

Proya Cosmetics (603605 CH)

2Q in line with full year guidance maintained

- 2Q results came in at the high range of the preliminary financial data announcement, with revenue and net profits standing at RMB 1.37bn (+35.5% YoY) and RMB 139mn (+19.2% YoY), respectively.
- Of note, the sequentially lower revenue growth (1Q: 38.5%) was mainly dragged by a 16% decline in offline sales. Meanwhile, the continuous ASP uptick to RMB 261 in 1H22 (from RMB205 for 2021) fuelled GPM to expand to 68.6%, up 5.5pp YoY and 1.0pp QoQ.
- Despite this, 2Q net margins declined to 10.1% (vs 12.6% in 1Q), owing to approximately RMB 70mn expenses incurred for the recall and return of sunscreen serum in May. Since the event has been fully accounted for, we expect net margins to normalise to ~12% starting from 3Q.
- Management maintained its full-year guidance of 25% revenue/ net profits growth. Considering 30-40% online sales growth for 2022E, the target implies offline sales growth would remain negative throughout 2H. Separately, Proya's management has initiated a new ESOP plan in July this year with vesting condition stipulated to be no less than 25%/ 23%/ 22% revenue/ net profit growth YoY for 2022-24E. To-date, management remains confident to achieve the target.
- Management expects 3Q sales to moderate from 1H when demand in July has been pulled forward to 618. Momentum for Aug and Sep should normalise, and further edge up for Double 11.
- Repeat purchase rate and ASP are improving, thanks to the success of hero product strategy which now represents 35% of total revenue (up from 20% for 2021). Among younger brands, Timage doubled its revenue to RMB230 when Hapsode has already turned profitable. High-end hair care Off and Relax achieved breakeven.
- Our TP is currently 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	2.6	3.5	4.4
P/E (x)	n.a	n.a	44.4	33.0	25.8
P/B (x)	n.a	n.a	9.4	7.8	6.4
Yield (%)	0.4	0.5	0.7	0.9	1.2
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, CMBIS estimates

BUY (Maintain)

Target Price	RMB184
(Previous TP)	RMB184)
Up/Downside	+13.0%
Current Price	RMB162.8

China Consumer Staples – Household and Personal Care

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Stock Data

Mkt Cap (RMB mn)	52,446
Avg 3 mths t/o (RMB mn)	284.72
52w High/Low (RMB)	179.7/109.32
Total Issued Shares (mn)	281.42
Source: Wind	

Shareholding Structure

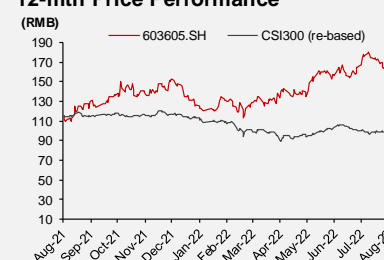
Hou Juncheng	34.7%
HKSC	23.6%
Fang Yuyou	18.1%
Source: Wind	

Share Performance

	Absolute	Relative
1-mth	-8.7%	-6.1%
3-mth	4.7%	4.1%
6-mth	24.7%	35.6%

Source: Wind

12-mth Price Performance



Source: Wind

- 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

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

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