

# Proya Cosmetics (603605 CH)

## ESOP & mgt sell-off signal growth to peak-out but relative operation excellence makes a trading Buy

Undoubtedly, Proya is on track to deliver its long-term financial target stipulated in its ESOP. On the flip side, however, this could inevitably imply growth momentum to peak-out/ fully-priced in the medium term, especially when the low hanging fruit from livestreaming is gone. We think Proya's multiple re-rating could take a pause from here. That said, considering its solid fundamentals, we are buyers of Proya, and see any compelling valuation as a good trading opportunity. In our view, for instance, Proya remains a consolidator with solid execution of its hero product strategy, which is incrementally manifesting into higher consumer stickiness (repurchase rate 35%+), stronger brand appeal (hero products are 45% of total sales) and pricing power (higher turnover at RMB280 per purchase). We also believe Proya is an emerging competitor to masstige foreign brands, if executed right, as the Company is reinvesting into the business through a multi-brand strategy (including TIMAGE, O&R, Hapsode) that looks to be even more precise in segmenting consumer demand. Maintain BUY.

- **2023 guidance maintained.** Management reiterated its 2023 growth outlook to be in line with its ESOP target at 23% YoY, with steadily improving GPM. Of note, the plan was initiated in July last year with vesting condition stipulated to be no less than 25%/ 23%/ 22% revenue/ net profit growth YoY for 2022-24E. This year, selling and R&D expense could kick-in higher along with intensifying promotional campaigns and new launches, but such is likely to be offset by a stable administration expense ratio. Net-net, we expect a small increase in net margins.
- **Management shares disposal plan.** Management mentioned that there will be upcoming senior management shares disposal from Chairman (Mr. Hou) and GM (Mr. Fang), each selling no more than 1.5% of Proya's total shares. Meanwhile, deputy GM (Mr. Jin) and deputy board secretary (Ms. Wang) plan to sell no more than 25% of their own shares.
- **Earnings change.** To reflect the latest 1Q results, we raise each of our 2023/24E revenue by approximately 8%. We also lift our GPM by 0.9/0.2 pp, respectively, but our net profits are barely moving given a higher effective tax rate. We introduce our 2025E forecasts.
- **Valuation.** Our revised TP is based on 51.0x mid-24E P/E which now represents long-term average (from +1 sd above) since 2019. This was the period when the market began to re-rate Proya in view of the rise of domestic brands, and subsequently a timely online migration amid COVID-19.

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,633	6,385	7,976	9,830	12,035
YoY growth (%)	23.5	37.8	24.9	23.2	22.4
Net income (RMB mn)	627	951	1,011	1,256	1,547
EPS (RMB)	2.8	2.9	3.6	4.4	5.5
YoY growth (%)	18.8	2.6	23.7	24.2	23.1
Consensus EPS (RMB)	n.a	n.a	3.5	4.4	7.3
P/E (x)	n.a	n.a	45.3	36.4	29.6
P/B (x)	n.a	n.a	10.7	8.8	7.2
Yield (%)	0.5	0.5	0.7	0.8	1.0
ROE (%)	21.8	27.0	23.6	24.1	24.3
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	RMB204.0
(Previous TP)	RMB184.0)
Up/Downside	+26.3%
Current Price	RMB161.5

### China Consumer

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### Stock Data

Mkt Cap (RMB mn)	46,324
Avg 3 mths t/o (RMB mn)	284.33
52w High/Low (RMB)	195.4/ 130.6
Total Issued Shares (mn)	283.5

Source: Wind

### Shareholding Structure

Hou Juncheng	34.7%
HKSC	23.6%
Fang Yuyou	18.1%

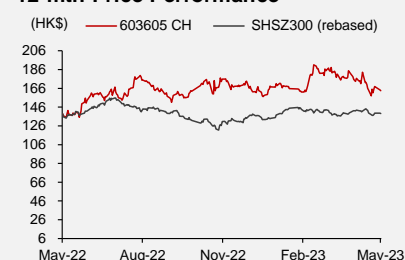
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-7.5%	-4.7%
3-mth	0.3%	4.2%
6-mth	-7.7%	-12.7%

Source: Wind

### 12-mth Price Performance



Source: Wind

1. [Proya Cosmetics \(603605 CH\) – 1Q in line: 2023 guidance maintained](#) – 21 Apr 2023
2. [Proya Cosmetics \(603605 CH\) – 3Q a small beat: but the implied 4Q numbers look unexciting given the current guidance](#) – 18 Oct 2022
3. [Proya Cosmetics \(603605 CH\) – 2Q in line with full year guidance maintained](#) – 26 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**

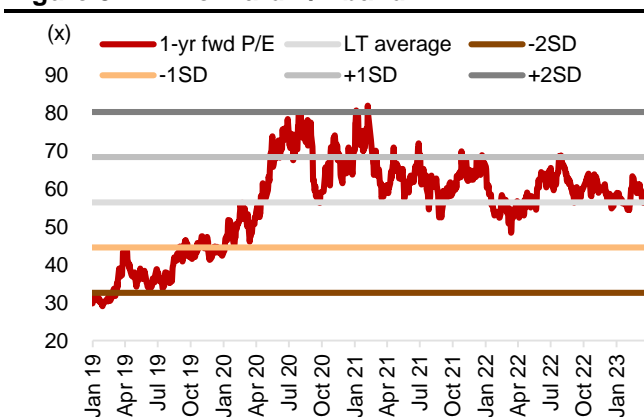
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,976	9,830	12,035	7,337	9,181	NA	8.7%	7.1%	NA
Gross Profit	5,627	6,990	8,615	5,109	6,510	NA	10.1%	7.4%	NA
EBIT	1,441	1,782	2,178	1,285	1,637	NA	12.2%	8.9%	NA
Net profit	1,011	1,256	1,547	976	1,249	NA	3.6%	0.6%	NA
Gross Margin	70.6%	71.1%	71.6%	69.6%	70.9%	NA	0.9ppt	0.2ppt	NA
EBIT Margin	18.1%	18.1%	18.1%	17.5%	17.8%	NA	0.6ppt	0.3ppt	NA
Net margin	12.7%	12.8%	12.9%	13.3%	13.6%	NA	-0.6ppt	-0.8ppt	NA

Source: Company data, CMBIGM estimates

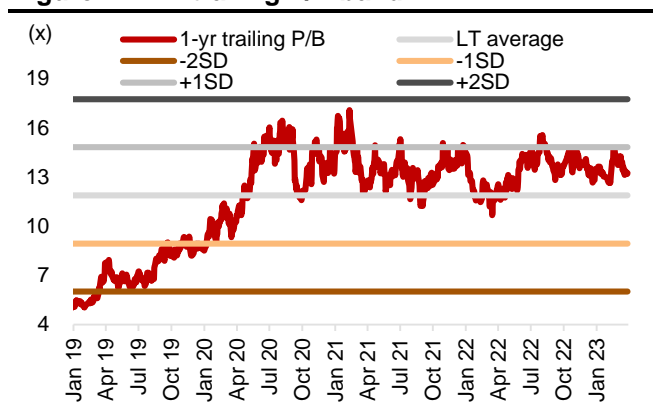
**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,976	9,830	12,035	7,783	9,634	12,159	2.5%	2.0%	-1.0%
Gross Profit	5,627	6,990	8,615	5,332	6,690	8,512	5.5%	4.5%	1.2%
EBIT	1,369	1,694	2,069	1,227	1,539	2,034	11.6%	10.0%	1.7%
Net profit	1,011	1,256	1,547	1,004	1,262	1,724	0.7%	-0.4%	-10.3%
Gross Margin	70.6%	71.1%	71.6%	68.5%	69.4%	70.0%	2ppt	1.7ppt	1.6ppt
EBITs margin	17.2%	17.2%	17.2%	15.8%	16.0%	16.7%	1.4ppt	1.3ppt	0.5ppt
Net margin	12.7%	12.8%	12.9%	12.9%	13.1%	14.2%	-0.2ppt	-0.3ppt	-1.3ppt

Source: Company data, CMBIGM estimates

**Figure 3: 12M forward P/E band**

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 4: 12M trailing P/B band**

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>4,633</b>	<b>6,385</b>	<b>7,976</b>	<b>9,830</b>	<b>12,035</b>
Skincare and cleanser	3,978	4,893	6,019	7,343	8,958
Makeup	618	1,436	1,894	2,414	3,001
<b>Gross profit</b>	<b>3,079</b>	<b>4,451</b>	<b>5,627</b>	<b>6,990</b>	<b>8,615</b>
D&A	(96)	(70)	(72)	(89)	(109)
Selling expense	(1,992)	(2,786)	(3,629)	(4,522)	(5,596)
Administration expenses	(237)	(327)	(399)	(491)	(602)
Other operating expenses	(21)	(114)	(158)	(195)	(239)
<b>EBIT</b>	<b>733</b>	<b>1,153</b>	<b>1,369</b>	<b>1,694</b>	<b>2,069</b>
<b>EBITDA</b>	<b>829</b>	<b>1,223</b>	<b>1,441</b>	<b>1,782</b>	<b>2,178</b>
Finance costs, net	7	6	4	4	4
Other income/(expense)	(161)	(171)	(138)	(166)	(188)
Non-operating	(7)	(4)	(3)	-	-
<b>Pre-tax profit</b>	<b>668</b>	<b>1,054</b>	<b>1,304</b>	<b>1,620</b>	<b>1,995</b>
Income tax	(111)	(223)	(276)	(343)	(422)
Less: Minority interests	(19)	14	17	21	26
<b>Net profit</b>	<b>627</b>	<b>951</b>	<b>1,011</b>	<b>1,256</b>	<b>1,547</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net income</b>	<b>557</b>	<b>831</b>	<b>1,029</b>	<b>1,278</b>	<b>1,573</b>
D&A	96	70	72	89	109
Change in working capital	70	(123)	(78)	(574)	(192)
Others	107	333	18	(0)	(6)
<b>Net cash fr. operating act.</b>	<b>830</b>	<b>1,111</b>	<b>1,040</b>	<b>792</b>	<b>1,484</b>
Capex & investments	(194)	(171)	(214)	(263)	(322)
Investments	(70)	(131)	(51)	(63)	(77)
Others	(78)	0	-	-	-
<b>Net cash fr. investing act.</b>	<b>(342)</b>	<b>(302)</b>	<b>(264)</b>	<b>(326)</b>	<b>(399)</b>
Equity raised	1	1	-	-	-
Change of Debts	648	-	(63)	(13)	(13)
Dividend paid	(154)	(183)	(275)	(340)	(420)
Others	(5)	117	0	0	0
<b>Net cash fr. financing act.</b>	<b>490</b>	<b>(65)</b>	<b>(338)</b>	<b>(353)</b>	<b>(434)</b>
<b>Net change in cash</b>	<b>977</b>	<b>744</b>	<b>438</b>	<b>113</b>	<b>652</b>
Cash at the beginning of the	1,417	2,391	3,161	3,599	3,713
Exchange difference	(1)	(1)	-	-	-
<b>Cash at the end of the year</b>	<b>2,393</b>	<b>3,134</b>	<b>3,599</b>	<b>3,713</b>	<b>4,364</b>
Less: pledged cash	(2)	27	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	<b>1,474</b>	<b>1,631</b>	<b>1,823</b>	<b>2,060</b>	<b>2,351</b>
PP&E/Fixed assets	559	570	730	925	1,160
Net intangibles	397	420	453	495	550
Total current assets	109	207	207	207	207
Other non-current assets	409	433	433	433	433
<b>Current assets</b>	<b>3,159</b>	<b>4,147</b>	<b>4,732</b>	<b>5,579</b>	<b>6,611</b>
Cash	2,391	3,161	3,599	3,713	4,364
Account receivable	139	102	84	619	758
Prepayments	58	91	112	135	162
Inventory	448	669	799	958	1,155
Other current assets	123	123	138	154	172
<b>Current liabilities</b>	<b>1,025</b>	<b>1,428</b>	<b>1,469</b>	<b>1,637</b>	<b>1,833</b>
Borrowings	200	200	150	150	150
Accounts payable	483	545	579	700	843
Other payables	252	530	587	634	686
Tax payables	90	153	153	153	153
<b>Non-current liabilities</b>	<b>721</b>	<b>813</b>	<b>813</b>	<b>813</b>	<b>813</b>
Borrowings	-	-	-	-	-
Deferred tax liabilities	11	59	59	59	59
Other non-current liabilities	710	754	754	754	754
Minority Interest	10	13	(4)	(26)	(52)
<b>Total net assets</b>	<b>2,887</b>	<b>3,537</b>	<b>4,274</b>	<b>5,190</b>	<b>6,316</b>
<b>Shareholders' equity</b>	<b>2,877</b>	<b>3,524</b>	<b>4,278</b>	<b>5,216</b>	<b>6,368</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Skincare and cleanser	85.9	76.6	75.5	74.7	74.4
Makeup	13.3	22.5	23.7	24.6	24.9
<b>P&amp;L ratios (%)</b>					
Gross margin	66.5	69.7	70.6	71.1	71.6
Operating margin	15.8	18.1	17.2	17.2	17.2
Pre-tax margin	14.4	16.5	16.4	16.5	16.6
Net margin	13.5	14.9	12.7	12.8	12.9
Effective tax rate	(16.6)	(21.1)	(21.1)	(21.1)	(21.1)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.8	0.8	0.8	0.7	0.7
Net receivable days	11	6	4	23	23
Net payable days	113	103	90	90	90
Inventory turnover days	105	126	124	123	123
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
<b>Returns (%)</b>					
ROE	21.8	27.0	23.6	24.1	24.3
ROA	13.5	16.5	15.4	16.4	17.3
Dividend yield	n.a	n.a	0.6	0.8	1.0
<b>Per share</b>					
EPS (RMB)	2.8	2.9	3.6	4.4	5.5
DPS (RMB)	0.9	0.9	1.1	1.3	1.6
BVPS (RMB)	14.4	12.5	15.1	18.3	22.3

Source: Company data, CMBIGM estimates

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