

361 Degrees (1361 HK)

Megan Jin

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Company Update

BUY

UNCHANGED
Close price: HK\$1.43

Target Price: HK\$2.37 (+66%)

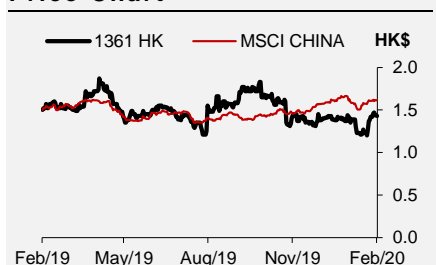
Prior TP: HK\$2.37

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	1.87
12 Month Low (HK\$)	0.99
3M Avg Dail Vol. (mn)	1.12
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	2,956.67
Fiscal Year	12/2018
Major shareholder (s)	Director Ding Wuhaio 16.71%

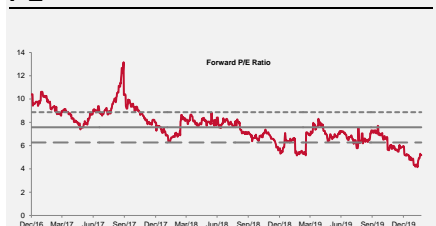
Source: Company data, Bloomberg, OP Research
Closing price are as of 21/02/2020

Price Chart



	1mth	3mth	6mth
Absolute %	1.4	0.0	-3.4
Rel. MSCI CHINA %	2.2	-10.1	-19.5

PE



Company Profile

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

COVID-19 impacts to be inevitable on 1H20E

- 361 Degrees released a business update highlighting COVID-19 to inevitably affect its 1H20E financial performance.
- The company consecutively repurchased 10.29% of its US-dollar notes due in 2021E in recent 2 months, which is expected to optimize its financial costs and lift investor confidence, in our view.
- Maintain BUY with TP HK\$2.37 unchanged based on same 8x FY20E PE on undemanding valuation and attractive yields.

COVID-19 to inevitably affect 1H20E financial performance. 361 Degrees released a business update on operation impacts from COVID-19 on 20th Feb, 2020E, with highlights as below: 1) all retail stores in China except Hubei province are initially expected to gradually resume normal operations by end-Feb, 2020E; 2) in-house factories and offices have all resumed production from 10th Feb, 2020E; 3) e-commerce platform is strengthened through both increasing WeChat mini-program and the launch of "all-staff marketing" plan; 4) the company expects 1H20E financial performance to be inevitably affected.

Eyeing on the intensive international sports events to be held in 2H20E, we expect the sportswear sector to gradually pick up in retail performance during 2Q20E. And the speeded-up development of e-commerce channel in 1H20E could help 361 Degrees optimize its current distribution structure in the medium term.

The company consecutively repurchased its US notes due in 2021E since 2020E. On 30th Jan, and 13th Feb, 2020E, 361 degrees bought back 5.25% and 5.04% of its US dollar denominated unsecured notes due in 2021E which has total principal amount of US\$400mn with 7.25% coupon rate. Before these, the company made two repurchases in Nov. and Jun. 2019. By 20th Feb, 2020E, 78.53% of the US notes was outstanding, trading at the price of 94.05% of par value, up 27% from the low point in Nov. 2019. We believe these repurchases could save the company's financial costs and lift investors' confidence.

Maintain BUY. With 7.39% dividend yield, 361 Degrees currently trades at 5x FY20E PE, at 42% discount to its peer Xtep (1368 HK, BUY). The stock price of 361 Degrees has outperformed that of Xtep by 17% YTD. We maintain our BUY rating with TP HK\$2.37 unchanged based on 8x FY20E PE. We will keep close eye on FY20E mgmt guidance and 1Q20E operation update to quantify the epidemic impacts on FY20E performance. Meanwhile, we have noted its accelerated brand reviving with recent sign-up with NBA star (Aaron Gordon). The company's last such cooperation with NBA star ended ~5 years ago.

Risks: (1) Unsatisfactory market recognition for its higher-priced new products; (2) channel inventory build-up; (3) prolonged virus impact.

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)	5.4	8.1	7.3	6.2	5.6
P/B (x)	0.4	0.4	0.5	0.5	0.5
Yield (%)	7.4	5.3	5.5	6.5	7.2
DPS (HK\$)	0.106	0.076	0.100	0.118	0.131

Source: Bloomberg, OP Research

Exhibit 2: Repurchase record for the US\$400,000,000 7.25% senior unsecured notes due 2021E

Announcement date	Repurchase %	Acc. repurchase %	Outstand-ing %	Repurchase amount (US\$)	Acc. amount (US\$)	Outstanding amount (US\$)	Close price (% of face value)
6-Jun-2019	2.75%	2.75%	97.25%	11,000,000	11,000,000	389,000,000	85.784
21-Nov-2019	8.44%	11.19%	88.81%	33,750,000	44,750,000	355,250,000	74.682
30-Jan-2020	5.25%	16.44%	83.56%	21,000,000	65,750,000	334,250,000	89.710
13-Feb-2020	5.04%	21.48%	78.53%	20,140,000	85,890,000	314,110,000	90.680

*Percentages up to round-up errors

Source: Company, Bloomberg, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Footwear	2,306	2,212	2,290	2,381	2,453
Apparel	1,988	1,999	2,251	2,352	2,423
Accessories	78	76	76	76	76
361 Kids	711	816	897	1,013	1,124
Others	75	84	93	102	112
Turnover	5,158	5,187	5,606	5,925	6,188
YoY%	3	1	8	6	4
COGS	(3,002)	(3,082)	(3,328)	(3,517)	(3,673)
Gross profit	2,156	2,106	2,277	2,407	2,515
Gross margin	41.8%	40.6%	40.6%	40.6%	40.6%
Other income	140	103	105	105	105
Selling & distribution	(719)	(764)	(779)	(770)	(795)
Admin	(503)	(545)	(516)	(523)	(505)
R&D	(173)	(215)	(202)	(201)	(210)
Other opex	0	0	0	0	0
Total opex	(1,395)	(1,524)	(1,497)	(1,494)	(1,510)
Operating profit (EBIT)	902	685	886	1,018	1,110
Operating margin	17.5%	13.2%	15.8%	17.2%	17.9%
Provisions	0	0	0	0	0
Interest Income	86	98	103	108	114
Finance costs	(214)	(212)	(226)	(226)	(226)
Profit after financing costs	774	571	763	900	997
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	774	571	763	900	997
Tax	(307)	(265)	(305)	(360)	(399)
Minority interests	(11)	(2)	(28)	(32)	(36)
Net profit	457	304	429	508	563
YoY%	13	(34)	41	18	11
Net margin	8.9%	5.9%	7.7%	8.6%	9.1%
EBITDA	1,023	809	981	1,116	1,205
EBITDA margin	19.8%	15.6%	17.5%	18.8%	19.5%
EPS (RMB)	0.221	0.147	0.208	0.246	0.273
YoY%	9	(34)	42	18	11
DPS (HK\$)	0.106	0.076	0.100	0.118	0.131
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	1,023	809	981	1,116	1,205
Chg in working cap	89	(303)	(51)	(83)	(69)
Others	(69)	43	0	0	0
Operating cash	1,042	549	930	1,032	1,137
Interest received	0	0	0	0	0
Tax	(210)	(254)	(476)	(305)	(360)
Net cash from operations	832	295	454	727	777
Capex	(44)	(33)	(35)	(37)	(39)
Investments	(1,218)	(886)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests paid	85	98	103	108	114
Others	0	0	0	0	0
Investing cash	(1,177)	(821)	68	71	75
FCF	(346)	(526)	522	798	851
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	150	0	0
Dividends paid	(147)	(194)	(160)	(215)	(225)
Net change in bank loans	(62)	99	0	0	0
Others	(202)	151	(226)	(226)	(226)
Financing cash	(411)	55	(236)	(441)	(451)
Net change in cash	(757)	(471)	286	357	400
Exchange rate or other Adj	(9)	6	0	0	0
Opening cash	2,882	2,116	1,651	1,937	2,294
Closing cash	2,116	1,651	1,937	2,294	2,694
CFPS (HK\$)	0.483	0.171	0.264	0.423	0.452

Source: Company, OP Research

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	41.8	40.6	40.6	40.6	40.6
Operating margin (%)	17.5	13.2	15.8	17.2	17.9
Net margin (%)	8.9	5.9	7.7	8.6	9.1
Selling & dist'n exp/Sales (%)	13.9	14.7	13.9	13.0	12.8
Admin exp/Sales (%)	9.7	10.5	9.2	8.8	8.2
R&D/Rev (%)	3.4	4.1	3.6	3.4	3.4
A&P/Rev (%)	9.8	10.7	10.2	9.5	9.5
Staff cost/Rev (%)	9.0	8.8	8.2	8.1	8.2
Payout ratio (%)	40.0	43.1	40.0	40.0	40.0
Effective tax (%)	39.6	46.5	40.0	40.0	40.0
Total debt/equity (%)	45.2	49.0	45.7	43.6	41.5
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.6	3.2	3.7	3.6	3.6
Quick ratio (x)	3.3	2.9	3.4	3.4	3.4
Inventory T/O (days)	99	124	80	80	80
AR T/O (days)	152	169	160	160	160
AP T/O (days)	275	275	275	275	275
Cash conversion cycle (days)	(24)	18	(35)	(35)	(35)
Asset turnover (x)	0.5	0.4	0.5	0.5	0.5
Financial leverage (x)	2.0	2.0	2.0	1.9	1.9
EBIT margin (%)	17.5	13.2	15.8	17.2	17.9
Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Tax burden (x)	0.6	0.5	0.6	0.6	0.6
Return on equity (%)	8.3	5.3	7.2	8.0	8.5
ROIC (%)	20.6	14.0	21.1	23.8	26.3
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Bal. Sheet (RMB mn)					
Fixed assets	1,123	1,035	976	916	860
Intangible assets & goodwill	114	111	111	110	110
Associated companies & JVs	7	29	29	29	29
Long-term investments	96	94	94	94	94
Other non-current assets	53	46	46	46	46
Non-current assets	1,393	1,315	1,255	1,195	1,138
Inventories	814	1,051	730	771	805
AR	2,150	2,399	2,457	2,597	2,712
Prepayments & deposits	728	721	779	823	860
Other current assets	3,941	4,827	4,827	4,827	4,827
Cash	2,116	1,651	1,937	2,294	2,694
Current assets	9,748	10,650	10,731	11,313	11,899
AP	2,264	2,766	2,510	2,652	2,770
Tax	468	476	305	360	399
Accruals & other payables	0	0	0	0	0
Bank loans & leases	13	112	112	112	112
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	2,744	3,354	2,927	3,124	3,281
Bank loans & leases	2,565	2,714	2,714	2,714	2,714
CB & othe debts	0	0	0	0	0
Deferred tax & others	0	2	2	2	2
MI	125	127	155	187	223
Non-current liabilities	2,691	2,843	2,871	2,903	2,939
Total net assets	5,706	5,768	6,187	6,480	6,818
Shareholder's equity	5,706	5,768	6,187	6,480	6,818
Share capital	182	182	182	182	182
Reserves	5,524	5,585	6,005	6,298	6,636
BVPS (HK\$)	3.31	3.35	3.60	3.77	3.97
Total debts	2,578	2,827	2,827	2,827	2,827
Net cash/(debts)	3,479	3,652	3,938	4,295	4,695

Exhibit 3: Peers Group Comparison

				3-mth	PER	PER	PER	EPS	EPS						P/B	P/B	EV/	EV/	Net	Gross	Net	ROE		Sh px	Sh px
				avg t/o	Hist	FY1	FY2	FY1	FY2						3-Yr EPS	Div yld	Div yld	Hist	FY1	Ebitda	Ebitda	gearing		margin	Hist
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	1.43	380	0.2	8.1	7.3	6.2	41.7	18.3	12.1	0.6	5.3	5.5	0.4	0.5	(0.9)	(0.2)	Net cash	40.6	5.9	5.3	7.2	0.7	(0.7)	
HSI		27,308.81			11.2	10.5	9.7	7.1	8.5	9.3	1.12	3.6	3.9	1.21	1.10						10.8	10.5	(2.4)	3.2	
HSCEI		10,790.84			8.7	8.2	7.5	5.5	9.3	3.4	2.43	3.5	4.0	1.15	1.02						13.3	12.4	(1.6)	3.3	
CSI300		4,149.49			14.8	12.1	10.7	22.8	12.2	0.0	0.0	2.0	2.6	1.9	1.6						12.8	13.6	0.9	6.7	
Adjusted sector avg*					32.2	20.9	16.7	29.8	28.1	25.6	0.8	2.6	3.9	2.3	2.5	13.7	11.5	6.6	43.7	8.7	15.6	11.3	(11.9)	(11.2)	
Xtep Intl	1368 HK	3.44	1,109	3.0	10.3	10.5	8.6	(2.0)	21.6	12.3	0.9	6.4	5.7	1.0	1.3	5.1	4.8	0.0	44.3	10.3	12.2	12.0	(15.3)	(18.3)	
Anta Sports Prod	2020 HK	69.90	24,245	62.5	41.3	31.3	24.1	32.2	29.6	29.4	1.1	0.8	1.2	9.5	9.6	28.6	19.4	0.0	52.6	17.0	28.6	30.2	(4.2)	(6.6)	
Li Ning Co Ltd	2331 HK	23.10	7,278	36.1	70.5	35.2	29.7	100.1	18.4	45.5	0.8	0.4	0.9	7.4	7.8	39.8	25.0	0.0	48.1	6.8	20.9	21.9	(10.5)	(11.3)	
Pou Sheng Intl	3813 HK	2.13	1,465	0.9	18.5	12.6	10.1	47.3	24.2	32.7	0.4	1.2	1.6	1.4	1.5	10.4	6.7	39.8	33.5	2.4	9.6	10.7	(21.4)	(23.1)	
China Dongxiang	3818 HK	0.82	620	0.5	N/A	7.2	8.2	N/A	(12.6)	N/A	N/A	5.5	10.1	0.4	0.4	N/A	1.4	0.0	N/A	N/A	N/A	5.8	(7.9)	(0.3)	
Annil Co Ltd-A	002875 CH	14.38	269	5.4	20.4	28.6	19.5	(28.6)	46.7	8.3	3.4	1.1	N/A	2.1	2.0	16.7	N/A	0.0	55.3	6.9	6.9	7.5	(7.6)	(23.3)	
Guirenniao Co-A	603555 CH	4.03	360	13.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.7	1.8	(18.5)	N/A	146.8	28.7	(24.4)	(46.6)	(8.9)	(16.2)	4.4	
Adjusted sector avg*					54.9	38.7	36.6	22.2	16.9	18.9	2.1	0.8	0.6	11.1	11.1	25.7	23.4	8.6	49.5	7.9	27.0	28.2	(3.2)	10.7	
Nike Inc -Cl B	NKE US	102.53	159,677	583.9	40.2	34.0	29.4	18.2	15.9	16.9	2.01	0.9	0.9	17.09	18.68	29.8	26.3	0.0	44.7	10.3	50.6	52.7	(2.0)	11.3	
Under Armour-A	UAA US	16.50	7,067	109.9	82.5	104.4	50.8	(21.0)	105.7	42.4	2.47	N/A	0.0	3.47	3.50	17.9	23.3	23.8	46.9	1.7	4.4	4.5	(18.3)	(2.9)	
Lululemon Ath	LULU US	263.68	34,356	411.7	72.6	54.0	45.6	34.5	18.4	23.6	2.29	N/A	0.0	20.84	19.21	41.6	33.4	0.0	55.2	14.7	37.1	38.1	8.7	21.7	
Adidas Ag	ADS GR	284.30	61,491	156.8	33.7	29.1	26.4	15.7	10.2	13.3	2.20	1.2	1.3	7.86	7.94	20.7	16.4	0.0	51.9	7.8	28.2	29.2	(8.6)	4.0	
Puma Se	PUM GR	80.30	13,070	27.3	45.6	37.9	30.8	20.5	23.1	22.0	1.72	0.4	0.8	6.41	6.19	18.2	17.4	19.2	48.8	4.8	14.7	16.3	4.2	19.7	

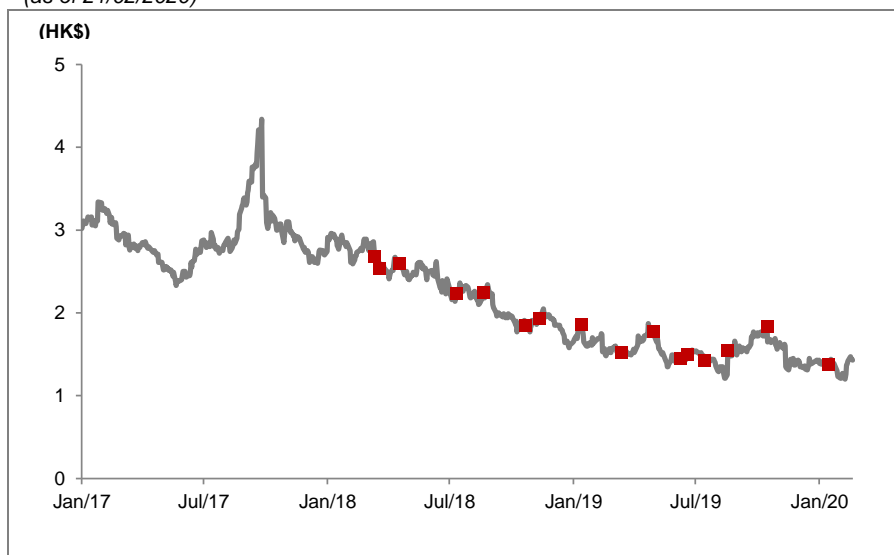
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
17/01/2020	361 Degrees Intl	1361	4Q19 retail sales on track	BUY	Megan Jin
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

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

(as of 21/02/2020)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 13 Nov 2018	BUY	HK\$3.35	HK\$1.93	6 24 Jun 2019	BUY	HK\$2.37	HK\$1.50
2 15 Jan 2019	BUY	HK\$2.54	HK\$1.93	7 17 Jul 2019	BUY	HK\$2.37	HK\$1.42
3 18 Mar 2019	BUY	HK\$2.37	HK\$1.52	8 21 Aug 2019	BUY	HK\$2.37	HK\$1.55
4 03 May 2019	BUY	HK\$2.37	HK\$1.78	9 18 Oct 2019	BUY	HK\$2.37	HK\$1.83
5 11 Jun 2019	BUY	HK\$2.37	HK\$1.45	10 17 Jan 2020	BUY	HK\$2.37	HK\$1.39

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