

# Topsports (6110 HK)

## Turnaround is on track despite bumpy sales

We believe Topsports is undergoing a turnaround despite the macro uncertainty. Sales growth may still be bumpy but boosted by increased efforts from the principal brands (on new products and marketing) and Topsports (self-initiated efficiency gains), we do foresee faster sales growth and margin improvements onwards. The Company is only trading at 12x FY2/25E P/E, still attractive vs 4-year avg. of 13x and a 21% 3-year NP CAGR.

- **Inventory and retail discount continued to improve in 1H24.** Retail sales growth might be bumpy, but channel condition has become healthier. Topsports' inventory days fell to just 141 days, compared to 150/ 168 days in FY23/ 1H23 and its retail discounts also narrowed by MSD YoY in 1H24.
- **Retail sales growth missed in 2Q24.** Topsports' retail sales declined by LSD YoY in 2Q24 (similar for both online and offline), slowing down significantly from the low 20% in 1Q24, mainly due to the drags from Adidas (distorted sales of Yeezy and termination of NEO which accounted for roughly 1/3 of the total closures in 1H24).
- **But outlook for 3Q24E and onwards are still positive.** In our view, the retail sales growth should accelerate in 2H24E and FY25E, thanks to: 1) encouraging momentum (growth during 10-1 was similar to Sep but faster than that in 1H24), 2) turnaround of Adidas, certain products (e.g. Samba, Gazelle and Superstar) and series (e.g. Adidas Original) have become popular once again, hence management is expecting faster trade fair sales growth, 3) speeding up in sport stars and celebrities' endorsements, and 4) stabilization in total selling area (store closures to slow down plus more larger stores). Moreover, we foresee its margin to improve, because of: 1) better control over its inventory, and hence better retail discounts (e.g. implementation of the more flexible trade fair ordering system (initial orders/ re-orders mix to become 70%/ 30%), 2) more operating leverage (more larger-sized new stores or revamped stores to yield higher sales per store) and 3) multiple ways to drive efficiency gains.
- **Maintain BUY and raise TP to HK\$ 9.23, based on 18x FY2/25E P/E (unchanged).** The new TP is based on an unchanged 18x FY2/25E P/E. We fine-tuned FY24E/25E/ 26E net profit by -2%/ +2%/ +2%, to factor in weaker-than-expected 2Q24 sales and GP margin; but a stronger-than-expected operating leverage and efficiency gains. The counter is now trading at 12x FY2/25E P/E, highly attractive, given a 4-year avg. of 13x and 21% 3-year NP CAGR during FY23-26E.

### Earnings Summary

(YE 28 Feb)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	31,877	27,073	29,241	32,657	36,249
YoY growth (%)	(11.5)	(15.1)	8.0	11.7	11.0
Operating profit (RMB mn)	3,430	2,431	3,146	3,849	4,411
Net profit (RMB mn)	2,446.5	1,836.6	2,261.0	2,809.2	3,246.3
EPS (Reported) (RMB)	0.39	0.30	0.36	0.45	0.52
YoY growth (%)	(11.7)	(24.9)	23.1	24.2	15.6
P/E (x)	12.6	18.4	14.9	12.0	10.4
P/B (x)	2.9	3.5	3.3	3.0	2.7
Yield (%)	5.2	6.1	4.4	5.5	6.4
ROE (%)	24.1	18.1	22.7	26.3	27.5

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **HK\$9.23**  
(Previous TP HK\$9.03)  
**Up/Downside** **49.8%**  
**Current Price** **HK\$6.16**

### China Consumer Discretionary

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### Stock Data

Mkt Cap (HK\$ mn)	38,199.5
Avg 3 mths t/o (HK\$ mn)	33.1
52w High/Low (HK\$)	8.04/3.96
Total Issued Shares (mn)	6201.2

Source: FactSet

### Shareholding Structure

Hillhouse Capital	34.9%
WMVL Limited	20.2%

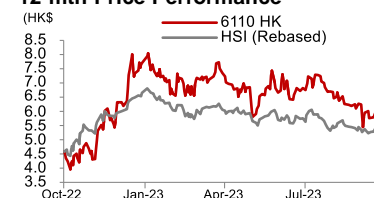
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-1.8%	3.3%
3-mth	-9.7%	0.3%
6-mth	-16.2%	-2.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

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- **1H24 sales slightly missed but margin beat strongly.** Topsports' sales increased by 7% YoY to RMB 14.bn, missing CMBI est. by 5%, mainly due to: 1) one-off drags from Adidas (suspension of the sales of Yeezy and store closures of Adidas NEO) and 2) relatively weak (vs 1Q24) retail sales in 2Q24 (registered a LSD decline). Net profit jumped by 17% YoY to RMB 1.34bn, inline with CMBI est.. Despite a weaker-than-expected GP margin (less-than-expected improvement in retail discounts and fade out of subsidies from principal brands), OP margin was stronger-than-expected, mainly driven by: 1) higher level of digitalization (more workloads were shared with headquarters through IT systems) and 2) operating leverage by (positive SSSG, store revamp (30% increases in sales per store vs old format) and reshuffle of stores (new store's sales per store can be as high as 3x of the old one). Moreover, if we exclude other income and gains, core net profit would have gone up by 39% YoY.

## Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,241	32,657	36,249	31,060	34,620	38,343	-5.9%	-5.7%	-5.5%
Gross profit	12,298	13,891	15,499	13,227	14,869	16,545	-7.0%	-6.6%	-6.3%
EBIT	3,146	3,849	4,411	3,224	3,786	4,343	-2.4%	1.7%	1.6%
Net profit att.	2,261	2,809	3,246	2,314	2,750	3,181	-2.3%	2.1%	2.1%
Diluted EPS (RMB)	0.365	0.453	0.523	0.373	0.444	0.513	-2.3%	2.1%	2.1%
Gross margin	42.1%	42.5%	42.8%	42.6%	43.0%	43.2%	-0.5ppt	-0.4ppt	-0.4ppt
EBIT margin	10.8%	11.8%	12.2%	10.4%	10.9%	11.3%	0.4ppt	0.9ppt	0.8ppt
Net profit att. margin	7.7%	8.6%	9.0%	7.5%	7.9%	8.3%	0.3ppt	0.7ppt	0.7ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,241	32,657	36,249	30,656	34,559	38,512	-4.6%	-5.5%	-5.9%
Gross profit	12,298	13,891	15,499	13,067	14,810	16,608	-5.9%	-6.2%	-6.7%
EBIT	3,146	3,849	4,411	3,259	3,781	4,358	-3.4%	1.8%	1.2%
Net profit att.	2,261	2,809	3,246	2,464	2,864	3,304	-8.2%	-1.9%	-1.7%
Diluted EPS (RMB)	0.365	0.453	0.523	0.389	0.460	0.529	-6.3%	-1.4%	-1.0%
Gross margin	42.1%	42.5%	42.8%	42.6%	42.9%	43.1%	-0.6ppt	-0.3ppt	-0.4ppt
EBIT margin	10.8%	11.8%	12.2%	10.6%	10.9%	11.3%	0.1ppt	0.8ppt	0.9ppt
Net profit att. margin	7.7%	8.6%	9.0%	8.0%	8.3%	8.6%	-0.3ppt	0.3ppt	0.4ppt

Source: Company data, CMBIGM estimates

## Results summary

Figure 3: Results review – Half Year

Half yearly (RMB mn)	1H23	2H23	1H24	2H24E	1H23 YoY	2H23 YoY	1H24 YoY	2H24 E YoY	1H24E CMBIG M	Actual vs CMBIG M
<b>Revenue</b>	<b>13,218</b>	<b>13,855</b>	<b>14,177</b>	<b>15,064</b>	<b>-15%</b>	<b>-15%</b>	<b>7%</b>	<b>9%</b>	<b>14,917</b>	<b>-5%</b>
COGS	-7,187	-8,602	-7,836	-9,107					-8,129	
Gross profit	6,031	5,254	6,341	5,957	-13%	-24%	5%	13%	6,788	-7%
<b>GP margins</b>	<b>45.6%</b>	<b>37.9%</b>	<b>44.7%</b>	<b>39.5%</b>					<b>45.5%</b>	
Other income & gains	215	85	48	159					104	-54%
S & D expenses	-4,091	-3,961	-4,110	-4,039	-10%	-19%	0%	2%	-4,445	-8%
<b>S &amp; D exp / sales</b>	<b>-30.9%</b>	<b>-28.6%</b>	<b>-29.0%</b>	<b>-26.8%</b>					<b>-29.8%</b>	
Admin expenses	-574	-527	-553	-657	-10%	-20%	-4%	25%	-671	-18%
<b>Admin exp / sales</b>	<b>-4.3%</b>	<b>-3.8%</b>	<b>-3.9%</b>	<b>-4.4%</b>					<b>-4.5%</b>	
Other opex	0	0	0	0					0	
Operating profit (EBIT)	1,581	850	1,726	1,421	-23%	-38%	9%	67%	1,776	-3%
<b>OP margins</b>	<b>12.0%</b>	<b>6.1%</b>	<b>12.2%</b>	<b>9.4%</b>					<b>11.9%</b>	
Other items	0	0	0	0					0	
Net finance income	-63	-46	-18	-114					-45	-59%
<b>Net fin. income / sales</b>	<b>-0.5%</b>	<b>-0.3%</b>	<b>-0.1%</b>	<b>-0.8%</b>					<b>-0.3%</b>	
Profit after financing costs	1,518	805	1,708	1,307					1,731	
Associated coms	0	0	0	0					0	
Jointly controlled coms	0	0	0	0					0	
Pre-tax profit	1,518	805	1,708	1,307	-25%	-38%	13%	62%	1,731	-1%
Tax	-372	-113	-371	-383					-398	
<b>Tax / sales</b>	<b>-2.8%</b>	<b>-0.8%</b>	<b>-2.6%</b>	<b>-2.5%</b>					<b>-2.7%</b>	
<b>Effective tax rate</b>	<b>-24.5%</b>	<b>-14.1%</b>	<b>-21.7%</b>	<b>-29.3%</b>					<b>-23.0%</b>	
Minority interests	0	0	0	0					0	
<b>Net profit att.</b>	<b>1,145</b>	<b>691</b>	<b>1,337</b>	<b>924</b>	<b>-20%</b>	<b>-32%</b>	<b>17%</b>	<b>34%</b>	<b>1,333</b>	<b>0%</b>
<b>NP margins</b>	<b>8.7%</b>	<b>5.0%</b>	<b>9.4%</b>	<b>6.1%</b>					<b>8.9%</b>	
<b>Sales</b>										
Retail operations	11,019	11,722	11,988	12,904	-13%	-14%	9%	10%	12,597	-5%
Wholesale & others	2,199	2,134	2,189	2,161	-23%	-18%	0%	1%	2,321	-6%
<b>GP margins</b>										
Retail operations	50.3%	42.2%	49.7%	42.8%					49.7%	0ppt
Wholesale & others	22.3%	14.4%	22.1%	15.7%					22.7%	-0.7ppt

Source: Company data, CMBIGM estimates

Figure 4: Results preview - full year

Full yearly (RMB mn)	FY23	FY24E	FY25E	FY24E YoY	FY25E YoY
Revenue	27,073	29,241	32,657	8%	12%
COGS	-15,789	-16,943	-18,766		
Gross profit	11,284	12,298	13,891	9%	13%
<b>GP margins</b>	<b>41.7%</b>	<b>42.1%</b>	<b>42.5%</b>		
Other income & gains	300	207	231		
S & D expenses	-8,052	-8,149	-8,955	1%	10%
<b>S &amp; D exp / sales</b>	<b>-29.7%</b>	<b>-27.9%</b>	<b>-27.4%</b>		
Admin expenses	-1,101	-1,209	-1,319	10%	9%
<b>Admin exp / sales</b>	<b>-4.1%</b>	<b>-4.1%</b>	<b>-4.0%</b>		
Other opex	0	0	0		
Operating profit (EBIT)	2,431	3,146	3,849	29%	22%
<b>OP margins</b>	<b>9.0%</b>	<b>10.8%</b>	<b>11.8%</b>		
Other items	0	0	0		
Net finance income	-109	-132	-103		
<b>Net fin. income / sales</b>	<b>-0.4%</b>	<b>-0.5%</b>	<b>-0.3%</b>		
Profit after financing costs	2,322	3,015	3,746		
Associated coms	0	0	0		
Jointly controlled coms	0	0	0		
Pre-tax profit	2,322	3,015	3,746	30%	24%
Tax	-486	-754	-936		
<b>Tax / sales</b>	<b>-1.8%</b>	<b>-2.6%</b>	<b>-2.9%</b>		
<b>Effective tax rate</b>	<b>-20.9%</b>	<b>-25.0%</b>	<b>-25.0%</b>		
Minority interests	0	0	0		
<b>Net profit att.</b>	<b>1,837</b>	<b>2,261</b>	<b>2,809</b>	<b>23%</b>	<b>24%</b>
<b>NP margins</b>	<b>6.8%</b>	<b>7.7%</b>	<b>8.6%</b>		
<b>Sales</b>					
Retail operations	22,741	24,892	28,206	9%	13%
Wholesale & others	4,333	4,349	4,450	0%	2%
<b>GP margins</b>					
Retail operations	46.1%	46.1%	46.2%		
Wholesale & others	18.4%	18.9%	19.3%		

Source: Company data, CMBIGM estimates

## Operating numbers

Figure 5: Sportswear brands sales growth trend

Operating numbers	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Nike China sales	-4%	1%	8%	19%	42%	9%	1%	-24%	-8%	-20%	-13%	6%	1%	25%	12%	8%
Adidas China sales	-58%	0%	-5%	7%	156%	-16%	-15%	-24%	-35%	-35%	-27%	-50%	-9%	16%	5%	20%
Anta brand's SSSG																
Anta brand's retail sales	-ve 20%-25%	-ve LSD	+ve LSD	+ve LSD	40%-45%	35%-40%	+ve Low-teens	+ve Mid-teens	+ve High-teens	-ve MSD	+ve MSD	-ve HSD	+ve MSD	+ve HSD	+ve HSD	19%
Core brand	-ve 20%-25%	-ve LSD	-ve MSD	-ve MSD	35%-40%	35%-40%	+ve HSD	+ve MSD	+ve Mid-teens	-ve Low-teens	+ve LSD	-ve Mid-teens	+ve HSD	+ve HSD	+ve HSD	
Kids	-ve 20%-25%	+ve MSD	+ve Low-teens	-ve Low-teens	45%-50%	Over 20%	+ve MSD	+ve Mid-teens	20%-25%	+ve LSD	+ve HSD	-ve High-teens	+ve MSD	+ve HSD	+ve HSD	
Online	+ve MSD	Over 40%	Over 50%	Over 25%	Over 60%	Over 45%	25%-30%	30%-35%	Over 30%	+ve HSD	+ve HSD	+ve MSD	-ve LSD	+ve MSD	+ve LSD	
FILA brand's retail sales																
FILA brand's retail sales	-ve MSD	+ve Low-teens	20%-25%	25%-30%	75%-80%	30%-35%	+ve MSD	+ve HSD	+ve MSD	-ve HSD	+ve Low-teens	-ve Low-teens	+ve HSD	+ve High-teens	+ve Low-teens	28%
Classic/ Core brand	-ve 20%-25%	+ve MSD	+ve MSD	+ve MSD	80%	Over 20%	Flat	Flat	-ve MSD	-ve DD	-ve LSD	-ve Mid-teens	+ve LSD	+ve MSD	+ve HSD	
Kids	-ve LSD	Over 30%	Over 30%	Over 20%	100%	Over 40%	+ve Mid-teens	+ve Mid-teens	+ve Mid-teens	+ve HSD	+ve LSD	-ve Low-teens	-ve HSD	+ve LSD	+ve HSD	
Fusion	+ve MSD	Over 70%	Over 50%	Over 50%	150%	Over 80%	+ve Mid-teens	+ve Low-teens	Over 20%	-ve MSD	+ve LSD	+ve HSD	-ve HSD	+ve LSD	+ve HSD	
Online	160%	Over 80%	Over 90%	70%-80%	Over 40%	Over 40%	20%-25%	25%-30%	Over 20%	+ve MSD	Over 65%	Over 40%	Over 40%	60%-65%	-ve Mid-teens	
Other brands																
Other brands	-ve HSD	25%-30%	50%-55%	55%-60%	115%-120%	70%-75%	35%-40%	30%-35%	40%-45%	20%-25%	40%-45%	+ve Low-teens	75%-80%	70%-75%	45%-50%	
Descente	+ve Mid-teens	Over 60%	90%	Over 80%	150%	100%	50%	40%-45%	40%-45%	Over 20%	Over 35%	-ve Low-teens	70%-75%	60%-65%	40%-45%	
Kolon	-ve High-teens	+ve LSD	20%-25%	30%-40%	Over 75%	40%	30%	-ve High-teens	40%-45%	Over 20%	Over 55%	-ve High-teens	100%	100%	60%-65%	
Li Ning group's SSSG																
Li Ning group's SSSG	n/a	-ve MSD	+ve LSD	+ve Low-teens	n/a	+ve Low 80%	+ve High 20%	+ve Low 20%	+ve Low 20%	-ve Low-teens	+ve HSD	-ve High-teens	-ve HSD	+ve LSD		
Direct retail	n/a	-ve High-teens	-ve MSD	+ve HSD	n/a	+ve Low 90%	+ve Low 30%	+ve Mid 20%	+ve Mid 20%	-ve High-teens	+ve MSD	-ve High 20%	-ve LSD	+ve HSD		
Wholesales	n/a	-ve Low-teens	-ve MSD	+ve MSD	n/a	+ve Low 70%	+ve Mid 20%	+ve High-teens	+ve Low-teens	-ve High-teens	+ve HSD	-ve Low 20%	-ve LSD	+ve LSD		
E- Commerce	+ve Low-teens	+ve Mid 20%	+ve High 30%	+ve Low 30%	n/a	+ve High 80%	+ve Mid 30%	+ve High 20%	+ve Mid 30%	+ve LSD	+ve Low-teens	-ve LSD	-ve Low 20%	+ve LSD		
Li Ning group's retail sales																
Li Ning group's retail sales	-ve High-teens	-ve MSD	+ve MSD	+ve Mid-teens	+ve High 80%	+ve Low 90%	+ve Low 40%	+ve Low 30%	+ve High 20%	-ve HSD	+ve Mid-teens	-ve Low-teens	+ve MSD	+ve Mid-teens	9%	30%
Direct retail	-ve Mid 30%	-ve Low-teens	Flat	+ve MSD	+ve Low 90%	+ve High 80%	+ve Mid 30%	+ve High 30%	+ve Mid 30%	-ve HSD	+ve Low 20%	-ve Mid-teens	+ve Mid-teens	+ve High 20%		
Wholesales	-ve High-teens	-ve HSD	-ve LSD	+ve Low-teens	+ve Low 80%	+ve Low 90%	+ve High 30%	+ve High 20%	+ve Low 20%	-ve HSD	+ve Low-teens	-ve Low 20%	+ve MSD	+ve Mid-teens		
E- Commerce	+ve Low-teens	+ve High 20%	+ve Low 40%	+ve Mid 30%	100%	+ve High 90%	+ve Mid 50%	+ve Low 40%	+ve Mid 30%	+ve MSD	+ve Mid 20%	+ve MSD	-ve Low-teens	+ve Low-teens		
Xtep brand's SSSG																
Xtep brand's retail sales	-ve 20%-25%	-ve LSD	+ve MSD	+ve HSD	Mid 50%-60%	30%-35%	+ve Mid-teens	20%-25%	30%-35%	+ve Mid-teens	20%-25%	-ve HSD	20%	+ve High-teens	+ve High-teens	30%
361 Degree brand's SSSG																
361 Degree brand's retail sales	-ve 20%-25%	-ve Low-teens	-ve HSD	+ve LSD	+ve High-teens	15%-20%	+ve Low-teens	+ve High-teens	+ve High-teens	+ve Low-teens	+ve Mid-teens	Flat	+ve Low-teens	+ve Low-teens		15.0%
Kids						20%-25%	30%-35%	15%-20%	25%-30%	20%-25%	20%-25%	+ve LSD	20%-25%	20%-25%	25%-30%	
E- Commerce									35%-40%	50%	40%	45%	25%	35%	30%	30%
Pou Sheng's SSSG																
Pou Sheng's SSSG	-33%	-18%	-13%	-1%	32%	-11%	-25%	-29%	-21%	-25%	-10%	-27%	0%	13%		
Pou Sheng's sales	-25%	0%	0%	1%	48%	-15%	-25%	-27%	-25%	-24%	-8%	-20%	7%	17%	-1%	20%
Topsports' retail sales																
Topsports' retail sales							-ve 20%-25%	-ve High-teens	-ve High-teens	-ve High 20%	-ve LSD	-ve High-teens	-ve Low-teens	+ve Low-teens	-ve LSD	15%
Dong Xiang's SSSG																
Dong Xiang's SSSG	-ve Low to Mid SD	-ve MSD	+ve Low to Mid SD	+ve MSD	+ve HSD	+ve Mid to High SD	-ve High-teens	-ve Mid to High-teens	-ve MSD	-ve Low to Mid-teens	-ve Low to Mid SD	-ve Mid-teens	+ve Low to Mid-teens	+ve Low to Mid-teens		
Dong Xiang's retail sales	-ve 25% to 30%	-ve Low-Mid SD	+ve MSD	+ve Low-teens	60%-70%	+ve Low to Mid-teens	-ve Mid to High-teens	-ve Mid-teens	-ve MSD	-ve Mid to High-teens	+ve LSD	-ve Mid 20% to 30%	+ve Low to Mid-teens	+ve Mid-teens		
Direct retail	-ve 30%-35%	-ve Low-teens	Flat	+ve MSD	70%-75%											
E- Commerce	-ve Low-teens	+ve 30%-35%	+ve 30%-35%	+ve 20%-30%	35%-40%											

Source: Company data, CMBIGM estimates, \*Nike's year end is in May (e.g. 4Q18 calendar year = 2Q19 fiscal year = Sep-Nov 2018)

## Assumptions

**Figure 6: CMBIGM's assumptions**

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales by segment</b>						
Retail operations	30,815	26,420	22,741	24,892	28,206	31,562
Wholesale operations	4,954	5,220	4,158	4,149	4,224	4,435
Concessionaire fee income	240	236	175	201	226	252
Total	36,009	31,877	27,073	29,241	32,657	36,249
<b>Sales by segment growth (%)</b>						
Retail operations	6%	-14%	-14%	9%	13%	12%
Wholesale operations	17%	5%	-20%	0%	2%	5%
Concessionaire fee income	-10%	-2%	-26%	15%	13%	11%
Total	7%	-11%	-15%	8%	12%	11%
<b>Number of stores</b>	<b>8,006</b>	<b>7,695</b>	<b>6,565</b>	<b>6,190</b>	<b>6,348</b>	<b>6,539</b>
Total sales area	1,598	1,683	1,568	1,592	1,696	1,808
Growth (%)	4%	5%	-7%	2%	7%	7%
Average store size	200	219	239	257	267	277
Growth (%)	9%	10%	9%	8%	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%	42.1%	42.5%	42.8%
Rental expenses/ sales	-13.8%	-13.9%	-13.2%	-12.9%	-12.7%	-12.8%
Staff costs/ sales	-8.8%	-10.9%	-10.7%	-9.3%	-9.5%	-9.5%
D & A/ sales	-2.0%	-2.2%	-2.3%	-2.1%	-2.1%	-2.0%
S & D expenses/ sales	-26.8%	-29.6%	-29.7%	-27.9%	-27.4%	-27.3%
G & A expenses/ sales	-3.5%	-4.1%	-4.1%	-4.1%	-4.0%	-4.0%
Effective tax rate	-28%	-26%	-21%	-25%	-25%	-25%
NP att. margin	8%	8%	7%	8%	9%	9%
NP att. growth (%)	20%	-12%	-25%	23%	24%	16%

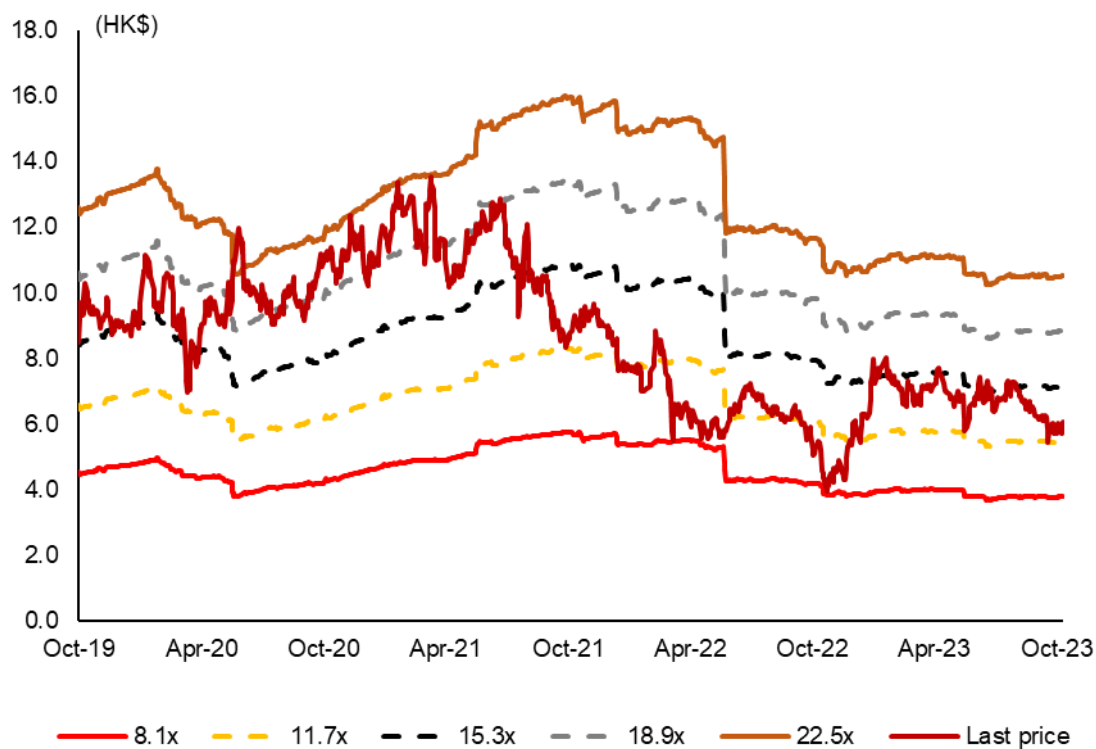
Source: Company data, CMBIGM estimates

## Valuation

Figure 7: Peers valuation table

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD per.(%) )
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$mn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
H shares Sportswear														
Topsports	6110 HK	BUY	9.23	6.16	50%	38,200	Feb-23	14.9	12.0	3.0	20.4	0.7	6.1	1.9
Pou Sheng	3813 HK	NR	n/a	0.66	n/a	3,515	Dec-22	6.5	5.4	0.4	4.6	0.1	n/a	(12.0)
Anta Sports	2020 HK	BUY	109.99	91.55	20%	259,327	Dec-22	24.4	20.4	4.7	21.8	1.4	1.9	(10.5)
Li Ning	2331 HK	BUY	52.97	30.55	73%	80,531	Dec-22	16.8	13.9	2.4	16.8	1.3	2.2	(54.9)
Xtep	1368 HK	BUY	11.41	7.33	56%	19,340	Dec-22	15.6	12.7	1.8	11.7	0.9	3.3	(15.7)
361 Degrees	1361 HK	NR	n/a	3.99	n/a	8,250	Dec-22	8.2	6.9	0.8	10.9	0.5	3.9	19.8
China DX	3818 HK	NR	n/a	0.26	n/a	1,531	Mar-23	4.9	4.1	0.1	1.2	0.0	16.5	(16.1)
Avg.								13.0	10.8	1.9	12.5	0.7	5.6	(12.5)
Med.								14.9	12.0	1.8	11.7	0.7	3.6	(12.0)
Global sportswear distributor														
Topsports	6110 HK	BUY	9.23	6.16	50%	38,200	Feb-23	14.9	12.0	3.0	20.4	0.7	6.1	1.9
Pou Sheng	3813 HK	NR	n/a	0.66	n/a	3,515	Dec-22	6.5	5.4	0.4	4.6	0.1	n/a	(12.0)
Foot Locker	FL US	NR	n/a	21.66	n/a	15,958	Jan-23	15.7	10.4	0.6	4.5	(1.8)	5.1	(42.7)
Jd Sports	JD/ LN	NR	n/a	126.00	n/a	62,159	Jan-23	9.5	8.5	4.2	9.5	0.1	0.7	(0.1)
Frasers Group	FRAS LN	NR	n/a	800.00	n/a	34,580	Apr-23	9.5	8.3	1.4	33.6	7.1	0.0	12.7
Dick's Sporting	DKS US	NR	n/a	109.31	n/a	72,721	Jan-23	9.2	8.8	2.7	42.1	(13.9)	3.7	(9.1)
Avg.								10.9	8.9	2.0	19.1	(1.3)	3.1	(8.2)
Med.								9.5	8.7	2.0	15.0	0.1	3.7	(4.6)
International sportswear														
Nike	NKE US	NR	n/a	102.67	n/a	1,222,629	May-23	27.5	23.5	10.4	33.9	1.8	1.4	(12.3)
Adidas	ADS GY	NR	n/a	169.42	n/a	252,742	Dec-22	n/a	39.0	5.6	(2.2)	0.0	0.3	32.9
Puma	PUM GY	NR	n/a	50.12	n/a	62,650	Dec-22	21.2	15.5	2.4	12.8	1.2	1.6	(11.6)
Under Armour	UAA US	NR	n/a	7.28	n/a	24,394	Mar-23	14.5	11.7	1.3	20.8	(2.8)	0.0	(28.3)
Lululemon	LULU US	NR	n/a	395.82	n/a	391,915	Jan-23	32.6	28.4	9.1	31.5	1.0	0.0	23.5
Skechers	SKX US	NR	n/a	48.43	n/a	58,643	Dec-22	14.2	11.9	1.5	13.1	0.6	0.0	15.4
Vf Corp	VFC US	NR	n/a	18.02	n/a	54,830	Apr-23	9.0	7.8	2.0	3.9	0.1	6.5	(34.7)
On	ONON US	NR	n/a	25.04	n/a	62,301	Dec-22	48.8	33.6	5.3	6.3	0.4	n/a	45.9
Decker	DECK US	NR	n/a	497.59	n/a	101,758	Mar-23	22.0	19.1	4.9	32.7	1.4	0.0	24.7
Columbia	COLM US	NR	n/a	71.33	n/a	34,230	Dec-22	15.8	13.6	1.9	16.2	2.9	1.7	(18.6)
Wolverine World	WWW US	NR	n/a	8.36	n/a	5,201	Dec-22	17.9	5.6	1.5	(56.5)	(0.1)	4.9	(23.5)
Mizuno	8022 JP	NR	n/a	4365.00	n/a	6,056	Mar-23	11.2	10.2	1.0	9.0	2.6	1.7	55.2
Asics	7936 JP	NR	n/a	4754.00	n/a	47,117	Dec-22	28.3	24.3	4.2	15.8	1.3	1.2	63.1
Avg.								21.9	18.8	3.9	10.6	0.8	1.6	10.1
Med.								19.6	15.5	2.4	13.1	1.0	1.3	15.4

Source: Bloomberg, Company data, CMBIGM estimates

**Figure 8: Valuation – forward blended 12 months P/E band**

Source: Bloomberg, Company data, CMBIGM estimates



## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 28 Feb (RMB mn)						
Revenue	36,009	31,877	27,073	29,241	32,657	36,249
Cost of goods sold	(21,328)	(18,052)	(15,789)	(16,943)	(18,766)	(20,751)
Gross profit	14,681	13,824	11,284	12,298	13,891	15,499
Operating expenses	(10,898)	(10,732)	(9,153)	(9,358)	(10,273)	(11,344)
Selling expense	(9,655)	(9,439)	(8,052)	(8,149)	(8,955)	(9,895)
Admin expense	(1,243)	(1,293)	(1,101)	(1,209)	(1,319)	(1,449)
R&D expense	0	0	0	0	0	0
Operating profit	3,989	3,430	2,431	3,146	3,849	4,411
Other income	206	338	300	207	231	256
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	4,697	4,128	3,230	3,958	4,583	5,014
Depreciation	(680)	(667)	(778)	(790)	(712)	(581)
Other amortisation	(28)	(31)	(22)	(22)	(22)	(22)
Interest income	141	114	103	79	108	128
Interest expense	(279)	(218)	(211)	(211)	(211)	(211)
Net Interest income/(expense)	(139)	(104)	(109)	(132)	(103)	(83)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	3,851	3,326	2,322	3,015	3,746	4,328
Income tax	(1,081)	(880)	(486)	(754)	(936)	(1,082)
After tax profit	2,770	2,447	1,837	2,261	2,809	3,246
Minority interest	0	0	0	0	0	0
Net profit	2,770	2,447	1,837	2,261	2,809	3,246

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 28 Feb (RMB mn)						
Current assets	10,440	10,980	10,159	10,964	12,472	13,959
Cash & equivalents	1,229	1,753	1,556	2,412	2,976	3,447
Restricted cash	0	0	0	0	0	0
Account receivables	2,177	1,107	1,113	1,202	1,342	1,490
Inventories	6,211	6,686	6,272	6,034	6,684	7,391
Prepayment	823	1,435	1,218	1,316	1,470	1,631
Other current assets	0	0	0	0	0	0
Non-current assets	7,266	6,816	6,584	6,358	6,212	6,189
PP&E	1,020	1,009	799	594	469	468
Right-of-use assets	3,625	3,100	3,100	3,100	3,100	3,100
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	1,090	1,093	1,071	1,050	1,028	1,007
Other non-current assets	1,532	1,614	1,614	1,614	1,614	1,614
Total assets	17,706	17,796	16,743	17,322	18,683	20,148
Current liabilities	5,426	4,873	4,650	4,831	5,117	5,422
Short-term borrowings	1,337	518	518	518	518	518
Account payables	445	927	952	1,021	1,131	1,251
Tax payable	807	697	697	697	697	697
Other current liabilities	1,516	1,645	1,397	1,509	1,685	1,871
Lease liabilities	1,320	1,086	1,086	1,086	1,086	1,086
Non-current liabilities	2,575	2,342	2,342	2,342	2,342	2,342
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	2,575	2,342	2,342	2,342	2,342	2,342
Total liabilities	8,001	7,215	6,992	7,173	7,459	7,764
Share capital	0	0	0	0	0	0
Retained earnings	4,666	7,070	5,000	5,678	6,521	7,495
Other reserves	5,040	3,512	4,752	4,471	4,703	4,889
Total shareholders equity	9,706	10,582	9,752	10,149	11,224	12,383
Minority interest	0	0	0	0	0	0
Total equity and liabilities	9,706	10,582	9,752	10,149	11,224	12,383

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 28 Feb (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	3,851	3,326	2,322	3,015	3,746	4,328
Depreciation & amortization	708	698	799	811	734	603
Tax paid	(950)	(903)	(486)	(754)	(936)	(1,082)
Change in working capital	(968)	568	401	233	(657)	(711)
Others	2,065	2,000	211	211	211	211
<b>Net cash from operations</b>	<b>4,706</b>	<b>5,690</b>	<b>3,248</b>	<b>3,516</b>	<b>3,097</b>	<b>3,349</b>
<b>Investing</b>						
Capital expenditure	(572)	(668)	(567)	(585)	(588)	(580)
Acquisition of subsidiaries/ investments	(17)	(34)	0	0	0	0
Others	2,686	30	0	0	0	0
<b>Net cash from investing</b>	<b>2,098</b>	<b>(671)</b>	<b>(567)</b>	<b>(585)</b>	<b>(588)</b>	<b>(580)</b>
<b>Financing</b>						
Dividend paid	(5,294)	(1,550)	(2,667)	(1,864)	(1,734)	(2,087)
Net borrowings	(63)	(805)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(3,042)	(2,140)	(211)	(211)	(211)	(211)
<b>Net cash from financing</b>	<b>(8,398)</b>	<b>(4,494)</b>	<b>(2,878)</b>	<b>(2,075)</b>	<b>(1,945)</b>	<b>(2,298)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,824	1,229	1,753	1,556	2,412	2,976
Exchange difference	0	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>1,229</b>	<b>1,753</b>	<b>1,556</b>	<b>2,412</b>	<b>2,976</b>	<b>3,447</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 28 Feb</b>						
Revenue	6.9%	(11.5%)	(15.1%)	8.0%	11.7%	11.0%
Gross profit	3.5%	(5.8%)	(18.4%)	9.0%	13.0%	11.6%
Operating profit	20.8%	(14.0%)	(29.1%)	29.4%	22.3%	14.6%
EBITDA	15.7%	(12.1%)	(21.8%)	22.5%	15.8%	9.4%
Net profit	20.3%	(11.7%)	(24.9%)	23.1%	24.2%	15.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 28 Feb</b>						
Gross profit margin	40.8%	43.4%	41.7%	42.1%	42.5%	42.8%
Operating margin	11.1%	10.8%	9.0%	10.8%	11.8%	12.2%
EBITDA margin	13.0%	12.9%	11.9%	13.5%	14.0%	13.8%
Return on equity (ROE)	27.4%	24.1%	18.1%	22.7%	26.3%	27.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 28 Feb</b>						
Current ratio (x)	1.9	2.3	2.2	2.3	2.4	2.6
Receivable turnover days	22.1	12.7	15.0	15.0	15.0	15.0
Inventory turnover days	106.3	135.2	145.0	130.0	130.0	130.0
Payable turnover days	7.6	18.7	22.0	22.0	22.0	22.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 28 Feb</b>						
P/E	11.5	12.6	18.4	14.9	12.0	10.4
P/E (diluted)	11.5	12.6	18.4	14.9	12.0	10.4
P/B	3.3	2.9	3.5	3.3	3.0	2.7
P/CFPS	12.0	9.1	10.3	10.2	11.5	10.7
Div yield (%)	7.0	5.2	6.1	4.4	5.5	6.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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