

Corporate Focus Series

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Eratat Lifestyle Limited

Intrigued by future prospects...

 ERAT SP
 BUY; TP:\$0.38

 Price @10/5/11: S\$0.210
 52-week range (SGD): 0.120-0.270
 Market cap: S\$99.7m

Corporate Focus – Key highlights

- Insightful session.** During yesterday's luncheon talk, the Eratat team shared with investors about their recent quarterly results performance and of their growth strategies moving forward. The buzz of questions created by the end of the talk showed how much investors were intrigued and, perhaps, excited by Eratat's prospects.
- Improved gross margins.** Compared to the previous quarter (1Q10:25.3%), Eratat has garnered a Gross Profit Margin of 31.4% for 1Q11, which is a marked improvement. This was attributable to the shift in product mix to focus more on brand apparel, and the shift in brand positioning from sports to casual/lifestyle.
- Good Value.** The stock remains cheap at just 3.0x CY12 P/E, 0.6x CY11 P/NTA and 2.9% dividend yield.

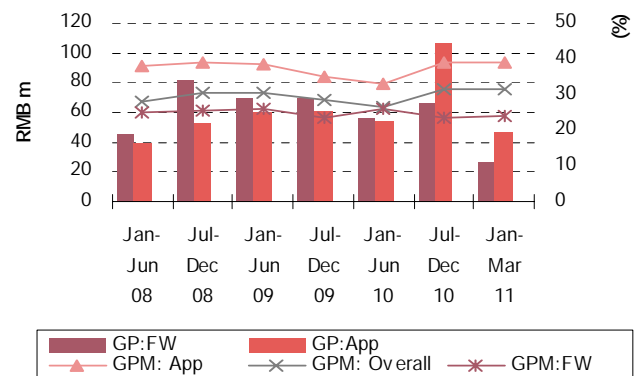
Recent Strategic Initiatives

- Successful change in branding.** As of now, all Eratat Brand products are now Casual Lifestyle wear, which is a stronger driver of revenue for Eratat, as illustrated by its increase in revenue and sales volume.
- Increased advertising and promotion efforts.** With the higher focus on creating brand value and fostering brand positioning, Eratat has channeled more efforts into marketing strategies such as their existing tie-up with CCTV5's 鳄莱特挑战脚斗王 where a new season for 2011/12 is said to be in the talks for.
- Bid to improve quality of retail business.** Eratat has been encouraging distributors to work on their outlet frontages and to foster more ownership in distributors by requiring key distributors to directly own more specialty shops.

Q&A Highlights

- Any dividend declared?** 3 RMB cts per share, payable end June or Mid July. Eratat will try to declare dividends every year but they want to ensure that they have sufficient cash for expansion before paying out dividends. As such, it depends on the plans for the given time.
- Are any more rounds of fund raising necessary, in the event of expansion?** There is sufficient leeway in the current funds pool for more expansion but any further potential expansion plans would depend on the receptiveness of the new Premium range.
- What is the reason behind the steady increase in accounts receivables? Longer credit collection from distributors?** This has been put in place in order to gain more trust from distributors. 60-90 days is the norm but allowing longer credit terms for trusted distributors fosters loyalty. Furthermore, if they open their own shop under the Eratat name, longer credit terms are given to these distributors because they invested in the brand. Eratat considers this incentive better than subsidizing renovations or giving upfront discounts etc because more ownership to the brand is established.
- What is your current order book?** 44% out of RMB477M worth of orders have been delivered for Spring Summer 2011 as it is. The rest will be delivered from April to June.
- What is the reason behind the decline in QoQ GP margin for both the footwear and apparel segment?** This is due to seasonality. Autumn/Winter sales are usually much higher because goods are priced higher. This is attributed to the fact that more material is used.
- What is the Eratat premium gross profit margin?** This is about 40% currently. Eratat hopes that this favorable gross profit margin will continue into the future.

Gross Profit (By Season)



Source: Company, CIMB Research

Financial Summary

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 (Rmb cts)	24.6	31.6	33.0	37.0	42.6
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)	4.5	3.5	3.4	3.0	2.6
Gross DPS (S cts)	1.0	0.6	0.6	0.7	0.8
Dividend yield (%)	4.6	2.8	2.9	3.3	3.8
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)	4.3	3.4	3.4	2.9	2.5
EV/EBITDA (x)	1.8	1.4	1.2	1.0	0.9

Source: Company, CIMB Research

Technical BUY



- The stock has been consolidating sideways since reaching a high of S\$0.27 in January. It appears to be forming a triangle pattern.
- Its MACD is about to reconfirm its bullish crossover while its RSI has hooked upwards again. Both indicators are starting to look positive again.
- As long as prices continue to stay above the S\$0.185 levels, then the stock's new uptrend is likely to stay its course. We believe that it would eventually reach the old high of S\$0.27 in the short to medium term once the triangle resistance at S\$0.22 is taken out. The following resistance is at S\$0.295-0.30.

Source: Company, CIMB Research

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