

**DISCOUNTED CASH FLOW VALUATION OF
BEAUTY COMMUNITY PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
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entitled
**DISCOUNTED CASH FLOW VALUATION OF
BEAUTY COMMUNITY PUBLIC COMPANY LIMITED**

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ABSTRACT

Stock market, source of funding for the firms and source of investment for the investors, is changing every second due to both internal and external factors and circumstance. Fast information update and careful analysis of the business situation of targeted firms are crucial for consideration whether to take buy-sell-hold action on their stocks.

Beauty Community PCL (BEAUTY) is the No.3 operator of cosmetic retail shops in Thailand with strong market invasion and high potential in business growth. The interesting point is their strong brand franchise, low-risk business model and the mid-growth cycle of its concept-store business. The new markets and stronger profitability will significantly drive the 2015 earnings upward. This is the motivation why I chose BEAUTY to analyse their inside business and financial situation, make a forecast and valuation with “discounted cash flow method”.

From this paper, it shows the 5 years future value of JAS and points out their stock price which should be higher than the current one by 5.56% in the worst case scenario. Of course, it results in my recommendation to “hold” this stock at this present time.

KEY WORDS: BEAUTY / Valuation / Commerce / Stock / Thailand

59 pages

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LIST OF ABBREVIATIONS



BV	Book value
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
COD	Commercial Operation Date
COGS	Cost of Goods Sold
D/E	Debt/Equity
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes and Depreciation
EPS	Earning per share
EV	Enterprise value
NOPAT	Net Operating Profit after Taxes
NOWC	Net Operating Working Capital
Rf	Risk free
ROA	Return on Assets
ROE	Return on Equity
SET	Stock Exchange of Thailand
SG&A	Selling, General and Administrative Expense

CHAPTER I VALUATION

1.1 Highlights “Outstanding dividend paid with a solid financial”

Share outstanding (mn): 3,000
Free float: 47.85%

Price Performance

52 week high/low 4.92/2.6
52 week return (%)

Date 30Nov2015 **Ticker:** SET: BEAUTY
Recommendation: HOLD
Price: THB 4.92
Target Price: THB 5.21
Upside: 5.56%

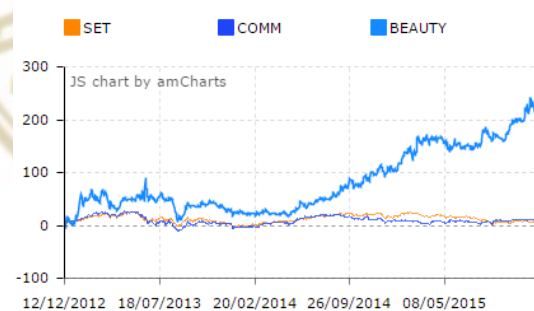


Figure 1.1 Beauty's stock performance

Table 1.1 Beauty major shareholders

No.	List of Shareholders	At December 31, 2014	
		Number of Shares	Percentage
1	Mr. Suwin Kraibhubes Group consists of:		
	Mr. Suwin Kraibhubes	97,000,000	32.33
	Mrs. Tanyapon Kraibhubes	38,749,800	12.92
	Ms. Monsoothatip Malaukaranun	3,000,000	1.00
	Mrs. Thurian Sriyong	2,325,100	0.78
	Mr. Boonchuai Yokkrabut	498,300	0.17
	Total	141,573,200	47.19
2	Thai NVDR CO., LTD.	16,648,524	5.55

- **Cosmetics are going to be significant:** Despite the severe competition in the cosmetic industry and the slower economic growth, BEAUTY earnings have grown 60% over the past 5 years. This is supported by the strong desire for cosmetics in both genders, the strong BEAUTY brand that help stabilize BEAUTY growth, the high quality of the products with reasonable price that attract customers to repurchase and new products launches and the widening distribution channels in various provinces (currently 163 branches accounting for 55% of total)

- **Continual expansion with solid financials:** BEAUTY plans to open 30 Beauty Buffet, 15 Beauty Cottage, 10 Beauty Market and 12 overseas outlets per year. Beauty Market has the highest growth potential since this retail chain sells more than 300 top cosmetic brands. BEAUTY had around 295 shops at end of year 2014 and will add another 67 shops by the end of this year, which equal to an average growth rate of 20%. Note that annual capital expenditure for its branch expansion plan is expected to be in cash. The company has a solid balance sheet with zero-debt and high ROE of 27% in year 2014.

- **Sales growth is supported by marketing campaign:** Same Store Sales Growth (SSSG) in 2014 equals to 26% which is higher than average of those of retail sector. This might be resulted from the strong brand and variety of products. While opening new branch in high potential location will support this year growth. However, BEAUTY's growth will still rely on sales promotion, marketing and advertising campaign because of slow recovery from consumption sector.

- **Beyond a domestic growth to benefit from zero tariffs:** At the end of 2014, BEAUTY had 16 branches in CLMV (increased from 9 branches in 2013). As the ASEAN countries have agreed not to impose tariffs on most cosmetics products since 2010, this should provide BEAUTY with opportunities to export products into neighboring countries. Over the time, its products have received great responses and the firm is looking for more opportunities to further expand its branches into other countries. Its plan is to open 12 new branches per year in CLMV countries, preparing for the upcoming AEC.

- **High Gross Profit Margin and Net Profit Margin (67% GPM, 22% NPM in 2014):** Beauty recorded a very high GPM of 67% and NPM of 22% in 2014.

However, its GPM started to fall due to the launch of Beauty Market. Still, the company maintained a high GPM.

1.2 Financial Summary

Table 1.2 BEAUTY key financial indicators

FINANCIAL SUMMARY						
	2012A	2013A	2014A	2015E	2016E	2017E
Total Revenue (Bt,m)	770	971	1,359	1,743	2,253	2,855
EBITDA (Bt,m)	242	291	421	571	737	941
Net Profit (Btm)	174	207	301	402	517	655
EPS (Bt)	1.35	0.69	1.00	0.13	0.17	0.22
EPS Growth (%)	-	-48.94%	45.51%	-86.64%	28.53%	26.65%
DPS (Bt)	1.68	0.65	0.70	0.09	0.12	0.15
ROA (%)	16.10%	18.17%	23.40%	27.55%	30.64%	33.30%
ROE (%)	17.60%	20.72%	27.69%	33.30%	37.93%	41.98%
D/E (%)	0.09	0.14	0.18	0.21	0.24	0.26

1.3 Business Description

Formerly known as Monapolitan Company Limited, Beauty Community Public Company Limited (“Beauty”) was established on October 19, 2000 by M.D. Suwin Kraibhubes and Mrs. Tanyapon Kraibhubes with the registered capital of 1million baht. The “Company” conducts the business of retail sales of cosmetics and skincare products that aims to offer consumers alternative beauty products of premium quality from carefully selected raw materials to excellent product image. The Company registered as a listed company in The Stock Exchange of Thailand on December 12, 2012.

The Company operates its retail business on cosmetics and skin care products that compose of natural extracts under the concepts of Beauty Buffet, Beauty Cottage, Beauty Market, Made In Nature, and Girly Girl. Each concept is unique in terms of product design, distribution channel, and market positioning. This is to match the demands of each target group and building large scale customer base that covers all beauty-product customer levels.

The products sold under the concepts of Beauty Buffet, Beauty Cottage, Beauty Market, Made in Nature and Girly Girl, and are jointly developed by the Company and manufacturers, both domestic and international. The production was made by selection and development of beauty innovation in both raw materials and packages which are popular in many western and eastern countries, popular in beauty, such as France, Switzerland, United State of America, Korea, and Japan. The ingredients were selected and improved for matching with Thai skin and favorite. The package was designed to be consistent with concept and brand of the products.

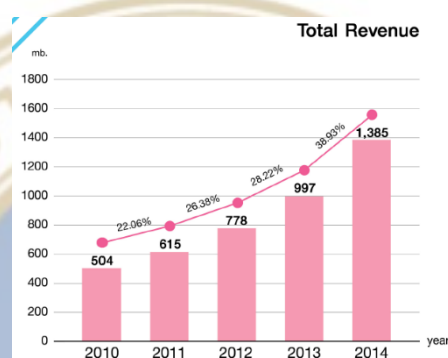


Figure 1.2 Beauty's sales revenue in 2010-2014

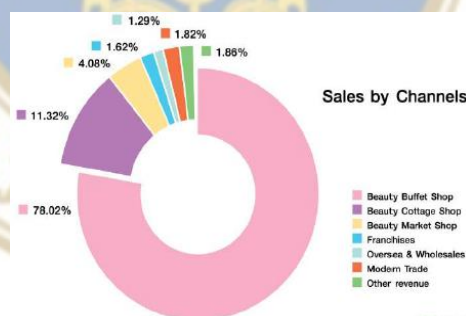


Figure 1.3 Beauty's sales proportion by channel

Distribution Channels

The Company has 5 distribution channels as follows;

- **Company's shops:** The Company uses its retail shops as main distribution channels of Beauty Buffet Beauty Cottage and Beauty

Market. The Company had average sales volume through its shops at 95% of total sale.

- **Franchises:** In the past, the Company had its policy to expand retail shops of Beauty Buffet by franchising. Now the Company has the policy to expand domestic shops by itself and will not open for franchise at this time. Currently, there are 6 branches of franchise shops.

Shopping Mall	Province	Contract started	Contract ends
<i>Big C</i>	Bangkok, Bangna	April 2011	April 2016
<i>Big C</i>	Prae	April 2011	April 2016
<i>Big C</i>	Sakolnakorn	April 2011	April 2016
<i>Central Plaza</i>	Udonthani	July 2011	July 2016
<i>Central Udonthani</i>	Khon Kaen	April 2011	April 2016
<i>Tesco Lotus</i>	Utaradit	July 2012	July 2017

Figure 1.4 Beauty's franchise shops

- **Wholesale:** For international market, the company has its policy to find some distributors who accustom with each area for selling the products because the company lacks of professional in area including procedures and rules of shop establishment in foreign countries. On 31 December 2014, Beauty Buffet had 13 retail branches and Beauty Cottage had 3 retail branches in oversea.
- **Modern Trade:** Large retail shop or modern trade became a distribution channel of Made In Nature since the middle of 2012. It focuses on sale in large supermarket e.g. Villa Market, TOPs, Foodland, Gourmet Market (The Mall), Golden Place, Fuji Supermarket, 7-Catalog.
- **Other distribution channels:** Selling through other distribution channels, i.e. selling for the Company's employees in welfare's price, including selling in Beauty Open House, where the products with special discount are sold in special occasion such as the year end.

Sourcing of Products and Services

The Company does not have the policy to produce the products by itself. All products are made by many manufacturers who have professional in various kinds of products. The company focuses on the quality of manufacturer and distributors, all the manufacturers must have been approved legally by the Food and Drug Administration and there should be the evaluation rules for the manufacturer and distributors. The rules should first focus on the quality. Nowadays, the company has got the product supplying from around 36 manufacturers which have its own proficiencies. For the popular products, the company will have 2 manufacturers to supply the product simultaneously.

Product Information

To serve all customers' need and life style, the beauty products sold can be categorized into four types including make-up product, skincare product, food supplement and accessories. Each product type is sold according to five major concepts which can also be divided to shop brand and product brand as following:

- **Shop Brand**

1. **Beauty Buffet:** It offers a wide range of cosmetic products so that customers can try different kinds of beauty product before confidently selecting the best choices. The shops include several products in multi-brands which have been developed and registered its trademark under the name of the "Company" Now the products in Beauty Buffet's shops will be sold under the four brands with private labels as GINO McCRAY, THE BAKERY, SCENTIO and LANSLEY. Its products focus on the target group who love in colorful, trendy, and variety of products.

2. **Beauty Cottage:** All products under Beauty Cottage's concept are sold in the single brand of "Beauty Cottage" and categorized into 3 types of make-up, skin care, and accessories. The key focus is on raw materials selection i.e. extracts of flower, fruit, vegetable, herbal, and other plants. In addition, products of Beauty Cottage stay in more premium market position than Beauty Buffet with higher price and focus on the target group who are mainly concern in deep nourishing by natural products.

3. Beauty Market: Beauty Market concept was launched in 2013 by representing in large multi-brands stores. Its stores have almost 300 famous brands, both local brands and inter brands e.g. America, Europe, Korea, Japan, etc., containing around 4,000 - 9,000 SKUs of beauty products. In addition, there are products of a selective brand, Beauty Cuisine, sold only in Beauty Market's stores.

- **Product Brand**

4. Made In Nature: "Made In Nature" concept was launched with 2 KUs of natural products under the slogan of "Live a Natural Life". The product's package comes with natural color which is sold in large retail shops or modern trade stores. The active ingredients of these series were imported from Korea to completely fulfill customer need. Currently, Made in Nature Product consists of 9 SKUs.

5. Girly Girl: These products are fighting brand in skin care and teenager cosmetics categories with the concept of "White & Baby". The active ingredients were imported from Japan. The trendy and young-look package came with compact size of products to be suitable for selling via convenience stores, catalog and traditional trade, so that it's easy to penetrate into the target group who are teenager. Currently, Made in Nature Product consists of 11 SKUs.



Figure 1.5 Beauty's product example

Business strategies

The Company has developed marketing strategies by considering customer buying behavior. In management's point of view about make-up and skin care products, customers previously engaged in the product itself or high product loyalty. Such trend seemed to be decline as the time pass because manufacturers could develop their products to have similar qualification and quality. Thus, in make-up and skin care market, both current and future trend, will compete mainly in building of brand loyalty and create brand value. However, each brand cannot be created to meet all market's or consumer's needs. As a result, the Company focuses on creating variety, confidence, and value-added for each brand; determining different market positions to cover customers' requirement; including engage in customer retention of each brand.

The overall business strategies of the company are as follows:

- **Multi-Brands:** To meet various and different need of all target markets.
- **Multi- Products:** To cover all customer's needs with a wide price range to fit purchasing power and different lifestyles.
- **Multi-Channels:** To reach broadest base of customers through multiple distribution channels.

Business agreement on the operation

- **Beauty Buffet Franchise Agreement:** The Company supplies the products in Franchise Program to the 6 distributors and has issued the policy not to permit setting up any franchise in Thailand.
- **Beauty Buffet Distribution Agreement:** the company had expanded market into the foreign countries. The main policy is to set the local distributors for selling the products in the region efficiency. The company starts the policy at Cambodia.
- **Ordering Agreement (Agreement on the secret of production formula):** Normally, the company will place orders to the factories that specialize in different productivities. The main point of agreement is to state that the manufactures will not disclose any formula or ingredient of the products including processes of the production to any other

companies. All conditions in this agreement shall take effect continuously for 1-3 years.

- **Operating Leasehold Agreement:** The Company has made short-term operation leasehold contract for 1-3 years for retail business operation by opening to be the Company's branch in order to reduce the obligation on investment for asset purchase and to create liquidity of extension and modification on retail shop areas. The chart below shows the number of branch of Beauty Group both local and overseas;



Figure 1.6 Beauty's number of branch



Figure 1.7 Beauty's shareholder structure

1.4 Industry Overview and Competitive Positioning

1.4.1 Macro-Economic Analysis

Thailand GDP growth rate

The Thai economy is projected to recover more slowly than the previous projection mainly as a result of weaker-than-expected export growth while inflation is

projected to decrease on the back of lower cost and demand pressure being among the countries with lowest growth rate in Asia Pacific.

As a result of the slow global economic recovery due to slowdown in China and other Asian economies the shrinking of export and domestic consumption, farm price slump and delayed disbursement of government's spending budget have combined to make BOT to downgrade Thailand's GDP growth outlook for 2015. However, a recent rebound in tourism along with the low price of oil is expected to initiate an economic recovery. Therefore, the Bank of Thailand decided to forecast of the year 2015 GDP growth at around 3%

The UTCC also believes that stimulus measures and government investment, along with a more-stable political landscape and the continuing expansion of tourism will drive the economy in 2016, pushing up gross domestic profit by 4.1%

Due to the fact that Thailand was now a prominent player in the world's beauty industry, with its cosmetics markets now the largest in Asean and also with rising awareness in regard to healthcare and wellness, Thailand's beauty industry is expected to grow by 8-10 per cent this year



Figure 1.8 Thailand GDP growth rate (year 2010-2015)

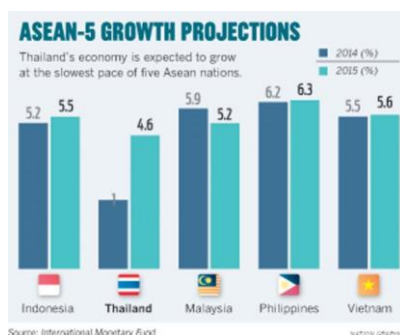


Figure 1.9 Growth projections among ASEAN

Impact from Asean Economic Community (AEC)

The regional integration's objective is to create a competitive market of over 600 million people in ASEAN countries. There will be free flow of goods, services, investment capital and skilled labor following the liberalization. These will include tariff reductions and streamlining of certain administrative procedures. Implementing a policy of free flow of goods and investment throughout the region should reduce transaction costs and help to drive down the cost of goods produced in the region. Preparation for entry ASIAN Economic Community (AEC) and opening of Free Trade Area (FTA) cause the duty of most cosmetics products import and export among Thailand and ASEAN countries reduce to 0%. By comparison between cosmetics import and export of Thailand, it shows that Thailand gains trade surplus from export compared with other ASEAN countries. Opening of ASIAN Economic Community (AEC) in 2015 will bring many advantages to Thailand as a hub of cosmetics business and manufacturing either for sale domestically or for export sale because there are many cosmetics factory in Thailand operated by both foreign company and Thai company. In addition, Thailand has advantage in cosmetics production knowledge from being hub for long time. We produce world-standard cosmetics for selling in many countries includes AEC countries who have good attitude with Thai products.



Figure 1.10 The countries in Asean Economic Community (AEC)

Rising household income and spending

According to data from the National Statistical Office (NSO), average monthly household income and expenditure rose from 2000-2012, pointing to an increase in consumer purchasing power. The income levels among the Thai population are increasing. In 2012, 31% of Thais had individual monthly income of THB5,001-10,000, vs 24% in July 2007. The second-largest group, which earns between THB3,001 and THB5,000 each month, rose to 25% from 22% over the same period. Such trends

indicate that there are opportunities for Beauty to expand its customer base and win new clients, given the higher purchasing power.

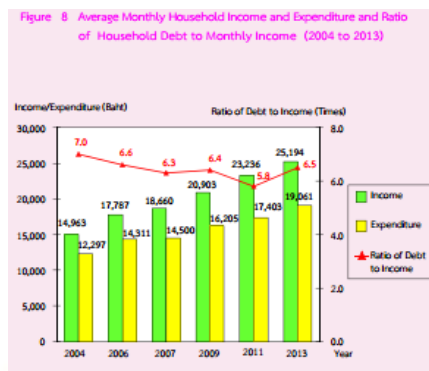


Figure 1.11 Monthly household income and expenditure

1.4.2 Industry Analysis

Cosmetics Market: In Thailand, the cosmetics market has been growing up continuously because cosmetics and skin care products are most favorite consumer products for daily life. This is specifically in women in all ages who require enhance their personality and take good care of their skin for good looking. Now many men also use cosmetics and skin care products to take care of themselves. There are more products imported from other countries penetrating into middle-end and low-end market. In addition, there are many SMEs come into this business because cosmetics business has low cost, high return, and low economic impact. The opportunity also comes from consumer behaviors that take better care in their personalities. Thus, the cosmetics and skin care market likely to grow up along with higher consumers' demands.

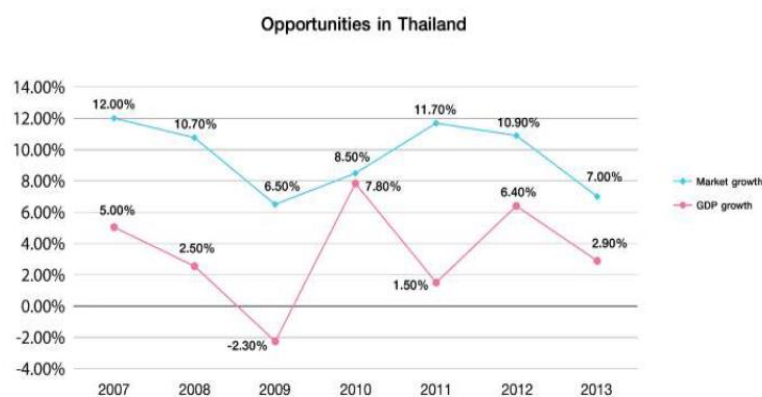


Figure 1.12 Cosmetics market in Thailand

From the above figure, cosmetics market in Thailand will grow up continuously and sustainably. However, both manufacturers and distributors must move along with dynamic consumers' trends to survive their business.

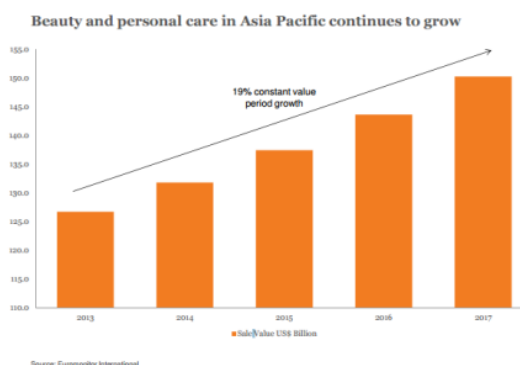


Figure 1.13 Beauty and personal care In ASEAN growth between 2013 and 2017

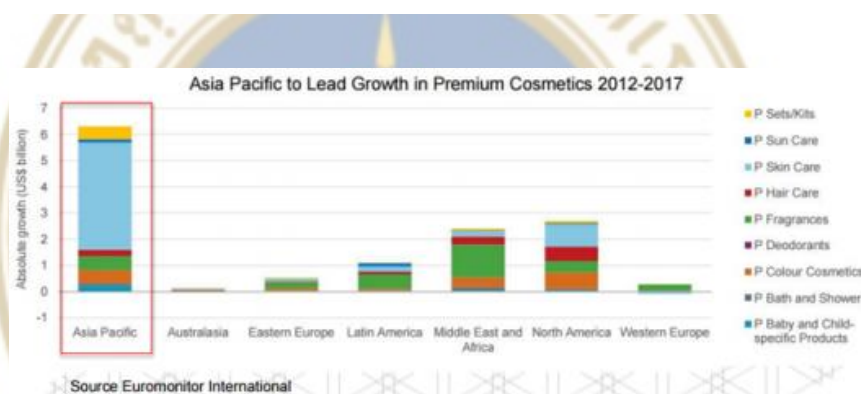


Figure 1.14 ASEAN growth in cosmetics 2012-2017

Beauty and personal care grows steadily in 2014

Beauty and personal care witnessed similar current value growth in 2014 to the performance of 2013. While the unstable political situation in Thailand during 2014 affected consumer confidence and thus spending, this did not have a significant impact on beauty and personal care's current value growth. Consumers' image consciousness also boosted beauty and personal care, as they were increasing willing to try new products that can enhance their appearance. This was especially with their continued exposure to international beauty and grooming trends, with the eagerness to improve their knowledge of grooming.

ASEAN Countries Show Consistently High Potential

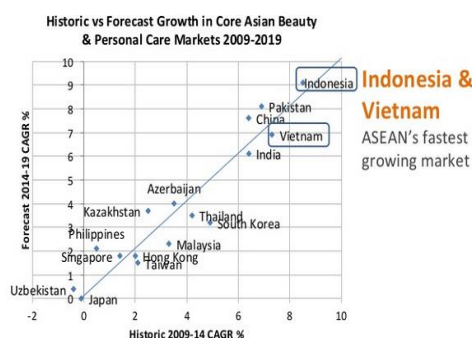


Figure 1.15 Market growing among ASIA

When many people barely live without cosmetics

Before we leave the house each day, we have likely undergone our personalized beautification ritual. Despite the severe competition in the cosmetic industry and the slower economic growth, this industry is not affected by this downturn situation that much. This is supported by the strong desire for cosmetics in both genders. The strong brand will help stabilize growth, the high quality of the products that attract customers to repurchase and new products launches and the widening distribution channels in various provinces. Consumers of beauty industry products tend to be brand loyal, and share what works for them with their friends.

Beyond a domestic growth

Exports of Thai-manufacture cosmetics are likely to expand on the back of a continued increase in the number of visitors to Thailand, which has driven a greater recognition of Thai cosmetics brands. Thailand is ranked 17th in world production of cosmetics. Thailand's cosmetics industry has grown significantly, by 10-20% annually over the past 10 years. Its exports are valued to 100 billion baht and account for 2.2% of Thailand GDP. Major export destination, 27%, is ASEAN market. This volume also represents 1.28% of world exports for make-up cosmetic products which is ranked 12th-biggest exporter of skincare products in the world. Thailand is one of the most advanced cosmetics markets in Asia, behind Japan and South Korea, in terms of technology and formulation. Moreover, Indonesia's cosmetic market has high potential with its 240 million-strong population and personal incomes in Indonesia are rising quickly. While sales of cosmetics have grown fast over the past years already, there is a lot of untapped potential as Indonesia's population grows in numbers and in affluence. So there is still more room for export market in this sector.



Figure 1.16 ASEAN Beauty Category Market Growth 2014-2019

Growing future of Skincare market

The Thai skincare market has been forecast to increase at a compound annual growth rate (CAGR) of 3% through to 2017, increasing from a total of THB 17.5 billion at the end of 2012, to hit a value of over THB 20 billion by 2017, Thailand's skincare market is the largest in ASEAN. Thai people are paying more attention to their skin. There are additional environmental factors damaging their skin in daily life, such as pollution and hot weather. This does not only apply to women, but has also been spreading to men, leading to healthy growth for the skin care sector. According to sales by product graph below, mostly revenue of the company came from skincare products whether it is Beauty Buffet or Beauty Cottage. Another two product brands, Made In Nature and Girly Girl, also mainly produce and distribute skin care products as well. So BEAUTY would keep gaining more advantage over this trend.

Figure 11: Beauty's main products are makeup (47%) and skincare (46%)

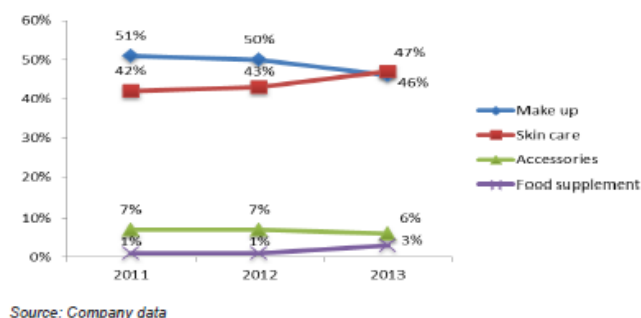


Figure 1.17 Product sold as percentage

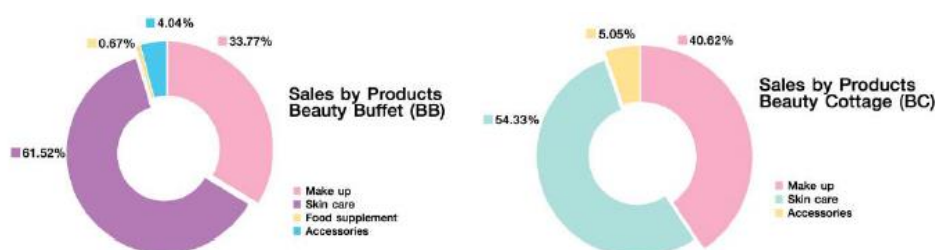


Figure 1.18 Proportion of Sales by products

1.4.3 Competition Analysis

Cosmetics and skin care distributions, both import cosmetics with international trademark and Thai brand, are in high competitive market because they have high market value and tend to have continuous growth. As this business can be started easily by opening a few shops or centers which require low investment and working capital, thus it attracts many new SMEs joining this competition. However, the challenge of new entrepreneur is to operate business in long term because the key competency in competition is to have location advantage and to create brand and products identity to achieve consumers' recognition. Currently, almost outstanding locations are reserved by existing entrepreneurs. Shop expansion and training for require high experience and professional. As a result, many SMEs in cosmetics and skin care distribution business are small and distribute their products in limited area.

The Company's direct competitors, both multinational companies and Thai company, are the distributors who sell cosmetics and skin care products through general retail shops. The Company focuses on the competitors who sell the products with similar characteristics to the Company's products, have their target group vary from teenager to working age, offer similar price range, and specifically, achieve customers' brand recognition and access wide group of consumers. The main competitors are;

- **O.P. Natural Product Co.,Ltd.(“Oriental Princess”):** The Oriental Princess comes into the market as a pioneer of aesthetic medical products containing substances that are extracted from nature is the first in Thailand and product design that emphasizes the unique elegance and style of packaging. The products are made of specially selected herbs and natural extracts. These, including facial make up products, cause no

irritation to the skin while nourishing and purifying the beauty of hair, facial skin and body skin.

- **SSUP Bangkok 1991 Co.,Ltd. (“Cute Press”)**: “Cute Press” is the brand name of the cosmetics, skin care and another personal care products under SSUP Bangkok 1991 Co.,Ltd. At the beginning, the product was directly sold to the customer by agency and distributor. Currently, with higher competitive situation, Cute Press has many shops around Thailand. The product under Cute Press brand name consist of skin care, make up, bath and body care, fragrance and hair care.
- **Karmart PLC. (“Karmart”)**: Karmarts engage in the distribution of cosmetic products imported from overseas markets. Karmarts currently operates two key businesses, first, import and distribution of finished goods of established makeup and skincare brands that come with bundled marketing strategies and second, development of house brands and products including joint research and development by Thai expert team and Korean team. Karmarts has a vast collection of over 2,000 beauty products from our house brands namely Cathy Doll, Cathy Choo, Baby Bright and Jejuvita.

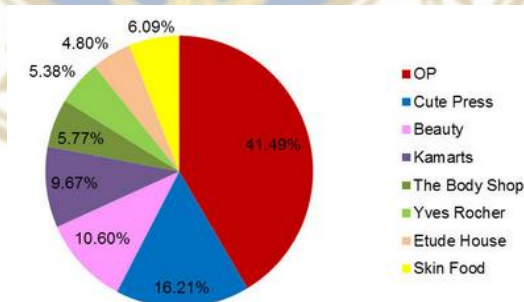


Figure 1.19 Thailand Beauty Industry’s Market Share

High repurchased rate and new product launches: BEAUTY is offering high quality products with affordable prices, so customers keep repurchasing the products. Moreover, BEAUTY have continuously launched new products that can well update with the new cosmetic trend (20-30% of existing products), driving growth up further.

High margin means short payback period: BEAUTY has to invest around THB1.5m-1.7m to open a Beauty Buffet or a Beauty Cottage store, but both shop brands usually breaks even within a year given their superb gross profit margin of 70-72%. In the case of Beauty Market, the company needs to invest around THB7m/branch, so based on our assumption of a 50% profit margin, the payback period of this type of store is around 1.5 years. However, a Beauty Market store can generate double the sales of a Beauty Buffet or Beauty Cottage store, assuming annual sales of THB12m-13m per branch and net profit margin of 15%.

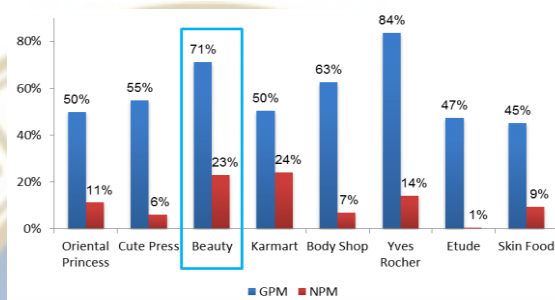


Figure 1.20 BEAUTY's margin vs its peer

Room for growth in the upcountry

When compared against direct competitors and leaders in the market, such as Oriental Princess (no. 1) and Cute Press (no. 2), we foresee great potential for BEAUTY to expand its network both in Bangkok and in the upcountry given that its number of stores still lags far behind both rivals which were engaged in this business long before it did. Note that Oriental Princess continues to open 10-20 stores every year. Currently, 55% of BEAUTY sales revenue comes from stores in Bangkok and its vicinity, while the rest comes from upcountry stores.

Figure 8: Expansion opportunity in upcountry (Compare with Oriental Princess and Cute press)

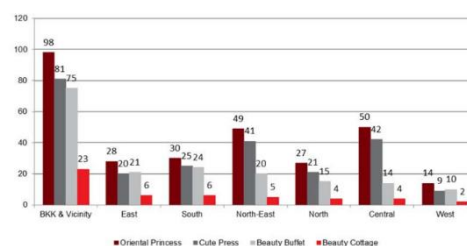


Figure 1.21 Expansion opportunity in upcountry

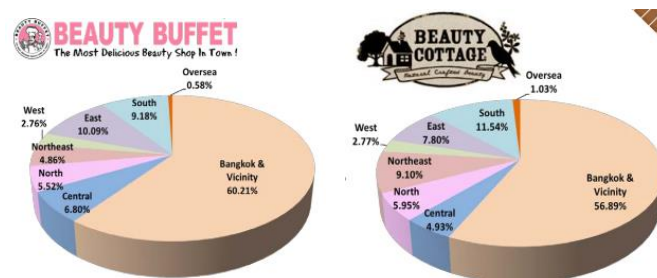


Figure 1.22 Branch location by brand in Thailand

Expansion to CLMV

At the end of 2014, BEAUTY had 16 branches in CLMV and revenues from overseas of Y2014 were 1.28% of overall revenues. Over the time, its products have received great responses, especially the Beauty Buffet and Beauty Cottage products because the company's products have good quality, attractive design, and reasonable price, thus they are accepted by foreign customers. Moreover, the firm is looking for more opportunities to further expand its branches into other countries. BEAUTY will enter into the Indonesian market in partnership with a local firm.



Figure 1.23 Branches around CLMV

In conclusion, although there is high competitiveness in cosmetics and skin care market caused from both domestic competitors and from import products, which tend to be increased from AEC and FTA, the company still confident that competency and business experience can support the company improvement. Thus, the company will create competitive advantage in the industry, domestically and internationally, which may support continuous growth in the future.

Table 1.3 Competitive advantage among competitors

	Local Brand	Beauty Community	Imported Brand
Brand	Single brand	Multi-brand with more product and brand variety	Mostly single brand
Price	Mid-high	Mid-high	Very high
Product	Suits local skin	Suits local skin	May not suit local skin
Production	Own factory	OEM, more production flexibility and specialisation. Comparable quality to imported brand	Own factory & OEM
Location	Provincial small towns	Easy to access location in city. Targets mid-end market.	
Channels	Limited, only available at retail shops	Diverse, various channels	Limited, only available at retail shops

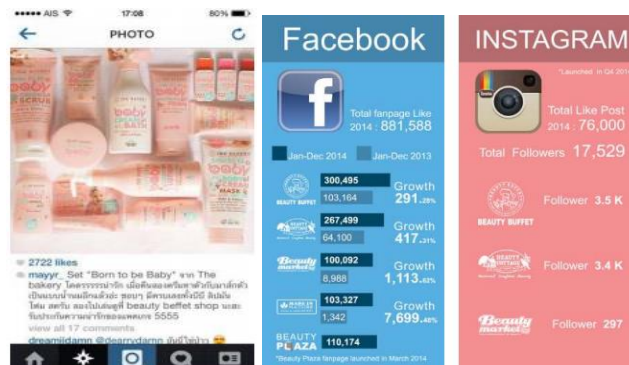
1.5 Investment Summary

Development of BEAUTY's products based on new concepts

Beauty has conducted the project to develop the new products based on new concepts that are related to beauty, health and lifestyles, which are the main expertise of the Company. This project is done to serve the needs of the consumers and distribute the products to different target group of customer.

Increasing of product distribution channel

The company always seek for new product distribution channel, despite the existing channel, by developing own the E-commerce channel such as Facebook: Beautyplaza and Website: beautyplazaonline.com to allow the customers from different area to reach the product easily.

**Figure 1.24 E-commerce channel**

Continuously expanding new branches

The distribution through retailer shop is the main income and the most important distribution channel of Beauty in the present days. Therefore, the company always keeps on increasing the number of branches of Beauty Buffet, Beauty Cottage and Beauty Market throughout the country, in order to distribute more products. The company opened 210 more branches for Beauty Buffet, 70 more branches for Beauty Cottage and 18 more branches for Beauty Market in the end of year 2014.

Investment for improvement of operational systems to support the business expansion

Beauty has invested more money for improving the operational systems to support the business expansion, including the new branches and new products distribution channels. The company has constructed the Inventory Building, to support more product, and Employee Training Center. The construction was started in June 2014 and is scheduled to open in December 2015. Moreover, the company has invested in developing of information Technology System, Point of Sales (POS), Enterprise Resource Planning (ERP), which is in the process of gathering and confirming user requirement and configuring the standard. The company expects to invest for 170-189 Million Baht for developing the operational system to support business expansion in the upcoming future.



Figure 1.25 New inventory building

Continuous promotion campaign

Beauty create sales promotions for all distribution channels continuously to deliver information to customers via both traditional media and digital media in various patterns. They help emphasize consumer's recognition and provide information of new product. The company make public relation in the media to reach the target group. Now

Beauty creates brand recognition for all of its brands for easy access and maximize effectiveness of advertisement



Figure 1.26 Example of promotion campaign

Develop Customer Relationship Management (CRM)

Beauty has developed information system to store customer database in order to analyze the customer's needs in details and to create promotion activities that could satisfy the customers precisely and continuously. The CRM will be stated by promoting membership campaign to customers. Customers should be persuaded by offering member discount and free membership application during shop opening period or when their buying reach set amount. By using personal and buying information, the company will be able to create marketing activities and sale promotion corresponding to the target group's needs.



Figure 1.27 Customer relationship program

Beauty policy to pay high dividend

As Beauty has the policy to pay dividends at the rate of not less than 50 percent of the net profit from normal operation according to financial statement after deduction of tax revenue and legal reserve. The dividend payment is based on

Company's financial position, Company's liquidity, business expansion and other factors that relate to the administration of the Company. However, the Company may pay the dividend less than the percentage mentioned above, if the profit is needed to be used for expanding the business.

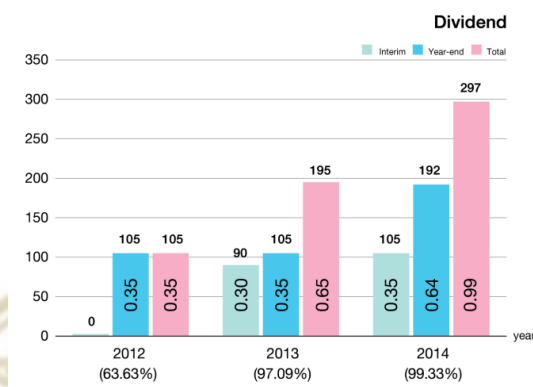


Figure 1.28 Dividend payout ratio between 2012 and 2014

1.6 Valuation

In order to find the reasonable value of stock price, there are two valuation methods that could be applied. The first method is the discounted cash flow model which is the type of valuation where appropriate for evaluating the value of the firm that has a good fundamental. The result from DCF approach will definitely reflects the value of the firm mainly from the main business operation. In addition, the second is the multiples method which reflects the market perception and interpretation toward the company stock. Therefore, those methods will combine the firm's intrinsic value and market attitude, reflected by the market understanding toward the company's stock price, together. However, I will use discounted cash flow method in calculating value of Beauty's stock price in this report because BEAUTY has appropriate growth from branch expansion which contributes to precise prediction.

1.6.1 Discounted Cash Flow Model: FCFF

From my calculation, the valuation from discounted cash flow method is the most appropriate because it takes into account the fundamental component of the firm such as net operating profit after-tax, net capital expenditure, and working capital, and computes these factors to obtain free cash flow to firm adjusted with the change in

depreciation expense and net working capital and then discounted by WACC to come up with the net present value of the total expected cash flows. The free cash flow is available to both creditors and shareholders. If the firm have no debt then discounts rate equals to cost of equity. The result is the enterprise value of the company. After adjusted by S-T investment, interest-bearing debt, S-T liabilities, it will come up with value of equity of firm Therefore, our calculation of the stock price by using the discounted cash flow method, I concluded that the current appropriate price should be around 5.15 baht per share. The recommendation is to hold the stock in the market since it starts to overvalued, however; it has prospect to growth so hold is presently appropriate action.

In calculation, the discounted cash flow approach, as shown in the formula below

$$EV + \text{non-operating assets} = \text{value of debt} + \text{value of equity}$$

Projected Cash Flow and Assumptions

The key assumptions in cash flow projection and terminal value are as follows:

Table 1.4 Key assumptions

Key assumptions	year 2015-2019	year 2020 going forward
SSSG	8.38%	5.48%
Branch expansion growth	19.71%	
COGS to sale (%)	29.93%	
SGA to Sale (%)	42.78%	
Tax rate (%)	20.00%	

Shop branches directly relates to the revenue growth of the company during abnormal growth period: BEAUTY's sales is directly linked with the number of shop brand domestic branches which is Beauty Buffet, Beauty Cottage and Beauty Market. Since the firm has had 279 branches in 2014, the management has planned a projected branch expansion for 55 branches per year between 3 to 5 consecutive years. Apart from branch expansion, same store sales growth (SSSG) is another factor that have to bring into revenue growth calculation. The management sets target for SSSG at 5% per year then average GDP growth rate which also has an effect to consumption and price index is added up from target to come up with projected SSSG. These branch

expansion and SSSG per year will increase sales respectively (*Note that: the sales revenue is defined as sale per square feet meter*). Currently, from historical data, BEAUTY had been able to generate sales of THB 0.15 per one square meter in 2014. Thus, with branch expansion plan in the next five years, shop brand branches capacity will be approximately increased to 0.17, 0.19, 0.21, 0.23 and 0.25 baht per sq.m. respectively. Therefore, with current branches number, if multiplies this number with the total branches of the firm and shop size, we will be able to forecast the future sales of BEAUTY for the year 2015-2019.

Terminal Value Component Assumptions: After the year 2019, the perpetual growth of 5.48% is derived under an assumption of the weighted-averages between expected long-term nominal GDP growth of the major shop established destinations (CLMV, Asia, Thailand**) plus the expected inflation rate in Thailand at 2% because I assumes that BEAUTY mainly operates in Thailand.

For other income, forecast of income is held constant during the projection period: Other income are expected closely to the historical growth rate in year 2014 at the rate around -15.22% and 55.35% for interest income and others respectively.

Proportionated cost of sales and selling and administrative expense to sales: The forecast figures of cost of sales and selling & administrative expense were calculated by averaging the percentage of these items to sales over the past 5 years at the rate around 29.93% and 42.78%, respectively.

Change in net working capital and investment in net fixed assets: During the forecasting period, for the years with high revenue growth, it will automatically require more investment in fix assets to support branch expansion and reach sales growth. Definitely, inventories, account receivables, and account payable are three main factors defining net working capital. As in the historical information, the company increases account receivables at slower rate in later year and also increase in PPE in every year; however, the company is normally funded in cash.

Weighted average cost of capital: Normally WACC is calculated from weighted average of the market value of equity and book value of debt; however, BEAUTY's capital structure uses only by the relative equity market volatility from Damodaran and the 2-year adjusted beta at equity so the company's WACC equals to

cost of equity. I obtained the risk-free rate at 2.7% from 10 year government bond, the risk premium at 8.15% based on Moody's rating and adjusted 0.803 from Bloomberg. As a result, we calculate cost of equity equal to 9.24% by using CAPM model. In sum, WACC is estimated at 9.24%. WACC will be using to be the discount rate of FCFF in DCF model.

Table 1.5 Source of WACC for DCF method

Weight Average Cost of Capital	
Risk-free rate (Rf)	2.70%
Risk premium (Rm - Rf)	8.15%
Beta (b)	0.803
CAPM (Ke)	9.24%
<i>According to capital structure that is no debt, WACC of firm equals to cost of equity</i>	
WACC	9.24%
Constant growth (gs)	5.48%

Table 1.6 Projected Cash Flow by DCF method

(Unit : Baht)	2014	2015F	2016F	2017F	2018F	2019F
Fixed ASSETS	367,580,793	493,431,327	662,369,958	889,148,981	1,029,148,981	1,169,148,981
GROSS: PLANT AND EQUIPMENTS	367,580,793	493,431,327	662,369,958	889,148,981	1,029,148,981	1,169,148,981
COST OF INTANGIBLE ASSETS	0.00	0.00	0.00	0.00	0.00	0.00
Working capital	104,548,167	336,109,588	384,720,072	442,864,184	650,653,560	929,644,722
CURRENT ASSET	294,930,072	577,960,539	697,862,501	836,729,516	1,137,540,633	1,524,119,652
CURRENT LIABILITIES	190,381,905	241,850,951	313,142,429	393,865,332	486,887,074	594,474,930
Free Cash Flow		2015F	2016F	2017F	2018F	2019F
EBIT		502,864,998	646,315,034	818,561,456	1,022,057,955	1,262,786,158
Tax on EBIT (20%)		100,573,000	129,263,007	163,712,291	204,411,591	252,557,232
NOPAT		402,291,998	517,052,027	654,849,165	817,646,364	1,010,228,926
Add: Depreciation and Amortisation		67,671,148	90,840,069	121,941,452	141,141,613	160,341,774
+/-Capital expenditure (Change in fixed asset)		-125,850,534	-168,938,631	-226,779,023	-140,000,000	-140,000,000
+/-Change in net working capital		-231,561,421	-48,610,484	-58,144,111	-207,789,376	-278,991,162
FCFF		112,551,191	390,342,981	491,867,483	610,998,601	751,579,538
Terminal Value						21,036,129,804
Net FCFF		112,551,191	390,342,981	491,867,483	610,998,601	21,787,709,342
(Unit :baht)						
Enterprise Value			15,239,148,409			
(+)Non-operating assets (Investment in mkt security)			390,000,000			
(-)Value of debt (Interest Bearing Debt)			-			
(-)Value of non-controlling interest			-			
Value of equity			15,629,148,409			
Number of shares			3,000,000,000			
Share Price						5.21

1.7 Financial statement analysis

1.7.1 Summary figures from financial statements (Size analysis)

Income statement: In 2014 and 2013, Beauty's revenue from sales were 1,359 MB and 971 MB in respective order which is about 40% growth rate. This is due to the Company's branching expansion nationwide in order to access larger customer scale. By the end of 2014, there are a total of 217 branches established nationwide and in other countries. The cost of sales were 445 MB and selling and administrative expense represent around 440 MB and 124 MB, respectively. The gross profit represents around 915 MB. Its net profit margin increase to 22.2% in 2014 from 21.3% in 2013 due to the launch and rapid expansion of branches as well and partial costs remain constant, resulting in economy of scale in business operation.

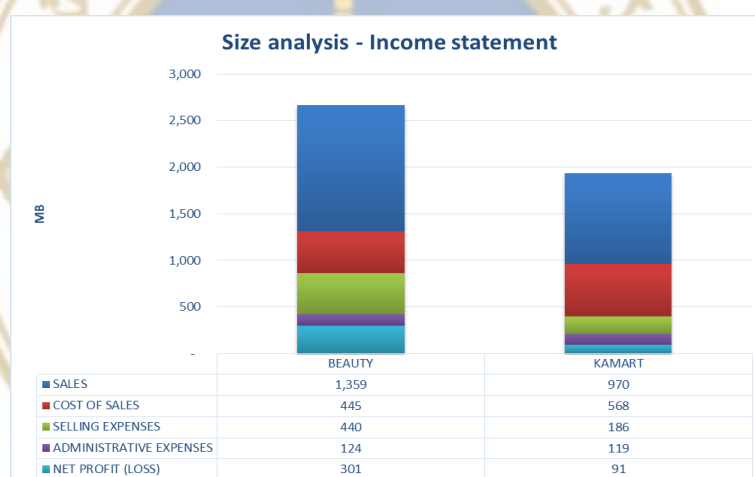


Figure 1.29 Beauty-Kamart income statement analysis

Balance sheet: Total assets of the company are around 1,287 MB composed of current assets 875 MB and non-current assets 412 MB. Majority of assets is temporary investments which accounted for 30% of the total assets. Total assets increased 12.97% YoY, relating to continual turnover growth from products under BB and BC. Trade. For total liabilities and equity side, the company well managed on liability as seen from low portion of debt in 2014 and the year before as well. Total liabilities composed of current liabilities 190 MB and non-current liabilities only 9 MB. The majority of liabilities are trade and other payable item, accounting for about 72%

of total liabilities. On the equity part, the company maintain at almost equal amount from the previous year, the amount only increased from retain earnings.

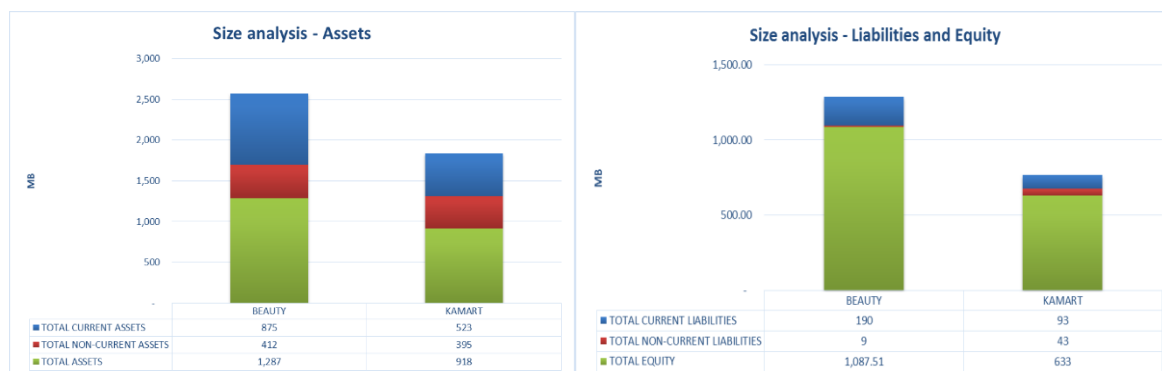


Figure 1.30 Beauty-Kamart balance sheet analysis

Shareholding and dividend: Beauty is 47.19% owned by Mr.Suwin Kraibhubes and its related family. In 2014, the company paid a dividend of THB 0.99 per share, representing a 69.73% payout. The company has a policy to pay dividends at a 50% payout ratio

From all graphs above, BEAUTY's size is bigger than KAMART in every aspect.

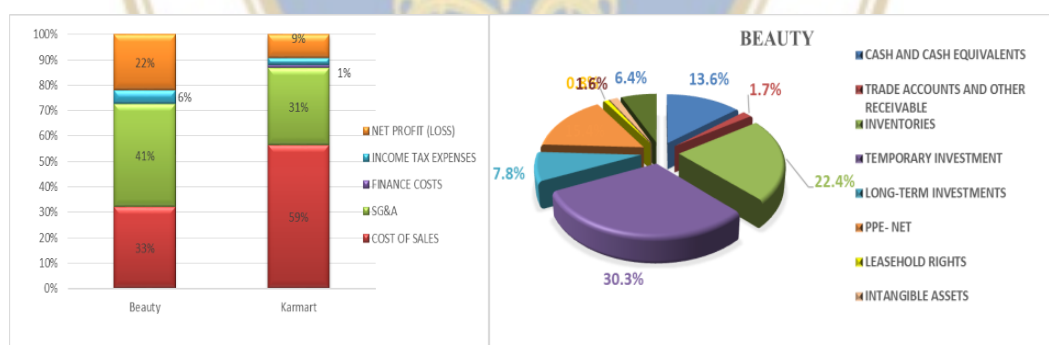


Figure 1.31 Beauty-Kamart size analysis

1.7.2 Common Size analysis

Income statement: Total revenues compose of sales income 98%. The remaining revenues from other income, accounted for 2% of total revenues. Cost of sales and selling and administrative expense represents around 32.7% and 41.4% of sales, respectively. The gross profit and net profit is about 67.3% and 22.2% of sales.

Balance sheet: Total assets compose of current assets 68% and non-current assets 32%. The major items in assets are temporary investment and inventories, representing 30% and 22% respectively followed by property, plant and equipment at 13% and cash and cash equivalents at 14%. Total liabilities and equities compose of total liabilities 15.5%, of which 14.79% is current liabilities and 0.71% is non-current liabilities, and total equities 84.5%, of which share premium is 43.2% followed by issued and paid-up capital at 23.3% and unappropriated retained earnings at 15.6%. The items in current liabilities are trade accounts and other payable and accrued income tax, which represents 11.1% and 3.7%, respectively. The items in non-current liabilities are employee benefits obligation and other non-current liabilities are only 0.4% and 0.3% respectively.

Table 1.7 Beauty-Kamart Income statement

	BEAUTY		KAMART	
	2014		2014	
	(MB)	%	(MB)	%
SALES	1,359	100%	970	100.0%
OTHER INCOME	26	1.9%	48	4.9%
TOTAL REVENUES	1,385,268	101.9%	1,018,165	104.9%
EXPENSES				
COST OF SALES	445	32.7%	568	58.6%
SELLING EXPENSES	440	32.3%	186	19.2%
ADMINISTRATIVE EXPENSES	124	9.1%	119	12.2%
OTHER EXPENSES	-	0.0%	13	1.3%
TOTAL EXPENSES	1,008,476	74.2%	886	91.3%
PROFIT (LOSS) BEFORE FINANCE COSTS AND INCOME TAX EXPENSES	377	27.7%	132	13.6%
FINANCE COSTS	-	0.0%	(11)	1.1%
PROFIT (LOSS) BEFORE INCOME TAX EXPENSES	377	27.7%	121	12.5%
INCOME TAX EXPENSES	76	5.6%	(30)	3.1%
NET PROFIT (LOSS)	301	22.2%	91	9.4%

Table 1.8 Beauty-Kamart Balance sheet

	BEAUTY		KAMART	
	2014		2014	
	(MB)	%	(MB)	%
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	175	13.6%	60	6.5%
TRADE ACCOUNTS AND OTHER RECEIVABLE	22	1.7%	203	22.1%
INVENTORIES	288	22.4%	203	22.1%
TEMPORARY INVESTMENT	390	30.3%	-	0.0%
OTHER CURRENT ASSETS	-	0.0%	58	6.3%
TOTAL CURRENT ASSETS	875	68.0%	465	57.0%
NON-CURRENT ASSETS				
LONG-TERM INVESTMENTS	100	7.8%	168	18.3%
PROPERTY, PLANT AND EQUIPMENTS - NET	198	15.4%	121	13.2%
LEASEHOLD RIGHTS	11	0.8%	-	0.0%
INTANGIBLE ASSETS	20	1.6%	7	0.7%
INVESTMENTS IN ASSOCIATE	-	-	71	7.7%
OTHER NON-CURRENT ASSETS	83	6.4%	28	3.0%
TOTAL NON-CURRENT ASSETS	412	32.0%	395	43.0%
TOTAL ASSETS	1,287	100.0%	918	100.0%

	BEAUTY		KAMART	
	2014		2014	
	(MB)	%	(MB)	%
LIABILITIES AND SHAREHOLDERS' EQUITY				
TRADE ACCOUNTS AND OTHER PAYABLE	143	11.1%	55	6.0%
BANK OVERDRAFT AND S-T LOAN FROM BANK	-	0.0%	160	17.4%
ACCRUED INCOME TAX	48	3.7%	2	0.2%
SHORT-TERM LOAN FROM RELATED PARTIES	-	0.0%	10	1.1%
OTHER CURRENT LIABILITIES	-	0.0%	16	1.7%
TOTAL CURRENT LIABILITIES	190	14.8%	243	26.5%
LONG-TERM LOANS	-	0.0%	4	0.5%
EMPLOYEE BENEFITS OBLIGATION	6	0.4%	9	1.0%
OTHER NON-CURRENT LIABILITIES	3	0.3%	30	3.2%
TOTAL NON-CURRENT LIABILITIES	9	0.7%	43	4.7%
TOTAL LIABILITIES	199	15.5%	286	31.2%
ISSUED AND PAID-UP	300	23.3%	396	43.1%
SHARE PREMIUM	556	43.2%	99	10.7%
RETAINED EARNINGS (DEFICIT) - UNAPPROPRIATED	201	15.6%	108	11.7%
- LEGAL RESERVE	30	2.3%	23	2.5%
OTHERS	-	0.0%	-	0.7%
TOTAL EQUITY	1,087.51	84.5%	632	68.8%
TOTAL LIABILITIES AND TOTAL EQUITY	1,287	100.0%	918	100.0%

Comparing with competitors

For income statement, BEAUTY has lower proportion of cost of sales than KAMART, implying that KAMART might be less efficient than BEAUTY in terms of cost management. As a consequence, gross profit of BEAUTY is higher than KAMART. On the other hand, BEAUTY has more proportion of selling expenses than KAMART which indicates that KAMART spent more in selling expenses in order to boost up sales. All in all, BEAUTY is better off in terms of net profit as it can generate net profit margin at 22.2% which is significantly higher than KAMART in 2014.

On assets side, BEAUTY has significantly less proportion of trade accounts and other receivable while more proportion of property, plant and equipment than KAMART; however, both companies has the same proportion of inventories around 22%. On liabilities and equities side, BEAUTY financed its assets with less proportion of debt than KAMART thus it is less risky in terms of financial leverage. BEAUTY has a higher portion of retain earning than KAMART as well.

1.7.3 Trend Analysis

Income statement: Over the past 5 years, the CAGR of sales was approximately at the rate of 30.49%. Revenue from sales continuously grows as a result of branch expansion of retail shops including providing distribution channels to modern trade and online store and also a lot of new product were launched. Moreover, the cosmetic's consumption increased both Bangkok and up-country and CRM program were launched to provide more benefit to member. The trend of cost of sales, selling and admin expense are increasing in relation to an increase in sales. However, for cost of sales, when looking together with the common size percentage, the proportion of cost of sales to sales slightly increased from last year owing to the rising sales revenue of product brand which has higher cost of sales because the term of product distribution via modern trade have affected the cost. However, this kind of distribution will help reduce selling and administrative expenses such as salesperson expense, rental fee, training cost and commission. In addition, the proportion of selling and administrative expenses to total income decreased from 2013 due to some of expenses are the fixed cost, so when total revenue increased, the proportion of expenses decreased. The net profit increasingly adjusted due to increase in turnover and cost saving effective. The CAGR of net profit is about 60.59% over the past 5 years.

For KAMART, the CAGR of sales over the past 5 years was at 51.58% which seems higher than BEAUTY. However, KAMART's revenue still was lower than BEAUTY's revenue. The cost of goods sold is increasing in relation to an increase in sales which has the CAGR at the rate of 43.21%. SG&A expense increased at high rate at 35.96% over the past 5 years. If we bring all expenses together, the CAGR over the past 5 years was at 58.36% which is higher than revenue growth rate. Moreover, when looking together with the common size percentage, the proportion of cost of sales to

sales slightly increased from year to year which reach 87.05% of sales in 2014 result in the decreasing in net profit in 2014.

Balance sheet: Trend of Asset, I pick some items such as AR, inventories and net-PPE in order to see the linkage between sales of income statement and asset of the company. Since growth of BEAUTY's total asset is 47.03% as a result the continual turnover growth from products under BB and BC concepts including roll-out of Beauty Market in 2013, causing more cashes from operation, more inventories, more fixed assets from business expansion including money receipt from capital increase in common stock sold to people in December 2012 that will be utilize to invest for branches expansion and operation system improvement. KAMART total asset growth move following sales growth results in dramatically decrease in inventories and increase in AR.

Trend of Liabilities and Equity of BEAUTY, we pick AP item to identify how it relates to COGS. Trend of COG is growth at 22.82% along with AP growth is at 21.89%. At the end of year 2011, the Company increased share capital from 5 MB to 55 MB which some of them were the conveying the land where is the location of head office from director. In 2012, the shareholder's equity were increased more than 2011 because the increasing of share capital from 55 MB to 300 MB common stock sold to people in December 2012. In addition, debt to equity ratio of the company at the end of 2014 and 2013 was 0.18 times and 0.14 times respectively. It was seen that the Company used most of investment fund source from shareholder's equity to run the business, causing low financial risk and availability of liquidity in business operation.

For KAMART, during the year 2012, they have capital reduction. KAMART restricted its capital by reduce registered capital from 600 MB to 360 MB in reducing par value of shares from 1 baht to 0.60 baht each. The resulting decreases of 240 MB in share capital, 4.6 MB in the statutory reserve, and 165.3 MB in share premium will be used to offset Baht 394.7 million in the Company's unappropriated deficit.



Figure 1.32 Beauty-Kamart Trend analysis

1.7.4 Financial ratios: Return

We have compared Profitability ratio by using gross profit margin, EBIT margin and net profit margin between Beauty and Kamart during the past 5 years. Beauty can maintain consistently in gross margin around 67.2% from 2010 to 2014. The gross profit margin in 2014 is relatively lower than in 2013 due to the rising sales revenue of product brands through modern-trade and the launch of Beauty Market which has lower gross margin rate compare to retail shop channel.

Beauty's EBIT margin and net profit margin also keep stable except high proportion of those ratios year 2011 because Beauty Buffet shops were widely patronized by customers, leading to a lot of branch expansion. For Kamart, gross profit

margin, EBIT margin and net profit margin were slightly decreased during the past 5 year. Tipco's gross margin dramatically increased in 2011 from 22.2% to 56.6% after that continuously decreased from time to time. EBIT margin and net profit margin were also decreased. The average net profit margin of Kamart is at 24.8% which is higher than Beauty because of high margin in 2010 while Beauty keep constantly all over past 5 years. In conclusion, Beauty can manage all expenses including COGS and SG&A better than Kamart as seen from stable and higher gross profit margin, EBIT margin and net profit margin in the graph below.

Average ROA of Beauty was significantly higher than its competitor, Kamart, because amount of total assets of Beauty were higher than Kamart only about 300 MB while the bottom lines in income statement were significantly different which was larger than Kamart over 3 times. It implies that Beauty has ability to manage its operating asset better than Kamart. Therefore, ROA of Beauty was 22.1% whereas ROA of Kamart was only 13%

Moving in the same direction as an ROA, Average ROE of Beauty were higher than Kamart for the past 5 years. ROE of Beauty were moving in a wide range between 27% and 59% and average ROE was 38% while ROE of Kamart were moving narrower range between 15% and 14%, as shown in the graph below.

Fixed assets turnover and total assets turnover are moving relating to each other. Both ratios can explain the efficiency of assets to generate sales. As describing from graph below, Beauty has better in number of both ratios than Kamart, implying that Beauty can use assets more efficient than Kamart. Although total assets turnover of Beauty in 2012 dramatically declined, this results from utilization of money from common stock sold causing more cashes, more inventory, more fixed asset and investment.

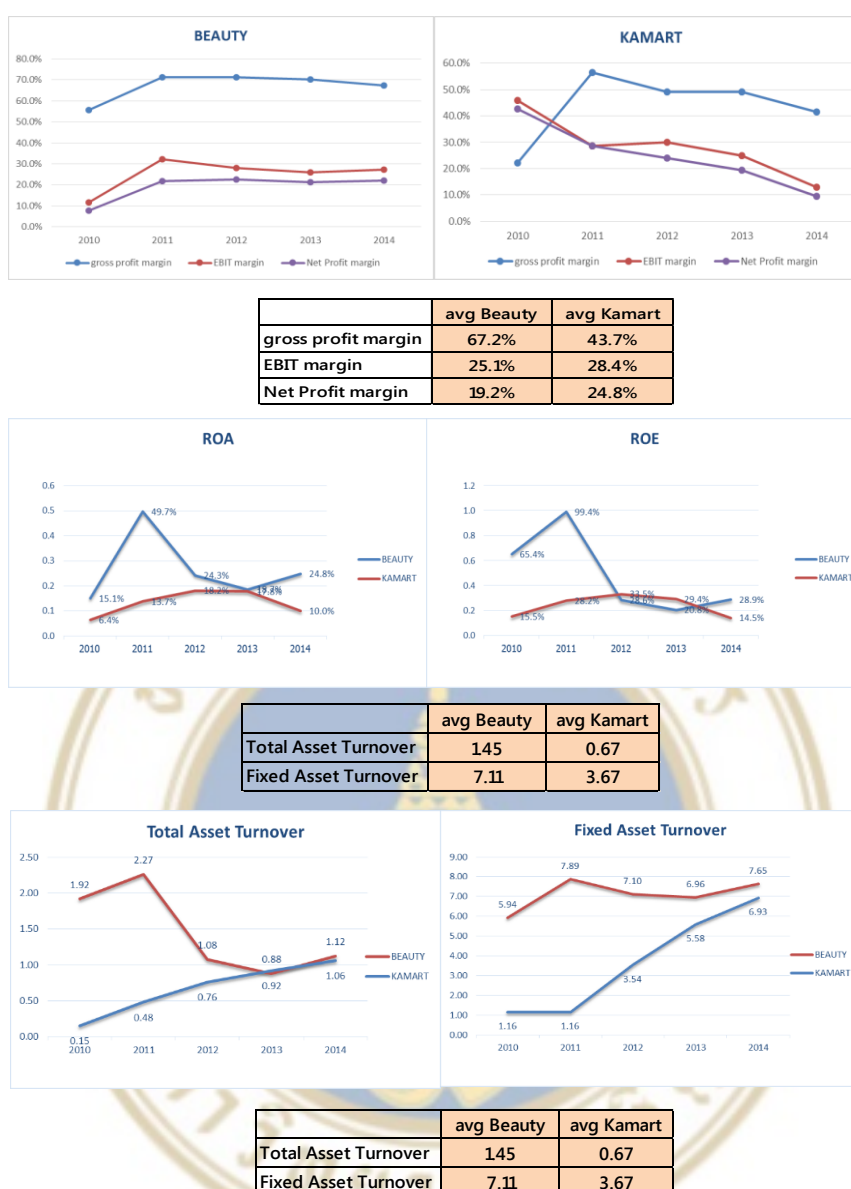


Figure 1.33 Key financial ratio: return

1.7.5 Financial ratios: Risk

Short-term liquidity risk: Current ratio and quick ratio of Beauty imply that the company does not have a liquidity problem as the company's current assets is still much higher than its current liabilities (Current ratio = 5.01 times; Quick ratio = 3.77 times in average past 5 years) even though both ratios are on a decreasing trend which indicates that the company is less liquid than before. On the other hand, both ratios of Kamart moved on a stable trend until 2012 and started to slightly improve

in 2013 to 2014 due to a decrease in trade and other payable and payback of long term loan from bank.

Cash conversion cycle of Beauty keep stable over the past 5 years and was shorter than Kamart between 2013 and 2014 which approximately is 70.07 days, indicating that the average number of days after paying to suppliers and collecting cash from customers is shorter for Beauty than Kamart. The major contributor came from a very short collection period and partly from the longer payable period of Beauty. Therefore, Beauty has less risk than its competitors in this area.

Long-term solvency risk: Beauty financial structure can be described from D/E ratio in the past 5 years. Beauty's source of funds until 2012 came from Debt and Equity which its capital structure policy tend to use more equity than debt due to common stock sold publicly in December 2012, as average D/E ratio equal to 0.14x over the past 3 year, which indicates very low solvency risk in long term. For Kamart, the company's D/E has the same trend as Beauty but stay in the higher rate at 0.61x, indicating high long term solvency risk. Since Beauty has very low debt to equity ratio and there is no financial cost in 2014, interest coverage ratio cannot be calculated. In addition, Debt ratio of Beauty keeps decreasing over time signaling a decrease in long term risk. Although it slightly increased in 2014, the current debt ratio around 15% is still considered very low leverage and hence subject to low risk. Actually, the higher debt ratio on the other hand could help boost up the ROE.

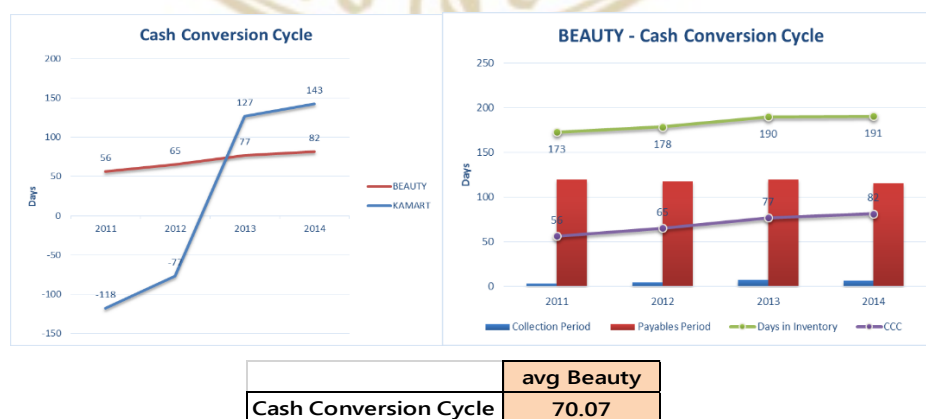


Figure 1.34 Beauty Cash conversion cycle

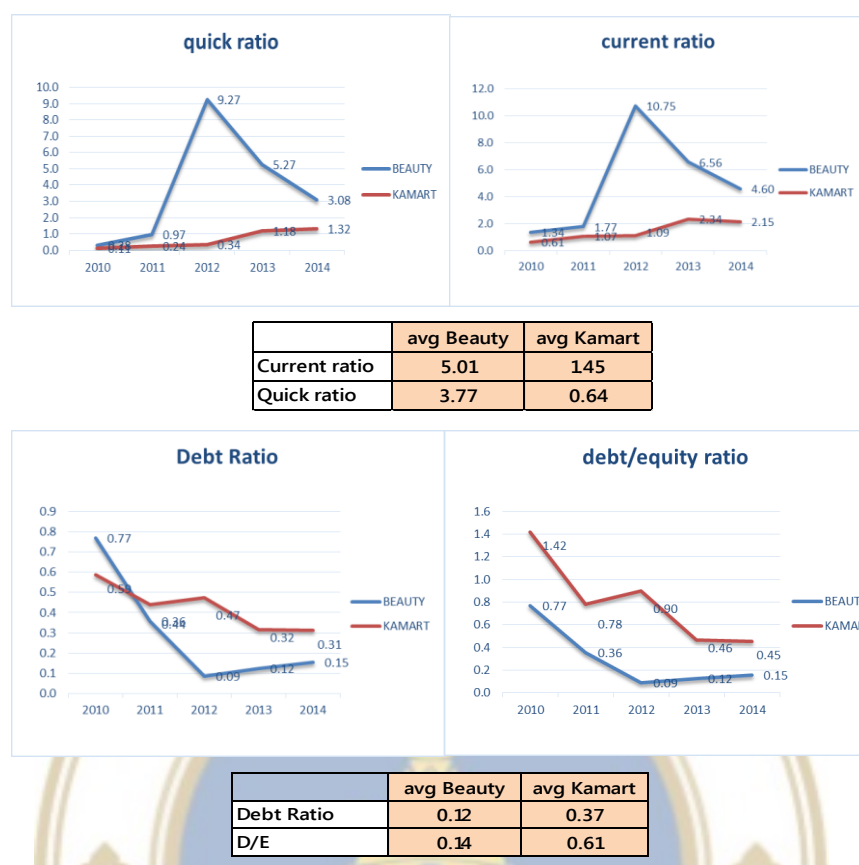


Figure 1.35 Key financial ratio: risk

1.8 Investment Risks and Downside Possibilities

Risks of Reliance on Beauty Buffet

Almost revenue was from the retail sales to consumers throughout the country under the trademark “Beauty Buffet”. The cosmetic products are sensitive in term of consumption especially facial cosmetic products the consumers are relatively sensitive to information regarding to the products in both positive and negative ways. Therefore, if any circumstances have a negative impact on the image of Beauty Buffet, it might also significantly affect the sales volume and the company’s performance. However, the company is certain that the reliance on the revenue from selling Beauty Buffet’s products would decrease progressively when the sales volume of products sold under other shop brands increase and when additional products development based on the strategy and target marketing take places in the future. Moreover, the company is

confident that the feasibility of risk of negative impact on the company's image is low as the company gives the most priority to the quality of the products.

Risks of the Products being counterfeited

The company has no policy to produce the products by itself, but employs manufacturers with expertise of producing several types of products. The manufacturer provides all the material and also controls the production formula in details. In addition, some manufacturers are responsible for both the substances and the package, enabling them to go through the whole production process which causes the risk of product the being counterfeited. As the company is well aware of such risk, it has formulated contracts with every manufacturer. Moreover, the products are highly varied. There are more than 1,000 products with 36 manufacturers produce different products, preventing one from knowing the production formula or completely counterfeit the products.

Risks of Inventory Impairment

Cosmetic and treatment products are always changeable, yet it is necessary for the company to order enough amount of products and have sufficient inventory in order to distribute them nationwide. The company exposes to risks of inventory impairment if the popularity of the consumers changes and cause the existing inventory to become unsalable or impaired. The company has always conducted surveys regarding the market and the behavior, and also has information technology system that maintain the data of selling statistic, enabling the company to plan the order in line with the market demand.

Risk of lease agreement cancellation

Almost all the branches are with 1-3 years space lease agreement. If the space owner cancels the lease agreement, the company might not be able to sell its products and its performance might be affected. Mostly, the owners of the spaces the company is renting for its business operation are department stores and large supermarkets. The company is considers a key account of such space owners and the owners have renewed the lease agreement as per the company's request. Therefore, the company is confident that the impact on its performance from such risks is rather low.

Risks of Reliance on Computer System in Operating Business

The company uses computer systems to manage store-front selling of every branch, which is linked to all the inventories of the company. The system is also set to keep the existing products database, customer's data and others and, consequently, if any errors occur it might have an impact on the company's business. However, the errors occur at one shop will not affect the others and the company has a policy to support the errors by coaching the employees to sell its product and issue the bill without using the computer system. Moreover, the company has always backed up its data regularly and also had alternate servers so that it can restore data in case of error of main system.

Risks from Currency Exchange

The company's products are manufactured by some foreign manufacturers and pay their service fee in USD while all of the company's products are sold in THB. However, the total order value in foreign currency amounted to 4-6 million per annum, less than 3% of total cost without the tendency to increase. However, if the order from foreign countries increase, the company would consider formulating a forward contract case by case properly.

Risks of being among highly competitive industries

Cosmetic and skin treatment retail business is highly competitive. In the beginning, it does not require large amount of investment and the business structure is not complicate; as a result, it is easy for new entrepreneur to start such a business which, therefore, increases the competition rate. However, even though it is not difficult for the new competitors to start their own business, to create a notable brand, increase sale volume and maintain customer base cannot be achieved easily as it requires a larger amount of cash flow of public relations and branch expansion. The company thus expect that the risk of sales volume decrease due to the new competitors would not be as high.

Risks of Reliance on Manufacturers

The company's risk management policy is to distribute the manufacturing order to a number of manufacturers in order not to rely solely on one manufacturer. As for the popular products, the company employs 2 manufacturers simultaneously.

Furthermore, the company has primary knowledge of the formula and ingredients and if any manufacturers terminate the production, the company is able to adjust the formula and create new products comparable to or better than the former products in order to meet the need of the consumers increasingly.

Table 1.9 Beauty Risk matrix

Risk Matrix Table			
Impact	1	2	3
Proabilities	Negligible	Moderate	Severe
(68%-100%)		Reliance on Beauty Buffet Reliance on manufacturers	
(34%-67%)	Reliance on computer system	Products being counterfeited Inventory impairment Highly competitive industries	
(1%-33%)	Currency exchange	Lease agreement cancellation	

1.9 Sensitivity Analysis

Sensitivity analysis is a way to predict stock price if weighted average cost of capital (WACC) and terminal growth turn out to be different compared to the key assumption. From key assumption, target stock price would be THB5.21. If terminal growth rate decreases, stock price would decrease and vice versa. If WACC decreases, stock price would increase and vice versa. Lower WACC and higher terminal growth is high significantly related to stock price volatility. The variables that will affect terminal growth assumption are GDP growth rate and inflation rate, while those for WACC are stock beta and risk free rate.

Table 1.10 Beauty Sensitivity analysis

Sensitivity Analysis						
	<i>Stock price</i>	WACC				
	5.21	8%	9%	9.24%	10%	11%
Terminal Growth	2%	3.63	3.08	2.97	2.67	2.36
	3%	4.24	3.50	3.36	2.98	2.59
	4%	5.16	4.09	3.90	3.39	2.88
	5%	6.69	4.98	4.69	3.96	3.27
	5.48%	7.86	5.59	5.22	4.32	3.51
	6%	9.76	6.46	5.97	4.81	3.82
7%	18.97	9.42	8.40	6.24	4.65	

CHAPTER II

DATA

2.1 Revenue Growth Assumptions

According to nature of BEAUTY's business, revenue growth can be derived to same store sales growth (SSSG) and branch expansion. With growing cosmetic market and the high-quality and unique products, we expect revenue in 2015 to expand 28% YoY to Bt1,743m with average revenue growth of 20% CAGR in 2015-2019, supported by an average 8.38% growth of SSSG, 55 new branches per year (+19.7%).

The company plans to open 55 branches p.a. BEAUTY plans to open 30 Beauty Buffet, 15 Beauty Cottage and 10 Beauty Market branches annually. This year, the company will add 55 new stores to its network of 279 stores as at end-2014 (*Note that: branch expansion growth focuses on domestic branches only because revenue from oversea branch is still in the beginning and branch expansion cannot be used to predict revenue per branch precisely. As historical data from year 2012-2014, branch expansion was double; however, revenue growth didn't increase at the same rate*). While SSSG is calculated from management target at 5% per year adjusted by average GDP growth rate that might affect price index and consumption.

Sales revenue from others channel are calculated by 30% CAGR which is the compound annual growth rate. CAGR is a useful measure of growth over multiple time periods. It can be thought of as the growth rate that gets the sale from the initial investment value to the ending investment value if we assume that the investment has been compounding over the time period.

The formula for CAGR is: $CAGR = (EV / BV)^{1 / n - 1}$

where:

EV = Investment's ending value

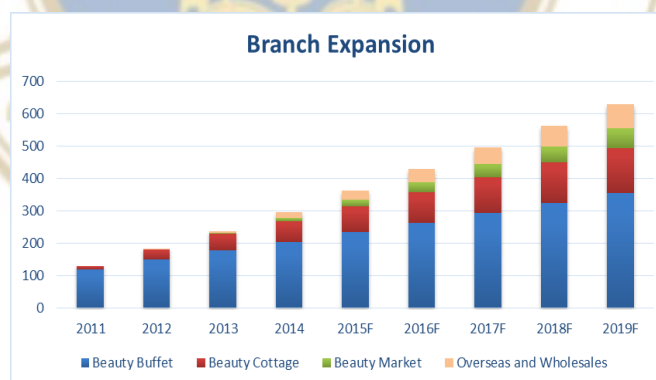
BV = Investment's beginning value

n = Number of periods (months, years, etc.)

Table 2.1 Revenue Growth Assumptions

No. of Store	2011	2012	2013	2014	2015F	2016F	2017F	2018F	2019F
Beauty Buffet	120	149	179	204	234	264	294	324	354
Beauty Cottage	10	31	50	65	80	95	110	125	140
Beauty Market	0	0	3	10	20	30	40	50	60
Overseas and Wholesales	0	1	6	16	28	40	52	64	76
Total number of store	130	181	238	295	362	429	496	563	630
Assumption									
Beauty Buffet	30								
Beauty Cottage	15								
Beauty Market	10								
Overseas and Wholesales	12								
Branch expansion growth	19.7%								
SSSG (2015-2019)	8.38%	>> 5%+Average GDP Growth 2015-2019							
Sales (mb)	2011	2012	2013	2014	2015F	2016F	2017F	2018F	2019F
Beauty Buffet	584.14	651.68	766.12	1080.72	1384.33	1729.02	2121.31	2567.13	3072.76
Shop size (sqm.)	35								
Revenue per sqm.	0.14	0.12	0.12	0.15	0.17	0.19	0.21	0.23	0.25
Beauty Cottage	5.18	84.98	139.42	156.82	200.88	266.31	344.28	434.03	536.53
Shop size (sqm.)	35								
Revenue per sqm.	0.01	0.08	0.08	0.07	0.07	0.08	0.09	0.10	0.11
Beauty Martket	0	0	13.52	56.52	72.40	147.05	244.85	360.20	493.60
Shop size (sqm.)	100								
Revenue per sqm.	-	-	0.05	0.06	0.04	0.05	0.06	0.07	0.08
Total sales from retail shop	589.32	736.66	919.06	1,294.06	1,657.60	2,142.38	2,710.44	3,361.37	4,102.88
Overseas and Wholesales	9.03	10.99	14.35	17.82	23.20	30.20	39.32	51.20	66.65
Franchises	13.73	20.84	23.76	22.41	29.18	37.98	49.45	64.38	83.82
Modern Trade	0	1.39	13.79	25.16	32.76	42.65	55.52	72.29	94.11
Total sales from others	22.76	33.22	51.9	65.39	85.13	110.84	144.30	187.87	244.59
CAGR- Sales from others	30.2%								
Total sales	612.08	769.88	970.96	1,359.45	1,742.74	2,253.22	2,854.74	3,549.23	4,347.47

Forecasted number of store from 2015- 2019 is shown below;

**Figure 2.1 Forecasted branch expansion**

Moreover I also received the important information from our research which is a CEO of Beauty Community Public Company Limited's speech. He said the expected sale growth in 3-5 years will generate to sales growth rate at 27-30%. As above forecasted figure, that will make revenue growth rate in year 2015-2017 are 28%, 29% and 27% respectively so I decided to use above assumption and come up with total sales as shown in the table above.

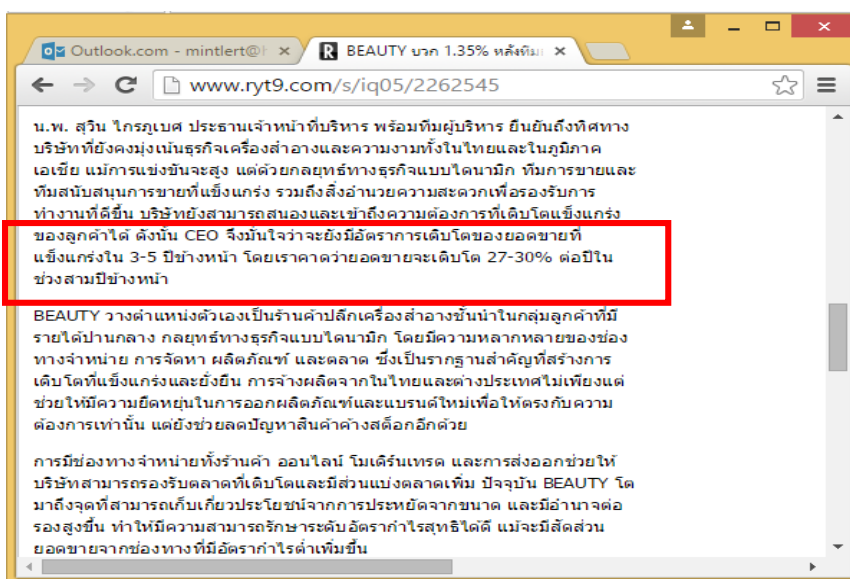


Figure 2.2 Beauty's management expectation

2.2 Terminal Growth Rate Assumptions

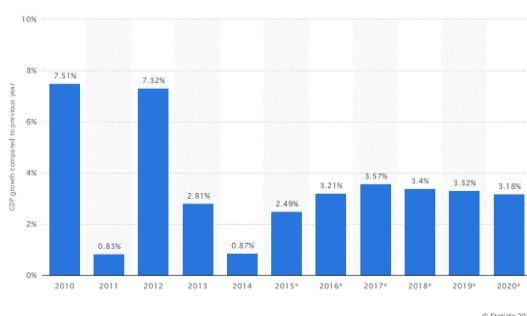
Terminal growth rate (long term growth rate) will be based on Thailand’s “Nominal GDP” = average forecasted real GDP of Thailand, ASEAN and CLMV + Thailand’s inflation rate.

Table 2.2 Terminal growth rate calculation

Forecast real GDP and Inflation			
	Real GDP	Inflation	Nominal GDP
ASEAN	5.60%		5.60%
CLMV	6.60%		6.60%
Thailand	3.32%	2.00%	5.32%
perpetual growth			5.48%

Thailand: Growth rate of the real gross domestic product (GDP) from 2010 to 2020 (compared to the previous year)

The statistic shows the growth in real GDP in Thailand from between 2010 to 2014, with projections up until 2020. In 2014, Thailand's real gross domestic product grew by around 0.87 percent compared to the previous year.



Real GDP growth rate

Country	2012	2013	2014	2015	2019
ASEAN5	6.2	5.0	4.9	5.4	5.6
CLMV*	5.7	5.9	6.3	6.4	6.6
CLMM**	5.6	5.0	5.7	5.6	5.6
China	7.7	7.7	7.5	7.3	6.5
US	2.8	1.9	2.8	3.0	2.2
Euro area (17)	-0.7	-0.5	1.2	1.5	1.5
Japan	1.4	1.5	1.4	1.0	1.1

Figure 2.3 Terminal Growth Rate Assumptions

2.3 WACC Assumptions

As you can see from statement of financial position, Beauty had started payback all debt since 2012 which make the company has solid financials with no interest-bearing debt. Capital structure of Beauty has only equity then cost of capital equals to cost of equity.

2.3.1 Ke (Cost of equity)

Table 2.3 Cost of equity

Weight Average Cost of Capital		
Risk-free rate (Rf)	2.70%	10-year Government Bond (Source: Thai BMA) at 18/11/15
Risk premium (Rm - Rf)	8.15%	Based on Moody's rating and adjusted by the relative equity market volatility (Source: Damodaran)
Beta (b)	0.803	Based on 2 yr. adjusted beta
CAPM (Ke)	9.24%	
<i>According to capital structure that is no debt, WACC of firm equals to cost of equity</i>		
WACC	9.24%	
Constant growth (gs)	5.48%	GDP growth rate at 2019 + an annual average inflation rate

Therefore, the WACC is 9.24%

Note: Given that the investment cost per branch is expected at around THB130-140m, I believe BEAUTY's cash and operating cash flow that exceed THB300m will be sufficient to support its expansion plan.

Table 2.4 Statement of Cash flows

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED						
PROJECTION STATEMENTS OF CASH FLOWS						
FOR THE YEAR ENDED DECEMBER 31, 2015-2019						
	2014	2015F	2016F	2017F	2018F	2019F
Cash flows from (used in) operating activities						
	376,791,945	502,864,998	646,315,034	818,561,456	1,022,057,955	1,262,786,158
<i>Adjustments profit before income tax to cash receipt (disbursement) from operating activities:</i>						
Depreciation and amortization	43,982,731	67,671,148	90,840,069	121,941,452	141,141,613	160,341,774
Doubtful accounts	-	-	-	-	-	-
Loss (reversal) on devaluation of inventories	171,345	-	-	-	-	-
(Gain) loss on sales of assets and write off fixed assets	(641,261)	-	-	-	-	-
Loss on write off of intangible assets	1,225,440	-	-	-	-	-
Deferred (income) for reward points	(4,316,285)	-	-	-	-	-
Employee benefit expenses	1,083,246	-	-	-	-	-
Interest expenses	-	-	-	-	-	-
<i>Profit (loss) from operating activities before changes in operating assets and liabilities</i>	<i>418,297,160</i>	<i>570,536,146</i>	<i>737,155,103</i>	<i>940,502,908</i>	<i>1,163,199,568</i>	<i>1,423,127,932</i>
(Increase) Decrease in changes of operating assets						
Trade and other receivables	3,582,667	(5,265,313)	(8,063,204)	(9,501,332)	(10,969,711)	(12,608,418)
Inventories	(112,885,636)	(81,337,143)	(108,328,627)	(127,649,785)	(147,377,357)	(169,393,281)
Other non - current assets	(13,969,729)	(22,269,448)	(29,659,497)	(34,949,473)	(40,350,722)	(46,378,503)
(Increase) Decrease in changes of operating assets	(123,272,698)	(108,871,905)	(146,051,329)	(172,100,590)	(198,697,789)	(228,380,202)
Increase (Decrease) in changes of operating liabilities						
Trade and other payables	26,594,913	35,512,016	53,135,048	58,921,724	67,265,248	77,118,957
Other current liabilities	790,120	940,751	1,252,936	1,476,405	1,704,576	1,959,213
Increase (Decrease) in changes of operating liabilities	27,385,033	36,452,766	54,387,983	60,398,129	68,969,824	79,078,170
Cash generated (paid) from operation	322,409,496	498,117,007	645,491,758	828,800,447	1,033,471,603	1,273,825,900
Interest paid	-	-	-	-	-	-
Income tax paid	(54,842,117)	(84,615,969)	(111,106,577)	(141,911,111)	(178,655,098)	(222,088,333)
Net cash flows from (used in) operating activities	267,567,379	413,501,038	534,385,181	686,889,336	854,816,505	1,051,737,567

2.4 Revenue Structure

Revenue Structure by channel							Unit : Million baht	
Revenue structure by channel	2014			2013			Changed	
	Amount	% to total revenue	% to sales	Amount	% to total revenue	% to sales	Amount	%
Retail shops :								
- Beauty Buffet	1,080.72	78.01%	79.50%	766.12	76.83%	78.93%	314.60	41.06%
- Beauty Cottage	156.82	11.32%	11.54%	139.42	13.98%	14.36%	17.40	12.48%
- Beauty Market	56.52	4.08%	4.16%	13.25	1.33%	1.37%	43.27	326.54%
Total sales from retail shops	1,294.05	93.42%	95.19%	918.79	92.15%	94.65%	375.26	40.84%
Franchises	22.41	1.62%	1.65%	23.76	2.38%	2.45%	(1.35)	(5.68%)
Wholesales & Oversea	17.82	1.29%	1.31%	14.35	1.44%	1.48%	3.47	24.18%
Modern Trade	25.16	1.82%	1.85%	13.79	1.38%	1.42%	11.37	82.45%
Total sales	1,359.44	98.14%	100.00%	970.69	97.35%	100.00%	388.75	40.05%
Other revenue	25.82	1.86%		26.42	2.65%		(0.60)	(2.27%)
Total revenue	1,385.27	100.00%		997.11	100.00%		388.16	38.93%

Figure 2.4 Revenue structure by channel

2.5 Major Shareholders and Free-float

Free Float As of 16/03/2015	
Minor Shareholders (Free float)	2,458
% Shares in Minor Shareholders (% Free float)	47.85

Remark: Updated as of the latest book closing date.

Overview As of 31/08/2015 Rights Type : XD	
Total Shareholders	5,179
% Shares in Scripless Holding	100.00

Rank	Major Shareholders	# Shares	% Shares
1.	นายสุรินทร์ ไกรฤกษ์	723,974,000	24.13
2.	นางสิริคุณากรณี ไกรฤกษ์	387,498,000	12.92
3.	STATE STREET BANK EUROPE LIMITED	259,733,850	8.66
4.	RBC INVESTOR SERVICES TRUST	139,482,000	4.65
5.	บริษัท ไทยเอ็นวีดีโอ จำกัด	139,004,640	4.63
6.	CHASE NOMINEES LIMITED	115,441,000	3.85
7.	นายประชา คำรงค์สุทธิพงษ์	93,000,000	3.10
8.	THE BANK OF NEW YORK MELLON	61,329,100	2.04
9.	นายสนทระ สุวีริณนทีศาล	54,990,000	1.83
10.	N. C. B. TRUST LIMITED-NORGES BANK 11	51,522,100	1.72
11.	นายสรรชกร สุวีริณนทีศาล	42,000,000	1.40
12.	นายปรัชญา เสงี่ยม	35,000,000	1.17
13.	STATE STREET BANK AND TRUST COMPANY	30,198,600	1.01
14.	นางมณฑุสราทิพย์ มณีศรีธรรม์	30,000,000	1.00
15.	NORTRUST NOMINEES LTD-CL AC	23,662,269	0.79
16.	นายจิรเดช จงวัฒนาศิริกุล	23,000,000	0.77
17.	นายสุทธิพงษ์ เวศม์วรุตม์	22,100,000	0.74

Figure 2.5 Major Shareholders and Free-float

2.6 Management and Organizational Chart, Product developed and sold and Corporate Governance

2.6.1 Management and Organizational Chart

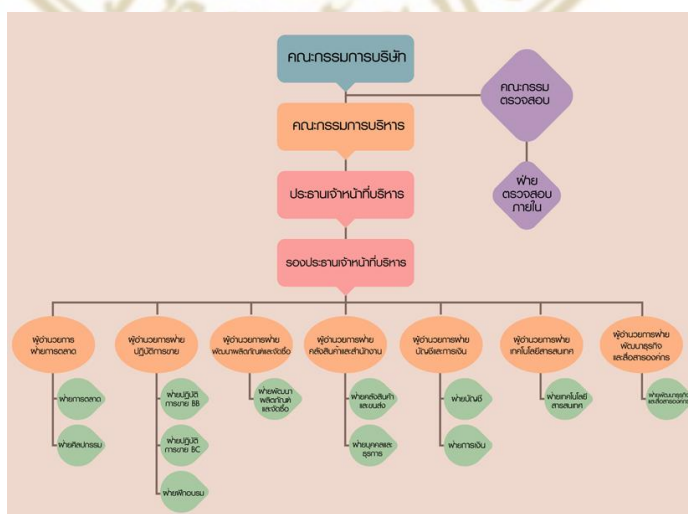


Figure 2.6 Management and Organizational Chart

2.6.2 Product developed and sold











Business					
Channel	Retail Cosmetic Shop	Retail Cosmetic Shop	Retail Cosmetic Shop	Supermarket ,Hypermarket, Traditional trade and E-Commerce	Convenience Store, Traditional trade, catalogue and E-Commerce
Brand	Multi Brands (Private Label)	Single Brand (Private Label)	Multi Brands (with Sourcing and private label)	Single Brand (Private Label)	Single Brand (Private Label)
Brand Concept and Brand Positioning	Cross concept between excitement of cosmetic shop and the fun of buffet restaurant -Easy Access -Wide Variety of Products -All in One -Reasonable Price -Fun and Exciting -74 SKUs	Premium natural beauty products with vintage inspired design -Natural Ingredient -Less in preservative -Art&Craft Style decoration -Higher positioning and higher price than Beauty Buffet -352 SKUs	Mixed concept between the convenience of supermarket and beauty store. -Beauty Specialty Store -Our Largest Format Shop -Average Area 100 Sqm. -Almost 100 Suppliers and more than 300 Brands -4,000-9,000 SKUs	High quality skincare products with premium ingredients imported from Korea -For natural conscious consumer -Compete with imported brands from Korea,Japan, USA and Europe -9 SKUs	Japanese style functional skincare and trendy make up -Set as a fighting brand -Lower Price -Smaller Pack Size -Teenager attractive design -11 SKUs
Product Coverage	 Make up Skincare Accessory	 Make up Skincare Accessory	 Make up Facial Care Body Hygiene Body Care Hair Care Perfume Beauty Drink&Food Supplement Beauty Accessory Men's Care	 Skincare	 Skincare Make up
Product Brand	GINO McCRAY THE BAKERY SCENTIO LANSLEY	BEAUTY COTTAGE	General Brand Alternative Brand Exclusive Brand Private Brand	MADE IN NATURE	GIRLY GIRL
Target Group	Young teenager - Working Women	College Student- Working Women	All ages from 13-65+	All ages	Young teenager - Working Women
Shop Size	Average 35 sqm	Average 35 sqm	Average 100 sqm	No shop.	No shop.

Figure 2.7 Product developed and sold

2.6.3 Corporate Governance (CG)

Beauty Community is aware of the importance to perform in accordance with Corporate Governance Principle. Thus the board of directors has developed the policy to comply with SET guidelines. Moreover, the company follows Good Corporate Governance as a guideline in development of the policy. The Good Corporate Governance includes 5 sections as follow;

1. The Rights of Shareholders
2. The Equitable Treatment of Shareholders
3. The Role of Stakeholders
4. Disclosure and Transparency
5. Responsibilities of the Board of Directors

2.7 SWOT analysis

Strengths:

• Management has many years of experience in the cosmetic market in Thailand

• The Company has solid financial and no debt

• High margin leads to short payback period

• No capital expenditure requirement for manufacturing facilities and simple inventory management

• High product quality at reasonable price

• Multi-store format and many products

• Multi-distribution channels such as traditional trade, modern trade and online-shop

Weakness:

• Beauty Market has lower margin so when the revenue from these shop was higher, it will decrease profit margin of company

• The company has high selling and administrative expenses to manage its own retail shops

• High stock and inventory days

Opportunities:

• There is room for growth in the upcountry. Its number of stores still lags far behind direct competitors such as Oriental Princess and Cute Press

• People's rising incomes and urbanization

• Overseas expansion (AEC launch)

• Expand through modern trade and online channels

• Fast-growing industry due to changes in consumer lifestyle (Increasing personal appearance concerns)

Threats:

• The retail business of cosmetics is highly competitive market both from local and imported

• Fashionable products can swiftly become obsolete

- Slow economic growth may effect purchasing power

2.8 Five Force analyses

Threat of new entrants: High

The retail business of cosmetic and skincare industry has really strong competitive industry. It easy to entry and exist as it requires low initial investment and has a simple business structure, resulting in low barrier to entry for new players, both local and multinational companies. The target groups of these entrepreneurs are similar to those of the company, causing the company to be among highly-competitive environment which might have an effect on performance.

Bargaining power of consumers: Medium

As more competitors, more substitute products, and easy to purchase which nowadays it nearly to have the event of AEC that the common goal for the ASEAN Economic Community (AEC) is to achieve the single market and production bases for the ASEAN community so it may has many international products come into Thailand then more choices for customer to choose any products to consume. However, for the retail business, consumers cannot bargain the price. No matter they would buy a huge amount of product, they still have to pay at the retail price.

Bargaining power of suppliers: Medium

BEAUTY does not produce products by itself. The manufacturers are the ones who generally provide all the ingredients although the company primarily specifies active ingredients and features of the products. Should the manufacturers halt the production, the company would not be able to provide every exact same ingredient. This could affect the company's performance in overall picture of such incident occurs to popular products with high sales volume. However, distributing the manufacturing order to a number of manufacturers can decrease the power of manufacturers.

Threat of substitute products: High

As the event of AEC, free trade is also the policy of the event so it has variety products come into Thailand. Moreover, there are many substitute products from many brands both local and international in the market of Thailand which it might be cheaper or higher in quality so it has more choices for customers to change their consumption.

Competitive rivalry among existing firms: High

In this industry, competitive is very strong because products has small difference so entrepreneurs have to create brand royalty for their brand by good customer relationship management and continuous promotion campaign to create repurchasing and increase amount per bill. In addition, an entrepreneur also has a policy to compete with the competitors in terms of good product quality, strong brand image, advertising and various marketing campaigns by using the methods of production with good quality at reasonable price to our customers and invests in launching new products that could generate returns and profitability, launches marketing campaigns with reasonable return on investment, as well as distributes our products via variety distribution channels to ensure we could reach our target customers efficiently.

2.9 Income statement

2.9.1 Historical Income Statement

Table 2.5 Historical Income Statement

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
STATEMENTS OF INCOME					
FOR THE YEAR ENDED DECEMBER 31					
	2010	2011	2012	2013	2014
REVENUES					
Revenues from sales	359,344,100	612,075,300	769,887,800	970,697,600	1,359,449,200
Other income					
- Interest income	781,050	950,200	4,178,040	21,565,360	18,283,330
- Others	788,850	2,287,750	3,588,300	4,850,540	7,535,530
TOTAL REVENUES	360,914,000	615,313,250	777,654,140	997,113,500	1,385,268,060
EXPENSES					
Cost of sales	159,052,770	175,161,520	221,161,960	287,874,460	444,577,790
Selling expenses	107,360,860	168,660,610	255,071,420	348,199,470	439,527,930
Administrative expenses	52,182,320	72,803,080	82,450,900	101,732,340	124,370,400
Finance costs	427,290	978,880	456,500	207,400	-
TOTAL EXPENSES	319,023,240	417,604,090	559,140,780	738,013,670	1,008,476,120
PROFIT (LOSS) BEFORE INCOME TAX EXPENSES	41,890,760	197,709,160	218,513,360	259,099,830	376,791,940
TAX EXPENSES (INCOME)	13,697,500	63,485,360	44,817,600	52,129,780	75,632,450
PROFIT (LOSS) FOR THE YEARS	28,193,260	134,223,800	173,695,760	206,970,050	301,159,490
OTHER COMPREHENSIVE INCOME					
- Actuarial gains (loss) on defined employee benefits plans - net of tax					(2,433,060)
OTHER COMPREHENSIVE INCOMER FOR THE YEAR					(2,433,060)
TOTAL COMPREHENSIVE INCOMER FOR THE YEAR					298,726,430
BASIC EARNINGS PER SHARE					
Profit attributable to equity holders of the parent (Baht)	5.64	21.53	1.35	0.69	1.00
The weighted average number of ordinary shares (shares)	5,000,000	6,232,877	128,565,574	300,000,000	300,000,000

2.9.2 Projection Income Statement

Table 2.6 Projection Income Statement

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
STATEMENTS OF INCOME					
FOR THE YEAR ENDED DECEMBER 31					
	2015F	2016F	2017F	2018F	2019F
REVENUES					
Revenues from sales	1,742,736,303	2,253,216,066	2,854,743,415	3,549,233,507	4,347,469,803
Other income					
- Interest income	15,500,792	13,141,728	11,141,690	9,446,037	8,008,446
- Others	11,706,782	18,187,007	28,254,325	43,894,353	68,191,833
TOTAL REVENUES	1,769,943,876	2,284,544,801	2,894,139,430	3,602,573,897	4,423,670,082
EXPENSES					
Cost of sales	521,528,651	674,294,059	854,306,231	1,062,138,294	1,301,017,290
Selling expenses	561,548,405	726,036,341	919,861,834	1,143,641,991	1,400,851,482
Administrative expenses	184,001,823	237,899,367	301,409,909	374,735,657	459,015,151
Finance costs	-	-	-	-	-
TOTAL EXPENSES	1,267,078,879	1,638,229,767	2,075,577,974	2,580,515,942	3,160,883,923
PROFIT (LOSS) BEFORE INCOME TAX EXPENSES	502,864,998	646,315,034	818,561,456	1,022,057,955	1,262,786,158
TAX EXPENSES (INCOME)	100,573,000	129,263,007	163,712,291	204,411,591	252,557,232
PROFIT (LOSS) FOR THE YEARS	402,291,998	517,052,027	654,849,165	817,646,364	1,010,228,926
OTHER COMPREHENSIVE INCOME					
- Actuarial gains (loss) on defined employee benefits plans - net of tax					
OTHER COMPREHENSIVE INCOMER FOR THE YEAR	(2,433,060)	(2,433,060)	(2,433,060)	(2,433,060)	(2,433,060)
TOTAL COMPREHENSIVE INCOMER FOR THE YEAR	399,858,938	514,618,967	652,416,105	815,213,304	1,007,795,866
BASIC EARNINGS PER SHARE					
Profit attributable to equity holders of the parent (Baht)	0.13	0.17	0.22	0.27	0.34
The weighted average number of ordinary shares (shares)	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000

2.10 Balance sheet

2.10.1 Historical Balance Sheet

Table 2.7 Historical Balance Sheet

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
STATEMENTS OF FINANCIAL POSITION					
AS AT DECEMBER 31, 2015-2019					
ASSET	2010	2011	2012	2013	2014
CURRENT ASSETS					
Cash and cash equivalents	16,098,665	105,236,513	298,264,197	192,136,884	174,562,208
Temporary investments	-	-	460,000,000	500,000,000	390,000,000
Trade and other receivable	3,329,211	6,997,606	11,763,268	25,844,476	22,261,809
Inventories	73,057,909	92,645,954	123,574,042	175,773,669	288,487,960
TOTAL CURRENT ASSETS	92,485,785	204,880,073	893,601,507	893,755,029	875,311,977
NON - CURRENT ASSETS					
Long-term investments					100,000,000
Property, plant and equipment - net	60,544,659	94,643,139	122,111,200	157,013,575	198,433,366
Leasehold rights	14,487,109	13,261,481	12,035,852	11,100,411	10,600,580
Intangible asset, net	723,340	1,357,803	1,847,967	10,763,825	20,075,444
Deferred tax assets			360,983	1,518,913	3,544,024
Other non - current assets	19,044,714	38,890,673	48,928,634	65,015,928	78,985,658
TOTAL NON - CURRENT ASSETS	94,799,822	148,153,095	185,284,637	245,412,651	411,639,071
TOTAL ASSETS	187,285,607	353,033,169	1,078,886,144	1,139,167,680	1,286,951,049
LIABILITIES AND SHAREHOLDERS' EQUITY					
	2010	2011	2012	2013	2014
CURRENT LIABILITIES					
Trade and other payables	53,045,053	63,800,109	68,832,568	110,756,395	142,691,458
Current portion of financial lease liabilities	142885.77	373500.27	266,130	-	-
Current portion of long-term loans from financial institutions	1,412,971	1,016,724	1,052,215	-	-
Accrued income tax	12,994,998	50,317,867	12,951,320	25,483,263	47,690,447
TOTAL CURRENT LIABILITIES	68,881,908	115,508,200	83,102,232	136,239,658	190,381,905
NON - CURRENT LIABILITIES					
Financial lease liabilities	2,223,974	815,090	558,505	-	-
Long-term loans from financial institutions	7,127,015	6,086,461	4,919,112	-	-
Loans from directors	64,753,972	954,073	-	-	-
Employee benefit obligation		987,304	1,281,551	1,599,437	5,724,011
Other non-current liabilities	1,213,702	1,616,400	2,212,754	2,546,550	3,336,670
TOTAL NON - CURRENT LIABILITIES	75,318,664	10,459,329	8,971,923	4,145,987	9,060,681
TOTAL LIABILITIES	144,200,571	125,967,528	92,074,154	140,385,645	199,442,586
SHAREHOLDERS' EQUITY					
Share capital					
Authorized share capital					
300,000,000 common shares of Baht 1 each			300,000,000	300,000,000	300,000,000
550,000 common shares of Baht 100 each		55,000,000			
50,000 common shares of Baht 100 each	5,000,000				
Issued and fully paid - up share capital					
300,000,000 ordinary shares of Baht 1 each		-	300,000,000	300,000,000	300,000,000
550,000 common shares of Baht 100 each		55,000,000			
50,000 common shares of Baht 100 each	5,000,000				
Premium on share capital			556,439,629	556,439,629	556,439,629
Retained earnings					
Appropriated					
- Legal reserve			10,787,500	27,858,529	30,000,000
Unappropriated	38,085,036	172,065,641	119,584,860	114,483,878	201,068,834
TOTAL SHAREHOLDERS' EQUITY	43,085,036	227,065,641	986,811,989	998,782,036	1,087,508,463
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	187,285,607	353,033,169	1,078,886,144	1,139,167,680	1,286,951,049

2.10.2 Projection Balance Sheet

Table 2.8 Projection Balance Sheet

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
STATEMENTS OF FINANCIAL POSITION					
AS AT DECEMBER 31, 2015-2019					
ASSET	2015F	2016F	2017F	2018F	2019F
CURRENT ASSETS					
Cash and cash equivalents	180,608,314	184,118,444	185,834,342	328,298,392	532,875,711
Temporary investments	390,000,000	390,000,000	390,000,000	390,000,000	390,000,000
Trade and other receivable	27,527,122	35,590,326	45,091,659	56,061,369	68,669,788
Inventories	369,825,103	478,153,731	605,803,515	753,180,872	922,574,153
TOTAL CURRENT ASSETS	967,960,539	1,087,862,501	1,226,729,516	1,527,540,633	1,914,119,652
NON - CURRENT ASSETS					
Long-term investments	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Property, plant and equipment - net	257,407,188	336,240,649	441,758,043	441,245,306	421,485,279
Leasehold rights	9,806,144	9,071,245	8,391,421	7,762,545	7,180,799
Intangible asset, net	20,075,444	20,075,444	20,075,444	20,075,444	20,075,444
Deferred tax assets	3,544,024	3,544,024	3,544,024	3,544,024	3,544,024
Other non - current assets	101,255,106	130,914,603	165,864,076	206,214,798	252,593,301
TOTAL NON - CURRENT ASSETS	492,087,906	599,845,965	739,633,009	778,842,117	804,878,847
TOTAL ASSETS	1,460,048,445	1,687,708,466	1,966,362,524	2,306,382,751	2,718,998,498
LIABILITIES AND SHAREHOLDERS' EQUITY					
	2015	2016	2017	2018	2019
CURRENT LIABILITIES					
Trade and other payables	178,203,474	231,338,522	290,260,245	357,525,494	434,644,451
Current portion of financial lease liabilities	-	-	-	-	-
Current portion of long-term loans from financial institutions	-	-	-	-	-
Accrued income tax	63,647,477	81,803,907	103,605,087	129,361,580	159,830,479
TOTAL CURRENT LIABILITIES	241,850,951	313,142,429	393,865,332	486,887,074	594,474,930
NON - CURRENT LIABILITIES					
Financial lease liabilities	-	-	-	-	-
Long-term loans from financial institutions	-	-	-	-	-
Loans from directors	-	-	-	-	-
Employee benefit obligation	5,724,011	5,724,011	5,724,011	5,724,011	5,724,011
Other non-current liabilities	4,277,421	5,530,356	7,006,762	8,711,338	10,670,551
TOTAL NON - CURRENT LIABILITIES	10,001,432	11,254,367	12,730,773	14,435,349	16,394,562
TOTAL LIABILITIES	251,852,383	324,396,796	406,596,105	501,322,422	610,869,492
SHAREHOLDERS' EQUITY					
Share capital					
Authorized share capital					
300,000,000 common shares of Baht 1 each	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
550,000 common shares of Baht 100 each					
50,000 common shares of Baht 100 each					
Issued and fully paid - up share capital					
300,000,000 ordinary shares of Baht 1 each	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
550,000 common shares of Baht 100 each					
50,000 common shares of Baht 100 each					
Premium on share capital	556,439,629	556,439,629	556,439,629	556,439,629	556,439,629
Retained earnings					
Appropriated					
- Legal reserve	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Unappropriated	321,756,433	476,872,041	673,326,791	918,620,700	1,221,689,378
TOTAL SHAREHOLDERS' EQUITY	1,208,196,062	1,363,311,670	1,559,766,420	1,805,060,329	2,108,129,007
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,460,048,445	1,687,708,466	1,966,362,524	2,306,382,751	2,718,998,498

2.11 Statement of cash flow

2.11.1 Historical Statement of cash flow

Table 2.9 Historical Statement of cash flow

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
PROJECTION STATEMENTS OF CASH FLOWS					
FOR THE YEAR ENDED DECEMBER 31, 2015-2019					
	2010	2011	2012	2013	2014
Cash flows from (used in) operating activities					
	41,890,764	197,709,197	218,513,334	259,099,831	376,791,945
<i>Adjustments profit before income tax to cash receipt (disbursement) from operating activities:</i>					
Depreciation and amortization	16,455,123	17,346,390	22,667,566	32,160,800	43,982,731
Doubtful accounts	-	-	-	246,000	-
Loss (reversal) on devaluation of inventories	2,240,787	784,908	(3,489,463)	(48,901)	171,345
(Gain) loss on sales of assets and write off fixed assets	(781,047)	(50,900)	299,756	1,292,533	(641,261)
Loss on write off of intangible assets	805,298	1,606,740	-	-	1,225,440
Deferred (income) for reward points	-	-	-	(1,159,555)	(4,316,285)
Employee benefit expenses	-	744,079	294,247	317,886	1,083,246
Interest expenses	427,289	978,876	456,496	207,398	-
<i>Profit (loss) from operating activities before changes in operating assets and liabilities</i>	<i>61,038,214</i>	<i>219,119,288</i>	<i>238,741,937</i>	<i>292,115,992</i>	<i>418,297,160</i>
(Increase) Decrease in changes of operating assets					
Trade and other receivables	35,921,505	(3,668,395)	(4,765,661)	(14,327,208)	3,582,667
Inventories	(32,479,070)	(20,372,952)	(27,438,625)	(52,150,726)	(112,885,636)
Other non-current assets	(6,838,487)	(19,845,959)	(10,037,961)	(16,087,295)	(13,969,729)
(Increase) Decrease in changes of operating assets	(3,396,052)	(43,887,306)	(42,242,248)	(82,565,228)	(123,272,698)
Increase (Decrease) in changes of operating liabilities					
Trade and other payables	1,184,157	(1,932,408)	(8,386,441)	23,232,681	26,594,913
Other current liabilities	234,602	402,698	596,354	333,796	790,120
Increase (Decrease) in changes of operating liabilities	1,418,760	(1,529,710)	(7,790,086)	23,566,477	27,385,033
Cash generated (paid) from operation	59,060,922	173,702,272	188,709,603	233,117,240	322,409,496
Interest paid	(427,289)	(978,876)	(456,496)	(207,398)	-
Income tax paid	(702,500)	(26,162,498)	(82,184,141)	(40,755,771)	(54,842,117)
Net cash flows from (used in) operating activities	57,931,134	146,560,898	106,068,965	192,154,071	267,567,379
Cash flows from (used in) investing activities					
(Increase) Decrease in changes of temporary investments	-	-	(460,000,000)	(40,000,000)	110,000,000
Long-term investments acquisition	-	-	-	-	(100,000,000)
Building and equipment acquisition	(16,861,099)	(22,160,652)	(35,384,780)	(47,916,429)	(74,246,814)
Proceeds from sales of equipment	2,112,182	2,624,252	105,000	1,272,443	1,616,266
Leasehold rights acquisition	-	-	-	(300,000)	(1,366,506)
Intangible assets acquisition	-	(945,681)	(1,001,239)	(9,541,440)	(11,145,000)
Net cash flows from (used in) investing activities	(14,748,917)	(20,482,080)	(496,281,019)	(96,485,426)	(75,142,054)
Cash flows from (used in) financing activities					
Repayment for short-term loans from financial institutions	(10,000,000)	-	-	-	-
Payment for financial lease liabilities	(2,246,975)	(2,464,269)	(363,955)	(824,635)	-
Repayment for long-term loans from financial institutions	(2,732,757)	(1,436,801)	(1,131,859)	(5,971,327)	-
Decrease in loans from directors	(23,179,244)	(33,039,899)	(954,073)	-	-
Proceeds from share capital increase	-	-	822,500,000	-	-
Payments for cost of sale share capital	-	-	(21,060,371)	-	-
Dividend paid	-	-	(215,750,000)	(195,000,000)	(210,000,000)
Net cash flows from (used in) financing activities	(38,158,976)	(36,940,970)	583,239,742	(201,795,962)	(210,000,000)
Net increase (decrease) in cash and cash equivalents	5,023,241	89,137,848	193,027,687	(106,127,316)	(17,574,675)
Cash and cash equivalents at beginning of years	11,075,424	16,098,665	105,236,513	298,264,200	192,136,884
Cash and cash equivalents at end of years	16,098,665	105,236,513	298,264,200	192,136,884	174,562,208

2.11.2 Projection Statement of cash flow

Table 2.10 Projection Statement of cash flow

BEAUTY COMMUNITY PUBLIC COMPANY LIMITED					
PROJECTION STATEMENTS OF CASH FLOWS					
FOR THE YEAR ENDED DECEMBER 31, 2015-2019					
	2015F	2016F	2017F	2018F	2019F
Cash flows from (used in) operating activities					
	502,864,998	646,315,034	818,561,456	1,022,057,955	1,262,786,158
<i>Adjustments profit before income tax to cash receipt (disbursement) from operating activities:</i>					
Depreciation and amortization	67,671,148	90,840,069	121,941,452	141,141,613	160,341,774
Doubtful accounts	-	-	-	-	-
Loss (reversal) on devaluation of inventories	-	-	-	-	-
(Gain) loss on sales of assets and write off fixed assets	-	-	-	-	-
Loss on write off of intangible assets	-	-	-	-	-
Deferred (income) for reward points	-	-	-	-	-
Employee benefit expenses	-	-	-	-	-
Interest expenses	-	-	-	-	-
<i>Profit (loss) from operating activities before changes in operating assets and liabilities</i>	<i>570,536,146</i>	<i>737,155,103</i>	<i>940,502,908</i>	<i>1,163,199,568</i>	<i>1,423,127,932</i>
(Increase) Decrease in changes of operating assets					
Trade and other receivables	(5,265,313)	(8,063,204)	(9,501,332)	(10,969,711)	(12,608,418)
Inventories	(81,337,143)	(108,328,627)	(127,649,785)	(147,377,357)	(169,393,281)
Other non - current assets	(22,269,448)	(29,659,497)	(34,949,473)	(40,350,722)	(46,378,503)
(Increase) Decrease in changes of operating assets	(108,871,905)	(146,051,329)	(172,100,590)	(198,697,789)	(228,380,202)
Increase (Decrease) in changes of operating liabilities					
Trade and other payables	35,512,016	53,135,048	58,921,724	67,265,248	77,118,957
Other current liabilities	940,751	1,252,936	1,476,405	1,704,576	1,959,213
Increase (Decrease) in changes of operating liabilities	36,452,766	54,387,983	60,398,129	68,969,824	79,078,170
Cash generated (paid) from operation	498,117,007	645,491,758	828,800,447	1,033,471,603	1,273,825,900
Interest paid	-	-	-	-	-
Income tax paid	(84,615,969)	(111,106,577)	(141,911,111)	(178,655,098)	(222,088,333)
Net cash flows from (used in) operating activities	413,501,038	534,385,181	686,889,336	854,816,505	1,051,737,567
Cash flows from (used in) investing activities					
(Increase) Decrease in changes of temporary investments	-	-	-	-	-
Long-term investments acquisition	-	-	-	-	-
Building and equipment acquisition	(125,850,534)	(168,938,631)	(226,779,023)	(140,000,000)	(140,000,000)
Proceeds from sales of equipment	-	-	-	-	-
Leasehold rights acquisition	-	-	-	-	-
Intangible assets acquisition	-	-	-	-	-
Net cash flows from (used in) investing activities	(125,850,534)	(168,938,631)	(226,779,023)	(140,000,000)	(140,000,000)
Cash flows from (used in) financing activities					
Repayment for short-term loans from financial institutions	-	-	-	-	-
Payment for financial lease liabilities	-	-	-	-	-
Repayment for long-term loans from financial institutions	-	-	-	-	-
Decrease in loans from directors	-	-	-	-	-
Proceeds from share capital increase	-	-	-	-	-
Payments for cost of sale share capital	-	-	-	-	-
Dividend paid	(281,604,399)	(361,936,419)	(458,394,415)	(572,352,455)	(707,160,249)
Net cash flows from (used in) financing activities	(281,604,399)	(361,936,419)	(458,394,415)	(572,352,455)	(707,160,249)
Net increase (decrease) in cash and cash equivalents	6,046,106	3,510,130	1,715,898	142,464,050	204,577,319
Cash and cash equivalents at beginning of years	174,562,208	180,608,314	184,118,444	185,834,342	328,298,392
Cash and cash equivalents at end of years	180,608,314	184,118,444	185,834,342	328,298,392	532,875,711

2.12 Summary of Key financial ratios compared to competitor

Table 2.11 Summary of Key financial ratio

Key Financial Ratio	BEAUTY	KAMART
	2014	2014
Growth (%)		
Sales	40.0%	16.9%
EBIT	45.3%	-39.5%
Net profit	45.5%	-43.1%
Profitability ratio (%)		
gross profit margin	67.3%	41.4%
EBIT margin	27.2%	12.9%
EBITDA margin	30.4%	15.6%
Net Profit margin	22.2%	9.4%
Liquidity Ratio (x)		
current ratio	4.60	2.15
quick ratio	3.08	1.32
cash ratio	0.92	0.25
Efficiency ratios		
ROA (%)	24.8%	10.0%
ROE (%)	28.9%	14.5%
Total Asset Turnover (x)	1.12	1.06
Fixed Asset Turnover (x)	7.65	6.93
Acc Receivable Turnover (x)	56.52	5.99
Collection Period (days)	6	61
Inventory Turnover (x)	1.92	2.27
Days in Inventory (days)	191	160
Payables Turnover (x)	3.16	4.65
Payables Period (days)	115	79
Cash Conversion Cycle (days)	82	143
Solvency ratios (x)		
Debt Ratio	0.15	0.31
D/E	0.18	0.45
Net debt/EBITDA	0.47	1.80
Interest coverage ratio	-	12.27

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