

23 February 2018

Commerce

BEAUTY

Beauty Community

**Current
SELL**

 Previous
HOLD

 Close
20.70

 2018 TP
20.50

 Exp Return
- 0.97%

 THAI CAC
N/A

 CG 2017
3

Consolidated earnings

BT (mn)	2016	2017	2018E	2019E
Normalized profit	656	1,229	1,568	1,921
Net profit	656	1,229	1,568	1,921
EPS (Bt)-Norm	0.22	0.41	0.52	0.64
EPS (Bt)	0.22	0.41	0.52	0.64
% EPS growth	62.99	87.22	27.54	22.51
Dividend (Bt)	0.22	0.26	0.37	0.45
BV/share (Bt)	0.44	0.57	0.72	0.91
EV/EBITDA (x)	71.5	38.6	30.1	24.4
PER (x) - Norm	93.7	50.1	39.3	32.0
PER (x)	93.7	50.1	39.3	32.0
PBV(x)	46.6	36.1	28.6	22.5
Dividend yield (%)	1.1	1.3	1.8	2.2
ROE (%)	49.7	72.1	72.7	70.3
No. of shares- full dilution	3,000	3,000	3,003	3,003
Par (Bt)	0.10	0.10	0.10	0.10

Source: Company data, FSS estimates

2018 outlook bright but valuation stretched

4Q17 net profit up 17% Q-Q and 129% Y-Y, very strong

BEAUTY's 4Q17 net profit comes in very strong. To elaborate, it jumps 17% Q-Q and 129% Y-Y to Bt408mn. The sharp Y-Y gain is attributed to the followings. First, the base was low in 4Q16 when domestic consumption was slow. Second, there was buying from Chinese tourists which were in their high season. Third, domestic consumption was supported by the government's shopping stimulus. Given that, revenues increased 3% Q-Q and jumped 57% Y-Y to Bt1.1bn. Same-store-sales growth (SSSG) jumped 25.89% Y-Y. Gross margin steadied Q-Q at 67.4%. However, the company's management of its expenses sharply improved. Given that, SG&A expense-to-revenues ratio dropped to 21.1% (vs. 27.1% in 3Q17 and 36.2% in 4Q16) after domestic and online sales were up to 18% of total revenues (vs. 10% in 2016).

BEAUTY's 2017 net profit amounts to Bt1.2bn (+87% Y-Y). Such gain is made possible by the followings. First, SSSG jumped 20.5% Y-Y. Second, the company opened 13 new branches during the year, sending the total number of branches to 345. Third, it efficiently controlled SG&A expenses.

BEAUTY has announced a DPS of Bt0.258. It implies a dividend yield of 1.2%. The stock will go XD on May 3, 2018.

Increase 2018E net profit to factor in better-than-expected control on expenses

We have increased our 2018-2020E net profit by 9% on average. Such upward revision factors in a decline in SG&A expense-to-sales estimate, in line with BEAUTY's channel of distribution, which moves toward export and online sales. In this regard, we expect them to increase to 25% this year and 30% next year. After which, our forecast now calls for net profit to amount to Bt1.6bn (+28% Y-Y) in 2018 and Bt1.9bn (+23% Y-Y) in 2019.

Raise 2018 TP to Bt20.5 but lower rating to SELL

Similarly, we have revised up our 2018 DCF-based TP to Bt20.5 (WACC 7%, Terminal growth 3%), which is equal to implied 2018 PE of 39x. Moreover, it equals 2018 PEG of 1.8x (assuming 2019-2021 growth), higher than the commerce sector's average of 1.6-1.7x. Since growth begins to slow due to high base, we view that the counter's valuation is rather stretched. As a result, we lower our rating on BEAUTY to SELL from HOLD.

Risks - A slowdown in the purchasing power in Thailand and abroad, particularly China

4Q17 Earnings Results

(Bt mn)	4Q17	3Q17	%Q-Q	4Q16	%Y-Y	Comment
Revenues	1,091	1,059	3.0	697	56.5	<ul style="list-style-type: none"> In 4Q17, revenues increased both Q-Q and Y-Y thanks to sharp gains in SSSG. Gross margin was flat both Q-Q and Y-Y. SG&A expense-to-revenues ratio was down to 21.1% (vs. 27.1% in 3Q17 and 36.2% in 4Q16) after export and online sales increased.
Cost of services	355	346	2.5	227	56.1	
Gross profit	735	713	3.2	469	56.7	
SG&A	230	287	-19.8	252	-8.6	
Interest expense	0	0	0.0	0	0.0	
Normalized earnings	408	348	17.3	178	129.6	
Net profit	408	348	17.3	178	129.6	
EPS	0.00	0.12	-100.0	0.06	-100.0	
Gross margin (%)	67.4	67.3	0.1	67.4	0.1	
SG&A/Sales (%)	21.1	27.1	-6.0	36.2	-15.1	
Net profit margin (%)	37.4	32.9	4.6	25.5	11.9	

Source: Company data

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Income Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Revenue	1,773	2,539	3,713	4,642	5,570
Costs of sales	586	833	1,198	1,497	1,797
Gross profit	1,187	1,706	2,515	3,144	3,773
SG&A costs	703	905	1,004	1,210	1,400
Operating profit	484	802	1,511	1,935	2,373
Other income	19	19	22	25	28
EBIT	503	821	1,533	1,960	2,401
EBITDA	531	848	1,560	1,989	2,436
Interest charge	0	0	0	0	0
Tax on income	100	165	304	392	480
Earnings after tax	402	656	1,229	1,568	1,921
Minority interests	0	0	0	0	0
Normalized earnings	402	656	1,229	1,568	1,921
Extraordinary items	0	0	0	0	0
Net profit	402	656	1,229	1,568	1,921

Balance Sheet (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Cash& equivalents	526	897	1,306	1,645	2,131
Account receivable	44	42	146	116	139
Inventory	266	374	410	511	613
Other current asset	0	0	0	0	0
Total current asset	836	1,313	1,861	2,271	2,883
Investment	100	10	50	100	100
PPE	281	304	289	264	324
Other asset	115	101	98	139	167
Total assets	1,368	1,751	2,335	2,824	3,534
Short term loan loans	0	0	0	0	0
Accounts payable	177	316	434	557	668
Current maturities	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Total current liabilities	213	413	612	650	780
Long-term debt	0	0	0	0	0
Other LT liabilities	7	17	19	19	22
Total LT liabilities	7	17	19	19	22
Total liabilities	220	430	630	668	802
Registered capital	300	300	300	300	300
Paid up capital	300	300	300	300	300
Share premium	556	556	571	556	556
Legal reserve	30	30	30	30	30
Retained earnings	261	429	794	1,264	1,840
Minority Interest	0	0	0	0	0
Shareholders' equity	1,148	1,320	1,705	2,156	2,732

Source: Company data, FSS research

Cash Flow Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Net profit	402	656	1,229	1,568	1,921
Depreciation &	28	27	26	29	35
Change in working capital	58	-230	-61	-162	-181
Other adjustments	0	0	1	2	3
Cash flow from operation	489	453	1,194	1,435	1,774
Capital expenditure	-115	52	-66	-66	-105
Others	-33	14	3	-41	-28
Cash flow from investing	-148	66	-63	-107	-133
Free cash flow	341	519	1,132	1,328	1,642
Net borrowings	-2	10	2	0	4
Equity capital raised	0	0	15	-14	0
Dividends paid	-342	-488	-865	-1,098	-1,345
Others	0	0	0	0	0
Cash flow from financing	-344	-474	-843	-1,117	-1,341
Net change in cash	-3	45	289	211	301

Important Ratios (Consolidated)

	2015	2016	2017	2018E	2019E
Growth (%)					
Revenues	30.4	43.2	46.2	25.0	20.0
Net profit	33.6	63.0	87.4	27.5	22.5
Norm profit	33.6	63.0	87.4	27.5	22.5
Profitability Ratios (%)					
Gross profit margin	66.9	67.2	67.7	67.7	67.7
EBIT margin	28.4	32.3	41.3	42.2	43.1
Normalized profit margin	22.7	25.8	33.1	33.8	34.5
Net profit margin	22.7	25.8	33.1	33.8	34.5
Normalized ROA	29.4	37.5	52.6	55.5	54.4
Normalized ROE	35.1	49.7	72.1	72.7	70.3
Risk (x)					
D/E (x)	0.19	0.33	0.37	0.31	0.29
Net D/E (x)	Cash	Cash	Cash	Cash	Cash
Per share data (Bt)					
Reported EPS	0.13	0.22	0.41	0.52	0.64
Norm EPS	0.13	0.22	0.41	0.52	0.64
FCF	0.11	0.17	0.38	0.44	0.55
Book value	0.38	0.44	0.57	0.72	0.91
Dividend	0.11	0.22	0.26	0.37	0.45
Par	0.10	0.10	0.10	1.10	2.10
Valuations (x)					
P/E	152.8	93.7	50.1	39.3	32.0
Norm P/E	152.8	93.7	50.1	39.3	32.0
P/BV	53.6	46.6	36.1	28.6	22.5
EV/EBTDA	114.5	71.5	38.6	30.1	24.4
Dividend yield (%)	0.6	1.1	1.3	1.8	2.2

Finansia Syrus Securities Public Company Limited
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999/9 The offices at Central World
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Bangkok

Alma Link

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Alma Link Building 25
Soi Chidlom, Ploenchit, Lumpini,
Patumwan, Bangkok

Amarin Tower

496-502 Amarin Tower
20th Floor, Pleonchit,
Lumpini, Pathumwan,
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Central Pinklao 1

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Bangkapi

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Klongjan, Bangkapi, Bangkok

Bangna

589 Tower 1 Office, 19th Floor,
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Bangkok

Sindhorn 1

130-132 Sindhorn Building 1,
2rd Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Kian Gwan (Sindhorn 2)

140/1 Kian Gwan House II
18th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
19th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Ladprao

555 Rasa Tower 2, 11st Floor,
Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Prachachuen

105/1 B Building, 4th Floor,
Thessabansongkhrao Road,
Ladyao, Jutujak, Bangkok

Rang sit

1/832 Moo 17
Kukod, Lumlookka
Pratumtane

Abdulrahim

990, Abdulrahim Place, 12nd Fl.,
Room 1210, Rama IV Road,
Silom, Bangrak, Bangkok

Rattanatibet

576 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang, Nonthaburi

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Khonkaen 1

311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumphoe Meung,
Khonkaen

Khonkaen 2

26/9 Moo 7, 2nd Floor
Sri Chant Mai Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Khonkaen 3

311/1
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Udonthani

197/29, 213/3
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Chiangmai 1

308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 2

310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 3

Maliplace Building 32/4 moo 2
1 fl., Room B1-1, B1-2
Tumbon Maehia
Chiangmai

Chiangrai

353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima

1242/2 Room A3, 7 fl.,
The Mall Ratchasima
Mitrphap road Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn

813/30 Norrasing Road,
Tumbon Maha Chai,
Aumphoe Meungsamutsakorn,
Samutsakorn

Phuket

22/18 Luangporwatchalong Road,
Tumbon Talad Yai,
Amphoe Muang Phuket,
Phuket

Hatyai 1

200/221, 200/223
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Trang

59/28 Huaiyod Road,
Tumbon Thaptieng,
Aumphoe Meungtrang, Trang

Suratthani

173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

Pattane

300/69-70 Moo 4,
Tumbon Rusamirae,
Aumphoe Meung, Pattane

Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

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Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2017

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

1 CG Score 2017 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of July 31, 2017) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.