

# Jahwa (600315 CH)

## 2Q miss; but the worst is likely behind us

Shanghai's lockdown and Jahwa's channel restructuring have expectedly weighed on the company's 2Q results, and yet at an unexpected magnitude. Both 2Q revenue and net loss came in below our/ market estimates, driven mainly by a 38% decline in skincare sales, followed by a 13% decline in HPC (household and personal care). Meanwhile, despite cost inflation and product mix deterioration, GPM was rather well upheld through disciplined price promotions, and more stringent cost controls have helped mitigate any impact from operating deleverage. Accordingly, we cut 7.1%/ 20.5% of our 2022E revenue and net profit estimates, respectively. Our current 2022E forecast assumes that Jahwa will be able to attain the B Target of its revised 2020 ESOP plan. Our revised TP of RMB39.2 (15.2% down from previous RMB46.2) is based on 40x mid-23E P/E which still represents mean valuation since 2019.

- **Revised 2020 ESOP targets:** management has respectively cut the revenue target for 2022E/ 2023E and the NI target for 2023E, while maintaining the NI target for 2022E. The revised target implies +10.2%~+24.7%/ -16.6%~+38.4% YoY revenue/ NI growth in 2H22 and -1.9%~4.6%/ -29.0%~+1.8% YoY revenue/ NI growth in 2022E. Management targets at least DD topline growth and higher bottom-line growth in 2H22, and accelerated topline growth in 2023E.
- **2H-to-date:** Jahwa has resumed normal operations by end Jun. Liushen has recorded a relatively strong online and offline momentum in 2H-to-date, helped by hot weather and disciplined online promotions. Per management, sales would resume positive growth in 3Q. Considering the potential recovery of the skincare segment, we think 2H GPM would improve YoY. Going forward, the company will focus on four brands: Dr Yu and Herborist for skincare, Liushen for HPC, Giving for baby and mom to achieve better operation efficiency and resources allocation.
- **1H22:** revenue/ NI came in at RMB3.7bn/ RMB158mn, -11.8%/ -39.6% YoY, with GPM standing at 59.9%, -1.4pp YoY. Separately, 2Q revenue declined 23.8% YoY to RMB1.6bn, with a net loss of RMB41.7mn (1H21: RMB117mn net profit) and GPM at 56.3%, -7.5pp YoY. Strict lockdown policy in Mar-May in Shanghai was the main drag of the dismal 1H, especially for skincare business, which has higher gross margin. Revenue from skincare/ HPC/ baby and mom/ others' brands distribution segments were -34.8%/ +1.3%/ -3.7%/ -22.4% YoY, while that from online/ offline -22.6%/ -5.1% YoY, respectively.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	7,032	7,646	7,497	8,154	8,799
YoY growth (%)	(7.4)	8.7	(1.9)	8.8	7.9
Net income (RMB mn)	430	649	574	755	884
EPS (RMB)	0.6	1.0	0.8	1.1	1.3
YoY growth (%)	(23.0)	49.6	(11.5)	31.4	17.1
Consensus EPS (RMB)	n.a	n.a	1.1	1.4	1.7
P/E (x)	n.a	n.a	39.1	29.8	25.4
P/B (x)	n.a	n.a	3.1	2.8	2.6
Div yield (%)	0.6	0.9	0.8	1.0	1.2
ROE (%)	6.6	9.3	7.8	9.5	10.3
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (maintain)

Target Price	RMB39.2
(Previous TP	RMB46.2)
Up/Downside	+18.3%
Current Price	RMB33.1

### China Consumer Sector

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### Stock Data

Mkt Cap (RMB mn)	25,927
Avg 3 mths t/o (RMB mn)	249.80
52w High/Low (RMB)	52.17/ 29.82
Total Issued Shares (mn)	679.63

Source: Wind

### Shareholding Structure

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

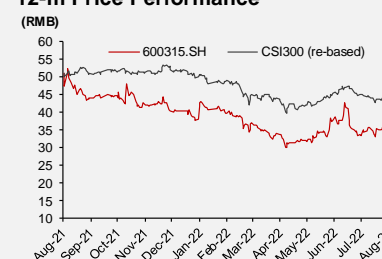
Source: Wind

### Share Performance

	Absolute	Relative
1-mth	-5.3%	-3.3%
3-mth	3.7%	-0.5%
6-mth	-17.2%	-7.0%

Source: Wind

### 12-m Price Performance



Source: Wind

### Related Reports

1. [China Cosmetics – The crown jewel of the consumption spectrum: initiate Botanee/ Proya/ Jahwa with Buy](#) – 21 Jun 2022
1. [Proya Cosmetics \(603605 CH\)– On track to synergize its R&D franchise, hero products and live-streaming distribution](#) – 21 Jun 2022

## Other takeaways from management call

- **Skincare:** was the most heavily hit by lockdowns in 1H, which was down 34.8% YoY, with 30%+ decline for all its main brands. The company completed the launch of its four main skincare product lines in 2022E, including New Taichi (新太极), Whitening (新七白), Extra Control Concentrate (御五行) series and Dual Dendrobium Reviving & Moisturizing (双石斛高保湿) series, which was launched in 2H and targets higher-end consumer groups. The company will keep promoting Herborist (+27% YoY in 2H) and Dr Yu as core brands, through product portfolio expansion, from facial cream/ serum to sunscreen etc., and channel expansion, from Tmall to TikTok/ PDD/ Vipshop/ private domain etc.
- **Household and personal care (HPC):** maintained positive growth at 1.3% YoY in 1H22, largely due to the steady performance of the core personal care brand Liushen (+1% YoY in 1H), partially offset by Home Aegis (down 30%+), the main household care brand. Liushen maintained its leadership in terms of market share in toilet water (花露水) category in 1H, with 23%/ 56% YoY growth in total online GMV/ Tmall flagship store sales during the last 6.18 and 154% YoY GMV growth during Tmall Brands Day in Jul, ranking N.1 in body care category. Besides, shower gel is becoming an important growth driver for Liushen, after a relatively successful implementation of rejuvenation and premiumization strategy to the brand, with Liushen ranked N.5 among Tmall shower gel brands in 1H. Management believes the efforts in brand rejuvenation and premiumization for Liushen would lead to accelerated payoff once raw mat cost pressure tended to ease in 2H.
- **Baby and mom care:** although the main brand, Giving, was down c.30% in 1H, baby and mom care is still among the most rapidly growing beauty categories. The company will keep expanding in the segment, by focusing on 0-1 aged kids, enhancing the brand image as professional baby and mom care brand and channel expansion from Tmall to multiple emerging platforms. Giving will launch a daily soothing baby care cream and an anti-sensitive baby care cream in 2H.
- **Continued progress in hero products creation:** Dr Yu's Macromolecular Platinum Shield Sunscreen launched in Mar ranked N.1 by sales volume on Tmall among sunscreen products on the 1<sup>st</sup> after launch. Herborist' New Taichi series has become the major revenue and growth contributor for the brand after its launch in 2021. Herborist and Dr Yu's repurchase rate on Tmall slightly improved to 41.8% and 43.0% from 41.6% and 42.6% in Jul 2021-Jun 2022.
- **Jahwa tries to catch up with a rich pipeline of new launches** for different segments/brands in 2H, after the lockdown measures have disturbed in a relatively notable way the pace of new product launches in 1H22. 2H pipeline includes anti-acne shower gel for Liushen brand, Dual Dendrobium Reviving & Moisturizing Series for Herborist, Baby Multidimensional Soothing Cream and Anti-sensitive Cream for Giving, Oil-Control Dermabrasion Emulsion for Golf's high-end blue line and Moisturizing Cleanser for its mass-targeting red line.

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,497	8,154	8,799	8,068	8,878	9,765	-7.1%	-8.2%	-9.9%
Gross Profit	4,379	4,855	5,345	4,766	5,323	5,988	-8.1%	-8.8%	-10.7%
EBIT	535	674	834	588	725	931	-8.9%	-7.1%	-10.4%
Net profit	574	755	884	722	845	1,022	-20.5%	-10.6%	-13.5%
EPS (RMB)	0.85	1.11	1.30	1.06	1.24	1.51	-20.5%	-10.6%	-13.5%
Gross Margin	58.4%	59.5%	60.7%	59.1%	60.0%	61.3%	-0.7ppt	-0.4ppt	-0.6ppt
EBIT Margin	7.1%	8.3%	9.5%	7.3%	8.2%	9.5%	-0.1ppt	0.1ppt	-0.1ppt
Net Margin	7.7%	9.3%	10.0%	9.0%	9.5%	10.5%	-1.3ppt	-0.3ppt	-0.4ppt

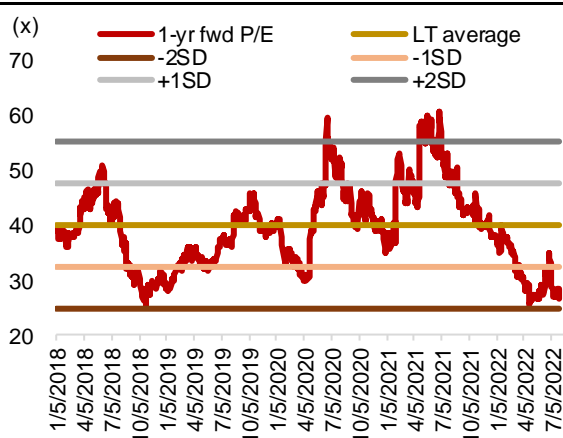
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,497	8,154	8,799	8,248	9,362	10,470	-9.1%	-12.9%	-16.0%
Gross Profit	4,379	4,855	5,345	4,960	5,712	6,480	-11.7%	-15.0%	-17.5%
EBIT	535	674	834	825	1,057	1,271	-35.1%	-36.2%	-34.4%
Net profit	574	755	884	756	954	1,135	-24.0%	-20.9%	-22.1%
EPS (RMB)	0.85	1.11	1.30	1.09	1.40	1.70	-22.4%	-20.6%	-23.4%
Gross Margin	58.4%	59.5%	60.7%	60.1%	61.0%	61.9%	-1.7ppt	-1.5ppt	-1.1ppt
EBIT Margin	7.1%	8.3%	9.5%	10.0%	11.3%	12.1%	-2.9ppt	-3ppt	-2.7ppt
Net Margin	7.7%	9.3%	10.0%	9.2%	10.2%	10.8%	-1.5ppt	-0.9ppt	-0.8ppt

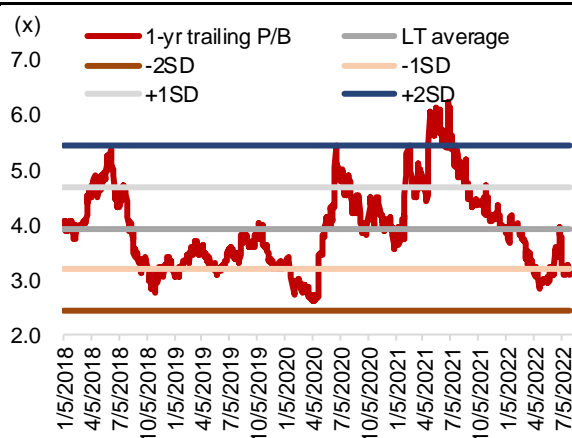
Source: Company data, CMBIGM estimate

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)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>7,032</b>	<b>7,646</b>	<b>7,497</b>	<b>8,154</b>	<b>8,799</b>
Major business	7,028	7,638	7,489	8,146	8,791
Others	4	8	8	8	8
<b>Gross profit</b>	<b>4,216</b>	<b>4,491</b>	<b>4,379</b>	<b>4,855</b>	<b>5,345</b>
Tax and surcharges	(57)	(59)	(58)	(63)	(68)
Selling expenses	(2,924)	(2,947)	(2,871)	(3,123)	(3,370)
Administrative expenses	(721)	(791)	(765)	(832)	(898)
R&D expenses	(144)	(163)	(150)	(163)	(176)
<b>EBIT</b>	<b>370</b>	<b>531</b>	<b>535</b>	<b>674</b>	<b>834</b>
<b>EBITDA</b>	<b>606</b>	<b>740</b>	<b>734</b>	<b>875</b>	<b>1,039</b>
Finance costs, net	(43)	(13)	(9)	(9)	(10)
Other income/(expense)	207	234	150	224	217
Non-operating	0	12	-	-	-
<b>Pre-tax profit</b>	<b>534</b>	<b>764</b>	<b>676</b>	<b>889</b>	<b>1,041</b>
Income tax	(104)	(115)	(102)	(134)	(157)
Less: Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>430</b>	<b>649</b>	<b>574</b>	<b>755</b>	<b>884</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net income</b>	<b>875</b>	<b>319</b>	<b>574</b>	<b>755</b>	<b>884</b>
D&A	236	209	199	201	206
Change in working capital	3	100	(243)	(169)	(27)
Others	(470)	365	20	20	20
<b>Net cash fr. operating act.</b>	<b>643</b>	<b>993</b>	<b>550</b>	<b>807</b>	<b>1,083</b>
Capex & investments	(106)	(141)	(138)	(150)	(162)
Investments	(5,565)	(5,186)	(83)	(91)	302
Others	4,899	4,943	-	-	-
<b>Net cash fr. investing act.</b>	<b>(772)</b>	<b>(384)</b>	<b>(221)</b>	<b>(241)</b>	<b>140</b>
Dividend payment	(136)	(197)	(172)	(227)	(265)
Cash received from investment	132	47	-	-	-
Cash received from borrowing	1,068	-	-	-	-
Others	(1,200)	(79)	(100)	(100)	(100)
<b>Net cash fr. financing act.</b>	<b>(136)</b>	<b>(228)</b>	<b>(272)</b>	<b>(327)</b>	<b>(365)</b>
<b>Net change in cash</b>	<b>(322)</b>	<b>311</b>	<b>57</b>	<b>240</b>	<b>858</b>
Cash at the beginning of the year	1,609	1,287	1,597	1,654	1,894
Exchange difference	(58)	(71)	-	-	-
<b>Cash at the end of the year</b>	<b>1,229</b>	<b>1,527</b>	<b>1,654</b>	<b>1,894</b>	<b>2,752</b>
Less: pledged cash	-	-	-	-	-

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>5,140</b>	<b>5,365</b>	<b>5,387</b>	<b>5,427</b>	<b>5,480</b>
PP&E/Fixed assets	1,019	939	970	1,010	1,057
Net intangibles	769	761	752	752	759
Goodwill	1,986	1,923	1,923	1,923	1,923
Other non-current assets	1,366	1,742	1,742	1,742	1,742
<b>Current assets</b>	<b>6,155</b>	<b>6,780</b>	<b>7,114</b>	<b>7,522</b>	<b>8,042</b>
Cash	1,287	1,597	1,654	1,894	2,752
Account receivable	1,090	1,109	1,232	1,340	1,446
Prepayments	47	83	83	83	83
Inventory	867	872	1,025	1,085	1,041
Other current assets	2,865	3,119	3,119	3,119	2,719
<b>Current liabilities</b>	<b>2,876</b>	<b>3,210</b>	<b>3,243</b>	<b>3,242</b>	<b>3,277</b>
Borrowings	-	-	-	-	-
Accounts payable	718	718	752	750	785
Other payables	1,607	1,790	1,790	1,790	1,790
Other current liabilities	551	701	701	701	701
<b>Non-current liabilities</b>	<b>1,920</b>	<b>1,972</b>	<b>1,872</b>	<b>1,772</b>	<b>1,672</b>
Borrowings	1,062	925	825	725	625
Deferred tax liabilities	99	123	123	123	123
Other non-current liabilities	759	924	924	924	924
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>6,499</b>	<b>6,963</b>	<b>7,385</b>	<b>7,934</b>	<b>8,573</b>
<b>Shareholders' equity</b>	<b>6,499</b>	<b>6,963</b>	<b>7,385</b>	<b>7,934</b>	<b>8,573</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Skincare and cleanser	99.9	99.9	99.9	99.9	99.9
Makeup	0.1	0.1	0.1	0.1	0.1
<b>P&amp;L ratios (%)</b>					
Gross margin	60.0	58.7	58.4	59.5	60.7
Operating margin	5.3	6.9	7.1	8.3	9.5
Pre-tax margin	7.6	10.0	9.0	10.9	11.8
Net margin	6.1	8.5	7.7	9.3	10.0
Effective tax rate	(19.4)	(15.1)	(15.1)	(15.1)	(15.1)
<b>Balance sheet analysis</b>					
Current ratio (x)	0.2	0.2	0.2	0.3	0.3
Net receivable days	57	53	60	60	60
Net payable days	93	83	88	83	83
Inventory turnover days	112	101	120	120	110
Net debt to equity (%)	net	net	net	net	net
<b>Returns (%)</b>					
ROE	6.6	9.3	7.8	9.5	10.3
ROA	3.8	5.3	4.6	5.8	6.5
Dividend yield	0.6	0.9	0.8	1.0	1.2
<b>Per share</b>					
EPS (RMB)	0.6	1.0	0.8	1.1	1.3
DPS (RMB)	0.2	0.3	0.3	0.3	0.4
BVPS (RMB)	9.7	10.3	10.9	11.6	12.5

Source: Company data, CMBIGM estimates

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