Retail Research | Singapore

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Analyse This…

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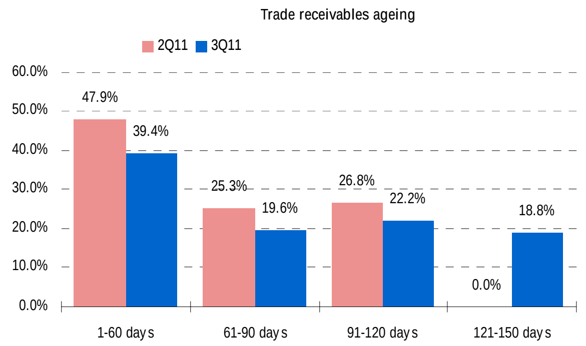
Eratat Lifestyle Limited

Change is always uncomfortable

ERAT SP
HOLD; TP S$0.138
3Q11 results

Price @4/11/11: S$0.125
52-week range (SGD): 0.118–0.21
Market cap: S$59.4m

When your fears come true



Source: Company

Caution rules for now

- Regular readers will know that we have always been very concerned over trade receivables for Eratat.
- Although 3Q11 numbers were in line with our full year expectations, we were perturbed by the following:
  - 18.8% of the trade receivables were in the 121-150 days classification, a new category compared to previous quarters and a clear departure from previous guidance of 120 days;
  - Following the consolidation of its distributors and the move toward Eratat Premium range of products, there is now a need for the store fronts to be renovated to be in line with the branding and shift in favour of more apparel sales. As such, Eratat is now finalizing discussions with its distributors to subsidise their renovation. Details are still being ironed out and the impact will show up in 4Q11 results and possibly into 2Q11 too.
- Distributor concentration risk has increased and we had previously flagged this. For 3Q11, four distributors accounted for more than 10% of revenue each.
- Sales order for January to June 2012 was RMB 380m. Although Eratat Premium share of the sales order was 37% versus 8% previously, non Eratat Premium and footwear orders have declined.

3Q11/9M11 results

(RMB'000)	3 months ended 30 September			9 months ended 30 September		
	2011	2010	Change	2011	2010	Change
Revenue	264,736	275,189	-3.8%	787,238	693,180	13.6%
Gross Profit	91,249	88,535	3.1%	260,148	199,262	30.6%
Operating Profit	65,568	59,535	10.1%	186,918	122,297	52.8%
Net Profit After Tax	48,379	44,115	9.7%	138,804	90,836	52.8%
EPS (RMB fen)*	10.19	10.63		30.92	21.89	
EPS (SGD cents)#	2.04	2.13		6.18	4.38	

Source: Company

Stay away until the air clears

- The theoretical valuation case for Eratat has always been easy to understand. On just 9M11 results, historical P/E and P/BV are just 2.1x and 0.38x respectively.
- On 4Q11 outlook, despite the global economic woes and uncertainty, we believe Eratat can still deliver strong FY11 net profit growth of 39% excluding renovation subsidies which we have no clue on as yet.
- Despite this, Eratat's share price is likely to stay depressed until the air clears on the receivables and renovation subsidies. Another uncertainty is FY12 sales outlook with just RMB 380m garnered for 1H12. Although the sales mix has moved in favour of apparels, FY12 turnover could dip below the RMB 1b mark and net profit could see a slight decline yoy.
- Given such uncertainties, knowing where the theoretical rock bottom is will be of paramount importance. Rock bottom price based on Eratat's absolute low P/BV of 0.23x during the 2009 Global Financial Crisis. Is S$0.098 or a possible 21.6% downside.
- We cut our call to HOLD and reduce TP to S$0.138 based on 0.325x CY12 BVPS, a 50% discount to Eratat's average forward P/BV of 0.65x.

Forecasts & valuations

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (Rmb m)	885.0	968.3	1,089.3	977.1	1,046.2
yoy growth (%)	nm	9.4	12.5	(10.3)	7.1
EBITDA (Rmb m)	136.1	181.1	252.0	243.1	268.7
EBITDA margins (%)	15.4	18.7	23.1	24.9	25.7
Pretax profit (Rmb m)	137.6	176.4	245.6	237.1	262.6
Net profit (Rmb m)	102.1	131.0	181.7	175.5	194.3
yoy growth (%)	nm	28.3	38.7	(3.4)	10.7
EPS (S cts)	5.1	6.1	8.0	7.4	8.2
EPS growth (%)	nm	28.3	26.5	(7.5)	10.7
P/E (x)	2.5	2.0	1.6	1.7	1.5
FD EPS (S cts)	nm	nm	6.1	5.9	6.5
FD P/E (x)	nm	nm	2.1	2.1	1.9
Gross DPS (S cts)	1.0	0.6	0.7	0.7	0.8
Dividend yield (%)	7.7	4.7	5.8	5.6	6.2
BVPS (S cts)	25.5	29.3	36.0	42.6	50.0
ROE (%)	21.7	23.0	24.5	18.8	17.6
Net gearing (%)	cash	cash	cash	cash	cash
Net cash per share (Sing cts)	8.9	7.5	6.8	15.5	20.7
P/CF (x)	2.4	1.9	1.6	1.6	1.5
EV/EBITDA (x)	0.9	0.7	0.5	0.5	0.4

Source: Bloomberg, Company, CIMB Research

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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").