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
10 January 2018

Company Update

Price at 8 Jan 2018 (CNY)	35.16
Price target - 12mth (CNY)	30.04
52-week range (CNY)	37.49 - 25.79
Shanghai Composite	3,392

Shanghai Jahwa - Access China ConferenceHighlights

Shanghai Jahwa attended our China conference and the following are the key takeaways:

2017 was a transitional year for Jahwa. Their business structuring mainly focused on brand building, new product launch and channel restructure.

Brand equity. Its focus in 2017 was on Liushen (for 1H17) and Herborist (for 2H). It appointed brand endorsers Mr Hua Chenyu for Liushen and Ms Liu Tao for Herborist which helped refresh the brand image and increased brand awareness effectively. It also invested more on digital advertising to cater for new consumer behavior trend. In 2018, it plans to allocate more budget to other potential brands, including GF, HomeAegis and others.

Product upgrade. It launched a new series which was positioned in premium segment (RMB600-1000) in 4Q17 for Herborist and it has been well received. According to Jahwa, ASP hike is the major driver for Herborist's growth in 2017. To recap, the brand recorded double digit growth in 9M17 in department store channel. In 2018, Herborist will launch high end colour cosmetics products. It will also upgrade its basic series to attract the younger generation. For other brands, premiumization also remains as the key growth driver, e.g. Liushen. It will diversify the flavours of Liushen and add more fragrance elements to de-emphasize its seasonality.

Channel restructuring. Its channel restructuring in 2017 mainly focused on ecommerce. Firstly, it transferred its Tmall supermarket and JD supermarket channel from wholesales to direct-run in the middle of the year. Secondly, it tried to use ecommerce service provider to operate its Tmall flagship stores in 4Q17, which is the No.1 online channel for the company. This transition will be fully in place in 2018. This business model adjustment is expected to optimize its online channel in longer term. It might create some short-term hiccups like slower sales growth yoy but better profitability should be expected.

2018 and onwards

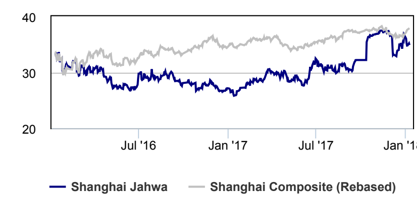
It has not finalized its 2018 operation target. It is however more comfortable with its sales trend , while more pressure will come from profitability. The new plant

Valuation & Risks

Anne Ling
Research Analyst
+852-2203 6177

Louise Li
Research Associate
+852-2203 6152

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.3	9.3	33.2
Shanghai Composite	3.6	1.8	8.1

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	7.7
Net debt/equity (%)	-6.9
Book value/share (CNY)	8.23
Price/book (x)	4.3
Net interest cover (x)	49.1
Operating profit margin (%)	9.0

Source: Deutsche Bank

which is supposed to be in operation from beginning of 2018, might be delayed. Once it starts to operate, it needs to book a higher D&A expense. This has been our concern as well as the market's.

Excluding D&A, it targets to reduce its opex as % of sales to below 50% in long run, from 60% of current level.

It reiterated its RMB10bn sales target in three-five years, including RMB3bn from Herborist, RMB2bn from Liushen and Tommee Tippee respectively, RMB1bn, RMB0.5bn from Maxam and Giving respectively and RMB0.3bn for HomeAegis, Mr Yu and VIVE.

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Shanghai Jahwa	600315.SS	34.85 (CNY) 9 Jan 2018	NA

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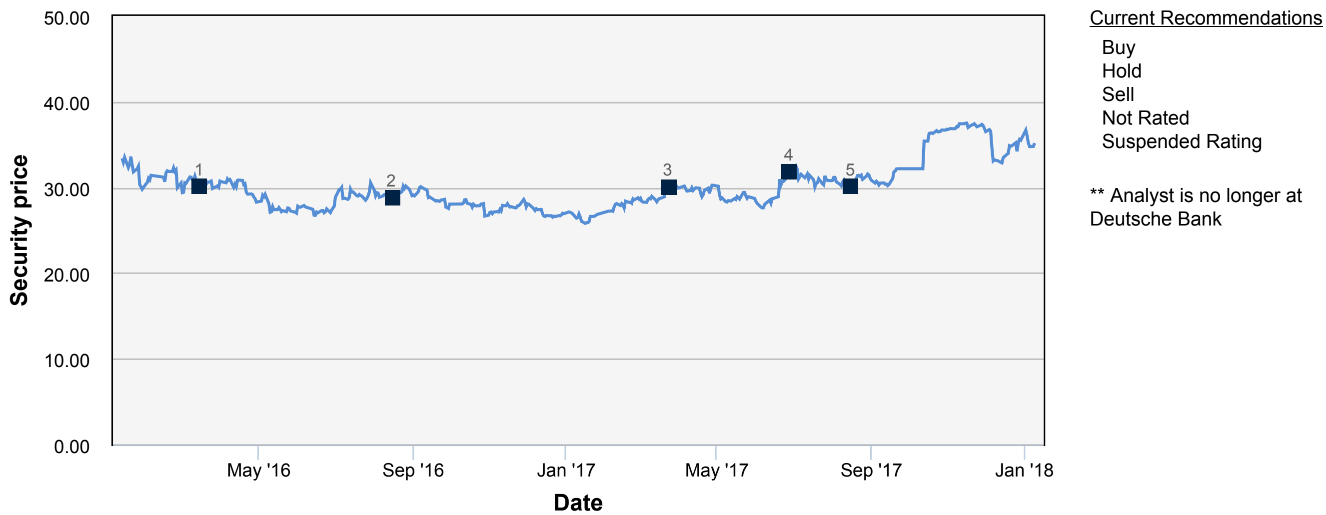
Historical recommendations and target price. Shanghai Jahwa (600315.SS)
(as of 01/09/2018)



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

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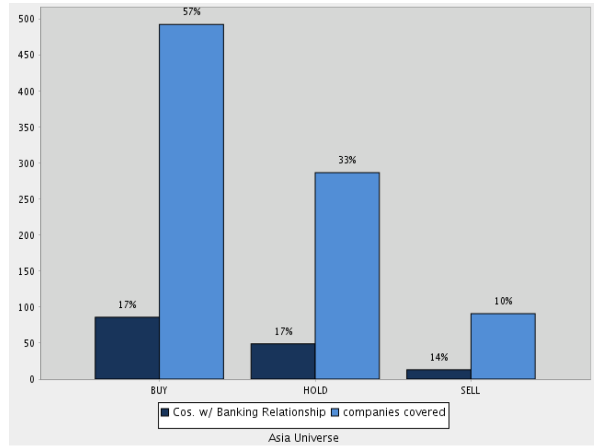
Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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Global Head of Quantitative
and QIS Research

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Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500