

Vesync (2148 HK)

FY22E guidance maintained but we are prudent

Even though FY22E guidance is maintained, our forecast is more conservative, and we urge investors to accumulate only when the global supply chain issue stabilizes. We trimmed TP to HK\$11.30, based on 20x FY22E P/E (down from 25x for sector de-rating) and maintained BUY on undemanding valuation. The long-term story of offline and overseas expansion is still intact.

■ **Slightly revising down FY21E guidance.** Vesync cut its FY21E sales growth target to 35% YoY (from 40%) to reflect slower sell-in growth in 4Q21E due to: 1) weakened US consumption after cut off of unemployment benefits, 2) stricter inventory control of Amazon (sales to inventory ratio at 2 to 2.5 months vs normal level of 1 to 1.5 months) and 3) delay in Cosori's product launches. Margin-wise, there are rising pressure from surging shipping costs (about 9% of sales in 2H21E vs 7% in 1H21) and import tariffs in 2H21E. All in all, **we are forecasting ~35% YoY sales growth and ~13% NP margin in FY21E.**

■ **A rather positive FY22E guidance maintained.** However, **management kept the 40% FY22E sales growth target unchanged** and believe: 1) slowdown in sell-in growth could be short-lived and re-accelerate in 1Q22E given strong sell-out growth rate (60%/ 50%/ 10% YoY in Nov 2021/ Black Friday/ Cyber Monday in US, much faster than Amazon platform's 10%/ 15%/ 11%), 2) Cosori brand sales will grow by 40%+ YoY, thanks to series of product launches, 3) offline sales will double, boosted by rapid penetration of POS (already reached 8,000 -10,000 by Dec 2021), 4) overseas expansion will remain quick, esp. in EU and Japan, supported by more localized products and marketing, 5) new categories could contribute massive growth, (humidifiers may be sold to Costco offline stores in FY22E). **Noted we are more conservative and forecasting only 30% sales growth in FY22E** (29%/ 45% YoY for Levoit/ Cosori). Margin-wise, we are expecting a mild NP improvement to ~14%, driven by: 1) potentially stabilizing shipping and logistic costs, 2) deepening partnership with suppliers on design and production efficiency, and 3) economies of scale and operating leverage.

■ **Maintain BUY but cut TP to HK\$ 11.30.** We revised down FY21E/ 22E/ 23E net profit by 10%/ 9%/ 8%, to factor in slower sell-in growth in 4Q21E, greater transportation expenses and higher import tariffs. Our TP is based on 20x FY22E P/E (down from 25x to factor in sector de-rating and weak investors' sentiment). The stock is trading at 16x FY22E P/E or 0.5x PEG, which we think is undemanding after recent price retreat but risk reward would be better if we wait until the global supply chain issues stabilizes.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (USD k)	171,919	348,922	470,821	614,959	755,203
YoY growth (%)	18.8	103.0	34.9	30.6	22.8
NP att. (USD k)	6,372	54,723	62,429	85,019	114,009
EPS (USD)	0.008	0.049	0.055	0.073	0.098
YoY growth (%)	(99.8)	511.0	12.0	33.7	34.1
Consensus EPS (USD)	n/a	n/a	0.065	0.090	0.120
P/E (x)	145.2	23.8	21.3	15.9	11.9
P/B (x)	79.2	5.0	4.2	3.3	2.6
Yield (%)	0.0	0.3	1.4	1.9	2.5
ROE (%)	38.9	21.0	19.3	20.8	21.8
Net gearing (%)*	119.8	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates, *net debt (cash) / equity

BUY (Maintain)

Target Price	HK\$11.30
(Previous TP)	HK\$15.60)
Up/Downside	+25.4%
Current Price	HK\$9.01

China Home Appliance Sector

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Stock Data

Mkt Cap (HK\$ mn)	10,497
Avg 3 mths t/o (HK\$ mn)	11.86
52w High/Low (HK\$)	23.9/8.7
Total Issued Shares (mn)	1,165.1

Source: Bloomberg

Shareholding Structure

Ms. Yang Lin (Settlor & Trustee) & Mr. Ryan Xu (Beneficiary)	36.15%
Mr. Yang Yuzheng	32.74%
Mr. Yang Hai	0.72%
Mr. Jiang Junxiu	1.43%
Share Award Trust	3.04%
Free Float	25.92%

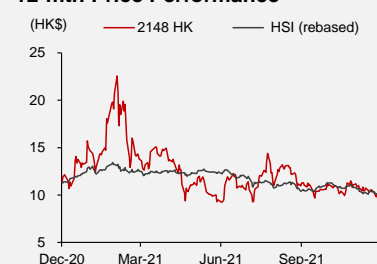
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.3%	-6.3%
3-mth	-14.0%	7.6%
6-mth	1.6%	26.2%
2-mth	9.2%	24.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Vesync (2148 HK, BUY) – Leveraging China production and US e-commerce – 29 Nov 2021

Earnings revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	470,821	614,959	755,203	487,938	629,322	773,358	-3.5%	-2.3%	-2.3%
Gross profit	191,216	252,625	314,292	203,781	265,045	327,774	-6.2%	-4.7%	-4.1%
EBIT	73,355	97,774	129,504	81,558	107,947	140,951	-10.1%	-9.4%	-8.1%
Net profit att.	62,429	85,019	114,009	69,495	93,887	124,120	-10.2%	-9.4%	-8.1%
Diluted EPS (USD)	0.055	0.073	0.098	0.061	0.080	0.106	-10.2%	-9.4%	-8.1%
Gross margin	40.6%	41.1%	41.6%	41.8%	42.1%	42.4%	-1.2ppt	-1ppt	-0.8ppt
EBIT margin	15.6%	15.9%	17.1%	16.7%	17.2%	18.2%	-1.1ppt	-1.3ppt	-1.1ppt
Net profit att. margin	13.3%	13.8%	15.1%	14.2%	14.9%	16.0%	-1ppt	-1.1ppt	-1ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	470,821	614,959	755,203	501,000	681,625	892,167	-6.0%	-9.8%	-15.4%
Gross profit	191,216	252,625	314,292	208,326	290,713	385,594	-8.2%	-13.1%	-18.5%
EBIT	73,355	97,774	129,504	83,700	113,833	142,000	-12.4%	-14.1%	-8.8%
Net profit att.	62,429	85,019	114,009	73,075	101,213	135,000	-14.6%	-16.0%	-15.5%
Diluted EPS (USD)	0.055	0.073	0.098	0.065	0.090	0.120	-16.1%	-19.0%	-18.5%
Gross margin	40.6%	41.1%	41.6%	41.6%	42.7%	43.2%	-1ppt	-1.6ppt	-1.6ppt
EBIT margin	15.6%	15.9%	17.1%	16.7%	16.7%	15.9%	-1.1ppt	-0.8ppt	1.2ppt
Net profit att. margin	13.3%	13.8%	15.1%	14.6%	14.8%	15.1%	-1.3ppt	-1ppt	0ppt

Source: Company data, CMBIS estimates

Assumptions

Figure 3: CMBI's assumptions

USD mn	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Sales by region (USD k)						
North America	120,986	148,634	302,318	390,900	493,975	584,057
Europe	22,391	21,976	40,718	68,878	103,316	144,643
Asia	1,381	1,309	5,886	11,043	17,668	26,503
Total	144,758	171,919	348,922	470,821	614,959	755,203
Sales growth by region (%)						
North America	65.0%	22.9%	103.4%	29.3%	26.4%	18.2%
Europe	90.8%	-1.9%	85.3%	69.2%	50.0%	40.0%
Asia	930.6%	-5.2%	349.7%	87.6%	60.0%	50.0%
Total	69.9%	18.8%	103.0%	34.9%	30.6%	22.8%
Sales growth by segment (%)						
Seller Central	32.1%	-18.7%	23.0%	17.9%	15.0%	10.0%
Vendor Central	477.2%	110.8%	166.7%	36.6%	29.5%	19.8%
Others (including offline)	88.6%	44.0%	860.0%	133.0%	100.0%	70.0%
GP margins by region						
North America	36.6%	39.3%	44.5%	41.0%	41.5%	42.0%
Europe	47.8%	37.8%	38.0%	38.1%	39.0%	40.0%
Asia	54.5%	44.1%	43.0%	41.1%	41.5%	42.0%
Total	38.5%	39.1%	43.7%	40.6%	41.1%	41.6%
GP margins by segment						
Seller Central	37.3%	34.7%	41.0%	36.9%	37.5%	38.0%
Vendor Central	41.6%	43.6%	46.1%	42.4%	43.0%	43.8%
Others (including offline)	38.7%	25.7%	23.0%	36.8%	36.5%	37.0%
Opex breakdown						
A & P	-7.7%	-8.5%	-3.5%	-2.9%	-3.1%	-3.3%
Commission to platform	-10.7%	-7.5%	-4.9%	-4.4%	-3.9%	-3.6%
Staff cost - Opex	-5.0%	-5.7%	-5.8%	-6.6%	-6.7%	-6.4%
Warehousing	-2.3%	-2.3%	-1.8%	-3.0%	-3.2%	-3.2%
R & D	-2.7%	-4.8%	-3.0%	-4.3%	-4.1%	-4.1%
Office expenses	-0.9%	-1.0%	-0.8%	-0.9%	-0.8%	-0.7%
D & A - Opex	-0.8%	-0.7%	-0.6%	-0.6%	-0.4%	-0.3%
Selling & distribution costs / sales	-23.6%	-22.0%	-13.5%	-13.9%	-13.9%	-13.6%
Admin expenses / sales	-9.4%	-12.4%	-11.2%	-11.1%	-10.8%	-10.4%
OP margins						
Effective tax rate	-18.4%	-8.1%	-8.9%	-13.5%	-13.0%	-12.0%
NP att. margins						
	3.0%	3.7%	15.7%	13.3%	13.8%	15.1%
NP att. growth (%)						
	133.6%	46.1%	758.8%	14.1%	36.2%	34.1%
Adjusted NP att. growth (%)						
	133.6%	46.1%	758.8%	9.1%	42.4%	34.1%

Source: Company data, CMBIS estimates, OP as defined on page 1

Valuation

Peers Valuation

Figure 4: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Up/Down-side	Mkt. Cap (HK\$ mn)	Year End	P/E (x)		P/B (x)		ROE (%)	3yrs PEG (x)	Yield (%)	
								FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY1E	
A+ H shares Small Home Appliances															
Vesync	2148 HK	BUY	11.30	9.01	25%	10,497	Dec-20	21.3	15.9	4.2	3.3	39.6	0.8	1.4	
Js Global Lifestyle	1691 HK	BUY	22.35	12.10	85%	42,285	Dec-20	11.8	9.5	2.7	2.2	32.9	0.5	2.4	
Joyoung	002242 CH	NR	n/a	22.23	n/a	20,861	Dec-20	17.6	15.6	3.8	3.5	23.5	1.4	3.8	
Zhejiang Supor	002032 CH	NR	n/a	62.69	n/a	62,023	Dec-20	25.2	21.8	6.1	5.3	29.6	1.6	2.1	
Xinbao	002705 CH	NR	n/a	24.34	n/a	24,619	Dec-20	23.4	18.4	3.0	2.7	14.8	3.8	1.9	
Bear Electric	002959 CH	NR	n/a	58.34	n/a	11,166	Dec-20	28.4	21.3	4.2	3.7	15.4	2.9	1.1	
Ecovacs Robotics	603486 CH	NR	n/a	148.00	n/a	103,575	Dec-20	41.0	30.4	17.5	12.2	49.7	0.5	1.0	
Beijing Roborock	688169 CH	NR	n/a	772.55	n/a	63,143	Dec-20	33.2	25.1	6.1	5.0	20.2	1.3	0.5	
Kingclean Electric	603355 CH	NR	n/a	28.94	n/a	20,353	Dec-20	24.6	18.4	4.4	3.9	11.6	0.5	0.2	
								Avg.	25.2	19.6	5.8	4.7	26.4	1.5	1.6
								Med.	24.6	18.4	4.2	3.7	23.5	1.3	1.4
A + H Home Appliances															
Midea	000333 CH	BUY	95.24	69.62	37%	594,819	Dec-20	17.0	14.7	3.5	3.1	24.8	1.2	2.6	
Gree Electric	000651 CH	NR	n/a	35.25	n/a	255,067	Dec-20	9.0	7.9	1.8	1.6	23.3	0.6	6.5	
Haier Smart Home	600690 CH	NR	n/a	28.93	n/a	314,964	Dec-20	20.6	17.4	3.5	3.1	19.5	1.3	1.7	
Haier Smart Home	6690 HK	BUY	36.91	31.25	18%	314,965	Dec-20	17.6	14.8	3.1	2.6	15.5	1.1	2.1	
Hisense Home	921 HK	NR	n/a	8.20	n/a	18,221	Dec-20	6.4	4.8	0.8	0.7	15.5	0.4	4.5	
Hisense Home	000921 CH	NR	n/a	13.08	n/a	18,221	Dec-20	12.9	10.6	1.7	1.5	15.5	1.3	2.7	
Whirlpool China	600983 CH	NR	n/a	8.62	n/a	8,083	Dec-20	n/a	n/a	n/a	n/a	(7.6)	n/a	n/a	
Hangzhou Robam	002508 CH	NR	n/a	33.91	n/a	39,372	Dec-20	16.8	14.4	3.4	2.9	23.2	0.9	2.1	
Vatti	002035 CH	NR	n/a	6.20	n/a	6,430	Dec-20	11.1	9.3	1.5	1.3	13.1	0.7	2.6	
								Avg.	13.9	11.7	2.4	2.1	15.9	0.9	3.1
								Med.	14.8	12.5	2.4	2.1	15.5	1.0	2.6
International Small Home Appliances															
Techtronic	669 HK	NR	n/a	154	n/a	281,960	Dec-20	33.0	27.4	7.8	6.6	25.3	1.3	1.2	
Smith (A.O.) Corp	AOS US	NR	n/a	81	n/a	100,448	Dec-20	27.7	23.2	7.3	6.8	25.7	1.4	1.3	
Helen Of Troy Ltd	HELE US	NR	n/a	243	n/a	45,704	Feb-21	21.4	19.1	4.6	3.9	16.7	1.6	n/a	
De'Longhi Spa	DLG IM	NR	n/a	30	n/a	39,897	Dec-20	15.2	15.4	3.0	2.6	25.0	0.8	2.6	
Irobot Corp	IRBT US	NR	n/a	67	n/a	14,078	Jan-21	45.5	27.0	2.6	2.6	9.9	10.9	0.0	
Seb Sa	SK FP	NR	n/a	133	n/a	64,725	Dec-20	16	14.8	2.5	2.2	18.6	0.7	1.8	
Breville Group	BRG AU	NR	n/a	29	n/a	22,365	Jun-21	38	32.7	7.1	6.2	19.7	2.7	1.1	
Koninklijke Philips	PHIA NA	NR	n/a	31	n/a	247,414	Dec-20	16.1	15.6	2.1	2.0	9.9	0.8	2.8	
								Avg.	26.5	21.9	4.6	4.1	18.8	2.5	1.5
								Med.	24.6	21.2	3.8	3.2	19.2	1.3	1.3
International Home Appliances															
Whirlpool	WHR US	NR	n/a	230.36	n/a	109,145	Dec-20	8.7	9.2	2.8	2.5	47.6	0.5	2.4	
Ingersoll-Rand	IR US	NR	n/a	58.22	n/a	185,093	Dec-20	29.2	25.3	3.3	3.5	4.8	(0.1)	0.0	
Electrolux Ab-B	ELUXB SS	NR	n/a	207	n/a	54,853	Dec-20	11.6	11.7	3.4	3.1	31.8	(2.8)	4.3	
Daikin Industries	6367 JP	NR	n/a	25035	n/a	503,944	Mar-21	33.1	29.1	4.0	3.6	12.7	1.8	0.8	
Panasonic	6752 JP	NR	n/a	1222.00	n/a	205,930	Mar-21	11.6	10.7	1.0	1.0	10.9	0.6	2.5	
Fujitsu General	6755 JP	NR	n/a	2678.00	n/a	20,102	Mar-21	21.8	17.8	2.1	2.0	8.5	2.3	1.2	
Lg Electronics	066570 KS	NR	n/a	125500.	n/a	134,380	Dec-20	11.7	6.8	1.3	1.1	6.9	0.5	1.0	
Samsung	005930 KS	NR	n/a	77100.0	n/a	3,011,571	Dec-20	12.9	11.7	1.7	1.6	11.1	0.5	1.9	
								Avg.	17.6	15.3	2.4	2.3	16.8	0.4	1.8
								Med.	12.3	11.7	2.5	2.2	11.0	0.5	1.5

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (USD k)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	171,919	348,922	470,821	614,959	755,203
North America	148,634	302,318	390,900	493,975	584,057
Europe	21,976	40,718	68,878	103,316	144,643
Asia	1,309	5,886	11,043	17,668	26,503
Cost of goods sold	(104,685)	(196,503)	(279,605)	(362,334)	(440,910)
Gross profit	67,234	152,419	191,216	252,625	314,292
Other income	1,180	331	3,198	615	755
Operating expenses	(60,163)	(91,422)	(121,059)	(155,466)	(185,544)
A & P	(14,556)	(12,270)	(13,654)	(19,064)	(24,922)
Commission to platform	(12,809)	(17,180)	(20,521)	(24,154)	(26,875)
Staff costs	(9,868)	(20,177)	(31,258)	(41,428)	(48,225)
R & D	(8,178)	(10,459)	(20,245)	(25,213)	(30,963)
Other opex	(14,752)	(31,336)	(35,381)	(45,607)	(54,559)
EBIT	8,251	61,328	73,355	97,774	129,504
Finance costs, net	(1,281)	(1,130)	(713)	(52)	52
JVs & associates	-	-	-	-	-
Exceptional	(36)	(141)	(471)	-	-
Pre-tax profit	6,934	60,057	72,172	97,723	129,555
Income tax	(562)	(5,334)	(9,743)	(12,704)	(15,547)
Less: Minority interests	0	0	0	0	0
Net profit	6,372	54,723	62,429	85,019	114,009

Cash flow summary

YE 31 Dec (USD k)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	8,251	61,328	73,355	97,774	129,504
D & A	481	792	622	600	575
Change in working capital	(11,179)	(56,804)	39,113	(75,702)	41,556
Income tax paid	(3,744)	(1,384)	(9,743)	(12,704)	(15,547)
Others	4,931	5,717	293	1,035	1,270
Net cash from operating	(1,260)	9,648	103,640	11,003	157,359
Capex & investments	(1,154)	(1,333)	(1,412)	(1,845)	(2,266)
Associated companies	-	-	-	-	-
Interest received	-	-	-	-	-
Others	(679)	(4,988)	-	-	-
Net cash from investing	(1,833)	(6,321)	(1,412)	(1,845)	(2,266)
Equity raised	-	192,605	-	-	-
Net change in bank loans	4,346	(15,466)	-	-	-
Dividend paid	-	(4,224)	19	25	34
Others	(1,974)	(1,806)	(830)	(919)	(1,059)
Net cash from financing	2,372	171,109	(810)	(893)	(1,025)
Net change in cash	(721)	174,436	101,417	8,265	154,069
Beginning cash balance	9,856	9,115	183,450	284,867	293,133
Exchange difference	(20)	(101)	-	-	-
Cash at the end of the year	9,115	183,450	284,867	293,133	447,201

Balance sheet

YE 31 Dec (USD k)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	12,728	30,602	31,217	32,294	33,824
Fixed asset	1,594	1,858	2,582	3,768	5,408
Intangible assets & goodwill	207	406	297	188	78
Prepaid lease payments	8,067	11,056	11,056	11,056	11,056
Interest in joint ventures	-	-	-	-	-
Other non-current assets	2,860	17,282	17,282	17,282	17,282
Current assets	75,922	339,122	448,692	545,635	705,778
Inventories	33,278	95,598	88,252	149,995	139,918
Trade and other receivables	17,880	35,241	42,154	58,935	65,208
Prepayments	7,415	24,577	33,163	43,316	53,194
Other current assets	8,234	256	256	256	256
Cash and cash equivalents	9,115	183,450	284,867	293,133	447,201
Current liabilities	63,636	97,395	144,661	157,637	205,267
Bank loans	18,354	2,888	2,888	2,888	2,888
Trade payables	19,418	45,617	83,375	85,107	121,798
Accruals & other payables	14,367	27,217	36,725	47,969	58,908
Tax payables	729	17,040	17,040	17,040	17,040
Others	10,768	4,633	4,633	4,633	4,633
Non-current liabilities	6,802	9,183	9,183	9,183	9,183
Bank loans	-	-	-	-	-
Deferred income	-	-	-	-	-
Deferred tax	-	-	-	-	-
Others	6,802	9,183	9,183	9,183	9,183
Minority Interest	1,818	3,015	3,015	3,015	3,015
Total net assets	16,394	260,131	323,050	408,094	522,137
Shareholders' equity	16,394	260,131	323,050	408,094	522,137

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
North America	86	87	83	80	77
Europe	13	12	15	17	19
Asia	1	2	2	3	4
Total	100	100	100	100	100
P&L ratios (%)					
Gross margin	4.8	17.6	15.6	15.9	17.1
Operating margin	4.0	17.2	15.3	15.9	17.2
Pre-tax margin	3.7	15.7	13.3	13.8	15.1
Net margin	7.1	(6.9)	15.0	15.0	15.0
Effective tax rate	39.1	43.7	40.6	41.1	41.6
	3.7	15.7	12.7	13.8	15.1
Balance sheet ratios					
Current ratio (x)	1.2	3.5	3.1	3.5	3.4
Quick ratio (x)	0.7	2.5	2.5	2.5	2.8
Cash ratio (x)	0.1	1.9	2.0	1.9	2.2
Inventory turnover days	102	120	120	120	120
Trade receivables days	23	28	30	30	30
Trade payables days	48	60	50	50	50
Total debt / total equity ratio (%)	175	2	2	1	1
Net debt / equity ratio (%)	120	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	38.9	21.0	19.3	20.8	21.8
ROA	7.2	14.8	13.0	14.7	15.4
Per share					
EPS (USD)	0.01	0.05	0.05	0.07	0.10
DPS (USD)	0.00	0.00	0.02	0.02	0.03
BVPS (USD)	0.01	0.23	0.28	0.35	0.45

Source: Company data, CMBIS estimates

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