

# Smooore Int'l (6969 HK)

## Operational challenges remain; but China regulatory risk to sentiment likely settled

- **Lukewarm takeaway from analyst briefing**, in our view, when near term outlook is clouded by 1) lingering uncertainty in PMTA approval after [FDA denies two menthol refills by Vuse Solo](#), citing the lack of sufficient evidence to demonstrate that permitting the marketing of the products would be appropriate for the protection of the public health, and 2) the prevalence of unlawful fruit-flavored refills in both US and China market.
- **A slow start for China in 2023**, when Jan and Feb retail sales were cannibalized by unlawful refills under the new regulatory regime, according to our channel check. While regulators have been actively combating any illegal distributions, we are hopeful of seeing compliant refills (i.e. tobacco-flavored) to recover from 2Q onwards. However, we remain cautious in China revenue and expect a small YoY decline.
- **Business diversification is happening, but the roadmap to bear fruit remains absent**. Considering the RMB 1.3bn R&D spending for 2022, 74% was spent on disposable vapes, 12% on medical beauty and the remaining on industrial vaporization. Despite the fast-growth seen in the former, concerns over regulatory supervision is gradually surfacing. On the other hand, we were not offered any concrete timeline on revenue generation for the remaining initiatives.
- **Earnings change**. We cut our 2023/24E revenue by 20%/31% to reflect a weaker US/ China outlook despite our higher revenue estimates for disposable vapes (RMB 3.4bn vs previously RMB 3.0bn). We also trim our GPM by 10pp p.a to factor-in the dilution impact upon the mix change. Both lead to a 45%/54% cut in our net profits estimates over the same period, respectively. Our estimates are in general 20% lower than consensus.
- **Valuation**. In attempt to factor-in the current perplexed local sentiment that reflects 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). Upon our earnings changes, our revised TP is based on 21.5x (from previously 35.5x) roll-forwarded end-23E P/E, which still represents -1sd below the average valuation. Current valuation is settling around historical trough, and we think regulatory risk to sentiment is well-priced. 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	20.8	18.1	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\$25.2)
Up/Downside	+15.3%
Current Price	HK\$10.4

### China Consumer – Food and Beverage

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

### Stock Data

Mkt Cap (HK\$ mn)	62,489
Avg 3 mths t/o (HK\$ mn)	188.9
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%

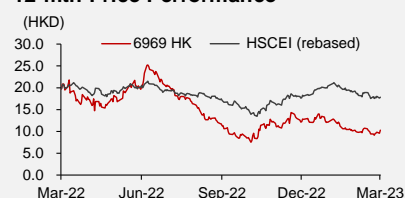
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	3.0%	8.9%
3-mth	-15.9%	-16.7%
6-mth	-8.4%	-12.5%

Source: Wind

### 12-mth Price Performance



Source: Wind

**Auditor: Deloitte**

### Related Reports

[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	15,209	18,947	24,672	-20.1%	-19.9%	-30.9%
Gross Profit	5,260	5,659	6,460	7,258	9,027	11,765	-27.5%	-37.3%	-45.1%
EBIT	2,983	3,415	3,939	4,323	6,147	8,557	-31.0%	-44.4%	-54.0%
Net profit	2,510	2,877	3,322	3,659	5,212	7,265	-31.4%	-44.8%	-54.3%
Gross Margin	43.3%	37.3%	37.9%	47.7%	47.6%	47.7%	-4.4ppt	-10.3ppt	-9.8ppt
EBIT Margin	24.6%	22.5%	23.1%	28.4%	32.4%	34.7%	-3.9ppt	-9.9ppt	-11.6ppt
Net Margin	20.7%	19.0%	19.5%	24.1%	27.5%	29.4%	-3.4ppt	-8.5ppt	-10ppt

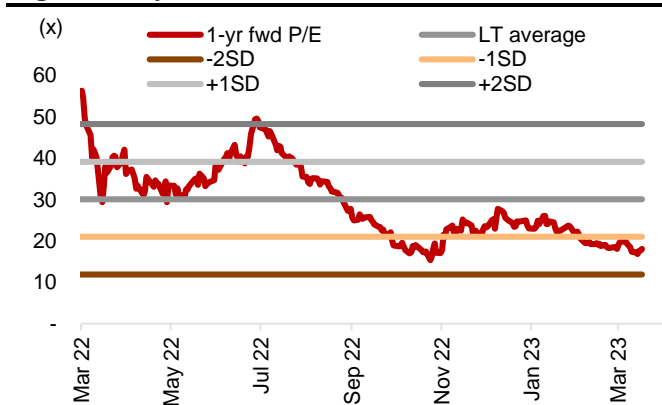
Source: Company data, CMBIGM estimates

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	12,631	14,895	17,951	-3.8%	1.9%	-5.1%
Gross Profit	5,260	5,659	6,460	5,748	6,625	7,787	-8.5%	-14.6%	-17.0%
Operating Profit	2,983	3,415	3,939	3,346	3,965	4,810	-10.8%	-13.9%	-18.1%
Net profit	2,510	2,877	3,322	2,971	3,579	4,346	-15.5%	-19.6%	-23.6%
Gross Margin	43.3%	37.3%	37.9%	45.5%	44.5%	43.4%	-2.2ppt	-7.2ppt	-5.5ppt
Operating Margin	24.6%	22.5%	23.1%	26.5%	26.6%	26.8%	-1.9ppt	-4.1ppt	-3.7ppt
Net Margin	20.7%	19.0%	19.5%	23.5%	24.0%	24.2%	-2.9ppt	-5.1ppt	-4.7ppt

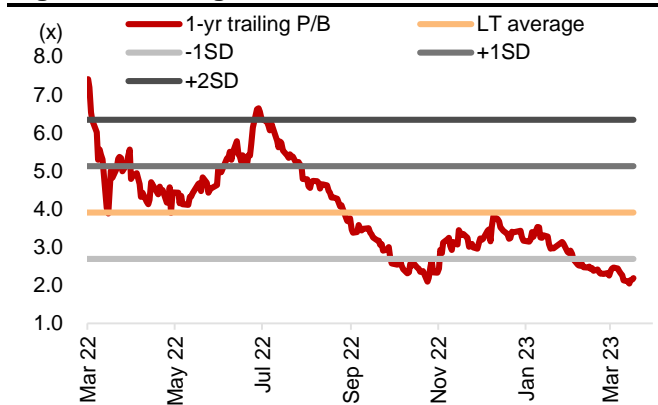
Source: Company data, CMBIGM estimate

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
<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>	<b>3,587</b>	<b>4,257</b>	<b>5,317</b>
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)			
<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.	2.0	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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**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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