

BEAUTY (BEAUTY TB)

Beauty Community

Current	Previous	Close	2018 TP	Exp Return	THAI CAC	CG 2017
SELL	SELL	9.10	7.00	-23%	N/A	3

Consolidated earnings

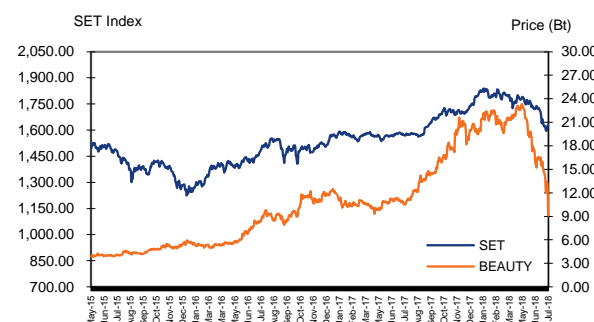
BT (mn)	2016	2017	2018E	2019E
Normalized earnings	656	1,229	1,168	1,333
Net profit	656	1,229	1,168	1,333
Normalized EPS (Bt)	0.22	0.41	0.39	0.44
EPS (Bt)	0.22	0.41	0.39	0.44
% growth	62.99	87.22	-5.02	14.13
Dividend (Bt)	0.22	0.26	0.27	0.31
BV/share (Bt)	0.44	0.57	0.68	0.81
EV/EBITDA (x)	31.2	16.7	17.3	14.9
Normalized PER (x)	41.6	22.2	23.4	20.5
PER (x)	41.6	22.2	23.4	20.5
PBV (x)	20.7	16.0	13.4	11.2
Dividend yield (%)	2.4	2.8	3.0	3.4
ROE (%)	49.7	72.1	57.4	54.7
YE No. of shares (million)	3,000	3,003	3,003	3,003
Par (Bt)	0.10	0.10	0.10	0.10

Source: Company data, FSS estimates

Share data

Sector	Commerce
Close (04/07/2018)	9.10
SET Index	1,629.20
Foreign limit/actual (%)	100.00/17.70
Paid up shares (million)	3,004.84
Free float (%)	64.56
Market cap (Bt m)	27,344.06
Avg daily T/O (Bt m) (2018 YTD)	1,015.83
hi, lo, avg (Bt) (2018 YTD)	23.70, 9.10, 17.47

Source: SetSMARTS



Source: SET

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Beauty fades

Following yesterday's analyst meeting, we were more concerned about BEAUTY's growth outlook. In the near term, we expect the company's 2Q18 net profit to decrease Y-Y, the first loss since its listing on the SET, after sales of Beauty Cottage (which account for 8-9% of revenues) sharply decreased. In addition, the FDA has imposed strict control on cosmetics products and factories. This resulted in a delay in new product launches and made exports of the company's products to China more difficult. Meanwhile, we view that BEAUTY's ideas to stem its problems through cross-border marketing and modern trade channel are not easy because although the market is large, competition is also very strong. We have cut our 2018E net profit by 26% to about Bt1.2bn (-5% Y-Y) and slashed our five-year profit estimate by 32% p.a. on average. What's more, we have changed our valuation method from DCF to relative PE of 18x after the company's long-term profit starts to be hard to predict. After which, we derive our 2018 TP at Bt7 and retain our SELL rating on BEAUTY.

We are not concerned about recent rumors

Yesterday, BEAUTY's management has clarified about recent rumors, including supplier problems, fake sales, and additional sales of shares by Dr. Suwin and his affiliates. To elaborate, the management confirmed that they were groundless. The company's current operation remains normal and there will be no sales of shares even though the two-year silent period is over. In our view, there is no ground for suspicion on these issues since BEAUTY has many suppliers. The company's cash flow from operation is in line with its profit and a decrease in major shareholders' interest is not a problem if performance continues to grow strong.

What concerns us is weak 1Q18 profit

Although we are not worried about the rumors, what surprises us is the management's mention of obstacles in 2Q18 which might make net profit decrease. They comprise sales of Beauty Cottage that did not hit the company's target, negative impacts from the FDA's checking of its products and its cosmetics factory. This has slowed BEAUTY's planned new product launches in order to increase the number of SKU, the company's strength. What's more, it has also made China, its main market which accounts for about 30% of revenues impose stricter control on its products. Although the management informed the meeting that purchase orders began to recover in June 2018, cosmetics are fast fashion products that can be easily replaced. What's more, China's purchasing power is hit by a weak Yuan and trade wars with the U.S. As a result, we view that a recovery in 2H18 will not be fast as the management has anticipated. For 2Q18, we expect BEAUTY's net profit at Bt226mn (-20% Q-Q, -17% Y-Y).

No concrete solution, Maintain SELL rating

We do not view BEAUTY's aggressive marketing as positive. In particular, both cross-border marketing and modern trade channel are just a strategy that will push the company's products into the mass market without knowing if there is a demand for the products. This is different from earlier when customers gave BEAUTY a nice word-of-mouth, which helped expand the company's market along the way. Through such informal communication, BEAUTY's brands were well known. What's more, the management's motivation to fix the problems is anticipated to decrease in line with its stake. In this regard, it's not only that the change in BEAUTY's strategy does not help increase sales. Moreover, it will make profit decrease and marketing expense increase. We have cut our 2018E net profit by 26% to about Bt1.2bn (-5% Y-Y) and decreased our five-year profit estimate by 32% p.a. on average. In addition, we have changed our valuation method from DCF to relative PE because the company's long-term profit begins to be difficult to predict. Specifically, we apply a PE multiplier of 18x. It's equal to implied PEG of 1.3x, the commerce sector's average, assuming 2019-2021 average annual EPS growth rate of 14%. After which, we derive our 2018 TP at Bt7 and retain our SELL rating on BEAUTY.

Risks: Strong competition, a decline in customer loyalty

Income Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Revenue	1,773	2,539	3,713	4,270	4,911
Cost of sales	586	833	1,198	1,580	1,817
Gross profit	1,187	1,706	2,515	2,690	3,094
SG&A	703	905	1,004	1,254	1,453
Operating profit	484	802	1,511	1,436	1,641
Other income	19	19	22	23	25
EBIT	503	821	1,533	1,460	1,666
EBITDA	531	848	1,560	1,488	1,699
Interest charge	0	0	0	0	0
Tax on income	100	165	304	292	333
Earnings after tax	402	656	1,229	1,168	1,333
Minority interest	0	0	0	0	0
Normalized earnings	402	656	1,229	1,168	1,333
Extraordinary items	0	0	0	0	0
Net profit	402	656	1,229	1,168	1,333

Cash Flow Statement (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Net profit	402	656	1,229	1,168	1,333
Deprec. & amortization	28	27	26	29	34
Change in working capital	58	-230	-61	-89	-125
Other adjustments	0	0	1	2	3
Cash flow from operations	489	453	1,194	1,107	1,241
Capital expenditure	-115	52	-66	-56	-91
Others	-33	14	3	-30	-19
Cash flow from investing	-148	66	-63	-86	-110
Free cash flow	341	519	1,132	1,021	1,131
Net borrowings	-2	10	2	-1	3
Equity capital raised	0	0	15	0	0
Dividends paid	-342	-488	-865	-817	-933
Others	0	0	0	0	0
Cash flow from financing	-344	-474	-843	-824	-930
Net change in cash	-3	45	289	197	201

Balance Sheet (Consolidated)

(Bt mn)	2015	2016	2017	2018E	2019E
Cash& equivalents	526	897	1,306	1,557	1,886
Account receivable	44	42	146	107	123
Inventory	266	374	410	470	540
Other current asset	0	0	0	0	0
Total current asset	836	1,313	1,861	2,133	2,549
Investment	100	10	50	100	100
PPE	281	304	289	258	308
Other asset	115	101	98	128	147
Total assets	1,368	1,751	2,335	2,665	3,157
Short term loan loans	0	0	0	0	0
Accounts payable	177	316	434	512	589
Current maturities	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Total current liabilities	213	413	612	598	688
Long-term debt	0	0	0	0	0
Other LT liabilities	7	17	19	17	20
Total LT liabilities	7	17	19	17	20
Total liabilities	220	430	630	615	707
Registered capital	300	300	300	300	300
Paid up capital	300	300	300	300	300
Share premium	556	556	571	571	571
Legal reserve	30	30	30	30	30
Retained earnings	261	429	794	1,144	1,544
Minority Interest	0	0	0	0	0
Shareholders' equity	1,148	1,320	1,705	2,050	2,450

Important Ratios (Consolidated)

	2015	2016	2017	2018E	2019E
Growth (%)					
Revenue	30.42	43.23	46.23	15.00	15.00
Net profit	33.64	62.99	87.39	-5.02	14.13
Normalized earnings	33.64	62.99	87.39	-5.02	14.13
Profitability (%)					
Gross profit margin	66.93	67.19	67.74	63.00	63.00
EBIT margin	28.36	32.34	41.29	34.18	33.92
Normalized profit margin	22.70	25.83	33.10	27.34	27.14
Net profit margin	22.70	25.83	33.10	27.34	27.14
Normalized ROA	29.43	37.47	52.64	43.82	42.21
Normalize ROE	35.06	49.69	72.09	56.96	54.40
Risk (x)					
D/E	0.19	0.33	0.37	0.30	0.29
Net D/E	cash	cash	cash	cash	cash
Per share data (Bt)					
Reported EPS	0.13	0.22	0.41	0.39	0.44
Normalized EPS	0.13	0.22	0.41	0.39	0.44
FCF	0.11	0.17	0.38	0.34	0.38
Book value	0.38	0.44	0.57	0.68	0.82
Dividend	0.11	0.22	0.26	0.27	0.31
Par	0.10	0.10	0.10	0.10	0.10
Valuations (x)					
P/E	67.83	41.62	22.23	23.40	20.50
Norm P/E	67.83	41.62	22.23	23.40	20.50
P/BV	23.78	20.68	16.02	13.33	11.15
EV/EBITDA	50.15	31.22	16.65	17.27	14.92
Dividend yield (%)	1.25	2.40	2.84	2.99	3.41

Source: Company data, FSS research

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Chiangmai

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Aumphoe Muang Nakornratchasima
Nakornratchasima

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Khonkaen 1

311/16 2nd Floor, Klangmeung
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Aumphoe Meung,
Khonkaen

Chiangmai 2

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Muang
Chiangmai

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Rang sit

1/832 Moo 17
Kukod, Lumlookka
Pratumtee

Khonkaen 2

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Khonkaen

Chiangmai 3

Malipace Building 32/4 moo 2
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Tumbon Maehia
Chiangmai

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Aumphoe Mueang, Suratthani

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Khonkaen

Chiangrai

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Aumphoe Hadyai, Songkhla

Pattane

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

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Rattanatibet

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Aumphoe Muang, Nonthaburi

Udonthani

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

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

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

IOD (IOD Disclaimer)

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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.