

Cheerwin Group Limited

朝雲集團有限公司

(6601.HK)

Business Overview

Cheerwin (The Company) is a leading one-stop multi-category household care and personal care platform in China, developing and manufacturing a variety of household care, personal care and pet care products. They ranked third among domestic companies in China's household care industry in each of the past five years between 2015 and 2019 and ranked fourth among all companies in China's household care industry, with a market share of 6.3% in 2019, in terms of retail sale value, according to CIC, and have quickly established leading positions in various subcategories of personal care and pet care. With their commitment to creating a better life for Chinese families, they continue to provide consumers with effective, convenient and safe products through product upgrades.

The Company's success to date has been driven by their ability to create new products and expand into new categories that meet consumer needs. They have successfully launched ten categories, covering household care, personal care and pet care product categories, and pioneered the launch of new products into the Chinese market. During the Track Record Period, they launched 130 new products, contributing 13.0% and 16.5% of their total revenue in 2019 and the nine months ended September 30, 2020, respectively.

The Company is a leader in China's household care industry and have quickly established a leading position in multiple sub-categories in personal care and pet care segments. According to CIC, from 2015 to 2019, they ranked third among domestic companies in China's household care industry in each of the past five years, and fourth among all companies in China's household care industry, with a market share of 6.3% in 2019 based on retail sales value. During the same time, they have maintained the number one position in China in each of the past five years between 2015 and 2019 in China's household insecticides and repellents market based on retail sales value with a 22.8% market share in 2019. Moreover, they ranked first in the children-friendly insecticides and repellents market, with a market share of 41.4% in 2019 in terms of retail sales. They also ranked second in the household cleaning and air care markets. In the personal care industry, they are among the top three in the Florida Water market. The entered the pet care industry in 2019, and ranked among the

Basic Information

Offer Price

HK\$7.80-HK\$9.20

Offer Size

333,333,500 Shares, comprise of Public Offer 33,334,000 Shares and International Offer 299,999,500 Shares (subject to reallocation and Over-allotment Option)

Market Capitalization

\$10,400 million to \$12,266.7 million

Application Period

February 26, 2021- March 3, 2021

Listing Date

March 10, 2021

Board Lot

500 shares

Major Shareholders

Cheerwin Global BVI 74.25%

Join Sponsors

Morgan Stanley, CICC

Joint Bookrunners

Morgan Stanley, CICC

top five in the pet deodorant category based on retail sales value in the first half of 2020.

The Company's revenue slightly increased by 0.3% in 2018 compared to 2017, and then further increased by 2.5% in 2019 compared to 2018. Their revenue increased by 16.9% in the nine months ended September 30, 2020 compared to the same period in 2019. Sales of household care products accounted for 98.6%, 98.6%, 94.0%, 94.8% and 92.4% of their total revenue in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively. Revenue from sales of household care products remained relatively stable from 2017 to 2019 but experienced a significant increase in the nine months ended September 30, 2020 from the corresponding period in 2019, which is a result of their continuous product mix improvement, development of online sales, as well as the emerging market demands for household cleaning products during the COVID-19 outbreak. Due to their increased brand recognition and market acceptance of their products, revenue from personal care products also increased significantly in the first nine months of 2020.

Financial Highlights

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the year ended December 31,			For the nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	1,346,214	1,350,073	1,383,402	1,250,046	1,461,375
Cost of sales	(862,345)	(847,948)	(783,542)	(712,732)	(834,845)
Gross profit	483,869	502,125	599,860	537,314	626,530
Other income	11,815	34,184	42,103	16,735	16,864
Other gains and losses	(7,618)	100	230	213	(18,463)
Impairment losses in respect of trade receivables, net of reversal	(160)	(489)	265	571	(1,679)
Selling and distribution expenses	(229,081)	(241,020)	(334,228)	(275,712)	(284,468)
Administrative expenses	(30,009)	(41,610)	(62,415)	(48,705)	(57,423)
Finance costs	(182)	(307)	(299)	(175)	(1,783)
Listing expenses	-	(11,421)	(13,300)	(10,260)	(8,262)
Profit before tax	228,634	241,562	232,216	219,981	271,316
Income tax expense	(58,459)	(64,527)	(47,856)	(45,312)	(56,407)
Profit and total comprehensive income for the year/period	170,175	177,035	184,360	174,669	214,909
Profit (loss) and total comprehensive income (expense) for the year/period attributable to:					
- Owners of the Company	170,175	177,035	185,164	174,874	205,291
- Non-controlling interests	-	-	(804)	(205)	9,618
	170,175	177,035	184,360	174,669	214,909
Non-IFRS Measure:					
Adjusted net profit	170,175	188,456	197,660	184,929	241,625

Use of Proceeds

The Company estimates that they will receive net proceeds from the Global Offering of approximately HK\$2,663.9 million after deducting estimated underwriting fees and the estimated offering expenses payable by them and based upon an indicative offer price of HK\$8.50 per Offer Share (being the mid-point of the indicative Offer Price range) for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK\$3,072.9 million if the Over-allotment Option is exercised in full.

- Approximately 20%, or HK\$532.8 million to be used to enhance research and development capabilities
- Approximately 20%, or HK\$532.8 million to be used to enhance sales and distribution network
- Approximately 15%, or HK\$399.6 million to be used for marketing activities to enhance branding and products promotion
- Approximately 10%, or HK\$226.4 million is expected to be used to improve the efficiency and flexibility of their global and domestic supply chain
- Approximately 10%, or HK\$266.4 million to be used to implement digitalization strategy, enhance information technology infrastructure, and further develop technology and data driven middle-office for supply chain management, consumer community and proprietary platform operation and distribution channel management to improve operating efficiency
- Approximately 15%, or HK\$399.6 million to be used for strategic acquisitions of upstream and downstream businesses
- Approximately 10%, or HK\$266.4 million is expected to be used for working capital and other general corporate purposes.

Substantial Shareholders

The following tables set forth details of the substantial shareholders and approximate percentage of interest in the company immediately after Global Offering

Name	Nature of interest	As of the Latest Practicable Date	Immediately after the Global Offering (assuming the Over-allotment Option is not exercised) ⁽¹⁾	Approximate percentage of interest in our Company
		Number of Shares ⁽²⁾	Number of Shares	
Ms. Ma ⁽³⁾	Interest in a controlled corporation/interest of spouse	198	990,000,000	74.25%
Ms. Li ⁽⁴⁾	Interest in a controlled corporation/interest of spouse	198	990,000,000	74.25%
Mr. KX Chen ⁽⁴⁾	Interest in a controlled corporation/interest of spouse	198	990,000,000	74.25%
Mr. KC Chen ⁽³⁾	Interest in a controlled corporation/interest of spouse	198	990,000,000	74.25%
Cheerwin Global BVI ⁽⁵⁾	Beneficial interest	198	990,000,000	74.25%



Risks Factors

Risks Relating to Business and Industry

- The Company's business depends heavily on the strength of their brands and reputation, and consumers' recognition and trust in their products may be materially and adversely affected if they fail to maintain and enhance their brands and reputation.
- They operate in a highly competitive industry. If they are unable to compete effectively with existing or new competitors, their sales, market share and profitability could decline.
- Their business is subject to changes in consumer demand, preferences and spending patterns. their efforts in developing, launching and promoting new brands and products, diversifying their brand and product portfolio may not be successful.

Risks Relating to the PRC

- Changes in the PRC's economic, political and social conditions, as well as government policies and global trade practices, could have a material adverse effect on their business, financial condition, results of operations and prospects. .
- Uncertainties with respect to the PRC legal system could have a material adverse effect on their and limit the legal protection available to investors.
- More stringent restrictions on the remittance of Renminbi into and out of the PRC and governmental control over currency conversion may limit their ability to pay dividends and other obligations.
- Fluctuations in exchange rates of the Renminbi could result in foreign currency exchange losses.

Risks Relating to the Global Offering

- There has been no prior public market for the Shares and the liquidity and market price
- Investors will incur immediate and substantial dilution and may experience further dilution in the future.
- The actual or perceived sale or availability for sale of substantial amounts of the Shares, especially by their Directors, executive officers and Controlling Shareholders, could adversely affect the market price of the Shares.

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