

# Analyse this...

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## China Eratat Sports Fashion Limited

*There's more to life than just sports wear*

 CERAT SP  
 IPO Price: S\$0.30  
 BUY; TP: S\$0.30

 Price @27/5/10: S\$0.135  
 52-week range (SGD): 0.11 – 0.285  
 Market cap – S\$56.0m

### Maintain BUY

- Maintain **BUY**, target price **S\$0.30**.
- Valuation is once again attractive, at 0.5x CY10 P/NTA, prospective P/Es of less than 3x and prospective dividend yields of 7.5% to 9.7%. That the Company mentioned an effort to pay out 20% of profit as dividends was a surprise given that being small still, growth opportunities are plentiful.

### FY10 results above expectation

- FY10 sales and gross profit were in line with our expectations. However, net profit came in 15% above our expectations as 4Q10 turned out better than we expected.
- The key variances were due to the expenses line. We had earlier mentioned that the wild card to earnings would be A&P spend and timing of such expenditure, 4Q10 expenses were lower than our expectation. Also, tax rate came in lower than that which we forecasted.
- Company declared a DPS of RMB0.0466 or 0.96Sing cts.

### Results summary

Results summary								
	4QFY10	4QFY09	yoy Chg (%)	3QFY10	qqq Chg (%)	FY10	FY09	yoy Chg (%)
Revenue (RMB mil)	180.8	167.1	8.2	229.4	(21.2)	898.7	777.3	15.6
Gross profit (RMB mil)	45.8	48.6	(5.8)	64.2	(28.7)	258.5	234.0	10.5
Net profit (RMB mil)	19.6	25.1	(21.9)	20.4	(4.0)	96.6	125.9	(23.3)
EPS (RMB cts)	4.7	0.6	686.7	4.9	(4.1)	23.3	30.4	(23.3)
NAV (RMB \$)	1.29	1.07	20.4	1.24	3.8	1.29	1.07	20.4

Profit ratios								
	4QFY10	4QFY09	yoy Chg (ppts)	3QFY10	qqq Chg (ppts)	FY10	FY09	yoy Chg (ppts)
Gross profit margin (%)	25.3	29.1	(3.8)	28.0	(2.7)	28.8	30.1	(1.3)
Net profit margin (%)	10.8	15.0	(4.2)	8.9	1.9	10.8	16.2	(5.4)

Balance sheet ratios								
	4QFY10	3QFY10	2QFY10	1QFY10	4QFY09	3QFY09	2QFY09	1QFY09
Net cash per share (Sing cts)	8.7	8.9	7.8	6.6	7.6	6.6	13.5	10.9
ROE (%) <sup>*</sup>	18.1	20.0	22.9	29.6	28.4	31.6	30.7	31.4
AR days	109	91	92	83	79	77	42	44
Inv Days	11	5	10	6	7	29	24	34
AP Days	18	11	20	9	8	15	28	24
Cash cycle (days) <sup>*</sup>	102	85	82	80	78	91	38	54
Current ratio (x)	7.0	6.9	5.4	6.7	8.3	5.8	4.1	4.3
Quick ratio (x)	6.7	6.8	5.2	6.5	8.0	5.1	3.8	3.7

<sup>\*</sup> annualised where relevant

Source: Company, CIMB-GK Research

### Key positives in FY10 results

- Eratat brand footwear and apparel sales rose 16%/35% respectively.
- Casual lifestyle wear share of revenue rose to 71% in FY10 versus 46% in FY09.
- ASP for Eratat brand footwear and apparel increased by more than 18% and 50% respectively.

### Potential pitfalls ...

- Key risk remains price competition in the industry. However, this is mitigated by the Company's successful transformation into the casual lifestyle market. ERATAT has gotten two things right; firstly, expanding product segments and target consumer age groups and secondly, push towards brand equity so that the Group can continue its efforts to raise ASP.
- Management remains cautious in managing working capital. While receivables risk has increased with the longer credit period to support distributors, inventory days have been kept low as the Company keeps a watchful eye on its inventory.

### Forecasts summary

FYE Mar	2009	2010	2011F	2012F	2013F
Revenue (RMB m)	777.3	898.7	1,013.4	1,128.9	1,300.8
EBITDA (RMB m)	150.3	136.8	145.1	162.2	185.6
EBITDA margins (%)	19.3	15.2	14.3	14.4	14.3
Pretax profit (RMB m)	146.8	132.0	140.1	157.1	180.5
Net profit (RMB m)	125.9	96.6	102.3	114.7	131.8
EPS (RMB fen)	30.8	23.3	24.7	27.6	31.8
EPS growth (%)	+27%	-24%	+6%	+12%	+15%
P/E (x)	2.1	2.8	2.7	2.4	2.1
FD EPS (RMB fen)	30.8	23.3	19.1	21.4	24.6
FD P/E (x)	2.1	2.8	3.4	3.1	2.7
Gross DPS (RMB fen)	1.5	4.7	4.9	5.5	6.4
Dividend yield (%)	2.3	7.1	7.5	8.4	9.7
P/NTA (x)	0.7	0.5	0.5	0.4	0.3
ROE (%)	41.5	19.8	17.8	17.3	17.2
Net cash per share (RMB fen)	37.2	42.4	51.3	66.4	80.1
P/CF (x)	2.1	2.7	2.6	2.3	2.0
EV/EBITDA (x)	0.6	0.7	0.7	0.6	0.5

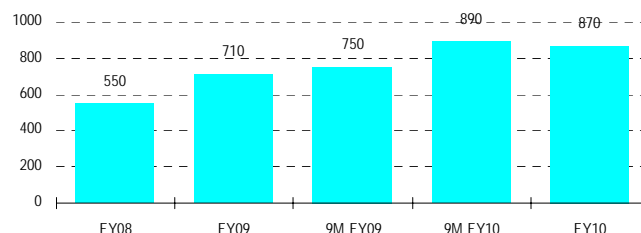
Source: Bloomberg, Company, CIMB-GK Research

### Peer valuation

Bloomberg ticker	Mkt cap (US\$ m)	Core P/E (x)		P/BV (x)	ROE (%)	Div yield (%)	
		CY2010	CY2011	CY2010	CY2010	CY2010	
Anta	2020 HK	4,252	20.4	17.9	5.1	26.3	2.0
Dongxiang	3818 HK	3,740	15.4	13.1	3.2	21.4	2.0
Li Ning	2331 HK	3,587	22.1	17.9	8.0	41.4	1.8
XTEP International	1368 HK	1,674	15.4	12.6	3.8	24.5	4.0
HK-listed peer average			18.3	15.4	5.0	28.4	2.4
Xingquan	XISH Mk	108	2.7	2.2	0.8	38.4	5.5
Malaysia listed peer average			2.7	2.2	0.8	38.4	5.5
Hongxing	CHHS SP	318	7.6	5.6	0.5	6.8	1.3
China Sports int	CSPORT SP	60	4.5	0.9	0.4	9.6	3.9
China Eratat	CERAT SP	40	2.7	2.4	0.5	18.3	7.4
Singapore listed peer average			5.0	3.0	0.5	11.6	4.2
Addidas	ADS GR	10,391	17.6	13.4	2.0	11.8	1.4
ASICS	7936 JP	1,750	14.1	12.0	1.5	10.6	1.3
Mizuno	8022 JP	567	33.7	24.6	0.6	na	2.6
Nike	NKE US	35,155	17.2	15.2	3.7	20.1	1.4
Global brandname peer average			20.6	16.3	2.0	14.2	1.7

Source: Bloomberg, Company, CIMB-GK Research

### Ex-factory sales per sq m (RMB)



Source: Company

### Corporate profile

- China Eratat is principally engaged in the design, manufacture and distribution of lifestyle fashion footwear, and the design and distribution of lifestyle fashion apparel under its well-established proprietary brand "ERATAT" (" 莱特").
- With its strong focus on brand management, product development and quality, the Group's products are specially designed for a wide range of activities catering to casual lifestyle and outdoor activities.

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**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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