

Equity Research
Consumer Sportswear / China

361 Degrees (1361 HK)

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Company update

BUY

Maintain

Close price: HK\$3.59

Target Price: HK\$5.25(+46.2%)

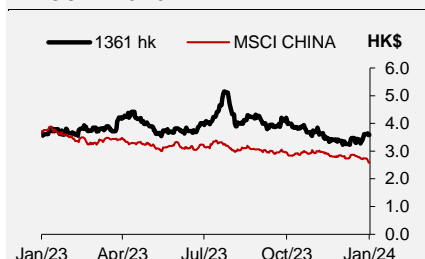
Prior TP: HK\$6.00

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	5.30
12 Month Low (HK\$)	3.18
3M Avg Dail Vol. (mn)	2.01
Issue Share (mn)	2,067.68
Market Cap (HK\$mn)	7,422.98
Fiscal Year	12/2022
Major shareholder (s)	Ding's Family (48.99%)

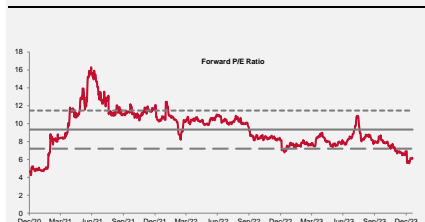
Source: Company data, Bloomberg, OP Research
Closing price are as of 18 Jan 2024

Price Chart



	1mth	3mth	6mth
Absolute %	+11.1	-10.0	-11.4
Rel. MSCI CHINA %	+19.2	-0.9	+6.5

PE



Company Profile

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

Strong 2023Q4 sales, continuous brand building

- In 2023Q4, the retail sales of 361 Core Brand/361 Kids Brand/ E-commerce businesses grew 20% /40%/30% yoy respectively.
- The two-time NBA MVP Nikola Jokic become 361 Degrees' brand global ambassador.
- Maintain BUY with a new TP of HK\$5.25, representing 8.5x PER in FY24E.

Retail sales robust in 2023Q4. We attribute this to the growth in demand from the mass market and the low base from last year due to the COVID-19 pandemic. In particular, Kids wear and e-commerce were the major growth engines. It is understood that the company maintained stable retail discount rate (29% off) and inventory to sales ratio (4.5-5.0x) in Q4 under an intensifying market competition.

Continuous brand building, increasing product mix breadth. The signing of the two-time NBA MVP Nikola Jokic as the 361° brand's spokesman showed the company's ambition to exert its brand influence among NBA enthusiasts. The company said it will soon launch Jokic's basketball shoe series. Meanwhile, 361 Degrees broaden the breadth of the running shoe matrix. During the 361° brand day, it launched a number of new running shoes, such as "FlyingFlame3"(飛燃 3), "Furious FUTURE 1.5" (飛颯 FUTURE 1.5), and "Flying Flame 2 ET" (飛燃 2 ET). We saw 361° has growing influence in the running community. It is reported that the wearing rate of 361° running shoes among the "Sub-3-Hour Marathoners" in Xiamen Marathon 2024 reached 17.2%, compared to 8.2% in the 2023 Xiamen Marathon.

Promising outlook for FY24E. 361 Degrees disclosed that it reported 15%/>20%/15-20% yoy growth in total trade values for 2024 spring/2024 summer/2024 autumn trade fairs, mainly driven by the increase in sales volume. Meanwhile, the company continues to expand the offline sales network. This suggests that the company can maintain strong sales growth in FY24E. The company focuses on the mass market, and the enhancement of product functionality fits the latest trend in the retail market, where consumers become more price-conscious and place more emphasis on the quality of goods.

EPS revision. We lift our EPS(in HK\$) forecast for FY23E/FY24E by 3.8%/7.7% to HK\$0.517/HK\$0.617, mainly to reflect the growth in sales, the change in FX assumptions and the increase in the equity stake in the Zhuji 361 Degrees. We now anticipate 361 Degrees revenue to grow 19.2% in FY23E, close to the ceiling of its target revenue growth range of between 15-20%.

Maintain BUY with a new TP of HK\$5.25. The target price represents an 8.5x FY24E PER which is to reflect a lower valuation of home-grown sportswear brands (domestic peer's average FY24E PER: 10.6x). In addition to the expected robust earnings for FY23E, we expect the company to increase the dividend payout ratio. This could act as another price re-rating driver.

Risks: (1) Weakening retail market, (2) intensifying price competitions

Exhibit 1.: Forecast and Valuation

Year to Dec (RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	5,933	6,961	8,299	9,748	11,173
Growth (%)	+15.7	+17.3	+19.2	+17.5	+14.6
Net profit	602	747	966	1,154	1,350
Growth (%)	+44.8	+24.2	+29.3	+19.4	+17.0
Diluted EPS (HK\$)	0.355	0.416	0.517	0.617	0.722
EPS growth (%)	+47.2	+17.0	+24.4	+19.4	+17.0
Change to previous EPS (%)			+3.8	+7.7	
Consensus EPS (HK\$)			0.494	0.589	0.688
ROE (%)	7.5	8.3	10.3	11.7	12.4
P/E (x)	10.1	8.6	6.9	5.8	5.0
P/B (x)	0.9	0.8	0.8	0.7	0.6
Yield (%)	0.0	0.0	2.9	5.2	8.0
DPS (HK\$)	0.000	0.000	0.103	0.185	0.289

Source: Bloomberg, OP Research

Exhibit 2. Nikola Jokic, the two-time NBA MVP, recently become 361 Degrees's brand global ambassador



Nikola Jokic career

highlights and awards:

NBA Champion (2023)
NBA Finals MVP(2023)
2 x NBA Most Valuable Player
(2021,2022)
5 x NBA all Star (2019-2023)

Sources: 361 Degrees, open sources, OP Research

Exhibit 3. Retail sales performance for 361° Core Brand, 361° Kids, and 361° E-commerce products from 2022

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
361° Core Brand	+ High-teens + Low-teens + Mid-teens	Flat	+ Low-teens + Low-teens	+15%	+20%			
361° Kids	+20-25%	+20-25%	+20-25%	+LSD	+20-25%	+20-25%	+25-30%	+40%
361° E-commerce	+50%	+40%	+45%	+25%	+35%	+30%	+30%	+30%

Sources: The Company, OP Research

Exhibit 4. Retail sales performance of 361° and its peers

Brand	Indicator	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
361° Core Brand	Retail sales	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens	+ Low-teens	+15%	+20%
Anta	Retail sales	+ High-teens	-MSD	+MSD	- HSD	+MSD	+HSD	+HSD	+High-teens
Liling	Retail sell-through (Overall POS)	+High-twenties	- HSD	+ Mid-teens	- Low-teens	+MSD	+ Mid-teens	+MSD	Not disclosed
Xtep	Retail sell-through	+30-35%	+Mid-teens	+20-25%	-HSD	+20%	+High-teens	+High-teens	>+30%
Nike	Net sales- Greater China (Local currency)	-8% (Ended Feb)	-20% (Ended May)	-13% (Ended Aug)	+6% (Ended Nov)	+1% (Ended Feb)	+25% (Ended May)	+12% (Ended Aug)	+8% (Ended Nov)
Adidas	Net sales- Greater China (Local currency)	-34.6%	-35.1%	-26.6%	-49.7%	-9.4%	+16.4%	+5.7%	Not disclosed

Sources: Companies, OP Research

Exhibit 5. Earnings Revision

(RMB mn)	FY23E			FY24E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	8,299	8,248	+0.6	9,748	9,572	+1.8	We project a 17.5% yoy growth of revenue in FY24E on the back of the strong growth of the total order value during the three 2024 seasonal trade fairs.
Gross margin	41.0%	41.0%	0.0	41.3%	41.5%	-0.2p.p.	
Net Profit	966	954	+1.2	1,154	1,107	+4.2	Mainly thanks to the higher sales. Also, the increase of its shareholding in Zhuji 361 Degrees.
Diluted EPS (HK\$)	0.517	0.498	+3.8	0.617	0.573	+7.7	

Source: OP Research

Exhibit 6. 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 %
361 Degrees	1361 HK	3.59	949	0.9	8.6	6.9	5.8	20.2	0.3	0.0	2.9	0.8	0.8	8.3	10.3	+11.1	-10.0
HSI		15,391.79			8.2	7.8	7.2	7.0	1.1	4.5	4.60	0.9	0.9	10.5	11.2	-7.6	-13.3
HSCEI		5,172.05			7.2	6.9	6.3	8.3	0.8	4.5	4.54	0.8	0.8	10.7	11.5	-8.4	-15.1
CSI300		3,274.73			12.3	11.5	9.9	0.0	0.0	2.9	2.9	1.4	1.3	11.0	11.6	-3.6	-11.1
Adjusted sector avg*					14.4	11.7	9.3	20.0	0.5	4.5	5.2	1.6	0.8	12.7	13.1	-8.2	-21.2
Xtep Intl	1368 HK	4.10	1,385	8.7	10.3	9.3	7.8	16.1	0.6	5.1	5.5	1.1	1.2	11.7	12.0	-6.7	-44.9
Anta Sports Prod	2020 HK	66.90	24,230	73.1	21.8	17.6	14.8	20.2	0.9	2.3	2.6	3.5	4.4	21.8	23.7	-8.9	-29.1
Li Ning Co Ltd	2331 HK	16.10	5,405	86.1	9.5	10.7	9.2	7.1	1.5	4.8	3.4	1.5	1.6	16.8	14.2	-13.4	-51.2
Pou Sheng Intl	3813 HK	0.62	422	0.1	33.1	6.9	4.1	103.5	0.1	3.0	5.1	0.4	0.4	4.6	4.4	-4.5	-4.5
China Dongxiang	3818 HK	0.28	207	0.1	12.9	12.6	8.4	36.6	0.3	4.7	7.9	0.2	0.2	1.0	1.2	+17.0	+7.0
Topsports Intl	6110 HK	5.60	4,440	4.1	17.4	13.3	11.4	19.9	0.7	7.0	6.5	3.2	N/A	20.4	23.1	-7.5	-4.6

Sources: Bloomberg, OP Research

Financial Summary

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Income Statement (RMB mn)					
Footwear	2,532	2,854	3,496	4,195	4,824
Apparel	2,147	2,447	2,692	2,961	3,258
Accessories	69	96	115	126	145
361 Kids	1,107	1,442	1,875	2,344	2,812
Others	79	122	122	122	134
Turnover	5,933	6,961	8,299	9,748	11,173
YoY%	+15.7	+17.3	+19.2	+17.5	+14.6
COGS	-3,461	-4,140	-4,896	-5,725	-6,527
Gross profit	2,472	2,821	3,403	4,023	4,646
Gross margin	41.7%	40.5%	41.0%	41.3%	41.6%
Other income	227	145	232	211	219
Selling & distribution	-1,140	-1,433	-1,648	-1,890	-2,161
Admin	-312	-276	-313	-347	-368
R&D	-247	-266	-315	-370	-425
Other opex	0	0	0	0	0
Total opex	-1,698	-1,975	-2,276	-2,607	-2,953
Operating profit (EBIT)	1,001	991	1,359	1,626	1,912
Operating margin	16.9%	14.2%	16.4%	16.7%	17.1%
Provisions	0	0	0	0	0
Interest Income	81	83	82	80	87
Finance costs	-37	-9	-12	-15	-15
Profit after financing costs	1,045	1,065	1,430	1,691	1,984
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,045	1,065	1,430	1,691	1,984
Tax	-303	-248	-357	-423	-496
Minority interests	-141	-70	-106	-114	-138
Net profit	602	747	966	1,154	1,350
YoY%	+44.8	+24.2	+29.3	+19.4	+17.0
Net margin	10.1%	10.7%	11.6%	11.8%	12.1%
EBITDA	1,074	1,072	1,432	1,689	1,967
EBITDA margin	18.1%	15.4%	17.3%	17.3%	17.6%
EPS (HK\$)	0.355	0.416	0.517	0.617	0.722
YoY%	+47.2	+17.0	+24.4	+19.4	+17.0
DPS (HK\$)	0.000	0.000	0.103	0.185	0.289
Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow (RMB mn)					
EBITDA	1,074	1,060	1,432	1,689	1,967
Chg in working cap	-471	-620	-316	-599	-593
Others	68	226	0	0	0
Operating cash	671	666	1,117	1,091	1,374
Interest received	0	0	0	0	0
Tax	-299	-285	-386	-357	-423
Net cash from operations	372	380	731	733	951
Capex	-9	-31	-19	-23	-26
Investments	0	0	0	0	0
Decrease(increase) in deposits	1,000	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	68	85	82	80	87
Others	10	31	0	0	0
Investing cash	1,069	85	63	57	61
FCF	1,441	465	794	790	1,012
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	200	-34	0	0	0
Dividends paid	0	0	-125	-231	-346
Interest paid	-36	-9	-12	-15	-15
Net change in bank loans	-1,721	84	200	0	0
Others	5	19	-1,050	0	0
Financing cash	-1,552	59	-987	-245	-361
Net change in cash	-111	525	-193	545	652
Exchange rate or other Adj	-1	-3	0	0	0
Opening cash	3,451	3,339	3,860	3,667	4,212
Closing cash	3,339	3,860	3,667	4,212	4,864
CFPS (HK\$)	0.22	0.21	0.39	0.39	0.51

Source: Company, OP Research

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Ratios					
Gross margin (%)	41.7	40.5	41.0	41.3	41.6
Operating margin (%)	16.9	14.2	16.4	16.7	17.1
Net margin (%)	10.1	10.7	11.6	11.8	12.1
Selling & dist'n exp/Sales (%)	19.2	20.6	19.9	19.4	19.3
Admin exp/Sales (%)	5.2	4.0	3.8	3.6	3.3
R&D/Rev (%)	4.2	3.8	3.8	3.8	3.8
A&P/Rev (%)	10.2	11.4	11.0	11.0	11.0
Staff cost/Rev (%)	8.5	7.5	6.6	5.9	5.4
Payout ratio (%)	0.0	0.0	20.0	30.0	40.0
Effective tax (%)	29.0	23.3	25.0	25.0	25.0
Total debt/equity (%)	2.4	3.1	5.3	4.8	4.3
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.8	3.9	3.7	3.6	3.6
Quick ratio (x)	3.4	3.5	3.3	3.2	3.2
Inventory T/O (days)	87	91	91	91	91
AR T/O (days)	149	147	147	147	147
AP T/O (days)	203	195	195	195	195
Cash conversion cycle (days)	34	44.1	44.1	44.1	44.1
Asset turnover (x)	0.5	0.6	0.7	0.7	0.7
Financial leverage (x)	1.4	1.3	1.3	1.4	1.4
EBIT margin (%)	16.9	14.2	16.4	16.7	17.1
Interest burden (x)	1.0	1.1	1.1	1.0	1.0
Tax burden (x)	0.6	0.7	0.7	0.7	0.7
Return on equity (%)	7.5	8.3	10.3	11.7	12.4

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Balance Sheet (RMB mn)					
Fixed assets	823	773	719	678	649
Right-of-use assets	105	102	102	102	101
Other financial asset	27	33	33	33	33
Deposits and prepayments	102	93	93	93	93
Other non-current assets	98	151	151	151	151
Non-current assets	1,155	1,152	1,098	1,057	1,028
Inventories	891	1,182	1,226	1,434	1,634
AR	2,600	3,024	3,353	3,938	4,513
Prepayments & deposits	1,201	1,193	1,422	1,670	1,915
Other current assets	0	0	0	0	0
Deposits/restricted cash	2,052	2,024	2,024	2,024	2,024
Cash	3,339	3,860	3,667	4,212	4,864
Current assets	10,083	11,284	11,692	13,278	14,950
AP	2,092	2,327	2,613	3,055	3,483
Tax	368	386	357	423	496
Accruals & other payables	0	0	0	0	0
Bank loans & leases	208	193	193	193	193
CB & other debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	2,668	2,906	3,163	3,670	4,171
Bank loans & leases	0	100	300	300	300
CB & other debts	0	0	0	0	0
Deferred tax & others	14	13	13	13	13
Non-current liabilities	14	113	313	313	313
Total net assets	8,556	9,418	9,315	10,353	11,495
Shareholder's equity	7,117	7,944	8,784	9,707	10,711
Share capital	182	182	182	182	182
Reserves	6,934	7,761	8,602	9,525	10,529
MI	1,439	1,474	531	645	783
BVPS (HK\$)	4.20	4.42	4.70	5.19	5.73

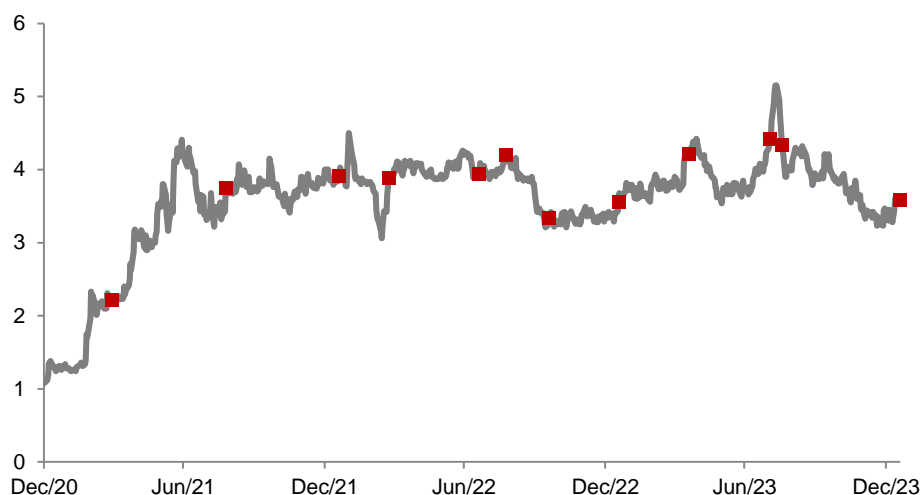
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/12/2023	New Higher Edu	2001	FY23 earnings in-line, emphasize high-quality application-based education	BUY	John Siah
05/12/2023	Edvantage Group	382	FY23 earnings beats our expectation	BUY	John Siah
05/12/2023	China Water Affairs	855	FY1H24 earnings missed, improvement expected in FY2H24E	BUY	John Siah
04/09/2023	Newborn Town	9911	1H23 results beats, Blued as a new growth engine	BUY	John Siah
18/08/2023	361 Degrees	1361	1H23 net profit rose 27.7%, resumes dividend payout	BUY	John Siah
04/08/2023	361 Degrees	1361	1H23 net profit grows by more than 25%	BUY	John Siah
04/08/2023	Xinyi Energy	3868	1H23 net profit in-line, dividend payout ratio cut to 49%	HOLD	John Siah
04/08/2023	Greentown Mgmt	9979	Impressive results in 1H23 backed by strong contracts growth	BUY	John Siah
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah

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

(as of 18 Jan 2024)

(HK\$)



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	18 4 Aug 2023	BUY	5.80	4.46
9 29 Mar 2021	BUY	2.85	2.18	19 18 Aug 2023	BUY	6.00	4.44
10 25 Aug 2021	BUY	4.35	3.75	20 19 Jan 2024	BUY	5.25	3.59

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