ORIENTAL PATRON

Equity Research
Sportswear/ China

361 Degrees (1361 HK)

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Company Update

BUY

UNCHANGED

Close price:	**HK$2.50**
Target Price:	**HK$4.50 (+80%)**
Prior TP:	**HK$4.50**

Key Data

HKEx code		1361 HK
12 Months High	(HK$)	4.34
12 Month Low	(HK$)	2.30
3M Avg Dail Vol.	(mn)	3.92
Issue Share	(mn)	2,067.60
Market Cap	(HK$mn)	5,169.01
Fiscal Year		12/2017
Major shareholder (s)		Director Ding Wuhao 16.46%

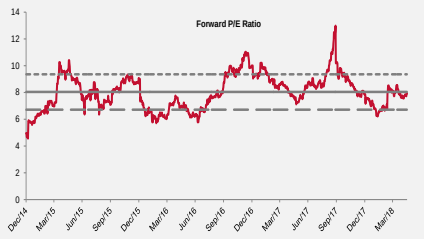
Source: Company data, Bloomberg, OP Research
Closing price are as of 15/05/2018

Price Chart



	1mth	3mth	6mth
Absolute %	**-1.7**	**-7.1**	**-12.8**
Rel. MSCI CHINA %	**-5.3**	**-6.1**	**-17.7**

PE



Company Profile

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

First blood in eSports series on JD Mall

- **361 Degrees officially launched its first eSports series on JD Mall on May 15, faster than we previously expected in early Jun.**
- **2018 Asian Games confirmed 6 eSports titles with Arena of Valor (International name of Honor of Kings) as one of the two mobile titles and 361 Degrees has nominated QG Happy to be one of the 2018 Asian Games torches.**
- **Maintain BUY with TP HK$4.50 unchanged based on 15x FY18E PE, 25% discount to its peers.**

Debut of first eSports series on JD Mall. 361 Degrees has officially launched its 2018 summer series of its eSports T-shirt with the cooperation of one of leading eSports Clubs in China, QG Happy who is well known as King Pro League (KPL) players (Honor of Kings is a phenomenal multiplayer online battle mobile game developed by Tencent with over 160mn monthly active users in China) on JD Mall on 15 May, 2 months after the cooperation agreement with QG Happy and faster than we previously expected launch in early Jun. We attribute the speed move to the management efforts toward enhancing its brand awareness. We believe the official launch of its eSports series is likely to continue the momentum of its pre-sale eSports T-Shirts which got sold out within 3 hours of debut.

Ramping up its eSports branding awareness to reach the teenager segment. As the official summer eSports products launched, 361 Degrees will cross over with QG Happy, JD Live and Vivo for live streaming event on 18th May. We believe these live streaming and broadcasting events provide a cost-efficient marketing channel to gradually ramp up 361 Degrees as a leading eSports sportswear brand in China by riding on the fans economies as the idolization of eSports players and substantial time and money spent by the fans to support their idols.

Six eSports game titles confirmed in 2018 Asian Games with two mobile titles, 361 Degrees has nominated QG Happy to be one of the 2018 Asian Games torches. On 14th May 2018, the Asian eSports Federation has confirmed 6 eSports game titles including (1) League of Legends, (2) Hearthstone, (3) Starcraft II, (4) Pro Evolution Soccer, (5) Clash Royale (mobile game), and (6) Arena of Valor (mobile game, international name of Honor of Kings). 361 Degrees is one of the official partners of the 2018 Jakarta Asian Games and 361 Degrees has nominated QG Happy to be one of 2018 Asian Games opening torches.

Maintain BUY. We maintain our BUY rating on 361 Degrees with TP HK$4.50 unchanged based on 15x FY18E PE, representing 25% discount to peers given (1) its attractive valuation (2) decent 4.6% yield, and (3) rising brand awareness as a leading eSports sportswear brand in China.

Risks: (1) Sales growth may pull back by the channel optimization, (2) execution risk of eSports strategy (3) lower than expected trade fair and retail sales growth.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	5,022.7	5,158.2	5,569.5	5,958.3	6,316.7
Growth (%)	12.6	2.7	8.0	7.0	6.0
Net Profit	402.7	456.7	511.1	548.0	578.5
Growth (%)	(22.2)	13.4	11.9	7.2	5.6
Diluted EPS (HK$)	0.243	0.265	0.297	0.318	0.336
EPS growth (%)	(22.2)	0.3	0.3	0.3	5.6
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK$)			0.296	0.276	
ROE (%)	7.6	8.3	8.7	8.9	8.9
P/E (x)	10.6	9.7	8.7	8.1	7.7
P/B (x)	0.8	0.8	0.7	0.7	0.7
Yield (%)	4.3	4.1	4.6	5.0	5.2
DPS (HK$)	0.110	0.106	0.119	0.127	0.134

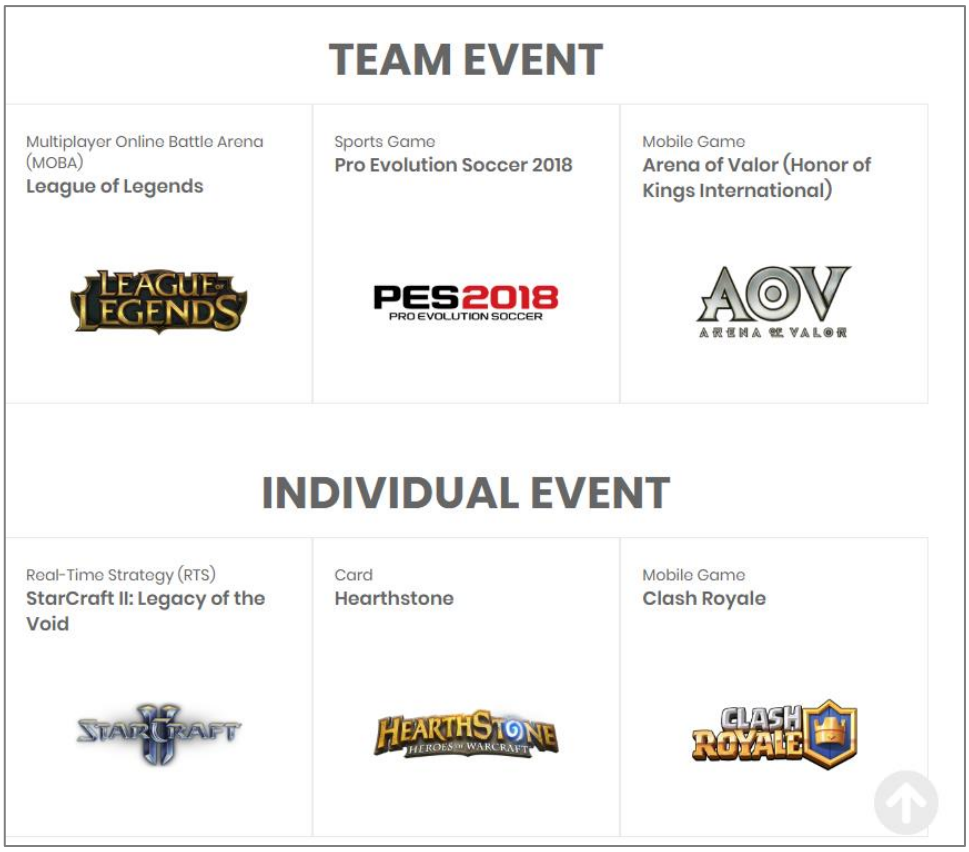
Source: Bloomberg, OP Research

Exhibit 2: Official launch of eSports series on JD Mall



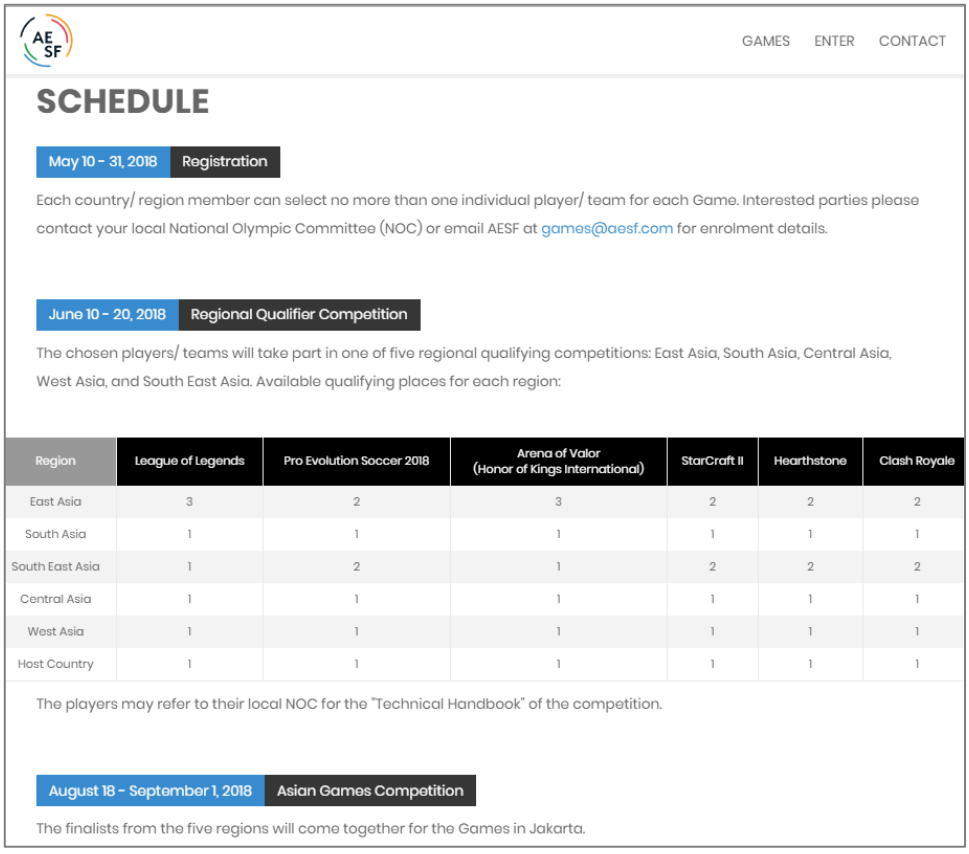
Source: Company, OP Research

Exhibit 3: Confirmed 6 eSports game titles in 2018 Asian Games



Source: 2018 Asia Games

Exhibit 4: 2018 Asian Games eSports Schedule



GAMES ENTER CONTACT

SCHEDULE

May 10 - 31, 2018 Registration

Each country/ region member can select no more than one individual player/ team for each Game. Interested parties please contact your local National Olympic Committee (NOC) or email AESF at games@aesf.com for enrolment details.

June 10 - 20, 2018 Regional Qualifier Competition

The chosen players/ teams will take part in one of five regional qualifying competitions: East Asia, South Asia, Central Asia, West Asia, and South East Asia. Available qualifying places for each region:

Region	League of Legends	Pro Evolution Soccer 2018	Arena of Valor (Honor of Kings International)	StarCraft II	Hearthstone	Clash Royale
East Asia	3	2	3	2	2	2
South Asia	1	1	1	1	1	1
South East Asia	1	2	1	2	2	2
Central Asia	1	1	1	1	1	1
West Asia	1	1	1	1	1	1
Host Country	1	1	1	1	1	1

The players may refer to their local NOC for the "Technical Handbook" of the competition.

August 18 - September 1, 2018 Asian Games Competition

The finalists from the five regions will come together for the Games in Jakarta.

Source: 2018 Asia Games

Exhibit 5: Honor of Kings Events and Live streaming statistic









Source: Tencent's Neo-Culture Creativity Conference in Beijing 22 Apr 2018

Financial Summary

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Footwear	2,205	2,306	2,537	2,740	2,904
Apparel	1,966	1,988	2,087	2,191	2,301
Accessories	95	78	82	86	90
361 Kids	651	711	788	866	946
Others	105	75	75	75	75
Turnover	**5,023**	**5,158**	**5,569**	**5,958**	**6,317**
YoY%	13	3	8	7	6
COGS	(2,913)	(3,002)	(3,262)	(3,488)	(3,697)
Gross profit	**2,110**	**2,156**	**2,308**	**2,470**	**2,620**
Gross margin	42.0%	41.8%	41.4%	41.5%	41.5%
Other income	27	140	94	94	94
Selling & distribution	(607)	(719)	(706)	(744)	(780)
Admin	(469)	(503)	(527)	(578)	(633)
R&D	(187)	(173)	(195)	(209)	(221)
Other opex	0	0	0	0	0
Total opex	**(1,263)**	**(1,395)**	**(1,427)**	**(1,531)**	**(1,635)**
Operating profit (EBIT)	**873**	**902**	**974**	**1,033**	**1,080**
Operating margin	17.4%	17.5%	17.5%	17.3%	17.1%
Provisions	(55)	0	0	0	0
Interest Income	76	86	90	93	98
Finance costs	(187)	(214)	(206)	(206)	(206)
Profit after financing costs	707	774	858	920	971
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	707	774	858	920	971
Tax	(287)	(307)	(340)	(364)	(385)
Minority interests	(18)	(11)	(7)	(8)	(8)
Net profit	**403**	**457**	**511**	**548**	**579**
YoY%	(22)	13	12	7	6
Net margin	8.0%	8.9%	9.2%	9.2%	9.2%
EBITDA	**983**	**1,023**	**1,070**	**1,131**	**1,181**
EBITDA margin	19.6%	19.8%	19.2%	19.0%	18.7%
EPS (RMB)	**0.195**	**0.221**	**0.247**	**0.265**	**0.280**
YoY%	(22)	9	12	7	6
DPS (HK$)	0.110	0.106	0.119	0.127	0.134

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	983	1,023	1,070	1,131	1,181
Chg in working cap	321	89	(104)	(108)	(99)
Others	23	(69)	0	0	0
Operating cash	**1,327**	**1,042**	**966**	**1,023**	**1,082**
Interest received	0	0	0	0	0
Tax	(196)	(210)	(468)	(340)	(364)
Net cash from operations	**1,132**	**832**	**498**	**683**	**717**
Capex	(148)	(44)	(47)	(50)	(53)
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	90	93	98
Others	29	0	0	0	0
Investing cash	**(1,149)**	**(1,177)**	**43**	**43**	**44**
FCF	**(17)**	**(346)**	**541**	**726**	**762**
Issue of shares	2,596	0	0	0	0
Buy-back	(1,550)	0	0	0	0
Minority interests	12	0	0	0	0
Dividends paid	(316)	(147)	(197)	(214)	(227)
Net change in bank loans	60	(62)	0	0	0
Others	(198)	(202)	(206)	(206)	(206)
Financing cash	**604**	**(411)**	**(403)**	**(420)**	**(434)**
Net change in cash	**587**	**(757)**	**137**	**306**	**328**
Exchange rate or other Adj	8	(9)	0	0	0
Opening cash	2,286	2,882	2,116	2,254	2,560
Closing cash	**2,882**	**2,116**	**2,254**	**2,560**	**2,888**
CFPS (HK$)	**0.684**	**0.483**	**0.289**	**0.397**	**0.416**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	42.0	41.8	41.4	41.5	41.5
Operating margin (%)	17.4	17.5	17.5	17.3	17.1
Net margin (%)	8.0	8.9	9.2	9.2	9.2
Selling & dist'n exp/Sales (%)	12.1	13.9	12.7	12.5	12.4
Admin exp/Sales (%)	9.3	9.7	9.5	9.7	10.0
R&D/Rev (%)	3.7	3.4	3.5	3.5	3.5
A&P/Rev (%)	11.4	9.8	10.0	10.0	10.0
Staff cost/Rev (%)	8.7	9.0	9.0	9.6	10.2
Payout ratio (%)	45.2	40.0	40.0	40.0	40.0
Effective tax (%)	40.5	39.6	39.6	39.6	39.6
Total debt/equity (%)	52.9	45.2	42.8	40.6	38.4
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.9	3.6	3.6	3.6	3.6
Quick ratio (x)	3.6	3.3	3.3	3.3	3.3
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	0.5	0.5	0.5
Financial leverage (x)	1.8	2.0	1.9	1.9	1.9
EBIT margin (%)	17.4	17.5	17.5	17.3	17.1
Interest burden (x)	0.8	0.9	0.9	0.9	0.9
Tax burden (x)	0.6	0.6	0.6	0.6	0.6
Return on equity (%)	**7.6**	**8.3**	**8.7**	**8.9**	**8.9**
ROIC (%)	**18.3**	**20.6**	**22.6**	**23.0**	**23.7**

Year to Dec	FY16	FY17	FY18E	FY19E	FY20E
Balance Sheet (RMB mn)					
Fixed assets	1,208	1,123	1,075	1,029	982
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**	**1,345**	**1,297**	**1,250**
Inventories	541	814	884	946	1,002
AR	2,221	2,150	2,321	2,483	2,633
Prepayments & deposits	668	728	786	840	891
Other current assets	2,723	3,941	3,941	3,941	3,941
Cash	2,882	2,116	2,254	2,560	2,888
Current assets	**9,034**	**9,748**	**10,186**	**10,770**	**11,354**
AP	1,928	2,264	2,460	2,630	2,787
Tax	339	468	340	364	385
Accruals & other payables	0	0	0	0	0
Bank loans & leases	76	13	13	13	13
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	**2,343**	**2,744**	**2,812**	**3,007**	**3,185**
Bank loans & leases	2,727	2,565	2,565	2,565	2,565
CB & othe debts	0	0	0	0	0
Deferred tax & others	2	0	0	0	0
MI	114	125	132	140	148
Non-current liabilities	**2,843**	**2,691**	**2,698**	**2,705**	**2,713**
Total net assets	**5,303**	**5,706**	**6,021**	**6,354**	**6,706**
Shareholder's equity	**5,303**	**5,706**	**6,021**	**6,354**	**6,706**
Share capital	182	182	182	182	182
Reserves	5,121	5,524	5,838	6,172	6,523
BVPS (HK$)	**3.21**	**3.31**	**3.49**	**3.69**	**3.89**
Total debts	2,803	2,578	2,578	2,578	2,578
Net cash/(debts)	2,801	3,479	3,616	3,922	4,250

Source: Company, 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)	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**	**2.50**	**658**	**1.3**	**9.7**	**8.7**	**8.1**	**0.3**	**0.3**	**6.1**	**1.43**	**4.1**	**4.6**	**0.78**	**0.74**	**1.8**	**1.6**	**Net cash**	**41.8**	**8.9**	**8.3**	**8.7**	**(3.1)**	**(8.4)**
HSI		31,152.03			12.8	12.0	10.9	6.5	10.4	9.2	1.30	3.4	3.4	1.38	1.32						10.8	11.0	2.8	0.1
HSCEI		12,440.75			9.4	8.2	7.4	14.4	10.4	11.9	0.69	3.3	4.0	1.06	0.98						11.3	12.0	3.6	(0.8)
CSI300		3,924.10			15.0	13.1	11.4	14.4	15.0	15.1	0.9	1.9	2.3	1.9	1.7						12.6	13.1	3.0	(1.1)
Domestic Peers																								
Adjusted sector avg*					**24.3**	**20.1**	**16.5**	**19.5**	**23.6**	**21.9**	**1.1**	**2.5**	**3.4**	**3.4**	**1.9**	**14.2**	**10.4**	**5.6**	**45.7**	**7.7**	**8.7**	**9.8**	**3.2**	**22.3**
Xtep Intl	1368 HK	4.67	1,330	2.5	20.2	14.1	12.5	44.1	12.5	21.1	0.7	4.9	4.1	1.6	1.5	8.8	6.4	0.0	43.9	8.0	8.0	11.5	3.4	32.4
Anta Sports Prod	2020 HK	45.85	15,681	24.4	31.8	26.9	22.3	18.6	20.7	20.0	1.3	2.1	2.7	7.3	6.4	21.6	17.8	0.0	49.4	18.5	26.6	25.5	1.0	24.0
Li Ning Co Ltd	2331 HK	8.62	2,398	17.0	32.6	24.1	18.5	36.0	30.5	29.2	0.8	N/A	0.7	3.0	2.9	15.7	12.3	0.0	47.1	5.8	11.4	13.1	(7.8)	36.8
Pou Sheng Intl	3813 HK	1.50	1,021	3.8	16.1	14.7	11.4	9.6	28.9	20.4	0.7	1.3	1.8	1.0	1.0	7.3	7.0	33.7	35.0	2.1	6.3	6.5	14.5	(23.9)
China Dongxiang	3818 HK	1.37	1,027	1.6	7.7	8.2	8.0	(6.3)	2.9	(3.6)	N/A	23.8	7.5	0.7	0.6	6.9	8.5	0.0	55.7	59.5	8.4	8.1	4.4	(9.1)
Annil Co Ltd-A	002875 CH	28.95	461	5.6	37.6	32.6	26.4	15.2	23.7	18.8	1.7	N/A	N/A	3.6	3.3	25.1	N/A	0.0	55.1	6.7	11.9	9.5	3.9	34.8
Guirenniao Co-A	603555 CH	25.61	2,524	6.6	102.4	44.5	35.6	129.8	25.2	N/A	N/A	1.8	N/A	6.7	N/A	35.7	N/A	74.7	33.8	4.9	6.0	N/A	3.3	15.1
Global Peers																								
Adjusted sector avg*					**40.0**	**29.3**	**24.6**	**37.0**	**19.1**	**22.4**	**1.1**	**1.9**	**0.7**	**4.5**	**4.4**	**19.2**	**15.3**	**6.0**	**48.0**	**5.9**	**14.7**	**13.3**	**3.9**	**11.6**
Nike Inc -Cl B	NKE US	69.50	112,017	486.0	27.1	30.0	25.9	(9.5)	15.8	6.7	4.50	1.1	1.1	11.50	10.92	20.3	21.4	0.0	44.6	12.3	16.0	31.7	3.3	1.8
Under Armour-A	UAA US	18.88	7,972	106.0	N/A	108.5	64.4	N/A	68.4	(260.4)	N/A	N/A	0.0	4.15	3.96	42.7	25.1	29.9	45.0	(1.0)	(3.8)	4.7	14.5	2.6
Lululemon Ath	LULU US	98.95	13,426	177.1	52.1	32.0	28.0	62.8	14.4	24.5	1.30	N/A	0.0	8.39	6.68	22.0	17.5	0.0	52.8	9.8	17.5	25.8	7.9	22.3
Adidas Ag	ADS GR	189.10	46,807	152.9	34.9	23.1	19.8	50.8	17.1	26.9	0.86	1.4	1.6	5.66	5.33	15.2	13.7	0.0	50.4	5.2	17.5	23.2	(10.3)	4.9
Puma Se	PUM GR	417.00	7,441	11.6	45.9	31.9	24.7	44.0	29.2	31.4	1.01	3.2	0.7	3.79	3.80	19.1	14.8	0.0	47.3	3.3	7.8	11.9	0.5	26.7

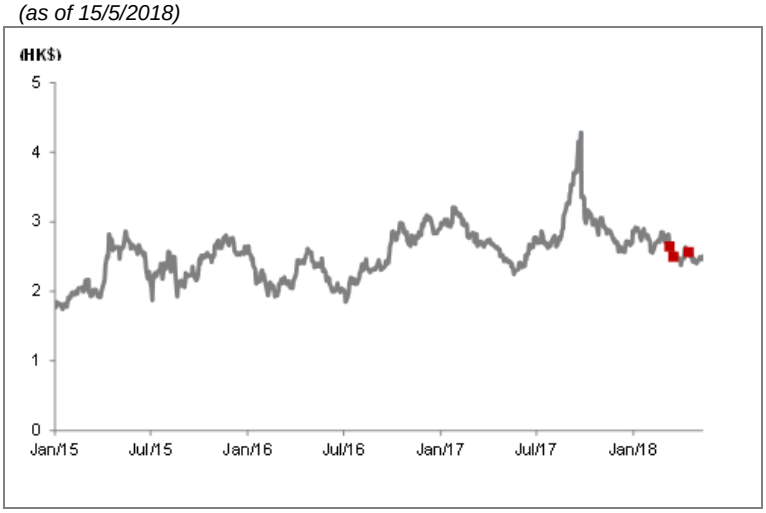
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/05/2018	Q Tech	1478	Downgrade on deteriorating GPM	SELL	Yuji Fung/Dallas Cai
10/05/2018	Sunny Optical	2382	April saw recovery of HCM and strong HLS shipments	BUY	Yuji Fung/Dallas Cai
09/05/2018	China Youzan	8083	New name and new management team	BUY	Yuji Fung/Dallas Cai
04/05/2018	HNA Infrastructure	357	Hainan Free Trade Zone play	BUY	Yuji Fung
03/05/2018	TCL Multimedia	1070	Smart TV business backed up by JD.com	BUY	Yuji Fung/Dallas Cai
27/04/2018	Chinasoft Intl	354	Over-concern about Huawei probe	BUY	Yuji Fung/Dallas Cai
27/04/2018	Tongda	698	1Q18 operations on track	BUY	Yuji Fung/Dallas Cai
27/04/2018	TCL Multimedia	1070	Upbeat 1Q18 performance	BUY	Yuji Fung/Dallas Cai
26/04/2018	Ju Teng Intl	3336	Waiting for the next growth driver	BUY	Yuji Fung/Dallas Cai
25/04/2018	CH Display OPT	334	1Q18 sales drop on weak demand	BUY	Yuji Fung/Dallas Cai
19/04/2018	361 Degrees International	1361	1Q18 operating data on track	BUY	Yuji Fung/Dallas Cai
17/04/2018	China Innovationpay	8083	Upgrade on completion of acquisition conditions	BUY	Yuji Fung/Dallas Cai
13/04/2018	China Innovationpay	8083	Proposed new company name – China Youzan Limited ("中國有贊")	BUY	Yuji Fung/Dallas Cai
13/04/2018	TCL Multimedia	1070	1Q18 shipments ahead of expectations	BUY	Yuji Fung/Dallas Cai
11/04/2018	Sunny Optical	2382	March saw robust HLS shipments growth	BUY	Yuji Fung/Dallas Cai
10/04/2018	Q Tech	1478	March shipments on track	BUY	Yuji Fung/Dallas Cai
10/04/2018	Truly Intl	732	FY17 results miss on weak smartphone products	BUY	Yuji Fung/Dallas Cai
10/04/2018	China Innovationpay	8083	FY17 results in-line with expectations	BUY	Yuji Fung/Dallas Cai
09/04/2018	Sinosoft Tech	1297	Low-carbon product collaborates with Huawei	BUY	Yuji Fung/Dallas Cai
06/04/2018	TCL Multimedia	1070	FY17 results beat expectations	BUY	Yuji Fung/Dallas Cai
28/03/2018	Tongda	698	Buy on the dips	BUY	Yuji Fung/Dallas Cai
28/03/2018	Q Tech	1478	Ample room for FY18E growth	BUY	Yuji Fung/Dallas Cai
28/03/2018	Sunny Optical	2382	Better margin is in focus	BUY	Yuji Fung/Dallas Cai
28/03/2018	CH Display OPT	334	2H17 results miss on higher equity based employee expenses	BUY	Yuji Fung/Dallas Cai
28/03/2018	Sinosoft Tech	1297	FY17 results in line with expectation	BUY	Yuji Fung/Dallas Cai
28/03/2018	Chinasoft Intl	354	Upgrade on the soaring FY17 results	BUY	Yuji Fung/Dallas Cai
21/03/2018	361 Degrees International	1361	eSports targets young, goes global	BUY	Yuji Fung/Dallas Cai

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

(as of 15/5/2018)



	Date	Rating	TP	Close	Date	Rating	TP	Close
1	13 Mar 2018	BUY	4.50	2.73				
2	21 Mar 2018	BUY	4.50	2.56				
3	19 Apr 2018	BUY	4.50	2.57				

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