

361 DEGREES INT. (01361)

2024 bringing numerous sports events, expect to stimulate a broader participation in sports and increase consumer demand

China | Consumer | Sportswear

1 August 2024

FY2023 results beat consensus

During 2023FY, 361 Degrees International Limited (361 Degrees) recorded a revenue of RMB8,423.3mn, increasing 21.0% YoY. Profit attributable to the equity shareholders of the Company was RMB961mn, representing a YoY increase of 28.7%. A total dividend of HK20.4 cents per ordinary share (equivalent to RMB18.7 cents), representing a dividend payout ratio of 40.2%.

In terms of product segment, sales of the company's two core product lines, namely footwear and apparel, increased by 23.0% YoY and 9.8% YoY respectively. For the year under review, the proportions of total revenue of footwear and apparel sales were slightly increased from 41.0% to 41.7% YoY and slightly decreased from 35.2% to 31.9% YoY of the total revenue respectively. This was mainly due to the increase in proportion of sales revenue from 361 Degrees Kids from 20.7% to 23.2% of the total revenue for the year under review, which in turn affected the proportion of sales of various products to total revenue. The average wholesale price (AWP) of footwear and apparel edged up by 3.0% and 0.5% year-on-year respectively. The increase in footwear's and apparel's AWP was mainly due to the upward adjustments of the wholesale prices of the existing products across different product lines in order to cover the increase in cost of production and reflect the continuous brand image enhancement; the upgrade of product mix by launching a variety of new products with a higher AWP; and the increase in proportion of sales revenue generated from the e-commerce business which has a higher AWP than the sales made to distributors, above reasons contributed to increase in AWP as compared to that of last year. In addition, the sales volume of footwear and apparel products increased by 19.4% and 9.4% YoY, respectively.

As to the accessories, the sales volume of the accessories rapidly increased by 63.4% and the AWP of the accessories sharply decreased by 12.4% YoY. This was mainly attributable to the change in the category structure of the accessories products by selling lower AWP products. As a result, revenue from sales of accessories during the year increased by 43.0% YoY to RMB137mn (FY2022: RMB95.718mn) and accounted for approximately 1.6% (FY2022: 1.4%) of the total revenue of the company.

During the year, approximately 96% of the 2023's spring, summer, fall and winter products were delivered, and their respective revenue were recognised, and the remaining 4% of the 2023's winter products were delivered at the beginning of 2024.

Gross profit margin and operational efficiency improved

Cost of sales comprised the cost of in-house production and outsourcing cost and it was increased by 19.8% YoY to RMB4,961mn (FY2022: RMB4,140.2mn). During the year, the cost of internal production increased by 5.4% YoY and the cost of outsourced products increased by 26.9% YoY. Included in the cost of sales, there was an additional provision for slow-moving inventories amounted to RMB5.89mn (FY2022: a writeback of provision for slow-moving inventories of RMB3.417mn) during the year. The company has shifted more orders for outsourced production during the year. As a result, the increase in the overall cost of sales was less than the increase in revenue. The company recorded a gross profit of RMB3,462mn (FY2022: RMB2,821mn), representing a YoY increase of 0.6 percentage points in the gross profit margin to 41.1%. The gross profit margins of footwear, 361 Degrees Kids and others products increased by 1.2, 0.9 and 12.1 percentage points YoY, respectively while that of apparel and accessories slightly dropped by 1.1 and 1.3 percentage point YoY, respectively.

Accumulate

CMP HKD3.55
(Closing price as of 24 July)
Target HKD 4.02(+13.2%)

COMPANY DATA

O/S SHARES (MN) :	2067.682
MARKET CAP (HKD MN) :	7526.4
52 - WK HI/LO (HKD):	5.096/3.041

SHARE HOLDING PATTERN, %

Mr. Ding Wuhao	17.03%
Mr. Ding Huihuang	16.29%
Mr. Ding Huirong	15.67%
Mr. Wang Jiabi	8.16%
Mr. Wang Jiachen	8.16%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY22	FY23	FY24E	FY25E
Revenue	6,960.8	8,423.3	9,415.2	10,507.9
Net profit	747.1	961.4	1,016.4	1,093.7
Reported EPS	0.36	0.46	0.49	0.53
P/E ratio, x	8.7	7.0	6.6	6.1
Dividend Yield, %	0.0%	5.7%	6.1%	6.5%

Source: Company reports, Phillip Securities Est.

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Retail sales in the 2Q2024 saw 10% growth

For the 2Q2024, the retail sales (in terms of the retail value) of core branded products recorded approximately 10% growth compared to the same period of 2023. The retail sales (in terms of the retail value) of kids branded products recorded approximately mid-teens growth compared to the same period of 2023. Meanwhile, overall e-commerce products recorded approximately 30% to 35% growth compared to the same period of 2023.

The retail sales of sports & entertainment products maintain high growth

According to data from the National Bureau of Statistics, in May, the total retail sales of social consumer goods in the domestic market amounted to RMB3,921.1bn, reflecting a YoY growth of 3.7%. Among these, the retail sales of consumer goods excluding automobiles were RMB3,533.6bn, growing by 4.7% YoY. From January to May, the total retail sales of social consumer goods reached RMB19,523.7bn, an increase of 4.1% YoY. Of this total, the retail sales of consumer goods excluding automobiles were RMB17,670.7bn, growing by 4.4% YoY. By location of the operating units, in May, the retail sales of urban consumer goods were RMB3,411.1bn, an increase of 3.7% YoY; while in rural areas, the retail sales were RMB510.0bn, growing by 4.1%. From January to May, the retail sales of urban consumer goods reached RMB16,941.8bn, growing by 4.0% YoY; while in rural areas, the retail sales were RMB2,581.9bn, growing by 4.7% YoY. By type of consumption, in May, the retail sales of goods were RMB3,493.7bn, an increase of 3.6% YoY; from January to May, the retail sales of goods were RMB17,360.3bn, growing by 3.5% YoY. Among these, the retail sales of sports & entertainment products in May were RMB11.8bn, growing by 20.2% YoY; from January to May, the retail sales of sports & entertainment products were RMB52.5bn, growing by 15.2% YoY.

Company valuation

In recent years, as China's consumer preferences leaned towards specialisation, diversification, and cost effectiveness, the company positions as a "professional, youthful, and internationalised" brand. The company has built a diversified brand matrix based on professional functions and its own-branded IP. With 2024 bringing numerous international and domestic sports events, including the highly anticipated Paris Olympics, which are expected to stimulate a broader participation in sports and increase consumer demand. We expect 2024-2025 EPS to be RMB0.49 and RMB0.53 respectively, with PT of HKD4.02, implies a FY2024E P/E of 7.47x (~2-yr historical average). Our investment rating is "Accumulate".

Risk factors

1) Weak domestic growth and consumer spending (including online & lower-tier cities) in sportswear; 2) Intensified competition in the industry; 3) the spread of COVID-19 variants affects the consumer spending; and 4) Slower-than-expected revenue growth.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	5,933.5	6,960.8	8,423.3	9,415.2	10,507.9
COGS	(3,461.1)	(4,140.2)	(4,961.1)	(5,469.6)	(6,181.1)
Gross Profit	2,472.4	2,820.6	3,462.2	3,945.5	4,326.9
Other net gain	309.2	228.1	414.4	270.4	286.2
Selling and distribution expenses	(1,140.1)	(1,433.3)	(1,863.0)	(1,943.3)	(2,063.4)
Administrative expenses	(558.4)	(541.4)	(630.0)	(774.2)	(911.9)
R/ECL on Receivables	(42.1)	(166.4)	45.2	(71.0)	(97.8)
Operating Profit	1,083.1	1,074.1	1,383.5	1,498.5	1,637.8
Finance costs	(36.8)	(9.4)	(20.2)	(18.3)	(23.0)
Profit before tax	1,045.1	1,064.7	1,363.4	1,480.2	1,614.8
Income tax	(302.9)	(248.0)	(323.3)	(374.9)	(425.4)
Shareholders Net profit	601.7	747.1	961.4	1,016.4	1,093.7
Reported EPS	0.29	0.36	0.46	0.49	0.53
DPS	-	-	0.187	0.197	0.212
Payout ratio	0.0%	0.0%	40.2%	40.0%	40.0%

Key Financial Data

Dec Y/E	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratio					
P/S ratio, x	1.0	0.9	0.8	0.7	0.6
P/E ratio, x	10.0	8.7	7.0	6.6	6.1
Dividend Yield, %	0.0%	0.0%	5.7%	6.1%	6.5%

Per share data (RMB)

EPS	0.29	0.36	0.46	0.49	0.53
BPVS	3.44	3.84	4.39	4.70	5.03
DPS (HKD)	-	-	0.20	0.22	0.23

Growth & Margin

Growth					
Revenue Growth	15.7%	17.3%	21.0%	11.8%	11.6%
Gross Profit Growth	27.3%	14.1%	22.7%	14.0%	9.7%
Operating Profit Growth	31.7%	-0.8%	28.8%	8.3%	9.3%
Net Profit Growth	45.0%	24.2%	28.7%	5.7%	7.6%
Margin					
Gross Profit Margin	41.7%	40.5%	41.1%	41.9%	41.2%
Operating Profit Margin	18.3%	15.4%	16.4%	15.9%	15.6%
Net Profit Margin	10.1%	10.7%	11.4%	10.8%	10.4%

Key Ratios

RDE	8.8%	9.9%	11.3%	10.8%	10.9%
ROA	5.3%	6.3%	7.5%	7.5%	7.4%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Non Current Asset					
PPE	822.6	772.6	765.2	739.1	712.6
Others	332.1	379.5	682.7	724.1	765.6
Total Non Current Assets	1,154.7	1,152.1	1,447.9	1,463.1	1,478.1
Current Asset					
Inventory	890.9	1,182.5	1,350.3	1,620.8	2,127.8
Trade and other receivables	2,527.1	2,954.3	3,784.5	4,488.1	5,153.0
Bank balance and cash	3,339.0	3,860.4	3,596.5	4,183.6	4,643.2
Others	3,326.3	3,286.6	2,886.0	2,419.3	2,130.4
Total Current Assets	10,083.3	11,283.8	11,617.3	12,711.8	14,054.5
Total Assets	11,238.0	12,435.9	13,065.3	14,174.9	15,532.6
Non Current Liabilities					
Deferred Tax Liabilities	13.7	12.4	8.2	11.6	14.9
Interest-bearing Borrowings	-	100.0	244.5	291.4	255.8
Other Non-current Liabilities	0.6	0.3	1.3	3.0	4.6
Total Non-current Liabilities	14.3	112.7	254.0	306.0	275.4
Current Liabilities					
Trade payables	2,091.6	2,326.8	2,577.3	2,957.7	3,604.6
Others	576.4	578.7	510.8	469.5	427.9
Total Current Liabilities	2,668.0	2,905.5	3,088.0	3,427.2	4,032.5
Equity					
Shareholders' equity	7,116.8	7,943.5	9,082.4	9,712.1	10,399.2
Non-controlling interests	1,438.9	1,474.1	640.8	729.8	825.5
Total equity	8,555.7	9,417.7	9,723.2	10,441.8	11,224.7
Total Liabilities and Equity	11,238.0	12,435.9	13,065.3	14,174.9	15,532.6

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
CFO					
Profit before income tax	1,045.1	1,064.7	1,363.4	1,480.2	1,614.8
D&A add-back	68.6	65.5	69.5	60.8	61.1
Others	28.1	155.8	(83.2)	(82.6)	(83.0)
Net (inc)/dec working capital	(481.7)	(620.2)	(678.8)	(593.7)	(525.0)
Net cash flow from operating activities	361.2	380.3	407.8	494.8	647.5
CFI					
Purchase of PP&E	(9.0)	(31.0)	(64.0)	(34.6)	(34.6)
Others	1,084.9	116.0	480.7	466.7	288.9
Net cash flow from investing activities	1,075.9	85.1	416.8	432.0	254.3
CFE					
Net Borrowings	(2.2)	83.7	0.1	46.9	(35.6)
Others	(1,556.1)	(24.3)	(529.9)	(386.7)	(406.5)
Net cash flows from financing activities	(1,558.2)	59.4	(529.8)	(339.7)	(442.1)
Net Change in Cash	(121.1)	524.9	294.8	587.1	459.7
Cash and CE at Y/E	3,339.0	3,860.4	3,596.5	4,183.6	4,643.2

Current Price as of: July 24

Source: PSHK Est.

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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