



# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號: 1044

CCTV.  
国家品牌  
计划

## Annual Results 2017 Corporate Presentation

March 2018



# Agenda

## Financial Highlights



## Business Review



## Outlook



## Open Forum







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## *Financial Highlights*



# Financial Highlights



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## Continuing operations








2017

2016

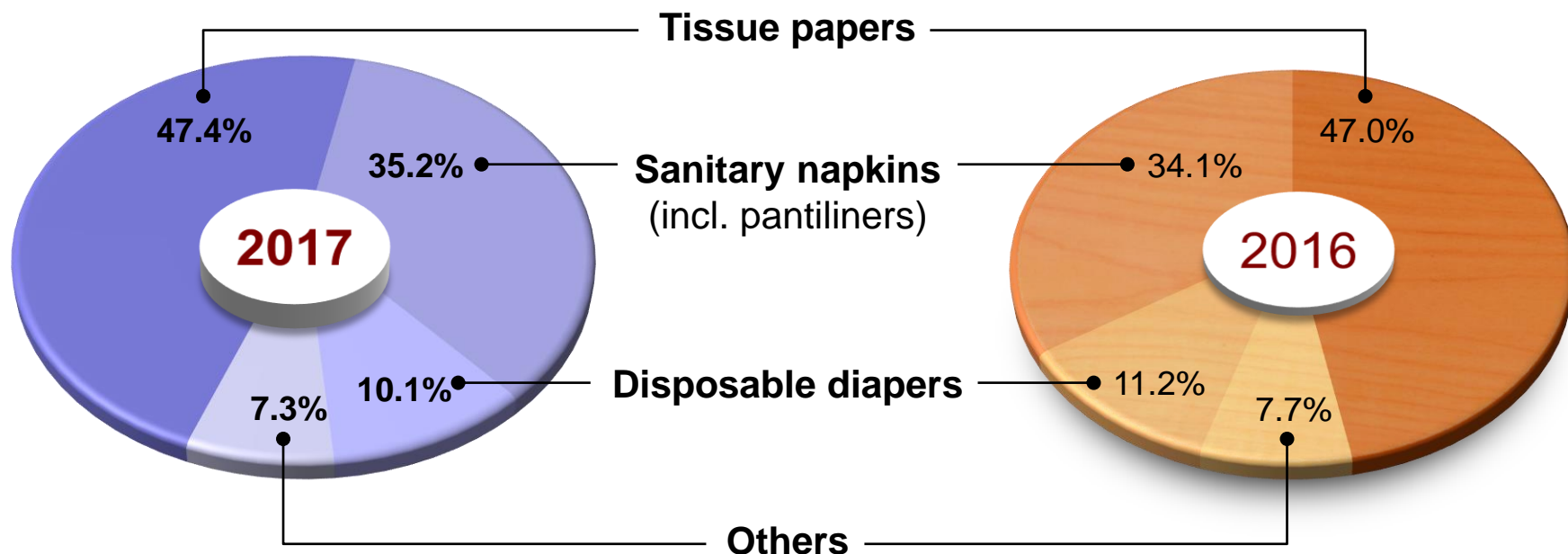
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(RMB '000)

For the year ended 31 December

Revenue	19,825,031	19,277,397	 2.8%
Gross profit	9,299,352	9,403,952	 1.1%
Operating Profit	5,271,574	4,742,869	 11.1%
Profit attributable to shareholders			
— Continuing operations	3,794,041	3,471,746	 9.3%
— Discontinued operations	-	125,075	N/A
— Overall	3,794,041	3,596,821	 5.5%
Earnings per share — basic			
— Continuing operations	RMB3.149	RMB2.864	 10.0%
— Discontinued operations	-	RMB0.103cents	N/A
— Overall	RMB3.149	RMB2.967	 6.1%

# Solid Revenue Base



Continuing operations	2017	2016	Change
(RMB '000) For the year ended 31 December			
Tissue paper	9,390,072	9,066,499	⬆️ 3.6%
Sanitary napkins (incl. pantliners)	6,972,405	6,568,885	⬆️ 6.1%
Disposable diapers	1,999,325	2,150,252	⬆️ 7.0%
Others	1,463,229	1,491,761	⬆️ 1.9%



# Gross Profit Margin Overview – By Business Segment

## Continuing operations

For the year ended 31 December

(%)	2017	2016
Tissue paper	32.9%	37.9%
Sanitary napkins (incl. pantliners)	72.2%	72.6%
Disposable diapers	46.9%	50.8%
Others	16.6%	7.4%
Overall	46.9%	48.8%

## Major factors affecting overall gross profit margin

Margin dropped in 2017 due to:

**PARTIALLY  
OFFSET**

- Improved sales with “small sales team operation”
- Optimised product portfolio

- Increase in wood pulp prices



# Major Expenses

## Selling and distribution costs and administrative expenses

- ❖ Selling and distribution costs and administrative expenses accounted for approximately 26.1% of total revenue (2016: 27.0%)
- ❖ Major expenses are as follows:

### Continuing operations

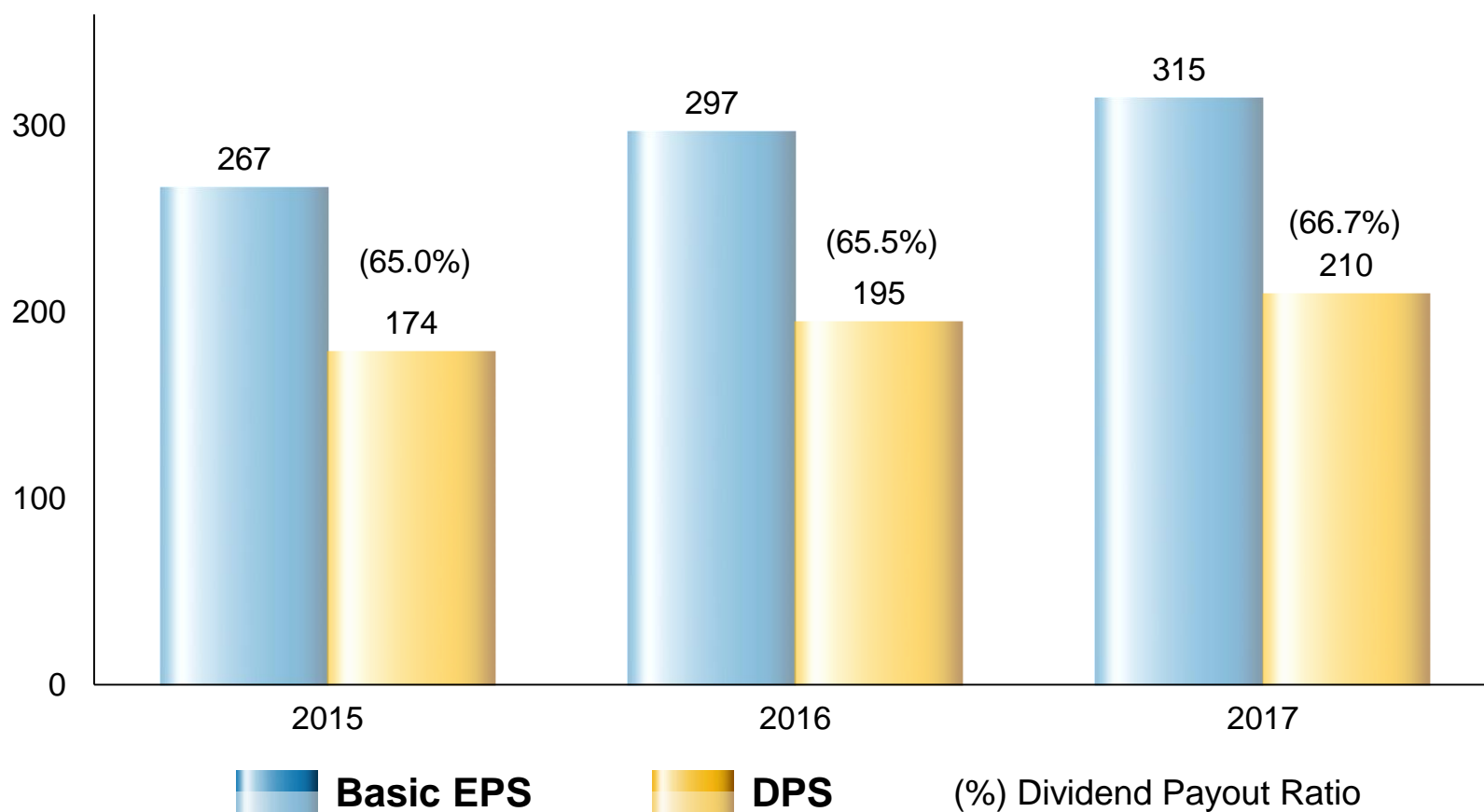
For the year ended 31 December

(As % of revenue)	2017	2016
<b>Marketing, advertising &amp; promotion expenses</b>	<b>10.2%</b>	10.8%
<b>Staff costs (excluding labour costs)</b>	<b>3.6%</b>	3.8%
<b>Transportation expenses</b>	<b>3.9%</b>	3.6%
<b>Research and development</b>	<b>2.1%</b>	2.1%

# Basic EPS & DPS

**2017 Dividend payout ratio: 66.7% (2016: 65.5%)**

(RMB cents)





# Key Financial Indicators

## Continuing operations

2017

2016

As at 31 December

Cash on hand (RMB '000)	20,932,456	16,649,499
Convertible bonds liability portion (RMB '000)	455,537	472,719
Bonds payable	2,991,175	2,987,987
Bank borrowings (RMB '000)	15,631,443	12,455,274
Current ratio	1.3 times	1.4 times
Gross gearing ratio	118.5%	108.1%
Net gearing ratio (net cash)	(11.5%)	(4.9%)
Finished goods turnover	46 days	46 days
Accounts receivable turnover	47 days	47 days
Accounts payable turnover	73 days	79 days
Rate of return	23.6%	23.6%

## Continuing operations

**Interest income: around RMB504.8 million (2016: RMB363.7 million)**

- ❖ Partly included in other gains:  
about RMB411.1 million (2016: RMB242.4 million) interest income on bank deposits over 3 months (short-term investments)
- ❖ Partly included in finance income:  
about RMB93.7 million (2016: RMB121.3 million)

## Interest expense:

- ❖ About RMB375.3 million  
(2016: RMB359.0 million)

## Net Interest Income:

- ❖ Around RMB129.5 million  
(2016: RMB4.7 million)



## Continuing operations

**Exchange gain due to the appreciation of Renminbi against US\$:  
around RMB98.5 million (2016: a loss of RMB141.6 million)**

- ❖ Included in other gains: about RMB126.4 million (2016: a loss of RMB196.7 million)
- ❖ Arising mainly from purchase of raw materials from overseas suppliers
- ❖ Included in finance costs: a loss of about RMB27.9 million (2016: a gain of RMB55.1 million)





## Continuing operations

### Government grants:

- ❖ About RMB484.6 million (2016: RMB492.0 million), as encouragement of the Group's contributions to the development of the local economy

**Effective tax rate: 23.4% (2016: 23.7%)**

### Capital expenditure incurred

- ❖ Around RMB936.2 million (2016: RMB933.3 million), mainly incurred for the new production lines





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## *Business Review*



# Sanitary Napkins

## Market overview

- ❖ Premium personal hygiene products were more welcomed by Chinese women with their rising education level, social status as well as consumption power.
- ❖ High market penetration continues
- ❖ Stable development of the sanitary napkins market



## Business performance in 2017 and 2018 outlook

- ☑ Revenue increased by about 6.1% to approximately RMB6,972 million, thanks to higher average selling prices driven by product upgrade and improved sales as a result of "small sales team" business strategies.
- ☑ Gross profit margin remained stable at about 72.2% (2016 : 72.6%), as the Group's upgraded product portfolio partially offset the impact of increasing raw material cost.
- ☑ Expect steady sales growth in 2018 as result of continuous enhancement of products and expansion into the ecommerce market.



## Market overview

- ❖ Stable economic growth in China, coupled with accelerating urbanization and enhanced national hygiene standard.
- ❖ China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential.
- ❖ Government tightened the environmental regulations and strengthened law enforcement, further solidated the position of large-scale manufacturers in the industry



## Business performance in 2017 and 2018 outlook

- ☑ Revenue of RMB9,390 million increased by about 3.6% due to the “small sales team operation” strategies that improved sales of traditional channels gradually in the second half of 2017 and continued strong sales growth of e-commerce channel
- ☑ Gross profit margin decreased to about 32.9% (2016: 37.9%) due to persistent increase in the price of tissue wood pulp used in tissue paper production
- ☑ Expect sales growth to accelerate and gross margin improvement in 2018, with more evident positive effects of “small sales team” operating model and introduction of high-quality, high-end products and new packing series with well-known brands
- ☑ Current annualized production capacity is around 1,300,000 tons. It is expected to increase to approximately 1,420,000 tons by 1H2018

# Disposable Diapers

## Market overview

- ❖ “Two-child” policy, rising income and consumers’ pursuit of higher living standards continue to drive the development of disposable diapers market.
- ❖ Market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge untapped market potential.



## Business performance in 2017 and 2018 outlook

- ☑ Revenue decreased by about 7.0 % to approximately RMB1,999 million
- ☑ Strategic investment in e-commerce and maternity stores began to pay off. Sales from e-commerce channels reached a year-on-year growth of over 70% and accounted for over 25% of the overall diapers sales in 2017.
- ☑ Gross profit margin dropped to around 46.9% (2016: 50.8%) due to increased prices of major raw material petrochemical products and price gap between e-commerce channel and traditional channel
- ☑ To further enrich “Q.MO” series in 2018 to cater to the market demand for high-quality products.
- ☑ Stay focused on producing and developing disposable diapers touting safety and quality

## Business performance in 2017 and 2018 outlook

- ☑ To further enhance the sales performance and market share of the e-commerce channel, the Group has accelerated the development of its e-commerce sales channels including online stores and WeChat stores, in the aspects of product type, sales model and product promotion.
- ☑ E-commerce business achieved extraordinary growth with core business segments maintained robust growth momentum. Revenue from e-commerce reached about RMB2,000 million, up by more than 80% over 2016.
- ☑ Contribution to total sales revenue rose to about 10% (2016: 6%)
- ☑ the Group's sales channel reform and warehouse adjustment helped enhance the efficiency of e-commerce sales channels, so as to deliver goods in an efficient manner and save selling and distribution costs.
- ☑ Expect to further accelerate e-commerce sales in 2018 through strategic collaborations with e-commerce operators in the aspects of product development, marketing and supply chain



Tmall flagship store



WeChat store



# Streamlined Sales Team Structure – Hengan Amoeba Model – Completed in April 2017



Types of Amoeba Team	Total Number
Tradition Channel Amoeba	172
Modern Channel Amoeba	56
<b>Total</b>	<b>228</b>

- ❖ 8 Regional operations centers to support and manage amoeba:
- Fujian & Jiangxi, Guangdong & Guangxi and Hunan & Hubei, Shandong & Henan, South Western China, Eastern China, Northern China, North Western China, North Eastern China

# Streamlined Sales Team Structure – Hengan Amoeba Model – Completed in April 2017

- ❖ “Small sales team” strategy successfully revitalized the sales network, benefits began to emerge in the second half of the year
- ❖ Enhanced sales performance with expense ratio improved by about 0.9% in 2017
- ❖ “Small team operating” model will gradually extend to the whole Group
- ❖ Expect more pronounced positive impact brought by the “small sales team” operating model in 2018, with overall revenue growing rapidly
- ❖ To continue enhancing flexibility and market responsiveness
- ❖ Put forward the development philosophy of “create the value together, shoulder the responsibility together, share the interest”



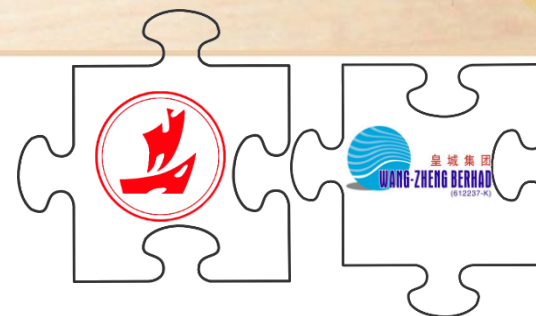


# Acquisition of Wang-Zheng Berhad



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- ❖ On 5 June 2017, the Group acquired an aggregate of 80 million shares of Wang-Zheng Berhad which listed on the Main Board of Bursa Malaysia Securities Berhad, representing approximately 50.45% of the equity interest of Wang-Zheng
- ❖ Wang-Zheng is mainly engaged in Investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers
- ❖ Acquisition is undertaken to expand the Group's business operations and diversify its revenue stream outside the People's Republic of China
- ❖ From the date of acquisition completed, the contribution of Wang-Zheng to the Group's revenue amounted to approximately RMB261.5 million and the net profit amounted to RMB49.8 million (including negative goodwill of about RMB42.3 million), accounting for approximately 1.3% and 1.3% of the Group's total revenue and net profit respectively.
- ❖ The Group will make good use of Wang-Zheng's sales network to bring its products to the Southeast Asian region





# CCTV "National Brand Plan"

- ❖ In November 2017, the Group was included in the "National Brand Plan" of CCTV
- ❖ The only company of the household products industry in China to receive the honor.
- ❖ The Group will launch new products with Chinese characteristics to promote China's high quality household products and the brand of Hengan internationally in 2018.



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## Outlook





# Market Outlook

Steady economic growth in China and improving consumer confidence will benefit the development of high-end quality product market

The Group will implement “small sales team” reform with its motto of “customer-first” within the Group thoroughly to optimise operational efficiency and enhance sales performance, strengthen its foothold in e-commerce to capture the massive market potential







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## Open Forum

