

Proya Cosmetics (603605 CH)

1Q in line; 2023 guidance maintained

- 2023 guidance maintained.** During the conference call, management reiterated its 2023 growth outlook to be in line with its ESOP target at 23% YoY, with steadily improving GPM. Of note, the plan was initiated in July last year with vesting condition stipulated to be no less than 25%/ 23%/ 22% revenue/ net profit growth YoY for 2022-24E. This year, selling and R&D expense could kick-in higher along with intensifying promotional campaigns and new launches, but such is likely to be offset by a stable administration expense ratio. Net-net, we expect a small increase in net margins.
- Sub-segment growth outlook.** By channel, management expects 30%+ growth across all brands online, when offline sales likely to remain flattish. By product, management expects growth momentum to extent for both color make-up and skincare segment. Separately, management has expressed its confidence in the 618 sales outlook. However, no tangible target was given verbally during the call.
- Management shares disposal plan.** Management mentioned that there will be upcoming senior management shares disposal from Chairman (Mr Hou) and GM (Mr Fang), each selling no more than 1.5% of Proya's total shares. Meanwhile, deputy GM (Mr Jin) and deputy board secretary (Ms Wang) plan to sell no more than 25% of their own shares.

Other key results takeaway

- 1Q23 largely in line.** Revenue kicked-in at RMB1.6bn, up 29.3% YoY, with net profits standing at RMB 200mn, up 31.3%. On a positive note, GPM came in slightly higher than expected at 70%, thanks to mix upgrade, a high repeat purchase rate of c30% and the continuous success in its hero product strategy, which made up of 45%+ of the total revenue.
- Recap on 4Q22.** The results came in largely in line with its preannouncement, with revenue/ net profits growth for the quarter standing at 49%/ 52%, respectively. Proya had an exceptionally strong 4Q with growth significantly outperforming its peers who mainly see negative impacts from lockdowns. We attribute this to 1) share gain from peers, and 2) successful new brand launch (Hapsode).
- Our TP and forecasts are under review.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,752	4,633	5,812	7,337	9,181
YoY growth (%)	20.1	23.5	25.4	26.2	25.1
Net income (RMB mn)	514	627	724	976	1,249
EPS (RMB)	2.4	2.9	3.6	4.9	6.2
YoY growth (%)	20.9	21.2	25.6	34.8	28.0
Consensus EPS (RMB)	n.a	n.a	3.6	5.1	6.5
P/E (x)	n.a	n.a	64.6	47.6	37.4
P/B (x)	n.a	n.a	13.7	11.3	9.3
Yield (%)	n.a	n.a	0.5	0.6	0.8
ROE (%)	21.5	21.8	21.4	24.0	25.3
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB184**
(Previous TP **RMB184**)
Up/Downside **+10.7%**
Current Price **RMB166.1**

China Consumer

Joseph Wong
(852) 3900 0838
josephwong@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn) 47,104
Avg 3 mths t/o (RMB mn) 277.46
52w High/Low (RMB) 195.3/ 127.2
Total Issued Shares (mn) 284
Source: Wind

Shareholding Structure

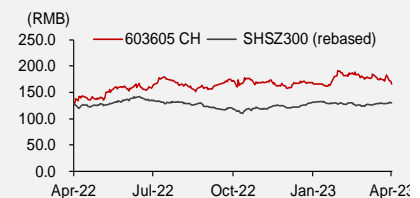
Hou Juncheng 34.7%
HKSC 23.6%
Fang Yuyou 18.1%
Source: Wind

Share Performance

	Absolute	Relative
1-mth	-5.0%	-9.0%
3-mth	0.2%	1.9%
6-mth	-3.9%	-12.3%

Source: Wind

12-mth Price Performance



Source: Wind

- [Proya Cosmetics \(603605 CH\) – 3Q a small beat; but the implied 4Q numbers look unexciting given the current guidance – 18 Oct 2022](#)
- [Proya Cosmetics \(603605 CH\) – 2Q in line with full year guidance maintained – 26 Aug 2022](#)
- [China Cosmetics – The crown jewel of the consumption spectrum; initiate Botanee/ Proya/ Jahwa with Buy – 21 Jun 2022](#)
- [Proya Cosmetics \(603605 CH\) – On track to synergize its R&D franchise, hero products and live-streaming distribution – 21 Jun 2022](#)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,752	4,633	5,812	7,337	9,181
Skincare and cleanser	3,242	3,978	4,893	6,019	7,343
Makeup	465	618	876	1,269	1,780
Gross profit	2,385	3,079	3,966	5,109	6,510
D&A	(88)	(96)	(69)	(92)	(120)
Selling expense	(1,497)	(1,992)	(2,586)	(3,338)	(4,269)
Administration expenses	(204)	(237)	(291)	(367)	(459)
Other operating expenses	(17)	(21)	(98)	(119)	(145)
EBIT	578	733	921	1,193	1,517
EBITDA	666	829	991	1,285	1,637
Finance costs, net	14	7	7	7	7
Other income/(expense)	(127)	(161)	(156)	(161)	(197)
Non-operating	(5)	(7)	(4)	-	-
Pre-tax profit	548	668	839	1,131	1,448
Income tax	(96)	(111)	(139)	(188)	(240)
Less: Minority interests	(24)	(19)	(24)	(32)	(41)
Net profit	514	627	724	976	1,249

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	452	557	700	944	1,208
D&A	88	96	69	92	120
Change in working capital	(50)	70	(101)	(125)	(324)
Others	(158)	107	22	10	16
Net cash fr. operating act.	332	830	690	920	1,020
Capex & investments	(184)	(194)	(243)	(307)	(385)
Investments	134	(70)	(126)	(159)	(199)
Others	65	(78)	-	-	-
Net cash fr. investing act.	15	(342)	(369)	(466)	(584)
Equity raised	2	1	-	-	-
Change of Debts	85	648	(60)	(60)	(10)
Dividend paid	(128)	(154)	(195)	(255)	(334)
Others	(3)	(5)	(0)	(0)	(0)
Net cash fr. financing act.	(43)	490	(255)	(315)	(343)
Net change in cash	303	977	66	139	93
Cash at the beginning of the	1,247	1,417	2,391	2,457	2,596
Exchange difference	0	(1)	-	-	-
Cash at the end of the year	1,550	2,393	2,457	2,596	2,689
Less: pledged cash	(133)	(2)	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,294	1,474	1,774	2,149	2,613
PP&E/Fixed assets	566	559	756	1,000	1,301
Net intangibles	315	397	501	631	794
Total current assets	47	109	109	109	109
Other non-current assets	367	409	409	409	409
Current assets	2,342	3,159	3,427	3,718	4,283
Cash	1,417	2,391	2,457	2,596	2,689
Account receivable	285	139	239	261	579
Prepayments	83	58	73	90	110
Inventory	469	448	522	618	733
Other current assets	90	123	135	152	171
Current liabilities	1,129	1,025	1,064	1,009	1,123
Borrowings	299	200	150	100	100
Accounts payable	580	483	556	549	659
Other payables	178	252	268	269	274
Tax payables	71	90	90	90	90
Non-current liabilities	26	721	721	721	721
Borrowings	-	-	-	-	-
Deferred tax liabilities	10	11	11	11	11
Other non-current liabilities	15	710	710	710	710
Minority Interest	90	10	34	66	107
Total net assets	2,482	2,887	3,416	4,137	5,052
Shareholders' equity	2,392	2,877	3,382	4,070	4,944

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)	100.0	100.0	100.0	100.0	100.0
Skincare and cleanser	86.4	85.9	84.2	82.0	80.0
Makeup	12.4	13.3	15.1	17.3	19.4
P&L ratios (%)					
Gross margin	63.6	66.5	68.2	69.6	70.9
Operating margin	15.4	15.8	15.9	16.3	16.5
Pre-tax margin	14.6	14.4	14.4	15.4	15.8
Net margin	13.7	13.5	12.5	13.3	13.6
Effective tax rate	(17.5)	(16.6)	(16.6)	(16.6)	(16.6)
Balance sheet analysis					
Current ratio (x)	0.6	0.8	0.7	0.7	0.6
Net receivable days	28	11	15	13	23
Net payable days	155	113	110	90	90
Inventory turnover days	125	105	103	101	100
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	21.5	21.8	21.4	24.0	25.3
ROA	14.1	13.5	13.9	16.6	18.1
Dividend yield	0.4	0.5	0.7	0.9	1.2
Per share					
EPS (RMB)	2.4	2.9	3.6	4.9	6.2
DPS (RMB)	0.7	0.9	1.1	1.5	1.9
BVPS (RMB)	12.3	14.4	17.0	20.6	25.1

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.