

361 Degrees (1361 HK)

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Company Update

BUY

Maintain

Close price: HK\$4.46

Target Price: HK\$5.80(+30.0%)

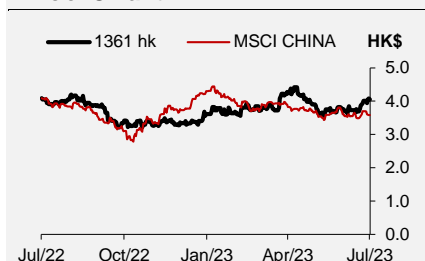
Prior TP: HK\$5.00

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	4.54
12 Month Low (HK\$)	3.04
3M Avg Dail Vol. (mn)	1.47
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	9,221.86
Fiscal Year	12/2022
Major shareholder (s)	Ding's Family (48.99%)

Source: Company data, Bloomberg, OP Research
Closing price as of 03 Aug 2023

Price Chart



	1mth	3mth	6mth
Absolute %	+19.9	+7.2	+17.7
Rel. MSCI CHINA %	+17.1	+8.3	+29.0

PE



Company Profile

361 Degrees International designs, develops, manufactures, markets and distributes sportswear products, including athletic footwear, apparel and accessories.

1H23 net profit grow by more than 25%

- Retail sales of the 361° core brand maintained double-digit growth in 1H22. In 23Q2, 361° core brand grew by low-teens yoy.
- Near-term headwinds in the China retail market do not shake its solid fundamentals
- Maintain BUY and tune up TP to HK\$5.80, which represents PER of 12.0x/10.2x for FY23E/24E.

Net profit grow by more than 25% in 1H23. 361 Degrees explained the increase was mainly due to (1) the steady increase of revenue under the relief of pandemic preventive measures since early 2023 and the improvement of product mix, (2) the reduction of the provision for expected credit losses on trade receivable, (3) government grants, and (4) the increase in equity interest in a subsidiary which is engaged in the e-commerce business.

Strong retail sales in 2Q23. 361 Degrees reported retail sales of 361° core brand, 361° Kid, and 361° e-commerce grew at a yoy rate of low-teens, 20-25%, and 30%, respectively. Meanwhile, the company said its retail discount rate (28-30%) slightly improved in Q2.

Solid business outlook. 361 Degrees said the market competition has become intense since June, which is in-line with the weakening China retail market. We think the company's focus in lower-tier cities and on the mass market should help it mitigate negative impacts from the weakened sentiment in the China retail market. We believe the company can achieve the revenue growth target of 15-20% for FY23E. 361 Degrees net profit in 1H23 beats our estimation and reached 80% of our original earnings estimation for FY23. We tune up our EPS (in HK\$) forecast of the company by 4.4%/4.1% in FY23E/24E to reflect a stronger-than-expected earnings in 1H23.

Maintain BUY and tune up TP to HK\$5.80. The new TP represents 12.0x/10.2x of FY23E/24E PER. The target price represents an over 40% discount to its domestic peers. The strong retail performance in recent quarters is believed to narrow the price discount toward leading domestic sportswear peers.

Risks: (1) Weakening retail market, (2) slower-than expected sales recovery for offline physical stores, (3) brand damage.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	5,127	5,933	6,961	8,022	8,992
Growth (%)	-9.0	+15.7	+17.3	+15.2	+12.1
Net profit	415	602	747	904	1,072
Growth (%)	-3.9	+44.8	+24.2	+21.0	+18.6
Diluted EPS (HK\$)	0.241	0.355	0.416	0.485	0.571
EPS growth (%)	-3.9	+47.2	+17.0	+16.8	+17.6
Change to previous EPS (%)				+4.4	+4.1
Consensus EPS (HK\$)				0.480	0.567
ROE (%)	5.8	7.5	8.3	9.2	10.1
P/E (x)	18.5	12.6	10.7	9.2	7.8
P/B (x)	1.2	1.1	1.0	1.0	0.9
Yield (%)	0.0	0.0	0.0	4.4	5.1
DPS (HK\$)	0.000	0.000	0.000	0.194	0.228

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY23E			FY24E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	8,022	8,022	0.0	8,992	8,992	0.0	
Gross margin	41.0%	41.0%	0.0	41.5%	41.2%	+0.3p.p.	
Net Profit	904	844	+7.1	1,072	994	+7.9	
Diluted EPS (HK\$)	0.485	0.465	+4.4	0.571	0.548	+4.1	Mainly to reflect the recent depreciation of RMB

Source: OP Research

Exhibit 3: Retail sales performance for 361° Core Brand, 361° Kids, and 361° E-commerce products from 2021

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
361° Core Brand	+ High-teens	+ 15-20%	+ Low-teens	+ High-teens	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens	+ Low-teens
361° Kids	+Low-twenties	+ 30-35%	+15-20%	+25-30%	+20-25%	+20-25%	+20-25%	+LSD	+20-25%	+20-25%
361° E-commerce	(Not disclosed)			+35-40%	+50%	+40%	+45%	+25%	+35%	+30%

Sources: Company, OP Research

Exhibit 4: Retail sales performance of 361° and its peers

Brand	Indicator	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
361° Core Brand	Retail sales	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens	+ Low-teens
Anta	Retail sales	+ High-teens	-MSD	+MSD	- HSD	+MSD	+HSD
Liling	Retail sell-through (Overall POS)	+ High-twenties	- HSD	+ Mid-teens	- Low-teens	+MSD	(Not disclosed)
Xtep	Retail sell-through	+30-35%	+Mid-teens	+20-25%	-HSD	+20%	+High-teens
Nike	Net sales- Greater China (Local currency)	-8% (Ended Feb)	-20% (Ended May)	-13% (Ended Aug)	-4% (Ended Nov)	-2% (Ended Feb)	+4% (Ended May)
Adidas	Net sales- Greater China (Local currency)	-34.6%	-35.1%	-26.6%	-49.7%	-9.4%	+16.4%

Sources: Companies, OP Research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
361 Degrees	1361 HK	4.46	1,181	0.7	10.7	9.2	7.8	16.5	0.6	0.0	4.4	1.0	1.0	8.3	9.2	+19.9	+7.2
HSI		19,420.87			9.8	9.7	8.8	6.3	1.5	3.7	3.69	1.1	1.1	10.8	11.0	0.0	-2.6
HSCEI		6,652.16			8.7	8.9	8.0	6.4	1.4	3.4	3.50	1.0	1.0	11.3	11.4	+0.6	-1.0
CSI300		4,004.98			14.2	12.7	11.0	0.0	0.0	2.5	2.5	1.7	1.6	12.0	12.6	+2.7	-0.6
Adjusted sector avg*					25.0	15.1	12.4	20.9	0.8	2.3	2.9	3.0	2.8	12.3	14.7	+3.3	+1.8
Xtep Intl	1368 HK	8.43	2,849	7.9	21.2	17.8	14.4	21.5	0.8	2.4	2.9	2.5	2.5	11.4	12.8	+4.1	-1.7
Anta Sports Prod	2020 HK	86.85	31,512	73.7	28.3	23.3	19.4	19.7	1.2	1.5	1.9	6.3	5.7	24.0	23.8	+5.5	-6.7
Li Ning Co Ltd	2331 HK	43.85	14,806	104.5	25.9	22.0	17.9	19.8	1.1	1.2	1.4	4.4	4.1	17.9	18.1	+1.5	-19.4
Pou Sheng Intl	3813 HK	0.71	484	0.5	37.9	5.6	4.0	126.6	0.0	N/A	3.2	0.4	0.4	1.1	7.0	+22.4	+10.9
China Dongxiang	3818 HK	0.31	230	0.1	14.3	5.6	4.7	N/A	N/A	4.3	14.3	0.2	0.2	1.2	2.8	+1.7	0.0
Topsports Intl	6110 HK	7.15	5,679	7.3	22.2	16.5	13.9	22.6	0.7	8.8	5.3	4.1	3.9	18.0	23.9	+3.5	6.6

Sources: Bloomberg, OP Research

Financial Summary

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Income Statement (RMB mn)					
Footwear	2,081	2,532	2,854	3,168	3,484
Apparel	2,002	2,147	2,447	2,815	3,096
Accessories	53	69	96	115	126
361 Kids	932	1,107	1,442	1,803	2,163
Others	59	79	122	122	122
Turnover	5,127	5,933	6,961	8,022	8,992
YoY%	-9.0	+15.7	+17.3	+15.2	+12.1
COGS	-3,185	-3,461	-4,140	-4,736	-5,263
Gross profit	1,942	2,472	2,821	3,285	3,729
Gross margin	37.9%	41.7%	40.5%	41.0%	41.5%
Other income	226	227	145	223	223
Selling & distribution	-964	-1,140	-1,433	-1,620	-1,764
Admin	-237	-312	-276	-334	-366
R&D	-205	-247	-266	-289	-315
Other opex	0	0	0	0	0
Total opex	-1,405	-1,698	-1,975	-2,243	-2,445
Operating profit (EBIT)	763	1,001	991	1,265	1,507
Operating margin	14.9%	16.9%	14.2%	15.8%	16.8%
Provisions	0	0	0	0	1
Interest Income	106	81	83	94	104
Finance costs	-167	-37	-9	-9	-9
Profit after financing costs	702	1,045	1,065	1,349	1,602
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	702	1,045	1,065	1,349	1,602
Tax	-206	-303	-248	-364	-433
Minority interests	-80	-141	-70	-81	-97
Net profit	415	602	747	904	1,072
YoY%	-3.9	+44.8	+24.2	+21.0	+18.6
Net margin	8.1%	10.1%	10.7%	11.3%	11.9%
EBITDA	857	1,074	1,072	1,338	1,570
EBITDA margin	16.7%	18.1%	15.4%	16.7%	17.5%
EPS (HK\$)	0.241	0.355	0.416	0.485	0.571
YoY%	-3.9	+47.2	+17.0	+16.8	+17.6
DPS (HK\$)	0.000	0.000	0.000	0.194	0.228
Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Cash Flow (RMB mn)					
EBITDA	857	1,074	1,060	1,338	1,570
Chg in working cap	-511	-471	-620	-201	-409
Others	-51	68	226	0	0
Operating cash	295	671	666	1,137	1,161
Interest received	0	0	0	0	0
Tax	-274	-299	-285	-386	-364
Net cash from operations	21	372	380	751	797
Capex	-7	-9	-31	-19	-21
Investments	0	0	0	0	0
Decrease(increase) in deposits	168	1,000	0	0	0
Sales of assets	0	0	0	0	0
Interests received	100	68	85	94	104
Others	-6	10	31	0	0
Investing cash	255	1,069	85	75	83
FCF	276	1,441	465	826	880
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	350	200	-34	0	0
Dividends paid	-28	0	0	-186	-401
Interest paid	-156	-36	-9	-9	-9
Net change in bank loans	100	-1,721	84	0	0
Others	-508	5	19	0	0
Financing cash	-243	-1,552	59	-196	-410
Net change in cash	33	-111	525	630	470
Exchange rate or other Adj	-4	-1	-3	0	0
Opening cash	3,422	3,451	3,339	3,860	4,491
Closing cash	3,451	3,339	3,860	4,491	4,961
CFPS (HK\$)	0.01	0.22	0.21	0.40	0.42

Source: Company, OP Research

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Ratios					
Gross margin (%)	37.9	41.7	40.5	41.0	41.5
Operating margin (%)	14.9	16.9	14.2	15.8	16.8
Net margin (%)	8.1	10.1	10.7	11.3	11.9
Selling & dist'n exp/Sales (%)	18.8	19.2	20.6	20.2	19.6
Admin exp/Sales (%)	4.6	5.2	4.0	4.2	4.1
R&D/Rev (%)	3.5	4.2	3.8	3.6	3.5
A&P/Rev (%)	9.6	10.2	11.4	11.0	11.0
Staff cost/Rev (%)	9.6	8.5	7.5	6.9	6.4
Payout ratio (%)	0.0	0.0	0.0	40.0	40.0
Effective tax (%)	29.4	29.0	23.3	27.0	27.0
Total debt/equity (%)	25.6	2.4	3.1	2.9	2.7
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.6	3.8	3.9	4.0	3.9
Quick ratio (x)	2.4	3.4	3.5	3.6	3.5
Inventory T/O (days)	111	87	91	91	91
AR T/O (days)	159	149	147	147	147
AP T/O (days)	233	203	195	195	195
Cash conversion cycle (days)	37	34	44.1	44.1	44.1
Asset turnover (x)	0.4	0.5	0.6	0.6	0.6
Financial leverage (x)	1.7	1.4	1.3	1.3	1.3
EBIT margin (%)	14.9	16.9	14.2	15.8	16.8
Interest burden (x)	0.9	1.0	1.1	1.1	1.1
Tax burden (x)	0.6	0.6	0.7	0.7	0.7
Return on equity (%)	5.8	7.5	8.3	9.2	10.1

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
Balance Sheet (RMB mn)					
Fixed assets	883	823	773	718	676
Right-of-use assets	110	105	102	102	102
Other financial asset	18	27	33	33	33
Deposits and prepayments	89	102	93	93	93
Other non-current assets	82	98	151	151	151
Non-current assets	1,181	1,155	1,152	1,097	1,055
Inventories	763	891	1,182	1,186	1,318
AR	2,257	2,600	3,024	3,240	3,632
Prepayments & deposits	906	1,201	1,193	1,375	1,541
Other current assets	0	0	0	0	0
Deposits/restricted cash	3,063	2,052	2,024	2,024	2,024
Cash	3,451	3,339	3,860	4,491	4,961
Current assets	10,440	10,083	11,284	12,316	13,476
AP	1,756	2,092	2,327	2,527	2,808
Tax	346	368	386	364	433
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,939	208	193	193	193
CB & other debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	4,041	2,668	2,906	3,084	3,434
Bank loans & leases	0	0	100	100	100
CB & other debts	0	0	0	0	0
Deferred tax & others	14	14	13	13	13
Non-current liabilities	14	14	113	113	113
Total net assets	7,566	8,556	9,418	10,216	10,984
Shareholder's equity	6,609	7,117	7,944	8,661	9,332
Share capital	182	182	182	182	182
Reserves	6,427	6,934	7,761	8,479	9,149
MI	957	1,439	1,474	1,555	1,653
BVPS (HK\$)	3.84	4.20	4.42	4.65	4.96

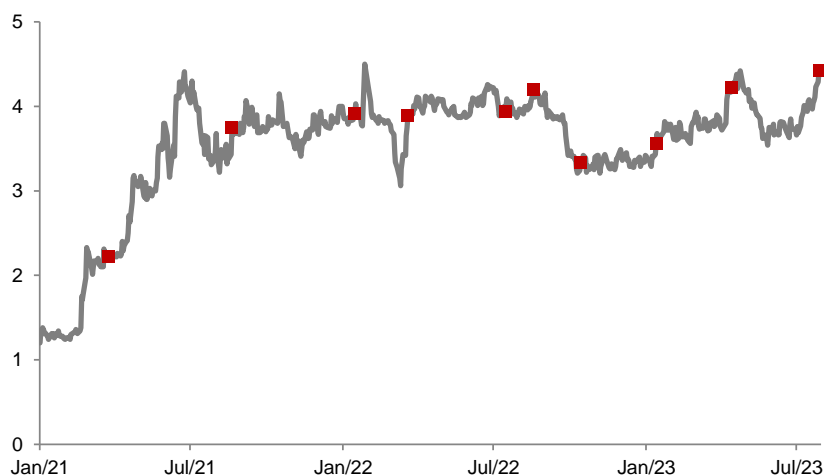
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	John Siah
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah

Historical recommendations and target price: 361 Degrees (1361 HK)

(as of 03 Aug 2023)

(HK\$)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 17 Jul 2019	BUY	2.54	1.32	11 21 Jan 2022	BUY	4.80	3.91
2 20 Aug 2019	BUY	2.54	1.44	12 25 Mar 2022	BUY	5.25	3.89
3 17 Oct 2019	BUY	2.37	1.81	13 20 Jul 2022	BUY	5.25	3.94
4 16 Jan 2020	BUY	2.37	1.37	14 26 Aug 2022	BUY	5.25	4.14
5 21 Feb 2020	BUY	2.37	1.41	15 20 Oct 2022	BUY	4.60	3.34
6 18 Mar 2020	BUY	2.10	1.18	16 18 Jan 2023	BUY	4.60	3.43
7 21 Apr 2020	BUY	1.80	1.15	17 19 Apr 2023	BUY	5.00	4.22
8 21 Jul 2020	BUY	1.57	1.22	18 4 Aug 2023	BUY	5.80	4.46
9 29 Mar 2021	BUY	2.85	2.18				
10 25 Aug 2021	BUY	4.35	3.75				

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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