

Shanghai Jahwa (600315 CH)

3Q rev/np -11%/40%; a significant miss

3Q revenue/net profits came in at RMB1.5bn/93.1mn, down 11%/40% YoY. In our view, the mediocre result was an expected extension of 2Q, in which overseas business remained a lingering drag as a result of a persistently high inflation environment that eroded consumption power. Other than this, the growth of domestic business also showed a sign of tapering in the absence of a favourable base comp. By channel, sales on online platforms grew by low-teen, but such was not able to fully mitigate the challenging offline business. By segment, skincare and HPC sales decreased by 8.5%/18.3% YoY, tumbling from positive growth of 26.5%/4.5% in 2Q. The only positive of the result was a mild uptick in GPM, thanks to input cost savings and brand mix upgrade. Considering also a relatively soft pre-sales momentum of the Double 11 this year, in our view, Jahwa looks unlikely to flip the downtrend in the remainder of the year. Maintain HOLD.

■ **Conference call takeaway.** 1) Jahwa announced its restructuring plan along with 3Q results, merging the skincare BU with the mother-care BU, and setting up an overseas BU. This adjustment aims to enhance the online presence of the segments and streamline decision-making processes across products teams; 2) **3Q opex surged** mainly on operation deleverage, and the company continued its investment in brand to boost future growth. Some ongoing tactics include consumer acquisition through targeted and pop-up marketing events. Other notable marketing events, such as Yuze Douyin Day and Bai Cao Ji Member Day etc, 3) **key numbers for the quarter include**, domestic/overseas 9M sales fell 3.6%/9.3% YoY respectively; and 9M/3Q online sales growth reached 6%/7%. Domestic online/offline sales +14%/-9% YoY, of which department stores saw -30% YoY. GMP edged up 3.5 pct. YoY to 57.7% in 3Q as skincare products sales growth resulted in structural mix effect. According to management, overseas inventory level decreased significantly thanks to normalized production cycles.

■ **Double 11 pre-sales.** Anecdotal observation from the livestreaming of leading KOL pointed to a relatively soft start for the event. Domestic brands performance diverged on the first day. Proya tops the GMV league with double-digit growth with 16 participating SKUs (a double of 2022), while that of Botanee halved (with unchanged 8 SKUs); while that of Jahwa looked immaterial.

■ **Earnings change.** We cut our 2023E revenue by 13.7% to factor in the 3Q result. Our GPM estimate is largely unchanged, but with a ~3.0pp increase in opex ratio upon an operation deleverage, our net income is 37.9% lower.

■ **Valuation.** Our revised TP is based on 29.0x end-23E P/E which still represents -1sd below average since 2019. Our target multiple is set lower than that of Proya (at long-term average) to reflect the difference in growth outlook, strategy execution and our preference.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,646	7,106	6,944	7,217	7,491
YoY growth (%)	8.7	(7.1)	(2.3)	3.9	3.8
Net profit (RMB mn)	649.3	472.0	500.7	638.7	743.8
YoY growth (%)	50.9	(27.3)	6.1	27.6	16.5
EPS (Reported) (RMB)	0.96	0.69	0.74	0.94	1.09
Consensus EPS (RMB)	na	na	1.01	1.19	1.37
P/E (x)	49.6	48.6	32.1	25.2	21.6
P/B (x)	4.6	3.2	2.1	2.0	1.9
Yield (%)	0.6	0.6	0.9	1.2	1.4
ROE (%)	9.6	6.6	6.7	8.2	9.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB21.4
(Previous TP RMB30.9)
Up/Downside (9.8%)
Current Price RMB23.7

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Stock Data

Mkt Cap (RMB mn) 16,076.4
Avg 3 mths t/o (RMB mn) 95.6
52w High/Low (RMB) 33.19/23.62
Total Issued Shares (mn) 678.9
Source: FactSet

Shareholding Structure

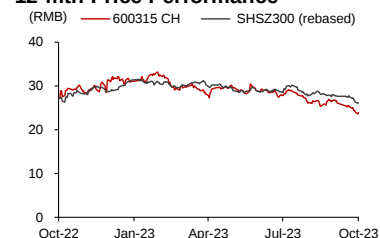
Shanghai Jahwa Group Co 50.8%
Shanghai Jiushi Group Co 3.9%
Source: SHEX

Share Performance

	Absolute	Relative
1-mth	-11.5%	-4.7%
3-mth	-15.9%	-7.1%
6-mth	-13.1%	-2.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Related reports:

1. 珀莱雅 (603605 CH) – 3 季度收入/净利润增长 21%/24%; 期待双十一发力 - Oct 24, 2023

2. CTGDF (601888 CH) – 3Q prelim rev/np +28%/93%; estimates unchanged – Oct 10, 2023

3. Samsonite (1910 HK) – 3Q Preview: rev/adj EBITDA +20%/36% - Oct 4, 2023

4. Prada SpA (1913 HK) – 3Q preview: Embracing a normalised quarter – Sep 29, 2023

Figure 1: Earnings revisions

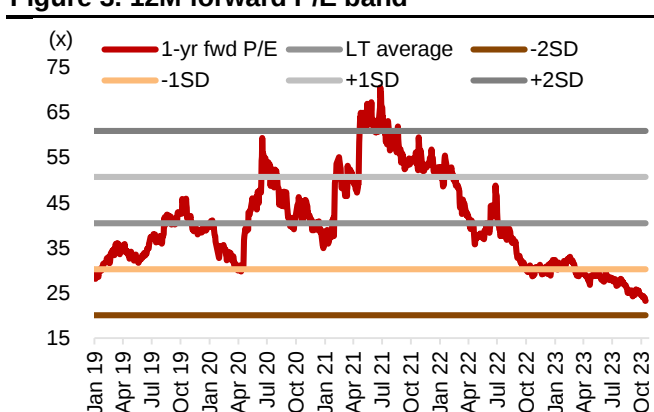
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,944	7,217	7,491	8,051	8,831	9,546	-13.7%	-18.3%	-21.5%
Gross Profit	4,131	4,248	4,471	4,781	5,320	5,811	-13.6%	-20.2%	-23.1%
EBIT	493	655	779	807	907	1,040	-38.9%	-27.7%	-25.0%
Net profit	501	639	744	806	874	986	-37.9%	-26.9%	-24.6%
Gross Margin	59.5%	58.9%	59.7%	59.4%	60.2%	60.9%	0.1ppt	-1.4ppt	-1.2ppt
EBIT Margin	7.1%	9.1%	10.4%	10.0%	10.3%	10.9%	-2.9ppt	-1.2ppt	-0.5ppt
Net Margin	7.2%	8.8%	9.9%	10.0%	9.9%	10.3%	-2.8ppt	-1ppt	-0.4ppt

Source: Company data, CMBIGM estimates

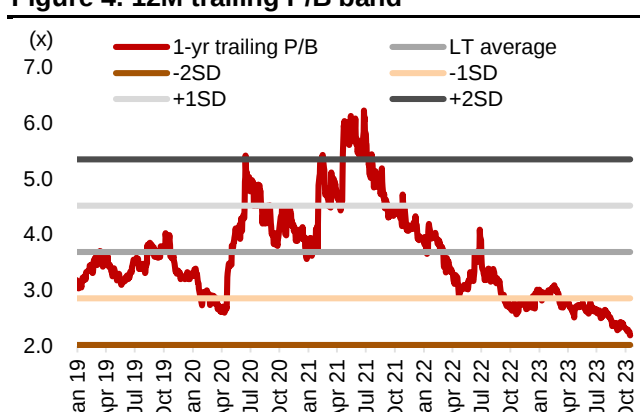
Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,944	7,217	7,491	7,666	8,487	9,286	-9.4%	-15.0%	-19.3%
Gross Profit	4,131	4,248	4,471	4,485	5,024	5,553	-7.9%	-15.4%	-19.5%
EBIT	493	655	779	747	882	1,017	-33.9%	-25.7%	-23.4%
Net profit	501	639	744	690	799	919	-27.5%	-20.1%	-19.1%
Gross Margin	59.5%	58.9%	59.7%	58.5%	59.2%	59.8%	1ppt	-0.3ppt	-0.1ppt
EBIT Margin	7.1%	9.1%	10.4%	9.7%	10.4%	11.0%	-2.6ppt	-1.3ppt	-0.5ppt
Net Margin	7.2%	8.8%	9.9%	9.0%	9.4%	9.9%	-1.8ppt	-0.6ppt	0ppt

Source: Company data, Bloomberg, CMBIGM estimate

Figure 3: 12M forward P/E band

Source: Company data, Bloomberg, CMBIGM

Figure 4: 12M trailing P/B band

Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	7,032	7,646	7,106	6,944	7,217	7,491
Cost of goods sold	(2,816)	(3,156)	(3,048)	(2,814)	(2,969)	(3,020)
Gross profit	4,216	4,491	4,059	4,131	4,248	4,471
Operating expenses	(3,846)	(3,960)	(3,489)	(3,637)	(3,593)	(3,691)
Selling expense	(2,924)	(2,947)	(2,652)	(2,813)	(2,779)	(2,847)
Admin expense	(721)	(791)	(628)	(625)	(606)	(629)
R&D expense	(144)	(163)	(160)	(153)	(159)	(165)
Others	(57)	(59)	(48)	(47)	(49)	(51)
Operating profit	370	531	570	493	655	779
EBITDA	606	740	766	683	848	976
Depreciation	129	116	116	107	107	108
Other amortisation	107	93	80	83	86	88
EBIT	370	531	570	493	655	779
Interest income	17	17	25	34	35	40
Interest expense	(64)	(29)	(45)	(46)	(53)	(60)
Foreign exchange gain/loss	4	(9)	22	30	30	30
Other income/expense	207	246	(32)	70	70	70
Pre-tax profit	534	764	549	582	743	865
Income tax	(104)	(115)	(77)	(82)	(104)	(121)
Minority interest	0	0	0	0	0	0
Net profit	430	649	472	501	639	744
Gross dividends	136	197	143	150	192	223

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	6,155	6,780	6,555	6,502	6,850	7,243
Cash & equivalents	1,287	1,597	1,685	2,218	2,952	3,685
Account receivables	1,177	1,312	1,398	1,216	1,261	1,306
Inventories	867	872	929	925	895	910
Prepayment	47	83	72	72	72	72
Financial assets at FVTPL	2,732	2,699	2,122	1,722	1,322	922
Other current assets	46	216	348	348	348	348
Non-current assets	5,140	5,365	5,715	5,743	5,777	5,816
PP&E	1,019	939	863	868	877	889
Intangibles	769	761	790	814	839	866
Goodwill	1,986	1,923	1,938	1,938	1,938	1,938
Other non-current assets	1,366	1,742	2,123	2,123	2,123	2,123
Total assets	11,295	12,146	12,269	12,245	12,627	13,060
Current liabilities	2,876	3,210	3,533	3,258	3,294	3,305
Short-term borrowings	0	0	0	0	0	0
Account payables	2,325	2,509	2,601	2,326	2,361	2,373
Tax payable	186	182	176	176	176	176
Other current liabilities	365	519	757	757	757	757
Non-current liabilities	1,920	1,972	1,487	1,387	1,287	1,187
Long-term borrowings	1,062	925	751	651	551	451
Obligations under finance leases	0	138	114	114	114	114
Deferred income	558	524	485	485	485	485
Other non-current liabilities	300	385	137	137	137	137
Total liabilities	4,796	5,182	5,020	4,645	4,580	4,492
Share capital	2,049	2,154	1,625	1,625	1,625	1,625
Retained earnings	4,578	5,092	5,369	5,719	6,167	6,687
Other reserves	(128)	(283)	255	255	255	255
Total shareholders equity	6,499	6,963	7,249	7,600	8,047	8,568
Minority interest	0	0	0	0	0	0
Total equity and liabilities	11,295	12,146	12,269	12,245	12,627	13,060

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	534	764	549	582	743	865
Depreciation & amortization	236	209	196	190	193	197
Change in working capital	3	100	(75)	(89)	21	(49)
Others	(129)	(80)	(5)	(82)	(104)	(121)
Net cash from operations	643	993	665	602	852	892
Investing						
Capital expenditure	(106)	(141)	(114)	(218)	(227)	(236)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	(565)	(243)	(42)	400	400	400
Others	(101)	0	1	0	0	0
Net cash from investing	(772)	(384)	(155)	182	173	164
Financing						
Dividend paid	(136)	(197)	(143)	(150)	(192)	(223)
Net borrowings	(62)	(4)	(100)	(100)	(100)	(100)
Others	62	(27)	(141)	0	0	0
Net cash from financing	(136)	(228)	(384)	(250)	(292)	(323)
Net change in cash						
Cash at the beginning of the year	1,609	1,287	1,597	1,685	2,218	2,952
Exchange difference	(58)	(71)	(38)	0	0	0
Cash at the end of the year	1,287	1,597	1,685	2,218	2,952	3,685
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	8.7%	(7.1%)	(2.3%)	3.9%	3.8%
Gross profit	na	6.5%	(9.6%)	1.8%	2.8%	5.2%
Operating profit	na	43.4%	7.4%	(13.4%)	32.8%	18.9%
EBITDA	na	22.1%	3.6%	(10.8%)	24.2%	15.1%
EBIT	na	43.4%	7.4%	(13.4%)	32.8%	18.9%
Net profit	na	50.9%	(27.3%)	6.1%	27.6%	16.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	60.0%	58.7%	57.1%	59.5%	58.9%	59.7%
Operating margin	5.3%	6.9%	8.0%	7.1%	9.1%	10.4%
EBITDA margin	8.6%	9.7%	10.8%	9.8%	11.8%	13.0%
Return on equity (ROE)	na	9.6%	6.6%	6.7%	8.2%	9.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.0)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio (x)	2.1	2.1	1.9	2.0	2.1	2.2
Receivable turnover days	56.6	52.9	68.0	60.0	60.0	60.0
Inventory turnover days	112.3	100.9	111.3	120.0	110.0	110.0
Payable turnover days	93.1	83.1	109.6	83.0	83.0	83.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	57.7	49.6	48.6	32.1	25.2	21.6
P/B	3.8	4.6	3.2	2.1	2.0	1.9
Div yield (%)	0.5	0.6	0.6	0.9	1.2	1.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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