

Smooore Int'l (6969 HK)

Preliminary results came in better than we expected

Smooore issued a profit alert after market close last Friday. 1H expected net profits will fall between RMB1.3bn to 1.5bn, and that will represent a -46% to -54% YoY decline. As we previously estimated, the decrease was mainly driven by 1) almost a blank domestic sellthrough of fruit-flavoured cartridges from March to September; 2) a RMB1.6bn R&D investment to research for new vaporizing know-how that are compliant to the regulation; and 3) impact from Shenzhen lockdown over Feb and Mar which resulted in a 2-to-3-week production halt. Other than these, in our view, gross margins will likely be under pressure, owing to the dilution attributable to a rising disposable vape contribution and a lacklustre domestic business. Opex ratio looks to climb mildly and the majority of expense was allocated to the recruitment of sales and R&D personnel. While the announcement came in slightly ahead of our estimate of RMB1.2bn, we maintain our forecasts for now and await more details from the results announcement by mid-Aug. We remain BUY-rated.

- **We continue to expect a higher 2H, thanks to continuous overseas business growth.** Competitive landscape in the US market is changing with the ban of Juul's product. In Europe, APV is selling well and growth outlook remains rosy with regulatory tailwind. A depreciating EUR (against USD) is a swing factor to profitability of Smooore's client. Meanwhile, domestic business will likely be under pressure, with market attention focusing on the pace of license approval. 3Q sales likely be sequentially lower as retailers are reluctant to proactively restock during the last stage of the transition period. 4Q growth momentum will also be muted, in our view, as new SKU debuts will take time to gain market acceptance.
- **We still look for a 20-25% overseas revenue growth for 2022E.** Overseas markets remain a sweet spot 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.
- **Valuation.** Our new TP of HK\$25.2 is based on 35.5x end-22E P/E, which represents -1sd below its 2-year average of 49.0x. 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-cigarette segment. Our 2022/23E earnings is c.10% below consensus.

(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	0.7	0.9	1.2
P/E (x)	n.a	n.a	29.6	19.1	14.5
P/B (x)	n.a	n.a	5.0	4.3	3.6
Yield (%)	n.a	n.a	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\$25.2)
Up/Downside	+20.3%
Current Price	HK\$20.9

China Consumer Sector

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

Zheng Xiaohui
 zhengxiaohui@cmbi.com.hk



Stock Data

Mkt Cap (HK\$ mn)	125,730
Avg 3 mths t/o (HK\$ mn)	32.9
52w High/Low (HK\$)	51.2/ 14.09
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	

Auditor: Deloitte

Related Reports

1. [Smooore Int'l \(6969 HK\) – Overseas order and the new disposable vape to sustain growth throughout 2022E](#) – 01 Jun 2022
2. [“China Consumer Staples – Valuations at 5-year low; a silver-lining to the current uncertainty sell-off?”](#) – 22 Apr 2022

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	10,010	13,755	15,209	18,947	24,672
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
Gross profits	5,296	7,377	7,258	9,027	11,765
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
EBIT	4,191	6,234	4,323	6,147	8,557
EBITDA	4,422	6,566	4,850	6,899	9,481
Finance costs, net	(15)	(25)	(25)	(25)	(25)
Non-operating	(1,058)	-	-	-	-
Pre-tax profit	3,118	6,209	4,297	6,122	8,532
Income tax	(718)	(922)	(638)	(909)	(1,267)
Less: Minority interests	-	-	-	-	-
Net profit to shareholder	2,400	5,287	3,659	5,212	7,265

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	2,400	5,287	3,659	5,212	7,265
D&A	36	57	174	232	332
Change in working capital	(1,004)	(1,654)	129	(221)	(346)
Others	1,603	(101)	329	496	566
Net cash fr. operating act.	3,035	3,588	4,291	5,719	7,818
Capex & investments	(339)	(1,959)	(1,464)	(1,464)	(1,464)
Associated companies	-	-	-	-	-
Others	(922)	(3,267)	25	25	25
Net cash fr. investing act.	(1,261)	(5,226)	(1,439)	(1,439)	(1,439)
Equity raised	7,390	3,721	-	-	-
Change of Debts	-	-	-	-	-
Dividend paid	(1,437)	(1,950)	(1,350)	(1,922)	(2,679)
Others	1,105	1,752	-	-	-
Net cash fr. financing act.	7,058	3,522	(1,350)	(1,922)	(2,679)
Net change in cash	8,832	1,885	1,502	2,358	3,699
Cash at the beginning of the year	731	9,558	11,427	12,929	15,287
Exchange difference	(6)	(16)	-	-	-
Cash at the end of the year	9,558	11,427	12,929	15,287	18,986
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	2,333	4,886	5,822	6,534	7,074
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
Current assets	12,441	17,986	19,916	23,193	28,296
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
Current liabilities	2,108	3,394	3,952	4,650	5,709
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
Non-current liabilities	266	231	231	231	231
Borrowings	-	-	-	-	-
Deferred tax liabilities	213	175	175	175	175
Other non-current liabilities	53	56	56	56	56
Minority Interest	-	-	-	-	-
Total net assets	12,400	19,246	21,556	24,846	29,431
Shareholders' equity	12,400	19,246	21,556	24,846	29,431

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Vaping devices &	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
P&L ratios (%)					
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	(23.0)	(14.9)	(14.9)	(14.9)	(14.9)
Balance sheet analysis					
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.
Returns (%)					
ROE	25.1	32.3	19.9	24.6	29.0
Dividend yield	n.a.	2.0	1.4	2.0	2.8
Per share					
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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.