

Carote Ltd (2549 HK)

Global quality & affordable kitchenware brand; initiate at BUY

- **Carote is a global kitchenware brand in the online marketplace.** It has a presence in around 19 countries/ regions (key markets include China, the US, etc.), selling its kitchenware in about 19 online marketplaces (Amazon, Walmart, Tmall, etc.). Thanks to the Company's nearly two decades of industry experience and consumer insights, and its focus on the online channel and the asset-light model (cooperation with contract manufacturers), it generated RMB 1.58bn sales/ RMB 237mn net profit in FY23 and managed to deliver an impressive CAGR of 53%/ 173% during FY21-23.
- **Better-than-peers product quality with a competitive price.** Carote is popular in the US online cookware industry with a meaningful market share of 13% in 2023, according to a China Insights Consultancy (CIC) report, thanks to its: 1) better-than-peers customer rating (esp. on versatility, easy-to-clean quality and scratch resistance), 2) more affordable prices, and 3) more flexible business model. Hence, it has won a number of awards issued by Amazon, Walmart, Tmall and Lazada, etc.
- **Rapid growth in China, faster overseas (with better margins).** Carote's growth is rapid in China as it is taking decent market share on Taobao and Tmall. It is growing at an even faster pace in the overseas market, which is evidenced by its climbing popularity on the Google trend search engine. Overseas expansion is favorable to margin improvement. The room for growth in Western Europe and Japan is still large.
- **Ample room for product category and channel expansion.** We do think Carote can grow by: 1) launching more products made of other raw materials like stainless steel and ceramics (as the number of SKUs is still small compared with other more mature brands), and 2) expanding to categories like kitchen utensils and drinkware products. Moreover, Carote may also increase its penetration into the offline channel.
- **We forecast a 35%/ 32% sales/ net profit CAGR during FY23-26E.** We believe the major growth drivers are: 1) rapid branded sales growth overseas, 2) fast sales growth from and expansion to other platforms like Walmart and TikTok. Margin-wise, we do expect GP margin to rise in FY24E before stabilizing in FY25E-26E, due to a mixture of greater sales from the higher-margin overseas business, consolidation of supply chain to further boost efficiency, rising freight rates, gradual drops in ASP plus a potential increase in tariffs. Also, as A&P expenses as % of sales continue to increase, we estimate the NP margin may just be stable at around 14% in FY24E-26E.
- **Initiate at BUY with TP of HK\$ 8.97, based on 10x FY25E P/E.** We apply a 10.0x FY25E P/E for Carote, at a 19% discount to China peers' average of 12.4x, based on a few negative factors like: 1) smaller size of business, 2) a shorter brand history and 3) the typical H vs A discount of 10% to 30%, but also a few positives, such as: 1) leadership in its own sub-sector, 2) its e-commerce business focus, 3) its relatively apparent consumer staples nature. The Company is currently trading at 6.7x/ 5.1x FY24E/ 25E P/E, rather attractive, in our view.
- **Key risks:** Sluggish economic growth, weak cooking demand, surge in import tariffs and trade embargos, price war, cost inflation, failure to innovate, etc.

BUY (Initiate)

Target Price HK\$8.97
Up/Downside 94.9%
Current Price HK\$4.60

China Consumer Discretionary

Walter WOO

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Stock Data

Mkt Cap (HK\$ mn)	2,553.0
Avg 3 mths t/o (HK\$ mn)	72.9
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%

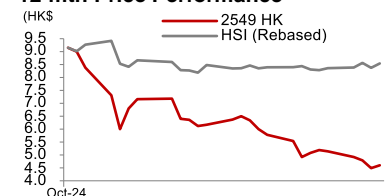
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-37.1%	-30.6%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	768	1,583	2,402	3,242	3,910
YoY growth (%)	13.8	106.0	51.7	35.0	20.6
Operating profit (RMB mn)	124.1	271.2	403.8	512.6	608.6
Net profit (RMB mn)	108.5	236.5	347.8	461.8	546.1
EPS (Reported) (RMB)	0.20	0.43	0.63	0.83	0.99
YoY growth (%)	242.9	118.0	47.0	32.8	18.3
P/E (x)	21.6	9.9	6.7	5.1	4.3
P/B (x)	17.1	10.6	2.0	1.5	1.2
Yield (%)	2.1	4.3	3.0	3.9	4.7
ROE (%)	104.2	131.3	50.0	33.8	30.5
Net gearing (%)	46.9	143.7	104.4	109.3	111.8

Source: Company data, Bloomberg, CMBIGM estimates

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Investment Thesis

■ Carote is a word-leading kitchenware brand in the online marketplace.

It has a presence in around 19 countries/ regions (key markets include China, the US, Germany, Italy, Japan, etc.), selling across about 19 online marketplaces (mainly on Amazon, Walmart, Tmall, etc.). Thanks to the Company's nearly two decades of industry experience and consumer insights, and its focus on the online channel and the asset-light model (cooperation with contract manufacturers), it generated RMB 1.58bn sales/ RMB 237mn net profit in FY23 and managed to deliver an impressive CAGR of 53%/ 173% during FY21-23.

■ Better-than-peers product quality with a competitive price.

Carote is popular in the US online cookware industry with a meaningful market share of 13% in 2023, according to the CIC report, thanks to its: 1) better-than-peers customer rating (esp. on versatility, easy-to-clean quality and scratch resistance), 2) more affordable prices and 3) more flexible business model. Hence, it has won a number of awards issued by Amazon, Walmart, Tmall and Lazada, etc.

■ Rapid growth in China, faster overseas (with better margins).

Carote's growth is rapid in China as it is taking decent market share on Taobao and Tmall (from 0.002% in Jan 2020 to 0.012% in Jun 2024, according to Moojing.com). It is growing at an even faster pace in the overseas market, which is evidenced by its climbing popularity on the Google trend search engine. The overseas expansion is favorable to margin improvement. The room for growth in Western Europe and Japan is still large.

■ Ample room for product category and channel expansion.

The Carote brand has a relatively short history and therefore its number of SKUs is still small compared with other more mature brands. As a result, we do think the Company can grow by: 1) launching more products made of other raw materials like stainless steel and ceramics, and 2) expanding to categories like kitchen utensils and drinkware products. Moreover, Carote can increase penetration into the offline channel.

■ The size of global cookware market in 2022 was at US\$ 29.9bn with a 5-year sales CAGR of 3.2% in 2022-27E.

According to the CIC report, in 2022, the global cookware market size was at US\$ 29.9bn with a 5-year sales CAGR of 3% during 2022-27E,. China's cookware market is the largest in the world, at US\$ 7.7bn, with a 5-year sales CAGR of 4% (online is faster at 8%), which is mainly made of sales of stir-fry pans and pots/ fry pans and pots/ pressure cookers etc.. The US cookware market is the third largest, at US\$ 5.1bn, with a 5-year sales CAGR of 2% (online is faster at 9%), which is mainly made of sales of cookware sets.

■ Still room for demand of non-stick cookware and cookware sets to further increase.

The non-stick cookware is not new to the market, but the penetration is still going up over time, thanks to demand-side reasons like: 1) increasing preference for healthier lifestyles, 2) aging population (older people tend to cook more often); and supply-side reasons like more innovations in the non-stick surface, as well as the overall designs and functions. In addition, cookware sets are becoming more popular, because of: 1) higher preference for an all-in-one solution, 2) the matching aesthetics of customers and 3) higher price to quality (cost per piece will be lower for a bulk purchase).

■ People are buying more cookware from the online channel.

The penetration of cookware sales in the e-commerce channel is high in China, and sales in this channel are still growing faster than the offline channel. In oversea regions, the online penetration rate is low, and hence we are even more optimistic about the catch-up. Moreover, we believe rising popularity of many social media networks and their integration with e-commerce platforms should generate greater demand for cookware in the near future.

■ **We forecast a 35%/ 32% sales/ net profit CAGR during FY23-26E.**

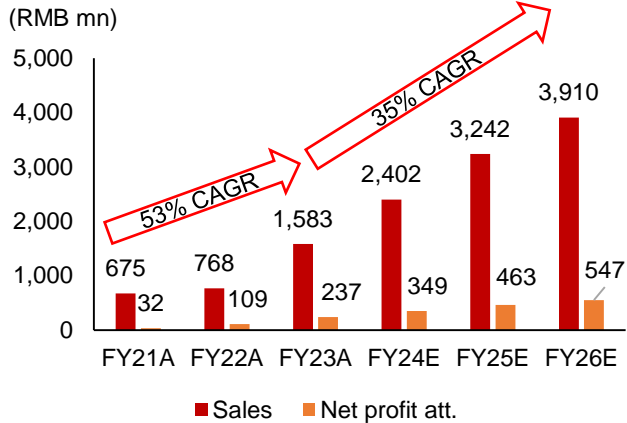
We believe the major growth drivers are: 1) rapid branded sales growth overseas (mainly in regions like the US, Western Europe and Japan), 2) fast sales growth from platforms like Amazon, Walmart, Tmall and even TikTok. Margin-wise, we do expect GP margin to go up in FY24E first before stabilizing in FY25E-26E, driven by positive factors like a rising sales contribution from the higher-margin overseas business, consolidation of the supply chain to further boost efficiency, and negative factors such as rising freight rates, gradual drops in ASP as well as the potential increase in tariffs. Also, as the advertising and promotion fees as % of sales continue to increase, we estimate the NP margin could only be stabilized at around 14% in FY24E-26E.

■ **We initiate coverage at BUY with TP of HK\$ 8.97, based on 10x FY25E P/E.**

We apply a 10.0x FY25E P/E for Carote, a 19% discount to China small appliances' peer average of 12.4x, based on a few negative factors like: 1) smaller size of business (sales to be at around RMB 2.4bn in FY24E vs industry's median of RMB 11.1bn), 2) a shorter brand history (and potentially lower brand equity) and 3) the typical H vs A discount of 10% to 30%, but also a few positives, such as: 1) leadership in its own sub-sector, 2) its e-commerce business focus (which usually implies greater competitiveness and faster growth), 3) much faster than-peers' 3-year sales CAGR (at around 35% during FY23-26E vs peers' average of 10%), 4) a higher-than-industry average net profit margin (at around 14%-15% in FY23-24E) and 5) its relatively apparent consumer staple nature. Note that based on the DCF method (12.2% WACC, 2% terminal growth), its valuation could be as high as HK\$ 10.95, which implies a 12.2x FY25E P/E, almost at par with its China small appliances' peer average of 12.4x. The Company is now trading at 6.7x/ 5.1x FY24E/ 25E P/E, rather attractive, in our view.

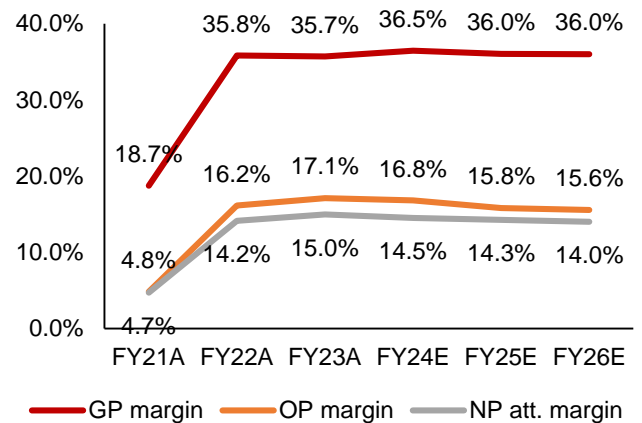
Focus Charts and Tables

Figure 1: Sales, NP att., adj. NP and CAGR



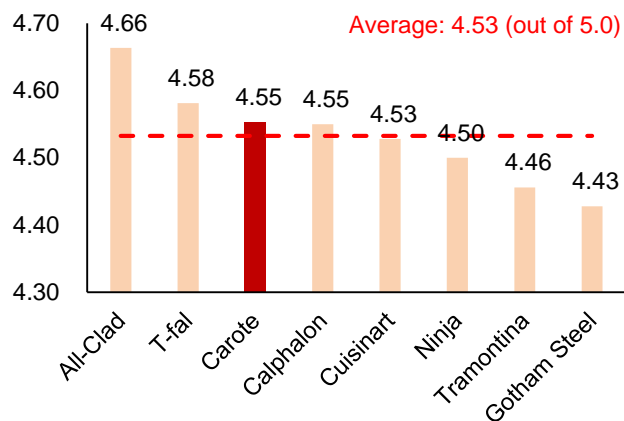
Source: Company data, CMBIGM estimates

Figure 2: GP, OP and NP att. margin



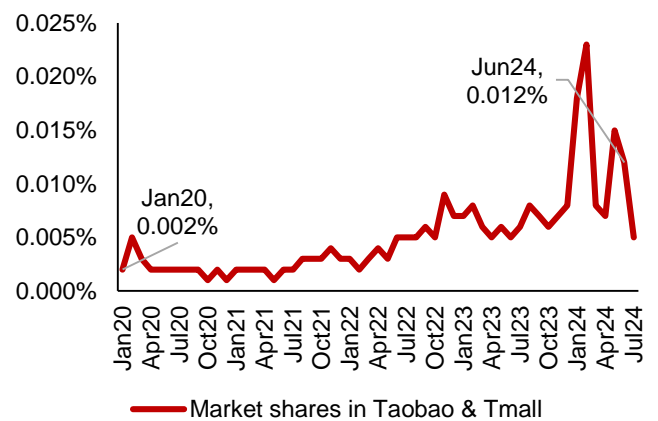
Source: Company data, CMBIGM estimates

Figure 3: Amazon's customer rating - cookware sets



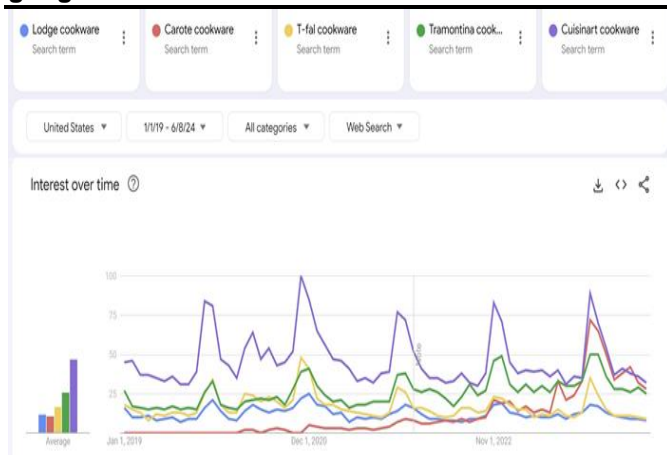
Source: www.amazon.com, CMBIGM estimates

Figure 4: Carote's market share (Taobao & Tmall)



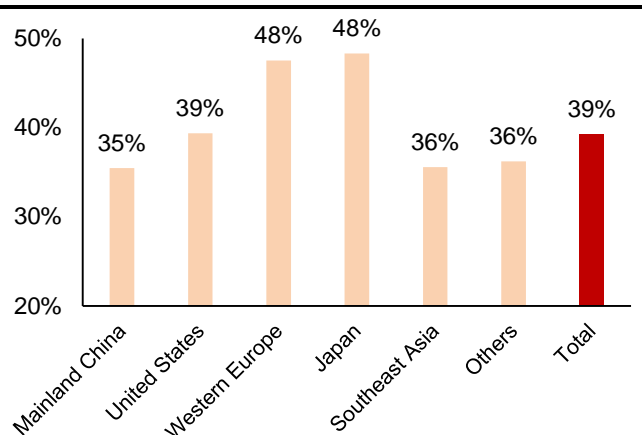
Source: www.moojing.com, CMBIGM estimates

Figure 5: Brand popularity based on the number of google trend data



Source: trends.google.com, CMBIGM estimates

Figure 6: Branded business's GP margin, by region, in FY23



Source: Company data, CMBIGM estimates

Company Background

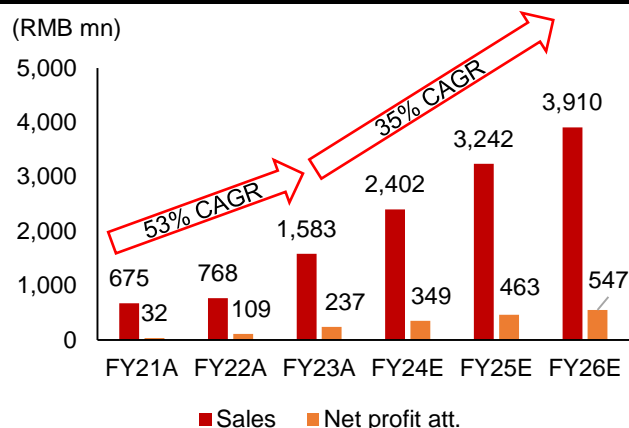
Carote is a global better-than-peers kitchenware brand in the online market.

It has a presence in around 19 countries/ regions (key markets includes China, the US, Germany, Italy, Japan, etc.) and selling across about 19 online marketplaces (mainly on Amazon, Walmart, Tmall, etc.).

The Group has started the kitchenware OEM business for overseas brands since 2007 with one of its major subsidiaries Zhejiang Carote. In 2013, it shifted focus to the ODM services. Soon after that, in 2016, the Group recognized the market demands and started to leverage more of its expertise and critical insight about consumers by launching its self-owned brand "CAROTE".

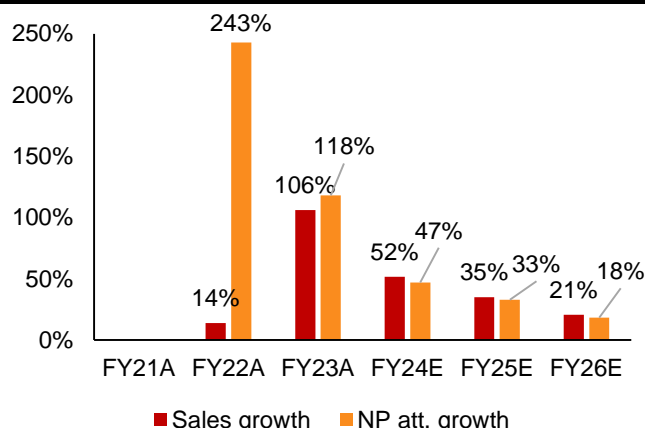
Thanks to the Company's nearly two decades of industry experience and consumer insights, as well as its focus on online channel and the asset-light model (cooperation with contract manufacturers), it generated RMB 1.58bn sales/ RMB 237mn net profit in FY23 and managed to deliver an impressive CAGR of 53%/ 173% during FY21-23.

Figure 7: Sales and net profit



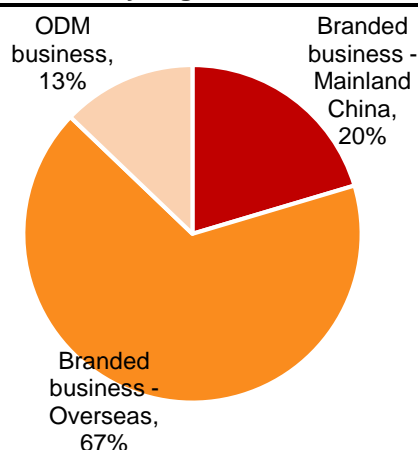
Source: Company data, CMBIGM estimates

Figure 8: Sales and net profit growth



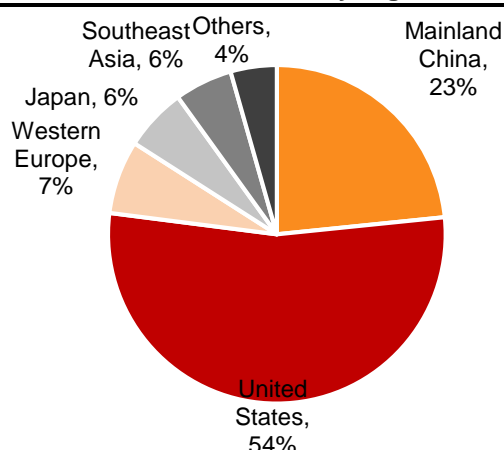
Source: Company data, CMBIGM estimates

Figure 9: Sales mix by segment, FY23

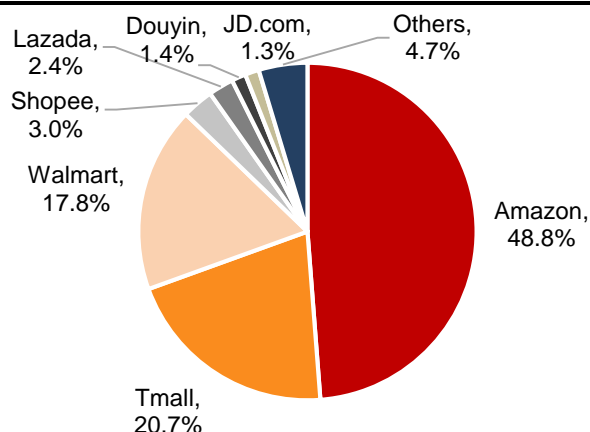


Source: Company data, CMBIGM estimates

Figure 10: Branded sales mix by region, FY23



Source: Company data, CMBIGM estimates

Figure 11: Branded sales mix by platform, FY23

Source: Company data, CMBIGM estimates

Figure 12: Branded sales mix by product, FY23

Source: Company data, CMBIGM estimates

As of 2023, it was ranked the 4th/ 5th/ 3th/ 2nd/ 3rd largest brand in China/ the US/ Western Europe/ Southeast Asia/ Japan in terms of retail sales value in the online channel.

Figure 13: Market share by brand in China, FY23

Ranking	Brand name	Retail sales value (USD mn)	Market share (%)
1	Supor/ 苏泊尔	316.3	7.9%
2	Kobach/ 康巴赫	115.0	2.9%
3	Cooker king/ 炊大皇	86.3	2.2%
4	Carote/ 卡罗特	46.4	1.2%
5	Joyoung/ 九阳	43.1	1.1%
Top 5		607.2	15.2%
Others		3,392.8	84.8%
Total		4,000.0	100.0%

Source: CIC report, CMBIGM estimates

Figure 14: Market share by brand in the US, FY23

Ranking	Brand name	Retail sales value (USD mn)	Market share (%)
1	Lodge	104.6	14.9%
2	CAROTE	91.6	13.1%
3	T-fal	41.9	6.0%
4	Tramontina	39.2	5.6%
5	Cuisinart	17.4	2.5%
Top 5		294.8	42.1%
Others		405.2	57.9%
Total		700.0	100.0%

Source: CIC report, CMBIGM estimates


Figure 15: Key milestones

Year	Key business milestones of Carote
2007	Established Zhejiang Carote, one of the major subsidiaries, to carry on the OEM business.
2013	Launched ODM business.
2016	Introduced the brand "CAROTE" and ventured into the online retail sector in China, including launching self-operated online store on Tmall.
2017	Commenced sales for the "CAROTE" brand business in North America through Amazon.
2018	Introduced "CAROTE" brand business into the Southeast Asia overseas markets through online sales channels.
2019	Expanded "CAROTE" brand business into Hong Kong SAR and Japan overseas markets.
2023	Commenced sales of "CAROTE" branded products in Western Europe.

Source: Company data, CMBIGM

The Carote brand is selling various kitchenware, including cookware (such as non-stick pots and pans, cast iron pots and curated cookware sets), kitchen utensils, drinkware and others. Its products are not only high-quality, functional with aesthetic appearance but are also cost-effective and affordable.

Figure 16: Example of products launched by Carote in recent years

Launch date	Nov 2016	Jul 2021	Jul 2021
Product series	Essential Woody	Cosy	Ice Cream
Image			
Price range (per set)	RMB 699–1,039 US\$ 59.99–89.99 EUR 89.99–129.99	RMB 168–208 US\$ 64.99–129.99 EUR 99.99–129.99 JPY 3,680–7,980	RMB 129–429 US\$ 79.99–149.99 EUR 89.99–129.99
Product features	<ul style="list-style-type: none"> Italian-inspired design Combination of colored granite stone in the coating and wood grain elements Emphasis on natural and organic concept Innovative and unconventional shape Durable and high-performance coating 	<ul style="list-style-type: none"> Authentic and classic Japanese design Original cylindrical handle for a unique touch Simplicity in design, bringing a sense of joy to everyday life Durable and high-performance coating 	<ul style="list-style-type: none"> Merging classic design of Essential Woody series with innovative updates Refined aesthetics of light-colored non-stick cookware Unmatched visual appeal of the cookware design Durable and high-performance coating
Major Markets	China, Western Europe, North America	China, Asia, Western Europe, North America	China, Asia, Western Europe, North America

Source: Company data, CMBIGM

Figure 17: Example of products launched by Carote in recent years

Launch date	Feb 2022	Oct 2022	Nov 2023
Product series	Eight Mile Place	Little Bean	Paris
Image			
Price range (per set)	RMB 139–289 US\$ 39.99–129.99 EUR 59.99–119.99 JPY 5,380–13,980	RMB 149–379	RMB 119–469 US\$ 99.99–119.99 EUR 99.99–129.99
Product features	<ul style="list-style-type: none"> Removable handles for convenient storage and space-saving kitchen organization Lightweight design for easy handling and maneuverability Sleek and modern appearance adds an elegant touch to any kitchen Durable and high-performance coating 	<ul style="list-style-type: none"> Thickened handle for a comfortable grip Visible tempered glass lid Multipurpose design: suitable as a soup pot and for oven cooking Increased and deepened capacity for easier stir-frying Durable and high-performance coating 	<ul style="list-style-type: none"> Ceramic-coated base with a full spray coating process One-piece pot body construction Elevated pot design to prevent boil-overs Lightweight and easy to handle with one hand Durable and high-performance coating
Major Markets	China, Asia, Western Europe, North America	China	China, Asia, Western Europe, North America

Source: Company data, CMBIGM

Company's key positives and growth drivers





















1) Better-than-peers product quality with a competitive price

Carote is rather popular in the US online cookware industry with meaningful market share of 13%, according to the CIC report, thanks to its: 1) better-than-peers customer rating, 2) more affordable prices and 3) more flexible business model. Hence, it has won a number of awards issued by Amazon, Walmart, Tmall and Lazada, etc.

■ 1.1 Leading market share on Amazon.

Founded in 2016, the Carote brand is very young but has quickly developed into one of the best-selling cookware brands on the internet, with 13.1% market share in the US online market, according to the CIC report. And we believe its position is even more dominant on Amazon's platform. As at Jun 2024, if we look at the top 10/ 20/ 30 best-selling cookware sets on Amazon.com, 4/ 6/ 7 items are under the Carote brand, which is implying market share of 40%/ 30%/ 23% respectively. Such amount is simply overwhelming. If we refer to the pots and pans category, the respective market share is roughly at 10%/ 5%/ 7%, slightly lower than the numbers mentioned above, but still highly impressive.

Figure 18: List of the best-selling Kitchen Cookware Sets on Amazon

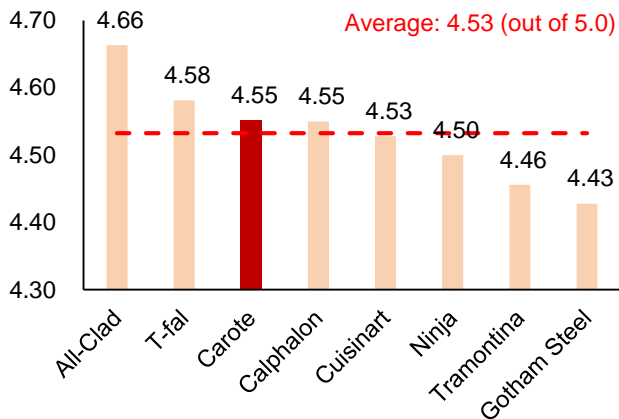
Best Sellers in Kitchen Cookware Sets				
#1  CAROTE 11pcs Pots and Pans Set Non Stick, Cookware Sets Detachable Handle, RV Kitchen Set Removable Handle, Oven Safe, Induction... ★★★★★ 15,239 \$69.99	#2  CAROTE Pots and Pans Set Nonstick, White Granite Induction Kitchen Cookware Set, 10 Pcs Non Stick Cooking Set w/ Frying Pans &... ★★★★★ 21,461 \$79.99	#3  Amazon Basics Non-Stick Cookware 15-Piece Set, Pots, Pans and Utensils, Black ★★★★★ 57,179 \$64.99	#4  CAROTE 14 Pcs Pots and Pans Set Nonstick, Cookware Set Kitchen Cooking Set with Utensil and Pan Protectors, PFOA and... ★★★★★ 225 \$69.99	#5  Pots and Pans Set Non Stick, 12 Pcs Kitchen Cookware Sets Induction Cookware Granite Cooking Set with Frying Pans, Saucepans, ... ★★★★★ 7,820 \$75.98
#6  SENSARTE Nonstick Ceramic Cookware Set 13-Piece, Healthy Pots and Pans Set, Non-toxic Kitchen Cooking Set with Stay-Cool Handles, ... ★★★★★ 1,776 \$69.86	#7  CAROTE 11pcs Pots and Pans Set, Nonstick Cookware Set Detachable Handle, Induction Kitchen Cookware Sets Non Stick with... ★★★★★ 1,419 \$99.99	#8  T-fal Ultimate Hard Anodized Nonstick Cookware Set 17 Piece, Oven Broiler Safe 400F, Lid Safe 350F, Kitchen Cooking Set w/... ★★★★★ 36,707 \$199.99	#9  Bazova Ceramic Nonstick Cookware Set, Healthy, Non Toxic, 17-Pieces Pots and Pans Set Removable Handles, Induction RV Kitchen... ★★★★★ 206 \$89.99	#10  Cuisinart 11-Piece Cookware Set, Chef's Classic Stainless Steel Collection 77-11G ★★★★★ 15,326 \$166.99
#11  CAROTE 15pcs Pots and Pans Set, Nonstick Cookware Set Detachable Handle, Induction Kitchen Cookware Sets Non Stick with... ★★★★★ 615 \$69.99	#12  T-fal Signature Nonstick Cookware Set 12 Piece, Oven Broiler Safe 350F, Pots and Pans, Kitchen Cooking Set w/ Fry Pans, Saucepans, ... ★★★★★ 17,459 \$88.99	#13  BELLA Cookware Set, 12 Piece Pots and Pans with Utensils, Nonstick PFOA Free Scratch Resistant Cooking Surface Compatible with ... ★★★★★ 5,043 4 offers from \$45.51	#14  15 Pcs Pots and Pans Set Non Stick, Kitchen Cookware Set Detachable Handle, Nonstick Induction Cookware Cooking Sets with... ★★★★★ 455 \$67.99	#15  Nuwave Healthy Duralon Blue Ceramic Nonstick Cookware Set, Diamond Infused Scratch-Resistant, PFAS Free, Dishwasher &... ★★★★★ 1,270 \$179.99
#16  GreenLife Soft Grip Healthy Ceramic Nonstick 16 Piece Kitchen Cookware Pots and Frying Sauce Sauté Pans Set, PFAS-Free with Kitcho... ★★★★★ 37,961 6 offers from \$60.54	#17  CAROTE Nonstick Cookware Sets, Non Stick Pots and Pans Set Detachable Handle, Kitchen Cookware Sets with Removable Handle, ... ★★★★★ 1,762 \$39.89	#18  Caraway Nonstick Ceramic Cookware Set (12 Piece) Pots, Pans, 3 Lids and Kitchen Storage - Non Toxic - Oven Safe & Compatible with All... ★★★★★ 2,389 2 offers from \$395.00	#19  SENSARTE 17 Piece Pots and Pans Set, Nonstick Detachable Handle Cookware, Induction Kitchen Cookware Set with... ★★★★★ 767 \$99.99	#20  HexClad Hybrid Nonstick 6-Piece Fry Pan Set, 8, 10 and 12-Inch Frying Pans with Tempered Glass Lids, Stay-Cool Handles, Dishwasher an... ★★★★★ 2,591 \$404.00

Source: www.amazon.com, CMBIGM estimates

■ 1.2 The customer rating on Amazon is high vs peers

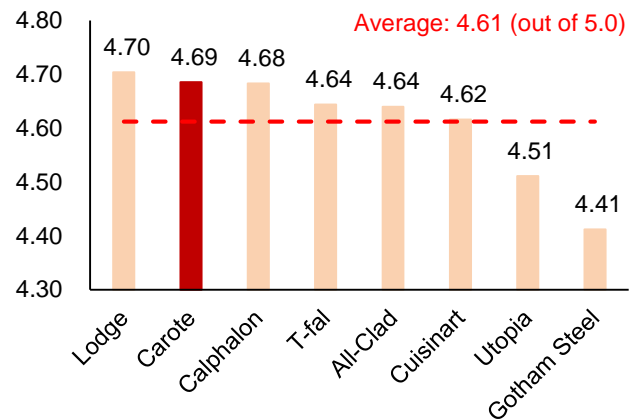
We also believe customer satisfaction is extremely important for a brand to remain successful. Hence, we have researched the top 8 cookware brands on Amazon, and Carote was highly leading and has ranked as no.3/ no.2 in the cookware set/ pot and pans segment.

Figure 19: Amazon's customer rating - cookware sets, Jun 2024



Source: www.amazon.com, CMBIGM estimates

Figure 20: Amazon's customer rating - pots & pans, Jun 2024



Source: www.amazon.com, CMBIGM estimates

In our view, consumers will typically consider several key areas before buying cookware, namely:

1) the functionality, which includes the quality of heat conductivity and distribution, as well as the versatility (compatibility with various stovetops like gas, electric and induction, plus other innovative functions like being stackable and having the detachable handles),

2) the ease of use, whether the item is light-weight and easy to clean,

3) the durability, which includes the use of life, as well as the sturdiness and scratch resistance of the product.

Based on the data collected from Amazon.com, Carote's cookware sets are leading in terms of areas like 1) scratch resistance, 2) easy to clean, 3) versatility, as well as 4) heat distribution.

Figure 21: Amazon's customer rating, by different metrics - the best cookware sets, Jun 2024

Brands	Value for money	Heat distribution	Versatility	Light weight	Easy to clean	Sturdiness	Durability	Scratch resistant
Carote	4.28	4.48	4.40	4.50	4.50	4.15	4.25	4.50
Gotham Steel	3.94	4.24	4.67	4.42	4.26	n/a	4.11	4.11
T-fal	4.35	4.39	4.53	4.40	4.41	4.70	4.26	3.95
Calphalon	4.04	4.29	3.90	n/a	4.21	5.00	4.02	4.55
Cuisinart	4.36	4.48	4.53	4.55	4.35	4.52	4.19	3.76
All-Clad	4.26	4.69	4.55	n/a	4.66	4.57	4.57	4.50
Ninja	4.26	4.49	3.90	4.80	4.45	5.00	4.22	5.00
Tramontina	4.38	4.50	n/a	n/a	4.32	4.35	4.40	4.27
Average	4.23	4.44	4.35	4.53	4.39	4.61	4.25	4.33
Carote vs avg	1.0%	0.8%	1.1%	-0.7%	2.4%	-10.0%	0.0%	3.9%

Source: www.amazon.com, CMBIGM estimates

Based on the data collected from Amazon.com, Carote's pots and pans are even more leading in terms of areas like 1) sturdiness, 2) scratch resistance, 3) versatility, 4) heat distribution, as well as 5) easy to clean.

Figure 22: Amazon's customer rating, by different metrics - the best pots and pans, Jun 2024

Brands	Value for money	Heat distribution	Versatility	Light weight	Easy to clean	Sturdiness	Durability	Scratch Resistant
Carote	4.60	4.63	4.70	4.50	4.67	4.85	n/a	4.50
All-Clad	4.32	4.66	4.54	n/a	4.58	4.71	4.64	n/a
T-fal	4.54	4.59	4.51	4.58	4.71	4.55	4.54	4.40
Cuisinart	4.45	4.54	4.63	4.30	4.56	4.55	4.41	4.50
Gotham Steel	4.35	4.26	4.60	4.48	4.38	n/a	3.94	4.23
Utopia	4.25	4.52	4.33	4.50	4.73	4.47	4.25	n/a
Lodge	4.55	4.77	4.75	n/a	4.73	4.80	4.80	n/a
Calphalon	4.40	4.55	4.70	n/a	4.46	4.85	4.45	4.34
Average	4.43	4.57	4.60	4.47	4.60	4.68	4.43	4.39
Carote vs avg	3.8%	1.5%	2.2%	0.6%	1.4%	3.5%	n/a	2.4%

Source: www.amazon.com, CMBIGM estimates

■ 1.3 Carote's products are selling at highly affordable prices

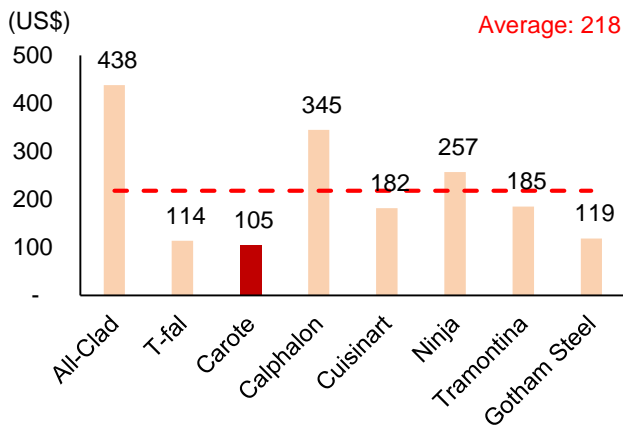
On top of Carote's better-than-peers functionality and performance, it is also extremely value for money, and this is one of the most crucial reasons for its rapid market share gains in the past few years, in our view.

In the cookware set segment, even though the customer rating for All-Clad was higher at 4.66 (out of 5.0), vs Carote's 4.55, the average selling price for All-Clad is way higher at US\$ 438, vs Carote's US\$ 105. In fact, Carote's ASP is the lowest among all eight major brands with an average ASP of US\$ 218. Therefore, Carote's price to quality ratio is just unbeatable, in our view.

In the pot and pans segment, the brand Lodge, with the highest customer rating (at 4.7 out of 5.0) has an ASP of US\$ 63, which is again, a bit higher than Carote's ASP of US\$ 41. Other brands like T-fal/ Utopia/ Gotham Steel, which have a lower ASP of US\$ 36/ 27/ 36, all have a lower customer rating, at 4.64/ 4.51/ 4.41, which are lower than Carote's 4.69.

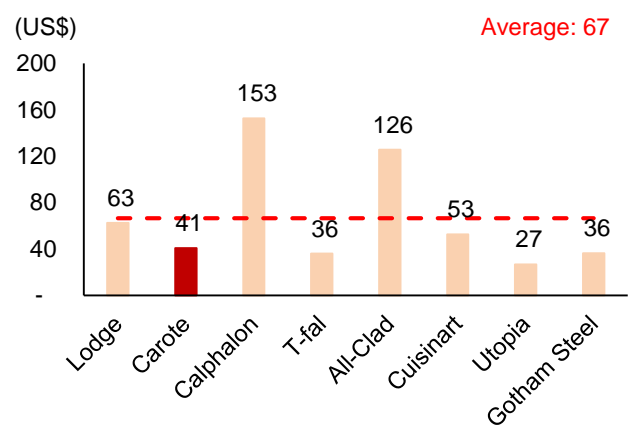
All in all, we believe Carote's products are really value for money.

Figure 23: ASP by brand - cookware sets, Jun 2024



Source: www.amazon.com, CMBIGM estimates

Figure 24: ASP by brand - pots and pans, Jun 2024



Source: www.amazon.com, CMBIGM estimates

■ 1.4 Carote is an award-winning company.

In addition to its meaningful online market shares and the superiority on product quality and prices, Carote has also demonstrated its excellence in the cookware industry, by obtaining various prestigious awards from different world-class platforms, such as Walmart, Amazon, Tmall and Lazada.

Figure 25: List of awards in the past few years

Award/Recognition	Awarding platform	Year
Brand Influence Award.	Walmart	2023
Amazon Global Layout Brand Award	Amazon	2022
Kitchenware and Dining Tools Industry Growth Excellence Award	Tmall	2022
Brand of the Year	Lazada	2022

Source: Company data, CMBIGM

For example, the Amazon Global Layout Brand Award was given to brands that can effectively leverage Amazon's global platform to optimize their logistics and distribution to reach a broad customer base. Several areas are considered before giving out this award, such as global expansion, logistics efficiency, customer engagement, sales performance and brand recognition. In the year of 2022, of many cross-broader e-commerce brands working with Amazon, only three have received this award, which are Carote, Govee (selling smart home devices like LED lights) and Pretty Garden (selling womenswear).

Figure 26: Award winners during the 2022 Amazon Global Selling Summit



Source: Company data, CMBIGM

■ 1.4 The business model is decent with low channel inventory, asset light business model and direct to customer “DTC”.

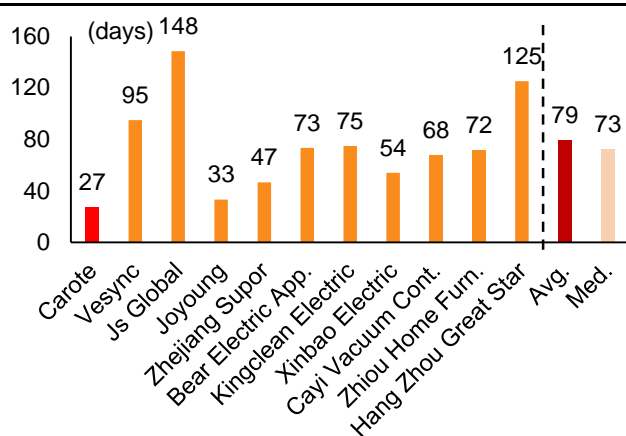
We believe Carote has a fairly decent business model.

Firstly, it has a rather low inventory turnover level, which is only at 27 days in FY23, far lower than its peers like Joyoung’s 33 days, Supor’s 47 days, SEB’s 123 days and Vesync’s 95 days. This could give Carote the advantage of lower warehousing costs, as well as much shorter reaction time to adopt to any market trends or changes. Most importantly, the risks of inventory write off are also significantly lower.

Secondly, it has an asset light business model, which has lower fixed costs and depreciation expenses. That could also avoid the risks of heavy capital investments, and the risks of low-utilization rate, esp. during any potential economic downturn. More than that, Carote can leverage the strength of different suppliers and focus its energy more on the designs, marketing and sales.

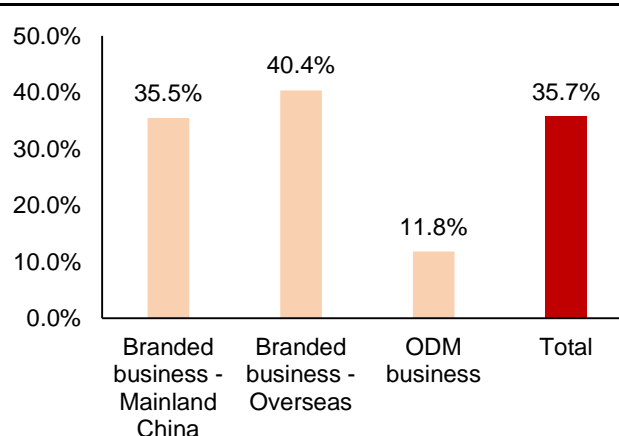
Thirdly, Carote is still using the Seller Central (Direct to Customer “DTC”) model when doing business with Amazon. We believe the benefits of this model are twofold. One is to gain access to the customers’ data (such as their geography and purchasing behaviours), which would help it to tailor the business and marketing strategies in return. Another benefit is to retain its power over the pricing and promotion, which is highly critical for Carote as it has been the price disrupter in the last few years in the cookware industry in the US (it has gained meaningful market share by its first class price to quality).

Figure 27: Number of inventory days (vs the home appliances peers), in FY23



Source: Company data, CMBIGM estimates

Figure 28: Margins by segment (branded sales vs OEM sales), FY23



Source: Company data, CMBIGM estimates

2) Rapid growth in China, faster overseas (with better margins)

Carote's growth is rapid in China as it is taking decent amount of market share in Taobao and Tmall. It is growing at an even faster pace in the overseas market, which is evidenced by the climbing popularity on the Google trend search engine and its overseas expansion is favorable for margin improvement as well. The room for growth in Western Europe and Japan is still large.

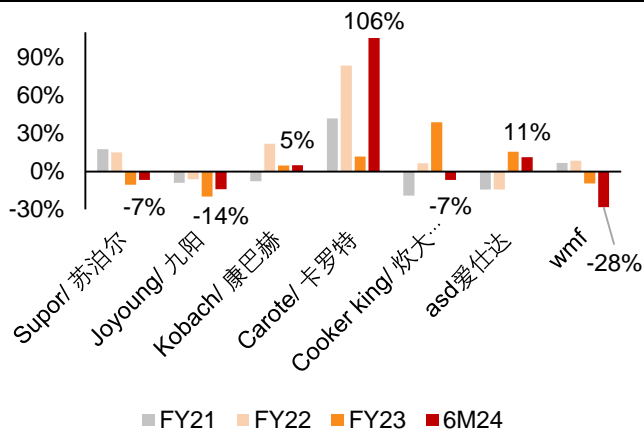
■ 2.1 China's market is very large and Carote is gaining market share.

The size of cookware market is massive in China, at about RMB 52.4bn in 2022, and Carote's market share is still very small right now.

Thanks to all Carote's advantages mentioned above, we are not surprised to see that its market share continues to go up.

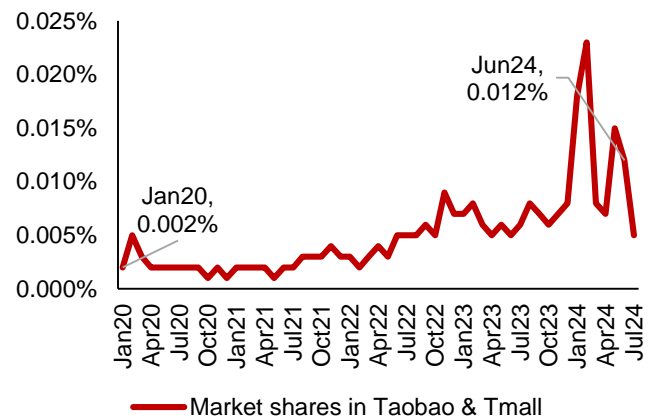
In fact, in the past three years, its market share in Tmall and Taobao went up from 0.002% in Jan 2020 to 0.008% in Dec 2023, and it is still climbing even faster and reached 0.012% in Jun 2024.

Figure 29: E-commerce sales growth, by brand



Source: www.moojing.com, CMBIGM estimates

Figure 30: Carote's market share (Taobao & Tmall)

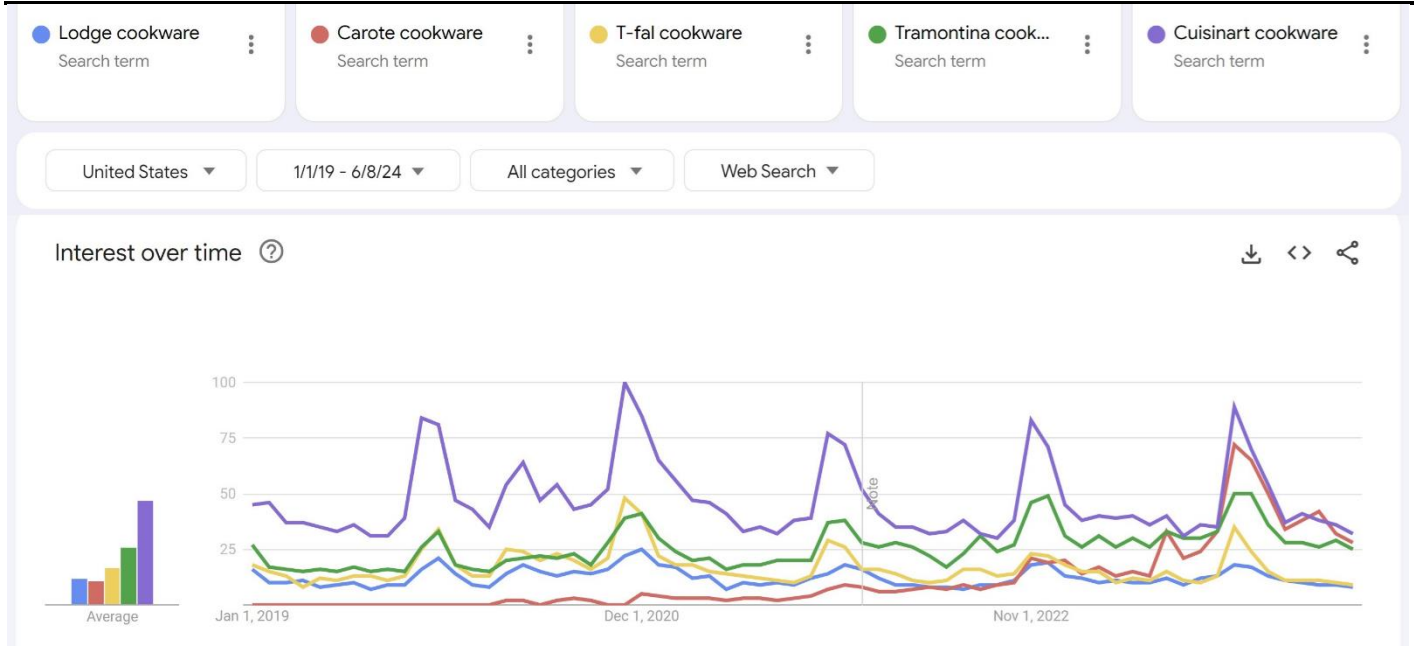


Source: www.moojing.com, CMBIGM estimates

■ **2.2 The US market is also very large and Carote is becoming even more popular**
 Carote has been gaining popularity in recent years and in our view, the reasons are manifold.

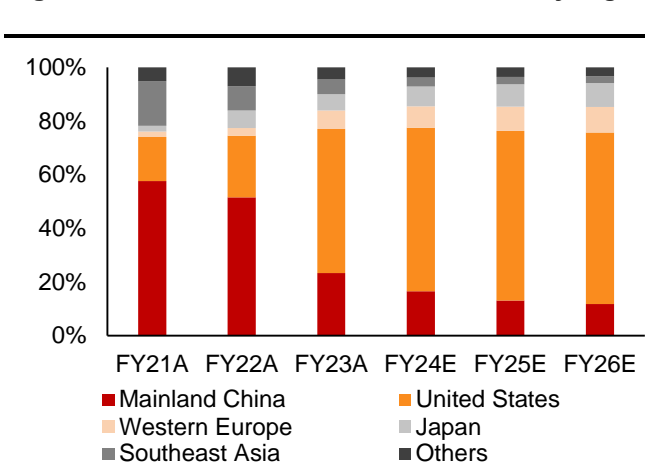
We believe the key reasons why the Carote brand can compete effectively with the well-established brands are due to its affordability, focus on e-commerce, more stylish designs and innovative functions like the removable handles, as well as niche targeting since its mainstream products are usually granite-coated non-stick pans (unlike cast-iron by many other brands).

Figure 31: Brand popularity based on the number of google trend searches



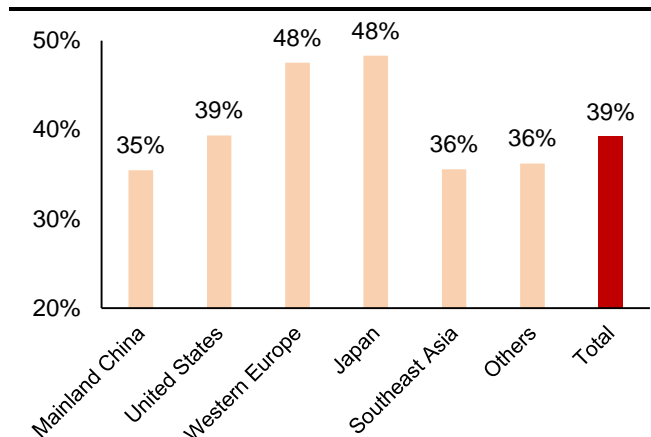
Source: trends.google.com, CMBIGM estimates

Figure 32: Branded business's sales mix, by region



Source: Company data, CMBIGM estimates

Figure 33: Branded business's GP margin, by region, in FY23

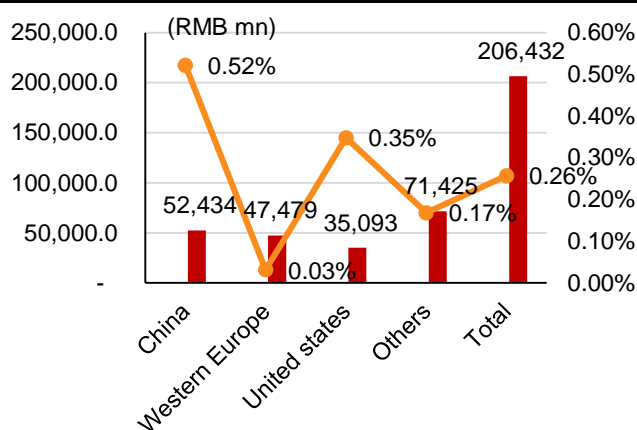


Source: Company data, CMBIGM estimates

■ **2.3 There is ample room for growth in other regions like Western Europe, Japan, etc.**

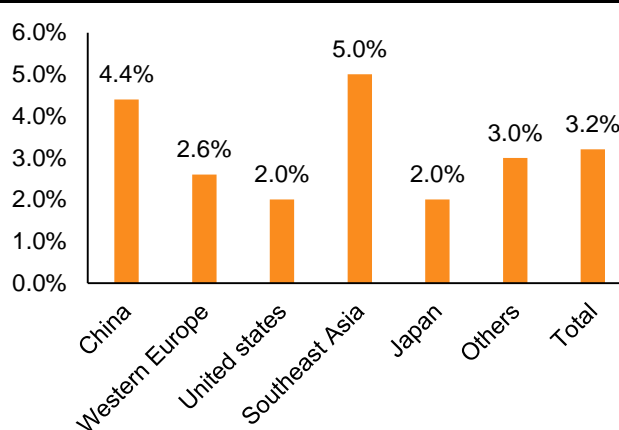
In fact, the market size of Western Europe is not small at all, at RMB 47.5bn in 2022, even larger than the US's RMB 35.1bn. Given the relatively low market share of Carote, there is ample room for growth in Western Europe and other regions, in our view.

Figure 34: Cookware industry market size, by region & Carote's respective market shares owned by 2022



Source: CIC report, company data, CMBIGM estimates

Figure 35: Industry market size CAGR by region, 2022-2027E



Source: CIC report, company data, CMBIGM estimates

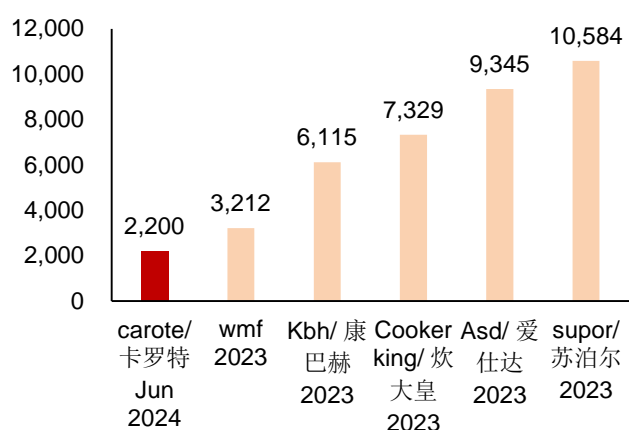
3) Ample room for product category and channel expansion.

The Carote brand has a relatively short history and its number of SKUs is still small vs other more mature brands. As a result, we do think they can grow by: 1) launching more products with other raw materials like the stainless steel, ceramic, and 2) expanding to categories like the kitchen utensil and drinkware products, 3) penetrate into the offline channel.

■ 3.1 The company can still expand categories.

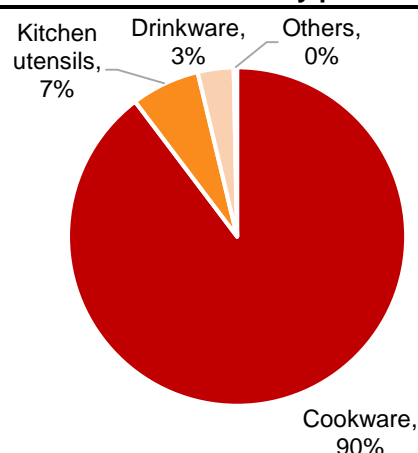
Based on our estimates, there are five major material types for cookware in the market, namely: 1) cast iron, 2) aluminium, 3) stainless steel, 4) copper and 5) ceramic. For Carote, its products are mostly made of aluminium and granite. Going forward, we believe it is going to make use of more materials like stainless steel and ceramic. Even though Carote has an explosive growth in the past few years, where its number of new SKUs launched in FY21/ 22/ 23 were at 520/ 1,305/ 1,374, its current product portfolio still only consisted of about 2,200 in FY23, which is still small compared with peers' average of 6,464.

Figure 36: Number of SKUs, by brand in China



Source: www.moojing.com, CMBIGM estimates

Figure 37: Branded sales mix by products, FY23



Source: Company data, CMBIGM estimates

Moreover, in our view, Carote can leverage on its brand equity and sell more other products like kitchen utensil and drinkware.

Figure 38: Images of kitchen utensil products

Below are sample photos of our kitchen utensils:



Source: Company data, CMBIGM

Figure 39: Images of drinkware products

Below are sample photos of our drinkware products:



Source: Company data, CMBIGM

■ **3.2 The Company can also sell cookware products in offline channels.**

Firstly, Carote primarily sells cookware products in the online marketplaces right now. But in our view, the potential in the offline market is huge, because the offline channel is still the mainstream with a larger market size, which accounted for over 80% of total cookware industry sales.

Moreover, Carote has established reasonable brand awareness, as well as good partnership with some retailers such as Walmart (which already has a substantial network and the access to both online and offline channels). We think the Company could leverage these factors in physical store expansion.

If Carote is able to grab market share from the larger sized brand online, we can assume that can happen again in the offline channel.

Industry Analysis

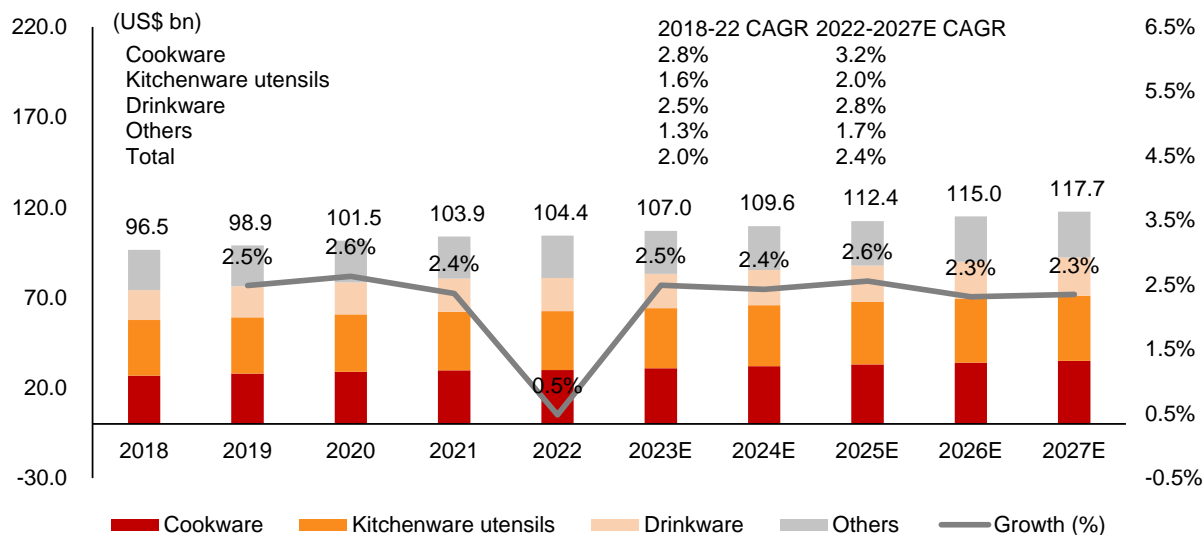
1) The size of global cookware market in 2022 was at US\$ 29.9bn with a 5-year sales CAGR of 3.2% during 2022-27E.

In 2022, the global kitchenware market size was at US\$ 104.4bn with a 5-year sales CAGR of 2.4% during 2022-27E, and the global cookware market size was at US\$29.9bn with a 5-year sales CAGR of 3.2%, per CIC report. China's cookware market was the largest in the world in 2022, at US\$ 7.7bn, with a 5-year sales CAGR of 4% (online is faster at 8%), which is mainly made of sales of stir-fry pans and pots/ fry pans and pots/ pressure cookers etc.. The US cookware market is the third largest, at US\$ 5.1bn, with a 5-year sales CAGR of 2% (online is faster at 9%), which is mainly made of sales of cookware sets.

■ 1.1 The global kitchenware sales in 2022 were at around US\$ 104.4bn, with a sales CAGR of 2.4% during 2022-27E. The cookware accounted for 29% of that while its sales CAGR was slightly faster at 3.2%.

The market size of global kitchenware industry was massive, at around US\$ 104.4bn (roughly RMB 720.8bn) in 2022, based on the CIC report. But since the industry is relatively mature, the growth rate in the past was slow (sales CAGR during 2018-2022 was at around 2%), and we believe the growth rate in the near future could still be slow (2.4% during 2022-2027E). By segment, the market was made up of items like cookware/ kitchen utensils/ drinkware/ others and they contributed around 29%/ 31%/ 18%/ 23% of total kitchenware industry sales in 2022. For cookware sales by region, China is the largest with share of 25%, followed by Western Europe (around 23%) and the US (around 17%), then Southeast Asia (around 6%) and Japan (4%), and lastly the rest of the world (around 25%).

Figure 40: Market size of global kitchenware industry, by category, 2018 to 2027E



Source: CIC Report, CMBIGM estimates

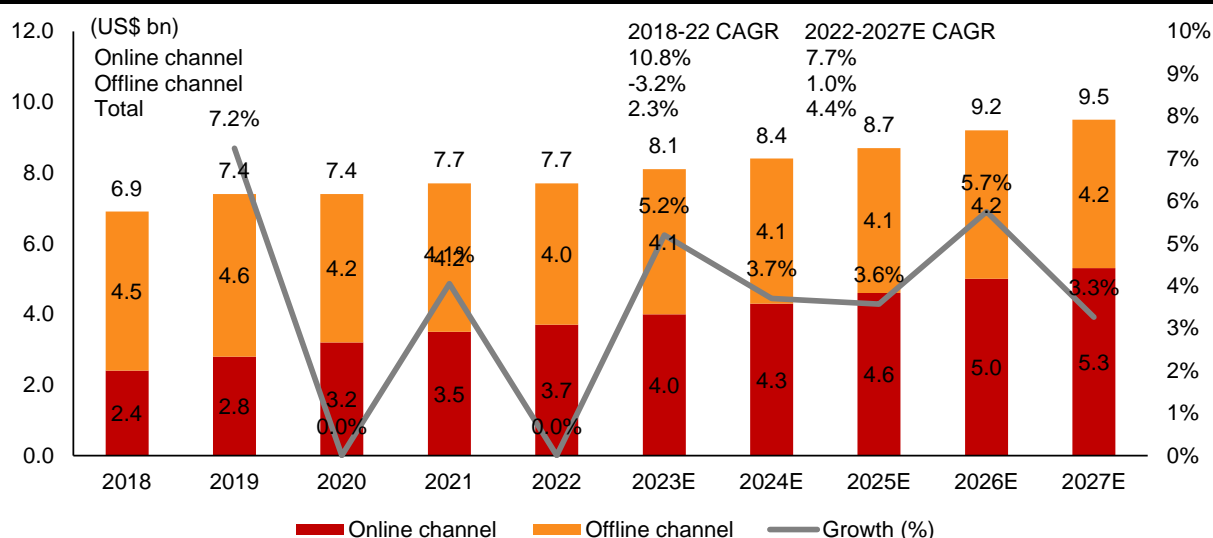
■ **1.2 The cookware market in China is the largest in the world, but it was mainly driven by individual pieces like stir-fry/ fry pans and pots/ high-pressure cookers.**

According to the CIC report, the cookware industry sales in China was at US\$ 7.7bn in 2022 (roughly RMB 53.2bn), which is the largest market in the world, but the growth is still relatively faster than the rest of the world. Sales CAGRs during 2018-2022/ 2022-2027E were at 2.3%/ 4.4%, mainly driven by the income growth and urbanization, in our view.

In terms of channel in 2022, the online sales contribution from China was at fairly high at 52%, already surpassed the offline sales contribution of 48%. In our view, this was likely due to the rapid development of e-commerce platforms, as well as the corresponding delivery and logistics industry.

The consumer habit is slightly different in China, because sales of individual pieces of cookware are much higher than entire sets of cookware. In terms of product categories in 9M23, according to AVC, the fry pots and pans had the largest share, accounting for 48%/ 50% of total industry online/ offline sales, followed by fry pots and pans, which had a share of 10%/ 12% of online/ offline sales, and then the high-pressure cookers, which had a share of 8%/ 10%. The rest of the industry was made up of soup pots and pans, sand pots and pans, steam pots and pans, steam pots and pans, each of those accounting for roughly 4% to 5% of the total. Noted that the share of cookware sets in China is still very small, at 5%/ 5% for the online/ offline channel.

Figure 41: Market size of China's cookware industry, by channel, 2018 to 2027E



Source: CIC Report, CMBIGM estimates

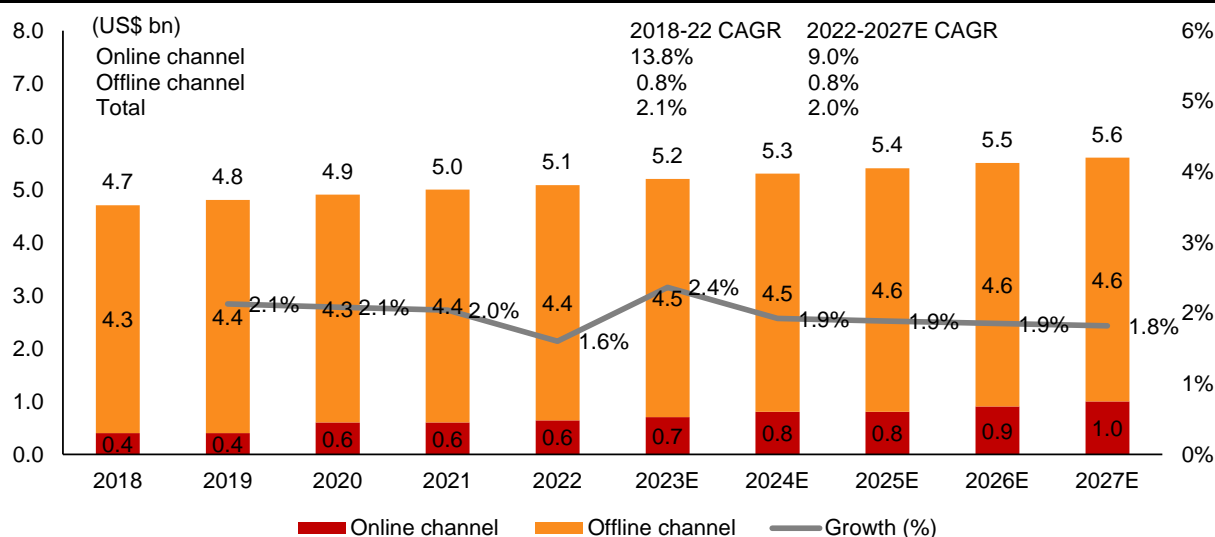
■ 1.3 The US and European market.

According to the CIC report, the cookware industry sales in the US were at US\$ 5.1bn in 2022 (roughly RMB 35.1bn). Even though it is a relatively more mature market than China, the sales growth could still be similar, with sales CAGR of 2.1% during 2018-2022 and it is going to be at 2.0% in 2022-27E, thanks to the growing prevalence of the remote working opportunities as well as catch-up in technology advancement and the adoption of e-commerce sales.

In terms of channel, the majority of sales in the US still came from the offline channel, accounting for about 88% of total in 2022, and in other words, the sales contribution from e-commerce was only at about 12%.

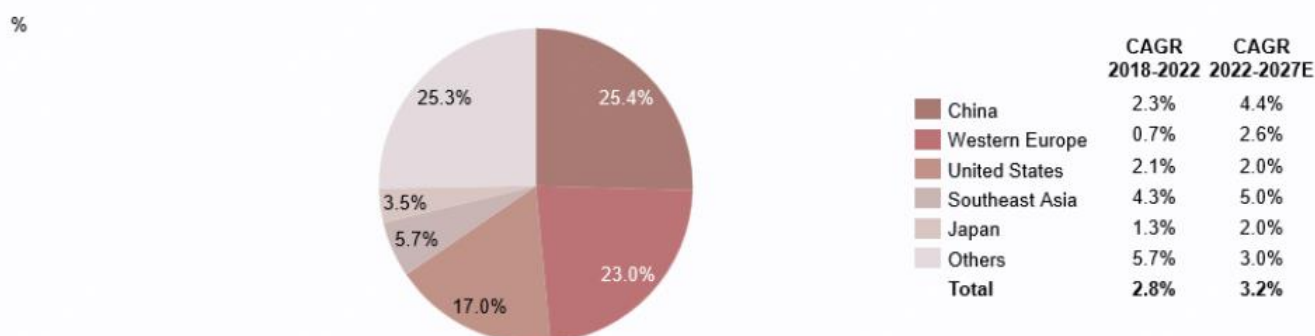
Based on our research, sales contribution from the cookware sets in the US is much higher than that in China.

Figure 42: Market size of US cookware industry, by channel, 2018 to 2027E



Source: CIC Report, CMBIGM estimates

Figure 43: Market size of global cookware industry, by region, 2018 to 2027E



Source: CIC Report, CMBIGM estimates

2) Still room for the demand of non-stick cookware and cookware sets to further increase.

The non-stick cookware is not new to the market, but the penetration is still going up over time, thanks to demand-side reasons like: 1) greater preference for healthier lifestyles, 2) aging population (older people tend to cook more often) and supply-side reasons like more innovations in the non-stick surface, as well as the overall designs and functions. In addition, cookware sets have gained more popularity, because of: 1) higher preference for an all-in-one solution, 2) the matching aesthetics of customers and 3) higher price to quality (cost per piece is lower for a bulk purchase).

■ 2.1 Demand and supply side reasons behind the rising demand for non-stick cookware.

Even though the overall industry sales CAGR could still be moderate at just 2% to 4% in the US and China during 2022-2027E, we believe there are some segmental opportunities, as the penetration of products like non-stick cookware and cookware sets has not been saturated.

For non-stick cookware, the demand may be driven by a number of reasons, such as: 1) increase in disposable income and demand for higher standards of living, consumers are likely to buy cookware with a better design and performance, even at a higher price tag,

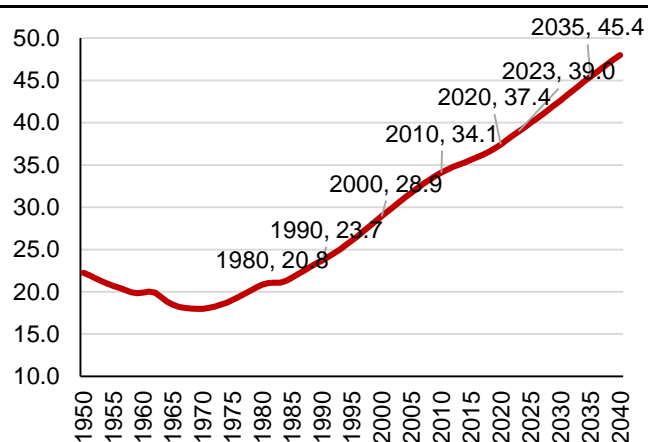
2) greater preference for a healthier lifestyle, tendency to cook with less oil and fat, also to cope with increased demand for lower-calorie meals,

3) the ageing population, as we think older people tend to cook more often at home (an increasing greying population in China and the US nowadays based on the statistics from the United Nations).

There are also some supply side reasons: 1) innovation and technological advancements like the non-stick surface of the cookware (noted that many harmful chemicals such as PFOA and PFOS have been replaced) is important as well, as it is much easier for cleaning

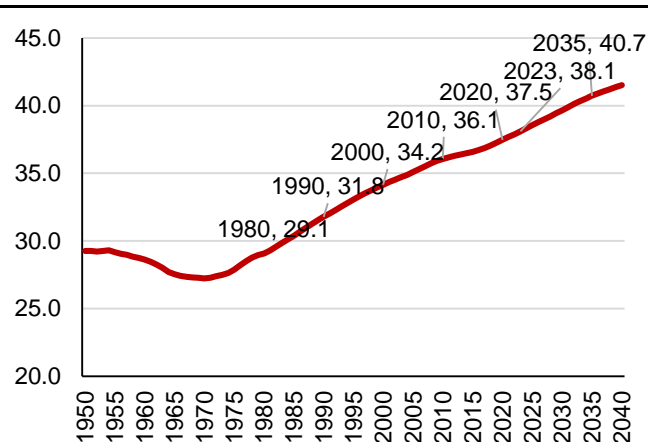
2) other innovations such as the stackable designs like the detachable handles which are highly convenient and attractive to customers.

Figure 44: Median age of population for both sexes in China



Source: United Nations, CMBIGM estimates

Figure 45: Median age of population for both sexes in the US



Source: United Nations, CMBIGM estimates

■ 2.2 The older you are, the more often you cook and the variety also increases.

According to the survey from 2021 Young Culinary Enthusiast Practice Record (2021 青年厨神修行实录) from DT Finance in 2021 in China, the group of older users (those were born in the 80s and 90s) all tend to cook more sophisticatedly and with different methods; therefore we tend to think the demand for multiple pans and pots would increase when the customer becomes older. And similarly, the group of older users also prefer cookware with a more attractive appearance.

Figure 46: Preference between one universal pot vs multiple pots and pans, by various age groups in China



Source: DT Finance, CMBIGM estimates

Figure 47: Different preferences on pots and pans by various age groups in China

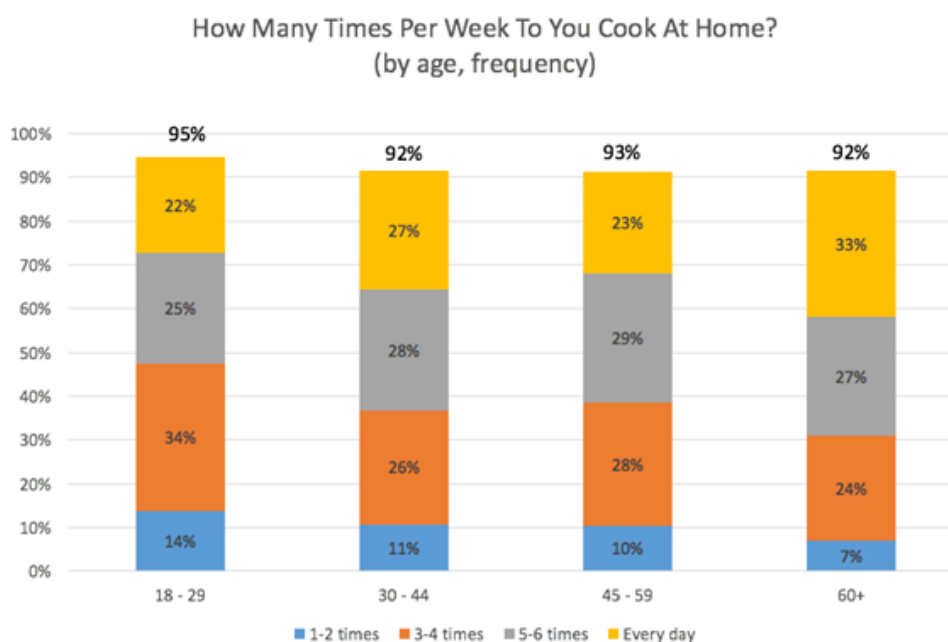


Source: DT Finance, CMBIGM estimates

Based on a survey with around 1,000 US households from The Spoon (a media reporting daily news about food tech evolution), in the US in 2017, consumers in the older age group (45 to 59 years old and 60 or above) are much more likely to cook more than three times or above at home in a week. Moreover, the older you are, the more likely and often you will use the oven, microwave, the stove range or the cooktop to cook.

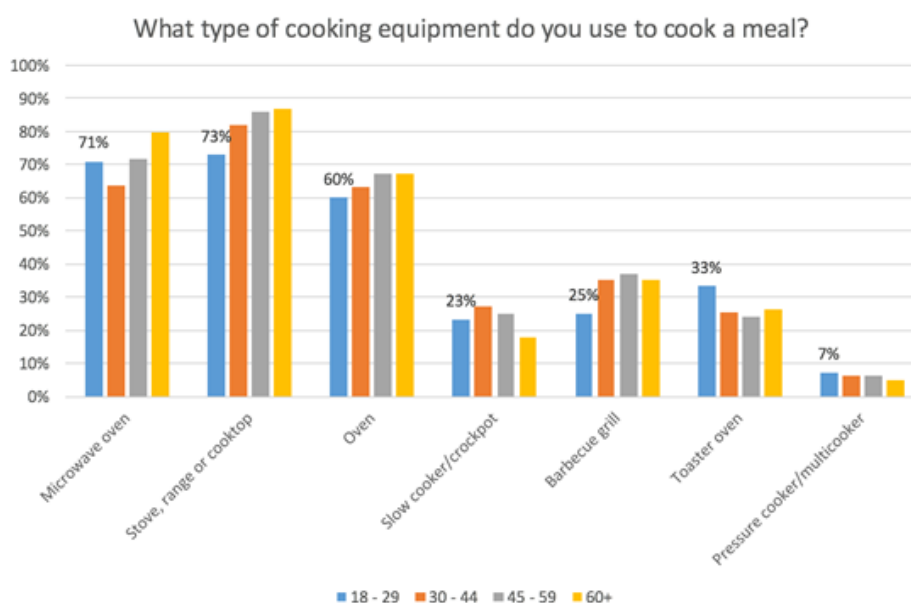
Therefore, all in all, we believe the older the consumers are, the more likely that they will cook more often, and more variety of cooking methods they will have.

Figure 48: Frequency of cooking at home in a week, by various age groups in the US



Source: The Spoon, CMBIGM estimates

Figure 49: % of ownership of different cooking equipment, by various age groups in the US



Source: The Spoon, CMBIGM estimates

■ 2.2 Cookware sets are selling better than individual pieces.

And on top of that, we can see that the popularity of Google trend searches for “Cookware sets” in the US has increased over time, thanks to: 1) preference for an all-in-one solution, where a sets of pots and pans with different sizes and functions are able to support various home cooking tasks in kitchens, 2) matching aesthetics, the consumers nowadays have a higher tendency to buy cookware with similar or uniform looks, as they care more about the appearance of cookware as well as their aesthetic in their kitchen, 3) price to quality, a cookware set may have a higher price in total, but in terms of price per piece, it is often more economical vs an individual piece, due to its bulk purchase nature.

Figure 50: “Cookware sets” popularity based on the number of Google trend searches in the US



Source: trends.google.com, CMBIGM estimates

3) People are buying more cookware as social media and e-commerce platforms become more seamless.

Cookware sales on e-commerce are highly penetrated in China, but are still growing faster than the offline channel. In overseas regions, the penetration rates are low, and hence we are even more optimistic about the catch-up. Moreover, the rising popularity of social media and the integration with e-commerce platforms, should generate higher demand for cookware in the near future, in our view.

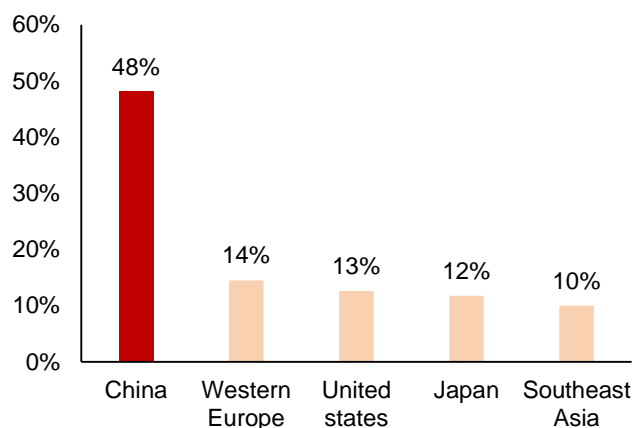
■ 3.1 China's market is much more penetrated vs many other regions.

While the overall demand and growth for cookware in China and in the world could remain moderate, consumers may continue to shift their purchases from offline to online channels.

Based on the CIC report, the online sales penetration was at 48% in 2022, at a rather high level compared with other regions. We believe this was due to:

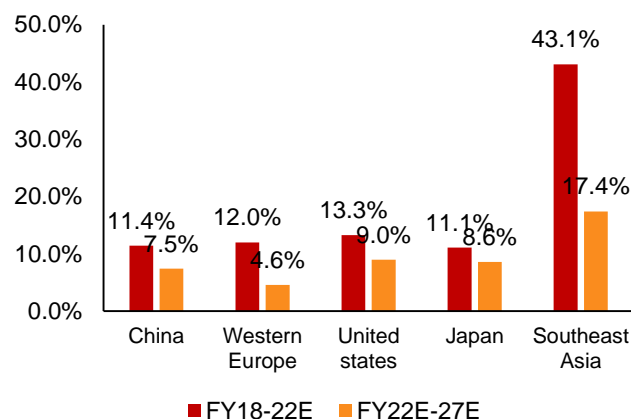
- 1) quick adoption of digital lifestyles, as GDP growth and income growth, as well as urbanization have been speeding up in the past few decades in China. Consumers are also adopting even faster to the habits of online shopping. For example, the establishment of festivals like Double 11 and 618 shopping festival have greatly strengthened consumer stickiness,
- 2) globally advanced e-commerce ecosystems, where platforms like Tmall, Taobao and PDD are all offering seamless shopping experience with extensive product ranges, competitive pricing as well as efficient logistics.

Figure 51: % of cookware industry sales from online, China and other regions



Source: CIC report, CMBIGM estimates

Figure 52: Online cookware sales growth YoY, China and other regions

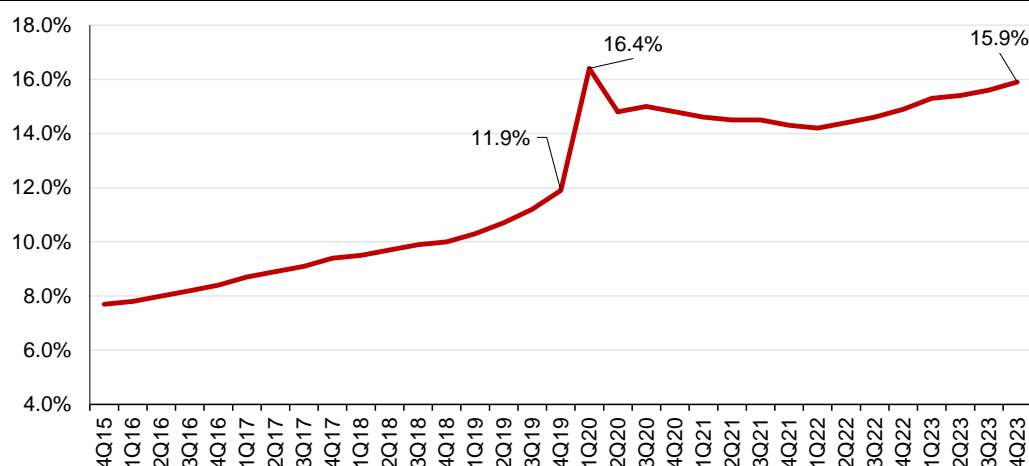


Source: CIC report, CMBIGM estimates

■ 3.2 Therefore other regions (e.g. the US) shall likely catch up

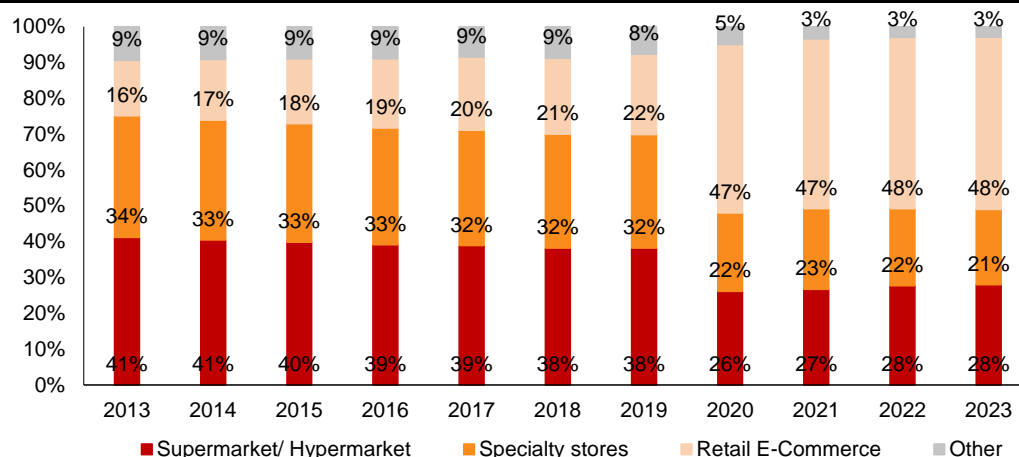
Compared to China, the online sales penetration for cookware in many overseas regions is much lower. And also thanks to that, we believe the future growth should still be fast in 2022-2027E. For instance, in the US, e-commerce sales as % of total retail sales might have shot up to a very high level during the pandemic, but after it normalized in 2021, the ratio was climbing again in 2022 to 2023, driven by improved accessibility and convenience, as well as the logistics and storage capability.

Figure 53: E-commerce sales, as % of total retail sales in the US



Source: US Census Bureau, CMBIGM

Figure 54: Small home appliance sales mix by channel in the US



Source: Euromonitor, CMBIGM

■ **3.3 The rise of social media has helped boost the demand and promoted the growth of cookware.**

We believe this trend was aided by the following factors: 1) increased exposure and inspiration by vast amounts of food contents available on many social media networks such as Youtube, TikTok, Instagram and Pinterest, 2) various marketing and advertisement created by the popular influencers or chefs, and 3) upgraded visual appeal, as social media could usually amplifies the attractiveness of the food and cookware products in the online videos and photos. Moreover, the integration of social media and many e-commerce platforms has become even more seamless and therefore the purchases could be made much more easily than ever before.

Assumptions

Figure 55: Major assumptions

Major assumptions	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales by brand (RMB mn)						
Branded business - Mainland China	163	274	323	363	398	437
Branded business - Overseas	120	257	1,057	1,826	2,631	3,260
ODM business	392	238	203	213	213	213
Total	675	768	1,583	2,402	3,242	3,910
Sales growth by brand segment						
Branded business - Mainland China	n/a	67.4%	18.0%	12.4%	9.7%	9.7%
Branded business - Overseas	n/a	114.5%	311.0%	72.7%	44.1%	23.9%
ODM business	n/a	-39.3%	-14.6%	5.0%	0.0%	0.0%
Total	n/a	13.8%	106.0%	51.7%	35.0%	20.6%
Branded sales growth by platform						
Amazon	n/a	155%	315%	76%	42%	22%
Tmall	n/a	71%	38%	20%	10%	10%
Walmart	n/a	n/a	2453%	80%	50%	30%
Others*	n/a	54%	16%	25%	40%	23%
Total	n/a	87%	160%	59%	38%	22%
Branded sales growth by region						
Mainland China	n/a	67%	18%	12%	10%	10%
United States	n/a	162%	506%	80%	43%	23%
Western Europe	n/a	157%	550%	80%	56%	29%
Japan	n/a	487%	135%	94%	58%	31%
Southeast Asia	n/a	2%	60%	-4%	13%	8%
Others	n/a	156%	64%	35%	29%	15%
Total	n/a	87%	160%	59%	38%	22%
GP margin	18.7%	35.8%	35.7%	36.5%	36.0%	36.0%
Opex breakdown						
Commission to e-commerce platforms	4.4%	6.2%	10.6%	11.7%	12.3%	12.6%
Marketing and advertising expenses	3.4%	6.9%	4.3%	3.7%	3.5%	3.4%
Depreciation of property, plant and equipment	0.1%	0.2%	0.2%	0.4%	0.4%	0.4%
Depreciation of right-of-use assets	0.2%	0.3%	0.1%	0.3%	0.1%	0.1%
Staff costs - Selling and admin expenses	1.7%	1.8%	1.0%	1.1%	1.1%	1.0%
Research and development expenses	2.7%	2.7%	2.3%	2.0%	2.0%	2.0%
OP margin	4.8%	16.2%	17.1%	16.8%	15.8%	15.6%
Effective tax rate	-12.2%	-14.2%	-15.0%	-17.0%	-17.0%	-17.0%
NP margin	4.7%	14.2%	15.0%	14.5%	14.3%	14.0%
NP growth (%)	0.0%	242.9%	118.0%	47.0%	32.8%	18.3%

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

Financial Analysis

We forecast sales growth of 52%/ 35%/ 21% YoY in FY24E/ 25E/ 26E

■ We forecast sales to grow by 52% in FY24E, mainly driven by branded business and overseas expansion.

We project Carote's sales to be at RMB 2.40bn in FY24E, driven by:

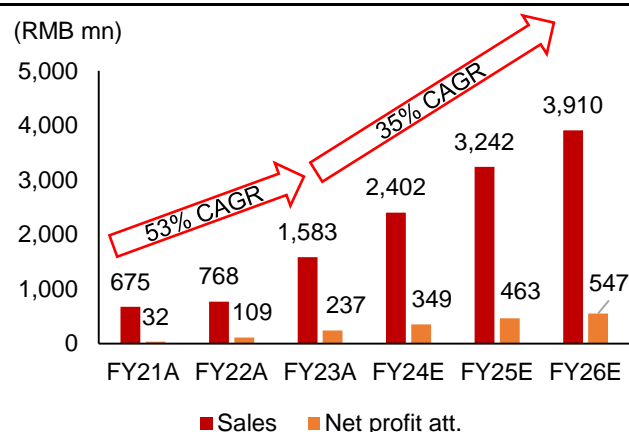
15%/ 76%/ 9% growth for branded sales (Mainland China)/ branded sales (Overseas)/ ODM business sales.

And for the branded business sales, which should, in our view, be driven by:

1) 12% China sales growth, 80% US sales growth, 80% Western Europe sales growth, 94% Japan sales growth, -4% Southeast Asia sales growth and 35% other sales growth, OR

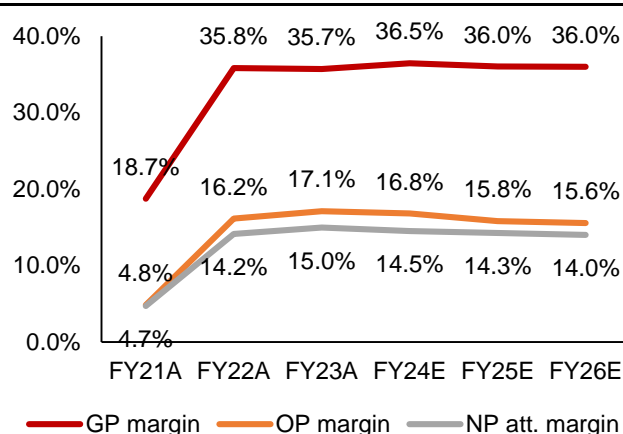
2) 76% Amazon sales growth, 20% Tmall sales growth, 80% Walmart sales growth and 25% other sales growth.

Figure 56: Sales and net profit growth



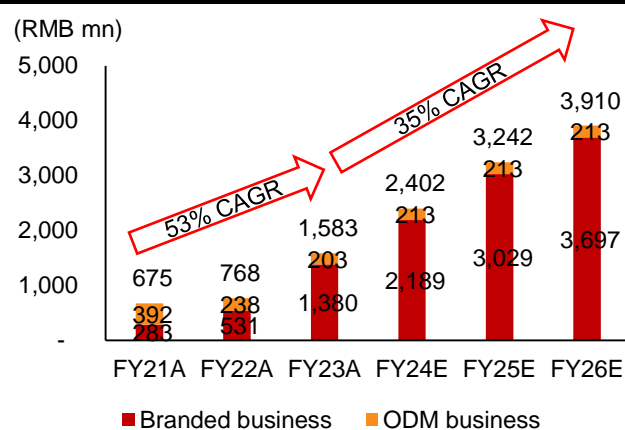
Source: Company data, CMBIGM estimates

Figure 57: GP, OP and NP att. margin



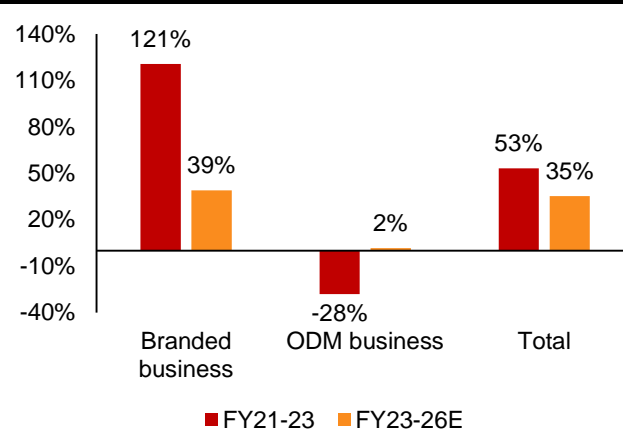
Source: Company data, CMBIGM estimates

Figure 58: Sales by segment



Source: Company data, CMBIGM estimates

Figure 59: Sales CAGR by segment, during FY21-23 and FY23-26E



Source: Company data, CMBIGM estimates

■ **We project a 35% sales CAGR during FY23-26E, assuming:**

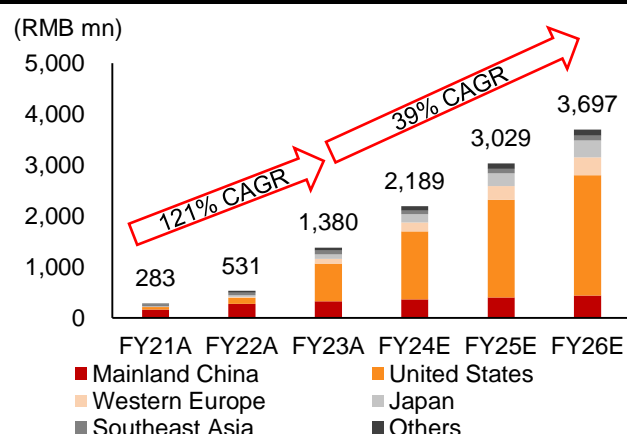
11%/ 46%/ 2% sales CAGR for branded sales (Mainland China)/ branded sales (Overseas)/ ODM business sales.

And for the branded business, we expect the sales CAGR in the same period to be:

1) 11% for China, 47% for the US, 53% for Western Europe, 59% for Japan, 6% for Southeast Asia and 26% for others,

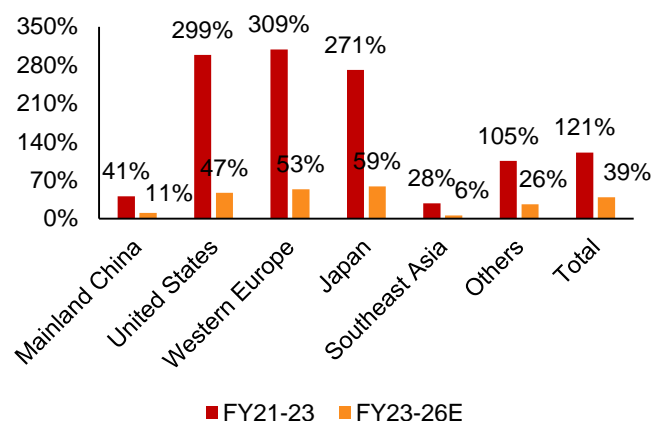
2) 45% for Amazon, 13% for Tmall, 52% for Walmart and 29% for others.

Figure 60: Branded sales by region



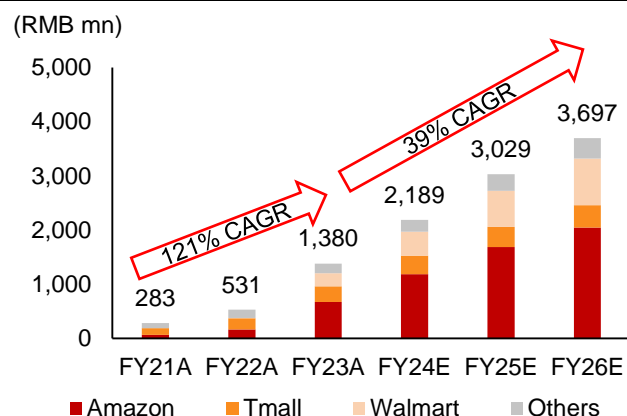
Source: Company data, CMBIGM estimates

Figure 61: Branded sales CAGR by region, during FY21-23 and FY23-26E



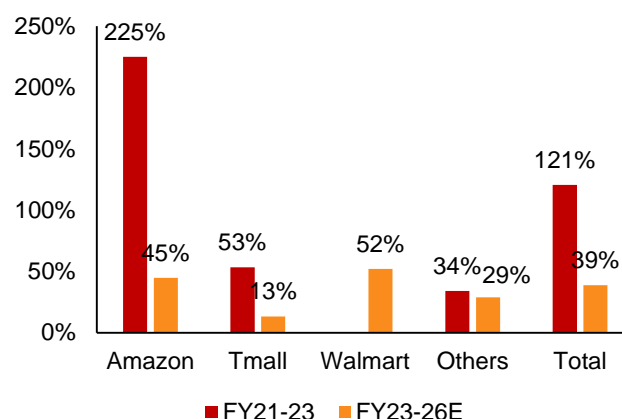
Source: Company data, CMBIGM estimates

Figure 62: Branded sales by channel



Source: Company data, CMBIGM estimates

Figure 63: Branded sales CAGR by channel, during FY21-23 and FY23-26E



Source: Company data, CMBIGM estimates

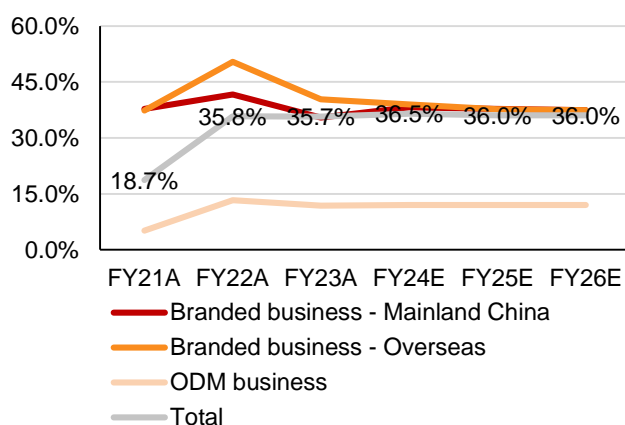
We forecast net profit growth of 47%/ 33%/ 18% in FY24E/ 25E/ 26E

- GP margin may go up to around 36.5% in FY24E and then stabilize at 36.0%/ 36.0% in FY25E/ 26E, vs 35.7% in FY23.

The GP margin shall increase in FY24E, because of increasing sales contribution of the higher-margin branded business and that of branded business (Overseas). However, going forward in FY25E/ 26E, the benefit of a better region mix may mostly be offset by respective GP margin drops in both the branded business in mainland China and overseas (due to the increases in freight rate & storage costs, gradual ASP drops per year in order for Carote to gain market share from peers).

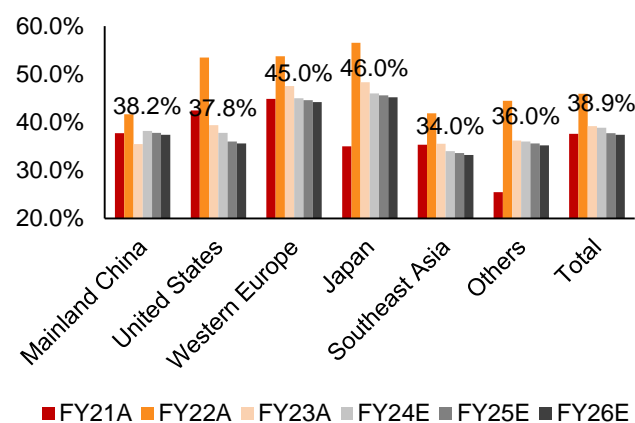
But we should also bear in mind that, we are only assuming a small increase in raw material prices in FY24E and assuming them to be stable in FY25E/ 26E, as well as unchanged import tariffs for Carote's products entering the US market in FY24E/ 25E/ 26E vs FY23. Any changes on these two factors could create substantial differences vs our current group-level GP margins.

Figure 64: GP margin by segment



Source: Company data, CMBIGM estimates

Figure 65: GP margin by region

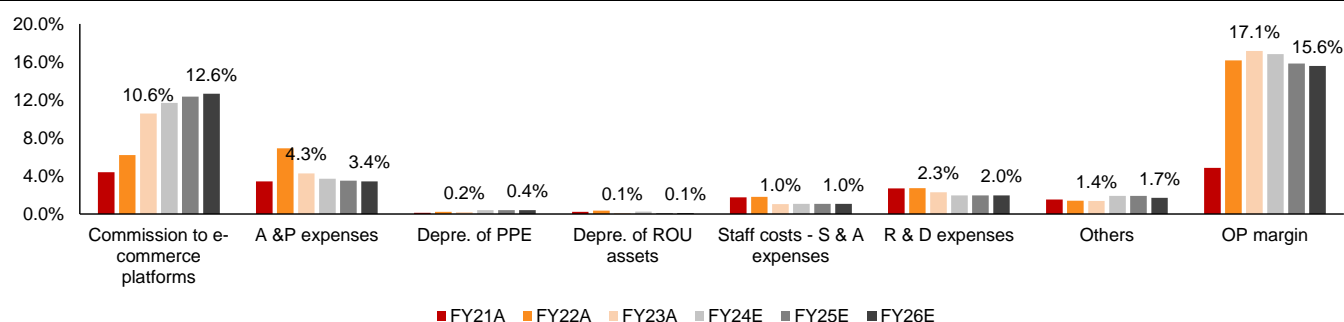


Source: Company data, CMBIGM estimates

■ **NP margin will likely drop to 14.5% in FY24E and then stabilize at 14.3%/ 14.0% in FY25E/ 26E, vs 15.0% in FY23.**

We believe the NP margin may fall to around 14% in FY24E-26E, which is a result of: 1) certain increases in GP margin (higher sales contribution from overseas), 2) decreases in A&P expenses (due to a drop in sales contribution from China, where the marketing expenses tend to be higher), 3) a mild decline in R&D expenses, 4) an improving effective tax rate, but 5) certain increases in commission fees to the e-commerce platforms (due to more sales from overseas).

Figure 66: Opex breakdown and EBIT margin



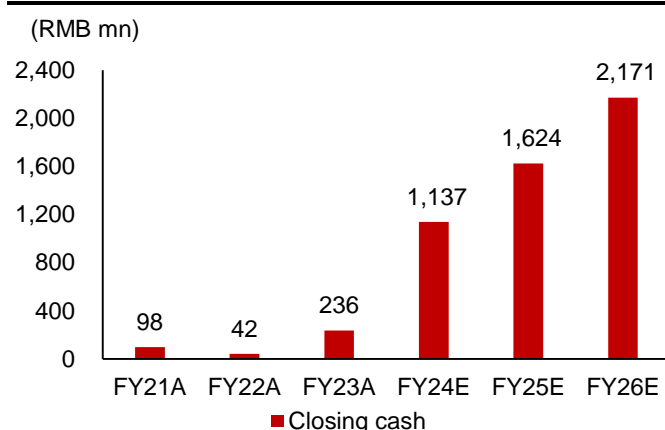
Source: Company data, CMBIGM estimates

Balance sheet and cash flow

■ We believe the cash level may increase gradually, thanks to rapid net profit growth ahead.

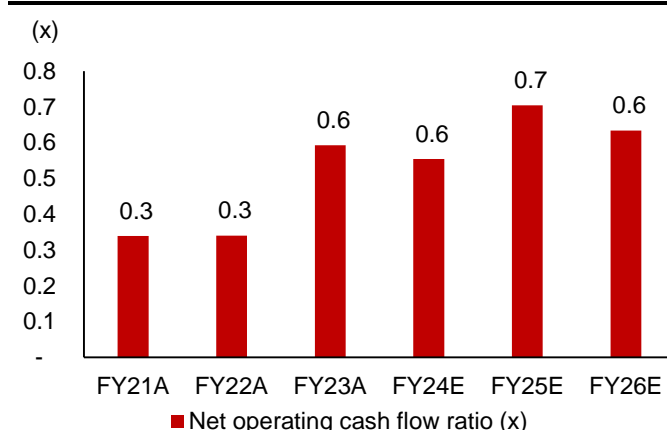
Carote's net cash position increased significantly from FY21 to FY23, thanks to: 1) a surge in net profit, 2) improved working capital (mainly the receivables and payables) and 3) limited capex. We do expect its net cash position to continue to grow organically in the near future.

Figure 67: Closing cash balance



Source: Company data, CMBIGM estimates

Figure 68: Net operating cash flow ratio

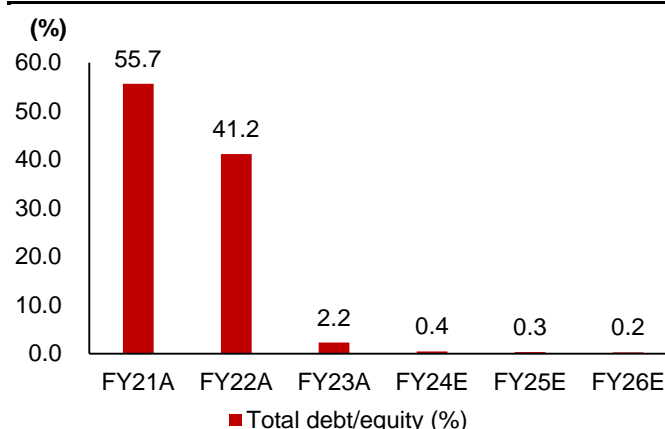


Source: Company data, CMBIGM estimates. Net operating cash flow ratio = dividing net operating cash flow by current liabilities

■ We expect cash conversion cycle will gradually lengthen, to around -85 days by FY26E.

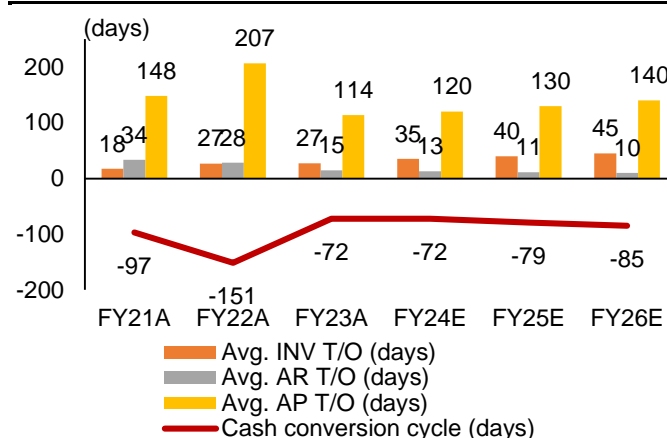
Carote's receivable turnover days dropped from 34 in FY21 to 15 in FY23 due to the decline in sales contribution from ODM business (credit periods for ODM/ branded businesses are usually at 30 to 90 days/ below 10 days). We expect that to drop slowly in the future. The inventory turnover days increased slightly from 18 in FY21 to 27 in FY23 because of a jump in finished goods to meet overseas demand but a ceased self-owned production line in FY22, and we expect the metric to increase over time in the future. The payable turnover days fell from 148 in FY21 to just 114 in FY23, thanks to the closure of self-owned production lines. But going forward, we believe it may go up, because of the increasing use of suppliers that are willing to offer a relatively longer credit period.

Figure 69: Total debt or (cash) to equity



Source: Company data, CMBIGM estimates

Figure 70: Working capital (days)



Source: Company data, CMBIGM estimates

Valuation

Figure 71: Peers' valuation

			12m TP	Price	Up/ Down-	Mkt. Cap	Year	P/E (x)		P/B (x)	ROE (%)	3yrs PEG (x)	Yield (%)	YTD perf. (%)
Company	Ticker	Rating	(LC)	(LC)	side	(HK\$ mn)	End	FY1E	FY2E	FY2E	FY2E	FY1E	FY1E	FY1E
A+ H shares Small Home Appliances														
Carote	2549 HK	BUY	8.97	4.60	95%	2,553	Dec-23	6.7	5.1	1.5	131.6	0.2	2.9	n/a
Vesync	2148 HK	BUY	6.79	3.86	76%	4,406	Dec-23	6.1	5.1	1.1	27.9	0.4	6.0	(28.3)
Js Global	1691 HK	BUY	1.84	1.58	16%	5,490	Dec-23	8.8	9.2	0.8	2.0	(1.1)	3.9	1.9
Joyoung	002242 CH	NR	n/a	11.56	n/a	9,624	Dec-23	25.0	20.6	2.3	3.6	3.5	1.7	(9.0)
Zhejiang Supor	002032 CH	NR	n/a	53.89	n/a	46,882	Dec-23	18.8	17.3	5.9	40.4	2.6	4.6	1.7
Bear Electric App.	002959 CH	NR	n/a	47.45	n/a	8,078	Dec-23	18.7	16.5	2.3	11.7	7.2	2.2	(8.6)
Kingclean Electric	603355 CH	NR	n/a	26.56	n/a	16,533	Dec-23	13.0	11.4	2.2	25.3	1.4	1.0	19.1
Xinbao Electric	002705 CH	NR	n/a	15.15	n/a	13,350	Dec-23	11.4	10.1	1.3	13.3	1.0	3.1	4.0
Cayi Vac. Cont.	301004 CH	NR	n/a	107.56	n/a	12,126	Dec-23	15.7	13.0	4.2	48.9	0.6	2.8	136.7
Zhiou Home Furn.	301376 CH	NR	n/a	20.00	n/a	8,715	Dec-23	19.2	14.3	2.1	13.0	1.2	1.2	(16.4)
Great Star	002444 CH	NR	n/a	29.90	n/a	39,024	Dec-23	16.7	13.8	1.9	13.6	0.8	0.8	32.8
Avg.								14.6	12.4	2.3	30.1	1.6	2.7	13.4
Med.								15.7	13.0	2.1	13.6	1.0	2.8	1.8
A + H Home Appliances														
Midea Group	000333 CH	BUY	66.70	72.10	-7%	593,062	Dec-23	13.8	12.5	2.6	20.7	1.7	4.4	32.0
Gree Electric	000651 CH	NR	n/a	44.26	n/a	269,079	Dec-23	7.9	7.5	1.6	25.9	1.2	6.0	37.6
Haier Smart Home	600690 CH	NR	n/a	29.22	n/a	282,783	Dec-23	14.3	12.8	2.1	17.7	1.2	3.2	39.1
Haier Electronics	6690 HK	BUY	36.41	28.20	29%	282,785	Dec-23	12.6	11.2	1.9	17.7	1.0	3.6	27.9
Hisense Home - A	000921 CH	NR	n/a	29.67	n/a	41,254	Dec-23	12.3	10.7	2.2	22.9	0.9	4.1	45.4
Hisense Home - H	921 HK	NR	n/a	24.85	n/a	41,254	Dec-23	9.4	8.3	1.8	22.9	0.7	5.2	47.4
Whirlpool China	600983 CH	NR	n/a	8.92	n/a	7,420	Dec-23	n/a	n/a	n/a	4.3	n/a	n/a	0.3
Hangzhou Robam	002508 CH	NR	n/a	24.35	n/a	24,952	Dec-23	13.7	12.8	1.8	14.6	5.0	3.7	14.5
Vatti Corporation	002035 CH	NR	n/a	8.36	n/a	7,691	Dec-23	12.4	10.9	1.6	13.5	0.7	4.1	34.6
Avg.								12.0	10.8	2.0	17.8	1.5	4.3	31.0
Med.								12.5	11.0	1.9	17.7	1.1	4.1	34.6
International Small Home Appliances														
Techtronic	669 HK	NR	n/a	108.30	n/a	198,434	Dec-23	22.7	19.1	3.5	17.6	1.4	2.0	16.4
Sharkninja Inc	SN US	NR	n/a	92.10	n/a	100,181	Dec-23	21.7	18.9	5.0	21.7	0.3	n/a	80.0
Lifetime Brands	LCUT US	NR	n/a	6.60	n/a	1,137	Dec-23	9.3	7.4	0.5	(7.9)	(0.0)	n/a	(1.6)
Newell Brands	NWL US	NR	n/a	8.82	n/a	28,520	Dec-23	13.3	11.3	1.2	(8.3)	(0.1)	3.2	1.6
Williams-Sonoma	WSM US	NR	n/a	129.47	n/a	127,146	Jan-24	15.9	15.8	5.8	56.0	2.8	1.7	28.3
Helen Of Troy	HELE US	NR	n/a	63.38	n/a	11,258	Feb-24	8.8	8.1	0.8	9.2	1.3	n/a	(47.5)
Procook Group	PROC LN	NR	n/a	33.80	n/a	369	Mar-24	19.9	13.5	n/a	7.6	0.2	0.0	30.0
Seb Sa	SK FP	NR	n/a	93.90	n/a	43,436	Dec-23	11.4	10.2	1.4	13.6	0.9	3.0	(16.9)
Fiskars Oyj Abp	FSKRS FH	NR	n/a	15.32	n/a	10,373	Dec-23	16.1	13.3	1.6	2.4	1.0	5.4	(14.2)
Avg.								15.5	13.1	2.5	12.4	0.9	2.6	8.4
Med.								15.9	13.3	1.5	9.2	0.9	2.5	1.6
International Home Appliances														
Whirlpool Corp	WHR US	NR	n/a	108.04	n/a	46,307	Dec-23	9.0	9.4	1.9	21.9	0.6	6.5	(11.3)
Ingersoll-Rand	IR US	NR	n/a	102.98	n/a	322,601	Dec-23	31.1	28.9	3.8	8.5	1.2	0.1	33.2
Electrolux Ab	ELUXB SS	NR	n/a	91	n/a	18,651	Dec-23	n/a	10.4	1.9	(44.1)	n/a	1.7	(15.7)
Daikin Industries	6367 JP	NR	n/a	20055	n/a	296,710	Mar-24	22.8	20.5	1.9	9.9	4.3	1.6	(12.5)
Panasonic Corp	6752 JP	NR	n/a	1405.50	n/a	174,124	Mar-24	10.6	8.4	0.7	7.9	(3.5)	2.7	0.6
Lg Electronics Inc	066570 KS	NR	n/a	91600.0	n/a	83,552	Dec-23	10.1	6.8	0.7	4.9	0.2	1.6	(10.0)
Samsung	005930 KS	NR	n/a	57500.0	n/a	1,913,260	Dec-23	11.0	9.2	0.9	6.8	0.2	2.5	(26.8)
Avg.								15.8	13.4	1.7	2.3	0.5	2.4	(6.1)
Med.								10.8	9.4	1.9	7.9	0.4	1.7	(11.3)

Source: Bloomberg, CMBIGM estimates; data as of 7 Nov 2024.

Initiate coverage on Carote at BUY with TP of HK\$ 8.97 (based on 10x FY25E P/E).

Our primary valuation methods for Carote is the comparable Price to Earnings (P/E) method but we will also highlight valuation by the Discounted Cash Flow (DCF) method.

Figure 72: Basis for our valuation

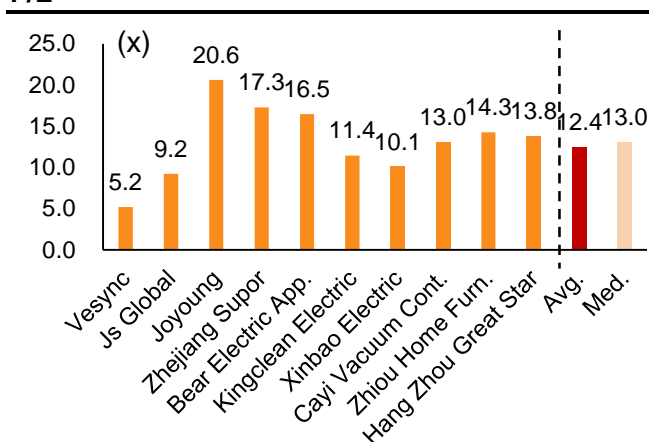
Target price (HK\$)	Valuation (RMB mn)	EV (RMB mn)	Target ratio (x) or (%)	Method	Implied EV/EBIT (x)	Implied P/E (x)	Implied 3 years sales CAGR (%)	Implied 3 years NP CAGR (%)	EBIT Sales (RMB mn)	DA (RMB mn)	NP att. (RMB mn)	Debt (RMB mn)	Cash (RMB mn)	Remarks
					Implied EV/EBIT (x)	Implied P/E (x)	Implied 3 years sales CAGR (%)	Implied 3 years NP CAGR (%)	Sales (RMB mn)	DA (RMB mn)	NP att. (RMB mn)	Debt (RMB mn)	Cash (RMB mn)	
					Traditional	PE to sales growth (x)	PEG (x)		est.)	est.)	- traditional	est.)	est.)	

Source: Bloomberg, Company data, CMBIGM estimates

■ Initiate at BUY with TP of HK\$ 8.97, based on 10x FY25E P/E.

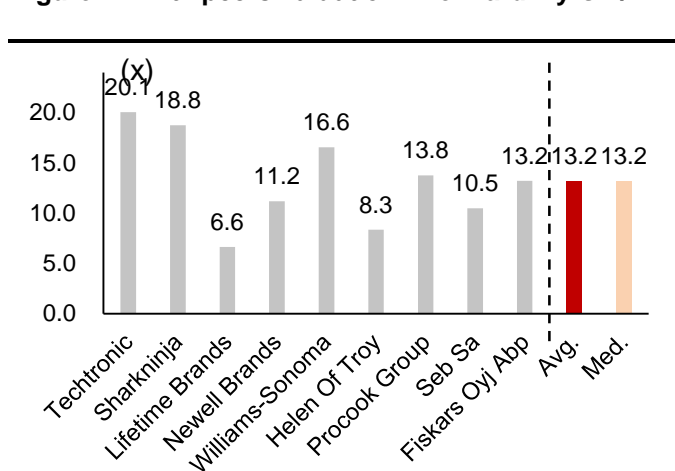
We apply a 10.0x FY25E P/E for Carote, a 19% discount to China small appliances' peer average of 12.4x, based on a few negative factors like: 1) smaller size of business (sales to be at around RMB 2.4bn in FY24E vs industry's median of RMB 11.1bn), 2) a shorter brand history (and potentially lower brand equity) and 3) the typical H vs A discount of 10% to 30%, but also a few positives, such as: 1) leadership in its own sub-sector, 2) its e-commerce business focus (which usually implies greater competitiveness and faster growth), 3) much faster-than-peers' 3-year sales CAGR (at around 35% during FY23-26E vs peers' average of 10%), 4) a higher-than-industry average net profit margin (at around 14%-15% in FY23-24E) and 5) its relatively apparent consumer staples nature. Noted that, based on the DCF method (12.2% WACC, 2% terminal growth), its valuation could be as high as HK\$ 10.95, which implies a 12.2x FY25E P/E, almost at par with its China small appliances' peer average of 12.4x.

Figure 73:: China peers valuation - Forward 2 yrs P/E



Source: Bloomberg, Company data, CMBIGM estimates, date as of 7 Nov 2024

Figure 74: Int'l peers valuation - Forward 2 yrs P/E



Source: Bloomberg, Company data, CMBIGM estimates, date as of 7 Nov 2024

■ We can also cross check valuation by the DCF method for Carote, which is actually suggesting a 12.2x FY25E P/E.

Our DCF method is assuming:

- a 25% sales CAGR during FY23-28E
- a 23% EBITDA CAGR in FY23-28E
- a 16.2% EBITDA margin by FY28E (from 17.1% in FY23)
- a 12.2% WACC (higher than both Greater China peers' average of 9.4% and Int'l peers' average of 8.6%), based on 3% cost of debt, 10.6% risk premium, beta of 0.9x, 13.9% cost of equity, optimal debt/ equity ratio of 15%/ 85%.
- 2.0% terminal growth.

Valuation can be as high as RMB 5,656mn, effectively implying a TP of HK\$ 10.95 or 12.2x FY25E P/E, roughly at par to the China peers' average of 12.4x, but still at a 65% and 62% discount to the Company's 3-year sales CAGR of 35% and net profit CAGR of 32%.

Figure 75: Valuation - DCF method in RMB mn

DCF	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	33	124	271	412	526	626	699	742
Chg in working cap	96	-11	-2	-45	91	88	34	36
Adjusted tax	-5	-18	-42	-71	-95	-112	-126	-137
Capex & product dev	-71	-117	-6	-7	-10	-12	-13	-14
Unleveraged FCF	53	-22	221	288	512	591	594	626
YoY%								
DCF (23E-27E)				1,810				
PV (Terminal value)				3,527				
EV (End-23E)				5,336				
Cash from options/warrants conv				0				
Yer-end net cash/(debts)				320				
Fully diluted equity value (End-23E)				5,656				
Fully diluted no. of shares (m)				555				
Minority interests (End-23E)				-0				
Market cap (End-23E)				5,656				
Exchange rate				1.07				
Fully diluted equity value/share (HK\$)				10.95				
Risk-free rate				4.0%				
Risk premium				11.0%				
Unleveraged industry beta				0.90				
Gearing				0.0%				
Tax				17.0%				
Beta				0.90				
Cost of equity				13.9%				
Cost of debt				3.0%				
Tax rate				17.0%				
After-tax cost of debt				2.5%				
Debt to total capital				15.0%				
WACC				12.2%				
Terminal growth				2.0%				

Source: Bloomberg, Company data, CMBIGM estimates

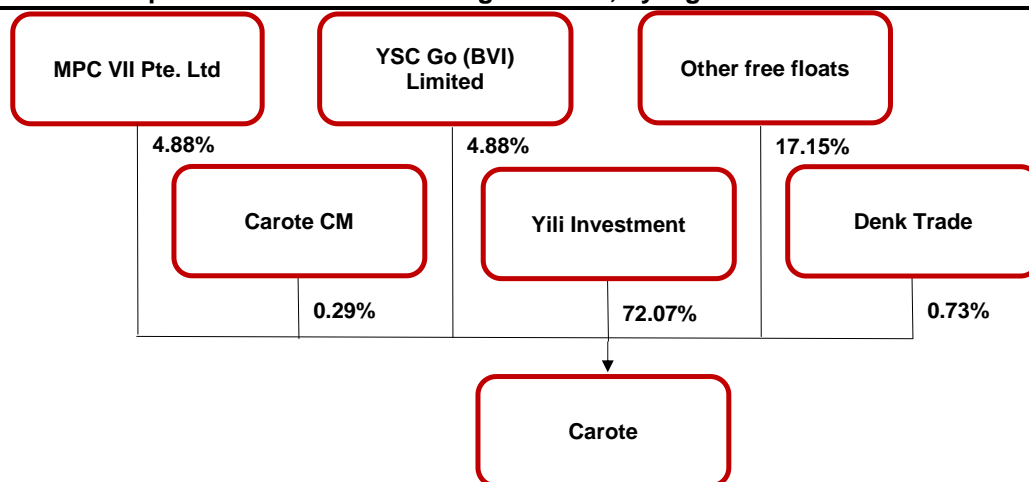
Figure 76: Sensitivity test for the target price, in RMB mn

		WACC (%)						
		10.7%	11.2%	11.7%	12.2%	12.7%	13.2%	13.7%
Terminal growth (%)	0.5%	5,923	5,644	5,390	5,158	4,946	4,750	4,569
	1.0%	6,135	5,832	5,559	5,310	5,082	4,873	4,681
	1.5%	6,369	6,040	5,743	5,475	5,230	5,007	4,802
	2.0%	6,630	6,270	5,947	5,656	5,393	5,153	4,934
	2.5%	6,923	6,526	6,173	5,856	5,571	5,312	5,077
	3.0%	7,254	6,814	6,425	6,078	5,768	5,487	5,234
	3.5%	7,632	7,140	6,708	6,326	5,986	5,681	5,406

Source: Bloomberg, Company data, CMBIGM estimates

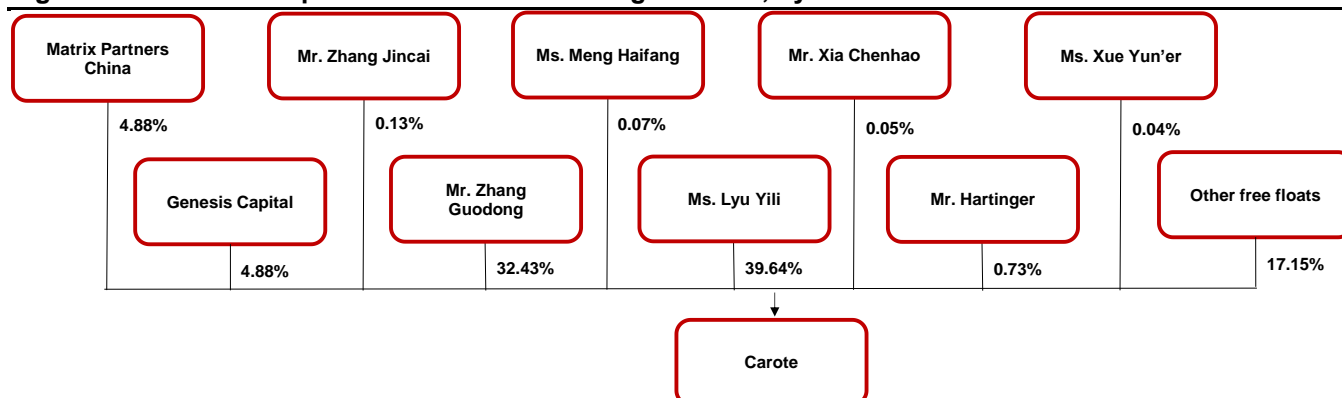
Shareholding Structure

Figure 77: Carote's corporate structure after reorganization, by legal entities



Source: Company data, CMBIGM

Figure 78: Carote's corporate structure after reorganization, by actual owners



Source: Company data, CMBIGM

Management Profile

Figure 79: Carote's management profile

Name	Age	Joined the group since	Date of appointment	Position	Responsibility
Mr. ZHANG Guodong (張國棟)	36 years old	Jul-11	Feb-23	Executive Director, chairman of the Board and chief executive officer	Responsible for formulating the overall corporate and business strategies and overseeing the daily operation of the Group. Mr. Zhang has over 12 years of experience in the industry from working within the Group. Mr. Zhang joined the Group in July 2011 and successively served in various positions in Zhejiang Carote, the main operating subsidiary in China, including as sales manager from July 2011 to June 2014, production manager from July 2014 to June 2016, product manager for cookware from July 2016 to April 2019, and then as director and chief executive officer from April 2019 up to the present. He was appointed as Director in February 2023 and was re-designated as an executive Director and chairman of the Board in March 2024, and was appointed as chief executive officer of the Company in March 2024.
Ms. LYU Yili (呂伊俐)	36 years old	Apr-11	Feb-23	Executive Director and chief product officer	Responsible for overseeing daily operations and product development. Ms. Lyu has over 10 years of experience in the industry from working within the Group. Ms. Lyu joined the Group in April 2011 and successively served in various positions in Zhejiang Carote, the main operating subsidiary in China, including as product manager overseeing the general design and production of products. Since 2021, Ms. Lyu has started focusing and overseeing the design and development of drinkware. She was appointed as a Director in February 2023 and re-designated as an executive Director in March 2024. She was also appointed as chief product officer in March 2024.
Mr. XIA Chenhao (夏宸灝)	29 years old	Oct-18	Mar-24	Executive Director and chief operating officer for China	Responsible for overseeing the business development and operation of the Group in China. Mr. Xia has over five years of experience in the industry from working within the Group. Mr. Xia joined Zhejiang Carote in October 2018 and has been our Tmall manager since then. He was appointed as executive Director and chief operating officer for China in March 2024. Prior to joining our Group, from April 2018 to October 2018, Mr. Xia worked for Dianjing Network Holding Co., Ltd. (點晶網絡股份有限公司), a company principally engaged in providing integrated e-commerce services including brand retail, channel distribution and brand operations.
Ms. MENG Haifang (孟海方)	36 years old	Jul-20	Mar-24	Financial director	Responsible for overseeing the Group's finance, investments and capital market activities. Prior to joining our Group, Ms. Meng worked in Shaoxing Keqiao Yamei Biochemical Co., Ltd.* (紹興柯橋亞美生物化工有限公司), a company principally engaged in the manufacturing industry, from July 2011 to March 2013. From July 2013 to August 2016, Ms. Meng worked in Zhejiang Yuewang Jewelry Co. Ltd (浙江越王珠寶有限公司), a company principally engaged in the business of jewelry retail. From November 2018 to February 2020, Ms. Meng worked in Shenzhen Jinyi Cultural Development Co., Ltd (深圳金一文化發展有限公司), a company principally engaged in the business of supply chain services for jewelry and gold products.
Ms. XUE Yun'er (薛芸兒)	30 years old	Mar-19	Jan-23	Chief operating officer for North America	Responsible for overseeing our Group's operations in North America. Ms. Xue has over six years of experience in the e-commerce industry. She joined the Group in March 2019 as a manager for the Group's operations in Malaysia, until May 2020. From May 2020 to December 2020, she was the manager of the Group's Southeast Asia operations, from January 2021 to December 2021, she was the manager of the Group's operations in all of the Asia Pacific (other than China) and from December 2021 to December 2022, she was the manager for the Group's North America operations. Her responsibilities for these positions included promotion of the Group's online business in the relevant countries or jurisdictions, as well as the operation of e-commerce platforms and overseeing product launches. Prior to joining the Group, from September 2017 to June 2018, Ms. Xue worked in the brand operations department of Hangzhou Dili Fashion Technology Co., Ltd.* (杭州迪爾時尚科技有限公司), a company which is principally engaged in the business of fashion e-commerce.
Ms. Chan Yuen Mui (陳婉梅)	36 years old	Mar-24	Mar-24	Company secretary	Ms. Chan is a manager of Governance Services of Computershare Hong Kong Investor Services Limited. She has over 15 years of experience in corporate secretarial and commercial administration fields. She obtained a Bachelor of Business Administration degree with Honours from Hong Kong Baptist University and a Master of Corporate Governance degree from the Hong Kong Polytechnic University. Ms. Chan is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. She possesses the academic and professional qualifications of a company secretary as required under Rule 3.28 of the Listing Rules.
Ms. YEUNG Shuet Fan (楊雪芬)	50 years old	REDACTED	REDACTED	Independent non-executive Director	Responsible for supervising and providing independent judgment to the Board. Ms. Yeung is a capital markets and structured products specialist with over 15 years of experience in investment banking. Ms. Yeung began her career in capital markets investment banking and had since served in multiple relevant positions in a number of leading international investment banks prior to joining the Arta TechFin group in 2021 as the head of corporate finance. From June 2017 to May 2021, Ms. Yeung served as a managing director of Barclays Capital Asia Limited. From 2014 to 2015, Ms. Yeung served as a managing director and global head of Equity Linked Solutions of Standard Chartered Bank (Hong Kong) Limited. From June 2007 to April 2014, Ms. Yeung was a director of Asia Pacific Equity Capital Markets, Hong Kong Department at Citigroup Global Markets Asia Limited. Ms. Yeung also has solid experience in serving on the board of directors in a Hong Kong listed company. Ms. Yeung served as executive director of Arta TechFin Corporation Limited, a company listed on the Stock Exchange (stock code: 279) from November 2021 to September 2023 and its chief financial officer from November 2022 to September 2023.
Dr. CHAN Tin Wai David (陳天衛)	59 years old	REDACTED	REDACTED	Independent non-executive Director	Responsible for supervising and providing independent judgment to the Board. Dr. Chan has over 30 years of experience in overseeing corporate finance, merger and acquisition activities, accounting, company secretarial, administration, human resource functions and legal matters. He possesses appropriate accounting and related financial management expertise pursuant to Rule 3.10(2) of the Listing Rules. He had worked in several multi-national and Hong Kong blue chip companies. Dr. Chan worked in CITIC Pacific Limited (now known as CITIC Limited, a company listed in the Stock Exchange (stock code: 267)) during the period from December 1994 to May 2000 and he was the deputy general manager of the financial control department prior to his departure. From July 2001 to October 2005, he served as the chief financial officer and company secretary of Frasers Property (China) Limited (now known as Gemdale Properties and Investment Corporation Limited), a company listed on the Stock Exchange (stock code: 535). From June 2006 to August 2019, Dr. Chan served as the executive director and chief financial officer of CITIC Telecom International Holdings Limited, a company listed on the Stock Exchange (stock code: 1883) principally engaged in internet-oriented telecommunications comprehensive services. Since March 2023 and until present, Dr. Chan has been the chief financial officer of Human Health Holdings Limited, a company listed on the Stock Exchange (stock code: 1419), where he is responsible for overseeing financial, compliance, risk and human resources management matters.
Mr. SHI Zhouneng (施周峰)	42 years old	REDACTED	REDACTED	Independent non-executive Director	Responsible for supervising and providing independent judgment to the Board. Mr. Shi has over 15 years of experience in financial management, auditing and corporate secretarial matters. He possesses appropriate accounting and related financial management expertise pursuant to Rule 3.10(2) of the Listing Rules. From October 2008 to May 2015, Mr. Shi served as project manager and project director of Huapu Tianjian Certified Public Accountants LLP (華普天健會計師事務所(特殊普通合夥)) (now known as RSM China Certified Public Accountants LLP (容誠會計師事務所(特殊普通合夥))), where he was engaged in the auditing work. From June 2015 to October 2019, Mr. Shi served as senior project manager of the investment bank department of Guoyuan Securities Co., Ltd (國元證券股份有限公司), where he was engaged in initial public offering projects. From November 2019 to March 2021, Mr. Shi served as person in charge of finance of Union Semiconductor (Hefei) Limited Company* (合肥新匯成微電子有限公司) (now known as Union Semiconductor (Hefei) Co., Ltd (合肥新匯成微電子股份有限公司), a company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange (stock code: 688403) ("Union Semiconductor")). From March 2021 to November 2022, he served as the board secretary and chief financial officer of Union Semiconductor, where he was responsible for financial management and establishment of internal control system of the company. From December 2022 to July 2023 and since February 2024 and until present, Mr. Shi has served as the chief financial officer of Innosilicon Holding Group Co. Ltd* (武漢芯動控股集團有限公司), a company principally engaged in semiconductor IP licensing and chip customization services.

Source: Company data, CMBIGM

Key Risks

■ Economy-wise

- A slowdown in economic growth or tightening property policy in the United States and China
- Weaker-than-expected property-related or “work from home” demand
- Unexpected changes in currency exchange rates (e.g. CNY appreciation)
- Increases in import tariffs or even trade embargo.

■ Industry-wise

- Rising competition from food delivery companies
- Rising competition from the pre-cook food industry
- Greater-than-expected competition (e.g. a price war or surge in marketing budgets)

■ Company-wise

- Failure to have quality and steady component supplies or unpredicted increases in raw material prices
- Failure to remain better-than-peers in terms of technological changes

Appendix

Figure 80: Rates of the US tariffs imposed on pots and pans and other small cooking appliances imports

申报品类	HS编码	描述	关税
锅具 (Of cast iron, not enameled, Coated or plated with precious metal)	7323.91.10	Cast iron, table, kitchen or o/household arts. and parts thereof, not enameled but coated or plated with precious metals	7.5%
锅具 (Of cast iron, not enameled, Coated or plated with others)	7323.91.50	Cast iron, table, kitchen or o/household arts. and parts thereof, not enameled & not coated or plated with precious metals	5.3%
锅具 (Of cast iron, enameled)	7323.92.00	Cast iron, table, kitchen or o/household arts. and parts thereof, enameled	7.5%
锅具 (Of stainless steel)	7323.93.00	Stainless steel, table, kitchen or o/household arts. and parts thereof	2.0%
锅具 (Of iron (other than cast iron) or steel, enameled)	7323.94.00	Iron (o/than cast) or steel (o/than stainless), table, kitchen or o/household arts. and parts thereof, enameled	10.2%
锅具 (Of other materials not previously mentioned, Coated or plated with silver)	7323.99.10	Iron (o/th cast) or steel (o/th stainless), table, kitchen or o/household arts. & parts thereof, not enameled but plated/coat. w/silver	7.5%
锅具 (Of other materials not previously mentioned, Coated or plated with other precious metals)	7323.99.30	Iron (o/th cast)/steel (o/th stainless), table/kitchen/household arts. & parts thereof, not enameled but plated/coat. w/prec metal o/silver	8.2%
餐具 (Of tinplate, Not coated or plated with precious metal)	7323.99.50	Tinplate, table, kitchen or o/household arts. & parts thereof, not coated or plated w/precious metal	0.0%
锅具 (Of tinplate, Not coated or plated with precious metal)	7323.99.70	Iron (o/th cast) or steel (o/than tinplate or stainless), cookingware, not coated or plated with precious metal	5.3%
电热吹风机	8516.31.00	Electrothermic hair dryers	3.9%
电动熨斗 (旅行型除外)	8516.40.40	Electric flatirons, other than travel type	2.8%
家用微波炉	8516.50.00	Microwave ovens of a kind used for domestic purposes	2.0%
家用电热烹饪炉、灶具和烤箱 (微波炉除外)	8516.60.40	Electrothermic cooking stoves, ranges and ovens (excluding microwave ovens) of a kind used for domestic purposes	25.0%
电热炊具, 烹饪盘, 煮沸环, 烤架和烘烤器, 其他, 用于家庭用途	8516.60.60	Electrothermic cookers, cooking plates, boiling rings, grillers and roasters, nesoi, of a kind used for domestic purposes	2.7%
家用电热咖啡壶或茶壶	8516.71.00	Electrothermic coffee or tea makers, for domestic purposes	11.2%
家用电热烤面包机	8516.72.00	Electrothermic toasters, for domestic purposes	5.3%
其他电热器具 (家用)	8516.79.00	Electrothermic appliances nesoi, of a kind used for domestic purposes	2.7%
带有内置电动机的, 功率不超过1,500瓦, 并且配有容量不超过20升的集尘袋或其他容器的真空吸尘器。	8508.11.00	With self-contained electric motor, Of a power not exceeding 1,500 W and having a dust bag or other receptacle capacity not exceeding 20L	25.0%
带有内置电动机的其他类型的真空吸尘器	8508.19.00	Vacuum cleaners with self-contained electric motor, other than of a power not exceeding 1,500 W and having a dust bag or other receptacle capacity not exceeding 20L	25.0%
没有内置电动机的其他真空吸尘器	8508.60.00	Vacuum cleaners with other than a self-contained electric motor	25.0%
真空吸尘器零件	8508.70.00	Parts of vacuum cleaners	25.0%
空气净化器	8421.39.01	Filtering or purifying machinery and apparatus for gases, other than intake air filters or catalytic conv. for internal combustion engines	25.0%
家用电动食品研磨机、加工机、搅拌机、水果或蔬菜榨汁机	8509.40.00	Electromechanical food grinders, processors, mixers, fruit or vegetable juice extractors, w self-contained electric motor, for domestic uses	4.2%
家用电动地板抛光机, 配有独立电动机	8509.80.10	Electromechanical floor polishers, with self-contained electric motor, for domestic uses	0.0%
家用自带电动机的电动厨房垃圾处理处理器	8509.80.20	Electromechanical kitchen waste disposers (disposals), with self-contained electric motor, for domestic uses	25.0%
其他家用机电设备, 带有独立电动机	8509.80.50	Electromechanical domestic appliances nesoi, with self-contained electric motor (Can openers (including combination units) , Electric toothbrushes , Humidifiers and others)	4.2%

Source: <https://hts.usitc.gov/>, CMBIGM estimates

Figure 81: Net profit impact analysis of different levels of US tariffs on pots and pans imports

Period	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Branded sales in United States (RMB mn)	47	122	740	1,336	1,916	2,366
Carote group's sales (RMB mn)	675	768	1,583	2,402	3,242	3,910
Carote group's net profit	32	109	237	349	463	547
Case 1 (staying at 7.5%)						
Rate of tariffs	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Amount of tariffs paid	3.5	9.2	55.5	100.2	143.7	177.4
Gross profit (including tariffs)	20	65	291	505	690	842
GP margin (including tariffs)	42.5%	53.4%	39.4%	37.8%	36.0%	35.6%
Extra tariffs vs current level				-	-	-
As % of group's sales				0.0%	0.0%	0.0%
As % of group's net profit				0.0%	0.0%	0.0%
Case 2 (raise to 15%)						
Rate of tariffs	7.50%	7.50%	7.50%	15.0%	15.0%	15.0%
Amount of tariffs paid	3.5	9.2	55.5	200.3	287.5	354.9
Gross profit (including tariffs)	20	65	291	405	546	664
GP margin (including tariffs)	42.5%	53.4%	39.4%	30.3%	28.5%	28.1%
Extra tariffs vs current level				100.2	143.7	177.4
As % of group's sales				4.2%	4.4%	4.5%
As % of group's net profit				28.7%	31.0%	32.4%
Case 3 (raise to 25%)						
Rate of tariffs	7.50%	7.50%	7.50%	25.0%	25.0%	25.0%
Amount of tariffs paid	3.5	9.2	55.5	333.9	479.1	591.4
Gross profit (including tariffs)	20	65	291	271	355	428
GP margin (including tariffs)	42.5%	53.4%	39.4%	20.3%	18.5%	18.1%
Extra tariffs vs current level				233.7	335.4	414.0
As % of group's sales				9.7%	10.3%	10.6%
As % of group's net profit				67.0%	72.4%	75.6%

Source: <https://hts.usitc.gov/>, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	675	768	1,583	2,402	3,242	3,910
Cost of goods sold	(549)	(493)	(1,018)	(1,526)	(2,074)	(2,502)
Gross profit	127	275	565	876	1,168	1,408
Operating expenses	(95)	(150)	(313)	(501)	(685)	(827)
Selling expense	(57)	(109)	(245)	(389)	(549)	(672)
Admin expense	(20)	(21)	(32)	(68)	(76)	(83)
R&D expense	(16)	(19)	(33)	(42)	(57)	(68)
Staff costs	(2)	(2)	(3)	(5)	(6)	(8)
Other rental related expenses	0	0	0	0	0	0
Others	(0)	(0)	0	2	3	4
Operating profit	33	124	271	404	513	609
Other income	1	(1)	19	29	30	28
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
EBITDA	174	292	482	682	853	1,021
Depreciation	(142)	(168)	(210)	(278)	(340)	(412)
Other amortisation	0	0	0	0	0	0
Interest income	5	5	7	16	44	50
Interest expense	(2)	(3)	(0)	(0)	(0)	(0)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	36	126	278	419	556	658
Income tax	(4)	(18)	(42)	(71)	(95)	(112)
Minority interest	0	0	1	1	1	1
Net profit	32	108	236	348	462	546

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	256	295	531	1,627	2,265	2,950
Cash & equivalents	98	42	236	1,137	1,624	2,171
Account receivables	64	55	74	86	98	107
Inventories	30	42	108	146	227	308
Prepayment	15	27	24	36	49	59
ST bank deposits	10	79	89	89	89	89
Other current assets	40	50	0	132	178	215
Non-current assets	184	258	105	104	101	94
PP&E	17	115	11	10	7	1
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Other non-current assets	167	143	94	94	94	94
Total assets	440	553	636	1,731	2,366	3,045
Current liabilities	359	378	411	560	803	1,028
Short-term borrowings	39	19	5	5	5	5
Account payables	282	276	359	502	739	960
Tax payable	5	18	34	34	34	34
Other current liabilities	33	64	14	20	26	30
Non-current liabilities	11	38	2	1	0	(1)
Long-term borrowings	0	37	0	0	0	0
Other non-current liabilities	11	1	2	1	0	(1)
Total liabilities	370	416	413	562	803	1,028
Share capital	0	0	139	139	139	139
Retained earnings	42	91	328	507	877	1,315
Other reserves	28	47	(244)	524	546	563
Total shareholders equity	71	138	223	1,169	1,562	2,017
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)
Total equity and liabilities	440	553	636	1,731	2,366	3,045

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	36	126	278	419	556	658
Depreciation & amortization	0	0	0	8	13	18
Tax paid	(2)	(6)	(30)	(71)	(95)	(112)
Change in working capital	96	(11)	(2)	(45)	91	88
Others	(7)	19	(2)	0	0	0
Net cash from operations	122	129	244	311	566	653
Investing						
Capital expenditure	(14)	(117)	(6)	(7)	(10)	(12)
Acquisition of subsidiaries/ investments	(57)	0	0	0	0	0
Others	(25)	(67)	54	0	0	0
Net cash from investing	(95)	(184)	48	(7)	(10)	(12)
Financing						
Dividend paid	0	0	(50)	(100)	(70)	(93)
Net borrowings	31	16	(14)	0	0	0
Proceeds from share issues	19	6	1	698	0	0
Share repurchases	0	0	0	0	0	0
Others	(15)	(22)	(35)	(0)	(0)	(0)
Net cash from financing	35	1	(98)	598	(70)	(93)
Net change in cash						
Cash at the beginning of the year	36	98	42	236	1,137	1,624
Exchange difference	0	(1)	(0)	0	0	0
Others	61	(55)	194	901	486	548
Cash at the end of the year	98	42	236	1,137	1,624	2,171
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	13.8%	106.0%	51.7%	35.0%	20.6%
Gross profit	na	117.6%	105.3%	55.0%	33.4%	20.5%
Operating profit	na	279.7%	118.4%	48.9%	26.9%	18.7%
EBITDA	na	67.6%	64.7%	41.6%	25.1%	19.7%
Net profit	na	242.7%	118.0%	47.1%	32.8%	18.3%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	18.7%	35.8%	35.7%	36.5%	36.0%	36.0%
Operating margin	4.8%	16.2%	17.1%	16.8%	15.8%	15.6%
EBITDA margin	25.8%	38.0%	30.4%	28.4%	26.3%	26.1%
Return on equity (ROE)	na	104.2%	131.3%	50.0%	33.8%	30.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	1.0	0.5	1.4	1.0	1.1	1.1
Current ratio (x)	0.7	0.8	1.3	2.9	2.8	2.9
Receivable turnover days	33.6	28.2	14.9	13.0	11.0	10.0
Inventory turnover days	17.5	26.9	27.0	35.0	40.0	45.0
Payable turnover days	148.0	206.6	113.8	120.0	130.0	140.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	74.1	21.6	9.9	6.7	5.1	4.3
P/E (diluted)	74.1	21.6	9.9	6.7	5.1	4.3
P/B	33.4	17.1	10.6	2.0	1.5	1.2
P/CFPS	19.3	18.3	9.6	7.6	4.2	3.6
Div yield (%)	0.0	2.1	4.3	3.0	3.9	4.7
EV	5,518.7	6,226.6	8,148.7	8,075.1	7,866.3	7,406.6
EV/Sales	8.2	8.1	5.1	3.4	2.4	1.9
EV/EBITDA	31.6	21.3	16.9	11.8	9.2	7.3

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

Disclosures & Disclaimers

Analyst Certification

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