

# 361 Degrees (1361 HK)

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## Company Update

**BUY**
**UNCHANGED**
**Close price:** HK\$1.83

**Target Price:** HK\$2.37 (+30%)

**Prior TP:** HK\$2.37

### Key Data

HKEx code	1361 HK
12 Months High (HK\$)	2.04
12 Month Low (HK\$)	1.17
3M Avg Dail Vol. (mn)	2.11
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	3,783.71
Fiscal Year	12/2018
Major shareholder (s)	Director Ding Wuhaio 16.71%

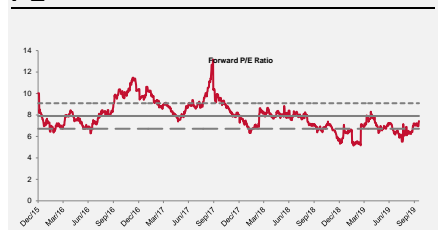
Source: Company data, Bloomberg, OP Research  
Closing price are as of 16/10/2019

### Price Chart



	1mth	3mth	6mth
Absolute %	18.8	28.9	6.4
Rel. MSCI CHINA %	20.2	30.2	17.1

### PE



### Company Profile

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

## 3Q19 operations in line with expectations

- 361 Degrees announced 3Q19 operation updates with core brand up LSD yoy, and 361 Kids up HSD yoy, in line with our expectations.
- IP crossovers are expected to penetrate into more offline channels and contribute more from FY20E onwards.
- Maintain BUY with TP HK\$2.37 unchanged based on same 8x FY20E PE given its attractive valuation, yield rate, and up-to-expectations retail performance.

**3Q19 operations in line with expectations.** 361 Degrees core brand retail sales continued to grow low-single-digit percentage ("LSD") yoy in 3Q19, same as in 2Q19 and 1Q19, and lower than mid-single-digit percentage ("MSD") in 3Q18, in line with our expectations. 361 Kids maintained high-single-digit percentage ("HSD") growth in 3Q19, same as in 2Q19. E-commerce sales growth picked up slightly from low-teens in 2Q19 to high-teens in 3Q19, better than our expectations, which we attribute to the positive response to new products. Retail discount was maintained stable at mid-20%, similar to 2Q19 and 3Q18.

**We expect IP crossovers to penetrate into more offline channels from FY20E onwards.** Amid the trend of IP crossovers in China's apparels, the company has launched several series intensively this year, including Crossfire, Pepsi, Gundam and Minions. We view 361 Degrees does well in this area among peers, which also helps lift its brand awareness and position. As these well-sold series are now mainly offered online, and that several crossover series have already been added into the trade fair held this September, we expect more profound contribution from IP crossovers in FY20E.

**Maintain BUY as the company is likely to benefit from sector-wide valuation expansion.** We maintain our BUY rating with TP HK\$2.37 unchanged based on 8x FY20E PE, compared with 19x peers average and 12x of Xtep (1368 HK) that is its closest peer (focusing on low tier cities). We believe the stock will benefit from the near-term trade up in sportswear sector given its attractive valuation, yield rate, and up-to-expectation operation performance.

















**Risks:** (1) Unsatisfactory market recognition for its higher-priced new products; (2) channel inventory build-up; (3) severe-than expected volume decline.

### Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,158.2	5,187.4	5,605.9	5,924.7	6,187.9
Growth (%)	2.7	0.6	8.1	5.7	4.4
Net Profit	456.7	303.7	429.3	508.1	562.9
Growth (%)	13.4	(33.5)	41.4	18.3	10.8
Diluted EPS (HK\$)	0.265	0.176	0.250	0.296	0.328
EPS growth (%)	8.9	(33.5)	41.7	18.3	10.8
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.276	0.306	
ROE (%)	8.3	5.3	7.2	8.0	8.5
P/E (x)	6.9	10.4	7.3	6.2	5.6
P/B (x)	0.6	0.5	0.5	0.5	0.5
Yield (%)	5.8	4.2	5.5	6.5	7.2
DPS (HK\$)	0.106	0.076	0.100	0.118	0.131

Source: Bloomberg, OP Research

**Exhibit 2: Peer comparison of IP crossovers**

361 Degrees (1361)			
			
Crossfire – Jun. 2019	Gundam – Jun. 2019	Pepsi – Sep. 2019	Minions – Oct. 2019
Footwear: RMB359-449	Footwear: RMB329-479	Footwear: RMB449-539	Footwear: n.a.
Apparels: RMB145-449	Apparels: RMB99-129	Apparels: RMB229-279	Apparels: RMB259-1099
Xtep (1368 HK)			
			
NEXT (mainland star) – 2018,2019	Transformer – Jan. Jun. 2019	Muhammad Ali-Haj – Jun. 2019	Batman – Sep. 2019
Footwear: RMB109-179	Footwear: RMB249	Footwear: RMB379-439	Footwear: RMB279-499
Apparels: RMB59-219	Apparels: RMB159-439	Apparels: RMB139-259	Apparels: RMB569
Lining (2331 HK)			
			
Hongqi– Nov. 2018	EDG – Nov. 2019	People's Daily – May. 2019	RNG – May. 2019
Footwear: n.a.	Footwear: RMB519-1499	Footwear: RMB159-259	Footwear: RMB199-499
Apparels: RMB199-739	Apparels: n.a.	Apparels: RMB229-999	Apparels: RMB529
Anta (2020 HK)			
			
NASA – 2018	Marvel – May. 2019	Coca Cola – Apr., Jul. 2019	Snoopy – Sep. 2019
Footwear: RMB319-669	Footwear: RMB399-699	Footwear: RMB309-499	Footwear: RMB249-499
Apparels: RMB179-239	Apparels: RMB89-139	Apparels: RMB99-159	Apparels: RMB79–249

Source: Company Wechat malls, Taobao, OP Research

### Exhibit 3: Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E	Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)						Ratios					
Footwear	2,306	2,212	2,290	2,381	2,453	Gross margin (%)	41.8	40.6	40.6	40.6	40.6
Apparel	1,988	1,999	2,251	2,352	2,423	Operating margin (%)	17.5	13.2	15.8	17.2	17.9
Accessories	78	76	76	76	76	Net margin (%)	8.9	5.9	7.7	8.6	9.1
361 Kids	711	816	897	1,013	1,124	Selling & dist'n exp/Sales (%)	13.9	14.7	13.9	13.0	12.8
Others	75	84	93	102	112	Admin exp/Sales (%)	9.7	10.5	9.2	8.8	8.2
Turnover	5,158	5,187	5,606	5,925	6,188	R&D/Rev (%)	3.4	4.1	3.6	3.4	3.4
YoY%	3	1	8	6	4	A&P/Rev (%)	9.8	10.7	10.2	9.5	9.5
COGS	(3,002)	(3,082)	(3,328)	(3,517)	(3,673)	Staff cost/Rev (%)	9.0	8.8	8.2	8.1	8.2
Gross profit	2,156	2,106	2,277	2,407	2,515	Payout ratio (%)	40.0	43.1	40.0	40.0	40.0
Gross margin	41.8%	40.6%	40.6%	40.6%	40.6%	Effective tax (%)	39.6	46.5	40.0	40.0	40.0
Other income	140	103	105	105	105	Total debt/equity (%)	45.2	49.0	45.7	43.6	41.5
Selling & distribution	(719)	(764)	(779)	(770)	(795)	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Admin	(503)	(545)	(516)	(523)	(505)	Current ratio (x)	3.6	3.2	3.7	3.6	3.6
R&D	(173)	(215)	(202)	(201)	(210)	Quick ratio (x)	3.3	2.9	3.4	3.4	3.4
Other opex	0	0	0	0	0	Inventory T/O (days)	99	124	80	80	80
Total opex	(1,395)	(1,524)	(1,497)	(1,494)	(1,510)	AR T/O (days)	152	169	160	160	160
Operating profit (EBIT)	902	685	886	1,018	1,110	AP T/O (days)	275	275	275	275	275
Operating margin	17.5%	13.2%	15.8%	17.2%	17.9%	Cash conversion cycle (days)	(24)	18	(35)	(35)	(35)
Provisions	0	0	0	0	0	Asset turnover (x)	0.5	0.4	0.5	0.5	0.5
Interest Income	86	98	103	108	114	Financial leverage (x)	2.0	2.0	2.0	1.9	1.9
Finance costs	(214)	(212)	(226)	(226)	(226)	EBIT margin (%)	17.5	13.2	15.8	17.2	17.9
Profit after financing costs	774	571	763	900	997	Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Associated companies & JVs	0	0	0	0	0	Tax burden (x)	0.6	0.5	0.6	0.6	0.6
Pre-tax profit	774	571	763	900	997	Return on equity (%)	8.3	5.3	7.2	8.0	8.5
Tax	(307)	(265)	(305)	(360)	(399)	ROIC (%)	20.6	14.0	21.1	23.8	26.3
Minority interests	(11)	(2)	(28)	(32)	(36)						
Net profit	457	304	429	508	563	Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
YoY%	13	(34)	41	18	11	Bal. Sheet (RMB mn)					
Net margin	8.9%	5.9%	7.7%	8.6%	9.1%	Fixed assets	1,123	1,035	976	916	860
EBITDA	1,023	809	981	1,116	1,205	Intangible assets & goodwill	114	111	111	110	110
EBITDA margin	19.8%	15.6%	17.5%	18.8%	19.5%	Associated companies & JVs	7	29	29	29	29
EPS (RMB)	0.221	0.147	0.208	0.246	0.273	Long-term investments	96	94	94	94	94
YoY%	9	(34)	42	18	11	Other non-current assets	53	46	46	46	46
DPS (HK\$)	0.106	0.076	0.100	0.118	0.131	Non-current assets	1,393	1,315	1,255	1,195	1,138
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E	Inventories	814	1,051	730	771	805
Cash Flow (RMB mn)						AR	2,150	2,399	2,457	2,597	2,712
EBITDA	1,023	809	981	1,116	1,205	Prepayments & deposits	728	721	779	823	860
Chg in working cap	89	(303)	(51)	(83)	(69)	Other current assets	3,941	4,827	4,827	4,827	4,827
Others	(69)	43	0	0	0	Cash	2,116	1,651	1,937	2,294	2,694
Operating cash	1,042	549	930	1,032	1,137	Current assets	9,748	10,650	10,731	11,313	11,899
Interest received	0	0	0	0	0						
Tax	(210)	(254)	(476)	(305)	(360)	AP	2,264	2,766	2,510	2,652	2,770
Net cash from operations	832	295	454	727	777	Tax	468	476	305	360	399
						Accruals & other payables	0	0	0	0	0
Capex	(44)	(33)	(35)	(37)	(39)	Bank loans & leases	13	112	112	112	112
Investments	(1,218)	(886)	0	0	0	CB & othe debts	0	0	0	0	0
Dividends received	0	0	0	0	0	Other current liabilities	0	0	0	0	0
Sales of assets	0	0	0	0	0	Current liabilities	2,744	3,354	2,927	3,124	3,281
Interests paid	85	98	103	108	114						
Others	0	0	0	0	0	Bank loans & leases	2,565	2,714	2,714	2,714	2,714
Investing cash	(1,177)	(821)	68	71	75	CB & othe debts	0	0	0	0	0
FCF	(346)	(526)	522	798	851	Deferred tax & others	0	2	2	2	2
Issue of shares	0	0	0	0	0	MI	125	127	155	187	223
Buy-back	0	0	0	0	0	Non-current liabilities	2,691	2,843	2,871	2,903	2,939
Minority interests	0	0	150	0	0						
Dividends paid	(147)	(194)	(160)	(215)	(225)	Total net assets	5,706	5,768	6,187	6,480	6,818
Net change in bank loans	(62)	99	0	0	0						
Others	(202)	151	(226)	(226)	(226)	Shareholder's equity	5,706	5,768	6,187	6,480	6,818
Financing cash	(411)	55	(236)	(441)	(451)	Share capital	182	182	182	182	182
						Reserves	5,524	5,585	6,005	6,298	6,636
Net change in cash	(757)	(471)	286	357	400	BVPS (HK\$)	3.31	3.35	3.60	3.77	3.97
Exchange rate or other Adj	(9)	6	0	0	0						
Opening cash	2,882	2,116	1,651	1,937	2,294	Total debts	2,578	2,827	2,827	2,827	2,827
Closing cash	2,116	1,651	1,937	2,294	2,694	Net cash/(debts)	3,479	3,652	3,938	4,295	4,695
CFPS (HK\$)	0.483	0.171	0.264	0.423	0.452						

Source: Company, OP Research

Exhibit 4: Peers Group Comparison

			Mkt cap	3-mth	PER	PER	PER	EPS	EPS	3-Yr EPS	Div yld	Div yld	P/B	P/B	EV/	EV/	Net	Gross	Net	ROE	Sh px	Sh px		
				avg t/o	Hist	FY1	FY2	FY1	FY2				Hist	FY1	FY2	Hist	FY1	Ebitda	Ebitda	gearing			margin	margin
Company	Ticker	Price	(US\$m)	(US\$m)	(x)	(x)	(x)	YoY%	YoY%	Cagr (%)	PEG (x)	Hist (%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	(%)	Hist (%)	(%) FY1 (%)	1-mth	3-mth	
361 Degrees	1361 HK	1.83	482	0.4	10.4	7.3	6.2	41.7	18.3	12.1	0.6	4.2	5.5	0.5	0.5	0.2	(0.2)	Net cash	40.6	5.9	5.3	7.2	18.8	27.1
HSI		26,664.28			10.4	10.6	10.0	(2.2)	6.2	3.9	2.73	3.7	3.9	1.18	1.15					11.4	10.8	(1.7)	(6.8)	
HSCEI		10,532.17			8.4	8.4	7.8	0.5	6.6	5.2	1.60	3.7	3.9	1.10	1.07					13.1	12.8	(0.9)	(3.1)	
CSI300		3,922.69			14.2	12.8	11.3	10.4	13.7	0.0	0.0	2.2	2.4	1.8	1.7					12.9	13.2	(0.9)	3.0	
Adjusted sector avg*					38.1	22.9	19.3	35.3	24.7	26.1	1.0	1.7	1.7	2.8	4.0	16.1	14.1	6.6	43.6	8.7	14.0	15.4	13.2	13.0
Xtep Intl	1368 HK	5.21	1,660	6.3	15.6	14.8	12.2	5.7	21.0	14.6	1.0	4.2	4.0	1.5	2.0	8.6	7.7	0.0	44.3	10.3	12.2	13.3	18.4	13.0
Anta Sports Prod	2020 HK	75.65	26,050	46.7	44.8	32.9	26.2	36.2	25.7	27.1	1.2	0.8	1.1	10.3	10.2	30.9	22.9	0.0	52.6	17.0	28.6	31.0	21.5	42.5
Li Ning Co Ltd	2331 HK	26.90	7,932	34.3	82.2	42.5	35.0	93.4	21.3	44.0	1.0	0.4	0.7	8.6	9.3	44.1	28.7	0.0	48.1	6.8	20.9	21.2	21.7	36.0
Pou Sheng Intl	3813 HK	2.72	1,857	1.4	23.7	17.6	13.2	34.7	33.6	28.4	0.6	0.9	1.1	1.8	1.9	12.4	8.4	39.8	33.5	2.4	9.6	9.8	13.8	38.1
China Dongxiang	3818 HK	0.90	675	0.6	N/A	7.1	10.3	N/A	(31.3)	N/A	N/A	3.0	12.3	0.5	0.5	N/A	3.3	0.0	N/A	N/A	3.3	6.4	9.8	(9.4)
Annil Co Ltd-A	002875 CH	17.04	316	5.1	24.2	22.7	18.6	6.4	22.0	16.4	1.4	0.9	N/A	2.5	2.3	18.7	13.5	0.0	55.3	6.9	9.7	10.7	(6.2)	(9.2)
Guirenniao Co-A	603555 CH	3.99	353	2.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.6	1.8	(17.8)	N/A	146.8	28.0	(24.6)	(40.9)	(8.9)	(15.1)	(20.2)
Adjusted sector avg*					46.2	41.2	33.3	25.5	17.6	20.2	1.8	0.9	0.6	10.6	10.5	26.3	21.6	0.0	49.0	7.2	26.7	27.7	7.4	2.5
Nike Inc -Cl B	NKE US	94.79	147,972	533.1	37.2	31.9	27.5	16.4	16.1	16.5	1.93	0.9	1.0	16.07	15.54	27.6	24.1	0.0	44.7	10.3	47.3	48.8	8.6	7.0
Under Armour-A	UAA US	20.40	8,728	95.4	N/A	60.4	42.9	N/A	40.8	(283.7)	N/A	N/A	0.0	4.49	3.91	61.1	22.7	8.5	45.1	(0.9)	4.3	7.0	(3.4)	(25.4)
Lululemon Ath	LULU US	203.89	26,562	321.8	56.2	43.0	36.3	30.6	18.6	22.4	1.92	N/A	0.0	17.62	17.08	32.2	26.9	0.0	55.2	14.7	37.8	39.7	5.3	7.2
Adidas Ag	ADS GR	284.70	62,964	147.0	33.7	29.1	25.7	16.1	13.0	14.7	1.97	1.2	1.3	8.51	N/A	19.6	16.1	0.0	51.9	7.8	30.5	28.7	6.1	1.3
Puma Se	PUM GR	72.50	12,067	23.2	57.8	41.6	33.9	38.8	22.7	27.3	1.53	0.5	0.7	6.08	5.68	25.7	18.1	0.0	48.4	4.0	13.8	14.2	9.7	22.3

Source: Bloomberg, OP Research

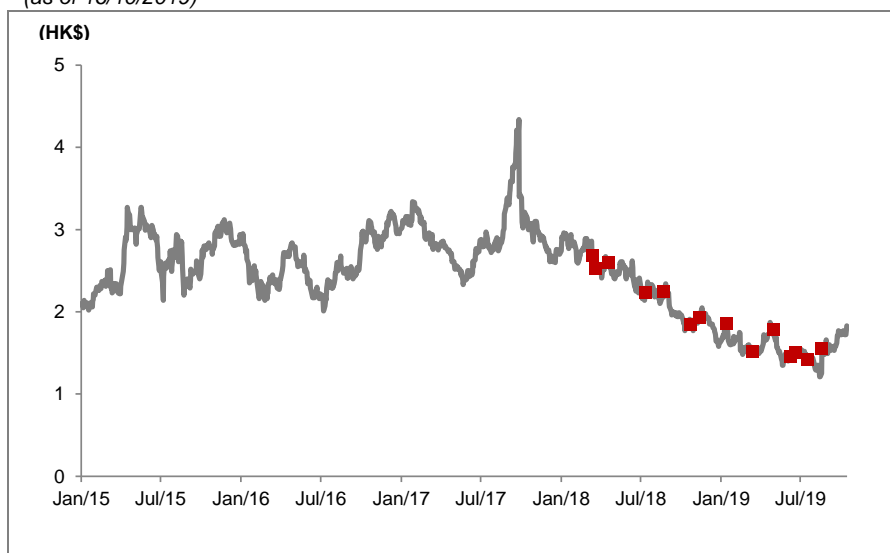


## Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
14/10/2019	Sunny Optical	2382	Another month of robust HLS growth	BUY	Yuji Fung/Dallas Cai
11/10/2019	Q Tech	1478	September saw robust shipment growth momentum	BUY	Yuji Fung/Dallas Cai
02/10/2019	China Prop Mgmt	-	Clear vision of promising secular growth	BUY	Dallas Cai/Yuji Fung
11/09/2019	Q Tech	1478	August saw product mix improving on track	BUY	Yuji Fung/Dallas Cai
10/09/2019	Sunny Optical	2382	Upgrade on HLS market share gain	BUY	Yuji Fung/Dallas Cai
05/09/2019	Sinosoft Tech	1297	1H19 saw softened growth	BUY	Yuji Fung/Dallas Cai
05/09/2019	Truly Int'l	732	1H19 saw loss from associate narrowing on track	BUY	Yuji Fung/Dallas Cai
02/09/2019	TCL Electronics	1070	1H19 earnings beat our expectations	BUY	Yuji Fung/Dallas Cai
27/08/2019	Anta Sports	2020	Positive surprise from OPM and Descente breakeven	BUY	Dallas Cai/Megan Jin
23/08/2019	Tian Lun Gas	1600	1H19 saw growth on track	BUY	Yuji Fung/Dallas Cai
23/08/2019	Ju Teng Intl	3336	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
22/08/2019	Xtep Intl	1368	1H19 earnings beat on non-core items	BUY	Dallas Cai/Megan Jin
22/08/2019	Tongda	698	1H19 saw GPM recovery as expected	BUY	Yuji Fung/Dallas Cai
21/08/2019	Chinasoft Intl	354	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
21/08/2019	361 Degrees Intl	1361	1H19 results in line	BUY	Megan Jin
21/08/2019	Edvantage Group	382	Pathway to the World	NR	Yuji Fung
20/08/2019	Regal Intl Airport	357	Franchise revenue retreated on competition	BUY	Yuji Fung/Dallas Cai
19/08/2019	Ausnutria Dairy	1717	Response to short-sell allegations	BUY	Dallas Cai/Megan Jin
16/08/2019	CH Display OPT	334	Downgrade on robust shipment growth at the cost of squeezed dollar margin	HOLD	Yuji Fung/Dallas Cai
16/08/2019	Kingdee Intl	268	1H19 results in line with previous profit warnings	SELL	Yuji Fung/Dallas Cai
16/08/2019	Sunny Optical	2382	Positive surprise on handset lens sets margin	BUY	Yuji Fung/Dallas Cai
15/08/2019	Ausnutria Dairy	1717	Inventory surge on one-off events	BUY	Dallas Cai/Megan Jin
15/08/2019	Li Ning	2331	Higher visibility for wholesale channel optimization	BUY	Dallas Cai/Megan Jin
13/08/2019	Q Tech	1478	Comeback with upbeat margin	BUY	Yuji Fung/Dallas Cai
13/08/2019	China Youzan	8083	Sign of net loss narrowing	BUY	Yuji Fung/Dallas Cai
31/07/2019	Ausnutria Dairy	1717	1H19E preview: investment thesis intact	BUY	Dallas Cai/Megan Jin
24/07/2019	Xtep Intl	1368	Upgrade on improved investor confidence	BUY	Dallas Cai/Megan Jin

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

(as of 16/10/2019)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 23 Aug 2018	BUY	HK\$4.00	HK\$2.17	6 03 May 2019	BUY	HK\$2.37	HK\$1.78
2 22 Oct 2018	BUY	HK\$3.35	HK\$1.91	7 11 Jun 2019	BUY	HK\$2.37	HK\$1.45
3 13 Nov 2018	BUY	HK\$3.35	HK\$1.93	8 24 Jun 2019	BUY	HK\$2.37	HK\$1.50
4 15 Jan 2019	BUY	HK\$2.54	HK\$1.93	9 17 Jul 2019	BUY	HK\$2.37	HK\$1.42
5 18 Mar 2019	BUY	HK\$2.37	HK\$1.52	10 21 Aug 2019	BUY	HK\$2.37	HK\$1.55

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