EQUITY RESEARCH · INITIATION · MASSIMILIANO ZURLO · 2026-10-29

ATRenew — the market is pricing the subsidy cliff and missing the margin behind it

COMPANY	RATING	PRICE	TARGET	UPSIDE
ATRenew NYSE: RERE	**BUY**	**US$3.96** 28 Oct close	**US$5.40** RMB 35.95	**+36%**

Executive summary

BUY, target US$5.40 per ADS against US$3.96: 36% upside. The market values ATRenew as a low-margin distributor — 0.19x EV/sales, 8.6x forward earnings — because it will not look past December 2026, when China's trade-in subsidy runs out with nothing committed for 2027. That caution is reasonable. What it misses is that the value of this business was never in its volume. My base and bull cases share **identical revenue in every year to 2030**, RMB 46,298m at the end; the bull is worth 50% more on gross margin and inventory turns alone. My target sits **below every sell-side target** (US$5.50 to US$6.62): this is not a bet that the street is too cautious, it is a different claim about where the money is made. The risk is a subsidy that is not renewed and a cost base that does not shrink with it — a case worth US$2.06, 48% below today's price.

How the business works

ATRenew buys used phones and electronics from Chinese consumers, grades and refurbishes them, and resells them. Two businesses sit inside one income statement. **Product revenue** is first-party: ATRenew owns the stock, carries the price risk, and earned a 15.9% gross margin on it in Q1 2026. **Service revenue** is the marketplace — fees on the PJT and Paipai platforms — at roughly 76% gross margin. Product is 92.1% of revenue and rising; service fell 4.2% year on year in Q2 2026. The reported 20.66% gross margin is therefore a blend, not a margin: it can fall while both halves improve. Every argument below follows from that.

Investment thesis

1. Volume is nearly worthless here; spread is everything. At the base case's 2.57% net margin and working capital of 7.0% of revenue, each extra RMB 100 of sales earns RMB 2.6 and ties up RMB 7.0 of cash in the year it arrives. Growth pays for itself only in year two. That is why my bull case adds no revenue at all: it moves gross margin from 20.0% to 21.5% and working capital from 7.0% to 6.5%, and nothing else. It is worth US$8.11 against US$5.40. Anyone valuing this company on its top line is using the wrong unit.

2. The market stops at the policy cliff; the margin story starts after it. Trade-in funding is RMB 250bn in 2026, down 17% from RMB 300bn, with nothing committed beyond December. A distributor's multiple is the rational response to growth that depends on an annual budget line, and my base case takes the cliff seriously: 15% revenue growth in 2027, half the current 32%. That is why I sit below a street range of US$5.50 to US$6.62. The mispricing is not excess pessimism about 2027. It is that a horizon ending in 2027 never reaches the margin transition of 2028-2030.

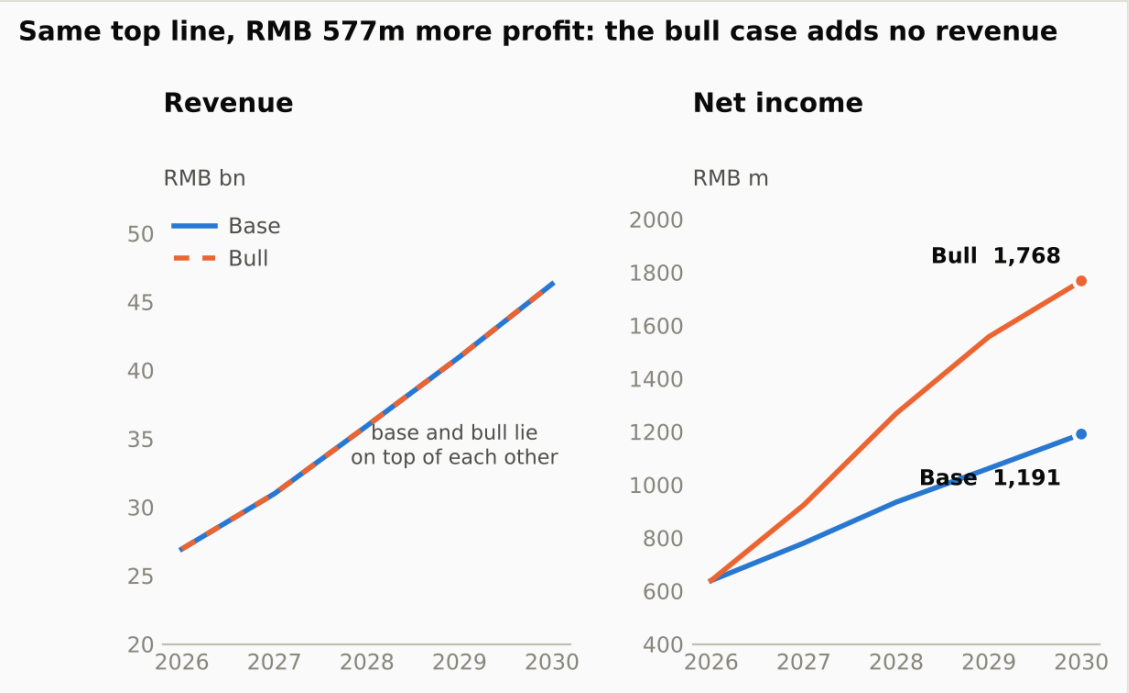

Exhibit 1 Base and bull carry identical revenue in every forecast year. The bull differs on gross margin and inventory days alone, and is worth 50% more. Source: company filings, author's model.

3. The transition is already visible — in pieces the accounts do not add up. First-party gross margin rose to 15.9% in Q1 2026 from 15.2%. First-party B2C retail is 45.1% of product revenue, up 12.1 points in a year. Compliant refurbished volumes grew 76.1%; multi-category GMV grew 81.5%, led by gold (+83.3%) and second-hand luxury (+58.8%), now sold in 966 of 2,156 stores. None of this appears as a segment margin in the filings; it lives in call commentary. My base case gives it no credit: blended gross margin *falls* to 20.0% as mix shifts, and EBIT margin still rises from 2.17% to 3.59% by 2030 on SG&A leverage alone, from 16.78% to 14.3% of revenue.

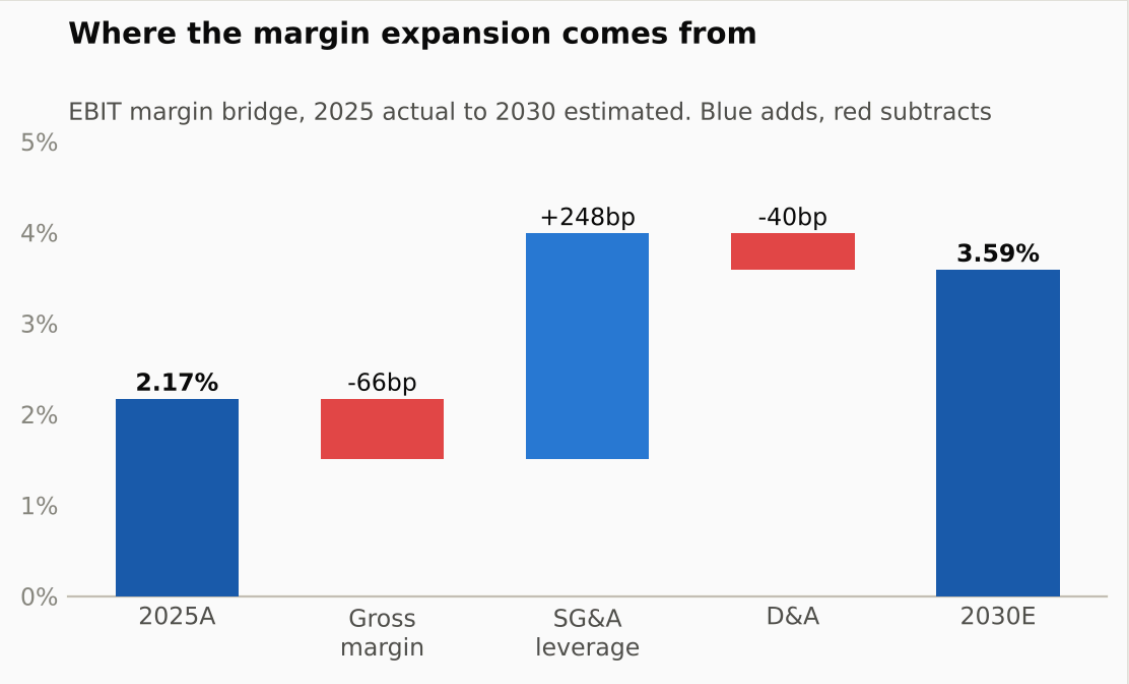

Exhibit 2 Every basis point of margin expansion in the base case comes from operating leverage: gross margin is modelled down, not up. Source: author's model.

4. Holders are paid to wait. The board has committed at least 60% of adjusted net income to shareholders for three years. FY2025 delivered a first dividend of US$23.5m plus RMB 92m of buybacks.

Net cash of RMB 1,215m at end-2025 compounds to RMB 3,432m by 2030 in the base case — US$515m, more than half today's market value.

Competitive position

Second-hand electronics in China is fragmented at the point of purchase and consolidating behind it. ATRenew is the only listed operator at scale. Its competitors are Zhuanzhuan, handset makers' and carriers' own trade-in schemes, and the platforms — JD.com, Alibaba, Douyin — all pulling trade-in into their own funnels. The barriers are operational: consistent grading, pricing data on a depreciating asset, reverse logistics, and a refurbishment chain that complies with Chinese regulation. Whoever controls sourcing controls price, which is why 2,156 stores and a 2,248-person door-to-door team, meeting 80% of customers face to face, matter more than the app. JD.com is both a strategic shareholder and the largest channel — a source of volume and a concentration risk in one.

The position is strengthening on volume and weakening on model quality. Units transacted rose from 9.5m to 10.8m in Q1 2026, but growth is coming through the first-party book while the high-margin marketplace shrinks. ATRenew is buying share with its balance sheet. The valuation turns on whether that buys margin later.

Estimates

RMB M	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	12,966	16,328	21,048	26,942	30,983	35,940	40,972	46,298
Gross profit	2,627	3,242	4,348	5,566	6,352	7,296	8,235	9,260
EBITDA	160	296	572	943	1,190	1,488	1,779	2,102
EBIT	(173)	29	456	794	988	1,218	1,429	1,661
EBIT margin	-1.3%	0.2%	2.2%	2.9%	3.2%	3.4%	3.5%	3.6%
Net income	(156)	(8)	336	639	780	935	1,062	1,191
FCFE	318	85	(232)	149	509	644	836	1,011
EPS (RMB/ADS)	(0.64)	(0.03)	1.38	2.63	3.21	3.84	4.36	4.89

RMB millions except where stated; 2023-2025 actual, 2026-2030 estimated; full statements in the appendix. Revenue compounds at 17.1% from 2025 to 2030; FCFE at 61.4% from 2026. That gap is the thesis in one line — and the first place a sceptic should push, because it needs both the SG&A leverage and the inventory normalisation to arrive.

Line-by-line consensus is not available to me. On targets, the street runs from US$5.50 to US$6.62 against my US$5.40.

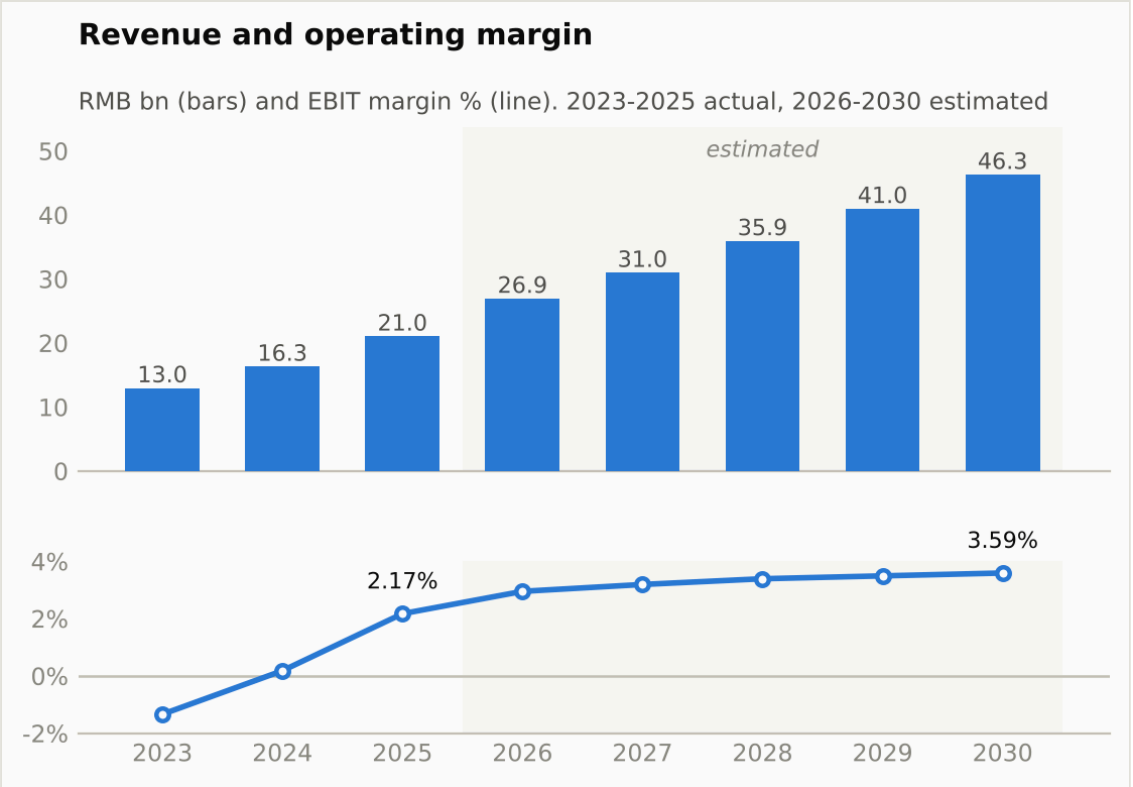

Exhibit 3 Revenue compounds at 17.1% from 2025 to 2030 while the EBIT margin roughly doubles from an unusually low base. Source: company filings, author's model.

Valuation

FCFE discounted at the cost of equity, straight to equity value; debt service is already in the cash flow, so there is no net-debt bridge. The 12.15% cost of equity is a 2.0% renminbi risk-free rate (10-year CGB, matching the currency of the cash flows), a 1.3 beta on a 5.5% equity risk premium, and a 3.0% premium for size, the VIE structure and delisting risk. At 11.5% the value is US$5.85; at 13.0%, US$4.89. Terminal growth is 2.5%. Across the whole sensitivity grid the lowest value, US$4.39, is still above today's price.

The beta is the easiest objection to this report, so I will meet it head on. Data screens show a five-year beta for RERE of about 0.3. I use 1.3. A five-year regression of a thinly traded ADR against the S&P 500 measures how little this stock moves with American equities — not what it costs to own a Chinese recommerce operator with a VIE structure and a demand line set by government budget. A stock whose 52-week range runs from US$3.50 to US$6.47, an 85% spread, is not a 0.3-beta asset in any sense that matters. Taking the screen at its word gives a cost of equity near 7% and a valuation detached from the business; I prefer a number I can defend.

The terminal value is built on a normalised year — capex equal to D&A, working capital growing at g — not on 2030 as forecast. It accounts for 76% of equity value, as it will in any five-year DCF of a company still growing 13% in its final year. Expressed as a multiple, the base case implies an exit **EV/EBITDA of 4.0x** (3.0x bear, 4.6x bull). That is the number to argue with, and it argues for me: four times terminal EBITDA for a business still compounding at 13% is not a stretch. A reader who thinks the terminal does too much work should name the multiple they would pay instead. The bridge from that multiple back to equity is the terminal net debt carried for each case in the valuation block. All three end the forecast with net cash — US$515m in the base case (RMB 3,432m), US$235m in the bear, US$718m in the bull — and net cash is added to the enterprise value the multiple produces. In the base case, terminal equity of US$1,773m is US$1,258m of enterprise value, 4.0x 2030 EBITDA of US$316m, plus that cash. The bear's figure is rolled forward from its own cash flows and distributions, not borrowed from the base: a case that generates less cash ends with less of it, and using the base number would flatter the downside.

Per-share figures are **per ADS**; three ADSs represent two ordinary shares. I use 243.3m ADS, the 2025 diluted average. On the 219.5m outstanding at year-end the value per ADS would be 11% higher; the diluted count is the conservative choice. The model is in RMB; the published figures are converted at RMB 6.6589 per US$ (29 October 2026), so the target will not move with the currency while the quoted price does. Two modelling notes: the tax rate ramps from 15% to the 25% statutory rate rather than staying at the 14.4% that two years of tax benefits imply; and recurring equity-method losses of about RMB 70m a year sit against the cash-yield line, which the template has no separate line for.

VALUATION INPUT	VALUE
Method	FCFE, discounted at the cost of equity
Risk-free rate (10y CGB, RMB)	2.00%
Beta x equity risk premium	1.30 x 5.50%
Size / VIE / delisting premium	3.00%
Cost of equity	**12.15%**
Terminal growth	2.50%
Terminal value method	Gordon on a normalised year (capex = D&A, NWC grows at g)
Terminal value as % of equity value	76%
Implied exit EV/EBITDA (base)	4.0x
Terminal net cash (base)	US$515m
Diluted ADS	243.3m
Equity value / value per ADS	**US$1,314m / US$5.40**

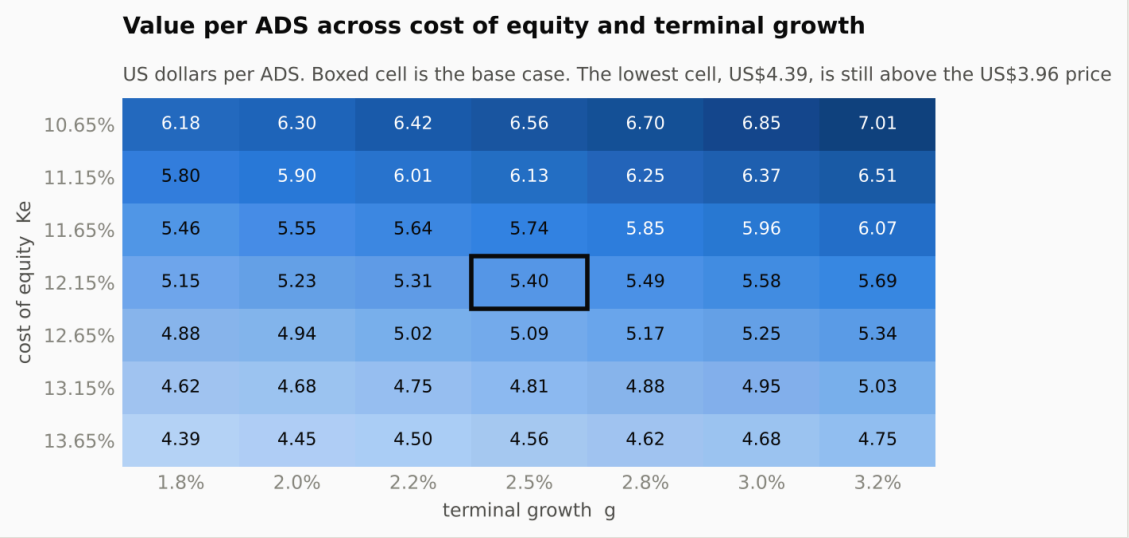

Exhibit 4 The base case value stays above the current price across the whole plausible range of discount rate and terminal growth. Source: author's model.

The three cases

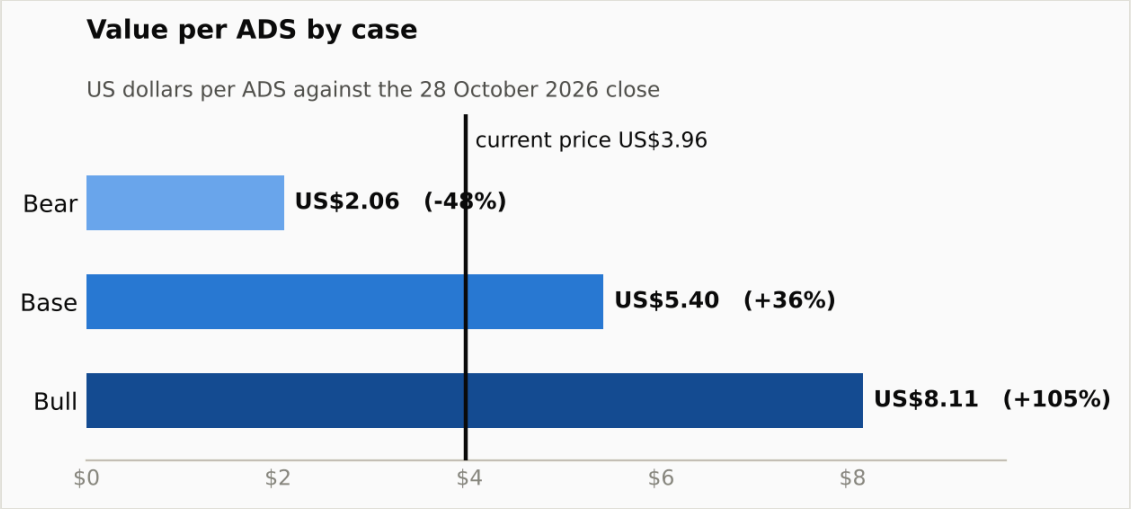

Exhibit 5 Bear 48% below the current price, bull 105% above. The target is the base case, unadjusted. Source: author's model.

Bear — US$2.06, 48% below today. The subsidy is not renewed after 2026. Revenue stalls in 2027 and recovers only to 5-7% growth, reaching RMB 32.4bn in 2030. Costs do not follow: with 2,156 stores and 2,248 field staff hired for a bigger business, SG&A still rises 6% on flat sales and reaches 17.0% of revenue before cuts take hold. Gross margin loses 70bp as competitors fight for a shrinking pool. Net income in 2030 is RMB 489m — five years' work for less than 2025 earned. This is the strongest case against the stock, it is not unlikely, and it is why the multiple is where it is.

Base — US$5.40, the central case. The subsidy is renewed on a smaller scale and fades; growth slows from 28% to 13%. Blended gross margin *falls* to 20.0% as first-party mix dilutes it, and all margin gain comes from SG&A leverage, 16.78% to 14.3%. Inventory days fall from 23.5 to 20.2. I hold it as central because it gives the spread story no credit at all — it is the bull thesis removed — and it still supports 36% upside.

Bull — US$8.11, 105% above. Same revenue and same SG&A as the base. Two lines move: gross margin to 21.5% on refurbished and multi-category mix, working capital to 6.5% on faster-turning stock. Same top line, RMB 577m more profit in 2030.

CASE	REVENUE 2030	EBITDA	NET INCOME	FCFE	TERMINAL NET DEBT	EXIT EV/EBITDA	VALUE/ADS
Bear	32,388	985	489	384	(1,563)	3.0x	US$2.06
Base	46,298	2,103	1,191	1,011	(3,432)	4.0x	US$5.40
Bull	46,298	2,871	1,768	1,542	(4,779)	4.6x	US$8.11

RMB millions; negative net debt is net cash. The target is the base-case value, with nothing added. The call does not need the bull case. It does need the bear to be survivable: at 48% downside, size this as though the policy risk is still open, because it is — and treat the December 2026 funding decision as the moment sizing can change.

Catalysts

CATALYST	TIMING	IMPACT	DIRECTION
Q3 2026 results and Q4 guidance	19 Nov 2026	High	Two-sided
2027 trade-in funding announcement	Late Dec 2026	High	Two-sided
FY2026 results and second dividend under the 60% policy	Mar 2027	Medium	Two-sided
FY2026 20-F — first clean view of 2026 working capital	Apr 2027	Medium	Two-sided
Quarterly first-party gross margin disclosure on calls	Each quarter	High	Two-sided

This report goes out three weeks before the first of these. The 19 November results bring Q4 guidance and the first management read on 2027 — the threshold this thesis is most exposed to. I am publishing anyway and naming the date: a view that cannot survive three weeks of contact with its own test was not worth writing down.

Risks

Subsidy withdrawal *(High)* — RMB 250bn in 2026 against RMB 300bn in 2025, nothing yet for 2027. Worth US$3.34 per ADS on my numbers: the whole gap between base and bear. Watch MOF and NDRC tranche announcements, and the growth gap between eligible and ineligible categories on the call.

Operating deleverage *(High)* — the base needs SG&A to fall from 16.78% to 14.3% of revenue; the ratio was flat from 2024 to 2025. Q1 2026 added 69bp of adjusted operating margin, so it has begun — four more years of it is the extrapolation. Watch SG&A and fulfilment as a share of revenue, quarterly.

Working capital *(Medium)* — inventory doubled to RMB 1,074m in 2025 and operating cash flow swung from +RMB 643m to −RMB 415m. The base assumes a partial reversal, from 23.5 to 20.2 inventory days; without it the FCFE path does not exist. Watch inventories and the cash flow statement in each 6-K.

Shrinking marketplace *(Medium)* — the service half earns roughly 76% gross margin and fell 4.2% in Q2 2026. If it keeps falling, first-party spread has to work harder just to hold the blend. Watch net service revenue, quarterly.

Equity-method losses *(Low)* — RMB 50m, 65m and 67m across 2023-2025, the last a fifth of net income, against RMB 485m of long-term investments. Recurring, and growing.

Structure and jurisdiction *(Medium)* — triple-class voting with 15-vote Class C shares, PRC VIE contracts, HFCAA exposure. This is what the 3.0% premium in the cost of equity pays for; price it differently and the target moves materially.

What worries me most is that the horizon argument cannot be falsified quickly. If the stock sits at 8.6x through 2027, I cannot tell “the market has not looked past the cliff” from “the market has looked and disagrees”. That is why the thresholds below sit on operating lines, not on the multiple.

What would change my mind

- **2027 revenue growth guided or tracking below 10%.** The base assumes 15%. Below 10%, the subsidy carried more of the 2025-26 growth than I allow and the case belongs on the bear. First testable on 19 November.

- **SG&A above 16.5% of revenue for two straight quarters while revenue grows.** The base needs it to fall from 16.78% to 14.3%; a ratio rising against growing sales removes about half the modelled margin gain.
- **First-party gross margin below 15.5%.** It was 15.9% in Q1 2026, up from 15.2%. Below 15.5% the spread is going backwards, which kills the composition argument directly. It is disclosed only in call commentary, not the statements — a weaker gauge than the others.
- **No 2027 trade-in programme, or one below roughly RMB 150bn.** The single dated item to watch. A programme cancelled, or renewed at half the 2025 scale, breaks the 2027 growth assumption before any operating threshold can be tested — and no amount of execution can offset it.

Appendix — the model

The three statements as they stand in the workbook, for the full period. Historical income statement and balance sheet columns are the reported figures mapped to the model's lines; the historical cash flow is **as reported in the filings**, not the template's derived column, which omits share-based compensation and equity-method losses and does not tie to reported cash. Forecast columns are the model throughout.

Income statement

RMB M	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	12,966	16,328	21,048	26,942	30,983	35,940	40,972	46,298
Cost of goods sold	(10,339)	(13,086)	(16,700)	(21,376)	(24,632)	(28,644)	(32,737)	(37,039)
Gross profit	2,627	3,242	4,348	5,566	6,352	7,296	8,235	9,260
SG&A (excl. D&A)	(2,271)	(2,736)	(3,532)	(4,311)	(4,802)	(5,391)	(5,982)	(6,621)
R&D	(196)	(210)	(244)	(312)	(359)	(416)	(475)	(537)
EBITDA	160	296	572	943	1,190	1,488	1,779	2,102
Depreciation & amortisation	(334)	(267)	(116)	(149)	(202)	(270)	(349)	(441)
EBIT	(173)	29	456	794	988	1,218	1,429	1,661
Interest expense	(7)	(15)	(6)	(9)	(9)	(9)	(9)	(9)
Non-operating income / (loss), net	24	(22)	(57)	(34)	(33)	(41)	(51)	(65)
Pre-tax income	(156)	(8)	393	752	946	1,168	1,370	1,588
Income tax	0	0	(57)	(113)	(166)	(234)	(308)	(397)
Net income	(156)	(8)	336	639	780	935	1,062	1,191
Diluted ADS (m)	243.2	242.4	243.3	243.3	243.3	243.3	243.3	243.3
EPS (RMB per ADS)	(0.64)	(0.03)	1.38	2.63	3.21	3.84	4.36	4.89
Gross margin	20.3%	19.9%	20.7%	20.7%	20.5%	20.3%	20.1%	20.0%
EBIT margin	-1.3%	0.2%	2.2%	2.9%	3.2%	3.4%	3.5%	3.6%
Net margin	-1.2%	-0.1%	1.6%	2.4%	2.5%	2.6%	2.6%	2.6%

D&A has its own line; ATRenew reports it inside operating expenses, so SG&A here excludes it and EBIT ties exactly to reported operating income in all three historical years. "Non-operating income / (loss), net" combines interest income with other losses and the share of losses in equity-method investments, which the template cannot separate; net income ties exactly to reported. The 2023 and 2024 tax lines were benefits, which the template's sign convention cannot carry: tax shows nil in those years and the benefit sits in the non-operating line.

Balance sheet

RMB M	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Cash and equivalents	2,189	2,102	1,538	1,518	1,853	2,310	2,954	3,755
Accounts receivable	253	292	513	656	755	876	998	1,128
Inventory	1,017	535	1,074	1,375	1,532	1,719	1,883	2,050
Other current assets	1,068	1,240	1,616	2,069	2,224	2,401	2,532	2,629
Total current assets	4,527	4,169	4,741	5,618	6,364	7,305	8,367	9,562
PP&E, net	148	157	239	275	285	261	193	69
Goodwill and intangibles	271	57	11	11	11	11	11	11
Other non-current assets	548	708	975	975	975	975	975	975
Total assets	5,493	5,091	5,966	6,878	7,635	8,552	9,545	10,617
Accounts payable	532	171	336	430	495	576	658	744
Other current liabilities	809	911	1,245	1,593	1,677	1,766	1,808	1,812
Total debt	350	225	323	323	323	323	323	323
Other non-current liabilities	90	89	72	72	72	72	72	72
Total liabilities	1,782	1,396	1,976	2,418	2,568	2,737	2,861	2,951
Share capital and reserves	13,269	13,359	13,385	13,385	13,385	13,385	13,385	13,385
Treasury stock	(378)	(484)	(546)	(696)	(846)	(996)	(1,146)	(1,296)
Retained earnings / (accumulated deficit)	(9,180)	(9,181)	(8,848)	(8,228)	(7,471)	(6,574)	(5,555)	(4,423)
Total equity	3,711	3,695	3,990	4,460	5,067	5,815	6,684	7,665
Net working capital	996	985	1,623	2,077	2,339	2,653	2,947	3,251
Net cash / (net debt)	1,839	1,877	1,215	1,195	1,530	1,987	2,631	3,432

Cash includes restricted cash, which is what the cash flow statement reconciles to; short-term investments sit in other current assets. Accumulated other comprehensive loss is folded into retained earnings. Accounts receivable was not disclosed separately at 31 December 2023 and sits in other current assets for that year.

Cash flow

RMB M	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Net income	(156)	(8)	336	639	780	935	1,062	1,191
Depreciation & amortisation	334	267	116	149	202	270	349	441
Share-based compensation	134	167	53	—	—	—	—	—
Working capital and other non-cash	(68)	217	(920)	(454)	(261)	(314)	(294)	(304)
Cash flow from operations	244	643	(415)	334	721	891	1,117	1,328
Capital expenditure	(85)	(60)	(144)	(185)	(212)	(246)	(281)	(317)
Net borrowing / (repayment)	226	(125)	98	0	0	0	0	0
Dividends paid	0	0	0	(19)	(23)	(37)	(42)	(60)
Share buybacks	(160)	(184)	(92)	(150)	(150)	(150)	(150)	(150)
Other investing and financing, net	262	(362)	(11)	0	0	0	0	0
Net change in cash	487	(88)	(564)	(20)	335	457	644	801

Historical columns are the reported statement; forecast columns are the model, which has no share-based compensation line and no investing or financing flows beyond capex, borrowing, dividends and buybacks. “Other investing and financing, net” is the residual that reconciles the reported years, and is nil by construction in the forecast.

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Disclosure: *the author is long RERE.*

Disclaimer: for informational purposes only. Not investment advice or a recommendation. Figures are drawn from the author's FCFE model; the model is in RMB and unconverted, with US dollar figures at RMB 6.6589 per US$ (29 October 2026).