



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044

Interim Results 2020 Corporate Presentation

August 2020



Financial Highlights



Business Review



Outlook



Open Forum





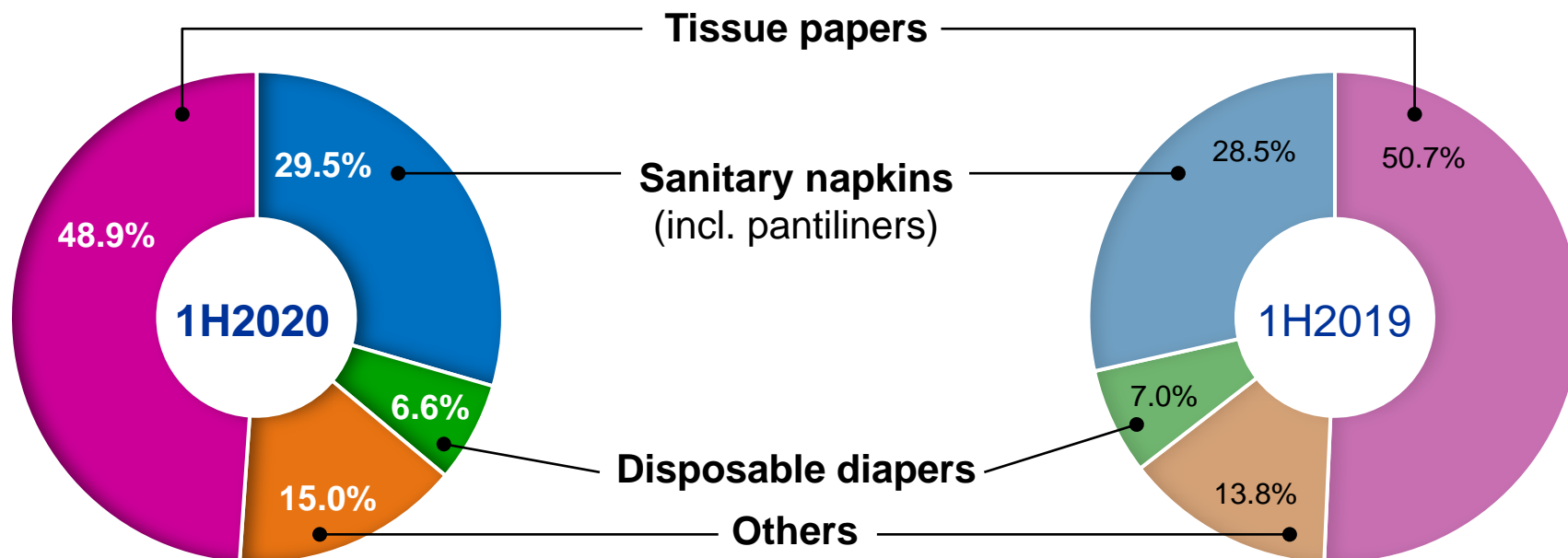
Financial Highlights

Financial Highlights



	2020	2019	Change
<i>(RMB '000)</i>	<i>For six months ended 30 June</i>		
Revenue	10,927,862	10,776,606	↑ 1.4%
Gross profit	4,815,619	4,018,867	↑ 19.8%
Operating Profit	3,185,111	2,658,154	↑ 19.8%
Profit attributable to shareholders	2,259,528	1,877,782	↑ 20.3%
Earnings per share <i>(RMB)</i>			
— Basic and diluted	1.899	1.578	↑ 20.3%
Dividend per share <i>(RMB)</i>			
— Interim	1.20	1.00	↑ 20.0%

Solid Revenue Base



By Business Segment	2020	2019	Change
(RMB '000)	For six months ended 30 June		
Tissue paper	5,349,011	5,460,742	⬇️ 2.0%
Sanitary napkins (incl. pantliners)	3,222,684	3,075,156	⬆️ 4.8%
Disposable diapers	722,181	750,666	⬇️ 3.8%
Others	1,633,986	1,490,042	⬆️ 9.7%

Gross Profit Margin Overview

By Business Segment	2020	2019
(%)	For six months ended 30 June	
Tissue paper	35.0%	25.0%
Sanitary napkins (incl. pantliners)	70.4%	70.3%
Disposable diapers	38.6%	40.6%
Others	24.2%	12.5%
Overall	44.1%	37.3%

Major factors affecting overall gross profit margin

Margin increased in 1H2020 due to:


- Prices of wood pulp significantly declined
- Increase in high-end & upgraded product mix with high GP margin
- Increase in proportion of revenues from sanitary napkins and other business



- Increase in costs of some petrol chemical raw materials (e.g. non-woven fabric)

Selling and distribution costs and administrative expenses

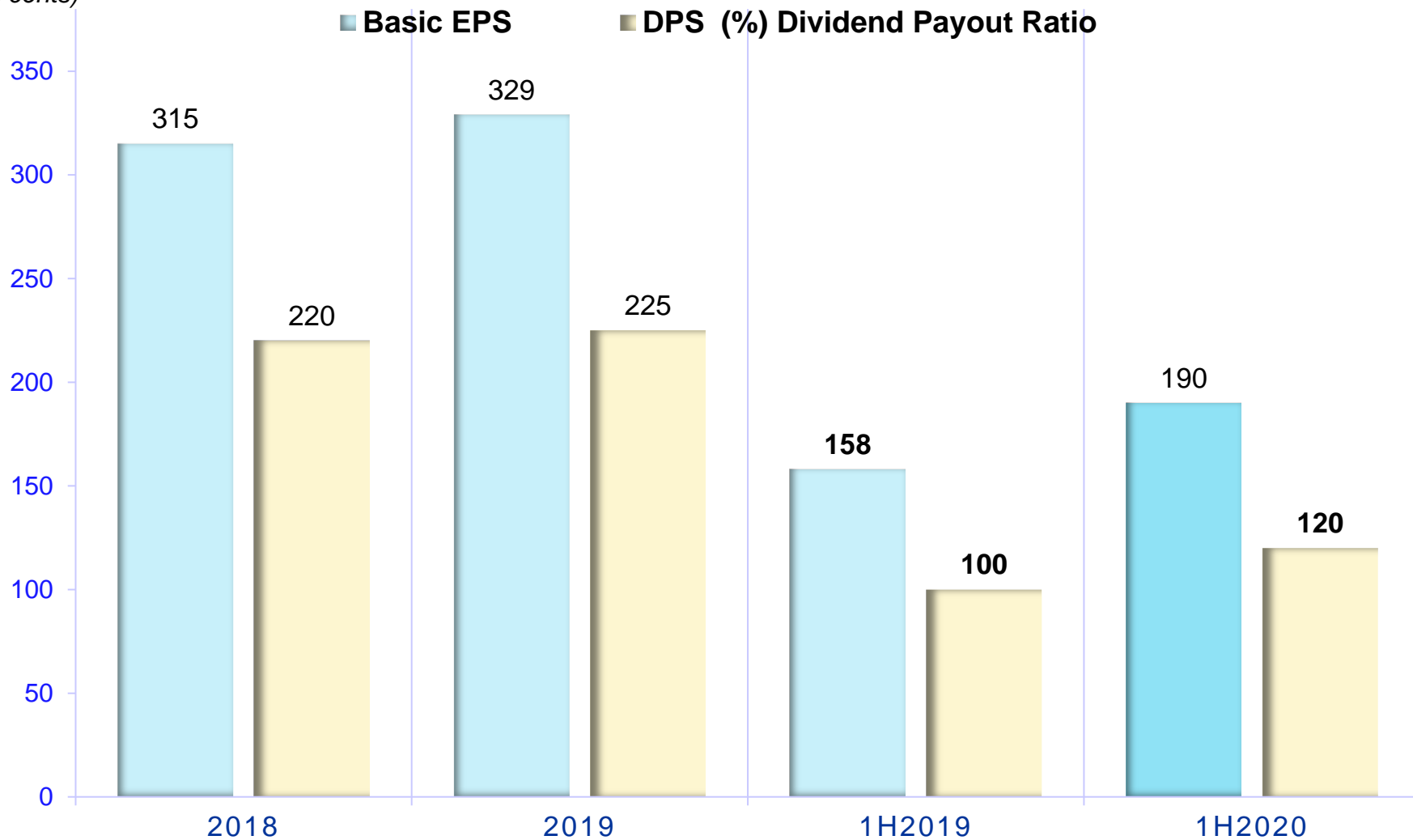
- Selling and distribution costs and administrative expenses accounted for approximately 19.4% of total revenue (1H2019: 18.8%)
- Major expenses are as follows:

	2020	2019
<i>(As % of revenue)</i>	<i>For six months ended 30 June</i>	
Marketing & advertising expenses	3.8%	3.5%
Staff costs <i>(excluding labour costs)</i>	3.4%	3.1%
Transportation and packaging expenses	3.7%	3.4%
Research and development	1.6%	1.6%

Basic EPS & DPS

1H2020 Dividend payout ratio: 63.2% (1H2019: 63.4%)

(RMB cents)



Key Financial Indicators



	2020	2019
	30 June 2020	31 December 2019
Cash on hand (RMB '000)	31,884,837	22,977,561
Corporate bonds and Super short term commercial papers (RMB '000)	6,997,840	3,994,474
Bank borrowings (RMB '000)	22,440,248	17,613,967
Current ratio	1.2 times	1.3 times
Gross gearing ratio	157.8%	120.9%
Net gearing ratio (net cash)	(13.1%)	(7.6%)
Finished goods turnover	53 days	43 days
Accounts receivable turnover	59 days	53 days
Accounts payable turnover	71 days	68 days

Interest income: around RMB543.6 million (1H2019: RMB538.4million)

- Partly included in other gains:
about RMB433.0 million (1H2019: RMB455.9 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB110.6 million
(1H2019 : RMB82.5 million)

Interest expense:

- About RMB399.5 million
(1H2019: RMB430.9 million)

Net Interest Income:

- Around RMB144.1 million
(1H2019: RMB107.5 million)



Exchange loss: around RMB85.3 million (1H2019: Loss of RMB25.5 million)

- ❖ Included in other gains: loss of about RMB88.0 million (1H2019: loss of RMB41.6 million)
 - Arising mainly from purchase of raw materials from overseas suppliers
- ❖ Included in finance costs:
a gain of about RMB2.7 million
(1H2019: gain of RMB16.1 million)



Government grants:

- About RMB165.0 million (1H2019: RMB171.1 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 22.1% (1H2019: 19.3 %)

Capital expenditure incurred:

- Around RMB247.6 million (1H2019: RMB195.9 million), mainly incurred for the new production lines





Business Review

Sanitary Napkins

Market overview

- China's sanitary napkin market is becoming more mature and the market penetration rate is comparable to that of developed countries
- Market has entered the stage of saturation alongside intensifying competition
- Product upgrade and innovation will become the key growth drivers of the market



Business performance in 1H2020 and 2H2020 outlook

- In 1H2020, the sales growth of the Group's sanitary napkin business slightly outperformed the industry average with sales increased by approx. closed to 5% to approx. RMB3,223 million.
- GP margin was about 70.4% (1H2019: 70.3%) due to the increase in the proportion of premium and high-end products in its product portfolio.
- The Group will continue to strengthen the collaborations with New Retail platforms (i.e. Retail Integrated (“零售通”), New Channel (“新通路”) etc.) sales models so as to expand the coverage of retail stores.
- The Group continued to launch and upgrade the Space 7 series for mature white-collar workers and also invested in brand rejuvenation and strives to maintain the popularity and influence of its flagship brand Space 7(七度空間) among young female consumers.
- Products from the female care brand “Origin and Prime” (若顏初) such as makeup removers and moisturizing facial masks, received positive feedbacks from the market. The Group will continue to actively R&D other feminine care products beyond sanitary napkins, steadily developing the “feminine care industry”.

Tissue Paper

Market overview

- The per capita consumption of tissue paper in China is still lower than those in mature overseas markets
- Consumers demand for tissue products have seen constant improvement in diversity and quality
- The overall market still has huge untapped potential



Business performance in 1H2020 and 2H2020 outlook

- In 1H2020, The sales of tissue products was approx. RMB5,349 million, accounting for approx. 48.9% of the Group's total revenue (1H2019: 50.7%). The sales of wet wipes increased by >40% y-o-y, and its contribution to the overall sales of the tissue business to approx. 8.3% (1H2019: 5.7%).
- In 1H2020, high-end wet wipes became the driving force for the sales and profit of tissue paper segment. In addition, wood pulp prices were at historically low level, resulting in a significant improvement in GP. The GP margin of tissue product remarkably improved from about 25.0% in 1H2019 to about 35.0% in 1H2020, up 10% pts.
- The Group expects the prices of wood pulp will remain stable in 2H2020 and expected that the GP margin of tissue paper will continue to benefit from the low wood pulp prices in 2H2020.
- In 2020, the Group officially launched the new high-end series of "Cloudy Soft Skin" (云感柔肤) with an aim to provide high-quality consumer experience.
- In terms of wet tissue business, the Group continued to leverage on its advantage as a leader in the "Super Mini" series to continuously expand its market share in domestic wet tissue market and maintain its leading market position.

Disposable Diapers



Market overview

- Rising level of national education and health awareness, and continuous ageing trend, coupled with the current China's diaper market penetration rate is still lower than developed countries, thus promoting the development of baby and adult diapers market
- Consumption upgrade supports the market expansion of high-quality and high-margin products
- The overall diapers market still has huge untapped potential



Business performance in 1H2020 and 2H2020 outlook

- In 1H2020, revenue from the disposable diapers segment was approx. RMB722 million, narrowing the decline to about 3.8%, which accounted for approx. 6.6% of the Group's overall revenue (1H2019: 7.0%). The market penetration rate of high-margin products of "Q • MO" and adult diapers "ElderJoy" (安而康) has gradually increased in 1H2020, reaching double-digit sales growth.
- Despite benefiting from the rising proportion of high-margin products, the cost of petrochemical raw materials used in disposable diapers rose due to the tight supply in 1H2020, hence, the GP margin of the disposable diapers segment decreased slightly to approx. 38.6% (1H2019: 40.6%).
- The Group's efforts to strengthen sales distribution of disposable diapers in e-commerce and maternity stores channel were gradually reflected, such that the proportion of disposable diapers sold by the Group through e-commerce and maternity stores channel have increased to more than 40.0% and more than 15% respectively.
- Looking ahead, the Group will continue to take premium high-margin products as its core development strategy and increase its market share in the high-quality diaper market. The Group will continue to develop the baby care market and the adult health care market.

Market overview

- The Group has stepped up its efforts to develop the household products business to expand its market coverage
- Acquired Sunway Kordis in 2018
- Household products segment includes the sales of food wrap film and plastic bags manufactured by Sunway Kordis which are sold locally and exported to markets in Europe, Australia, North America and Asia



Business performance in 1H2020 and 2H2020 Outlook

- Revenue from the Group's household products segment amounted to approx. RMB193 million (1H2019: RMB154 million), including revenue from Sunway Kordis amounted to approx. RMB131 million (1H2019: RMB114 million). The household products business accounted for approx. 1.8% (1H2019: 1.4%) of the Group's revenue.
- To further utilise the extensive experiences of Sunway Kordis in household product industry to vigorously develop its strategic footholds of household products in China.
- To leverage on its overseas sales network to bring Hengan's products to the overseas market

Sales and Production of Masks

Background

- In 1H2020, the Group officially commenced production and sales of surgical masks as a result of the epidemic, providing domestic consumers with high-quality and reliable surgical mask products to fight the epidemic.
- Leveraging on the raw materials procurement advantage and its brand reputation, the Group's surgical masks business achieved remarkable development during the period.



Business performance in 1H2020 and 2H2020 Outlook

- For the six months ended 30 June 2020, the revenues of surgical masks and other health care products exceeded RMB200 million, accounting for approximately a low single-digit percentage of the Group's overall revenue.
- The Group's surgical mask products are primarily sold in the mainland China market, and some are also supplied to Hong Kong area or exported to the European market.
- In May 2020, the Group obtained a 5-year medical device production license, becoming the first surgical mask manufacturer in Fujian Province to obtain a medical device production license, which means that surgical mask products will become the regularly produced products of the Group, expanding the Group's product portfolio in the category of hygiene products.
- In the future, the Group will appropriately adjust its production capacity in accordance with the epidemic situation and market demand to fulfill the needs of the domestic and overseas markets.

Market overview

- Contribution of online retail sales of physical products to the total retail sales of social consumer goods continued to increase, indicating the continuous expansion of the domestic online shopping market
- Online shopping has been integrated into the daily lives of Chinese consumers



Business performance in 1H2020 and 2H2020 outlook

- In 1H2020, the revenue from e-commerce (including Retail Integrated and New Channel platforms) exceeded RMB2.0 billion, accounting for approx. 18.0% of the Group's total sales revenue.
- The Group's core brands, such as Space 7, Hearttex and "Q•MO", have opened official flagship online stores to enable the Group to unify its sales strategy and flexibly adjust its product portfolio. In addition, the Group has also strategically collaborated with the Retail Integrated and New Channel platforms, to expand its offline sales network.
- In July 2020, the Group signed a strategic partnership agreement with Alibaba to jointly build a data centralisation platform of Hengan and establish the brand's ability to directly communicate with end customers in the aspect of business and data through the empowerment of digital intelligence technology. In the future, the Group will actively collect and analyse end consumers sales data to analyse consumer habits and preferences.

International Business



MALAYSIA

- Leveraging on Wang Zheng's distribution channel, the innovative 'Super mini' wet wipes series and disposable adult diapers launched by Hengan in Malaysia in 2019 and received overwhelming response from the local market
- Hengan assisted Wang-Zheng to develop the e-commerce business, laying the foundation for expansion into the Malaysian and South-Asian markets
- Revenue and net profit of Wang-Zheng amounted to approximately RMB183 million and RMB 6 million respectively, accounting for approximately 1.7% and 0.3% of the Group's total revenue and net profit respectively.
- Wang-Zheng will continue to vigorously promote Hengan's products to the Southeast Asian market through various sales channels, including convenient store and e-commerce channels



EUROPEAN UNION

- Since April 2020, the Group has begun to sell surgical masks to the Finnish government and other European governments and enterprises.
- The quality of the products has received positive reviews from the local market.
- In the future, the Group will continue to step up efforts to promote sales of surgical masks and other hygiene products to the European market and other overseas markets, and continue to expand the Group's overseas sales network.



RUSSIA

- The Russian plant invested by the Group has started production of diapers in June 2019, thereby expanding its diaper business to the Russian market.



Social Responsibility

– support the battle against novel coronavirus



In response to government's call for support, Hengan purchased surgical mask production equipment and started production in February. The surgical masks produced by the Group have obtained the formal production license and inspection certificate issued by the Government.

Swiftly donated supplies of personal hygiene products including high-quality tissue paper, disinfectant wet wipes, hand sanitizers, adult disposable diapers and female sanitary panties to disease control centers and hospitals

Donated an aggregate of RMB20 million worth of cash and supplies



Make monthly donations of 2.6 million pieces of Space 7 sanitary napkins and 200,000 pieces of Space 7 Adorable Sleeping Panties to female healthcare workers in Hubei province until the end of the epidemic



Outlook

Market Outlook

- Global economic environment remains complicated and volatile
- Rapidly rising national health awareness after the epidemic will help accelerate domestic consumption upgrades and benefit the refinement and high-quality development of the personal hygiene products market in the long run
- The Group expects the wood pulp prices to remain at the low level in 2H2020, which will further improve the Company's GP margin
- Continue to implement the strategy of "small sales team" to improve the flexibility and market responsiveness of the small sales team in order to swiftly respond to the ever-evolving market demands
- Step up efforts to increase the coverage of e-commerce and New Retail, while further consolidating traditional channels and leveraging on big data technology to analyse consumer spending habits and preferences so as to understand consumer needs more precisely.
- Closely monitor the changes in market demand to further increase the production scale of relevant medical products in a timely manner, to ensure the production and supply of medical and preventive supplies





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