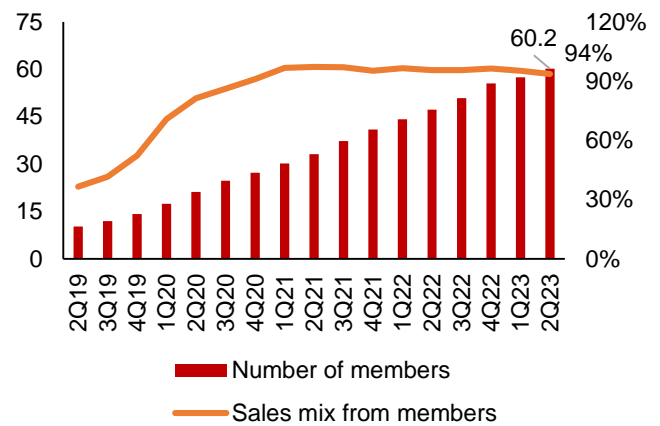
Also, another decent driver for sales per store could be the membership programme, that could help providing more differentiate or even customized services to the consumers, increasing customer satisfaction, loyalty as well as the repeated purchase rate.

**Figure 38: Sales mix from online channel (including the sales from new retail channels)**



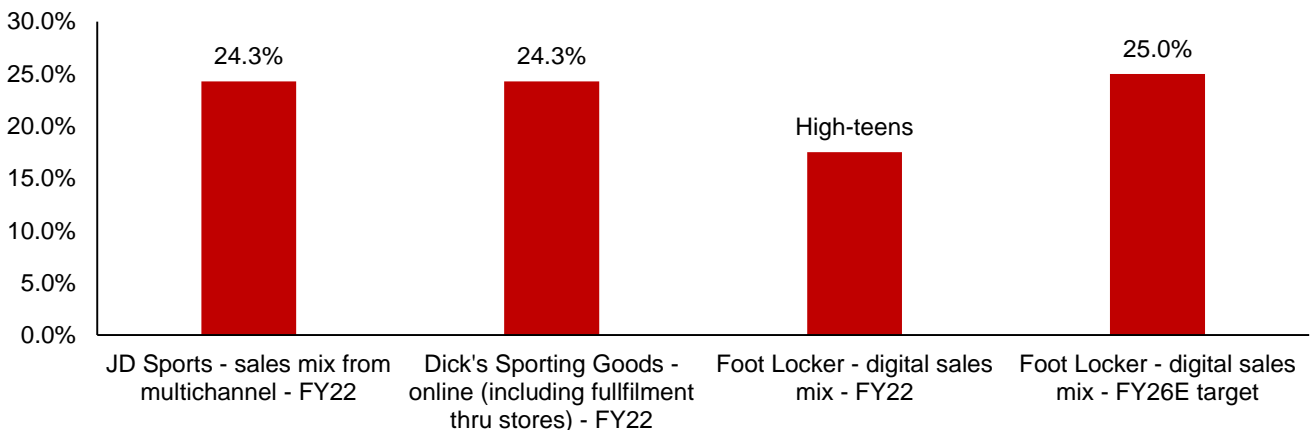
Source: Company data, CMBIGM estimates

**Figure 39: Number of members and % of sales contributed**



Source: Company data, CMBIGM estimates

**Figure 40: Sales mix from online channel, by Topsports' peers overseas**



Source: Company data, CMBIGM estimates

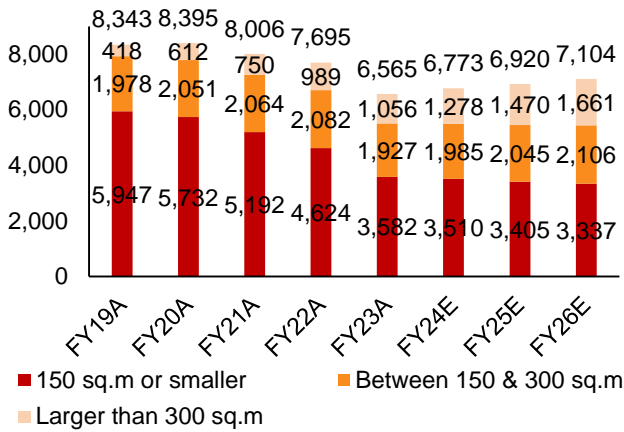
■ **2.3 Sales area will still continue to go up**

Other than the sales per store (or more importantly the sales per sq.m) to improve, we believe the total sales area for Topsports could go up gradually.

Firstly, many stores closures during the past few years was a result of drop in business. If the financials per store begin to stabilize and turn around onwards, we do think the Company could start to have net increase in new stores. And industry size could increase at the same time and eventually allow more Topsports stores to survive.

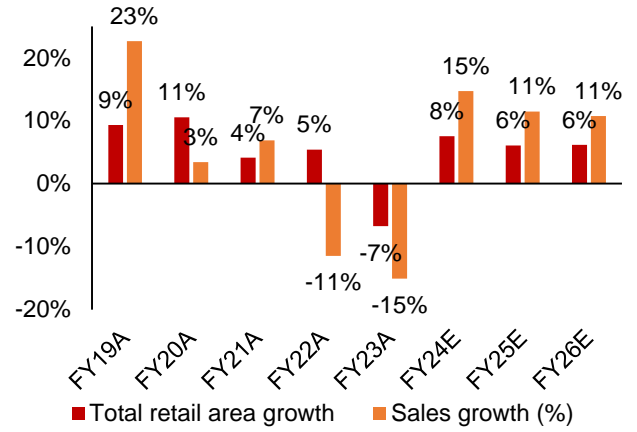
Secondly, since Topsports is opening more higher tier stores and those are very likely to be larger in size, hence we believe the overall sales area will be boosted.

**Figure 41: Topsports' number of stores, by store size**



Source: Company data, CMBIGM estimates

**Figure 42: Topsports' sales area and sales growth**



Source: Company data, CMBIGM estimates

Thirdly, Nike and Adidas's penetration into the lower tier cities are still low and there is room for further expansion. With that, the total sales area will also be increased.

### 3) There is still room for partnerships with more brands

Sportswear sales is still growing fast in China (vs other more developed regions), and hence the room for various brands could still be large. Under this context, we believe Topsports can leverage its retail and channel ability to work with and promote many more brands other than the two principal brands. This could in turn contribute to the growth of Topsports in the future. In fact, if we look at its peers in the overseas markets, those companies are working with way more brands at the same time vs Tosports.

■ **3.1 International brands still have their edges and can grow positively (even though the growth rate might be slower).**

The XJ cotton incident is important, but the impact should not be here forever. Once it fades out, we believe all brands (including the international brands) could still resume their positive growth.

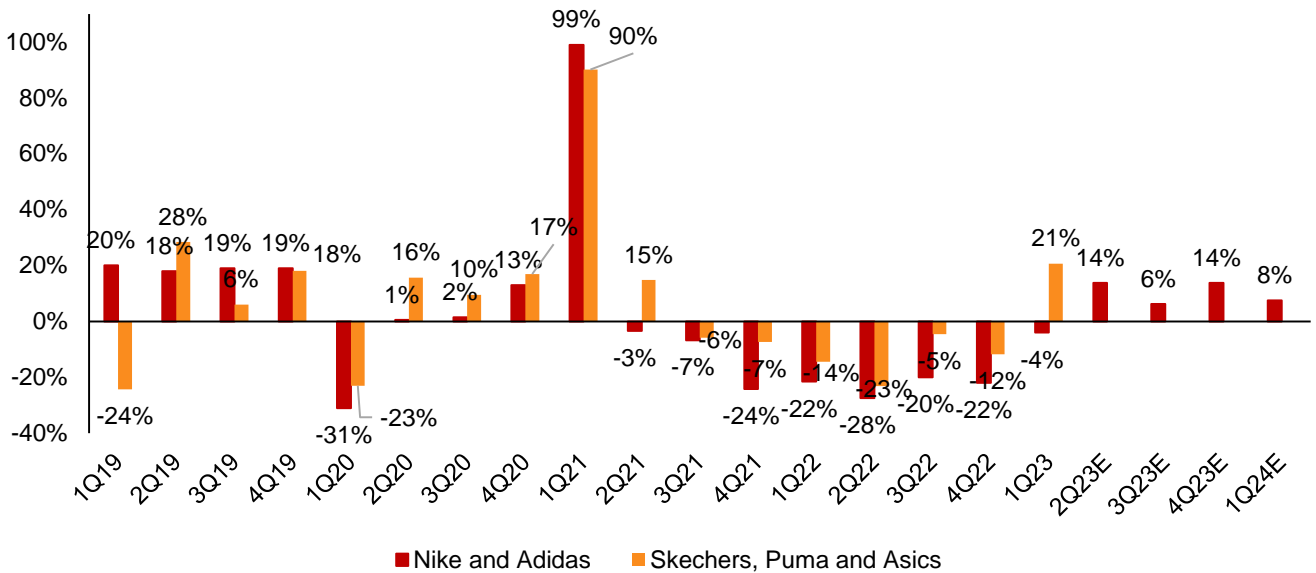
And out of all international brands, the second tier ones are doing better.

As mentioned in the first key point, sales growth of the leading international brands have returned to positive lately. But actually, according to our observation, the less leading (or second tier) international brands have already registered strong sales growth in 1Q23.

And in fact, if we compare their performances in the past few years, we can also tell that the second tier international brands are doing even better than Nike/ Adidas. We believe the reason behind is that these brands are not high-profile, and therefore they are less impacted by the consumer’s impulse. Hence, their sales is based more on the overall brand competitiveness and product quality, which should still be leading vs the typical domestic brands (consumer’s perception due to legacy and higher selling price).

Therefore, we are now forecasting the sales growth from other brands (for Topsports) could be faster than the average of Nike/Adidas in the near future.

**Figure 43: Sales growth, by different international brands group**



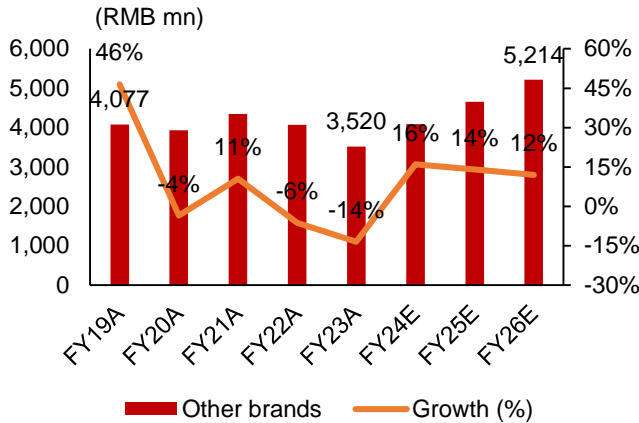
Source: Company data, CMBIGM estimates

■ **3.2 We believe Topsports can also further expand its brand portfolio and partner with more brands.**

Firstly, we believe there is still room for Topsports to expand its partnership, as it is only working with 12 brands at the moment, which is less than the about 30 brands that Dick’s Sporting Goods is working with. In fact, Topsports has started its business with Li Ning in recent years and we think the potential from Chinese brands is still great. Moreover, Topsports can choose to open more multi-brands stores.

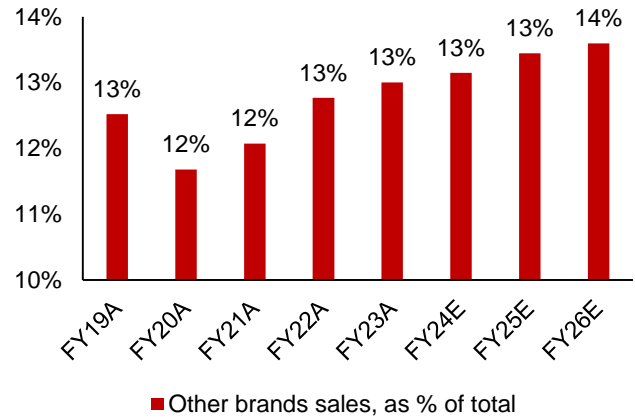
Secondly, we also do not rule out the chances that Topsports to invest into their own brands. For example, Dick’s Sporting Goods is now having about 14 self-owned brands.

**Figure 44: Other brands’ sales and growth**



Source: dianping.com, CMBIGM estimates

**Figure 45: Other brands’ sales, as % of total**



Source: dianping.com, CMBIGM estimates

**Figure 46: Dick’s Sporting Goods’ brand portfolio**

STRONG PARTNERSHIPS WITH INDUSTRY LEADING BRANDS	POWERHOUSE VERTICAL BRAND ASSORTMENT
APPROXIMATELY 80% OF ACTIVE ATHLETES LOOK TO DICK’S FOR A MULTI-BRANDED EXPERIENCE	

Source: Company data, CMBIGM estimates

## Industry Analysis

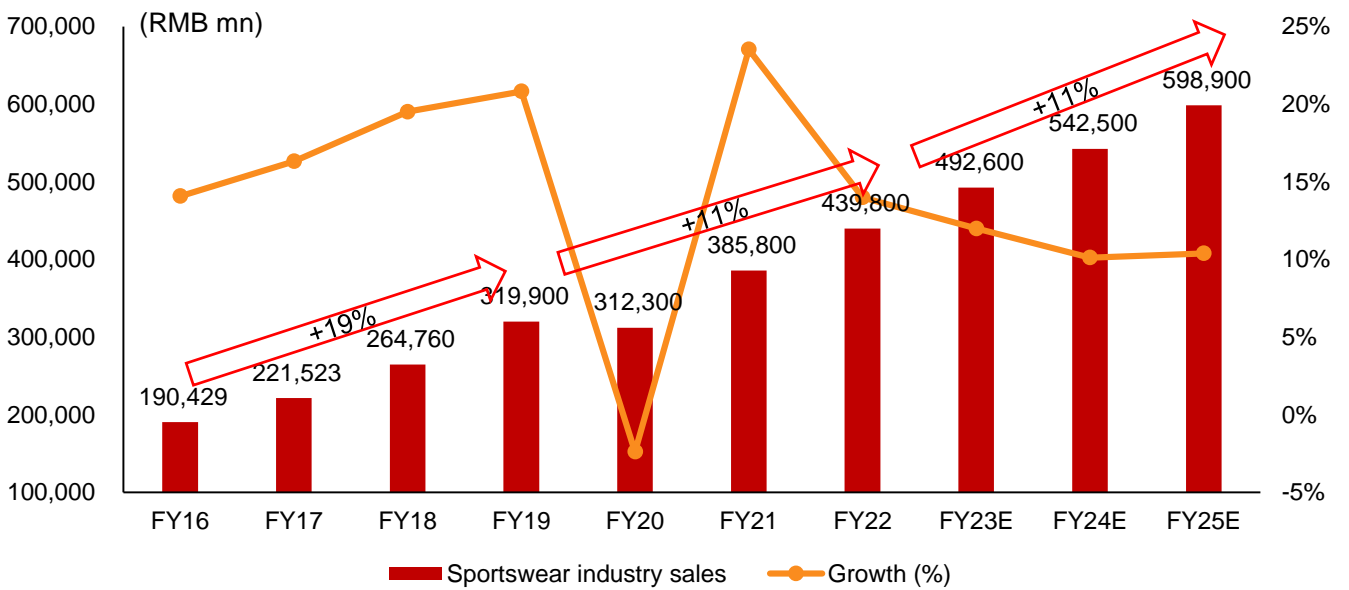
### 1) Long-term outlook for sportswear industry in China remains positive (despite short-term volatility)

We do believe the sportswear industry sales growth can continue to outperform the GDP and retail sales growth in China, supported by demand side factors like consumption upgrades, rising health consciousness and more innovative product launches and supply side factors, including favorable government policies (more facilities and talents built).

■ **1.1 China’s sportswear sales CAGR could be at about 11% during FY22-25E.**

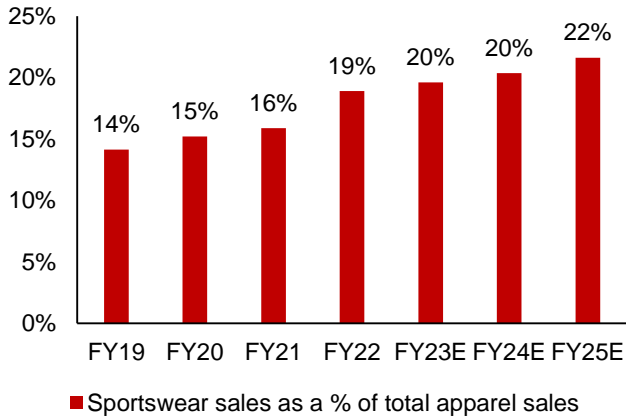
According to Euromonitor, sportswear industry sales in China was at about RMB 440.0bn in FY22. Thanks to various positives (demand pull and government push), sportswear industry sales has been growing fast at around 19% CAGR from FY16 to FY19. Unfortunately, due to Covid-19 outbreak, it has been slowed down to roughly 11%. But going into FY22-25E, Euromonitor is also projecting a similar growth rate of 11% during FY22-25E, which is still way faster than the apparel industry, total retail sales and GDP growth in China. While we are expecting international brand sales growth to recover in the future, its growth rate should still be slower than that of the Chinese sportswear brands.

**Figure 47: China sportswear industry sales and CAGR**



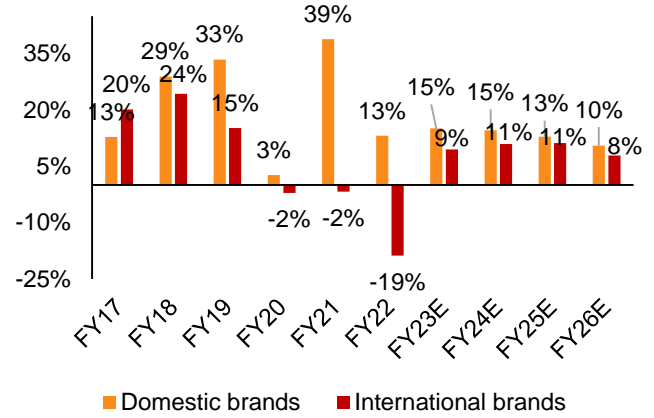
Source: Euromonitor, CMBIGM estimates

**Figure 48: Sportswear industry sales, as % of total apparel industry sales**



Source: Euromonitor, CMBIGM estimates

**Figure 49: Sales growth, by listed domestic and international sportswear brands**



Source: Company data, CMBIGM estimates

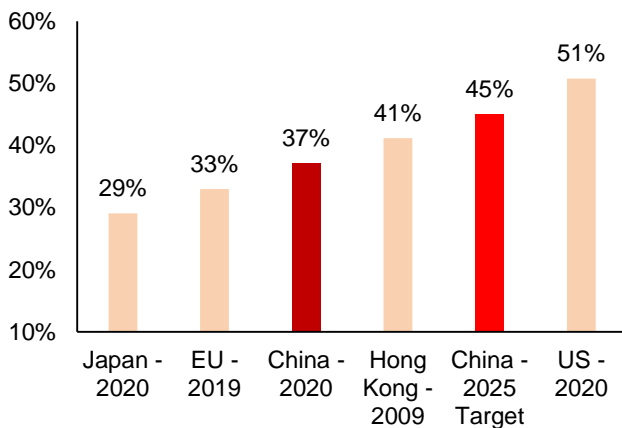
■ **1.2 Sports participation is still low in China vs other more developed countries.**

According to State Council and China Institute of Sports Science, the sports participation rate was only 37% in China in 2020, which is still below HK's 41% in 2009 and still quite low vs US's 51% in 2020.

While the Chinese government is pushing hard and aiming for a 45% rate in 2025E, we are also rather optimistic, because: 1) interests on sports are often correlated to the level of income and more people in China may become the middle class in the near future, 2) many people do become more conscious about exercising and health after the pandemic, 3) Chinese government is ramping up both its hardware (e.g. the sports facilities around the neighborhoods) as well as its software (e.g. raising more trainers and sports professions), etc.

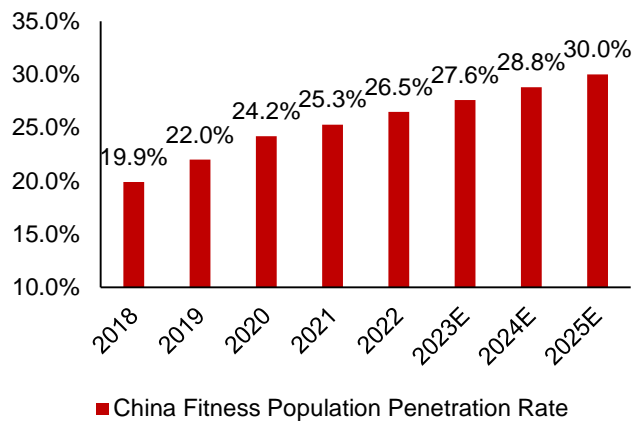
Moreover, as the leading brands continue to invest heavily on the technology and development of sporting goods, those gears would become increasingly powerful and could make different sports more entertaining and safe, that would drive up the overall demand on sports as well.

**Figure 50: Sports participation rate, by region**



Source: Japan's National Sports-Life Survey, The Japan National Health and Nutrition Survey, Eurostat, HK's Census and Statistics Department, State Council, China Institute of Sport Science, Physical Activity Council (PAC), CMBIGM estimates

**Figure 51: China fitness population penetration rate**



Source: Keep's IPO prospectus, the CIC report, CMBIGM estimates



## 2) How do we compare Topsports to distributors in other regions ?

If we look at Topsports' peers in the overseas markets (e.g. JD Sports, Dick's Sporting Goods and Foot Locker), they have all recovered nicely vs 2019, sales growth and market gains achieved and certain M&As were done too. Topsports should have experienced the same if Xinjian Cotton incident did not occur, in our view.

### ■ 2.1 Sportswear distributors have recovered (vs 2019 level) better.

Interestingly, we can also compare Topsports to its peers around the globe, such as JD sports, Footlocker and Dick's sports.

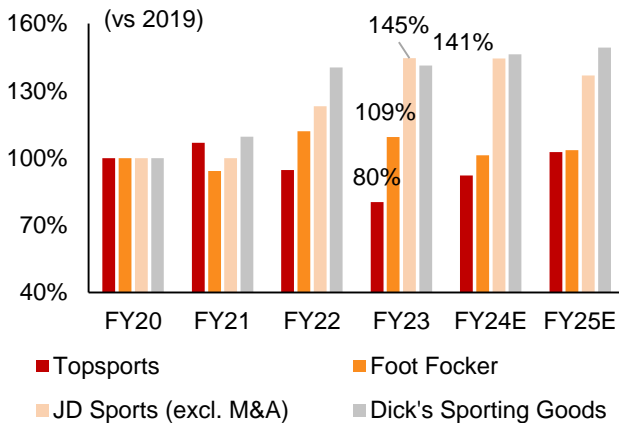
In terms of sales recovery, JD Sports (excl. M&A) was the best, at 145% (note that we excluded all the M&A since 2019, if not, its recovery could be explosive), comparing to Topsports' 80%, while all other peers surpassed the 100% mark.

In terms of store number recovery, JD Sports (excl. M&A) was also leading, at 102%, Dick's Sporting Goods was close, at 100%, followed by Foot Locker's 88% and Topsports's 78%.

In terms of sales per store recovery, Topsports had reached 103% (vs FY2/20 level), but all its peers have done much better, at 142%/ 141%/ 124% for JD Sports (excl. M&A)/ Dick's Sporting Goods/ Foot Locker.

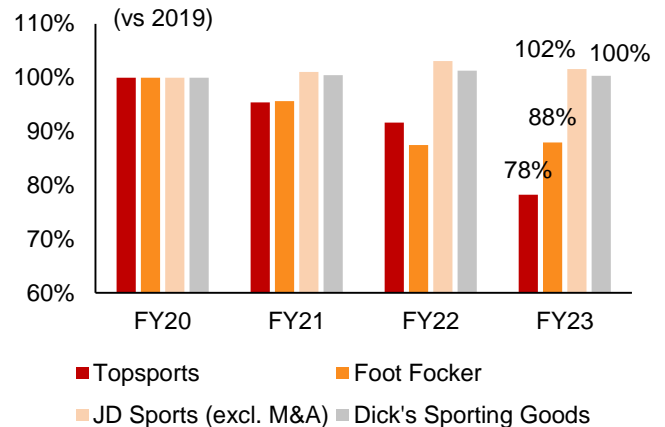
In fact, we believe if Xinjiang cotton incident did not take place, Topsports should have done much better, as almost all of its peers have achieved market share gain during the pandemic.

**Figure 52: Sales recovery rate (vs FY19), by sportswear distributors**



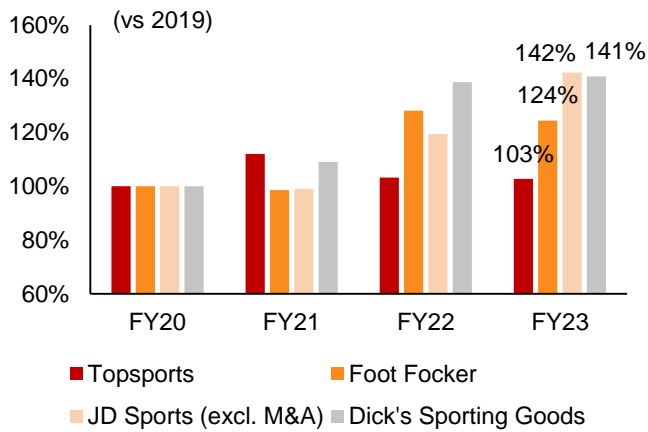
Source: Company data, CMBIGM estimates

**Figure 53: Number of store recovery rate (vs FY19), by sportswear distributors**



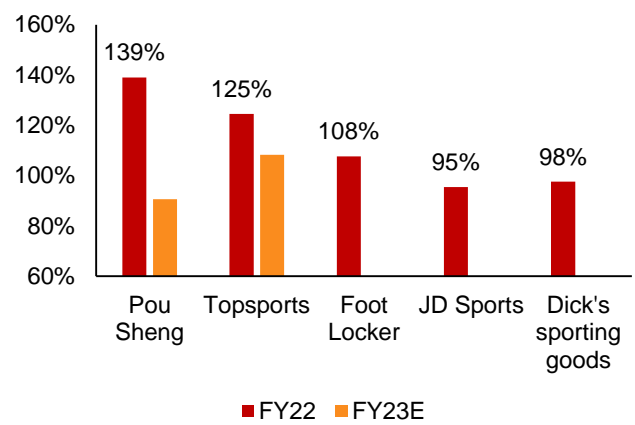
Source: Company data, CMBIGM estimates

**Figure 54: Sales per store recovery rate (vs FY19), by sportswear distributors**



Source: Company data, CMBIGM estimates

**Figure 55: Inventory days recovery rate (vs FY19 level), by sportswear distributors.**



Source: Company data, CMBIGM estimates, \*Numbers of 1Q23 were used for FY23E

### 3) What can we learn from the past cycles ? Using Pou Sheng as an example.

Referring to Pou Sheng’s historical data, we believe we are still in the uptrend of sales growth and inventory improvement, which could last into 2Q24E, despite there could be volatility within some quarters. The overall profitability should improve accordingly in this uptrend.

■ **3.1 One small (up or down) cycle in terms of sales growth usually lasts for 3 to 8 quarters.**

We have studied the data of Pou Sheng for the past 13 years, and we have noticed uptrend or downtrend could last for about 3 to 8 quarters. And we think that even though we are in the upcycle, starting from 1Q22, it could last slightly longer this time (may be about 9 quarters) because the pandemic should have restricted and distorted the consumer behavior, as well as created a highly low base. Also the Xinjiang Cotton incident contributed to the low base too.

**Figure 56: Pou Sheng’s quarterly sales growth**

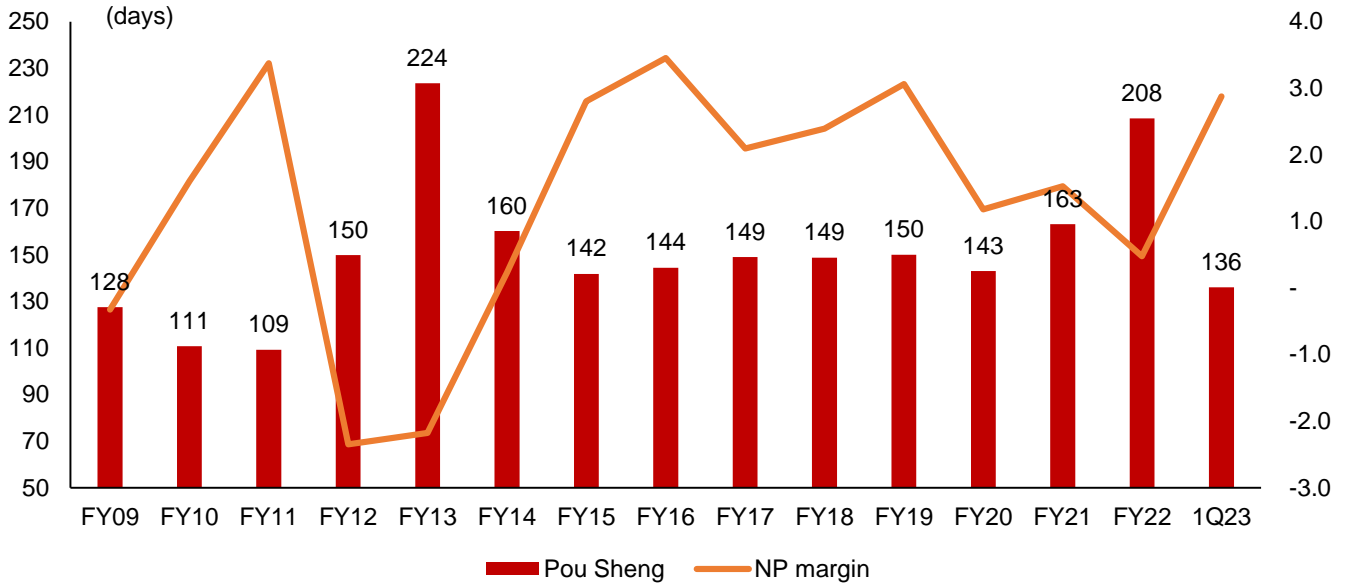


Source: Company data, CMBIGM estimates

■ **3.2 An inventory cycle could last for about 2 to 3 years.**

We have also studied the inventory data of Pou Sheng, in the past 13 years, we can tell that a downtrend or uptrend for the inventory days tend to last for 2 to 3 years. And since we are just at the start of a downtrend, we are optimistic about the sales growth, as well as the overall retail discounts and margin onwards. This should apply for both Topsports and Pou Sheng.

**Figure 57: Pou Sheng’s yearly inventory days and net profit margin**



Source: Company data, CMBIGM estimates

## Assumptions

Figure 58: CMBIGM's assumptions

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment</b>						
Retail operations	30,815	26,420	22,741	26,691	30,149	33,634
Wholesale operations	4,954	5,220	4,158	4,149	4,224	4,435
Concessionaire fee income	240	236	175	220	247	274
Total	36,009	31,877	27,073	31,060	34,620	38,343
<b>Sales by segment growth (%)</b>						
Retail operations	6%	-14%	-14%	17%	13%	12%
Wholesale operations	17%	5%	-20%	0%	2%	5%
Concessionaire fee income	-10%	-2%	-26%	26%	12%	11%
Total	7%	-11%	-15%	15%	11%	11%
<b>Number of stores</b>						
	<b>8,006</b>	<b>7,695</b>	<b>6,565</b>	<b>6,773</b>	<b>6,920</b>	<b>7,104</b>
Total sales area	1,598	1,685	1,571	1,690	1,793	1,904
Growth (%)	4%	5%	-7%	8%	6%	6%
Average store size	200	219	239	249	259	268
Growth (%)	9%	10%	9%	4%	4%	3%
<b>Retail sales (offline) per store</b>						
	<b>3.3</b>	<b>2.8</b>	<b>2.7</b>	<b>3.1</b>	<b>3.4</b>	<b>3.7</b>
Growth (%)	5%	-13%	-6%	15%	10%	8%
<b>Retail sales (online)</b>						
	<b>4,533</b>	<b>4,491</b>	<b>5,117</b>	<b>5,782</b>	<b>6,649</b>	<b>7,580</b>
Growth (%)	50%	-1%	14%	13%	15%	14%
GP margins	40.8%	43.4%	41.7%	42.6%	43.0%	43.2%
Rental expenses/ sales	-13.8%	-13.9%	-13.2%	-12.9%	-13.1%	-13.2%
Staff costs/ sales	-8.8%	-10.9%	-10.7%	-10.5%	-10.6%	-10.6%
D & A/ sales	-2.0%	-2.2%	-2.3%	-2.3%	-2.3%	-2.2%
S & D expenses/ sales	-26.8%	-29.6%	-29.7%	-28.6%	-28.5%	-28.4%
G & A expenses/ sales	-3.5%	-4.1%	-4.1%	-4.3%	-4.2%	-4.2%
Effective tax rate	-28%	-26%	-21%	-25%	-25%	-25%
NP att. margin	8%	8%	7%	7%	8%	8%
NP att. growth (%)	20%	-12%	-25%	26%	19%	16%

Source: Company data, CMBIGM estimates

## Earnings revision

Figure 59: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	31,060	34,620	38,343	31,389	35,391	39,368	-1.0%	-2.2%	-2.6%
Gross profit	13,227	14,869	16,545	13,345	15,131	16,933	-0.9%	-1.7%	-2.3%
EBIT	3,224	3,786	4,343	3,354	3,928	4,512	-3.9%	-3.6%	-3.8%
Net profit att.	2,314	2,750	3,181	2,449	2,875	3,443	-5.5%	-4.3%	-7.6%
Diluted EPS (RMB)	0.373	0.444	0.513	0.398	0.473	0.551	-6.2%	-6.2%	-6.8%
Gross margin	42.6%	43.0%	43.2%	42.5%	42.8%	43.0%	0.1ppt	0.2ppt	0.1ppt
EBIT margin	10.4%	10.9%	11.3%	10.7%	11.1%	11.5%	-0.3ppt	-0.2ppt	-0.1ppt
Net profit att. margin	7.5%	7.9%	8.3%	7.8%	8.1%	8.7%	-0.4ppt	-0.2ppt	-0.5ppt

Source: Company data, CMBIGM estimates

## Financial Analysis

We forecast sales growth of 15%/ 11%/ 11% YoY in FY24E/ 25E/ 26E

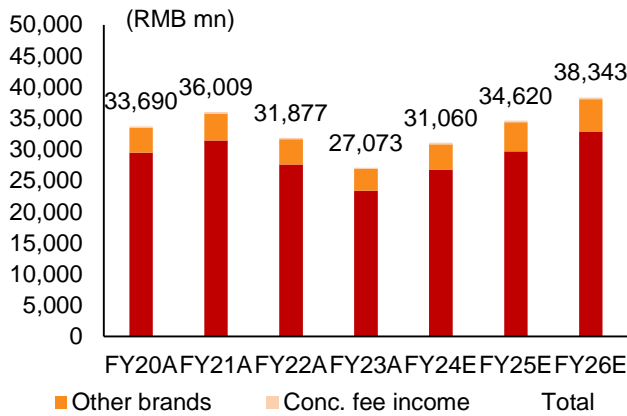
■ **We expect sales to increase by 15% YoY in FY24E, due to a turnaround in international brands' popularity in China**

We project Topsports' sales to reach RMB 31.0bn in FY24E, increased by 14.7% YoY, driven by: 1) 14.5% growth in sales for principal brands, 2) 16.0% growth in sales for other brands and 3) 25.5% growth in concessionaire fees, OR

1) 17.5% direct retail sales growth, 2) 0.2% decline in wholesale sales and 25.5% growth in concessionaire fees OR

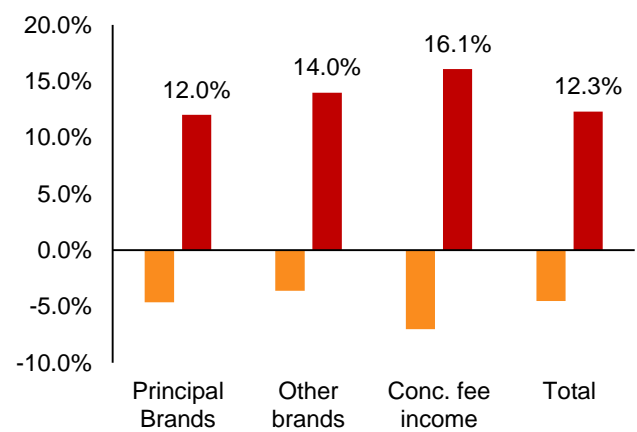
1) 2.5% increases in store number, 15.0% sales per direct retail store growth, 13.0% increases in online sales and 3.0% sales per wholesale store growth.

**Figure 60: Sales by brand**



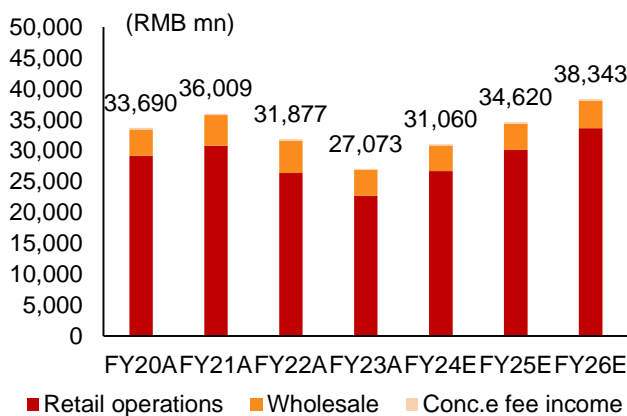
Source: Company data, CMBIGM estimates

**Figure 61: Sales CAGR by brand, FY23-26E**



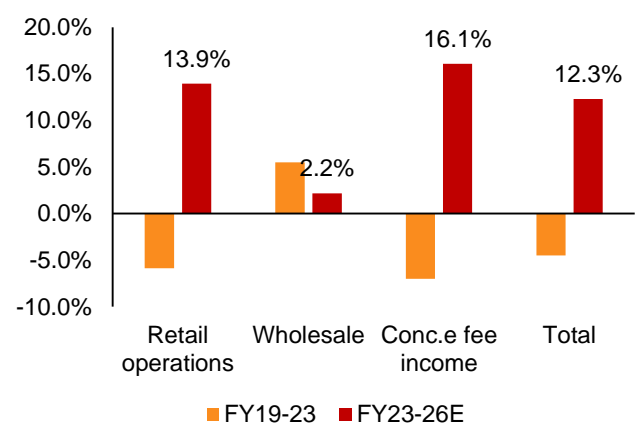
Source: Company data, CMBIGM estimates

**Figure 62: Sales by channels**



Source: Company data, CMBIGM estimates

**Figure 63: Sales CAGR by channel, FY23-26E**



Source: Company data, CMBIGM estimates

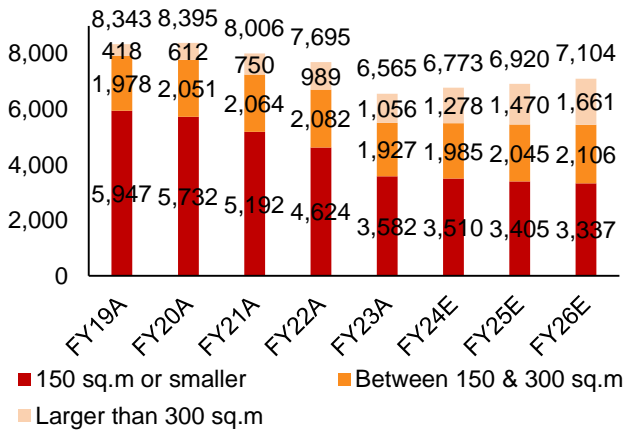
■ **We also project a 12% sales CAGR in FY23-26E.**

We also expect Topsports sales CAGR to be at around 12% during FY23-26E, assuming:  
1) 12% CAGR in sales for principal brands, 2) 14% CAGR in sales for other brands and 3) 16.1% CAGR in concessionaire fees, OR

1) 13.9% direct retail sales CAGR, 2.2% wholesale sales CAGR and 16.1% CAGR in concessionaire fees, OR

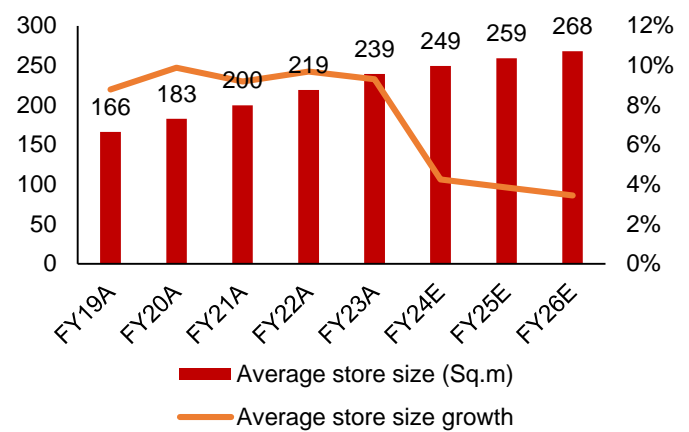
1) 6.6% store number CAGR, 2) 11% sales per direct retail store CAGR, 14% online sales CAGR and 4.3% sales per wholesale store CAGR.

**Figure 64: Number of stores by size**



Source: Company data, CMBIGM estimates

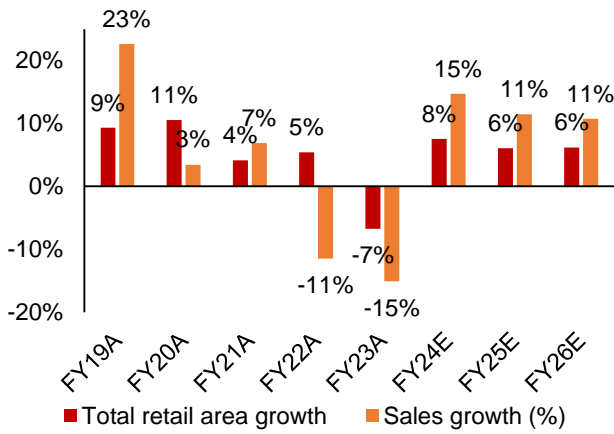
**Figure 65: Average store size and growth (%)**



Source: Company data, CMBIGM estimates

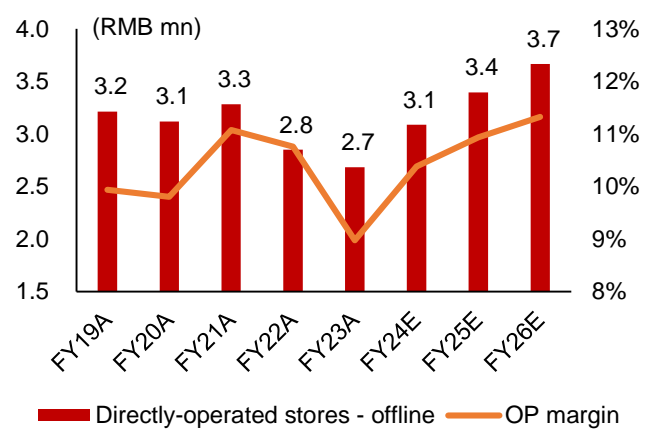


**Figure 66: Total sales area growth (%)**



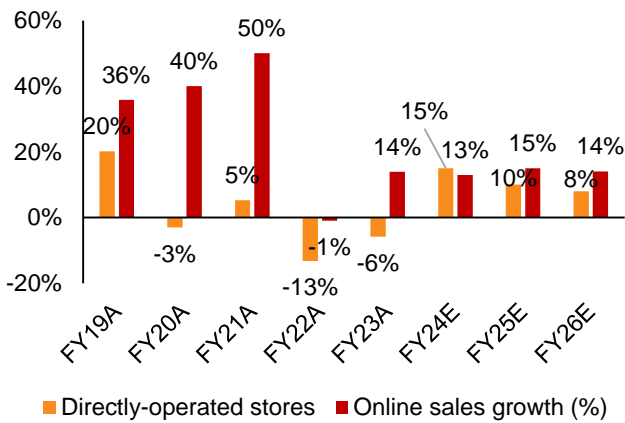
Source: Company data, CMBIGM estimates

**Figure 67: Retail sales per directly operated store**



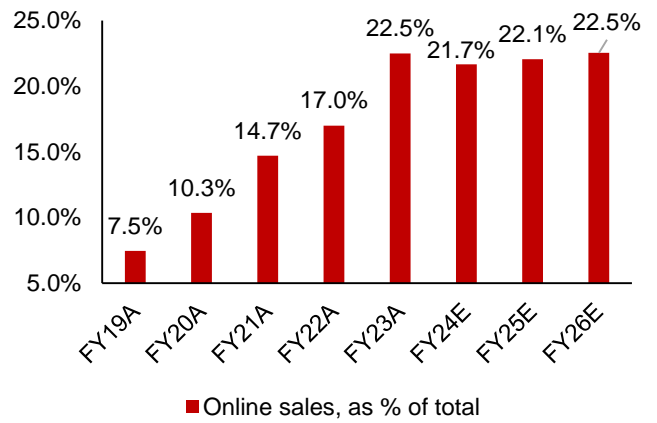
Source: Company data, CMBIGM estimates

**Figure 68: Offline retail sales per directly-operated store/ online retail sales growth (%)**



Source: Company data, CMBIGM estimates

**Figure 69: Online sales as % of total**



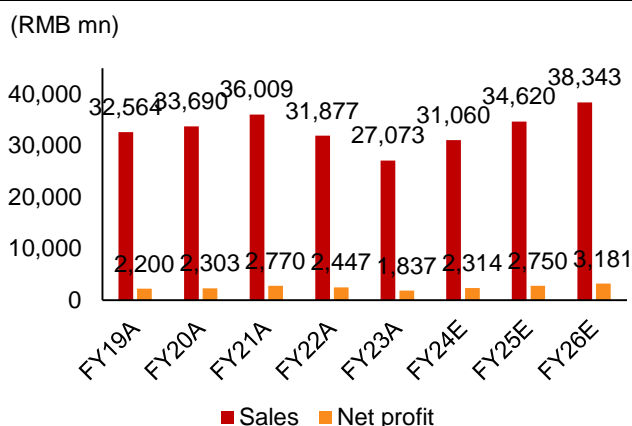
Source: Company data, CMBIGM estimates

We forecast NP att. to increase by 26%/ 19%/ 16% YoY in FY24E/ 25E/ 26E.

■ **GP margin should gradually improve throughout FY22E-24E.**

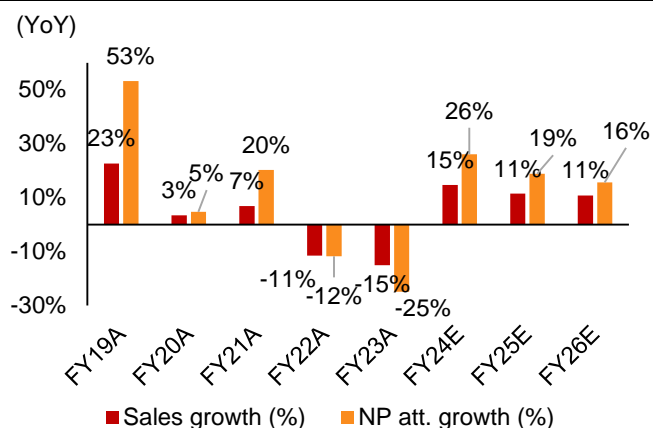
We expect GP margin to increase by 0.9ppt/ 0.4ppt/ 0.2ppt to about 42.6%/ 43.0%/ 43.2% in FY24E/ 25E/ 26E, thanks to: 1) increase in larger-sized store mix (as efficiency tends to improve as well) and 2) improvement in retail discounts (esp. for Adidas) and 3) operating leverage generated through higher sales per store, even though the support/ subsidies from principal brands may expire as soon as FY25E.

**Figure 70: Sales and net profit att. (yearly)**



Source: Company data, CMBIGM estimates

**Figure 71: Sales and net profit att. growth (%)**



Source: Company data, CMBIGM estimates

■ **OP margin will rebound strongly in FY24E and continue to increase in FY25E-26E.**

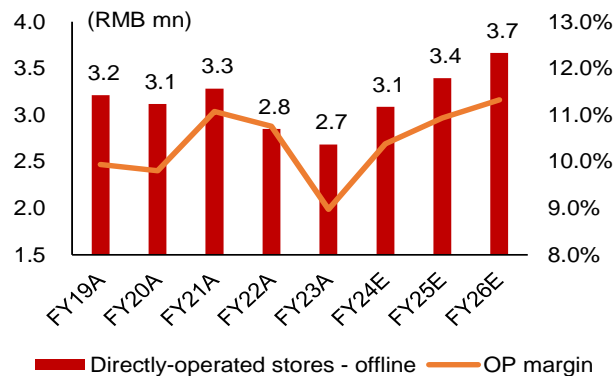
We expect the OP margin to improve by 1.4ppt/ 0.5ppt/ 0.4ppt to around 10.4%/ 10.9%/ 11.3% in FY24E/ 25E/ 26E, driven by: 1) short-term positives from rental and staff expenses (as cost inflation does not pick up fast in the early stage of re-opening in China) in FY24E, 2) decreases in impairment losses associating with many store closures, 3) slight decrease in overall D&A expenses, as more stores surpassed their depreciation period, and 4) operating leverage as sales per store picks up gradually. However, NP margin may show less improvement, because of higher finance costs and higher effective tax rate.

**Figure 72: GP/ OP/ NP att. margin**



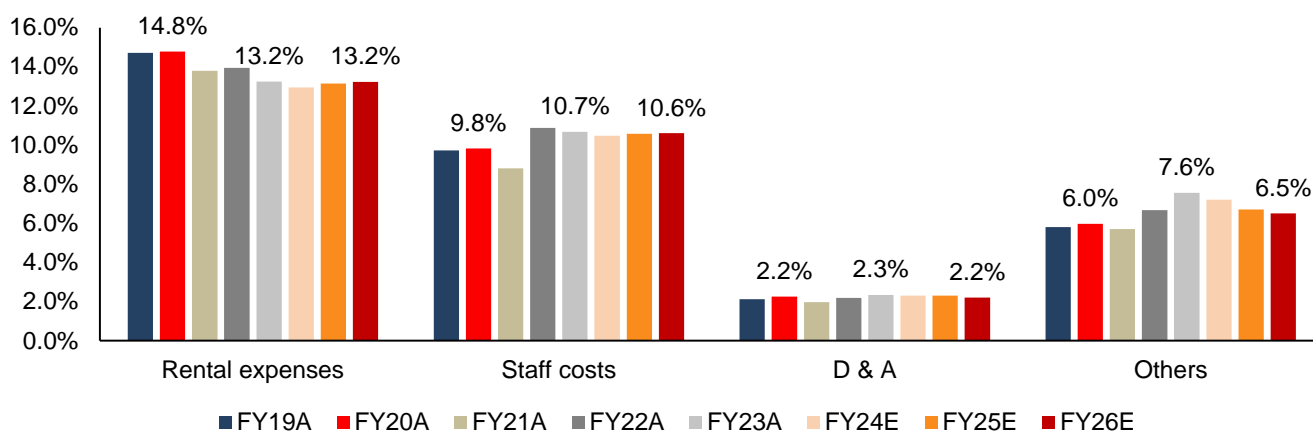
Source: Company data, CMBIGM estimates

**Figure 73: Retail sales per directly-operated store and OP margin**



Source: Company data, CMBIGM estimates

**Figure 74: Opex, as % of total sales**



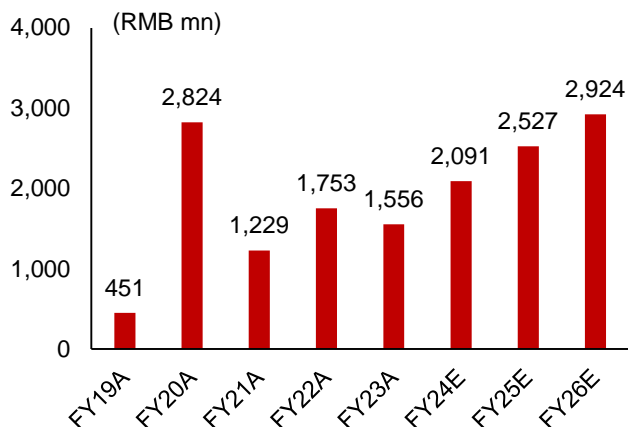
Source: Company data, CMBIGM estimates

## Balance sheet and cash flow

- **Topsports's cash flow from operation has been strong but it was recently affected by Covid-19. We expect this to be stable onwards in FY23-26E.**

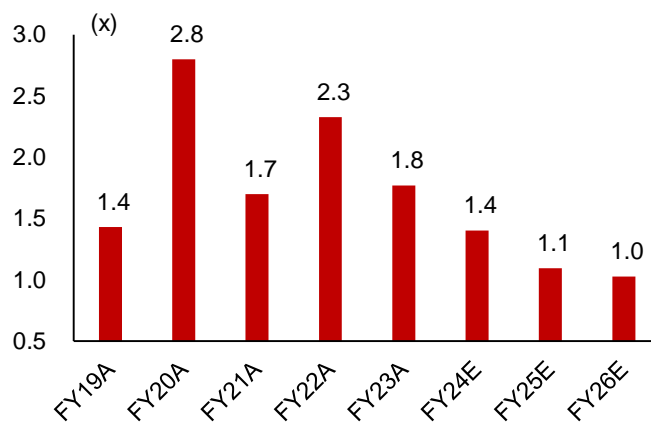
Topsports' cash has surged in FY20 due to its IPO but fell back quickly after the pay out of its special dividend. Nevertheless, thanks to net profit growth and destocking of its inventory, cash level could gradually increase in FY23-26E.

**Figure 75: Closing cash balance**



Source: Company data, CMBIGM estimates

**Figure 76: Net operating cash flow ratio**



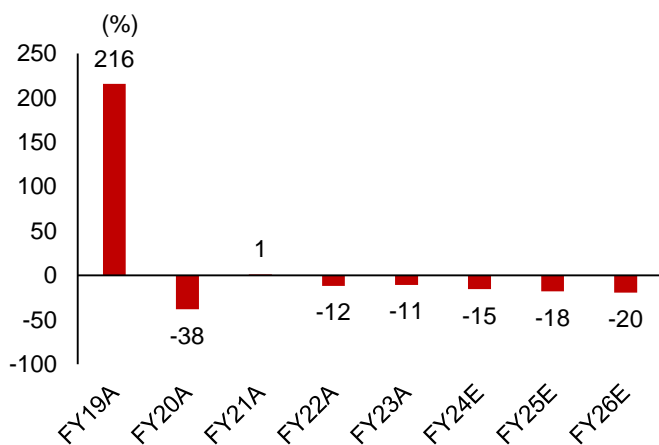
Source: Company data, CMBIGM estimates

Note: Net operating cash flow ratio = net operating cash flow divided by current liabilities

- **Topsports's cash conversion cycle has been lengthened due to higher inventory, but should be stabilizing at about 120 days in FY23-26E.**

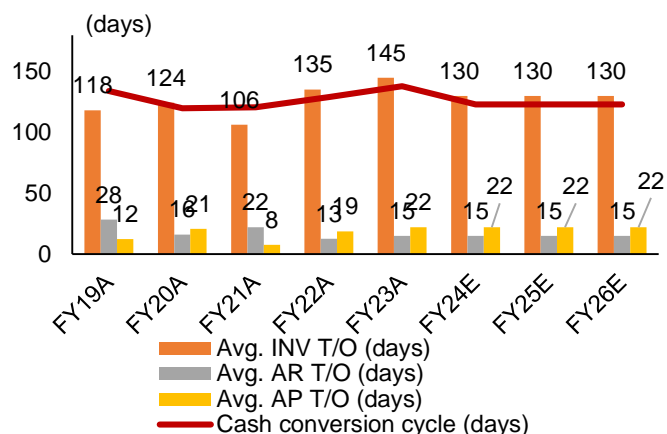
Inventory days climbed to 124 days in FY20 and became even higher at 145 days in FY23 due to the meaningful decrease in sales growth after Covid-19 outbreaks and XJ cotton incident. However, we expect the CCC to fall and eventually stabilize at about 120 days.

**Figure 77: Net debt or (cash) to equity**



Source: Company data, CMBIGM estimates

**Figure 78: Working capital (days)**



Source: Company data, CMBIGM estimates

## Valuation

Figure 79: Peers valuation table

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$m)	Year End	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%)	
								FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E	
<b>H shares Sportswear</b>															
Topsports	6110 HK	BUY	9.03	7.30	24%	43,843	Feb-23	16.7	14.1	3.6	n/a	18.0	0.8	5.4	
Pou Sheng	3813 HK	NR	n/a	0.58	n/a	3,089	Dec-22	4.5	3.2	0.3	0.9	1.1	0.0	3.5	
Anta Sports	2020 HK	BUY	130.72	79.50	64%	225,194	Dec-22	21.1	17.5	4.0	8.3	24.0	1.2	2.1	
Li Ning	2331 HK	BUY	66.72	41.40	61%	109,132	Dec-22	20.6	16.8	3.0	7.5	17.9	1.2	1.5	
Xtep	1368 HK	BUY	11.76	7.96	48%	20,988	Dec-22	16.7	13.4	1.9	2.0	11.4	0.9	3.2	
361 Degrees	1361 HK	NR	n/a	3.74	n/a	7,733	Dec-22	7.8	6.6	0.7	0.6	9.9	0.5	5.3	
China DX	3818 HK	NR	n/a	0.31	n/a	1,796	Mar-23	5.6	4.7	0.2	0.3	1.2	0.0	14.2	
								<b>Avg.</b>	<b>13.3</b>	<b>10.9</b>	<b>2.0</b>	<b>3.3</b>	<b>11.9</b>	<b>0.7</b>	<b>5.0</b>
								<b>Med.</b>	<b>16.7</b>	<b>13.4</b>	<b>1.9</b>	<b>1.5</b>	<b>11.4</b>	<b>0.8</b>	<b>3.5</b>
<b>Global sportswear distributor</b>															
Topsports	6110 HK	NR	9.03	7.07	27.8%	43,843	Feb-23	16.7	14.1	3.6	n/a	18.0	0.8	5.4	
Pou Sheng	3813 HK	NR	n/a	0.58	n/a	3,089	Dec-22	4.5	3.2	0.3	0.9	1.1	0.0	3.5	
Foot Locker	FL US	NR	n/a	26.35	n/a	19,390	Jan-23	12.9	8.9	0.8	1.7	7.5	6.6	6.1	
Jd Sports	JD/ LN	NR	n/a	143.65	n/a	73,776	Jan-23	10.7	9.6	2.1	5.2	7.0	0.1	0.6	
Dick's Sporting	DKS US	NR	n/a	135.90	n/a	91,815	Jan-23	10.1	9.9	3.1	2.9	44.7	3.2	3.0	
								<b>Avg.</b>	<b>11.0</b>	<b>9.1</b>	<b>2.0</b>	<b>2.7</b>	<b>15.7</b>	<b>2.2</b>	<b>3.7</b>
								<b>Med.</b>	<b>10.7</b>	<b>9.6</b>	<b>2.1</b>	<b>2.3</b>	<b>7.5</b>	<b>0.8</b>	<b>3.5</b>
<b>International sportswear</b>															
Nike	NKE US	NR	n/a	113.03	n/a	1,361,107	May-22	34.9	29.1	11.7	14.6	37.3	5.5	1.2	
Adidas	ADS GY	NR	n/a	171.10	n/a	263,520	Dec-22	n/a	42.1	5.8	6.8	1.6	0.0	0.4	
Puma	PUM GY	NR	n/a	53.48	n/a	69,017	Dec-22	21.8	16.3	2.6	5.6	13.9	1.1	1.6	
Under Armour	UAA US	NR	n/a	7.13	n/a	23,864	Mar-23	14.3	11.6	1.2	4.1	20.8	(2.6)	0.0	
Lululemon	LULU US	NR	n/a	376.25	n/a	374,569	Jan-23	31.6	27.5	8.4	14.7	31.9	1.0	0.0	
Skechers	SKX US	NR	n/a	50.45	n/a	61,161	Dec-22	15.9	12.9	1.6	2.1	11.6	0.7	0.0	
On	VFC US	NR	n/a	18.79	n/a	57,219	Apr-23	9.0	7.6	2.1	6.8	3.7	0.1	6.4	
Vf Corp	ONON US	NR	n/a	31.98	n/a	79,516	Dec-22	58.0	45.0	6.6	n/a	6.3	0.5	n/a	
Columbia	COLM US	NR	n/a	76.57	n/a	37,219	Dec-22	14.9	13.1	1.9	3.3	15.4	1.4	1.6	
Wolverine World	WWW US	NR	n/a	14.15	n/a	8,806	Dec-22	9.8	6.7	2.0	3.5	(39.3)	(0.0)	2.9	
Mizuno	8022 JP	NR	n/a	3750.00	n/a	5,410	Mar-23	11.4	11.1	0.8	0.6	8.4	0.0	1.6	
Asics	7936 JP	NR	n/a	4426.00	n/a	45,618	Dec-22	31.9	27.1	4.0	2.6	15.9	1.9	1.0	
								<b>Avg.</b>	<b>23.0</b>	<b>20.9</b>	<b>4.1</b>	<b>5.9</b>	<b>10.6</b>	<b>0.8</b>	<b>1.5</b>
								<b>Med.</b>	<b>15.9</b>	<b>14.7</b>	<b>2.4</b>	<b>4.1</b>	<b>12.8</b>	<b>0.6</b>	<b>1.2</b>

Source: Bloomberg, Company data, CMBIGM estimates

**Initiate BUY on Topsports with a TP of HK\$ 9.03, based on 18x FY2/25E P/E.**

We initiate Topsports with a BUY rating and target price of HK\$ 9.03, based on a 18.0x FY2/25E, which roughly at par (about 5% higher) to average of Anta and Li Ning (17.1x) and 49% discounts to average of Nike and Adidas (35.6x). We believe our target multiple can still be justified by its net profit CAGR of 20% during FY23-26E, which is similar to Anta/ Li Ning (21%/ 19%).

There are both positive and negative factors for Topsports in terms of valuation.

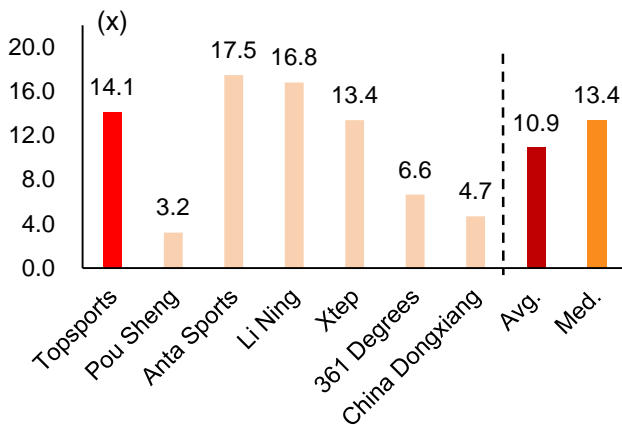
**Positives:**

- 1) Topsports has a dominant position in the industry, a clearly no.1 in China and around the globe with sales exceeding RMB 27.0bn and more than 6,500 self-owned and 1,500 franchised stores, a store network that is larger than the Anta brand and Li Ning brand.
- 2) It has been consistently more efficient than its peers, in terms of sales per store and net profit margin, thanks to its industry leading digitalization level.
- 3) It is operating a vast amount of mono-brand stores, which can give it larger bargaining power towards its brand partners, as their interests are often more aligned.

**Negatives:**

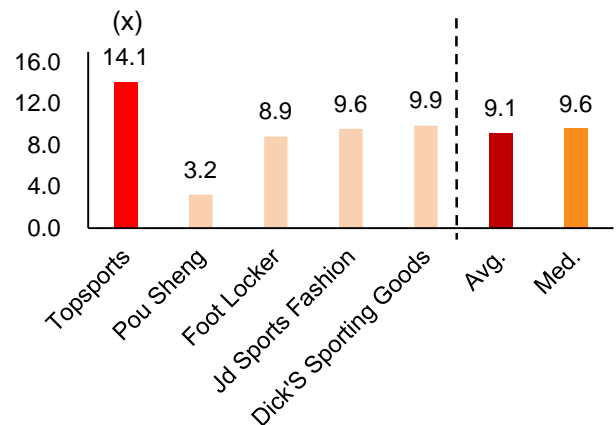
- 1) Topsports is only a distributor that normally enjoys much less brand equity vs the actual brands, and this was reflected by its 49% discounts in P/E to Nike and Adidas.
- 2) International brands' sales may have a slower growth rate than domestic brands in the medium term, as the competitiveness of domestic brands continues to improve, esp. after the XJ cotton incident.

**Figure 80: China peers valuation - Forward 2 yrs P/E**



Source: Company data, CMBIGM estimates

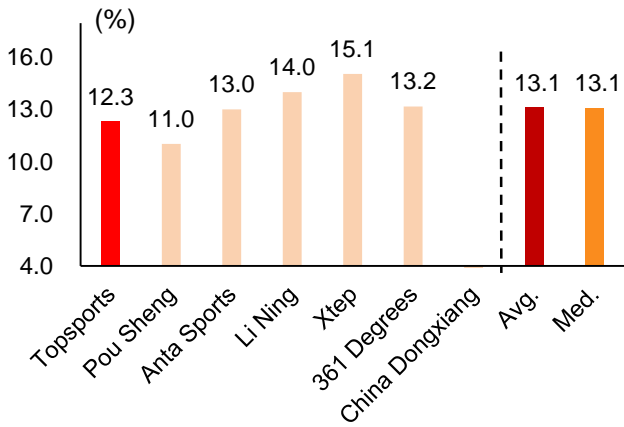
**Figure 81: Int'l peers valuation - Forward 2 yrs P/E**



Source: Company data, CMBIGM estimates

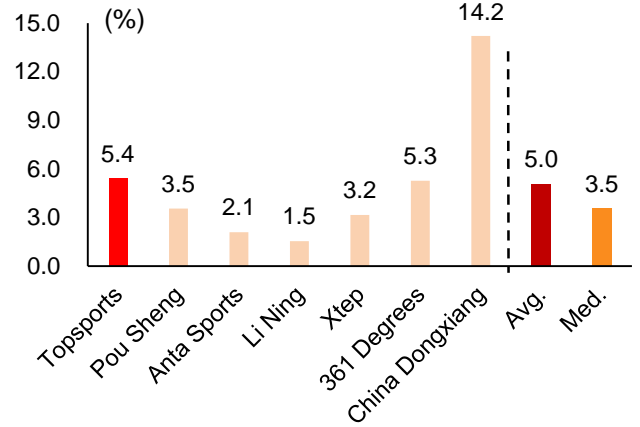
The counter is trading at 14.1x FY2/25E P/E, still attractive, vs China sportswear peers' average of 10.9x, esp. when it has a fairly decent FY2/25E dividend yield of 5.4%, vs peers' med. of 3.5%.

**Figure 82: China peers' 3 yrs sales CAGR, during FY0 to FY3E**



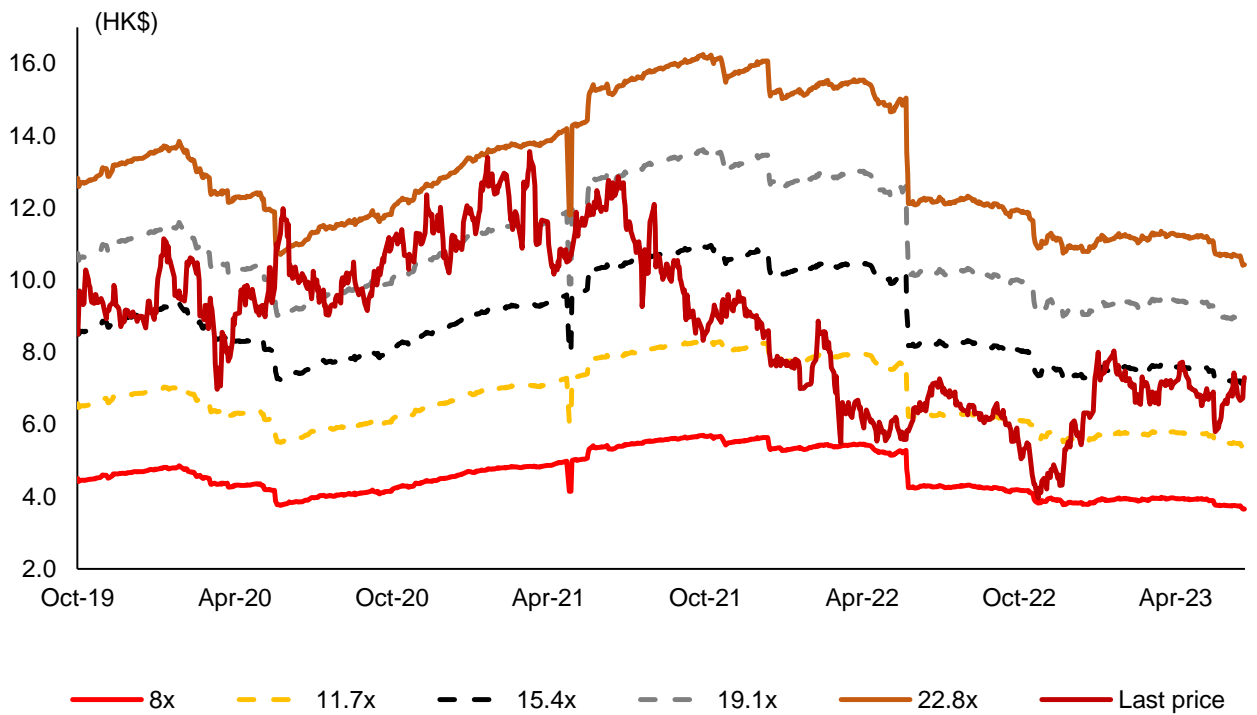
Source: Bloomberg, Company data, CMBIGM estimates

**Figure 83: China peers' forward 1 yrs dividend yield**



Source: Bloomberg, Company data, CMBIGM estimates

**Figure 84: Valuation – forward blended 12 months P/E band**



Source: Bloomberg, Company data, CMBIGM estimates

■ DCF method derives a valuation of HK\$ 8.95 per share (~17.8x FY2/25E P/E).

We also crosscheck our valuation estimates using the DCF method, deriving a valuation of HK\$ 8.95 per share, based on an 8.0% WACC and 3.0% terminal growth. This valuation implies a 17.8x FY2/25E P/E and is reasonably close to our target price of HK\$ 9.03, based on 18x FY2/25E P/E.

Figure 85: Valuation - DCF method in HK\$ mn

DCF	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
EBITDA	4,128	3,230	4,038	4,525	4,951	5,163	5,360	5,533
Chg in working cap	568	401	-93	-690	-734	-673	-630	-620
Adjusted tax	-937	-530	-824	-970	-1,113	-1,203	-1,283	-1,353
Capex & product dev	-668	-567	-621	-623	-613	-668	-719	-770
<b>Unleveraged FCF</b>	<b>3,092</b>	<b>2,534</b>	<b>2,499</b>	<b>2,242</b>	<b>2,490</b>	<b>2,619</b>	<b>2,727</b>	<b>2,790</b>
YoY%								
DCF 24E-28E			9,987					
PV (Terminal value)			37,999					
EV (End-24E)			47,986					
Cash from options/w arrants conv			0					
Yer-end net cash/(debts)			1,038					
<b>Fully diluted equity value (End-24E)</b>			<b>49,024</b>					
Fully diluted no. of shares (m)			6,201					
Exchange rate			1.13					
<b>Fully diluted equity value/share (HK\$)</b>			<b>8.95</b>					
Risk-free rate			3.0%					
Risk premium			7.5%					
Unleveraged industry beta			1.00					
Gearing			0.0%					
Tax			25.0%					
Beta			1.00					
Cost of equity			10.5%					
Cost of debt			3.0%					
Tax rate			25.0%					
After-tax cost of debt			2.3%					
Debt to total capital			30.0%					
<b>WACC</b>			<b>8.0%</b>					
Terminal growth			3.0%					

Source: Bloomberg, Company data, CMBIGM estimates

Figure 86: Sensitivity test for the target price, in HK\$

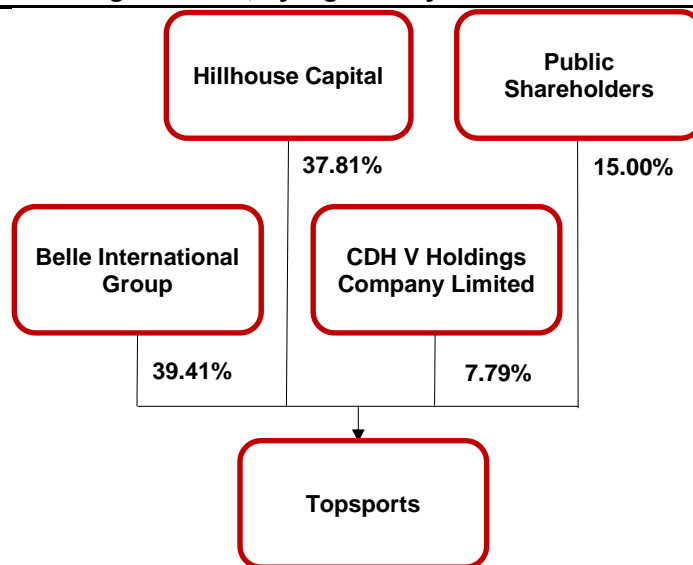
Terminal growth (%)	WACC (%)						
	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
1.5%	9.42	8.57	7.87	7.27	6.76	6.32	5.93
2.0%	10.27	9.26	8.43	7.74	7.16	6.65	6.22
2.5%	11.33	10.09	9.10	8.29	7.61	7.04	6.55
3.0%	12.69	11.13	9.92	8.95	8.15	7.49	6.93
3.5%	14.50	12.47	10.94	9.75	8.80	8.02	7.37
4.0%	17.03	14.25	12.25	10.75	9.59	8.65	7.88
4.5%	20.81	16.73	14.00	12.04	10.57	9.43	8.51

Source: Bloomberg, Company data, CMBIGM estimates



## Shareholding Structure

Figure 87: Topsports' shareholding structure, by legal entity



Source: Company data, HKEX, CMBIGM estimates

## Management Profile

Figure 88: Topsports's management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
Mr. Yu Wu (于武)	54 years old	Jun-06	Sep-18	Executive Director, Chief Executive Officer	Responsible for the overall strategic planning of the Company and the management of the Company's business. On 20 Jun 2019, he was re-designated as an Executive Director and Chief Executive Officer of the Company. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee. He holds directorships in certain subsidiaries of the Company. He has more than 27 years of experience in footwear and sportswear business. He graduated from the Shandong Jianzhu University (formerly Shandong Institute of Architectural Engineering) in Jun 1989 with a bachelor's degree in civil engineering. In Jul 2015, he was appointed as a director of Belle International Holdings Limited
Mr. Leung Kam Kwan (梁錦坤)	57 years old	Jun-06	Oct-20	Executive Director, Company Secretary	Responsible for financial management, planning and supervising the financing activities of the Company. He was appointed as a company secretary in May 2019 and was appointed as an Executive Director on 27 Oct 2020. He holds directorships in certain subsidiaries of the Company. He has more than 26 years of experience in accounting, financial management and internal control. In Jun 2006, he served as the company secretary of Belle International. Prior to joining the Company in Sep 2004, he had held senior positions in accounting and finance fields at various companies in Hong Kong. He obtained his bachelor's degree in accounting from the City University of Hong Kong in Nov 1993. He is also a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Leung is also an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute
Mr. Sheng Baijiao (盛百椒)	69 years old	Jun-19	Jun-19	Non-executive Director, Chairman of the Board	Responsible for providing advice on business development of the Company and participating in decision making of important matters of the Company. He has more than 28 years of experience in the footwear industry. He was appointed as a director of Belle International and being responsible for major strategic planning and managing the retail sales business in the footwear segment. He is an uncle of Mr. Sheng Fang, another Non-executive Director of the Company
Mr. Sheng Fang (盛放)	48 years old	Jun-06	Jun-19	Non-executive Director	Responsible for providing advice on business development of the Company and participating in significant business decision of the Company. He has more than 20 years of experience in the footwear industry. He was appointed as a director of Belle International and mainly responsible for the operation management of footwear and apparel segment of Belle International. He has been appointed as a president of the apparel business division and the footwear business division of Belle International since Nov 2015 and Jul 2017, respectively. From Aug 2013, he has been appointed as a Non-executive Director of Baroque Japan Limited (a company listed on the Tokyo Stock Exchange, stock code: 35480). He is the nephew of Mr. Sheng Baijiao, another Non-executive Director of the Company.
Ms. Yung Josephine Yuen Ching (翁婉菁)	37 years old	Jun-19	Jun-19	Non-executive Director	Responsible for participating in decision making of important matters of the Company. She is an associate general counsel at Hillhouse Capital and has more than 10 years of experience in legal advising on corporate transactions. Prior to joining Hillhouse Capital in 2018, she practiced as an attorney at leading international law firms, including Ropes & Gray, Weil, Gotshal & Manges and Linklaters. She received the degree of bachelor of arts in economics in October 2008, the degree of juris doctor in June 2008 and the degree of bachelor of arts with honors in business administration in October 2005 from Western University in Canada. She has been admitted to practice as an attorney and counselor at law in all courts of the State of New York in the United States since April 2010. In April 2019, she also has been admitted as a solicitor of the High Court of Hong Kong.
Ms. Hu Xiaoling (胡曉玲)	50 years old	Jun-06	Jun-19	Non-executive director	Responsible for participating in decision making of important matters of the Company. Ms. Hu joined CDH Investments in 2002 and She is currently a managing director of CDH Investments Management (Xiamen) Limited. Ms. Hu is currently a director of Belle International Holdings Limited (a company delisted on the Stock Exchange since Jul 28, 2017, stock code: 1880), and a non-executive director of Dali Foods Group Company Limited (SEHK: 3799), Baroque Japan Limited (a company listed on the Tokyo Stock Exchange, stock code: 35480). Ms. Hu is also a director of Hangzhou Beika Industrial Co., Limited, and other directorship experiences. Prior to joining CDH Investments, Ms. Hu once worked at the direct investment department of China International Capital Corporation Limited and Arthur Andersen. Ms. Hu graduated from Beijing Jiaotong University (formerly Northern Jiaotong University), with a master degree in Economics and Accounting and a bachelor degree in Economics. Ms. Hu is also a fellow member of the Association of Chartered Certified Accountants.
Mr. Lam Yiu Kin (林耀堅)	66 years old	Sep-19	Sep-19	Independent Non-executive Director	Responsible for supervising and providing independent judgment to the Board. He is the chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee. He was a partner of PricewaterhouseCoopers from July 1993 to June 2013. He has been an associate of The Institute of Chartered Secretaries and Administrators since Dec 1979 and a fellow or fellow member of each of the Association of Chartered Certified Accountants since Jun 1983; the Hong Kong Institute of Certified Public Accountants since June 1989; the Institute of Chartered Accountants in Australia and New Zealand since Jun 1999; and the Institute of Chartered Accountants in England and Wales since Jan 2015. He has been an independent non-executive director of each of Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co., Ltd. (SEHK: 1349, SHSE: 688505) since Oct 2013, Spring Real Estate Investment Trust (SEHK: 1426) since Jan 2015; Global Digital Creations Holdings Limited (SEHK: 8271) since Jul 2015; Shougang Concord Century Holdings Limited (SEHK: 0103) since Aug 2015; COSCO SHIPPING Ports Limited (SEHK: 1199) since Aug 2015 etc.
Mr. Hua Bin (華彬)	49 years old	Sep-19	Sep-19	Independent Non-executive Director	Responsible for supervising and providing independent judgment to the Board. He is the chairman of the Remuneration Committee and a member of the Audit Committee. He has been a managing director for the Asia-Pacific region of Booking.com since Oct 2013 where he is responsible for developing and executing the company's business strategy in the Asia Pacific region. Mr. Hua received his bachelor degree in economics from Beijing International Studies University in China in Jul 1993. He obtained a master of business administration from China Europe International Business School in China in Nov 1997 and completed an exchange term at IESE Business School of the University of Navarra in Spain in Dec 1997.
Mr. Huang Victor (黃偉德)	50 years old	Sep-19	Sep-19	Independent Non-executive Director	Responsible for supervising and providing independent judgment to the Board. He is a member of the Audit Committee and the Nomination Committee. He was a partner of KPMG from Jul 2014 to Aug 2017 and a partner of PricewaterhouseCoopers Limited from Jul 2005 to Jul 2014, with over 27 years of experience in finance, accounting and mergers and acquisitions. He graduated from The University of California, Los Angeles in the United States with a degree of bachelor of arts with a major in Business-Economics in September 1992. He has been a member of The Hong Kong Institute of Certified Public Accountants since Jun 1996 and a Certified Independent Director of the Shanghai Stock Exchange since Jun 2018. He has been an independent non-executive director of each of New Times Energy Corporation Limited (SEHK: 166) and Cosco Shipping Energy Transportation Co., Limited (SEHK: 1138) since Jun 2020; Scholar Education Group (SEHK: 1769) since Jun 2019; ManpowerGroup Greater China Limited (SEHK: 2180) since Mar 2019; Qingdao Haier Biomedical Co., Ltd. (SHSE: 688139) since Aug 2018 and Laobaixing Pharmacy Chain Joint Stock Company (SHSE: 603883) since Feb 2018. He also has other independent non-executive directorships in the past.

Source: Company data, CMBIGM

## Key Risks

- Weaker-than-expected economic growth and recovery
- Increase in tensions or conflicts between the US and China
- Changes in existing favourable policies to promote sports participation rate
- Outbreak of viruses or other illnesses that may have material adverse effect on the business
- Changes in consumer preference over international brands, e.g. XJ cotton incidents
- Level of competition intensifies, or fail to remain competitive in product, service, brand quality
- Slower-than-expected positive yield from the Adidas' reform
- Greater-than-expected increase in raw material costs
- Labour shortage or faster-than-expected increase in labour costs
- Involvement in fraud or other misconduct committed by employees or third parties

## Financial Summary

### Income statement

YE 28 Feb (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>31,877</b>	<b>27,073</b>	<b>31,060</b>	<b>34,620</b>	<b>38,343</b>
Retail operations	26,420	22,741	26,691	30,149	33,634
Wholesale operations	5,220	4,158	4,149	4,224	4,435
Concessionaire fee	236	175	220	247	274
<b>Cost of goods sold</b>	<b>(18,052)</b>	<b>(15,789)</b>	<b>(17,833)</b>	<b>(19,750)</b>	<b>(21,798)</b>
<b>Gross profit</b>	<b>13,824</b>	<b>11,284</b>	<b>13,227</b>	<b>14,869</b>	<b>16,545</b>
<b>Other net income</b>	<b>338</b>	<b>300</b>	<b>220</b>	<b>245</b>	<b>271</b>
<b>Operating expenses</b>	<b>(10,732)</b>	<b>(9,153)</b>	<b>(10,222)</b>	<b>(11,328)</b>	<b>(12,473)</b>
Selling & distribution	(9,439)	(8,052)	(8,889)	(9,876)	(10,882)
Admin (ex R & D)	(1,293)	(1,101)	(1,333)	(1,452)	(1,592)
R & D	-	-	-	-	-
Other operating expenses	-	-	-	-	-
<b>EBIT</b>	<b>3,430</b>	<b>2,431</b>	<b>3,224</b>	<b>3,786</b>	<b>4,343</b>
Finance costs, net	(104)	(109)	(138)	(119)	(102)
JV & associates	-	-	-	-	-
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>3,326</b>	<b>2,322</b>	<b>3,086</b>	<b>3,667</b>	<b>4,241</b>
Income tax	(880)	(486)	(771)	(917)	(1,060)
Less: Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>2,447</b>	<b>1,837</b>	<b>2,314</b>	<b>2,750</b>	<b>3,181</b>

### Cash flow summary

YE 28 Feb (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net income</b>	<b>3,430</b>	<b>2,431</b>	<b>3,224</b>	<b>3,786</b>	<b>4,343</b>
D&A	698	799	814	739	608
Change in working capital	568	401	(93)	(690)	(734)
Income tax paid	(903)	(486)	(771)	(917)	(1,060)
Others	1,896	103	73	92	109
<b>Net cash from operating</b>	<b>5,690</b>	<b>3,248</b>	<b>3,246</b>	<b>3,010</b>	<b>3,265</b>
Capex & investments	(668)	(567)	(621)	(623)	(613)
Associated companies	-	-	-	-	-
Interest received	42	-	-	-	-
Others	(46)	-	-	-	-
<b>Net cash from investing</b>	<b>(671)</b>	<b>(567)</b>	<b>(621)</b>	<b>(623)</b>	<b>(613)</b>
Equity raised	-	-	-	-	-
Change of Debts	(805)	-	-	-	-
Dividend paid	(1,550)	(2,667)	(1,879)	(1,740)	(2,044)
Others	(2,140)	(211)	(211)	(211)	(211)
<b>Net cash from financing</b>	<b>(4,494)</b>	<b>(2,878)</b>	<b>(2,090)</b>	<b>(1,951)</b>	<b>(2,255)</b>
<b>Net change in cash</b>	<b>524</b>	<b>(196)</b>	<b>535</b>	<b>436</b>	<b>397</b>
Beginning cash balance	1,229	1,753	1,556	2,091	2,527
Exchange difference	-	-	-	-	-
<b>Cash at the end of the year</b>	<b>1,753</b>	<b>1,556</b>	<b>2,091</b>	<b>2,527</b>	<b>2,924</b>

### Balance sheet

YE 28 Feb (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Non-current assets</b>	<b>6,816</b>	<b>6,584</b>	<b>6,391</b>	<b>6,276</b>	<b>6,281</b>
Fixed asset	1,009	799	627	533	560
Intangible assets & goodwill	4,193	4,171	4,150	4,128	4,107
Prepaid lease payments	309	309	309	309	309
Interest in asso. & JV	-	-	-	-	-
Others	1,305	1,305	1,305	1,305	1,305
<b>Current assets</b>	<b>10,980</b>	<b>10,159</b>	<b>11,117</b>	<b>12,542</b>	<b>13,989</b>
Cash and cash equivalents	1,753	1,556	2,091	2,527	2,924
Inventories	6,686	6,272	6,351	7,034	7,764
Trade and other receivables	1,107	1,113	1,276	1,423	1,576
Prepayments	1,435	1,218	1,398	1,558	1,726
Others	-	-	-	-	-
<b>Current liabilities</b>	<b>4,873</b>	<b>4,650</b>	<b>4,979</b>	<b>5,278</b>	<b>5,593</b>
Borrowings	518	518	518	518	518
Trade payables	927	952	1,075	1,190	1,314
Accruals & other payables	1,645	1,397	1,603	1,786	1,979
Tax payables	697	697	697	697	697
Others	1,086	1,086	1,086	1,086	1,086
<b>Non-current liabilities</b>	<b>2,342</b>	<b>2,342</b>	<b>2,342</b>	<b>2,342</b>	<b>2,342</b>
Borrowings	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	372	372	372	372	372
Others	1,970	1,970	1,970	1,970	1,970
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>10,582</b>	<b>9,752</b>	<b>10,187</b>	<b>11,197</b>	<b>12,334</b>
<b>Shareholders' equity</b>	<b>10,582</b>	<b>9,752</b>	<b>10,187</b>	<b>11,197</b>	<b>12,334</b>

### Key ratios

YE 28 Feb	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales mix (%)</b>					
Xiabu Xiabu	82.9	84.0	85.9	87.1	87.7
Cou Cou	16.4	15.4	13.4	12.2	11.6
Others	0.7	0.6	0.7	0.7	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross margin	43.4	41.7	42.6	43.0	43.2
Operating margin	10.8	9.0	10.4	10.9	11.3
Pre-tax margin	10.4	8.6	9.9	10.6	11.1
Net margin	7.7	6.8	7.5	7.9	8.3
Effective tax rate	26.4	20.9	25.0	25.0	25.0
<b>Balance sheet ratios</b>					
Current ratio (x)	2.3	2.2	2.2	2.4	2.5
Quick ratio (x)	0.9	0.8	1.0	1.0	1.1
Cash ratio (x)	0.4	0.3	0.4	0.5	0.5
Inventory turnover days	135	145	130	130	130
Trade receivables days	13	15	15	15	15
Trade payables days	19	22	22	22	22
Total debt / total equity ratio (%)	5	5	5	5	4
Net debt / equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	23.1	18.8	22.7	24.6	25.8
ROA	13.7	11.0	13.2	14.6	15.7
<b>Per share</b>					
EPS (RMB)	0.39	0.30	0.37	0.44	0.51
DPS (RMB)	0.43	0.33	0.26	0.31	0.36
BVPS (RMB)	1.71	1.57	1.64	1.81	1.99

Source: Company data, CMBIGM estimates

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