

# 361 Degrees (1361 HK)

John Siah

+852 2135 0248

john.siah@oriental-patron.com.hk

## Company Update

**BUY**

UNCHANGED

Close price: HK\$4.22

Target Price: HK\$5.00(+18.5%)

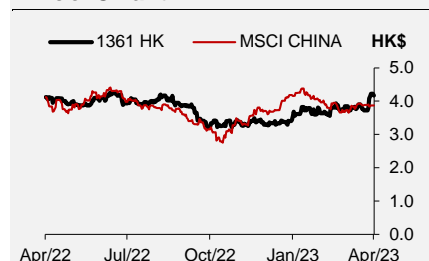
Prior TP: HK\$4.60

### Key Data

HKEx code	1361 HK
12 Months High (HK\$)	4.47
12 Month Low (HK\$)	3.04
3M Avg Dail Vol. (mn)	1.52
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	8,725.28
Fiscal Year	12/2022
Major shareholder (s)	Ding's Family (48.99%)

Source: Company data, Bloomberg, OP Research  
Closing price are as of 04/18/2023

### Price Chart



	1mth	3mth	6mth
Absolute %	+9.6	+14.7	+26.0
Rel. MSCI CHINA %	+4.2	+20.2	+2.4

### PE



### Company Profile

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

## 2023Q1 sales bounced as expected

- Retail sales of 361° core brand products reported low-teens yoy growth in 2023Q1.
- Firm growth outlook for FY23E under the expected recovery of the China retail market
- Maintain BUY with the new TP of HK\$5.00, which represents PER of 10.8x/9.1x for FY23E/24E.

**Retail sales bounced in Q1 after China ends the "Zero Covid-19" policy.** The company reported that retail sales of 361° core brand, 361° Kid, and 361° e-commerce grew at a yoy rate of low-teens, 20-25%, and 35%, respectively. This is in-line with the rebound in China retail sales and the improvement in peers' operational performance after the end of the COVID-19 zero policy.

**Continuously expanding brand influence.** 361 Degrees is building its brand through introducing professional products, appointing more top-tier athletes and celebrities as spokespersons, continuing to sponsor large-scale sports events, and collaborating with IP. The company's professional racing running shoes have seen a surge in usage among professional athletes. In the recently held 2023 Zheng-Kai Marathon, the company's sponsored athletes swept the top three positions in men's full marathon race. Meanwhile, statistics from JoyRun showed 361 Degrees was the fourth most popular brand in terms of the running shoe worn by the "Sub-3" runners in the 2023 Xiamen Marathon. On the other hand, 361 Degrees is improving shoppers' experiences at its points-of-sale ("POS") by upgrading the store image, and increasing the average area of POS. For FY23, the company guided the POS for 361° core brand/361° Kid this year to be 5,400-5,600/2,200-2,400, respectively.

**Firm growth outlook for FY23E.** The continuous improvement in the China retail market is expected to bring the retail discount level and inventory level back to pre-pandemic levels in the near term. We anticipated Kids-wear and e-commerce would continue to grow fast this year. We expect 361 Degrees's EPS to reach HK\$0.465/0.548 in FY23E/24E, representing yoy growth of 11.9%/17.9%, respectively.

**Maintain BUY and lift TP to HK\$5.00.** The new TP represents 10.8x/9.1x of FY23E/24E PER, or around a 55% discount to its domestic peers. Near-term re-rating catalysts include the resumption of dividend payments from 1H2023E.

**Risks:** (1) Slower-than expected sales recovery for offline physical stores, (2) brand damage and/or deterioration in the market position

### Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	5,127	5,933	6,961	8,022	8,992
Growth (%)	-9.0	+15.7	+17.3	+15.2	+12.1
Net profit	415	602	747	844	994
Growth (%)	-3.9	+44.8	+24.2	+12.9	+17.9
Diluted EPS (HK\$)	0.241	0.355	0.416	0.465	0.548
EPS growth (%)	-3.9	+47.2	+17.0	+11.9	+17.9
Change to previous EPS (%)				+1.1	
Consensus EPS (HK\$)				0.500	0.586
ROE (%)	5.8	7.5	8.3	8.6	9.4
P/E (x)	17.5	11.9	10.2	9.1	7.7
P/B (x)	1.1	1.0	1.0	0.9	0.8
Yield (%)	0.0	0.0	0.0	4.4	5.2
DPS (HK\$)	0.000	0.000	0.000	0.186	0.219

Source: Bloomberg, OP Research

## Exhibit 2: Earnings Revision

(RMB mn)	FY23E			FY24E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	8,022	7,573	5.9	8,992	N/A	N/A	
Gross margin	41.0%	41.6%	-0.6p.p.	41.2%	N/A	N/A	
Net Profit	844	864	-2.4	994	N/A	N/A	
Diluted EPS (HK\$)	0.465	0.460	+1.1	0.548	N/A	N/A	

Source: OP Research

## Exhibit 3: Retail sales performance for 361° Core Brand, 361° Kids, and 361° E-commerce products from 2021

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
361° Core Brand	+ High-teens	+ 15-20%	+ Low-teens	+ High-teens	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens
361° Kids	+Low-twenties	+ 30-35%	+15-20%	+25-30%	+20-25%	+20-25%	+20-25%	+LSD	+20-25%
361° E-commerce	(Not disclosed)			+35-40%	+50%	+40%	+45%	+25%	+35%

Sources: Company, OP Research

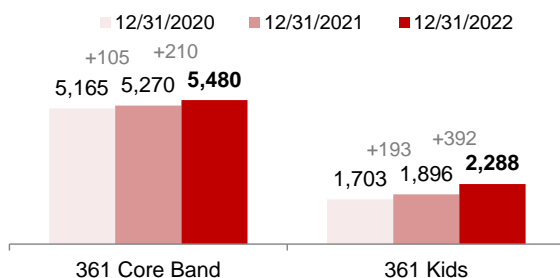
## Exhibit 4: Retail sales performance of 361° and its peers

Brand	Indicator	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
361° Core Brand	Retail sales	+ High-teens	+ 15-20%	+ Low-teens	+ High-teens	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens
Anta	Retail sales	+40-45%	+35-40%	+ Low-teens	+Mid-teens	+ High-teens	-MSD	+MSD	- HSD	+MSD
Liling	Retail sell-through	+high-eighties	+Low-nineties	+Low-forties	+ Low-thirties	+ High-twenties	- HSD	+ Mid-teens	- Low-teens	(Not disclosed)
Xtep	Retail sell-through	+55%	+30-35%	+ Mid-teens	+20-25%	+30-35%	+Mid-teens	+20-25%	-HSD	+20%
Nike	Net sales- Greater China (Local currency)	+42% (Ended Feb)	+9% (Ended May)	+1% (Ended Aug)	-24% (Ended Nov)	-8% (Ended Feb)	-20% (Ended May)	-13% (Ended Aug)	+6% (Ended Nov)	+1% (Ended Feb)
Adidas	Net sales- Greater China (Local currency)	+155.9%	-15.9%	-14.6%	-24.3%	-34.6%	-28.3%	-26.6%	-49.7%	(Not disclosed)

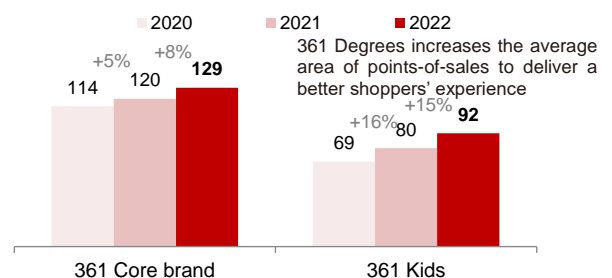
Sources: Companies, OP Research

## Exhibit 5: 361 Degrees continues to expand its retail sales network in FY22

### Point-of-sales of 361 Core band(in China) and 361 Kids



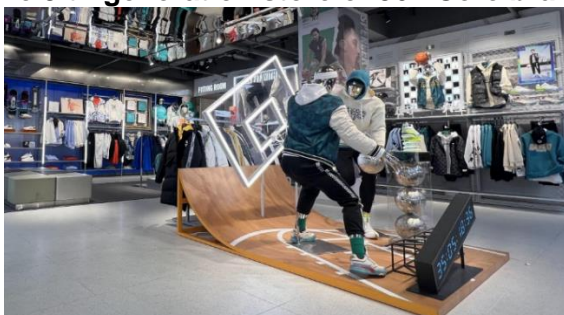
### Average area of points-of-sale (m²)



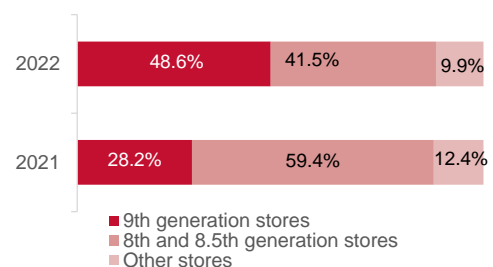
Source: The Company

## Exhibit 6: 361 Degrees upgrades store image to enhance shoppers' experiences

### The 9th generation store of 361 Core brand



### 9th generation stores accounted for 48.6% in 2022, up 20.4p.p. yoy



Source: The Company

## Exhibit 7: Peer 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)	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
<b>361 Degrees</b>	<b>1361 HK</b>	<b>4.22</b>	<b>1,112</b>	<b>0.7</b>	<b>10.2</b>	<b>9.1</b>	<b>7.7</b>	<b>14.5</b>	<b>0.6</b>	<b>0.0</b>	<b>4.4</b>	<b>1.0</b>	<b>0.9</b>	<b>8.3</b>	<b>8.6</b>	<b>+9.6</b>	<b>+14.7</b>
HSI		20,650.51			11.9	9.9	9.0	13.7	0.7	4.1	3.71	1.2	1.1	10.3	10.9	+5.8	-4.7
HSCEI		7,002.91			9.7	9.0	8.0	11.1	0.8	3.5	3.47	1.1	1.0	11.6	11.4	+5.9	-4.6
CSI300		4,162.03			15.1	15.0	12.6	0.0	0.0	2.3	2.3	1.8	1.8	12.1	12.2	+5.1	+0.8
<b>Adjusted sector avg*</b>					<b>27.5</b>	<b>19.7</b>	<b>14.6</b>	<b>18.0</b>	<b>1.2</b>	<b>2.3</b>	<b>2.6</b>	<b>3.2</b>	<b>3.2</b>	<b>15.1</b>	<b>13.5</b>	<b>+3.3</b>	<b>-13.1</b>
Xtep Intl	1368 HK	9.62	3,231	14.0	23.0	19.2	15.4	22.6	0.8	2.8	2.8	2.7	2.8	11.4	13.2	+18.6	-2.7
Anta Sports Prod	2020 HK	100.70	34,811	84.6	31.3	25.2	20.9	21.0	1.2	1.3	1.8	7.0	6.6	24.0	24.9	-1.5	-13.7
Li Ning Co Ltd	2331 HK	58.85	19,762	104.1	33.2	27.8	22.5	20.7	1.3	0.9	1.1	5.1	5.5	17.9	18.4	+2.0	-15.7
Pou Sheng Intl	3813 HK	0.65	441	0.1	33.1	6.5	4.0	118.3	0.1	2.5	2.5	0.4	0.4	1.1	5.6	-8.5	-28.6
China Dongxiang	3818 HK	0.33	244	0.2	N/A	N/A	9.5	N/A	N/A	4.0	3.5	0.2	0.2	-14.0	-0.1	0.0	-17.7
Topsports Intl	6110 HK	7.51	5,933	6.1	16.7	19.9	15.6	7.8	2.6	6.5	3.8	4.1	3.6	21.3	18.8	+9.3	-0.4

Sources: Bloomberg, OP Research

## Financial Summary

Year to Dec	FY20	FY21	FY22	FY23E	FY24E
<b>Income Statement (RMB mn)</b>					
Footwear	2,081	2,532	2,854	3,168	3,484
Apparel	2,002	2,147	2,447	2,815	3,096
Accessories	53	69	96	115	126
361 Kids	932	1,107	1,442	1,803	2,163
Others	59	79	122	122	122
<b>Turnover</b>	<b>5,127</b>	<b>5,933</b>	<b>6,961</b>	<b>8,022</b>	<b>8,992</b>
YoY%	-9.0	+15.7	+17.3	+15.2	+12.1
COGS	-3,185	-3,461	-4,140	-4,729	-5,286
<b>Gross profit</b>	<b>1,942</b>	<b>2,472</b>	<b>2,821</b>	<b>3,292</b>	<b>3,706</b>
Gross margin	37.9%	41.7%	40.5%	41.0%	41.2%
Other income	226	227	145	203	204
Selling & distribution	-964	-1,140	-1,433	-1,636	-1,764
Admin	-237	-312	-276	-343	-376
R&D	-205	-247	-266	-297	-324
Other opex	0	0	0	0	0
<b>Total opex</b>	<b>-1,405</b>	<b>-1,698</b>	<b>-1,975</b>	<b>-2,276</b>	<b>-2,464</b>
<b>Operating profit (EBIT)</b>	<b>763</b>	<b>1,001</b>	<b>991</b>	<b>1,219</b>	<b>1,446</b>
Operating margin	14.9%	16.9%	14.2%	15.2%	16.1%
Provisions	0	0	0	0	0
Interest Income	106	81	83	94	103
Finance costs	-167	-37	-9	-9	-9
<b>Profit after financing costs</b>	<b>702</b>	<b>1,045</b>	<b>1,065</b>	<b>1,304</b>	<b>1,540</b>
Associated companies & JVs	0	0	0	0	0
<b>Pre-tax profit</b>	<b>702</b>	<b>1,045</b>	<b>1,065</b>	<b>1,304</b>	<b>1,540</b>
Tax	-206	-303	-248	-352	-416
Minority interests	-80	-141	-70	-108	-130
<b>Net profit</b>	<b>415</b>	<b>602</b>	<b>747</b>	<b>844</b>	<b>994</b>
YoY%	-3.9	+44.8	+24.2	+12.9	+17.9
Net margin	8.1%	10.1%	10.7%	10.5%	11.1%
<b>EBITDA</b>	<b>857</b>	<b>1,074</b>	<b>1,072</b>	<b>1,293</b>	<b>1,512</b>
EBITDA margin	16.7%	18.1%	15.4%	16.1%	16.8%
<b>EPS (HK\$)</b>	<b>0.241</b>	<b>0.355</b>	<b>0.416</b>	<b>0.465</b>	<b>0.548</b>
YoY%	-3.9	+47.2	+17.0	+11.9	+17.9
<b>DPS (HK\$)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.186</b>	<b>0.219</b>
Year to Dec	FY20	FY21	FY22	FY23E	FY24E
<b>Cash Flow (RMB mn)</b>					
EBITDA	857	1,074	1,060	1,293	1,512
Chg in working cap	-511	-471	-620	-203	-401
Others	-51	68	226	0	0
<b>Operating cash</b>	<b>295</b>	<b>671</b>	<b>666</b>	<b>1,090</b>	<b>1,111</b>
Interest received	0	0	0	0	0
Tax	-274	-299	-285	-386	-352
<b>Net cash from operations</b>	<b>21</b>	<b>372</b>	<b>380</b>	<b>704</b>	<b>759</b>
Capex	-7	-9	-31	-36	-40
Investments	0	0	0	0	0
Decrease(increase) in deposits	168	1,000	0	0	0
Sales of assets	0	0	0	0	0
Interests received	100	68	85	94	103
Others	-6	10	31	0	0
<b>Investing cash</b>	<b>255</b>	<b>1,069</b>	<b>85</b>	<b>58</b>	<b>63</b>
<b>FCF</b>	<b>276</b>	<b>1,441</b>	<b>465</b>	<b>762</b>	<b>822</b>
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	350	200	-34	0	0
Dividends paid	-28	0	0	-181	-374
Interest paid	-156	-36	-9	-9	-9
Net change in bank loans	100	-1,721	84	0	0
Others	-508	5	19	0	0
<b>Financing cash</b>	<b>-243</b>	<b>-1,552</b>	<b>59</b>	<b>-191</b>	<b>-383</b>
<b>Net change in cash</b>	<b>33</b>	<b>-111</b>	<b>525</b>	<b>572</b>	<b>439</b>
Exchange rate or other Adj	-4	-1	-3	0	0
Opening cash	3,422	3,451	3,339	3,860	4,432
<b>Closing cash</b>	<b>3,451</b>	<b>3,339</b>	<b>3,860</b>	<b>4,432</b>	<b>4,871</b>
<b>CFPS (HK\$)</b>	<b>0.01</b>	<b>0.22</b>	<b>0.21</b>	<b>0.39</b>	<b>0.42</b>

Source: Company, OP Research

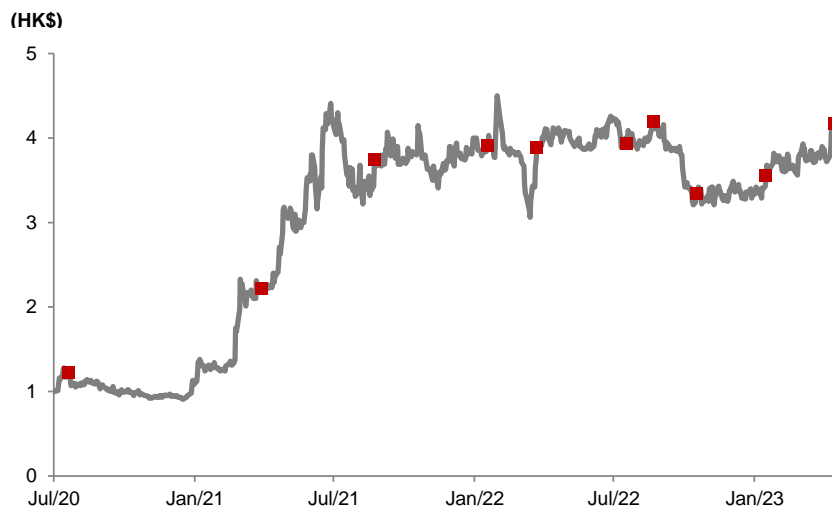
Year to Dec	FY20	FY21	FY22	FY23E	FY24E
<b>Ratios</b>					
Gross margin (%)	37.9	41.7	40.5	41.0	41.2
Operating margin (%)	14.9	16.9	14.2	15.2	16.1
Net margin (%)	8.1	10.1	10.7	10.5	11.1
Selling & dist'n exp/Sales (%)	18.8	19.2	20.6	20.4	19.6
Admin exp/Sales (%)	4.6	5.2	4.0	4.3	4.2
R&D/Rev (%)	3.5	4.2	3.8	3.7	3.6
A&P/Rev (%)	9.6	10.2	11.4	11.2	11.0
Staff cost/Rev (%)	9.6	8.5	7.5	6.9	6.4
Payout ratio (%)	0.0	0.0	0.0	40.0	40.0
Effective tax (%)	29.4	29.0	23.3	27.0	27.0
Total debt/equity (%)	25.6	2.4	3.1	2.9	2.7
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.6	3.8	3.9	4.0	3.9
Quick ratio (x)	2.4	3.4	3.5	3.6	3.5
Inventory T/O (days)	111	87	91	91	91
AR T/O (days)	159	149	147	147	147
AP T/O (days)	233	203	195	195	195
Cash conversion cycle (days)	37	34	44.1	44.1	44.1
Asset turnover (x)	0.4	0.5	0.6	0.6	0.6
Financial leverage (x)	1.7	1.4	1.3	1.3	1.3
EBIT margin (%)	14.9	16.9	14.2	15.2	16.1
Interest burden (x)	0.9	1.0	1.1	1.1	1.1
Tax burden (x)	0.6	0.6	0.7	0.6	0.6
<b>Return on equity (%)</b>	<b>5.8</b>	<b>7.5</b>	<b>8.3</b>	<b>8.6</b>	<b>9.4</b>
Year to Dec	FY20	FY21	FY22	FY23E	FY24E
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	883	823	773	734	709
Right-of-use assets	110	105	102	102	102
Other financial asset	18	27	33	33	33
Deposits and prepayments	89	102	93	93	93
Other non-current assets	82	98	151	151	151
<b>Non-current assets</b>	<b>1,181</b>	<b>1,155</b>	<b>1,152</b>	<b>1,114</b>	<b>1,088</b>
Inventories	763	891	1,182	1,184	1,323
AR	2,257	2,600	3,024	3,240	3,632
Prepayments & deposits	906	1,201	1,193	1,375	1,541
Other current assets	0	0	0	0	0
Deposits/restricted cash	3,063	2,052	2,024	2,024	2,024
Cash	3,451	3,339	3,860	4,432	4,871
<b>Current assets</b>	<b>10,440</b>	<b>10,083</b>	<b>11,284</b>	<b>12,255</b>	<b>13,392</b>
AP	1,756	2,092	2,327	2,524	2,820
Tax	346	368	386	352	416
Accruals & other payables	0	0	0	0	0
Bank loans & leases	1,939	208	193	193	193
CB & other debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
<b>Current liabilities</b>	<b>4,041</b>	<b>2,668</b>	<b>2,906</b>	<b>3,068</b>	<b>3,429</b>
Bank loans & leases	0	0	100	100	100
CB & other debts	0	0	0	0	0
Deferred tax & others	14	14	13	13	13
<b>Non-current liabilities</b>	<b>14</b>	<b>14</b>	<b>113</b>	<b>113</b>	<b>113</b>
<b>Total net assets</b>	<b>7,566</b>	<b>8,556</b>	<b>9,418</b>	<b>10,188</b>	<b>10,938</b>
<b>Shareholder's equity</b>	<b>6,609</b>	<b>7,117</b>	<b>7,944</b>	<b>8,606</b>	<b>9,226</b>
Share capital	182	182	182	182	182
Reserves	6,427	6,934	7,761	8,423	9,044
MI	957	1,439	1,474	1,582	1,712
<b>BVPS (HK\$)</b>	<b>3.84</b>	<b>4.20</b>	<b>4.42</b>	<b>4.74</b>	<b>5.09</b>

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation (中/ENG)	-	John Siah
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
02/09/2022	HK Tech Venture	1137	1H22 results beats amid better costs management	BUY	John Siah
31/08/2022	AAC Tech	2018	Headwinds likely to persist in 2H22E	HOLD	John Siah
31/08/2022	Truly Int'l	732	1H22 earnings decline as expected, negatives priced in	BUY	John Siah
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah

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

(as of 04/18/2023)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 17 Jul 2019	BUY	2.54	1.32	11 21 Jan 2022	BUY	4.80	3.91
2 20 Aug 2019	BUY	2.54	1.44	12 25 Mar 2022	BUY	5.25	3.89
3 17 Oct 2019	BUY	2.37	1.81	13 20 Jul 2022	BUY	5.25	3.94
4 16 Jan 2020	BUY	2.37	1.37	14 26 Aug 2022	BUY	5.25	4.14
5 21 Feb 2020	BUY	2.37	1.41	15 20 Oct 2022	BUY	4.60	3.34
6 18 Mar 2020	BUY	2.10	1.18	16 18 Jan 2023	BUY	4.60	3.43
7 21 Apr 2020	BUY	1.80	1.15	17 19 Apr 2023	BUY	5.00	4.22
8 21 Jul 2020	BUY	1.57	1.22				
9 29 Mar 2021	BUY	2.85	2.18				
10 25 Aug 2021	BUY	4.35	3.75				



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## CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

[www.oriental-patron.com.hk](http://www.oriental-patron.com.hk)

[john.siah@oriental-patron.com.hk](mailto:john.siah@oriental-patron.com.hk)

Tel: (852) 2135 0248

Fax: (852) 2135 0295