



Rating
Buy

Asia
China

Industrials
Manufacturing

Company
Estun Automation

Reuters 002747.SZ Bloomberg 002747 CH Exchange SHZ Ticker 002747

Date
17 September 2018

Company Update

Price at 17 Sep 2018 (CNY)	10.56
Price target - 12mth (CNY)	18.00
52-week range (CNY)	16.35 - 8.91
HANG SENG INDEX	27,286

Stock overly corrected

The stock fell another 5% today. From the highs of RMB16.4 in July 24, Estun's share price has dropped 36% (vs. -18% for SSE SME Composites). The correction today was largely attributable to the robots output data for August released yesterday (+9% YoY vs. +19% for 8M18) while the pullback in last two months was mainly driven by rising concern on manufacturing capex prospects, which was dimmed by a soft economic outlook and rising (or potential rise) in employee and environment related burdens for corporates.

We don't fully disagree with the above. But from a fundamental perspective, we do believe that Estun's share price has overly reacted.

Market growth ≠ company's growth

More than 50% of industrial robots in China were adopted in two verticals ie. auto and electronics. These two verticals have witnessed substantial slowdown since 2Q, which probably explained the sluggish robot sales in the last several months.

However, Estun's exposure on these two verticals is quite minimal indeed (less than 10%). In addition, in current economic conditions, local brands seem to be gaining favor over MNCs' due to their cheaper pricing (30-40% lower), which has led to acceleration of import substitution. Lastly, Estun's total robot output, though doubling this year, only reaches 5,000 units this year, or 3.5% market share. All said, we expect Estun's robot sales to substantially differ from market trends. Similarly, we expect its servo, post Trio's integration, to significantly outgrow the market.

China's automation demand is likely to be secular

While short-term demand volatility is possible, we think China's automation demand, driven by the government's strong determination on manufacturing upgrades and demographic changes, will feature secular growth trends in years to come. In light of rising labor costs and falling worker force, automation appears to be only way out for manufacturers if they want stay competitive in terms of product quality and productivity. Indeed, given the falling prices for most automation products, the payback period has greatly shortened in recent years (eg in some cases less than one year). This means, that going forward, the demand for automation might increasingly decouple from economic conditions.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-14.3	-12.5	-29.5
HANG SENG INDEX	0.3	-10.0	-1.9

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	9.9
Net debt/equity (%)	24.8
Book value/share (CNY)	1.95
Price/book (x)	5.4
Net interest cover (x)	11.6
Operating profit margin (%)	12.6

Source: Deutsche Bank

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Forward P/E now at 35x, largely the lowest all time long

Taking into account the higher earnings growth and scarcity value, we think current valuation looks rather attractive. The small market cap plus hot sector also means that this company should enjoy higher valuations multiples down the road. We reiterate buy, with target price of RMB18.

Forecasts and ratios					
Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	678.3	1,076.5	1,680.7	2,439.2	3,437.4
EBITDA (CNYm)	104.1	159.5	253.3	391.7	583.6
Reported NPAT (CNYm)	68.6	93.1	156.8	254.4	395.0
Reported EPS FD(CNY)	0.08	0.11	0.19	0.30	0.47
DB EPS FD(CNY)	0.08	0.11	0.19	0.30	0.47
DB EPS growth (%)	–	34.3	68.1	62.2	55.2
PER (x)	122.1	106.9	56.5	34.8	22.4
EV/EBITDA (x)	78.8	63.9	36.4	23.9	16.2
DPS (net) (CNY)	0.20	0.07	0.11	0.18	0.28
Yield (net) (%)	2.0	0.6	1.1	1.7	2.7

Source: Deutsche Bank estimates, company data

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Estun Automation	002747.SZ	10.56 (CNY) 17 Sep 2018	NA

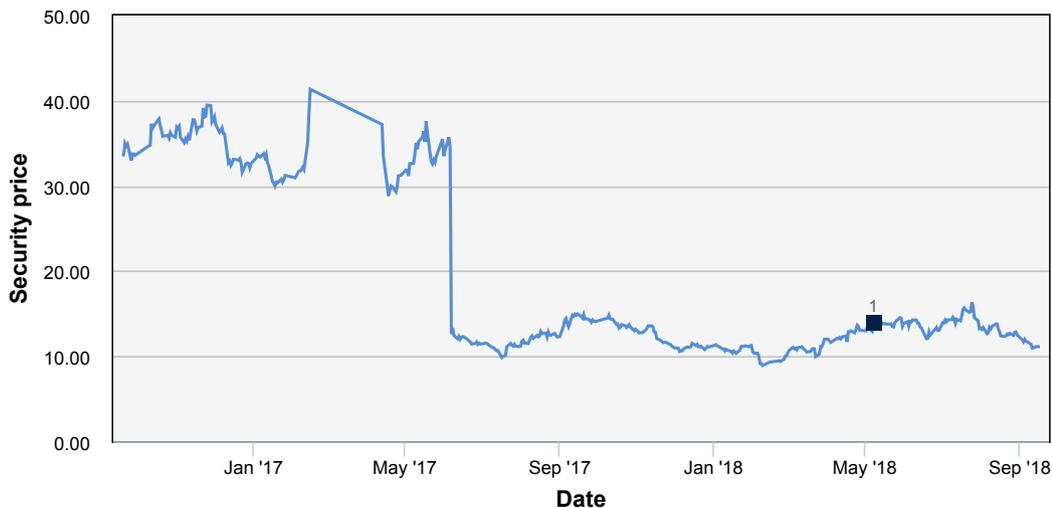
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Historical recommendations and target price. Estun Automation (002747.SZ)

(as of 09/17/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1. 05/09/2018 Buy, Target Price Change CNY 18.00 Sky Hong, CFA

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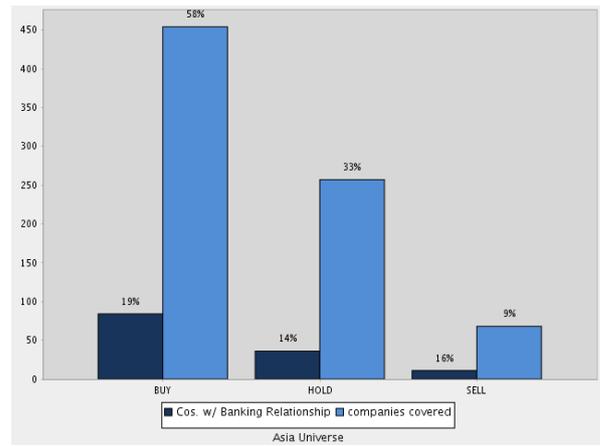
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