Deutsche Bank
Markets Research

Rating
# Hold

Asia
China

Consumer
Retail / Wholesale Trade

Company
# Shanghai Jahwa

| Reuters | Bloomberg | Exchange | Ticker |
|---|---|---|---|
| 600315.SS | 600315 CH | SHH | 600315 |

Date
27 October 2017

## Results

| | |
|---|---|
| Price at 26 Oct 2017 (CNY) | 36.69 |
| Price target - 12mth (CNY) | 30.04 |
| 52-week range (CNY) | 36.69 - 25.79 |
| Shanghai Composite | 3,398 |

# New products and effective marketing beefing up brand equity

### Shanghai Jahwa announced its 3Q17 results after market-close today

It recorded 3Q NP up 46% on sales up 20% (ex. Kao). Sales were in line with DBe, while NP is 7% lower than DBe, mainly due to higher-than-expected SG&A. The key points we want to highlight from these results are as below.

- **The company's recovery is on track,** along with the new management team's restructuring initiatives. All of its brands in all channels realized positive growth, e.g. **Herborist and GF have seen double-digit growth; Maxam and Liushen have seen single-digit growth**. **Herborist saw high single-digit SSSg in the department store channel**, despite a traffic decline in this channel.
- **New product launch is one of the major sales drivers, particularly for Herborist**. Herborist Yu Series, Ning Series and Tai chi cream all recorded better-than-expected performance. It also has a solid new product pipeline for 4Q17 and 2018. **New products as a whole contributed 14% of total revenue ytd vs. no more than 10% in 2015/2016 respectively.**
- **Ecommerce saw 40% growth in 3Q** after the business model transition completed in 2Q. We believe the high growth momentum from online will continue in 4Q. It aims to achieve meaningful yoy sales growth with less marketing spending for the upcoming Singles Day shopping festival, which will be mainly driven by improved product offerings and reduced promotion.
- **GPM** improved 8.36ppt to 68.42%, partially due to the absence of Kao. This is also helped by **Herborist's product portfolio enhancement**. **GPM for other brands remains largely stable**.
- **Selling expense and G&A** as a % of sales increased 5.3/1.3ppt to 47%/14% in 3Q. Management commented that this is in line with what they budgeted at the beginning of the year. **For 2018, it targets to reduce the SG&A ratio, mainly by accelerating sales growth.**
- **Cash flow from operating activities** increased 39% for 9M17. **Inventory/ AR turnover days also declined by 30/12 days vs. one year ago**, which indicates a substantial improvement in operating quality.

Valuation & Risks


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Price/price relative


| Performance (%) | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | 14.1 | 18.6 | 30.6 |
| Shanghai Composite | 1.6 | 4.6 | 9.0 |

*Source: Deutsche Bank*

| Key indicators (FY1) | |
|---|---|
| ROE (%) | 7.7 |
| Net debt/equity (%) | -6.9 |
| Book value/share (CNY) | 8.23 |
| Price/book (x) | 4.5 |
| Net interest cover (x) | 49.1 |
| Operating profit margin (%) | 9.0 |

*Source: Deutsche Bank*

# Appendix 1

## Important Disclosures

### *Other information available upon request

Disclosure checklist

| Company | Ticker | Recent price* | Disclosure |
|---|---|---|---|
| Shanghai Jahwa | 600315.SS | 36.69 (CNY) 26 Oct 2017 | NA |

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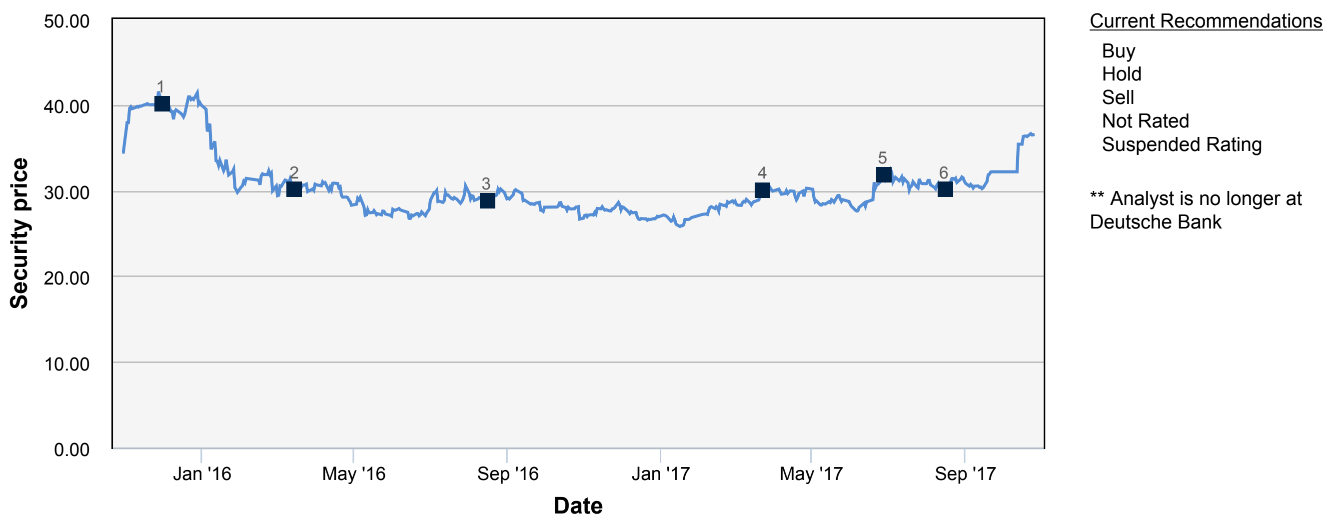
Historical recommendations and target price. Shanghai Jahwa (600315.SS)

*(as of 10/26/2017)*




1. 11/30/2015 Hold, Target Price Change CNY 40,67 Anne Ling
2. 03/15/2016 Hold, Target Price Change CNY 25,76 Anne Ling
3. 08/16/2016 Hold, Target Price Change CNY 24,70 Anne Ling
4. 03/24/2017 Hold, Target Price Change CNY 31,60 Anne Ling
5. 06/28/2017 Hold, Target Price Change CNY 32,30 Anne Ling
6. 08/16/2017 Hold, Target Price Change CNY 30,04 Anne Ling

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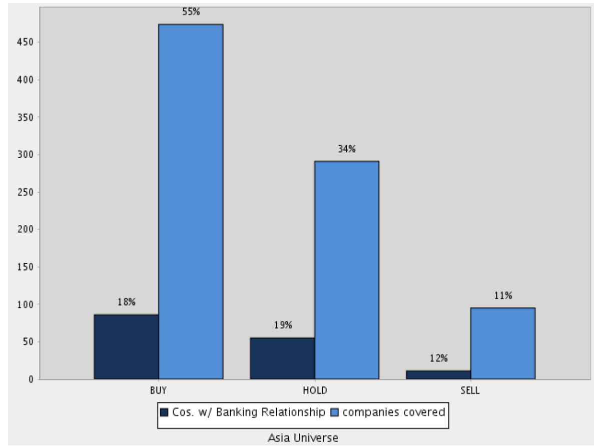
## Equity rating dispersion and banking relationships



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