

Victoria Care Indonesia (VICI)

Deserving a recognition

Excellent execution leads to outperformance against its peers

VICI is one of the prominent personal care manufacturers in Indonesia. Owned brands include “Miranda” (hair color), “Herborist” (body care), and others. Given its excellent execution, VICI offers the most appealing growth when compared to the other personal care companies listed in IDX, with an impressive growth of 26.8% revenue CAGR in 2017-2021 (vs. peers’ negative CAGR). In 2021, company entered the decorative makeup market under brand “NuFace”, with plans to further develop this category going forward.

Exposure to the fastest growth among consumer markets

Indonesia’s beauty and personal care industry is expected to grow at a 5.4% CAGR in 2022 and 2026, making it one of the fastest-growing industries among consumer markets. This will be driven in particular by the cosmetics and skin care categories, which will be spurred by mobility recovery and a generational shift, with younger consumers (Gen Z) entering the market. The group already accounts for ~25% of the Indonesian population, representing the largest base of Indonesian consumer market. The reliance of Gen Z on social media has brought global trends into most members’ lifestyles – one of which is the Korean wave.

Extending arms to the younger audience

In that sense, VICI sees lucrative potential within the decorative cosmetic market, particularly among young people. It introduced its first Korean-style makeup line in 2021, with a target demographic of young women aged 18 to early 20s in the middle to lower segment. Company also plans to revitalize its Herborist brand with different formulas to suit the younger audience's needs. Given that the majority of the new products (~100 new SKUs) will be launched this year, we believe that the results will be seen in the coming years. Nonetheless, we are positive that VICI should generate a 9.7% revenue CAGR from 2023 to 2026, which will translate into a 19.8% earnings CAGR over the same time period.

Initiate coverage with BUY recommendation offering a 27% upside

We initiate VICI with a BUY rating and a TP of IDR600/sh. Our TP implies 20x FY23F PE, reflecting a 10% discount to its avg. peers’ FY23F PE. Given its higher-than-peers ROE, attractive earnings growth, consistent margin, and strong distribution channel, we believe that VICI is currently being underrated by the market and deserves to be looked at. Key risks to our call: greater competition, rising commodity prices, and weaker-than-expected mass purchasing power. VICI now trades at 16.1x FY23F PE.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	1,046	1,153	1,051	1,191	1,324
GP (IDR bn)	519	574	536	613	682
OP (IDR bn)	214	234	147	261	309
NP (IDR bn)	147	178	110	198	237
EBITDA (IDR bn)	238	259	171	287	337
Net debt/(cash) (IDR bn)	143	131	(30)	(131)	(233)
OP margin (%)	20.5	20.3	14.0	21.9	23.3
ROE (%)	28.1	25.8	14.3	22.8	23.1
Dividend yield (%)	0.8	1.8	2.1	1.3	2.4
EPS (IDR)	22.1	26.4	16.4	29.5	35.2
chg. (% YoY)	30.1	21.1	(38.2)	80.0	19.7
BPS (IDR)	94.0	111.8	118.1	141.3	165.2
DPS (IDR)	3.7	8.5	10.2	6.3	11.3
PE (x)	21.4	17.9	28.9	16.1	13.4
PB (x)	5.0	4.2	4.0	3.4	2.9
EV/EBITDA (x)	14.0	12.8	18.4	10.6	8.8

Company

In-depth

Consumer

25 July 2022

12M rating **BUY (Initiate)**

12M TP **600**

Upside 27%

Stock Data

JCI (July 22)	6,886
Stock price (July 22, IDR)	474
Market cap (IDR bn)	3,180
Shares outstanding (m)	6,708
52-week high/low (IDR)	595 / 360
6M avg. daily turnover (IDR bn)	1.2
Free float (%)	15.0

Major shareholders (%)

PT Sukses Sehati Sejahtera	60.0
Beauty Brands International	25.0

Performance

	1M	6M	12M
Absolute (%)	5.8	(3.1)	27.5
Relative to JCI (%p)	9.2	(9.2)	13.5

VICI stock price



Source: Bloomberg

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Commencing its operations in 2007, **Victoria Care Indonesia (VICI) engages in manufacturing and distribution of cosmetics and toiletries.** It offers a complete range of hair and body care products such as body scrubs, body butter, lotions, soaps, face masks, hair vitamins, hair colors, shampoos, and others. Brands owned by the company include Miranda, Herborist, NuFace, Victoria, Sixsence, Iria, and CBD. **VICI's target market is mostly women aged 18 to 35 in the middle-to-lower segment.**

Table 1. Brand portfolio

No	Brand	Description
1.	Miranda	Miranda is a fashion-forward and reasonably priced hair colour, hair care, and style product. This product is geared for ladies and men's hair colouring and hair care.
2.	Herborist	Herborist is a traditional Balinese spa product that is suitable for both men and women. This product is created using state-of-the-art equipment that adheres to stringent quality requirements.
3.	Victoria	Victoria is a women's fragrance and skincare line. This product is crafted with the best and most refined perfume components to match your opulent way of living.
4.	Nuface	Nuface is a facial care line influenced by the worldwide Korean beauty craze. Nuface offers a wide selection of care products such as facial masks, facial cotton, eyebrow pencils, lip creams, and serums.
5.	CBD	CBD Professional offers a selection of high-quality hair products for salons and professional stylists. Produced with modern technology to provide the highest quality goods for professionals, while also setting the standard for professional hair products.
6.	IRIA	IRIA is a brand under Victoria (a sub-brand) that provides daily toiletries and skin care products with goat's milk essence aimed at adult women.
7.	Sixsence	Sixsence is a brand under Victoria (a sub-brand) that provides fragrance products aimed at teenagers. Sixsence perfume offers a choice of sweet and cheerful scents to suit your active lifestyle

Source: Company, KISI

Fig 1. Product portfolio

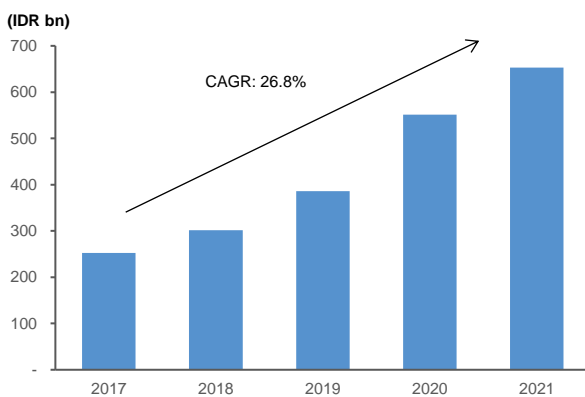


Source: Company

I. Excellent execution leads to outperformance against peers

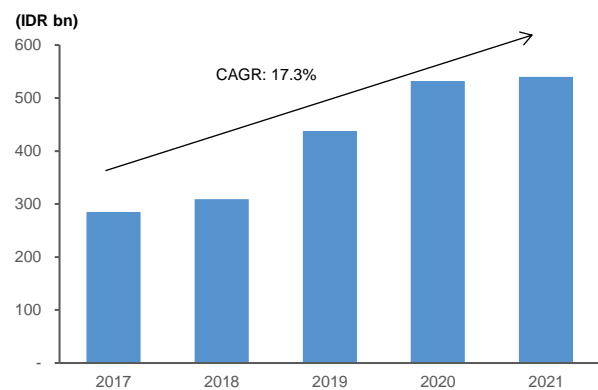
VICI's products have proven to meet the needs for body care among Indonesia's middle class. During the last 4 years, its body care category (which currently accounts for 55% of total sales) grew at a 26.8% CAGR between 2017 and 2021. The majority of sales were generated by the "Herborist" brand, which is known for its **traditional and natural body care products**. In the hair care category (45% of total sales), company's hair color brand "Miranda" is one of the key players in Indonesian market. Miranda hair color has garnered popularity as **one of the pioneers to sell hair coloring in sachet packaging**. Its hair care segment grew at a 17.3% CAGR in the same period.

Fig 2. VICI's body care segment revenue



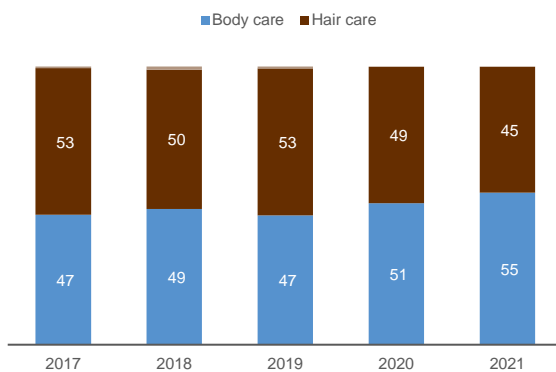
Source: Company, KISI

Fig 3. VICI's hair care segment revenue



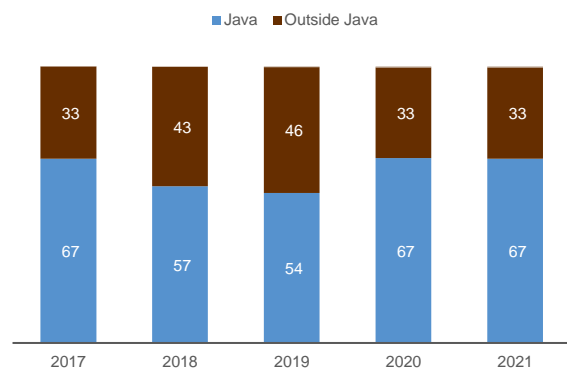
Source: Company, KISI

Fig 4. VICI's revenue contribution by segment (%)



Source: Company, KISI

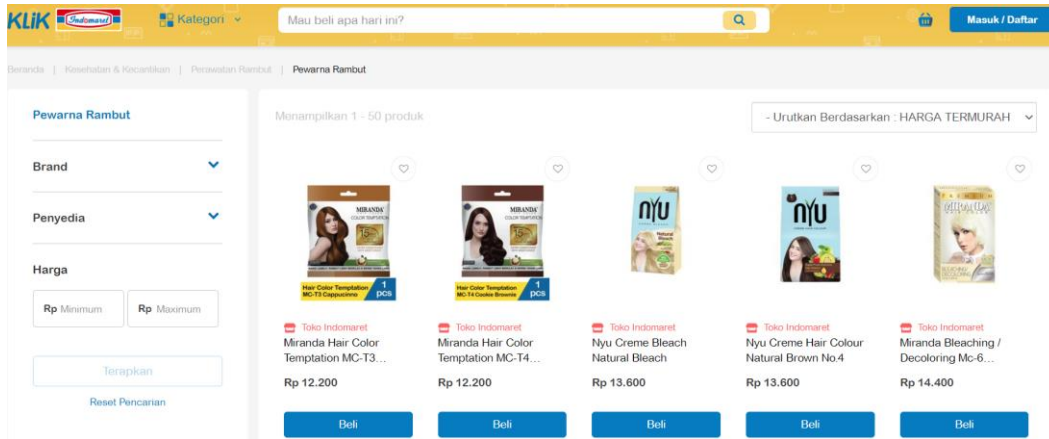
Fig 5. VICI's revenue contribution by area (%)



Source: Company, KISI

VICI uses relatively cheap pricing points to target the mass market in the middle to lower class. Global Data estimates that the **skincare per capita expenditure (PCE) in Indonesia is currently USD 3.2 (~IDR 48k)** and would rise to USD 4.4 (~IDR 65k) in 2026. The company’s pricing approach appears to fit the market and is ideal for Indonesian consumer pockets size, **having product prices ranging from IDR 10k to IDR 50k.**

Fig 6. In the MT channel, Miranda is the most affordable compared to other brands in hair color category



Source: klikindomaret.com, KISI

Fig 7. Skincare expenditure per capita in Indonesia is currently USD 3.2 and is expected to reach USD 4.4 in 2026



Source: GlobalData, KISI

As of Dec2021, VICI has partnered with more than **62k traditional retailers, 10k modern retailers, and 3k traditional wholesalers nationwide**. Given its product positioning and target market, it is reasonable that 60% of VICI’s sales come from the GT market, with the remaining 40% coming through the MT and online channels. VICI has also been working closely with a total of 30 distributors throughout Sumatra, Kalimantan, Sulawesi, Nusa Tenggara, Papua, and Ambon to assist with the product distribution.

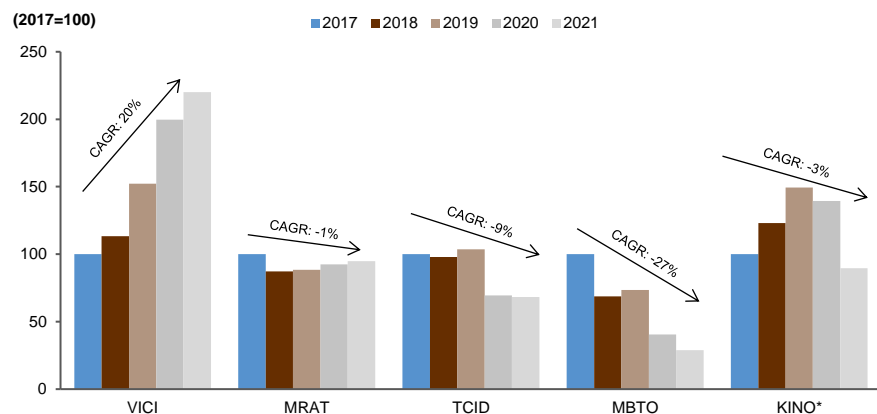
Table 2. Product launching in 2020-2021

Month	Categories	Product
2020		
Feb-20	Skin care	Herborist micellar water aloe vera 100 ml
Mar-20	Antiseptic	Herborist antiseptic gel 70 ml
May-20	Antiseptic	Herborist hand sanitizer liquid 100 ml
Aug-20	Skin care	Victoria teen body mist 100 ml
Aug-20	Skin care	Herborist rose water 100 ml
Sep-20	Skin care	Victoria teen cologne gel 36 ml
Dec-20	Hair care	Miranda hair color pastel series
2021		
Jan-21	Hair care	CBD hair mask
Feb-21	Hair care	CBD shampoo daily 1000 ml and CBD conditioner daily 1000 ml
Apr-21	Decorative makeup	Nuface eyebrow
May-21	Hair care	CBD keratin pro hair vit daily
Jun-21	Skin care	Herborist rose facial wash gel
Jul-21	Decorative makeup	Nuface lip matte
Aug-21	Skin care	Herborist rose sleeping mask
Aug-21	Hair care	Miranda color temptation hair color
Sep-21	Skin care	Nuface serum
Oct-21	Hair care	CBD color shield hair mask 500
Nov-21	Hair care	CBD color shield conditioner 500

Source: Company, KISI

During the early pandemic, VICI was one of the few who adapted quickly by developing and selling antiseptic goods. Its antibacterial gel and hand sanitizers, which were released in March and May 2020, quickly became popular among customers. The trend has continued to 2021 as society has become more aware with health and hygiene. Apart from that, VICI entered into a new category (decorative makeup) to expand its product offering. It started with brow and lip products under brand “NuFace” in 2021. All in all, the company’s initiatives and right execution have led to an **impressive growth of 26.8% revenue CAGR between 2017 and 2021**.

Fig 8. Indonesia personal care companies revenue trend from 2017 to 2021

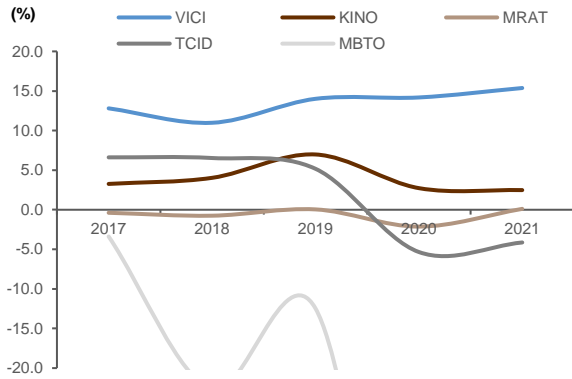


*personal care segment only

Source: Bloomberg, KISI

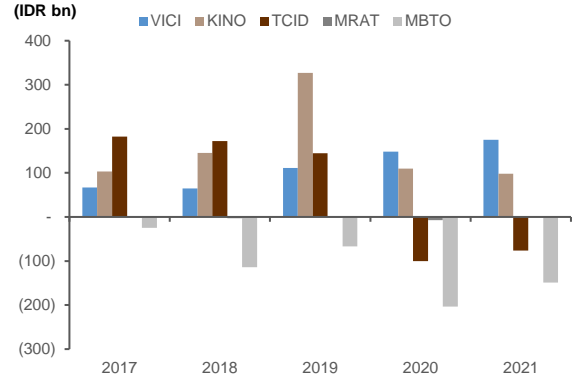
In comparison to the other personal care companies listed in IDX, **VICI clearly offers the most appealing growth** with the highest revenue CAGR in 2017-2021. Despite the unprecedented circumstances of the Covid-19 outbreak, VICI was the only company to show positive growth in two consecutive years (+30% YoY in 2020; +10% YoY in 2021) that demonstrated VICI's customer retention, while the other firms faced revenue declines.

Fig 9. Peers' net profit margin



Source: Bloomberg, KISI

Fig 10. Peers' net profit/(loss) trend



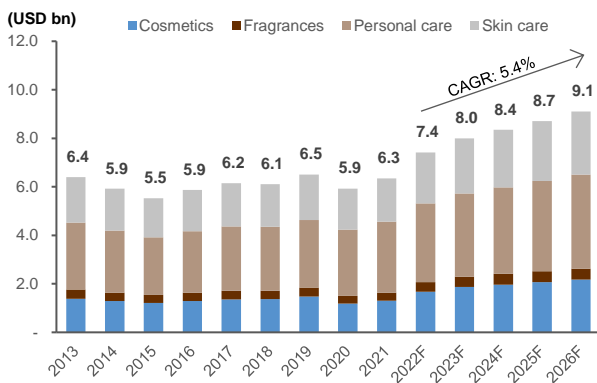
Source: Bloomberg, KISI

On the profitability side, VICI was one of the few that was able to maintain its gross margin, unlike the other consumer companies that were facing a margin decline due to a surge in raw material prices. During the period of rising commodity prices, its gross margin remained consistent, hovering at ~50% due to higher economies of scale and considerably stable raw material prices. Note that its main raw materials include base cream, fragrances, and alcohol, of which more than half are sourced domestically. As a result, VICI has **consistently delivered double-digit net margins** in contrast to competitors' thin margins and losses. In terms of nominal value, it posted the highest net profit of IDR 175bn in 2021, surpassing its competitors Kino Indonesia (KINO), and others, such as Mustika Ratu (MRAT), Martina Berto (MBTO), and Mandom Indonesia (TCID), who generated net losses.

II. Exposure to the fastest growth among consumer markets

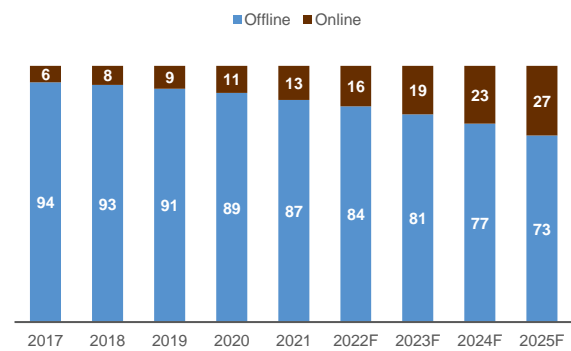
One of the notable changes in the beauty industry during the pandemic was the increased demand for skincare products, as people had no alternative but to pamper themselves at home due to limited access to hair salons and beauty parlors during the mobility restrictions. On the contrary, demand for decorative makeup declined as people were staying at home. As the world emerges from the pandemic and essentially returns to “normal life”, we believe that **makeup industry may experience a meaningful recovery** as consumers leave the lockdown life. Additionally, the pandemic has increased skincare awareness and society continues to value skincare as a crucial part of their beauty and health routines.

Fig 11. Indonesia beauty and personal care market



Source: Statista, KISI

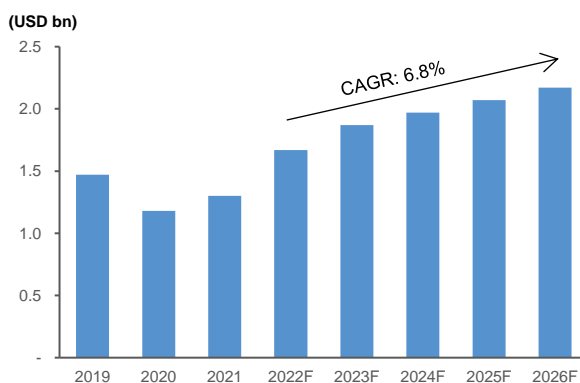
Fig 12. Sales channel contribution (%)



Source: Statista, KISI

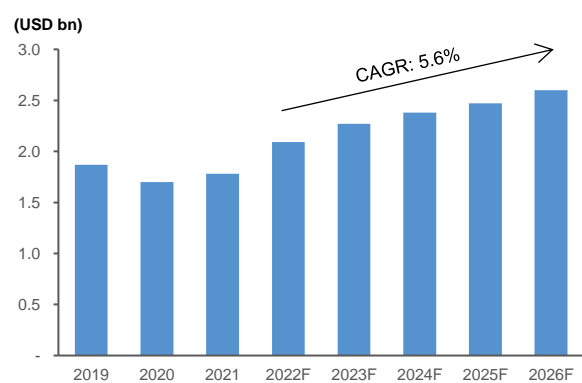
According to Statista, Indonesia’s beauty and personal care industry is one with the fastest growth among consumer markets. They predict Indonesia’s beauty and personal care revenues are expected to reach USD 7.4bn in 2022 and grow at a **5.4% CAGR in 2022-2026**, driven in particular by the cosmetics and skin care categories, with an expected CAGR of 6.8% and 5.6%, respectively. One of the reasons for the rapid growth is **the generational shift, with younger consumers entering the market**.

Fig 13. Cosmetics market



Source: Statista, KISI

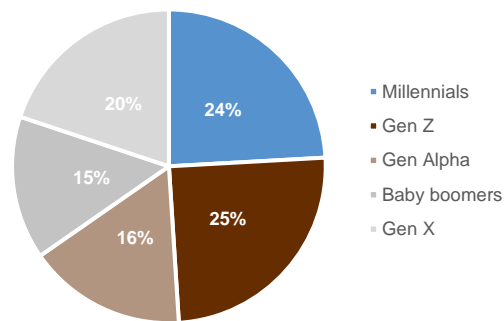
Fig 14. Skin care market



Source: Statista, KISI

For the past decade, brands have been striving to serve millennials. Now, brands are redefining themselves for the next generation of shoppers — Generation Z or “Gen Z”. Born between 1997 and 2012, the eldest of this generation are now in their early twenties who are coming of age and entering workforce, and are fast becoming a formidable force in the economy. **The group already makes up ~25% of the Indonesian population, representing the largest base of consumer market.** One thing we should note about Gen Z, they should not merely be considered as the extension of the preceding generation, as many group members may not be able to remember a time before smartphones and social media. Spending time on social media like Instagram, TikTok, or Youtube has become the new norm for most members.

Fig 15. Indonesia’s population by age group



Source: BPS, KISI

The emergence of social media and e-commerce has had a significant impact on beauty product buying behavior. Skincare, which was considered a luxury a few years back, has now become a part of lifestyle. **Global trends are influencing and reshaping daily beauty and care routines** of young people in Indonesia – one of which is the Korean wave. Layering skin care routines, natural makeup looks, and products wrapped in fun and colorful packaging are currently popular in society.

III. Extending arms to the younger audience

Accordingly, VICI sees lucrative potential within the decorative cosmetic market, particularly among young people. It introduced its **first Korean-style makeup line under brand “NuFace”** in 2021, with a target demographic of young women aged 18 to early 20s in the middle to lower segment. The initial items launched were brow and lip products, and it plans to extend the product offering in 2022 to include face serum, sunscreen, eye makeup, and others with prices ranging up to IDR 50k. The majority of them will be sold through GT, minimarkets (Alfamart, Indomaret), and e-commerce.

Fig 16. NuFace’s new product launch



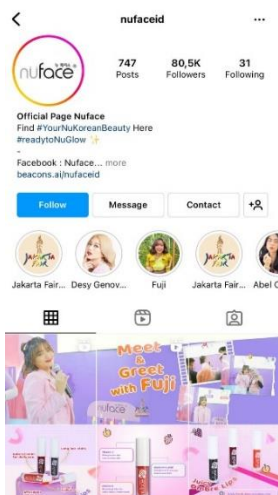
Source: Company, KISI

Fig 17. Herborist’s new product launches are targeted at a younger audience in the same category as NuFace’s



Source: Company, KISI

Fig 18. Using social media and a Korean actor as a brand ambassador to attract mass attention

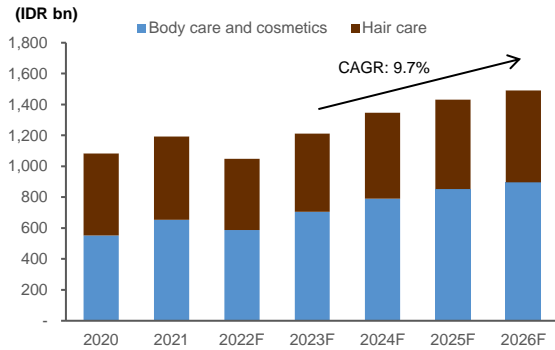


Source: Instagram, KISI

For its body care business, VICI plans to revitalize its Herborist brand. Unlike the existing products (which have more traditional packaging), the newer products have different formulas with more colorful packaging that are targeted at a younger audience in the same age category as NuFace’s. In the hair care category, its CBD line, which was formerly intended for professionals only (e.g. hair salons), is now repackaged for end users.

Overall, VICI intends to be more aggressive in 2022, with over 100 additional SKUs on the pipeline (vs. 28 new SKUs in 2021). We anticipate that antiseptic goods demand to normalize in 2022, while cosmetic products should offer more promise thereafter. However, given the majority of cosmetic items will be launched later this year, we expect that the results will be seen in the coming years. Nonetheless, we are positive that VICI may generate a **9.7% revenue CAGR from 2023 to 2026, which will translate into a 19.8% earnings CAGR.**

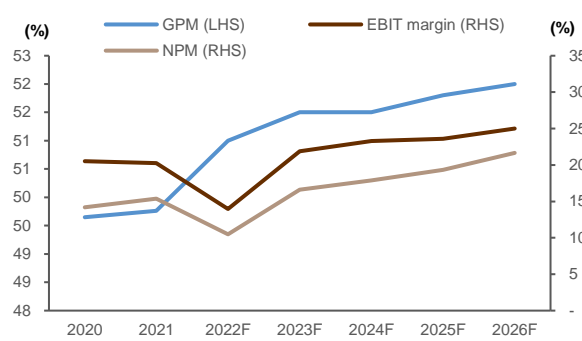
Fig 19. Sales projection



*antiseptic sales are included in body care segment

Source: Company, KISI

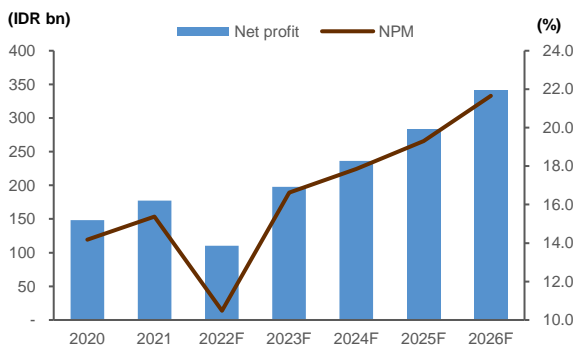
Fig 20. Expanding margins



Source: Company, KISI

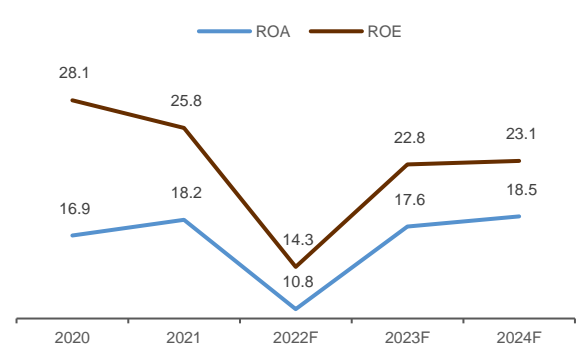
In terms of profitability, company will maintain the new products' gross margin at the same level as the existing ones at ~50%. We expect gross margin to expand due to a better product mix (lower antiseptic products) and higher volumes. On the opex side, we anticipate a large sum of A&P spend in 2022 due to new product launches, but expect it to be normalized in the following years. We forecast its gross margin may expand to 52% in 2026 (vs. 49.8% in 2021), which translates into a higher net margin of 21.7% in 2026 (vs. 15.4% in 2021).

Fig 21. Earnings and net margins



Source: Company, KISI

Fig 22. High ROE and ROA (%)



Source: Company, KISI

IV. Initiate coverage with BUY call

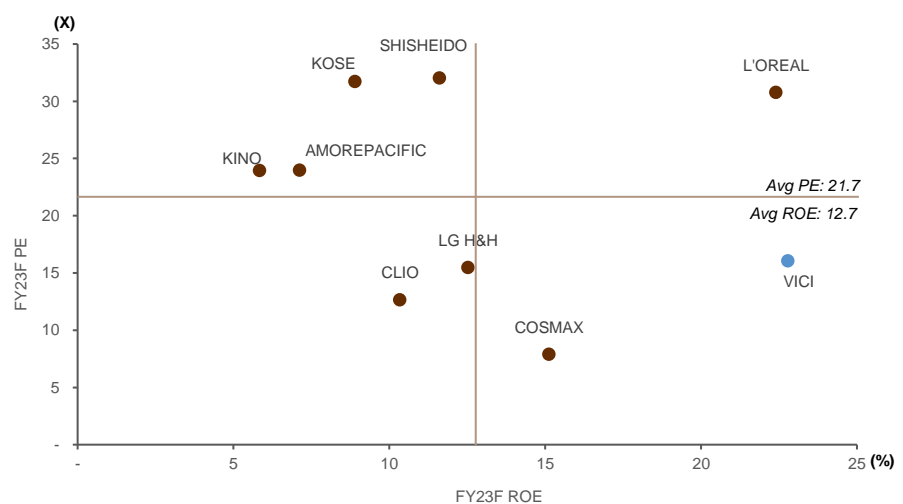
We initiate VICI with a BUY rating and a TP of IDR600/sh. Our TP implies 20x FY23F PE, reflecting a 10% discount to its avg. peers' FY23F PE. Given its higher-than-peers ROE, attractive earnings growth, consistent margin, and strong distribution channel, we believe that VICI is currently being underrated by the market and deserves to be looked at. Key risks to our call: greater competition, rising commodity prices, and weaker-than-expected mass purchasing power.

Table 3. Peers comparison

Company	Bloomberg ticker	Market Cap (US\$m)	PE (x)		PB (x)		EV/EBITDA (x)		ROE (%)	
			FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
KINO INDONESIA	KINO IJ	263	27.0	23.9	1.5	1.4	15.3	12.5	4.9	5.8
KOSE CORP	4922 JP	5,321	38.7	31.7	2.8	2.7	21.9	15.2	7.0	8.9
AMOREPACIFIC CORP	090430 KS	5,902	28.0	24.0	1.8	1.7	10.4	8.5	5.4	7.1
LG H&H	051900 KS	8,408	17.7	15.5	2.0	1.9	9.4	7.8	10.5	12.5
COSMAX INC	192820 KS	587	9.4	7.9	1.3	1.1	7.0	5.4	12.2	15.1
CLIO COSMETICS CO LTD	237880 KS	189	15.1	12.6	1.4	1.3	7.5	6.2	8.0	10.3
L'OREAL	OR FP	186,021	32.0	30.8	7.3	6.6	21.2	19.8	22.0	22.4
SHISEIDO CO LTD	4911 JP	15,741	44.4	32.0	3.9	3.7	19.2	13.7	7.3	11.6
Peers average			26.5	22.3	2.7	2.5	14.0	11.1	9.6	11.7
VICTORIA CARE INDONESIA	VICI IJ	206	28.9	16.1	4.0	3.4	18.4	10.6	14.3	22.8

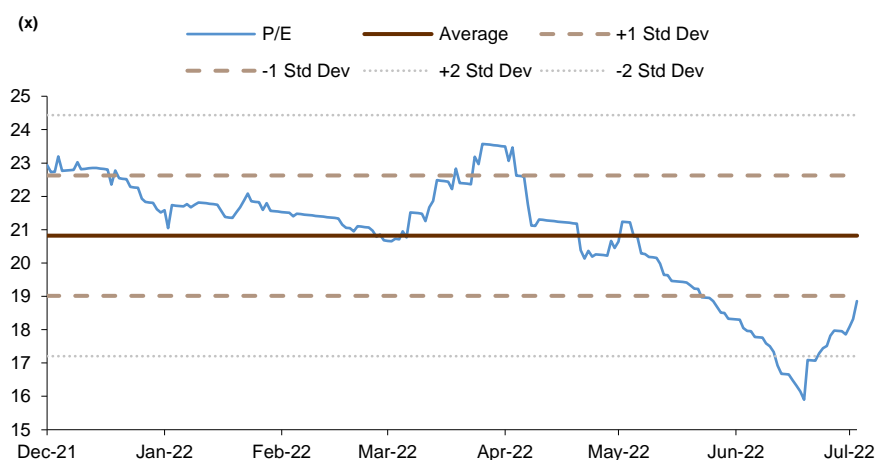
Source: Bloomberg, KISI

Fig 23. VICI's FY23F ROE and PE compared to peers



Source: Company, KISI

Fig 24. VICI forward PE band



Source: Company, KISI

Table 4. VICI 1Q22 results

VICI 1Q22 results snapshot						
in IDR bn	1Q21	4Q21	1Q22	%QoQ	%YoY	%KISI
Revenue	266	321	213	-34%	-20%	20%
Gross Profit	132	169	110	-35%	-17%	
Operating expense	(82)	(86)	(95)	11%	16%	
Operating Profit	51	83	15	-82%	-71%	
Net Profit	37	63	9	-85%	-75%	9%
Gross Profit Margin	49.8%	52.6%	51.5%			
Opex to sales	30.7%	26.7%	44.6%			
Operating Profit Margin	19.1%	25.9%	6.9%			
Net Profit Margin	13.9%	19.6%	4.4%			

Source: Company, KISI

Comment on 1Q22 result:

- 1Q22 revenue fell 20% YoY due to normalizing demand for antiseptic items and hair color products. We believe that the next quarters performance should improve due to strong take-up of VICI's new products (NuFace and Herborist). We forecast a ~+10% QoQ growth for the rest of the year, resulting in -11% YoY sales growth in FY22F.
- 1Q22 opex surged 16% YoY due to a one-time upfront A&P charge as company is extending its distribution to MT channel. Given numbers of items being launched this year, we anticipate that A&P costs will continue to be high and may expand to 25% of sales (vs. 19% in 1Q22).

Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	69	4	159	253	349
Accounts & other receivables	176	272	189	214	238
Inventories	222	246	206	231	257
Others	52	38	38	38	38
Non-current assets					
Fixed assets	306	298	312	328	346
Intangible assets	84	83	83	83	83
Investment properties	39	41	41	40	38
Other non-current assets	12	16	15	15	15
Total assets	960	998	1,043	1,202	1,364
Current liabilities					
Accounts & other payables	58	53	71	80	89
ST debt	134	64	64	64	64
Current portion of LT debt	7	8	8	8	8
Others	30	37	31	31	31
Non-current liabilities					
LT debt	71	63	57	50	44
Other non-current liabilities	30	24	21	22	21
Total liabilities	330	249	252	255	257
Controlling interest					
Capital stock	335	335	335	335	335
Additional paid-in capital	45	45	45	45	45
Retained earnings	256	376	418	574	734
Others	(6)	(7)	(7)	(7)	(7)
Minority interest	-	-	-	-	-
Shareholders' equity	630	749	791	947	1,107

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	53	83	262	179	219
Net profit	147	178	110	198	237
Depreciation	23	25	24	26	28
Net incr. in W/C	(111)	(115)	132	(40)	(39)
Others	(6)	(5)	(4)	(5)	(7)
C/F from investing	(40)	(13)	(33)	(37)	(41)
CAPEX	(40)	(13)	(33)	(37)	(41)
Others	-	-	-	-	-
C/F from financing	53	(135)	(74)	(48)	(82)
Incr. in equity	95	-	-	-	-
Incr. in debts	(12)	(78)	(6)	(6)	(6)
Dividends	(25)	(57)	(68)	(42)	(76)
Others	(5)	-	-	-	-
Increase in cash	66	(65)	155	94	96

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	1,046	1,153	1,051	1,191	1,324
COGS	(527)	(579)	(515)	(578)	(642)
Gross profit	519	574	536	613	682
SG&A expense	(305)	(340)	(389)	(352)	(373)
Operating profit	214	234	147	261	309
Financial income					
Interest income	-	-	-	-	-
Financial expense					
Interest expense	(21)	(16)	(12)	(14)	(13)
Other non-operating profit	(1)	7	6	7	8
Gains (Losses) from associates and JV	-	-	-	-	-
Earnings before tax	192	225	141	254	304
Income taxes	(45)	(47)	(31)	(56)	(67)
Net profit	147	178	110	198	237
Non-controlling interest	-	-	-	-	-
EBITDA	238	259	171	287	337

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	22.1	26.4	16.4	29.5	35.2
BPS	94.0	111.8	118.1	141.3	165.2
DPS	3.7	8.5	10.2	6.3	11.3
Growth (%)					
Sales growth	31.1	10.2	(8.8)	13.3	11.2
OP growth	25.1	9.3	(37.2)	77.6	18.4
NP growth	30.1	21.1	(38.2)	80.0	19.7
EBITDA growth	29.3	8.8	(34.0)	67.8	17.4
Profitability (%)					
OP margin	20.5	20.3	14.0	21.9	23.3
NP margin	14.1	15.4	10.5	16.6	17.9
EBITDA margin	22.8	22.5	16.3	24.1	25.5
ROA	16.9	18.2	10.8	17.6	18.5
ROE	28.1	25.8	14.3	22.8	23.1
Dividend yield	0.8	1.8	2.1	1.3	2.4
Dividend payout ratio	22.1	38.8	38.2	38.2	38.4
Stability					
Net debt (IDR bn)	143	131	(30)	(131)	(233)
Int-bearing debt/equity (%)	40.5	19.6	16.8	14.0	11.3
Valuation (X)					
PE	21.4	17.9	28.9	16.1	13.4
PB	5.0	4.2	4.0	3.4	2.9
EV/EBITDA	14.0	12.8	18.4	10.6	8.8

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