

Analyst: Kelvin Li

Main Board Listing – Research

匹克體育用品有限公司
Peak Sport Products Co., Limited [Stock Code: 01968]
Sole Global Coordinator and Sole Bookrunner : Credit Suisse

Joint Sponsors and Joint Lead Managers : Credit Suisse

CCB International

Sector : Consumer durables & apparel

Business : Manufacture and distribution of “Peak” branded sportswear products

Total share offer: <u>419,580,000</u> shares (20.0% of the enlarged share capital) Public Offer: 41,958,000 shares (10%) Placing: 377,622,000 shares (90%) Greenshoe: 62,937,000 shares	<u>Business of Peak Sport Products</u> The Group is mainly engaged in the design, development, manufacture, distribution and marketing of sportswear products under the “Peak” brand. The Group’s products could be categorized into three major segments, namely footwear, apparel and accessories. In particular, the Group has a strong brand name of its basketball footwear products, thanks to its marketing efforts in building up a close relationship with NBA. The Group’s products are sold, on a wholesale basis, via a distribution network of 5,667 authorized <i>Peak</i> retail outlets (as of 30 th Jun 2009), which are operated either by the Group’s distributors or by their third-party retail outlet operators. The Group does not own or operate any of these retail outlets. In addition to production at its own manufacturing facilities, the Group also outsourced its products to contract manufacturers (22 in 1H09). In 2008, the Group outsourced about 60% of its footwear products and 90% of its apparel to contract manufacturers, in terms of output volume.
Price: HK\$3.55 – HK\$4.55 per share Market Cap: HK\$7.45 billion – HK\$9.55 billion Pro forma fully diluted FY09E P/E: 11.1x – 14.2x Company guidance on FY09E net profit: not less than RMB600.8 million Adjusted NTA per share: RMB1.21 – RMB1.38 Staffing: 7,753 (as of 30 th June 2009)	
HK Public Offer period: 16 th Sep 2009 – 21 st Sep 2009 noon Receiving bank: Bank of Communications (HK) HSBC Share registrar: Computershare Hong Kong Investor Services Limited. Listing date: 29 th September 2009	

Shareholders after Listing (Assuming the over-allotment option is not exercised)

Ever Sound – 50% owned by Chairman Xu Jingnan and 50% by his spouse Wu Tigao	35.0666%
Brilliant Lead – 100% owned by Xu Zhida, an executive director and son of Chairman Xu	12.9158%
Alpha Top – 100% owned by Xu Zhihua, the Group CEO and son of Chairman Xu	12.9158%
Sequoia Entities 1 & 2 – six hedge funds managed by Sequoia Capital China Advisors	9.0337%
Haojia Global Capital Ltd.	1.3178%
Pre IPO Capital Partners Ltd.	0.9434%
SCGC Capital Holding Company Ltd.	0.4002%
CCBI Asset Management Ltd. – 100% owned by China Construction Bank (00939)	3.2804%
Legend Entities – two hedge funds partly and wholly owned by Legend Holdings Ltd.	4.1263%
Public shareholders	20.0000%
	<u>100.0000%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1.56 billion (based on an offer price of HK\$4.05, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised)

	HK\$ million
For media advertising and brand promotional and marketing activities.	754
Expansion of the Group's apparel and footwear production facilities.	293
Subsidies for distributors to encourage network expansion and rewards for meeting sales targets	244
Research & development	69
Upgrade of management information system	67
General working capital.	134

Financial Highlights

	Year ended 31 st Dec			6 months ended	
	2006	2007	2008	30 th Jun 2008	30 th Jun 2009
	RMB million	RMB million	RMB million	RMB million	RMB million
Turnover	623.9	1,014.6	2,042.0	846.7	1,357.3
Gross profit	177.2	306.0	667.8	275.4	516.7
Operating profit	110.3	177.4	417.6	178.3	305.2
Profit attributable to shareholders	85.9	166.0	376.0	164.5	267.4
Gross profit margin	28.4%	30.2%	32.7%	32.5%	38.1%
Operating profit margin	17.7%	17.5%	20.5%	21.1%	22.5%
Net profit margin	13.8%	16.4%	18.4%	19.4%	19.7%
	31/12/2006	31/12/2007	31/12/2008	30/6/2008	30/6/2009
Net debt to Equity	Net cash	Net cash	Net cash	N/A	Net cash

Breakdown of turnover in terms of product types

	Year ended 31 st Dec						6 months ended			
	2006		2007		2008		30 th Jun 2008		30 th Jun 2009	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
Footwear	366.5	58.7%	570.5	56.2%	1,028.9	50.4%	439.4	51.9%	624.6	46.0%
Apparel	255.4	40.9%	386.4	38.1%	961.5	47.1%	381.2	45.0%	701.4	51.7%
Accessories	2.0	0.3%	57.7	5.7%	51.6	2.5%	26.1	3.1%	31.3	2.3%
Total	623.9	100.0%	1,014.6	100.0%	2,042.0	100.0%	846.7	100.0%	1,357.3	100.0%

Peer valuation comparison

	Peak* (01968)		Li Ning (02331)		Anta (02020)		Xtep (01368)		Dongxiang (03818)	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
P/E ratio	14.2	N/A	24.3	20.1	20.6	17.0	12.5	10.2	18.2	15.4

Remark: (*) at top of the indicative price range; Sources: Reuters



Strengths/Opportunities

- ✓ The Group saw dropping average selling prices (ASPs) for its footwear (-4.6% y-o-y) and apparel (-3.0%) products in 1H09, due to a change in product mix towards low-end products. However, the Group's gross profit margin was held intact at 38.1% (1H08: 32.5%), thanks to higher wholesale prices on better brand recognition.
- ✓ The Group saw robust growth in its apparel sales in FY08 and 1H09, riding on the brand recognition of its basketball-focused footwear products.
- ✓ In 1H09, the Group outsourced more than 60% and 80% (by production volume) of its footwear and apparel products, respectively, while outsourcing accounted for more than 75% of its total costs during the period. In order to lessen reliance of outsourcing, the Group plans to boost its footwear output capacity to 12 million pairs by 2013 from the current 7.2 million pairs and that of apparel to 16.4 million pieces from the current 6.2 million pieces.
- ✓ The Group plans to add about 1,000 retail outlets per annum in the next couple of years.

Weaknesses/Threats

- × The Group connected less than 10% of its retail outlets via its management information system. Low connectivity to retail outlets would hinder the Group's access to timely sales and inventory data.
- × The Group builds up its brand name via its marketing relationship with NBA. It maybe severely hit if it fails to extend its NBA contract when it expires in Sep 2014.

Recommendation: Subscribe

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