

Shanghai Jahwa (600315 CH)

Too early to call for a turnaround but ESOP target is likely hit as a low hanging fruit; Down to HOLD

Jahwa's surprising 1Q was mainly driven by non-core gains and a lower tax rate. The quarter's net profit has marked its 4-year high; however, it is still too early to call for an operation turnaround. Jahwa's 1Q sales momentum was lackluster. For instance, Dr. Yu/Herborist/Maxam/gf was down 13%/18%/9%/11% YoY, with the exception of Liushen/Derma Herborist seeing flattish/7% growth. Discounts and mix change has weighed on GPM, and a stubbornly high selling expense ratio is not helpful to OPM which contracted by 0.7pp to 9.2%. Despite this, management remains upbeat and believes its new brand strategy should rejuvenate growth for the remainder of this year. While we do not see sufficient execution track record to substantiate this initiative, we think Jahwa is likely to attain its ESOP target thanks to a soft comp as a low hanging fruit. Considering sub-peers growth and hence a likely capped near-term earnings upside, we downgrade Jahwa to HOLD.

- **2023 outlook.** Different from a restrained marketing budget, management plans to lift up promotional efforts from 2Q onwards with more KOL collaboration. Management is confident to attain its ESOP target for 2023.
- **The multi-brand strategy.** Herborist – pushing up its hero product strategy in return for extending its e-commerce growth momentum that saw a 35% increase in 1Q23; Dr Yu – further intensifying its dermatologist brand image with new launch such as facial cream (for oil skin), repair essence, and other SKU for sensitive skins.
- **Earnings change.** We largely maintain our 2023/24E revenue estimates. Instead, we lower our administration expense ratio by 0.5pp as we believe Jahwa's management will have to maintain a cost-efficient operation to hit its ESOP target as a last resort. Meanwhile, we raise our selling expense ratio by 0.3pp to factor-in more aggressive promotional effort starting from 2Q. Our 2023E estimates are set marginally at the low end of the ESOP B target.
- **Valuation.** Our revised TP is based on an updated 26.0x (from previously 40.0x) roll-forward end-23E P/E which now represents -1sd below average (from average valuation) since 2019. This was the period when the market began to re-rate the sector in view of the rise of the domestic brands, and subsequently a timely online migration amid the outbreak of COVID-19. Our target multiple is set lower than that of Proya (at long-term average) to reflect the difference in growth outlook and hence our preference.

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,646	7,106	8,051	8,831	9,546
YoY growth (%)	8.7	(7.1)	13.3	9.7	8.1
Net income (RMB mn)	649	472	806	874	986
EPS (RMB)	1.0	0.7	1.2	1.3	1.5
YoY growth (%)	49.6	(27.3)	70.8	8.3	12.9
Consensus EPS (RMB)	n.a	n.a	1.3	1.5	1.7
P/E (x)	n.a	n.a	25.0	23.1	20.5
P/B (x)	n.a	n.a	2.6	2.4	2.2
Div yield (%)	n.a	n.a	1.2	1.3	1.5
ROE (%)	9.3	6.5	10.3	10.4	10.8
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	RMB30.9
(Previous TP)	RMB39.2)
Up/Downside	+3.9%
Current Price	RMB29.7

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Stock Data

Mkt Cap (RMB mn)	20,074
Avg 3 mths t/o (RMB mn)	194.5
52w High/Low (RMB)	43.53/ 26.83
Total Issued Shares (mn)	678.9

Source: Wind

Shareholding Structure

Shanghai Jiahua (Group) Co.	50.8%
Shanghai Jiushi Group Co.	3.9%
SH Chongyang Strategic Inv	2.8%

Source: Wind

Share Performance

	Absolute	Relative
1-mth	-2.4%	-1.2%
3-mth	-5.7%	-3.6%
6-mth	1.0%	-6.0%

Source: Wind

12-m Price Performance



Source: Wind

Related Reports

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2. [Proya Cosmetics \(603605 CH\) – 3Q a small beat; but the implied 4Q numbers look unexciting given the current guidance](#) – 18 Oct 2022
3. [Proya Cosmetics \(603605 CH\) – 2Q in line with full year guidance maintained](#) – 26 Aug 2022
4. [China Cosmetics – The crown jewel of the consumption spectrum: initiate Botanee/ Proya/ Jahwa with Buy](#) – 21 Jun 2022

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,051	8,831	9,546	8,154	8,799	NA	-1.3%	0.4%	NA
Gross Profits	4,781	5,320	5,811	4,855	5,345	NA	-1.5%	-0.5%	NA
EBIT	717	907	1,040	674	834	NA	6.4%	8.8%	NA
Net profits	806	874	986	755	884	NA	6.8%	-1.2%	NA
Gross Margins	59.4%	60.2%	60.9%	59.5%	60.7%	NA	-0.2ppt	-0.5ppt	NA
EBIT Margins	8.9%	10.3%	10.9%	8.3%	9.5%	NA	0.6ppt	0.8ppt	NA
Net margins	10.0%	9.9%	10.3%	9.3%	10.0%	NA	0.8ppt	-0.2ppt	NA

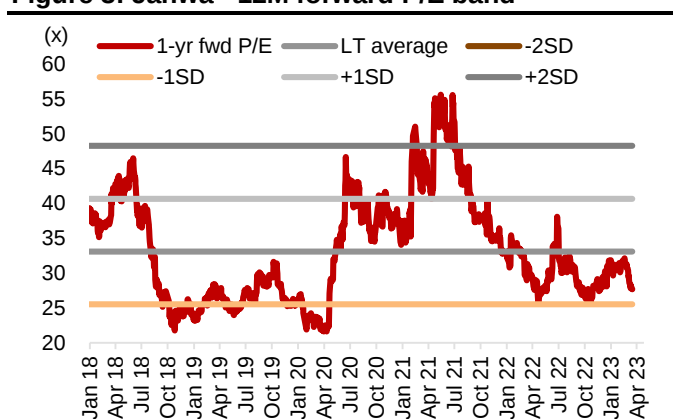
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,051	8,831	9,546	8,248	9,362	10,470	-2.4%	-5.7%	-8.8%
Gross Profits	4,781	5,320	5,811	4,960	5,712	6,480	-3.6%	-6.9%	-10.3%
EBIT	717	907	1,040	825	1,057	1,271	-13.1%	-14.2%	-18.2%
Net profits	806	874	986	756	954	1,135	6.6%	-8.4%	-13.1%
Gross Margins	59.4%	60.2%	60.9%	60.1%	61.0%	61.9%	-0.7ppt	-0.8ppt	-1ppt
EBIT Margins	8.9%	10.3%	10.9%	10.0%	11.3%	12.1%	-1.1ppt	-1ppt	-1.3ppt
Net Margins	10.0%	9.9%	10.3%	9.2%	10.2%	10.8%	0.8ppt	-0.3ppt	-0.5ppt

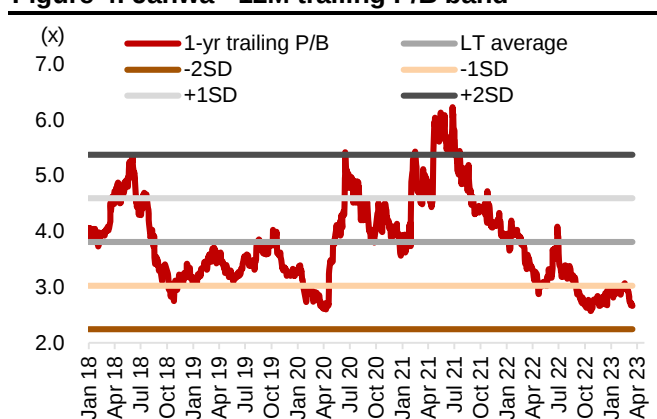
Source: Company data, CMBIGM estimates

Figure 3: Jahwa - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Jahwa - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	7,646	7,106	8,051	8,831	9,546
Major business	7,638	7,099	8,044	8,823	9,539
Others	8	7	7	7	7
Gross profit	4,491	4,059	4,781	5,320	5,811
Tax and surcharges	(59)	(48)	(55)	(60)	(65)
Selling expenses	(2,947)	(2,652)	(3,140)	(3,444)	(3,723)
Administrative expenses	(791)	(628)	(692)	(759)	(821)
R&D expenses	(163)	(160)	(177)	(194)	(210)
EBIT	531	570	717	863	992
EBITDA	740	766	907	1,060	1,198
Finance costs, net	(13)	11	10	9	7
Other income/(expense)	234	(37)	150	150	150
Non-operating	12	5	-	-	-
Pre-tax profit	764	549	878	1,022	1,149
Income tax	(115)	(77)	(123)	(143)	(161)
Less: Minority interests	-	-	-	-	-
Net profit	649	472	755	879	988

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	649	472	755	879	988
D&A	209	196	190	197	206
Change in working capital	100	(75)	(317)	(56)	(134)
Others	35	72	-	-	-
Net cash fr. operating act.	993	665	628	1,019	1,060
Capex & investments	(141)	(114)	(253)	(278)	(300)
Investments	(5,186)	(3,574)	400	400	400
Others	4,943	3,533	-	-	-
Net cash fr. investing act.	(384)	(155)	147	122	100
Dividend payment	(197)	(142)	(226)	(264)	(296)
Cash from investment	47	17	-	-	-
Change in borrowing	-	-	-	-	-
Others	(79)	(259)	(100)	(100)	(100)
Net cash fr. financing act.	(228)	(384)	(326)	(364)	(396)
Net change in cash	311	88	448	778	763
Cash at the beginning of the year	1,287	1,597	1,685	2,133	2,911
Exchange difference	(71)	(38)	-	-	-
Cash at the end of the year	1,527	1,647	2,133	2,911	3,674
Less: pledged cash	-	-	-	-	-

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	5,365	5,715	5,778	5,859	5,953
PP&E/Fixed assets	939	863	886	919	959
Net intangibles	761	790	831	879	933
Goodwill	1,923	1,938	1,938	1,938	1,938
Other non-current assets	1,742	2,123	2,123	2,123	2,123
Current assets	6,780	6,555	6,748	7,237	7,786
Cash	1,597	1,685	2,133	2,911	3,674
Account receivable	1,109	1,324	1,323	1,452	1,569
Prepayments	83	72	72	72	72
Inventory	872	929	1,075	1,058	1,126
Other current assets	3,119	2,544	2,144	1,744	1,344
Current liabilities	3,210	3,533	3,362	3,417	3,468
Borrowings	-	-	-	-	-
Accounts payable	718	915	744	798	849
Other payables	1,790	1,686	1,686	1,686	1,686
Other current liabilities	701	933	933	933	933
Non-current liabilities	1,972	1,487	1,387	1,287	1,187
Borrowings	925	751	651	551	451
Deferred tax liabilities	123	114	114	114	114
Other non-current liabilities	924	621	621	621	621
Minority Interest	-	-	-	-	-
Total net assets	6,963	7,249	7,778	8,393	9,084
Shareholders' equity	6,963	7,249	7,778	8,393	9,084

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)	100.0	100.0	100.0	100.0	100.0
Major business	99.9	99.9	99.9	99.9	99.9
Others	0.1	0.1	0.1	0.1	0.1
P&L ratios (%)					
Gross margin	58.7	57.1	59.4	60.2	60.9
Operating margin	6.9	8.0	8.9	9.8	10.4
Pre-tax margin	10.0	7.7	10.9	11.6	12.0
Net margin	8.5	6.6	9.4	10.0	10.4
Effective tax rate	(15.1)	(14.0)	(14.0)	(14.0)	(14.0)
Balance sheet analysis					
Current ratio (x)	0.2	0.3	0.3	0.4	0.5
Net receivable days	53	68	60	60	60
Net payable days	83	110	83	83	83
Inventory turnover days	101	111	120	110	110
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	9.3	6.5	9.7	10.5	10.9
ROA	5.3	3.8	6.0	6.7	7.2
Dividend yield	1.0	0.7	1.2	1.3	1.5
Per share					
EPS (RMB)	1.0	0.7	1.1	1.3	1.5
DPS (RMB)	0.3	0.2	0.3	0.4	0.4
BVPS (RMB)	10.3	10.7	11.5	12.4	13.4

Source: Company data, CMBIGM estimates

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