

# 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 OPM 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	net cash	net cash	net cash	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

**Joseph Wong**  
 (852) 3900 0838  
 josephwong@cmbi.com.hk

### 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%

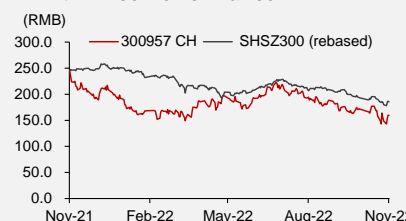
Source: Bloomberg

### 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**

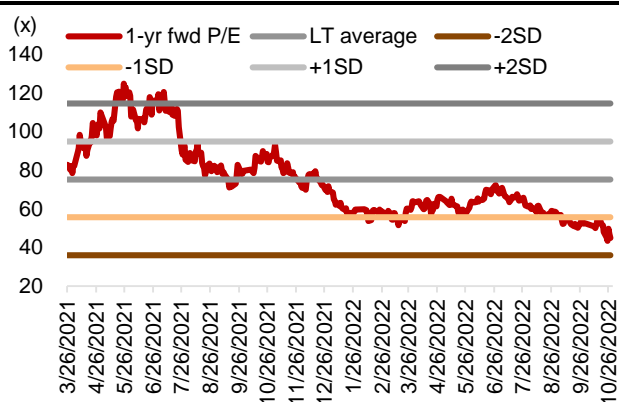
RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,445	7,204	9,282	6,062	8,368	11,582	-10.2%	-13.9%	-19.9%
Gross Profit	4,123	5,442	6,897	4,600	6,328	8,750	-10.4%	-14.0%	-21.2%
EBITDA	1,347	1,844	2,294	1,503	2,138	2,996	-10.4%	-13.8%	-23.4%
Net profit	1,173	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

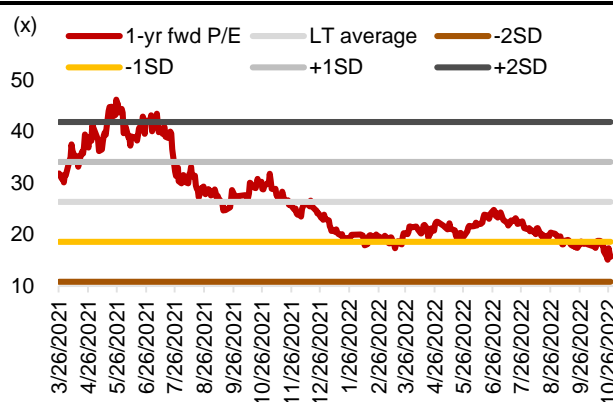
**Figure 2: CMBIGM estimates vs consensus**

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	net cash	net cash	net cash	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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.