

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%+ repeat 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 peer's) and 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) an expanding brand portfolios (AOXMED and Winona Baby), in addition to its leading Winona brand, which enables more precise customer segmentation. We initiate Botanee at 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. Management targets to achieve 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 undergoes 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. Botanee targets to achieve RMB1bn brand 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 mid-23E PEG given the fast-growth and short listing history of the company.

(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	91.3	66.2	47.6	34.2
P/B (x)	n.a	16.6	14.4	11.7	9.4
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 +29.6%
Current Price RMB195

China Consumer Staples – Household and Personal Care

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Stock Data

Mkt Cap (RMB mn)	82,428
Avg 3 mths t/o (RMB mn)	355.2
52w High/Low (RMB)	289.4/ 145.3
Total Issued Shares (mn)	424
Source: Bloomberg	

Shareholding Structure

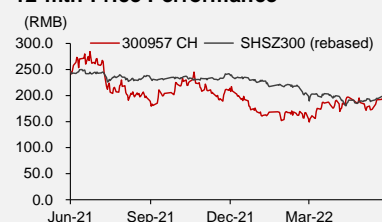
KM Nuona Tech	46.1%
TJ Hongshan Juye	18.8%
Kunming Zhenli	8.8%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	4.6%	1.0%
3-mth	25.3%	26.7%
6-mth	-9.1%	11.2%

Source: Bloomberg

12-mth Price Performance



Source: Wind

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	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
LT deferred expenses	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
Retained earnings	726	1,330	2,261	3,552	5,344
Shareholders' equity	1,202	4,778	5,708	6,996	8,785

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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