

3 Feb, 2025

EEKA Fashion | 03709.HK

Boosting sales is the number one priority

STOCK RATING

BUY

TARGET PRICE

HK\$ 11.88

EEKA Fashion (03709.HK) announced a profit warning, the Group is expected to record a <5% YoY decrease and a <45% YoY decline in the revenue and net profit respectively for the year ended Dec 2024.

The retreat in the financial performance was higher than our estimates, implying that the Group faced a stronger headwind in 2024 2H. According to the announcement, the setback was caused by a series of factors, including a decline in product sales, an increase in marketing expenses and investments in advertising and store upgrades, intelligence collection, customer research, and product development.

Strong headwind in 2024 2H: The market in 2024 2H remained stagnant, and the retail sales of garments in China recorded a slight retreat due to the high base in the same period of 2023. Additionally, the sales in the 2024 2H were especially disappointing because of the abnormally warm weather, resulting in a slashed demand for winter clothes with higher prices. On the other hand, the retail sales of department stores in China plunged 2.4% YoY, which was the dragger among all sales channels. As the department store is one of the most important sales channels of the primary brand, Koradior, which contributes more than 1/3 of total sales, Koradior was, thus, one of the draggers in FY 2024.

A dilemma in marketing: EEKA Fashion (03709.HK) reiterated its "affordable luxury" positioning, and it continued to invest in marketing regardless of the short-term setbacks faced. Thus, it increased marketing expenses, which was one of the factors leading to a plunge in net profit. There may be slight adjustments in the promotional activities to contain the marketing expenses, but there may not be a significant change in the business direction in the short term, the Group will continue to develop the brands and boost sales. It is, thus, foreseeable that the marketing expenses will remain at 3% - 4% of total revenue.

Other factors leading to a drop in profit: The Group announced an increase in the staff salary in 2024, and there were also expenses related to the share award scheme, resulting in more than RMB 100mn increase in the operating cost, according to our estimations. However, there will unlikely be an increase in salary and an aggressive share award scheme in the coming year.

Boosting sales is the number one priority: It is positive to hear that the Group made progress in inventory management, stock clearance may not be a key issue to the Group in FY 2025. Additionally, the dividend payout may maintain the status quo and there may not be projects requiring further investment. However, there is limited room to improve the gross margin which level was historically high, and the Group will maintain an aggressive marketing strategy. Boosting sales will, therefore, be the priority of the Group. Based on the latest estimations, we cut the TP to HKD 11.88 per share.

COMPANY UPDATE

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EEKA Fashion (03709.HK)

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

Target Price (Previous TP) **HK\$ 11.88** (HK\$ 12.42)

 Current Price **HK\$ 8.61**

 52-Week Range **HK\$ 7.92 – HK\$ 14.04**

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

RMB, mn	23(A)	24(E)	25(E)	26(E)
Revenue	6,912.3	6,606.9	7,209.7	7,958.0
Gross Profit	5,205.0	5,015.3	5,475.1	6,040.9
Gross Margin	75.3%	75.9%	75.9%	75.9%
Net Profit	832.6	485.2	552.9	705.3
EPS	1.237	0.695	0.792	1.012

Performance	1 mth	3 mth	6 mth	1 year
Absolute	0.1%	1.9%	-3.8%	-35.7%
Relative to HSI	-0.4%	3.8%	-22.5%	-62.3%



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	494.6	5.8	-	0.7	1.6	262.6	50.0	12.8
00483.HK	Bauhaus	79.4	-	-	0.5	0.4	193.0	74.2	(2.9)
00592.HK	Bossini	352.2	-	-	2.2	0.6	604.2	50.5	(76.2)
00709.HK	Giordano	2,488.9	8.9	9.1	1.2	0.6	3,873.0	58.4	12.7
00738.HK	Le Saunda	190.6	-	-	0.3	0.5	440.2	62.5	(8.0)
01234.HK	China Lilang	4,789.9	8.3	-	1.1	1.2	3,917.8	48.2	13.6
01749.HK	Shanshan	124.1	3.4	-	0.5	0.1	1,171.9	37.5	13.7
02030.HK	Cabbeen	902.6	34.1	-	0.6	0.8	1,314.1	43.0	1.9
03306.HK	JNBY	8,580.1	9.2	-	3.7	1.5	5,670.0	66.3	40.9
03998.HK	Bosideng	43,493.0	11.5	-	2.9	1.5	25,340.7	59.6	25.9
	<i>Average</i>	<i>6,149.5</i>	<i>11.6</i>	<i>9.1</i>	<i>1.4</i>	<i>0.9</i>	<i>4,278.8</i>	<i>55.0</i>	<i>3.4</i>
03709.HK	EEKA Fashion	6,061.9	8.1	8.8	1.3	0.8	7,641.9	75.3	15.6

Source: Bloomberg, West Bull Securities

Risk factors

- The consumption downgrade slashes the demand for local mid-to-high-end brands
- Operating efficiency cannot be improved through a replacement of small stores
- The gloomy market limits the effectiveness of marketing
- Unable to maintain the dividend payout ratio

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	6,606.9	7,209.7	7,958.0	PPE	661.5	680.4	689.7	685.8
YoY growth	22.1%	-4.4%	9.1%	10.4%	Others	2,818.7	2,749.0	2,723.2	2,780.4
COGS	(1,707.3)	(1,591.6)	(1,734.6)	(1,917.1)	Non-current assets	3,480.1	3,429.5	3,412.9	3,466.3
Gross profit	5,205.0	5,015.3	5,475.1	6,040.9	Inventories	1,152.5	972.6	1,040.4	1,164.4
Other income	237.1	128.6	126.3	137.4	Trade receivables	717.4	646.4	805.8	823.9
Operating expenses	(4,398.7)	(4,548.0)	(4,861.3)	(5,254.8)	Cash & cash equivalents	440.8	491.9	536.4	582.5
Operating profit	1,043.3	595.9	740.2	923.5	Others	1,238.9	1,269.5	1,512.7	1,736.6
Finance expenses	(48.7)	(54.5)	(57.5)	(52.8)	Current assets	3,549.7	3,380.5	3,895.3	4,307.4
JV & Ass.	-	-	-	-	Total assets	7,029.8	6,809.9	7,308.2	7,773.7
Profit before tax	994.6	541.4	682.6	870.7	LT borrowings	-	-	-	-
Tax	(162.0)	(56.2)	(129.7)	(165.4)	Others	479.1	436.0	432.8	431.2
Net profit	832.6	485.2	552.9	705.3	Non-current liabilities	479.1	436.0	432.8	431.2
YoY growth	121.8%	-41.7%	14.0%	27.5%	Trade payables	411.5	202.7	300.9	338.8
					ST borrowings	513.8	593.8	473.2	342.7
					Others	1,064.0	888.6	1,008.3	1,039.2
					Current liabilities	1,989.3	1,685.1	1,782.4	1,720.8
					Total liabilities	2,468.4	2,121.2	2,215.2	2,152.0
					Non-controlling interests	(15.5)	(8.4)	(0.2)	9.0
					Controlling interests	4,576.9	4,697.2	5,093.2	5,612.7
					Total equities	4,561.4	4,688.8	5,093.0	5,621.7

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	541.4	682.6	870.7	Gross margin	75.3%	75.9%	75.9%	75.9%
Finance expenses	48.7	54.5	57.5	52.8	Operating margin	15.1%	9.0%	10.3%	11.6%
Finance income	(2.7)	(3.3)	(3.7)	(4.1)	Net profit margin	12.0%	7.3%	7.7%	8.9%
D&A	133.0	165.0	181.0	189.2	Adj. EBITDA profit margin	15.3%	10.3%	11.6%	12.7%
Others	605.8	867.3	601.7	491.9	Return on Equity	19.5%	10.5%	11.3%	13.2%
Change in working capital	(210.2)	260.4	11.8	21.2	Return on Asset	12.5%	7.0%	7.8%	9.4%
CFO	1,569.2	1,364.3	1,531.1	1,621.8	Current ratio	178.4%	200.6%	218.5%	250.3%
					Quick ratio	110.0%	129.9%	145.4%	166.0%
CAPEX	(165.6)	(183.9)	(190.2)	(185.4)	Cash ratio	22.2%	29.2%	30.1%	33.9%
Others	(363.8)	34.9	(140.7)	(199.6)	Debt-to-Equity ratio	11.3%	12.7%	9.3%	6.1%
CFI	(529.4)	(149.0)	(330.9)	(384.9)	Net Debt-to-Equity ratio	1.6%	2.2%	-1.2%	-4.3%
					Inventory turnover days	232.6	243.7	211.8	209.9
Shares issuance	-	-	-	-	Receivable turnover days	31.4	37.7	36.8	37.4
Net borrowings	83.4	80.0	(120.6)	(130.5)	Payable turnover days	93.6	70.4	53.0	60.9
Interest paid	(13.9)	(17.3)	(20.8)	(16.3)					
Dividend paid	(248.8)	(448.2)	(244.7)	(278.8)					
Others	(781.2)	(778.6)	(769.7)	(765.2)					
CFF	(960.5)	(1,164.1)	(1,155.7)	(1,190.7)					
FCFE	1,468.7	1,238.2	1,194.4	1,214.7					
FCFF	1,397.0	1,173.2	1,331.9	1,358.3					

Source: Company data, West Bull Securities

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