



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Robam Alert

Reuters 002508.SZ Bloomberg 002508 CS Exchange SHZ Ticker 002508

Date
26 October 2017

Forecast Change

Price at 26 Oct 2017 (CNY)	46.69
Price target - 12mth (CNY)	50.00
52-week range (CNY)	48.07 - 27.39
Shenzhen Index	2,118

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3Q17: looking beyond the short-term volatilities, investment case intact

Event: Robam hosted an earnings call on 2017-Oct-26 after reporting in-line 3Q17 earnings
3Q17 earnings call: investors' concerns likely addressed

We interacted with investors after the earnings release, key concerns by investors and our takes:

- **3Q17 revenue growth decelerated to 23% YoY (vs. 1H17 of 27%):** management attributed the deceleration to (1) e-commerce product price hike that impacted volume and (2) property market slowdown. Despite the slowdown, Robam management is confident in a rather sustainable 25-30% YoY revenue growth in 2018. We believe the 2018 growth target is achievable (DBe 28% YoY). We see signs suggesting Robam fares better than our expectation amid tier-1-city property slowdown: we estimate that Robam delivered a high-single digit ppt YoY sales growth in tier 1 cities in 3Q17, vs. over 10% decline in property transaction. The resilience is driven by (1) new embedded kitchen appliances and (2) market share gain via decorated houses, in our view.
- **Gross margin declined by 5ppt YoY in 3Q17:** Robam management attribute this to wage hikes and accounting changes (Robam started in 4Q16 to deduct part of its marketing-related OPEX directly from sales). We note Robam's 3Q17 EBIT margin expanded by 50bps YoY. More importantly, our channel checks continue to suggest a healthy pricing environment for Robam and Fotile (private). We thus have confidence in a mild gross margin uptrend for Robam in the next 3 years.
- **3Q17 operating cashflow declined:** according to management, the shortfall in operating cash flow YoY can be explained by (1) change in payment terms by one of Robam's major e-commerce platforms (explaining 2/3 of the shortfall) and (2) higher raw material stock taken amid hiking raw material prices.

Positive investment case intact

We like Robam for (1) healthy industry pricing environment, (2) Robam's ability to penetrate into lower tier cities and (3) new embedded products driving growth. On these three fronts Robam have been sustainably delivering. We will continue to monitor the volatilities in gross margin and cash flow but remain comfortable with Robam's investment case.

We fine-tuned our model by slightly raising 2019 and 2020 forecast while increase target price by c. 14%, all reflecting more resilient growth.

Key changes

TP	44.52 to 50.00	↑	12.3%
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Source: Deutsche Bank

Stock data

Market cap (USDm)	5,132
Avg daily value traded (USDm)	39.259

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	5,727	7,155	9,073
Net Profit (CNYm)	1,206.8	1,556.9	2,012.8
DB EPS (CNY)	1.27	1.64	2.12
PER (x)	20.8	28.5	22.0
Yield (net) (%)	1.4	1.0	1.4

Source: Deutsche Bank

Valuation:

Our primary valuation methodology is DCF. As most of Robam's business comes from China, we use a 9.5% China COE, provided by Deutsche Bank's economics team. We use a beta of 1 and a long-term growth rate of 1.5%, in line with our 1.0-2.0% sector assumption for the other consumer stocks that we cover.

Downside risks:

Volatility of the property market, hiking of raw material prices, new entrants and a price war would damage players' profitability. Company risks include failure to maintain its leading position and inability to continuously launch new products.

Deutsche Bank AG/Hong Kong

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