

30 Jan, 2024

EEKA Fashion | 03709.HK

Convincing performance as expected, reiterate "BUY"

STOCK RATING

BUY

TARGET PRICE

HK\$ 16.78

EEKA Fashion (03709.HK) announced a positive profit alert that the Group is expected to record a YoY >20% growth in revenue and a YoY >120% increase in the bottom-line, in line with our estimations. The growth was attributable to i) the growth of product sales across various channels, ii) product improvement and iii) optimization of the operations.

Growth of product sales across various channels: According to the National Bureau of Statistics, the retail sales of garments recorded a YoY 15.4% growth in 2023, the growth was especially significant in Q4. The strong recovery brought EEKA Fashion (03709.HK) a convincing performance, and, more importantly, brought confidence to the Group and the distributors after a long period of inventory clearance. We believe that the distributors will be more aggressive than last year in the 2024 1H trade fairs, but we need more evidence to be more optimistic due to the uncertain macro environment.

Product improvement: EEKA Fashion (03709.HK) optimized its product mix through i) an increase in the proportion of classic-style products, and ii) the enhancement of brand identity. The introduction of classic products helps i) improve brand recognition, ii) optimize the inventory structure and iii) mitigate the risks brought by the change in fashion trends. Thanks to the decent progress of inventory clearance in the past year, we believe that there is still room for further improvement.

Optimization of the operations: It is positive to hear, again, that EEKA Fashion (03709.HK) benefits from the optimization of its operations, we believe that optimization was driven by a replacement of smaller stores with larger stores. Replacement of smaller stores may remain the primary strategy in the coming year, leaving an insignificant change to the number of retail stores in 2024. Besides, when compared to the previous target, ~150sq.m., the Group is trying to open even bigger stores, ~200sq.m., with higher efficiency, increasing the possibility for cross-selling and reducing the staff required per sq.m. in a store.

Convincing performance as expected, reiterate "BUY": EEKA Fashion (03709.HK) delivered a solid FY performance, in line with our estimates. We expect that the Group will continue to deliver steady organic growth and the dividend payout ratio will likely remain attractive in FY 2024 due to the unchanged business planning, the stable performance and payout ratio make it an attractive stock in the Hong Kong stock market. We, thus, maintain the TP at HKD 16.78/share, reiterating "BUY".

COMPANY UPDATE

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EEKA Fashion (03709.HK)

Stock Rating (Previous Rating) **BUY** (BUY)

Target Price (Previous TP) **HK\$ 16.78** (HK\$ 16.78)

 Current Price **HK\$ 14.60**

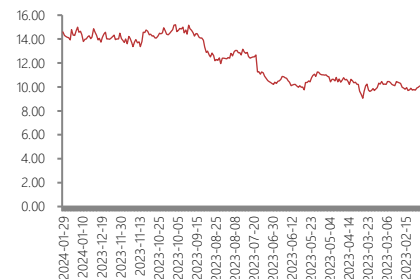
 52-Week Range **HK\$ 8.90 – HK\$ 15.48**

 Market cap. (HKD, bn) **HK\$ 10.3**

RMB, mn	22(A)	23(E)	24(E)	25(E)
Revenue	5,663.4	7,111.6	7,888.3	8,506.1
Gross Profit	4,254.4	5,387.9	5,981.2	6,445.1
Gross Margin	75.1%	75.8%	75.8%	75.8%
Net Profit	375.4	882.1	971.5	1,050.4
EPS	0.565	1.250	1.377	1.489
P/S	1.1	0.9	0.8	0.8
P/E	16.0	10.6	8.7	7.2
ROE	9.5%	20.4%	19.8%	19.3%

Performance **1 mth** **3 mth** **6 mth** **1 year**

 Absolute **3.0%** **3.7%** **13.0%** **45.5%**

 Relative to HSI **8.7%** **11.3%** **32.3%** **74.6%**


Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(X)	(X)	(X)	(X)	(HKD, mn)	(%)	(%)
00210.HK	Daphne	377.9	5.9	-	0.6	1.3	199.8	57.2	9.9
00483.HK	Bauhaus	143.3	3.3	-	0.9	0.7	196.6	76.3	29.1
00592.HK	Bossini	418.7	-	-	1.0	0.6	585.2	46.7	-75.0
00709.HK	Giordano	3324.5	9.0	-	1.4	0.8	3799.0	56.5	15.8
00738.HK	Le Saunda	282.4	-	-	0.4	0.6	476.5	65.2	-6.1
01234.HK	China Lilang	5017.5	10.0	-	1.2	1.5	3593.7	46.0	12.0
01749.HK	Shanshan	68.0	2.3	-	0.3	0.1	1026.1	43.8	12.2
02030.HK	Cabbeen	675.3	-	-	0.5	0.5	1379.9	42.8	-6.5
03306.HK	JNBY	5291.2	7.6	-	2.5	1.1	5034.0	65.3	33.9
03998.HK	Bosideng	39380.5	15.5	-	3.0	2.0	19191.3	59.5	19.7
06116.HK	La Chapelle	136.9	-	-	-	0.6	230.4	68.8	-
	<i>Average</i>	<i>5010.6</i>	<i>7.7</i>	<i>-</i>	<i>1.2</i>	<i>0.9</i>	<i>3246.6</i>	<i>57.1</i>	<i>4.5</i>
03709.HK	EEKA Fashion	10279.1	16.0	11.3	2.3	1.5	6594.7	75.1	14.0

Source: Bloomberg, West Bull Securities

Risk factors

- The uncertain economic outlook lowers the demand for mid-high-end products, slashing the growth potential for the high-end brands of EEKA Fashion (03709.HK)
- The strong growth of the retail sales of garments in China in 2023 Q4 is not sustainable
- EEKA Fashion (03709.HK) cannot find the next growing driver after a successful internal improvement and development of a multi-brand strategy
- The brands under EEKA Fashion (03709.HK) cannot successfully build brand identity

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)	(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)
Revenue	5,663.4	7,111.6	7,888.3	8,506.1	PPE	684.5	683.5	705.8	711.3
<i>YoY growth</i>	-10.9%	25.6%	10.9%	7.8%	Others	2,938.7	2,895.9	2,948.0	2,992.6
COGS	(1,409.0)	(1,723.8)	(1,907.1)	(2,061.0)	Non-current assets	3,623.1	3,579.5	3,653.8	3,704.0
Gross profit	4,254.4	5,387.9	5,981.2	6,445.1	Inventories	1,024.0	1,016.5	1,075.8	1,172.8
Other income	127.5	141.2	126.1	115.4	Trade receivables	472.2	581.8	667.4	705.0
Operating expenses	(3,858.5)	(4,385.5)	(4,848.6)	(5,211.4)	Cash & cash equivalents	361.5	596.0	1,055.1	1,505.0
Operating profit	523.4	1,143.6	1,258.6	1,349.2	Others	776.9	1,304.4	1,321.1	1,346.1
Finance expenses	(56.3)	(54.6)	(59.3)	(52.4)	Current assets	2,634.6	3,498.6	4,119.4	4,728.9
JV & Ass.	(2.7)	-	-	-	Total assets	6,257.7	7,078.1	7,773.2	8,432.8
Profit before tax	464.4	1,089.0	1,199.4	1,296.8	LT borrowings	40.2	38.2	18.3	8.7
Tax	(88.9)	(206.9)	(227.9)	(246.4)	Others	581.1	579.0	601.6	622.3
Net profit	375.4	882.1	971.5	1,050.4	Non-current liabilities	621.3	617.2	619.8	631.0
<i>YoY growth</i>	-33.2%	135.0%	10.1%	8.1%	Trade payables	464.2	400.1	514.2	487.9
					ST borrowings	390.1	440.3	249.1	140.0
					Others	794.5	980.7	1,218.8	1,437.0
					Current liabilities	1,648.9	1,821.1	1,982.2	2,065.0
					Total liabilities	2,270.2	2,438.3	2,602.0	2,696.0
					Non-controlling interests	(9.9)	(8.1)	(6.0)	(3.7)
					Controlling interests	3,997.4	4,647.9	5,177.2	5,740.5
					Total equities	3,987.5	4,639.8	5,171.2	5,736.8

Cash Flow					Financial Ratio				
(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)		2022 (A)	2023 (E)	2024 (E)	2025 (E)
Profit before tax	464.4	1,089.0	1,199.4	1,296.8	Gross margin	75.1%	75.8%	75.8%	75.8%
Finance expenses	56.3	54.6	59.3	52.4	Operating margin	9.2%	16.1%	16.0%	15.9%
Finance income	(4.1)	(0.7)	(1.1)	(2.0)	Net profit margin	6.6%	12.4%	12.3%	12.3%
D&A	154.4	172.9	185.2	193.2	Adj. EBITDA profit margin	12.0%	17.3%	17.3%	17.2%
Others	707.2	621.2	606.2	602.4	Return on Equity	9.5%	20.4%	19.8%	19.3%
Change in working capital	323.6	(122.2)	69.8	(56.6)	Return on Asset	6.0%	13.2%	13.1%	13.0%
CFO	1,701.8	1,814.8	2,118.7	2,086.2	Current ratio	159.8%	192.1%	207.8%	229.0%
					Quick ratio	93.1%	125.4%	142.7%	160.5%
CAPEX	(170.3)	(172.0)	(207.6)	(198.7)	Cash ratio	21.9%	32.7%	53.2%	72.9%
Others	(401.2)	(422.0)	53.3	54.2	Debt-to-Equity ratio	10.8%	10.3%	5.2%	2.6%
CFI	(571.5)	(593.9)	(154.2)	(144.5)	Net Debt-to-Equity ratio	1.7%	-2.5%	-15.2%	-23.6%
					Inventory turnover days	255.9	216.0	200.2	199.1
Shares issuance	-	-	-	-	Receivable turnover days	34.5	27.0	28.9	29.4
Net borrowings	(74.9)	48.2	(211.1)	(118.7)	Payable turnover days	86.6	91.5	87.5	88.7
Interest paid	(18.9)	(17.0)	(19.5)	(10.5)					
Dividend paid	(282.3)	(229.8)	(440.1)	(484.7)					
Others	(893.7)	(787.6)	(834.7)	(878.0)					
CFF	(1,269.8)	(986.2)	(1,505.4)	(1,491.9)					
FCFE	1,352.5	1,669.0	1,675.6	1,753.4					
FCFF	1,442.7	1,634.6	1,902.5	1,880.5					

Source: Company data, West Bull Securities

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