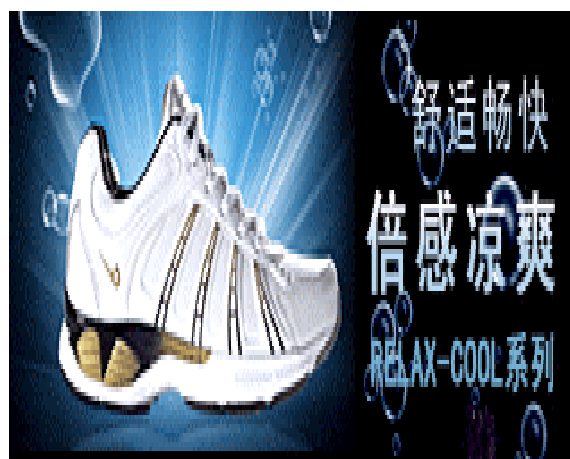




<h1>K-Star Sports Ltd</h1>		Offer Price:	RM2.15
		IPO Closing Date:	18 May 2010
		Listing Date:	31 May 2010
Stock Name:	KStar	Board:	Main

Analyst: Andre Gan



Source: K-Star Sports website

HISTORY & BACKGROUND

K-Star Sports Limited through its subsidiary designs, manufactures, and distributes sports footwear. The company was incorporated in 2008 and is based in Jinjiang City, Fujian Province, which is China's sports shoe manufacturing capital and one of the world's largest sports shoe manufacturing centres.

KEY PRODUCTS

K-Star is principally engaged in sport shoes and apparel all of which are supported by the company's in-house product development/design, manufacturing and distribution capabilities. The products are marketed under their proprietary brand "Dixing and K-Star" and distributed via an extensive retail network to consumers in the People's Republic of China ("PRC"). Their product offerings are categorised into:

- Sports Footwear- Original Equipment Manufacturer (OEM) eg. Doublestar for 3rd party brands. They also do contract manufacturing for LeCoq Sportif, Kappa, Umbro and many more
- Athletic footwear.
- Casual & leisure footwear.

COMPETITIVE ADVANTAGE.

- **Reputable & an established brand with Brand Ambassador & strong branding strategy.**
Track record and expertise in creating well-established brands; all 14 brands trademarked. A niche market player with Brand Ambassador Tian Liang (former Olympic diving champion)
- **Wide distribution network & focus on export market.**
Overseas distribution networks including eastern Europe.
- **Strong product design & development capabilities & abilities to adopt new technologies spearheaded by the CEO's son Mr. Ding Zidi.**
Ability to produce 700-800 designs annually, of which 300 of the designs are approved for mass production
- **Original Equipment Manufacturer (OEM) & Original Design Manufacturer (ODM) for international sports brands and a PRC footwear brand.**
OEM/ODM for Double Star since 1996 (a listed company in China).



- **Experienced, dynamic & committed management team.**
Mr Ding Jianping (Promoter, CEO & Executive Chairman) has over 29 years of experience in the sports footwear industry.
- **Leading sports shoe manufacturers in a niche market and volume game:**
Target market-Mid to mid low-end mass market as 700 million PRC population belong to this consumer base.
- **Strategically located in the largest shoe producing provinces.**
Easy access to customers, labour & suppliers to raw materials (lower production cost)
- **Strong emphasis on quality products.**
The first to be accredited with ISO 9001:2000 in 2003.

3. **Retail shops in overseas**
-Exploring opportunities to operate retail stores in overseas to establish market presence i.e. Malaysia and India.
4. **Market presence and distribution expansion.**
-Further penetration into existing markets, second (Chongqing) and third-tier (Nanning, Guangxi) cities in PRC. City tiers are defined by population size, GDP per capita and average income.

-Collaborate closely with customers to increase sales to Russia and other Eastern Europe countries.

-Increase and expand retail points and to minimize capital outlay.

BUSINESS STRATEGIES

1. **Business expansion to sports fashion apparel & shoe soles manufacturing.**
-Expansion into sports apparel segment in 2 H/ 2010 to synergize with sport shoes which carries the same “Dixing” brand. This is expected to contribute a higher gross margin to its total revenue.

-Enhance brand-building process to increase competitiveness against competitors

-Venture into shoe soles production to reduce reliance on suppliers and increase efficiency although shoe sole manufacturing has a higher capex.
2. **Production facilities and capacity expansion.**
-K-Star is in the process of expanding their production facilities by installing 2 additional production lines by 2011. Upon its completion, K-Star would be able to increase its annual aggregate production capacity to 6 million pairs from 4 million pairs currently, and reduce the reliance on outsourced OEM manufacturers in Jinjiang City, China.

INDUSTRY INSIGHT

According to the market research report by Vital Factor Consulting, the market size of the footwear industry in China was estimated to be approximately 10bn pairs of shoes, of which rubber/plastic shoes (include sport shoes) accounted for 2.1bn pairs in 2008. This would mean that K-Star held a market share of approximately 0.2% of the sport shoes sector in China, based on its production output of 4 million pairs of sports shoes in 2008. The industry is very much volume based as K-Star has to constantly derive its growth from production volume.

“UNDEMANDING VALUATION FOR RESILIENT BUSINESS”

The IPO's public issue consists of the issuance of 15,321,000 shares consisting of 3,401,000 shares for the public and 11,920,00 shares under private placement. This represents 17.25% of the companies enlarged issued & paid-up share capital.

For FY07-09 K-Star recorded revenue and earnings compounded annual growth rate (CAGR) of 47% and 61% respectively due to:



1) increase in the number of its retail network across PRC to 701 units and

2) jump in margins when the group ventured into the marketing and distributing of sports apparel.

Typically, sports apparel and accessories derive a higher margin than sports shoes. According to the prospectus, K-Star's dividend policy is to distribute 10%-20% of their net profit from its annual earnings.

For comparison purposes, we have selected a combination of companies that have similar business division and produce goods related to K-Star's portfolio of products.

COMPARABLE COMPANIES

Companies	Latest Market Cap	Revenue (mil)	PE x	PB x
Xingquan Sports	RM357m	RMB844	4.0	3.1
Xidelang Holdings	RM154m	RMB385	4.5	1.8
K-Star Sports	RM191m	RMB572	Aprox 4.3	Aprox 1.6

UTILISATION OF PROCEEDS

Nature of utilisation	Amount (RM'000)	Weightage (%)
Expansion of production capacity	9,000	27
Listing expenses	6,000	18
General Working capital	5,440	17
Enhanced product D&D capabilities	4,500	14
Branding & advertising	3,000	9
Expansion of sales & marketing Network	5,000	15
Gross Proceed	32,940	100

EARNINGS

(RMB'000) FYE 30 June	2007	2008	2009
Revenue	300,519	501,069	571,063
GP Margin (%)	24.28	25.26	24.38
PAT	42,532	77,239	88,308
PAT Margin (%)	14.15	15.41	15.46