01 Nov 2026 20:12:34 ET | 12 pages

Ecovacs Robotics (603486.SS)

3Q26 miss on pressured GPM

CITI'S TAKE

Excluding Rmb105m after-tax non-recurring loss (mainly fair value loss on a listed investment), core NP fell 47% YoY to Rmb226m in 3Q26, below market expectations, on weaker-than-expected GPM (down 10.2ppts YoY to 39.6%). Per mgt, memory chip inflation took 5ppts+ off GPM and RMB appreciation ~2ppts, while ~Rmb10-20m of US tariff refund was booked in 3Q26. Mgt sees 3Q26 as the peak QoQ memory hit, but YoY cost pressure persists into 1H27E. Positively, selling expense ratio improved 6.6ppts YoY to 24.6%, helped by overseas offline sales overtaking online for the first time, per mgt. Our current 2026E NP estimate of ~Rmb1.8bn is ~10% below consensus of ~Rmb2.0bn. Maintain our preference over **Roborock** (Buy, see Nov 1 results note) over **Ecovacs** (Buy).

Buy	
Price (30 Oct 26 15:00)	Rmb45.000
Target price	Rmb73.900
Expected share price return	64.2%
Expected dividend yield	2.1%
Expected total return	66.3%
Market Cap	Rmb26,144M
	US$3,929M

Vincent Young[AC]

Xiaopo Wei, CFA

4Q26E outlook — Per mgt, memory chip prices are still rising, albeit at a slower pace. Under FIFO costing, 3Q26 was the first quarter almost fully on post-inflation memory stock, and mgt sees it as the peak QoQ hit, with limited further QoQ impact in 4Q26E-2Q27E but continued YoY cost pressure. Memory inventory at end-3Q26 covers expected usage through 2Q27E, and marking it to spot prices would cut quarterly gross profit by at least Rmb100m, per mgt. Per mgt, GPM could stabilize or recover as other cost-downs take effect. Mgt expects a stable-to-lower selling expense ratio for mature categories (robot vacuum and wet-dry vacuum), while new categories (lawn mower, pool, window-cleaning robots) still need investment. The EU anti-dumping duty on robot lawn mowers (~47% average rate for Ecovacs) is not retroactive and applies to shipments for the 2027 season, per mgt.

Ecovacs brand performance — Sales of the Ecovacs brand (mostly robot vacuum, rep. ~62% of group sales) reached ~Rmb2.9bn in 3Q26, per mgt. China sales grew 20%+ YoY, with market share further consolidating towards the top two players, while overseas sales grew ~20% YoY (incl. less than 1ppt FX drag), per mgt. Ecovacs overseas sales rose to ~55% of group sales (Europe/North America/APAC at ~6:2:2), and overseas offline sales exceeded online for the first time in 3Q26. In Europe, the sub-US $400 price band lost share while the US $400-600 band expanded, lifting the mix of its roller-mop T series (its largest series in Europe in 2026), per mgt. New categories grew well above the group average, with window cleaning robot overseas sales now exceeding China.

Tineco brand performance — Sales of the Tineco brand (mostly wet-dry vacuum, rep. ~38% of group sales) were broadly flat YoY at ~Rmb1.7bn in 3Q26, per mgt. Overseas sales grew 20%+ YoY, offset by a double-digit YoY decline in China on ASP pressure in the wet-dry vacuum market. Brand GPM stayed above

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

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the Ecovacs brand but fell YoY on RMB appreciation (given its high overseas mix) and China price competition rather than memory costs, per mgt.

3Q26 results details — Group sales grew 11% YoY and GPM contracted 10.2ppts YoY to 39.6% in 3Q26 (vs 47.5% in 2Q26). Selling expense ratio improved 6.6ppts YoY to 24.6%. OP fell 39% YoY to Rmb266m and OPM contracted 4.6ppts YoY to 5.7%. A Rmb137m non-cash fair value loss (vs a Rmb7m gain in 3Q25) cut pre-tax profit 81% YoY to Rmb79m, while a Rmb42m income tax credit on share-based compensation left reported NP down 72% YoY at Rmb121m. Operating cash outflow was Rmb548m in 3Q26 (vs Rmb507m inflow in 3Q25), on memory chip stocking (inventory up 66% vs end-25). The board also approved a Rmb150-200m A-share buyback for its ESOP.

Figure 1. 3Q26 results details

Rmb mn (Dec End)	1Q25	1Q26	YoY	2Q25	2Q26	YoY	3Q25	3Q26	YoY
Sales	**3,858**	**4,902**	**27%**	**4,818**	**5,439**	**13%**	**4,201**	**4,647**	**11%**
COGS	(1,941)	(2,471)	27%	(2,422)	(2,854)	18%	(2,109)	(2,805)	33%
Gross profit	**1,917**	**2,431**	**27%**	**2,396**	**2,585**	**8%**	**2,092**	**1,842**	**-12%**
Gross margin	*49.7%*	*49.6%*		*49.7%*	*47.5%*		*49.8%*	*39.6%*	
Selling and distribution expenses	(1,171)	(1,385)	18%	(1,431)	(1,597)	12%	(1,308)	(1,142)	-13%
As % sales	*30.4%*	*28.2%*		*29.7%*	*29.4%*		*31.1%*	*24.6%*	
General and administrative expenses	(139)	(151)	8%	(140)	(184)	31%	(129)	(159)	24%
As % sales	*3.6%*	*3.1%*		*2.9%*	*3.4%*		*3.1%*	*3.4%*	
R&D expenses	(236)	(243)	3%	(272)	(310)	14%	(204)	(247)	21%
As % sales	*6.1%*	*5.0%*		*5.6%*	*5.7%*		*4.9%*	*5.3%*	
Operating taxes	(26)	(29)	11%	(29)	(38)	29%	(16)	(28)	75%
As % sales	*0.7%*	*0.6%*		*0.6%*	*0.7%*		*0.4%*	*0.6%*	
Operating profit	**345**	**623**	**81%**	**523**	**456**	**-13%**	**435**	**266**	**-39%**
OP margin	*8.9%*	*12.7%*		*10.9%*	*8.4%*		*10.4%*	*5.7%*	
Other operating income	42	33	-21%	42	44	4%	65	27	-58%
Investment income	(5)	(1)	-78%	71	150	113%	(6)	(8)	34%
Asset impairment gains / (losses)	(37)	(75)	101%	(96)	(82)	-14%	(38)	(42)	12%
Credit impairment gains / (losses) on receivables	17	(4)	n.m.	(20)	(6)	-71%	(1)	(1)	-33%
Fair value adjustment gains / (losses)	141	(12)	n.m.	(74)	422	n.m.	7	(137)	n.m.
Gains/Losses on asset disposal	1	0	-90%	(0)	(0)	576%	0	0	503%
Other non-operating income	2	2	13%	2	2	-2%	2	2	-23%
Other non-operating expense	(1)	(2)	141%	(6)	(1)	-78%	(10)	(0)	-96%
Net financial income/(expense), incl. FX	26	(124)	n.m.	138	11	-92%	(31)	(28)	-9%
Pre-tax profit	**530**	**440**	**-17%**	**580**	**995**	**72%**	**423**	**79**	**-81%**
Pre-tax margin	*13.7%*	*9.0%*		*12.0%*	*18.3%*		*10.1%*	*1.7%*	
Income tax expense	(55)	(35)	-36%	(75)	(152)	102%	15	42	180%
Effective tax rate	*10.4%*	*8.0%*		*13.0%*	*15.3%*		*-3.5%*	*-53.2%*	
Minority interest	0	(0)	n.m.	0	0	6%	0	0	20%
Net profit attributable to shareholder (reported)	**475**	**405**	**-15%**	**505**	**843**	**67%**	**438**	**121**	**-72%**
Net margin	*12.3%*	*8.3%*		*10.5%*	*15.5%*		*10.4%*	*2.6%*	
Net profit attributable to shareholder (recurring, incl. FX)	**356**	**397**	**11%**	**504**	**409**	**-19%**	**424**	**226**	**-47%**
Net margin	*9.2%*	*8.1%*		*10.5%*	*7.5%*		*10.1%*	*4.9%*	

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Source: Company Reports, Citi Research



Ecovacs Robotics

Valuation
Our target price of Rmb73.9 is benchmarked to 21x 2026E PE, a 25% premium to our target PE for Roborock, to reflect Ecovacs' better focus on capital return and profitability.

Risks
Downside risks that could impede the shares from reaching our target price include: (1) global macroeconomic slowdown and weakened consumer spending; (2) unsuccessful product launches; (3) intensified industry competition (e.g. price competition); (4) increased tariff between China and destination countries; (5) material strengthening in Rmb; and (6) higher-than-expected raw material costs.

Beijing Roborock
(688169.SS; Rmb109.08; 1; 30 Oct 26; 15:00)

Valuation
Our 12-month target price of Rmb166.3 is benchmarked to 21x 26E PE, 20% higher than the stock's average forward PE over the past 3 years to reflect Roborock's reaccelerated earnings growth amid reduced industry competition.

Risks
Downside risks that could impede the shares from reaching our target price include: (1) any global macroeconomic slowdown and weakened consumer spending; (2) unsuccessful product launches; (3) intensified industry competition (e.g. price competition); (4) increased tariffs between China and destination countries; (5) material strengthening in Rmb; (6) higher-than-expected raw material costs.