



Rating
Buy

Asia
China

Consumer
Retail / Wholesale Trade

Company
Robam Alert

Reuters 002508.SZ Bloomberg 002508 CS Exchange SHZ Ticker 002508

Date
27 February 2018

Results

Price at 26 Feb 2018 (CNY)	50.21
Price target - 12mth (CNY)	50.00
52-week range (CNY)	54.40 - 32.04
Shenzhen Index	1,898

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Weakness is more kitchen appliances-specific

Event: Robam reported preliminary 4Q17 earnings and hosted an earnings call on 2018-Feb-26 after market close

Conclusions: Robam's weakness is more driven by the kitchen appliances industry dynamics, we remain positive on Qingdao Haier (600690.SS, Buy, CNY20.66) and Midea (000333.SZ, Buy, CNY57.7)

4Q17 miss likely specific to kitchen appliances industry

- 4Q17 revenue missed DBE by 7%, **mainly due to a sharp deceleration in e-commerce growth**. This is driven by (1) kitchen appliances' significant sensitivity toward property demand and (2) Midea and Qingdao Haier's growing promotion on their kitchen appliances products, based on our channel checks (*Single's Day 2017: implications on demand and competition, dated 2017 Nov 16*).
- 4Q17 earnings missed DBE by 18% on a c.6ppt miss on gross margin, which Robam attributed to (1) raw material costs and (2) reduced business mix from higher margin e-commerce business.
- Guidance cut:** management now expect CAGR of over 20% for both revenue and profit in the next 3-5 years (vs. previously a 30% CAGR for revenue and 40% for profit).
- Off-line delivered resilient growth in 4Q17, especially driven by tier 3 & 4 cities, which is a bright spot:** this is in-line with our recent findings (*4Q17 channel observations: washing machine and refrigerator upsides, dated 2018 Jan 2*).

Reiterate our top buys in the space: Qingdao Haier and Midea

- Midea's e-commerce sales were much stronger than kitchen appliances players during Singles' Day:** during our Singles' Day channel check, we learned that both Midea's air conditioner and small appliances e-commerce sales grew significantly YoY.
- Midea's off-line air conditioner sales boosted by restocking and market share gain**
- Qingdao Haier's washing machine and refrigerator growth accelerated in 4Q17.** We note that washing machine and refrigerators are two of the least sensitive home appliances sectors toward the property cycles.

Stock data

Market cap (CNYm)	36,656
Market cap (USDm)	5,811
Avg daily value traded (USDm)	41.922

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	30.6	23.7
Yield (net) (%)	1.4	1.0	1.3

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

Deutsche Bank AG/Hong Kong

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