

# Smooore Int'l (6969 HK)

## Overseas order and the new disposable vape to sustain growth throughout 2022E

We cut our 2022-23E net profits by 44.5%-47.1% to reflect the aggregate impact from the enactment of the new regulation that is set to become effective in October this year. In our view, this includes 1) almost a blank domestic sell-through of fruit-flavoured cartridges from March to October. We believe that retailers would have to destock all relevant SKUs during the transition period. Of note, given a low demand visibility, Smooore would not proactively initiate production; 2) a RMB1.6bn R&D investment to research for new products that are compliant to the regulation. Of note, a few new products have already been submitted for approval; and 3) a relatively weak 4Q given the uncertainty of consumer acceptance to the new products. Meanwhile, we are also aware of the impact from Shenzhen lockdown over Feb and Mar which resulted in a 2-to-3-week production halt. Altogether, we assume a 70% YoY decline in domestic revenue for 2022E. That said, we do look for a strong recovery for 2023E, driven not only by a low base, but also on a gradual and sustainable e-cigarette conversion upon a higher degree of product compliance. We remain Buy-rated.

- **We still look for a 20-25% overseas revenue growth for 2022E despite the domestic hiccup.** Overseas markets remain a sweetspot for Smooore with continuous new product launches. We expect Smooore to debut its first disposable vape and that will generate approximately RMB2bn revenue over 2H in our estimate. This should replace fruit-flavoured cartridges as the company's growth engine in the next few years. Since the new SKU only offers a 15-20% GPM, we trim our 2022-23E GPM by 7.7/8.2ppt to approximately 48% to reflect the change in Smooore's product mix.
- **We forecast 1H revenue to be at RMB6.3-6.7bn, down 5-10% YoY.** This implies 2H revenue likely to kick in at RMB8.5-8.9bn, when growth will be mainly driven by the new disposable vape.
- **Valuation.** Our new TP of HK\$25.2 (from HK\$43.0) is based on an updated 35.5x (from 32.0x) end-22E P/E, which still represents -1sd below its 2-year average of 49.0x (from 44.0x). Our methodology, in our view, reflects the current perplexed market sentiment that attempts to price-in the revised earnings outlook post any regulatory tightening in the e-vapor segment. Our 2022/23E earnings is 19%/10% below consensus.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,010	13,755	15,209	18,947	24,672
YoY growth (%)	31.5	37.4	10.6	24.6	30.2
Net income (RMB mn)	2,400	5,287	3,659	5,212	7,265
EPS (RMB)	0.4	0.9	0.6	0.8	1.2
YoY growth (%)	(1.4)	102.5	(30.8)	42.5	39.4
Consensus EPS (RMB)	n.a	n.a	0.73	0.93	1.14
P/E (x)	n.a	18.6	26.9	18.9	13.5
P/B (x)	n.a	5.1	4.6	4.0	3.3
Yield (%)	n.a	2.0	1.4	2.0	2.8
ROE (%)	25.1	32.3	19.9	24.6	29.0
Net gearing (%)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$25.2
(Previous TP)	HK\$43.0)
Up/Downside	+32.1%
Current Price	HK\$19.1

### China Consumer Sector

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### Stock Data

Mkt Cap (HK\$ mn)	114,330
Avg 3 mths t/o (HK\$ mn)	32.9
52w High/Low (HK\$)	54.4/ 14.62
Total Issued Shares (mn)	5,998

Source: Wind

### Shareholding Structure

SMR & Alon Ltd.	33.1%
EVE Battery Investment Ltd.	31.6%
Andy Xiong Holding Ltd.	4.53%

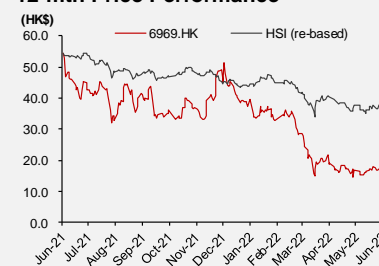
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	14.1%	13.1%
3-mth	-31.4%	-26.7%
6-mth	-63.0%	-52.5%

Source: Wind

### 12-mth Price Performance



Source: Wind

### Auditor: Deloitte

### Related Reports

1. ["China Consumer Staples – Valuations at 5-year low: a silver-lining to the current uncertainty sell-off?"](#) – 22 Apr 2022
2. ["China Consumer Staples – Cherry-picking winners amid a de-risking mentality: our top picks: CRB/ Mengniu/ Feihe"](#) – 21 Jan 2022

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,209	18,947	24,672	18,264	24,786	NA	-16.7%	-23.6%	NA
Gross profit	7,258	9,027	11,765	10,121	13,832	NA	-28.3%	-34.7%	NA
EBIT	4,323	6,147	8,557	8,149	11,056	NA	-47.0%	-44.4%	NA
Net profit	3,659	5,212	7,265	6,914	9,385	NA	-47.1%	-44.5%	NA
EPS (RMB)	0.59	0.84	1.17	1.12	1.52	NA	-47.1%	-44.5%	NA
Gross margin	47.7%	47.6%	47.7%	55.4%	55.8%	NA	-7.7ppt	-8.2ppt	NA
EBIT margin	28.4%	32.4%	34.7%	44.6%	44.6%	NA	-16.2ppt	-12.2ppt	NA
Net margin	24.1%	27.5%	29.4%	37.9%	37.9%	NA	-13.8ppt	-10.4ppt	NA

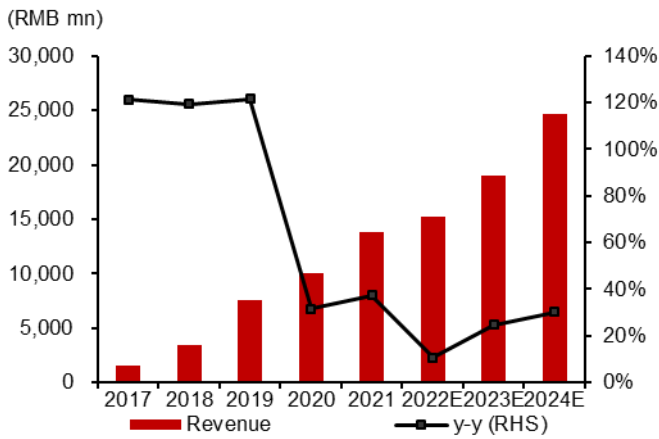
Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,209	18,947	24,672	15,074	18,753	22,903	0.9%	1.0%	7.7%
Gross profit	7,258	9,027	11,765	7,448	9,196	11,136	-2.6%	-1.8%	5.6%
Operating profit	4,323	6,147	8,557	5,042	6,523	8,020	-14.3%	-5.8%	6.7%
Net profit	1,377	1,490	1,676	4,495	5,801	7,110	-18.6%	-10.2%	2.2%
EPS (RMB)	0.59	0.84	1.17	0.73	0.93	1.14	-18.7%	-9.8%	3.1%
Gross margin	47.7%	47.6%	47.7%	49.4%	49.0%	48.6%	-1.7ppt	-1.4ppt	-0.9ppt
Operating margin	28.4%	32.4%	34.7%	33.4%	34.8%	35.0%	-5ppt	-2.3ppt	-0.3ppt
Net margin	24.1%	27.5%	29.4%	29.8%	30.9%	31.0%	-5.8ppt	-3.4ppt	-1.6ppt

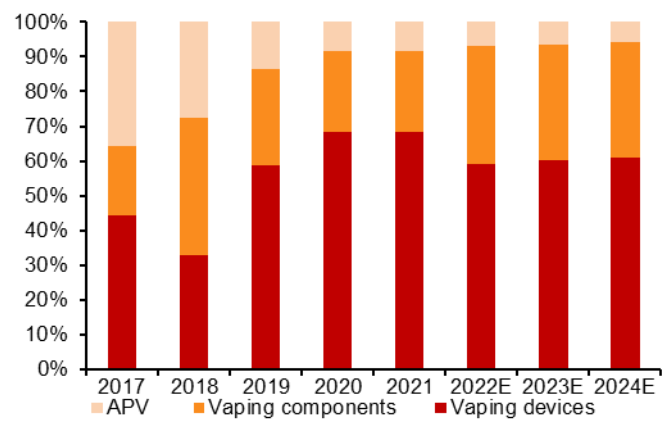
Source: Company data, CMBIGM estimates

**Figure 3: Revenue and growth projection 2017-24E**



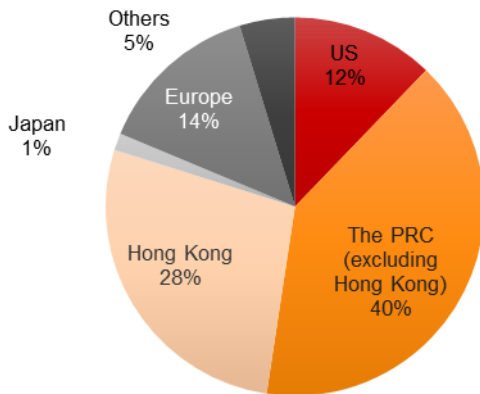
Source: Company data, CMBIGM estimates

**Figure 4: Revenue breakdown by products 2017-24E**



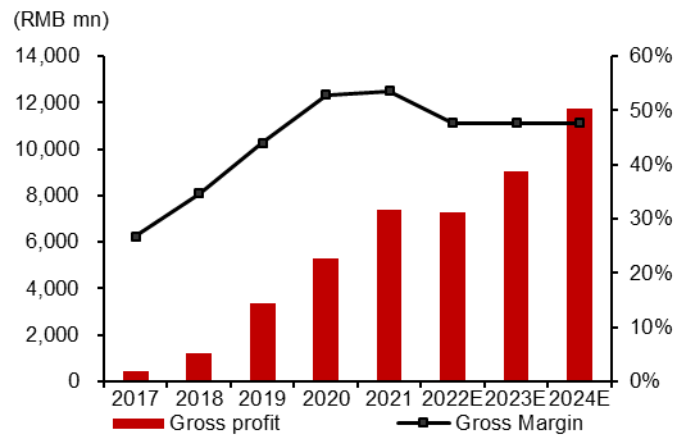
Source: Company data, CMBIGM estimates

**Figure 5: Revenue mix by region 2021**



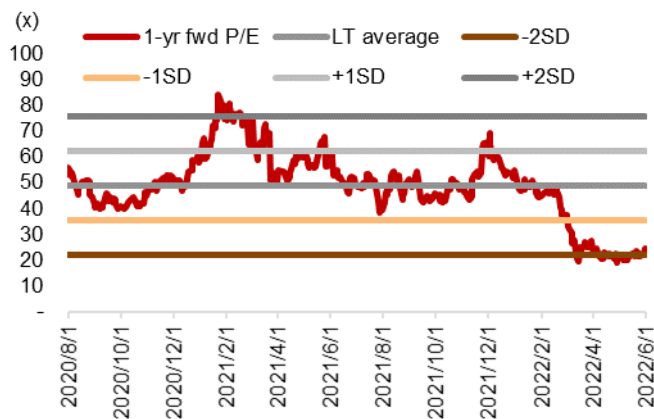
Source: Company data, CMBIGM research

**Figure 6: Gross margins 2017-24E**



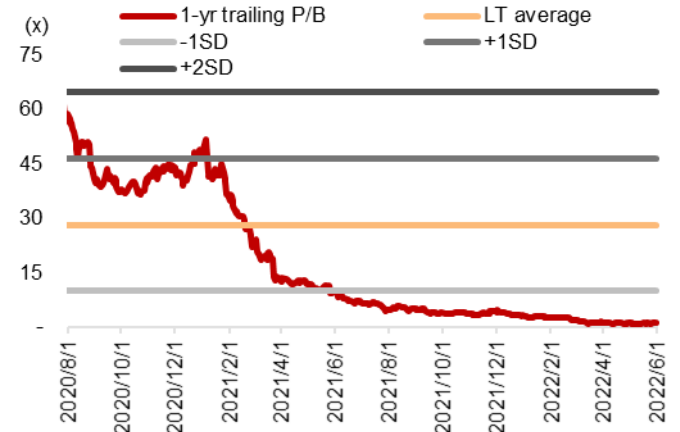
Source: Company data, CMBIGM estimates

**Figure 7: 1-year forward P/E chart**



Source: Bloomberg, CMBIGM estimates

**Figure 8: Trailing P/B chart**



Source: Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>10,010</b>	<b>13,755</b>	<b>15,209</b>	<b>18,947</b>	<b>24,672</b>
Vaping device/ component	9,163	12,594	12,294	15,295	20,082
Advanced personal vapor	847	1,162	915	1,052	1,210
Disposable vape	-	-	2,000	2,600	3,380
<b>Gross profits</b>	<b>5,296</b>	<b>7,377</b>	<b>7,258</b>	<b>9,027</b>	<b>11,765</b>
D&A	(36)	(57)	(174)	(232)	(332)
Selling expense	(144)	(193)	(259)	(303)	(395)
Administration expenses	(683)	(864)	(1,004)	(1,250)	(1,579)
R&D expenses	(420)	(671)	(1,673)	(1,326)	(1,234)
Other operating expenses	177	641	174	232	332
<b>EBIT</b>	<b>4,191</b>	<b>6,234</b>	<b>4,323</b>	<b>6,147</b>	<b>8,557</b>
<b>EBITDA</b>	<b>4,422</b>	<b>6,566</b>	<b>4,850</b>	<b>6,899</b>	<b>9,481</b>
Finance costs, net	(15)	(25)	(25)	(25)	(25)
Non-operating	(1,058)	-	-	-	-
<b>Pre-tax profit</b>	<b>3,118</b>	<b>6,209</b>	<b>4,297</b>	<b>6,122</b>	<b>8,532</b>
Income tax	(718)	(922)	(638)	(909)	(1,267)
Less: Minority interests	-	-	-	-	-
<b>Net profit to shareholder</b>	<b>2,400</b>	<b>5,287</b>	<b>3,659</b>	<b>5,212</b>	<b>7,265</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>2,40</b>	<b>5,287</b>	<b>3,659</b>	<b>5,212</b>	<b>7,265</b>
D&A	36	57	174	232	332
Change in working capital	(1,00)	(1,654)	129	(221)	(346)
Others	1,60	(101)	329	496	566
<b>Net cash fr. operating act.</b>	<b>3,03</b>	<b>3,588</b>	<b>4,291</b>	<b>5,719</b>	<b>7,818</b>
Capex & investments	(339)	(1,959)	(1,464)	(1,464)	(1,464)
Associated companies	-	-	-	-	-
Others	(922)	(3,267)	25	25	25
<b>Net cash fr. investing act.</b>	<b>(1,26)</b>	<b>(5,226)</b>	<b>(1,439)</b>	<b>(1,439)</b>	<b>(1,439)</b>
Equity raised	7,39	3,721	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(1,43)	(1,950)	(1,350)	(1,922)	(2,679)
Others	1,10	1,752	-	-	-
<b>Net cash fr. financing act.</b>	<b>7,05</b>	<b>3,522</b>	<b>(1,350)</b>	<b>(1,922)</b>	<b>(2,679)</b>
<b>Net change in cash</b>	<b>8,83</b>	<b>1,885</b>	<b>1,502</b>	<b>2,358</b>	<b>3,699</b>
Cash at the beginning of the year	731	9,558	11,427	12,929	15,287
Exchange difference	(6)	(16)	-	-	-
<b>Cash at the end of the year</b>	<b>9,55</b>	<b>11,427</b>	<b>12,929</b>	<b>15,287</b>	<b>18,986</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>2,333</b>	<b>4,886</b>	<b>5,822</b>	<b>6,534</b>	<b>7,074</b>
PP&E/Fixed assets	1,116	2,108	3,046	3,759	4,300
Intangible assets	88	66	65	64	63
Deferred tax assets	12	16	16	16	16
Other non-current assets	1,117	2,696	2,696	2,696	2,696
<b>Current assets</b>	<b>12,441</b>	<b>17,986</b>	<b>19,916</b>	<b>23,193</b>	<b>28,296</b>
Cash	9,558	11,427	12,929	15,287	18,986
Account receivable	2,218	2,409	2,664	3,319	4,321
Prepayments	226	335	371	462	601
Other current assets	439	3,815	3,953	4,126	4,388
<b>Current liabilities</b>	<b>2,108</b>	<b>3,394</b>	<b>3,952</b>	<b>4,650</b>	<b>5,709</b>
Borrowings	-	-	-	-	-
Account payables	702	827	1,031	1,286	1,673
Other payables	1,121	2,272	2,626	3,069	3,741
Tax payables	285	295	295	295	295
<b>Non-current liabilities</b>	<b>266</b>	<b>231</b>	<b>231</b>	<b>231</b>	<b>231</b>
Borrowings	-	-	-	-	-
Deferred tax liabilities	213	175	175	175	175
Other non-current liabilities	53	56	56	56	56
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>12,400</b>	<b>19,246</b>	<b>21,556</b>	<b>24,846</b>	<b>29,431</b>
<b>Shareholders' equity</b>	<b>12,400</b>	<b>19,246</b>	<b>21,556</b>	<b>24,846</b>	<b>29,431</b>

### Key ratios

YE 31 Dec	FY20	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Vaping devices & components	91.5	91.6	80.8	80.7	81.4
Advanced personal vapor	8.5	8.4	6.0	5.6	4.9
Disposable vape	-	-	13.2	13.7	13.7
<b>P&amp;L ratios (%)</b>					
Gross margin	52.9	53.6	47.7	47.6	47.7
Operating margin	41.9	45.3	28.4	32.4	34.7
Pre-tax margin	31.1	45.1	28.3	32.3	34.6
Net margin	24.0	38.4	24.1	27.5	29.4
Effective tax rate		(14.9)	(14.9)	(14.9)	(14.9)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.8	0.6	0.6	0.7	0.7
Net receivable days	60.8	68.8	69.3	65.6	64.4
Net payable days	44.3	43.8	42.6	42.6	41.8
Inventory turnover days	38.2	28.6	28.9	28.9	28.3
Net debt to equity (%)	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Returns (%)</b>					
ROE	25.1	32.3	19.9	24.6	29.0
Dividend yield	n.a.	2.0	1.4	2.0	2.8
<b>Per share</b>					
EPS (RMB)	0.4	0.9	0.6	0.8	1.2
DPS (RMB)	0.3	0.3	0.2	0.3	0.4
BVPS (RMB)	2.2	3.1	3.5	4.0	4.8

Source: Company data, CMBIGM estimates

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