

361 Degrees (1361 HK)

Megan Jin

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Company Update

BUY
UNCHANGED

Close price: HK\$1.39

Target Price: HK\$2.37 (+71%)

Prior TP: HK\$2.37

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	1.88
12 Month Low (HK\$)	0.99
3M Avg Dail Vol. (mn)	1.90
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	2,873.97
Fiscal Year	12/2018
Major shareholder (s)	Director Ding Wuhaio 16.71%

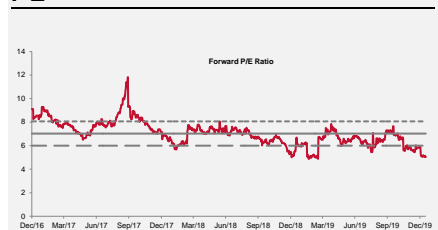
Source: Company data, Bloomberg, OP Research
Closing price are as of 16/01/2020

Price Chart



	1mth	3mth	6mth
Absolute %	3.0	-15.8	5.9
Rel. MSCI CHINA %	-2.6	-30.9	-6.1

PE



Company Profile

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

4Q19 retail sales on track

- 361 Degrees maintained stable growth in 4Q19 with retail sales of core brand up LSD yoy, and that of 361 Kids up HSD yoy, in line with our expectations.
- Online sales growth accelerated in 4Q19, up 60-70% yoy driven by IP crossovers, beating our and market's expectation.
- Maintain BUY with TP HK\$2.37 unchanged based on same 8x FY20E PE on undemanding valuation and attractive yields.

4Q19 retail sales for core brand & kids continued to record stable growth as expected. 361 Degrees core brand retail sales maintained the stable growth momentum in previous quarters and recorded low-single-digit percentage ("LSD") yoy growth in 4Q19, vs flattish performance in 4Q18, and in line with our expectations. Retail sales of 361 Kids increased high-single-digit percentage ("HSD") in 4Q19, improving slightly from 3Q19 but lower than low teens in 4Q18 due to high base. Retail discount was kept at mid-twenties, the similar level as in previous quarters. Inventory maintained healthy level (i.e. less than 5 months).

Online sales accelerated in 4Q19 growing 60-70% yoy driven by IP crossovers, beating our and market's expectation, also up significantly from high teens and low teens in 3Q19 and 2Q19 respectively. This strong growth in E-commerce retail sales in 4Q19 benefited from the intense launches of IP crossovers since 2H19 and the compound effect of two major online shopping festivals. We believe this is a positive result from the online channel's structural reform (i.e. shift the function of e-commerce channel from inventory clearing to new products launch). We estimate online revenue to grow at 40%+ for FY19, offsetting the relatively lackluster growth of offline sales to maintain on track with overall revenue growth target of HSD for the whole year.

Maintain BUY on undemanding valuation and attractive yields. The company trades at 6x FY20E PE, 66% discount to its peers, with 7.9% yield. We maintain our BUY rating with TP HK\$2.37 unchanged based on 8x FY20E PE.

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 quarterly retail sales growth

Retail Sales Growth (yoy%)		1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Anta		+low teens	20~30%	+mid teens	20~25%	20~25%	+low teens	+mid teens	+mid teens	+low teens	+mid teens	+mid teens	+ high teens
	Fila & Other new brands	40-50%	50-60%	40-50%	85-90%	70%	80%	90%	85%	70%	60%	50-55%	50-55%
Li Ning		+HSD	+low teens	+LSD	+mid teens	+mid teens	+low teens	+mid teens	+ high teens	+low 20s	+low 20s	+low 30s	
Xtep		-	-	-	-	-	-	-	-	20%+	20%+	20%~	
361 Degrees		-	-	-	-	-	-	-	-	-	-	-	-
	Core brands offline	-	+HSD	+HSD	+HSD	+HSD	+HSD	+MSD	flat	+LSD	+LSD	+LSD	+LSD
	Kids	-	+HSD	+HSD	+HSD	+HSD	+low teens	+low teens	+low teens	+LSD	+HSD	+HSD	+HSD
Online retail Sales Growth (yoy%)		1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Anta		50%+	50%+	~50%	40%+	~40%	~30%	20%+	24%+	+mid teens	25%+	30%-35%	40%+
Li Ning		+mid 60s	40-50%	+low 30s	+low 30s	+high 30s	+high 30s	+low 30s	+mid 50s	+low 40s	+high 20s	+low 50s	
361 Degrees		-								30%+	+low teens	+ high teens	+60-70%

Source: Company, 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

Company	Ticker	Price	Mkt cap (US\$m)	3-mth	PER	PER	PER	EPS	EPS	3-Yr EPS	PEG (x)	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	Ebitda	Ebitda	gearing	margin	Hist	margin			Hist
361 Degrees	1361 HK	1.39	370	0.3	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	6.1	(24.0)
HSI	28,883.04				11.3	10.9	10.0	4.1	8.1	8.7	1.25	3.4	3.8	1.26	1.16						11.2	10.6	5.0	8.3
HSCEI	11,328.38				9.0	8.5	7.8	6.1	8.9	3.7	2.29	3.3	3.9	1.22	1.06						13.6	12.5	5.1	7.6
CSI300	4,149.04				14.7	12.1	10.7	22.2	12.4	0.0	0.0	2.0	2.6	1.9	1.6						12.9	13.6	4.0	5.8
Adjusted sector avg*					36.9	22.8	18.3	33.4	27.8	27.3	1.1	2.2	3.5	2.8	4.1	15.8	13.7	6.6	43.7	8.7	15.6	11.4	10.6	(3.4)
Xtep Intl	1368 HK	4.32	1,396	4.2	12.7	12.8	10.5	(1.3)	22.5	12.5	1.0	5.1	4.7	1.3	1.7	6.6	6.3	0.0	44.3	10.3	12.2	12.1	6.4	(17.1)
Anta Sports Prod	2020 HK	78.05	27,128	54.7	45.2	33.9	25.6	33.4	32.2	29.7	1.1	0.8	1.1	10.4	10.7	31.2	22.1	0.0	52.6	17.0	28.6	30.7	9.9	3.2
Li Ning Co Ltd	2331 HK	27.05	8,539	33.9	80.8	40.8	33.6	98.1	21.3	45.8	0.9	0.4	0.8	8.5	9.3	46.1	29.5	0.0	48.1	6.8	20.9	21.4	11.5	0.6
Pou Sheng Intl	3813 HK	2.54	1,750	1.1	21.6	14.9	11.2	45.3	33.1	33.8	0.4	1.0	1.3	1.7	1.8	11.6	7.7	39.8	33.5	2.4	9.6	10.3	(2.3)	(6.6)
China Dongxiang	3818 HK	0.88	666	0.5	N/A	7.6	8.7	N/A	(12.6)	N/A	N/A	5.1	9.6	0.4	0.4	N/A	1.6	0.0	N/A	N/A	N/A	5.8	4.8	(1.4)
Annil Co Ltd-A	002875 CH	17.15	328	6.8	24.3	26.6	20.5	(8.5)	29.9	14.5	1.8	0.9	N/A	2.5	2.4	20.5	14.8	0.0	55.3	6.9	6.9	8.1	14.5	0.6
Guirenniao Co-A	603555 CH	5.23	478	11.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.1	2.3	(21.3)	N/A	146.8	28.7	(24.4)	(46.6)	(8.9)	16.5	31.1
Adjusted sector avg*					51.5	44.5	36.3	26.7	17.0	20.3	2.0	0.8	0.6	11.1	11.1	30.1	23.8	0.0	49.0	7.2	27.0	27.6	8.3	10.3
Nike Inc -Cl B	NKE US	102.79	160,082	580.2	40.3	34.0	29.4	18.7	15.6	17.0	2.00	0.9	0.9	17.14	18.88	29.9	26.2	0.0	44.7	10.3	50.6	49.4	4.0	8.3
Under Armour-A	UAA US	21.18	9,003	95.4	N/A	61.9	45.0	N/A	37.7	(282.0)	N/A	N/A	0.0	4.44	4.33	63.1	23.4	8.5	45.1	(0.9)	5.4	7.3	3.7	4.6
Lululemon Ath	LULU US	243.49	31,726	428.3	67.1	50.0	42.1	34.1	18.7	23.4	2.14	N/A	0.0	19.24	17.29	38.4	30.9	0.0	55.2	14.7	37.1	38.1	8.0	19.9
Adidas Ag	ADS GR	315.65	70,593	146.3	37.4	32.3	28.9	15.9	11.8	13.4	2.41	1.1	1.2	8.72	8.71	22.9	18.3	0.0	51.9	7.8	28.2	28.9	10.1	12.1
Puma Se	PUM GR	76.90	12,943	23.3	61.3	44.4	36.4	38.2	22.0	27.2	1.63	0.5	0.8	5.93	6.08	29.1	20.4	0.0	48.4	4.0	14.0	14.3	15.7	6.7

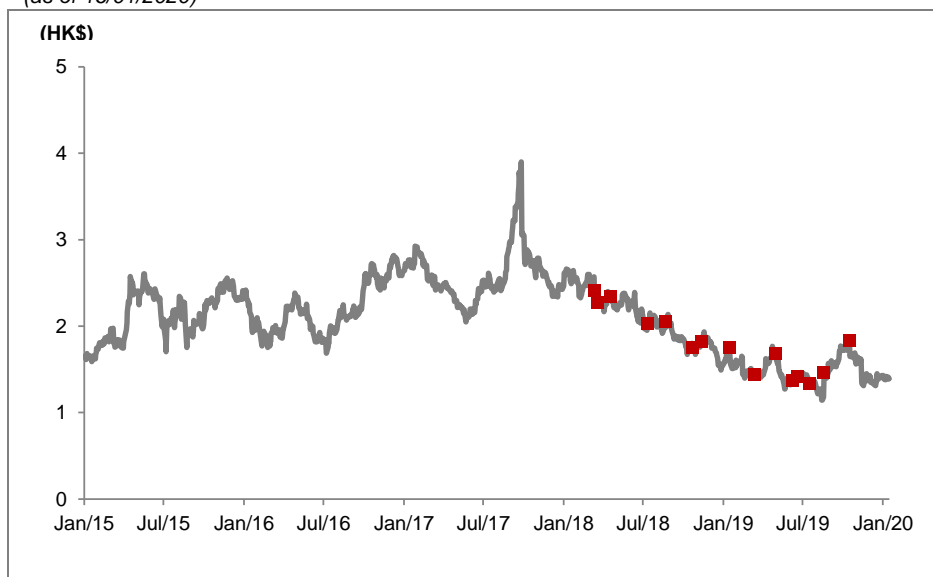
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
15/01/2020	Anta Sports	2020	Issuance of CB to optimize financial structure	BUY	Dallas Cai/Megan Jin
10/01/2020	Sunny Optical	2382	2019 shipment targets met - as expected	BUY	Yuji Fung/Dallas Cai
08/01/2020	Q Tech	1478	2019 full year shipments meet OP targets	BUY	Yuji Fung/Dallas Cai
31/12/2019	GT Service	2869	Introducing Longfor as 3rd largest shareholder	BUY	Dallas Cai/Yuji Fung
20/12/2019	Q Tech	1478	Top-up placement for CCM capacity expansion	BUY	Yuji Fung/Dallas Cai
17/12/2019	Aidigong	286	Transforming into a leading postpartum care player in China	NR	Yuji Fung
13/12/2019	Anta Sports	2020	Revealing higher visibility of post-M&A roadmap	BUY	Dallas Cai/Megan Jin
10/12/2019	Sunny Optical	2382	November saw strong HCM shipment growth	BUY	Yuji Fung/Dallas Cai
10/12/2019	Q Tech	1478	November shipments maintain full steam	BUY	Yuji Fung/Dallas Cai
03/12/2019	Xtep Intl	1368	Update on winter sales and new brand	BUY	Dallas Cai/Megan Jin
28/11/2019	Edvantage Group	382	Advantageous Educator in Greater Bay Area	BUY	Yuji Fung/Dallas Cai
14/11/2019	Ausnutria Dairy	1717	3Q results up to expectations	BUY	Dallas Cai/Megan Jin
14/11/2019	Anta Sports	2020	Dispose 5% of Amer for introduction of experienced investors	BUY	Dallas Cai/Megan Jin
11/11/2019	Sunny Optical	2382	October shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
11/11/2019	Q Tech	1478	Another month of robust growth in October	BUY	Yuji Fung/Dallas Cai
30/10/2019	CH Display OPT	334	More shifting to processing mode in 3Q19	HOLD	Yuji Fung/Dallas Cai
22/10/2019	Li-Ning	2331	3Q19 saw solid retail performance	BUY	Dallas Cai/Megan Jin
21/10/2019	Q Tech	1478	Upgrade on diversified global footprint	BUY	Yuji Fung/Dallas Cai
18/10/2019	Xtep Intl	1368	3Q19 operations in line	BUY	Dallas Cai/Megan Jin
17/10/2019	Anta Sports	2020	3Q19 retail performance up to expectations	BUY	Dallas Cai/Megan Jin
17/10/2019	361 Degrees Intl	1361	3Q19 operations in line with expectations	BUY	Megan Jin
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

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

(as of 16/01/2020)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 22 Oct 2018	BUY	HK\$3.35	HK\$1.91	6 11 Jun 2019	BUY	HK\$2.37	HK\$1.45
2 13 Nov 2018	BUY	HK\$3.35	HK\$1.93	7 24 Jun 2019	BUY	HK\$2.37	HK\$1.50
3 15 Jan 2019	BUY	HK\$2.54	HK\$1.93	8 17 Jul 2019	BUY	HK\$2.37	HK\$1.42
4 18 Mar 2019	BUY	HK\$2.37	HK\$1.52	9 21 Aug 2019	BUY	HK\$2.37	HK\$1.55
5 03 May 2019	BUY	HK\$2.37	HK\$1.78	10 18 Oct 2019	BUY	HK\$2.37	HK\$1.83

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