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Analysis of Shanghai Jahwa's Financial Forecast for the Next Three Years

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Abstract

This paper presents a financial forecast for Shanghai Jahwa for the next three years based on its data onto 2017-2021 using the smoothing index method and the percentage sales method, and formulates a strategic plan for Shanghai Jahwa's future growth of the context of its current situation.

Keywords

Shanghai Jahwa; Financial Forecast.

1. Company Overview

Shanghai Jahwa United Co., Ltd. is one of the longest-established national enterprises in the beauty and cosmetics industry in China, with a history of 112 years. Shanghai Jahwa has a wide range of business scope, specializes in beauty, personal care and household cleaning, mother and child three areas , has "Baicaoji", "Liu Shen", "Yu Ze", "Gao Fu", "Shuang Mei" and many other well-known Chinese brands. The company has many famous brands of China, such as "Baicaoji", "Liushen", "Yuzhe", "Gaofu", "Shuangmei" and so on. Shanghai Jahwa always insists on the insight of the whole area and creates a regional development platform, to empower the incubation of new products and the creation of explosive products. while carrying out online and offline synergistic development, and strives to build a state-owned brands with conscience.

2. Current Operating Income

Table 1. Shanghai Jahwa Operating Revenue, 2017-2021 Unit: million yuan

Revenue/Year	2017	2018	2019	2020	2021
Shanghai Jahwa Annual Revenue	648,824.62	713,794.74	759,695.18	703,238.56	764,612.30

Shanghai Jahwa had a significant decline in operating income in 2020 compared to 2018 and 2019, mainly due to the impact of the epidemic leading to poor sales, while in 2021, in the context of consumer upgrading, with the gradual improvement of the epidemic situation, people's consumer demand gradually recovered, the consumer environment gradually rebounded, cosmetics are already in a high boom development range compared to other categories.

We will use the smoothing index method and the percentage sales method to make financial forecasts for the future development of Shanghai Jahwa and to formulate a strategic plan for the future development of Shanghai Jahwa in the context of its current situation.

3. Forecasting Sales Revenue Using the Smoothing Index Method

3.1. Meaning of Smoothing Index Method, Formula and α Analysis of the Values

Smoothing index method, namely a forecasting method that uses a predetermined smoothing index to forecast future sales revenue on the basis of comprehensive consideration of information about forecast sales revenue and actual sales revenue in the previous period, is also essentially a weighted average method of saturation weights, with a smoothing indexα and (1-α) as weights for weighting.

Where forecast sales revenue = smoothing index × actual sales revenue of the previous period + (1 - smoothing index) × forecast sales revenue of the previous period.

Then α denotes the smoothing index, which is an empirical data that takes values of the range [0,1], usually between 0.3 and 0.7. The smoothing factor has the effect of modifying the effect of the chance factor contained in the actual number on the forecast value, and is usually determined by the forecaster based on the magnitude of the difference between the actual number of past sales and the forecast value, thus having a certain subjective element. The larger the value of the smoothing factor, the greater the influence of the recent actuals on the forecast result; the smaller the value of the smoothing factor, the smaller the influence of the recent actuals on the forecast result. Therefore, a larger smoothing factor should be used for recent forecasts or forecasts with large fluctuations in sales volume; a smaller smoothing factor can be used for long-term forecasts or forecasts with smaller fluctuations in sales volume. The smoothing factor has the effect of smoothing the effect of the chance factors contained in the actual numbers on the forecasted values, so we determine the size of the difference between the actual sales revenue and the forecasted values based on the pastα is 0.6.

3.2. Sales Revenue Forecast Calculation for 2022-2024

For the forecast of operating income in 2022 we will use the operating income in 2021 as the actual sales income in the previous period, at the same time, we will choose the average operating income of the three years from 2018-2020 as the forecast sales income in the previous period, according to the formula (forecast sales income = smoothing index)× Actual sales revenue in the previous period + (1 - smoothing index)× Forecast sales revenue for the previous period) can be obtained that

Operating income in 2022 = 0.6*764,612.30 + (1-0.6)*725,566.16 = $748,998,400

By the same token, it follows that

Operating income in 2023 =0.6*748,993.84+(1-0.6)*742515.37=746,402.45 million

Operating income in 2024=0.6*746,402.45+(1-0.6)*738,948.23=743,420.76 million

4. Forecast Financial Statements Using the Operating Income Ratio Method

4.1. Principle of Operating Income Ratio Method

The operating income ratio method is a method of forecasting the capital requirements for each item based on the ratio of the operating business and the balance sheet and income statement items. If the ratio of an item to operating income is established, the capital requirements for that item can be projected for a fixed amount of future sales.

The proportional method of operating income is generally applied for the help of a projected income statement and a projected balance sheet. The projected income statement forecasts the increase in retained earnings, an internal source of capital, and the projected balance sheet forecasts the total capital needs of the enterprise and the increase in external financing. The projected income statement is a projected statement that applies the principles of the

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proportional method of operating income to forecast retained earnings. The projected income statement provides a basis for projecting the amount of internal financing in the form of retained earnings and for projecting the amount of external financing in the form of a projected balance sheet.

A projected balance sheet is a statement that forecasts the amount of external financing using the principles of the proportional method of operating income. By providing a projected balance sheet, it is possible to forecast the amount of assets, liabilities and items related to retained earnings, and thus the amount of external financing required by the company.

4.2. Projected Income Statement and Projected Balance Sheet 2022-2024

Table 2. Projected Profit Table for 2022-2024 Unit: million yuan

Projects	2021 actuals	Percentage of operating revenue (%)	Projected 2022	Projected 2023	Projected 2024
Operating income	764,612.30	100	748,993.84	746,402.45	743,420.76
Less:Operating costs	315,558.41	41.27	309,109.76	308,040.29	306,809.75
Business taxes and surcharges	5,910.41	0.77	5,767.25	5,747.30	5,724.34
Selling expenses	294,653.84	38.54	288,662.23	287,663.50	286,514.36
Overhead	79,086.33	10.34	77,445.96	77,178.01	76,869.71
Finance costs	1,251.49	0.16	1,198.39	1,194.24	1,189.47
R&D expenses	16,312.71	2.13	15,953.57	15,898.37	15,834.86
Impairment loss on assets	-	-	-	-	-
Add: Gain on changes in fair value	-4,182.89				
Investment income	20,858.20	2.73	20,447.53	20,376.79	20,295.39
Foreign exchange gain	-	-	-	-	-
Operating profit	75,229.42	9.84	73,700.99	73,446.00	73,152.60
Add: Non-operating income	1,436.06	-			
Less: Non-operating expenses	231.32	-			
Total profit	76,434.16	10.00	74,899.38	74,640.245	74,342.076
Less: Income tax expense	11,508.96	-	18,724.845	18,660.06	18,585.519
Net Profit	64,925.19	-	56,174.535	55,980.185	55,756.557

Table 3. Projected Balance Sheet 2022 – 2024 Unit: million yuan

Projects	2021 actuals	Percentage of operating revenue	Projected 2022	Projected 2023	Projected 2023
Cash	159,725.41	20.89	156,464.81	155,923.47	155,300.60
Financial assets held for trading	269,948.89	-	269,948.89	269,948.89	269,948.89
Accounts receivable	110,895.11	14.50	108,604.11	108,228.36	107,796.01
Notes receivable	-	-	-	-	-
Accounts prepaid	8,348.84	-	8,348.84	8,348.84	8,348.84

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Interest receivable	-	-	-	-	-
Dividend receivable	12,803.16	1.67	12,508.20	12,464.92	12,415.13
Other receivables	20,323.24	2.66	19,923.24	19,854.31	19,774.99
Inventories	87,205.23	11.41	85,460.20	85,164.52	84,824.31
Other current assets	21,589.13	-	21,589.13	21,589.13	21,589.13
Total current assets	678,043.44	51.13	682,847.42	681,522.44	679,997.9
Available-for-sale financial assets	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-
Long-term equity investments	43,381.64	-	43,381.64	43,381.64	43,381.64
Investment properties	-	-	-	-	-
Net fixed assets	93,909.36	-	93,909.36	93,909.36	93,909.36
Construction in progress	2,455.40	-	2,455.40	2,455.40	2,455.40
Engineering Materials	-	-	-	-	-
Right-of-use assets	16,440.98	-	16,440.98	16,440.98	16,440.98
Intangible assets	76,117.79	-	76,117.79	76,117.79	76,117.79
Development Expenses	1,122.72	-	1,122.72	1,122.72	1,122.72
Goodwill	192,269.04	-	192,269.04	192,269.04	192,269.04
Long-term amortized expenses	4,848.63	-	4,848.63	4,848.63	4,848.63
Deferred income tax assets	17,303.79	-	17,303.79	17,303.79	17,303.79
Other non-current assets	39,568.85	-	39,568.85	39,568.85	39,568.85
Total non-current assets	536,507.73	-	536,507.73	536,507.73	536,507.73
Total Assets	1,214,551.17	51.13	1,219,355.15	1,218,030.17	1,216,505.63
Short-term borrowings	-		-	-	-
Accounts Payable	71,825.60	9.40	70,405.42	70,161.83	69,881.55
Employee compensation payable	19,309.40	2.53	18,949.54	18,883.98	18,808.55
Taxes Payable	18,180.22	2.38	17,826.05	17,764.38	17,693.41
Other payables	179,032.38	-	179,032.38	179,032.38	179,032.38
Interest Payable	-	-	-	-	-
Dividends payable	-	-	-	-	-
Non-current	15,120.16	2.00	14,979.88	14,928.05	14,868.42

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liabilities due within one year					
Other current liabilities	7,113.88	0.93	6,965.64	6,941.54	6,913.81
Total current liabilities	320,975.27	17.24	308,158.91	307,712.16	307,198.12
Long-term borrowings	92,518.80	-	92,518.80	92,518.80	92,518.80
Lease liabilities	13,846.44	-	13,846.44	13,846.44	13,846.44
Long-term employee compensation payable	26,130.16	-	26,130.16	26,130.16	26,130.16
Deferred income tax liabilities	12,330.83	-	12,330.83	12,330.83	12,330.83
Long-term deferred revenue	52,421.94	-	52,421.94	52,421.94	52,421.94
Total non-current liabilities	197,248.16	-	197,248.16	197,248.16	197,248.16
Total liabilities	518,223.43	17.24	505,407.07	504,960.32	504,446.28
Minority interests	-	-	-	-	-
Paid-in capital (share capital)	67,963.45	-	67,963.45	67,963.45	67,963.45
Retained profits	548,455.33	-	577,980.67	607,403.86	636,709.51
Shareholders' Equity	696,327.74	-	645,944.12	675,367.31	704,672.96
Additional external financing			68,003.96	37,702.54	7,386.39
Total liabilities and owner's equity	1,214,551.17	-	1,219,355.15	1,218,030.17	1,216,505.63

5. Predictive Analysis Conclusion and Risk Response

After analyzing Shanghai Jahwa's financial forecast by the percentage of sales revenue method, it is easy to find that the significant reduction of receivables and inventory turnover days will improve Shanghai Jahwa's operating capacity. At the same time, Shanghai Jahwa's profitability and growth ability should not be underestimated. Shanghai Jahwa has three main businesses: skin care, personal care and household cleaning, and mother and baby. With the advancement of the company's 123 strategy, the digitalization of the company's explosive products and new product launches, coupled with the laying down of the online shake platform and the smooth progress of the new offline retail, the skin care business such as Yuzhe and Baicaoji is expected to maintain rapid growth. At the same time, along with the personal care and household cleaning business, the leading position of Liushen brand flower lotion is solid, and the cross-border co-branding is expected to achieve the rejuvenation of the classic brand, which is expected to maintain high single-digit growth. The mother and baby brands are expected to benefit from the active fertility policy and the company's channel transformation to maintain faster growth.

However, at the same time, the risks of Shanghai Jahwa cannot be ignored. The forecasted risks of Shanghai Jahwa are as follows.

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(1) Risk of decline in the boom in the cosmetics industry: The company is growing rapidly with the bonus of the cosmetics industry, but if the economy declines and consumer demand declines, it will have an adverse impact on the overall business environment.

(2) Risk of increased competition in the cosmetic industry: The competition in the cosmetic industry is becoming increasingly intense, especially in the online channel, and the competitive landscape of the industry tends to deteriorate. If the Company fails to launch products in response to market demand or adjust its business strategy in a timely manner, the business situation will be affected.

(3) The risk that the strategy does not advance as expected: the company is involved in multiple brands and categories, some brands have redundant products and aging brands, the company proposes strategic changes, if the actual situation does not advance as expected will affect the overall strategic tone and operating results.

(4) The promotion of new products is not as expected: compared with the past to push the number of new products as the assessment target, the current product side is more focused on streamlining and focus, if the new product power does not fit the market trend of skin care, the promotion is not as expected will affect the company's performance.

(5) The sudden risk of the epidemic: affected by the epidemic, the upstream supply chain may have a delay in the start of production, production lines partially transferred, product output will be directly reduced, some brands may face pressure on the supply side; retail side, the crowd home isolation makes the offline flow of people sharply reduced, some stores directly closed stores to deal with, will have a direct impact on store profits, cash flow; online channels in the short term by the express logistics Restrictions will also have a certain impact.

Shanghai Jahwa can therefore respond to possible risks by steadily advancing the effective implementation of its strategy. In terms of brand promotion, it can determine a differentiated brand development strategy, so that each fist brand of its brand matrix has certain advantages in terms of influence and market share. In terms of channel innovation, it should strengthen its omnichannel operation capability, optimize the layout of traditional offline channels and develop new online e-commerce channels. In research and development first, we need to improve the efficiency of research and development, grasp the pain points of market demand, ensure product quality and safety while innovating the use of new technologies. In terms of supply guarantee, the new factory of Shanghai Jahwa has been put into operation, which has achieved a seamless and smooth transition between the old and new factories without stopping work.

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