

361 Degrees (1361 HK)

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Company Update

BUY

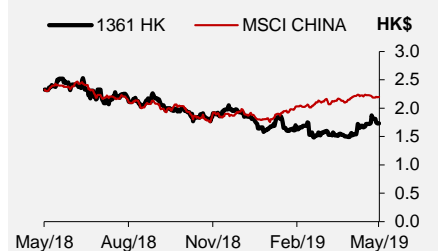
UNCHANGED
Close price: HK\$1.78
Target Price: HK\$2.37 (+33%)
Prior TP: HK\$2.37

Key Data

HKEx code	1361 HK
12 Months High (HK\$)	2.70
12 Month Low (HK\$)	1.47
3M Avg Dail Vol. (mn)	3.88
Issue Share (mn)	2,067.60
Market Cap (HK\$mn)	3,680.33
Fiscal Year	12/2018
Major shareholder (s)	Director Ding Wuhao 16.46%

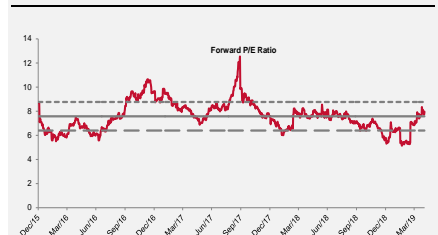
Source: Company data, Bloomberg, OP Research
 Closing price are as of 02/05/2019

Price Chart



	1mth	3mth	6mth
Absolute %	10.9	6.1	-9.4
Rel. MSCI CHINA %	9.9	-2.0	-23.6

PE



Company Profile

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

1Q19E saw lukewarm sales growth

- **361 Degrees 1Q19E core brand/kids brand retail sales both up by low single digit percentage yoy.**
- **Channel restructure is likely to weigh on sales performance in the short-term.**
- **Maintain BUY with TP HK\$2.37 unchanged based on same 10x FY19E PE, representing 50% discount to its domestic peers.**

1Q19E sales performance weaker than expected. 361 Degrees saw core brand retail sales up by low single-digit percentage ("LSD") yoy (vs flat in 4Q18 and high single-digit percentage ("HSD") in 1Q18), largely in line with our expectations. Retail sales for 361 Kids recorded LSD as well (vs low-teens percentage in 4Q18 and HSD in 1Q18), weaker than OP expectation. Sales growth from e-commerce platform was in region of +30%. Retail discount was maintained at 26% with stable inventory level of about 4-4.5x.

Channel restructure is likely to weigh on sales in the short-term. The company aims to improve its POS mix with more stores in shopping malls. Since historically the new store openings are more concentrated in the fourth quarter each year, we expect 1H19E to see a net decrease in total number of stores as the channel restructure goes on and believe sales performance will remain under pressure in the near term.

Maintain BUY. We maintain our BUY rating on 361 Degrees with TP HK\$2.37 unchanged based on same 10x FY19E PE, representing 50% discount to its peers.

Risks: (1) sales growth may be pulled back by the channel optimization; (2) channel inventory build-up; (3) deeper than expected retail discounts.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,158.2	5,187.4	5,454.6	5,769.4	6,030.8
Growth (%)	2.7	0.6	5.1	5.8	4.5
Net Profit	456.7	303.7	407.7	484.8	538.6
Growth (%)	13.4	(33.5)	34.3	18.9	11.1
Diluted EPS (HK\$)	0.265	0.176	0.237	0.281	0.313
EPS growth (%)	8.9	(33.5)	34.3	18.9	11.1
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.276	0.306	
ROE (%)	8.3	5.3	6.8	7.7	8.1
P/E (x)	6.7	10.1	7.5	6.3	5.7
P/B (x)	0.5	0.5	0.5	0.5	0.5
Yield (%)	6.0	4.3	5.3	6.3	7.0
DPS (HK\$)	0.106	0.076	0.095	0.113	0.125

Source: Bloomberg, OP Research

Exhibit 2: Peer comparison of same store sales growth

Same Store Sales Growth (yoy%)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Anta	-	-	-	-	-	-	-	-	-
Li Ning	flat	+ HSD	-LSD	+low teens	+low teens	+ HSD	+low teens	+mid teens	+mid teens
Retail (self-owned)	-MSD	flat	-MSD	+low teens	+low teens	+ HSD	+ HSD	+ MSD	+ HSD
Wholesales	-MSD	+ LSD	-MSD	+ HSD	+ MSD	+ LSD	+ HSD	+ MSD	+low teens
E-Commerce	+ low 50s	+ mid 90s	+ low 30s	+ high teens	+ high 30s	+ mid 30s	+ low 30s	+ mid 50s	+ high 30s
Xtep	+ LSD	+ MSD	+ MSD	+ HSD	+low teens	+mid teens	+mid teens	+mid teens	+low teens
361 Degrees	7.0%	-	-	-	-	-	-	-	-

Source: Company, OP Research

Exhibit 3: Peer comparison of retail sales growth

Retail Sales Growth (yoy%)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Anta	+low teens	20~30%	+mid teens	20~25%	20~25%	+low teens	+mid teens	+mid teens	+low teens
Core brands offline	+LSD	+mid teens	+MSD	+mid teens	+mid teens	+HSD	+low teens	+ high teens	+HSD
Kids	30%+	~30%	~30%	40%+	~40%	~40%	25%+	25%+	20%+
E-commerce	50%+	50%+	~50%	40%+	~40%	~30%	20%+	24%+	+mid teens
Fila & Other new brands	40-50%	50-60%	40-50%	85-90%	80-85%	90-95%	90-95%	80-85%	65-70%
Li Ning	+HSD	+low teens	+LSD	+mid teens	+mid teens	+low teens	+mid teens	+ high teens	+low 20s
Retail (self-owned)	+HSD	+LSD	+LSD	+mid teens	+low 20s	+mid teens	+mid teens	+HSD	+low teens
Wholesales	Flat	+MSD	-LSD	+low teens	+HSD	+MSD	+low teens	+low teens	+low 20s
E-Commerce	+mid 60s	40-50%	+low 30s	+low 30s	+high 30s	+high 30s	+low 30s	+mid 50s	+low 40s
Xtep	-	-	-	-	-	-	-	-	20%+
361 Degrees	-	-	-	-	-	-	-	-	-
Core brands offline	-	+HSD	+HSD	+HSD	+HSD	+HSD	+MSD	flat	+LSD
Kids	-	+HSD	+HSD	+HSD	+HSD	+low teens	+low teens	+low teens	+LSD

Source: Company, OP Research

Financial Summary

Year to Dec	FY17	FY18	FY19E	FY20E	FY21E	Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
Income Statement (RMB mn)						Ratios					
Footwear	2,306	2,212	2,290	2,381	2,453	Gross margin (%)	41.8	40.6	40.6	40.6	40.6
Apparel	1,988	1,999	2,069	2,162	2,227	Operating margin (%)	17.5	13.2	15.6	17.0	17.8
Accessories	78	76	76	76	76	Net margin (%)	8.9	5.9	7.5	8.4	8.9
361 Kids	711	816	927	1,048	1,163	Selling & dist'n exp/Sales (%)	13.9	14.7	14.0	13.1	12.9
Others	75	84	93	102	112	Admin exp/Sales (%)	9.7	10.5	9.3	8.9	8.3
Turnover	5,158	5,187	5,455	5,769	6,031	R&D/Rev (%)	3.4	4.1	3.6	3.4	3.4
YoY%	3	1	5	6	5	A&P/Rev (%)	9.8	10.7	10.2	9.5	9.5
COGS	(3,002)	(3,082)	(3,240)	(3,426)	(3,581)	Staff cost/Rev (%)	9.0	8.8	8.4	8.3	8.4
Gross profit	2,156	2,106	2,215	2,344	2,450	Payout ratio (%)	40.0	43.1	40.0	40.0	40.0
Gross margin	41.8%	40.6%	40.6%	40.6%	40.6%	Effective tax (%)	39.6	46.5	40.0	40.0	40.0
Other income	140	103	105	105	105	Total debt/equity (%)	45.2	49.0	45.9	43.8	41.7
Selling & distribution	(719)	(764)	(763)	(755)	(780)	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Admin	(503)	(545)	(509)	(516)	(499)	Current ratio (x)	3.6	3.2	3.7	3.7	3.7
R&D	(173)	(215)	(196)	(196)	(205)	Quick ratio (x)	3.3	2.9	3.5	3.4	3.4
Other opex	0	0	0	0	0	Inventory T/O (days)	99	124	80	80	80
Total opex	(1,395)	(1,524)	(1,469)	(1,467)	(1,484)	AR T/O (days)	152	169	160	160	160
Operating profit (EBIT)	902	685	851	981	1,071	AP T/O (days)	275	275	275	275	275
Operating margin	17.5%	13.2%	15.6%	17.0%	17.8%	Cash conversion cycle (days)	(24)	18	(35)	(35)	(35)
Provisions	0	0	0	0	0	Asset turnover (x)	0.5	0.4	0.5	0.5	0.5
Interest Income	86	98	103	108	114	Financial leverage (x)	2.0	2.0	2.0	1.9	1.9
Finance costs	(214)	(212)	(226)	(226)	(226)	EBIT margin (%)	17.5	13.2	15.6	17.0	17.8
Profit after financing costs	774	571	728	863	959	Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Associated companies & JVs	0	0	0	0	0	Tax burden (x)	0.6	0.5	0.6	0.6	0.6
Pre-tax profit	774	571	728	863	959	Return on equity (%)	8.3	5.3	6.8	7.7	8.1
Tax	(307)	(265)	(291)	(345)	(383)	ROIC (%)	20.6	14.0	20.3	23.1	25.6
Minority interests	(11)	(2)	(29)	(33)	(37)						
Net profit	457	304	408	485	539	Year to Dec	FY17	FY18	FY19E	FY20E	FY21E
YoY%	13	(34)	34	19	11	Bal. Sheet (RMB mn)					
Net margin	8.9%	5.9%	7.5%	8.4%	8.9%	Fixed assets	1,123	1,035	975	915	858
EBITDA	1,023	809	947	1,078	1,166	Intangible assets & goodwill	114	111	111	110	110
EBITDA margin	19.8%	15.6%	17.4%	18.7%	19.3%	Associated companies & JVs	7	29	29	29	29
EPS (RMB)	0.221	0.147	0.197	0.234	0.260	Long-term investments	96	94	94	94	94
YoY%	9	(34)	34	19	11	Other non-current assets	53	46	46	46	46
DPS (HK\$)	0.106	0.076	0.095	0.113	0.125	Non-current assets	1,393	1,315	1,254	1,193	1,136
						Inventories	814	1,051	710	751	785
Year to Dec	FY17	FY18	FY19E	FY20E	FY21E	AR	2,150	2,399	2,391	2,529	2,644
Cash Flow (RMB mn)						Prepayments & deposits	728	721	758	802	838
EBITDA	1,023	809	947	1,078	1,166	Other current assets	3,941	4,827	4,827	4,827	4,827
Chg in working cap	89	(303)	(11)	(82)	(68)	Cash	2,116	1,651	1,940	2,297	2,684
Others	(69)	43	0	0	0	Current assets	9,748	10,650	10,627	11,206	11,778
Operating cash	1,042	549	935	996	1,098	AP	2,264	2,766	2,443	2,583	2,700
Interest received	0	0	0	0	0	Tax	468	476	291	345	383
Tax	(210)	(254)	(476)	(291)	(345)	Accruals & other payables	0	0	0	0	0
Net cash from operations	832	295	459	705	753	Bank loans & leases	13	112	112	112	112
Capex	(44)	(33)	(34)	(36)	(38)	CB & othe debts	0	0	0	0	0
Investments	(1,218)	(886)	0	0	0	Other current liabilities	0	0	0	0	0
Dividends received	0	0	0	0	0	Current liabilities	2,744	3,354	2,846	3,041	3,196
Sales of assets	0	0	0	0	0	Bank loans & leases	2,565	2,714	2,714	2,714	2,714
Interests paid	85	98	103	108	114	CB & othe debts	0	0	0	0	0
Others	0	0	0	0	0	Deferred tax & others	0	2	2	2	2
Investing cash	(1,177)	(821)	69	72	76	MI	125	127	156	189	225
FCF	(346)	(526)	528	777	829	Non-current liabilities	2,691	2,843	2,872	2,905	2,942
Issue of shares	0	0	0	0	0	Total net assets	5,706	5,768	6,162	6,453	6,776
Buy-back	0	0	0	0	0	Shareholder's equity	5,706	5,768	6,162	6,453	6,776
Minority interests	0	0	150	0	0	Share capital	182	182	182	182	182
Dividends paid	(147)	(194)	(163)	(194)	(215)	Reserves	5,524	5,585	5,980	6,271	6,594
Net change in bank loans	(62)	99	0	0	0	BVPS (HK\$)	3.31	3.35	3.58	3.75	3.93
Others	(202)	151	(226)	(226)	(226)	Total debts	2,578	2,827	2,827	2,827	2,827
Financing cash	(411)	55	(239)	(420)	(442)	Net cash/(debts)	3,479	3,652	3,941	4,297	4,685
Net change in cash	(757)	(471)	289	356	387						
Exchange rate or other Adj	(9)	6	0	0	0						
Opening cash	2,882	2,116	1,651	1,940	2,297						
Closing cash	2,116	1,651	1,940	2,297	2,684						
CFPS (HK\$)	0.483	0.171	0.267	0.409	0.437						

Source: Company, OP Research

Exhibit 4: Peers Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth	PER	PER	PER	EPS	EPS	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B	P/B	EV/	EV/	Net	Gross	Net	ROE	Sh px		
				avg t/o	Hist	FY1	FY2	FY1	FY2					YoY%	YoY%	Hist	FY1	Hist	Cur Yr	Hist (%)	(%)	Hist (%)	(%)	FY1 (%)
361 Degrees	1361 HK	1.78	469	0.8	10.1	7.5	6.3	34.3	18.9	12.6	0.6	4.3	5.3	0.5	0.5	0.0	(0.3)	Net cash	40.6	5.9	5.3	6.8	14.1	9.2
HSI		29,944.18			11.5	11.6	10.7	(0.5)	8.1	5.4	2.15	3.3	3.5	1.35	1.28						11.7	11.0	1.3	7.2
HSCEI		11,556.72			9.3	8.8	8.2	5.7	8.2	7.3	1.21	3.6	3.9	1.12	1.05						12.0	11.9	(0.0)	4.5
CSI300		3,913.21			14.5	12.5	11.1	15.9	12.5	0.0	0.0	2.0	2.5	1.8	1.6						12.3	13.0	(1.5)	20.5
Domestic Peers																								
Adjusted sector avg*					24.5	20.2	16.7	18.2	22.1	21.1	1.1	2.5	2.0	2.2	2.0	18.0	11.9	6.6	45.5	10.3	12.5	9.7	(3.2)	19.4
Xtep Intl	1368 HK	4.67	1,485	9.2	13.3	11.9	10.4	11.6	14.5	13.8	0.9	5.4	5.0	1.7	1.6	7.7	6.8	0.0	44.3	10.3	12.4	13.6	(15.6)	(6.0)
Anta Sports Prod	2020 HK	56.20	19,236	40.5	31.6	25.2	20.8	25.2	21.0	20.9	1.2	1.4	1.5	8.2	6.7	20.1	16.8	0.0	52.6	17.0	27.8	29.2	6.0	38.9
Li Ning Co Ltd	2331 HK	14.48	4,255	30.5	42.0	30.9	24.3	35.7	27.4	27.2	1.1	N/A	1.0	4.6	4.5	21.1	16.4	0.0	48.1	6.8	13.1	15.8	16.0	46.4
Pou Sheng Intl	3813 HK	1.85	1,263	0.4	15.3	14.2	11.5	7.8	23.2	16.4	0.9	1.1	1.8	1.2	1.1	7.8	7.3	39.8	33.5	2.4	8.2	8.2	2.2	19.4
China Dongxiang	3818 HK	1.16	870	0.9	18.3	8.8	9.1	107.7	(2.7)	30.2	0.3	9.4	7.8	0.6	0.6	31.1	11.3	0.0	57.3	18.5	3.3	6.3	0.9	(0.9)
Annil Co Ltd-A	002875 CH	18.63	365	20.8	26.4	23.8	19.6	11.0	21.7	18.0	1.3	0.8	N/A	2.8	2.5	20.4	12.9	0.0	55.0	6.9	10.1	11.0	(9.5)	19.3
Guirenniao Co-A	603555 CH	6.29	587	11.2	N/A	26.2	21.0	N/A	25.0	N/A	N/A	4.0	0.6	2.4	1.7	N/A	N/A	125.3	28.0	(24.6)	(37.6)	3.3	(22.2)	18.5
Global Peers																								
Adjusted sector avg*					48.0	32.0	31.0	48.0	18.0	25.4	1.5	0.9	0.7	9.5	8.9	21.7	19.5	0.0	48.9	6.2	22.7	25.5	2.4	11.7
Nike Inc -Cl B	NKE US	85.90	135,013	531.6	73.7	33.6	28.5	119.5	17.8	44.9	0.75	1.0	1.0	15.08	16.46	25.9	23.6	0.0	43.8	5.3	44.6	40.5	1.8	5.4
Under Armour-A	UAA US	22.04	9,318	105.0	N/A	66.4	46.5	N/A	42.8	(288.5)	N/A	N/A	0.0	4.90	4.45	60.5	22.9	8.5	45.1	(0.9)	(2.3)	6.3	3.3	6.8
Lululemon Ath	LULU US	175.67	22,885	348.5	48.4	38.2	32.3	26.6	18.3	19.5	1.96	N/A	0.0	15.91	12.92	26.6	22.7	0.0	55.2	14.7	31.8	38.3	6.2	20.2
Adidas Ag	ADS GR	226.65	50,903	135.5	26.9	23.6	21.0	13.6	12.7	12.3	1.92	1.1	1.7	7.08	6.34	15.4	13.7	0.0	51.9	7.8	27.4	28.0	1.9	13.7
Puma Se	PUM GR	541.00	9,144	20.6	43.1	32.6	26.5	32.4	23.2	24.8	1.32	0.6	0.9	4.71	4.35	19.1	14.6	0.0	48.4	4.0	12.2	14.2	2.5	12.6

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	BUY	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin
06/03/2019	Xtep Intl	1368	JV with Wolverine for multi-brand portfolio	BUY	Dallas Cai/Megan Jin
05/03/2019	CH Display OPT	334	Foldable smartphone play backed by CSOT	BUY	Yuji Fung/Dallas Cai

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

(as of 02/05/2019)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 14 Mar 2018	BUY	HK\$4.50	HK\$2.64	6 23 Aug 2018	BUY	HK\$4.00	HK\$2.17
2 21 Mar 2018	BUY	HK\$4.50	HK\$2.49	7 22 Oct 2018	BUY	HK\$3.35	HK\$1.91
3 19 Apr 2018	BUY	HK\$4.50	HK\$2.56	8 13 Nov 2018	BUY	HK\$3.35	HK\$1.93
4 16 May 2018	BUY	HK\$4.50	HK\$2.50	9 15 Jan 2019	BUY	HK\$2.54	HK\$1.81
5 13 Jul 2018	BUY	HK\$4.50	HK\$2.30	10 18 Mar 2019	BUY	HK\$2.37	HK\$1.52

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