

Shanghai Jahwa (600315 CH)

3Q largely in-line; FY earnings track well to the ESOP target

- 3Q results largely in line**, with revenue and net profits standing at RMB1.6bn (+1.2% YoY) and RMB156mn (+15.5% YoY). Consider a 4% YoY domestic revenue growth, total revenue increased by 3.5% YoY at constant exchange rate. The growth (vs a 23.8% decline for 2Q) was much underpinned by a 30% YoY growth in HPC revenue, which mitigated a 15%/5% decline in skincare/ Babycare revenue. Of note, HPC recorded a 17.9% ASP uptake, followed by 10.3% in babycare. By channel, offline sales grew 6%.
- Margins trajectories diverged**. GPM declined QoQ by 2.0pp to 54.3%, owing to higher contribution of lower-margins SKU. This is despite an average 5% lower input cost (mainly palm oil) that equivalent to a RMB400/ton procurement cost savings. That said, operation cost initiatives had brought down opex ratio of the quarter by 7.5pp to 45.6%, leading to a 3.2pp expansion in operating margins to 8.3%. With these, we continue to envisage 4Q margins trajectories to normalize, and the worst of Jahwa is behind us.
- A lukewarm Double.11 expectation**: September social retail sales came in at 2.5% YoY growth to RMB377.5bn, below 2.9% of market consensus. Cosmetic sales was RMB31.7bn, down 3.1% YoY, with 9M sales declining 3% YoY. A softening consumption sentiment has prompted for a lower expectation of the upcoming Double.11, in our view. Of note, online cosmetic retailers reportedly expect a 5-10% YoY sales decline, according to our channel check and survey. Meanwhile, at the expense of Korean and US/European brands, we think domestic brands could gain market share by leveraging their hero product strategy.
- Revised 2020 ESOP targets**: During 2Q results, Jahwa management has revised down the revenue/ net profits target for 2022-23E/ 2023E, respectively. The revised targets imply +10.2%~+24.7%/-16.6%~+38.4% YoY revenue/ Net profits growth in 2H22 and -1.9%~4.6%/-29.0%~+1.8% YoY revenue/ Net profits growth in 2022E. Management targets at least DD topline growth and higher bottom-line growth in 2H22, and an accelerated topline growth in 2023E.
- Our current 2022E forecast is at par to the B Target of Jahwa's revised 2020 ESOP plan**, while that of 2023E is slightly below. We keep our earnings forecasts and TP for now. We value the shares at an unchanged 40x mid-23E P/E which represents mean valuation since 2019.

(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	31.9	24.3	20.7
P/B (x)	n.a	n.a	2.5	2.3	2.2
Div yield (%)	0.6	0.9	0.9	1.2	1.4
ROE (%)	6.6	9.3	7.8	9.5	10.3
Net gearing (%)	net cash				

BUY (maintain)

Target Price	RMB39.2
(Previous TP	RMB39.2)
Up/Downside	+44.1%
Current Price	RMB27.2

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Stock Data

Mkt Cap (RMB mn)	18,483.7
Avg 3 mths t/o (RMB mn)	109.7
52w High/Low (RMB)	48.34/ 26.82
Total Issued Shares (mn)	679.6

Source: Wind

Shareholding Structure

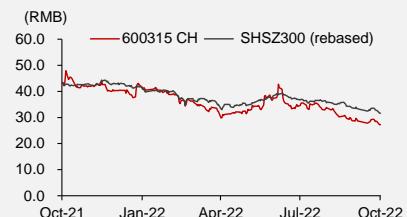
Shanghai Jiahua (Group) Co.	50.8%
Shanghai Jiushi Group Co.	3.9%
SH Chongyang Strategic Inv	2.8%

Source: Wind

Share Performance

	Absolute	Relative
1-mth	-5.1%	0.9%
3-mth	-21.3%	-8.5%
6-mth	-8.6%	-3.8%

Source: Wind

12-m Price Performance


Source: Wind

Related Reports

- [Proya Cosmetics \(603605 CH\) – 3Q a small beat; but the implied 4Q numbers look unexciting given the current guidance](#) – 18 Oct 2022
- [Jahwa \(600315 CH\) – 2Q miss; but the worst is likely behind us](#) – 22 Aug 2022
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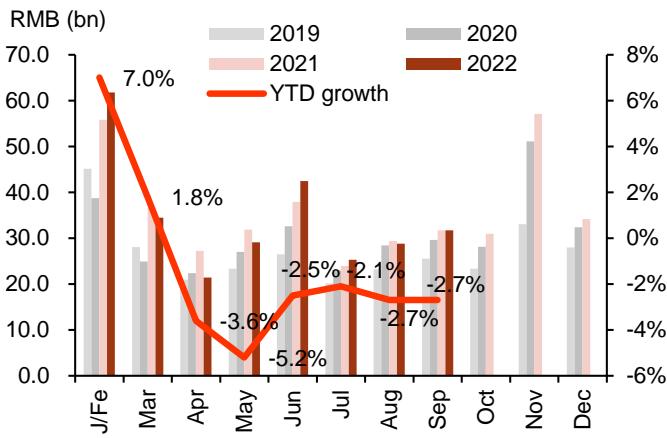
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: 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 Profits	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 profits	574	755	884	756	954	1,135	-24.0%	-20.9%	-22.1%
Gross Margins	58.4%	59.5%	60.7%	60.1%	61.0%	61.9%	-1.7ppt	-1.5ppt	-1.1ppt
EBIT Margins	7.1%	8.3%	9.5%	10.0%	11.3%	12.1%	-2.9ppt	-3ppt	-2.7ppt
Net Margins	7.7%	9.3%	10.0%	9.2%	10.2%	10.8%	-1.5ppt	-0.9ppt	-0.8ppt

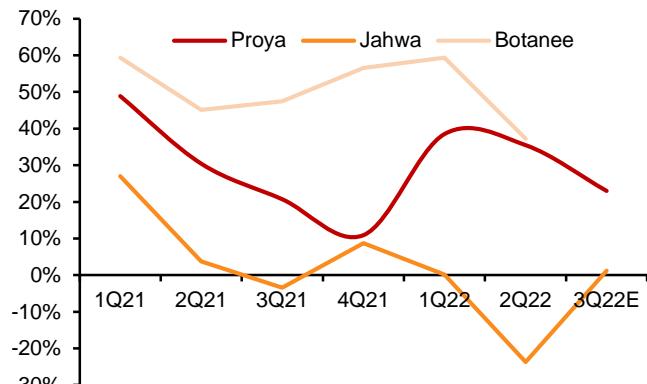
Source: Company data, CMBIGM estimates

Figure 2: China cosmetics sales and ytd growth



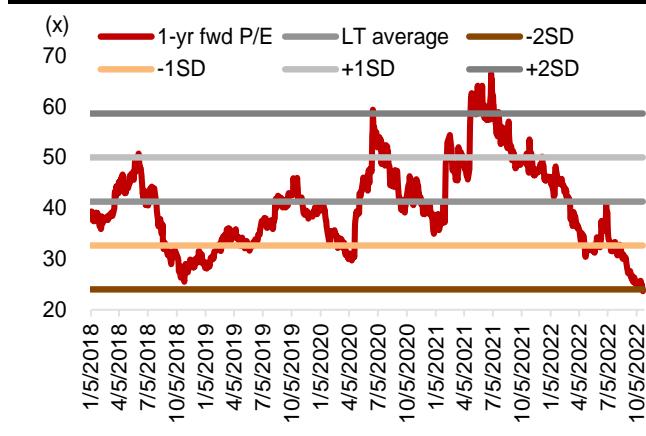
Source: Wind, CMBIGM

Figure 3: Quarterly revenue growth trajectories



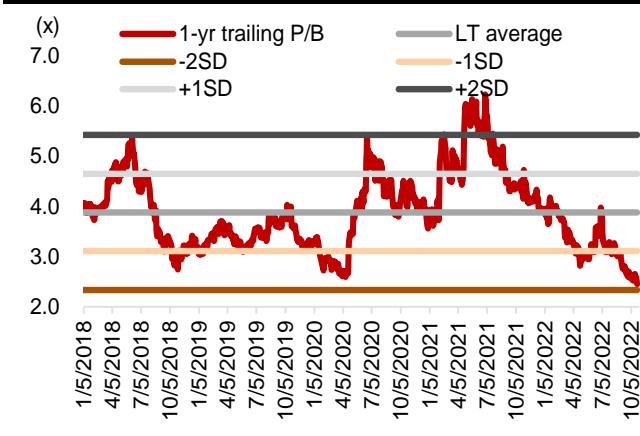
Source: Company data, CMBIGM estimates

Figure 4: Jahwa - 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: Jahwa - 12M trailing P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement					Cash flow summary						
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,032	7,646	7,497	8,154	8,799	Net income	875	319	574	755	884
Major business	7,028	7,638	7,489	8,146	8,791	D&A	236	209	199	201	206
Others	4	8	8	8	8	Change in working capital	3	100	(243)	(169)	(27)
Gross profit	4,216	4,491	4,379	4,855	5,345	Others	(470)	365	20	20	20
Tax and surcharges	(57)	(59)	(58)	(63)	(68)	Net cash fr. operating act.	643	993	550	807	1,083
Selling expenses	(2,924)	(2,947)	(2,871)	(3,123)	(3,370)	Capex & investments	(106)	(141)	(138)	(150)	(162)
Administrative expenses	(721)	(791)	(765)	(832)	(898)	Investments	(5,565)	(5,186)	(83)	(91)	302
R&D expenses	(144)	(163)	(150)	(163)	(176)	Others	4,899	4,943	-	-	-
EBIT	370	531	535	674	834	Net cash fr. investing act.	(772)	(384)	(221)	(241)	140
EBITDA	606	740	734	875	1,039	Dividend payment	(136)	(197)	(172)	(227)	(265)
Finance costs, net	(43)	(13)	(9)	(9)	(10)	Cash received from investment	132	47	-	-	-
Other income/(expense)	207	234	150	224	217	Cash received from borrowing	1,068	-	-	-	-
Non-operating	0	12	-	-	-	Others	(1,200)	(79)	(100)	(100)	(100)
Pre-tax profit	534	764	676	889	1,041	Net cash fr. financing act.	(136)	(228)	(272)	(327)	(365)
Income tax	(104)	(115)	(102)	(134)	(157)	Net change in cash	(322)	311	57	240	858
Less: Minority interests	-	-	-	-	-	Cash at the beginning of the year	1,609	1,287	1,597	1,654	1,894
Net profit	430	649	574	755	884	Exchange difference	(58)	(71)	-	-	-
						Cash at the end of the year	1,229	1,527	1,654	1,894	2,752
						Less: pledged cash	-	-	-	-	-

Balance sheet					Key ratios						
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	5,140	5,365	5,387	5,427	5,480	Sales mix (%)	100.0	100.0	100.0	100.0	100.0
PP&E/Fixed assets	1,019	939	970	1,010	1,057	Skincare and cleanser	99.9	99.9	99.9	99.9	99.9
Net intangibles	769	761	752	752	759	Makeup	0.1	0.1	0.1	0.1	0.1
Goodwill	1,986	1,923	1,923	1,923	1,923	P&L ratios (%)					
Other non-current assets	1,366	1,742	1,742	1,742	1,742	Gross margin	60.0	58.7	58.4	59.5	60.7
Current assets	6,155	6,780	7,114	7,522	8,042	Operating margin	5.3	6.9	7.1	8.3	9.5
Cash	1,287	1,597	1,654	1,894	2,752	Pre-tax margin	7.6	10.0	9.0	10.9	11.8
Account receivable	1,090	1,109	1,232	1,340	1,446	Net margin	6.1	8.5	7.7	9.3	10.0
Prepayments	47	83	83	83	83	Effective tax rate	(19.4)	(15.1)	(15.1)	(15.1)	(15.1)
Inventory	867	872	1,025	1,085	1,041	Balance sheet analysis					
Other current assets	2,865	3,119	3,119	3,119	2,719	Current ratio (x)	0.2	0.2	0.2	0.3	0.3
Current liabilities	2,876	3,210	3,243	3,242	3,277	Net receivable days	57	53	60	60	60
Borrowings	-	-	-	-	-	Net payable days	93	83	88	83	83
Accounts payable	718	718	752	750	785	Inventory turnover days	112	101	120	120	110
Other payables	1,607	1,790	1,790	1,790	1,790	Net debt to equity (%)	net	net	net	net	net
other current liabilities	551	701	701	701	701	Returns (%)					
Non-current liabilities	1,920	1,972	1,872	1,772	1,672	ROE	6.6	9.3	7.8	9.5	10.3
Borrowings	1,062	925	825	725	625	ROA	3.8	5.3	4.6	5.8	6.5
Deferred tax liabilities	99	123	123	123	123	Dividend yield	0.6	0.9	0.8	1.0	1.2
Other non-current liabilities	759	924	924	924	924	Per share					
Minority Interest	-	-	-	-	-	EPS (RMB)	0.6	1.0	0.8	1.1	1.3
Total net assets	6,499	6,963	7,385	7,934	8,573	DPS (RMB)	0.2	0.3	0.3	0.3	0.4
Shareholders' equity	6,499	6,963	7,385	7,934	8,573	BVPS (RMB)	9.7	10.3	10.9	11.6	12.5

Source: Company data, CMBIGM estimates

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