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東英 ORIENTAL PATRON

Equity Research
Sportswear/ China

361 Degrees (1361 HK)

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Company Update

BUY

UNCHANGED

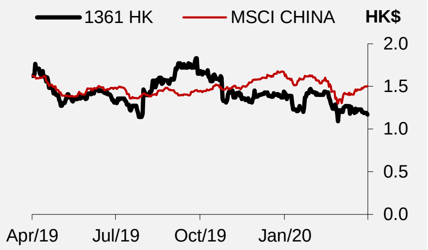
Close price:	**HK$1.16**
Target Price:	**HK$1.80 (+55%)**
Prior TP:	**HK$2.10**

Key Data

HKEx code		1361 HK
12 Months High	(HK$)	1.87
12 Month Low	(HK$)	0.99
3M Avg Dail Vol.	(mn)	1.52
Issue Share	(mn)	2,067.60
Market Cap	(HK$mn)	2,398.42
Fiscal Year		12/2019
Major shareholder (s)		President Ding Wuhao 17.03%

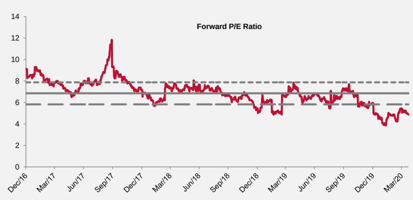
Source: Company data, Bloomberg, OP Research
Closing price are as of 21/04/2020

Price Chart



	1mth	3mth	6mth
Absolute %	**-4.9**	**-17.7**	**-30.5**
Rel. MSCI CHINA %	**-16.6**	**-9.5**	**-34.7**

PE



Company Profile

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

1Q20 retail sales in line

- **361 Degrees released in-line 1Q20 retail sales with both core brand and 361 Kids down 25%-30% yoy, at the low end of peers, due to larger discount widening and early-stage product mix enhancing in our view.**
- **The Company maintains channel inventory policy unchanged with no plans for inventory buybacks.**
- **Maintain BUY with TP HK$1.80 cut from HK$2.10 based on 6.8x/6.0x FY20E/21E PE from previous 8.0x/7.0x FY20E/21E, on less upbeat market sentiment towards low-tier-city players.**

1Q20 retail sales in line with expectations. 361 Degrees registered a yoy decrease of 25%-30% for both core brand and 361 Kids retail sales in 1Q20, in line with expectations. These were at the low end of peers that recorded less-than-25% drop. We believe this lag was due to 1) retail discount widening higher than peers: 1Q20 worsened to 35% off from 25% in normal times, versus less than 10 ppts drop among peers; 2) product mix enhancing still in early stage as crossover series that were launched since FY19 remained small contribution. We expect retail sales to gradually recover from 2Q20E as new product series launches speed up that will both further lift brand image and bring up sales.

Channel inventory policy unchanged. With channel inventory at 5x level (versus 4-4.5x in 1Q19), the Company does not plan for inventory buybacks or rebate increases to ease the pressure of distributors. We expect account receivable days to lengthen for 1H20E.

Maintain BUY with TP cut to HK$1.80 from HK$2.10, based on 6.8x /6.0x FY20E/21E PE, from previous 8.0x/7.0x FY20E/21E, on less upbeat market sentiment towards low-tier-city players. We remain optimistic of its steady growth as supported by decent scale of stores as the 4th biggest Chinese sportswear player and continuous rebranding efforts. The company currently trades at attractive valuation of 4.4x FY20E PE. We also appreciate the recent shareholding increases by management that show confidence for its business outlook, as both Chairman Ding Huihuang and President Ding Wuhao have increased stakes to 16.29%/17.03% from 15.67%/16.46% at an avg. cost of HK$1.24/HK$1.26 per share respectively since first such increase last year.

Risks: (1) market share squeeze; (2) less-than-expected growth in trade fair orders; (3) channel inventory spikes.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	5,187.4	5,631.9	6,068.1	6,521.7	6,936.1
Growth (%)	0.6	8.6	7.7	7.5	6.4
Net Profit	303.7	432.4	453.9	514.0	561.0
Growth (%)	(33.5)	42.4	5.0	13.2	9.1
Diluted EPS (HK$)	0.176	0.251	0.263	0.298	0.326
EPS growth (%)	(33.5)	42.4	5.0	13.2	9.1
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK$)			0.262	0.307	
ROE (%)	5.3	7.2	7.0	7.5	7.8
P/E (x)	6.6	4.6	4.4	3.9	3.6
P/B (x)	0.3	0.3	0.3	0.3	0.3
Yield (%)	6.6	9.3	5.9	7.5	11.2
DPS (HK$)	0.076	0.108	0.068	0.087	0.130

Source: Bloomberg, OP Research

Exhibit 2: Chairman and President both increased shareholding in FY20E

	Date	No. of shares bought (mn shares)	Value of increased stake (HK$ mn)	Average price (HK$/share)	% of holding by mkt close (%)
Total/avg.		**24.709**	**30.939**	**1.25**	
By Chairman					
Ding Huihuang	**Total/avg.**	**12.747**	**15.869**	**1.24**	
	14-Apr-20	0.830	1.016	1.224	16.29%
	8-Apr-20	0.450	0.551	1.225	16.19%
	8-Apr-20	1.200	1.461	1.218	16.25%
	7-Apr-20	2.257	2.770	1.227	16.17%
	6-Apr-20	1.345	1.636	1.217	16.06%
	3-Apr-20	0.583	0.724	1.242	16.00%
	2-Apr-20	1.468	1.828	1.246	15.97%
	31-Mar-20	1.502	1.864	1.241	15.90%
	30-Mar-20	0.956	1.192	1.247	15.82%
	27-Mar-20	0.294	0.372	1.265	15.78%
	26-Mar-20	0.300	0.376	1.255	15.76%
	25-Mar-20	0.030	0.038	1.250	15.75%
	24-Mar-20	0.004	0.005	1.200	15.75%
	15-Nov-19	1.000	1.333	1.333	15.75%
	14-Nov-19	0.528	0.702	1.330	15.70%
By President					
Ding Wuhao	**Total/avg.**	**11.962**	**15.070**	**1.26**	
	20-Mar-20	3.776	4.520	1.197	17.03%
	19-Mar-20	3.000	3.288	1.096	16.84%
	29-May-19	1.278	1.891	1.480	16.70%
	28-May-19	0.788	1.144	1.452	16.64%
	27-May-19	0.428	0.590	1.379	16.60%
	24-May-19	1.796	2.442	1.360	16.58%
	23-May-19	0.896	1.195	1.334	16.49%

Source: OP Research,hkexnews

Financial Summary

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Income Statement (RMB mn)					
Footwear	2,212	2,387	2,566	2,746	2,924
Apparel	1,999	2,059	2,162	2,270	2,361
Accessories	76	100	105	110	116
361 Kids	816	999	1,139	1,291	1,420
Others	84	87	95	105	115
Turnover	**5,187**	**5,632**	**6,068**	**6,522**	**6,936**
YoY%	1	9	8	7	6
COGS	(3,082)	(3,362)	(3,623)	(3,893)	(4,141)
Gross profit	**2,106**	**2,270**	**2,446**	**2,628**	**2,795**
Gross margin	40.6%	40.3%	40.3%	40.3%	40.3%
Other income	103	102	105	105	105
Selling & distribution	(979)	(1,027)	(1,111)	(1,181)	(1,248)
Admin	(329)	(355)	(378)	(396)	(414)
R&D	(215)	(214)	(212)	(222)	(236)
Other opex	0	0	0	0	0
Total opex	**(1,522)**	**(1,597)**	**(1,701)**	**(1,798)**	**(1,898)**
Operating profit (EBIT)	**686**	**775**	**849**	**935**	**1,001**
Operating margin	13.2%	13.8%	14.0%	14.3%	14.4%
Provisions	(1)	60	0	0	0
Interest Income	98	105	109	115	120
Finance costs	(212)	(217)	(203)	(203)	(203)
Profit after financing costs	571	722	755	847	919
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	571	722	755	847	919
Tax	(265)	(253)	(264)	(296)	(322)
Minority interests	(2)	(37)	(37)	(37)	(37)
Net profit	**304**	**432**	**454**	**513**	**560**
YoY%	(34)	42	5	13	9
Net margin	5.9%	7.7%	7.5%	7.9%	8.1%
EBITDA	**810**	**864**	**943**	**1,025**	**1,082**
EBITDA margin	15.6%	15.3%	15.5%	15.7%	15.6%
EPS (RMB)	**0.147**	**0.209**	**0.219**	**0.248**	**0.271**
YoY%	(34)	42	5	13	9
DPS (HK$)	0.076	0.108	0.113	0.128	0.140

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Cash Flow (RMB mn)					
EBITDA	810	864	943	1,025	1,082
Chg in working cap	(303)	304	115	(119)	(108)
Others	41	(203)	0	0	0
Operating cash	**549**	**965**	**1,058**	**906**	**974**
Interest received	0	0	0	0	0
Tax	(254)	(334)	(389)	(264)	(296)
Net cash from operations	**295**	**630**	**669**	**642**	**677**
Capex	(33)	(13)	(14)	(15)	(16)
Investments	(886)	1,597	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	8	0	0	0
Interests paid	98	87	109	115	120
Others	0	0	0	0	0
Investing cash	**(821)**	**1,679**	**95**	**99**	**104**
FCF	**(526)**	**2,309**	**764**	**741**	**781**
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(194)	(170)	(197)	(215)	(236)
Net change in bank loans	99	(316)	0	0	0
Others	151	(57)	(203)	(203)	(203)
Financing cash	**55**	**(543)**	**(399)**	**(417)**	**(439)**
Net change in cash	**(471)**	**1,766**	**365**	**324**	**343**
Exchange rate or other Adj	6	5	0	0	0
Opening cash	2,116	1,651	3,422	3,787	4,111
Closing cash	**1,651**	**3,422**	**3,787**	**4,111**	**4,454**
CFPS (HK$)	**0.171**	**0.366**	**0.388**	**0.373**	**0.393**

Source: Company, OP Research

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Ratios					
Gross margin (%)	40.6	40.3	40.3	40.3	40.3
Operating margin (%)	13.2	13.8	14.0	14.3	14.4
Net margin (%)	5.9	7.7	7.5	7.9	8.1
Selling & dist'n exp/Sales (%)	18.9	18.2	18.3	18.1	18.0
Admin exp/Sales (%)	6.3	6.3	6.2	6.1	6.0
R&D/Rev (%)	4.1	3.8	3.5	3.4	3.4
A&P/Rev (%)	10.7	9.0	9.5	9.5	9.5
Staff cost/Rev (%)	8.7	9.1	8.1	7.8	7.6
Payout ratio (%)	43.1	43.0	43.0	43.0	43.0
Effective tax (%)	46.5	35.0	35.0	35.0	35.0
Total debt/equity (%)	49.0	40.1	38.5	36.8	35.2
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.2	3.8	3.6	3.6	3.5
Quick ratio (x)	2.9	3.4	3.2	3.2	3.1
Inventory T/O (days)	124	127	127	127	127
AR T/O (days)	169	143	143	143	143
AP T/O (days)	275	275	275	275	275
Cash conversion cycle (days)	18	(6)	(6)	(6)	(6)
Asset turnover (x)	0.4	0.5	0.5	0.5	0.5
Financial leverage (x)	2.0	2.0	1.9	1.9	1.9
EBIT margin (%)	13.2	13.8	14.0	14.3	14.4
Interest burden (x)	0.8	0.9	0.9	0.9	0.9
Tax burden (x)	0.5	0.6	0.6	0.6	0.6
Return on equity (%)	**5.3**	**7.2**	**7.0**	**7.6**	**7.9**
ROIC (%)	**14.0**	**18.7**	**20.5**	**22.9**	**24.5**

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Bal. Sheet (RMB mn)					
Fixed assets	1,035	955	876	801	737
Intangible assets & goodwill	111	114	113	113	112
Associated companies & JVs	29	25	25	25	25
Long-term investments	94	92	92	92	92
Other non-current assets	46	41	41	41	41
Non-current assets	**1,315**	**1,227**	**1,147**	**1,072**	**1,008**
Inventories	1,051	1,168	1,258	1,353	1,439
AR	2,399	2,199	2,370	2,547	2,709
Prepayments & deposits	721	639	689	741	788
Other current assets	4,827	3,231	3,231	3,231	3,231
Cash	1,651	3,422	3,787	4,111	4,454
Current assets	**10,650**	**10,660**	**11,335**	**11,982**	**12,620**
AP	2,766	2,306	2,732	2,936	3,123
Tax	476	389	264	296	321
Accruals & other payables	0	0	0	0	0
Bank loans & leases	112	114	114	114	114
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**3,354**	**2,809**	**3,110**	**3,346**	**3,558**
Bank loans & leases	2,714	2,419	2,419	2,419	2,419
CB & othe debts	0	0	0	0	0
Deferred tax & others	2	1	1	1	1
MI	127	337	374	411	449
Non-current liabilities	**2,843**	**2,756**	**2,793**	**2,830**	**2,868**
Total net assets	**5,768**	**6,323**	**6,579**	**6,878**	**7,201**
Shareholder's equity	**5,768**	**6,323**	**6,579**	**6,878**	**7,201**
Share capital	182	182	182	182	182
Reserves	5,585	6,140	6,397	6,695	7,019
BVPS (HK$)	**3.35**	**3.67**	**3.82**	**3.99**	**4.18**
Total debts	2,827	2,533	2,533	2,533	2,533
Net cash/(debts)	3,652	4,120	4,485	4,809	5,152

Exhibit 3: Peers 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)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
361 Degrees	**1361 HK**	**1.16**	**309**	**0.2**	**4.6**	**4.4**	**3.9**	**5.0**	**13.2**	**10.8**	**0.4**	**9.3**	**5.9**	**0.3**	**0.3**	**(2.0)**	**(2.3)**	**Net cash**	**40.3**	**7.7**	**7.2**	**7.0**	**(4.9)**	**(18.3)**
HSI		23,793.55			9.7	10.4	9.3	(6.7)	11.9	4.9	2.12	3.9	4.0	1.01	0.96						10.4	9.2	4.3	(15.0)
HSCEI		9,614.93			7.6	8.2	7.4	(6.9)	10.9	4.6	1.77	3.9	4.0	1.00	0.94						13.2	11.5	5.4	(12.4)
CSI300		3,808.05			13.7	11.6	10.2	18.2	13.7	0.0	0.0	2.2	2.7	1.7	1.5						12.7	13.2	4.2	(7.4)
Adjusted sector avg*					**27.1**	**18.8**	**15.8**	**(6.6)**	**29.3**	**17.5**	**1.2**	**3.1**	**2.5**	**3.0**	**4.0**	**5.5**	**11.7**	**14.7**	**43.8**	**8.3**	**16.7**	**13.8**	**16.7**	**(26.1)**
Xtep Intl	1368 HK	2.80	908	3.1	8.3	8.9	7.1	(5.9)	25.6	8.6	1.0	7.9	6.4	0.9	1.0	4.1	5.0	0.0	43.4	8.9	11.9	10.1	20.7	(31.0)
Anta Sports Prod	2020 HK	62.55	21,807	94.8	28.8	26.8	19.5	7.2	37.5	21.9	1.2	0.9	1.3	7.7	6.9	15.0	15.8	0.0	55.0	15.8	29.8	26.2	19.9	(14.3)
Li Ning Co Ltd	2331 HK	23.70	7,528	61.5	35.0	34.4	25.2	1.7	36.3	19.2	1.8	0.4	0.9	7.0	7.0	20.4	20.3	0.0	49.1	10.8	23.2	20.0	34.5	(8.1)
Pou Sheng Intl	3813 HK	1.59	1,099	0.8	9.2	13.0	6.6	(29.4)	97.3	20.1	0.6	1.6	1.7	1.0	1.0	4.6	5.8	73.3	34.1	3.1	11.5	9.2	17.8	(41.3)
China Dongxiang	3818 HK	0.64	486	0.4	N/A	5.3	N/A	N/A	N/A	N/A	N/A	7.1	N/A	0.3	N/A	N/A	N/A	0.0	N/A	N/A	N/A	6.8	(1.5)	(28.1)
Annil Co Ltd-A	002875 CH	17.30	321	3.6	54.1	24.3	20.6	122.8	17.8	N/A	N/A	0.9	N/A	2.6	N/A	N/A	N/A	N/A	52.6	3.2	6.9	10.7	31.1	11.1
Guirenniao Co-A	603555 CH	3.20	284	5.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.3	N/A	(16.6)	N/A	146.8	28.7	(24.4)	(46.6)	N/A	(5.9)	(33.5)
Adjusted sector avg*					**36.2**	**42.5**	**33.9**	**(22.0)**	**47.1**	**14.2**	**4.3**	**1.1**	**0.7**	**8.5**	**8.4**	**16.3**	**25.4**	**13.9**	**49.7**	**8.3**	**27.0**	**18.2**	**25.7**	**(26.8)**
Nike Inc -Cl B	NKE US	87.90	136,688	879.8	34.5	37.2	31.7	(7.2)	17.4	10.4	3.57	1.1	1.1	15.11	17.53	25.6	28.3	0.0	44.7	10.3	48.0	41.4	30.3	(15.9)
Under Armour-A	UAA US	9.65	4,112	103.2	48.3	N/A	51.9	N/A	N/A	28.2	N/A	N/A	0.0	2.03	2.29	8.0	35.2	23.8	46.9	1.7	4.4	(5.5)	18.1	(52.2)
Lululemon Ath	LULU US	218.59	28,459	431.4	44.2	49.2	36.6	(10.2)	34.3	12.4	3.95	N/A	0.0	14.60	12.00	22.9	29.3	0.0	55.9	16.2	38.0	28.6	32.5	(9.9)
Adidas Ag	ADS GR	219.00	47,582	260.1	21.9	34.1	21.7	(35.8)	57.3	5.3	6.44	1.5	1.6	6.31	5.84	11.9	16.1	26.6	52.0	8.4	30.0	18.8	19.9	(29.6)
Puma Se	PUM GR	56.88	9,300	37.4	32.3	49.5	27.6	(34.8)	79.4	14.7	3.38	0.6	0.7	4.54	4.21	13.1	18.2	19.2	48.8	4.8	14.7	7.9	27.7	(26.2)

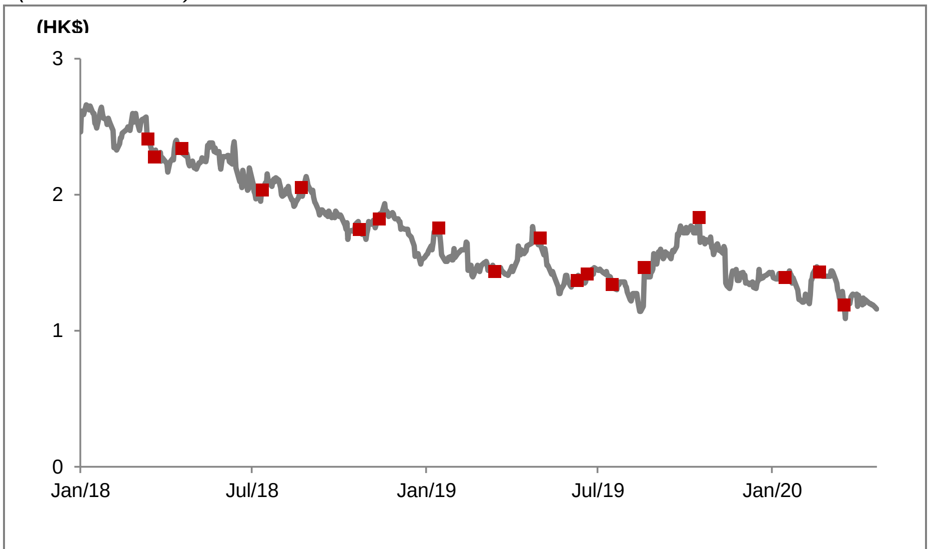
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai
20/03/2020	Xtep Intl	1368	FY19 results in line with expectations	BUY	Dallas Cai/Megan Jin
19/03/2020	A-Living	3319	Unfolding a new 3-year plan	BUY	Dallas Cai
19/03/2020	Ausnutria Dairy	1717	Robust growth momentum to keep up in FY20E	BUY	Dallas Cai/Megan Jin
19/03/2020	361 Degrees Intl	1361	FY19 results up to expectations	BUY	Megan Jin
18/03/2020	Sunny Optical	2382	FY19 results clean beat on GPM	BUY	Dallas Cai
10/03/2020	Q Tech	1478	FY19 results beat on better CCM product mix	BUY	Dallas Cai
09/03/2020	Edvantage Group	382	1H20/21E positive profit alert - BUY	BUY	Dallas Cai/Megan Jin
24/02/2020	361 Degrees Intl	1361	COVID-19 impact to be inevitable on 1H20E	BUY	Megan Jin
20/02/2020	Ausnutria Dairy	1717	FY19E cow IMF growth beat expectations	BUY	Dallas Cai/Megan Jin
18/02/2020	Anta Sports	2020	Concrete yet manageable impacts from COVID-19	BUY	Dallas Cai/Megan Jin
13/02/2020	CH Display OPT	334	Better than feared coronavirus impacts, for now	HOLD	Dallas Cai
10/02/2020	TCL Electronics	1070	FY19E earnings beat expectations	BUY	Dallas Cai
05/02/2020	Xtep Intl	1368	4Q19 in line with expectations	BUY	Dallas Cai/Megan Jin
17/01/2020	Edvantage Group	382	FY20/21E saw a good start	BUY	Yuji Fung/Dallas Cai

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

(as of 21/04/2020)



	Date	Rating	TP	Close		Date	Rating	TP	Close
1	18 Mar 2019	BUY	HK$2.37	HK$1.93	6	21 Aug 2019	BUY	HK$2.37	HK$1.55
2	03 May 2019	BUY	HK$2.37	HK$1.52	7	18 Oct 2019	BUY	HK$2.37	HK$1.83
3	11 Jun 2019	BUY	HK$2.37	HK$1.78	8	17 Jan 2020	BUY	HK$2.37	HK$1.39
4	24 Jun 2019	BUY	HK$2.37	HK$1.50	9	24 Feb 2020	BUY	HK$2.37	HK$1.43
5	17 Jul 2019	BUY	HK$2.37	HK$1.42	10	19 Mar 2020	BUY	HK$2.10	HK$1.19

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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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