

Botanee Biotech (300957 CH)

ESOP targets stabilize earnings expectation but sentiment overhang remains

- 2023 outlook.** Despite a miss in 4Q, we think Botanee is set to recover along with China's reopening, thanks to its OMO distribution network and an unchallenged R&D franchise that differentiates from peers. Our channel check suggested Winona 2M23 sales grew 20%+ on Tmall/ Taobao and 300%+ on Tiktok. For its offline business, we still see huge potential to expand from currently 19% to 26% of total revenue by 2024E, when Botanee only penetrates less than 5% of the national drug stores at present. We believe the trend matches well with Botanee's premium branding, as shopping experience and direct customer care is prioritized at physical stores. Separately, we expect a relatively stable GPM for 2023E, despite a potentially widening online promotion incentive, thanks to a rising contribution from high-end/ new brands such as AOXMED/ Winona Baby etc. Promotional and R&D expense, in our view, will grow in line with peers in the post COVID era and, hopefully, the inflation would be partially offset by a lower administration expense.
- Positive takeaway from the restrictive shares incentive plan.** Along with the results announcement, Botanee also reported its ESOP plan for its staff. The plan will grant 1.5% of Botanee's shares to 298 employees (covering board members and key operation managers) if the stacked revenue and net profits growth is not lower than 28%/ 61.3%/ 100%, respectively, for the year 2023/24/25E. We view this positively as the target likely exceeds market expectation and provides a clear financial guidance to the market.
- Sentiment overhang remains.** Subsequent to the product scandal over the Double 11 campaign last year, the departure of co-founder and the sell-off from a pre-IPO investor continues to weigh on share price. While a replacement for the founder was appointed internally, Botanee will have to reestablish its track record to the market, particularly when the low hanging fruit of livestreaming distribution is gone.
- Earnings change.** To reflect the 4Q results and the ESOP target, we cut our 2023/24E revenue by 9% each and this leads to an average 9% cut in net profits for the periods.
- Valuation.** Our new TP is based on 48.5x end-23E P/E (from 2.0x PEG) that represents -1sd below its average since IPO. We switch our methodology from PEG to P/E as we now have a longer listing history to reasonably track Botanee's historical valuation. We benchmark our target multiple to -1sd below average to reflect the sentiment overhang mentioned above.

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,636	4,022	5,014	6,547	8,429
YoY growth (%)	35.6	52.6	24.6	30.6	28.8
Net income (RMB mn)	544	863	1,051	1,374	1,716
EPS (RMB)	1.6	2.1	2.5	3.2	4.1
YoY growth (%)	31.1	37.0	19.1	28.3	24.9
Consensus EPS	n.a	n.a	2.6	3.5	4.5
P/E (x)	n.a	n.a	50.4	39.3	31.4
P/B (x)	n.a	n.a	9.6	8.2	6.9
Div Yield (%)	n.a	n.a	0.6	0.8	1.0
ROE (%)	45.3	18.1	18.8	21.0	22.1
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (maintain)

Target Price **RMB157**
 (Previous TP **RMB229**)
 Up/Downside **+22.2%**
 Current Price **RMB128**

China Consumer –
 Household and Personal Care

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Stock Data

Mkt Cap (RMB mn) 53,954
 Avg 3 mths t/o (RMB mn) 556.6
 52w High/Low (RMB) 227.0/114.9
 Total Issued Shares (mn) 424

Source: Bloomberg

Shareholding Structure

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

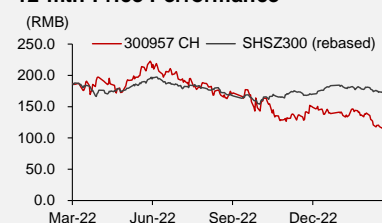
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.0%	-7.3%
3-mth	-14.7%	-18.2%
6-mth	-26.0%	-30.2%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Related Reports

- [Nongfu Spring \(9633 HK\) – Mid-teen top-line growth and a 90% dividend payout sustain the valuation premium over peers](#) – 30 Mar 2023
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Figure 1: Earnings revision

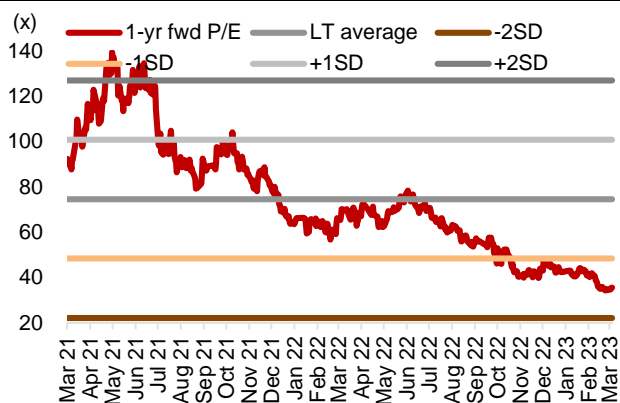
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,014	6,547	8,429	5,445	7,204	9,282	-7.9%	-9.1%	-9.2%
Gross Profit	3,771	4,915	6,308	4,123	5,442	6,897	-8.5%	-9.7%	-8.5%
EBITDA	1,107	1,522	1,989	1,347	1,844	2,294	-17.8%	-17.5%	-13.3%
Net profit	1,051	1,374	1,716	1,173	1,542	1,869	-10.4%	-10.9%	-8.2%
Gross Margin	75.2%	75.1%	74.8%	75.7%	75.5%	74.3%	-0.5ppt	-0.5ppt	0.5ppt
EBITDA Margin	22.1%	23.2%	23.6%	24.7%	25.6%	24.7%	-2.7ppt	-2.4ppt	-1.1ppt
Net Margin	21.0%	21.0%	20.4%	21.5%	21.4%	20.1%	-0.6ppt	-0.4ppt	0.2ppt

Source: Company data, CMBIGM estimates

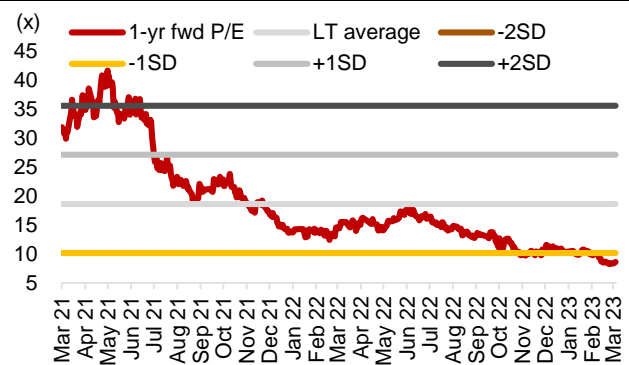
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,014	6,547	8,429	5,368	6,937	8,865	-6.6%	-5.6%	-4.9%
Gross Profit	3,771	4,915	6,308	4,107	5,306	6,774	-8.2%	-7.4%	-6.9%
EBITDA	1,107	1,522	1,989	1,309	1,715	2,211	-15.5%	-11.3%	-10.0%
Net profit	1,051	1,374	1,716	1,157	1,488	1,920	-9.1%	-7.6%	-10.6%
Gross Margin	75.2%	75.1%	74.8%	76.5%	76.5%	76.4%	-1.3ppt	-1.4ppt	-1.6ppt
EBITDA Margin	22.1%	23.2%	23.6%	24.4%	24.7%	24.9%	-2.3ppt	-1.5ppt	-1.3ppt
Net Margin	21.0%	21.0%	20.4%	21.6%	21.5%	21.7%	-0.6ppt	-0.5ppt	-1.3ppt

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
Revenue	2,636	4,022	5,014	6,547	8,429
Main business revenue	2,621	4,008	4,998	6,531	8,413
Other business	16	15	16	16	16
Gross profits	2,010	3,057	3,771	4,915	6,308
D&A	(25)	(35)	(38)	(80)	(152)
Selling expense	(1,107)	(1,681)	(2,048)	(2,674)	(3,443)
Administration expenses	(169)	(245)	(343)	(393)	(506)
Other operating expenses	(85)	(131)	(273)	(326)	(370)
EBIT	625	966	1,069	1,442	1,837
EBITDA	650	1,000	1,107	1,522	1,989
Finance costs, net	1	11	11	11	11
Other income/(expense)	(2)	5	95	55	(18)
Non-operating	(2)	2	2	-	-
Pre-tax profit	648	1,018	1,214	1,587	1,982
Income tax	(104)	(154)	(163)	(214)	(267)
Less: Minority interests	0	1	(1)	(1)	(1)
Net profit	544	863	1,051	1,374	1,716

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	544	863	1,051	1,374	1,716
D&A	25	35	38	80	152
Change in working capital	(151)	13	(413)	(136)	(178)
Others	13	242	502	1	1
Net cash fr. operating act.	431	1,153	1,178	1,319	1,691
Capex & investments	(89)	(271)	(344)	(427)	(546)
Investments	(760)	(8,628)	(202)	-	-
Others	763	6,341	81	-	-
Net cash fr. investing act.	(86)	(2,558)	(465)	(427)	(546)
Equity raised	-	2,925	-	-	-
Change of Debts	(15)	-	(40)	-	-
Dividend paid	(104)	(191)	(296)	(391)	(498)
Others	(2)	(70)	-	-	-
Net cash fr. financing act.	(121)	2,664	(336)	(391)	(498)
Net change in cash	224	1,258	377	501	647
Cash at the beginning of the year	629	853	2,112	2,489	2,990
Exchange difference	1	(0)	-	-	-
Cash at the end of the year	853	2,112	2,489	2,990	3,637
Less: pledged cash	(101)	(77)	25	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	211	587	1,004	1,351	1,745
PP&E/Fixed assets	69	113	206	525	886
Net intangibles	55	65	78	91	106
Long-term deferred	20	41	67	82	101
Other non-current assets	67	369	653	653	653
Current assets	1,391	5,225	5,715	6,438	7,404
Cash and equivalents	752	2,035	2,514	2,990	3,637
Accounts receivable	187	247	270	317	385
Prepayments	29	46	42	42	42
Other current assets	423	2,897	2,889	3,090	3,340
Current liabilities	391	900	992	1,104	1,243
Borrowings	-	-	-	-	-
Account payables	135	362	372	484	624
Other payables	176	417	500	500	500
Tax payables	80	122	119	119	119
Non-current liabilities	9	134	125	125	125
Borrowings	-	50	11	11	11
Other non-current liabilities	9	84	115	115	115
Minority Interest	3	23	24	25	26
Total net assets	1,202	4,778	5,602	6,561	7,780
Shareholders' equity	1,199	4,755	5,578	6,536	7,754

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
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
P&L ratios (%)					
Gross margin	76.3	76.0	75.2	75.1	74.8
Operating margin	23.7	24.0	21.3	22.0	21.8
Pre-tax margin	24.6	25.3	24.2	24.2	23.5
Net margin	20.6	21.5	21.0	21.0	20.4
Effective tax rate	(16.1)	(15.1)	(13.5)	(13.5)	(13.5)
Balance sheet analysis					
Current ratio (x)	0.5	0.4	0.4	0.5	0.5
Net receivable days	21	20	19	16	15
Net payable days	65	94	108	96	95
Inventory turnover days	132	136	166	172	171
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	45.2	18.1	18.8	21.0	22.1
ROA	33.9	14.8	15.6	17.6	18.8
Dividend yield	0.2	0.3	0.6	0.8	1.0
Per share					
EPS (RMB)	1.6	2.1	2.5	3.2	4.1
DPS (RMB)	0.5	0.6	0.8	1.0	1.3
BVPS (RMB)	3.3	11.7	13.2	15.5	18.4

Source: Company data, CMBIGM estimates

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