

**RESULTS REPORT**

23 Aug 2013

|                                      |         |                               |                   |
|--------------------------------------|---------|-------------------------------|-------------------|
| <b>Multi Sports Holdings Limited</b> |         | <b>Market Price:</b>          | RM0.225           |
|                                      |         | <b>Market Capitalisation:</b> | RM116.4m          |
|                                      |         | <b>Board:</b>                 | Main Market       |
| <b>Recommendation:</b>               | HOLD    | <b>Sector:</b>                | Consumer Products |
| <b>Target Price:</b>                 | RM0.235 | <b>Stock Code/Name:</b>       | 5150 / MSPORTS    |

Analyst: Edmund Tham

**KEY FINANCIALS**

| Key Stock Statistics         | 2013E        |
|------------------------------|--------------|
| Earnings/Share (sen)         | 9.4          |
| P/E Ratio (x)                | 2.4          |
| Dividend/Share (sen)         | 2.0          |
| NTA/Share (RM)               | 0.79         |
| Book Value/Share (RM)        | 0.82         |
| Issued Capital (mil shares)# | 517.5        |
| 52-weeks Share Price (RM)    | 0.22 – 0.365 |
| Major Shareholders:          | %            |
| .Power Wide Holdings Ltd /   | 45.1         |
| Lin Huo Zhi                  |              |
| .CIM Div Income Fund Ltd     | 5.0          |

\*USD0.05 par value; # including 67.5mil shares for TDRs

| Ratios Analysis           | 2010 <sup>^</sup> | 2011 <sup>^</sup> | 2012 <sup>^</sup> | 2013E  |
|---------------------------|-------------------|-------------------|-------------------|--------|
| Book Value/Share (RM)     | 0.55              | 0.76              | 0.74              | 0.82   |
| Earnings/Share (sen)      | 14.6              | 17.3              | 11.6              | 9.4    |
| Dividend/Share (sen)      | 2.8               | 4.1               | 0.0               | 2.0    |
| Div. Payout Ratio (%)     | 16.2              | 20.6              | 0.0               | 16.0   |
| P/E Ratio (x)             | 1.54              | 1.30              | 1.94              | 2.40   |
| P/Book Value (x)          | 0.41              | 0.30              | 0.30              | 0.27   |
| Dividend Yield (%)        | 12.3              | 18.4              | 0.0               | 8.9    |
| ROE (%)                   | 26.8              | 22.9              | 15.6              | 11.4   |
| Net Gearing (or Cash) (x) | (0.33)            | (0.62)            | (0.58)            | (0.56) |

\*Company was listed in 2009; dividends started in FY10

\*2010 per share ratios adjusted for rights issue

#share base for each year is diff. 2011 one as at 30th.Dec

| P&L Analysis (RM'mil)   | 2010 <sup>^</sup> | 2011 <sup>^</sup> | 2012 <sup>^</sup> | 2013E  |
|-------------------------|-------------------|-------------------|-------------------|--------|
| <b>Year end: Dec 31</b> |                   |                   |                   |        |
| Revenue                 | 306.3             | 416.8             | 372.1             | 380.2  |
| Operating Profit        | 84.6              | 107.5             | 82.1              | 66.5   |
| Depreciation            | (5.0)             | (10.0)            | (9.5)             | (10.5) |
| Interest Expenses       | (0.8)             | (1.2)             | (0.8)             | (1.0)  |
| Profit before Tax (PBT) | 83.7              | 106.3             | 81.2              | 65.5   |
| Effective Tax Rate (%)  | 17.0              | 26.6              | 26.0              | 25.8   |
| Net Profit after Tax    | 69.5              | 78.1              | 60.2              | 48.6   |
| Operating Margin (%)    | 27.6              | 25.8              | 22.1              | 17.5   |
| PBT Margin (%)          | 27.3              | 25.5              | 21.8              | 17.2   |
| NPAT Margin (%)         | 22.7              | 18.7              | 16.2              | 12.8   |

\*2013 figures are our estimates;

<sup>^</sup>Prior year RM at time of past reporting;#1RMB=0.5112RM approx, as at 30<sup>th</sup> June 2013**PERFORMANCE – 2Q/FY13**

| 2Q/ 30 Jun | 2Q13 | 2Q12 | yov %  | 1Q13 <sup>^</sup> | qoq% |
|------------|------|------|--------|-------------------|------|
| Rev (RMm)  | 95.7 | 97.5 | (1.9)  | 72.8              | 31.4 |
| PBT (RMm)  | 17.5 | 21.9 | (20.3) | 10.9              | 60.6 |
| NPAT (RMm) | 12.1 | 16.3 | (25.7) | 7.4               | 63.8 |
| EPS (sen)  | 2.3  | 3.1  | (25.7) | 1.4               | 63.8 |

| 6M/ 30 Jun | 1H13  | 1H12  | yov %  |
|------------|-------|-------|--------|
| Rev (RMm)  | 171.0 | 197.2 | (13.3) |
| PBT (RMm)  | 28.7  | 45.5  | (36.9) |
| NPAT (RMm) | 19.6  | 33.8  | (42.0) |
| EPS (sen)  | 3.8   | 6.5   | (42.0) |

<sup>^</sup>in past RM; NPAT=net profit after tax

\*EPS based on 517.5 million shares

Multi Sports' 2Q/FY13 results (for quarter ended 30<sup>th</sup> June 2013) were generally within our earlier expectations.

**“Q2 results – within expectations”**

The group's 2Q/FY13 revenue of RM95.7 million and NPAT of RM12.1 million were lower by 1.9% and 25.7% y-o-y, respectively. 1H/FY13 shoe sole volumes for TPR, RB, MD1 and MD2 declined by 41.1%, 24.9%, 15.7% and 9.8% y-o-y, respectively. The change in sales mix was mainly due to the market trend and demand. The decline in TPR sales volumes was the most apparent among the types of shoe soles.

**“Lower volumes, higher expenses”**

Margins were affected mainly due to the higher production costs arising from rises in labour and overhead costs. The decrease was also due to the higher administrative expenses attributable

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to preliminary start-up expenses incurred by a newly incorporated subsidiary, product development expenditure and depreciation expenses.

#### **1H/FY13 Revenue & Sales Volume by segment (by type of shoe sole)**

| Type        | Revenue (RMB'mil) | Volume ('mil pairs) |
|-------------|-------------------|---------------------|
| <b>TPR</b>  | <b>12.8</b>       | <b>1.1</b>          |
| y-o-y       | -41.1%            | -41.1%              |
| <b>RB</b>   | <b>8.0</b>        | <b>0.5</b>          |
| y-o-y       | -23.8%            | -24.9%              |
| <b>MD1^</b> | <b>59.7</b>       | <b>2.5</b>          |
| y-o-y       | -16.8%            | -15.7%              |
| <b>MD2^</b> | <b>254.1</b>      | <b>11.1</b>         |
| y-o-y       | -9.8%             | -9.8%               |

Source: Multi Sports

^EVA MD1 and EVA MD2

Compared with the preceding 1Q/FY13, group revenue and NPAT were both noticeably higher. Revenue in Q1 was affected by the shorter working quarter as a result of the Lunar Chinese New Year festivities and also the shorter month of February. Margins were also improved q-o-q versus the preceding quarter.

#### **OUTLOOK/CORP. UPDATES**

##### **“Group management wary of short term challenges”**

The cautious external environment has somewhat affected consumer sentiment in China. Group management expects that the demand for sports-shoe soles and sports shoes in China will increase in the future. However, in the near term, the group faces challenging market conditions i.e. rising labour and raw material costs, the de-stocking of inventories and continued deep discounting by some market peers. Instead of focusing on closing book orders with low margins, the group would undertake the necessary reforms and adjustments, to focus on higher margin orders, manage its operating costs in order to improve its operating performance.

##### **“In the long term, China’s middle class to support consumer demand”**

Amidst strong competition and rising costs, sector prospects for the remainder of FY13 still appear generally positive, due to the **solid middle-class demand** for consumer goods in The Peoples’ Republic of China (PRC) (China for short). China’s population is expected to reach 1.41 billion by year 2012 while its economy still grew at a relatively strong pace – 7.8% in 2012. **The IMF expects China to grow by 7.8% in 2013 and 7.7% in 2014.**

In 1Q/2013, the **total retail sales** of consumer goods in China reached RMB5,545.1 billion, an increase of 12.4%. The total retail sales of consumer goods rose by 1.23% m-o-m in March 2013. In terms of location, the retail sales of consumer goods in urban areas was RMB1,523.8 billion in March, up by 12.2%, y-o-y; while that in rural areas was RMB240.3 billion, up by 15.0% y-o-y.

China’s expanding middle class would contribute to the steady demand for consumer products, such as shoes and apparels. According to the **China Market Research Group**, China’s middle class household would probably earn between USD6,000 to USD15,000 a year, with about 350 million people in this category. A China government think-tank predicts that by 2020, about 600 million people will be “middle class”. Some others surveys define “middle class” as households earning between USD10,000 to USD60,000 per year.

The rising affluence and expanding middle class in China would also lead to continued growth in consumer expenditure on leisure activities, sporting activities, entertainment and sports shoes/apparels. The PRC government also has various efforts in promoting healthy lifestyle and the organization of major sporting events. All this augurs well for the demand of sports shoes, apparels, accessories and equipments.

##### **“Production capacity utilization level moderating”**

Results Report

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The construction of factories and dormitories for its new (70,034.9 sq metre built-up) production centre at Xibin Town, Jinjiang City had been completed back in November 2010. Production activities at the new location had commenced from February 2011. Group production capacity has currently reached 45.0 million pairs annually. The production capacity utilisation rate was maintained at a moderate level of 75.9% in 2Q/FY13.

#### “Focus on Cost control”

Multi Sports’ management is aware of the twin issues of **rising labour and raw material costs**, and would continue to focus on cost control. The group is also exploring synergistic acquisitions, investments or JVs in order to strengthen its market position, to expand its customer base and to enhance its economies of scale. The group plans to strengthen its sales, marketing and branding initiatives by the establishment of new sales and marketing offices. The group would also be increasing its advertising activities, trade fair participation and media outreach efforts.

#### “Proposal to diversify into Apparels”

Jinjiang Baixing Shoe Material Co Ltd, the wholly-owned sub-subsidiary of Multi Sports had incorporated a new wholly-owned subsidiary named Fujian EVIDOMA Ltd, a private limited company incorporated in China in September 2012. The initial authorised capital of Fujian EVIDOMA Ltd is RMB5 million and the paid-up capital is also RMB5 million. Its principal activity is to carry on the business of apparel trading under the brand name “EVIDOMA”.

## VALUATION / CONCLUSION

#### “No dividends proposed for FY12”

In September 2012, the group had paid out a 3.11 sen tax-exempt first and final DPS (dividend per share) for its FY11 ended 31<sup>st</sup> December 2011. The FY11 dividend paid out

dividend represents around 20% of its FY11 net profits.

The group’s AGM was held in June 2013 but no dividends had been proposed up till the date of this report. In the Chairman’s Statement of the group’s FY12 annual report released in June 2013, it was mentioned that the group’s Board of Directors (BOD) is not recommending any dividends for its FY12. Nevertheless, **we have assumed that the group may maintain a dividend payout ratio of around 15%-20% for its FY13F.**

Apparently, 20% was also the payout targeted by management in its prospectus. The level of dividends to be declared in the future would be determined by the group’s BOD after taking into consideration the performance, cash flow position and financial requirements of the group as well as the prevailing economic conditions.

#### “Underperformed the KLCP”

Multi Sports (-19.6% YTD) has **underperformed the KLCI** (+2.0% YTD) in 2013 thus far. Market conditions have been volatile since the past year, impacted by the Arab Spring uprisings, EU Sovereign Debt issue, and the US Debt Ceiling & Fiscal Cliff issues. As Multi Sports is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

#### “Maintain Hold Call”

Based on our forecast of Multi Sports’ FY13 EPS and an estimated P/E of 2.5 times, we set a FY13-end **Target Price (TP) of RM0.235**. This TP is approximate to its market price on the date of this report. Our TP for Multi Sports reflects a P/BV of 0.29 times over its FY13F BV/share.

While we were disappointed with the 1H/FY13 results (which were weaker y-o-y) and the unclear dividend policy, we find that the group still have some redeeming points (FY13F) – such as the following:

- **Undemanding valuations** of P/E below 3 times and P/BV below 0.5 times.

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- **Net Earnings** amounting to more than RM40 million.
- **Reasonable ROE%** of >10%.
- **Net Cash** position, with >RM250 mil cash (more than its market cap).

We note that its share price is far from its IPO price of RM0.85. Besides market conditions, this could be partly due to the **investor perception** issues of PRC companies listed outside China. PRC companies listed in Malaysia and Singapore are normally not especially large-cap, and as such may not be very liquid.

Nevertheless, we opine that with concerted efforts from various parties, the investing public's perception on PRC companies listed here can be improved. This would include efforts such as – addressing corporate governance issues, appointing global auditing firms, hiring top PR/IR agencies, arranging site visits and conducting investor road-shows.

The group does face a number of possible **routine risk factors** such as slower economic growth, price war, escalating raw material/labour costs, foreign exchange translation risk (RMB to RM), changes in China regulations/laws and weakness in consumer demand. The group's raw material costs may be impacted by fluctuating oil, latex or fabric prices.

\* **Ethylene vinyl acetate (EVA)** is a key component used in the production of some shoe soles that provides elasticity, softness and flexibility. EVA foam is light weight, has excellent cushioning and shock-absorbance abilities, has good breathability, is resistant to wear and tear, is easily mouldable, has good tensile strength and is waterproof.

### Multi Sports: Share Price



Source: NextView