

Smoore Int'l (6969 HK)

1H rev/np -9%/-48%; potential turn-around by 2024

Net profit of RMB717mn came in at the low end of the pre-announcement, when revenue reportedly stood at a 9.4% YoY decline to RMB5.1bn. A large part of the decline was explained by an 81.5% YoY tumble in China revenue to RMB393mn (or 96.3% YoY to RMB62mn should we excluding re-exporters), as a result of the enactment of the new national standard governing e-vapor, together with other market malignant practices. From here, China revenue only represents only 1.2% to the total, and will no longer move the needle. Instead, overseas business has been a steadfast growth driver, and we think the segment has not lost its steam given the solid momentum in disposable/open system vapour devices. We forecast a 24.6%/19.0%/15.5% overseas revenue growth for 2023/24/25E, and the strength should gradually reintroduce 2023-25E revenue back to growth at -1.5%/17.7%/14.9%. While investors should still be mindful of a rather lacklustre 2H driven by a potentially halved China revenue, we begin to see signs of a turnaround beyond 2023. Buy-rated.

■ **Outlook.** Management remains optimistic in overseas market and see opportunities in FEELM MAX which could grow to become Smoore's flagship SKU in Europe. In the US, while PMTA approval remains the known unknown, near term pricing and shipment dynamics is stable. Operationally, the production scale of disposable vape is improving and is on track to optimize GPM. Smoore is also driving production automation to trim labour costs. Management is upbeat in maintaining a 35%+ dividend pay-out ratio.

■ **Earnings change.** To reflect the results, we slash our 2023/24E revenue by 21.2%/17.4%, respectively. We also cut our gross margins for the periods by 2pp to reflect the impact of geographic/ product mix change, given 1) a lower China contribution when the region was of higher margin, and 2) an increasing contribution from disposable vapes with a lower gross margins at 13-15%. We also lift up our R&D expense ratio to revenue to 12% (from 10%) to factor-in ongoing research expense in exploring ceramic heating/vaporization application for medical use, etc. These lead to a 46.1%/38.4% cut in our 2023/24E net profits.

■ **Valuation.** Our TP is based on 29.0x roll-forwarded end-24E P/E, which still represents -1sd below the average valuation since March 2022. Our methodology attempts to factor-in 1) the potential turn-around in 2024E, and 2) market sentiment and hence valuation range post the new tobacco regime became effective since March 2022.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	13,755	12,145	11,963	14,082	16,175
YoY growth (%)	37.4	(11.7)	(1.5)	17.7	14.9
Net profit (RMB mn)	5,287.0	2,510.3	1,551.3	2,046.5	2,595.3
YoY growth (%)	120.3	(52.5)	(38.2)	31.9	26.8
EPS (RMB)	0.89	0.42	0.26	0.34	0.43
Consensus EPS (RMB)	na	na	0.38	0.47	0.57
P/E (x)	46.4	38.2	27.8	21.0	16.6
P/B (x)	13.2	4.8	2.1	2.0	1.8
Yield (%)	0.8	1.0	1.4	1.8	2.3
ROE (%)	33.4	12.7	7.4	9.3	11.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.0**

(Previous TP) **HK\$12.0**

Up/Downside **43.4%**

Current Price **HK\$7.7**

China Consumer

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Stock Data

Mkt Cap (HK\$ mn)	46,581.2
Avg 3 mths t/o (HK\$ mn)	82.1
52w High/Low (HK\$)	16.06/7.52
Total Issued Shares (mn)	6081.1

Source: FactSet

Shareholding Structure

Chen Zhiping	33.6%
Eve Battery Investment	31.0%

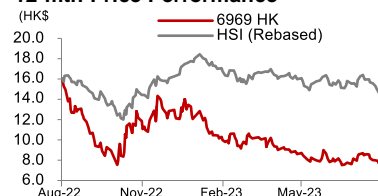
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.7%	-0.1%
3-mth	-10.9%	-1.7%
6-mth	-23.2%	-10.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revisions

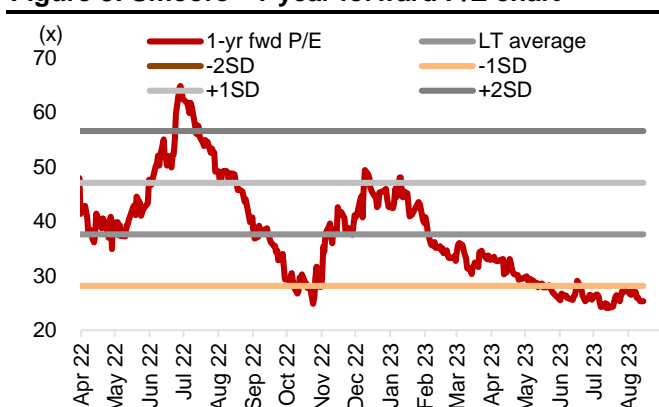
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,963	14,082	16,175	15,172	17,043	NA	-21.2%	-17.4%	NA
Gross Profit	4,226	5,035	5,818	5,659	6,460	NA	-25.3%	-22.1%	NA
EBIT	1,855	2,437	3,083	3,415	3,939	NA	-45.7%	-38.1%	NA
Net profit	1,551	2,047	2,595	2,877	3,322	NA	-46.1%	-38.4%	NA
Gross Margin	35.3%	35.8%	36.0%	37.3%	37.9%	NA	-2ppt	-2.1ppt	NA
EBIT Margin	15.5%	17.3%	19.1%	22.5%	23.1%	NA	-7ppt	-5.8ppt	NA
Net Margin	13.0%	14.5%	16.0%	19.0%	19.5%	NA	-6ppt	-5ppt	NA

Source: CMBIGM estimates

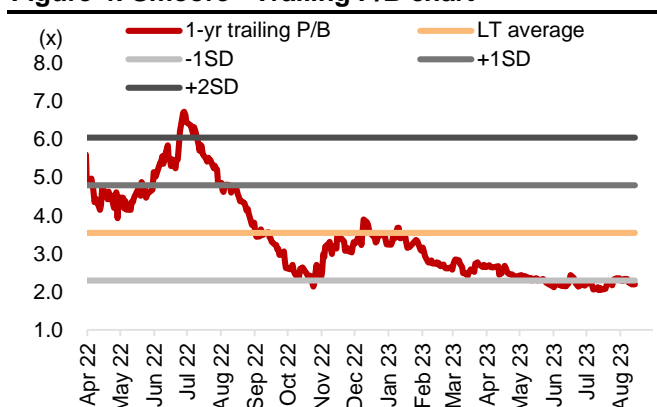
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	11,963	14,082	16,175	13,625	16,231	19,126	-12.2%	-13.2%	-15.4%
Gross Profit	4,226	5,035	5,818	5,134	6,138	7,246	-17.7%	-18.0%	-19.7%
EBIT	1,855	2,437	3,083	2,542	3,180	3,724	-27.0%	-23.4%	-17.2%
Net profit	1,551	2,047	2,595	2,333	2,882	3,469	-33.5%	-29.0%	-25.2%
Gross Margin	35.3%	35.8%	36.0%	37.7%	37.8%	37.9%	-2.4ppt	-2.1ppt	-1.9ppt
EBIT Margin	15.5%	17.3%	19.1%	18.7%	19.6%	19.5%	-3.2ppt	-2.3ppt	-0.4ppt
Net Margin	13.0%	14.5%	16.0%	17.1%	17.8%	18.1%	-4.2ppt	-3.2ppt	-2.1ppt

Source: Bloomberg, CMBIGM estimate

Figure 3: Smoore - 1-year forward P/E chart

Source: Bloomberg, CMBIGM estimates

Figure 4: Smoore - Trailing P/B chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	10,010	13,755	12,145	11,963	14,082	16,175
Cost of goods sold	(4,714)	(6,378)	(6,885)	(7,737)	(9,046)	(10,357)
Gross profit	5,296	7,377	5,260	4,226	5,035	5,818
Operating expenses	(1,105)	(1,143)	(2,276)	(2,371)	(2,598)	(2,735)
Selling expense	(144)	(193)	(388)	(479)	(563)	(647)
Admin expense	(683)	(864)	(1,148)	(957)	(986)	(971)
R&D expense	(420)	(671)	(1,372)	(1,436)	(1,549)	(1,618)
Others	142	585	632	500	500	500
Operating profit	4,191	6,234	2,983	1,855	2,437	3,083
EBITDA	4,422	6,566	3,587	2,696	3,816	4,486
Depreciation	213	309	583	821	1,359	1,382
Depreciation of ROU assets	0	0	0	0	0	0
Goodwill amortisation	18	23	21	20	20	20
EBIT	4,191	6,234	2,983	1,855	2,437	3,083
Net Interest income/(expense)	(15)	(25)	(29)	(29)	(29)	(29)
Others	(1,058)	0	0	0	0	0
Pre-tax profit	3,118	6,209	2,954	1,826	2,408	3,054
Income tax	(718)	(922)	(444)	(274)	(362)	(459)
Net profit	2,400	5,287	2,510	1,551	2,047	2,595
Gross dividends	1,322	1,964	972	601	793	1,005

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	12,441	17,986	19,199	19,894	21,628	23,722
Cash & equivalents	9,558	11,427	9,763	10,402	11,424	12,813
Restricted cash	0	12	1	1	1	1
Account receivables	2,218	2,409	2,302	2,267	2,669	3,065
Inventories	439	560	841	945	1,104	1,264
Prepayment	226	335	861	848	998	1,147
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	0	3,242	5,432	5,432	5,432	5,432
Non-current assets	2,333	4,886	5,161	5,783	5,868	5,930
PP&E	1,116	2,108	4,275	4,912	4,999	5,061
Deferred income tax	12	16	16	16	16	16
Intangibles	88	66	79	64	63	63
Other non-current assets	1,117	2,696	790	790	790	790
Total assets	14,774	22,871	24,359	25,677	27,496	29,652
Current liabilities	2,108	3,394	3,589	3,957	4,522	5,087
Account payables	702	827	1,150	1,293	1,511	1,730
Tax payable	285	295	65	65	65	65
Other current liabilities	119	588	263	263	263	263
Contract liabilities	254	250	289	289	289	289
Accrued expenses	749	1,434	1,822	2,047	2,393	2,740
Non-current liabilities	266	231	393	393	393	393
Convertible bonds	0	0	0	0	0	0
Obligations under finance leases	213	175	300	300	300	300
Deferred income	53	56	93	93	93	93
Total liabilities	2,374	3,625	3,982	4,350	4,915	5,481
Share capital	410	419	424	424	424	424
Other reserves	11,990	18,827	19,953	20,904	22,158	23,748
Total shareholders equity	12,400	19,246	20,377	21,328	22,582	24,172
Total equity and liabilities	14,774	22,871	24,359	25,677	27,496	29,652

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,118	6,209	2,954	1,826	2,408	3,054
Depreciation & amortization	56	88	222	842	1,379	1,402
Tax paid	(474)	(916)	(638)	(274)	(362)	(459)
Change in working capital	(1,004)	(1,654)	(1,914)	311	(147)	(139)
Others	1,339	(139)	(155)	(29)	(29)	(29)
Net cash from operations	3,035	3,588	470	2,675	3,250	3,829
Investing						
Capital expenditure	(339)	(1,959)	(1,655)	(1,464)	(1,464)	(1,464)
Others	(922)	(3,267)	(769)	29	29	29
Net cash from investing	(1,261)	(5,226)	(2,424)	(1,435)	(1,435)	(1,435)
Financing						
Dividend paid	(1,322)	(1,964)	(972)	(601)	(793)	(1,005)
Net borrowings	0	(166)	(208)	0	0	0
Proceeds from share issues	7,390	3,721	0	0	0	0
Others	989	1,932	1,457	0	0	0
Net cash from financing	7,058	3,522	276	(601)	(793)	(1,005)
Net change in cash						
Cash at the beginning of the year	731	9,558	11,427	9,763	10,402	11,424
Exchange difference	(6)	(16)	14	0	0	0
Cash at the end of the year	9,558	11,427	9,763	10,402	11,424	12,813
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	31.5%	37.4%	(11.7%)	(1.5%)	17.7%	14.9%
Gross profit	58.0%	39.3%	(28.7%)	(19.7%)	19.2%	15.5%
Operating profit	61.9%	48.8%	(52.1%)	(37.8%)	31.4%	26.5%
EBITDA	60.1%	48.5%	(45.4%)	(24.8%)	41.5%	17.5%
EBIT	61.9%	48.8%	(52.1%)	(37.8%)	31.4%	26.5%
Net profit	10.4%	120.3%	(52.5%)	(38.2%)	31.9%	26.8%
Adj. net profit	55.8%	52.5%	(53.4%)	(38.2%)	31.9%	26.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	52.9%	53.6%	43.3%	35.3%	35.8%	36.0%
Operating margin	41.9%	45.3%	24.6%	15.5%	17.3%	19.1%
EBITDA margin	44.2%	47.7%	29.5%	22.5%	27.1%	27.7%
Adj. net profit margin	35.3%	39.1%	20.7%	13.0%	14.5%	16.0%
Return on equity (ROE)	36.5%	33.4%	12.7%	7.4%	9.3%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Current ratio (x)	5.9	5.3	5.3	5.0	4.8	4.7
Receivable turnover days	31.6	31.6	31.6	31.6	31.6	31.6
Inventory turnover days	47.0	47.0	47.0	47.0	47.0	47.0
Payable turnover days	37.9	37.9	37.9	37.9	37.9	37.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	79.7	46.4	38.2	27.8	21.0	16.6
P/B	16.3	13.2	4.8	2.1	2.0	1.8
Div yield (%)	0.7	0.8	1.0	1.4	1.8	2.3

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

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