



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044



Annual Results 2020

Corporate Presentation



March 2021

Agenda



Financial Highlights



Business Review



Outlook



Open Forum



Financial Highlights





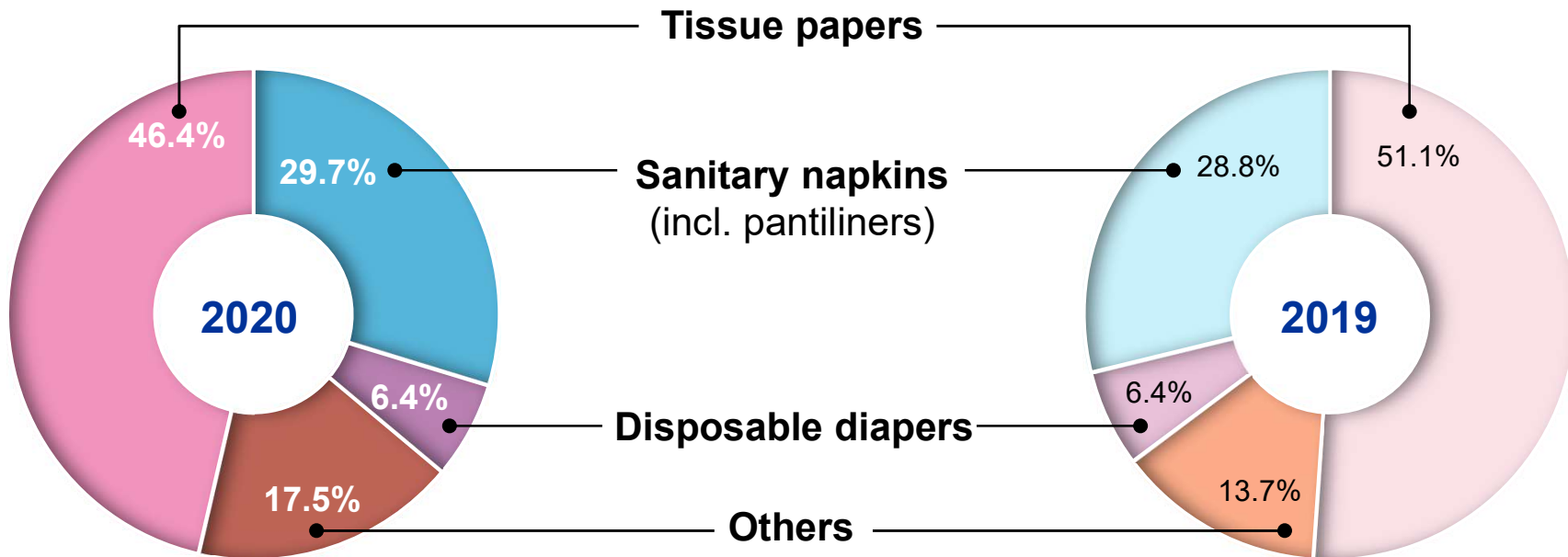
Financial Highlights



	2020	2019	Change
<i>(RMB '000)</i>			
	<i>For the year ended 31 December</i>		
Revenue	22,374,001	22,492,845	⬇️ 0.5%
Gross profit	9,455,855	8,688,957	⬆️ 8.8%
Operating Profit	6,392,388	5,680,296	⬆️ 12.5%
Profit attributable to shareholders	4,594,815	3,907,723	⬆️ 17.6%
Earnings per share (RMB)			
– Basic	3.864	3.285	⬆️ 17.6%
– Diluted	3.864	3.285	⬆️ 17.6%
Dividend per share (RMB)			
— Interim	1.20	1.00	⬆️ 20.0%
— Final	1.30	1.25	⬆️ 4.0%



Solid Revenue Base



By Business Segment	2020	2019	Change
(RMB '000)	For the year ended 31 December		
Tissue paper	10,382,758	11,486,538	⬇️ 9.6%
Sanitary napkins (incl. pantliners)	6,654,711	6,487,003	⬆️ 2.6%
Disposable diapers	1,425,567	1,439,087	⬇️ 0.9%
Others	3,910,965	3,080,217	⬆️ 27.0%

Gross Profit Margin Overview



<i>By Business Segment</i>	2020	2019
(%)	<i>For the year ended 31 December</i>	
Tissue paper	33.5%	27.7%
Sanitary napkins (incl. pantliners)	71.4%	70.3%
Disposable diapers	39.6%	40.5%
Others	16.9%	11.9%
Overall	42.3%	38.6%

Major factors affecting overall gross profit margin

Margin increased in 2020 due to:

- Prices of wood pulp remained at a low level
- Increase in premium & upgraded product mix with high GP margin
- Increase in proportion of revenue from sanitary napkins



- Increase in costs of some petrol chemical raw materials (e.g. non-woven fabric)
- Increase in promotion expenses to offset against revenue



Major Expenses



Selling and distribution costs and administrative expenses



- Selling and distribution costs and administrative expenses accounted for approx. 21.6% of total revenue (2019: 20.0%)
- Major expenses are as follows:

<i>(As % of revenue)</i>	2020	2019
	<i>For the year ended 31 December</i>	
Marketing & advertising expenses	5.9%	5.1%
Staff costs <i>(excluding labour costs)</i>	3.4%	3.4%
Transportation and packaging expenses	4.1%	3.6%
Research and development	1.7%	1.8%



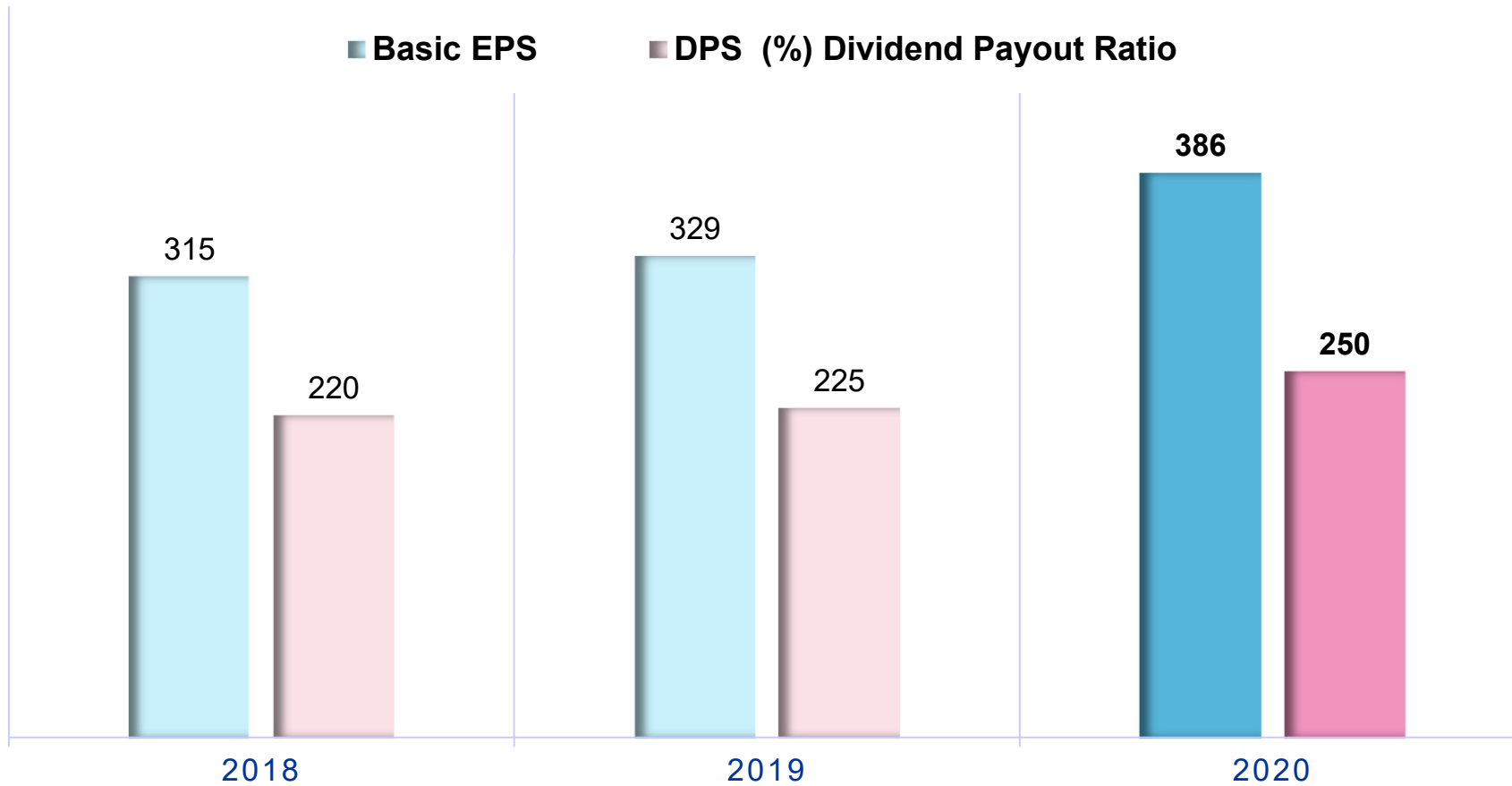
Basic EPS & DPS



2020 Dividend payout ratio: 64.6% (2019: 68.5%)



(RMB cents)





Key Financial Indicators



	2020	2019
(RMB '000)	As at 31 December	
Cash on hand (RMB '000)	23,970,698	22,977,561
Bonds payable (RMB '000)	998,938	3,994,474
Bank borrowings and other borrowings (RMB '000)	19,837,362	17,613,967
Current ratio	1.4 times	1.3 times
Gross gearing ratio	107.3%	120.9%
Net gearing ratio (net cash)	(16.1%)	(7.6%)
Finished goods turnover	49 days	43 days
Accounts receivable turnover	57 days	53 days
Accounts payable turnover	63 days	68 days

Other Financial Information

Interest income: around RMB1,136.3 mn (2019: RMB965.6 mn)

- Partly included in other gains:
about RMB917.1 mn (2019: RMB 833.3mn) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB219.2 mn
(2019 : RMB132.3 mn)

Interest expense:

- About RMB711.0 mn
(2019: RMB770.7 mn)

Net Interest Income:

- Around RMB425.3 mn
(2019: RMB194.9 mn)



Other Financial Information (Cont'd)



Exchange gain: around RMB 321.8 mn (2019: Loss of RMB81.6 mn)

- ◆ Included in other gains: gain of about RMB249.2 mn (2019: loss of RMB89.3 mn)
 - Arising mainly from purchase of raw materials from overseas suppliers
- ◆ Included in finance costs: a gain of about RMB 72.6 mn (2019: gain of RMB7.7 mn)



Other Financial Information (Cont'd)



Government grants:

- About RMB605.1 mn (2019: RMB692.4 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 22.7% (2019: 22.4 %)

Capital expenditure incurred:

- Around RMB586.65 mn (2019: RMB729.4 mn), mainly incurred for the new production lines



Business Review





Sanitary Napkins



Market overview

- ☺ China has the world's largest feminine care products market where competition is fierce and is highly saturated.
- ☺ Product upgrade and premiumization will become the key growth drivers of the market.
- ☺ The Group's sanitary napkin brand, 七度空间, has always been a hot-selling product in mainland China and has long been market leader in the domestic market.



Business performance in 2020 and 2021 outlook

- ☺ In 2020, the sales of the sanitary napkin business returned to an upward trend and recorded an increase of close to 3% to approx. RMB6,655 mn, which was higher than the average market growth and sales of the sanitary napkin business accounted for approx. close to 30.0% (2019: 28.8%) of the overall revenue of the Group.
- ☺ During the year, benefitting from the rapid growth of the premium "Space 7" product with sales reaching close to RMB200 mn, GP margin of the sanitary napkin business further expanded to about 71.4% (2019: 70.3%).
- ☺ The Group is steadily shifting to a strategy of developing the premium market. The premium "Space 7" market which aimed at the mature white-collar market received enthusiastic response during the year, giving the Group confidence to further expand the premium market. This product is expected to become a potential growth point in 2021 and in the future, enabling the Group to continue to expand its market share in the sanitary napkin market.
- ☺ Regarding other feminine care products, the Group's new feminine care brand "Origin and Prime" (若颜初) has received positive response and support from the market.
- ☺ The Group will continue to actively R&D other feminine care products beyond sanitary napkins, steadily developing the feminine care industry, capture growth opportunities brought by consumption upgrade and actively exploring opportunities to sell the Group's sanitary napkin products to overseas markets.



Tissue Paper



Market overview

- ☺ The epidemic in China was gradually put under control, but national health awareness has not diminished.
- ☺ National demand for tissue paper will continue to rise and there is still room for growth in the overall tissue paper market.



Business performance in 2020 and 2021 outlook

- ☺ In 2H 2020, the Group invested more in the marketing of the tissue paper segment in response to the market recovery, especially in 4Q, the Group put in additional effort and investment in the promotion in e-commerce and new retail channels, resulting in a substantial increase in promotion expenses to offset against revenue.
- ☺ The sales of the tissue paper segment were down by approx. 9.6% to RMB10,383 mn, accounting for approx. 46.4% (2019: 51.1%) of the Group's overall revenue. However, benefiting from the low cost of wood pulp, the GP margin of the tissue paper business increased significantly to 33.5% YoY (2019: 27.7%).
- ☺ Against the backdrop of the epidemic, the upgraded wet wipes products continued to perform well. Thanks to the super mini wet wipes that have been well-loved by consumers, sales growth of wet wipes continued to outperform the market in 2020. Sales of wet wipes for the full year increased approx. 20.9% YoY to RMB733.2 mn, accounting for approx. 7.1% of the sales of the tissue paper business (2019: 5.3%).
- ☺ As the living habits of people change and the level of consumption continues to rise, the tissue paper market continues to expand and competition is gradually intensifying. During the year, the Group launched the new premium series of "Cloudy Soft Skin" (云感柔肤) with an aim to provide high-quality experience product to customer and received positive market response. On the other hand, the Group will develop more products that can accurately meet consumers' needs in order to continuously seize business opportunities to expand its market share in domestic tissue market and maintain its leading market position.
- ☺ The Group's annualised production capacity was approx. 1.42 mn tons during the year. The Group will actively consider expanding its production capacity according to the market conditions and sales performance in the future.



Disposable Diapers



Market overview

- ☺ There are still a lot of growth potentials in the domestic disposable diaper market.
- ☺ National consumption upgrade will continue to be the driving force for the industry players to upgrade its product and launch premium products to untap the growth potentials in the market.
- ☺ During the year, the Group stepped up its effort to upgrade its premium "Q•MO" products and achieved good results, and the market penetration rate of adult diapers "ElderJoy" (安而康) has gradually increased as well.



Business performance in 2020 and 2021 outlook

- ☺ In 2020, thanks to the Group's additional effort in e-commerce and maternal store sales, the proportion of sales through e-commerce and maternal channels has increased to over 40% and close to 15% respectively.
- ☺ On top of that, the proportion of premium baby and adult diapers products increased, sales of the diaper segment amounted to approx. RMB1,426 mn (2019: RMB1,439 mn) and the decline greatly narrowed to approx. 0.9% (2019: a decrease of 6.3%), accounting for approx. 6.4% of the Group's overall revenue (2019: 6.4%).
- ☺ Among them, sales growth of premium "Q•MO" products exceeded approx. 70.0%, accounting for approx. 18.9% of the overall diaper sales. In terms of GP margin, the proportion of premium products has increased which was offset by the rising cost of petrochemical raw materials used in disposable diapers rise due to the tight supply affected by the epidemic. The GP of the diaper business dropped slightly to approx. 39.6% (2019: 40.5%).
- ☺ As the nation puts more emphasis on the development of the elderly care industry, there will be more market potential in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the "ElderJoy" and "Banitore" (便利妥) brands and increasing its market share in Southeast Asia at the same time.
- ☺ In addition to e-commerce sales channels, the Group will also increase cooperation with maternal store, nursing homes and hospitals. On the one hand, it will promote the Group's high-quality products. On the other hand, through the cooperation with maternal stores, nursing homes and hospitals, it will expand the Group's customer base and provide a one-stop product sales chain, refuel growth momentum for the diaper business, helping the Group to develop the adult health care business in the long term and continue to tap the growth potential of the adult health care market.



Other Income and Household Products



Market overview

- ☺ The Group has stepped up its efforts to develop the household products business to expand its market coverage.
- ☺ The Group believes that the growth potential in the business of surgical masks and other medical products is immense.



Business performance in 2020 and 2021 outlook

- ☺ Regarding other income, revenue during the year grew 27.0% YoY to approx. RMB3,911 mn (2019: RMB3,080 mn), including revenue from surgical masks and other medical-related products in response to the epidemic. The sales of surgical masks were remarkable with a revenue contribution of approx. RMB260 mn in 2020.
- ☺ Revenue from the Group's household products segment was approx. RMB400.2 mn including revenue from Sunway Kordis, which amounted to approx. RMB277.3 mn. The household products business accounted for approx. 1.8% (2019: 1.7%) of the Group's revenue.
- ☺ The Group continued to expand its household products business to increase its presence in the sector. The Group has greatly expanded the product range of its brand, Hearttex (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. In addition, The Group will seek to leverage on Sunway Kordis's overseas sales network to bring Hengan's products to overseas market.
- ☺ The Group will continue to cater to market demand and provide consumers with high-quality medical products to enhance its market competitiveness and devote itself to the research and development of various types of products

Other Income – Wang-Zheng



MALAYSIA

- Affected by the city's lockdown due to the epidemic, the Group's Wang-Zheng Group in Malaysia recorded a turnover of approximately RMB398.4 million (2019: RMB446.6 million), accounting for approximately 1.8% of the Group's overall sales (2019: approximately 2.0%).
- Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include Dry Pro diapers and Carina personal hygiene products.
- In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to bring Hengan's own brand Hearttex wet wipes and Banitore adult diapers into the Southeast Asian market.
- In the future, the Group will continue to upgrade its existing Wang-Zheng products, research and develop and launch more high-end products under the Hengan brand and strengthen its market share in Malaysia and Southeast Asia.



E-commerce and New Retail Channel Strategies



Market overview

- ☺ The epidemic has prompted the rapid maturation of the domestic online shopping market and bolstered the development of new retail channels (including community group-buying) and mainstream e-commerce platforms.
- ☺ As a convenient way of shopping, online shopping has become part of the daily life of domestic consumers.
- ☺ Under the influence of the global epidemic, the growth of e-commerce has far exceeded expectations. It did not only provide profit to e-commerce companies, but also accelerated retailers' investment on e-commerce operations.



Business performance in 2020 and 2021 outlook

- ☺ In 2020, sales revenue of the Group's e-commerce channels (including Retail Integrated (零售通) and New Channel (新通路)) was approx. RMB4.3 bn, accounting for approx. 19.1% (2019: 19.8%) of the Group's revenue.
- ☺ In 1H 2020, logistics was clogged due to the impact of the epidemic and e-commerce sales were affected by the optimisation and integration of e-commerce channels. With the increasing sales of directly-managed online stores, e-commerce channels have resumed normal development in 4Q, driving e-commerce sales. The Group will review its e-commerce sales strategy from time to time, reiterate the e-commerce sales and strengthen the sales and promotion of directly managed online stores to achieve rapid growth in the future.
- ☺ During the year, the Group signed a data analysis (data centralisation platform) cooperation agreement with Alibaba. In the future, the Group will use the platform to analyse data from end customers, precisely allocate costs and design related sales strategies, enabling the Group to achieve its strategic goal of becoming the "world's top-tier enterprise of daily necessities".
- ☺ In addition, with the rising popularity of community group-buying and online and offline (O2O) sales, almost all top platforms have stepped up their effort in this field. The Group will also allocate more resources in this area and leverage on the frequent shopping festivals on e-commerce platforms to attract consumers with exclusive products, thereby increasing the Group's market share in e-commerce and new retail channels and fostering e-commerce and new retail channels as the main growth drivers for overall sales in the future.



Environmental, Social & Governance



恒安集团
HENGAN



Green Production

FY 2020

FY2019

Proportion of production companies with ISO 14001 certification	100%	100%
GHG emission intensity for paper production sector (tCO ₂ e/tonnes of paper)	1.19	1.22
Energy consumption intensity for paper production sector (tce/tonnes of paper)	0.37	0.37
Water consumption intensity for paper production sector (tonnes/tonnes of paper)	6.1	6.3
Water recycling rate	>99%	>99%



Forest Policy

FY 2020

FY 2019

Percentage of paper production companies with FSC/CoC certification	100%	100%
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Environmental, Social & Governance



Health & Safety

FY 2020

FY 2019

Proportion of production companies with ISO 45001 certification	100%	100%
Lost days due to work injury (days)	3,147	3,309
Number and rate of work-related fatalities	0	0
Occupational disease cases	0	0

Community Investment

2020

2019

Donations (RMB) including cash and in-kind donation for fighting COVID-19	23 million	N/A
Volunteer hours	1,116 hours	521 hours



International Green Supply Chain Alliance 'One Belt and One Road' Green Supply Chain Model Corporate



CEO Hui Lin Chit
Laurelled as National Private Sector Outstanding Individual for Fighting COVID-19



Outlook





Market Outlook



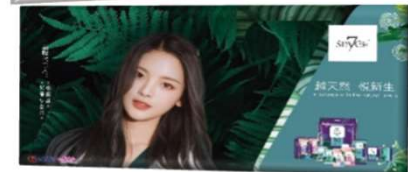
It is believed that domestic sales will continue to support the steady growth of the economy in China

Continue to pay close attention to the development of the domestic and international epidemic and changes in the markets to agilely respond and take appropriate actions

Actively respond to and seize market opportunities brought by consumption upgrades and premiumization, flexibly cope with changes in consumer demand, continue to actively optimise the product portfolio and upgrade the packaging, materials and functions of the products to promote the sales of high-end products and inject growth momentum into the Group

Step up its efforts to increase the coverage of e-commerce and new retail channels (including community group-buying), with an aim to drive e-commerce and new retail sales of tissue paper, sanitary napkins, and disposable diapers up to the market average in the foreseeable future and actively develop new retail channels (including community group-buying) to increase the market penetration rate of the Group's products and further expand the Group's market share

Develop the business of preventive medical supplies, such as manufacturing and selling of surgical masks to provide consumers with high-quality and reliable epidemic prevention products





Open Forum

