

361 Degrees (1361 HK)

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Company update

BUY

Maintain

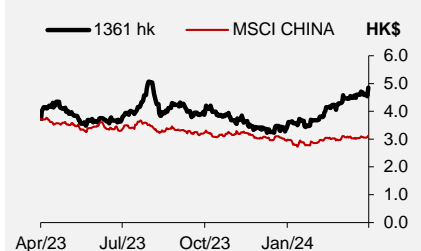
Close price: HK\$4.45
Target Price: HK\$5.80(+30.3%)
Prior TP: HK\$5.80

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	5.30
12 Month Low (HK\$)	3.18
3M Avg Dail Vol. (mn)	3.15
Issue Share (mn)	2,067.68
Market Cap (HK\$m)	9,428.63
Fiscal Year	12/2023
Major shareholder (s)	Ding's Family (48.99%)

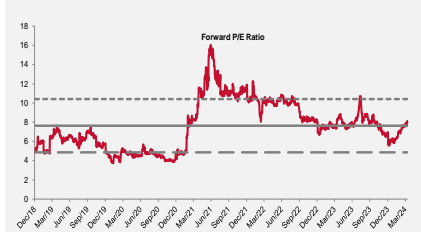
Source: Company data, Bloomberg, OP Research
Closing price are as of 16 Apr 2024

Price Chart



	1mth	3mth	6mth
Absolute %	-0.4	+24.3	+11.8
Rel. MSCI CHINA %	+0.3	+15.6	+13.8

PE



Company Profile

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

Strong sales momentum continued in 2024Q1

- In 2024Q1, the retail sales of 361° Core Brand/361° Kids Brand/ E-commerce businesses grew at high-teens/20-25%/20-25% yoy respectively.
- 361 Degrees maintained the sales growth target of 15-20% yoy for FY24E.
- Maintain BUY and TP of HK\$5.80, representing a 9.4x PER in FY24E.

Impressive sales growth in 2024Q1. 361 Degrees holds the growth momentum under the intense competition in the sportswear market. We believe it is a reward for its continuous brand-building effort. In 2024Q1, the inventory-to-sales ratio remained stable at 4.5-5.0x while the retail sales discount level slightly widened (~30% in 2024Q1, versus 27-29% in 2023Q4). In particular, Kids wear and e-commerce continued to outperform. The company said that compared to Dec 2023, the POS for 361° core brand was merely unchanged, while the POS for 361 Kids° slightly increased. For 361° core brand and 361° Kids, the company maintained a net store opening target of 100-200 stores for each business for FY24E.

Brand building. 361 Degrees focuses on running shoes and basketball shoes. The company is rolling out new running shoes empowered by the latest material technology. Meanwhile, the sponsorship of marathons (i.e., the Qingdao Marathon in late Apr) and the excellent results of the sponsored runner would bolster the brand reputation across running communities. Meanwhile, basketball shoes led the sales growth. The company has engaged NBA stars as brand ambassadors to raise the profile of its professional basketball products. In Feb 2024, it engaged Kentavious Caldwell-Pope as the brand ambassador.

Management maintains a 15-20% yoy sales growth target for FY24E. 361 Degrees expected its sales to exceed the RMB10bn milestone in 2024. The company previously mentioned the yoy growth in order value for the Spring/Summer/Autumn trade fair 2024 were +15%/>20%/+15-20% respectively. We believe 361 Degrees's focuses on the mass market with the emphasis on the functionality of products should allow the company to stand out from the competition. We anticipate the company's revenue to grow at a CAGR of 15.8% in FY24E-25E, mainly driven by brand and product enhancement. We maintain our EPS(in HK\$) forecast of HK\$0.616 for FY24E.

Maintain BUY and the TP of HK\$5.80. The target price represents a 9.4x FY24E PER.

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

Exhibit 1.: Forecast and Valuation

Year to Dec (RMB mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	5,933	6,961	8,423	10,002	11,294
Growth (%)	+15.7	+17.3	+21.0	+18.7	+12.9
Net profit	602	747	961	1,157	1,336
Growth (%)	+44.8	+24.2	+28.7	+20.4	+15.5
Diluted EPS (HK\$)	0.355	0.416	0.514	0.616	0.711
EPS growth (%)	+47.2	+17.0	+23.6	+19.8	+15.5
Change to previous EPS (%)				-	-0.1
Consensus EPS (HK\$)				0.596	0.699
ROE (%)	8.8	9.9	11.3	12.2	13.0
P/E (x)	12.8	11.0	8.9	7.4	6.4
P/B (x)	1.1	1.0	0.9	0.9	0.8
Yield (%)	0.0	0.0	4.5	5.4	6.2
DPS (HK\$)	0.000	0.000	0.204	0.246	0.284

Source: Bloomberg, OP Research

Exhibit 2. Retail sales performance for 361° Core Brand, 361° Kids, and 361° E-commerce products from 2022

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
361° Core Brand	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens	+ Low-teens	+15%	+20%	+ High-teens
361° Kids	+20-25%	+20-25%	+20-25%	+LSD	+20-25%	+20-25%	+25-30%	+40%	+20-25%
361° E-commerce	+50%	+40%	+45%	+25%	+35%	+30%	+30%	+30%	+20-25%

Sources: The Company, OP Research

Exhibit 3. Retail sales performance of 361° and its peers

Brand	Indicator	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
361° Core Brand	Retail sales	+ High-teens	+ Low-teens	+ Mid-teens	Flat	+ Low-teens	+ Low-teens	+15%	+20%	+ High-teens
Anta	Retail sales	+ High-teens	-MSD	+MSD	- HSD	+MSD	+HSD	+HSD	+High-teens	(Not disclosed)
Liling	Retail sell-through (Overall POS)	+High-twenties	- HSD	+ Mid-teens	- Low-teens	+MSD	+ Mid-teens	+MSD	+Low-twenties	(Not disclosed)
Xtep	Retail sell-through	+30-35%	+Mid-teens	+20-25%	-HSD	+20%	+High-teens	+High-teens	>+30%	(Not disclosed)
Nike	Net sales- Greater China (Local currency)	-8%	-20%	-13%	+6%	+1%	+25%	+12%	+8%	+6%
		(Ended Feb)	(Ended May)	(Ended Aug)	(Ended Nov)	(Ended Feb)	(Ended May)	(Ended Aug)	(Ended Nov)	(Ended Feb)
Adidas	Net sales- Greater China (Local currency)	-34.6%	-35.1%	-26.6%	-49.7%	-9.4%	+16.4%	+5.7%	+36.8%	(Not disclosed)

Sources: Companies, OP Research

Exhibit 4. Earnings Revision

(RMB mn)	FY24E			FY25E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	10,002	9,974	+0.3	11,294	11,173	+1.1	
Gross margin	41.3%	41.4%	-0.1p.p.	41.5%	41.6%	-0.1 p.p.	
Net Profit	1,157	1,157	0.0	1,336	1,338	-0.1	
Diluted EPS (HK\$)	0.616	0.616	0.0	0.711	0.712	-0.1	

Source: OP Research

Exhibit 5. 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	4.45	1,175	1.7	8.9	7.4	6.4	16.5	0.4	4.5	5.4	0.9	0.9	11.3	12.2	-0.4	+24.3
HSI		16,248.97			8.5	8.2	7.6	7.1	1.2	4.4	4.68	1.0	0.9	11.3	10.9	-2.8	2.4
HSCEI		5,743.78			7.8	7.6	6.9	7.6	1.0	4.0	4.23	0.9	0.9	11.8	11.2	-1.3	7.5
CSI300		3,511.12			13.3	13.5	11.6	0.0	0.0	2.7	2.7	1.5	1.5	11.1	11.0	-1.6	6.4
Adjusted sector avg*					13.6	10.8	8.9	16.5	0.7	3.6	5.4	1.7	1.7	12.7	13.4	-10.5	+1.9
Xtep Intl	1368 HK	4.35	1,467	7.7	9.9	8.7	7.5	9.6	0.9	4.8	5.9	1.2	1.2	12.0	12.6	-8.0	3.6
Anta Sports Prod	2020 HK	81.15	29,355	90.8	20.3	16.7	15.1	15.6	1.1	1.9	3.0	4.1	3.9	23.8	22.8	3.6	13.4
Li Ning Co Ltd	2331 HK	17.46	5,763	67.6	13.1	11.7	10.1	11.8	1.0	4.5	3.5	1.6	1.6	13.1	13.6	-15.7	0.3
Pou Sheng Intl	3813 HK	0.61	415	0.1	6.0	4.6	3.6	26.1	0.2	3.0	6.7	0.4	0.4	5.9	6.9	-11.6	-9.0
China Dongxiang	3818 HK	0.34	256	0.2	16.0	10.5	6.3	43.6	0.2	3.8	6.4	0.2	0.2	1.0	1.7	-10.5	15.3
Topsports Intl	6110 HK	5.19	4,110	3.5	16.2	12.5	10.8	19.3	0.6	7.6	7.0	3.0	2.8	20.4	22.9	-6.5	-12.3

Sources: Bloomberg, OP Research

Financial Summary

Year to Dec	FY21	FY22	FY23	FY24E	FY25E
Income Statement (RMB mn)					
Footwear	2,532	2,854	3,510	4,317	4,965
Apparel	2,147	2,447	2,687	2,956	3,104
Accessories	69	96	137	144	144
361 Kids	1,107	1,442	1,958	2,447	2,936
Others	79	122	132	138	145
Turnover	5,933	6,961	8,423	10,002	11,294
YoY%	+15.7	+17.3	+21.0	+18.7	+12.9
COGS	-3,461	-4,140	-4,961	-5,868	-6,610
Gross profit	2,472	2,821	3,462	4,134	4,684
Gross margin	41.7%	40.5%	41.1%	41.3%	41.5%
Other income	227	145	331	278	286
Selling & distribution	-1,140	-1,433	-1,863	-2,104	-2,339
Admin	-312	-276	-317	-346	-364
R&D	-247	-266	-313	-380	-429
Other opex	0	0	0	0	0
Total opex	-1,698	-1,975	-2,493	-2,830	-3,132
Operating profit (EBIT)	1,001	991	1,300	1,582	1,837
Operating margin	16.9%	14.2%	15.4%	15.8%	16.3%
Provisions	0	0	0	0	0
Interest Income	81	83	84	73	72
Finance costs	-37	-9	-20	-18	-18
Profit after financing costs	1,045	1,065	1,363	1,638	1,892
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,045	1,065	1,363	1,638	1,892
Tax	-303	-248	-323	-393	-454
Minority interests	-141	-70	-79	-87	-102
Net profit	602	747	961	1,157	1,336
YoY%	+44.8	+24.2	+28.7	+20.4	+15.5
Net margin	10.1%	10.7%	11.4%	11.6%	11.8%
EBITDA	1,074	1,072	1,375	1,650	1,892
EBITDA margin	18.1%	15.4%	16.3%	16.5%	16.8%
EPS (HK\$)	0.355	0.416	0.514	0.616	0.711
YoY%	+47.2	+17.0	+23.6	+19.8	+15.5
DPS (HK\$)	0.000	0.000	0.204	0.246	0.284
Cash Flow (RMB mn)					
EBITDA	1,074	1,060	1,363	1,650	1,892
Chg in working cap	-471	-620	-679	-883	-607
Others	68	226	-14	0	0
Operating cash	671	666	671	767	1,286
Tax	-299	-285	-263	-461	-393
Net cash from operations	372	380	408	306	893
Capex	-9	-31	-64	-23	-26
Investments	0	0	0	0	0
Decrease(increase) in deposits	1,000	0	400	0	0
Sales of assets	0	0	0	0	0
Interests received	68	85	67	73	72
Others	10	31	13	0	0
Investing cash	1,069	85	417	50	46
FCF	1,441	465	825	356	939
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	200	-34	-957	0	0
Dividends paid	0	0	-122	-420	-463
Interest paid	-36	-9	-20	-18	-18
Net change in bank loans	-1,721	84	0	0	0
Others	5	19	19	0	0
Financing cash	-1,552	59	-1,079	-438	-480
Net change in cash	-111	525	-255	-82	458
Exchange rate or other Adj	-1	-3	-9	0	0
Opening cash	3,451	3,339	3,860	3,596	3,514
Closing cash	3,339	3,860	3,596	3,514	3,972
CFPS (HK\$)	0.22	0.21	0.22	0.16	0.48

Source: Company, OP Research

Year to Dec	FY21	FY22	FY23	FY24E	FY25E
Ratios					
Gross margin (%)	41.7	40.5	41.1	41.3	41.5
Operating margin (%)	16.9	14.2	15.4	15.8	16.3
Net margin (%)	10.1	10.7	11.4	11.6	11.8
Selling & dist'n exp/Sales (%)	19.2	20.6	22.1	21.0	20.7
Admin exp/Sales (%)	5.2	4.0	3.8	3.5	3.2
R&D/Rev (%)	4.2	3.8	3.8	3.8	3.8
A&P/Rev (%)	10.2	11.4	12.7	12.0	12.0
Staff cost/Rev (%)	8.5	7.5	6.5	5.8	5.4
Payout ratio (%)	0.0	0.0	40.2	40.0	40.0
Effective tax (%)	29.0	23.3	23.7	24.0	24.0
Total debt/equity (%)	2.4	3.1	3.0	2.8	2.6
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.8	3.9	3.8	4.1	4.1
Quick ratio (x)	3.4	3.5	3.3	3.6	3.6
Inventory T/O (days)	87	91	93	93	93
AR T/O (days)	149	147	149	149	149
AP T/O (days)	122	121	110	110	110
Cash conversion cycle (days)	115	118	132	132	132
Asset turnover (x)	0.5	0.6	0.7	0.7	0.8
Financial leverage (x)	1.7	1.6	1.5	1.4	1.4
EBIT margin (%)	16.9	14.2	15.4	15.8	16.3
Interest burden (x)	1.0	1.1	1.0	1.0	1.0
Tax burden (x)	0.6	0.7	0.7	0.7	0.7
Return on equity (%)	8.8	9.9	11.3	12.2	13.0

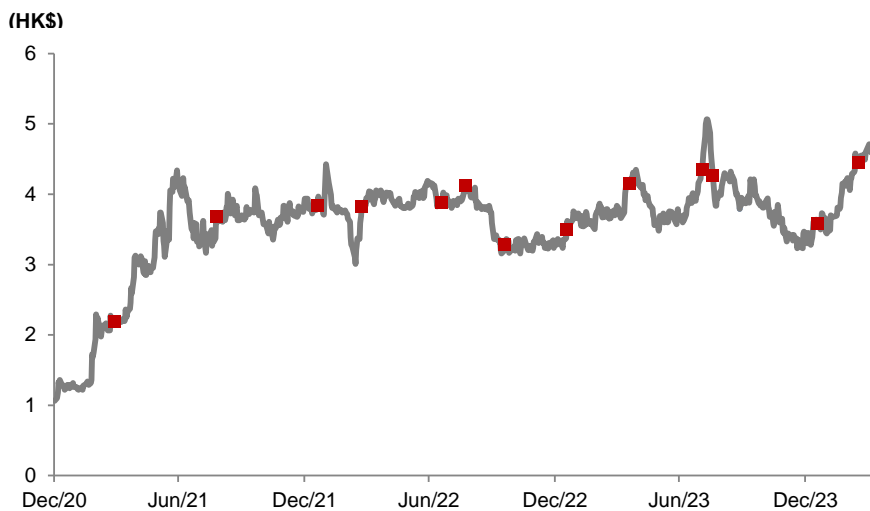
Year to Dec	FY21	FY22	FY23	FY24E	FY25E
Balance Sheet (RMB mn)					
Fixed assets	823	773	765	721	692
Right-of-use assets	105	102	102	101	101
Other financial asset	27	33	20	20	20
Deposits and prepayments	102	93	397	397	397
Other non-current assets	98	151	164	164	164
Non-current assets	1,155	1,152	1,448	1,403	1,374
Inventories	891	1,182	1,350	1,498	1,687
AR	2,600	3,024	3,831	4,070	4,596
Prepayments & deposits	1,201	1,193	1,227	1,714	1,935
Other current assets	0	0	0	0	0
Deposits/restricted cash	2,052	2,024	1,612	1,612	1,612
Cash	3,339	3,860	3,596	3,514	3,972
Current assets	10,083	11,284	11,617	12,409	13,803
AP	1,250	1,503	1,499	1,775	2,000
Tax	368	386	461	393	454
Accruals & other payables	842	824	1,078	793	898
Bank loans & leases	208	192	48	48	48
CB & other debts	0	0	2	2	2
Other current liabilities	0	0	0	0	0
Current liabilities	2,668	2,906	3,088	3,010	3,401
Bank loans & leases	0	100	245	245	245
CB & other debts	0	0	0	0	0
Deferred tax & others	14	13	10	10	10
Non-current liabilities	14	113	254	254	254
Total net assets	8,556	9,418	9,723	10,548	11,522
Shareholder's equity	7,117	7,944	9,082	9,819	10,693
Share capital	182	182	182	182	182
Reserves	6,934	7,761	8,900	9,637	10,510
MI	1,439	1,474	641	728	830
BVPS (HK\$)	4.20	4.42	4.85	5.22	5.69

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
19/03/2024	361 Degrees	1361	FY23 net profit in-line, visible growth for FY24E	BUY	John Siah
19/01/2024	361 Degrees	1361	Strong 2023Q4 sales, continuous brand building	BUY	John Siah
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

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

(as of 16 Apr 2024)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 17 Jul 2019	BUY	2.54	1.32	13 20 Jul 2022	BUY	5.25	3.94
2 20 Aug 2019	BUY	2.54	1.44	14 26 Aug 2022	BUY	5.25	4.14
3 17 Oct 2019	BUY	2.37	1.81	15 20 Oct 2022	BUY	4.60	3.34
4 16 Jan 2020	BUY	2.37	1.37	16 18 Jan 2023	BUY	4.60	3.43
5 21 Feb 2020	BUY	2.37	1.41	17 19 Apr 2023	BUY	5.00	4.22
6 18 Mar 2020	BUY	2.10	1.18	18 4 Aug 2023	BUY	5.80	4.46
7 21 Apr 2020	BUY	1.80	1.15	19 18 Aug 2023	BUY	6.00	4.44
8 21 Jul 2020	BUY	1.57	1.22	20 19 Jan 2024	BUY	5.25	3.59
9 29 Mar 2021	BUY	2.85	2.18	21 19 Mar 2024	BUY	5.80	4.45
10 25 Aug 2021	BUY	4.35	3.75	22 17 Apr 2024	BUY	5.80	4.45
11 21 Jan 2022	BUY	4.80	3.91				
12 25 Mar 2022	BUY	5.25	3.89				

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Rating and Related Definitions

Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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