

CHINA ERATAT: Fund managers visit factory producing 5m pairs of shoes a year

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Wednesday, 23 June 2010



This is a section of China Eratat's factory which produces 5 m pairs of stylish casual footwear a year. Another factory, an older one in another area, produces over 2 m pairs. Photo by Leong Chan Teik

LAST FRIDAY, six fund managers and I visited the newer of two of China Eratat's factories producing casual footwear as part of a 2-day visit at the company's invitation.

(My first report was published on Monday '[CHINA ERATAT: Fund managers check out its operations in China](#) ').

Located about an hour's drive from Jinjiang city, the factory in Quangang district is sited on sprawling grounds, as you can see from the photo on the right.

Now, banish any thoughts you may have about cramped and stuffy working conditions.



It's largely manual work involving cutting, stitching, gluing and packing. About 1,200 workers are employed here. Photo: Leong Chan Teik

As we visited two levels of production, we noted the spaciousness of the working area.

About 1,200 workers are employed there, working a single shift from 9am to 6 pm.

It's largely manual work, such as cutting, stitching, gluing and packing as they produce 5 million pairs of stylish footwear a year that the company has designed.

The average wage of the workers is RMB1,400 a month. The workers are mostly not migrant workers: they live within travelling distance of the workplace by motorcycle or bicycle.



Quality control: Workers check every aspect of every pair of finished footwear. Photo: Leong Chan Teik

The land for this factory was acquired by China Eratat in 2002, way before the company's 2008 IPO.

Certainly the value of the land has jumped since, but this is not reflected in China Eratat's NAV as the asset has not been revalued.

Aside from stylish casual footwear, China Eratat designs casual apparel.

The production is outsourced, although the company's IPO prospectus stated its intention to set up 50 production lines for the manufacture of apparel.

The plan, which will lift gross profit margins, has been postponed.

After visiting the factory, we headed for a sales showroom on the factory premises.

There it became evident that the company does have stylish design for casual footwear and apparel. Its target consumers range in age from 18 to 48.



Shoes ready to be packed into boxes featuring the image of celebrity Wang Lee Hom. Photo: Leong Chan Teik
And they are in the mid to higher-end of the market, as the ex-factory price of the footwear and apparel is around RMB70 each and the retail price is 2.5-3X that amount.

That makes a China Eratat T-shirt sell for the equivalent of S\$40. I wondered how that could sell until I turned my thoughts to the rapidly rising number of millionaires in China and the huge population base.

The designs of the apparel and footwear can be viewed at the company's website which hosts the full catalogues of its latest offerings. Check them out [here](#).

Speaking about the website, it is in my view about as comprehensive as it can get, complete with even videos of its latest advertising TV campaign, and the latest analyst reports.

The people behind the well-designed website are Kellyn Tan, the company's vice-president for investor relations, and Ken Ho, the CFO. Both are Singaporeans.

Such a website stands out from the many websites of listed companies that are uninformative and, worst of all, not updated.

On the trip, we unfortunately didn't get an opportunity to view consumer buying of Eratat products, as there were no Eratat retail outlets in Jinjiang nor Xiamen.

The Eratat brand, which is up against many local and foreign brands, is being nationally promoted via a weekly TV programme on a martial art called Judose which is sponsored by the company. The sponsorship costs about RMB20 million a year. You can catch glimpses of the programme [here](#).

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