

Analyse this...

Retail Research

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Eratat Lifestyle Limited

Focus on raising brand equity

 CERAT SP
 IPO Price: S\$0.30
 BUY; TP: S\$0.29

 Price @27/7/10: S\$0.165
 52-week range (SGD): 0.125 – 0.285
 Market cap – S\$64.3m

Maintain BUY, TP of 29cts

- **Fundamental BUY, TP S\$0.29.** 1Q Mar 11's sales and profit decline should be seen in the context of Eratat's Lifestyle's transition to casual lifestyle products.
- **Technical BUY, charts targets S\$0.185/0.19.** Took out its resistance trend line in mid-June and has stayed above it since then. If prices continue to stay above the S\$0.15 support (50-day SMA), odds favour a test of its 200-day SMA at S\$0.185. Strong resistance around the S\$0.19 level.
- Going forward, the Company will distance itself further and further away from sports related apparel.
- Focus will also be on store quality and brand building to raise overall ASPs. Pure numbers game of having more and more retail points is no the point.
- **Downside risk remains low:**
 - Latest net cash per share is 5.7cts
 - Net net working capital per share is 22.6cts
 - Historical NTA per share is 27.6cts
 - Dividend yield at 6.2%
- 1Q10 results generally in line with our forecast with sales/gross profit/net profit achieving 23.4%/23.0%/26.5% of our full year expectations.

1Q11 – Earnings jumped 30% yoy

	1QFY11	1QFY10	yoy Chg (%)
Revenue (RMB mil)	237.2	259.7	(8.7)
Gross profit (RMB mil)	65.0	82.1	(20.9)
Net profit (RMB mil)	27.1	35.4	(23.5)
EPS (RMB cts)	6.5	8.5	(23.4)
NAV (RMB \$)	1.35	1.26**	7.1

Profit ratios

	1QFY11	1QFY10	yoy Chg ppt
Gross profit margin (%)	27.4	31.6	(4.2)
Net profit margin (%)	11.4	13.6	(2.2)

Balance sheet ratios

	1QFY11	1QFY10
Net cash per share (Sing cts)	5.7	6.6
ROE (%)*	19.3	29.6
AR days	117	83
Inv Days	19	6
AP Days	26	9
Cash cycle (days)*	110	80
Current ratio (x)	5.4	6.7
Quick ratio (x)	5.1	6.5

* annualised where relevant

** as at 31st March 2010

Source: Company, CIMB Research

Key things to note

- From 27th July 2010, China Eratat Sports Fashion Limited name has been changed to Eratat Lifestyle Limited. The shares will trade under this new name from Friday, 30th July 2010.
- The Company has also changed its financial year end to December from March. For FY10, the Company will report nine months results from 1st April to 31st December. FY11 results will cover the full calendar year.
- Keep an eye on working capital. In line with the Company's selective lengthening of credit to key distributors, receivables days have grown and operating cash flow turned negative in 1Q due to this.

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	4,591	21.9	19.2	5.4	26.3	1.8
Dongxiang	3818 HK	3,115	12.9	11.8	2.6	21.1	2.3
Li Ning	2331 HK	3,429	20.9	16.9	7.6	41.4	1.9
XTEP Int	1368 HK	1,540	13.1	10.8	3.5	24.7	4.4
HK-listed peer average			17.2	14.7	4.8	28.4	2.6
Xingquan	XISH Mk	158	3.9	3.2	1.2	38.4	3.9
K-Star Sports Ltd	KSTR MK	63	2.8	2.6	0.6	24.9	2.9
Malaysia listed peer average			3.3	2.9	0.9	31.6	3.4
Hongxing	CHHS SP	318	16.8	13.3	0.5	3.9	1.9
China Sports int	CSPORT SP	85	6.9	6.2	0.5	9.6	3.4
China Eratat	CERAT SP	64	3.4	3.1	0.6	18.3	6.0
Singapore listed peer average			9.0	7.5	0.5	10.6	3.7
Adidas AG	ADS GR	11,476	17.4	13.9	2.1	12.4	1.4
Asics Corp	7936 JP	2,015	15.6	13.1	1.7	10.4	1.1
Mizuno Corp	8022 JP	613	30.3	25.0	0.7	2.2	2.5
NIKE Inc	NKE US	35,589	18.1	16.2	3.6	20.1	1.6
Global brandname peer average			20.4	17.1	2.0	11.3	1.7

Source: Bloomberg, CIMB Research

Financial analysis

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)	2.6	3.4	3.2	2.9	2.5
FD EPS (RMB fen)	30.8	23.3	19.1	21.4	24.6
FD P/E (x)	2.6	3.4	4.2	3.7	3.2
Gross DPS (RMB fen)	1.5	4.7	4.9	5.5	6.4
Dividend yield (%)	1.9	5.9	6.2	7.0	8.0
P/NTA (x)	0.8	0.6	0.6	0.5	0.4
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)	2.5	3.3	3.1	2.8	2.4
EV/EBITDA (x)	1.0	1.1	1.1	0.9	0.8

Source: Bloomberg, CIMB Research

Background

- Eratat Lifestyle 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".

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