

# Topsports (6110 HK)

## Drags are expected, turnaround in 2H23E likely

We believe Topsports could still face a challenging 1H23E, but once COVID-19 situation stabilizes while store efficiency improves, a turnaround in 2H23E is likely. Given its valuation of 10x FY23E P/E (only 17% premium over int'l peers' avg. of 8x), 9% yield and 12% NP CAGR during FY22-25E, its risk reward is decent.

- FY22 results slightly missed, due to pandemic and operating deleverage.** Sales/ net profit dropped by 12%/ 12% YoY in FY2/22, missed BBG est. by 6%/ 9%. We attributed this to: 1) COVID-19 outbreaks in Jan-Feb 2022, 2) stronger-than-expected GP margin at 43.4% (vs BBG est. of 42.7%) due to better O2O inventory sharing but 3) higher-than-expected staff costs due to operating deleverage. With the special dividend declared, payout ratio was 109% and current yield is 9%.
- Bottoming out since 1Q23E is likely, thanks to a low base and operational improvements.** Topsports also recorded a high-teens retail sales decline in 4Q22 (Dec 2021 - Feb 2022), improving from low 20% decline in 3Q22. However, given the pandemic in SH and BJ, we find the outlook for 1Q23E (Mar - May 2022) highly challenging. Despite this, we expect sequential improvements and positive sales growth in 2H23E, thanks to: 1) a low base after the XJ cotton incident, 2) normalized new product launches and supply, 3) rapid e-commerce and "private traffic" sales growth pushed by further digitalization (accounted for ~20% and ~15% of total sales in FY22). In fact, according to management, regions with no COVID-19 outbreaks had already resumed positive growth since 20 May.
- Inventory should have surged, but is still under control, while certain buybacks or order cancellations are possible.** Inventory days was at 130 days in FY22 (vs 110 days in FY21). We believe it would go up further in 1Q23E. However, given Topsports' thorough digitalized system, that should not be a meaningful issue. If COVID-19 persists and inventory piles up, buybacks by customer brands and cancellation of future orders are still possible options, which may dampen the growth slightly in FY23E-24E.
- We believe margins will remain steady.** While GP margin and OP margin could be under pressure in 1H23E because of inventory clearance and operating deleverage, we believe Topsports would still stay cautious on its retail discounts. With the opening of more larger-sized stores (e.g. 300 sq m+) and improvements on store efficiency (i.e. higher sales per sq m), we expect its NP margin to stay flattish in FY23E (at around 7.5% to 8.0%).

### Earnings Summary

(YE 28 Feb)	FY20A	FY21A	FY22A
Revenue (RMB mn)	33,690	36,009	31,877
YoY growth (%)	3.5	6.9	(11.5)
Net income (RMB mn)	2,303	2,770	2,447
EPS (RMB)	0.4088	0.4467	0.3945
YoY growth (%)	(2.0)	9.3	(11.7)
P/E (x)	12.7	10.9	12.0
P/B (x)	3.1	3.1	2.8
Yield (%)	3.7	13.2	9.1
ROE (%)	36.9	27.4	24.1
Net gearing (%)	32.6	38.7	17.2

Source: Company data, CMBIGM estimates

**NOT RATED**

Current Price

HK\$5.82

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#### Stock Data

Mkt Cap (HK\$ mn)	36,091
Avg 3 mths t/o (HK\$ mn)	65.09
52w High/Low (HK\$)	13.50/5.30
Total Issued Shares (mn)	6,201.2

Source: Bloomberg

#### Shareholding Structure

Hillhouse Capital	62.60%
Free Float	37.40%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-7.9%	-8.1%
3-mth	-31.0%	-25.8%
6-mth	-38.4%	-31.6%
12-mth	-53.6%	-36.0%

Source: Bloomberg

#### 12-mth Price Performance



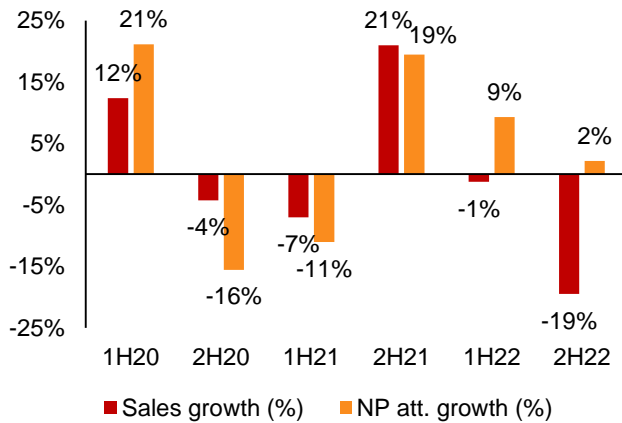
Source: Bloomberg

Auditor: PricewaterhouseCoopers

#### Related Reports

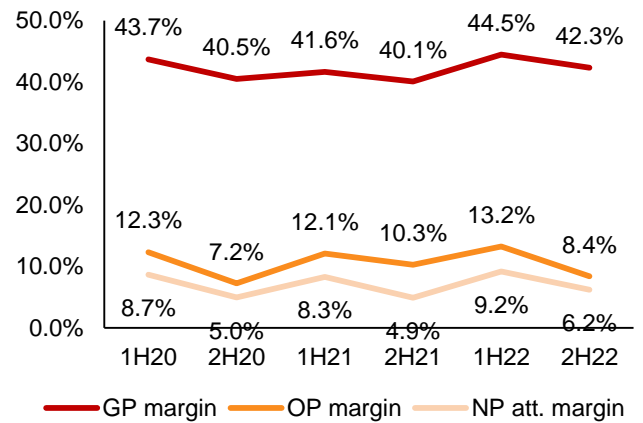
**Focus Charts**

**Figure 1: Sales/ net profit att. growth**



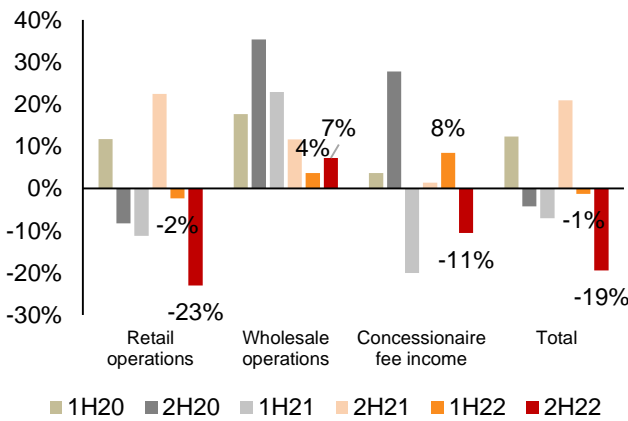
Source: Company data, CMBIGM estimates

**Figure 2: GP/ OP / NP att. margin**



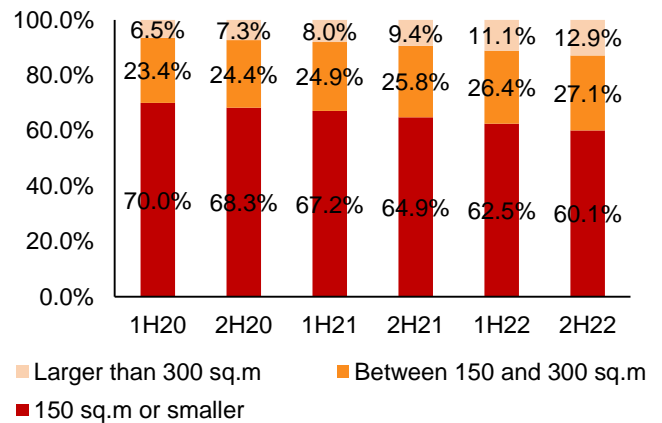
Source: Company data, CMBIGM estimates

**Figure 3: Sales growth by channel**



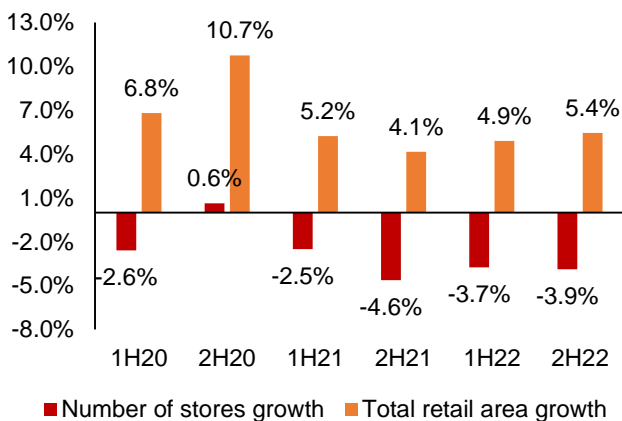
Source: Company data, CMBIGM estimates

**Figure 4: Store number mix by store size**



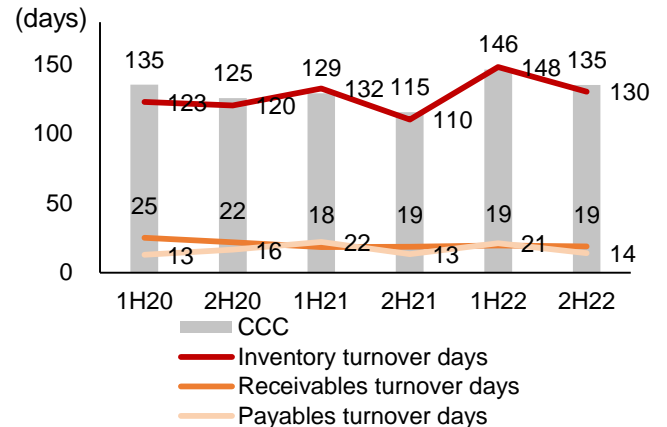
Source: Company data, CMBIGM estimates

**Figure 5: Number of stores and retail area growth**



Source: Company data, CMBIGM estimates

**Figure 6: Working capital conditions**



Source: Company data, CMBIGM estimates

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