

BUY (Unchanged)

TP: Bt 8.50

(From: Bt 12.00)

Change in Numbers

Upside : 19.7%

23 JANUARY 2019

# BeautyCommunity (BEAUTY TB)

## A new China model

**BEAUTY has changed its business model in China from unofficial to official exposure via CBEC and offline platforms. This should enhance business platform solidity and revenue sustainability. As its share price has fallen materially on a 9% EPS decline in 2018F, we reaffirm BUY for 16% EPS growth p.a. in 2019-20F and 5-6% yields in 2018-19F.**



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### Changing its China model

Since moving into in China, BEAUTY has earned revenue from exports to wholesalers, which resell products on unofficial websites, and from bulk sales to Chinese buyers in Beauty shops in Thailand. These channels are unofficial and are subject to various business risks. To increase the solidity of its exposure in China, BEAUTY has expanded into official distribution platforms, i.e., cross-border e-commerce (CBEC) and offline retail stores. From 3Q18, BEAUTY has been using Tmall, JD, Kaola, VIP, Jumei, Beidien and Yunji. It has product licenses from China's Food and Drug Administration for five key products and expects to have a distributor in the next few months to get its products on shelves in mainland stores from south to east China.

### Sizeable China market

China's cosmetics market value stood at RMB251bn in 2017 – 73% offline and 27% online retailing. Some 25% of BEAUTY's 9M18 sales were from China, or <0.1% market share. Despite suffering greatly in 2018 from regulatory changes that caused a drop in sales, BEAUTY still sees lots of growth opportunities in China. Since 2Q18, Chinese authorities have been very strict in land cargoes to China causing lengthy product shipment delays that hurt demand. The Chinese e-commerce law also started taxing imported products from early this year, hitting the competitiveness of small-scale and unofficial online platforms.

### Return enhancement of Thai stores

Some 75% of BEAUTY's revenue in 9M18 was from domestic sales, of which 77% came from 349 Beauty shops nationwide. BEAUTY plans to enhance store returns this year, via: 1) renovation to refresh the look and feel; 2) new product lines such as food supplements; and 3) carrying other firms' products, such as Snail White, etc. BEAUTY is also penetrating modern-trade and online channels further. Currently, it is exposed to 7-Eleven, King Power, Big C, Tesco, Watsons, Boots, Lazada, etc.

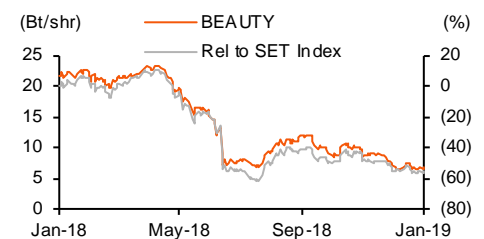
### 15% EPS CAGR in 2019-21F

4Q18F looks set to be weak again after a 3Q18 earnings recovery and we cut our 2018-21F earnings by 10-12% and DCF-based 12-month TP (2019F base year) to Bt8.5 from Bt12.0. We reaffirm BUY. *First*, from a lower 2018F earnings base, we expect a 15% p.a. turnaround in 2019-21F driven by the China and domestic markets. We project 1.6-3.7% same-store sales growth in 2019-21F vs. -3.2% in 2018F with rising revenue from more modern-trade channels. Exports should also rise from offline and online official platform penetration. *Second*, BEAUTY remains a net-cash company with a 100% payout ratio. We project 5-6% 2018-19F yields while its 2019F PE has been de-rated to 16.7x.

### COMPANY VALUATION

Y/E Dec (Bt m)	2017A	2018F	2019F	2020F
Sales	3,713	3,693	4,227	4,770
Net profit	1,229	1,116	1,283	1,500
Consensus NP	—	1,192	1,346	1,485
Diff frm cons (%)	—	(6.3)	(4.7)	1.0
Norm profit	1,229	1,116	1,283	1,500
Prev. Norm profit	—	1,235	1,443	1,685
Chg frm prev (%)	—	(9.6)	(11.1)	(11.0)
Norm EPS (Bt)	0.4	0.4	0.4	0.5
Norm EPS grw (%)	87.4	(9.4)	14.8	16.7
Norm PE (x)	17.3	19.1	16.7	14.3
EV/EBITDA (x)	13.2	14.7	12.6	10.8
P/BV (x)	12.5	12.8	12.0	11.1
Div yield (%)	5.7	5.2	6.0	7.0
ROE (%)	81.3	66.1	74.3	81.0
Net D/E (%)	(29.7)	(28.5)	(33.6)	(37.6)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 23-Jan-19 (Bt)	7.10
Market Cap (US\$ m)	670.8
Listed Shares (m shares)	3,006.2
Free Float (%)	64.6
Avg Daily Turnover (US\$ m)	36.0
12M Price H/L (Bt)	23.30/6.50
Sector	Commerce
Major Shareholder	Kraibhubes family 21.22%

Sources: Bloomberg, Company data, Thanachart estimates



## New China model

*BEAUTY's unofficial online channels subject to risks in our view*

Since moving into in China, Beauty Community Pcl (BEAUTY) has earned revenue via exports to wholesalers, which resell products on unofficial websites, and from bulk sales to Chinese buyers in Beauty shops in Thailand. These channels are unofficial and subject to various regulatory and business risks.

Exhibit 1 shows store-based retail channels and online retail channels in China.

### Ex 1: Retail Platforms For Cosmetics Sales In China

Store-based retailing	Online retailing
<ul style="list-style-type: none"> <li>▪ Traditional grocery stores</li> <li>▪ Convenience stores</li> <li>▪ Department stores</li> <li>▪ Hypermarkets</li> <li>▪ Supermarkets</li> <li>▪ Professional stores such as <b>Watsons, Sasa, Sephora, Cosmart</b></li> <li>▪ Specialty stores such as cosmetics brand shops (Etude houses)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Self-operated online platforms (C2C)</li> <li>▪ Online stores on integrated third-party e-commerce platforms such as Taobao, ebay, etc. (C2C)</li> <li>▪ Cosmetics shops' online platforms such as Watsons, Sephora, Sasa (B2C)</li> <li>▪ <b>Cross-border e-commerce (CBEC) platforms such as Tmall Global, JD Worldwide, VIP International, KAOLA, Jumei Global, etc. (B2C)</b></li> </ul>

Source: Fung Business Intelligence Centre

Note: Platforms in bold font are two new distribution channels that BEAUTY targets to penetrate

*BEAUTY is expanding into two official platforms*

To enhance the solidity of its exposure in China, BEAUTY has expanded into other two official distribution platforms – cross-border e-commerce (CBEC) and offline retail stores.

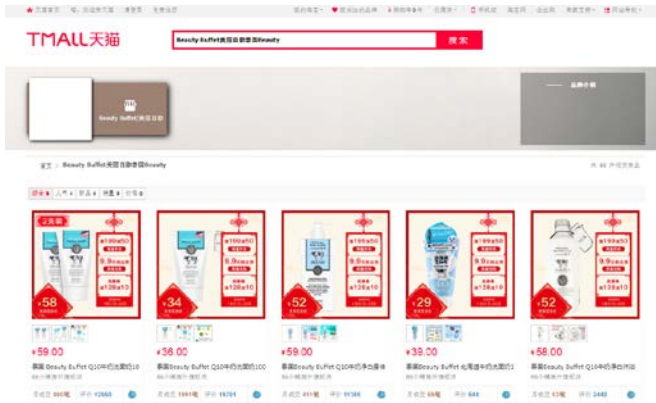
#### 1) CBEC

As of 3Q18, BEAUTY was already using Tmall Global, JD Worldwide, Kaola, VIP International, Jumei, Beidien and Yunji. Besides those seven websites, BEAUTY is still seeking to pursue business opportunities in China's CBEC market this year by expanding to other official online websites. Xiaohongshu is another website that BEAUTY plans to sign a contract with in the next one to two months.

#### 2) Offline retail stores

BEAUTY's five products in the "MILK PLUS" series, which have proven popular among Chinese consumers, have received China's Food and Drug Administration (CFDA) licenses. Note that BEAUTY submitted applications for 12 SKUs to the CFDA over the past two years. The remaining seven SKUs are still being considered by the agency. With qualified products to sell at offline retail stores, BEAUTY expects to find a distributor in the next few months to get its products on shelves in stores from south to east China.

**Ex 2: BEAUTY's Shop On T-Mall Website**



Source: Company data

**Ex 3: BEAUTY's Shop On The KAOLA Website**



Source: Company data

**Ex 4: BEAUTY's Shop On The VIP Website**



Source: Company data

**Ex 5: "MILK PLUS" Series**



Source: Company data

**Sizeable China market**

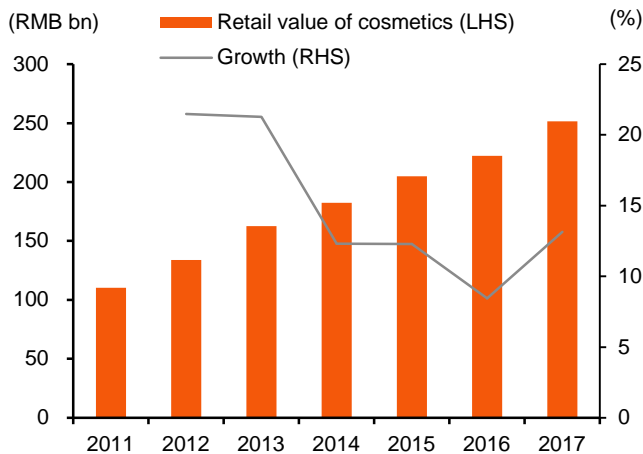
**China's cosmetics market size reached RMB251bn in 2017**

China is the world's second-largest cosmetics consumer market. The cosmetics market in mainland China has been growing swiftly in tandem with the rapid development of the Chinese economy in recent years. Data from the National Bureau of Statistics of China has revealed that China's retail sales of cosmetics products by wholesale and retail enterprises reached RMB251bn in 2017, growing by 13% y-y.

**Sales through offline and online channels were at a 73:27 ratio in 2017**

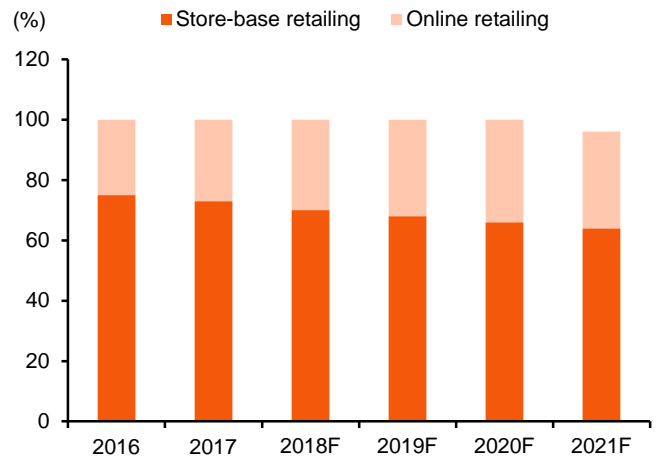
The two major distribution channels for cosmetics in mainland China are: 1) store-based retailing or offline channels, and 2) online retailing. Though we foresee stronger growth and market share gains for online retailing because of its convenient home delivery services, competitive pricing and retailers' active engagement in this channel, store-based retailing still dominates the market share in mainland China. According to Statista's data, cosmetics sales contributions from offline and online retailing stood at a ratio of 73:27 in 2017, compared with around 85:15 in 2011.

Ex 6: Cosmetics Market Size In China



Source: National Bureau of Statistics of China

Ex 7: Cosmetics Market Share In China By Channel



Source: www.statista.com

**China cosmetics market likely to grow by 5-10% p.a. over the next three years**

Despite China's economic slowdown, Statista continues to forecast the China cosmetics market to grow by 5-10% p.a. over the next three years. We expect this growth to be driven by a rising number of middle-income consumers, only 10% of the Chinese population is using cosmetics regularly in 2015, and cosmetics consumption per capita in China standing at only US\$24 in 2014, significantly lower than in developed countries and markets such as South Korea, Japan, Singapore and Hong Kong. We also foresee a wider age-set range (both teenagers and the elderly) buying cosmetics products.

**International brands are more popular among Chinese consumers**

Though we expect fierce competition in the China market from domestic and international brands, Chinese consumers still tend to favor international brands because the general perception is that the overall quality is more reliable.

**With <0.1% market share, we see lots of room for BEAUTY to grow in China**

Thanks to the reasons outlined above, together with 25% of BEAUTY's 9M18 sales being in China (or less than a 0.1% market share), although BEAUTY suffered significantly in 2018 from regulatory changes in China that caused a drop in sales, we believe the company still has plenty of growth opportunities in the country.

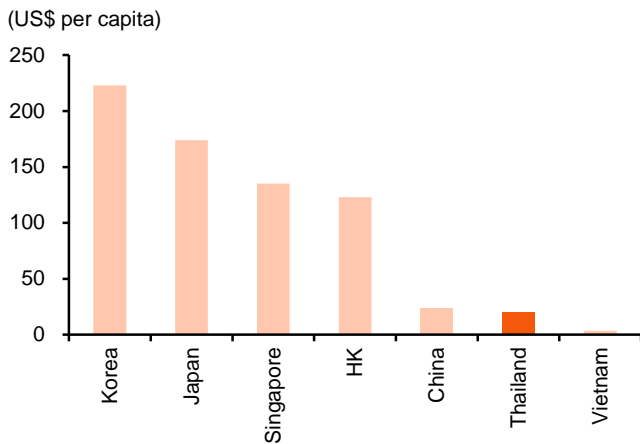
**BEAUTY's sales to China market to rise from 25% in 2017 to 37% in 2021F**

Since 2Q18, Chinese authorities have been very strict regarding land cargoes to China, causing lengthy product shipment delays that have hurt demand. The Chinese e-commerce law has also resulted in the taxing of imported products since early this year, hitting the competitiveness of small-scale and unofficial online platforms. BEAUTY's two new online and offline official channels that we mentioned in the previous section will therefore likely help BEAUTY to gain further market share in China. We estimate BEAUTY's sales to China to increase from 25% of the total in 2017 to 37% in 2021F.

The new e-commerce law applies to three types of e-commerce platforms:

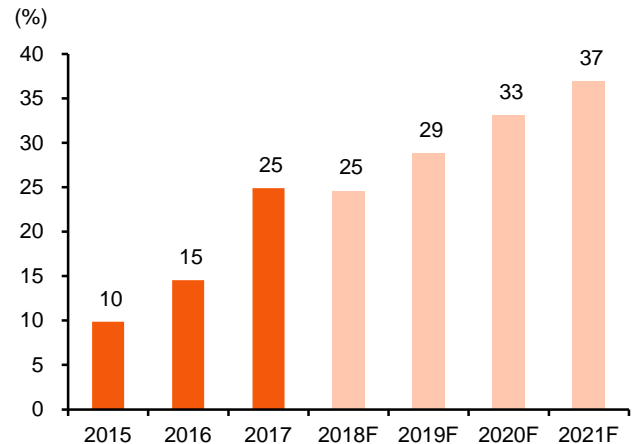
- 1) **Platform operators:** Any legal persons or unincorporated organizations that provide platforms for digital business, transaction matching, information release, and other services to facilitate parties in e-commerce transactions such as Taobao, which is owned by Alibaba.
- 2) **Operators on platforms:** Third-party merchants that sell goods on online platforms such as vendors operating online stores on Taobao.
- 3) **Online sellers:** Other online players operating their business through their own websites or via other online channels, such as social media applications like WeChat.

Ex 8: Cosmetics Consumption Per Capita In 2014



Source: Thanachart compilation

Ex 9: BEAUTY's Sales To China



Sources: Company data, Thanachart estimates

## Return enhancement of Thai stores

### **BEAUTY's SSS growth hit in 2018F**

Around 82% of BEAUTY's revenue in 9M18 came from domestic sales (including sales to Chinese wholesalers at Beauty shops), of which 79% was from 349 Beauty shops nationwide. In 2018F, we estimate BEAUTY's same-store sales (SSS) growth to turn negative at -3.2% mainly because of weak wholesale sales at Beauty stores on the land cargo regulatory impact, fewer Chinese tourists and the domestic consumption slowdown.

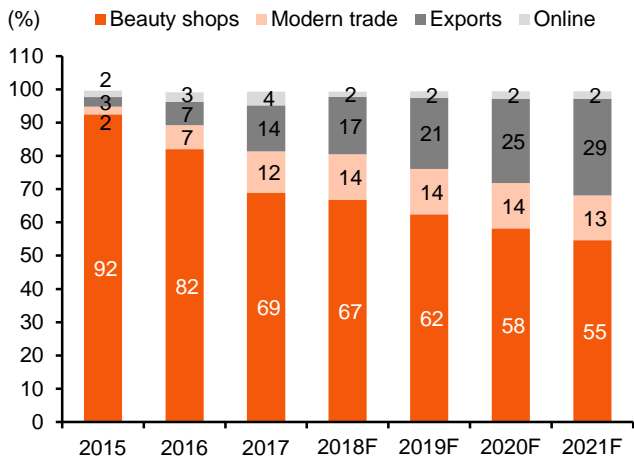
### **BEAUTY's strategies to enhance stores' return**

With management's policy to enhance store returns this year, BEAUTY has therefore adopted three business strategies to boost sales at its stores: 1) renovation to refresh the look and feel with five to 10 stores renovated from late last year and BEAUTY targeting to renovate more during the remainder of this year; 2) new product lines such as food supplements, i.e. Berry Triple Collagen, LANSLEY Diet Coffee Plus, etc.; and 3) carrying other firms' products to sell at Beauty stores, such as Snail White, etc. Together with a domestic economic improvement, we estimate BEAUTY's SSS growth to turn positive with growth of 1.6%, 3.7% and 2.8% in 2019-21F.

### **BEAUTY also targets to penetrate more modern-trade and online channels**

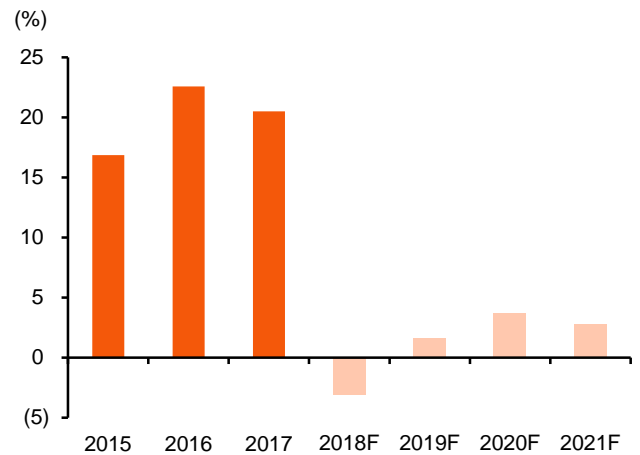
BEAUTY also targets to penetrate more modern-trade and online channels this year. Currently it is exposed to 7-Eleven, King Power, Big C, Tesco, Watsons, Boots, Lazada, Shopee, etc. Thanks to more convenience store names to sell BEAUTY's products and more SKUs due to be launched at its existing modern-trade channels this year, we estimate modern-trade sales to grow by 15%, 12% and 10% in 2019-21F vs. 151% growth in 2017 and 10% in 2018F. Meanwhile, we project its online channel's sales via its own website "beautyplaza.com" and third-party websites to grow by 40%, 30% and 20% in 2019-21F on the back of BEAUTY's new online team joining the company in 4Q18.

**Ex 10: Sales Through Each Distribution Channel**



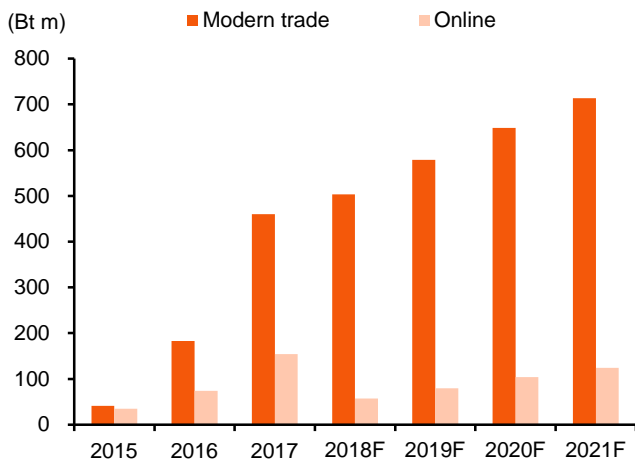
Sources: Company data, Thanachart estimates

**Ex 11: BEAUTY's SSSG**



Sources: Company data, Thanachart estimates

**Ex 12: BEAUTY's Modern Trade And Online Sales**



Sources: Company data, Thanachart estimates

Note: BEAUTY reclassified its online sales in 2018 by excluding wholesale sales

**Ex 13: Beauty Buffet Store After Renovation**



Source: Company data

**Ex 14: BEAUTY's New Food Supplements Product Line**



Source: Company data

**Ex 15: Snail White Products In Beauty Buffet Stores**



Source: Company data

**Ex 16: BEAUTY's New Product Launches**



Source: Company data

**Ex 17: BEAUTY's Distribution Channels Via Modern Trade And Online Channels**

Modern Trade	Online

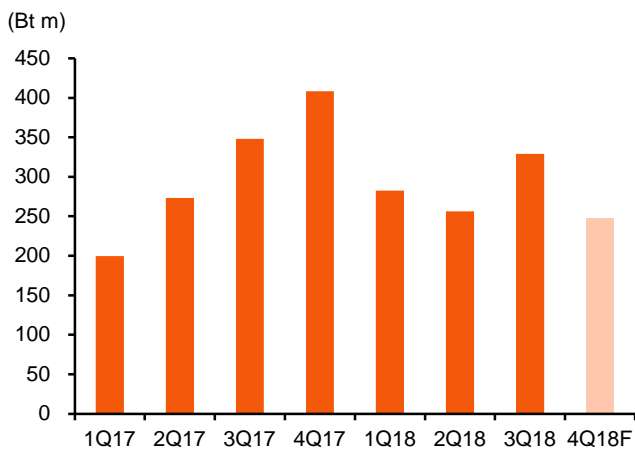
Source: Company data

## 15% EPS CAGR in 2019-21F

**We expect a weak 4Q18F after a recovery in 3Q18 earnings**

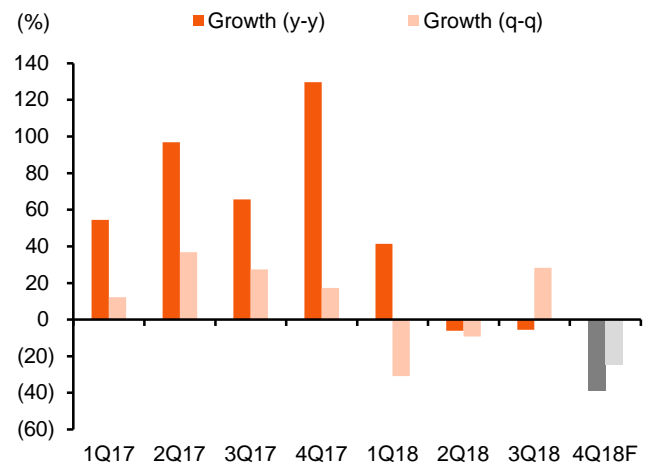
After BEAUTY's earnings recovery in 3Q18, we estimate the company to report weak earnings again in 4Q18F and post net profit of just Bt248m, down 39% y-y and 25% q-q. We expect soft 4Q18F earnings because of: 1) weak domestic consumption, 2) falling numbers of Chinese tourists visiting Thailand in 4Q18, 3) sluggish bulk sales to Chinese customers, 4) lower exports to small wholesalers in China due to advance purchases during the "Thank you party event" in 3Q18, 5) contracting gross margin on the back of increased sales promotion activities and a rising sales mix through the CBEC channel, which provides a lower gross margin than exports to small wholesalers, and 6) higher SG&A to sales.

**Ex 18: Weak Earnings In 4Q18F**



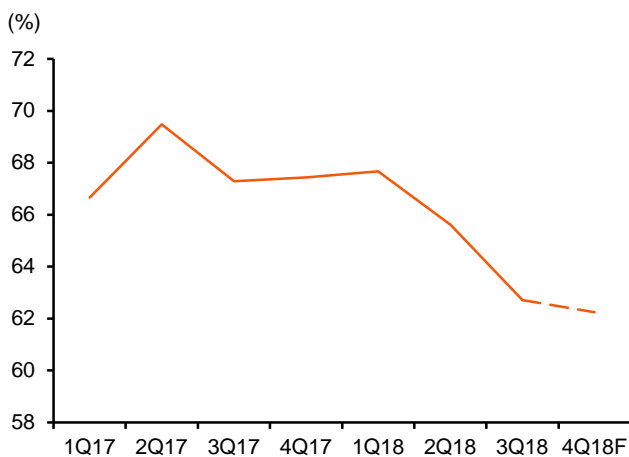
Sources: Company data, Thanachart estimates

**Ex 19: ... With Negative Y-Y And Q-Q Earnings Growth**



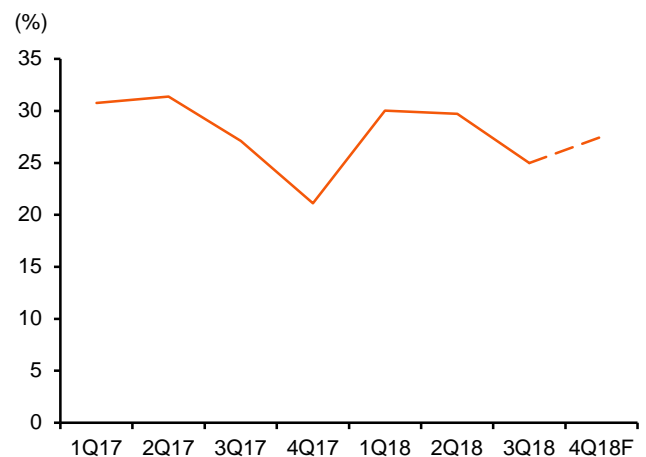
Sources: Company data, Thanachart estimates

**Ex 20: Falling Gross Margin In 4Q18F**



Sources: Company data, Thanachart estimates

**Ex 21: Rising SG&A To Sales In 4Q18F**



Sources: Company data, Thanachart estimates

**We cut our earnings by 10-12% in 2018-21F and TP to Bt8.50**

Given BEAUTY's weaker-than-expected sales and operating margin, we therefore revise down our earnings estimates by 10-12% in 2018-21F to reflect our new assumptions as shown in Exhibit 22. Our DCF-based 12-month TP, using a 2019F base year, is also revised down to Bt8.50/share from Bt12.0 previously.



## Ex 22: Changes In Our Key Assumptions And Earnings Estimates

	2018F	2019F	2020F	2021F
<b>SSS growth (%)</b>				
- New	(3.2)	1.6	3.7	2.8
- Old	(0.5)	4.0	3.8	2.9
- Change (pp)	(2.6)	(2.4)	(0.1)	(0.1)
<b># of new stores</b>				
- New	4.0	6.0	5.0	4.0
- Old	7.0	8.0	8.0	6.0
- Change (stores)	(3.0)	(2.0)	(3.0)	(2.0)
<b>Wholesales and export (Bt m)</b>				
- New	638	903	1,211	1,535
- Old	750	1,007	1,314	1,668
- Change (%)	(15.0)	(10.3)	(7.8)	(8.0)
<b>Consumer products (Bt m)</b>				
- New	503	579	648	713
- Old	525	657	788	906
- Change (%)	(4.2)	(11.8)	(17.7)	(21.3)
<b>Gross margin (%)</b>				
- New	64.5	63.4	63.1	62.8
- Old	64.8	64.0	63.7	63.3
- Change (pp)	(0.4)	(0.6)	(0.6)	(0.5)
<b>SG&amp;A to sales (%)</b>				
- New	27.9	26.1	24.4	23.1
- Old	26.9	25.1	23.6	22.4
- Change (pp)	1.0	1.0	0.8	0.7
<b>Net profit (Bt m)</b>				
- New	1,116	1,283	1,500	1,713
- Old	1,235	1,443	1,685	1,936
- Change (%)	(9.6)	(11.1)	(11.0)	(11.5)

Source: Thanachart estimates

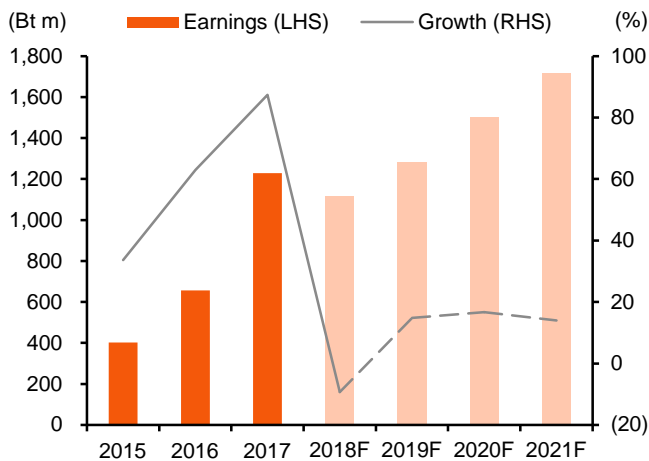
**We expect an earnings growth turnaround in 2019F driven by ...**

In the wake of our earnings downgrades, we still expect an earnings growth turnaround of 15%, 17% and 14% in 2019-21F vs. a decline of -9% in 2018F. We expect the earnings drivers to be rising sales (both domestic sales and exports) and a falling SG&A-to-sales ratio from its economies of scale, despite a gross margin contraction.

**Domestic sales and export growth**

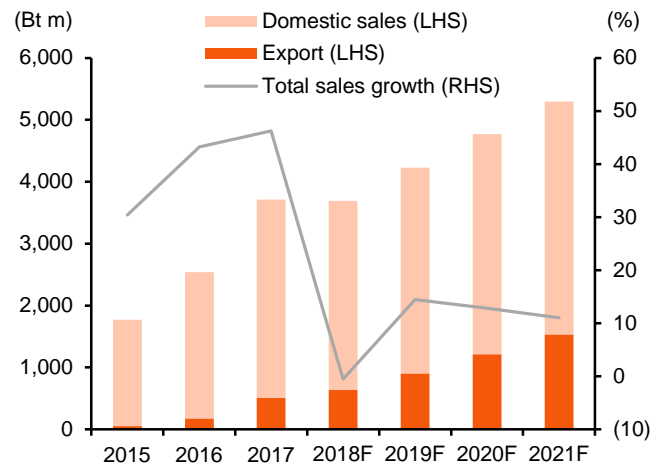
We still estimate domestic sales growth of 9%, 7% and 6% in 2019-21F vs. 35% in 2017 and -4% in 2018F, driven by sales growth at Beauty stores, and modern-trade and online channels. Meanwhile, we project exports to grow by 42%, 34% and 27% in 2019-21F vs. 189% in 2017 and 24% in 2018F. For exports, apart from launching two new business platforms in China, BEAUTY has also focused on expanding its sales through existing and new distribution channels in its current overseas markets. BEAUTY has Beauty shops in Vietnam and the Philippines, the shop-in-shop model in Indonesia, Hong Kong and Taiwan, and counter sales in Myanmar, Laos and Cambodia, while it exports to Singapore and Malaysia. Apart from those 11 markets, BEAUTY is seeking growth opportunities in new markets such as India, Russia, Saudi Arabia and Pakistan via exports.

**Ex 23: Earnings Growth Turnaround**



Sources: Company data, Thanachart estimates

**Ex 24: ... Driven By Domestic Sales And Exports**



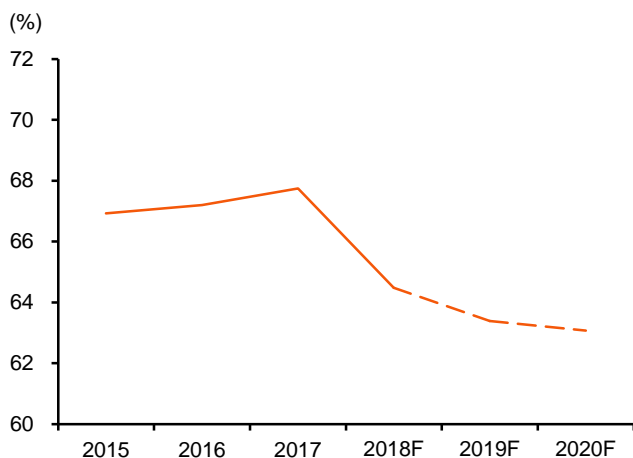
Sources: Company data, Thanachart estimates

**Gross margin contraction likely to be offset by falling SG&A to sales**

Though we estimate BEAUTY's sales to grow by 14%, 13% and 11% in 2019-21F, we do not expect BEAUTY's gross margin to improve because of a rising sales mix in the lower-margin export channel, particularly exports to China. Given that Thai cosmetics are products that come under the ASEAN-China Free Trade Agreement, tariffs on imported cosmetics products to China have been reduced to zero. Meanwhile, BEAUTY's cosmetics products, which are classified as general cosmetics (imported/ex-factory price at less than RMB10/ml or RMB15/unit), are also exempted from the consumption tax in China. However, BEAUTY's products are still exposed to 17% VAT in China for offline platforms and 11.9% for online platforms. We therefore believe BEAUTY needs to offer bigger discounts to its customers in China and we estimate the company's gross margin to decline to 63.4%, 63.1% and 62.8% in 2019-21F from 67.7% in 2017 and 64.5% in 2018F.

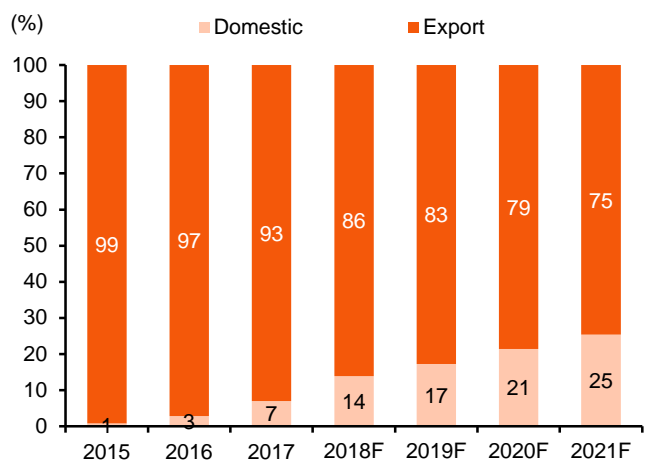
However, we expect BEAUTY to be able to maintain its net profit margin at 30.3% in 2019F vs. 30.2% in 2018F before expanding to 31.4% in 2020F and 32.4% in 2021F because of falling SG&A to sales from lower operating costs for the export channel.

**Ex 25: Gross Margin Declining...**



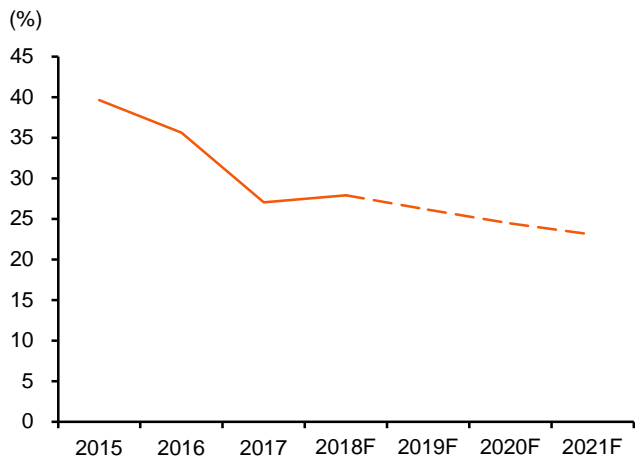
Sources: Company data, Thanachart estimates

**Ex 26: ... Due To Rising Lower-Margin Export Sales Mix**



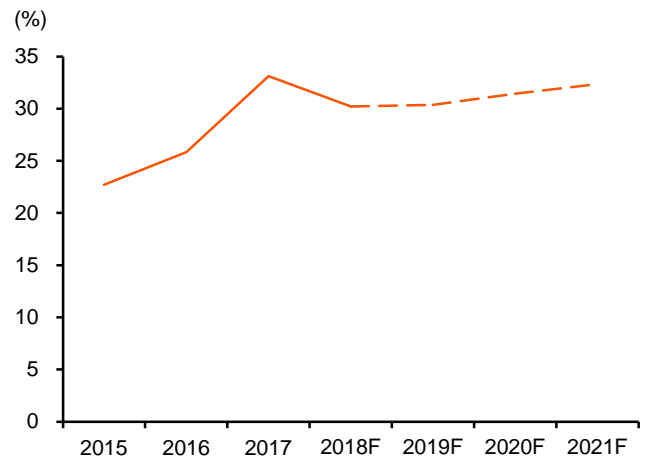
Sources: Company data, Thanachart estimates

**Ex 27: But Falling SG&A To Sales...**



Sources: Company data, Thanachart estimates

**Ex 28: ... Supports Net Profit Margin**



Sources: Company data, Thanachart estimates

*We reaffirm our BUY...*

We reaffirm our BUY rating on shares of BEAUTY on the back of the following reasons:

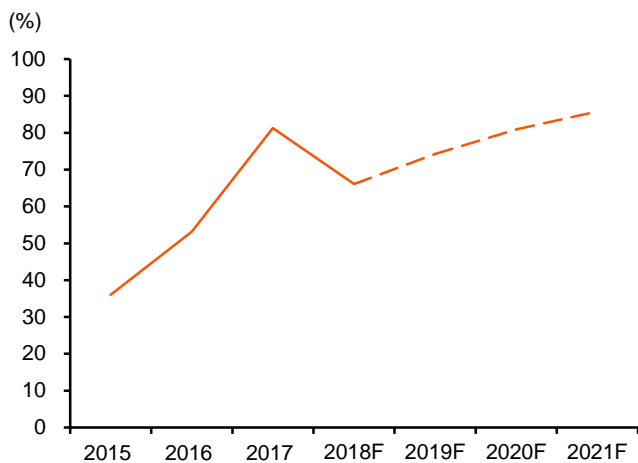
*Turnaround in earnings with improving ROE*

**First**, from a lower base of 2018F earnings, we expect an earnings turnaround of 15% p.a. in 2019-21F. Meanwhile, we expect ROE to surge from 66% in 2018F to 86% in 2021F.

*High dividend yield with already de-rated PE*

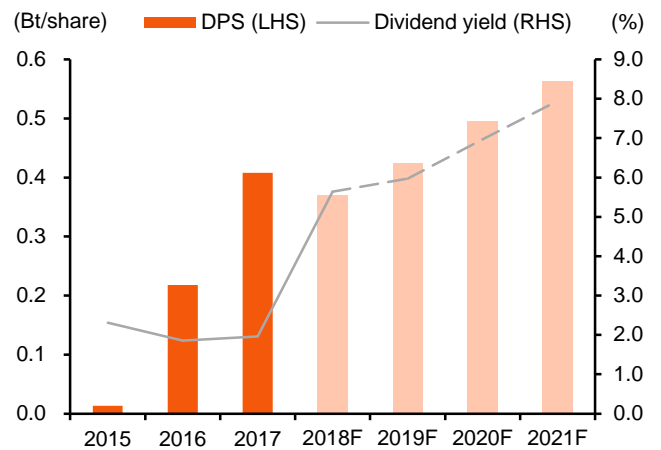
**Second**, BEAUTY remains a net-cash company with a 100% payout ratio. We estimate 5-6% yields in 2018-19F while its PE has been de-rated to 16.7x in 2019F.

**Ex 29: Strong ROE**



Sources: Company data, Thanachart estimates

**Ex 30: Good Dividend Yields**



Sources: Company data, Thanachart estimates

**Ex 31: 12-month DCF-based TP Calculation Using A Base Year Of 2019F**

(Bt m)	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	Terminal Value
EBITDA	1,415	1,644	1,916	2,179	2,424	2,669	2,947	3,268	3,633	4,045	4,512	5,015	—
Free cash flow	1,047	1,271	1,476	1,696	1,902	2,107	2,335	2,595	2,889	3,223	3,600	4,007	41,504
PV of free cash flow	—	1,268	1,180	1,212	1,216	1,204	1,192	1,185	1,179	1,176	1,174	1,169	12,104
Risk-free rate (%)	4.5												
Market risk premium (%)	7.5												
Beta	1.0												
WACC (%)	11.8												
Terminal growth (%)	2.0												
Enterprise value - add investments	25,258												
Net debt (end-2018F)	(476)												
Minority interest	0												
Equity value	25,734												
# of shares (m) *	3,011												
<b>Equity value / share (Bt)</b>	<b>8.50</b>												

Sources: Company data, Thanachart estimates

Note: \* Including ESOP warrant exercise

## Valuation Comparison

## Ex 32: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div. yield	
			18F (%)	19F (%)	18F (x)	19F (x)	18F (x)	19F (x)	18F (x)	19F (x)	18F (%)	19F (%)
Marks & Spencer	MKS LN	Britain	na	(10.8)	9.5	10.6	1.4	1.5	5.1	5.5	7.1	7.1
J Sainsbury PLC	SBRY LN	Britain	46.6	5.1	13.0	12.4	0.8	0.8	4.7	4.5	3.9	4.1
Tesco	TSCO LN	Britain	(27.6)	31.8	19.1	14.5	1.8	1.4	8.9	7.6	1.3	2.5
Lianhua Supermarket	980 HK	China	na	na	na	na	0.9	1.1	na	na	na	na
Carrefour SA	CA FP	France	na	18.7	18.1	15.3	1.4	1.3	7.9	7.3	2.5	3.1
Casino Guichard	CO FP	France	na	20.5	15.8	13.1	0.6	0.6	9.5	8.9	7.8	7.8
L'Oreal SA	OR FP	France	11.0	7.5	27.9	26.0	4.2	3.9	18.1	16.9	1.9	2.1
Aeon	8267 JP	Japan	(17.8)	59.9	91.2	57.0	1.6	1.6	9.2	8.5	1.4	1.5
Kao Corporation	4452 JP	Japan	3.0	7.5	24.3	22.6	4.2	3.9	13.0	12.3	1.6	1.8
Lion Corporation	4912 JP	Japan	24.0	(8.7)	25.0	27.4	3.2	3.0	13.4	13.2	1.0	1.1
Shiseido Co. Ltd	4911 JP	Japan	230.8	23.1	32.0	26.0	5.1	4.4	14.5	12.3	0.7	0.8
Lotte Shopping	023530 KS	S. Korea	na	na	111.4	12.6	0.4	0.4	7.4	6.5	2.7	2.7
Shinsegae	004170 KS	S. Korea	32.5	8.1	10.8	10.0	0.7	0.7	10.7	10.2	0.5	0.5
Amore Pacific Group	002790 KS	S. Korea	(11.7)	21.5	30.2	24.8	1.8	1.6	7.9	6.7	0.6	0.6
Wal-Mart Stores	WMT US	USA	35.0	8.6	22.0	20.2	3.9	3.7	10.2	10.4	2.1	2.1
Home Depot Inc	HD US	USA	0.5	33.0	24.0	18.1	137.7	na	13.5	12.6	2.0	2.3
Sa International	178 HK	Hong Kong	(4.8)	28.8	20.0	15.5	3.8	3.3	12.4	10.0	4.8	6.2
Beauty Community *	BEAUTY TB	Thailand	(9.4)	14.8	19.1	16.7	12.8	12.0	14.7	12.6	5.2	6.0
Berli Jucker *	BJC TB	Thailand	27.7	14.2	29.4	25.8	1.7	1.7	15.6	14.2	1.7	1.9
COL *	COL TB	Thailand	41.9	17.7	20.7	17.6	2.4	2.3	59.9	33.7	2.8	3.1
COM7 *	COM7 TB	Thailand	44.3	24.6	19.2	15.4	6.3	5.5	14.3	11.8	3.7	4.7
CP All *	CPALL TB	Thailand	2.0	12.4	34.6	30.8	8.3	8.6	18.9	17.5	1.4	1.6
Central Pattana *	CPN TB	Thailand	10.8	20.6	31.2	25.9	5.0	4.5	22.7	18.2	1.4	1.6
Siam Global House *	GLOBAL TB	Thailand	21.8	23.6	37.6	30.5	5.1	4.6	33.5	28.0	1.1	1.3
Home Product*	HMPRO TB	Thailand	15.0	15.9	34.9	30.1	10.2	9.4	19.5	17.2	2.3	2.7
Karmarts *	KAMART TB	Thailand	25.5	(28.4)	9.0	12.6	3.8	3.7	11.5	10.3	7.8	6.3
Siam Makro *	MAKRO TB	Thailand	(7.6)	2.4	31.1	30.4	9.4	8.7	20.6	20.1	2.4	2.5
Mc Group *	MC TB	Thailand	na	7.3	11.1	10.3	1.9	1.9	8.5	7.6	8.3	8.9
Robinson Dept Store *	ROBINS TB	Thailand	12.1	15.3	25.1	21.7	4.2	3.8	14.2	12.4	2.0	2.3
<b>Average</b>			<b>12.2</b>	<b>14.4</b>	<b>31.2</b>	<b>23.8</b>	<b>8.2</b>	<b>3.5</b>	<b>15.0</b>	<b>12.7</b>	<b>2.8</b>	<b>3.1</b>

Source: Bloomberg

Note: \* Thanachart estimates using normalized EPS growth

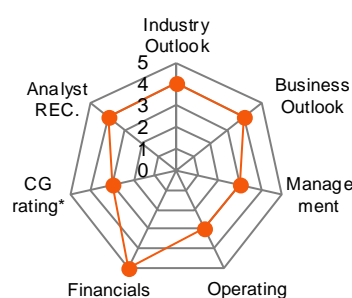
Based on 23 Jan 2019 closing price

## COMPANY DESCRIPTION

Beauty Community Pcl (BEAUTY) was set up by Dr. Suwin Kraibhubes in 1998. It was listed on the Stock Exchange of Thailand (SET) in December 2012 with total registered capital of Bt300m. BEAUTY is engaged in the retail distribution of cosmetics and skin care products through its owned shops under three brand concepts in Thailand: 1) Beauty Buffet, 2) Beauty Cottage and 3) Beauty Market. The company has also expanded its distribution channels through modern-trade sales, e-commerce and exports to Asian countries.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \* CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Management has many years of experience in the cosmetics market in Thailand.
- Strong company-owned brand “Beauty” with multi-format stores and many products.
- Good distribution channel coverage nationwide.
- High product quality at reasonable prices.

### O — Opportunity

- People’s rising incomes and urbanization.
- More innovative and fashionable cosmetics.
- Increasing personal appearance concerns.
- New segments: men and younger age groups.
- The launch of the ASEAN Economic Community (AEC).
- Upcoming trend of the e-commerce market.

### W — Weakness

- High stock and inventory days. However, this is to serve its strong sales growth and market expansion.

### T — Threat

- High competition both from local and imported brands such as Oriental Princess, Cute Press, Karmarts (KAMART TB, Bt3.66, HOLD), The Body Shop, Yves Rocher, Etude House and Skin Food.
- Falling consumer confidence in Thai cosmetics.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	9.70	8.50	-12%
<b>Net profit 18F (Bt m)</b>	1,192	1,116	-6%
<b>Net profit 19F (Bt m)</b>	1,346	1,283	-5%
<b>Consensus REC</b>	<b>BUY: 10</b>	<b>HOLD: 3</b>	<b>SELL: 3</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are below the Bloomberg consensus numbers, which we attribute to us having a more conservative view on sales and gross margin in China.

## RISKS TO OUR INVESTMENT CASE

- If growth in people’s spending comes in below our current expectations, this would lead to downside risk to our SSS growth assumptions.
- If hypermarkets and department stores in Thailand expand more slowly on a weakening economy, this would have a negative impact on BEAUTY’s new-store expansion plans.
- Increased competition from existing and new rivals in the cosmetics market would likely pressure BEAUTY’s sales volume and prices.
- Rising raw material and labor costs would negatively impact BEAUTY’s production costs and operating expenses.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

*Domestic sales and exports drive revenue growth in 2019-20F*

FY ending Dec (Bt m)	2016A	2017A	2018F	2019F	2020F
Sales	2,539	3,713	3,693	4,227	4,770
Cost of sales	833	1,198	1,312	1,547	1,761
<b>Gross profit</b>	<b>1,706</b>	<b>2,515</b>	<b>2,381</b>	<b>2,679</b>	<b>3,009</b>
% gross margin	67.2%	67.7%	64.5%	63.4%	63.1%
Selling & administration expenses	905	1,004	1,030	1,104	1,165
<b>Operating profit</b>	<b>802</b>	<b>1,511</b>	<b>1,351</b>	<b>1,575</b>	<b>1,844</b>
% operating margin	31.6%	40.7%	36.6%	37.3%	38.7%
Depreciation & amortization	59	61	63	68	72
<b>EBITDA</b>	<b>861</b>	<b>1,572</b>	<b>1,415</b>	<b>1,644</b>	<b>1,916</b>
% EBITDA margin	33.9%	42.3%	38.3%	38.9%	40.2%
Non-operating income	19	22	36	25	32
Non-operating expenses	0	0	0	0	0
Interest expense	0	0	(1)	(1)	(1)
<b>Pre-tax profit</b>	<b>821</b>	<b>1,533</b>	<b>1,387</b>	<b>1,599</b>	<b>1,874</b>
Income tax	165	304	270	317	375
<b>After-tax profit</b>	<b>656</b>	<b>1,229</b>	<b>1,116</b>	<b>1,283</b>	<b>1,500</b>
% net margin	25.8%	33.1%	30.2%	30.3%	31.4%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET PROFIT</b>	<b>656</b>	<b>1,229</b>	<b>1,116</b>	<b>1,283</b>	<b>1,500</b>
<b>Normalized profit</b>	<b>656</b>	<b>1,229</b>	<b>1,116</b>	<b>1,283</b>	<b>1,500</b>
EPS (Bt)	0.2	0.4	0.4	0.4	0.5
Normalized EPS (Bt)	0.2	0.4	0.4	0.4	0.5

## BALANCE SHEET

*Rising inventory likely to support the company's sales growth*

FY ending Dec (Bt m)	2016A	2017A	2018F	2019F	2020F
<b>ASSETS:</b>					
Current assets:	1,313	1,861	1,819	2,024	2,239
Cash & cash equivalent	217	506	500	620	740
Account receivables	42	146	152	174	196
Inventories	374	410	467	530	603
Others	680	800	700	700	700
Investments & loans	0	50	50	50	50
Net fixed assets	304	289	299	309	314
Other assets	134	136	142	150	157
<b>Total assets</b>	<b>1,751</b>	<b>2,335</b>	<b>2,310</b>	<b>2,532</b>	<b>2,761</b>
<b>LIABILITIES:</b>					
Current liabilities:	413	612	615	722	808
Account payables	316	434	431	509	579
Bank overdraft & ST loans	0	0	24	20	18
Current LT debt	0	0	0	0	0
Others current liabilities	98	178	160	192	212
<b>Total LT debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Others LT liabilities	9	9	9	11	12
<b>Total liabilities</b>	<b>430</b>	<b>630</b>	<b>639</b>	<b>749</b>	<b>839</b>
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	300	300	301	301	302
Share premium	556	571	588	610	632
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
<b>Retained earnings</b>	<b>464</b>	<b>834</b>	<b>783</b>	<b>872</b>	<b>988</b>
Shareholders' equity	1,320	1,705	1,672	1,783	1,921
<b>Liabilities &amp; equity</b>	<b>1,751</b>	<b>2,335</b>	<b>2,310</b>	<b>2,532</b>	<b>2,761</b>

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

*Strong, sustainable cash inflows, based on our forecasts*

FY ending Dec (Bt m)	2016A	2017A	2018F	2019F	2020F
Earnings before tax	821	1,533	1,387	1,599	1,874
Tax paid	(129)	(224)	(289)	(284)	(356)
Depreciation & amortization	59	61	63	68	72
Chg In working capital	(42)	(22)	(66)	(7)	(25)
Chg In other CA & CL / minorities	0	0	0	0	0
<b>Cash flow from operations</b>	<b>710</b>	<b>1,348</b>	<b>1,095</b>	<b>1,377</b>	<b>1,566</b>
Capex	(71)	(45)	(74)	(79)	(78)
ST loans & investments	(60)	(120)	100	0	0
LT loans & investments	0	(50)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3	0	(1)	(4)	(4)
<b>Cash flow from investments</b>	<b>(128)</b>	<b>(215)</b>	<b>25</b>	<b>(83)</b>	<b>(81)</b>
Debt financing	0	0	24	(3)	(3)
Capital increase	0	15	17	23	23
Dividends paid	(489)	(864)	(1,167)	(1,194)	(1,384)
Warrants & other surplus	5	5	0	0	0
<b>Cash flow from financing</b>	<b>(484)</b>	<b>(844)</b>	<b>(1,126)</b>	<b>(1,174)</b>	<b>(1,364)</b>
<b>Free cash flow</b>	<b>639</b>	<b>1,303</b>	<b>1,022</b>	<b>1,298</b>	<b>1,488</b>

## VALUATION

*Valuation has already de-rated*

FY ending Dec	2016A	2017A	2018F	2019F	2020F
Normalized PE (x)	32.5	17.3	19.1	16.7	14.3
Normalized PE - at target price (x)	38.9	20.7	22.9	19.9	17.1
PE (x)	32.5	17.3	19.1	16.7	14.3
PE - at target price (x)	38.9	20.7	22.9	19.9	17.1
EV/EBITDA (x)	24.5	13.2	14.7	12.6	10.8
EV/EBITDA - at target price (x)	29.4	15.9	17.7	15.2	13.0
P/BV (x)	16.1	12.5	12.8	12.0	11.1
P/BV - at target price (x)	19.3	15.0	15.3	14.4	13.3
P/CFO (x)	30.0	15.8	19.5	15.5	13.7
Price/sales (x)	8.4	5.7	5.8	5.0	4.5
Dividend yield (%)	3.1	5.7	5.2	6.0	7.0
FCF Yield (%)	3.0	6.1	4.8	6.1	7.0
<b>(Bt)</b>					
Normalized EPS	0.2	0.4	0.4	0.4	0.5
EPS	0.2	0.4	0.4	0.4	0.5
DPS	0.2	0.4	0.4	0.4	0.5
BV/share	0.4	0.6	0.6	0.6	0.6
CFO/share	0.2	0.4	0.4	0.5	0.5
FCF/share	0.2	0.4	0.3	0.4	0.5

Sources: Company data, Thanachart estimates



## FINANCIAL RATIOS

*Earnings growth looks set to bounce back in 2019-20F*

FY ending Dec	2016A	2017A	2018F	2019F	2020F
<b>Growth Rate</b>					
Sales (%)	43.2	46.2	(0.5)	14.4	12.9
Net profit (%)	63.0	87.4	(9.2)	14.9	16.9
EPS (%)	63.0	87.4	(9.4)	14.8	16.7
Normalized profit (%)	63.0	87.4	(9.2)	14.9	16.9
Normalized EPS (%)	63.0	87.4	(9.4)	14.8	16.7
Dividend payout ratio (%)	99.7	99.6	99.5	99.5	99.5
<b>Operating performance</b>					
Gross margin (%)	67.2	67.7	64.5	63.4	63.1
Operating margin (%)	31.6	40.7	36.6	37.3	38.7
EBITDA margin (%)	33.9	42.3	38.3	38.9	40.2
Net margin (%)	25.8	33.1	30.2	30.3	31.4
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Interest coverage - EBIT (x)	na	na	na	na	na
Interest coverage - EBITDA (x)	na	na	na	na	na
ROA - using norm profit (%)	40.5	60.2	48.1	53.0	56.7
ROE - using norm profit (%)	53.2	81.3	66.1	74.3	81.0
<b>DuPont</b>					
ROE - using after tax profit (%)	53.2	81.3	66.1	74.3	81.0
- asset turnover (x)	1.6	1.8	1.6	1.7	1.8
- operating margin (%)	32.3	41.3	37.6	37.9	39.3
- leverage (x)	1.3	1.4	1.4	1.4	1.4
- interest burden (%)	100.0	100.0	99.9	99.9	99.9
- tax burden (%)	79.9	80.2	80.5	80.2	80.0
WACC (%)	11.8	11.8	11.8	11.8	11.8
ROIC (%)	62.2	109.8	90.7	105.7	124.6
NOPAT (Bt m)	641	1,212	1,088	1,263	1,475

Sources: Company data, Thanachart estimates

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