



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044



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Annual Results 2018 Corporate Presentation

March 2019



Agenda



FINANCIAL HIGHLIGHTS



BUSINESS REVIEW



OUTLOOK



OPEN FORUM



FINANCIAL HIGHLIGHTS

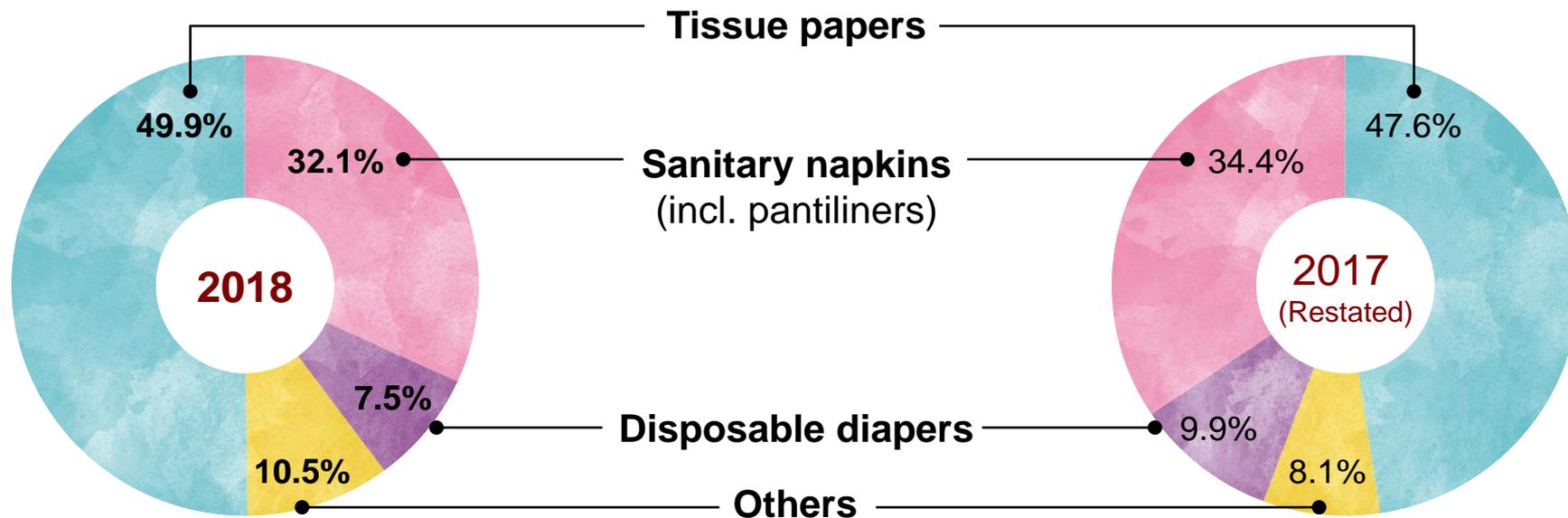


Financial Highlights



(RMB '000)	For the year ended 31 December		
	2018	2017 (Restated)	Change
Revenue	20,513,881	18,079,560	↑ 13.5%
Gross profit	7,835,753	7,553,881	↑ 3.7%
Operating Profit	5,429,224	5,271,574	↑ 3.0%
Profit attributable to shareholders	3,799,805	3,794,041	↑ 0.2%
**Profit attributable to shareholders excluding non-recurring gains	3,799,805	3,702,933	↑ 2.6%
Basic earnings per share (RMB)	3.151	3.149	↑ 0.1%
Diluted earnings per share (RMB)	3.146	3.149	↓ 0.1%
Dividend per share (RMB)			
— Interim	1.00	0.95	↑ 5.3%
— Final	1.20	1.15	↑ 4.3%
** Non- recurring gains			
— Gains from acquisition of subsidiaries	-	55,413	N/A
— Gains from disposal of properties in Hunan and Zhejiang net of tax	-	35,695	N/A

Solid Revenue Base



By Business Segment

For the year ended 31 December

(RMB '000)

	2018	2017 (Restated)	Change
Tissue paper	10,227,313	8,609,840	↑ 18.8%
Sanitary napkins (incl. pantliners)	6,593,710	6,214,820	↑ 6.1%
Disposable diapers	1,536,304	1,793,726	↓ 14.4%
Others	2,156,554	1,461,174	↑ 47.6%

Gross Profit Margin Overview

By Business Segment

For the year ended 31 December

(%)

2018

2017
(Restated)

Tissue paper

22.5%

26.8%

Sanitary napkins (incl. pantliners)

69.4%

68.8%

Disposable diapers

39.2%

40.8%

Others

16.7%

16.5%

Overall

38.2%

41.8%

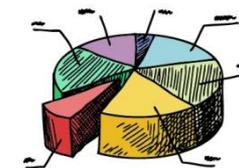
Major factors affecting overall gross profit margin

Margin dropped in 2018
due to:



Increase in wood pulp
prices

OFFSET



High-end & Upgraded
product mix

Selling and distribution costs and administrative expenses

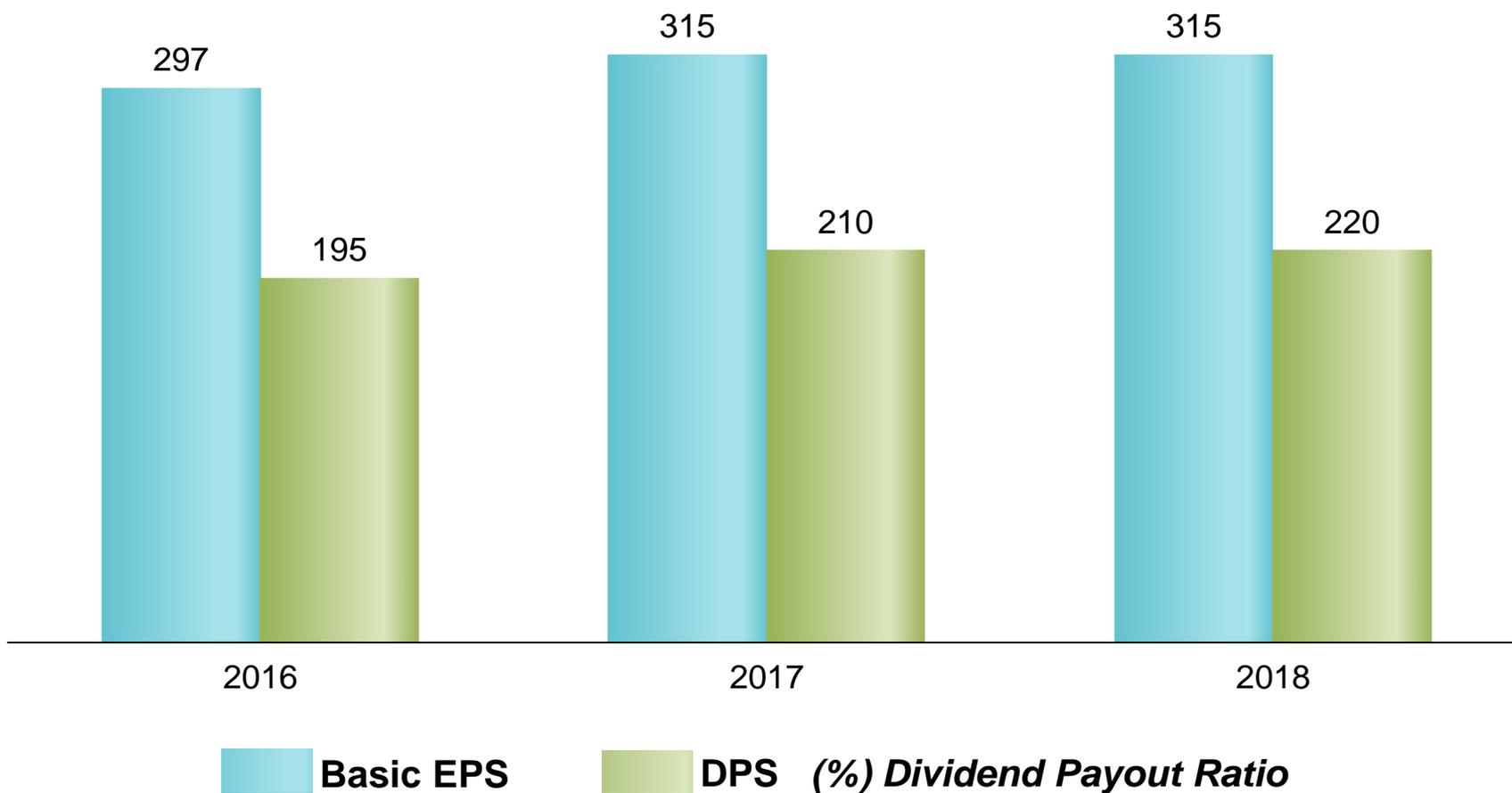
- Selling and distribution costs and administrative expenses accounted for approximately 16.9% of total revenue (2017 (Restated): 18.9%)
- Major expenses are as follows:

<i>(As % of revenue)</i>	<i>For the year ended 31 December</i>	
	2018	2017 (Restated)
Marketing & advertising expenses	1.9%	1.4%
Staff costs <i>(excluding labour costs)</i>	3.3%	4.0%
Transportation expenses	3.4%	3.9%
Research and development	2.0%	2.3%

Basic EPS & DPS

2018 Dividend payout ratio: 69.4% (2017: 66.7%)

(RMB cents)



Key Financial Indicators



(RMB '000)	As at 31 December	
	2018	2017
Cash on hand (RMB '000)	25,919,500	20,932,456
Convertible bonds liability portion (RMB '000)	-	455,537
Bonds payable (RMB '000)	9,986,824	2,991,175
Bank borrowings (RMB '000)	14,275,540	15,631,443
Current ratio	1.3 times	1.3 times
Gross gearing ratio	145.1%	118.5%
Net gearing ratio (net cash)	(9.9%)	(11.5%)
Finished goods turnover	41 days	46 days
Accounts receivable turnover (Restated)	46 days	51 days
Accounts payable turnover	72 days	73 days

Other Financial Information

Interest income: around RMB735.2million (2017: RMB504.8 million)

- Partly included in other gains:
about RMB636.8 million (2017: RMB411.1 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB98.4 million
(2017 : RMB93.7 million)

Interest expense:

- About RMB630.2 million
(2017: RMB375.3 million)

Net Interest Income:

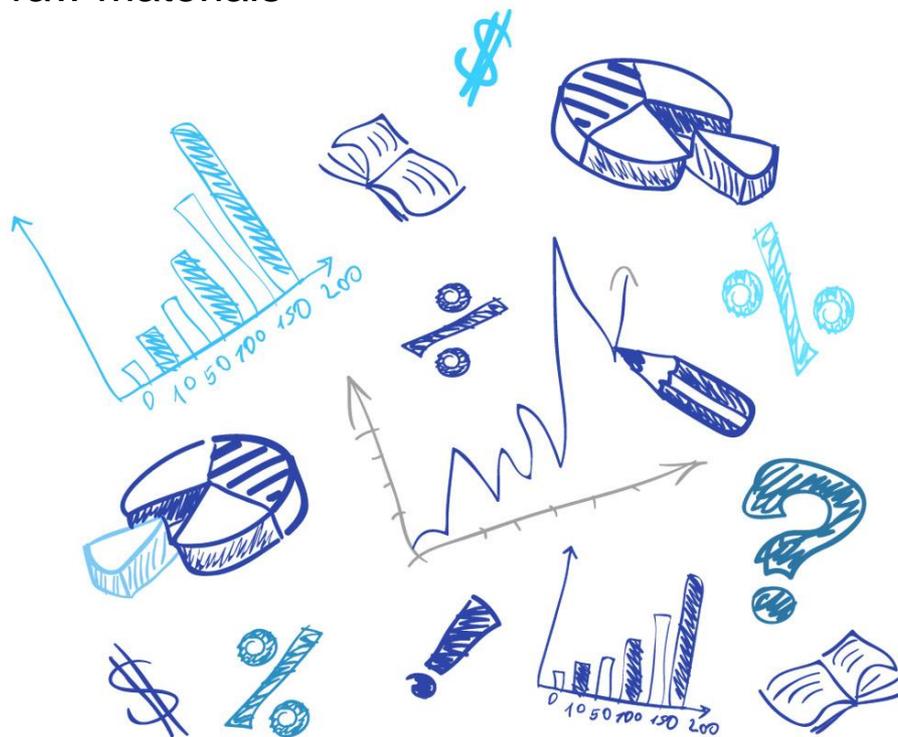
- Around RMB105.0 million
(2017: RMB129.5 million)



Other Financial Information (Cont'd)

Exchange loss: around RMB15.3 million (2017: Gain of RMB98.5 million)

- Included in other gains: loss of about RMB32.0 million (2017: Gain of RMB126.4 million)
 - Arising mainly from purchase of raw materials from overseas suppliers
- Included in finance costs: a gain of about RMB16.7 million (2017: Loss of RMB27.9 million)



Government grants:

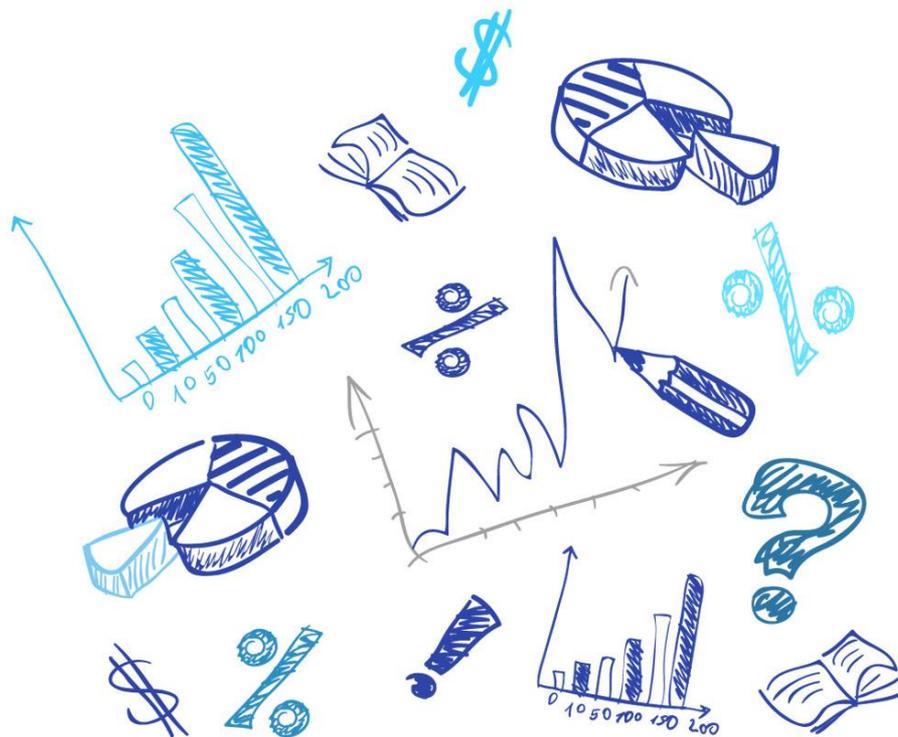
- About RMB517.5 million (2017: RMB484.6 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 22.4% (2017: 23.4%)

Capital expenditure incurred:

- Around RMB845.8 million (2017: RMB936.2 million), mainly incurred for the new production lines



BUSINESS REVIEW



Sanitary Napkins



Market overview

- China has seen steady growth in market demand for sanitary napkin
- Market penetration increased with the market entering the stage of saturation
- Competition in sanitary napkin market heated up
- Premiumisation and upgrades of products required to meet the needs of the customers and remained competitive in the vigorous market



Business performance in 2018 and 2019 outlook

- ☑ Revenue grew by about 6.1% to approximately RMB6,594 million (2017 (Restated): RMB6,215 million), driven by upgraded product portfolio.
- ☑ Gross profit margin increased to about 69.4% (2017 (Restated): 68.8%) as the gain brought by the Group's upgraded product portfolio offset the impact of increasing raw material cost.
- ☑ To develop more brand new, upgraded, and new-packaged products to further develop the high-end market.
- ☑ To expand to the overall female personal care product industry. Actively research and develop female care products that satisfy consumer needs, extend the female care product portfolio and expand the Group's source of revenue.
- ☑ To continue to utilise its e-commerce channels to provide more efficient sales channels.

Market overview

- Persistent consumption upgrade trend in the domestic market
- Chinese demand for tissue paper has been shifting towards diversification and high-quality products
- Persistently high raw material cost and tightened environmental policies imposed massive pressure on the industry in 2018



Business performance in 2018 and 2019 outlook

- ☑ Revenue largely increased by about 18.8% to approximately RMB10.2 billion mainly attributable to the “small team operating model” strategy that improved tissue paper sales from traditional and modern channels, rapid growth in sales from e-commerce channels, and the increased market share as a result of market consolidation.
- ☑ As RMB depreciated significantly in 2H and wood pulp prices rose, overall cost of wood pulp which was imported and settled in US dollars was higher than 2017. Gross profit margin decreased to about 22.5% (2017(Restated): 26.8%)
- ☑ Expect the gross profit margin of tissue paper segment to improve gradually in 2019 as the Group is confident of optimising the product portfolio and increasing the cost effectiveness following the full-scale implementation of the “small team operating model” strategy. In addition, wood pulp prices began to decrease in late 2018.
- ☑ The Group’s annualised production capacity was approximately 1,420,000 tons by end of the year 2018.

Disposable Diapers



Market overview

- Increasing personal hygiene awareness, the pursuit of higher living standards and the rapidly ageing population to bring opportunities to the baby and adult 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
- Fragmented sales channels including online stores, WeChat stores and overseas buying agents have significantly affected the traditional sales channels



Business performance in 2018 and 2019 outlook

- ☑ Revenue decreased by about 14.4% to approximately RMB1,536 million, as sales through traditional channels recorded a decrease of 35% in revenue, which accounted for approximately 40% of the overall diapers sales.
- ☑ Strategically increased investment in e-commerce channel and maternity stores while continuously implementing its omni-channel strategy. The sales of e-commerce channel accounted for more than 35% of the overall diapers sales and increased by 10% year-on-year, effectively alleviating the decline.
- ☑ Gross profit margin dropped to around 39.2% (2017(Revised): 40.8%) due to increased price of raw material petrochemical products and intensified competition.
- ☑ In 2019, the Group will continue to leverage on “small team operating model” to improve its understanding of consumers, adjust the product mix and the pace of supplies, and actively increase the sales of e-commerce and maternity stores. To forge ahead towards the long-term goal of developing high-end market.
- ☑ To gradually expand into the baby care industry and the elderly care industry in the long term and expanded the products into the South Asia Market.

Other Income - Household Products



- Stepped up its efforts to develop the household products business in recent years so as to expand its market coverage.
- Acquired the entire issued share capital of the Sunway Kordis.
- Sunway Kordis manufactures food wrap film and plastic bags for the PRC market and the markets in Europe, Australia, North America and Asia.
- The acquisition will further enhance the overall growth, expand its household products offerings and diversify its revenue stream inside and outside the PRC.
- Revenue from the Group's household products business (including Sunway Kordis) amounted to approximately RMB230,423,000 (2017 (Restated): RMB9,851,000), accounting for approximately 1.1% (2017 (Restated): 0.1%) of the Group's revenue.
- In 2019, the Group will further utilise the experience of Sunway Kordis in household product industry and develop the coverage of Hengan's household product.
- The Group will also seek to leverage on its overseas sales network to bring Hengan's product to the overseas market.



Other Income - Wang-Zheng Berhad



- Hengan successfully expanded into the Malaysian market in 2018
- Launching the high-end adult diapers and the Banitore brand in order to establish a foothold in the elderly care industry
- Launched the “Super mini” wet wipes series in Malaysia which achieved good sales and received great word-of-mouth reviews
- The revenue and net profit of Wang-Zheng amounted to RMB425 million and 15 million respectively, accounting for approximately 2.1% and 0.4% of the Group’s total revenue and net profit respectively.
- In 2019, Wang-Zheng will vigorously promote Hengan’s products in Malaysia through various sales channels
- To continue to upgrade existing Wang-Zheng products and develop high-end products
- New adult pull-on pants production line to commence operation in 2019



Market overview

- Contribution of online retail sales of physical goods to the total retail sales of consumer goods increased to 18.4% from 15% in 2017
- Continued shift of consumption from in-store shopping to online shopping



Business performance in 2018 and 2019 outlook

- ☑ Revenue from e-commerce (including Retail Expert (零售通) and WeChat sales) exceeded RMB2.9 billion, up by more than 50%. Contribution to total sales revenue rose to approximately 14.4%. Sales of tissue paper segment continued to benefit from the rapid growth of e-commerce channel.
- ☑ Made use of sales channel like online stores and WeChat stores to further expand sales network.
- ☑ Through the strategic collaborations with large e-commerce operators in China to make use of big data to more precisely analyse the online shopping habits and preferences of consumers.
- ☑ With the Retail Expert (「零售通」) platform, the Group also expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.
- ☑ The Group will continue to expand the coverage of e-commerce channels, launch online exclusive themed products and engage in online promotions to boost the sales and profit of e-commerce in 2019.

Streamlined Operation Team Structure – extending to all divisions



- “Small team operating model” has gradually extended to all divisions of the Group, including production, products, e-commerce and maternity departments and achieved notable results.
- In 2018, total sales resumed double-digit growth, and its expense ratio was 16.9%, decreased by about 2 percentage point, effectively alleviating the impact of high raw material costs on the profitability of the Group.
- The Group believes the effectiveness of the "small team operating model" at all operation divisions will be further strengthened.
- The Group will keep upgrading its entire supply chain and deepen the operational efficiency of “small operating model” in order to enhance the agility and market responsiveness of the Group, thereby fully exploiting the potential of the strategy.



International Business Development



Hengan Group subscribed for approximately 36.46 percent of the issued share capital of Finnpulp



Hengan Group entered the Russian market and established a factory in Volgograd



Hengan acquired half stake of Malaysia's listed company "Wang-Zheng Berhad"



Hengan Group entered the Indonesia market to deepen overseas business in South East Asia

OUTLOOK



Market Outlook

Uncertainties over China-US trade frictions and the volatile movement of Renminbi exchange rate linger

The Chinese government has been promoting high-quality development of the society, driving up the demand for high-quality products in the personal hygiene products market in the long run



The Group expects the wood pulp prices to fall in 2019, easing the cost pressure and raising gross profit margin

To continue to execute the “small team operating model” strategy to the greatest effect, focusing on consumers and satisfying their needs through high-quality products and services

To actively implement the omni-channel strategy, and explore new potential channels



To expand to the female’s personal care business, baby care business and adult care business in the long-term



To promote the Hengan brand to the overseas markets

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