

5 Apr, 2024

EEKA Fashion | 03709.HK

Stable development with new catalysts

STOCK RATING

BUY

TARGET PRICE

HK\$ 16.78

EEKA Fashion (03709.HK) reported a YoY 22.1% growth in revenue to RMB 6.9bn, and its gross margin slightly surged to 75.3%, leading to a YoY 121.8% increment in the bottom-line. The Group also announced a dividend of HKD 0.7/share, amounting to ~52% dividend payout ratio.

Disclosure of details: We appreciate that EEKA Fashion (03709.HK) disclosed the information in greater detail, GM by channels and promotional expenses are provided to help investors understand more about sales strategies and coming branding activities respectively. Moreover, the Group will start to announce the quarterly revenue since 2024 Q1, detailed disclosure is normally a positive signal showing the confidence of a company about its operation.

Stable outlook for 2024 and a potential surprising 2025: All brands under EEKA Fashion (03709.HK) delivered double-digit growth in 2023, the contributions from self-operated stores and wholesalers were exciting as expected due to the rebounding retail sales in China in Q4, the sales from T-mall which sells more expensive SKUs also remained solid. However, more contributions from Tiktok, Xiaohongshu and VIP.com as well as a lower GM in e-commerce platforms reflected that the Group still put certain effort into stock clearance. We expect stable growth in 2024 due to the unchanged strategies adopted but remain cautious due to the uncertain macro environment, we especially believe that the Group had a challenging time in early 2024 because of the stagnated retail sales in China. The new branding strategies and potential diversification may bring the Group a surprising 2025, the former helps position the brands as affordable luxury brands, and the latter, realized through M&A / cooperation with international brands, assists the Group in exploring a new market.

Branding is a higher priority: EEKA Fashion (03709.HK) commenced to put more effort into i) branding activities like fashion shows, ii) the appointment of brand spokespersons, iii) the adoption of new interior designs with better brand identity since last year, branding and “affordable luxury” positioning are a higher priority to the Group this year, and about 3% of total revenue will be spent on branding in the coming future.

Stable development with new catalysts: We maintain our views that the Group will continue to deliver steady but solid growth and maintain an attractive dividend payout, cash inflow will remain strong after a one-off adjustment in receivables and payables. Replacement of stores (~200 sq. m.: 24% of self-operated stores) remains in progress, more CAPEX may be incurred in 2025 for diversification. We 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)

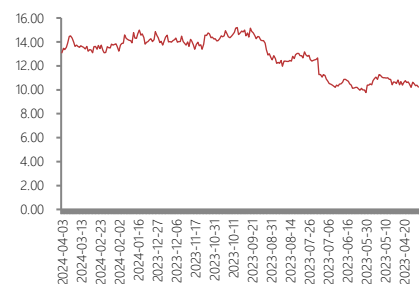
 Current Price **HK\$ 13.10**

 52-Week Range **HK\$ 9.50 – HK\$ 15.48**

 Market cap. (HKD, bn) **HK\$ 9.2**

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	6,912.3	7,876.9	8,449.0	9,057.5
Gross Profit	5,205.0	5,951.7	6,375.1	6,831.7
Gross Margin	75.3%	75.6%	75.5%	75.4%
Net Profit	832.6	869.6	977.9	1,115.8
EPS	1.237	1.241	1.392	1.583

Performance	1 mth	3 mth	6 mth	1 year
Absolute	0.0%	-8.3%	-12.1%	28.1%
Relative to HSI	-0.8%	-8.7%	-8.6%	46.1%



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	366.0	5.5	-	0.6	1.3	262.6	57.2	9.9
00483.HK	Bauhaus	172.7	3.9	-	1.0	0.8	196.6	76.3	29.1
00592.HK	Bossini	398.7	-	-	1.9	0.6	604.2	50.5	(136.6)
00709.HK	Giordano	3,259.2	9.3	8.6	1.5	0.8	3,873.0	58.4	15.3
00738.HK	Le Saunda	278.8	-	-	0.4	0.6	476.5	65.2	(6.1)
01234.HK	China Lilang	6,047.3	10.5	9.2	1.4	1.6	3,917.8	48.2	13.7
01749.HK	Shanshan	116.1	3.4	-	0.5	0.1	1,171.9	43.8	12.2
02030.HK	Cabbeen	561.6	25.0	-	0.4	0.4	1,314.1	43.0	1.6
03306.HK	JNBY	7,719.0	8.4	-	3.1	1.4	5,034.0	65.3	40.2
03998.HK	Bosideng	42,661.4	16.9	-	3.3	2.2	19,191.3	59.5	19.7
	<i>Average</i>	<i>6,158.1</i>	<i>10.4</i>	<i>8.9</i>	<i>1.4</i>	<i>1.0</i>	<i>3,604.2</i>	<i>56.7</i>	<i>(0.1)</i>
03709.HK	EEKA Fashion	9,377.9	9.9	8.6	1.9	1.2	7,641.9	75.3	19.6

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
- The brands under EEKA Fashion (03709.HK) cannot successfully build brand identity
- Unable to achieve diversification

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)	(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	6,912.3	7,876.9	8,449.0	9,057.5	PPE	661.5	732.8	742.0	741.3
<i>YoY growth</i>	22.1%	14.0%	7.3%	7.2%	Others	2,818.7	2,803.4	2,858.1	2,929.3
COGS	(1,707.3)	(1,925.1)	(2,073.9)	(2,225.9)	Non-current assets	3,480.1	3,536.2	3,600.2	3,670.6
Gross profit	5,205.0	5,951.7	6,375.1	6,831.7	Inventories	1,152.5	1,294.6	1,255.5	1,379.5
Other income	237.1	128.6	134.6	156.3	Trade receivables	717.4	765.7	879.4	944.4
Operating expenses	(4,398.7)	(4,950.6)	(5,246.1)	(5,555.2)	Cash & cash equivalents	440.8	501.4	519.7	613.7
Operating profit	1,043.3	1,129.7	1,263.6	1,432.8	Others	1,238.9	1,546.5	1,943.8	2,273.9
Finance expenses	(48.7)	(56.1)	(56.3)	(55.2)	Current assets	3,549.7	4,108.3	4,598.4	5,211.4
JV & Ass.	-	-	-	-	Total assets	7,029.8	7,644.5	8,198.6	8,882.1
Profit before tax	994.6	1,073.5	1,207.3	1,377.6	LT borrowings	-	-	-	-
Tax	(162.0)	(204.0)	(229.4)	(261.7)	Others	479.1	489.0	489.1	491.0
Net profit	832.6	869.6	977.9	1,115.8	Non-current liabilities	479.1	489.0	489.1	491.0
<i>YoY growth</i>	121.8%	4.4%	12.5%	14.1%	Trade payables	411.5	464.6	447.7	433.4
					ST borrowings	513.8	498.3	465.9	399.4
					Others	1,064.0	1,209.9	1,272.0	1,408.8
					Current liabilities	1,989.3	2,172.8	2,185.6	2,241.5
					Total liabilities	2,468.4	2,661.8	2,674.7	2,732.5
					Non-controlling interests	(15.5)	(19.4)	(21.8)	(20.4)
					Controlling interests	4,576.9	5,002.2	5,545.7	6,170.0
					Total equities	4,561.4	4,982.7	5,523.9	6,149.6

Cash Flow					Financial Ratio				
(RMB, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)		2023 (A)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	994.6	1,073.5	1,207.3	1,377.6	Gross margin	75.3%	75.6%	75.5%	75.4%
Finance expenses	48.7	56.1	56.3	55.2	Operating margin	15.1%	14.3%	15.0%	15.8%
Finance income	(2.7)	(3.3)	(3.8)	(3.9)	Net profit margin	12.0%	11.0%	11.6%	12.3%
D&A	133.0	151.5	162.6	169.5	Adj. EBITDA profit margin	15.3%	15.3%	15.8%	16.5%
Others	605.8	463.0	591.4	376.2	Return on Equity	19.5%	18.2%	18.6%	19.1%
Change in working capital	(210.2)	21.5	(120.2)	(38.6)	Return on Asset	12.5%	11.9%	12.3%	13.1%
CFO	1,569.2	1,762.3	1,893.5	1,936.0	Current ratio	178.4%	189.1%	210.4%	232.5%
					Quick ratio	110.0%	119.1%	142.7%	159.7%
CAPEX	(165.6)	(167.7)	(171.7)	(168.8)	Cash ratio	22.2%	23.1%	23.8%	27.4%
Others	(363.8)	(238.8)	(402.4)	(280.7)	Debt-to-Equity ratio	11.3%	10.0%	8.4%	6.5%
CFI	(529.4)	(406.5)	(574.1)	(449.5)	Net Debt-to-Equity ratio	1.6%	-0.1%	-1.0%	-3.5%
					Inventory turnover days	232.6	232.0	224.4	216.1
Shares issuance	-	-	-	-	Receivable turnover days	31.4	34.4	35.5	36.7
Net borrowings	83.4	(15.5)	(32.4)	(66.6)	Payable turnover days	93.6	83.1	80.3	72.2
Interest paid	(13.9)	(17.3)	(17.4)	(16.1)					
Dividend paid	(248.8)	(448.2)	(436.8)	(490.1)					
Others	(781.2)	(814.2)	(814.6)	(819.7)					
CFF	(960.5)	(1,295.2)	(1,301.2)	(1,392.5)					
FCFE	1,468.7	1,556.9	1,597.0	1,609.5					
FCFF	1,397.0	1,586.4	1,643.5	1,689.1					

Source: Company data, West Bull Securities

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