

22 Aug, 2024

EEKA Fashion | 03709.HK

Unable to meet the expectation of dual engines

STOCK RATING

BUY

TARGET PRICE

HK\$ 12.42

Strong headwind in 2024 1H: EEKA Fashion (03709.HK) announced a RMB 3.3bn revenue in 2024 1H, maintaining flat when compared to last year. The retail sales in China remained stagnant in Q2, and the uncertain macro environment continued to bring a challenging time to EEKA Fashion (03709.HK). The consumption downgrade and polarization in China became more severe, and customers became more conservative, affecting mid-to-high-end local brands like EEKA Fashion (03709.HK). It, thus, resulted in a growth in i) higher-end brands like La Koradior and NEXY, and ii) lower-end brands like FUUNNY FEELN, but a retreat in the other mid-to-high-end brands.

Further adjustment in the distribution channels: The number of stores dropped to 1,912, and both stores operated by the Group and wholesalers declined when compared to the last year-end. Although the Group kept replacing the small stores with bigger stores, the waning demand slashed the capability for cross-selling. The stores in department stores accounted for 65% of the total number of stores, and it is the major sales channel of the primary brand, Koradior. Unfortunately, the performance of the stores in department stores was weak, more stores will further be replaced by the stores in shopping malls which single-store sales kept improving in the past years.

Surprising performance in the gross margin: We are surprised to see an increase in gross margin, the gross margin of the wholesale and e-commerce business soared to 74.2% and 61.1% respectively, bringing the overall gross margin to 76.3%. An increment in the gross margin was primarily a result of successful procurement policies of NAERSI, NAERSILING and NEXY.

Dynamic adjustment in the promotional activities: EEKA Fashion (03709.HK) continued to build its branding and to iterate its "affordable luxury" positioning, the promotional expenses in 2024 1H increased to 3.7% of total revenue, higher than the guidance of 3%. It was a mismatch due to the sudden turnaround in 2024, but the Group reiterated that the business development direction will not be modified due to the short-term headwind. However, the input will be adjusted dynamically according to the China economy.

Unable to meet the expectation of dual engines: The Group was unable to adjust its inventory level and promotional scheme in the sudden turnaround. The waning demand affects the directions of brand building, small store replacement and diversification, resulting in a loss of growth momentum in the short term. Although the stagnant market is not disastrous, the deceleration in the growth of profit and dividends, and the uncertainties about future recovery lower the attractiveness of the Group. We, thus, slash our estimations and the TP to HKD 12.42/share.

COMPANY UPDATE

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EEKA Fashion (03709.HK)

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

Target Price (Previous TP) **HK\$ 12.42** (HK\$ 16.78)

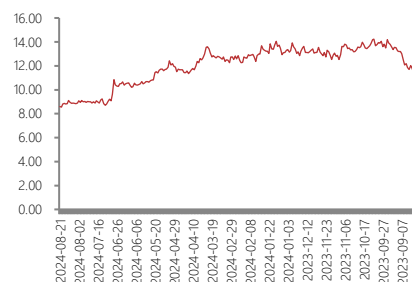
 Current Price **HK\$ 8.6**

 52-Week Range **HK\$ 8.46 – HK\$ 14.78**

 Market cap. (HKD, bn) **HK\$ 6.1**

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	6,912.3	6,825.3	7,324.7	7,958.0
Gross Profit	5,205.0	5,186.0	5,563.3	6,040.9
Gross Margin	75.3%	76.0%	76.0%	75.9%
Net Profit	832.6	536.8	674.1	888.2
EPS	1.237	0.769	0.967	1.276

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-4.6%	-20.4%	-30.9%	-23.2%
Relative to HSI	-4.4%	-10.9%	-36.3%	-21.9%



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	415.5	6.2	-	0.6	1.5	262.6	50.0	10.4
00483.HK	Bauhaus	95.5	68.8	-	0.6	0.5	193.0	74.2	0.7
00592.HK	Bossini	269.1	-	-	1.3	0.4	604.2	50.5	(136.6)
00709.HK	Giordano	2,537.3	9.1	9.2	1.2	0.7	3,873.0	58.4	12.7
00738.HK	Le Saunda	275.3	-	-	0.4	0.6	440.2	62.5	(3.7)
01234.HK	China Lilang	4,670.2	7.9	-	1.1	1.2	3,917.8	48.2	13.6
01749.HK	Shanshan	102.7	3.0	-	0.4	0.1	1,171.9	37.5	13.1
02030.HK	Cabbeen	889.2	33.0	-	0.6	0.7	1,314.1	43.0	1.6
03306.HK	JNBY	6,795.6	7.3	-	2.7	1.2	5,034.0	65.3	40.2
03998.HK	Bosideng	44,361.5	13.0	11.5	2.9	1.7	25,340.7	59.6	23.4
	<i>Average</i>	<i>6,041.2</i>	<i>18.5</i>	<i>10.4</i>	<i>1.2</i>	<i>0.9</i>	<i>4,275.2</i>	<i>54.9</i>	<i>(2.5)</i>
03709.HK	EEKA Fashion	6,054.8	8.0	6.9	1.3	0.8	7,641.9	75.3	15.6

Source: Bloomberg, West Bull Securities

Risk factors

- The consumption downgrade and polarization become more severe, slashing the demand for local mid-to-high-end brands
- Operating efficiency cannot be improved through a replacement of small stores
- The difficulties of brand building increase in the market downturn
- 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	6,825.3	7,324.7	7,958.0	PPE	661.5	680.4	689.7	685.8
YoY growth	22.1%	-1.3%	7.3%	8.6%	Others	2,818.7	2,751.0	2,723.7	2,780.4
COGS	(1,707.3)	(1,639.3)	(1,761.4)	(1,917.1)	Non-current assets	3,480.1	3,431.5	3,413.4	3,466.3
Gross profit	5,205.0	5,186.0	5,563.3	6,040.9	Inventories	1,152.5	1,312.0	1,255.2	1,215.7
Other income	237.1	128.6	116.2	141.6	Trade receivables	717.4	691.5	783.9	845.8
Operating expenses	(4,398.7)	(4,614.9)	(4,789.5)	(5,032.7)	Cash & cash equivalents	440.8	356.5	378.5	394.8
Operating profit	1,043.3	699.6	890.0	1,149.8	Others	1,238.9	1,113.7	1,606.2	2,143.1
Finance expenses	(48.7)	(54.5)	(57.7)	(53.3)	Current assets	3,549.7	3,473.6	4,023.8	4,599.4
JV & Ass.	-	-	-	-	Total assets	7,029.8	6,905.1	7,437.2	8,065.6
Profit before tax	994.6	645.2	832.2	1,096.5	LT borrowings	-	-	-	-
Tax	(162.0)	(108.4)	(158.1)	(208.3)	Others	479.1	466.6	468.6	472.6
Net profit	832.6	536.8	674.1	888.2	Non-current liabilities	479.1	466.6	468.6	472.6
YoY growth	121.8%	-35.5%	25.6%	31.8%	Trade payables	411.5	221.2	290.3	349.5
					ST borrowings	513.8	599.8	486.0	358.2
					Others	1,064.0	881.5	961.4	1,009.2
					Current liabilities	1,989.3	1,702.4	1,737.7	1,716.9
					Total liabilities	2,468.4	2,169.1	2,206.3	2,189.6
					Non-controlling interests	(15.5)	(7.6)	1.5	11.7
					Controlling interests	4,576.9	4,743.6	5,229.4	5,864.4
					Total equities	4,561.4	4,736.0	5,230.8	5,876.0

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	645.2	832.2	1,096.5	Gross margin	75.3%	76.0%	76.0%	75.9%
Finance expenses	48.7	54.5	57.7	53.3	Operating margin	15.1%	10.3%	12.2%	14.4%
Finance income	(2.7)	(3.3)	(2.7)	(2.9)	Net profit margin	12.0%	7.9%	9.2%	11.2%
D&A	133.0	165.0	181.0	189.2	Adj. EBITDA profit margin	15.3%	11.5%	13.6%	15.5%
Others	605.8	471.7	702.4	602.3	Return on Equity	19.5%	11.5%	13.5%	16.0%
Change in working capital	(210.2)	(280.0)	37.5	8.6	Return on Asset	12.5%	7.7%	9.4%	11.5%
CFO	1,569.2	1,052.9	1,808.2	1,947.1	Current ratio	178.4%	204.0%	231.6%	267.9%
					Quick ratio	110.0%	113.2%	144.6%	180.0%
CAPEX	(165.6)	(183.9)	(190.2)	(185.4)	Cash ratio	22.2%	20.9%	21.8%	23.0%
Others	(363.8)	204.9	(420.8)	(495.4)	Debt-to-Equity ratio	11.3%	12.7%	9.3%	6.1%
CFI	(529.4)	21.0	(611.1)	(680.7)	Net Debt-to-Equity ratio	1.6%	5.1%	2.1%	-0.6%
					Inventory turnover days	232.6	274.4	266.0	235.2
Shares issuance	-	-	-	-	Receivable turnover days	31.4	37.7	36.8	37.4
Net borrowings	83.4	86.0	(113.8)	(127.8)	Payable turnover days	93.6	70.4	53.0	60.9
Interest paid	(13.9)	(17.3)	(21.0)	(16.8)					
Dividend paid	(248.8)	(448.2)	(270.6)	(340.3)					
Others	(781.2)	(778.6)	(769.7)	(765.2)					
CFF	(960.5)	(1,158.2)	(1,175.1)	(1,250.0)					
FCFE	1,468.7	932.7	1,478.2	1,542.2					
FCFF	1,397.0	860.7	1,609.0	1,683.5					

Source: Company data, West Bull Securities

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