

3 Apr, 2025

## EEKA Fashion | 03709.HK

Recovery may take additional time

STOCK RATING

**BUY**

TARGET PRICE

**HK\$ 11.46**

EEKA Fashion (03709.HK) reported a YoY 4.7% decline in revenue to RMB 6,588.5mn. This decline, coupled with increased operating expenses, particularly in marketing, resulted in a significant drop in net income to RMB 468.5mn, reflecting a YoY decrease of 43.1%. The Group announced a dividend of HKD 0.38 per share, maintaining a payout ratio of approximately 50%.

**A sharp increase in marketing expenses:** Promotional expenses rose sharply to RMB 262.6mn, representing about 4.0% of total revenue. This increase was primarily driven by ambitious sales targets for 2024, and the promotional expenditures may be moderated in the current year due to a more conservative approach. However, brand recognition remains critical to the Group and is a key driver of sales in retail stores located in shopping malls, so the reduction in promotional expenses may not be substantial.

**Completion of channel adjustment:** The Group has focused on adjusting its sales channels over the past few years. This strategy involved replacing smaller stores with larger ones, resulting in an expanded total sales area but a net decrease in the overall number of stores. This shift has improved the efficiency of individual stores. Completion of this adjustment is imminent, and we may see a slight rebound in the total number of stores. Although department stores continue to be a significant revenue source, the Group will increasingly focus on retail stores in shopping malls with better potential.

**Booming inventory level:** Inventory levels increased dramatically from RMB 1.1bn to RMB 1.6bn, leading to an extended inventory turnover period of over 320 days. Sluggish sales, exacerbated by a milder winter, have contributed to this inventory buildup, predominantly consisting of finished goods. Although seasonless fashion items increased and the total number of SKC decreased from 6,365 to 5,894, the rise in inventory levels has adversely impacted cash flow, resulting in a decline in cash and financial assets. Therefore, stock clearance becomes essential to the Group, and it may slightly compress profit margins.

**Recovery may take additional time:** The path ahead remains challenging, as stock clearance is likely to continue as a major hurdle in 2025. The implementation of branding strategies and the conclusion of channel adjustments may further constrain margin amelioration. We emphasize that enhancing sales will be crucial for the Group to manage excess inventory and support brand-building initiatives. Recovery may take additional time, therefore, we cut the TP to HKD 11.46 per share to account for recent performance softness and the heightened uncertainties anticipated in the coming years.

## COMPANY UPDATE

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### EEKA Fashion (03709.HK)

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

**Target Price** (Previous TP) **HK\$ 11.46** (HK\$ 11.88)

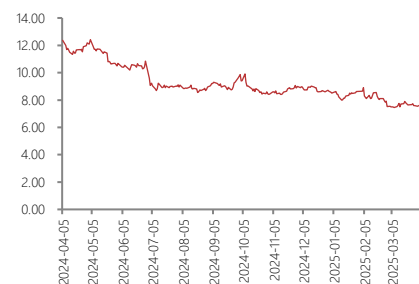
 Current Price **HK\$ 7.62**

 52-Week Range **HK\$ 7.33 – HK\$ 12.72**

 Market cap. (HKD, bn) **HK\$ 5.4**

RMB, mn	24(A)	25(E)	26(E)	27(E)
Revenue	6,588.5	7,052.7	7,319.8	7,555.9
Gross Profit	5,035.6	5,344.9	5,551.1	5,734.0
Gross Margin	76.4%	75.8%	75.8%	75.9%
Net Profit	474.1	519.7	564.8	629.5
EPS	0.683	0.744	0.808	0.900

Performance	1 mth	3 mth	6 mth	1 year
Absolute	1.2%	-11.2%	-22.8%	-39.5%
Relative to HSI	0.1%	-29.4%	-26.2%	-76.6%



## 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	662.8	6.3	-	0.9	2.1	322.3	50.5	14.9
00483.HK	Bauhaus	63.6	-	-	0.4	0.3	193.0	74.2	(2.9)
00709.HK	Giordano	2,375.8	11.0	10.5	1.2	0.6	3,919.0	57.0	10.3
00738.HK	Le Saunda	208.2	-	-	0.4	0.6	440.2	62.5	(8.0)
01234.HK	China Lilang	4,526.5	9.2	-	1.1	1.2	3,955.8	47.7	11.5
01749.HK	Shanshan	148.1	4.2	-	0.5	0.1	1,091.0	37.7	12.5
02030.HK	Cabbeen	902.6	30.7	-	0.6	0.8	1,121.7	44.7	2.1
03306.HK	JNBY	7,687.9	8.1	-	3.0	1.3	5,670.0	66.3	37.4
03998.HK	Bosideng	47,345.0	12.7	-	3.2	1.7	25,340.7	59.6	25.9
	<i>Average</i>	<i>7,102.3</i>	<i>11.7</i>	<i>10.5</i>	<i>1.2</i>	<i>1.0</i>	<i>4,672.6</i>	<i>55.6</i>	<i>11.5</i>
03709.HK	EEKA Fashion	5,364.9	10.4	7.3	1.1	0.7	7,140.5	76.4	10.3

Source: Bloomberg, West Bull Securities

## Risk factors

- The profit margin is squeezed by the effort of stock clearance
- More CAPEX will be incurred due to the net increase in the number of retail stores
- Aggressive promotional expenses are incurred for brand-building
- The Chinese market remains gloomy

## Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)	(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)
<b>Revenue</b>	<b>6,588.5</b>	<b>7,052.7</b>	<b>7,319.8</b>	<b>7,555.9</b>	PPE	576.1	619.2	622.6	621.5
<i>YoY growth</i>	-4.7%	7.0%	3.8%	3.2%	Others	2,911.5	2,857.3	2,869.6	2,876.9
COGS	(1,553.0)	(1,707.8)	(1,768.7)	(1,821.8)	<b>Non-current assets</b>	<b>3,487.6</b>	<b>3,476.5</b>	<b>3,492.2</b>	<b>3,498.4</b>
<b>Gross profit</b>	<b>5,035.6</b>	<b>5,344.9</b>	<b>5,551.1</b>	<b>5,734.0</b>	Inventories	1,572.3	1,272.0	1,372.9	1,577.2
Other income	163.0	104.8	117.1	125.1	Trade receivables	715.2	821.4	876.7	1,028.2
Operating expenses	(4,580.5)	(4,774.3)	(4,909.4)	(5,021.6)	Cash & cash equivalents	363.9	333.7	315.0	178.8
<b>Operating profit</b>	<b>618.0</b>	<b>675.4</b>	<b>758.8</b>	<b>837.6</b>	Others	720.3	1,244.7	1,498.7	1,752.5
Finance expenses	(55.5)	(64.0)	(61.5)	(60.5)	<b>Current assets</b>	<b>3,371.7</b>	<b>3,671.9</b>	<b>4,063.3</b>	<b>4,536.6</b>
JV & Ass.	-	-	-	-	<b>Total assets</b>	<b>6,859.3</b>	<b>7,148.3</b>	<b>7,555.5</b>	<b>8,035.0</b>
<b>Profit before tax</b>	<b>562.5</b>	<b>611.4</b>	<b>697.3</b>	<b>777.1</b>	LT borrowings	-	-	-	-
Tax	(88.4)	(91.7)	(132.5)	(147.7)	Others	586.4	638.4	655.2	665.0
<b>Net profit</b>	<b>474.1</b>	<b>519.7</b>	<b>564.8</b>	<b>629.5</b>	<b>Non-current liabilities</b>	<b>586.4</b>	<b>638.4</b>	<b>655.2</b>	<b>665.0</b>
<i>YoY growth</i>	-43.1%	9.6%	8.7%	11.5%	Trade payables	306.4	244.5	295.8	327.8
					ST borrowings	524.1	402.6	342.2	291.5
					Others	943.4	1,011.3	1,002.9	1,037.5
					<b>Current liabilities</b>	<b>1,773.9</b>	<b>1,658.3</b>	<b>1,640.9</b>	<b>1,656.7</b>
					<b>Total liabilities</b>	<b>2,360.2</b>	<b>2,296.7</b>	<b>2,296.1</b>	<b>2,321.7</b>
					Non-controlling interests	(9.9)	(0.2)	10.8	22.8
					Controlling interests	4,509.0	4,851.8	5,248.7	5,690.5
					<b>Total equities</b>	<b>4,499.1</b>	<b>4,851.6</b>	<b>5,259.4</b>	<b>5,713.3</b>

Cash Flow					Financial Ratio				
(RMB, mn)	2024 (A)	2025 (E)	2026 (E)	2027 (E)		2024 (A)	2025 (E)	2026 (E)	2027 (E)
Profit before tax	562.5	611.4	697.3	777.1	Gross margin	76.4%	75.8%	75.8%	75.9%
Finance expenses	55.5	64.0	61.5	60.5	Operating margin	9.4%	9.6%	10.4%	11.1%
Finance income	(4.2)	(3.5)	(3.2)	(3.0)	Net profit margin	7.2%	7.4%	7.7%	8.3%
D&A	161.4	178.4	188.1	193.6	Adj. EBITDA profit margin	10.5%	11.3%	12.0%	12.6%
Others	364.8	1,255.2	827.9	719.5	Return on Equity	10.5%	11.1%	11.2%	11.5%
Change in working capital	(143.8)	(210.0)	(43.7)	(109.8)	Return on Asset	6.8%	7.4%	7.7%	8.1%
<b>CFO</b>	<b>996.2</b>	<b>1,895.6</b>	<b>1,727.9</b>	<b>1,637.9</b>	Current ratio	190.1%	221.4%	247.6%	273.8%
					Quick ratio	90.6%	124.5%	143.3%	157.9%
CAPEX	(181.1)	(197.7)	(191.5)	(192.4)	Cash ratio	20.5%	20.1%	19.2%	10.8%
Others	579.3	(363.4)	(220.2)	(212.0)	Debt-to-Equity ratio	11.6%	8.3%	6.5%	5.1%
<b>CFI</b>	<b>398.2</b>	<b>(561.1)</b>	<b>(411.7)</b>	<b>(404.4)</b>	Net Debt-to-Equity ratio	3.6%	1.4%	0.5%	2.0%
					Inventory turnover days	320.2	304.0	272.9	295.5
Shares issuance	-	-	-	-	Receivable turnover days	39.7	39.8	42.3	46.0
Net borrowings	10.3	(121.5)	(60.4)	(50.7)	Payable turnover days	84.4	58.9	55.7	62.5
Interest paid	(17.7)	(18.3)	(13.9)	(11.6)					
Dividend paid	(448.2)	(267.5)	(261.7)	(284.3)					
Others	(978.6)	(957.4)	(998.8)	(1,023.1)					
<b>CFF</b>	<b>(1,434.3)</b>	<b>(1,364.7)</b>	<b>(1,334.8)</b>	<b>(1,369.8)</b>					
<b>FCFE</b>	<b>802.7</b>	<b>1,553.1</b>	<b>1,457.0</b>	<b>1,378.1</b>					
<b>FCFF</b>	<b>807.3</b>	<b>1,690.2</b>	<b>1,528.7</b>	<b>1,438.3</b>					

Source: Company data, West Bull Securities

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