

# BEAUTY (BEAUTY TB)

Beauty Community

|                |          |       |         |            |          |         |
|----------------|----------|-------|---------|------------|----------|---------|
| <b>Current</b> | Previous | Close | 2019 TP | Exp Return | THAI CAC | CG 2018 |
| <b>SELL</b>    | SELL     | 6.95  | 5.30    | -23.74%    | N/A      | 3       |

| Consolidated earnings      |       |        |        |       |
|----------------------------|-------|--------|--------|-------|
| BT (mn)                    | 2017  | 2018   | 2019E  | 2020E |
| Normalized earnings        | 1,229 | 992    | 885    | 894   |
| Net profit                 | 1,229 | 992    | 885    | 894   |
| Normalized EPS (Bt)        | 0.41  | 0.33   | 0.29   | 0.30  |
| EPS (Bt)                   | 0.41  | 0.33   | 0.29   | 0.30  |
| % growth                   | 87.22 | -19.43 | -10.62 | 1.04  |
| Dividend (Bt)              | 0.26  | 0.30   | 0.21   | 0.21  |
| BV/share (Bt)              | 0.57  | 0.45   | 0.56   | 0.65  |
| EV/EBITDA (x)              | 12.5  | 16.1   | 17.5   | 17.1  |
| Normalized PER (x)         | 17.0  | 21.1   | 23.6   | 23.3  |
| PER (x)                    | 17.0  | 21.1   | 23.6   | 23.3  |
| PBV (x)                    | 12.2  | 15.4   | 12.3   | 10.6  |
| Dividend yield (%)         | 3.7   | 4.3    | 3.0    | 3.0   |
| ROE (%)                    | 72.1  | 73.1   | 52.3   | 45.6  |
| YE No. of shares (million) | 3,003 | 3,006  | 3,003  | 3,003 |
| Par (Bt)                   | 0.10  | 0.10   | 0.10   | 0.10  |

Source: Company data, FSS estimates

Analyst : Natapon Khamthakrue

Register No.: 026637

Tel.: +662 646 9820

email: natapon.k@fnsyrus.com

www.fnsyrus.com

 Finansia Syrus Securities

 @finansia

 @fnsyrus

## Both 4Q18 and 2018 net profit sharply lower than expected, cut profit estimate and TP

### 4Q18 net profit down 62% Q-Q and 70% Y-Y

BEAUTY's 4Q18 net profit comes in at Bt124mn (-62% Q-Q, -70% Y-Y) after revenues dropped 39% Q-Q and 40% Y-Y to Bt653mn. To elaborate, same-store sales growth (SSSG) plunged 45% Y-Y, while international sales continued to slow. Although gross margin stood at 66.1%, up from 62.7% in 3Q18, net profit margin sharply decreased to 19% (vs. 30.5% in 3Q18 and 37.4% in 4Q17), a record low since the company's listing on the SET. The sharp falls are attributed to aggressive marketing in order to stimulate sales. On a full-year basis, BEAUTY's 2018 net profit amounts to Bt992mn (-19% Y-Y) due to decreased revenues and narrower gross margin. BEAUTY has announced a DPS of Bt0.138 for its performance in 2H18, implying a dividend yield of 2%. The stock will go XD on May 3, 2019.

### Profit momentum continues to slow, Cut 2019 TP to Bt5.3

Although the number of Chinese tourists increased and the government's crackdown on illegal cosmetic and supplement products disappeared, the company's revenues tumbled. In this regard, we view that the fall in BEAUTY's revenues will serve as a long-term downside risk. Moreover, SG&A expense increased. In the past, BEAUTY benefited from operating leverage because most of its expenses, e.g. rent and employee expenses, were fixed. However, since revenues substantially decrease, the company's net profit margin significantly narrows. Although gross margin remains wide, there is a chance it will narrow due to fierce competition. This reflects in inventory turnover which starts to decrease. Given that, we have cut our 2019-2020E net profit by 34%-42%, respectively. After which, our forecast now calls for BEAUTY's net profit to amount to Bt885mn (-11% Y-Y) this year and Bt895mn (flat Y-Y) next year. Assuming a PE of 18x, the company's one-year historical average PE, we derive our new 2019 TP at Bt5.3, down from Bt7. Finally, we retain our SELL rating on BEAUTY.

*Risks: A slowdown in purchasing power in both Thailand and abroad, particularly China*

## 4Q18 Earnings Results

| (Bt mn)               | 4Q18 | 3Q18  | %Q-Q  | 4Q17 | %Y-Y  | Comment  |
|-----------------------|------|-------|-------|------|-------|--|
| Revenues              | 653  | 1,078 | -39.4 | 1091 | -40.1 | <ul style="list-style-type: none"> <li>In 4Q18, revenues dropped both Q-Q and Y-Y after SSSG tumbled. Moreover, the number of branches was down. In Thailand, it's down by one branch to 348. Internationally, it decreased by seven to 10.</li> </ul> |
| Cost of services      | 222  | 402   | -44.9 | 355  | -37.6 |  |
| Gross profit          | 432  | 676   | -36.1 | 735  | -41.3 |  |
| SG&A                  | 279  | 269   | 3.6   | 230  | 21.2  | <ul style="list-style-type: none"> <li>Gross margin widened Q-Q thanks to a change in product mix.</li> </ul>  |
| Interest expense      | 0    | 0     | 0.0   | 0    | 0.0   |  |
| Normalized earnings   | 124  | 329   | -62.4 | 408  | -69.7 | <ul style="list-style-type: none"> <li>Net profit margin sharply narrowed due to high marketing expense.</li> </ul>  |
| Net profit            | 124  | 329   | -62.4 | 408  | -69.7 |  |
| EPS                   | 0.04 | 0.11  | -62.4 | 0.14 | -69.7 |  |
| Gross margin (%)      | 66.1 | 62.7  | 3.4   | 67.4 | -1.3  |  |
| SG&A of Sales (%)     | 42.7 | 25.0  | 17.7  | 21.1 | 21.6  |  |
| Net profit margin (%) | 19.0 | 30.5  | -11.6 | 37.4 | -18.5 |  |

Source: Company and FSS Research

**Income Statement (Consolidated)**

| (Bt mn)             | 2016  | 2017  | 2018  | 2019E | 2020E |
|---------------------|-------|-------|-------|-------|-------|
| Revenue             | 2,539 | 3,713 | 3,467 | 3,293 | 3,458 |
| Cost of sales       | 833   | 1,198 | 1,202 | 1,206 | 1,310 |
| Gross profit        | 1,706 | 2,515 | 2,265 | 2,087 | 2,148 |
| SG&A                | 905   | 1,004 | 1,067 | 1,013 | 1,064 |
| Operating profit    | 802   | 1,511 | 1,198 | 1,074 | 1,084 |
| Other income        | 19    | 22    | 35    | 33    | 35    |
| EBIT                | 821   | 1,533 | 1,233 | 1,107 | 1,118 |
| EBITDA              | 848   | 1,560 | 1,258 | 1,134 | 1,149 |
| Interest charge     | 0     | 0     | 0     | 0     | 0     |
| Tax on income       | 165   | 304   | 241   | 221   | 224   |
| Earnings after tax  | 656   | 1,229 | 992   | 885   | 894   |
| Minority interest   | 0     | 0     | 0     | 0     | 0     |
| Normalized earnings | 656   | 1,229 | 992   | 885   | 894   |
| Extraordinary items | 0     | 0     | 0     | 0     | 0     |
| Net profit          | 656   | 1,229 | 992   | 885   | 894   |

**Cash Flow Statement (Consolidated)**

| (Bt mn)                   | 2016 | 2017  | 2018   | 2019E | 2020E |
|---------------------------|------|-------|--------|-------|-------|
| Net profit                | 656  | 1,229 | 992    | 885   | 894   |
| Deprec. & amortization    | 27   | 26    | 25     | 28    | 31    |
| Change in working capital | -230 | -61   | 0      | 35    | -35   |
| Other adjustments         | 0    | 1     | 2      | 3     | 4     |
| Cash flow from operations | 453  | 1,194 | 1,017  | 948   | 890   |
| Capital expenditure       | 52   | -66   | 43     | -93   | -2    |
| Others                    | 14   | 3     | -2     | 4     | -5    |
| Cash flow from investing  | 66   | -63   | 41     | -89   | -7    |
| Free cash flow            | 519  | 1,132 | 1,059  | 859   | 884   |
| Net borrowings            | 10   | 2     | 9      | -1    | 1     |
| Equity capital raised     | 0    | 15    | 19     | -19   | 0     |
| Dividends paid            | -488 | -865  | -1,264 | -620  | -626  |
| Others                    | 0    | 0     | 0      | 0     | 0     |
| Cash flow from financing  | -474 | -843  | -1,332 | -549  | -625  |
| Net change in cash        | 45   | 289   | -273   | 310   | 259   |

**Balance Sheet (Consolidated)**

| (Bt mn)                   | 2016  | 2017  | 2018  | 2019E | 2020E |
|---------------------------|-------|-------|-------|-------|-------|
| Cash & equivalents        | 897   | 1,306 | 693   | 971   | 1,251 |
| Account receivable        | 42    | 146   | 83    | 82    | 86    |
| Inventory                 | 374   | 410   | 593   | 560   | 588   |
| Other current asset       | 0     | 0     | 0     | 0     | 0     |
| Total current asset       | 1,313 | 1,861 | 1,369 | 1,613 | 1,925 |
| Investment                | 10    | 50    | 0     | 100   | 100   |
| PPE                       | 304   | 289   | 270   | 247   | 215   |
| Other asset               | 101   | 98    | 99    | 96    | 100   |
| Total assets              | 1,751 | 2,335 | 1,776 | 2,082 | 2,370 |
| Short term loan loans     | 0     | 0     | 0     | 0     | 0     |
| Accounts payable          | 316   | 434   | 279   | 263   | 277   |
| Current maturities        | 0     | 0     | 0     | 0     | 0     |
| Other current liabilities | 0     | 0     | 0     | 0     | 0     |
| Total current liabilities | 413   | 612   | 393   | 362   | 380   |
| Long-term debt            | 0     | 0     | 0     | 0     | 0     |
| Other LT liabilities      | 17    | 19    | 27    | 26    | 28    |
| Total LT liabilities      | 17    | 19    | 27    | 26    | 28    |
| Total liabilities         | 430   | 630   | 420   | 389   | 408   |
| Registered capital        | 300   | 300   | 301   | 300   | 300   |
| Paid up capital           | 300   | 300   | 301   | 300   | 300   |
| Share premium             | 556   | 571   | 589   | 571   | 571   |
| Legal reserve             | 30    | 30    | 30    | 30    | 30    |
| Retained earnings         | 429   | 794   | 522   | 787   | 1,056 |
| Minority Interest         | 0     | 0     | -100  | 0     | 0     |
| Shareholders' equity      | 1,320 | 1,705 | 1,356 | 1,693 | 1,962 |

**Important Ratios (Consolidated)**

|                            | 2016  | 2017  | 2018   | 2019E  | 2020E |
|----------------------------|-------|-------|--------|--------|-------|
| <b>Growth (%)</b>          |       |       |        |        |       |
| Revenue                    | 43.23 | 46.23 | -6.65  | -5.00  | 5.00  |
| Net profit                 | 62.99 | 87.39 | -19.34 | -10.72 | 1.04  |
| Normalized earnings        | 62.99 | 87.39 | -19.34 | -10.72 | 1.04  |
| <b>Profitability (%)</b>   |       |       |        |        |       |
| Gross profit margin        | 67.19 | 67.74 | 65.34  | 63.38  | 62.11 |
| EBIT margin                | 32.34 | 41.29 | 35.56  | 33.60  | 32.33 |
| Normalized profit margin   | 25.83 | 33.10 | 28.60  | 26.88  | 25.87 |
| Net profit margin          | 25.83 | 33.10 | 28.60  | 26.88  | 25.87 |
| Normalized ROA             | 37.47 | 52.64 | 55.83  | 42.52  | 37.75 |
| Normalize ROE              | 49.69 | 72.09 | 73.12  | 52.28  | 45.60 |
| <b>Risk (x)</b>            |       |       |        |        |       |
| D/E                        | 0.33  | 0.37  | 0.31   | 0.23   | 0.21  |
| Net D/E                    | Cash  | Cash  | Cash   | Cash   | Cash  |
| <b>Per share data (Bt)</b> |       |       |        |        |       |
| Reported EPS               | 0.22  | 0.41  | 0.33   | 0.29   | 0.30  |
| Normalized EPS             | 0.22  | 0.41  | 0.33   | 0.29   | 0.30  |
| FCF                        | 0.17  | 0.38  | 0.35   | 0.29   | 0.29  |
| Book value                 | 0.44  | 0.57  | 0.45   | 0.56   | 0.65  |
| Dividend                   | 0.22  | 0.26  | 0.30   | 0.21   | 0.21  |
| Par                        | 0.10  | 0.10  | 0.10   | 0.10   | 1.10  |
| <b>Valuations (x)</b>      |       |       |        |        |       |
| P/E                        | 31.78 | 16.98 | 21.07  | 23.57  | 23.33 |
| Norm P/E                   | 31.78 | 16.98 | 21.07  | 23.57  | 23.33 |
| P/BV                       | 15.79 | 12.24 | 15.41  | 12.33  | 10.64 |
| EV/EBITDA                  | 23.61 | 12.51 | 16.11  | 17.48  | 17.09 |
| Dividend yield (%)         | 3.14  | 3.71  | 4.32   | 2.97   | 3.00  |

Source: Company data, FSS research

## Finansia Syrus Securities Public Company Limited

### Head Office

999/9 The offices at Central World  
18th, 25th Fl.,  
Rama 1 Rd., Patumwan,  
Bangkok

### Bangkapi

3105 N Mark Building, 3rd Floor,  
Room A3R02, Ladprao Road,  
Klongjan, Bangkapi, Bangkok

### Ladprao

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

### Sriracha

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

### Chiangmai 1

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

### Nakornratchasima

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

### Hatyai 3

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

### Thaisummit Tower

1768 Thaisammit Tower Building,  
5<sup>th</sup>, 31<sup>th</sup> Fl., New Petchburi Road,  
Bangkapi, Huaykwang,  
Bangkok

### Bangna

589 Tower 1 Office, 19th Floor,  
Room 589/105 Moo 12,  
Bangna-Trad Road, Bangna,  
Bangkok

### Prachachuen

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

### Khonkaen 1

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

### Chiangmai 2

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

### Samutsakorn

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

### Trang

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

### Alma Link

9th, 14th, 15th Fl.,  
Alma Link Building 25  
Soi Chidlom, Ploenchit, Lumpini,  
Patumwan, Bangkok

### Sindhorn 1

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

### Rang sit

1/832 Moo 17  
Kukod, Lumlookka  
Pratumtee

### Khonkaen 2

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

### Chiangmai 3

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

### Phuket

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

### Suratthani

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

### Amarin Tower

496-502 Amarin Tower  
20th Floor, Pleonchit,  
Lumpini, Pathumwan,  
Bangkok

### Kian Gwan (Sindhorn 2)

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

### Abdulrahim

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

### Khonkaen 3

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

### Chiangrai

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

### Hatyai 1

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

### Pattane

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

### Central Pinklao 1

7/129-221 Central Pinklao Office  
Building, Room 2160/1, 16th Fl.,  
Baromratchonnane Road,  
Arunamarin, Bangkoknoi, Bangkok

### Sindhorn 3

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

### Rattanatibet

576 Rattanatibet Road,  
Tumbon Banggrasor,  
Aumphae Muang, Nonthaburi

### Udonthani

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

### Measai

119 Moo 10,  
Tumbon Maesai,  
Aumphae Muang, Cheangrai

### Hatyai 2

106 Prachathipat Road,  
Aumphae 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.*

**DISCLAIMER:** This report has been prepared by Finansia Syrus Securities Public Company Limited (FSS). The information herein has been obtained from sources believed to be reliable and accurate; however FSS makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSS has no intention to solicit investors to buy or sell any security in this report. In addition, FSS does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSS. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

Finansia Syrus Securities Public Company Limited may act as market maker and issuer of DWs. The company may prepare the research reports on those underlying securities. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

**Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2018**

| 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)**

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("**listed companies**") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

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

1 CG Score 2018 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 August 31, 2018) are categorised into:

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