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Report Review of August 2024

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

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This month I released reports of 361 DEGREES INT. (1361.HK).

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.

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".

Fig 1. Performance of Recommended Stocks

| Time | Ticker | Company | Analyst | Rating | Price on Recommendation Date | Target Price | Expected Return | Last Month Closing Price | Last Month Return | Closing Price 2M ago | 1M Price Chg |
|----------|---------|------------------|---------|------------|------------------------------|--------------|-----------------|--------------------------|-------------------|----------------------|--------------|
| 20240801 | 1361.HK | 361 DEGREES INT. | EL | Accumulate | 3.55 | 4.02 | 13.2% | 3.52 | -0.85% | 3.28 | 7.48% |

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

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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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
Number 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Heng Feng Road,
Green Tech Tower Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 60911155
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA

PhillipCapital Australia
Level 10, 330 Collins Street
Melbourne VIC 3000
Tel (+61) 3 8633 9803
Fax (+61) 3 8633 9899

Website: www.phillipcapital.com.au