29 Aug 2024

CMB International Global Markets | Equity Research | Company Update

Proya Cosmetics (603605 CH)

Best earnings among peers, strong momentum sustained

Proya's 2Q24 results beat consensus with revenue/net profit +41%/37% YoY (1H24 revenue/net profit +37.9/40.5% YoY), mostly contributed by the accelerated sales growth of main brand to 37.7% YoY. The earnings ranked the top among peers. 1H24 GPM dropped by 0.7 ppt. and steadied at 69.8%, accompanied by the 3 ppt. increase in selling expense ratio to 47%, due to the prolonged 618 promotion cycle, continuous rise in unit cost of livestream marketing, and high e-commerce return rate. Full-year guidance wise, the company aims to maintain GPM at ~70% and maintain the NPM in a slight upward trend. Maintain BUY with TP slightly trimmed to RMB 133.86, based on 35x 2024E P/E.

- **Hero SKUs outperform consistently benefiting earnings.** Proya continued to consolidate the "hero product strategy", 1H24 image promotion fees +50% YoY and selling expense ratio hiked 3 ppt. YoY to 46.7%. Thanks to the hero products that powered up re-purchase rates on both Tmall and Douyin (now at 40%+ and 30%+, respectively) and its contribution of revenue further increased to 57%, up from 55% in 1Q23. Considering the high margin of hero products, we see both the top line and bottom line growth to remain intact for 2024E. Amid the challenging landscape, the company's priority of achieving steadfast market share in the upcoming 11.11 may increase marketing expense ratio in 2H, given Douyin's unfavourable mechanism and the high return rate circumstance broadened.
- **Visible sustainability of sub-brand growth.** The skincare segment reported +37% YoY revenue growth on a relatively high base, while both make-up and body & hair segment achieved growth exceeding 42% YoY, demonstrating the all three major BUs are now on track of sustainable growth. Meanwhile, management reaffirmed the overseas expansions plans on major sub-brands, especially TIMAGE and Hapsode. Looking forward, we believe that the readied products portfolio targeting wide price ranges and the experienced BU management team should provide solid support to overseas' steady growth.
- **Solid customer base ready for improving offline presence.** With the changing circumstances, Chinese consumers continue to embrace the concept of "upgrading and replacing with domestic brands". We believe that Proya's track record of educating consumers positions the company for further growth. Looking ahead, after exiting the KA channels, the company will continue to leverage its online and offline marketing resources to launch premium anti-aging skincare series and gradually establish offline counters in shopping mall of tier 1 & 2 city, in line with its premiumization development strategy.
- **Valuation.** We largely maintain our 2024E-26E earnings forecasts. Maintain BUY with TP slightly trimmed to RMB133.86, based on 35x 2024E P/E, to reflect the weakening consumer sentiment in 2H.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,385	8,905	11,702	14,628	17,574
YoY growth (%)	37.8	39.5	31.4	25.0	20.1
Net profit (RMB mn)	817.4	1,193.9	1,518.0	1,893.4	2,268.4
YoY growth (%)	41.9	46.1	27.2	24.7	19.8
EPS (Reported) (RMB)	2.06	3.01	3.83	4.77	5.72
Consensus EPS (RMB)	na	na	3.85	4.73	5.69
P/E (x)	41.7	28.5	22.5	18.0	15.0
P/B (x)	9.6	7.7	6.4	5.3	4.4
Yield (%)	0.7	1.6	2.0	2.6	3.1
ROE (%)	25.5	30.3	31.8	33.0	32.8
Net gearing (%)	(84.0)	(87.6)	(87.9)	(86.6)	(85.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB133.86**
(Previous TP	RMB135.57)
Up/Downside	**55.8%**
Current Price	**RMB85.90**

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Stock Data

Mkt Cap (RMB mn)	24,354.4
Avg 3 mths t/o (RMB mn)	200.0
52w High/Low (RMB)	115.60/78.24
Total Issued Shares (mn)	283.5

Source: FactSet

Shareholding Structure

Hou Juncheng	34.7%
HKSCC	23.6%

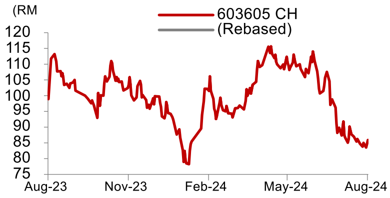
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-4.4%	NM
3-mth	-22.2%	NM
6-mth	-15.4%	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Results summary

RMB mn	1H23	2H23	1H24	YoY	HoH	1Q24	2Q24	YoY	HoH
Revenue	**3,627**	**5,278**	**5,001**	**37.9%**	**-5.2%**	**2,182**	**2,820**	**40.6%**	**29.2%**
Proya brand	2,892	4,286	3,981	38%	-7%				
Other brands	728	985	1,013	39%	3%				
Other businesses	8	7	7	-8%	4%				
Gross Profit	**2,558**	**3,670**	**3,492**	**36.5%**	**-5%**	**1,530**	**1,962**	**38.0%**	**28%**
Net profit	**499**	**694**	**702**	**40.5%**	**1%**	**303**	**399**	**36.8%**	**32%**
EPS (RMB) - Basic	1.25	1.76	1.78	42%	1%				
EPS (RMB) - Diluted	1.24	1.77	1.72	39%	-3%				
DPS (RMB)	0.38	n.a.	n.a.						
Dividend payout ratio	30%	n.a.	n.a.						
Gross Profit Margin	**70.5%**	**69.5%**	**69.8%**	**-0.7 ppt**	**0.3 ppt**	**70.1%**	**69.6%**	**0.0 ppt**	**-0.5 ppt**
Proya brand	71.3%	70.4%	69.9%	-1.5 ppt	-0.5 ppt				
Other brands	67.9%	65.9%	69.8%	1.9 ppt	3.9 ppt				
Other businesses	0.9%	55.0%	48.3%	47.4 ppt	-6.7 ppt				
Net Margin	**13.8%**	**13.2%**	**14.0%**	**0.3 ppt**	**0.9 ppt**	**13.9%**	**14.1%**	**0.0 ppt**	**0.3 ppt**

Source: Company data, CMBIGM

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11,702	14,628	17,574	11,689	14,567	17,445	0.1%	0.4%	0.7%
Gross Profit	8,176	10,249	12,331	8,210	10,261	12,308	-0.4%	-0.1%	0.2%
EBIT	1,949	2,420	2,890	1,990	2,465	2,936	-2.0%	-1.8%	-1.6%
Net profit	1,518	1,893	2,268	1,537	1,913	2,286	-1.2%	-1.0%	-0.8%
Gross Margin	69.9%	70.1%	70.2%	70.2%	70.4%	70.6%	-0.4ppt	-0.4ppt	-0.4ppt
EBIT Margin	16.7%	16.5%	16.4%	17.0%	16.9%	16.8%	-0.4ppt	-0.4ppt	-0.4ppt
Net Margin	13.0%	12.9%	12.9%	13.1%	13.1%	13.1%	-0.2ppt	-0.2ppt	-0.2ppt

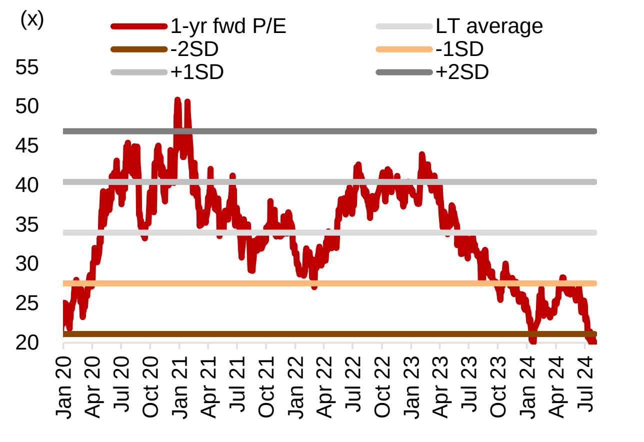
Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11,702	14,628	17,574	11,287	13,854	16,474	3.7%	5.6%	6.7%
Gross Profit	8,176	10,249	12,331	7,903	9,716	11,569	3.5%	5.5%	6.6%
EBIT	1,949	2,420	2,890	1,916	2,375	2,859	1.7%	1.9%	1.1%
Net profit	1,518	1,893	2,268	1,194	1,529	1,879	27.1%	23.8%	20.7%
Gross Margin	69.9%	70.1%	70.2%	70.0%	70.1%	70.2%	-0.1ppt	-0.1ppt	-0.1ppt
EBIT Margin	16.7%	16.5%	16.4%	17.0%	17.1%	17.4%	-0.3ppt	-0.6ppt	-0.9ppt
Net Margin	13.0%	12.9%	12.9%	10.6%	11.0%	11.4%	2.4ppt	1.9ppt	1.5ppt

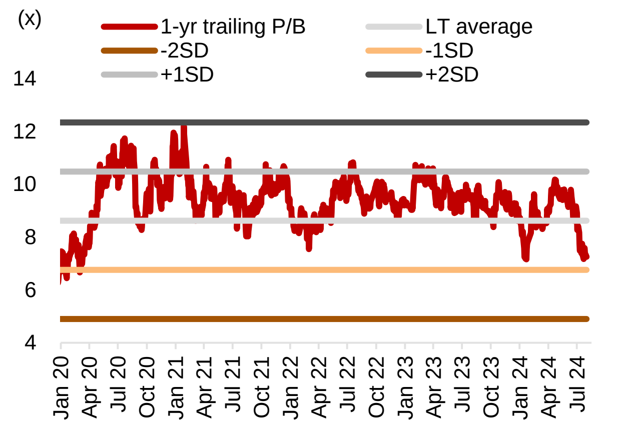
Source: Company data, Bloomberg, CMBIGM estimate

Figure 4: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**4,633**	**6,385**	**8,905**	**11,702**	**14,628**	**17,574**
Cost of goods sold	(1,554)	(1,935)	(2,677)	(3,525)	(4,380)	(5,243)
Gross profit	**3,079**	**4,451**	**6,227**	**8,176**	**10,249**	**12,331**
Operating expenses	**(2,346)**	**(3,298)**	**(4,692)**	**(6,227)**	**(7,829)**	**(9,440)**
Selling expense	(1,992)	(2,786)	(3,972)	(5,290)	(6,657)	(8,033)
Admin expense	(237)	(327)	(455)	(599)	(748)	(899)
R&D expense	(77)	(128)	(174)	(228)	(285)	(343)
Others	(41)	(56)	(91)	(110)	(138)	(166)
EBITDA	**829**	**1,223**	**1,617**	**2,058**	**2,544**	**3,033**
Depreciation	47	53	63	91	106	126
Other amortisation	49	17	19	18	17	17
EBIT	**733**	**1,153**	**1,535**	**1,949**	**2,420**	**2,890**
Net Interest income/(expense)	**7**	**41**	**59**	**59**	**59**	**59**
Other income/expense	(73)	(140)	(99)	(104)	(104)	(104)
Pre-tax profit	**668**	**1,054**	**1,495**	**1,904**	**2,375**	**2,845**
Income tax	(111)	(223)	(265)	(352)	(439)	(526)
Minority interest	(19)	14	37	34	43	51
Net profit	**576**	**817**	**1,194**	**1,518**	**1,893**	**2,268**
Adjusted net profit	**627**	**951**	**1,270**	**1,518**	**1,893**	**2,268**
Gross dividends	173	247	549	698	871	1,043

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**3,159**	**4,147**	**5,545**	**6,684**	**7,989**	**9,452**
Cash & equivalents	2,391	3,161	4,011	4,779	5,635	6,645
Account receivables	139	102	345	449	561	674
Inventories	448	669	82	108	134	161
Prepayment	58	91	203	194	242	291
Other current assets	123	123	904	1,155	1,417	1,680
Non-current assets	**1,474**	**1,631**	**1,778**	**1,899**	**2,063**	**2,265**
PP&E	559	570	827	962	1,138	1,352
Investment in JVs & assos	170	139	114	114	114	114
Intangibles	397	420	405	391	378	367
Goodwill	0	0	0	0	0	0
Other non-current assets	348	502	433	433	433	433
Total assets	**4,633**	**5,778**	**7,323**	**8,583**	**10,052**	**11,717**
Current liabilities	**1,025**	**1,428**	**2,120**	**2,486**	**2,845**	**3,199**
Short-term borrowings	200	200	200	200	200	200
Account payables	483	545	1,055	1,390	1,726	2,067
Tax payable	90	153	223	223	223	223
Other current liabilities	252	530	642	673	696	709
Non-current liabilities	**721**	**813**	**803**	**803**	**803**	**803**
Long-term borrowings	0	0	0	0	0	0
Deferred income	6	6	6	6	6	6
Other non-current liabilities	715	807	796	796	796	796
Total liabilities	**1,746**	**2,241**	**2,923**	**3,288**	**3,648**	**4,001**
Share capital	1,187	1,391	1,510	1,510	1,510	1,510
Retained earnings	1,697	2,300	3,040	3,935	5,087	6,449
Other reserves	(7)	(167)	(201)	(235)	(321)	(423)
Total shareholders equity	**2,877**	**3,524**	**4,350**	**5,210**	**6,276**	**7,537**
Minority interest	10	13	51	85	128	179
Total equity and liabilities	**4,633**	**5,778**	**7,323**	**8,583**	**10,052**	**11,717**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**668**	**1,054**	**1,495**	**1,904**	**2,375**	**2,845**
Depreciation & amortization	96	70	81	109	123	142
Tax paid	(111)	(223)	(265)	(352)	(439)	(526)
Change in working capital	70	(123)	855	204	198	201
Others	107	333	(699)	(226)	(312)	(332)
Net cash from operations	**830**	**1,111**	**1,469**	**1,639**	**1,946**	**2,331**
Investing						
Capital expenditure	(194)	(171)	(180)	(226)	(282)	(339)
Acquisition of subsidiaries/ investments	(70)	(131)	(131)	(4)	(5)	(6)
Others	(78)	0	(165)	0	0	0
Net cash from investing	**(342)**	**(302)**	**(476)**	**(230)**	**(287)**	**(345)**
Financing						
Dividend paid	(154)	(183)	(407)	(623)	(784)	(957)
Net borrowings	648	0	0	(18)	(18)	(18)
Others	(4)	117	(53)	0	0	0
Net cash from financing	**490**	**(65)**	**(460)**	**(642)**	**(803)**	**(975)**
Net change in cash						
Cash at the beginning of the year	1,417	2,391	3,161	4,011	4,779	5,635
Exchange difference	(1)	(1)	1	0	0	0
Others	(2)	27	316	0	0	0
Cash at the end of the year	**2,391**	**3,161**	**4,011**	**4,779**	**5,635**	**6,645**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	23.5%	37.8%	39.5%	31.4%	25.0%	20.1%
Gross profit	29.1%	44.5%	39.9%	31.3%	25.3%	20.3%
EBITDA	24.5%	47.5%	32.2%	27.3%	23.6%	19.2%
EBIT	26.8%	57.3%	33.1%	27.0%	24.2%	19.4%
Net profit	21.0%	41.9%	46.1%	27.2%	24.7%	19.8%
Adj. net profit	22.0%	51.8%	33.6%	19.5%	24.7%	19.8%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	66.5%	69.7%	69.9%	69.9%	70.1%	70.2%
EBITDA margin	17.9%	19.2%	18.2%	17.6%	17.4%	17.3%
Adj. net profit margin	13.5%	14.9%	14.3%	13.0%	12.9%	12.9%
Return on equity (ROE)	21.9%	25.5%	30.3%	31.8%	33.0%	32.8%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Current ratio (x)	3.1	2.9	2.6	2.7	2.8	3.0
Receivable turnover days	10.9	5.8	14.1	14.0	14.0	14.0
Inventory turnover days	105.2	126.2	11.2	11.2	11.2	11.2
Payable turnover days	113.5	102.8	143.9	143.9	143.9	143.9

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	58.8	41.7	28.5	22.5	18.0	15.0
P/E (diluted)	58.8	41.7	28.6	22.5	18.0	15.0
P/B	11.7	9.6	7.7	6.4	5.3	4.4
Div yield (%)	0.5	0.7	1.6	2.0	2.6	3.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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