

361 Degrees (1361.HK)

Retail Network optimization, Growth of Same Store Sales Better than Peers

Hong Kong | Sport | Company report

26 August 2016

Sound Overall Performance in the First Half of 2016

The revenue of the first half of 2016 achieved RMB2.556 billion with a year-on-year increase of 15.7%. The increase was mainly reflected by the 15% growth in orders at Q1 and Q2 trade fairs in 2016. The revenue of footwear and apparel increased by 19.1% and 8.6%, respectively, while that of accessories decreased by 43.6%. The proportion of footwear sales against the total annual revenue increased from 43.8% to 45.1%, which was mainly due to the stress on the development of footwear by the Company and the increase of footwear sales overseas.

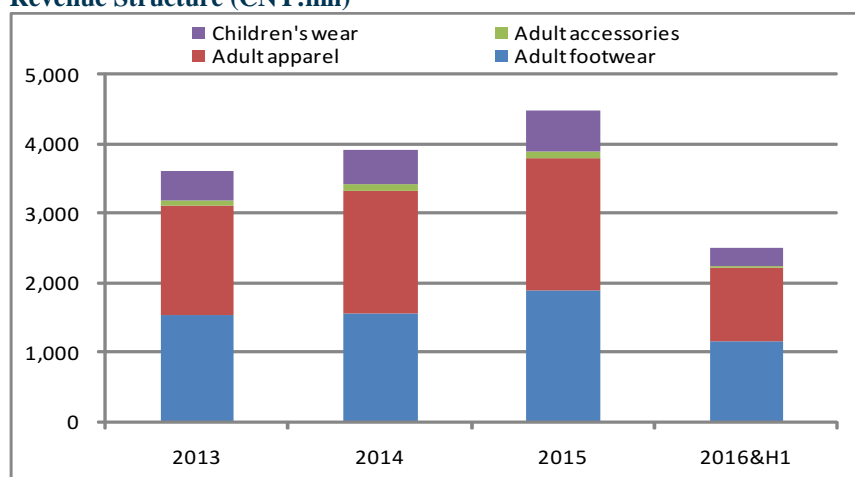
Buy

CMP HKD: 2.48
(Closing price at 24 August 2016)
TARGET HKD: 3.20 (29.0%)

COMPANY DATA

O/S SHARES (MN) :	2,067.6
MARKET CAP (HKDMN) :	5,128
52 - WK HI/LO (HKD):	3.167/2.01

Revenue Structure (CNY:mn)



Source: Bloomberg, Phillip Securities (HK) Research

In terms of profitability, the gross profit was up to RMB1.06 billion with a Y-o-Y increase of 16.2%. The gross profit margin rose by 0.1% to 41.4%, wherein, the footwear business declined slightly by 0.3%, while those of other businesses increased. The net profit was RMB273 million with a Y-o-Y increase of 1.3%. EPS was RMB13.2 cents.

In terms of expenses, sales and distribution expenses were controlled better, wherein, the proportion of revenue was down by 0.6% Y-o-Y to 14.9%. However, the increase in administrative and financial expenses resulted in the increase of period cost ratio by 1.3% to 26.6% and followed by the decrease of the net profit margin by about 1.5% to 10.85%.

SHARE HOLDING PATTERN • %

Dings international co., LTD	18.27
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PRICE PERFORMANCE • %

	1-Month	3-Month	1-Year
361 Degrees	5.49	-3.85	-1.57
HSI	0.78	-19.94	-4.20

PRICE VS. HSI



Source: Phillip Securities (HK) Research

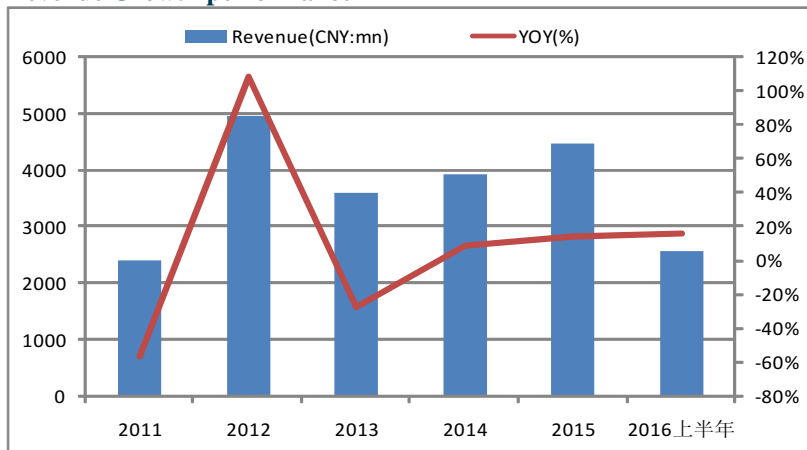
KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	3,906	4,459	5,016	5,648
Net Profit	398	518	565	664
P/E, x	11.2	8.5	7.9	6.6
EPS, RMB	0.19	0.25	0.27	0.32
P/B, x	0.9	0.8	0.8	0.7
BVPS, RMB	2.4	2.55	2.73	2.90
ROE, %	8.0	9.8	10.0	11.1

Source: Company reports, Phillip Securities Est.

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Revenue Growth performance



Source: Bloomberg, Phillip Securities (HK) Research

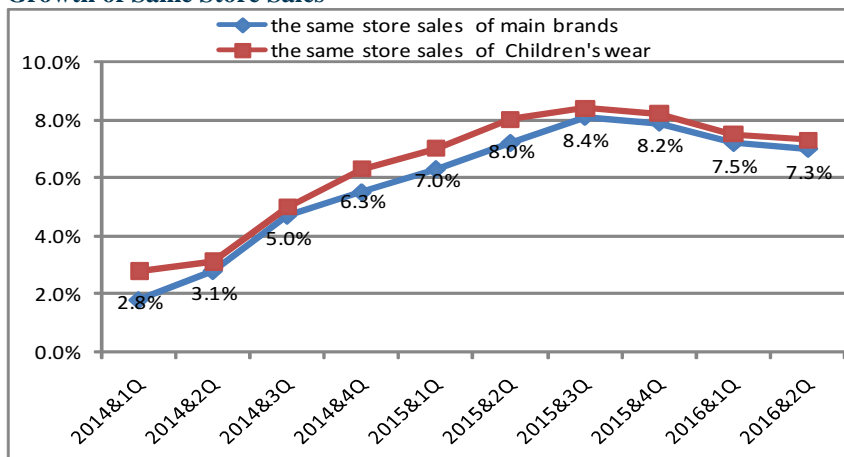
Integration of Stores, Optimization of Retail Network

In the first half of 2016, the stores were less. 491 new stores were opened, while 846 existing ones were closed. Hence, the total number of stores is up to 6,853, decreased by 355 stores than the end of 2015. The stores were closed mainly due to urban planning and redevelopment and the influence of rainstorm in the southern part of China. 161 new junior clothing stores were opened, while 95 ones were closed. The total number of junior clothing stores reaches 2416, increased by 66 ones than the end of 2015. Some of the stores have been closed, which is beneficial for the improvement of efficiency and profitability of the other stores.

Growth of Same Store Sales Better than Peers

In Q1 and Q2 2016, the same store sales (SSS) of main brands grew by 7.2% and 7%, respectively. The SSS of 361 Degrees junior clothing stores increased by 7.5% and 7.3%, respectively. Though the month-on-month increase of SSS decreased slightly, its high single-digit increase was still better than peers. During the same period, Lining recorded a low + high single-digit SSS, while Xtep was low + moderate single-digit, and PEAK, flat + decrease.

Growth of Same Store Sales

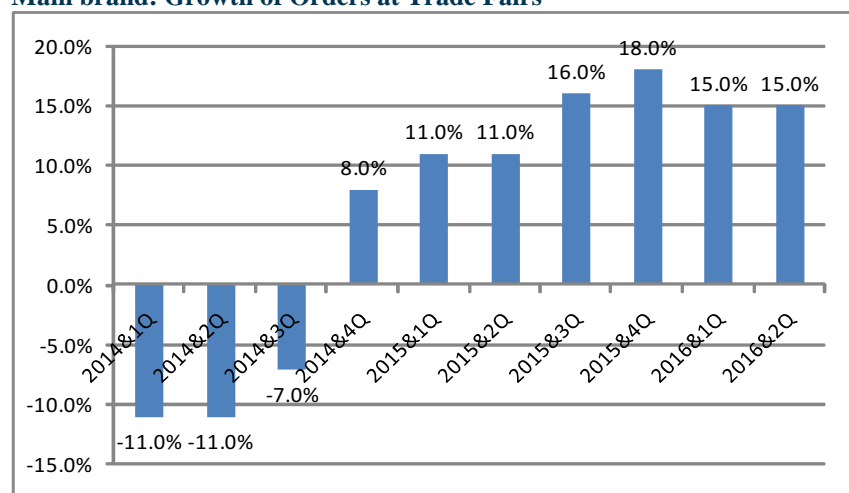


Source: Bloomberg, Phillip Securities (HK) Research

High Single-digit Growth of Orders at Trade Fairs

The main brand products of the Company in Q3, Q4 2016 and 2017 spring trade fairs recorded high single-digit growth, which had been improved for ten consecutive quarters. Junior brand products also recorded high single-digit growth at the trade fairs in the second half of 2016. The growth of main brand products at the trade fairs was mainly driven by the rise of quantity and price of footwear. The Company will continue to focus on footwear and promote sales accordingly.

Main brand: Growth of Orders at Trade Fairs



Source: Bloomberg, Phillip Securities (HK) Research

Valuation and Rating

Overall speaking, the gradual recovery of the sporting goods industry is constructive for the long-term development of the businesses of the Company. The Company successfully sponsored 2016 Rio Olympics and Paralympics, which is expected to drive the significant improvement of overseas businesses for the whole year. In addition, 361 Degrees Kids and e-commerce may become important growth impetus in the future. We estimate that the EPS (earnings per share) of the Company in 2016 and 2017 will respectively be RMB 0.27 and RMB 0.32 and the target price is HKD 3.2. Also, the "Buy" rating is given. (Closing price at 24 August 2016)

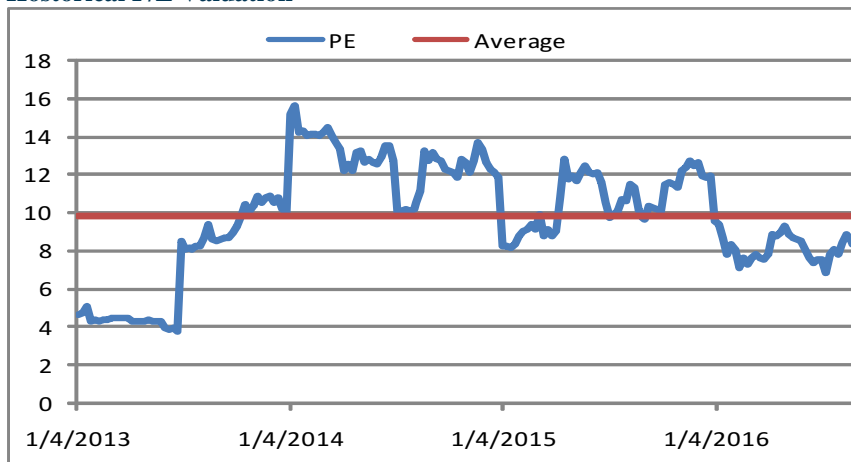
Peer comparison

Stock code	Name	PriceHKD/CNY	Market Value(CNY:mn)	PE	PB	Gross profit	Net profit	ROE(%)
1361.HK	361 DEGREES	2.48	4,399	8.27	0.81	40.89	11.82	10.10
1968.HK	PEAK SPORT	2.41	4,940	12.3	0.99	38.67	12.62	8.59
3818.HK	NA DONGXIA	1.65	7,837	9.47	0.83	55.48	54.35	8.08
1368.HK	XTEP INT'L	3.99	7,580	12.16	1.49	42.24	12.01	13.04
2331.HK	LI NING	5.23	8,717	87.2	2.64	45.03	0.20	0.56
2020.HK	ANTA SPORTS	19.82	42,530	20.2	4.95	46.61	18.77	24.92
603555.SH	Guirenniao	25.49	13,427	47.16	6.9	45.20	16.85	14.36

Source: Bloomberg, Phillip Securities (HK) Research

Based on August 24, 2016 closing prices

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risk Warnings

- Downward in macroeconomic environment;
- Fierce market competition;
- Higher costs caused by marketing and promotion.

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	21.3	11.2	8.5	7.9	6.6
Price to Book(P/B)	0.9	0.9	0.8	0.8	0.7
Per share data(RMB)					
EPS,Adjusted	0.10	0.19	0.25	0.27	0.32
Book Value Per Share	2.26	2.40	2.55	2.73	2.90
Dividends Per Share	0.11	0.08	0.10	0.14	0.16
Growth & Margins(%)					
Growth					
Revenue	-27.6%	9.0%	14.2%	12.5%	12.6%
Operating income	-64.9%	124.5%	19.5%	13.7%	14.0%
Net profit	-70.2%	88.6%	30.2%	9.1%	17.5%
Margins					
Gross profit margin	39.5%	40.9%	40.9%	41.4%	41.5%
Operating profit margin	8.2%	16.9%	17.7%	17.9%	18.1%
Net income margin	5.9%	10.2%	11.6%	11.3%	11.8%
Key Ratios					
ROE(%)	4.5%	8.0%	9.8%	10.0%	11.1%
ROA(%)	2.9%	5.1%	6.0%	5.9%	6.4%
Income Statement(RMB mn)					
Revenue	3,583	3,906	4,459	5,016	5,648
- Cost of Goods Sold	2,166	2,309	2,636	2,940	3,304
Gross Income	1,417	1,597	1,823	2,076	2,344
- Operating Expenses	1,154	973	1,090	1,179	1,322
Operating Income	294	660	789	897	1,022
- Net Non-Operating Losses (-59	-24	-97	-115	-130
Pretax Income	315	607	789	894	1,027
- Income Tax Expense	100	202	260	316	349
Net profit	211	398	518	565	664

Source: Company, Phillip Securities (HK) Research Estimates
 (Financial figures as at 24 August 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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