

Botanee Biotech (300957 CH)

A niche play that sees growth from brand incubation and an unparalleled R&D franchise

Botanee's dedicated focus in serving the niche needs of sensitive skins (93% of total revenue), through its self-developed botanical formula (back by ingredients extracted from plantations found in Yunnan), conveys to consumers a clear go-to message, which translates into an ongoing brand loyalty build-up (30%+ repeated online purchase) and hence a better margins-skimming ability (75%+ GPM). We regard Botanee as a rare investment opportunity that offers both quasi-protection to further lockdowns (85%+ online sales mix), and upside from the flip of consumption sentiment. Botanee also checks all the boxes as a Star company that characterises high growth (10pp+ above peers'), high margins (7-10pp above peer's). We project a 41%/42% revenue/ net profits CAGR over 2021-24E. This is underpinned by a 45%/ 41% CAGR for its skincare/ online business, thanks to 1) the all-round product solutions that address sensitive skin demands such as anti-acne, skin-barrier repair, anti-sensitive moisturizing etc; and 2) expanding brand portfolios (AOXMED and Winona Baby), in addition to its leading Winona brand, which enables more precise customer segmentation. We initiate Botanee with BUY, and the stock is our sector top pick along with Proya.

- Winona Baby.** A skincare brand designed for infants and children aged from 0-12. The brand's star product has been an ultra-rich cream that lessens eczema among babies. The brand's 1Q sales grew 30% to RMB30mn. We forecast the brand to deliver RMB100-200mn revenue this year driven by new product ramp-ups and new channel expansion over 2H22.
- AOXMED.** A high end brand that has been set up before Botanee's public listing. The brand focuses on the anti-aging sub-segment and all SKUs undergo clinical trials before debut. Product pricing will be above RMB1,000 and will directly benchmark to overseas brand like La Prairie and La Mer. New launches will kick-in in Aug/ Sep this year. Unlike other brands, AOXMED will concentrate on offline distribution with 400-500 offline store expansion. We estimate the brand to be able to achieve RMB1bn revenue in 3-5 years.
- Funny Elves.** We think the investment would comprehend Botanee's product line-up and brand equity in color cosmetic segment. Of note, Funny Elves is well-known for its low-cost long-lasting base make-up products.
- Valuation.** Our TP is based on 2.0x end-22E PEG given the fast-growth and short listing history of the company.

Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,636	4,022	6,062	8,368	11,582
YoY growth (%)	35.6	52.6	50.7	38.0	38.4
Net income (RMB mn)	544	863	1,241	1,727	2,400
EPS (RMB)	1.6	2.1	2.9	4.1	5.7
YoY growth (%)	31.1	37.0	38.0	39.2	38.9
P/E (x)	N.A	N.A	72.7	52.2	37.8
P/B (x)	N.A	16.6	15.8	12.9	10.3
Div Yield (%)	N.A	0.3	0.4	0.6	0.9
ROE (%)	45.2	18.1	21.7	24.7	27.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	RMB251
Up/Downside	+17.8%
Current Price	RMB213

China Consumer Staples – Household and Personal Care

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Stock Data

Mkt Cap (RMB mn)	89,583
Avg 3 mths t/o (RMB mn)	364.2
52w High/Low (RMB)	289.4/ 145.3
Total Issued Shares (mn)	424
Source: Bloomberg	

Shareholding Structure

KM Nuona Tech	46.1%
TJ Hongshan Juye	18.8%
Kunming Zhenli	8.8%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	18.6%	12.0%
3-mth	31.3%	28.2%
6-mth	3.1%	16.2%

Source: Bloomberg

12-mth Price Performance







Source: Wind

A closer look on Botanee

- Botanee's core product**, Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, has become one of the most popular and well-known products in China's dermocosmetic market. It sold 4mn+ units online during Double 11 in 2021 and contributed to 18.4%/ 17.8%/ 18.4%/ 13.6% of Botanee's revenue over 2017-1H20. The company kept upgrading existing hero products to meet new consumer needs, to expand its product portfolio, so as to attract new users and achieve sustained sales growth. Of note, more hero products were launched during the Double 11 in 2021. These included the Winona Soothing Repairing Freeze-Dried Mask, Winona Anti-Sensitive Essence and Winona Sunblock Milk.
- Strength in herbal-based ingredients enables differentiation.** Headquartered in Yunnan, a region which is endowed with rich vegetation, in our view, Botanee has an edge in gaining easy access to natural resources which could be used for the development of herbal-based SKUs. Prinsepia utilis, purslane, Yunnan camellia and Yunnan Paris Rhizome are found to offer good anti-sensitive treatment to skins. Through a series of clinical trials, the company developed a series of proprietary active ingredients, such as prinsepia utilis ceramide, peony root bark extract, calyx physalis extract, renal tea extract, pu' er tea extract, Thengchong hot spring fungus derived ectoin, as well as its portfolio of skin care products suitable for sensitive skin.

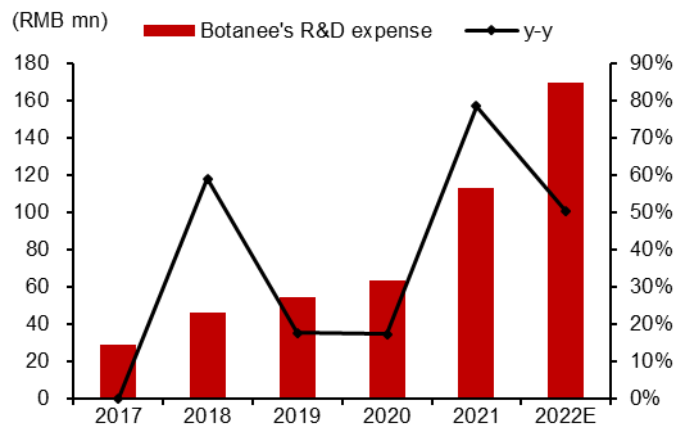
Figure 1: Botanee's strength in herbal-based ingredients enables differentiation

Key herbal-based ingredients of Winona			
Plant		Function	Products
Thorn fruit		Thorn fruit oil contains unsaturated fatty acid required by human body, can stimulate the skin cutin cell synthesis of ceramide and hyaluronic acid, repairing the damaged skin barrier to keep skin healthy	Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, Winona Anti-sensitive Moisturizing Tolerance-Extreme Essence
Purslane		It's an annual herbaceous plant, resistant to drought, has heat-clearing, detoxifying, anti-inflammatory and anti-allergic effect, can effectively relieve skin irritation, has soothing effect for sensitive skin.	Winona Anti-sensitive Moisturizing Tolerance-Extreme Mask
Yunnan camellia		Yunnan camellia leaf extract has skin whitening effect. Its seeds are rich in vitamins and unsaturated fatty acid, has hydrating, smoothing effect for skin.	Winona Extra Moisturizing Lotion and BB Cream
Yunnan Manyleaf Paris Rhizome		Winona laboratory studies have found that extracts from Yunnan manyleaf paris rhizome has the effect to bar acne-causing sources.	Winona Anti-acne Cream, Winona Anti-acne Repair Essence

Source: Oceanengine.com, CMBIGM research

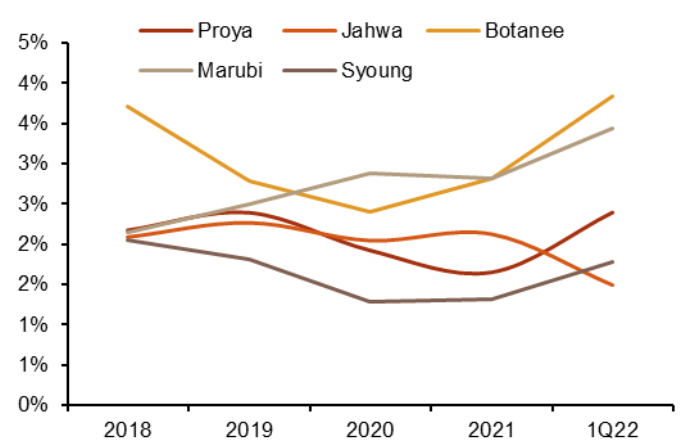
- Strong commitment to clinical and academic research adds to technological strength and brand image building.** The company has been proactively cooperating with medical and other renowned institutions for R&D and clinical research. For instance, Winona cooperated with Chinese Academy of Sciences' Kunming Institute of Botany for R&D in 2008. Meanwhile, Botanee also worked with the Chinese Association of Dermatologists and 16 renowned hospitals, including Peking University First Hospital, for clinical tests.

Figure 2: Botanee's R&D expenses amounted to RMB165mn+ for 2022E, in our view



Source: Company data, CMBIGM research

Figure 3: Botanee has relatively high R&D expense ratio among major A-share cosmetic companies



Source: Company data, CMBIGM estimates

- As of end 2021, Botanee was warranted 80 intellectual properties.** Among which, 22 IPs were for invention (regarded as the most difficult to obtain and thus most valuable type of IP by the industry), 27 IPs were for appearance and the remaining were for new application. To achieve so, the company spent more on R&D than its major A-share peers, and this was represented by a 3.1%/ 40.7% average R&D expense ratio/ CAGR in 2017-21. Botanee is also attentive to the establishment of academic influence, and contributed to the drafting of 15 dermatology-related medical guidelines and expert consensus as of 2021. Botanee also published the book, "Synthesis of Clinical Application of Winona Functional Skin Care Products", which collected 128 fundamental research papers and clinical application of Winona products. Of note, the book has been published in major domestic and foreign periodicals.

- Product/ brand portfolio expansion expected to drive sustained future growth.** Subsequent to the success of Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, the company continued to enlarge its product portfolio to meet the increasingly diversified consumer needs. It expanded from facial cream to essence, mask, sunscreen, foundation, eye care products etc., from anti-sensitive repairing function to whitening, anti-aging, hydrating, anti-acne treatments as well. It launched 5+ new product series (Barrier Repair, Firming Repair, Rich Moisturizing Repair, Acqua-shield Sunblock, Zirun Restoring & Moisturizing series etc.) and 40+ new products in 2021 and several new products (Revitalizing Repairing Essence, Camellia-lucent Spot-Correcting Essence etc.) in 1Q22. Separately, the company also keeps expanding its brand portfolio. It launched Winona Baby in 2021 and plans to launch AOXMED in 2022. The two brands target anti-sensitive baby care and luxury anti-aging skin care, respectively. Baby care and premium cosmetics are two of the most rapidly growing cosmetic sub-sectors in China in the past five years and are expected to also outperform in the next 3-5 years based on Euromonitor, and anti-aging is among the most popular cosmetic functions in recent years. We think, with its strong product innovation capability and expansion into outperforming sub-sectors, on the back of successful experience on hero products development, Botanee is well positioned to keep expanding its user base and maintain a steady growth momentum in the next 2-3 years.

Figure 4: Botanee has developed a rich product matrix able to meet diversified consumer needs

Winona's 13 product series (with key products)						
Anti-sensitive	Moisturizing	Anti-acne	Anti-aging	Whitening	Sun protection	Makeups
2014 Anti-Sensitive Series (Anti-Sensitive Moisturing Tolerance-Extreme Cream)	2014 Extra Moisturizing Series (Extra-Moisturizing Emulsion)	2014 Oil-Control Relieving Series (Oil-Control Relieving Gel)	2014 Firming Series (Anti-Aging Cream)	2015 Whitening Series (Arbutin Whitening Essence)	2015 Sun Protection Series (Sunblock Cream)	2020 Make-up Series (Safe Soothing & Moisturizing Foundation)
2014 Anti-Redness series (Anti-Redness Rich Moisturizing Cream)	2014 Moisturizing & Softening Series (Moisturizing & Softening Cream)	2015 Anti-Acne Series (Anti-Acne Cream)		2017 Camellia-Lucent Series (Camellia-Lucent Spot Correcting Essence)		
	2018 Hyaluronic Acid Series (Hyaluronic Acid Moisturizing & Repair Lotion, Hyaluronic Acid Repair Essence)					

Source: Company data, CMBIGM research

- **Clinical channels and endorsement of doctor KOLs are key strengths.** The company had been making significant efforts to develop its sales channels to hospitals since 2008. By 2021, the company has established cooperation relationship with dermatology department of most of the grade-three class-A hospitals (the highest grade according to the national classification system of hospitals in mainland China). This is a highly important channel, in our view, as it enables direct access to consumers with heavier skin issues who typically offer higher repurchase rate and brand stickiness. Besides, the cooperation with doctor KOLs and proactive participation in national or international dermatology-related forums helped Botanee to build and enhance the image as a highly specialized and trustable brand. For instance, Winona was the first Chinese cosmetics brand to participate World Congress of Dermatology in 2015, to which it attended again in 2019.
- **A fast-mover in self-operated sales and private-domain channel building.** Among major A-share cosmetic companies, Botanee, Proya and Syoung have relatively higher exposure to online sales, which accounted for c80% of their revenue as of 2021, while Jahwa and Marubi have relatively more balanced exposure. For online sales, Botanee relies more on self-operated distribution, largely through official stores on third-party EC platforms and self-built platforms, rather than relying on any physical intermediaries. Self-operated sales accounted for 63.2% of total revenue in 2021. Botanee was one of the pioneers in embracing emerging sales channels and marketing media. The company proactively deployed trending platforms, such as Little Red Book, TikTok, Zhihu, etc., and new marketing forms such as customer educations and active content sharing. On the other hand, Botanee is also a fast-mover in private-domain channel building. It set up online malls in its WeChat public account in 2017 and in its Wechat mini-program in 2018. This has been effective in attracting subscriptions, cementing its brand moat and finally improving brand stickiness and member repurchase rate.

Figure 5: Exposure to online channels of major A-share cosmetic companies

Company	Ticker	% of online sales 2016	% of online sales 2017	% of online sales 2018	% of online sales 2019	% of online sales 2020	% of online sales 2021
Proya	603605 CH	30.0%	36.0%	43.5%	53.0%	69.9%	84.7%
Jahwa	600315 CH	15.9%	21.8%	27.8%	34.0%	42.3%	42.0%
Botanee	300957 CH	n.a.	61.2%	71.1%	76.3%	82.4%	82.0%
Marubi	603983 CH	n.a.	n.a.	41.7%	44.9%	54.4%	57.5%
Syoung	300740 CH	n.a.	n.a.	96.4%	89.2%	90.1%	88.2%

Source: Company data, CMBIGM

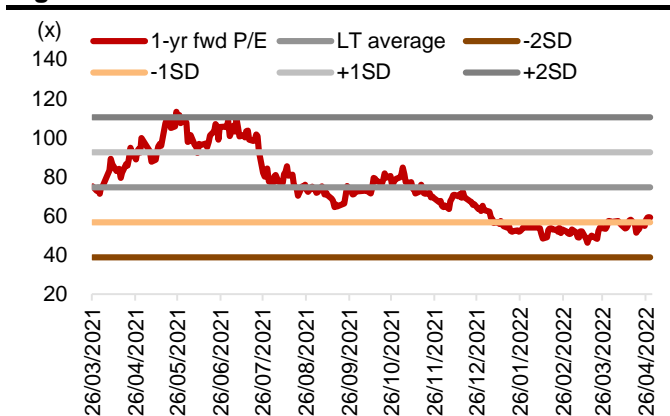
Valuation and risks

- Our TP is based on 2.0x end-22E PEG given the fast-growth and short listing history of the company.

Investment risks

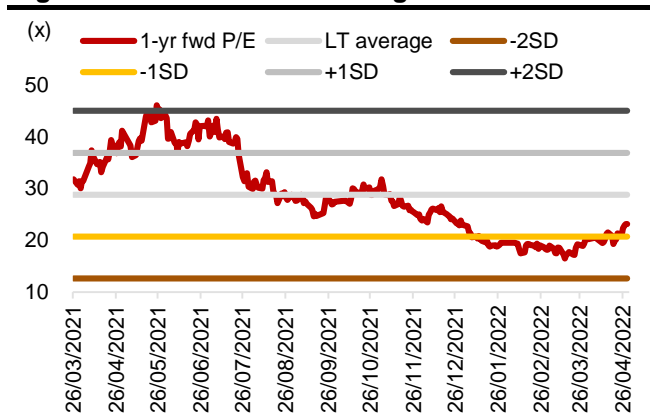
- Change in dermocosmetic regulations, failure in further executing its hero product strategy and brand incubation, product recalls, undisciplined promotional efforts among domestic/ foreign brands and selling pressure from shareholder lock-up expiration.

Figure 6: Botanee - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 7: Botanee - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,636	4,022	6,062	8,368	11,582
Main business revenue	2,621	4,008	6,047	8,353	11,568
Other business	16	15	15	15	15
Gross profits	2,010	3,057	4,600	6,328	8,750
D&A	(25)	(35)	(49)	(111)	(176)
Selling expense	(1,107)	(1,681)	(2,534)	(3,481)	(4,818)
Administration expenses	(169)	(245)	(364)	(477)	(637)
Other operating expenses	(85)	(131)	(199)	(232)	(298)
EBIT	625	966	1,454	2,027	2,820
EBITDA	650	1,000	1,503	2,138	2,996
Finance costs, net	1	11	11	11	11
Other income/(expense)	(2)	5	(49)	(111)	(176)
Non-operating	(2)	2	-	-	-
Pre-tax profit	648	1,018	1,464	2,038	2,831
Income tax	(104)	(154)	(221)	(308)	(428)
Less: Minority interests	0	1	2	2	3
Net profit	544	863	1,241	1,727	2,400

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	544	863	1,241	1,727	2,400
D&A	25	35	49	111	176
Change in working capital	(151)	13	(137)	(135)	(200)
Others	13	242	(2)	(2)	(3)
Net cash fr. operating act.	431	1,153	1,153	1,701	2,373
Capex & investments	(89)	(271)	(340)	(423)	(627)
Investments	(760)	(8,628)	(77)	-	-
Others	763	6,341	-	-	-
Net cash fr. investing act.	(86)	(2,558)	(418)	(423)	(627)
Equity raised	-	-	-	-	-
Change of Debts	(15)	-	-	-	-
Dividend paid	(104)	(191)	(310)	(437)	(608)
Others	(2)	2,855	-	-	-
Net cash fr. financing act.	(121)	2,664	(310)	(437)	(608)
Net change in cash	224	1,258	425	840	1,138
Cash at the beginning of the year	629	853	2,112	2,537	3,377
Exchange difference	1	(0)	-	-	-
Cash at the end of the year	853	2,112	2,537	3,377	4,515

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	211	587	878	1,191	1,641
PP&E/Fixed assets	69	113	380	664	1,086
Net intangibles	55	65	74	85	95
Long-term deferred	20	41	55	73	92
Other non-current assets	67	369	369	369	369
Current assets	1,391	5,225	6,050	7,237	8,862
Cash and equivalents	752	2,035	2,537	3,377	4,515
Accounts receivable	187	247	340	423	554
Prepayments	29	46	46	46	46
Other current assets	423	2,897	3,127	3,390	3,746
Current liabilities	391	900	1,086	1,297	1,584
Borrowings	-	-	-	-	-
Account payables	135	362	548	759	1,046
Other payables	176	417	417	417	417
Tax payables	80	122	122	122	122
Non-current liabilities	9	134	134	134	134
Borrowings	-	50	50	50	50
Other non-current liabilities	9	84	84	84	84
Minority Interest	3	23	22	19	16
Total net assets	1,202	4,778	5,708	6,996	8,785
Shareholders' equity	1,199	4,755	5,687	6,977	8,769

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)	100.0	100.0	100.0	100.0	100.0
Main business revenue	99.4	99.6	99.8	99.8	99.9
Other business	0.6	0.4	0.2	0.2	0.1
P&L ratios (%)					
Gross margin	76.3	76.0	75.9	75.6	75.5
Operating margin	23.7	24.0	24.0	24.2	24.3
Pre-tax margin	24.6	25.3	24.2	24.3	24.4
Net margin	20.6	21.5	20.5	20.6	20.7
Effective tax rate	(16.1)	(15.1)	(15.1)	(15.1)	(15.1)
Balance sheet analysis					
Current ratio (x)	0.5	0.4	0.4	0.5	0.5
Net receivable days	21	20	18	17	15
Net payable days	65	94	114	117	116
Inventory turnover days	132	136	144	148	146
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	45.2	18.1	21.7	24.7	27.3
ROA	33.9	14.8	17.9	20.5	22.8
Dividend yield	0.2	0.3	0.4	0.6	0.9
Per share					
EPS (RMB)	1.6	2.1	2.9	4.1	5.7
DPS (RMB)	0.5	0.6	0.9	1.2	1.7
BVPS (RMB)	3.3	11.7	13.5	16.5	20.7

Source: Company data, CMBIGM estimates

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