

# Smooore Int'l (6969 HK)

## 1Q tracking below us on weak domestic sales

- **Smooore reported 1Q rev/ net profits at RMB2.5b/300mn**, tracking below our full year estimates at only 16%/10%, respectively.
- **By region, China revenue was down 98% YoY** while that of overseas was up 58%, thanks to strong sales of disposable refillors in Europe. Although weakness in the China market was very much expected (as fruit flavoured refillors were still legal in 1Q22), the magnitude of decline is more severe than our/ market's expectation of a c80-90% decline.
- **In our view, the results will likely reignite concerns over the recovery** of what Smooore and RLX have previously guided for 2023, and shares of both have already corrected by 10%+ over the last 3 trading days. Nonetheless, the event reinforces our stance that it is still too early to bottom-fish e-cig names.
- We will watch the recovery trajectories of both for 2Q.
- **Earnings change.** We maintain our forecasts for now, and our estimates are in general 5-10% lower than consensus.
- **Valuation.** To reflect the current perplexed local sentiment that attempts to price-in the revised business outlook after the new regime became effective, we now start our valuation average from March 2022 (vs previously since Smooore's IPO). Our TP is still based on 21.5x roll-forwarded end-23E P/E, which represents -1sd below the average valuation. Current valuation is hovering around historical trough, and we think regulation risk is well-reflected. Maintain Buy.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,010	13,755	12,145	15,172	17,043
YoY growth (%)	31.5	37.4	(11.7)	24.9	12.3
Net income (RMB mn)	2,400	5,287	2,510	2,877	3,322
EPS (RMB)	0.4	0.9	0.4	0.5	0.5
YoY growth (%)	(1.4)	102.5	(52.5)	14.6	15.5
Consensus EPS (RMB)	n.a	n.a	0.5	0.7	0.8
P/E (x)	n.a	n.a	19.4	16.9	15.6
P/B (x)	n.a	n.a	2.4	2.2	2.0
Yield (%)	n.a	n.a	2.0	2.3	2.7
ROE (%)	25.1	32.3	14.5	15.3	16.1
Net gearing (%)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$12.0
(Previous TP	HK\$12.0)
Up/Downside	+27.1%
Current Price	HK\$9.4

### China Consumer – Food and Beverage

**Joseph Wong**  
 (852) 3900 0838  
 josephwong@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	57,389
Avg 3 mths t/o (HK\$ mn)	154.9
52w High/Low (HK\$)	26.0/ 7.43
Total Issued Shares (mn)	6,079

Source: Wind

### Shareholding Structure

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

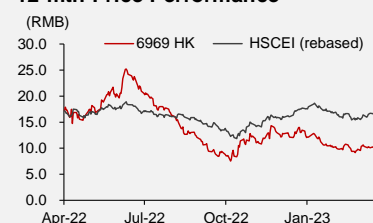
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-3.9%	-8.0%
3-mth	-24.1%	-19.7%
6-mth	5.6%	-14.0%

Source: Wind

### 12-mth Price Performance



Source: BBG

### Related Reports

1. [Smooore Int'l \(6969 HK\) – Operational challenges remain; but China regulatory risk to sentiment likely settled](#) – 21 Mar 2023
2. [Overseas order and the new disposable vape to sustain growth throughout 2022E](#) – 2 Jun 2022

**Figure 1: Earnings revisions**

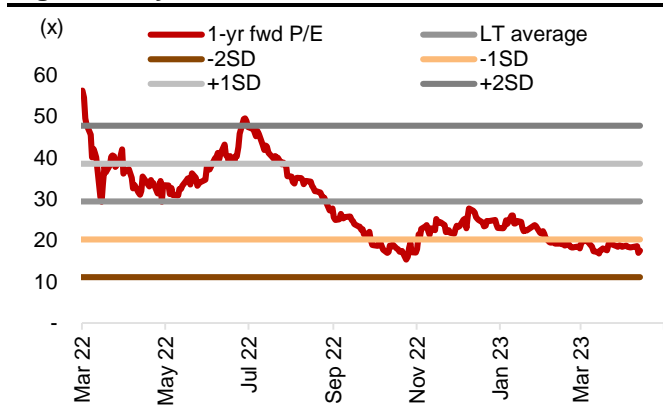
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,145	15,172	17,043	12,145	15,172	17,043	0.0%	0.0%	0.0%
Gross Profit	5,260	5,659	6,460	5,260	5,659	6,460	0.0%	0.0%	0.0%
EBIT	2,983	3,415	3,939	2,983	3,415	3,939	0.0%	0.0%	0.0%
Net profit	2,510	2,877	3,322	2,510	2,877	3,322	0.0%	0.0%	0.0%
Gross Margin	43.3%	37.3%	37.9%	43.3%	37.3%	37.9%	0.0ppt	0.0ppt	0.0ppt
EBIT Margin	24.6%	22.5%	23.1%	24.6%	22.5%	23.1%	0.0ppt	0.0ppt	0.0ppt
Net Margin	20.7%	19.0%	19.5%	20.7%	19.0%	19.5%	0.0ppt	0.0ppt	0.0ppt

Source: Company data, CMBIGM estimates

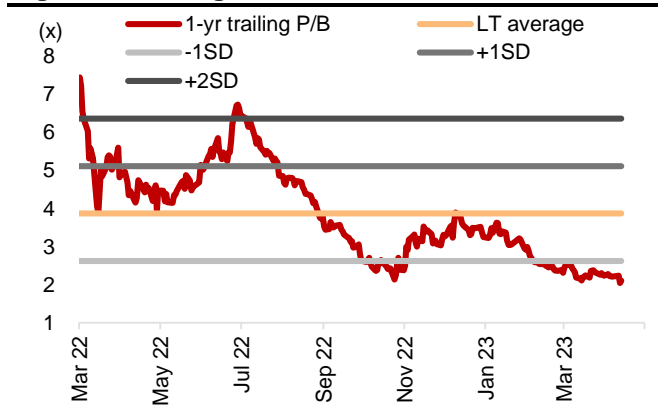
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	12,145	15,172	17,043	12,145	14,713	17,663	0.0%	3.1%	-3.5%
Gross Profit	5,260	5,659	6,460	5,260	6,012	6,978	0.0%	-5.9%	-7.4%
Operating Profit	2,983	3,415	3,939	2,983	3,372	4,151	0.0%	1.3%	-5.1%
Net profit	2,510	2,877	3,322	2,510	3,052	3,736	0.0%	-5.7%	-11.1%
Gross Margin	43.3%	37.3%	37.9%	43.3%	40.9%	39.5%	0ppt	-3.6ppt	-1.6ppt
Operating Margin	24.6%	22.5%	23.1%	24.6%	22.9%	23.5%	0ppt	-0.4ppt	-0.4ppt
Net Margin	20.7%	19.0%	19.5%	20.7%	20.7%	21.2%	0ppt	-1.8ppt	-1.7ppt

Source: Company data, CMBIGM estimate

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

Source: Bloomberg, CMBIGM estimates

**Figure 4: 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>12,145</b>	<b>15,172</b>	<b>17,043</b>
Vaping device/ component	9,163	12,594	10,679	13,560	15,270
Advanced personal vapor	847	1,162	1,466	1,612	1,773
Disposable vape	-	-	1,900	3,400	3,910
<b>Gross profits</b>	<b>5,296</b>	<b>7,377</b>	<b>5,260</b>	<b>5,659</b>	<b>6,460</b>
D&A	(36)	(57)	(174)	(232)	(332)
Selling expense	(144)	(193)	(388)	(484)	(544)
Administration expenses	(683)	(864)	(1,148)	(1,001)	(1,125)
R&D expenses	(420)	(671)	(1,372)	(759)	(852)
Other operating expenses	177	641	805	232	332
<b>EBIT</b>	<b>4,191</b>	<b>6,234</b>	<b>2,983</b>	<b>3,415</b>	<b>3,939</b>
<b>EBITDA</b>	<b>4,422</b>	<b>6,566</b>	3,587	4,257	5,317
Finance costs, net	(15)	(25)	(29)	(29)	(29)
Non-operating	(1,058)	-	-	-	-
<b>Pre-tax profit</b>	<b>3,118</b>	<b>6,209</b>	<b>2,954</b>	<b>3,386</b>	<b>3,910</b>
Income tax	(718)	(922)	(444)	(509)	(588)
Less: Minority interests	-	-	-	-	-
<b>Net profit to shareholder</b>	<b>2,400</b>	<b>5,287</b>	<b>2,510</b>	<b>2,877</b>	<b>3,322</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>2,400</b>	<b>5,287</b>	<b>2,510</b>	<b>2,877</b>	<b>3,322</b>
D&A	36	57	174	232	332
Change in working capital	(1,004)	(1,654)	1,023	25	(156)
Others	1,603	(101)	(3,237)	581	1,018
<b>Net cash fr. operating act.</b>	<b>3,035</b>	<b>3,588</b>	<b>470</b>	<b>3,715</b>	<b>4,516</b>
Capex & investments	(339)	(1,959)	(1,464)	(1,464)	(1,464)
Associated companies	-	-	-	-	-
Others	(922)	(3,267)	(960)	29	29
<b>Net cash fr. investing act.</b>	<b>(1,261)</b>	<b>(5,226)</b>	<b>(2,424)</b>	<b>(1,435)</b>	<b>(1,435)</b>
Equity raised	7,390	3,721	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(1,437)	(1,950)	(939)	(1,076)	(1,242)
Others	1,105	1,752	1,215	-	-
<b>Net cash fr. financing act.</b>	<b>7,058</b>	<b>3,522</b>	<b>276</b>	<b>(1,076)</b>	<b>(1,242)</b>
<b>Net change in cash</b>	<b>8,832</b>	<b>1,885</b>	<b>(1,678)</b>	<b>1,204</b>	<b>1,838</b>
Cash at the beginning of the year	731	9,558	11,427	9,763	10,967
Exchange difference	(6)	(16)	14	-	-
<b>Cash at the end of the year</b>	<b>9,558</b>	<b>11,427</b>	<b>9,763</b>	<b>10,967</b>	<b>12,805</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>5,161</b>	<b>5,783</b>	<b>5,868</b>
PP&E/Fixed assets	1,116	2,108	4,275	4,912	4,999
Intangible assets	88	66	79	64	63
Deferred tax assets	12	16	16	16	16
Other non-current assets	1,117	2,696	790	790	790
<b>Current assets</b>	<b>12,441</b>	<b>17,986</b>	<b>19,199</b>	<b>21,511</b>	<b>23,968</b>
Cash	9,558	11,427	9,763	10,967	12,805
Account receivable	2,218	2,409	2,302	2,875	3,230
Prepayments	226	335	861	1,075	1,208
Other current assets	439	3,815	6,273	6,594	6,725
<b>Current liabilities</b>	<b>2,108</b>	<b>3,394</b>	<b>3,589</b>	<b>4,723</b>	<b>5,185</b>
Borrowings	-	-	-	-	-
Account payables	702	827	1,150	1,589	1,768
Other payables	1,121	2,272	2,374	3,069	3,352
Tax payables	285	295	65	65	65
<b>Non-current liabilities</b>	<b>266</b>	<b>231</b>	<b>393</b>	<b>393</b>	<b>393</b>
Borrowings	-	-	-	-	-
Deferred tax liabilities	213	175	300	300	300
Other non-current liabilities	53	56	93	93	93
<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>20,377</b>	<b>22,178</b>	<b>24,258</b>
<b>Shareholders' equity</b>	<b>12,400</b>	<b>19,246</b>	<b>20,377</b>	<b>22,178</b>	<b>24,258</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Vaping devices/components	91.5	91.6	87.9	89.4	89.6
Advanced personal vapor	8.5	8.4	12.1	10.6	10.4
<b>P&amp;L ratios (%)</b>					
Gross margin	52.9	53.6	43.3	37.3	37.9
Operating margin	41.9	45.3	24.6	22.5	23.1
Pre-tax margin	31.1	45.1	24.3	22.3	22.9
Net margin	24.0	38.4	20.7	19.0	19.5
Effective tax rate	(23.0)	(14.9)	(15.0)	(15.0)	(15.0)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.8	0.6	0.5	0.5	0.5
Net receivable days	60.8	68.8	88.8	85.6	89.8
Net payable days	44.3	43.8	52.4	52.6	57.9
Inventory turnover days	38.2	28.6	37.1	38.4	42.3
Net debt to equity (%)	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Returns (%)</b>					
ROE	25.1	32.3	14.5	15.3	16.1
Dividend yield	n.a.	n.a.	1.9	2.1	2.5
<b>Per share</b>					
EPS (RMB)	0.4	0.9	0.4	0.5	0.5
DPS (RMB)	0.3	0.3	0.2	0.2	0.2
BVPS (RMB)	2.2	3.1	3.3	3.6	3.9

Source: Company data, CMBIGM estimates

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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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