

China cosmetics

The crown jewel of the consumption spectrum; initiate Botanee/ Proya/ Jahwa with Buy

On a two-year stack basis, the unceasing pursuit of beauty has numerically manifested into an unweathered 34% cosmetic sales growth that stood out from a 7% in China retail sales growth. The outperformance has been underpinned by shifts in buying behavior from offline to online marketplace, and further to live-streaming (LS) showcase. Complimentary to the double migrations has been the introduction of hero product strategy, which, in our view, looks to be the last puzzle to cement the “products-channels-customers” tangle and incubate a cRMB650bn cosmetic market by 2024E. In our view, several home-grown champions will be able to deliver an industry-beating 15-42% net profit CAGR on back of their respective winning formulae. For instance, Botanee is a niche play in the fast-growing sensitive skin segment in which we see no parallels to its clinical research franchise among its cosmetic peers. Proya is a successful first-mover of online distribution and its hero product strategy is now bearing fruit. Separately, Jahwa is amidst of its business turn-around with fresh product cycles, despite any short-lived hurdles in its channel restructuring. We initiate these with BUY, and we rank Botanee and Proya as our preferred picks.

- Channel.** Migration to LS is ongoing and cosmetics was ranked the Top 2 category in 2021 LS e-commerce. We think LS is a natural fit to cosmetic sales as it enables demonstration that facilitates impulsive buying. Our internet analyst forecasts the channel to grow at a 25.5% 2021-25E CAGR, backed by: 1) deeper penetration to 79% with 805mn active users; 2) rising ARPU.
- Product/ strategy.** The hero product strategy has been effective to target ingredient-obsessive consumers who pay increasing attention to product functions. More generous customer wallets also enable better-defined segmentation which sets stage for the rise of dermocosmetic products.
- Customer.** The Gen Z is a clear driving force of the current consumption trend. They are young and affluent, internet-native and ingredient-alertive. Relative to their parents, they save less and have higher purchase frequency, and particularly more indulged with domestic brands. Their generous wallets are key to sustain “Guochao” which we consider a tailwind to domestic brands.
- Valuation.** Our TP for Botanee is based on 2.0x PEG given its fast growth and short listing history. Our TP for Proya is based on +1sd above its average valuation, while that of Jahwa is based on its average, as we attempt to reflect the former’s premium underpinned by the success of the hero product strategy and more effective live-streaming distribution. We start the average valuations from 2019, when the market began to re-rate these stocks, in our view, on 1) the growing preference to local brands “Guochao”, and 2) a timely online migration when offline traffic was much jeopardized by the COVID outbreak.

Name	Ticker	Rating	Mkt Cap (US\$ mn)	TP (LC)	Upside/Downside	P/E (x) FY22E	P/B (x) FY22E	P/B (x) FY23E	ROE (%) FY22E
Botanee	300957CH	BUY	13,443	251	17.8%	72.7	15.8	12.9	21.7
Proya	603605CH	BUY	6,565	184	17.5%	43.5	9.2	7.6	21.4
Jahwa	600315CH	BUY	3,909	42.6	19.6%	36.3	3.5	3.3	9.7

Source: Company data, Bloomberg, CMBIGM estimates

MARKET PERFORM (Initiation)

China Consumer Staples – Household and Personal Care

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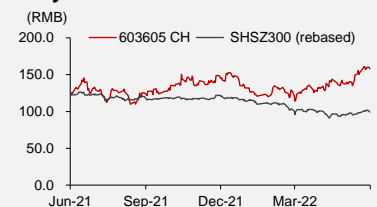
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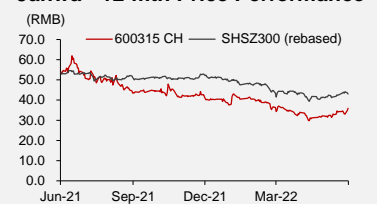
Botanee - 12-mth Price Performance



Proya - 12-mth Price Performance



Jahwa - 12-mth Price Performance



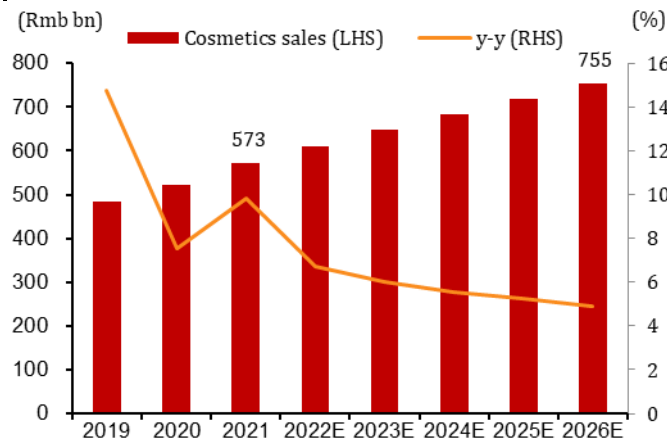
Source: Bloomberg

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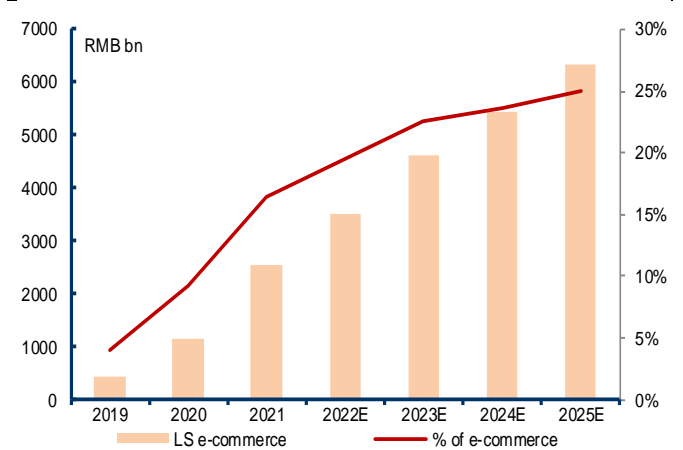
Focus Charts

Figure 1: China cosmetic sales forecasts



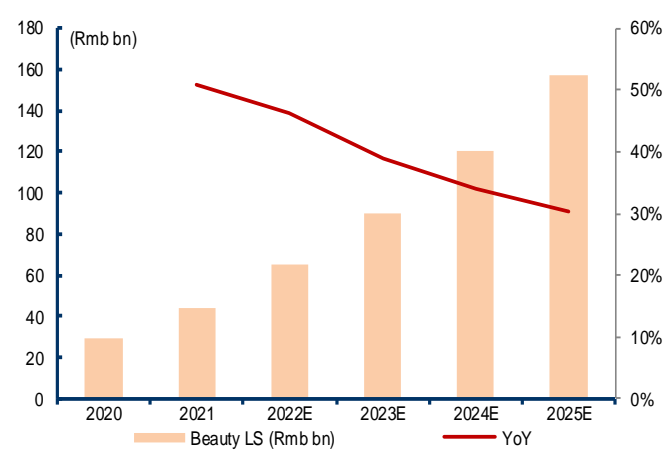
Source: Euromonitor, CMBIGM research

Figure 2: China LS e-commerce forecasts



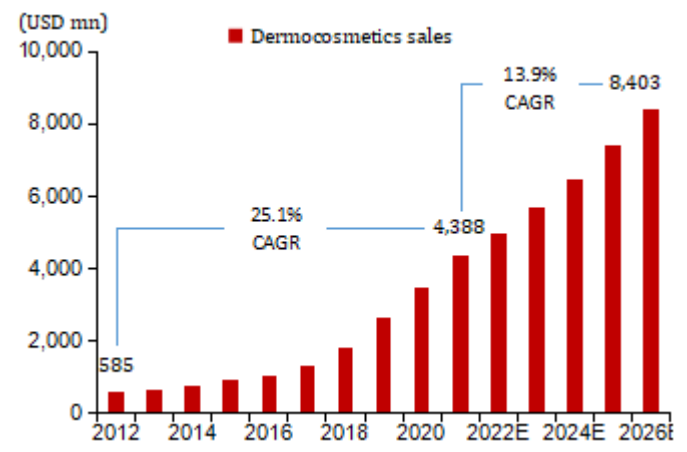
Source: iiMedia, NBS, CMBIGM estimates

Figure 3: Beauty LS market size 2022-25E



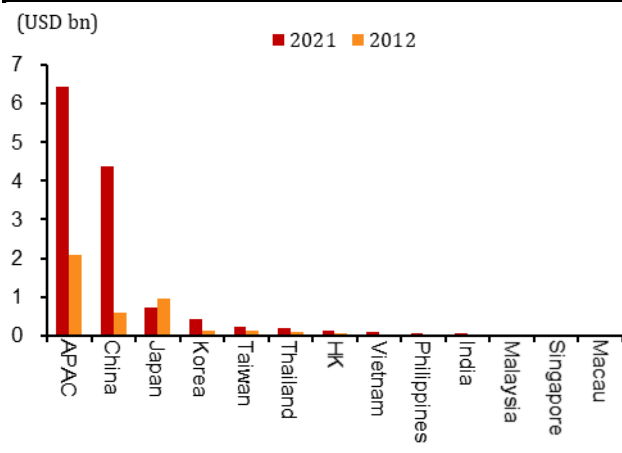
Source: Euromonitor, CMBIGM estimates

Figure 4: Dermocosmetics market to double by 2026



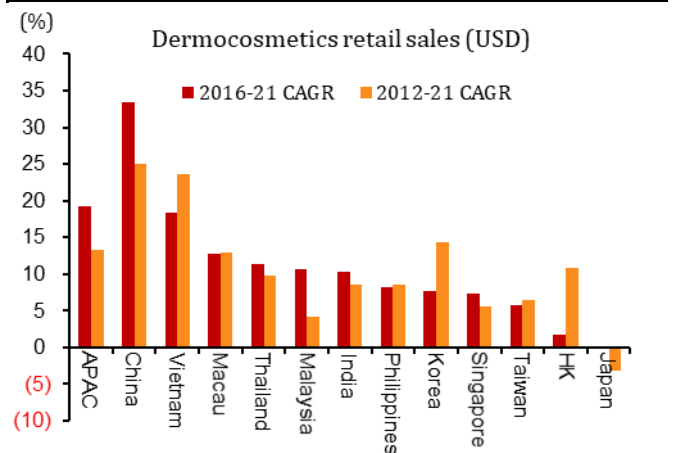
Source: Euromonitor, CMBIGM research

Figure 5: China is the largest dermocosmetics market in Asia



Source: Euromonitor, CMBIGM research

Figure 6: ... and offered the fastest growth among its Asian peers



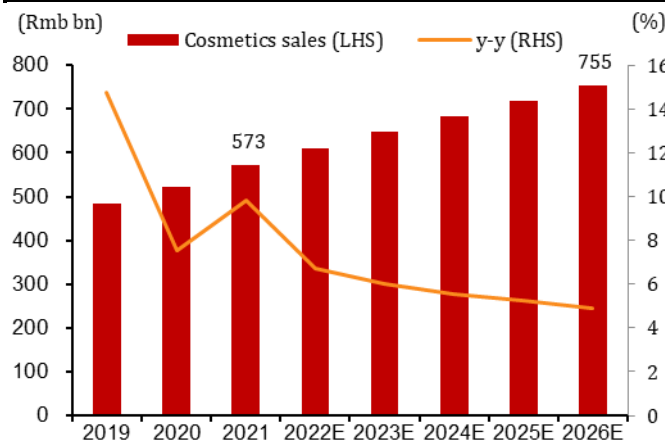
Source: Euromonitor, CMBIGM research

Investment summary

On a two-year stack basis, the unceasing pursuit of beauty has numerically manifested into an unweathered 34% cosmetic sales growth that stood out from a 7% in China retail sales growth. The outperformance has been underpinned by shifts in buying behavior from offline to online marketplace, and further to live-streaming (LS) showcase.

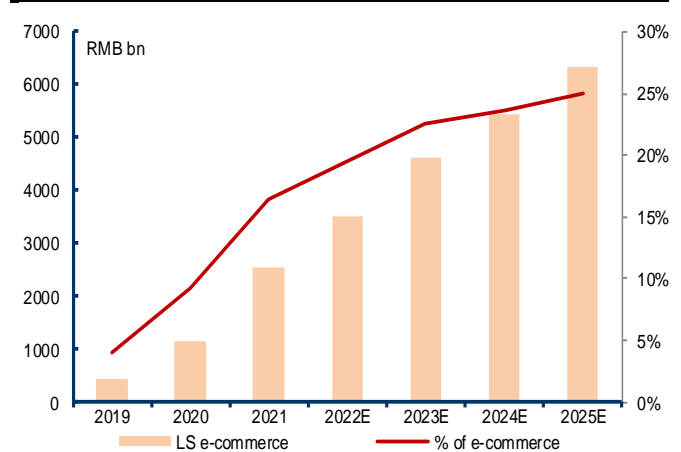
Complimentary to the double migrations has been the introduction of hero product strategy, which, in our view, looks to be the last puzzle to cement the “products-channels-customers” tangle and incubate a cRMB650bn cosmetic market by 2024E.

Figure 7: China cosmetic sales forecasts



Source: Euromonitor, CMBIGM research

Figure 8: China LS e-commerce forecasts



Source: iiMedia, NBS, CMBIGM research

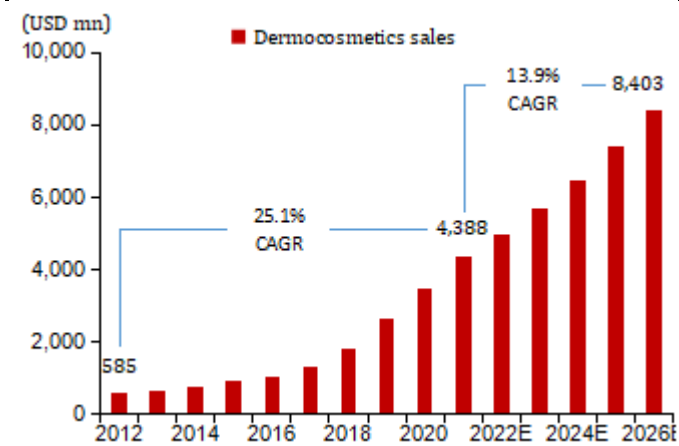
Channel - Beauty LS e-commerce to gain traction

- **LS ecommerce share gain to continue, with 25% CAGR in 2021-2025.** In 2021, live-streaming GMV grew by 120% YoY to RMB2.6tn, implying 17% share in e-commerce, according to iiMedia and our estimate. With its vibrant content and higher time user spent on short videos, we expect this momentum to continue. We expect LS e-commerce market to reach RMB6.3tn in 2025, or 25% penetration of e-commerce, implying 25.5% 2021-25E CAGR, backed by: 1) deeper penetration: forecasting LS e-commerce user penetration up to 79% in 2025, reaching 805mn users (vs. 544mn in 2021); and 2) rising ARPU.
- **Beauty LS e-commerce mkt size at 37% CAGR in 2021-25E, up to 40% share.** We forecast China's beauty LS e-commerce market to reach RMB157.4bn by 2025, or 40% of cosmetics online sales. This implies 37% 2021-25E CAGR, driven by 12% LS e-commerce user CAGR and 23% ARPU CAGR, given that: 1) this vertical is still under-penetrated compared to that of live-streaming and online shopping, and 2) China's consumption in cosmetics per capita lags behind developed countries, indicating potential ARPU improvement.

Product and strategy – the rise of dermocosmetics in China; Hero product strategy is key to success

- Albeit any global franchises like L’Oreal’s Proxylane™ or SK-II’s Pitera™, Chinese brands like Botanee have their own ways to create another local miracle with their own competences. More accurate segmentation and increasing spending power of female consumers, or particularly a more generous wallet of sensitive-skin consumers gives rise to a doubled dermocosmetics market size in five years, as Euromonitor projects.
- Hero products are brand-aligned products that communicate a brand’s message and values to the market. A hero product was first a very popular product at a time. Eventually, a popular product could evolve to be a hero product if the brand is able to keep the SKU ‘relevant’ by constantly updating and upgrading over time. Apple’s iPhone, Levi’s 501 jeans and Microsoft’s Window are good examples to showcase how a once popular product evolves to be a hero product, and how a hero product would help associate with a brand in consumers’ mind. The strategy, however, is not entirely new in the cosmetic industry, and has been a key success factor to multiple global brands.

Figure 9: Skincare still offers the fastest growth among cosmetic subsegment



Source: Euromonitor, CMBIGM research

Figure 10: Factors affecting Gen Z’s cosmetic purchase decision



Source: Company data, CMBIGM research

Customer – the five characteristics of Generation Z

Generation Z (a.k.a Gen Z) refers to those who were born in 1995-2009 and currently aged 12-28. China’s Gen Z grew up in a much more affluent macroeconomic environment, with notably improved life quality, compared to their parents. Speaking of cosmetics spending, Gen-Z are mainly young women who are less savings-cautious, internet savvy, brand-diversified and ingredient-obsessive. Based on mUserTracker, the number of gen Z internet users reached 380mn in July 2020, accounting for 27% of the total number of mobile Internet users in China, and they spent on average 5+ hours online per day. Meanwhile, both shopping experience and product attributes such as quality, uniqueness, differentiation are the key factors to consider when they make their purchases.

Our stock picks – Botanee and Proya; and we also like Jahwa

- **Botanee (300957 CH, BUY, TP RMB251) - A niche play that sees growth from brand incubation and its 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 (backed 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%+ repeated online purchase) and hence a better margins-skimming ability (75%+ GPM). We regard Botanee as a rare investment opportunity that offers quasi-protection to further lockdowns (85%+ online sales mix), and upside potential if consumption sentiment flips. Botanee also checks all the boxes for a Star company with high growth (10pp+ above peer's), and high margins (75%+ GPM vs 60-68% of major peers). 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) expanding brand portfolios (AOXMED and Winona Baby), in addition to its leading Winona brand, which enables more precise customer segmentation. We initiate Botanee with BUY, and the stock is our sector top pick along with Proya.
- **Proya (603605 CH, BUY, TP RMB184) - On track to synergize its R&D franchise, Hero Product strategy and live-streaming distribution**

With warehouse spreading across Hangzhou, Chengdu, Guangzhou and 85% of sales deriving from ecommerce platforms, Proya, in our view, is relatively less impacted by recent lockdowns in Shanghai and Beijing. On the other hand, the expense related to the recall for sunblocker could have weighted on Proya's 2Q performance. That said, considering a solid 618 sales momentum and a more controlled promotional expense (to intentionally buffer for the recall), we think Proya is on track to deliver a 2Q that is inline with its full year guidance. Longer term, we are convinced that Proya's 1) hero product strategy, 2) deepening ecommerce platforms penetration, and 3) proprietary R&D capability, will not only enable the company to persistently manage through the pandemic cycles (as it has been since early 2020), but also serves as the winning combo to sustain market share gain. We project an industry-beating 26% 3-year revenue CAGR for 2021-24E, underpinned by 31% growth in its online business, along with a 1.3pp GPM expansion p.a. We initiate Proya with BUY. Proya is our top pick along with Botanee.
- **Shanghai Jahwa (600315 CH, BUY, TP RMB46.2) - Channel disruption a temporary setback; mix upgrade and e-commerce ramp-up boost GPM**

2Q22 could represent a challenging quarter to Jahwa owing to the headwinds in production and supply-chain hiccups in Shanghai, PingAn channel restructuring as well as disruption to the KOL live-streaming strategy. That said, we see scope for a meaningful sequential recovery in 2H, thanks to 1) the gradual easing of Shanghai's pandemic control since early May, when Jahwa obtained necessary authority approval to resume close-door operation with sufficient raw material supply, 2) the continuous ramp-up of in-house livestreaming bandwidth in terms of both brand and platform extension (Dr. Yu/ Maxam on Tik Tok/ Kuaishou etc); 3) improving sales mix that gravitates towards higher-margin skincare products with occasionally new debuts (Dr Yu's sunblocker/ Herborist's Tai Chi series) at level-up pricing. In our model, these drivers are manifested into a 8% 3-year revenue CAGR with 1pp gross margins expansion p.a., leading to a 16% net profits CAGR over 2022-24E. We look forward to seeing the new management team to further unlock shareholder value and this, in our view, will remain the key catalyst to re-rate Jahwa at par to its peers. We initiate Jahwa with BUY.

Valuations – premiums, methodology and comps

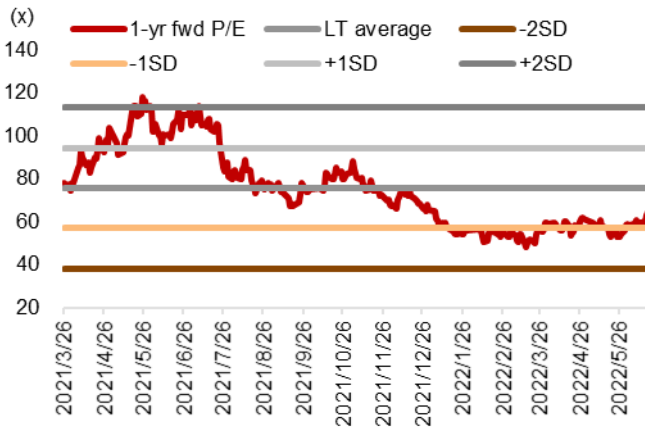
- **A well-justified premium.** Cosmetics brand owners are trading well above other subsegments such as Food and Beverage, household and personal care, as well as cosmetics distributors, on the back of their unweathered high growth manifested from the high online sales representation, the efficient live-streaming customer reach-out and brand value accretion amid “Guochao”.
- **Stock valuation methodology.** Our TP for Botanee is based on 2.0x PEG given its fast growth and short listing history. Our TP for Proya is based on +1sd above its average valuation, while that of Jahwa is based on its average valuation, as we attempt to reflect the former’s premium underpinned by the success of the hero product strategy and live-streaming distribution.
- **Our valuation average starts from 2019.** Cosmetic companies were significantly re-rated since 2019 on the rise of patriotic spending (Guochao) which have been generously supported by the tech-savvy Gen-Z consumers. The trend was simultaneously compounded by the rapid and timely e-commerce migration when COVID swept through China and jeopardised offline consumption traffic in 2020.

Figure 11: China Consumer staples valuation summary

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/ Downside	Mkt. Cap (US\$ mn)	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
CR Beer	291 HK	BUY	71.0	51.3	38.5%	21,181	38.4	33.9	5.3	4.8	14.1	14.7
Tsingtao Beer	168 HK	BUY	86.0	70.0	22.9%	12,166	23.7	20.9	3.2	2.9	13.6	14.1
Budweiser APAC	1876 HK	BUY	28.0	20.7	35.3%	34,923	31.4	26.3	3.0	2.8	9.8	10.9
Yili	600887 CH	BUY	47.0	37.9	24.0%	36,139	22.9	19.6	4.5	4.3	21.1	23.2
Mengniu	2319 HK	BUY	57.0	35.6	60.3%	17,909	19.1	15.7	2.8	2.5	12.0	13.2
China Feihe	6186 HK	BUY	14.0	8.6	63.4%	9,722	8.0	6.8	3.6	3.6	41.8	44.0
Nongfu Spring	9633 HK	BUY	53.0	42.7	24.3%	61,105	58.8	49.5	17.1	14.3	29.1	28.8
Smooore	6969 HK	BUY	25.2	19.7	28.2%	15,023	27.5	17.2	4.7	4.0	19.9	27.2
RELX	RLX US	BUY	2.5	2.3	6.5%	3,632	12.7	11.8	1.4	1.2	9.2	9.1
CTGDF	601888 CH	BUY	232.0	197.0	17.8%	57,306	39.5	27.5	10.6	8.4	26.9	30.5
Botanee	300957 CH	BUY	251.0	213.0	17.8%	13,443	72.7	52.2	15.8	12.9	21.7	24.7
Proya	603605 CH	BUY	184.0	156.6	17.5%	6,565	43.5	32.3	9.2	7.6	21.4	24.0
Jahwa	600315 CH	BUY	46.2	38.6	19.6%	3,909	36.3	31.0	3.5	3.3	9.7	10.5
WH Group	288 HK	NR	n.a.	5.6	n.a.	9,169	6.3	6.1	0.9	0.8	14.1	13.4
Haitian	603288 CH	NR	n.a.	83.7	n.a.	57,785	52.0	44.1	13.5	11.0	26.3	25.7
Want Want	151 HK	NR	n.a.	7.4	n.a.	11,142	15.1	13.8	3.9	3.5	25.7	25.3
Tingyi	322 HK	NR	n.a.	12.5	n.a.	8,984	15.6	13.1	3.0	2.9	19.9	24.8
Uni-President	220 HK	NR	n.a.	6.3	n.a.	3,461	14.6	12.9	1.6	1.6	11.1	12.6
Zhouheiya	1458 HK	NR	n.a.	4.3	n.a.	1,290	25.5	15.6	1.9	1.7	6.5	10.5
Juewei	603517 CH	NR	n.a.	49.9	n.a.	4,570	31.2	24.0	4.7	4.0	15.2	16.9
Moutai	600519 CH	NR	n.a.	1,942.0	n.a.	363,463	39.1	33.4	10.7	9.0	27.8	27.4
Wuliangye	000858 CH	NR	n.a.	183.5	n.a.	106,114	26.1	22.4	6.1	5.3	23.8	23.7

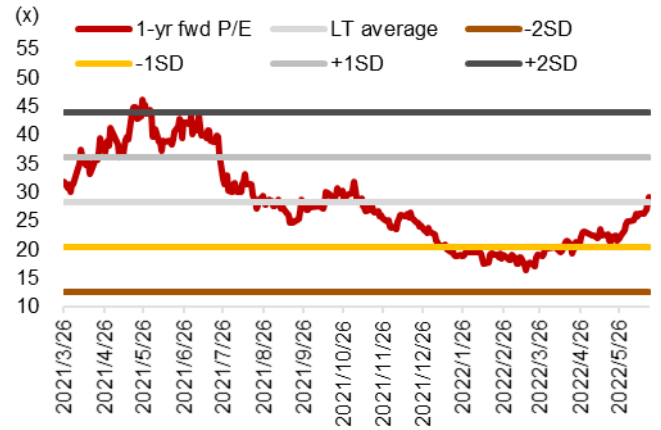
Source: Company data, Wind, CMBIGM estimates

Figure 12: Botanee - 12M forward P/E band



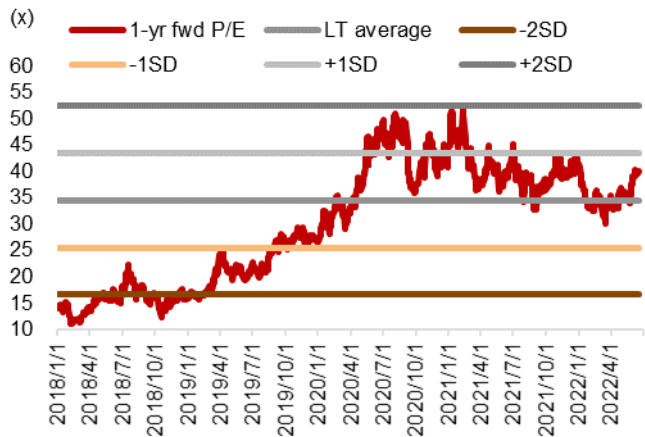
Source: Company data, Bloomberg, CMBIGM estimates

Figure 13: Botanee - 12M trailing P/B band



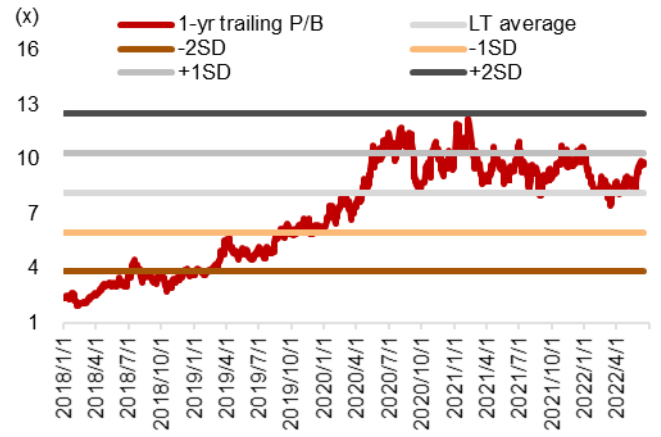
Source: Company data, Bloomberg, CMBIGM estimates

Figure 14: Proya - 12M forward P/E band



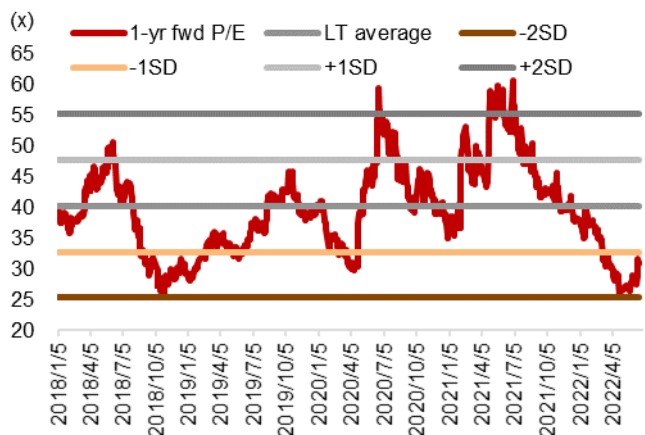
Source: Company data, Bloomberg, CMBIGM estimates

Figure 15: Proya - 12M trailing P/B band



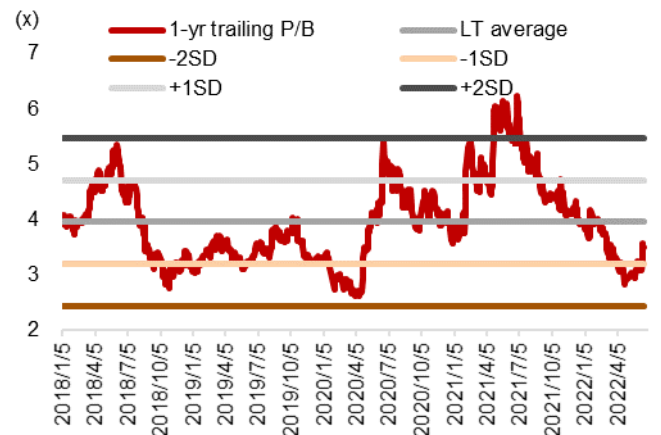
Source: Company data, Bloomberg, CMBIGM estimates

Figure 16: Jahwa - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 17: Jahwa - 12M trailing P/B band



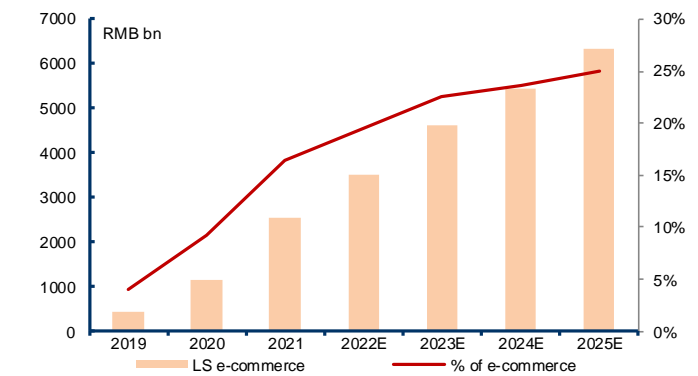
Source: Company data, Bloomberg, CMBIGM estimates

Channel - Beauty LS e-commerce to gain traction

Suring on the rising live-streaming e-commerce penetration

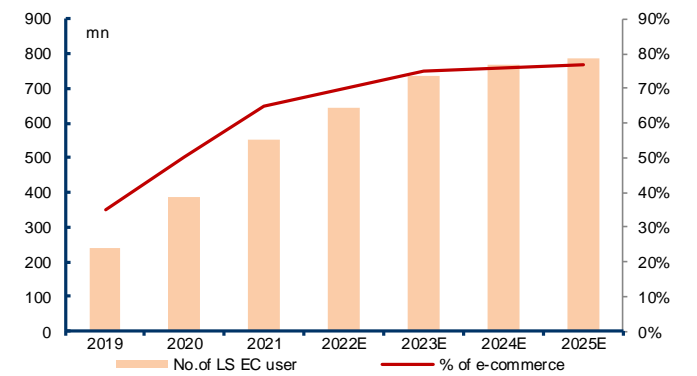
- LS ecommerce share gain to continue, with 25% CAGR in 2021-2025.** In 2021, live-streaming GMV grew by 120% YoY to RMB2.6tn, implying 17% share in e-commerce, according to iiMedia and our estimate. With its vibrant content and higher time user spent on short videos, we expect this momentum to continue. We expect LS e-commerce market to reach RMB6.3tn in 2025, or 25% penetration of e-commerce, implying 25.5% 2021-25E CAGR, backed by: 1) deeper penetration: forecasting LS e-commerce user penetration up to 79% in 2025, reaching 805mn users (vs. 544mn in 2021); and 2) rising ARPU.

Figure 18: Market size of live-streaming e-commerce



Source: iiMedia, NBS, CMBIGM estimate

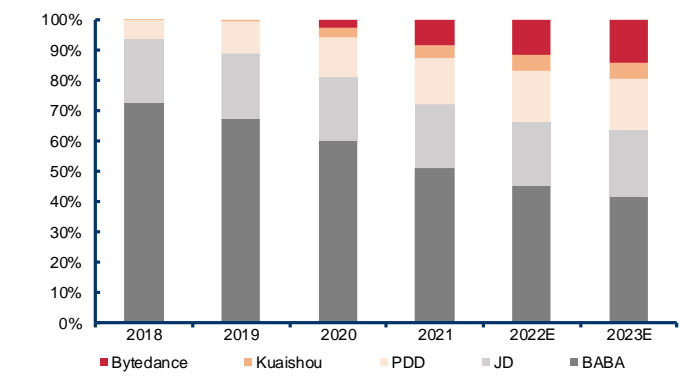
Figure 19: LS e-commerce user growth



Source: CNNIC, NBS, CMBIGM estimate

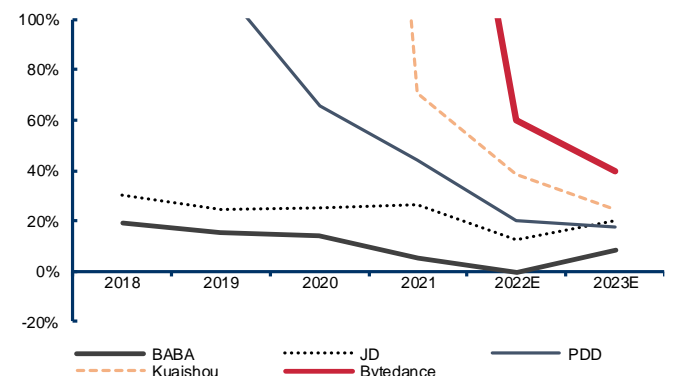
- Short video outperforms on vibrant content, algorithm edge and higher time spent.** Among ecommerce players, short video platforms (Douyin + Kuaishou) continuously gained share, with >17% mkt share of China's e-commerce in FY22E (by GMV, in our estimates), while BABA share declined to <50%. We believe short video excelled itself on highly-engaged traffic, effective conversion with powerful distribution algorithm, attractive price and KOL community. BABA would further balance its KOL concentration and leverage its supply chain advantage on LS commerce.

Figure 20: Short videos to gain GMV share



Source: Company data, CMBIGM estimates

Figure 21: GMV growth for top platforms

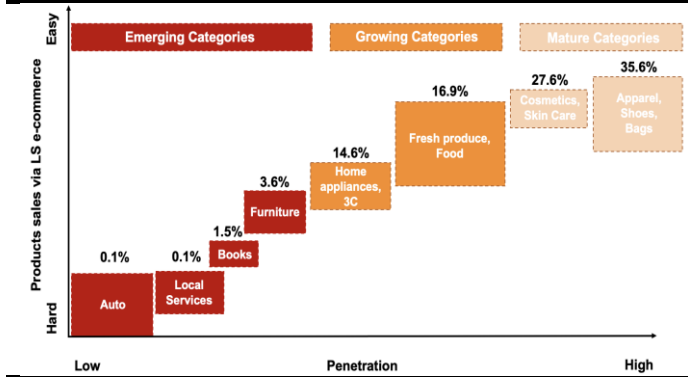


Source: Company data, CMBIGM estimates

Cosmetics as critical category in LS e-commerce

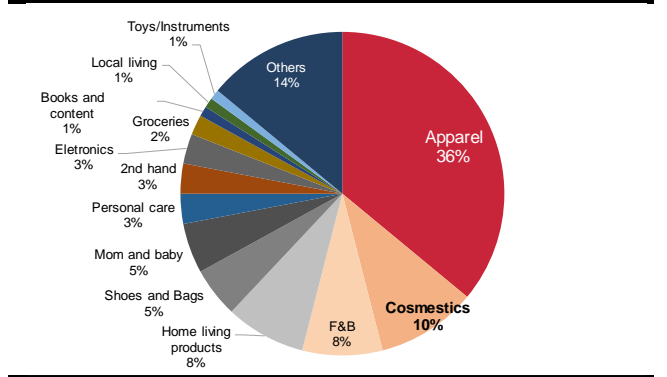
- Beauty & Cosmetics as top 2 category in LS e-commerce.** According to CIECC, cosmetics (27.6%) is the TOP2 live streaming category behind apparel (35.6%). We believe beauty & cosmetics is fit for live streaming, attributable to high frequent product launch cycle, higher ASP and margin relative to other categories.

Figure 22: LS e-commerce categories, with cosmetics ranking 2nd among all



Source: CIECC, CMBIGM

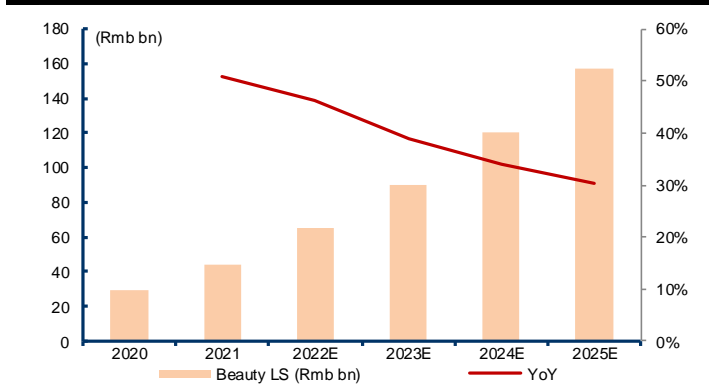
Figure 23: Cosmetics accounted for ~10% of Douyin LS e-commerce GMV in 2021



Source: Feigua, CMBIGM

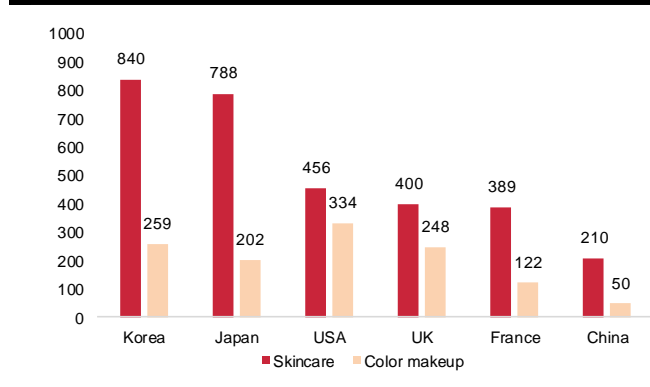
- Beauty LS e-commerce mkt size at 37% CAGR in 2021-25E, up to 40% share.** We forecast China's beauty LS e-commerce market will reach RMB157.4bn by 2025, or 40% of cosmetics online sales. This implies 37% 2021-25E CAGR, driven by 12% LS e-commerce user CAGR and 23% ARPU CAGR, given that: 1) this vertical is still under-penetrated compared to that of live-streaming and online shopping, and 2) China's consumption in cosmetics per capita lags behind developed countries, indicating potential ARPU improvement.

Figure 24: Mkt size of beauty LS e-commerce



Source: CMBIGM estimate

Figure 25: Consumption in cosmetics per capita

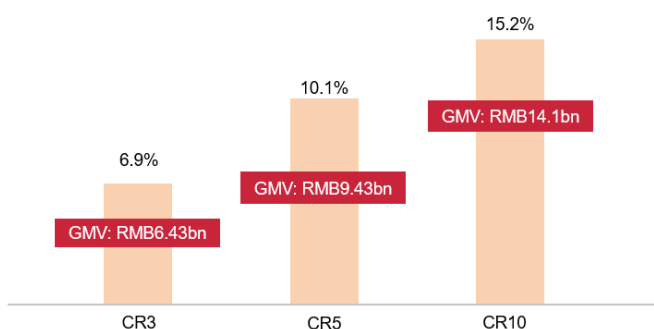


Source: Euromonitor, CMBIGM

Eyes on rise of domestic brands engaging in livestreaming

- Market still fragmented from brand side.** According to Guoji 2021 data, beauty LS e-commerce mkt was fragmented from brand side, with CR3/CR5/CR10 contributing 7%/10%/15% GMV in Douyin & Kuaishou.
- Stronger livestreaming demand from local brands, than MNC.** Among beauty brands, domestic players present stronger engagement in livestreaming, and meanwhile deliver better performance. For instance, 18 of TOP20 brands in Douyin & Kuaishou (by GMV in 2021) are local brands (e.g. Dora Dosun<朵拉朵尚>, Florasis<花西子>). Most local brands have an official presence on three platforms (Tmall, Douyin, and Kuaishou), while most MNC brands operate on Tmall only. We believe livestreaming could further promote the popularity of local brands (国产崛起), backed by its huge traffic, broad exposure, branding effect and high conversion.
- Skin care segment as key contributor, in which MNC presents high barrier.** Among TOP20 segments in beauty LS e-commerce, all of TOP4 segments are skin-care related. MNC leverages its trusted brand and loyalty to outstand in skin care segment, such as Estee Lauder, SK-II, while local and emerging brands are better in make-up products.

Figure 26: Beauty brand GMV concentration in D&K



Source: Guoji, data in 2021

Figure 27: TOP20 beauty brands in D&K (by GMV)

Skincare	Brand	as % of GMV from in-house session	Main platform
1	Doradosun	99.8%	Kuaishou
2	Florasis	70.8%	Douyin
3	PROYA	46.0%	Douyin
4	SuShuo	87.6%	Douyin
5	Chcedo	55.7%	Douyin
6	Winona	60.0%	Douyin
7	Perfect Diary	47.3%	Douyin & Kuaishou
8	Hexze	82.4%	Kuaishou
9	Kans	15.8%	Douyin
10	Osmun	10.8%	Douyin
11	Betty Bonnie	100.0%	Douyin
12	Mirui	99.7%	Kuaishou
13	Tinsecret	40.4%	Douyin
14	Ya-Man	37.0%	Douyin
15	Pechoin	55.9%	Douyin
16	Cobor	80.1%	Douyin
17	La Roche-Posay	90.8%	Douyin
18	ULIKE	55.7%	Douyin
19	Prof.Ling	68.0%	Douyin
20	Xiuzheng	67.9%	Douyin

Source: Guoji, data in 2021

Figure 28: The presence of local brands and MNC in live-streaming platforms

Local brands		MNC	
Skincare	Color makeup	Skincare	Color makeup
Winona (All)	Perfect Diary (All)	L'Oreal (All)	YSL (Tmall)
Proya (All)	Florasis (All)	Estee Lauder (Tmall)	3CE (Tmall)
Chando (All)	Colorkey (All)	Lancome (Tmall)	Estee Lauder (Tmall)
Pechoin (All)	Passional lover (Tmall)	Whoo (Tall+Douyin)	Armani (Tmall)
Quadha (All)	Carslan (All)	Shiseido (Tall+Douyin)	Lancome (Tmall)
Dr. Yu (All)	Hanruo (Tmall)	Olay (Tall+Douyin)	CPB (Tmall)
OSM (All)	Judydoll (All)	Sk-II (Tmall)	MAC (Tmall)
Inoherb (All)	Intoyou (All)	HR (Tmall)	Givenchy (Tmall)
Biohyalux (Tall+Douyin)	Amortals (All)	La Mer (Tmall)	Makeupforever (Tall+Douyin)
Zhuben (All)	TIMAGE (All)	Keih's (Tmall)	Laneige (Tall+Douyin)

Source: brand data, CMBIGM

Figure 29: TOP20 segments in beauty LS e-commerce in D&K



Source: Guoji, data in 2021

Platform side: Each with an ace card, D&K still at fast-growing phase

Douyin, Kuaishou and Taobao Live were TOP3 platforms in livestreaming ecommerce, contributing 16.5% share of total GMV in 2021, in our estimates. From platform side, the landscaped is relatively concentrated.

- **Kuaishou: beauty as Top1 category, backed by highly-engaged community and users’ strong trust in KOLs.** For Kuaishou, products at price of RMB100-200 as the largest contributor in beauty category, accounting to Quest Mobile. Given its highly-engaged community and users’ strong trust in KOLs, Kuaishou performed well in trust ecommerce and repurchase rate.
- **Douyin: beauty as Top2 category, with edge in in-house live streaming and efficient traffic distribution algorithm.** For Douyin, Beauty was Top2 category. It excelled itself in in-house live streaming, rather than reliance on top KOLs (lower margins with aggressive discounts, branding distortion due to lower prices, and tax evasion by top-tier KOLs). Douyin derives higher consumer engagement as traffic can be accurately distributed to users with its efficient algorithm.
- **Small and medium brands invest in Douyin to drive branding effect.** Premium brands generate higher ROI (3.5-4.0x) at only 20% of GMV in Tmall/Taobao live, leveraging free traffic (from search) thanks to the branding effect. However, small and medium brands generate lower ROI/margins from Tmall/Taobao due to the limited free traffic they can leverage. Therefore, they continue to invest in marketing in Douyin to drive branding effect which will be converted into free traffic in Tmall/Taobao in return, despite a lower ROI (1.0-2.0x) in Douyin.

Figure 30: Comparison of LS e-commerce platforms

	Taobao/Taobao Live	Douyin	Kuaishou
MAU	855mn*	671mn*	402mn*
DAU	366mn*	418mn*	210mn*
Time spent	22mins*	109mins*	108mins*
Top sales categories	1) Apparel 2) Cosmetics and skincare 3) FMCG	1) Apparel 2) Beauty & Cosmetics 3) F&B	1) Apparel 2) Beauty & Cosmetics 3) F&B
Positioning for brands	Premium brands in wide categories	In-season and branded products	White label products mainly
Strengths	1) Ideal for branding and user retention 2) Comprehensive customer services	1) High user engagement 2) High conversion rate	

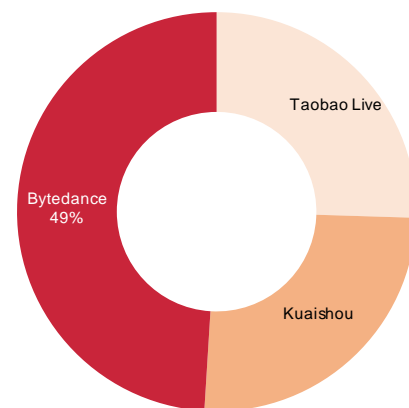
Source: Company data, QuestMobile
Note: 1) *in 3M22

Figure 31: Brand livestreaming in TOP3 platforms



Source: App of Taobao, Douyin, Kuaishou

Figure 32: TOP3 LS EC GMV breakdown (in 2021)



Source: Company data, CMBIGM estimate

Compare and Contrast - EC strategy between foreign/ local brands

While e-commerce (EC) has undoubtedly turned to a new battlefield for both foreign and domestic cosmetics makers, we see divergence in how these players formulate their distribution models. Eventually, the forms of marketing, or the ways of customer reach-out would depend on brand management. For instance, global brands are slow-adoptors of emerging live-streaming channels like Kuaishou and Tiktok, and have remained keen on relying traditional e-marketplaces such as Tmall and Taobao. These compare differently to domestic brands that almost fully penetrate in new platforms.

Figure 33: Comparison on online channel development among major foreign and domestic cosmetic companies

Country	Company	Key brands	Group		China business		Online strategy/ achievements
			% of online sales		% of online sales		
			2020	2021	2020	2021	
China	Proya (603605CH)	Proya, Hapsode, TIMAGE	69.9%	84.7%	n.a.	n.a.	<ul style="list-style-type: none"> -Started with selling skincare sets, then gradually increased the contribution from hero products (to reach 20% contribution). -Streamline LS operations and increase the share of in-house LS to improve profitability. -On TikTok&Kuaishou: focus on in-house LS, with sales through in-house LS exceeding that through KOL-based LS in 2021; cooperation with top-/medium-/tail-KOLs; increase the share of hero products to optimize sales mix and increase GPM and NPM; improve the quality of interaction management with followers to give better user experience. -On other platforms: strengthen cooperation with top-tier KOLs; enhance brand marketing through useful/ interesting content creation and sharing; adjust product mix based on the typical consumer group on each platform.
China	Jahwa (600315CH)	Herborist, Dr Yu, gf	42.3%	42.0%	n.a.	n.a.	<ul style="list-style-type: none"> -Speed up the growth of EC sales through multi-platform marketing and operation streamlining. -On Tmall: increase the share of in-house LS to improve LS operating efficiency. -On JD: operations started to generate positive profit after strategic re-alignment. -On PDD and emergin ECs: sales started to grow rapidly, eg., Herborist's LS achieved 13mn views on TikTok and was ranked n.19 among the most viewed cosmetics brands on TikTok.
China	Botanee (300957CH)	Winona, Winona Baby, Zirun	82.4%	82.0%	n.a.	n.a.	<ul style="list-style-type: none"> -Continue to boost existing online operations on traditional EC platforms including Tmall, JD, VIPSHOP, etc.. -Increase the investment in marketing on emerging EC platforms such as TikTok, through short-video, useful/ interesting-content sharing, in-houses LS and KOL-based LS, to expand user base.
China	Marubi (603983CH)	Marubi, Haruki, Passional Lover	54.4%	57.5%	n.a.	n.a.	<ul style="list-style-type: none"> -LS sales on TikTok and Kuaishou recorded strong growth in 2021 with increasing focus and investment of the company in emerging channels. -The company started to enhance in-house LS on TikTok and Kuaishou since 4Q21 and will also optimize product mix on emerging platforms to improve online operating efficiency.
China	Bloomage (688363CH)	Biohyalux, Quadha, MedRepair, BioMeso	2018: c.60%		n.a.	n.a.	<ul style="list-style-type: none"> -The company mainly focused on Tmall and cooperated with top-tier KOLs in an earlier stage to enlarge user base and boost sales rapidly. -Channel diversification is the key strategy to pursue going forward. In 2021, all the other platforms than Tmall saw an increase in their contribution to total sales, with the share of TikTok increased 3ppt y-y from 14% to 17%.
France	L'Oreal (OR FR)	L'Oreal, Lancome, Kiehl's HR, Skinceuticals	27.0%	28.9%	60.0%	2020: 60%	<ul style="list-style-type: none"> -The company maintained strong leadership on Tmall, who was the 1st cosmetic company to achieve Rmb10bn+ sales in Singles' Day in 2021, with four brands (L'Oreal, Lancome, HR, Kiehl's) being ranked among the top 10 skin care brands by sales value during the shopping event. -It is making increasing investment in LS marketing globally, with 10k+ LS sessions or 180k+ hours of LS shows run in 2021, and it has been enhancing marketing on emerging social platforms in China, including TikTok, Kuaishou, Little Red Book, etc., The company's marketing expense grew 22.5%, with marketing expense ratio rised to 32.8% and share of digital media spending soared to 63% in 2021.
US	EL (EL US)	EL, La Mer, Clinique	19.0%	28.0%	40.0%	2020: 40%	<ul style="list-style-type: none"> -Vary marketing strategies based on brand, local market and distribution channel. -Increase brand awareness and sales by continuing to elevate digital presence encompassing e-commerce and m-commerce, as well as digital, social media and influencer marketing. -Continue to invest in new omnichannel concepts in the United States, China and other markets to increase brand loyalty by better serving consumers. -Investing in new analytical capabilities to better meet consumer online shopping preferences (e.g., how-to videos, ratings and reviews and mobile phone and tablet applications).
Korea	AP (090430 KS)	Sulwhasoo, Laneige	n.a.	2021 online sales growth: c.40% y-y	n.a.	n.a.	<ul style="list-style-type: none"> 2021 China revenue increased by SD: -Sulshasoo sales grew around 50% with strong online sales resulting from promotion of high-end lines as well as elevated brand image by participating in intangible cultural heritage events. -Laneige sales grew by DD due to enhanced functional skin care portfolio and strengthened partnerships with online platforms.
Korea	LGHH (051900 KS)	Whoo	n.a.	n.a.	n.a.	n.a.	<ul style="list-style-type: none"> -In 2021, despite economic slowdown and uncertainties in the business environment caused by the continuing pandemic, luxury brands continued solid performance supported by strong brand power. -In China, customer base has been widening due to the active expansion into new channels other than Tmall, JD, or VIP. Meanwhile, Whoo brand reinforced its ultra high end lineup such as Cheonyuldan and Hwanyu to further strengthen its luxury positioning in the global beauty market.
Japan	Shiseido (4911 JP)	Shiseido, SK-II, CPB, NARS	25.0%	9M2021: 30%	n.a.	High 40%	<ul style="list-style-type: none"> Key online strategies announced in 2021 annual report includes: -Expand live e-commerce and online counseling across brands and Regions. -Promote omni-channel marketing integrating e-commerce and in-store sales. -Accelerate digital marketing through ties with e-commerce platformers in China or other technology startup companies. -Set up Consumer and Market Intelligence Department to gather consumer information in an accurate and timely manner.

Source: company data, CMBIGM research

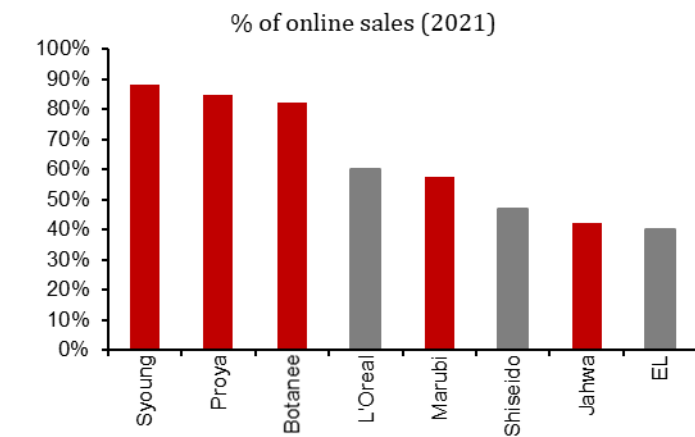
- **Each of live-streaming and the marketplace model have their own merits.** Live-streaming offers more attractive pricings, more free-gifts, hands-on product demonstration to surfers and hence better chance of impulsive buying. This fits mass market brands better as they are typically more flexible to trade off profitability for market shares. On the other hand, for the marketplace model, assuming no third-party operators are involved, brand owners are able to upkeep a better grasp on brand image and product quality, pricing dynamics and the coordination with existing distributors. This favours foreign brands, especially premium brands, that enjoy established brand image and mature distribution/ supply chain network globally.

Figure 34: Discount comparison among different channels

Product (price in Rmb)	Size	Official store	6.18 top-tier LS session	DFS	Daigou
Estee Lauder Advanced Night Repair	100ml	1,100	852	577	530
Shiseido Ultimune Power Infusing Concentrate	50ml	860	369	497	340
Lancome Advanced Génifique Face Serum	100ml	1,635	1,169	777	658
L'Oreal Youth Code Skin Activating Ferment Pre-Essence Serum	100ml	509	214	400	157
Querlain Abeille Royale Advanced Youth Watery Oil	100ml	2,280	1,142	1,306	916

Source: Tmall, Taobao, cdf VIP

- Domestic brands still enjoying a higher online sales mix. By 2021, domestic brands still derived higher e-commerce sales mix relative to foreign players in China. For instance, Proya derived 85% of its revenue online, followed by Botanee (approximately 80%), Marubi (60%) and Jahwa (40%+). This compared to less than 50% of foreign brands in general. Some global brands are reportedly exploring emerging channels like Kuaishou or Tiktok to catch up with the trend. For instance, Whoo achieved a RMB2bn sales in 2021 through live-streaming on Tiktok, and we note that EL, Sulwhasoo and L'Oreal etc have started to replicate the strategy.

Figure 35: Domestic brands still have a relatively higher online sales mix


Note: data for foreign companies (in grey) is for their China business; data for L'Oreal and EL is of 2020. Source: company data, CMBIGM research

- Classic platforms are largely monopolised by foreign brands.** While domestic brands are migrating into emerging live-streaming channels, classic marketplace like Tmall and Taobao are left to foreign brands. Winona (of Botanee) is the only Chinese brand that remained top 10 in the Tmall combined cosmetic sales league in Double 11 festival last year. Separately, foreign brands dominated skincare sales on Tmall in the last three years with Winowa (also) being the only local brands that ranked 6th. This compared to two local brands, Perfect Diary and Florasis, who ranked 4th and 6th in the color makeup segment.

Figure 36: Leading foreign brands conquered the Tmall cosmetic sales league

Top 10 cosmetics brands by sales value on Tmall during double 11 festival										
Ranking	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Estee Lauder	AFU	AFU	Pechoin	Pechoin	Pechoin	Lancome	L'Oreal	Estee Lauder	Estee Lauder
2	Unifon	MG	MG	KanS	Chando	Chando	OLAY	Lancome	L'Oreal	L'Oreal
3	AFU	Unifon	Pechoin	L'Oreal	L'Oreal	Lancome	L'Oreal	Estee Lauder	Lancome	Lancome
4	Naruko	L'Oreal	L'Oreal	OLAY	Lancome	Estee Lauder	Estee Lauder	OLAY	Whoo	Whoo
5	L'Oreal	Naruko	Unifon	Unifon	One Leaf	SK-II	SK-II	SK-II	OLAY	Shiseido
6	MG	Pechoin	Chando	Mask Family	Maybelline	OLAY	Pechoin	Chando	SK-II	Winona
7	OLAY	OLAY	KANS	Proya	SK-II	L'Oreal	Chando	Pechoin	Shiseido	OLAY
8	Inoherb	Mask Family	OLAY	Hanhoo	Herborist	One Leaf	HFP	Whoo	Sulwhasoo	SK-II
9	Mask Family	Estee Lauder	Mask Family	Herborist	Carslan	innisfree	Winona	Perfect Diary	Winona	LA MER
10	Laneige	Inoherb	Marubi	Carslan	Mediheal	Shiseido	innisfree	Winona	LA MER	HR

Source: Syntun, CMBIGM research. Note: names bolded and highlighted in pink are Chinese brands

Figure 37: Foreign brands have dominated Tmall's skincare...

Top 10 skincare brands by sales value on Tmall during double 11 festival			
Ranking	2019	2020	2021
1	L'Oreal	Estee Lauder	L'Oreal
2	Olay	L'Oreal	Estee Lauder
3	Estee Lauder	Lancome	Lancome
4	Lancome	Whoo	Whoo
5	Shiseido	Shiseido	Winona
6	SK-II	SK-II	Shiseido
7	Chando	Olay	Olay
8	Whoo	Sulwhawoo	SK-II
9	Pechoin	La Mer	HR
10	Whisper	Winona	Kiehl's

Source: Syntun, CMBIGM research. Note: names bolded and highlighted in pink are Chinese brands

Figure 38: ...and makeup sales in the past three years

Top 10 makeup/perfume brands by sales value on Tmall during double 11 festival			
Ranking	2019	2020	2021
1	Perfect Diary	Perfect Diary	YSL
2	Maybelline	Florasis	Estee Lauder
3	Estee Lauder	MAC	Armani
4	Lancome	Estee Lauder	Perfect Diary
5	Armani	3CE	3CE
6	MAC	YSL	Florasis
7	Florasis	Lancome	MAC
8	Givenchy	Maybelline	Lancome
9	Laneige	Armani	Givenchy
10	YSL	Givenchy	CPB

Source: Syntun, CMBIGM research. Note: names bolded and highlighted in pink are Chinese brands

Figure 39: Leading domestic brands have made progress on Tmall in the most recent "6.18"

"618" sales ranking on Tmall (2022.5.26-6.12)					
Skin care brands			Makeup brands		
	Brand	Sales (Rmb mn)		Brand	Sales (Rmb mn)
1	L'Oreal	981	1	MAC	97
2	EL	614	2	3CE	95
3	Olay	597	3	Florasis	92
4	Lancome	595	4	YSL	90
5	Proya	443	5	Colorkey	86
6	La Mer	387	6	Make up for ever	81
7	Winona	321	7	NARS	80
8	Shiseido	292	8	EL	69
9	Skinceuticals	275	9	Perfect Diary	66
10	Quadha	268	10	Lancome	58

Source: Moojing, CMBIGM research. Note: names bolded and highlighted in pink are Chinese brands

Figure 40: Domestic brands pioneered in the penetration of TikTok

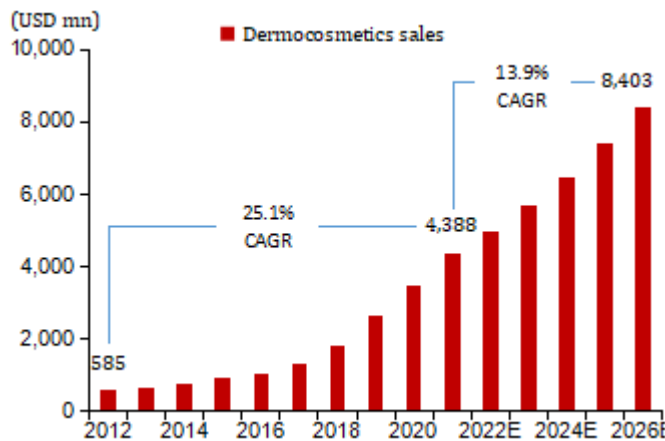
Cosmetic brands ranking on TikTok (May 2022)						
Sales ranking			In-house LS ranking			
	Brand	Sales (Rmb mn)		Brand	Sales (Rmb mn)	Ticket size (Rmb)
1	All Natural Advice	177	1	All Natural Advice	100	198
2	EL	110	2	atural Advice (facial mask ses	67	197
3	Florasis	107	3	Florasis	61	223
4	Proya	98	4	Olay	36	490
5	OSM	75	5	Proya flagship store	27	422
6	Ulike	65	6	Proya official flagship store	25	268
7	L'Oreal	63	7	Zhuben official flagship store	25	96
8	Olay	63	8	Chando official flagship store	25	338
9	Winona	59	9	erfect Diary official flagship stor	25	129
10	Perfect Diary	57	10	Erno Laszlo	24	1,938
11	SK-II	54	11	Ulike official flagship store	24	1,973
12	Amiro	54	12	Dermabell official flagship store	23	163
13	Sulwhasoo	49	13	Winona official flagship store	23	256
14	Bio-MESO	48	14	La Roche Posay	21	321
15	AFU	45	15	WIS official flagship store	18	179
16	Chando	45	16	AUOU official flagship store	17	59
17	YA-MAN	43	17	eng Mingming official flagship st	16	199
18	HBN	41	18	Kans official flagship store	16	248
19	Erno Laszlo	40	19	TQDAN official flagship store	15	369
20	Goodway	40	20	AOPOLI official flagship store	13	421

Source: jumeili.cn, CMBIGM research. Note: names bolded and highlighted in pink are Chinese brands

Product and strategy – the rise of dermocosmetics in China; Hero product strategy is key to success

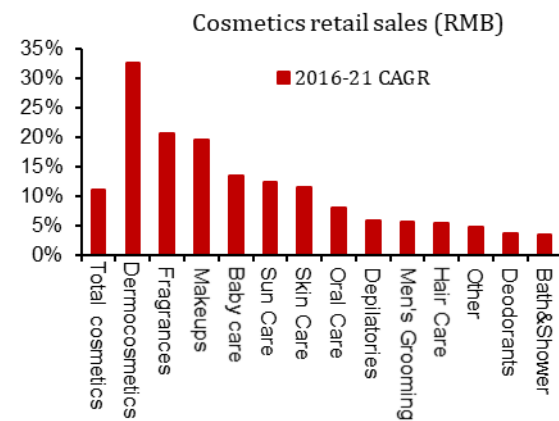
Albeit any global franchises like L’Oreal’s Proxylane™ or SK-II’s Pitera™, Chinese brands like Botanee have their own ways to create another local miracle with their own competences. This gives rise of dermocosmetics, the fastest growing subsegment of the China’s beauty market, looking to almost a double in five years as Euromonitor projects. An increasing spending power of female consumers, or particularly a more generous wallet of sensitive-skin consumers, is another robust driving force of the fast growth.

Figure 41: China’s dermocosmetics market looks to double in 2026E



Source: Euromonitor, CMBIGM research

Figure 42: Dermocosmetics has been one of the most rapidly growing cosmetic subsectors in China

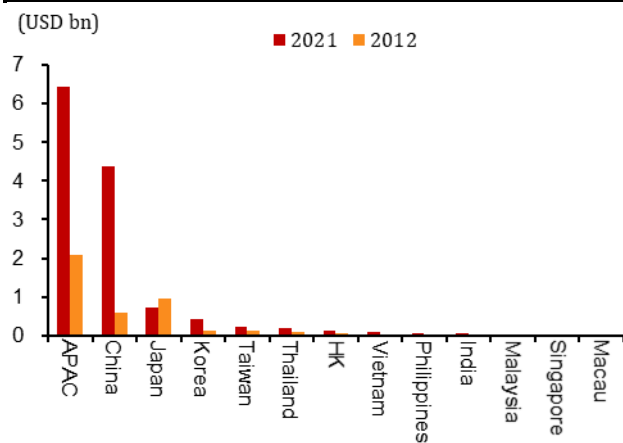


Source: Euromonitor, CMBIGM research

Dermocosmetics: a fast-growing subsector with domestic leaders emerging

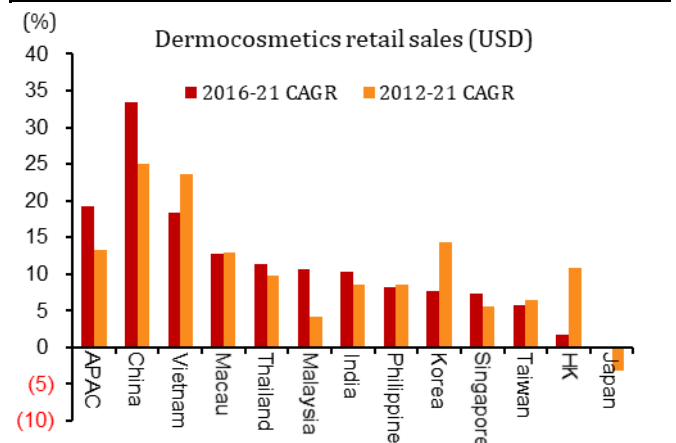
- Definition.** We define Dermocosmetics as products that, combining properties of cosmetics products (cleansing, moisturising, beautifying, etc.) and those of dermatological products (treating skin and/or scalp concerns), claim to heal specific skin and scalp concerns such as acne, redness, eczema, hair loss, seborrheic dermatitis, or improve health and beauty of skin and hair. These therapeutic-positioned products are suitable for sensitive skin. Dermocosmetics brands often have authoritative “proven” claims from expert bodies and are endorsed by medical professionals or dermatologists, and have a pharma, laboratory or medical heritage, and are tested under control of medical professionals/dermatologists.
- China is the 2nd largest dermocosmetics market in 2021.** Based on Euromonitor, China’s dermocosmetics market size expanded from RMB3.7bn in 2012 to RMB28.3bn in 2021 (29% CAGR), the largest in Asia and the second largest globally following the US. Dermocosmetics in China has grown rapidly in the past five years, registering a historic CAGR of 32.6%, the highest out of the top 12 markets in Asia and among the main cosmetic subsectors in the country. Its share of the total Chinese cosmetics market increased from 1.5% to 4.9% in 2012-21. Skin care has been the major segment, accounting for 90% of China’s dermo market in 2021 and which recorded 32.8% CAGR in 2016-21.

Figure 43: China is the largest dermocosmetics market in Asia



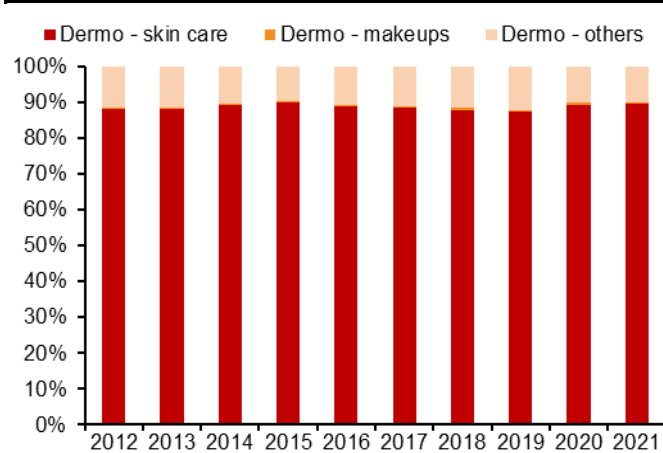
Source: Euromonitor, CMBIGM research

Figure 44: ... and offered the fastest growth among its Asian peers



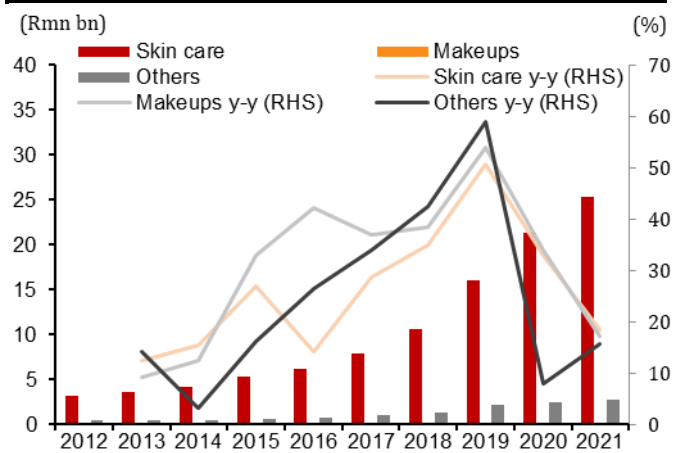
Source: Euromonitor, CMBIGM research

Figure 45: Skincare accounted for 90% of China's dermocosmetics market (2021) ...



Source: Euromonitor, CMBIGM research

Figure 46: ... and recorded 32.8% CAGR during 2017-21

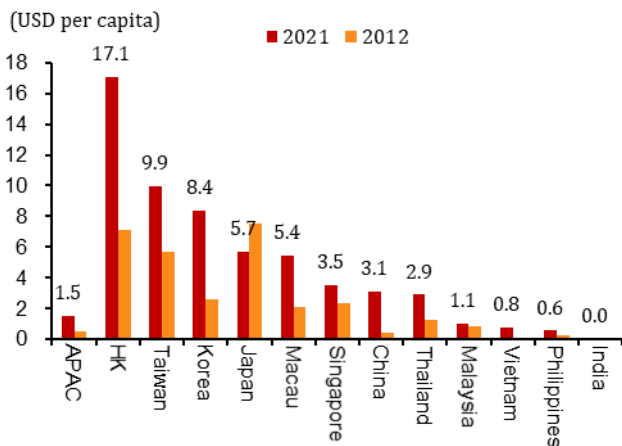


Source: Euromonitor, CMBIGM research

■ **Main growth drivers.** We think the strong growth of dermocosmetics in China was mainly driven by: 1) a large potential base of consumers with skin concerns, especially sensitive skin, in China. Major factors contributing to increasing skin issues include rising levels of pollution, urbanisation, stress, unhealthy lifestyle and long-term exposure to the electromagnetic radiation from digital devices such as smartphones, PCs, etc. 2) Increasing attention to skin health from Chinese consumers, owing to improving quality of life and wellness beauty trend enhanced by the COVID-19 crisis. 3) Chinese consumers being increasingly better educated and sophisticated on cosmetic ingredients and products, thanks to the rise of new media and marketing forms in the digital era. 4) More recently, broad channel distribution and price accessibility have contributed to such products being seen as both a substitute or a complement to dermatologist visits.

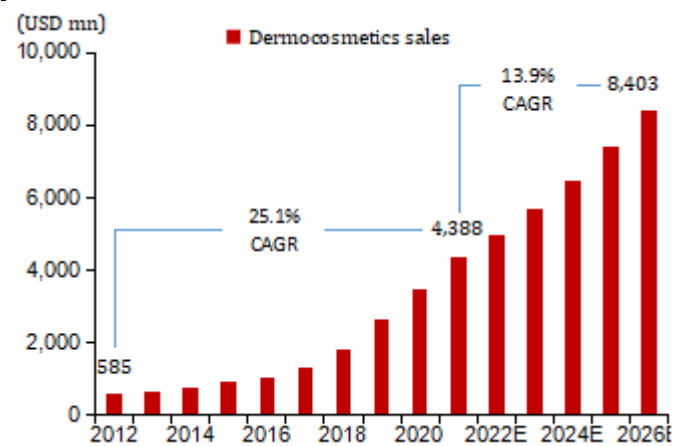
- **We think there is a still large growth potential of dermocosmetics in China.** This is because: 1) a large potential base of consumers with skin concerns. Chinese Expert Consensus on Sensitive Skin Treatment published in 2017 indicated more than 36% of women in China had sensitive skin. This would imply a potential user base of 248mn people for dermocosmetics in China, if we assume a female population of 689mn in 2021, based on NBS data; 2) still relatively low penetration of dermocosmetics in China compared to more mature markets. The share of dermo skin care on total skin care spending was 7.9% in China in 2020, compared to 44.8%/ 20.1%/ 16.6% in France/ Germany/ US. The per capita dermocosmetics spending was USD3.1 in mainland China in 2021, c.54.5%/ 37.0%/ 18.2% of that of Japan/ Korea/ HK in the same period, suggesting still notable space for growth for dermocosmetics in China.

Figure 47: Per capita dermocosmetics spending of China still lower than that of Japan/ Korea/ HK (2021)



Source: Euromonitor, CMBIGM research

Figure 48: China's dermocosmetics market expected to grow at 13.9% CAGR in 2021-26E



Source: Euromonitor, CMBIGM estimates

- **We expect China's dermocosmetics market to double in size by 2026E.** Per capita spending on dermocosmetics peaked in 2012 in Japan at USD7.5 and declined thereafter to gradually stabilize around USD6.0. We believe China's per capita dermocosmetics spending could at least reach USD6.0 by 2026E (from USD3.1 in 2021). Assuming a constant population and share of dermo skin care to total dermo from 2021, we estimate China's dermocosmetics market could reach USD8.4bn in 2026E from USD4.4bn in 2021, at 13.9% CAGR, which is slower than 2012-21 but still outperforming the 5.7% CAGR of China's total beauty market per Euromonitor. The penetration of dermocosmetics to China's total beauty market would raise from 4.9% in 2021 to 7.2%, and that of dermo skin care to total dermo from 8.6% to 13.0%.

Figure 49: Per capita dermocosmetics spending in China could reach a level similar to that of Japan in the last decade by 2026E

Country	Derma spending (USD mn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Japan	Per capita (USD)	7.5	6.2	5.7	5.0	5.7	5.6	6.0	6.2	5.8	5.7	n.a.	n.a.	n.a.	n.a.	n.a.
China	Per capita (USD)	0.4	0.5	0.6	0.7	0.8	1.0	1.3	1.9	2.5	3.1	3.5	4.0	4.6	5.2	6.0
China	Population	1,347	1,354	1,361	1,368	1,375	1,383	1,391	1,399	1,406	1,412	1,412	1,412	1,412	1,412	1,412
China	Dermocosmetics	585	673	773	961	1,040	1,323	1,837	2,668	3,469	4,388	4,997	5,691	6,480	7,379	8,403
China	Derma skin care	516	591	689	863	923	1,170	1,614	2,329	3,099	3,930	4,475	5,096	5,803	6,608	7,525
China	Dermocosmetics y-y	n.a.	14.9%	15.0%	24.2%	8.2%	27.2%	38.8%	45.3%	30.0%	26.5%	13.9%	13.9%	13.9%	13.9%	13.9%
China	Derma skin care y-y	n.a.	14.7%	16.4%	25.4%	7.0%	26.7%	38.0%	44.3%	33.0%	26.8%	13.9%	13.9%	13.9%	13.9%	13.9%
China	Derma skin care to derma	88.1%	87.9%	89.0%	89.8%	88.8%	88.4%	87.9%	87.3%	89.3%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%
China	Derma to total cosmetics	1.5%	1.5%	1.6%	1.9%	2.0%	2.4%	2.9%	3.8%	4.6%	4.9%	5.3%	5.7%	6.1%	6.6%	7.2%
China	Derma skin care to skin care	2.6%	2.6%	2.8%	3.3%	3.6%	4.2%	5.0%	6.6%	7.9%	8.6%	9.3%	10.1%	10.9%	11.9%	13.0%

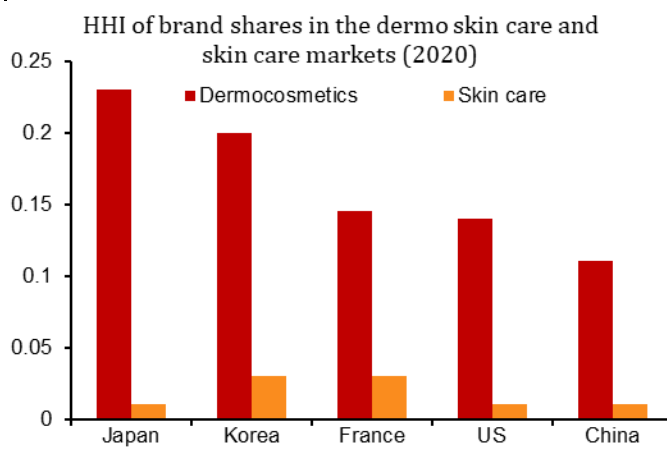
Source: Euromonitor, CMBIGM estimates

- The segment has a relatively higher market concentration**, compared to other cosmetic subsectors, owing to relatively higher entry barriers, in terms of longer R&D cycle and approval process, greater brand equity needed given higher attention to safety paid by dermocosmetics users, as well as stronger user stickiness and higher repurchase rate. In China, the top three companies accounted for 37.6% market share in dermocosmetics in 2021, compared to 18.2%/ 15.2%/ 10.0% in makeups/ skin care/ total cosmetics, though the sector concentration had kept declining in 2012-20, largely due to the shares of previously top-ranked foreign players (mainly European, American and Japanese) being continuously diluted by domestic ones. Two out of the top three players by market share in dermocosmetics in China were domestic companies since 2020. Going forward, we expect domestic players to keep grabbing market shares from foreign peers, and the sector concentration to increase, which is accelerated by a clearer defined and stricter industry regulatory framework and consequently increasing entry barrier.

Figure 50: Top 5 brands accounted for 50% share of China's dermo market in 2021

	China's cosmetics market - brand share concentration (%)											
	Cosmetics			Skin care			Makeups			Dermocosmetics		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Top 3	8.2	9.4	10.0	12.7	14.2	15.2	20.5	19.5	18.2	35.2	34.3	37.6
Top 5	12.2	13.4	13.6	19.7	21.5	22.0	30.3	30.6	28.6	50.9	47.7	50.4
Top 10	19.8	20.6	20.8	30.4	32.0	32.8	46.8	48.1	45.4	76.1	70.4	70.8
Top 20	29.8	30.4	30.5	42.6	44.1	45.6	67.2	67.7	64.4	96.8	94.0	93.1

Source: Euromonitor, CMBIGM research

Figure 51: Dermocosmetics segment has higher market concentration among cosmetic subsectors


Source: Euromonitor, CMBIGM research

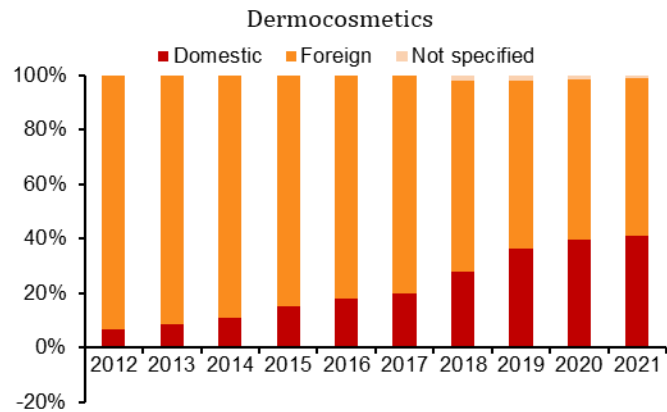
Figure 52: Winona is gaining shares from overseas brands

China dermocosmetics market					
Top 1 company's market share (%)			Top 1 brand's market share (%)		
2012	L'Oréal	36.6	2012	Avène	29.5
2013	L'Oréal	36.0	2013	Avène	29.0
2014	L'Oréal	33.3	2014	Avène	29.9
2015	L'Oréal	28.9	2015	Avène	27.6
2016	L'Oréal	26.8	2016	Avène	25.0
2017	L'Oréal	22.8	2017	Avène	21.1
2018	L'Oréal	19.4	2018	Avène	15.4
2019	L'Oréal	18.0	2019	Winona	15.6
2020	L'Oréal	18.6	2020	Winona	16.8
2021	L'Oréal	19.7	2021	Winona	19.5

Source: Euromonitor, CMBIGM research

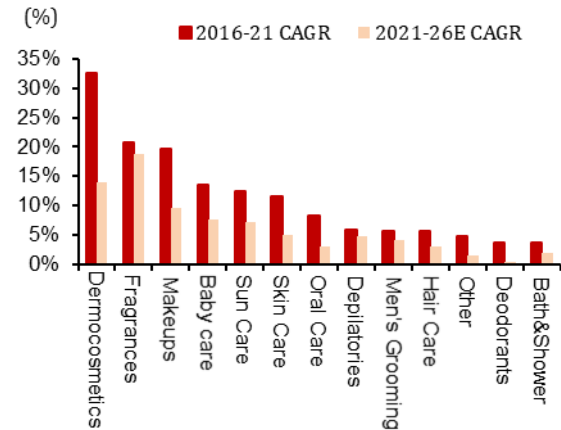
- Aggressive expansion of domestic players in the last decade; though growth slowing down since 2020.** Foreign players still prevail in terms of overall market share in China's dermocosmetics segment, in which they accounted for 57.9% of sales vs c.41.1% of domestic players in 2021. Dominance of foreign brands has weakened in the last decade, especially since 2016, as a result of the aggressive expansion of Botanee. The market share expansion of domestic companies in dermocosmetics has been slowing down since 2020, however, most products of European and American dermocosmetic brands are still mainly designed for white skin, with lower pertinency for Asian yellow skin, implying still notable space for domestic players to grow in the medium term, in our view.

Figure 53: Aggressive expansion of domestic players in the last decade; though growth slowing down since 2020...



Source: Euromonitor, CMBIGM research

Figure 54: ...however dermocosmetics is still expected to be one of the most trending beauty subsectors in China in the medium term



Source: Euromonitor, CMBIGM estimates

- Major players.** Major foreign companies in China's dermocosmetic market include: L'Oreal, Kaos, J&J, Pierre Fabre, NAOS, which ranked among the top 10 players in 2021. However, except L'Oreal, none of them have established a strong market share leadership. On the other hand, five domestic companies were able to rank among the top 10 players in 2021, which were Botanee, Voolga, Jahwa, Muke, Bloomage and Bedook. Among these, Botanee and Voolga ranked no.2 and no.3, respectively. L'Oreal has been ranked no.1 since 2012, whose market share, though, has kept declining ever since, with the domestic Botanee catching up in an aggressive way. Botanee has been ranked no.2 by market share since 2020, whose market share has expanded to 19.5% in 2021, only 0.2ppt from L'Oreal's 19.7%.

Figure 55: China dermocosmetics market league table by companies 2012-21

China dermocosmetics market - top 20 companies (by sales value)										
Rank	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal
2	Pierre	Pierre	Pierre	Pierre	Pierre	Pierre	Pierre	Botanee	Botanee	Botanee
3	Sebapharma	Sebapharma	Sebapharma	Nestlé	Botanee	Botanee	Botanee	Pierre	Voolga	Voolga
4	Kao	Kao	Nestlé	BeDOOK	NAOS	NAOS	NAOS	Voolga	Pierre	Kao
5	Nuxe	Galderma	BeDOOK	Botanee	Nestlé	Kao	Muke	J&J	Kao	J&J
6	BeDOOK	BeDOOK	Kao	Sebapharma	Sebapharma	Nestlé	Kao	Muke	J&J	Pierre
7	Galderma	Botanee	Botanee	Kao	BeDOOK	Sebapharma	Ci:z	NAOS	NAOS	NAOS
8	Botanee	Nuxe	NAOS	NAOS	Kao	BeDOOK	BeDOOK	Kao	Muke	Jahwa
9	Caudalie	Caudalie	Caudalie	Caudalie	Jahwa	Ci:z	Sebapharma	ISDIN	Jahwa	Muke
10	Jahwa	Jahwa	Jahwa	Jahwa	Caudalie	Jahwa	Nestlé	BeDOOK	ISDIN	Bloomage
11	NAOS	NAOS	Expanscience	Puig	ISDIN	Caudalie	ISDIN	Sebapharma	BeDOOK	BeDOOK
12	Expanscience	Expanscience	LGHH	ISDIN	Puig	ISDIN	J&J	Galderma	Sebapharma	ISDIN
13	CNP	CNP	Nuxe	Expanscience	J&J	Puig	Jahwa	Jahwa	Bloomage	Galderma
14	n.a.	n.a.	n.a.	LGHH	Expanscience	J&J	Caudalie	Puig	Galderma	Sebapharma
15	n.a.	n.a.	n.a.	Nuxe	LGHH	Filorga	Puig	CP	CP	CP
16	n.a.	n.a.	n.a.	n.a.	n.a.	Expanscience	Filorga	Caudalie	Puig	Beiersdorf
17	n.a.	n.a.	n.a.	n.a.	n.a.	LGHH	Expanscience	Expanscience	Caudalie	Yatsen
18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	LGHH	LGHH	LGHH	Caudalie
19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Nuxe	Beiersdorf	Chuang Er
20	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Nuxe	Expanscience	LGHH

Note: domestic companies are highlighted in pink. Source: Euromonitor, CMBIGM research

- Major brands.** Major foreign dermocosmetics brands in China include: LA Roche/ SkinCeuticals/ Vichy under L 'Oreal, Avene under Pierre Fabre, Bioderma under NAOS, FreePlus/ Currel under Kaos, Dr Ci Labo/ Aveeno under J&J. Major domestic brands include: Winona under Botanee, the namesake brand under Voolga, Dr Yu under Jahwa, WIS under Muke, Biohyalux under Bloomage, and the namesake brand under Bedook. Among these, Winona is far ahead of other overseas and domestic peers, with 19.5% market share in 2021. It kept expanding since 2012, experienced explosive growth since 2015 and replaced Avene to become the no.1 dermocosmetics brand in China since 2019.

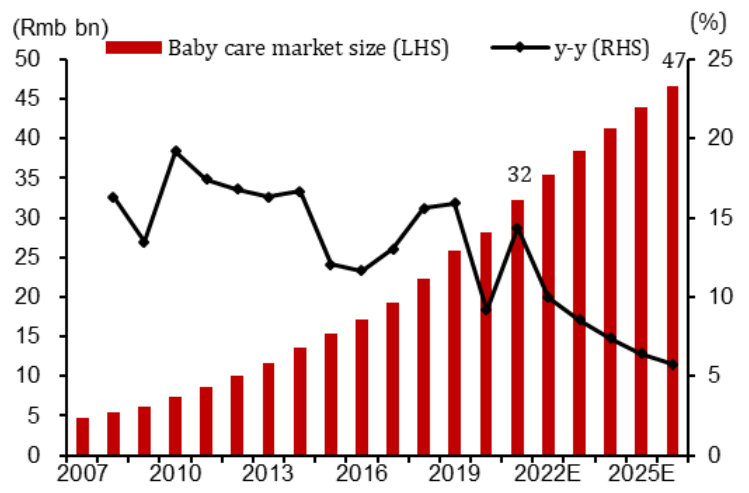
Figure 56: China dermocosmetics league table by brands 2012-21

China dermocosmetics market - top 20 brands (by sales value)										
Rank	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Avène	Avène	Avène	Avène	Avène	Avène	Avène	Winona	Winona	Winona
2	Vichy	Vichy	Vichy	Vichy	Vichy	Winona	Winona	Avène	Voolga	La Roche
3	La Roche	La Roche	La Roche	La Roche	La Roche	La Roche	La Roche	Voolga	La Roche	Voolga
4	Sebamed	Sebamed	Sebamed	Cetaphil	Winona	Vichy	Bioderma	La Roche	Avène	Avène
5	Freeplus	Freeplus	Cetaphil	BeDOOK	Bioderma	Bioderma	Vichy	WIS	Bioderma	SkinCeuticals
6	NUXE	Cetaphil	BeDOOK	Winona	Cetaphil	Freeplus	WIS	Bioderma	WIS	Bioderma
7	BeDOOK	BeDOOK	Freeplus	Sebamed	Sebamed	Cetaphil	Freeplus	Vichy	SkinCeuticals	Freeplus
8	Cetaphil	Winona	Winona	Freeplus	BeDOOK	Sebamed	Dr Ci:Labo	Dr Ci:Labo	Freeplus	Dr Ci:Labo
9	Winona	NUXE	Bioderma	Bioderma	Freeplus	BeDOOK	BeDOOK	Freeplus	Dr Ci:Labo	Dr Yu
10	Caudalie	Caudalie	Caudalie	Caudalie	Dr Yu	Dr Ci:Labo	Sebamed	Isdin	Vichy	Curél
11	Dr Yu	Dr Yu	Dr Yu	Dr Yu	Caudalie	Dr Yu	Cetaphil	SkinCeuticals	Dr Yu	WIS
12	Bioderma	Bioderma	Mustela	Uriage	Isdin	Caudalie	Isdin	BeDOOK	Curél	Vichy
13	Mustela	Mustela	CNP	Isdin	Uriage	Isdin	Aveeno	Aveeno	Aveeno	Aveeno
14	CNP	CNP	NUXE	Mustela	SkinCeuticals	Uriage	Dr Yu	Sebamed	Isdin	Biohyalux
15	n.a.	n.a.	n.a.	CNP	Aveeno	Aveeno	SkinCeuticals	Cetaphil	BeDOOK	BeDOOK
16	n.a.	n.a.	n.a.	NUXE	Mustela	SkinCeuticals	Caudalie	Dr Yu	Sebamed	Isdin
17	n.a.	n.a.	n.a.	n.a.	CNP	Filorga	Uriage	Uriage	Biohyalux	Cetaphil
18	n.a.	n.a.	n.a.	n.a.	n.a.	Mustela	Filorga	Filorga	Cetaphil	Sebamed
19	n.a.	n.a.	n.a.	n.a.	n.a.	CNP	Mustela	Caudalie	Filorga	Filorga
20	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	CNP	CeraVe	Uriage	Eucerin

Note: domestic brands are highlighted in pink. Source: Euromonitor, CMBIGM research

- The rise of Botanee.** Before 2020, foreign brands like Avene, La-Roche and Vichy have dominated the dermocosmetics market in China, when Winona was not one of the top 20 brands in the league. However, in 2020, the brand has emerged to be the best-selling brand with sales value being a double of what the top three players could achieved. We think one of Botanee's strengths is the company's strategic foresight to identify and focus on relatively higher-potential cosmetic subsectors, compared to major listed peers in China. Based on Euromonitor, the segments the company is or plan to be focused on, including dermocosmetics, baby skin care and luxury anti-aging skin care, are expected to be the major outperforming cosmetic subsectors in the next five years.
- Clinical research background is key.** The success of Botanee or Bloomage rests mainly with their solid medical research and raw material sourcing capability that was converted for beauty purpose. Dr Yu of Jahwa moved into the sweetspot in 2019 that took ride with the tide in a timely manner. This compared with emerging brands like HFP and AOEO which leveraged on the boom of patriotic spending and live-streaming since 2019 but with only single or a few product offerings. These players in aggregate took shares from foreign brands like Vichy, La Roche-Posay, SkinCeuticals that, in our view, are more pricy and insensitive to channel migrations.
- A closer look to Botanee's brand portfolio.** Botanee's brand portfolio is made of five existing brands: Winona/ DouDouKang/ Beauty Answers/ ZiRun/ Winona Baby, of which, the first four focus on dermocosmetics. As previously discussed, we expect China's dermocosmetics market to grow at 13.9% CAGR in 2022-26E, vs 5.7% of the cosmetic market in total. The remaining brand, Winona Baby, launched in 1H21, is specialized in skin and personal care for infants/children aged 1-12 years, functional for skin issues such as dryness, redness, itchiness, etc., and with a masstige positioning. Based on Euromonitor, China's baby care market has grown at 13.6% CAGR in 2016-21 and its market size is expected to expand from RMB32bn to RMB47bn (7.6% CAGR) in 2021-26E. Going forward, we expect to see increasing premiumization and brand-driven trends also in China's baby care market, and Winona Baby could leverage on the notable brand equity built by Winona in the adult dermocosmetics space. Key products of the former, Winona Baby sun screen (RMB228/50ml) and facial moisturizing cream (RMB258/200g) have sold 20K + and 10K + units during 1st-8th Jun on Winona Tmall official store, suggesting a good sales momentum of the new brand, in our view.

Figure 57: China baby care market size and growth

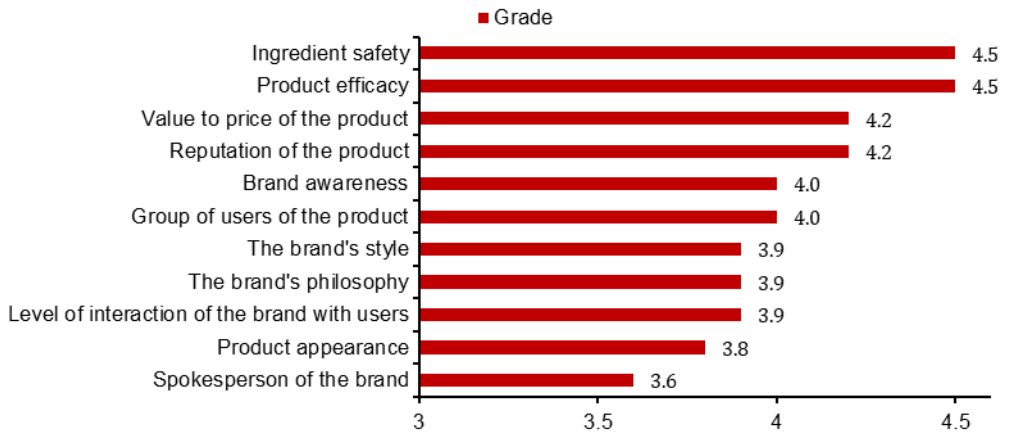


Source: Euromonitor, CMBIGM research

The Hero Product Strategy – the key to success

- Hero products played an important role in the expansion trajectory of global cosmetic giants. Estee Lauder's Advanced Night Repair Serum (ANR), Lancome's Advanced Genifique - Youth Activating Concentrate and Olay's whitening essence series are some of the most successful cases of cosmetic hero products. In China, online traffic flows are becoming increasingly de-centralized and dispersed with the emergence of various new social/ e-commerce platforms, such as TikTok, Little Red Book, and a large pool of KOLs. Therefore, we think the hero product strategy is an efficient way for brands to redirect traffic across platforms and enhance customer loyalty in the long term. Major listed domestic cosmetic players have all started to follow the steps in the last five years, among which, we think Proya and Botanee are pioneers. Each of them boasts key products that continued to make consistent revenue contribution in multiple periods, with increasing product/brand awareness and good user feedback. On the other hand, Jahwa, in our view, has the highest potential for positive surprise in the development of hero products, under a series of innovative initiatives launched after the key management change in 2020.
- **What is hero product strategy?** Hero products are brand-aligned products that communicate a brand's message and values to the market. A hero product was first a very popular product at a time. Eventually, a popular product could evolve to be a hero product if the brand is able to keep the SKU 'relevant' by constant updating and upgrading over time. Apple's iPhone, Levi's 501 jeans and Microsoft's Window are good examples to showcase how a once popular product evolves to be a hero product, and how a hero product would help associate with a brand in consumers' mind. The strategy, however, is not entirely new in the cosmetic industry, and has been a key success factor to multiple global brands.
- **Benefits of hero products.** 1) A key driver of long-term growth. Hero products can continue to attract traffic and contribute income. For instance, Estee Lauder's Advanced Night Repair Complex contributed c.20% of revenue for the brand and boasted 40%-60% repurchase rate. 2) Scale effects in R&D and marketing. Cosmetic brands could maintain high repurchase rate and attract new users at lower cost, through upgrade of the hero product instead of development of utterly new products, which would require much higher investment in R&D and marketing, with greater risk of failure at the same time. For example, Estee Lauder's ANR has evolved through seven generations in 40 years. Most of the upgrades have received strong market feedback and led to sales growth of the product. Hero products could also boost the sales of other products, developed as an expansion of the same collection or simply bundled to the former for sale. Estee Lauder ANR eye cream launched in 2017 has been a big market success in Asia, driving the global sales of ANR collection to grow by c.50% YoY in the same year.
- **Key success factors for hero product strategy in China.** Cosmetics consumers in China are becoming increasingly attentive to product functions, thanks to the rise of emerging media that facilitated the sharing of knowledge on ingredients and beauty care processes. Based on iResearch, ingredients and efficacy, instead of good value, became the top factors in decision-making for Chinese cosmetics purchasers. Cosmetic brands have been making increasing efforts to develop products claimed to contain trending ingredients and offer trending functional efficacy in the Chinese market. Some of these have grown into popular products with sustained sales, such as Proya's Double Anti Elastic Brightening Youth Essence (RMB289/30ml) and Winona's Anti-Sensitive Moisturizing Tolerance-Extreme Cream (RMB268/50g), which could become the hero products to drive the brand's LT growth.

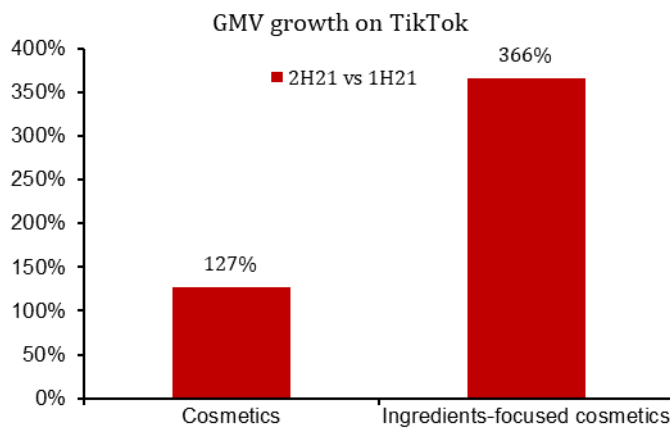
Figure 58: Safety and efficacy became major factors for decision-making of cosmetics purchasers (Jan 2021)



Source: iResearch, CMBIGM research

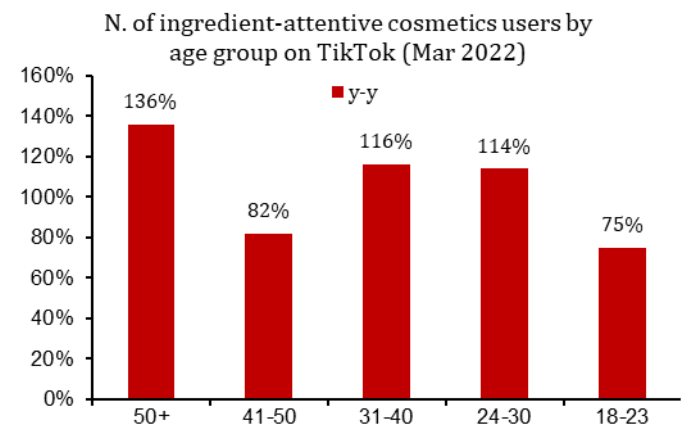
- Trending ingredients and functions help attract interest.** Based on Oceanengine, anti-aging was the most popular cosmetic function on TikTok in 2021, followed by moisturizing, whitening, anti-sensitivity/ lenitive, with the last one being the most rapidly increasing in popularity. Ingredients and formula are the key underpinning to the efficacy of cosmetics. Representative ingredients for popular cosmetic functions include: retinol/ Poxylane/ yeast extracts (anti-aging), nicotinamide (whitening), ceramide (repairing), salicylic acid (anti-acne), and hyaluronic acid (moisturizing). In addition, herbal-based ingredients are gaining increasing interest from consumers, which could help brands to better differentiate their products, in our view. Popular herbal-based ingredients include: thorn fruit extracts (moisturizing), rose extracts (whitening and spot-fading), centella (repairing), camellia (anti-aging), purslane (anti-sensitivity and anti-acne). Products based on local herbal-derived ingredients are gaining popularity, such as Winona's Anti-Sensitive Moisturizing Tolerance-Extreme Cream, whose core ingredients include extracts from several special plants of Yunnan, such as thorn fruit, purslane.

Figure 59: GMV of ingredient-focused cosmetics grew better than total cosmetics GMV on TikTok

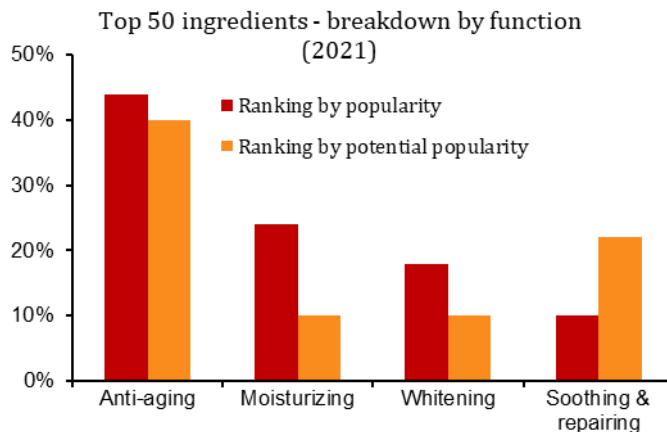


Source: oceanengine.com, CMBIGM research

Figure 60: No. of ingredient-attentive cosmetics users also grew rapidly on TikTok



Source: oceanengine.com, CMBIGM research

Figure 61: Anti-aging was the most popular; soothing & repairing was the most trending on TikTok


Source: oceanengine.com, CMBIGM research

Figure 62: Main cosmetic functions and representative ingredients

Main cosmetic functions and representative ingredients				
Anti-aging	Moisturizing	Whitening	Soothing & repairing	Anti-acne
Retinol	Hyaluronic acid	Nicotinamide	Ceramide	Salicylic acid
Peptide	Amino acids	Arbutin	Squalane	Allantoin
Yeast extracts	Glycerin	Vitamin C	Marigold extracts	Oligopeptides
Vitamin E	Vitamin B5	Alpha Hydroxyl Acid	Astaxanthin	Tea tree


Source: oceanengine.com, CMBIGM research

- Efficacy and safety underpins hero products' lasting popularity.** If the addition of trending ingredients, appealing packaging and aggressive marketing through influencing KOLs can help cosmetic brands to attract consumer interest in the short time, the LT popularity and consumer recognition of a product, instead, would depend on the product's efficacy and safety, in our view. What stand on the back of these are R&D capabilities, continuous product innovation and consumption trends foresight. These, combined with agile marketing strategy and commitment to develop an omni-channel distribution network, especially a proactive embracement of trending e-commerce and social platforms, would be the key drivers for cosmetic players to expand their foothold in the Chinese market.
- Strong commitment of main domestic players to hero product strategy.** Leading brand owners have all started to follow global beauty giants' footsteps in hero strategy and have been making increasing efforts in the past five years. Botanee pioneered, in our view, thanks to the edges in R&D capabilities, cooperation with clinical institutions, endorsement by professional KOLs and brand equity. Proya has also been relatively successful, on the back of its strengths in ingredients know-how and capabilities to capture and lead in consumption trends. Jahwa has mostly underperformed the industry before 2020 but it is endowed with notable brand equity as one of the earliest founded (in 1898) domestic cosmetics companies in China. It has a high potential of positive surprise in the development of hero products, in our view, with the roll-out of a series of innovative initiatives under a renewed management.
- What leading players are offering as their hero products.** For **Botanee**, the Anti-sensitive Moisturizing Tolerance-Extreme Cream of its core Winona brand has been one of biggest market success in China among domestic skin care products in the past three years. The product claims to have lenitive/ repairing for sensitive skin as key function and such herbal-based ingredients as extracts from thorn fruit, centella, camellia as key ingredients. **Proya**: Proya Deep Ocean Energy Wrinkless and Firming Essence has anti-aging/ retinol as key function/ ingredient. **Jahwa**: Dr Yu's Anti-sensitive Repairing Essence containing ceramide, vitamin E, ophiopogon extract is for anti-sensitive and repairing treatment, Herborist's Tai Chi Essence with extracts from centella asiatica, Peony root, sodium hyaluronate, vitamin E has anti-aging as core function.

A case study on the evolution of Estee Lauder's Advanced Night Repair serum

Estee Lauder (EL)'s Advanced Night Repair (ANR) serum has been one of the best-selling cosmetic products ever globally. In 2011, the company established its "hero product" strategy and the ANR series was positioned as the company's key skin care products. Such strategy resulted to be a big market success, as ANR series has made positive contribution to the growth of the company's skin care business since 2010 by enhancing the repurchase rate. We think the success of the series was largely driven by: 1) discovery and application key ingredients (e.g. yeast extracts); 2) continued product upgrades, and adjacent product expansion; 3) channel digitalization that boosted the efficiency to acquire young consumers.

Figure 63: EL's ANR serum has evolved through seven generations

Evolution of Estee Lauder ANR serum, with continued ingredient upgrade and efficacy improvement						
1982	1991	1998	2007	2009	2013	2020
1st generation	2nd generation	3rd generation	4th generation	5th generation	6th generation	7th generation
						
Launched the concept of "night repair" for the first time	Application of proprietary anti-oxidation technology	Tailored for Asian women	21 days intensive night repair	The application of clock genes synchronization technology and AGT anti-pollution proprietary technology	Replaced tripeptide - 32 and arabidopsis thaliana extract in the Chinese and Japanese versions with yeast extract and purple echinacea extract	Called Advanced Night Repair Synchronized Recovery Complex II
Use of the innovative material, second crack yeast extract	Addition of Bis-PEG-18 Methyl Ether Dimethyl Silane as a skin conditioning agent	Addition of whitening ingredient, AA2G, significantly changing the ingredient formula	Increased the concentration of the proprietary anti-aging complex by 5 times			Application of ChronoluxCB Technology to help reduce the signs of aging
The first skin care product to use hyaluronic acid as moisturizer	Addition of liposomal dicleavage yeast		Addition of lactobacillus extract (Adasomes)	Addition of tripeptide - 32 and arabidopsis thaliana extract		Addition of baobab seed extract

Source: Oceanengine.com, CMBIGM research





- R&D.** In 1980s, EL was the first to push second crack yeast (relieving, repairing, hydrating and regenerating effect for skin) and hyaluronic acid (moisturizing) for a commercial application, which was considered a big innovation at that time. EL also applied the innovative micro emulsion formula to ANR serum, which creates a translucent appearance of the liquid and allows for a quick absorption, and from here the category of serum.
- Product upgrades and product portfolio expansion.** ANR serum underwent continued upgrades to meet new consumer needs and maintain its popularity. For example, the concentration of the proprietary complex was increased in the 4th generation and Tripeptide active substances/ Echinacea extract were added to the 5th/6th generation to improve the repairing efficacy and to enhance skin metabolism. EL also kept expanding the ANR series to include other adjacent SKUs, such as ANR eye serum/ eye cream/ facial mask launched in 2011/ 2013/ 2015, respectively.

- **Channel digitalization and marketing.** EL was among the first-movers to apply digital ERP system to monitor the sales at distribution points. Its digital system allowed to track the data of 95% of sales points in the US and Canada in 1997 and the data would then help improve product and marketing strategy design. In 2000-2009, the company was committed to online channel building. It acquired gloss.com in 2000 as online distribution platform for its core products. 16 brands of the company have established e-commerce channels by 2009. From 2010 onwards, the company has turned to a comprehensive digitalization strategy. It has been making increasing efforts to enhance online interactions with consumers, by distributing user-educating short videos on social platforms, deploying KOL marketing, setting up online consultants system etc.

A closer look on Botanee

- Botanee's core product**, Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, has become one of the most popular and well-known products in China's dermocosmetic market. It sold 4mn+ units online during Double 11 in 2021 and contributed to 18.4%/ 17.8%/ 18.4%/ 13.6% of Botanee's revenue over 2017-1H20. The company kept upgrading existing hero products to meet new consumer needs, to expand its product portfolio, so as to attract new users and achieve sustained sales growth. Of note, more hero products were launched during the Double 11 in 2021. These included the Winona Soothing Repairing Freeze-Dried Mask, Winona Anti-Sensitive Essence and Winona Sunblock Milk.
- Strength in herbal-based ingredients enables differentiation.** Headquartered in Yunnan, a region which is endowed with rich vegetation, in our view, Botanee has an edge in gaining easy access to natural resources which could be used for the development of herbal-based SKUs. Prinsepia utilis, purslane, Yunnan camellia and Yunnan Paris Rhizome are found to offer good anti-sensitive treatment to skins. Through a series of clinical trials, the company developed a series of proprietary active ingredients, such as prinsepia utilis ceramide, peony root bark extract, calyx physalis extract, renal tea extract, pu' er tea extract, Thengchong hot spring fungus derived ectoin, as well as its portfolio of skin care products suitable for sensitive skin.

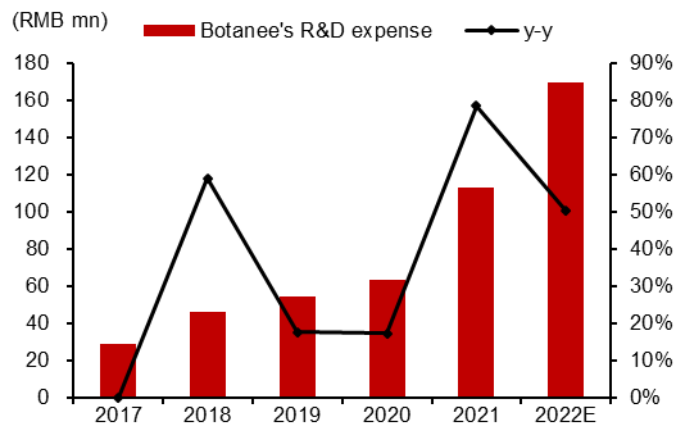
Figure 64: Botanee's strength in herbal-based ingredients enables differentiation

Key herbal-based ingredients of Winona		
Plant	Function	Products
Thorn fruit 	Thorn fruit oil contains unsaturated fatty acid required by human body, can stimulate the skin cutin cell synthesis of ceramide and hyaluronic acid, repairing the damaged skin barrier to keep skin healthy	Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, Winona Anti-sensitive Moisturizing Tolerance-Extreme Essence
Purslane 	It's an annual herbaceous plant, resistant to drought, has heat-clearing, detoxifying, anti-inflammatory and anti-allergic effect, can effectively relieve skin irritation, has soothing effect for sensitive skin.	Winona Anti-sensitive Moisturizing Tolerance-Extreme Mask
Yunnan camellia 	Yunnan camellia leaf extract has skin whitening effect. Its seeds are rich in vitamins and unsaturated fatty acid, has hydrating, smoothing effect for skin.	Winona Extra Moisturizing Lotion and BB Cream
Yunnan Manyleaf Paris Rhizome 	Winona laboratory studies have found that extracts from Yunnan manyleaf paris rhizome has the effect to bar acne-causing sources.	Winona Anti-acne Cream, Winona Anti-acne Repair Essence

Source: Oceanengine.com, CMBIGM research

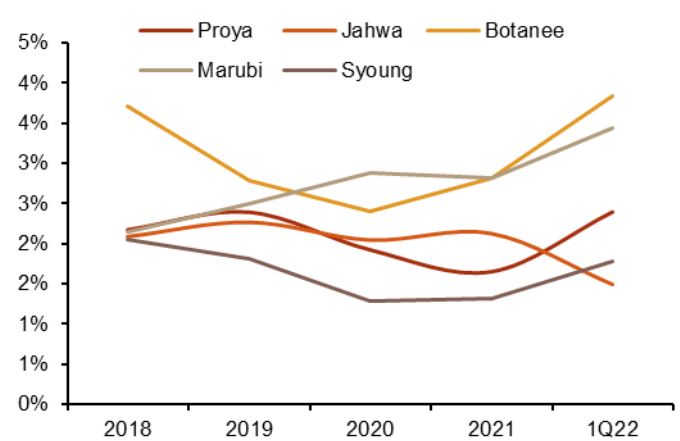
- **Strong commitment to clinical and academic research adds to technological strength and brand image building.** The company has been proactively cooperating with medical and other renowned institutions for R&D and clinical research. For instance, Winona cooperated with Chinese Academy of Sciences' Kunming Institute of Botany for R&D in 2008. Meanwhile, Botanee also worked with the Chinese Association of Dermatologists and 16 renowned hospitals, including Peking University First Hospital, for clinical tests.

Figure 65: Botanee's R&D expenses amounted to RMB165mn+ for 2022E, in our view



Source: Company data, CMBIGM research

Figure 66: Botanee has relatively high R&D expense ratio among major A-share cosmetic companies



Source: Company data, CMBIGM estimates

- **As of end 2021, Botanee was warranted 80 intellectual properties.** Among which, 22 IPs were for invention (regarded as the most difficult to obtain and thus most valuable type of IP by the industry), 27 IPs were for appearance and the remaining were for new application. To achieve so, the company spent more on R&D than its major A-share peers, and this was represented by a 3.1%/ 40.7% average R&D expense ratio/ CAGR in 2017-21. Botanee is also attentive to the establishment of academic influence, and contributed to the drafting of 15 dermatology-related medical guidelines and expert consensus as of 2021. Botanee also published the book, "Synthesis of Clinical Application of Winona Functional Skin Care Products", which collected 128 fundamental research papers and clinical application of Winona products. Of note, the book has been published in major domestic and foreign periodicals.

- Product/ brand portfolio expansion expected to drive sustained future growth.** Subsequent to the success of Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, the company continued to enlarge its product portfolio to meet the increasingly diversified consumer needs. It expanded from facial cream to essence, mask, sunscreen, foundation, eye care products etc., from anti-sensitive repairing function to whitening, anti-aging, hydrating, anti-acne treatments as well. It launched 5+ new product series (Barrier Repair, Firming Repair, Rich Moisturizing Repair, Acqua-shield Sunblock, Zirun Restoring & Moisturizing series etc.) and 40+ new products in 2021 and several new products (Revitalizing Repairing Essence, Camellia-lucent Spot-Correcting Essence etc.) in 1Q22. Separately, the company also keeps expanding its brand portfolio. It launched Winona Baby in 2021 and plans to launch AOXMED in 2022. The two brands target anti-sensitive baby care and luxury anti-aging skin care, respectively. Baby care and premium cosmetics are two of the most rapidly growing cosmetic sub-sectors in China in the past five years and are expected to also outperform in the next 3-5 years based on Euromonitor, and anti-aging is among the most popular cosmetic functions in recent years. We think, with its strong product innovation capability and expansion into outperforming sub-sectors, on the back of successful experience on hero products development, Botanee is well positioned to keep expanding its user base and maintain a steady growth momentum in the next 2-3 years.

Figure 67: Botanee has developed a rich product matrix able to meet diversified consumer needs

Winona's 13 product series (with key products)						
Anti-sensitive	Moisturizing	Anti-acne	Anti-aging	Whitening	Sun protection	Makeups
2014 Anti-Sensitive Series (Anti-Sensitive Moisturizing Tolerance-Extreme Cream)	2014 Extra Moisturizing Series (Extra-Moisturizing Emulsion)	2014 Oil-Control Relieving Series (Oil-Control Relieving Gel)	2014 Firming Series (Anti-Aging Cream)	2015 Whitening Series (Arbutin Whitening Essence)	2015 Sun Protection Series (Sunblock Cream)	2020 Make-up Series (Safe Soothing & Moisturizing Foundation)
2014 Anti-Redness series (Anti-Redness Rich Moisturizing Cream)	2014 Moisturizing & Softening Series (Moisturizing & Softening Cream)	2015 Anti-Acne Series (Anti-Acne Cream)		2017 Camellia-Lucent Series (Camellia-Lucent Spot Correcting Essence)		
	2018 Hyaluronic Acid Series (Hyaluronic Acid Moisturizing & Repair Lotion, Hyaluronic Acid Repair Essence)					

Source: Company data, CMBIGM research

- **Clinical channels and endorsement of doctor KOLs are key strengths.** The company had been making significant efforts to develop its sales channels to hospitals since 2008. By 2021, the company has established cooperation relationship with dermatology department of most of the grade-three class-A hospitals (the highest grade according to the national classification system of hospitals in mainland China). This is a highly important channel, in our view, as it enables direct access to consumers with heavier skin issues who typically offer higher repurchase rate and brand stickiness. Besides, the cooperation with doctor KOLs and proactive participation in national or international dermatology-related forums helped Botanee to build and enhance the image as a highly specialized and trustable brand. For instance, Winona was the first Chinese cosmetics brand to participate World Congress of Dermatology in 2015, to which it attended again in 2019.
- **A fast-mover in self-operated sales and private-domain channel building.** Among major A-share cosmetic companies, Botanee, Proya and Syoung have relatively higher exposure to online sales, which accounted for c80% of their revenue as of 2021, while Jahwa and Marubi have relatively more balanced exposure. For online sales, Botanee relies more on self-operated distribution, largely through official stores on third-party EC platforms and self-built platforms, rather than relying on any physical intermediaries. Self-operated sales accounted for 63.2% of total revenue in 2021. Botanee was one of the pioneers in embracing emerging sales channels and marketing media. The company proactively deployed trending platforms, such as Little Red Book, TikTok, Zhihu, etc., and new marketing forms such as customer educations and active content sharing. On the other hand, Botanee is also a fast-mover in private-domain channel building. It set up online malls in its WeChat public account in 2017 and in its Wechat mini-program in 2018. This has been effective in attracting subscriptions, cementing its brand moat and finally improving brand stickiness and member repurchase rate.

Figure 68: Exposure to online channels of major A-share cosmetic companies

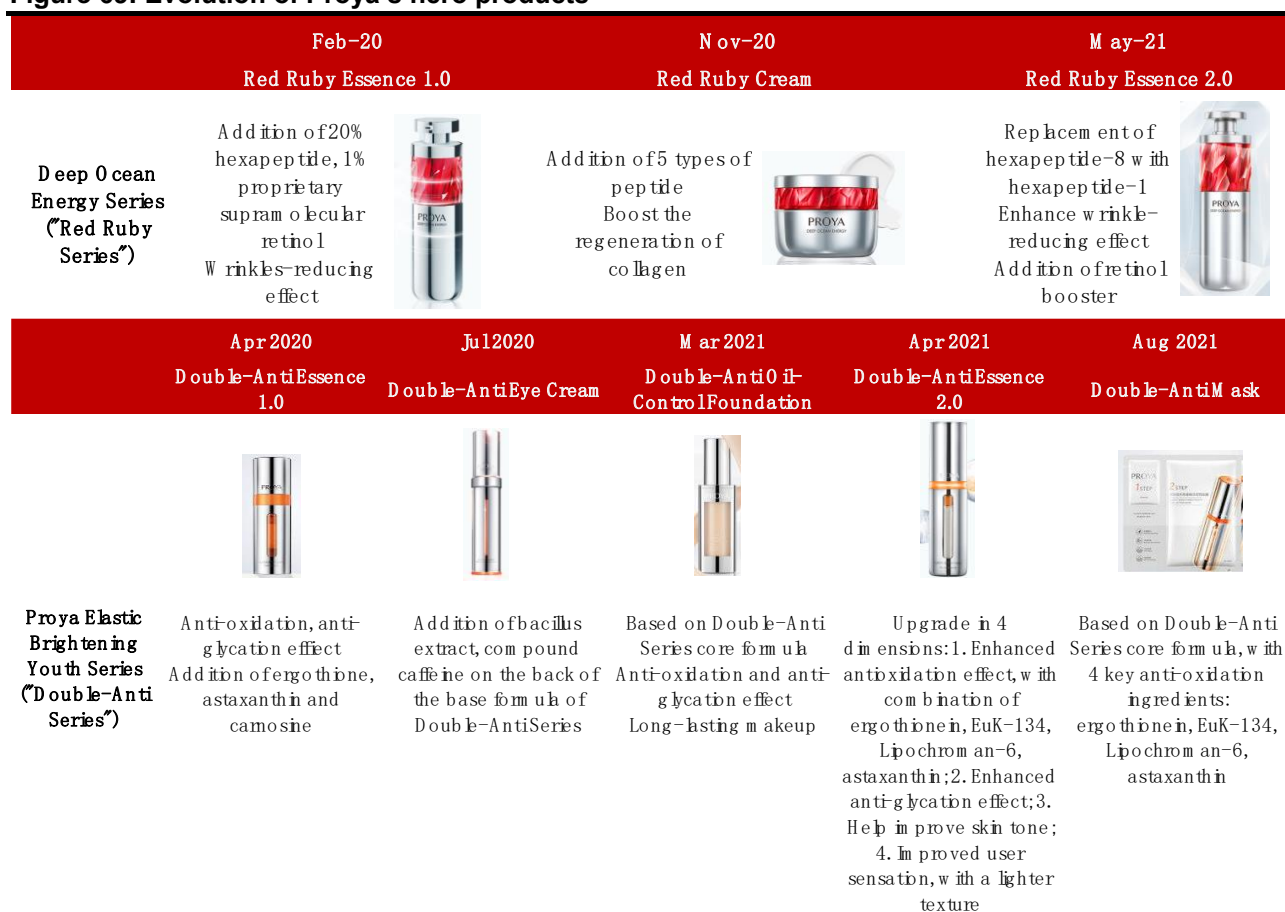
Company	Ticker	% of	% of	% of	% of	% of	% of
		online	online	online	online	online	online
		sales	sales	sales	sales	sales	sales
		2016	2017	2018	2019	2020	2021
Proya	603605 CH	30.0%	36.0%	43.5%	53.0%	69.9%	84.7%
Jahwa	600315 CH	15.9%	21.8%	27.8%	34.0%	42.3%	42.0%
Botanee	300957 CH	n.a.	61.2%	71.1%	76.3%	82.4%	82.0%
Marubi	603983 CH	n.a.	n.a.	41.7%	44.9%	54.4%	57.5%
Syoung	300740 CH	n.a.	n.a.	96.4%	89.2%	90.1%	88.2%

Source: Company data, CMBIGM

A closer look on Proya

- Proya’s “Morning C Night A” formula is gaining traction.** “Morning C Night A” formula refers to the skin care process that consists of using products containing types of vitamin C, such as prototype VC, VC derivatives, in the morning for whitening treatment, and using products containing types of vitamin A (retinoids), such as retinol (视黄醇), retinal (视黄醛), retinyl (视黄酯), in the evening for regenerating/ anti-aging treatment. Thanks to the rise of knowledge-sharing social platforms and push by cosmetics brands, the “Morning C Night A” formula gained high popularity in China in recent years. Proya was one of the first-movers to grasp the business opportunity from such trend, and also one of major promoters of the concept in China. The company launched Proya Deep Ocean Energy Wrinkless and Firming Essence (“Red Ruby Essence”) for anti-aging treatment and Proya Double-anti Elastic Brightening Youth Essence (“Double-anti Essence”) for anti-aging of relatively younger skin in 2020, which later became two important hero products for the company. The sales volume of Proya Red Ruby Essence ranked no.2 among anti-aging serum/ essences on Tmall, only behind EL’s ANR serum. The product contains three core ingredients: 20% hexapeptide, 1% supramolecular retinol and three types of rare seaweed extracts. The supramolecular retinol is Proya’s proprietary ingredient, which is less irritative while having the same anti-aging efficacy than traditional retinol, therefore allowing for better user experience and increasing the product’s suitability for sensitive skin. The initial success of the core products was followed by steady product upgrade and product portfolio expansion. The company launched the 2.0 version for the two core essences in 2021 and enlarged the Red Ruby series with eye cream, the Double-anti series with eye cream, mask, foundation, the essence family with Proya Deep Ocean Invigorate & Renew Essence (“Roe Essence”) etc. We believe such strength in product innovation would allow Proya to keep outperforming the industry in longer-term.

Figure 69: Evolution of Proya’s hero products



Source: Company data, CMBIGM research

- **Notable progresses in ingredients know-how in recent years.** As of 2021, among major domestic cosmetic brand owners, Jahwa, Proya and Jala took the lead in terms of number of patents (374, 201 and 168, respectively). Meanwhile Proya owned the highest number of patents for invention. Of note, invention license is regarded as more difficult to obtain considering a longer time for approval and lower approval rate. According to company data, Proya had 92 patents for invention (30+ among these on ingredient carrier technology) by 2021, which accounted for 46% of the total. It was followed by Jahwa (89 or 24% of the total) and Bloomage (89 or 54% of the total). Proya has made notable progresses especially in cosmetic ingredients-related technology in the past decade, as a result of continued efforts in independent R&D and cooperation with global giants in specific areas. We highlight here below some of the key steps the company completed to build up its technological strength.
- **Proya set up its R&D center in 2012**, a relative early-mover among its domestic peers. The company kept seeking cooperation with global giants in specific areas within the cosmetic industry chain, which was, in our view, a key strategy for Proya to catch-up with its foreign peers. Prior to 2017, the company started to devote efforts in functional skin care segment, which was regarded as a key potential future growth engine by then. Proya strived to expand in the segment through the development of ingredients with high skin care, especially anti-aging, efficacy, and later the introduction of hero products based on such ingredients. The company's R&D team eventually selected retinol and hex peptide as the key ingredients to add into and market for its new functional product series.
- **In our view, the development of retinol-based products has been a smart choice** for Proya to penetrate and differentiate itself in the anti-aging segment, as retinol is the only ingredient officially certified by FDA for its efficiency to resist static wrinkles. However, given the complexity of commercial application, retinol-based essence was not widely used, and that makes Proya to stand out from its peers through its proprietary supramolecular retinol technology. On the other hand, hex peptide would be a good complementary to retinol, as it is efficient to resist dynamic wrinkles.
- **In 2019, Proya tied up its cooperation relationship with LipoTrue**, a globally renowned biotech laboratory specialized in the development of advanced active ingredients. The Hexapeptide Botox, which is a highly efficient anti-wrinkle ingredient, was applied in several products of the leading Spanish anti-aging brand SingulaDerm. The cooperation would ensure Proya with a more secure supply of hexapeptide. Proya also developed the method to measure the concentration of hexapeptide to support its marketing claims and help build the image of a professional brand.
- **On the back of these technical know-how, Proya launched its three core functional skin care products in 2020**, Proya Advanced Original Repair Concentrating Essence for barrier repairing ("Original Essence"), Proya Deep Ocean Energy Wrinkless and Firming Essence ("Red Ruby Essence") for anti-aging treatment, Proya Double-anti Elastic Brightening Youth Essence ("Double-anti Essence") for anti-aging of relatively younger skin.

Figure 70: Proya has a high portion of patents for invention among major domestic cosmetic companies

Company	Ticker	Main brands	N. of patents	N. of patents for invention	N. of patents for new application	N. of patents for appearance
Jahwa	600315 CH	Herborist, Dr Yu	374	89	26	265
Proya	603605 CH	Proya, TIMAGE	201	92	19	90
Bloomage	688363 CH	Biohyalux, Quadha	166	89	49	28
Lafang	603630 CH	Lafang, Raclen	139	74	1	64
Green Pine	300132 CH	Nox Bellcow	99	29	58	12
Botanee	300957 CH	Winona, Winona Baby, Zirun	80	22	31	27
Yatsen	YSG US	Perfect Diary, Little Ondine	50	0	1	49
Marubi	603983 CH	Marubi, Haruki	146	81	0	65
Imeik	300896 CH	EME, Ifresh	45	25	0	20
Syoung	300740 CH	Unifon, Xiaomihu, YuMen	29	17	0	12
Jala	Not listed	Chando, Springsummer	168	41	5	122
Chicmax	Not listed	Kans, One Leaf	62	0	3	52
Huanya	Not listed	Meifubao, Seeyoung	138	63	15	60
Pechoin	Not listed	Pechoin, Sansen	66	0	2	64
Yige	Not listed	Florasis, OGP	98	6	21	71
Dr Plant	Not listed	Dr Plant	93	7	8	78
Total	-	-	1954	635	239	1319

Source: Company data, CMBIGM

Note: as of 2021.

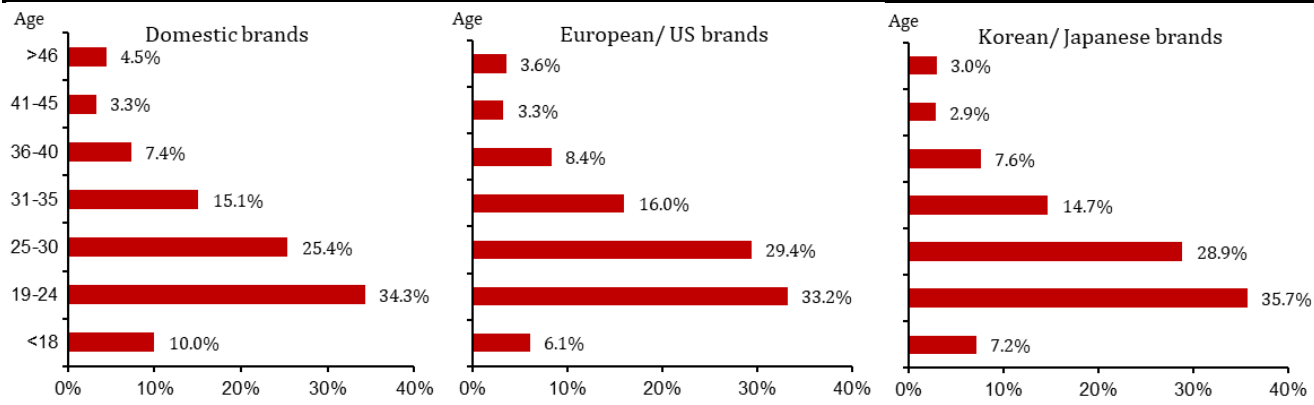
- **In 2021, Proya established its cooperation with Ashland**, which is a global leading provider of special materials, as to further enhance the company's strength in ingredients R&D and procurement. Ashland will provide exclusive 100% natural ingredient research for Proya which includes anti-oxidant and anti-aging formulae. Besides, Proya has also set up cooperation relationship with other global chemical giants including BASF, DSM, Croda, to keep improving the efficacy of ingredients.
- **A pioneer in blockbuster creation and omni-channel marketing**. Proya was one of the first-movers, among both major domestic and foreign players, in building an in-house EC team, initiating KOL marketing on emerging social platforms which helped ensure a relatively high efficiency and profitability of its LS operations. For instance, the company set up its in-house EC team to penetrate Taobao channel as early as in 2012. On the other hand, Proya started to proactively operate on emerging platforms, such as TikTok and Little Red Book, in 2018, which worked well with its hero product strategy. Proya's "Bubble Mask" was the earliest example of a hero product dated. The product achieved the highest monthly sales on Tmall with 1mn+ unit being sold in a single month in 2019. Proya manipulated the same winning formula and launched the "Morning C Night A" combo later in 2020.

Customer – the five characteristics of Generation Z

Generation Z (a.k.a Gen Z) refers to those who were born in 1995-2009 and currently aged 12-28. China’s Gen Z grew up in a much more affluent macroeconomic environment, with notably improved life quality, compared to their parents. Speaking of cosmetics spending, Gen-Z are mainly young women who are less savings-cautious, internet savvy, brand-diversified and ingredient-obsessive. Based on mUserTracker, the number of gen Z internet users reached 380mn in July 2020, accounting for 27% of the total number of mobile Internet users in China, and they spent on average 5+ hours online per day. Meanwhile, both shopping experience and product attributes such as quality, uniqueness, differentiation are the key factors to consider when they make their purchases.

- Characteristics 1: Women and the early Gen-Z form the spending pillar.** Based on iResearch, women accounted for c.77% of cosmetics purchasers surveyed in 2020, and consumers aged 18-29 years old accounted for c.50% of the total, with those aged 25-29 as the largest sub-group, which accounted for c.29.5% of the total. Consumer distribution by city tier is relatively balanced, with users from T1/ T2/ T3 cities accounted for 23%/ 21.9%/ 21.6%, respectively. On TikTok, women, young people aged 18-25 and people from T2-T4 cities were the main consumer group.

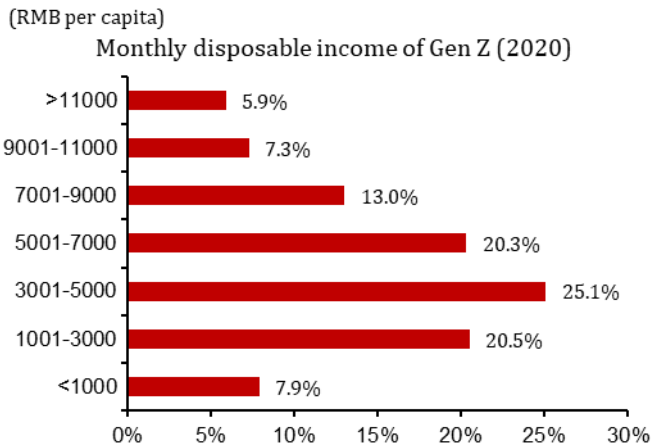
Figure 71: Cosmetics purchasers breakdown by age group (2020)



Source: iResearch, CMBIGM

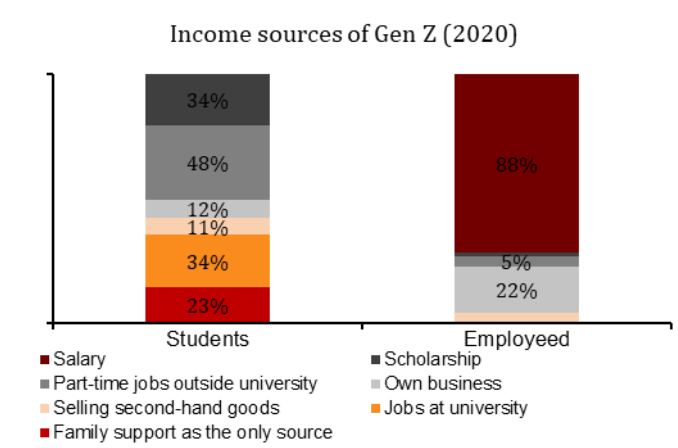
- Characteristics 2: Eager to spend.** According to iResearch, average annual spending on cosmetics by gen Z in 2020 was RMB3,315, of which university students spent RMB3,212 on average per year, while those on-the-job spent RMB5,683 on average. Overall, gen Z are more eager to spend. Mapping their annual spending to their disposable income of RMB4,193 shows that they only save c.20% of their income, which is quite below the 40%+ average of national saving rate. Despite this, Gen-Z also earn more than average with over 70% of them having monthly salary of RMB3000+ per month in 2020. Beyond this, 70%+ of gen Z have independent income sources than support from family.

Figure 72: Over 70% of Gen Z have monthly disposable income of RMB3,000+ in 2020



Source: iResearch, CMBIGM research

Figure 73: 70%+ of Gen Z have independent income sources than support from family in 2020



Source: iResearch, CMBIGM research

- Characteristics 3 : Diverging brand preferences albeit “Guochao”**. For skin care, gen Z preferred relatively mature brands, largely due to, in our view, greater trust in their safety and efficacy, which consumers typically care about the most when choosing skin care products. For makeups, emerging domestic brands also gained notable popularity among gen Z, likely due to their appealing design and good value.

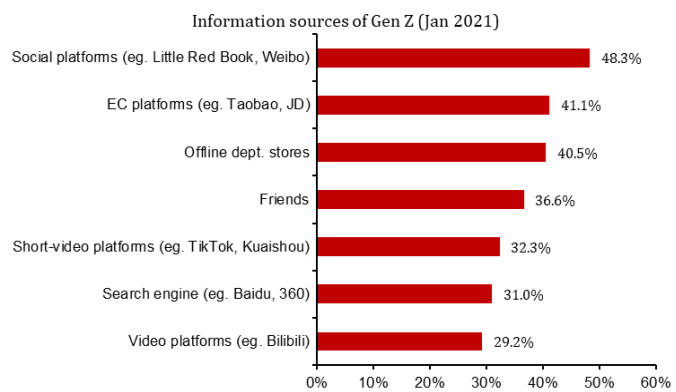
Figure 74: Top 5 brands purchased by Gen Z in 2020

Domestic brands		Foreign brands	
Relative mature brands	Chando Proya Pechoin	L'Oreal Estee Lauder Lancome Shiseido SK-II	Global giants with a relatively long history
Function-focused brand	Winona		
Online-based emerging brand	HFP		

Source: iResearch, CMBIGM research

- Characteristics 4: Being internet-native**. Channels for purchase has been increasingly diversified and omni-channel distribution and marketing has become a must for cosmetic brands, in our view. Online platforms were the largest purchasing channel of cosmetics for gen Z. Based on iResearch, 62.3% of gen Z surveyed have made purchase of cosmetics on traditional e-commerce platforms in 2020, while c.58% have made purchases in offline channels (36.8%/ 36.6% for department stores/ cosmetic stores). Of note, short-video platforms have become the second largest online channel, where c.36% of the surveyed claimed to have made purchases of cosmetics in 2020. Social media were the major source of information and knowledge on cosmetics and beauty processes for gen Z, as c.50% of the latter used these platforms to get such information. Offline channels were still an important source as well, with over 40% of the gen Z surveyed claimed to visit for information, likely due to the unique user and social experience it can offer, in our view.

Figure 75: Social media was the major information source on cosmetics for gen Z



Source: iResearch, CMBIGM research

Figure 76: Ingredient safety and product efficacy matter the most for cosmetics buyers (Jan 2021)



Source: iResearch, CMBIGM research

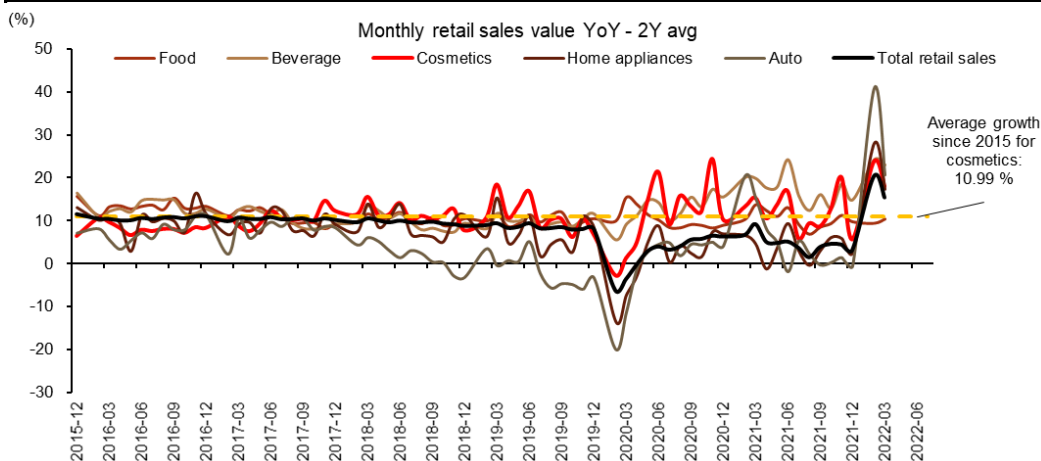
- Characteristics 5: Being ingredient-obsessive.** Based on iResearch, gen Z were relatively “rational” consumers, who would first consider efficacy and the safety of ingredients when purchasing cosmetics. Reputation of the product and brand awareness were also important, followed by the quality of interactions of the brand with consumers and the brand’s philosophy. Gen Z were open to follow recommendations and consider comments of other people, especially friends and KOLs that they trust. Over 60%/ 40% of gen Z surveyed claimed they would follow recommendations of friends/ KOLs they trust, and 75% of them would recommend a product if they had good user experience with it. Exterior product design was also an influential factor. Nearly 60% of the surveyed claimed that appealing design would induce buying.

Back to basic; facts and trends of China's beauty market

The facts – an above-industry growth with a high market concentration

- Robust cosmetics sales amid pandemic outbreaks and lockdowns.** Cosmetics sales seemed to be less impacted amid the initial outbreak of Covid in 1Q20. Trough was seen in Feb 2022 when cosmetics sales dropped 14.1% YoY, when this compared favourably to -20.5%/ -33.2%/ -30.0%/ -37.0% for total retail sales/ clothings/ home appliances/ auto in the same month, respectively. Of note, the former's average sales of the last two years has mostly maintained above 10%, well above other discretionary items.

Figure 77: Monthly retail sales YoY growth of cosmetics (2Y average)



Source: Wind, CMBIGM estimates

Figure 78: Annual retail sales YoY growth of major consumption goods

Annual retail sales value y-y (%)	Retail sales	F & B	Beverage	Cigarettes and alcohol	Apparel	Cosmetics	Jewelry	Daily-use goods	Home appliances	Furniture	Communication devices	Auto
2016	10.4	10.9	10.5	9.3	6.8	8.3	-	11.4	8.7	12.7	11.9	10.1
2017	10.2	10.2	10.3	7.9	8.0	13.5	5.6	8.0	9.3	12.8	11.7	5.6
2018	9.0	10.2	9.0	7.4	8.5	9.6	7.4	13.7	8.9	10.1	7.1	-2.4
2019	8.0	10.2	10.4	7.4	2.6	12.6	0.4	13.9	5.6	5.1	8.5	-0.8
2020	-3.9	9.9	14.0	5.4	-8.1	9.5	-4.7	7.5	-3.8	-7.0	12.9	-1.8
2021	12.5	10.8	20.4	21.2	14.2	14.0	29.8	14.4	10.0	14.5	14.6	7.6
4M2022	-0.2	9.5	10.4	7.8	-7.5	-3.6	0.2	2.5	2.4	-8.9	-1.6	-8.4

Source: Wind, CMBIGM research

Figure 79: Premium segment has significantly outperformed mass

China beauty market - top 20 companies (by sales value)										
Rank	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	P&G	P&G	P&G	P&G	P&G	P&G	P&G	L'Oréal	L'Oréal	L'Oréal
2	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	L'Oréal	P&G	P&G	P&G
3	Unilever	Unilever	Unilever	Unilever	Unilever	Shiseido	Shiseido	EL	EL	EL
4	Shiseido	Shiseido	Mary Kay	Mary Kay	Shiseido	Unilever	EL	Shiseido	Shiseido	Shiseido
5	Amway	Mary Kay	Shiseido	Shiseido	CP	CP	Unilever	LVMH	LVMH	LVMH
6	CP	CP	CP	CP	Mary Kay	EL	AP	Unilever	Unilever	Unilever
7	Mary Kay	Amway	Amway	Amway	AP	AP	LVMH	AP	AP	Pechoin
8	Beiersdorf	Jahwa	Jahwa	Jahwa	Pechoin	Pechoin	CP	Pechoin	Pechoin	Jala
9	J&J	EL	EL	EL	EL	Jala	Pechoin	Jala	Jala	AP
10	EL	Beiersdorf	LVMH	AP	Jala	Mary Kay	Jala	CP	CP	CP
11	Jahwa	J&J	J&J	Pechoin	Jahwa	LVMH	Mary Kay	Jahwa	LGHH	LGHH
12	LVMH	LVMH	Jala	Jala	LVMH	Jahwa	Jahwa	LGHH	J&J	J&J
13	fect Resourc	Jala	Beiersdorf	LVMH	Amway	Chicmax	Chicmax	J&J	Jahwa	Jahwa
14	Jala	fect Resourc	fect Resourc	fect Resourc	J&J	Amway	Infnitus	Mary Kay	Adolph	Chicmax
15	Longrich	AP	AP	J&J	Beiersdorf	Infnitus	Huanya	Huanya	YNBY	YNBY
16	Inoherb	Longrich	Pechoin	Beiersdorf	Infnitus	Huanya	LGHH	YNBY	Chicmax	Huanya
17	Henkel	Inoherb	Infnitus	YNBY	Huanya	J&J	J&J	Beiersdorf	Huanya	Adolph
18	AP	Henkel	Longrich	Infnitus	fect Resourc	YNBY	Amway	Chicmax	Mary Kay	Proya
19	Infnitus	YNBY	YNBY	Henkel	YNBY	Beiersdorf	YNBY	Adolph	Yatsen	Botanee
20	YNBY	Pechoin	Henkel	Huanya	Chicmax	LGHH	Beiersdorf	Amway	Beiersdorf	Beiersdorf

Note: domestic companies are highlighted in pink. Source: Euromonitor, CMBIGM research

Figure 80: China cosmetic market share concentration 2012-21

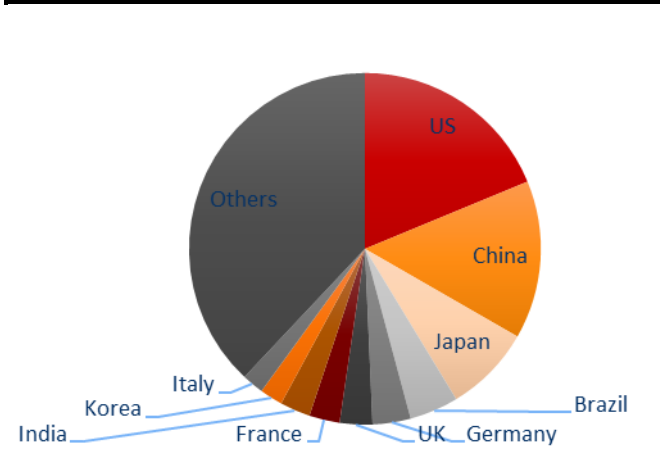
China beauty market - company share concentration (%)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Top 3	27.0	26.4	25.5	24.1	22.1	21.5	22.0	23.7	25.6	26.6
Top 5	33.3	32.5	31.8	30.0	27.9	27.2	28.0	30.1	32.3	33.2
Top 10	44.0	43.2	42.5	40.6	38.6	38.7	39.8	41.6	43.1	43.3
Top 20	55.8	55.7	55.8	54.8	53.2	53.3	53.4	53.7	54.5	54.4

Source: Euromonitor, CMBIGM research

The trends – China is catching-up globally; LS migration ongoing

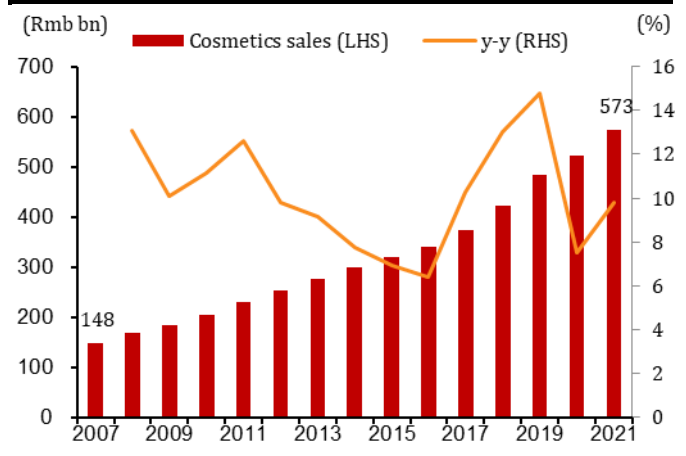
- Market size.** China was the second largest cosmetic market with 15% share in 2020, ranking just behind the US with 19% market share. Euromonitor estimated that China's beauty market was worth RMB573bn, after growing at a 11% CAGR in the past six years.

Figure 81: Global cosmetic market breakdown 2020



Source: Qianzhan CMBIGM research

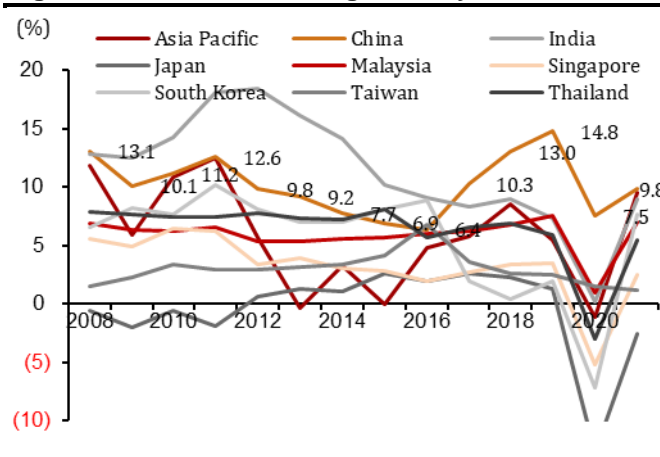
Figure 82: China cosmetics market size 2008-21



Source: Euromonitor, CMBIGM research

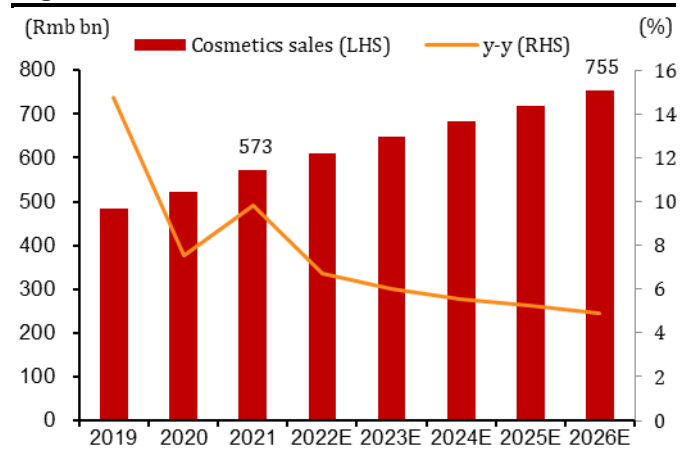
- Growth outlook.** Cosmetic sales in China was relatively resilient and grew by 7.5% and 9.8% in 2021, respectively, thanks to a high online sales exposure. On the other hand, despite the pandemic, Euromonitor forecasts China's cosmetic market to grow at 5% CAGR during 2022-26E driven by both rising penetration and increasing spending per capita.

Figure 83: Cosmetic sales growth by countries



Source: Euromonitor, CMBIGM

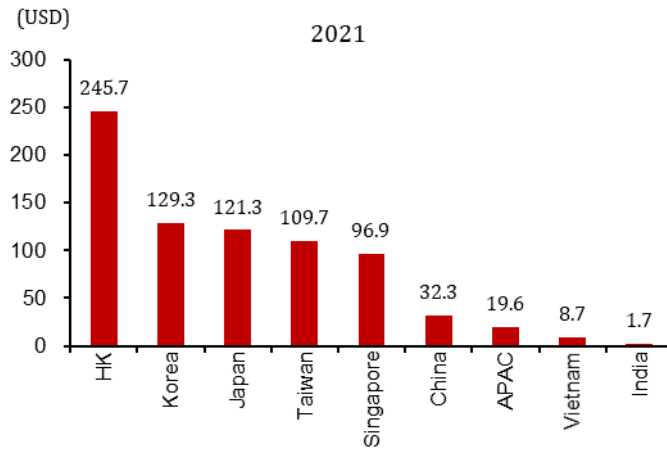
Figure 84: China cosmetics market forecasts 22-26E



Source: Euromonitor, CMBIGM

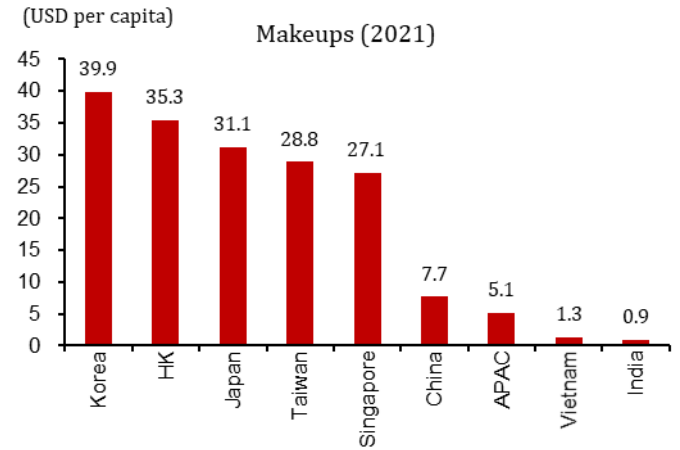
- Penetration.** Chinese consumers on average spent US\$70 per person in 2021, much lower than those of the US, South Korea, Japan and Europe that range approximately between US\$200-320. Among sub-categories like skincare and makeup, the global average per capita spending was US\$73 and US\$38, respectively. This compares to US\$25 and US\$6 per capita spending of Chinese consumers over the same period.

Figure 85: Comparison on per capita spending on skin care products



Source: Euromonitor, CMBIGM

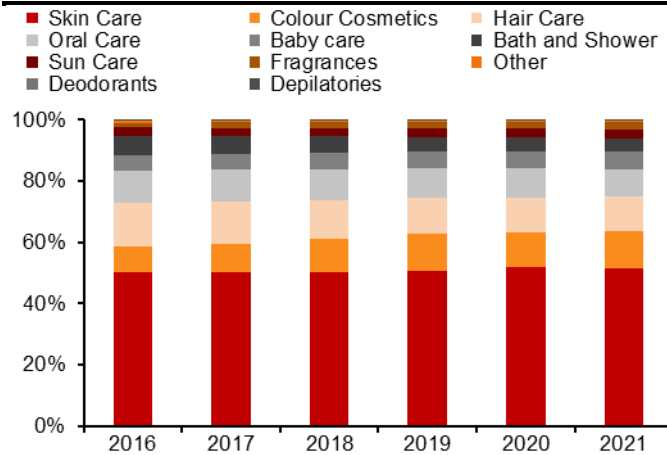
Figure 86: Comparison on per capita spending on makeups



Source: Euromonitor, CMBIGM

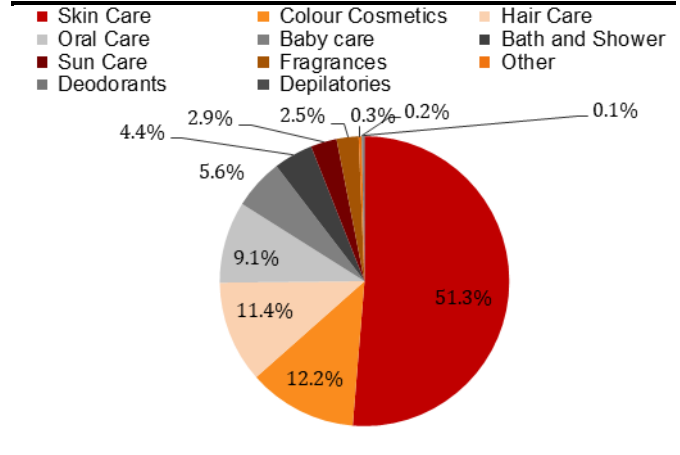
- Product portfolio.** In China, skincare is the largest segment, followed by makeups, hair care, oral care and baby care, with 51.3%, 12.2%, 11.4%, 9.1% and 5.6% share in 2021. Fragrance, makeups, baby care and sun care recorded faster growth in recent years, with 20.7%, 19.6%, 13.6%, 12.4% CAGR in 2016-21, respectively. Premium brands outgrow mass market brands.

Figure 87: Breakdown by category



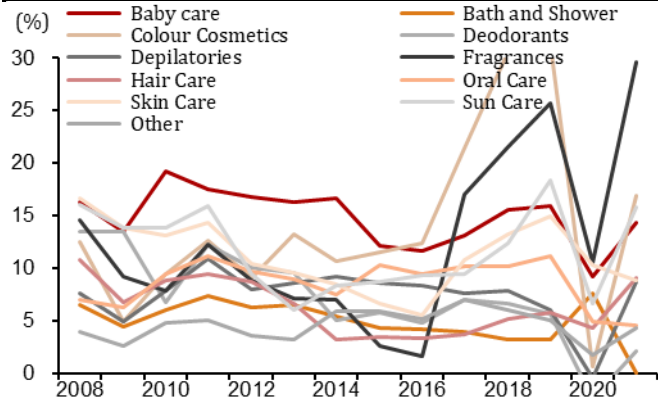
Source: Euromonitor, CMBIGM research

Figure 88: Breakdown by category (2021)



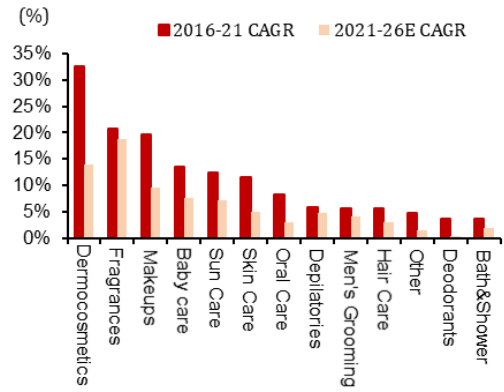
Source: Euromonitor, CMBIGM research

Figure 89: Cosmetic subsegment growth trajectories



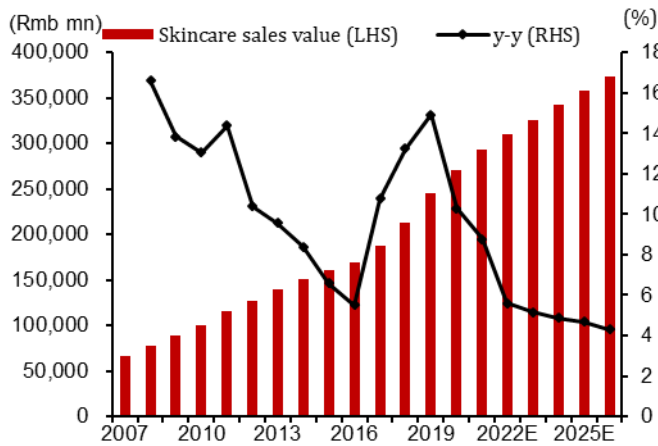
Source: Euromonitor, CMBIGM research

Figure 90: Sub-sectors' CAGR



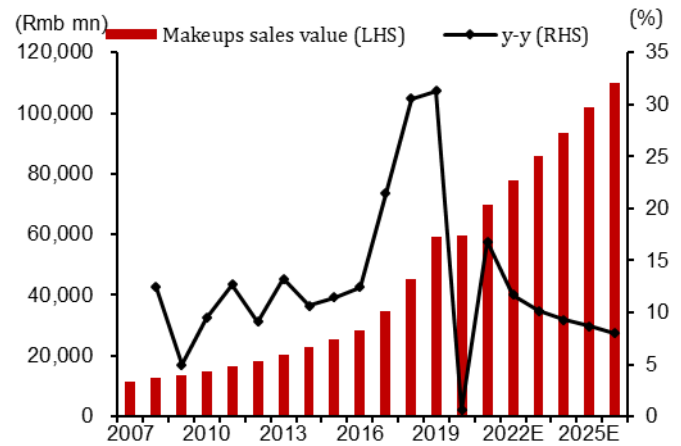
Source: Euromonitor, CMBIGM research

Figure 91: Skin care market size 2007-26E



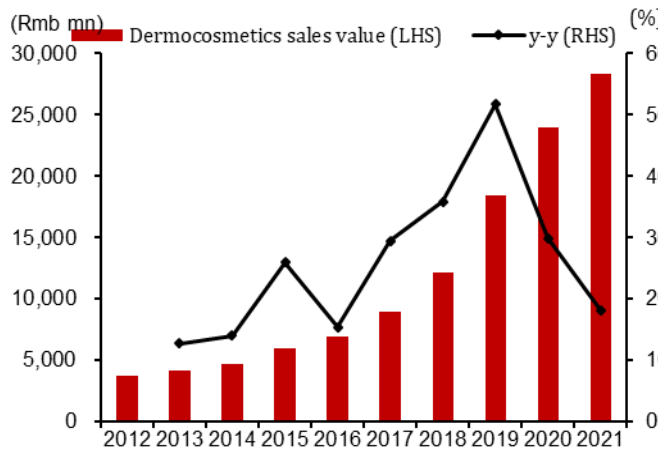
Source: Euromonitor, CMBIGM research

Figure 92: Makeups market size 2007-26E



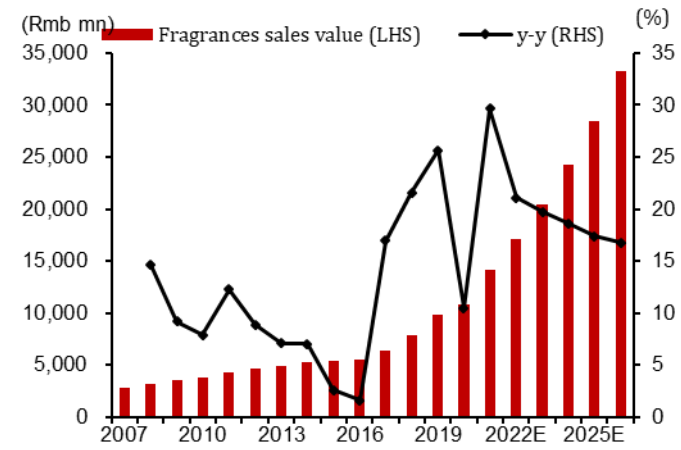
Source: Euromonitor, CMBIGM research

Figure 93: Dermocosmetics market size 2012-21



Source: Euromonitor, CMBIGM research

Figure 94: Fragrances market size 2012-26E



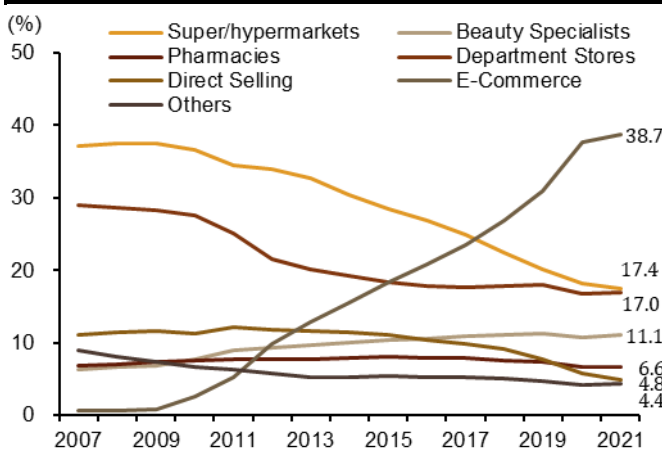
Source: Euromonitor, CMBIGM research

Figure 95: Premium segment has significantly outperformed mass

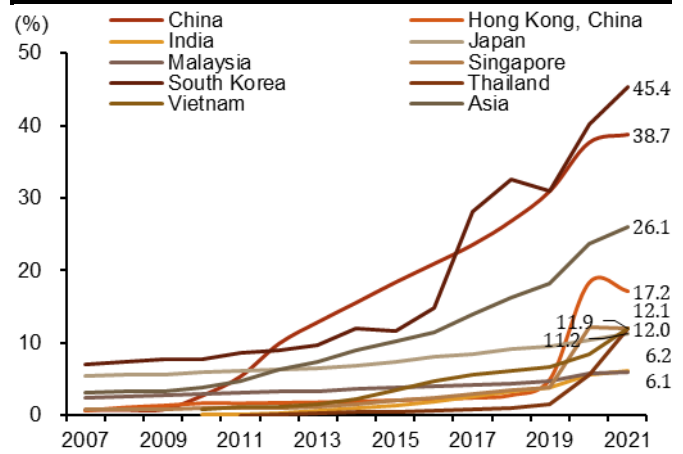
China's cosmetics sales y-y, premium vs mass											
	2019	2020	2021	2019	2020	2021	2016-21	2016-21	2022E-	2022E-	
	Premium	Premium	Premium	Mass	Mass	Mass	Premium	Mass	Premium	Mass	
							CAGR	CAGR	CAGR	CAGR	
Total	31.4%	18.1%	19.9%	8.0%	2.3%	4.4%	24.6%	5.6%	11.5%	1.1%	
Baby care	16.8%	10.0%	15.2%	15.8%	9.0%	14.2%	14.5%	13.5%	8.5%	7.5%	
Bath and shower	4.0%	7.7%	0.2%	3.1%	7.6%	-0.1%	4.2%	3.5%	2.9%	1.9%	
Makeups	44.1%	2.4%	23.5%	22.1%	-0.8%	11.0%	32.0%	12.2%	13.2%	5.4%	
Deodorants	4.1%	-4.3%	0.2%	5.6%	-2.5%	2.1%	2.3%	3.7%	2.0%	0.5%	
Fragrances	32.2%	14.7%	32.9%	-6.8%	-18.9%	-2.3%	27.0%	-8.8%	20.0%	-9.1%	
Hair Care	39.5%	23.6%	23.2%	-1.0%	-1.1%	4.1%	30.8%	0.6%	8.3%	0.4%	
Skin Care	28.6%	23.6%	18.1%	7.8%	2.0%	1.7%	23.6%	5.1%	10.8%	-1.5%	
Sun Protection	30.0%	0.5%	20.6%	13.6%	10.5%	14.5%	16.3%	11.0%	10.2%	5.9%	

Source: Euromonitor, CMBIGM research

- **A structural shift towards emerging LS platforms.** E-commerce has become the largest channel in China since 2018 and accounted for 38.7% of China's cosmetics sales in 2021 (vs. 10-28% in developed markets). This is followed by super/hypermarket and department store channels with 17.4%/ 17.0% sales contribution respectively. Given that Chinese cosmetic buyers are largely young and tech-savvy, the 38.7% online cosmetic penetration of the country was among the highest in Asia's league that stood at 26.1%.

Figure 96: The rise of EC in China's cosmetics sales

Source: Euromonitor, CMBIGM research

Figure 97: Comparison on share of EC channel in cosmetics sales among Asian countries/ regions

Source: Euromonitor, CMBIGM research

- **New trending EC channels and marketing media are emerging.** Cosmetic brand owners have been adopting an omni distribution channel that includes: 1) Online: traditional e-commerce platforms (traditional EC), emerging e-commerce platforms (emerging EC), private-domain channels that are mainly including brands or companies' own APPs/ official websites/ mini-programs/ social accounts/ chat groups on social APPs; 2) Offline: department store counters, exclusive stores, cosmetics stores, supermarkets, travel retail.

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%+ repeated 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 peers'), 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) expanding brand portfolios (AOXMED and Winona Baby), in addition to its leading Winona brand, which enables more precise customer segmentation. We initiate Botanee with 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. We forecast the brand to deliver 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 undergo 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. We estimate the brand to be able to achieve RMB1bn 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 end-22E PEG given the fast-growth and short listing history of the company.

Earnings summary

(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	N.A	72.7	52.2	37.8
P/B (x)	N.A	16.6	15.8	12.9	10.3
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	+17.8%
Current Price	RMB213

China Consumer Staples – Household and Personal Care

Joseph Wong
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Stock Data

Mkt Cap (RMB mn)	89,583
Avg 3 mths t/o (RMB mn)	364.2
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%

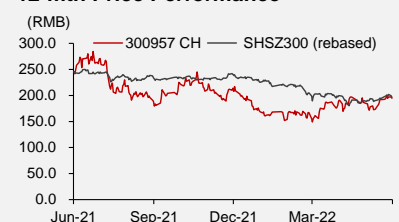
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	18.6%	12.0%
3-mth	31.3%	28.2%
6-mth	3.1%	16.2%

Source: Bloomberg

12-mth Price Performance







Source: Wind

A closer look on Botanee

- Botanee's core product**, Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, has become one of the most popular and well-known products in China's dermocosmetic market. It sold 4mn+ units online during Double 11 in 2021 and contributed to 18.4%/ 17.8%/ 18.4%/ 13.6% of Botanee's revenue over 2017-1H20. The company kept upgrading existing hero products to meet new consumer needs, to expand its product portfolio, so as to attract new users and achieve sustained sales growth. Of note, more hero products were launched during the Double 11 in 2021. These included the Winona Soothing Repairing Freeze-Dried Mask, Winona Anti-Sensitive Essence and Winona Sunblock Milk.
- Strength in herbal-based ingredients enables differentiation.** Headquartered in Yunnan, a region which is endowed with rich vegetation, in our view, Botanee has an edge in gaining easy access to natural resources which could be used for the development of herbal-based SKUs. Prinsepia utilis, purslane, Yunnan camellia and Yunnan Paris Rhizome are found to offer good anti-sensitive treatment to skins. Through a series of clinical trials, the company developed a series of proprietary active ingredients, such as prinsepia utilis ceramide, peony root bark extract, calyx physalis extract, renal tea extract, pu' er tea extract, Thengchong hot spring fungus derived ectoin, as well as its portfolio of skin care products suitable for sensitive skin.

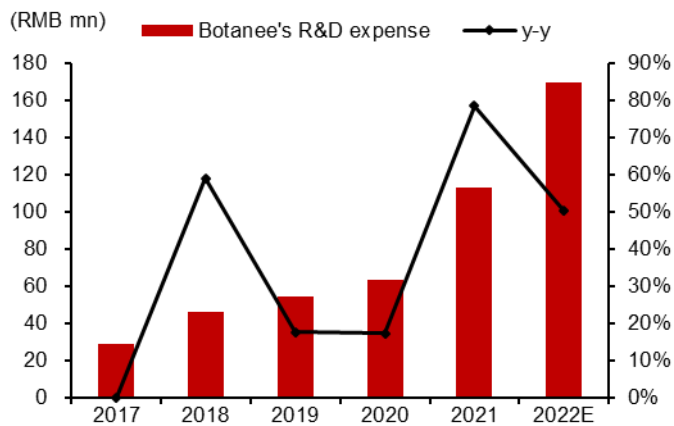
Figure 98: Botanee's strength in herbal-based ingredients enables differentiation

Key herbal-based ingredients of Winona		
Plant	Function	Products
Thorn fruit 	Thorn fruit oil contains unsaturated fatty acid required by human body, can stimulate the skin cutin cell synthesis of ceramide and hyaluronic acid, repairing the damaged skin barrier to keep skin healthy	Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, Winona Anti-sensitive Moisturizing Tolerance-Extreme Essence
Purslane 	It's an annual herbaceous plant, resistant to drought, has heat-clearing, detoxifying, anti-inflammatory and anti-allergic effect, can effectively relieve skin irritation, has soothing effect for sensitive skin.	Winona Anti-sensitive Moisturizing Tolerance-Extreme Mask
Yunnan camellia 	Yunnan camellia leaf extract has skin whitening effect. Its seeds are rich in vitamins and unsaturated fatty acid, has hydrating, smoothing effect for skin.	Winona Extra Moisturizing Lotion and BB Cream
Yunnan Manyleaf Paris Rhizome 	Winona laboratory studies have found that extracts from Yunnan manyleaf paris rhizome has the effect to bar acne-causing sources.	Winona Anti-acne Cream, Winona Anti-acne Repair Essence

Source: Oceanengine.com, CMBIGM research

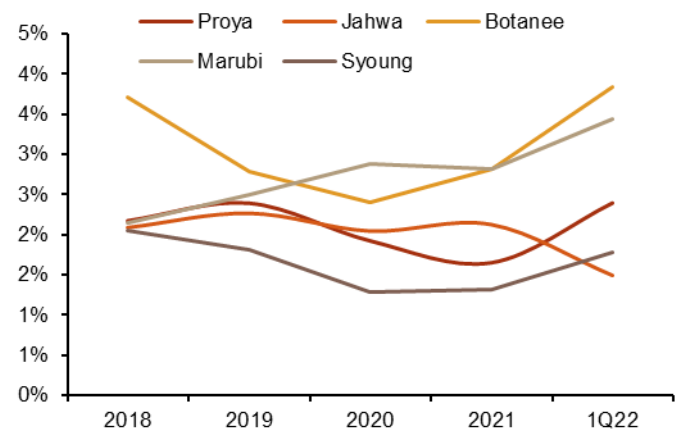
- Strong commitment to clinical and academic research adds to technological strength and brand image building.** The company has been proactively cooperating with medical and other renowned institutions for R&D and clinical research. For instance, Winona cooperated with Chinese Academy of Sciences' Kunming Institute of Botany for R&D in 2008. Meanwhile, Botanee also worked with the Chinese Association of Dermatologists and 16 renowned hospitals, including Peking University First Hospital, for clinical tests.

Figure 99: Botanee's R&D expenses amounted to RMB165mn+ for 2022E, in our view



Source: Company data, CMBIGM research

Figure 100: Botanee has relatively high R&D expense ratio among major A-share cosmetic companies



Source: Company data, CMBIGM estimates

- As of end 2021, Botanee was warranted 80 intellectual properties.** Among which, 22 IPs were for invention (regarded as the most difficult to obtain and thus most valuable type of IP by the industry), 27 IPs were for appearance and the remaining were for new application. To achieve so, the company spent more on R&D than its major A-share peers, and this was represented by a 3.1%/ 40.7% average R&D expense ratio/ CAGR in 2017-21. Botanee is also attentive to the establishment of academic influence, and contributed to the drafting of 15 dermatology-related medical guidelines and expert consensus as of 2021. Botanee also published the book, "Synthesis of Clinical Application of Winona Functional Skin Care Products", which collected 128 fundamental research papers and clinical application of Winona products. Of note, the book has been published in major domestic and foreign periodicals.

- Product/ brand portfolio expansion expected to drive sustained future growth.** Subsequent to the success of Winona Anti-sensitive Moisturizing Tolerance-Extreme Cream, the company continued to enlarge its product portfolio to meet the increasingly diversified consumer needs. It expanded from facial cream to essence, mask, sunscreen, foundation, eye care products etc., from anti-sensitive repairing function to whitening, anti-aging, hydrating, anti-acne treatments as well. It launched 5+ new product series (Barrier Repair, Firming Repair, Rich Moisturizing Repair, Acqua-shield Sunblock, Zirun Restoring & Moisturizing series etc.) and 40+ new products in 2021 and several new products (Revitalizing Repairing Essence, Camellia-lucent Spot-Correcting Essence etc.) in 1Q22. Separately, the company also keeps expanding its brand portfolio. It launched Winona Baby in 2021 and plans to launch AOXMED in 2022. The two brands target anti-sensitive baby care and luxury anti-aging skin care, respectively. Baby care and premium cosmetics are two of the most rapidly growing cosmetic sub-sectors in China in the past five years and are expected to also outperform in the next 3-5 years based on Euromonitor, and anti-aging is among the most popular cosmetic functions in recent years. We think, with its strong product innovation capability and expansion into outperforming sub-sectors, on the back of successful experience on hero products development, Botanee is well positioned to keep expanding its user base and maintain a steady growth momentum in the next 2-3 years.

Figure 101: Botanee has developed a rich product matrix able to meet diversified consumer needs

Winona's 13 product series (with key products)						
Anti-sensitive	Moisturizing	Anti-acne	Anti-aging	Whitening	Sun protection	Makeups
2014	2014	2014	2014	2015	2015	2020
Anti-Sensitive Series (Anti-Sensitive Moisturizing Tolerance-Extreme Cream)	Extra Moisturizing Series (Extra-Moisturizing Emulsion)	Oil-Control Relieving Series (Oil-Control Relieving Gel)	Firming Series (Anti-Aging Cream)	Whitening Series (Arbutin Whitening Essence)	Sun Protection Series (Sunblock Cream)	Make-up Series (Safe Soothing & Moisturizing Foundation)
2014	2014	2015		2017		
Anti-Redness series (Anti-Redness Rich Moisturizing Cream)	Moisturizing & Softening Series (Moisturizing & Softening Cream)	Anti-Acne Series (Anti-Acne Cream)		Camellia-Lucent Series (Camellia-Lucent Spot Correcting Essence)		
	2018					
	Hyaluronic Acid Series (Hyaluronic Acid Moisturizing & Repair Lotion, Hyaluronic Acid Repair Essence)					

Source: Company data, CMBIGM research

- Clinical channels and endorsement of doctor KOLs are key strengths.** The company had been making significant efforts to develop its sales channels to hospitals since 2008. By 2021, the company has established cooperation relationship with dermatology department of most of the grade-three class-A hospitals (the highest grade according to the national classification system of hospitals in mainland China). This is a highly important channel, in our view, as it enables direct access to consumers with heavier skin issues who typically offer higher repurchase rate and brand stickiness. Besides, the cooperation with doctor KOLs and proactive participation in national or international dermatology-related forums helped Botanee to build and enhance the image as a highly specialized and trustable brand. For instance, Winona was the first Chinese cosmetics brand to participate World Congress of Dermatology in 2015, to which it attended again in 2019.
- A fast-mover in self-operated sales and private-domain channel building.** Among major A-share cosmetic companies, Botanee, Proya and Syoung have relatively higher exposure to online sales, which accounted for c80% of their revenue as of 2021, while Jahwa and Marubi have relatively more balanced exposure. For online sales, Botanee relies more on self-operated distribution, largely through official stores on third-party EC platforms and self-built platforms, rather than relying on any physical intermediaries. Self-operated sales accounted for 63.2% of total revenue in 2021. Botanee was one of the pioneers in embracing emerging sales channels and marketing media. The company proactively deployed trending platforms, such as Little Red Book, TikTok, Zhihu, etc., and new marketing forms such as customer educations and active content sharing. On the other hand, Botanee is also a fast-mover in private-domain channel building. It set up online malls in its WeChat public account in 2017 and in its Wechat mini-program in 2018. This has been effective in attracting subscriptions, cementing its brand moat and finally improving brand stickiness and member repurchase rate.

Figure 102: Exposure to online channels of major A-share cosmetic companies

Company	Ticker	% of	% of	% of	% of	% of	% of
		online	online	online	online	online	online
		sales	sales	sales	sales	sales	sales
		2016	2017	2018	2019	2020	2021
Proya	603605 CH	30.0%	36.0%	43.5%	53.0%	69.9%	84.7%
Jahwa	600315 CH	15.9%	21.8%	27.8%	34.0%	42.3%	42.0%
Botanee	300957 CH	n.a.	61.2%	71.1%	76.3%	82.4%	82.0%
Marubi	603983 CH	n.a.	n.a.	41.7%	44.9%	54.4%	57.5%
Syoung	300740 CH	n.a.	n.a.	96.4%	89.2%	90.1%	88.2%

Source: Company data, CMBIGM

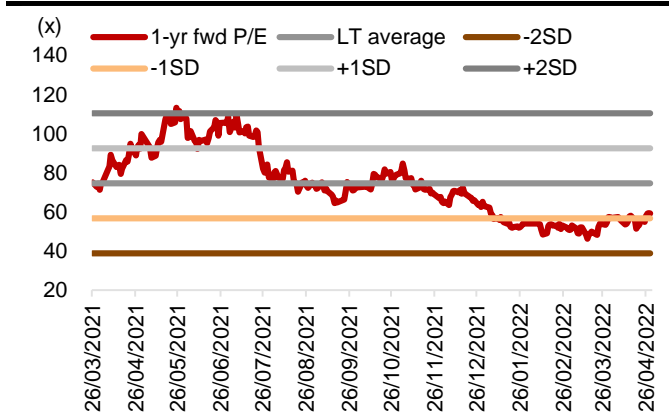
Valuation and risks

- Our TP is based on 2.0x end-22E PEG given the fast-growth and short listing history of the company.

Investment risks

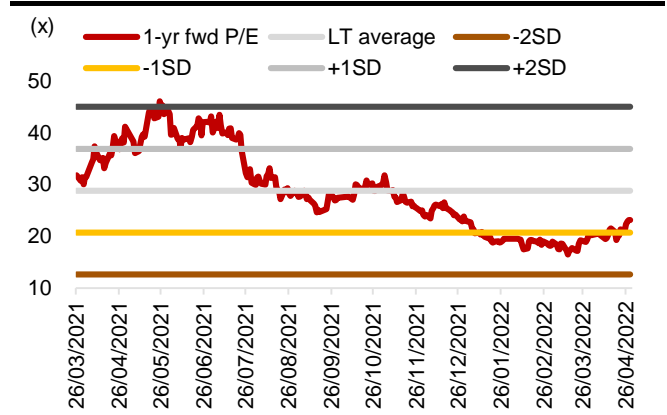
- Change in dermocosmetic regulations, failure in further executing its hero product strategy and brand incubation, product recalls, undisciplined promotional efforts among domestic/ foreign brands and selling pressure from shareholder lock-up expiration.

Figure 103: Botanee - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 104: Botanee - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

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 year	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
Long-term deferred	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
Shareholders' equity	1,199	4,755	5,687	6,977	8,769

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

Proya Cosmetics (603605 CH)

On track to synergize its R&D franchise, hero products and live-streaming distribution

With warehouse spreading across Hangzhou, Chengdu, Guangzhou and 85% of sales deriving from ecommerce platforms, Proya, in our view, is relatively less impacted by recent lockdowns in Shanghai and Beijing, and hence better earnings certainty for 2Q. On the other hand, the expense related to the recall for its sunblocker could have weighted on Proya's 2Q performance. That said, considering a solid 618 sales momentum and a more controlled promotional expense (to intentionally buffer for the recall), we think Proya is on track to deliver a 2Q that is inline with its full year guidance. Longer term, we are convinced that Proya's 1) hero product strategy, 2) deepening ecommerce platforms penetration, and 3) proprietary R&D capability, will not only enable the company to persistently manage through the pandemic cycles (as it has been since early 2020), but also serves as the winning combo to sustain market share gain. We project an industry-beating 26% 3-year revenue CAGR for 2021-24E, underpinned by 31% growth in its online business, along with a 1.3pp GPM expansion p.a. We initiate Proya with BUY. Proya is our top pick along with Botanee.

- An irreplicable R&D capability as a strong backup of Proya's marketing strategies.** Proya sets up a new R&D center in Shanghai to gain better access to industry talents. The office will also be responsible for the research on new product formula and raw material experiments. Meanwhile, a research hub/hair care centre will also be established in Japan for the "Off & Relax" brand over 2H22. We think Proya is on a right track to synergize its irreplicable R&D capability with its hero products (Ruby and Double Essence) as well as live-streaming distribution, and hence a self-sustaining tangle between the three.
- Management guidance maintained despite the strict pandemic controls.** Proya is still confident to achieve 20-30% top line growth with 40%+ growth from online business (implying offline to down by mid-teens). This comes with a similar net profit growth trajectory when a small gross margins expansion is partially offset by a higher opex ratio, in our view.
- Valuation.** The stock is trading at 43.6 P/E. Our TP is based on 43.5x mid-23E P/E which represents +1sd above the average valuation since 2019, when the market began to re-rate Proya in view of the rising support in domestic brands, and subsequently a timely online migration amid the outbreak of COVID-19.

(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	3.8	5.3	6.5
P/E (x)	N.A	N.A	43.5	32.3	25.3
P/B (x)	N.A	N.A	9.2	7.6	6.2
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 (Initiation)

Target Price	RMB184
Up/Downside	+17.5%
Current Price	RMB157

China Consumer Staples – Household and Personal Care

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Stock Data

Mkt Cap (RMB mn)	44,238
Avg 3 mths t/o (RMB mn)	232.7
52w High/Low (RMB)	165.6/ 107.1
Total Issued Shares (mn)	281

Source: Bloomberg

Shareholding Structure

Hou Juncheng	34.7%
HKSC	19.4%
Fang Yuyou	18.1%

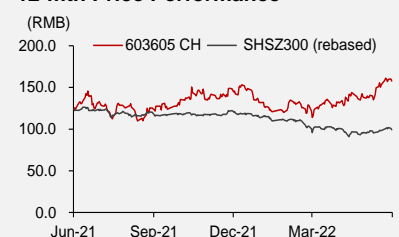
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	11.8%	5.5%
3-mth	26.5%	24.8%
6-mth	11.4%	25.8%

Source: Bloomberg

12-mth Price Performance

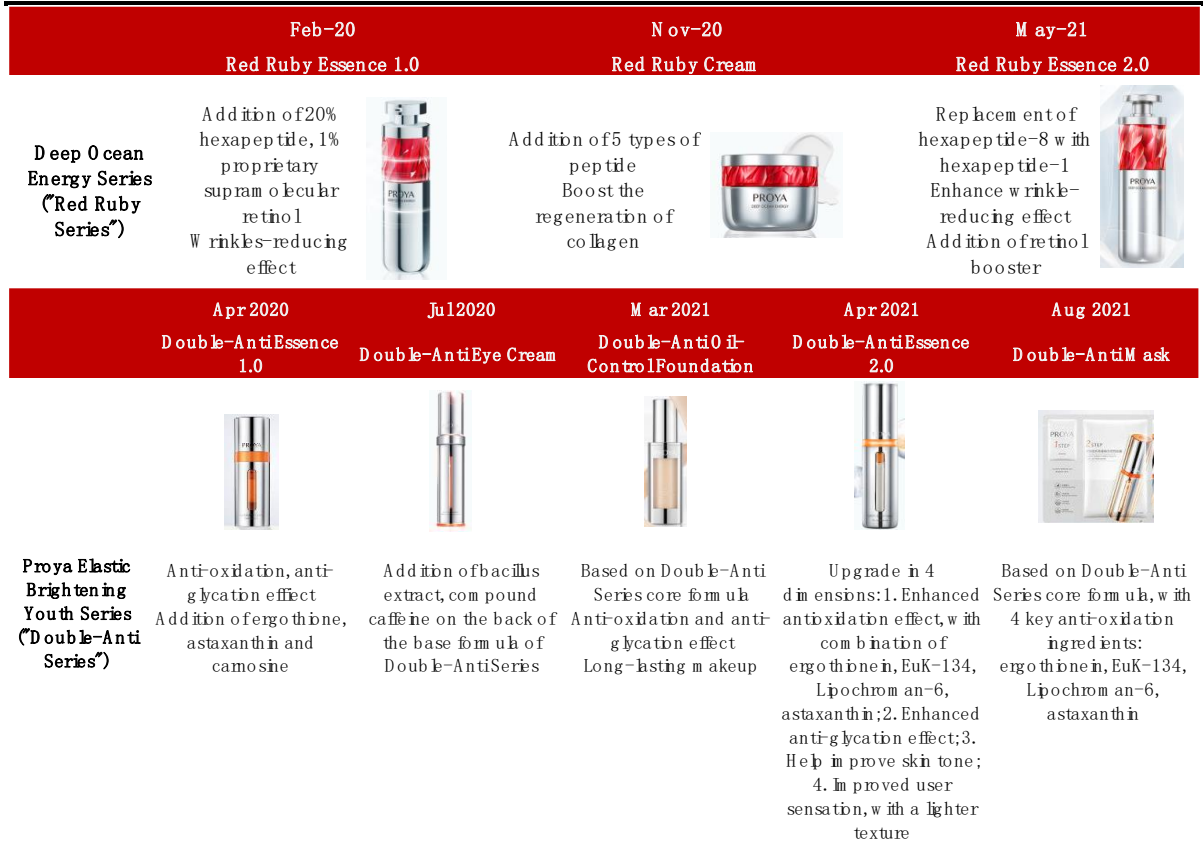


Source: Bloomberg

A closer look on Proya

- Proya’s “Morning C Night A” formula is gaining traction.** “Morning C Night A” formula refers to the skin care process that consists of using products containing types of vitamin C, such as prototype VC, VC derivatives, in the morning for whitening treatment, and using products containing types of vitamin A (retinoids), such as retinol (视黄醇), retinal (视黄醛), retinyl (视黄酯), in the evening for regenerating/ anti-aging treatment. Thanks to the rise of knowledge-sharing social platforms and push by cosmetics brands, the “Morning C Night A” formula gained high popularity in China in recent years. Proya was one of the first-movers to grasp the business opportunity from such trend, and also one of major promoters of the concept in China. The company launched Proya Deep Ocean Energy Wrinkless and Firming Essence (“Red Ruby Essence”) for anti-aging treatment and Proya Double-anti Elastic Brightening Youth Essence (“Double-anti Essence”) for anti-aging of relatively younger skin in 2020, which later became two important hero products for the company. The sales volume of Proya Red Ruby Essence ranked no.2 among anti-aging serum/ essences on Tmall, only behind EL’s ANR serum. The product contains three core ingredients: 20% hexapeptide, 1% supramolecular retinol and three types of rare seaweed extracts. The supramolecular retinol is Proya’s proprietary ingredient, which is less irritative while having the same anti-aging efficacy than traditional retinol, therefore allowing for better user experience and increasing the product’s suitability for sensitive skin. The initial success of the core products was followed by steady product upgrade and product portfolio expansion. The company launched the 2.0 version for the two core essences in 2021 and enlarged the Red Ruby series with eye cream, the Double-anti series with eye cream, mask, foundation, the essence family with Proya Deep Ocean Invigorate & Renew Essence (“Roe Essence”) etc. We believe such strength in product innovation would allow Proya to keep outperforming the industry in longer-term.

Figure 105: Evolution of Proya’s hero products



Source: Company data, CMBIGM research

- **Notable progresses in ingredients know-how in recent years.** As of 2021, among major domestic cosmetic brand owners, Jahwa, Proya and Jala took the lead in terms of number of patents (374, 201 and 168, respectively). Meanwhile Proya owned the highest number of patents for invention. Of note, invention license is regarded as more difficult to obtain considering a longer time for approval and lower approval rate. According to company data, Proya had 92 patents for invention (30+ among these on ingredient carrier technology) by 2021, which accounted for 46% of the total. It was followed by Jahwa (89 or 24% of the total) and Bloomage (89 or 54% of the total). Proya has made notable progresses especially in cosmetic ingredients-related technology in the past decade, as a result of continued efforts in independent R&D and cooperation with global giants in specific areas. We highlight here below some of the key steps the company completed to build up its technological strength.
- **Proya set up its R&D center in 2012**, a relative early-mover among its domestic peers. The company kept seeking cooperation with global giants in specific areas within the cosmetic industry chain, which was, in our view, a key strategy for Proya to catch-up with its foreign peers. Prior to 2017, the company started to devote efforts in functional skin care segment, which was regarded as a key potential future growth engine by then. Proya strived to expand in the segment through the development of ingredients with high skin care, especially anti-aging, efficacy, and later the introduction of hero products based on such ingredients. The company's R&D team eventually selected retinol and hex peptide as the key ingredients to add into and market for its new functional product series.
- **In our view, the development of retinol-based products has been a smart choice** for Proya to penetrate and differentiate itself in the anti-aging segment, as retinol is the only ingredient officially certified by FDA for its efficiency to resist static wrinkles. However, given the complexity of commercial application, retinol-based essence was not widely used, and that makes Proya to stand out from its peers through its proprietary supramolecular retinol technology. On the other hand, hex peptide would be a good complementary to retinol, as it is efficient to resist dynamic wrinkles.
- **In 2019, Proya tied up its cooperation relationship with LipoTrue**, a globally renowned biotech laboratory specialized in the development of advanced active ingredients. The Hexapeptide Botox, which is a highly efficient anti-wrinkle ingredient, was applied in several products of the leading Spanish anti-aging brand SingulaDerm. The cooperation would ensure Proya with a more secure supply of hexapeptide. Proya also developed the method to measure the concentration of hexapeptide to support its marketing claims and help build the image of a professional brand.
- **On the back of these technical know-how, Proya launched its three core functional skin care products in 2020**, Proya Advanced Original Repair Concentrating Essence for barrier repairing ("Original Essence"), Proya Deep Ocean Energy Wrinkless and Firming Essence ("Red Ruby Essence") for anti-aging treatment, Proya Double-anti Elastic Brightening Youth Essence ("Double-anti Essence") for anti-aging of relatively younger skin.

Figure 106: Proya has a high portion of patents for invention among major domestic cosmetic companies

Company	Ticker	Main brands	N. of patents	N. of patents for invention	N. of patents for new application	N. of patents for appearance
Jahwa	600315 CH	Herborist, Dr Yu	374	89	26	265
Proya	603605 CH	Proya, TIMAGE	201	92	19	90
Bloomage	688363 CH	Biohyalux, Quadha	166	89	49	28
Lafang	603630 CH	Lafang, Raclen	139	74	1	64
Green Pine	300132 CH	Nox Bellcow	99	29	58	12
Botanee	300957 CH	Winona, Winona Baby, Zirun	80	22	31	27
Yatsen	YSG US	Perfect Diary, Little Ondine	50	0	1	49
Marubi	603983 CH	Marubi, Haruki	146	81	0	65
Imeik	300896 CH	EME, Ifresh	45	25	0	20
Syoung	300740 CH	Unifon, Xiaomihu, YuMen	29	17	0	12
Jala	Not listed	Chando, Springsummer	168	41	5	122
Chicmax	Not listed	Kans, One Leaf	62	0	3	52
Huanya	Not listed	Meifubao, Seeyoung	138	63	15	60
Pechoin	Not listed	Pechoin, Sansen	66	0	2	64
Yige	Not listed	Florasis, OGP	98	6	21	71
Dr Plant	Not listed	Dr Plant	93	7	8	78
Total	-	-	1954	635	239	1319

Source: Company data, CMBIGM

Note: as of 2021.

- In 2021, Proya established its cooperation with Ashland**, which is a global leading provider of special materials, as to further enhance the company's strength in ingredients R&D and procurement. Ashland will provide exclusive 100% natural ingredient research for Proya which includes anti-oxidant and anti-aging formulae. Besides, Proya has also set up cooperation relationship with other global chemical giants including BASF, DSM, Croda, to keep improving the efficacy of ingredients.
- A pioneer in blockbuster creation and omni-channel marketing**. Proya was one of the first-movers, among both major domestic and foreign players, in building an in-house EC team, initiating KOL marketing on emerging social platforms which helped ensure a relatively high efficiency and profitability of its LS operations. For instance, the company set up its in-house EC team to penetrate Taobao channel as early as in 2012. On the other hand, Proya started to proactively operate on emerging platforms, such as TikTok and Little Red Book, in 2018, which worked well with its hero product strategy. Proya's "Bubble Mask" was the earliest example of a hero product dated. The product achieved the highest monthly sales on Tmall with 1mn+ unit being sold in a single month in 2019. Proya manipulated the same winning formula and launched the "Morning C Night A" combo later in 2020.

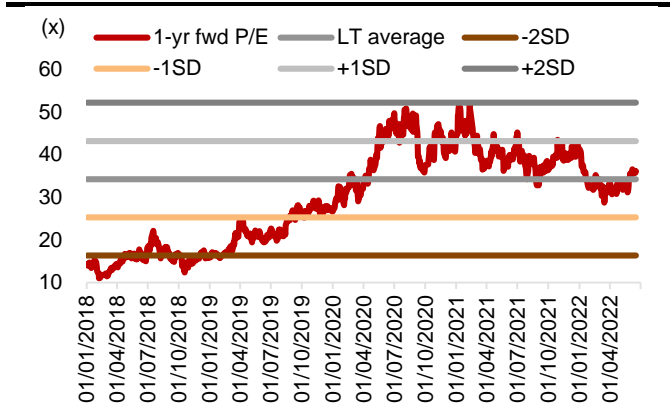
Valuation and risks

- The stock is trading at 43.6 P/E. Our TP is based on 43.5x mid-23E P/E which represents +1sd above the average valuation since 2019, when the market began to re-rate Proya in view of the rising support in domestic brands, and subsequently a timely online migration amid the outbreak of COVID-19.

Investment risks

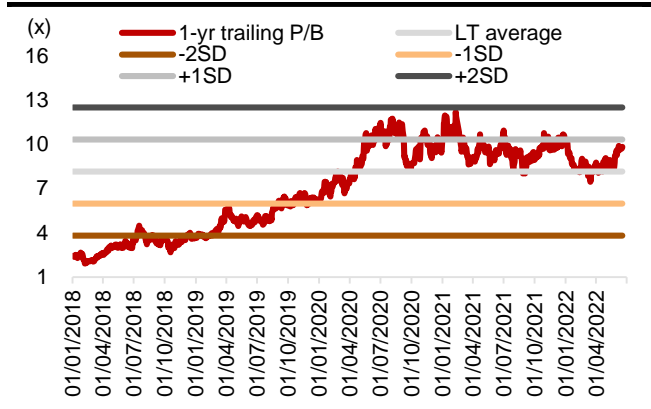
- Failure in further executing its hero product strategy, product recalls, undisciplined promotional efforts among domestic/ foreign brands.

Figure 107: Proya - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 108: Proya - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

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 year	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
Total net assets	2,482	2,887	3,416	4,137	5,052
Shareholders' equity	2,392	2,877	3,382	4,070	4,944

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

Shanghai Jahwa (600315 CH)

Channel disruption a temporary setback; mix upgrade/ ecommerce ramp-up expand GPM

2Q22 could represent a challenging quarter to Jahwa owing to the headwinds in production and supply-chain hiccups in Shanghai, PingAn channel restructuring as well as disruption to the KOL live-streaming strategy. That said, we see scope for a meaningful sequential recovery in 2H, thanks to 1) the gradual easing of Shanghai's pandemic control since early May, when Jahwa obtained necessary authority approval to resume close-door operation with sufficient raw material supply, 2) the continuous ramp-up of in-house livestreaming bandwidth in terms of both brand and platform extension (Dr. Yu/ Maxam on Tik Tok/ Kuaishou etc); 3) improving sales mix that gravitates towards higher-margin skincare products with occasional new debuts (Dr Yu's sunblocker/ Herborist's Tai Chi series) at level-up pricing. In our model, these drivers are manifested into a 8% 3-year revenue CAGR with 1pp gross margins expansion p.a., leading to a 16% net profits CAGR over 2021-24E. We look forward to seeing the new management team to further unlock shareholder value and this, in our view, will remain the key catalyst to re-rate Jahwa at par to its peers. We initiate at BUY with RMB46.2 TP.

- Our 2022E forecasts.** Our revenue/ net profits estimates are generally in line with the revised targets of the staff incentive program which range from RMB8.3-8.5bn and RMB700-830mn, respectively. For instance, we forecast 2Q revenue to fall between RMB1.5-1.8bn, or to record a 14-28% YoY decline, considering a blank April sales which could be partially made up by the release of pent-up demand during the 6.18 festival.
- The 6.18 campaign.** Jahwa will operate the campaign with its usual marketing strategy. That mainly includes SKU combo enrichment and cross selling enhancement. Of note, Dr. Yu and Herborist both recorded flattish GMV in May on their official online store. We expect Jahwa might see a tough comp for 2Q given a high base and channel restructuring impact this year.
- Valuation.** The stock is trading at 35.2x P/E, at par to c36x of the A-share sector average (60x for brand owners/ 12x for distributors), but is still below its closest peers Proya (43.6x) and Botanee (73.0x), respectively. Our TP is based on 40.0x mid-23E P/E which represents the average valuation since 2019, when the capital market began to re-rate the company on back of the wake of patriotic spending (Guochao).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,032	7,646	8,068	8,878	9,765
YoY growth (%)	(7.4)	8.7	5.5	10.0	10.0
Net income (RMB mn)	430	649	722	845	1,022
EPS (RMB)	0.6	1.0	1.1	1.2	1.5
YoY growth (%)	(23.0)	49.6	11.3	16.9	21.0
Consensus EPS (RMB)	N.A	N.A	1.3	1.5	1.9
P/E (x)	N.A	N.A	36.3	31.0	24.9
P/B (x)	N.A	N.A	3.5	3.3	2.9
Yield (%)	0.6	0.9	1.0	1.2	1.4
ROE (%)	6.6	9.3	9.7	10.5	11.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price	RMB46.2
Up/Downside	+19.6%
Current Price	RMB38.6

China Consumer Staples – Household and Personal Care

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Stock Data

Mkt Cap (RMB mn)	25,554
Avg 3 mths t/o (RMB mn)	174.3
52w High/Low (RMB)	63.9/ 29.3
Total Issued Shares (mn)	680

Source: Bloomberg

Shareholding Structure

Shanghai Jahwa	50.7%
Aegon-industrial	4.8%
Shanghai Jiushi	4.0%

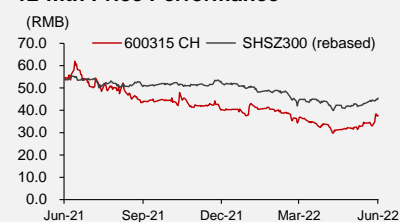
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	16.2%	9.2%
3-mth	1.5%	0.1%
6-mth	-5.9%	6.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

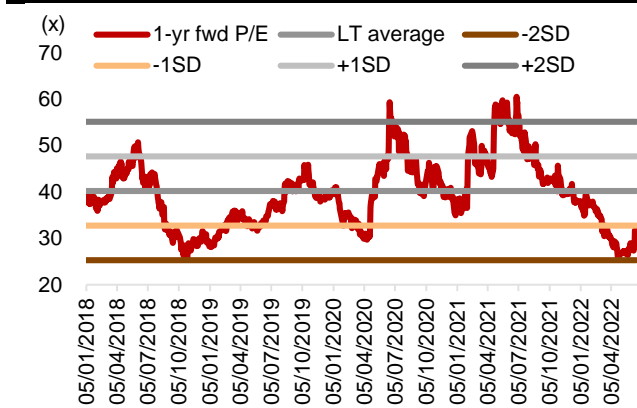
Valuation and risks

- The stock is trading at 35.2x P/E, at par to c36x of the A-share sector average (60x for brand owners/ 12x for distributors), but is still below its closest peers Proya (43.6x) and Botanee (73.0x), respectively. Our TP is based on 40.0x mid-23E P/E which represents the average valuation since 2019, when the capital market began to re-rate the company on back of the wake of patriotic spending (Guochao).

Investment risks

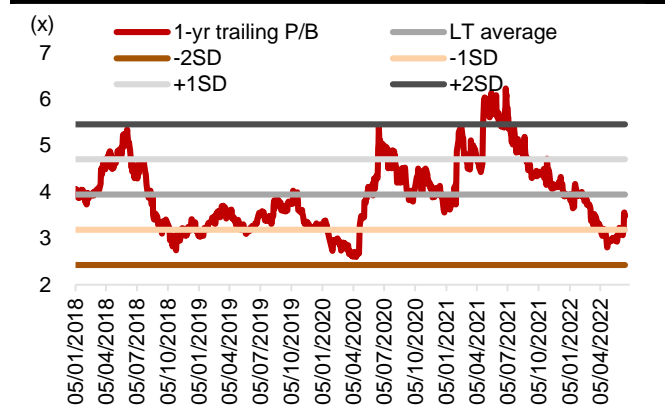
- Failure in extending its hero product strategy and brand incubation, unexpected delay in its channel restructuring, undisciplined promotional efforts among domestic/ foreign brands.

Figure 109: Jahwa - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 110: Jahwa - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,032	7,646	8,068	8,878	9,765
Major business	7,028	7,638	8,060	8,870	9,757
Others	4	8	8	8	8
Gross profit	4,216	4,491	4,766	5,323	5,988
Tax and surcharges	(57)	(59)	(62)	(69)	(75)
Selling expenses	(2,924)	(2,947)	(3,109)	(3,421)	(3,763)
Administrative expenses	(721)	(791)	(835)	(918)	(1,010)
R&D expenses	(144)	(163)	(172)	(189)	(208)
EBIT	370	531	588	725	931
EBITDA	606	740	786	929	1,141
Finance costs, net	(43)	(13)	(9)	(9)	(9)
Other income/(expense)	207	234	272	278	282
Non-operating	0	12	-	-	-
Pre-tax profit	534	764	850	994	1,203
Income tax	(104)	(115)	(128)	(150)	(181)
Less: Minority interests	-	-	-	-	-
Net profit	430	649	722	845	1,022

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	875	319	722	845	1,022
D&A	236	209	199	203	210
Change in working capital	3	100	(353)	(204)	(65)
Others	(470)	365	-	-	-
Net cash fr. operating act.	643	993	568	844	1,167
Capex & investments	(106)	(141)	(148)	(163)	(180)
Investments	(5,565)	(5,186)	(90)	(99)	292
Others	4,899	4,943	-	-	-
Net cash fr. investing act.	(772)	(384)	(238)	(262)	112
Dividend payment	(136)	(195)	(217)	(253)	(307)
Cash received from investment	132	47	-	-	-
Cash received from borrowing	1,068	-	-	-	-
Others	(1,200)	(81)	(100)	(100)	(100)
Net cash fr. financing act.	(136)	(228)	(317)	(353)	(407)
Net change in cash	(322)	311	13	229	873
Cash at the beginning of the year	1,609	1,287	1,597	1,611	1,839
Exchange difference	(58)	(71)	-	-	-
Cash at the end of the year	1,229	1,527	1,611	1,839	2,712
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,140	5,365	5,404	5,463	5,541
PP&E/Fixed assets	1,019	939	981	1,033	1,095
Net intangibles	769	761	759	765	781
Goodwill	1,986	1,923	1,923	1,923	1,923
Other non-current assets	1,366	1,742	1,742	1,742	1,742
Current assets	6,155	6,780	7,225	7,670	8,258
Cash	1,287	1,597	1,611	1,839	2,712
Account receivable	1,090	1,109	1,326	1,459	1,605
Prepayments	47	83	83	83	83
Inventory	867	872	1,086	1,169	1,138
Other current assets	2,865	3,119	3,119	3,119	2,719
Current liabilities	2,876	3,210	3,288	3,300	3,350
Borrowings	-	-	-	-	-
Accounts payable	718	718	796	808	859
Other payables	1,607	1,790	1,790	1,790	1,790
other current liabilities	551	701	701	701	701
Non-current liabilities	1,920	1,972	1,872	1,772	1,672
Borrowings	1,062	925	825	725	625
Deferred tax liabilities	99	123	123	123	123
Other non-current liabilities	759	924	924	924	924
Minority Interest	-	-	-	-	-
Total net assets	6,499	6,963	7,469	8,060	8,776
Shareholders' equity	6,499	6,963	7,469	8,060	8,776

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	99.9	99.9	99.9	99.9	99.9
Makeup	0.1	0.1	0.1	0.1	0.1
P&L ratios (%)					
Gross margin	60.0	58.7	59.1	60.0	61.3
Operating margin	5.3	6.9	7.3	8.2	9.5
Pre-tax margin	7.6	10.0	10.5	11.2	12.3
Net margin	6.1	8.5	9.0	9.5	10.5
Effective tax rate	(19.4)	(15.1)	(15.1)	(15.1)	(15.1)
Balance sheet analysis					
Current ratio (x)	0.2	0.2	0.2	0.2	0.3
Net receivable days	57	53	60	60	60
Net payable days	93	83	88	83	83
Inventory turnover days	112	101	120	120	110
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	6.6	9.3	9.7	10.5	11.6
ROA	3.8	5.3	5.7	6.4	7.4
Dividend yield	0.6	0.9	1.0	1.2	1.4
Per share					
EPS (RMB)	0.6	1.0	1.1	1.2	1.5
DPS (RMB)	0.2	0.3	0.3	0.4	0.5
BVPS (RMB)	9.7	10.3	11.0	11.9	12.9

Source: Company data, CMBIGM estimates

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