Deutsche Bank
Research

Rating
Hold

Asia
China

Consumer
Retail / Wholesale Trade

Company
Shanghai Jahwa

Reuters	Bloomberg	Exchange	Ticker
600315.SS	600315 CH	SHH	600315

Date
25 June 2018

Company Update

Price at 22 Jun 2018 (CNY)	39.39
Price target - 12mth (CNY)	39.22
52-week range (CNY)	46.34 - 29.83
Shanghai Composite	2,890

Key takeaways from dbAccess Global Consumer Conference

Shanghai Jahwa attended DB's global consumer conference in Paris and the following are our key takeaways:

What have been the key changes under the restructuring? Before restructuring, the company was divided into four departments, namely mass market consumer, Herborist, digital marketing and the cosmetics specialty chain. The new CEO restructured this organization and divided the company into six new departments. All of them are directly under the CEO's supervision. The restructuring is mainly to change the company's channel-oriented structure to a brand-oriented structure. In addition, in the past each of the business units operated like a silo. Chairlady Ms. Donna Cheung does not feel that she has made significant changes, she is simply unveiling the company's potential.

Channel fragmentation. With changes in consumer behaviour, management noted the need to reach out to consumers through different channels. Management has thus identified 8 channels for its brands. High growth channels include CS, e-commerce, the Ping An platform, and traditional channels including department stores, traditional wholesale and key accounts, and also emerging channels including baby goods stores and overseas. The online channel accounted for 22% in 1Q18 and it targets sales from online/offline to reach a ratio of 50%/50% as online is the most profitable. Online growth has grown ~ 40% yoy while the offline growth trend is ~ a single digit yoy.

Brands will become the key. The company has over 10 brands, including Heborist, Liushen, Maxam, Giving, GF, Home Aegis, DrYu, Shanghai Vive and Tommee Tippee. It sees consumers these days appreciating local premium brands. Herborist is the only local brand in the top 10 premium cosmetic brands in China in terms of sales value. To tap growing demand for colour cosmetics, it will launch its colour cosmetic product under the Herborist brand at the end of the month.

With 10 brands and 8 channels, it is **investing into CRM** such that it can do cross promotions. Currently, it has a membership program called Jahwa Home and it targets to reach 50m members in 3 years (currently 20m). Ultimately, it targets 400m.

Valuation & Risks

Anne Ling
Research Analyst
+852-2203 6177

Louise Li
Research Associate
+852-2203 6152

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-8.7	0.6	28.3
Shanghai Composite	-10.1	-11.5	-8.2

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	9.8
Net debt/equity (%)	-12.5
Book value/share (CNY)	8.53
Price/book (x)	4.6
Net interest cover (x)	31.1
Operating profit margin (%)	9.2

Source: Deutsche Bank

When asked about **its acquisition plan**, management explained that it is focusing on developing 3 segments: skincare, personal care and home care. It believes that it can help international brands to tap the China market with its channel capability.

Jahwa's NPM is about 6% in 2018 and it targets to reach 10% in the future. Margin improvement will come from lower selling and marketing expenses as it believes that it had spent too much on promotions.

The new plant commenced operation this month and its capacity is 5x that of the previous plant. Thus, it can take care of growth for the next 5-10 years. Utilization is currently ~33% and it hopes to increase capacity by switching some of the products currently being outsourced to the plant and/or commence OEM manufacturing.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	5,266.3	6,430.6	7,305.8	8,350.6	9,681.1
EBITDA (CNYm)	372.8	672.7	918.8	1,084.4	1,245.6
Reported NPAT (CNYm)	216.0	389.8	543.7	701.3	823.7
Reported EPS FD(CNY)	0.32	0.58	0.81	1.04	1.22
DB EPS FD(CNY)	0.32	0.58	0.81	1.04	1.22
DB EPS growth (%)	-90.2	81.2	39.2	28.9	17.5
PER (x)	91.0	53.6	48.8	37.9	32.2
EV/EBITDA (x)	42.8	25.1	23.9	19.7	16.5
DPS (net) (CNY)	0.10	0.18	0.25	0.32	0.48
Yield (net) (%)	0.3	0.6	0.6	0.8	1.2

Source: Deutsche Bank estimates, company data

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Shanghai Jahwa	600315.SS	39.39 (CNY) 22 Jun 2018	NA

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

(as of 06/22/2018)

1. 08/16/2016 Hold, Target Price Change CNY 24.70 Anne Ling
2. 03/24/2017 Hold, Target Price Change CNY 31.60 Anne Ling
3. 06/28/2017 Hold, Target Price Change CNY 32.30 Anne Ling
4. 08/16/2017 Hold, Target Price Change CNY 30.04 Anne Ling
5. 03/22/2018 Hold, Target Price Change CNY 39.22 Anne Ling

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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
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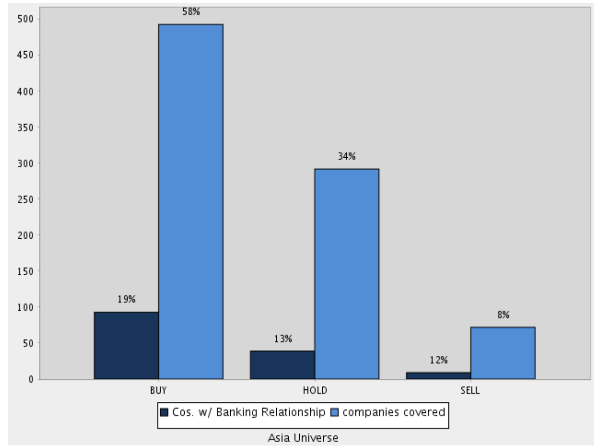

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Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

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Global Head of
Debt Research

Paul Reynolds
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Head of APAC
Equity Research

Pam Finelli
Global Head of
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Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
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