

Beauty Community

BEAUTY TB / BEAUTY.BK

February 26, 2019

Sharp decline

Weaker than estimate

BEAUTY reported a 4Q18 net profit of Bt124m, down 70% YoY and 62% QoQ. The results were 50% and 25% less than the consensus and our estimate, respectively, due to lower-than-expected sales and higher SG&A expenses than modeled.

Result highlights

Sales fell 40% YoY to Bt653m in 4Q18, while SSS declined 45%, due mainly to fewer Chinese tourists and stringent clearance procedures at the China-Laos border that delayed truck shipments from Thailand.

Sales at all channels in domestic market substantially declined YoY due mainly to fewer Chinese tourists. Beauty Buffet (BB) sales contracted 45.5% YoY to Bt340m. Beauty Cottage (BC) sales fell 32% YoY to Bt66m. Sales of Beauty Market (BM) declined 25% YoY to Bt10m. Sales through modern-trade retail stores (mainly King Power duty free shops) fell 42% YoY to Bt84m in 4Q18.

Overseas sales increased 15.6% YoY to Bt185m, as the start of sales through Chinese cross border e-commerce (CBEC) platform since 3Q18 outweighed weakened sales through cross-border trade by small Chinese wholesalers.

Gross margin slightly decreased to 66.1% in 4Q18 from 67.4% in 4Q17 due to a change in the sales mix, with lower sales at high margin BB and BC outlets but higher sales through lower-margin CBEC. However gross margin improved from 62.7% in 3Q18 due to fewer promotion discounts.

SG&A expenses rose 21% YoY and 4% QoQ to Bt279m in 4Q18, pushing the SG&A/sales ratio up to 42.7% in 4Q18 from 21.1% in 4Q17 and 25% in 3Q18 due to greater advertising expenses and a low base effect from reversal of accrued expenses in 4Q17.

Outlook

Despite a strong rebound in the number of Chinese tourists, YTD sales still declined YoY. Sales through CBEC may not increase strongly enough to offset a fall in sales to Chinese wholesalers as a result of a new Chinese regulation to control cross-border trade. Since the beginning of Jan 2019, cross-border traders (daigou) were required to register and pay taxes, causing them to bear more costs and making the trades unprofitable. As such, we expect BEAUTY's earnings to continue to contract in 1Q19.

What's changed?

Our earnings forecast and target price have remained unchanged.

Recommendation

With limited upside to our YE19 target price, our HOLD rating stands.

Sector: Retail
OVERWEIGHT
Rating: HOLD
Target Price: Bt8.50
Price (February 25, 2018): Bt8.20

Financial summary

FY Ended 31 Dec	2017	2018	2019E	2020E
Revenues (Btm)	3,713	3,467	4,282	4,846
Net profit (Btm)	1,229	992	1,265	1,453
EPS (Bt)	0.41	0.33	0.42	0.48
EPS growth (%)	+87.4%	-19.3%	+27.5%	+14.9%
Core profit (Btm)	1,229	992	1,265	1,453
Core EPS (Bt)	0.41	0.33	0.42	0.48
Core EPS growth (%)	+87.4%	-19.3%	+27.5%	+14.9%
PER (x)	20.0	24.8	19.5	16.9
PBV (x)	14.4	18.1	15.3	13.6
Dividend (Bt)	0.4	0.3	0.4	0.5
Dividend yield (%)	5.0	3.7	5.1	5.8
ROE (%)	81.3	64.8	85.4	85.1

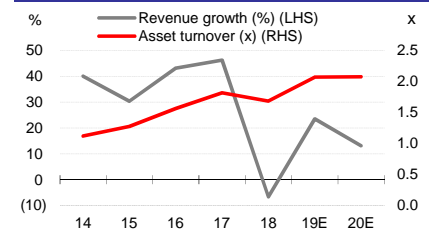
CG/Anti-corruption


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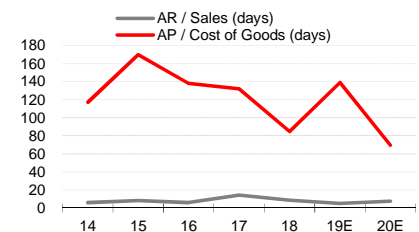
BEAUTY: Financial Tables – Year

PROFIT & LOSS (Btm)	2016	2017	2018	2019E	2020E
Revenue	2,539	3,713	3,467	4,282	4,846
Cost of sales and services	(833)	(1,198)	(1,202)	(1,598)	(1,814)
Gross profit	1,706	2,515	2,265	2,684	3,032
SG&A	(905)	(1,004)	(1,067)	(1,123)	(1,236)
EBIT	821	1,533	1,233	1,581	1,816
Interest expense	0	0	0	0	0
Other income/exp.	19	22	35	19	20
EBT	821	1,533	1,233	1,581	1,816
Corporate tax	(165)	(304)	(241)	(316)	(363)
After-tax net profit (loss)	656	1,229	992	1,265	1,453
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	0
Net profit (loss)	656	1,229	992	1,265	1,453
Reported EPS	0.22	0.41	0.33	0.42	0.48
Fully diluted EPS	0.22	0.41	0.33	0.42	0.48
Core net profit	656	1,229	992	1,265	1,453
Core EPS	0.22	0.41	0.33	0.42	0.48
EBITDA	900	1,616	1,329	1,661	1,898
KEY RATIOS					
Revenue growth th (%)	n.a.	46.2	(6.6)	23.5	13.2
Gross margin (%)	67.2	67.7	65.3	62.7	62.6
EBITDA margin (%)	35.4	43.5	38.3	38.8	39.2
Operating margin (%)	32.3	41.3	35.6	36.9	37.5
Net margin (%)	25.8	33.1	28.6	29.5	30.0
Core profit margin (%)	25.8	33.1	28.6	29.5	30.0
ROA (%)	40.5	60.2	48.2	61.2	62.3
ROCE (%)	53.2	81.3	64.8	85.4	85.1
Asset turnover (x)	1.6	1.8	1.7	2.1	2.1
Current ratio (x)	3.2	3.0	3.5	2.7	4.2
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	nm	nm	nm	nm	nm
BALANCE SHEET (Btm)					
Cash & Equivalent	897	1,306	693	1,647	1,184
Accounts receivable	42	146	83	60	102
Inventory	374	410	593	271	659
PP&E-net	304	289	270	247	224
Other assets	134	186	138	135	132
Total assets	1,751	2,335	1,776	2,360	2,301
Accounts payable	316	434	279	610	346
ST debts & current portion	0	0	0	0	0
Long-term debt	0	0	0	0	0
Other liabilities	115	196	141	144	147
Total liabilities	430	630	420	753	493
Paid-up capital	300	300	301	301	301
Share premium	556	571	589	589	589
Retained earnings	459	824	552	803	1,003
Shareholders equity	1,320	1,705	1,356	1,607	1,808
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	1,751	2,335	1,776	2,360	2,301
CASH FLOW (Btm)					
Net income	656	1,229	992	1,265	1,453
Depreciation and amortization	59	61	61	61	62
Change in working capital	(52)	(43)	(264)	675	(694)
FX, non-cash adjustment & others	40	89	(70)	3	3
CF from operating activities	703	1,337	719	2,004	824
Capex (Invest)/Divest	(56)	(37)	(40)	(36)	(36)
Others	(60)	(170)	390	0	0
CF from investing activities	(116)	(207)	350	(36)	(36)
Debt financing (repayment)	0	0	0	0	0
Equity financing	0	14	17	0	0
Dividend payment	(489)	(864)	(1,260)	(1,014)	(1,252)
Others	0	0	0	0	0
CF from financing activities	(489)	(851)	(1,243)	(1,014)	(1,252)
Net change in cash	98	279	(173)	955	(464)
Free cash flow (Btm)	647	1,300	679	1,969	788
FCF per share (Bt)	0.2	0.4	0.2	0.7	0.3
Key Assumptions					
No. of Beauty Buffet	248	261	265	269	273
No. of Beauty Cottage	71	75	76	78	80
No. of Beauty Market	13	9	7	6	5
Same-store-sales growth th	22.6%	20.5%	-13.3%	25.3%	8.1%

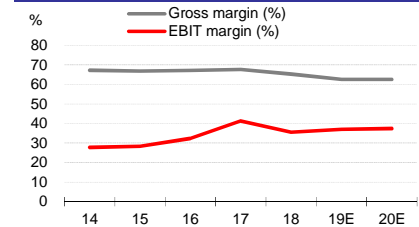
Revenue growth and asset turnover



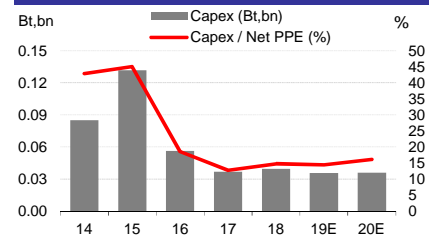
A/C receivable & A/C payable days



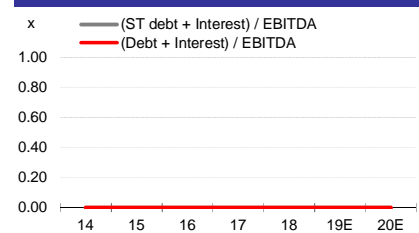
Profit margins



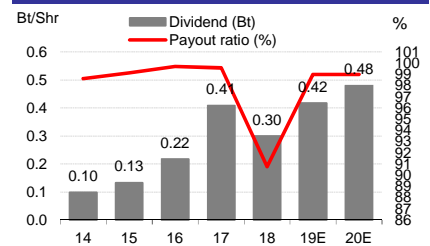
Capital expenditure



Debt serviceability



Dividend payout



BEAUTY: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q17	1Q18	2Q18	3Q18	4Q18
Revenue	1,091	898	837	1,078	653
Cost of sales and services	(355)	(290)	(288)	(402)	(222)
Gross profit	735	608	549	676	432
SG&A	(230)	(270)	(249)	(269)	(279)
EBIT	511	345	321	411	157
Interest expense	0	0	0	0	0
Other income/exp.	5	7	20	4	4
EBT	511	345	321	411	157
Corporate tax	(102)	(62)	(64)	(82)	(33)
After-tax net profit (loss)	408	282	256	329	124
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	0
Net profit (loss)	408	282	256	329	124
Reported EPS	0.14	0.09	0.09	0.11	0.04
Fully diluted EPS	0.14	0.09	0.09	0.11	0.04
Core net profit	408	282	256	329	124
Core EPS	0.14	0.09	0.09	0.11	0.04
EBITDA	265	357	446	526	360

KEY RATIOS

Gross margin (%)	67.4	67.7	65.6	62.7	66.1
EBITDA margin (%)	24.3	39.7	53.3	48.8	55.1
Operating margin (%)	47.3	39.2	40.7	38.4	24.6
Net margin (%)	37.4	31.4	30.6	30.5	19.0
Core profit margin (%)	37.4	31.4	30.6	30.5	19.0
BV (Bt)	0.6	0.7	0.5	0.4	0.5
ROE (%)	95.8	56.6	69.4	106.9	36.5
ROA (%)	69.9	41.9	52.1	74.1	27.9
Current ratio (x)	3.5	2.6	2.3	3.0	3.3
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	nm	nm	nm	nm	nm

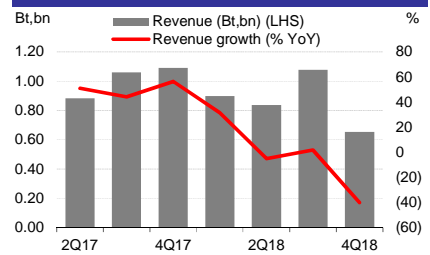
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	1,306	1,591	821	723	693
Accounts receivable	146	177	143	112	83
Inventory	410	458	530	477	593
PP&E-net	289	285	279	273	270
Other assets	186	187	194	192	138
Total assets	2,335	2,698	1,967	1,776	1,776
Accounts payable	434	438	337	437	279
ST debts & current portion	0	0	0	0	0
Long-term debt	0	0	0	0	0
Other liabilities	196	264	152	108	141
Total liabilities	630	701	488	545	420
Paid-up capital	300	300	300	301	301
Share premium	571	581	581	589	589
Retained earnings	824	1,103	584	428	552
Shareholders equity	1,705	1,996	1,479	1,231	1,356
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	2,335	2,698	1,967	1,776	1,776
Key Statistics	4Q17	1Q18	2Q18	3Q18	4Q18
No. of Beauty Buffet	261	264	265	265	265
No. of Beauty Cottage	75	75	75	76	76
No. of Beauty Market	9	9	8	8	7
Same-store-sales growth	25.9%	18.4%	-12.0%	-0.6%	-45.0%

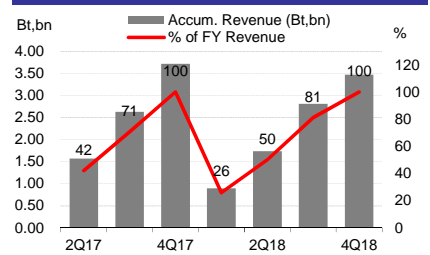
Company profile

Beauty Community Public Company Limited (BEAUTY) is a retailer of cosmetics and beauty products. It has three storefront brands: Beauty Buffet, Beauty Cottage and Beauty Market, which target different consumer groups. It has also launched products under the Made in Nature and Girly Girl brand for distribution through other retail stores, such as hypermarkets, supermarkets, department stores, and health and beauty stores.

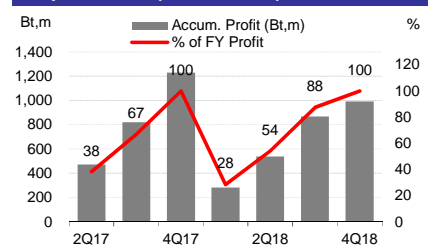
Revenue trend



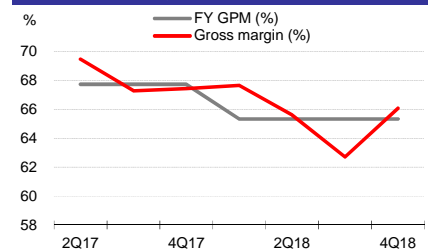
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

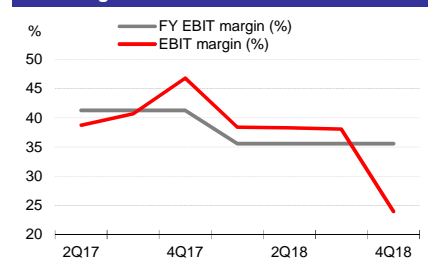


Figure 1 : 4Q18 and 2018 results

FY Ended 31 Dec (Btm)	4Q18	4Q17	YoY %	3Q18	QoQ %	2018	2017	YoY %	
Income Statement									
Revenue	653	1,091	(40)	1,078	(39)	3,467	3,713	(7)	
Cost of sales and services	(222)	(355)	(38)	(402)	(45)	(1,202)	(1,198)	0	
EBITDA	360	265	36	526	(32)	1,689	971	74	• Same-store sales declined 45% in 4Q18
SG&A	(279)	(230)	21	(269)	4	(1,067)	(1,004)	6	
EBIT	157	511	(69)	411	(62)	1,233	1,533	(20)	• Beauty Buffet sales contracted 45.5% YoY to Bt340m
Interest expense	0	0	n.m.	0	n.m.	0	0		
Other income/exp.	4	5	(29)	4	2	35	22	58	
EBT	157	511	(69)	411	(62)	1,233	1,533	(20)	
Corporate tax	(33)	(102)	(68)	(82)	(60)	(241)	(304)	(21)	• Beauty Cottage sales fell 32% YoY to Bt66m
Minority interest	0	0		0		0	0		
Net profit (loss)	124	408	(70)	329	(62)	992	1,229	(19)	• Beauty Market sales decreased 25% YoY to Bt10m
Reported EPS	0.04	0.14	(70)	0.11	(62)	0.33	0.41	(19)	
Core net profit	124	408	(70)	329	(62)	992	1,229	(19)	
Key ratios									
Gross margin (%)	66.1	67.4		62.7		65.3	67.7		
EBITDA margin (%)	55.1	24.3		48.8		48.7	26.2		• Sales through modern-trade retail stores declined 42% YoY to Bt84m
EBIT margin (%)	24.0	46.8		38.1		35.6	41.3		
SG&A / Revenue (%)	42.7	21.1		25.0		30.8	27.0		
Tax rate (%)	20.9	20.0		19.9		19.6	19.8		
Net margin (%)	19.0	37.4		30.5		28.6	33.1		• Overseas sales rose 15.6% YoY to Bt185m
Current ratio (x)	3.3	3.5		3.0		3.3	3.5		
Gearing ratio (x)	0.0	0.0		0.0		0.0	0.0		
Interest coverage (x)	n.m.	n.m.		n.m.		n.m.	n.m.		
Balance Sheet									
Cash & Equivalent	693	1,306	(47)	723	(4)				
Total assets	1,776	2,335	(24)	1,776	(0)				
ST debts & current portion	0	0	nm	0	nm				
Long-term debt	0	0	nm	0	nm				
Total liabilities	420	630	(33)	545	(23)				
Retained earnings	552	824	(33)	428	29				
Shareholders equity	1,356	1,705	(20)	1,231	10				
Minority interests	0	0		0					
BV (Bt)	0.5	0.6	(20)	0.4	10				

Sources: Company data, Bualuang Research estimates

Bualuang Securities Public Company Limited

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CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

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

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.