

# Analyse This...

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## Eratat Lifestyle Limited

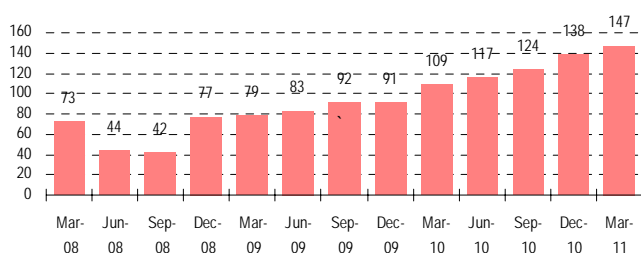
*Does this lifestyle suit you?*

 ERAT SP  
 BUY; TP:\$0.38  
 IPO price: S\$0.30  
 1Q11 : In line

 Price @9/5/11: S\$0.205  
 52-week range (SGD): 0.125-0.265  
 Market cap: S\$94.3m

### Owners' manual

- Trade receivables, it did get longer. We warned you! 1Q11 sales grew 28% yoy while trade receivables grew 39.2% yoy. Trade receivables days lengthened to 147 in 1Q11 versus 138 in 4Q10 and 109 a year ago.



Source: Company, CIMB Research

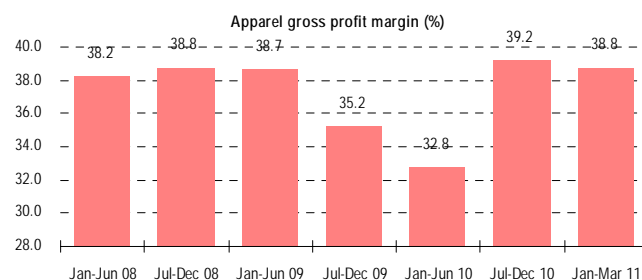
- Boss stake now 32.1%.** Due to the recent 60m (14.5% of pre-placement issued cap) new share placement, major shareholders running the Company now owns just 32.1% of the Company.
- Give me more money.** The Company has high hopes on its Eratat premium brand with plans for its distributors to open 50 shops in the PRC in 2H11. The first shop is slated to be opened in May/June 2011 in Shanghai. If the concept takes off, 1) more funding in the form of credit term extension to distributors and 2) strong Eratat premium order book. One conclusion, money, money, money. Equity placement likely.
- Concentration risk.** The Company now deals with 12 distributors (from 17) as some distributors did not identify or failed to keep up with Eratat's new vision. There is some risk of over-reliance on a few key distributors going forward but at this point, we believe it is better for Eratat to partner those that are prepared to share the risk with them.

Province	Sales (Rmb mil)	% Breakdown
Guangdong	27.4	11.8
Zhejiang	26.3	11.3
Shanxi	24.2	10.4
Henan	22.1	9.5
Shandong	20	8.6
Anhui	17.9	7.7
Hunan	17	7.3
Tianjing	15.8	6.8
Guangxi	14.7	6.3
Hainan	12.7	5.5
<b>198.1</b>		<b>85.4</b>
Other 3 provinces (< 5%)	33.8	14.6
<b>1Q11</b>	<b>231.9</b>	<b>100.0</b>

Source: Company, CIMB Research

### So, why own this stock?

- What if we make it?** Eratat has high hopes on its Eratat Premium Brand and the growing strength of its Eratat Classic Brand. The consolidation of its distribution chain points to a focused strategy to elevate the Group to a higher playing field. One should not discount the possibility of some success going forward. Apparel margin is climbing back!



Source: Company, CIMB Research

- You don't have to pay nose bleed prices to partake in this growth.** The stock remains cheap at just 2.9x CY12 P/E, 0.6x CY11 P/NTA and 2.9% dividend yield.
- If Eratat suffers a set back?** The Company has zero borrowings (banks unwilling to lend to them? management abhors debt?) In any case, at the very least, if things go wrong, no bankers to hound them. Yet, net cash per share (taking in the recent placement proceeds) is 54% of its share price. Even if the Company needs more time to grow, the strong balance sheet will limit risk of financial distress.

### Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (Rmb m)	885.0	968.3	1,124.0	1,293.6	1,493.0
yoy growth (%)	nm	9.4	16.1	15.1	15.4
EBITDA (Rmb m)	136.1	181.1	208.2	242.7	278.7
EBITDA margins (%)	15.4	18.7	18.5	18.8	18.7
Pretax profit (Rmb m)	137.6	176.4	203.0	237.4	273.3
Net profit (Rmb m)	102.1	131.0	150.3	175.7	202.2
yoy growth (%)	nm	28.3	14.7	16.9	15.1
EPS (S cts)	5.1	6.1	6.3	7.0	8.1
EPS growth (%)	nm	28.3	4.6	12.0	15.1
P/E (x)	4.4	3.4	3.3	2.9	2.5
Gross DPS (S cts)	1.0	0.6	0.6	0.7	0.8
Dividend yield (%)	4.7	2.8	2.9	3.4	3.9
P/NTA (x)	0.9	0.7	0.6	0.5	0.4
NTA/sh (S cts)	25.4	29.2	32.9	39.3	46.7
ROE (%)	21.7	23.0	20.7	19.4	18.8
Net cash per share (Sing cts)	8.9	7.5	7.7	8.9	10.6
P/CF (x)	4.2	3.3	3.3	2.8	2.5
EV/EBITDA (x)	1.7	1.3	1.1	1.0	0.9

Source: Bloomberg, Company, CIMB Research

### About us

- Located in:** PRC, Fujian Province, Jinjiang City
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- Makes:** engaged in the design, manufacture and distribution of lifestyle fashion footwear and lifestyle fashion apparel under its proprietary brand "ERATAT" ( " 鳄莱特 " ).

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**BUY:** The stock's total return is expected to be +15% or better over the next three months.

**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.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next three months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next three months.

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