

China / Hong Kong Company Update

JS Global Lifestyle

Bloomberg: 1691 HK Equity | Reuters: 1691.HK

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DBS Group Research . Equity

28 Jul 2022

BUY

Last Traded Price (28 Jul 2022): HK\$9.57 (HSI : 20,623)
Price Target 12-mth: HK\$11.10 (16% upside) (Prev HK\$11.86)

Analyst

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What's New

- Stronger-than-expected Prime Day performance shows product power, despite weak macro environment
- Increasing investments on market expansion during 1H22 could skew earnings. Coupled with a more uncertain global economy, we stay prudent and trim TP to HK\$11.1
- Following c.25% share price rally in past two months, near-term profit-taking could be possible. While we focus on JS Global's positive medium-term prospects and growth opportunities in multiple markets, maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	4,196	5,151	5,433	5,877
EBITDA	701	711	715	838
Pre-tax Profit	527	575	562	675
Net Profit	402	461	449	540
Net Profit Gth (Pre-ex) (%)	372.3	14.5	(2.4)	20.1
EPS (US\$)	0.10	0.12	0.13	0.15
EPS (HK\$)	0.82	0.97	1.01	1.21
EPS Gth (%)	447.4	19.2	3.6	20.1
DPS (HK\$)	0.27	0.41	0.43	0.51
BV Per Share (HK\$)	3.27	3.93	4.60	5.06
PE (X)	11.7	9.8	9.5	7.9
P/Cash Flow (X)	7.2	13.7	8.4	12.4
P/Free CF (X)	8.0	17.1	9.8	16.0
EV/EBITDA (X)	7.7	7.2	6.6	5.6
Net Div Yield (%)	2.8	4.3	4.5	5.4
P/Book Value (X)	2.9	2.4	2.1	1.9
Net Debt/Equity (X)	0.2	0.2	0.1	0.1
ROAE (%)	27.7	26.5	23.0	25.1
Earnings Rev (%)			(10.9)	(6.7)
Consensus EPS (US\$)			0.14	0.21
Other Broker Recs:		B:23	S:1	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

1H22 earnings could drag by higher investments

Investment Thesis

Positive strategic expansion. Riding on the successful acquisition of SharkNinja in 2017 and a group restructuring to list JS Global on the HK stock market since 2019, the company achieved a good ramp up in both revenue and profitability over the years. Moving forward, SharkNinja's top brand awareness in the US and the UK, and its sound product R&D capabilities should all sustain market share gains. Besides, by leveraging on the strong local expertise, supply chains, and channel distribution of Joyoung, which ranks amongst the top players in China, a more strategic localisation of SharkNinja's products for the Chinese market could also enrich overall medium-term potentials.

We expect the expenses required for market expansion to negatively impact near-term profits, but we stay positive on the company's medium-term growth, which will also be driven by its expansion in multiple markets.

Valuation:

In view of higher-than-expected investments for market expansion during 1H22, and a low visibility in both domestic and overseas markets, we take a more prudent view and revise down FY22F/23F earning by 10.9%/6.7%. Our TP of HK\$11.1/share continues to base on 11x FY22 PE, equivalent to 0.5 SD below its average PE to stay prudent (previous TP: HK\$11.86).

Where we differ:

We are more prudent on FY22/FY23 GP margins of 38.1%/39.1% vs. the consensus, given a low market visibility in the near-term. Yet, its ample room to expand in existing and new categories & markets should support medium-term growth.

Key Risks to Our View:

Changes in trade policies; substantial raw material price fluctuations; intensified competition; macro downturn; etc.

At A Glance

Issued Capital (m shrs)	3,495
Mkt Cap (HKm/US\$m)	32,189 / 4,101
Major Shareholders (%)	
JS Holding, L.P.	45.9
Sol Omnibus SPC	9.5
CITIC Private Equity Funds Management Co., Ltd.	6.4
CDH Investments	6.1
Free Float (%)	32.1
3m Avg. Daily Val. (US\$m)	4.86
GICS Industry: Consumer Discretionary / Consumer Durables & Apparel	



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WHAT'S NEW

Prime day performance. Despite the weak macroeconomic environment and consumer sentiment in the US and Europe, 2022's Amazon Prime Day (12 July-14 July) scored an all-time high with more than 300m items sold during the event (2021: 250m), up by around 20% y-o-y. Nearly all SharkNinja's products were sold out during the online shopping event, exceeding the company's expectations. On the first day of the event, the entire inventory of the Ninja knife series was purchased by more than 7,000 customers. According to Amazon's official statistics, the Shark's vacuum cleaner was one of the best-selling products during this Prime Day. Ninja CREAMi also achieved outstanding sales with 35,000 satisfied customers.

2022 Outlook. JS Global has outstanding R&D capabilities with an annual investment of around 6% of total revenue and over 800 R&D specialists, which are aimed at improving or upgrading the functions of the products to meet consumers' unresolved needs and pain points. As a result, the company's products boast more than 90% of the required features of the competing products that sell at higher prices. Reasonable and attractive pricing strategy has been adopted to improve competitiveness. Also, a wide range of product SKUs, coupled with the accelerating new product launch plan, gives the company the ability to quickly adapt to changes in consumer demand. Hence, we expect JS Global's market share to continue to increase. Additionally, stronger-than-expected Amazon Prime Day sales is a testament to consumer purchasing power and

willingness to buy, and overall, it is believed that JS Global could achieve a single-digit growth in its top line in 2022F.

A positive impact of around 2-3ppt on the GP margin is expected given the recent import tariff cuts in the US market. Latest raw material price declines could further benefit profitability. However, we expect the significant regional expansion and related headcount increase YTD could have a negative impact on 1H22 earnings. We believe JS Global could stage a 1% y-o-y revenue decline and around 12% earnings dip for 1H22, while sequential improvements will be expected for 2H22.

Company Background

JS Global was formed with the acquisition of SharkNinja by the Joyoung Group. It owns three leading global small appliance brands, including Joyoung, Shark, and Ninja, focusing on small kitchen appliances and home environmental appliances. The company started as a soymilk machine manufacturer and has been deeply involved in the small home appliance industry for many years. Through the acquisition of SharkNinja, the company gradually expanded the application of its products from the kitchen to the living room and expanded its business scope from the China market to overseas markets.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
SharkNinja sales growth (%)	N/A	57.4	35.9	8.0	10.0
Joyoung sales growth (%)	N/A	14.3	(1.9)	(1.0)	3.0
SharkNinja gross margin (%)	N/A	46.3	40.0	40.8	42.0
Joyoung gross margin (%)	N/A	32.6	30.5	30.5	30.5

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
SharkNinja	1,736	2,733	3,715	4,012	4,413
Joyoung	1,280	1,463	1,436	1,421	1,464
Total	3,016	4,196	5,151	5,433	5,877
Gross Profit (US\$ m)					
SharkNinja	701	1,265	1,487	1,637	1,854
Joyoung	426	478	437	434	447
Total	1,127	1,743	1,924	2,070	2,300
Gross Profit Margins (%)					
SharkNinja	40.3	46.3	40.0	40.8	42.0
Joyoung	33.3	32.7	30.5	30.5	30.5
Total	37.3	41.5	37.4	38.1	39.1

Source: Company, DBS HK

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Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,016	4,196	5,151	5,433	5,877
Cost of Goods Sold	(1,890)	(2,453)	(3,226)	(3,363)	(3,577)
Gross Profit	1,127	1,743	1,924	2,070	2,300
Other Opg (Exp)/Inc	(922)	(1,183)	(1,346)	(1,489)	(1,604)
Operating Profit	204	560	578	582	696
Other Non Opg (Exp)/Inc	(10)	36	16	6	0
Associates & JV Inc	2	0	1	2	2
Net Interest (Exp)/Inc	(78)	(69)	(20)	(28)	(23)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	119	527	575	562	675
Tax	(34)	(124)	(114)	(112)	(135)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	85	402	461	449	540
Net Profit before Except.	85	402	461	449	540
EBITDA	290	701	711	715	838
Growth					
Revenue Gth (%)	12.5	39.1	22.8	5.5	8.2
EBITDA Gth (%)	(6.0)	141.7	1.5	0.5	17.3
Opg Profit Gth (%)	0.1	174.3	3.2	0.6	19.6
Net Profit Gth (%)	(24.0)	372.3	14.5	(2.4)	20.1
Margins & Ratio					
Gross Margins (%)	37.4	41.5	37.4	38.1	39.1
Opg Profit Margin (%)	6.8	13.3	11.2	10.7	11.8
Net Profit Margin (%)	2.8	9.6	8.9	8.3	9.2
ROAE (%)	12.6	27.7	26.5	23.0	25.1
ROA (%)	2.4	9.5	9.7	9.0	10.1
ROCE (%)	5.5	14.5	14.6	13.8	15.4
Div Payout Ratio (%)	0.0	33.0	42.5	42.5	42.5
Net Interest Cover (x)	2.6	8.1	29.2	20.9	30.3

Source: Company, DBS HK

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Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	207	208	206	208	203
Invts in Associates & JVs	36	27	27	27	27
Other LT Assets	1,757	1,705	1,797	1,896	2,007
Cash & ST Invts	421	571	555	743	794
Inventory	393	575	782	708	753
Debtors	804	1,204	1,246	1,358	1,518
Other Current Assets	157	364	196	208	222
Total Assets	3,775	4,654	4,809	5,149	5,525
ST Debt	26	47	85	94	113
Creditors	530	885	879	1,000	1,093
Other Current Liab	434	686	659	668	681
LT Debt	1,049	893	857	865	874
Other LT Liabilities	202	223	240	239	275
Shareholder's Equity	1,288	1,612	1,860	2,051	2,256
Minority Interests	246	309	229	231	233
Total Cap. & Liab.	3,775	4,654	4,809	5,149	5,525
Non-Cash Wkg. Capital	390	572	686	606	719
Net Cash/(Debt)	(654)	(369)	(387)	(216)	(192)
Debtors Turn (avg days)	95.4	87.3	86.8	87.5	89.3
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	N/A	72.1	76.8	80.9	74.5
Asset Turnover (x)	0.9	1.0	1.1	1.1	1.1
Current Ratio (x)	1.8	1.7	1.7	1.7	1.7
Quick Ratio (x)	1.2	1.1	1.1	1.2	1.2
Net Debt/Equity (X)	0.4	0.2	0.2	0.1	0.1
Net Debt/Equity ex MI (X)	0.5	0.2	0.2	0.1	0.1
Capex to Debt (%)	6.9	6.7	6.8	7.4	7.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

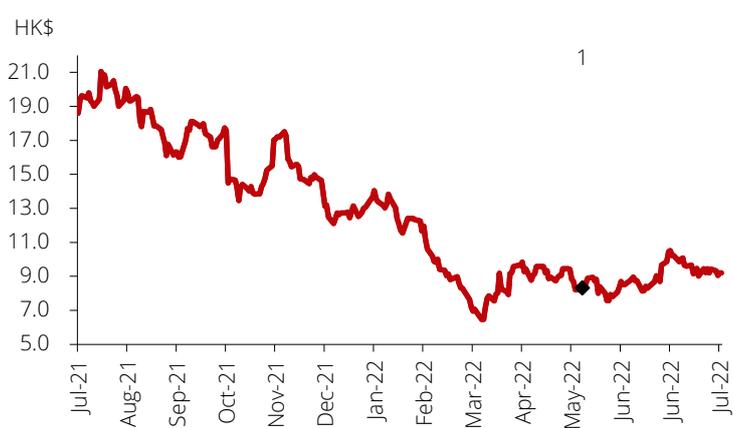
Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	119	527	575	562	675
Dep. & Amort.	95	121	136	146	163
Tax Paid	(41)	(102)	(133)	(112)	(135)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(8)	(46)	(11)	(14)	(16)
Chg in Wkg.Cap.	62	52	(253)	(167)	(412)
Other Operating CF	153	101	16	91	71
Net Operating CF	380	653	330	505	345
Capital Exp.(net)	(74)	(63)	(64)	(71)	(78)
Other Invts.(net)	(1)	(160)	134	136	137
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	2	0	0	0	0
Other Investing CF	(45)	12	(211)	(100)	(100)
Net Investing CF	(118)	(211)	(141)	(35)	(41)
Div Paid	(95)	(265)	(155)	(191)	(229)
Chg in Gross Debt	(90)	(235)	(1)	(20)	2
Capital Issues	375	138	0	0	0
Other Financing CF	(208)	45	(45)	(69)	(23)
Net Financing CF	(18)	(317)	(202)	(280)	(251)
Currency Adjustments	(4)	25	(2)	(2)	(2)
Chg in Cash	240	149	(15)	188	51
Opg CFPS (US\$)	0.07	0.16	0.16	0.19	0.22
Free CFPS (US\$)	0.07	0.15	0.07	0.12	0.08

Source: Company, DBS HK

JS Global Lifestyle

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-May-22	HK\$8.32	HK\$11.86	Buy

Source: DBS HK
 Analyst: Mavis Hui
 Kay Tan

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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