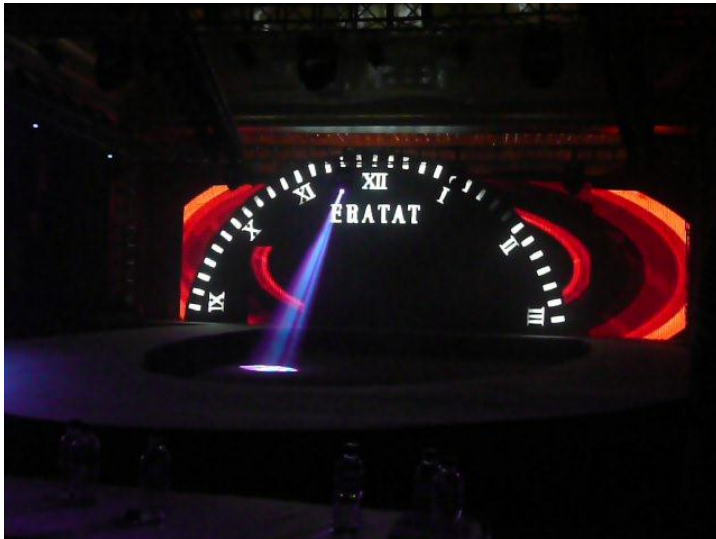


Eratat Lifestyle Limited

China's Gateway to European Fashion



We were invited to Eratat's product launch on 30 Aug 11 to witness the launch of their 2012 Spring/Summer fashion collection. However, Eratat did not just present potential and current retailers their products; they brought them the fashion of Milan, Paris, and London by incorporating the latest fashion of these regions into their designs. **Maintain Increase Exposure based on an intrinsic value of S\$0.325.**

Key Takeaways:

Bridging the Fashion Gap of East and West: To help enhance the flavour of European fashion into Eratat's designs, Eratat has been collaborating with Italian designer team ALDA SANTINI since early 2011. ALDA SANTINI has previously designed for labels such as CAMEL ACTIVE, MANOR AG, MAXMARA and PHARD. This information was unveiled when Eratat invited ALDA SANTINI's chief designer Mr. Vincenzo Romanelli to its trade fair. Mr Lin Jiancheng, CEO of Eratat, believes that Mr Romanelli's team will be able to bring in more new - and possibly even fashion leading - design ideas to Eratat's design team and better differentiate their products in the market. We like this development as it marks another milestone in the sophistication of the ERATAT brand.

Increase Exposure

- Intrinsic Value S\$0.325
- Prev Close S\$0.135

Main Activities

Eratat Lifestyle Limited 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".

Financial Highlights

(Y/E Dec) RMB m	FY10	FYE10	FY11F
Revenue	898.7	787.6	1092.5
Gross Profit	258.5	237.4	354.3
Earnings	96.6	111.4	183.4
EPS (RMB cts)	23.3	26.8	41.2

[^]FYE10F data are based on the nine month period ended Dec 2010. Eratat changed its financial year end from Mar to Dec in May 2010.

Source: Company, SIAS Research

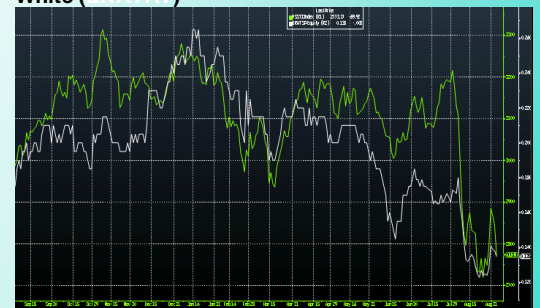
Key ratios (FY11F)

PER	1.7
P/BV	0.4
Return on Common Equity	25.0%
Gross Debt to Common Equity	0%
Current ratio	9.5

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (ERATAT)



Source: Bloomberg

52wks High-Low S\$0.270 /S\$0.120
Number of Shares 474.9m
Market Capitalization S\$64.1m

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More, Bigger, Better: According to management, the venue for the trade show this round is twice the size of the last show. This is to house the increased number of retailers wanting to attend their product launch and also the increased number of fashion reporters covering the event. Eratat has also put in even more effort to enhance the “sophistication” feel of the trade show and has also employed a more “international mix” of models to showcase their products. We should be able to have a sense of their orderbook from this trade show in about one to two months’ time.

Figure 1: 2012 Spring/Summer Launch



Source: SIAS Research

Improving Not Just Products But Also Service: Eratat recognises that an upclass product line must be supported a team of well trained and professional frontline. To attain a new level of service quality, Eratat formally unveiled its training academy for retailers and sales staff. This move is a further formalization of Eratat’s training process. At the academy, trainees will be inculcated with the appropriate service behaviour, guided by a handbook and be issued certificates upon graduation. We see that this move by Eratat is another step towards ensuring smooth execution by retailers without having to directly own and operate sales outlets. By instituting high service standards, consumers will be more likely to perceive the Eratat brand as a high end label.

Managing Distributors: Shortly after Eratat announced its 2Q FY11 results, SGX queried the company on the need for the company to offer longer credit terms to distributors. We think that the extension of trade credit to distributors is one of multiple methods to incentivize other businesses to carry Eratat’s products, especially when Eratat is making demands on distributors to revamp their stores and retail methods. Other norms in the industry include trade rebates and discounts. Eratat chose to offer longer credit terms to its distributors instead. Since the company did not have any bad debts for at least the last five years, its internal control process seems to leave little to worry about at the moment.

Trade Deposits: SGX also queried about the size of Eratat's trade deposits at RMB162.6m. The company went to on explain that it currently has more than 50 apparel suppliers, each manufacturing different types of products such as shirts, pants, jeans and jackets. This works out to an average deposit of RMB3m plus per supplier and can be said to be hardly a large amount especially if the company is outsourcing to reputable manufacturers of substantial size.

Bottom-Line: We reiterate our view of Eratat being heavily undervalued, trading at just 1.7x FY11F P/E on earnings growth of 65% in 2011 over the 9M period ended Dec 2010.

Figure 2: Mr Romanelli (2nd From Right)



Source: SIAS Research

Figure 3: Spring / Summer 2012



Source: SIAS Research

Figure 4: Economic Profit Valuation Model

RMB m	FY11F	FY12F	FY13F	FY14F
Revenue	1,092.5	1,256.4	1,444.8	1,661.6
EBIT	247.2	284.3	326.9	376.0
Tax on EBIT	-64.5	-74.1	-85.2	-97.9
NOPLAT	182.7	210.2	241.7	278.0
Invested Capital	626.0	839.9	1,014.9	1,413.7
% of Debt	0.0%	0.0%	0.0%	0.0%
% of Equity	100.0%	100.0%	100.0%	100.0%
WACC (%)	19.1%	19.1%	19.1%	19.1%
Capital Charge	119.3	160.1	193.4	269.4
Economic Profit	63.4	50.1	48.3	8.6
Terminal Value				51.4
Discount Rate	0.92	0.77	0.62	0.52
Present Value	58.1	38.6	29.9	4.5
Book Value	687.6	Risk Free Rate		1.8%
Explicit Value	131.1	Beta		2.0
Terminal Value	26.7	Market RP		8.8%
Value of Equity	845.4	Cost of Equity		19.1%
Number of Shares (m)	474.9	Cost of Debt		0.00%
Value per share (RMB)	1.780	LT Growth		2.0%
Value per share (S\$)	0.334	RMBSGD Rate		0.1876
Expanded Shares o/s (m)	598.5	(conversion of warrants)		
Add cash per share (S\$)	0.062	(from exercise of warrants)		
Value per share (S\$)	0.325			

^Book value of RMB626.0m as of end 2010 + Net Proceeds from Placement.

Source: SIAS Research

Figure 5: Financial Forecasts and Estimates

RMB m	FY09	FY10	FYE10	FY11F	FY12F	FY13F	FY14F
Revenue	777.3	898.7	787.6	1092.5	1256.4	1444.8	1661.6
Gross Profit	234.0	258.5	237.4	354.3	407.4	468.6	538.8
Operating Profit	145.9	131.5	150.2	247.2	284.3	326.9	376.0
Net Profit	125.9	96.6	111.4	183.4	210.9	242.4	278.7
Attributable to Shareholders							
Total Current Assets	392.2	511.3	629.8	839.8	1034.0	1437.2	1690.8
Total Non-Current Assets	99.0	95.8	92.1	88.5	85.8	82.5	79.3
Total Current Liabilities	47.4	73.1	95.9	88.4	104.9	105.9	125.0
Total Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	443.7	534.0	626.0	839.9	1014.9	1413.7	1645.1
Cash from Operating Activities	7.0	30.0	2.9	37.5	210.7	80.3	253.5
Cash from Investing Activities	-21.5	-1.9	-0.3	-0.5	-0.5	-0.5	-0.5
Cash from Financing Activities	164.8	-6.3	-19.3	30.4	-35.9	156.4	-47.4
Net Change in Cash	150.3	21.8	-16.7	67.4	174.3	236.3	205.7
Inventory Days	10	9	12	15	15	15	15
Receivable Days	52	76	94	120	120	120	120
Payable Days	11	17	24	25	25	25	25
Return on Common Equity	41.5%	19.8%	25.6%	25.0%	22.7%	20.0%	18.2%
Return on Assets	36.0%	17.6%	22.3%	22.2%	20.6%	18.4%	16.9%
Gross Debt / Common Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current Ratio	8.3	7.0	6.6	9.5	9.9	13.6	13.5
EPS (RMB cents)	30.8	23.3	26.8	41.2	44.4	51.0	58.7
BV / Share (RMB cents)	93.4	112.4	131.8	176.8	213.7	236.2	274.9
PER	2.3	3.1	2.7	1.7	1.6	1.4	1.2
P/BV	0.8	0.6	0.5	0.4	0.3	0.3	0.3

^ROE and ROA are annualized figures in FYE10. FYE10F EPS is for the period Apr to Dec 2010. FYE10F PER is based on 9M EPS. We assume the conversion of outstanding warrants in FY13F. Receivable days are based on the net AR balances – adjusted to exclude 17% VAT on sales which is recorded as part of accounts receivable.

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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