



恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP CO.,LTD

March 2022

2021 ANNUAL RESULTS

Corporate Presentation



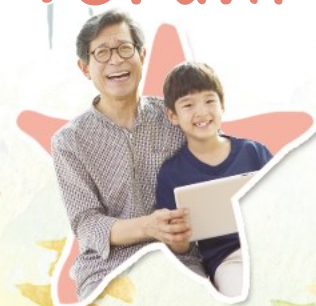


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恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP CO.,LTD



Financial Highlights

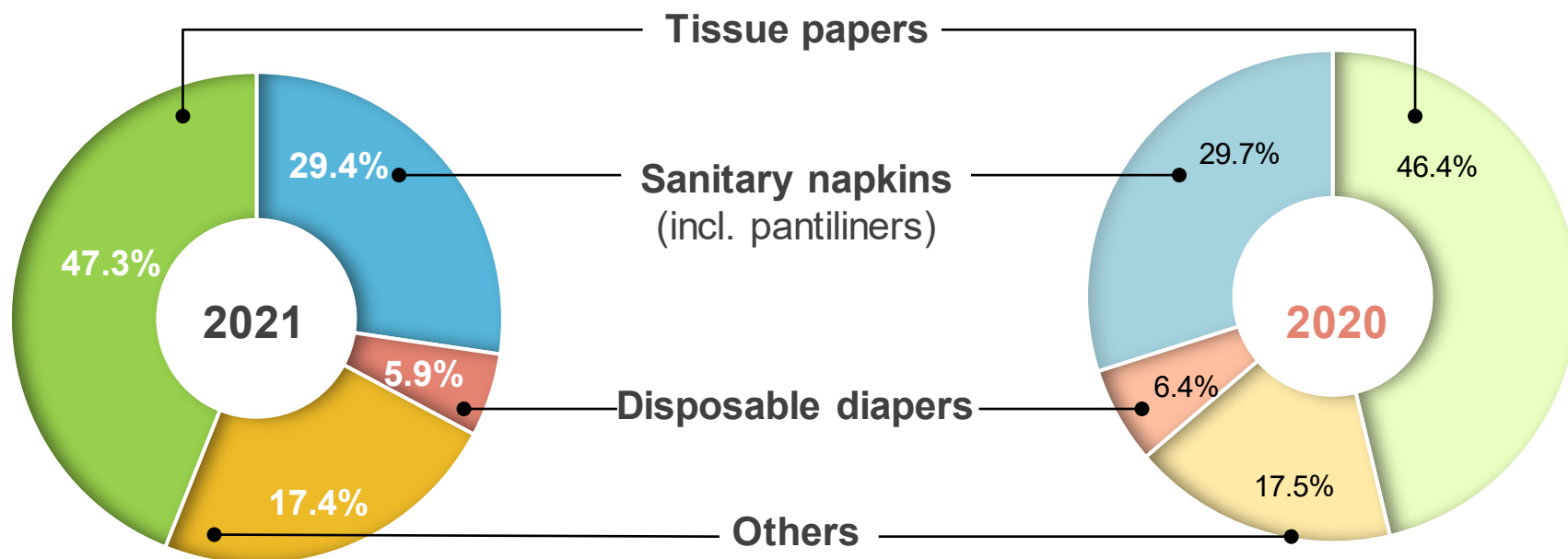


Financial Highlights

	2021	2020	Change
(RMB '000)	For the year ended 31 December		
Revenue	20,790,144	22,374,001	↓ 7.1%
Gross profit	7,772,318	9,455,855	↓ 17.8%
Operating Profit	4,543,591	6,392,388	↓ 28.9%
Profit attributable to shareholders	3,273,601	4,594,815	↓ 28.8%
Earnings per share (RMB)			
– Basic	2.786	3.864	↓ 27.9%
– Diluted	2.786	3.864	↓ 27.9%
Dividend per share (RMB)			
— Interim	1.00	1.20	↓ 16.7%
— Final	0.70	1.30	↓ 46.2%

Revenue Analysis



By Business Segment	2021	2020	Change
(RMB '000)	For the year ended 31 December		
Tissue paper	9,842,429	10,382,758	↓ 5.2%
Sanitary napkins (incl. pantliners)	6,116,530	6,654,711	↓ 8.1%
Disposable diapers	1,219,445	1,425,567	↓ 14.5%
Others	3,611,740	3,910,965	↓ 7.7%

Gross Profit Margin Overview

By Business Segment	2021	2020
(%)	For the year ended 31 December	
Tissue paper	26.4%	33.5%
Sanitary napkins (incl. pantliners)	70.5%	71.4%
Disposable diapers	37.7%	39.6%
Others	11.0%	16.9%
Overall	37.4%	42.3%

Major factors affecting overall gross profit margin

Margin decreased in 2021 due to:

- ☀ Increase in wood pulp prices and costs of some petrochemical raw materials (e.g. Superabsorbent polymer)
- ☀ Decrease in revenue due to intensified market competition and fragmentation of sales channels




- ☀ Increase in premium & upgraded product mix with high GP margin

Major Expenses



Selling and distribution costs and administrative expenses



 Selling and distribution costs and administrative expenses accounted for approx. 21.8% of total revenue (2020: 21.6%)

 Major expenses are as follows:



By Business Segment

2021

2020

(As % of revenue)

For the year ended 31 December

Marketing & advertising expenses

4.6%

5.9%

Staff costs (excluding labour costs)

4.0%

3.4%

Transportation and loading expenses

4.3%

4.1%

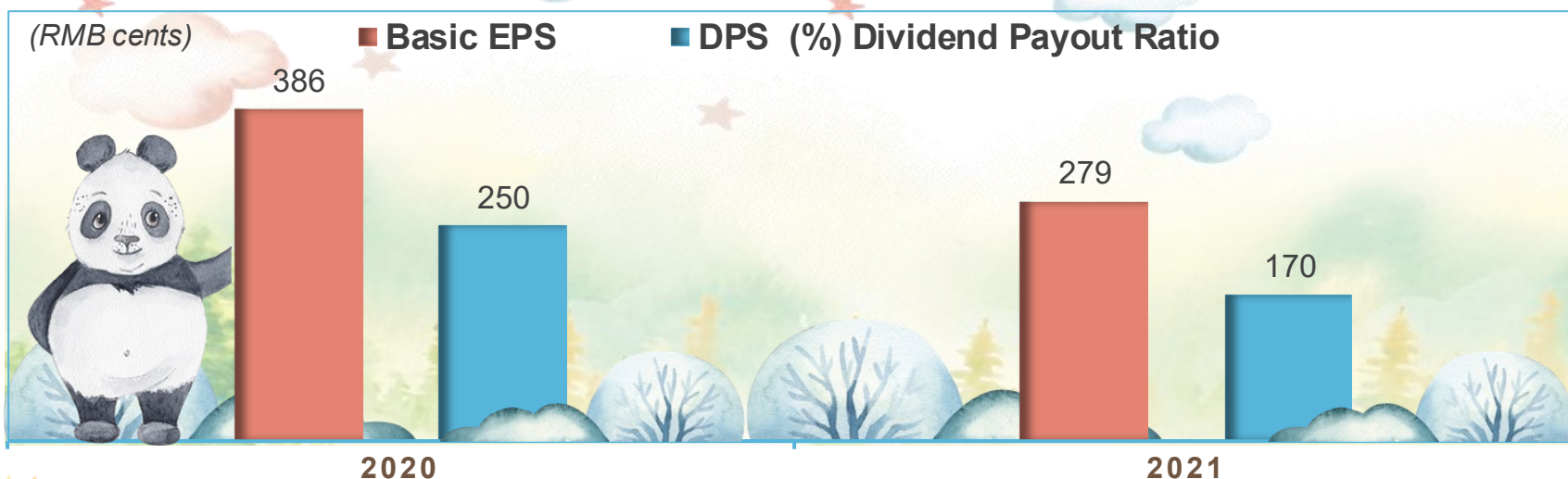
Research and development

1.7%

1.7%

Return to Shareholders

2021 Return to shareholders ratio: 89.4% (2020: 67.7%)



Return to Shareholders

2021

2020

(RMB '000)

31 December 2021

Proposed dividends	1,988,606	2,958,424
Repurchase of shares	936,732	154,409
Total return to shareholders	2,925,338	3,112,833
Total return to shareholders ratio ¹	89.4%	67.7%

Note 1: Total return to shareholders ratio = ((Proposed dividend amounts + repurchase of sales considerations) / profit attributable to shareholders)

Key Financial Indicators

By Business Segment


As at 31 December


	2021	2020
Cash on hand (RMB '000)	22,282,950	23,970,698
Bonds payable (RMB '000)	-	998,938
Bank borrowings and other borrowings (RMB '000)	18,227,095	19,837,362
Current ratio	1.2 times	1.4 times
Gross gearing ratio	95.7%	107.3%
Net gearing ratio (net cash)	(21.3%)	(16.1%)
Finished goods turnover	50 days	49 days
Accounts receivable turnover	56 days	57 days
Accounts payable turnover	67 days	63 days

Other Financial Information




Interest income: around RMB 961.6 mn (2020: RMB1,136.3 mn)


 Partly included in other gains:
about RMB 679.0mn (2020: RMB 917.1mn) interest income on
bank deposits over 3 months (short-term investments)

 Partly included in finance income:
about RMB 282.6 mn
(2020 : RMB219.2 mn)

Interest expense:

 About RMB 454.9mn
(2020: RMB711.0 mn)


Net Interest Income:

 Around RMB 506.7 mn
(2020: RMB425.3 mn)




Other Financial Information (Cont'd)

Exchange gain: around RMB121.2 mn (2020: Gain of RMB 321.8 mn)

 Included in other gains: gain of about RMB 109.2 mn
(2020: gain of RMB 249.2 mn)

- Arising mainly from purchase of raw materials from overseas suppliers

 Included in finance costs:
a gain of about RMB 12.0 mn
(2020: gain of RMB 72.6 mn)





Government grants:

- ☀ About RMB 477.5 mn (2020: RMB605.1 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- ☀ 24.0% (2020: 22.7 %)

Capital expenditure incurred:

- ☀ Around RMB 640.40 mn (2020: RMB586.65 mn), mainly incurred for the new production lines





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Business Review



Sanitary Napkins

Market overview

- ☀️ China has the world's largest feminine care products market where competition is fierce and is highly saturated.
- ☀️ Many domestic and foreign brands adopted very aggressive promotion strategies to seize the market share of mid-to-high-end cities and the youth consumption.
- ☀️ Hengan adhered to a rational stable pricing strategy to maintain its brand image and developed its sanitary napkin business with product upgrades and premium products to consolidate its market leadership in the mid to high end segments.



Business performance in 2021 and 2022 outlook

- ☀️ In 2021, as sales channels became more fragmented and competitors adopted aggressive pricing strategies to seize market share, sales of the Group's sanitary napkin business recorded a decline of approx. 8.1% to approx. RMB6,116 mn (2020:RMB6,654 mn) in 2021.
- ☀️ Notwithstanding the market competition pressure, the Group stayed committed to a rational and stable pricing strategy, and the GP margin of the sanitary napkin business remained generally stable at approx. 70.5% as compared to previous years.
- ☀️ The Group's sanitary napkin brand, 七度空间, has always been a hot-selling product in Mainland China and has long been a market leader in the domestic market. The premium product "Space 7" which aimed at the mature white-collar market, continued to be well-received by the market. The Group believes the sales of "Space 7" will continue to grow steadily in the future and become a major business growth point, helping the Group to expand its share in the sanitary napkin market and gradually increase the proportion of the premium products.
- ☀️ The Group will continue to actively expand new retail channels and increase the sales proportion of new retail channels; also develop exclusive products for new retail channels and adopt a stable pricing strategy, supporting the Group's long-term development and consolidate its market leading position.
- ☀️ The Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily develop the feminine care industry, capture growth opportunities brought by consumption upgrade and actively explore opportunities to introduce the Group's sanitary napkin products to overseas markets.

Tissue Paper

Market overview

The pandemic situation was volatile and national health awareness remained at a high level. As consumers were no longer worried about the shortage of tissue paper, consumer sentiment turned more cautious and consumers were more sensitive to prices.

Despite the increase in the cost of wood pulp, many tissue paper companies increased promotional efforts and even reduced prices in order to seize market share, resulting in more intense price competition in 4Q2021.



Business performance in 2021 and 2022 outlook

Hengan leveraged its scale advantage, strong brand competitiveness and diversified product portfolio to capture development opportunities and successfully seized market share in 2H2021. The Group's overall tissue paper sales achieved a contrarian growth in 2H2021, effectively narrowing the decline in the sales of the tissue paper business for the full year. In 2021, the revenue of the Group's tissue paper business decreased by approx. 5.2% to RMB9,842 mn. If excluding the factor relating to the significant decline in the sales of the raw paper business, the 2021 sales of the Group's "Heartex" brand was recorded at a similar level as compared to 2020 and its sales volume increase by close to the mid-single digit year-on-year.

As the Group's low-cost wood pulp inventory was exhausted, the cost pressure of soaring wood pulp prices was fully reflected in the cost of sales in 2H2021, the GP margin in 2021 dropped to 26.4% (2020: 33.5%).

The sales of the "Cloudy Soft Skin" (云感柔肤) series performed well. It is made with the Group's original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable user experience to its customers with cotton soft skin-like tissue paper. The Group has also obtained a national design patent on its unique embossing technology. The product does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference.

In terms of wet wipes business, although it recorded a revenue decline in 1H2021 due to a high comparison base, thanks to the popular upgraded wet wipes, the Group continued to expand its market share in domestic wet wipes market and returned to double-digit growth in 2H2021, maintaining its leading position in the wet wipes market. As a result, the sales of wet wipes business for the full year was approx. RMB735.6 mn, accounting for approx. 7.5% of the sales in the tissue paper business.

As the living standards of people continues to improve and health awareness remains at a high level, the penetration rate of tissue paper in Mainland China is still far lower than that of other developed countries, there is still great potential for growth in the overall tissue paper market.

The Group maintained its production capacity at approximately 1.42 mn tons during the year. The Group will increase capital expenditure to purchase new production lines and improve production efficiency in the coming year to actively respond to the future market growth potential and the market demand for high-quality products.

Disposable Diapers

Market overview

- ☀ Consumption upgrade and ageing population fuel the growth potentials in the domestic disposable diaper market.
- ☀ With the rising national purchasing power and the change of parenting concept, the baby disposable diaper market has sustained a growth momentum in recent years. It is predicted that the market size of the domestic baby disposable diaper will grow to about RMB63 billion in 2023, an increase of 13.10% over 2022.



Business performance in 2021 and 2022 outlook

- ☀ During the year, the Group's premium "Q • MO" baby disposable diapers performed remarkably, with sales jumped approx. 18.6% , and its proportion over the sales of diaper business further increased to about 26.2%. The market penetration rate of "ElderJoy" (安而康) continued to increase, and the sales of the Group's adult disposable diapers business maintained positive growth during the year, accounting for approx. 20.8% of the overall sales of the disposable diaper business.
- ☀ In 2021, the Group strengthened the development of e-commerce and maternal sales channels, and achieved satisfactory sales performance. The proportion of sales through e-commerce and maternal channels increased to approx. 50% and over 14.5%, respectively. However, as the sales channels of the Group's disposable diaper market have become more diverse, the sales in traditional channel have accelerated decline by more than about 20% and offset the sales growth of the Group's premium disposable diapers. In addition, other brands adopted more aggressive promotion strategies to seize market share, market competition has become more intense, which resulted in a drop in the sales of the Group's disposable diaper business by over about 14.5% to approx. RMB1,219 mn (2020: RMB1,425 mn).
- ☀ In terms of GP margin, despite the increase in the sales and proportion of premium products, the tight supply of superabsorbent polymer, a raw material used in the manufacturing of disposable diapers has led to cost escalation and the additional promotional cost incurred relating to the clearance of the mid-end diaper products. The GP of the diaper business dropped slightly to approx. 37.7% (2020: 39.6%).
- ☀ As the nation puts more emphasis on the development of the elderly care industry, there will be ample room for development 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 the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premium products strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternal stores, nursing homes and hospitals.



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 household products is immense.



Business performance in 2021 and 2022 outlook

- ☀ Regarding other income and household products, the Group's revenue during the year decreased by approx. 7.7% YoY to approx. RMB3,612 mn (2020: RMB3,911 mn), which was mainly attributed to the decline in demand for surgical masks in view of the stabilisation of the pandemic and the decline in sales of overseas business affected by the cities' lockdown due to the pandemic.
- ☀ During the year, the revenue from the raw material trading business remained stable at approx. RMB2.5 billion (2020: RMB2.5 billion), while the sales of surgical masks fell on lower demand amid stabilising pandemic and pharmacare products recorded a revenue contribution of over RMB108 mn (2020: RMB326 mn).
- ☀ Revenue from the Group's household products segment was approx. RMB314.6 mn (2020: RMB400.2 mn), representing a YoY decrease of approx. 21.4%, accounting for 1.5% of the Group's operating revenue (2020: 1.8%), which was mainly attributed to the decline in exports of household products due to the pandemic. Included in the revenue, the revenue from Sunway Kordis was approximately RMB205.5 mn (2020: RMB227.3 mn).
- ☀ For household business segment, the Group 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. Sunway Kordis and its subsidiaries have sales channels to export products to overseas sales network (including the markets in Australia and Asia). The Group will seek to leverage these overseas sales network to bring Hengan's products to overseas market.
- ☀ The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with a wide range of high-quality household products to enhance its market competitiveness.

Other Income – Wang-Zheng



- ☀️ Affected by the epidemic leading to the cities' lockdown, the Group's Wang-Zheng Group in Malaysia recorded a turnover of approx. RMB351.6 million (2020: RMB398.4 million), accounting for approx.1.7 % of the Group's overall sales (2020: approx. 1.8%).
- ☀️ 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" disposable 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 disposable diapers into the Southeast Asian market.
- ☀️ In the future, the Group will continue to upgrade its existing Wang-Zheng products, develop and launch more high-end products under the Hengan brand and further increase its market share in Malaysia and Southeast Asia.



E-commerce and New Retail Channel Strategies



Market overview

- ☀ Online shopping has been growing rapidly under the pandemic and has become the key growth driver in the domestic consumption market.
- ☀ In 2021, the online retail sales of physical goods reached RMB10 trillion with an increase of 12.0%, demonstrating a huge potential in the online market.
- ☀ New shopping channels (including O2O platform and community group-buying) and mainstream e-commerce platforms which complement each other are thriving together.

Business performance in 2021 and 2022 outlook

- ☀ In 2021, e-commerce development maintained a strong momentum and the sales of the Group's e-commerce channels (including Retail Integrated (零售通) and New Channel (新通路)) soared over 10% to approx. RMB4.8 bn (2020: RMB4.3 bn), accounting for about 23.1% of the Group's overall sales (2020: 19.1%).
- ☀ During the year, the Group stepped up its efforts to develop other new retail channels (including O2O platforms, community group-buying, etc.) and achieved remarkable results, with sales revenue exceeding RMB2 bn, accounting for approx. more than 10% of the Group's overall sales. In 2021, the Group participated in a number of live streaming sales activities on e-commerce platform, including TikTok, which effectively enhanced its brand influence. The Group leveraged live streaming sales to directly interact with consumers to strengthen the emotional connection between the Group's brands and consumers. The Group's "Hearttex" brand and 「七度空间」 brand achieved leading market shares in several major new retail channels, including TikTok.
- ☀ In view of catering the new consumer trends, the Group will continue to focus on the needs of consumers. Capitalising on the new technologies and big data, the Group will increase resources in developing e-commerce and new retail channels. By leveraging on the shopping festivals launched on the online platforms, the Group would attract the consumers with the new consumption models such as limited-edition merchandise, community group-buying, and livestream sales, thus increasing the Group's market share in the e-commerce and new retail channels sector while grasping the opportunities brought by the digital economy to inject strong impetus for rapid growth in the future.

Tiktok Brand List

Tissue Products	
Hearttex	NO. 1
Sanitary Products	
Space 7	NO. 1

Tiktok Personal Care Household Products Maternal and Infant Market Share



Hengan Group
ranked
No.1



Hengan ranked no.1s in several TikTok's lists, in terms of sales and market share

Environmental Social & Governance



Green Production	FY 2021	FY 2020
Proportion of production companies with ISO 14001 certification	100%	100%
GHG emission intensity for paper production sector (<i>tCO2e/tonnes of paper</i>)	1.00	1.19
Energy consumption intensity for paper production sector (<i>tce/tonnes of paper</i>)	0.32	0.37
Water consumption intensity for paper production sector (<i>tonnes/tonnes of paper</i>)	5.2	6.1
Water recycling rate	>99%	>99%



Forest Policy	FY 2021	FY 2020
Percentage of paper production companies with FSC/CoC certification	100%	100%


Designated Product Certificate, from China Pollution Prevention Exhibition 2021




Chinese Enterprises Practicing Carbon Neutral Social Responsibility Initiative – Vice-Chairman Unit, from Carbon Neutrality Committee of China Energy Conservation Association



Environmental Social & Governance



Health & Safety	FY 2021	FY 2020
Proportion of production companies with ISO 45001 certification	100%	100%
Lost days due to work injury (days)	3,033	3,147
Number and rate of work-related fatalities	0	0
Occupational disease cases	0	0



Community Investment	FY 2021	FY 2020
Donations (RMB) including cash and in-kind donation for fighting COVID-19	21 million	23 million
Volunteer hours	1,196 hours	1,116 hours



Hengan donated RMB10 million in cash and materials to the “Spring Blossom Project”



CEO, Mr. Hui Ching Lau was honoured with the “Most Influential Individual 2021” at the Social Responsibility Conference



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Outlook



Market Outlook

Despite the strong vitality and resilience of China's economy, consumption has become the key growth driver of China's economy, external uncertainties such as the spread of the epidemic still bring variability to China's economic growth

Due to the price trend of wood pulp remains uncertain and as the Group had relatively low-cost wood pulp inventory in 1H 2021, high cost of wood pulp will exert pressure on the Group's profitability in 2022. The Group will closely monitor the prices of imported wood pulp, petrochemical raw materials etc.

To tap into the continuous domestic consumption upgrades, Hengan will continue to focus on the implementation of premium products strategy, strive to increase the proportion of premium products, increase the revenue contribution of premium products to the Group, and promote the continuous improvement of the Group's overall profitability.

Hengan will keep abreast of changes in consumers' consumption patterns and preferences, step up its investment in the new retail markets so as to increase the Group's coverage in new sales channels to reach a broader customer base. The Group will also comprehensively improve online and offline retail to create an omni-channel, enhance brand competitiveness by providing customers with a more convenient and seamless consumption experience, and inject impetus into the long-term development of the Group.

In 2022, the Group will focus on the three main businesses (tissue paper, sanitary napkin and disposable diapers), vigorously expand new retail sales channels, and enhance its omni-channel sales capabilities and brand. Furthermore, the Group will continue to enhance its brand, appropriately allocate resources to brand building, consolidate its outstanding brand advantages, and take premium products strategy as its long-term development goal, striving to become the "International Top Household Daily Necessities Corporation".



Formation of Hengan Group Strategic Advisory Committee to grasp strategic development

	厂商	消费者(亿家户)		增长率%	渗透率(%)
		截至2020年10月9日的一年	截至2021年10月8日的一年		
	伊利集团	1.69	1.74	3.0%	92.5
	宝洁集团	1.68	1.72	2.5%	91.4
	雀巢集团	1.67	1.71	2.7%	91.0
	康师傅控股	1.55	1.57	1.4%	83.4
	可口可乐	1.44	1.50	4.1%	79.8
	联合利华	1.44	1.50	4.0%	79.6
	海天味业	1.46	1.49	2.5%	79.2
	恒安集团	1.41	1.44	1.7%	76.3
	雀巢集团	1.43	1.41	-1.5%	75.0
	宝事公司	1.30	1.36	5.2%	72.4
	农夫山泉	1.31	1.36	3.6%	72.2
	雀巢集团	1.27	1.32	3.6%	70.0
	立白集团	1.30	1.31	0.8%	69.8
	旺旺集团	1.19	1.24	4.4%	66.0
	达利食品集团	1.18	1.22	3.4%	64.9
	亿滋国际	1.24	1.22	-1.6%	64.9
	玛氏集团	1.16	1.20	3.5%	63.9
	玛氏集团	1.21	1.19	-1.2%	63.4
	双汇集团	1.19	1.17	-1.4%	62.3
	海富洁-棕榄	1.10	1.12	1.1%	59.2
	统一集团	1.09	1.11	1.9%	58.8
	华润集团	1.07	1.11	3.7%	58.8
	维达集团	0.97	1.07	9.9%	56.8

Domestic penetration reached 76.3%, remained top 10 of the Kantar Worldpanel FMCG Company List



Hengan nominated as 2021 National Quality Benchmark; the only hygiene products enterprise being selected



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Open Forum

