

Recommendation:

HOLD

Previous call: BUY

Price

Mid-day close	S\$0.39
Fair value	S\$0.42
Share price return	7.69%

Share Statistics

Shares	356.388 mil
Market Cap.	S\$138.99 mil
Trailing PER	4.18x
Forward PER	3.61x
P/BV	1.20x
52-week Price Range	S\$0.265 - S\$1.480
52-week PER Range	2.84x 15.85 x
Listing Bourse	SGX-
	Mainboard
Major Shareholder	Wong Hon Wai (38.57%)

Price Chart



Company Profile

Beauty China is a brand management company that owns and manages two brands of colour cosmetics and skin care products – *Colour Zone* and *CharmingLady* – both of which are targeted at China's mass market.

Analyst

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Beauty China Holdings Limited

19 November 2008

Downgrade to HOLD. In view of the Group's recent half year financial results and the current economic situation, we remain conservative and have further revised our fair value estimate to S\$0.42. We have changed our valuation method and pegged 1x to the Group's FY2008 book value per share, translating to 7.69% upside. Despite the Management's assurance, we remain concerned about the Group's strategy in extending full credit terms to their distributors, which has in turn increased their exposure to credit risk, especially in the current credit climate.

3QFY2008 and 9MFY2008 financial results. Beauty China Holdings Limited ("Beauty China") reported 31.69% (year-on-year) growth in revenue from HKD 421.30 million in 9MFY2007 to HKD 554.79 million 9MFY2008. Net profit, on the other hand, grew by 15.22% (year-on-year) from HKD 122.26 million in 9MFY2007 to HKD 140.87 million 9MFY2008. On a quarterly basis, revenue grew by 30.66% (year-on-year) from HKD 187.95 million in 3QFY2007 to HKD 245.58 million in 3QFY2008. In addition, net profit grew by 18.56% (year-on-year) from HKD 52.23 million in 3QFY2007 to HKD 61.92 million in 3QFY2008. The Group attributes the growth to the increase in their point-of-sales in the PRC.

Profit Margins. The Group's gross profit margin continued to improve, by 1.28ppts from 62.55% in 9MFY2007 to 63.83% in 9MFY2008; and by 2.31ppts from 62.28% in 3QFY2007 to 64.59% in 3QFY2008. However, as anticipated, net profit margin continued to fall in 9MFY2008 and 3QFY2008, due to the increase in advertising and promotions. Net profit margin decreased by 3.63ppts from 29.02% in 9MFY2007 to 25.39% in 9MFY2008; and by 2.57ppts from 27.79% in 3QFY2007 to 25.22% in 3QFY2008.

Full credit terms extended to distributors. The Group has full credit terms extended to their distributors, in aid to ensure business continuity between both parties and revenue growth. However, in the current global credit climate and concerns of solvency and liquidity issues, we are concern about the Group's strategy which has increased their exposure to credit risk. The Management has assured that they have had long-standing relationships with their distributors and to date and they have not experienced any defaults in payment as yet.

Estimates. Based on the Group's recent financial results and the global economic situation, we have revised our revenue growth forecast to 26.51% in FY2008, 22.74% in FY2009 and 5.82% in FY2010. These were derived based on the Group's possible production utilization rate over the years. We also believe that the Group will still be able to continue managing their gross profit margins; hence we have maintained our forecasted gross profit margins of 63.89% in FY2008, 64.55% in FY2009 and 65.55% in FY2010. In addition, with the Group's continuous focus in the advertising and promotion of their Charming Lady brand, we have maintained our forecasts for net profit margins of 24.45% in FY2008, 23.55% in FY2009 and 22.21% in FY2010.

Key Financial Data					
(Financial Year Ended 31 December)					
	9M2007	9M2008	% chg	2008E	2009E
Turnover (HK\$ mil)	421.30	554.79	31.69	800.29	982.27
EBITDA (HK\$ mil)	142.58	180.72	26.75	255.30	311.68
EBIT (HK\$ mil)	124.07	145.84	17.55	201.02	234.52
Net profit (HK\$ mil)	122.26	140.87	15.22	195.23	231.03
Net profit margin (%)	29.02	25.39	(3.63)ppts	24.40	23.52
EPS - Basic (SG cents)	6.77	7.80	15.22	10.81	12.80
EPS - Diluted (SG cents)	6.58	7.58	15.22	10.51	12.44
Book value per share (SG cents)	-	45.51	N.M.	42.85	53.48
ROE (%)	-	-	-	28.66	26.57
P/E (x)	5.76	5.00	(13.21)	3.61	3.05
P/Book	-	0.86	N.M.	0.91	0.73

Source: Company, Phillip Securities Research
(1SGD = 5.5025 HKD)

N.M = Not meaningful

Ratings History

Beauty China Holdings Limited

Legend	Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
H	HOLD	19 November 2008	0.39	0.42	3QFY2008 Results
B	BUY	1 September 2008	0.56	0.70	Update
B	BUY	28 February 2008	1.00	1.60	FY2007 Results
B	BUY	12 November 2007	1.24	1.60	3QFY2007 Results
B	BUY	15 August 2007	1.20	1.72	1HFY2007 Results
B	BUY	03 August 2007	1.17	1.65	Initiating coverage

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	HOLD	Trade within \pm 15% from the current price
	SELL	>15% downside from the current price
	We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation	

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