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Korea Cosmetics

Amazon bestseller trends remain solid

Equities

China
Cosmetics

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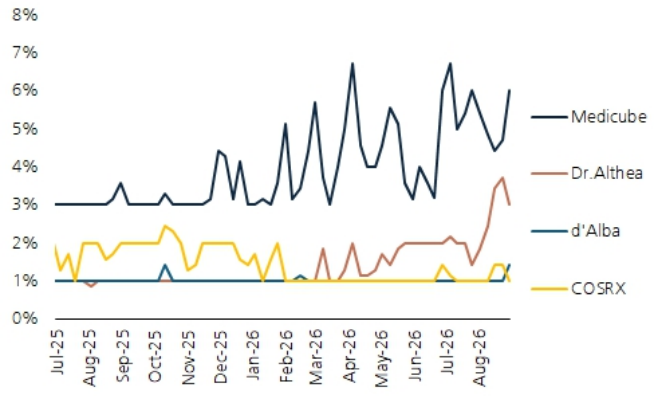
Medicube Amazon bestseller share continues to rise; d'Alba also improves

UBS Evidence Lab dataset (> Access Dataset, released 11 Sep) , which tracks Amazon bestseller rankings daily and aggregates them weekly, shows Medicube continuing to gain visibility in the US facial moisturizer category. Medicube's share of available Top 100 positions increased from 4.4% in the week of Aug 15 to 4.7% in Aug 22 and 6.0% in Aug 29. d'Alba also improved, with its share rising to 1.4% from 1.0% WoW. We view the data as incrementally positive, particulary for Medicube, given the consistent sequential improvement over the past three weeks.

Our view on recent share price weakness

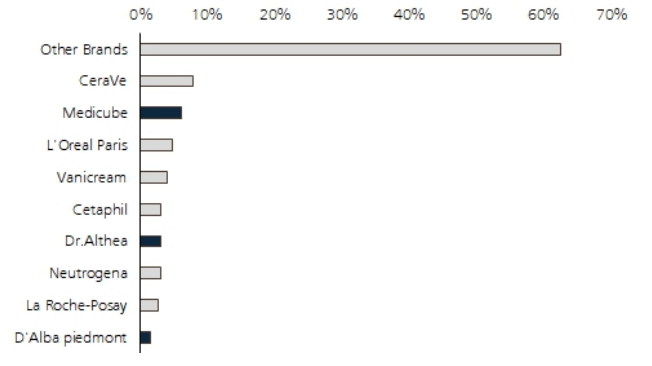
APR and d'Alba shares have fallen c20% and c25% MTD, respectively, with investor-flow data showing local institutions as the main net sellers, suggesting broader profit-taking across the K-beauty sector after strong performance YTD. For **d'Alba**, the key near-term concern is potential weakness in Russia following likely inventory losses related to the Wildberries warehouse incident (link / link). Russia accounts for c7% of sales, and we believe stronger growth in the US and Europe should help offset the impact. We expect further colour from management at its Sep 22 business update call (register here). For **APR**, investor concerns have focused on a potential slowdown in Q3 growth given the different timing of Amazon Prime Day, as well as the recent Singapore ingredient issue (see note here). We continue to expect strong growth in Europe to partly offset softer comparison in the US. Ahead of Q3 results, key variables to watch include logistics cost trend, likely increased marketing spend ahead of major promotional events, and the extent to which Black Friday demand is pulled forward and booked in Q3. We prefer APR for its superior growth and category expansion potential, followed d'Alba where US/Europe growth should offset near-term Russia weakness. See our note "Korean Cosmetics: Quantifying the next leg of global growth". Amore offers a more diversified and improving Western momentum, but we see relatively stronger near-term earnings upside in APR and d'Alba.

Figure 1: Share of Top 100 in US Facial Moisturizers category



Source: UBS Evidence Lab (> Access Dataset) Note: Shares are calculated by summing the number of a brand's SKUs appearing in the Top 100 each day within the selected category and dividing by the total number of Top 100 positions available during the week (100x7=700)

Figure 2: Top brands in Top 100 of US Facial Moisturizers Category



Source: UBS Evidence Lab (> Access Dataset)



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Best Sellers [Amazon] (>Access Dataset)

This report leverages the following UBS Evidence Lab asset: Best Sellers [Amazon]. UBS Evidence Lab collects data from Amazon bestseller lists across 100+ categories of interest and six countries: the US, GB, FR, AU, IN, and DE. Data is collected daily and aggregated into weekly metrics. The dataset measures trends in customer purchasing behavior and product preferences within specific target categories, reported by category and brand.

Valuation Method and Risk Statement

APR: Our price target is derived from a target PE multiple. Key downside risks include: 1) prolonged Middle East tensions driving sustained input cost inflation; 2) weaker than expected demand in the US and the EU amid inflationary pressures, 3) a faster than expected decline in Medicube's Amazon ranking and cosmetics export data - our key leading indicators; 4) delays in the rollout of mid- to long-term growth drivers such as EBD and injectable products; 5) intensifying competition in the home beauty device segment from large domestic players such as Samsung and LG, 6) KRW appreciation risk, which would create unfavorable translation headwind on overseas revenues; and 7) US tariff escalation risk on Korean exports, which could compress landed margins on APR's US bound shipments at a time when North America is a key growth factor. Key upside risks are as follows 1) faster than expected offline channel expansion in Q2 similar to what we have seen online, which could drive earnings upside through operating leverage; 2) cosmetics exports ramping up more quickly than expected in new regions such as the ME and Southeast Asia; 3) Stronger than expected growth and contribution from beauty devices and medical devices; 4) faster than expected offline channel; penetration in Japan through incremental listings at Donki and Loft, leveraging the higher average transactions values; and 5) faster than expected recovery in Chinese inbound tourism to Korea, which would provide an incremental tailwind through domestic multi brand shop, duty free and department store channel.
Amorepacific: Our price target for Amorepacific is based on a P/E multiple. The upside risks to our view include: 1) stronger-than-expected traction in new brands in the US and EU and 2) better-than-expected China macro. Downside risks are 1) larger-than-expected losses from China and 2) slower-than-expected Aestura / Innisfree brand growth in US.
d'Alba Global: Our price target is derived from a target PE multiple. Key downside risks are 1) prolonged Middle East tension driving sustained input cost inflation; 2) weaker-thanexpected demand in the US and EU amid inflationary pressure; and 3) faster-than-expected decline in Dalba's product rankings in Russia/Japan; 4) heavy SKU concentration in the white truffle serum franchise, which leaves Dalba vulnerable to category fatigue; 5) margin dilution risk as the company scales into lower ASP markets in Southeast Asia, where consumer price sensitivity may force promotional intensity inconsistent with the brand's premium positioning; 6) KRW appreciation headwinds compressing the overseas revenues 7) private label and dupe proliferation on Amazon and Shopee, where the white truffle ingredient story is relatively easy to replicate at lower price points. Key upside risks are 1) faster than expected channel expansion in the US and EU driven by increased marketing spend; 2) more rapid SKU diversification that we anticipate, which could support volume growth and margin expansion through operating leverage; 3) accelerated entry into new regions ahead of expectations, providing additional growth upside; 4) a strategic partnership or distribution agreement with a major global retailer, which would accelerate offline penetration in North America ahead of Dalba's organic rollout timeline; and 5) successful premiumization of the SKU mix through higher ASP device or treatment product launches, which would drive margin expansion beyond what operating leverage alone can deliver.