**RESULTS REPORT**

24 May 2011

Multi Sports Holdings Limited		Market Price:	RM0.48
		Market Capitalisation:	RM216.0m
		Board:	Main Market
Recommendation:	BUY	Sector:	Consumer Products
Target Price:	RM0.60	Stock Code/Name:	5150 / MSPORTS

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Share (sen)	15.1
P/E Ratio (x)	3.2
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.63
Book Value/Share (RM)	0.66
Issued Capital (mil shares)#	450.0
52-weeks Share Price (RM)	0.38 – 0.63
Major Shareholders:	%
.Power Wide Holdings Ltd / Lin Huozhi	51.8

*USD0.05 par value; # including recent rights issue

Ratios Analysis	2008	2009^	2010^	2011E
Book Value/Share (RM)	n.a.	0.44	0.61	0.66
Earnings/Share (sen)	n.a.	16.4	16.6	15.1
Dividend/Share (sen)	n.a.	0.0	3.3	3.3
Div. Payout Ratio (%)	n.a.	0.0	15.1	16.5
P/E Ratio (x)	n.a.	2.9	2.9	3.2
P/Book Value (x)	n.a.	1.1	0.8	0.7
Dividend Yield (%)	n.a.	0.0	6.9	6.9
ROE (%)	n.a.	37.1	27.1	22.9
Net Gearing (or Cash) (x)	n.a.	(0.46)	(0.39)	(0.45)

*2008 figures not available as company was listed in 2009

*2011E figures are our estimates

P&L Analysis (RM'mil)	2008	2009	2010	2011E
Year end: Dec 31				
Revenue	205.6	220.8	285.7	323.8
Operating Profit	56.1	62.0	78.4	85.5
Depreciation	n.a.	(4.0)	(5.2)	(6.3)
Interest Expenses	0.0	(0.5)	(0.8)	(1.1)
Pre-tax Profit	56.1	61.5	77.6	84.3
Effective Tax Rate (%)	12.4	13.8	15.3	19.4
Net Profit	49.2	53.1	65.7	68.0
Operating Margin (%)	27.3	28.1	27.4	26.4
Pre-tax Margin (%)	27.3	27.9	27.2	26.1
Net Margin (%)	23.9	24.0	23.0	21.0

*2008 figures are pro-forma as company was listed in 2009; *2011E figures are our estimates;

*RM at time of past reporting; #1RMB=0.46RM

PERFORMANCE – 1Q/FY11

1Q/ 31 Mar	1Q11	1Q10	yoy %	4Q10	qoq%
Rev (RMm)	68.4	61.8	10.7	79.8	(14.3)
PBT (RMm)	15.8	17.3	(8.6)	19.9	(20.4)
NPAT (RMm)	11.4	15.0	(24.2)	15.9	(28.6)
EPS (sen)	2.5	3.3	(24.2)	3.5	(28.6)

*EPS based on 450 million shares

Multi Sports's 1Q/FY11 (quarter ended 31st March 2011) results were within our earlier expectations.

“Within expectations”

For 1Q/FY11, Multi Sports recorded revenue of RMB147.9 (RM68.4) million and net profit after tax (NPAT) of RMB24.6 (RM11.4) million. The y-o-y growth in revenue by 10.7% was mainly due to the higher demand of EVA MD shoe soles from its customers.

“EVA MD* shoe soles in demand”

Nevertheless, the group's gross profit margin for 1Q/FY11 had decreased to 28.8% from 32.0% in the corresponding 1Q/FY10. This was mainly due to the higher production cost arising from a rise in raw material costs.

“Rising raw material costs”

The group's 1Q/FY11 NPAT had declined by 24.2% y-o-y to RM11.4 million. This is in line with the drop in gross profit margin and also the higher enterprise income tax rate.

*Ethylene vinyl acetate (EVA) is a key component used in its shoe soles that provides elasticity, softness and flexibility.

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Comparing versus 4Q/FY10, the group's 1Q/FY11 revenue of RM68.4 million and net profit after tax of RM11.4 million was lower by 14.3% and 28.6% q-o-q, respectively. The decrease in 1Q/FY11 revenue was mainly due to fewer working days as the result of Chinese New Year festivities. The group's 1Q/FY11 NPAT margin had dropped to 16.6% as compared to 19.9% in 4Q/FY10. This was mainly attributed to its subsidiary being subject to the enterprise income tax rate at 25% rather than 12.5% in the prior year, after the lapse of its "Regular Tax Reduction and Exemption Treatment".

OUTLOOK/CORP. UPDATES

Currently, Multi Sport's prospects for the current year appear promising, due to the strong demand for consumer goods in China's domestic market. The country's leadership has targeted a future economic growth rate of at least 7% per annum. China's economy grew at a pace of 9.8% (4Q/2010) and 10.3% (full year 2010). During 1Q/2011, China's Business Climate Index was 133.8 while its Entrepreneur Confidence Index was 137.4.

"Burgeoning consumer demand in China"

For the first 9 months up to 30th September 2010, according to the National Bureau of Statistics of China, the total retail sales of consumer goods had reached an astounding figure of RMB11,102.9 billion, representing a y-o-y growth of 18.3%. In April 2011, retail sales in China had grown by 17.1% y-o-y and 16.5% (Jan-Apr period) y-o-y.

China's middle class segment had increased by 22.1% to 80 million people in January 2007, up from just 65.5 million people in January 2005 and this segment is expected to increase to the huge number of 700 million people by the year 2020. With purchasing power increasing among Chinese consumers, especially among the emerging middle class, private consumption is seen as a major driver for the growth of the Chinese economy in the future.

The rising affluence 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 organisation of major sporting events. All this augurs well for the demand of sports shoes, apparels, accessories and equipments.

"Production up & running at New Plant"

The construction of all factories and dormitories for its new 70,034.9 sq metre production centre at Xibin Town, Jinjiang City had been completed in November 2010. Thereafter, the group's annualised production capacity is expected to increase up to approximately 84.4 million pairs in FY11 from approximately 32.5 million pairs in FY10. Production activities had already commenced from February 2011. As such, the addition of new lines at the new plant is anticipated to contribute positively to the group's growth in its FY11.

"Business Strategy"

Multi Sports plans to enhance its product design and development capabilities to extend its product range and to improve product quality. The group plans to increase its R&D capabilities to 50 designs annually and to eventually manufacture 70% of these designs. The group plans to strengthen its sales, marketing and branding initiatives by the establishment of new sales and marketing offices. The group would also strengthen its branding and company profile by increasing its advertising activities, trade fair participation and media outreach efforts.

Multi Sports's management is aware of the twin issues of rising labour and raw material costs, and would continue to exercise discipline in managing its operating costs. The group is also willing to explore synergistic acquisitions, investments or JVs. Via such ventures, the group may be able to strengthen its market position, expand its customer base and enhance its economies of scale.

“TDR plan on track”

On 5th April 2011, Multi Sports had applied to Bursa Malaysia for a proposed sponsoring of a depository receipt programme in Taiwan, which entail the issuance of Taiwan depository receipts (TDRs) in Taiwan which will represent up to an aggregate of 67.5 million new shares of USD0.05 each in Multi Sports, which will amount up to 15% of the existing issued and fully paid-up share capital of Multi Sports. On 26th April 2011, Multi Sports had received approval from BNM for the proposed TDR Programme. BNM’s approval is subject to Multi Sports obtaining all the requisite approvals and meeting all relevant conditions for the proposals.

VALUATION / CONCLUSION

“Start of Dividends”

Multi Sports’ Board of Directors had declared a tax exempt final dividend of 2.5 sen per share for its FY10 ended 31st December 2010. This would be the group’s first post-listing dividends, as no dividends were declared for its FY09. The group’s future dividends would be determined by the performance of the group. During the IPO, the group’s management had stated their desire to endeavour to pay out around 20% of its annual net earnings as dividends. We expect that the group would be able to maintain a reasonable dividend payout ratio of close to 15-20 % of its annual net earnings for its FY11.

With a close adjusted beta (correlation factor) of 1.02 to the KLCI, Multi Sports (-4.95% YTD) has slightly underperformed the KLCI (+0.87% YTD) this year. Market conditions have also been volatile in recent months, impacted by the political uprisings in the Middle East/North Africa, sovereign debt issue in Europe and the Tohoku tsunami/ earthquake in Japan. As Multi Sports is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Buy Call”

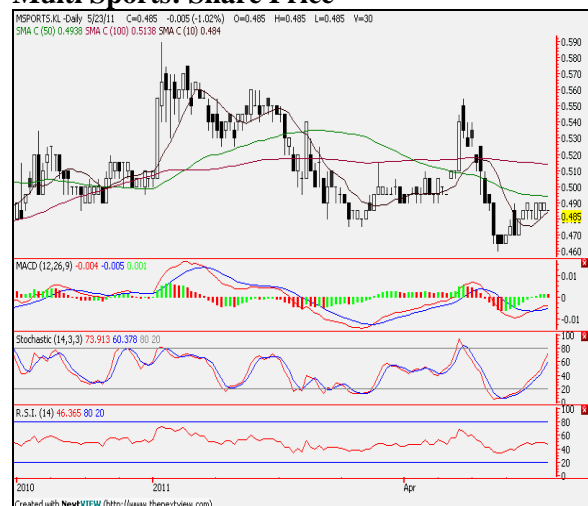
Based on our forecast of Multi Sports’ FY11 EPS and an estimated P/E of 4 times (near its historical range), we set a FY11-end **Target Price (TP) of RM0.60**. This TP offers a 26.0% upside from its current market price. Our TP for Multi Sports reflects a P/BV of 0.9 times over its FY11F BV/share. Meanwhile, the Regional Footwear sector’s average P/E and P/BV is 18.6 times and 1.8 times, respectively.

“Undemanding valuations”

We find that Multi Sports’ FY11F P/E and P/BV valuations are not pricey at all, while it has reasonably solid dividend yields and ROEs. The group is also in a net cash position. The group has already started paying dividends post-IPO while its new production facilities are ready. We nevertheless note that its share price has not appreciated in tandem with its financial performance. This could be partly due to the perception issues of PRC companies listed here.

Multi Sports also face routine risks such as a possible slower economic growth, higher labour costs, fluctuating raw materials prices (in tandem with rubber and crude oil prices), volatile foreign exchange fluctuations, future changes in PRC-government policies and also stiff competition with other rival companies.

Multi Sports: Share Price



Source: NextView

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