

Carote Ltd (2549 HK)

Still subject to numerous macro risks

FY24 net profit was inline but sales was under pressure. For FY25E, even though management has maintained the sales growth target of 30%+, we are still rather cautious on both sales growth and GP margin, given the macro headwinds. As a result, we are now forecasting a 7% net profit drop in FY25E and 5% net profit growth in FY26E, and maintain BUY due to its market share gain story in the long run.

■ **Carote is still targeting 30%+ sales growth in FY25E but the guideline for margins will be announced later.** The management is still confident on achieving its 30%+ sales growth target in FY25E (which is impressive, because this is a target that they have already factored in the macro uncertainties (e.g. the tariffs and potential slowdown in economic growth). For the US market, the Company is now targeting 20%+ growth on Amazon platforms and 50%+ offline channel sales growth (boosted by store counts expansion from around 1,300 in FY24 to 3,000 in FY25E and the penetration into top 3 supermarkets). Management is also considering launching a new brand to differentiate from its core brand Carote, where new products with different price ranges will be sold in different channels. For the China market, the Company is now targeting positive growth, supported by resumption of sales in JD (on top of core market Tmall/ Taobao and rapid growing Douyin) and introduction of more SKUs (will expand to other gears and items for kitchen and even restaurants). For the Western Europe market, Carote is expecting 30%+ sales growth. Growth rate was disrupted in 4Q24, perhaps due to the restructuring (used to be operated by an external team but now an in-house team was built). Management believes the market and the potential is massive over there and will develop the online and offline channels at the same time. For Japan market, the management still expects 30%+ sales growth, while the offline growth may be faster at 50%+ in FY25E. But anyhow, it is not an easy task to re-accelerate the growth in 2Q25E and onwards given the potential retail price hike in the US, and therefore, to err on the side of caution, we will only forecast 23% sales growth in FY25E (cut from our previous estimates of 35%).

■ **Margin-wise, we have to be cautious.** Due to the macro uncertainties (such as the 20% import tariffs on Chinese goods and the 25% global tariffs on all aluminum and steel products), management will provide guidance on its profitability later in the year after their discussion with business partners in the US (continue in the next page).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	1,583	2,073	2,560	3,037	3,405
YoY growth (%)	106.0	31.0	23.5	18.6	12.1
Operating profit (RMB mn)	271.2	398.4	366.5	377.9	425.3
Net profit (RMB mn)	236.5	356.0	332.5	349.5	396.5
EPS (Reported) (RMB)	0.43	0.64	0.60	0.63	0.71
YoY growth (%)	118.0	50.1	(6.6)	5.1	13.4
P/E (x)	12.1	8.1	8.6	8.2	7.3
P/B (x)	12.9	2.4	2.0	1.7	1.4
Yield (%)	3.5	2.5	2.3	2.4	2.8
ROE (%)	131.3	50.9	25.4	22.1	21.1
Net gearing (%)	143.7	101.6	107.7	111.5	111.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$6.44**
(Previous TP) HK\$8.97
Up/Downside **16.0%**
Current Price **HK\$5.55**

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	3,080.3
Avg 3 mths t/o (HK\$ mn)	6.3
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	555.0

Source: FactSet

Shareholding Structure

Yili Investment & Carote CM	72.4%
Cornerstone Investors (MPC VII & YSC Go)	9.8%

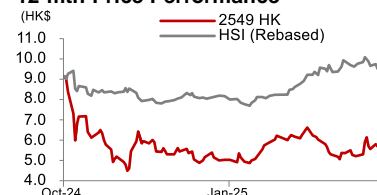
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.7%	2.5%
3-mth	11.0%	-4.8%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

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(10 Nov 25)

- But we still need to have a reasonable estimates and we are now expecting the GP margin of the US market to fall from about 45% in FY24E (CMBI est.) to 36%/ 33% in FY25E/ 26E (CMBI est.), based on: 1) the effective months should be at around 8 months in FY25E (some non-taxed inventory will be sold in 3Q25E) and 12 months in FY26E and onwards, 2) the effective import tariffs on Carote may be as low as 35% (as the tariffs for aluminum and steel products should be taxed based on the % of relevant content), 3) the assumption that Carote could pass on about 15% tariffs by adjusting and boosting the efficiency of supply chain (hence only 20% is needed for digestion), and 4) the assumption that about 1% increase in tariff will result in 0.55% drag on US market's GP margin. All in all, we are now forecasting a 35.2%/ 33.6% GP margin in FY25E/ 26E for the entire company.
- **Sales trend in 1Q25E remained subdued.** Management has highlighted the sales growth in 1Q25E was rather flattish. While we do have expectations because of the slowdown since 4Q24, this rate is still below our forecasts. Hence, we are revising down our numbers. Such a performance was a mixture of high base in 1Q24 (recorded 72% YoY growth at that time) and 2) lack of new product launches and also the inventory of the hot-selling items. Moreover, sales growth in China in 1Q25E is still under pressure, according to our channel check.
- **FY24 net profit exceeded expectations but sales missed.** Carote sales grew by 31% YoY to RMB 2.1Bn in FY24, missing CMBI est. by 14% (the market may have some expectation), mostly due to the sluggish sales growth in 4Q24 (sales dropped in China and slowdown in the US). But the net profit has surged by 50% YoY to RMB 356mn in FY24, 3% above CMBI est., mainly supported by the way better-than-expected GP margin (at 40% vs CMBI est. of 36.5%), likely driven by the ASP hike in 2H24. Inventory days increased to 39 days in FY24, from just 27 days last year, but this is understandable as the overseas sales mix rocketed. However, the dividend payout ratio was at about 20%, which is at par with the Company's guideline but a little bit lower than investors' expectation.
- **Maintain BUY with TP of HK\$ 6.44, just because of our long-term positive view of the Company's comparative advantages on its peers.** Regarding the macro headwinds, most of Carote's peers will face the same problems as the majority of other brand's products are also produced from China. Therefore, because of Carote's comparative advantages (lower price point, cheaper product costs, better designs, etc.), it should still be able to outperform in the long run. We maintain BUY but revise down the TP to HK\$ 6.44, based on 10x FY25E P/E. We also revise down the net profit forecasts in FY25E/ 26E by 28%/ 36%, in order to factor in the slower sales growth and weaker GP margin. The stock is now trading at 8.6x FY25E P/E.

Earnings forecasts

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,560	3,037	3,405	3,242	3,910	4,376	-21.0%	-22.3%	-22.2%
Gross profit	901	1,021	1,154	1,168	1,408	1,580	-22.9%	-27.5%	-26.9%
EBIT	401	421	478	557	658	741	-28.0%	-36.0%	-35.5%
Net profit att.	333	350	397	463	547	616	-28.2%	-36.2%	-35.6%
Diluted EPS (RMB)	0.599	0.630	0.714	0.834	0.986	1.110	-28.2%	-36.2%	-35.6%
Gross margin	35.2%	33.6%	33.9%	36.0%	36.0%	36.1%	-0.8ppt	-2.4ppt	-2.2ppt
EBIT margin	15.7%	13.9%	14.0%	17.2%	16.8%	16.9%	-1.5ppt	-3ppt	-2.9ppt
Net profit att. margin	13.0%	11.5%	11.6%	14.3%	14.0%	14.1%	-1.3ppt	-2.5ppt	-2.4ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,560	3,037	3,405	2,983	3,719	4,376	-14.2%	-18.3%	-22.2%
Gross profit	901	1,021	1,154	1,122	1,399	1,580	-19.7%	-27.0%	-26.9%
EBIT	401	421	478	488	584	677	-17.8%	-27.8%	-29.4%
Net profit att.	333	350	397	474	589	650	-29.8%	-40.7%	-39.0%
Diluted EPS (RMB)	0.599	0.630	0.714	0.833	1.013	1.110	-28.1%	-37.9%	-35.6%
Gross margin	35.2%	33.6%	33.9%	37.6%	37.6%	36.1%	-2.4ppt	-4ppt	-2.2ppt
EBIT margin	15.7%	13.9%	14.0%	16.3%	15.7%	15.5%	-0.7ppt	-1.8ppt	-1.4ppt
Net profit att. margin	13.0%	11.5%	11.6%	15.9%	15.8%	14.9%	-2.9ppt	-4.3ppt	-3.2ppt

Source: Bloomberg, CMBIGM estimates

Results Summary

Figure 3: Results review – full year

Half yearly / Full yearly (RMB mn)	FY23	FY24	FY25E	FY24 YoY	FY25E YoY	FY24E CMBIG M	Actual vs CMBI
Revenue	1,583	2,073	2,560	31%	23%	2,402	-14%
COGS	-1,018	-1,238	-1,659			-1,526	
Gross profit	565	835	901	48%	8%	876	-5%
GP margins	35.7%	40.3%	35.2%			36.5%	
Other income & gains	19	42	51			29	46%
Selling expenses	-245	-376	-479	53%	27%	-389	-3%
Selling expenses / sales	-15.5%	-18.1%	-18.7%			-16.2%	
Admin expenses	-32	-62	-59	97%	-6%	-68	-8%
Admin expenses / sales	-2.0%	-3.0%	-2.3%			-2.8%	
R & D expenses	-36	-41	-51	15%	23%	-47	-12%
R & D expenses / sales	-2.3%	-2.0%	-2.0%			-2.0%	
Other opex	0	-0	3	-159%	-1690%	2	-107%
Other opex / sales	0.0%	0.0%	0.3%			0.3%	
Operating profit (EBIT)	271	398	367	47%	-8%	404	-1%
OP margins	17.1%	19.2%	14.3%			16.8%	
Other items	0	0	0			0	
Net finance income	7	19	34			15	24%
Net finance income / sales	0.5%	0.9%	1.3%			0.6%	
Profit after financing costs	278	417	401			419	
Associated coms	0	0	0			0	
Jointly controlled coms	0	0	0			0	
Pre-tax profit	278	417	401	50%	-4%	419	0%
Tax	-42	-61	-68			-71	
Tax / sales	-2.6%	-3.0%	-2.7%			-3.0%	
Effective tax rate	-15.0%	-14.7%	-17.0%			-17.0%	
Minority interests	-1	-0	-0			-1	
Net profit att.	237	356	333	50%	-7%	349	2%
NP margins	15.0%	17.2%	13.0%			14.5%	

Source: Bloomberg, Company data, CMBIGM estimates

Assumptions

Figure 4: Major assumptions

Major assumptions	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales by brand (RMB mn)						
Branded business - Mainland China	274	323	300	295	323	355
Branded business - Overseas	257	1,057	1,561	2,052	2,501	2,848
ODM business	238	203	213	213	213	202
Total	768	1,583	2,073	2,560	3,037	3,405
Sales growth by brand segment						
Branded business - Mainland China	67.4%	18.0%	-7.2%	-1.4%	9.6%	9.6%
Branded business - Overseas	114.5%	311.0%	47.7%	31.5%	21.9%	13.9%
ODM business	-39.3%	-14.6%	4.7%	0.0%	0.0%	-5.0%
Total	13.8%	106.0%	31.0%	23.5%	18.6%	12.1%
Branded sales growth by platform						
Amazon	155%	315%	46%	23%	17%	11%
Tmall	71%	38%	-5%	0%	10%	10%
Walmart	n/a	2453%	80%	50%	30%	20%
Others*	54%	16%	-7%	27%	21%	8%
Total	87%	160%	35%	26%	20%	13%
Branded sales growth by region						
Mainland China	67%	18%	-7%	-1%	10%	10%
United States	162%	506%	69%	32%	21%	14%
Western Europe	157%	550%	8%	39%	28%	16%
Japan	487%	135%	13%	36%	33%	15%
Southeast Asia	2%	60%	-30%	13%	8%	5%
Others	156%	64%	-5%	24%	15%	7%
Total	87%	160%	35%	26%	20%	13%
GP margins	35.8%	35.7%	40.3%	35.2%	33.6%	33.9%
Opex breakdown						
Commission to e-commerce platforms	6.2%	10.6%	11.8%	12.2%	12.6%	12.7%
Marketing and advertising expenses	6.9%	4.3%	5.5%	5.4%	5.4%	5.4%
Depreciation of property, plant and equipment	0.2%	0.2%	0.4%	0.4%	0.4%	0.4%
Depreciation of right-of-use assets	0.3%	0.1%	0.3%	0.1%	0.1%	0.1%
Staff costs - Selling and admin expenses	1.8%	1.0%	1.0%	1.0%	0.9%	0.9%
Research and development expenses	2.7%	2.3%	2.0%	2.0%	2.0%	2.0%
OP margin	16.2%	17.1%	19.2%	14.3%	12.4%	12.5%
Effective tax rate	-14.2%	-15.0%	-14.7%	-17.0%	-17.0%	-17.0%
NP margin	14.2%	15.0%	17.2%	13.0%	11.5%	11.6%
NP growth (%)	242.9%	118.0%	50.1%	-6.6%	5.1%	13.4%

Source: Company data, CMBIGM estimates, *Others include Shopee, Lazada, Douyin, JD.com, Shopify, Rakuten, TikTok, etc.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	768	1,583	2,073	2,560	3,037	3,405
Cost of goods sold	(493)	(1,018)	(1,238)	(1,659)	(2,017)	(2,251)
Gross profit	275	565	835	901	1,021	1,154
Operating expenses	(150)	(313)	(479)	(586)	(698)	(790)
Selling expense	(109)	(245)	(376)	(479)	(578)	(656)
Admin expense	(21)	(32)	(62)	(59)	(63)	(70)
R&D expense	(19)	(33)	(37)	(46)	(55)	(61)
Staff costs	(2)	(3)	(4)	(5)	(6)	(7)
Other rental related expenses	0	0	0	0	0	0
Others	(0)	0	(0)	3	3	3
Operating profit	124	271	398	367	378	425
Other income	(1)	19	42	51	55	62
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	292	482	677	707	790	904
Depreciation	(168)	(210)	(278)	(340)	(412)	(479)
Other amortisation	0	0	0	0	0	0
Interest income	5	7	19	34	43	53
Interest expense	(3)	(0)	(0)	(0)	(0)	(0)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	126	278	417	401	421	478
Income tax	(18)	(42)	(61)	(68)	(72)	(81)
Minority interest	0	1	0	0	0	0
Net profit	108	236	356	333	349	396

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	295	531	1,539	1,991	2,468	2,897
Cash & equivalents	42	236	1,112	1,464	1,834	2,198
Account receivables	55	74	74	77	83	93
Inventories	42	108	119	182	249	277
Prepayment	27	24	31	39	46	52
ST bank deposits	79	89	89	89	89	89
Other current assets	50	0	114	141	167	187
Non-current assets	258	105	103	98	90	81
PP&E	115	11	9	4	(4)	(13)
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Other non-current assets	143	94	94	94	94	94
Total assets	553	636	1,642	2,090	2,559	2,977
Current liabilities	378	411	463	650	836	929
Short-term borrowings	19	5	5	5	5	5
Account payables	276	359	407	591	773	863
Tax payable	18	34	34	34	34	34
Other current liabilities	64	14	17	21	24	27
Non-current liabilities	38	2	2	2	2	2
Long-term borrowings	37	0	0	0	0	0
Other non-current liabilities	1	2	2	2	2	2
Total liabilities	416	413	465	653	838	931
Share capital	0	139	139	139	139	139
Retained earnings	91	328	512	778	1,058	1,375
Other reserves	47	(244)	526	520	524	533
Total shareholders equity	138	223	1,177	1,437	1,720	2,047
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)
Total equity and liabilities	553	636	1,642	2,090	2,559	2,977

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	126	278	417	401	421	478
Depreciation & amortization	0	0	0	13	17	20
Tax paid	(6)	(30)	(61)	(68)	(72)	(81)
Change in working capital	(11)	(2)	(80)	87	80	28
Others	19	(2)	8	0	0	0
Net cash from operations	129	244	284	432	446	444
Investing						
Capital expenditure	(117)	(6)	(6)	(8)	(9)	(10)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(67)	54	0	0	0	0
Net cash from investing	(184)	48	(6)	(8)	(9)	(10)
Financing						
Dividend paid	0	(50)	(100)	(72)	(67)	(70)
Net borrowings	16	(14)	0	0	0	0
Proceeds from share issues	6	1	698	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(22)	(35)	(0)	(0)	(0)	(0)
Net cash from financing	1	(98)	598	(72)	(67)	(70)
Net change in cash						
Cash at the beginning of the year	98	42	236	1,112	1,464	1,834
Exchange difference	(1)	(0)	0	0	0	0
Others	(55)	194	876	352	371	364
Cash at the end of the year	42	236	1,112	1,464	1,834	2,198
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	13.8%	106.0%	31.0%	23.5%	18.6%	12.1%
Gross profit	117.6%	105.3%	47.8%	7.9%	13.3%	13.1%
Operating profit	279.7%	118.4%	46.9%	(8.0%)	3.1%	12.5%
EBITDA	67.6%	64.7%	40.5%	4.5%	11.8%	14.4%
Net profit	242.7%	118.0%	50.5%	(6.6%)	5.1%	13.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	35.8%	35.7%	40.3%	35.2%	33.6%	33.9%
Operating margin	16.2%	17.1%	19.2%	14.3%	12.4%	12.5%
EBITDA margin	38.0%	30.4%	32.6%	27.6%	26.0%	26.6%
Return on equity (ROE)	104.2%	131.3%	50.9%	25.4%	22.1%	21.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.5	1.4	1.0	1.1	1.1	1.1
Current ratio (x)	0.8	1.3	3.3	3.1	3.0	3.1
Receivable turnover days	28.2	14.9	13.0	11.0	10.0	10.0
Inventory turnover days	26.9	27.0	35.0	40.0	45.0	45.0
Payable turnover days	206.6	113.8	120.0	130.0	140.0	140.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	26.4	12.1	8.1	8.6	8.2	7.3
P/E (diluted)	26.4	12.1	8.1	8.6	8.2	7.3
P/B	21.0	12.9	2.4	2.0	1.7	1.4
P/CFPS	22.4	11.8	10.1	6.7	6.4	6.5
Div yield (%)	1.7	3.5	2.5	2.3	2.4	2.8
EV	6,226.6	8,148.7	8,075.1	7,866.3	7,406.6	6,769.9
EV/Sales	8.1	5.1	3.9	3.1	2.4	2.0
EV/EBITDA	21.3	16.9	11.9	11.1	9.4	7.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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