Tue, 15 Jan 2019

Equity Research
Sportswear/ China

361 Degrees (1361 HK)

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Company Update

BUY

UNCHANGED

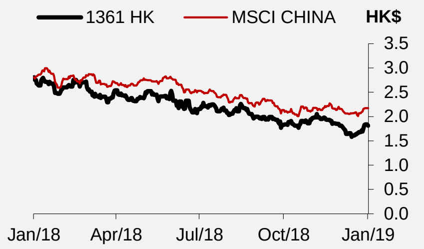
Close price: **HK$1.81**
Target Price: **HK$2.54 (+40%)**
Prior TP: **HK$3.35**

Key Data

HKEx code		1361 HK
12 Months High	(HK$)	2.97
12 Month Low	(HK$)	1.53
3M Avg Dail Vol.	(mn)	1.19
Issue Share	(mn)	2,067.60
Market Cap	(HK$mn)	3,742.36
Fiscal Year		12/2017
Major shareholder (s)		Director Ding Wuhao 16.46%

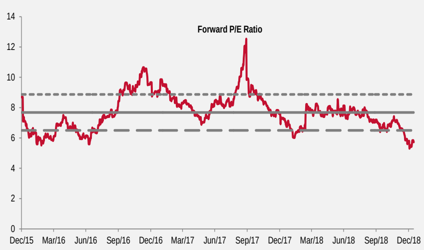
Source: Company data, Bloomberg, OP Research
Closing price are as of 14/01/2019

Price Chart



	1mth	3mth	6mth
Absolute %	**0.0**	**-1.6**	**-20.6**
Rel. MSCI CHINA %	**-0.8**	**-4.4**	**-7.6**

PE



Company Profile

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

FY18E results preview

- **We expect 361 Degrees to see FY18E revenue/net earnings down 2.2%/14.6% yoy to RMB5,047mn/RMB390mn with flat GPM of 41.4%.**
- **We revise down our FY18/19E earnings estimates by 23%/24.2% to RMB390mn/RMB438mn respectively.**
- **Maintain BUY with TP HK$2.54 cut from HK$3.35 based on same 10x FY19E PE.**

We expect 361 Degrees FY18E revenue/net earnings to be RMB5,047mn/RMB390mn, down 2.2%/14.6% yoy on (1) weaker than expected 4Q retail sales growth for core brands, which decelerated to flat compared with HSD yoy growth in the first three quarters of FY18E; (2) new logistics arrangements carried out in 2H18E which aims to shorten the production lead time may induce an one-off delay in inventory dispatch in 2H18E; (3) expected higher forex loss due to the continuous depreciation of RMB against USD during 2H18E vs ~RMB20mn exchange loss in 1H18 and RMB46mn exchange gain in FY17. We estimate the FY18E GPM to remain flat at 41.4% vs 41.8% in FY17.

We revise down our FY18/19E earnings estimates by 23%/24.2% to RMB390mn/RMB438mn respectively. We cut our FY18/19E revenue by 9.4%/15.1% to RMB5,047mn/RMB5,057mn on lower expectation on core brand retails performance and the impact from new logistics arrangement. We also factor in a higher forex loss in FY18E. As a result, our FY18/19E fully diluted EPS is revised down by 23.0%/24.2% yoy to HK$0.226/HK$0.254 respectively.

Maintain BUY on decent yield and attractive valuation. We maintain our BUY rating on 361 Degrees with TP revised down to HK$2.54 from HK$3.35 based on same 10x FY19E PE. The company currently trades at 8.6x FY18E PE, ~58% discount to Xtep (1368 HK, BUY) given (1) attractive valuation (2) decent 5.0% yield, and (3) robust kids' wear segment growth.

Risks: (1) Sales growth may pull back by the channel optimization; (2) lower than expected trade fair and retail sales growth; (3) further depreciation of RMB.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	5,022.7	5,158.2	5,047.1	5,057.5	5,202.7
Growth (%)	12.6	2.7	(2.2)	0.2	2.9
Net Profit	402.7	456.7	390.2	437.9	437.8
Growth (%)	(22.2)	13.4	(14.6)	12.2	(0.0)
Diluted EPS (HK$)	0.243	0.265	0.226	0.254	0.254
EPS growth (%)	(22.2)	8.9	(14.6)	12.2	(0.0)
Change to previous EPS (%)			(23.0)	(24.2)	
Consensus EPS (HK$)			0.296	0.276	
ROE (%)	7.6	8.3	6.5	6.7	6.4
P/E (x)	7.4	6.8	8.0	7.1	7.1
P/B (x)	0.6	0.5	0.5	0.5	0.4
Yield (%)	6.1	5.9	5.0	5.6	5.6
DPS (HK$)	0.110	0.106	0.091	0.102	0.102

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY18E			FY19E			OP Comments
(RMB mn)	**New**	**Old**	**% Chg**	**New**	**Old**	**% Chg**	
Revenue	**5,047**	**5,569**	**(9.4)**	**5,057**	**5,958**	**(15.1)**	
Gross profit	2,089	2,308	(9.5)	2,093	2,470	(15.3)	
Gross margin	41.4%	41.4%	(0.0)	41.4%	41.5%	(0.1)	
Opex	(1,334)	(1,427)	(6.5)	(1,320)	(1,472)	(10.3)	
EBIT	779	974	(20.0)	867	1,093	(20.7)	
Net Profit	390	507	(23.0)	438	578	(24.2)	
Diluted EPS (HK$)	0.226	0.294	(23.0)	0.254	0.335	(24.2)	

Source: OP Research

Financial Summary

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Footwear	2,205	2,306	2,237	2,170	2,235
Apparel	1,966	1,988	1,868	1,868	1,868
Accessories	95	78	78	78	78
361 Kids	651	711	788	866	946
Others	105	75	75	75	75
Turnover	**5,023**	**5,158**	**5,047**	**5,057**	**5,203**
YoY%	13	3	(2)	0	3
COGS	(2,913)	(3,002)	(2,958)	(2,965)	(3,049)
Gross profit	**2,110**	**2,156**	**2,089**	**2,093**	**2,154**
Gross margin	42.0%	41.8%	41.4%	41.4%	41.4%
Other income	27	140	24	94	94
Selling & distribution	(607)	(719)	(653)	(604)	(617)
Admin	(469)	(503)	(504)	(539)	(584)
R&D	(187)	(173)	(177)	(177)	(182)
Other opex	0	0	0	0	0
Total opex	**(1,263)**	**(1,395)**	**(1,334)**	**(1,320)**	**(1,383)**
Operating profit (EBIT)	**873**	**902**	**779**	**867**	**865**
Operating margin	17.4%	17.5%	15.4%	17.1%	16.6%
Provisions	(55)	0	0	0	0
Interest Income	76	86	93	102	108
Finance costs	(187)	(214)	(213)	(219)	(219)
Profit after financing costs	707	774	660	750	754
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	707	774	660	750	754
Tax	(287)	(307)	(261)	(280)	(281)
Minority interests	(18)	(11)	(8)	(32)	(35)
Net profit	**403**	**457**	**390**	**438**	**438**
YoY%	(22)	13	(15)	12	(0)
Net margin	8.0%	8.9%	7.7%	8.7%	8.4%
EBITDA	**983**	**1,023**	**874**	**964**	**964**
EBITDA margin	19.6%	19.8%	17.3%	19.1%	18.5%
EPS (RMB)	**0.195**	**0.221**	**0.189**	**0.212**	**0.212**
YoY%	(22)	0	(15)	12	(0)
DPS (HK$)	0.110	0.106	0.091	0.102	0.102

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	983	1,023	874	964	964
Chg in working cap	321	89	41	(3)	(40)
Others	23	(69)	0	0	0
Operating cash	**1,327**	**1,042**	**915**	**962**	**924**
Interest received	0	0	0	0	0
Tax	(196)	(210)	(468)	(261)	(280)
Net cash from operations	**1,132**	**832**	**447**	**700**	**644**
Capex	(148)	(44)	(43)	(43)	(44)
Investments	(1,101)	(1,218)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests paid	70	85	93	102	108
Others	29	0	0	0	0
Investing cash	**(1,149)**	**(1,177)**	**51**	**59**	**64**
FCF	**(17)**	**(346)**	**498**	**759**	**708**
Issue of shares	2,596	0	0	0	0
Buy-back	(1,550)	0	0	0	0
Minority interests	12	0	350	150	0
Dividends paid	(316)	(147)	(165)	(169)	(175)
Net change in bank loans	60	(62)	158	0	0
Others	(198)	(202)	(213)	(219)	(219)
Financing cash	**604**	**(411)**	**130**	**(238)**	**(394)**
Net change in cash	**587**	**(757)**	**628**	**522**	**314**
Exchange rate or other Adj	8	(9)	0	0	0
Opening cash	2,286	2,882	2,116	2,745	3,266
Closing cash	**2,882**	**2,116**	**2,745**	**3,266**	**3,580**
CFPS (HK$)	**0.684**	**0.483**	**0.259**	**0.406**	**0.374**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	42.0	41.8	41.4	41.4	41.4
Operating margin (%)	17.4	17.5	15.4	17.1	16.6
Net margin (%)	8.0	8.9	7.7	8.7	8.4
Selling & dist'n exp/Sales (%)	12.1	13.9	12.9	11.9	11.9
Admin exp/Sales (%)	9.3	9.7	10.0	10.7	11.2
R&D/Rev (%)	3.7	3.4	3.5	3.5	3.5
A&P/Rev (%)	11.4	9.8	10.0	9.0	9.0
Staff cost/Rev (%)	8.7	9.0	9.9	11.3	12.4
Payout ratio (%)	45.2	40.0	40.0	40.0	40.0
Effective tax (%)	40.5	39.6	39.6	37.3	37.3
Total debt/equity (%)	52.9	45.2	43.6	40.8	39.3
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.9	3.6	4.0	4.1	4.2
Quick ratio (x)	3.6	3.3	3.6	3.8	3.9
Inventory T/O (days)	68	99	99	99	99
AR T/O (days)	161	152	152	152	152
AP T/O (days)	242	275	275	275	275
Cash conversion cycle (days)	(12)	(24)	(24)	(24)	(24)
Asset turnover (x)	0.5	0.5	0.4	0.4	0.4
Financial leverage (x)	1.8	2.0	1.9	1.8	1.8
EBIT margin (%)	17.4	17.5	15.4	17.1	16.6
Interest burden (x)	0.8	0.9	0.8	0.9	0.9
Tax burden (x)	0.6	0.6	0.6	0.6	0.6
Return on equity (%)	**7.6**	**8.3**	**6.5**	**6.7**	**6.4**
ROIC (%)	**18.3**	**20.6**	**18.0**	**20.8**	**21.0**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Bal. Sheet (RMB mn)					
Fixed assets	1,208	1,123	1,071	1,018	963
Intangible assets & goodwill	117	114	113	113	112
Associated companies & JVs	7	7	7	7	7
Long-term investments	102	96	96	96	96
Other non-current assets	23	53	53	53	53
Non-current assets	**1,456**	**1,393**	**1,340**	**1,286**	**1,231**
Inventories	541	814	802	804	827
AR	2,221	2,150	2,103	2,108	2,168
Prepayments & deposits	668	728	712	713	734
Other current assets	2,723	3,941	3,941	3,941	3,941
Cash	2,882	2,116	2,745	3,266	3,580
Current assets	**9,034**	**9,748**	**10,303**	**10,832**	**11,250**
AP	1,928	2,264	2,231	2,236	2,299
Tax	339	468	261	280	281
Accruals & other payables	0	0	0	0	0
Bank loans & leases	76	13	112	112	112
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**2,343**	**2,744**	**2,604**	**2,628**	**2,693**
Bank loans & leases	2,727	2,565	2,624	2,624	2,624
CB & othe debts	0	0	0	0	0
Deferred tax & others	2	0	0	0	0
MI	114	125	133	166	201
Non-current liabilities	**2,843**	**2,691**	**2,757**	**2,790**	**2,825**
Total net assets	**5,303**	**5,706**	**6,282**	**6,701**	**6,963**
Shareholder's equity	**5,303**	**5,706**	**6,282**	**6,701**	**6,963**
Share capital	182	182	182	182	182
Reserves	5,121	5,524	6,099	6,518	6,781
BVPS (HK$)	**3.21**	**3.31**	**3.65**	**3.89**	**4.04**
Total debts	2,803	2,578	2,736	2,736	2,736
Net cash/(debts)	2,801	3,479	3,949	4,471	4,785

Source: Company, OP Research

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**	**1.81**	**477**	**0.3**	**7.3**	**8.6**	**7.6**	**(14.6)**	**12.2**	**3.7**	**2.31**	**5.5**	**4.7**	**0.59**	**0.53**	**0.5**	**0.1**	**Net cash**	**41.8**	**8.9**	**8.3**	**6.5**	**0.0**	**(1.1)**
HSI		26,298.33			10.0	10.0	9.2	(0.0)	9.1	(0.1)	(104.88)	3.8	4.0	1.23	1.12						12.3	11.2	0.8	1.9
HSCEI		10,292.44			8.0	7.5	6.9	6.1	9.5	(2.3)	(3.31)	4.1	4.5	1.04	0.91						13.0	12.1	(0.6)	(0.1)
CSI300		3,067.78			11.5	9.6	8.3	19.5	15.1	#VALUE!	#VALUE!	2.6	3.3	1.5	1.3						13.0	13.3	(3.1)	(3.2)
Domestic Peers					**25.2**	**19.4**	**16.1**	**16.2**	**22.5**	**20.4**	**0.9**	**3.0**	**2.1**	**1.9**	**1.7**	**12.4**	**9.8**	**5.6**	**45.7**	**7.7**	**7.8**	**8.6**	**1.6**	**8.3**
Adjusted sector avg*		4.62	1,322	1.0	21.2	14.0	12.0	51.5	16.8	26.3	0.5	5.4	4.1	1.7	1.6	9.3	6.5	0.0	43.9	8.0	8.9	11.7	11.3	17.0
Xtep Intl	1368 HK	35.10	12,017	23.5	25.9	20.3	16.5	27.3	23.1	23.1	0.9	3.0	3.5	5.6	5.1	17.2	12.9	0.0	49.4	18.5	25.8	27.3	(5.9)	10.7
Anta Sports Prod	2020 HK	9.20	2,571	9.9	36.9	27.1	20.7	36.5	30.7	29.4	0.9	N/A	0.7	3.2	3.3	17.8	13.0	0.0	47.1	5.8	11.7	12.9	9.5	36.3
Li Ning Co Ltd	2331 HK	1.50	1,022	0.3	17.1	15.4	11.8	11.0	31.0	21.3	0.7	1.3	1.5	N/A	1.0	7.5	6.9	33.7	35.0	2.1	N/A	6.7	1.4	(2.0)
Pou Sheng Intl	3813 HK	1.16	871	0.5	6.9	7.7	7.7	(10.4)	0.0	(4.8)	N/A	9.4	7.9	0.6	0.6	5.9	9.7	0.0	55.7	59.5	7.3	7.8	(6.5)	(3.3)
China Dongxiang	3818 HK	14.92	291	6.2	25.2	22.2	18.6	13.6	19.3	16.2	1.4	1.0	N/A	2.3	2.2	16.7	N/A	0.0	55.1	6.7	10.0	9.5	2.2	13.6
Annil Co Ltd-A	002875 CH	6.21	578	10.1	24.8	29.6	25.9	(16.1)	14.3	6.2	4.7	4.0	0.6	1.8	1.7	12.4	N/A	74.7	33.8	4.9	1.1	3.3	(0.8)	13.5
Guirenniao Co-A	603555 CH				**55.4**	**30.9**	**25.5**	**79.3**	**26.5**	**35.9**	**0.9**	**1.7**	**0.7**	**8.1**	**7.8**	**26.7**	**19.3**	**0.0**	**47.9**	**4.5**	**15.4**	**23.9**	**4.1**	**2.1**
Global Peers		76.04	119,672	600.8	65.2	28.7	24.3	127.2	18.2	45.9	0.63	1.1	1.1	13.74	14.00	22.9	20.3	0.0	43.8	5.3	21.0	46.0	4.8	0.2
Adjusted sector avg*		19.67	8,379	122.1	N/A	91.5	61.9	N/A	47.9	(263.0)	N/A	N/A	0.0	4.40	4.44	44.7	26.5	29.9	45.0	(1.0)	(6.7)	3.4	3.6	5.4
Nike Inc -Cl B	NKE US	132.16	17,499	331.0	69.6	35.7	30.4	94.6	17.5	38.6	0.93	N/A	0.0	12.44	10.64	29.8	20.6	0.0	52.8	9.8	27.2	32.9	10.9	(8.0)
Under Armour-A	UAA US	195.00	44,814	139.7	36.0	23.3	20.4	54.5	14.3	26.4	0.88	1.3	1.6	6.02	5.85	14.9	13.3	0.0	50.4	5.2	24.7	25.5	(0.1)	0.9
Lululemon Ath	LULU US	461.50	7,982	18.3	50.8	36.0	26.8	41.0	34.6	32.7	1.10	2.7	0.7	4.06	4.18	21.3	16.1	0.0	47.3	3.3	10.6	12.0	1.3	12.2
Adidas Ag	ADS GR	**1.81**	**477**	**0.3**	**7.3**	**8.6**	**7.6**	**(14.6)**	**12.2**	**3.7**	**2.31**	**5.5**	**4.7**	**0.59**	**0.53**	**0.5**	**0.1**	**Net cash**	**41.8**	**8.9**	**8.3**	**6.5**	**0.0**	**(1.1)**
Puma Se	PUM GR	26,298.33			10.0	10.0	9.2	(0.0)	9.1	(0.1)	(104.88)	3.8	4.0	1.23	1.12						12.3	11.2	0.8	1.9

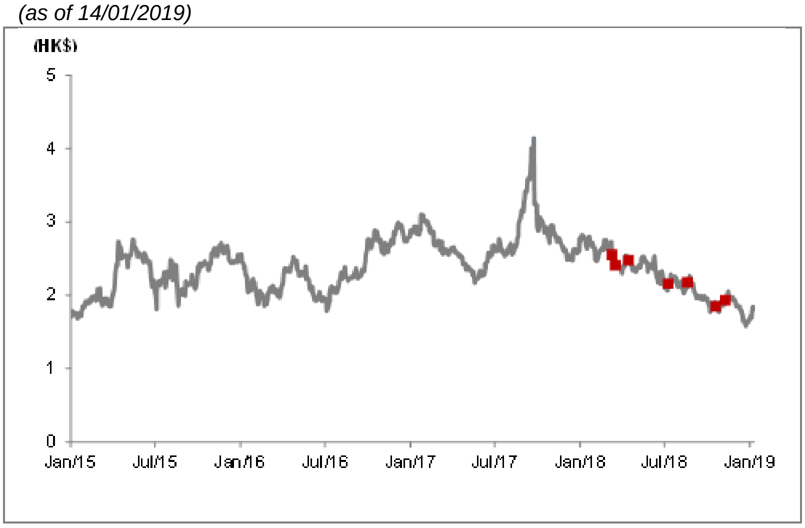
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
14/01/2019	Sinosoft Tech	1297	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Sunny Optical	2382	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Q Tech	1478	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Tian Lun Gas	1600	FY18E results preview	BUY	Yuji Fung/Dallas Cai
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai
03/12/2018	Ju Teng Intl	3336	Positive profit alert for FY18E	BUY	Yuji Fung/Dallas Cai
26/11/2018	Truly Intl	732	3Q18 turnover flat as expected	BUY	Yuji Fung/Dallas Cai
19/11/2018	Ausnutria Dairy	1717	Nurturing by global layout	BUY	Dallas Cai
13/11/2018	361 Degrees Intl	1361	Introduce new investor to kids' wear business	BUY	Yuji Fung/Dallas Cai
12/11/2018	Sunny Optical	2382	Oct shipments up to expectations	BUY	Yuji Fung/Dallas Cai
12/11/2018	Q Tech	1478	Shipment growth looms on horizon	BUY	Yuji Fung/Dallas Cai
07/11/2018	China Youzan	8083	3Q18 results in line with expectations	BUY	Yuji Fung/Dallas Cai
02/11/2018	CH Display OPT	334	TCL Group ups stakes for turnaround and advance on opportunities	BUY	Yuji Fung/Dallas Cai
30/10/2018	TCL Electronics	1070	Revised up full year shipments target	BUY	Yuji Fung/Dallas Cai
26/10/2018	CH Display OPT	334	New client order lifts Sept shipments to record high	BUY	Yuji Fung/Dallas Cai
23/10/2018	Li Ning	2331	Solid set of 3Q18 operations data	BUY	Dallas Cai
23/10/2018	361 Degrees Intl	1361	3Q18 operations data in-line with expectations	BUY	Yuji Fung/Dallas Cai
16/10/2018	TCL Electronics	1070	3Q18 shipments set record high	BUY	Yuji Fung/Dallas Cai
12/10/2018	Sunny Optical	2382	Upbeat September handset-related shipments	BUY	Yuji Fung/Dallas Cai
12/10/2018	Anta Sports	2020	Solid 3Q18 operations data	BUY	Dallas Cai
09/10/2018	Xtep Intl	1368	Solid 3Q18 sales, worries on earnings	BUY	Dallas Cai
17/09/2018	CH Display OPT	334	Upgrade on new client orders to lift earnings	BUY	Yuji Fung/Dallas Cai

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

(as of 14/01/2019)



	Date	Rating	TP	Close		Date	Rating	TP	Close
1	14 Mar 2018	BUY	4.50	2.64	6	23 Aug 2018	BUY	4.00	2.17
2	21 Mar 2018	BUY	4.50	2.49	7	22 Oct 2018	BUY	3.35	1.91
3	19 Apr 2018	BUY	4.50	2.56	8	13 Nov 2018	BUY	3.35	1.93
4	16 May 2018	BUY	4.50	2.50					
5	13 Jul 2018	BUY	4.50	2.30					

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Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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