



Rating
Hold

Asia
China

Consumer
Retail / Wholesale Trade

Company
Robam

Reuters 002508.SZ Bloomberg 002508 CS Exchange SHZ Ticker 002508

Date
24 August 2018

Forecast Change

Price at 23 Aug 2018 (CNY)	22.98
Price target - 12mth (CNY)	25.00
52-week range (CNY)	54.40 - 22.98
Shenzhen Index	1,530

2Q18 review: Demand weakness is likely industry-wide, cut TP to RMB25

Event: Robam hosted an earnings call on 2018 Aug 23 after 2Q18 result release
Conclusions: (1) 2Q18 earnings miss, (2) management further cut long-term revenue growth guidance from 20% to 10-15%, (3) Robam and Little Swan's deceleration likely hint significant deterioration in home appliances retail environment. We cut our earnings forecasts by 3-11% between FY18-20 and reiterate a cautious view on the sector.

The print: slowest sales growth since at least 2010, operating profit missed DB by 17%

Robam's 2Q18 revenue came in at RMB1,905mn, up 4% YoY. DB operating profit at RMB371mn, declined by 3% YoY. The disappointment was equally driven by (1) weak demand for rangehood and cooking hob (1H18 sales YoY decelerated to 6% vs. 12% in 2H17) and (2) gross margin pressure (down 1.7 ppt YoY), on top of a slight operating deleverage. Channel-wise, the weakness was likely driven by a sharp deceleration in exclusive stores (to 5-10% YoY in 1H18 vs. over 15% in 2H17).

Robam's struggle may reflect an industry trend

- Robam and Little Swan's sharp declaration points to challenging retail environment:** similar to Robam, [Little Swan \(a major washing machine brand and among the first home appliances companies to report 2Q18 results\) also reported significant sales growth declaration in 2Q18](#). Both companies claim their reported revenue is a close reflection of end-demand (vs. air conditioner brands' wholesale revenue that tend to lag distributors' actual conditions). We thus believe the actual retail environment for home appliances in China could have deteriorated much more significantly in 2Q18 vs. market's general belief.
- Robam's guidance cut points to even weaker outlook:** during the 2Q18 call, Robam management guided for a 10-15% sales growth YoY in the coming years. This marks another cut to long-term guidance (note Robam had previously cut its sales growth guidance to "over 20% YoY" from "30% YoY" in February 2018 during the 4Q17 earnings call). We expect Robam to face more difficulties in penetrating into lower tier cities, as [pricing discipline likely deteriorated sharply after Vatti's distributor bankruptcy](#).

Valuation & Risks

John Chou
Research Analyst
+852-2203 6196

Anne Ling
Research Analyst
+852-2203 6177

Key changes

TP	32.00 to 25.00	↓	-21.9%
Sales (FYE)	8,080 to 7,714	↓	-4.5%
Op prof margin (FYE)	21.5 to 21.8	↑	1.3%
Net profit (FYE)	1,669.0 to 1,613.9	↓	-3.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-18.2	-36.3	-41.2
Shenzhen Index	-8.6	-20.3	-23.1

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	28.4
Net debt/equity (%)	-60.6
Book value/share (CNY)	6.42
Price/book (x)	3.6
Net interest cover (x)	-
Operating profit margin (%)	21.8

Source: Deutsche Bank

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Revisions, valuation and risks

We cut our 2018/19/20E forecasted earnings by 3%/7%/11%, respectively. This is mainly to model reduced long-term revenue growth guidance. Note that our cut for 2020 is heavier than that in 2018 as we forecast a milder growth trajectory driven by aforementioned difficulties to penetrate the lower tier cities.

Our forecasts are lower than consensus as we anticipate more pressure for Robam's distributors to branch into lower tier cities.

Figure 1: Earnings revisions

	2018E			2019E			2020E		
	New	Old	diff.	New	Old	diff.	New	Old	diff.
Revenue	7,714	8,080	-5%	8,479	9,226	-8%	9,300	10,868	-14%
Gross Profit	4,080	4,266	-4%	4,447	4,816	-8%	4,859	5,620	-14%
Op. Income	1,681	1,737	-3%	1,861	2,076	-10%	2,134	2,458	-13%
Recur. Net Income	1,624	1,667	-3%	1,798	1,940	-7%	2,038	2,281	-11%
Recur. EPS (RMB)	1.71	1.76	-3%	1.89	2.04	-7%	2.15	2.40	-11%
Gross Margin (%)	52.9%	52.8%	0.1%	52.4%	52.2%	0.2%	52.2%	51.7%	0.5%
Op. Margin (%)	21.8%	21.5%	0.3%	21.9%	22.5%	-0.6%	22.9%	22.6%	0.3%
Recur. Net Margin (%)	21.1%	20.6%	0.4%	21.2%	21.0%	0.2%	21.9%	21.0%	0.9%

Source: Deutsche Bank estimates, company data

Figure 3: DBE vs. Bloomberg Finance LP consensus: we remain more cautious than the latest consensus forecasts

	2018E			2019E			2020E		
	DBE	Consensus	diff.	DBE	Consensus	diff.	DBE	Consensus	diff.
Revenue	7,714	7,797	-1%	8,479	8,839	-4%	9,300	9,645	-4%
Gross Profit	4,080	4,094	0%	4,447	4,626	-4%	4,859	5,072	-4%
Op. Income	1,681	1,807	-7%	1,861	2,064	-10%	2,134	2,313	-8%
Net Income	1,614	1,635	-1%	1,798	1,888	-5%	2,038	2,110	-3%
EPS (RMB)	1.70	1.73	-2%	1.89	2.00	-5%	2.15	2.22	-3%
Gross Margin (%)	52.9%	53.7%	-0.8%	52.4%	53.8%	-1.4%	52.2%	54.1%	-1.8%
Op. Margin (%)	21.8%	23.2%	-1.4%	21.9%	23.4%	-1.4%	22.9%	24.0%	-1.0%
Net Margin (%)	20.9%	21.0%	0.0%	21.2%	21.4%	-0.2%	21.9%	21.9%	0.0%

Source: Deutsche Bank estimates, Bloomberg Finance LP consensus

We cut our DCF-based target price to RMB25, the 22% cut is driven by (1) earnings cut (contributed to 11% decrease in value) and (2) reduced revenue growth in our DCF model following Robam's another guidance cut (contributed to 11% decrease in value). Our revised target price implies 13x of 2019 recurring EPS, or 1 year mean minus two standard deviations.

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%, in line with our 1.0-2.0% sector assumption for the other consumer stocks that we cover.

Downside risks include 1) volatility in the property market; 2) increase in raw material prices; 3) new entrants and a price war would damage players' profitability. Company risks include failure to maintain its leading position and

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inability to continuously launch new products. Upside risks: 1) less disruptions from industry distribution system; 2) faster expansion into lower tier cities.

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Model updated: 24 August 2018

Running the numbers

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Reuters: 002508.SZ Bloomberg: 002508 CS

Hold

Price (23 Aug 18) CNY 22.98

Target Price CNY 25.00

52 Week range CNY 22.98 - 54.40

Market cap (m) CNYm 21,809
USDm 3,174.9

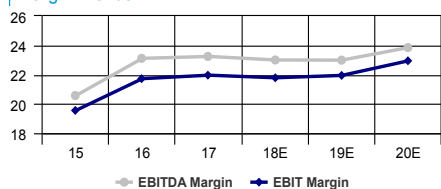
Company Profile

Hangzhou Robam Appliances is principally engaged in the research, development, production and distribution of kitchen appliances.

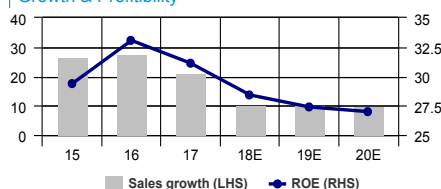
Price Performance



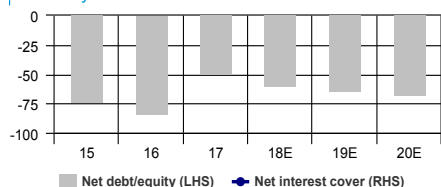
Margin Trends



Growth & Profitability



Solvency



John Chou

+852 2203 6196

john.chou@db.com

Fiscal year end 31-Dec 2015 2016 2017 2018E 2019E 2020E

Financial Summary

DB EPS (CNY)	1.15	1.28	1.54	1.71	1.89	2.15
Reported EPS (CNY)	1.15	1.28	1.54	1.70	1.89	2.15
DPS (CNY)	0.40	0.39	0.75	0.83	0.92	1.05
BVPS (CNY)	6.5	5.7	5.5	6.4	7.4	8.5
Weighted average shares (m)	722	943	949	949	949	949
Average market cap (CNYm)	12,998	24,931	38,428	21,809	21,809	21,809
Enterprise value (CNYm)	10,671	21,479	35,839	18,107	17,272	16,344

Valuation Metrics

P/E (DB) (x)	15.6	20.6	26.3	13.4	12.1	10.7
P/E (Reported) (x)	15.7	20.7	26.3	13.5	12.1	10.7
P/BV (x)	3.46	4.96	8.68	3.58	3.10	2.70
FCF Yield (%)	6.5	5.4	2.9	8.6	7.7	8.7
Dividend Yield (%)	2.2	1.5	1.9	3.6	4.0	4.6
EV/Sales (x)	2.3	3.7	5.1	2.3	2.0	1.8
EV/EBITDA (x)	11.4	16.0	22.0	10.2	8.9	7.4
EV/EBIT (x)	12.0	17.1	23.3	10.8	9.3	7.7

Income Statement (CNYm)

Sales revenue	4,543	5,795	7,017	7,714	8,479	9,300
Gross profit	2,643	3,321	3,767	4,080	4,447	4,859
EBITDA	935	1,339	1,631	1,774	1,949	2,218
Depreciation	46	80	90	94	88	84
Amortisation	0	0	0	0	0	0
EBIT	888	1,259	1,541	1,681	1,861	2,134
Net interest income/(expense)	66	79	92	96	100	105
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	14	67	56	100	129	131
Profit before tax	969	1,404	1,690	1,877	2,090	2,370
Income tax expense	141	197	231	263	293	332
Minorities	-3	0	-3	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	830	1,207	1,461	1,614	1,798	2,038
DB adjustments (including dilution)	2	2	2	10	0	0
DB Net profit	833	1,208	1,463	1,624	1,798	2,038

Cash Flow (CNYm)

Cash flow from operations	1,124	1,545	1,256	2,056	1,858	2,079
Net Capex	-278	-196	-146	-177	-170	-186
Free cash flow	846	1,350	1,110	1,878	1,688	1,893
Equity raised/(bought back)	61	14	0	0	0	0
Dividends paid	-162	-292	-365	-786	-877	-995
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-27	50	-1,621	20	24	30
Net cash flow	718	1,121	-876	1,112	835	928
Change in working capital	234	244	-296	-42	-88	-87

Balance Sheet (CNYm)

Cash and other liquid assets	2,323	3,448	2,582	3,694	4,529	5,457
Tangible fixed assets	968	949	996	962	939	920
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	1	4	4	4	4
Other assets	1,735	2,017	4,345	4,645	5,001	5,312
Total assets	5,027	6,415	7,927	9,306	10,473	11,693
Interest bearing debt	0	0	0	0	0	0
Other liabilities	1,860	2,290	2,669	3,212	3,450	3,618
Total liabilities	1,860	2,290	2,669	3,212	3,450	3,618
Shareholders' equity	3,170	4,129	5,261	6,097	7,026	8,078
Minorities	-3	-3	-3	-3	-3	-3
Total shareholders' equity	3,166	4,125	5,257	6,094	7,022	8,075
Net debt	-2,323	-3,448	-2,582	-3,694	-4,529	-5,457

Key Company Metrics

Sales growth (%)	26.6	27.6	21.1	9.9	9.9	9.7
DB EPS growth (%)	-5.2	11.2	20.3	11.0	10.7	13.4
EBITDA Margin (%)	20.6	23.1	23.2	23.0	23.0	23.8
EBIT Margin (%)	19.6	21.7	22.0	21.8	21.9	22.9
Payout ratio (%)	35.2	30.2	48.7	48.8	48.8	48.8
ROE (%)	29.4	33.1	31.1	28.4	27.4	27.0
Capex/sales (%)	6.1	3.4	2.1	2.3	2.0	2.0
Capex/depreciation (x)	6.0	2.5	1.6	1.9	1.9	2.2
Net debt/equity (%)	-73.4	-83.6	-49.1	-60.6	-64.5	-67.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Robam	002508.SZ	22.98 (CNY) 23 Aug 2018	NA

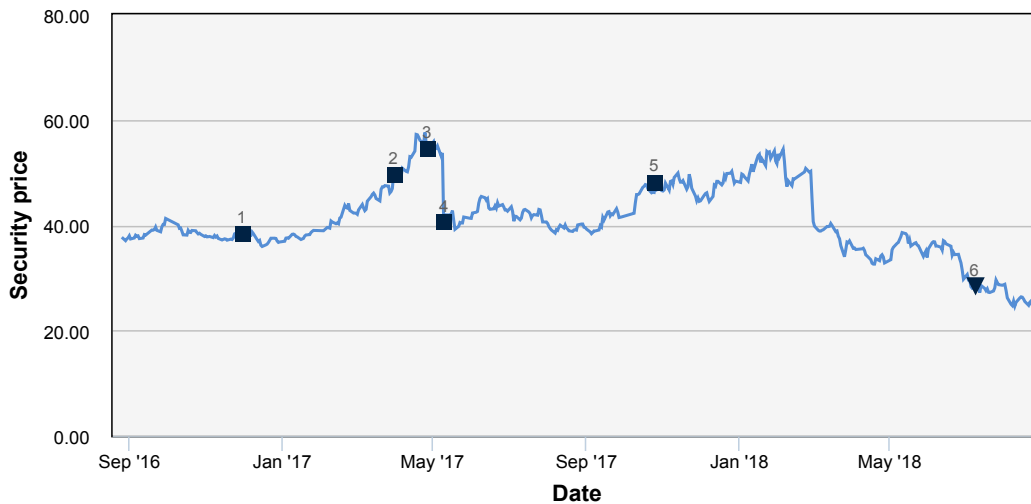
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Historical recommendations and target price. Robam (002508.SZ)

(as of 08/23/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/01/2016	Buy, Target Price Change CNY 46.00 Richard Rui-Huang**	4.	05/11/2017	Buy, Target Price Change CNY 44.52 Anne Ling
2.	04/01/2017	Buy, Target Price Change CNY 52.54 Anne Ling	5.	10/26/2017	Buy, Target Price Change CNY 50.00 John Chou
3.	04/28/2017	Buy, Target Price Change CNY 57.88 Anne Ling	6.	07/09/2018	Downgraded to Hold, Target Price Change CNY 32.00 John Chou

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Equity Rating Key

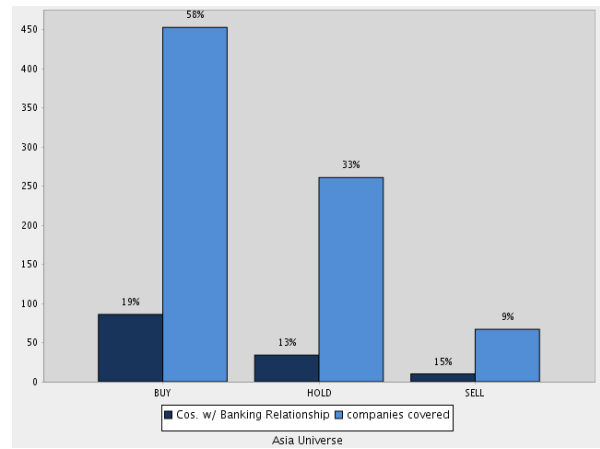
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



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David Folkerts-Landau

Group Chief Economist and Global Head of Research

Pam Finelli
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

Anthony Klarman
Global Head of
Debt Research

Kinner Lakhani
Head of EMEA
Equity Research

Dave Clark
Head of APAC
Equity Research

Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
and QIS Research

International Production Locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500