

# Botanee Biotech (300957 CH)

## A soft 3Q prompted for an earnings cut

- **3Q net profit was in line** with both consensus and our estimates, although revenue was c.10%/5% below. **We expected a slower 3Q**, given 1) part of the consumption has been pulled forward to 618, 2) 3Q has been a traditional slow season and Botanee has historically a lower promotion intensity, 3) cities' lockdown has jeopardized AOXMED's offline operation and expansion, in our view.
- Excluding non-core items, recurring net profits grew 20% YoY to RMB96mn, in line with a 21% top line growth.
- **Double 11 update.** Botanee achieved RMB1bn sales on Tmall on the first day of the Double 11 presale. Meanwhile, Botanee is ramping-up its promotion for its new brand Winona Baby and pushed 2 hero products in live-streaming. For its flagship brand Winona, Botanee offered about 8-9 SKUs in its KOL live streaming, according to our survey.
- **Earnings change.** To reflect the 3Q results, we cut our 2022/23E revenue by 10.2%/13.9% and this leads to a corresponding 5.4%/ 10.7% cut in net profits for the periods. Our GPM and EBITDA margins remained largely unchanged. Our current forecast implies a 33%/30% growth in 4Q22E revenue and net profits.
- **Valuation.** Upon our earnings changes, our new TP is based on roll-forward end-23E 2.0x PEG given the fast-growth outlook but short listing history of the company. Our TP implies a 63.0x end-23E P/E.

### Other key takeaway from the results

- **GPM was 76.5%, up 0.2pp YoY in 3Q.** In our view, skincare SKUs continued to sell well at steady margins, and we think sales mix could have further improved and that slightly drove up the blended GPM.
- **Opex ratio was up 1.2pp** and pushed down GPM 1pp lower to 13.7%.

### Earnings summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,636	4,022	5,445	7,204	9,282
YoY growth (%)	35.6	52.6	35.4	32.3	28.8
Net income (RMB mn)	544	863	1,173	1,542	1,869
EPS (RMB)	1.6	2.1	2.8	3.6	4.4
YoY growth (%)	31.1	37.0	30.4	31.4	21.2
Consensus EPS (RMB)	n.a	n.a	2.8	3.6	4.0
P/E (x)	n.a	n.a	57.4	43.7	36.0
P/B (x)	n.a	n.a	11.9	9.9	8.3
Div Yield (%)	n.a	n.a	0.5	0.7	0.8
ROE (%)	45.3	18.1	20.8	22.8	23.0
Net gearing (%)	net cash				

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	RMB229.0
(Previous TP	RMB251)
Up/Downside	+44.0%
Current Price	RMB159.0

### China Consumer – Household and Personal Care

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#### Stock Data

Mkt Cap (RMB mn)	67,543
Avg 3 mths t/o (RMB mn)	311.3
52w High/Low (RMB)	249.9/ 140.8
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	-7.3%	-3.4%
3-mth	-18.0%	-8.7%
6-mth	-19.0%	-10.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Wind

#### Related reports

1. [Addressing recent investors' concerns: our top ideas into 4Q22](#) – 6 Oct 2022
2. [Botanee Biotech \(300957 CH\) – 2Q in line: new brands in anti-aging and baby care to sustain growth](#) – 30 Aug 2022
3. [Proya Cosmetics \(603605 CH\) – 2Q in line with full year guidance maintained](#) – 29 Aug 2022
4. [China Cosmetics – The crown jewel of the consumption spectrum: initiate Botanee/ Proya/ Jahwa with Buy](#) – 21 Jun 2022

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,445	7,204	9,282	6,062	8,368	11,582	-10.2%	-13.9%	-19.9%
Gross Profit	4,123	5,442	6,897	4,600	6,328	8,750	-10.4%	-14.0%	-21.2%
EBITDA	1,347	1,844	2,294	1,503	2,138	2,996	-10.4%	-13.8%	-23.4%
Net profit	1,173	1,542	1,869	1,241	1,727	2,400	-5.4%	-10.7%	-22.1%
Gross Margin	75.7%	75.5%	74.3%	75.9%	75.6%	75.5%	-0.2ppt	-0.1ppt	-1.2ppt
EBITDA Margin	24.7%	25.6%	24.7%	24.8%	25.5%	25.9%	-0.1ppt	0ppt	-1.2ppt
Net Margin	21.6%	21.4%	20.1%	20.5%	20.6%	20.7%	1.1ppt	0.8ppt	-0.6ppt

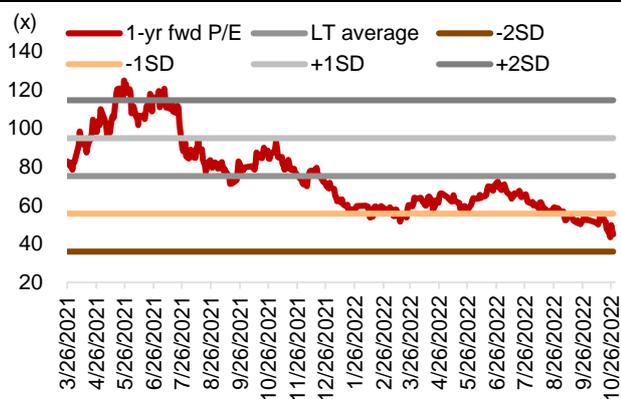
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,445	7,204	9,282	5,521	7,342	9,511	-1.4%	-1.9%	-2.4%
Gross Profit	4,123	5,442	6,897	4,207	5,606	7,274	-2.0%	-2.9%	-5.2%
EBITDA	1,347	1,844	2,294	1,379	1,859	2,446	-2.3%	-0.8%	-6.2%
Net profit	1,173	1,542	1,869	1,184	1,579	2,065	-0.9%	-2.3%	-9.5%
Gross Margin	75.7%	75.5%	74.3%	76.2%	76.4%	76.5%	-0.5ppt	-0.8ppt	-2.2ppt
EBITDA Margin	24.7%	25.6%	24.7%	25.0%	25.3%	25.7%	-0.2ppt	0.3ppt	-1ppt
Net Margin	21.6%	21.4%	20.1%	21.4%	21.5%	21.7%	0.1ppt	-0.1ppt	-1.6ppt

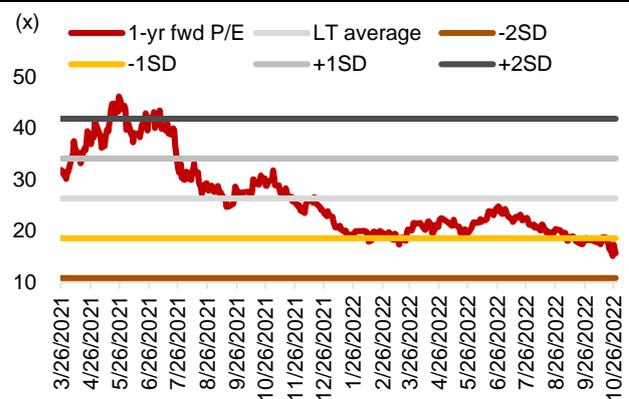
Source: Company data, CMBIGM estimates

Figure 3: Botanee - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Botanee - trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>2,636</b>	<b>4,022</b>	<b>5,445</b>	<b>7,204</b>	<b>9,282</b>
Main business revenue	2,621	4,008	5,430	7,189	9,267
Other business	16	15	15	15	15
<b>Gross profits</b>	<b>2,010</b>	<b>3,057</b>	<b>4,123</b>	<b>5,442</b>	<b>6,897</b>
D&A	(25)	(35)	(49)	(111)	(176)
Selling expense	(1,107)	(1,681)	(2,276)	(2,997)	(3,861)
Administration expenses	(169)	(245)	(327)	(418)	(538)
Other operating expenses	(85)	(131)	(174)	(184)	(204)
<b>EBIT</b>	<b>625</b>	<b>966</b>	<b>1,298</b>	<b>1,733</b>	<b>2,118</b>
<b>EBITDA</b>	<b>650</b>	<b>1,000</b>	<b>1,347</b>	<b>1,844</b>	<b>2,294</b>
Finance costs, net	1	11	11	11	11
Other income/(expense)	(2)	5	23	(35)	(100)
Non-operating	(2)	2	4	-	-
<b>Pre-tax profit</b>	<b>648</b>	<b>1,018</b>	<b>1,384</b>	<b>1,819</b>	<b>2,204</b>
Income tax	(104)	(154)	(209)	(275)	(333)
Less: Minority interests	0	1	2	2	2
<b>Net profit</b>	<b>544</b>	<b>863</b>	<b>1,173</b>	<b>1,542</b>	<b>1,869</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>544</b>	<b>863</b>	<b>1,173</b>	<b>1,542</b>	<b>1,869</b>
D&A	25	35	49	111	176
Change in working capital	(151)	13	(80)	(106)	(134)
Others	13	242	16	(2)	(2)
<b>Net cash fr. operating act.</b>	<b>431</b>	<b>1,153</b>	<b>1,159</b>	<b>1,545</b>	<b>1,909</b>
Capex & investments	(89)	(271)	(340)	(423)	(627)
Investments	(760)	(8,628)	(77)	-	-
Others	763	6,341	60	-	-
<b>Net cash fr. investing act.</b>	<b>(86)</b>	<b>(2,558)</b>	<b>(358)</b>	<b>(423)</b>	<b>(627)</b>
Equity raised	-	2,925	-	-	-
Change of Debts	(15)	-	-	-	-
Dividend paid	(104)	(191)	(300)	(400)	(502)
Others	(2)	(70)	-	-	-
<b>Net cash fr. financing act.</b>	<b>(121)</b>	<b>2,664</b>	<b>(300)</b>	<b>(400)</b>	<b>(502)</b>
<b>Net change in cash</b>	<b>224</b>	<b>1,258</b>	<b>502</b>	<b>722</b>	<b>780</b>
Cash at the beginning of the year	629	853	2,112	2,614	3,336
Exchange difference	1	(0)	-	-	-
<b>Cash at the end of the year</b>	<b>853</b>	<b>2,112</b>	<b>2,614</b>	<b>3,336</b>	<b>4,115</b>
Less: pledged cash	(101)	(77)	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>211</b>	<b>587</b>	<b>878</b>	<b>1,191</b>	<b>1,641</b>
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
<b>Current assets</b>	<b>1,391</b>	<b>5,225</b>	<b>6,018</b>	<b>7,006</b>	<b>8,144</b>
Cash and equivalents	752	2,035	2,614	3,336	4,115
Accounts receivable	187	247	297	364	444
Prepayments	29	46	46	46	46
Other current assets	423	2,897	3,060	3,259	3,538
<b>Current liabilities</b>	<b>391</b>	<b>900</b>	<b>1,033</b>	<b>1,193</b>	<b>1,418</b>
Borrowings	-	-	-	-	-
Account payables	135	362	495	655	880
Other payables	176	417	417	417	417
Tax payables	80	122	122	122	122
<b>Non-current liabilities</b>	<b>9</b>	<b>134</b>	<b>134</b>	<b>134</b>	<b>134</b>
Borrowings	-	50	50	50	50
Other non-current liabilities	9	84	84	84	84
<b>Minority Interest</b>	<b>3</b>	<b>23</b>	<b>22</b>	<b>20</b>	<b>17</b>
<b>Total net assets</b>	<b>1,202</b>	<b>4,778</b>	<b>5,650</b>	<b>6,791</b>	<b>8,155</b>
<b>Shareholders' equity</b>	<b>1,199</b>	<b>4,755</b>	<b>5,629</b>	<b>6,771</b>	<b>8,138</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Main business revenue	99.4	99.6	99.7	99.8	99.8
Other business	0.6	0.4	0.3	0.2	0.2
<b>P&amp;L ratios (%)</b>					
Gross margin	76.3	76.0	75.7	75.5	74.3
Operating margin	23.7	24.0	23.8	24.1	22.8
Pre-tax margin	24.6	25.3	25.4	25.3	23.8
Net margin	20.6	21.5	21.6	21.4	20.1
Effective tax rate	(16.1)	(15.1)	(15.1)	(15.1)	(15.1)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.5	0.4	0.4	0.5	0.5
Net receivable days	21	20	18	17	16
Net payable days	65	94	118	119	118
Inventory turnover days	132	136	151	151	148
Net debt to equity (%)	net cash				
<b>Returns (%)</b>					
ROE	45.2	18.1	20.8	22.8	23.0
ROA	33.9	14.8	17.0	18.8	19.1
Dividend yield	0.2	0.3	0.6	0.7	0.9
<b>Per share</b>					
EPS (RMB)	1.6	2.1	2.8	3.6	4.4
DPS (RMB)	0.5	0.6	0.8	1.1	1.3
BVPS (RMB)	3.3	11.7	13.3	16.0	19.3

Source: Company data, CMBIGM estimates

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