



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044

Annual Results 2019 Corporate Presentation

March 2020



Agenda

Financial Highlights



Business Review



Outlook



Open Forum



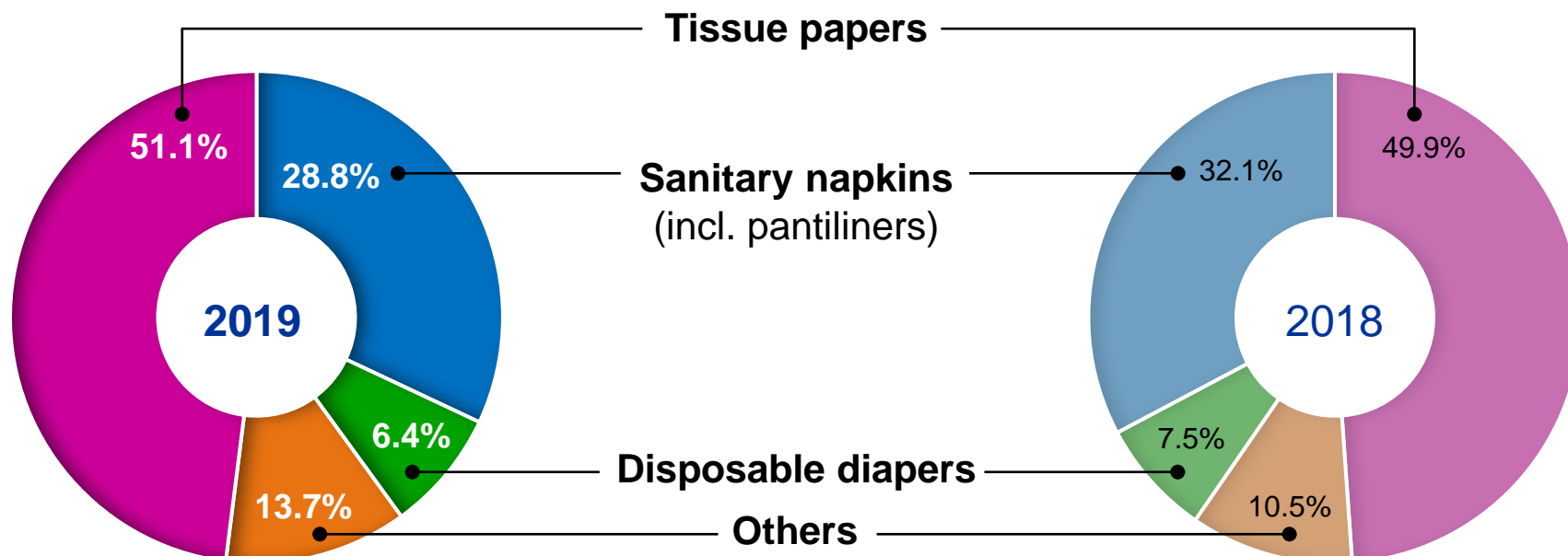


Financial Highlights

Financial Highlights

	2019	2018	Change
(RMB '000)	For the year ended 31 December		
Revenue	22,492,845	20,513,881	↑ 9.6%
Gross profit	8,688,957	7,835,753	↑ 10.9%
Operating Profit	5,680,296	5,429,224	↑ 4.6%
Profit attributable to shareholders	3,907,723	3,799,805	↑ 2.8%
Earnings per share (RMB)			
— Basic	3.285	3.151	↑ 4.3%
— Diluted	3.285	3.146	↑ 4.4%
Dividend per share (RMB)			
— Interim	1.00	1.00	-
— Final	1.25	1.20	↑ 4.2%

Solid Revenue Base



By Business Segment	2019	2018	Change
(RMB '000)			
For the year ended 31 December			
Tissue paper	11,486,538	10,227,313	↑ 12.3%
Sanitary napkins (incl. pantliners)	6,487,003	6,593,710	↓ 1.6%
Disposable diapers	1,439,087	1,536,304	↓ 6.3%
Others	3,080,217	2,156,554	↑ 42.8%

Gross Profit Margin Overview

By Business Segment	2019	2018
(%)	For the year ended 31 December	
Tissue paper	27.7%	22.5%
Sanitary napkins (incl. pantliners)	70.3%	69.4%
Disposable diapers	40.5%	39.2%
Others	11.9%	16.7%
Overall	38.6%	38.2%

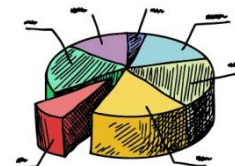
Major factors affecting overall gross profit margin

**Margin improved in 2019
due to:**



- Increase in promotion expenses
- Increase in proportion of revenue from other business with lower gross profit margin

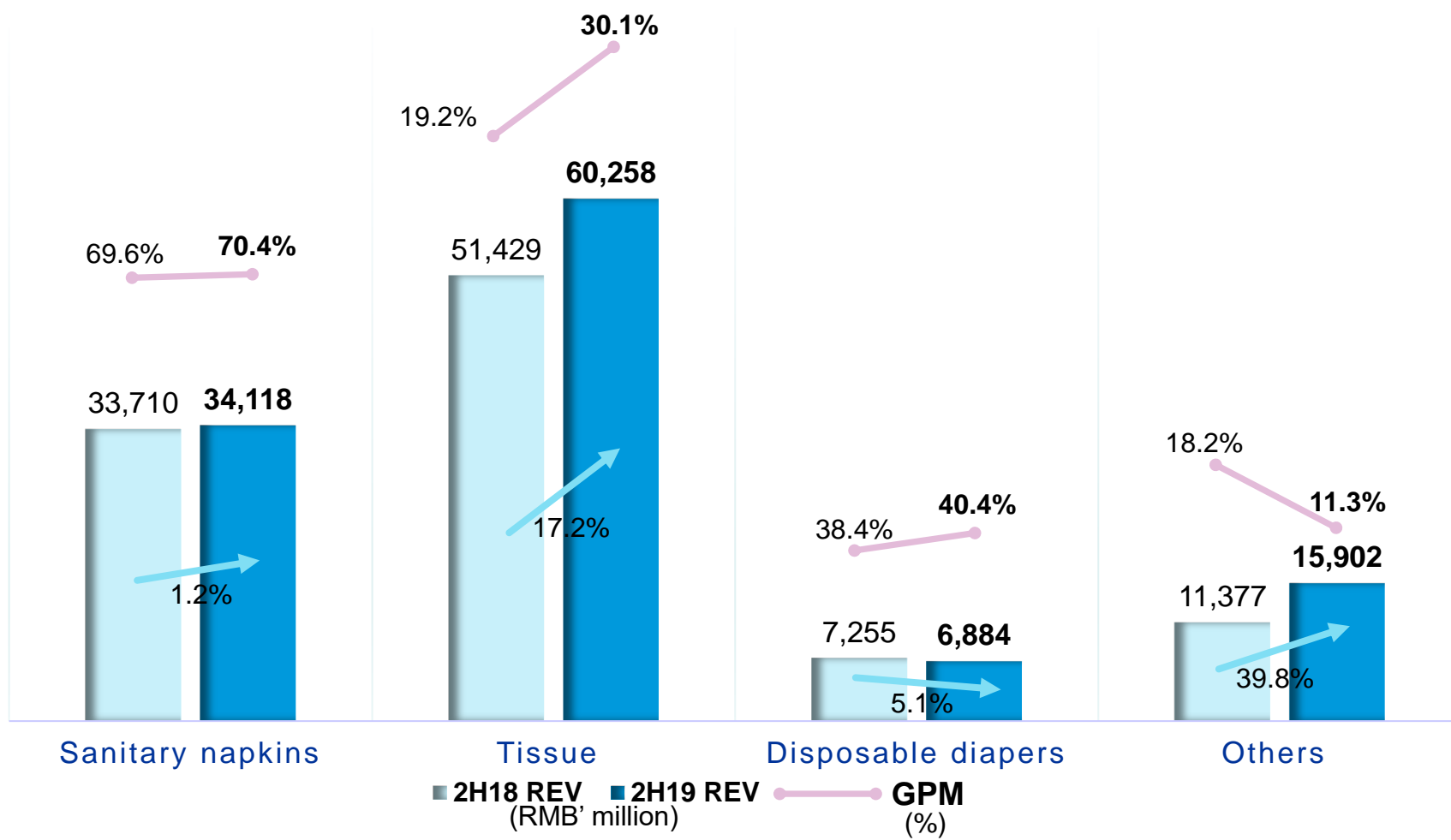
**PARTIALLY
OFFSET**



- Drop in pulp price and cost of petrochemical raw materials
- High-end & Upgraded product mix

Satisfactory Recovery in 2H19

Optimisation measures became increasingly evident in 2H2019



Selling and distribution costs and administrative expenses

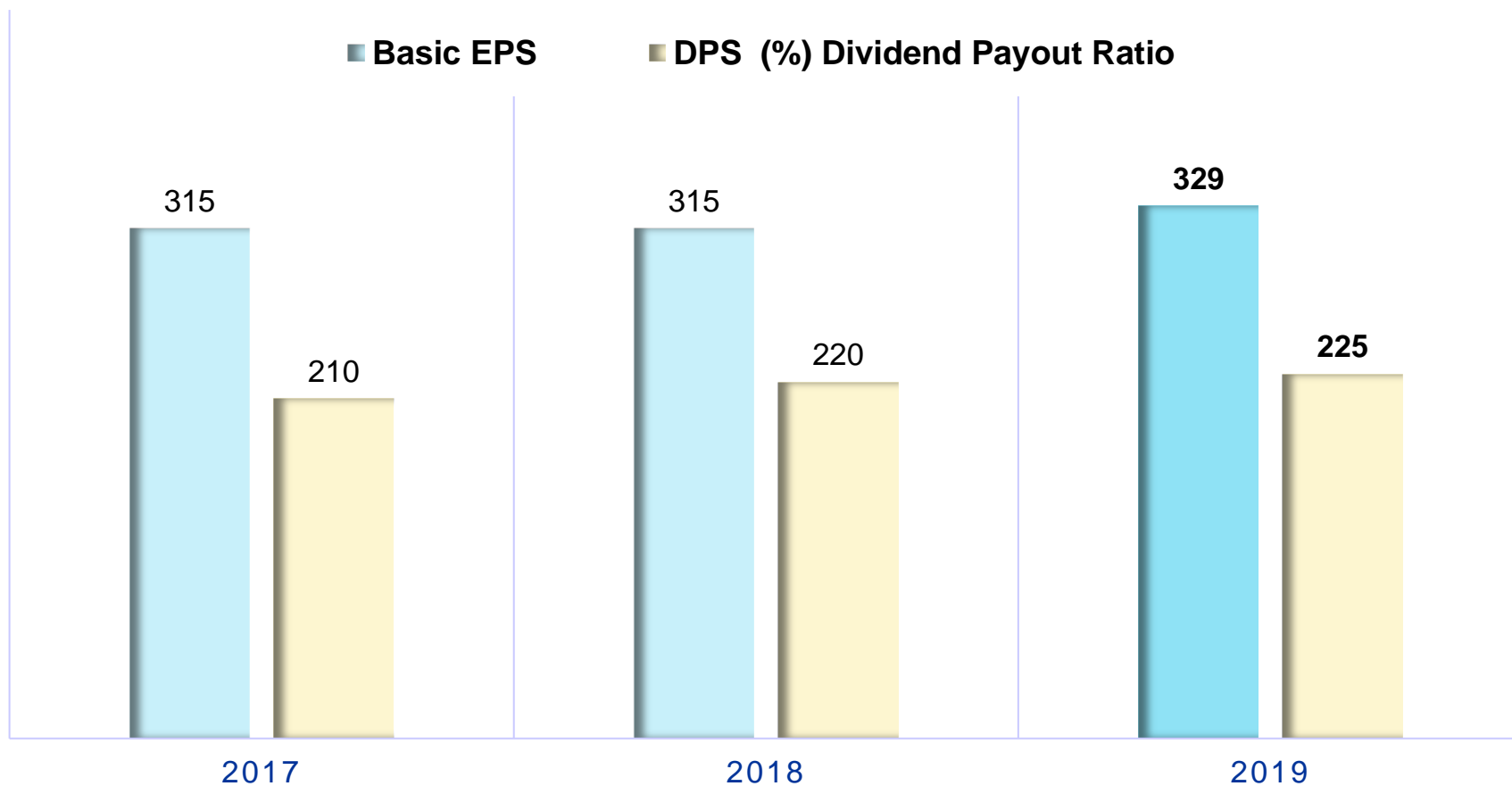
- ❖ Selling and distribution costs and administrative expenses accounted for approximately 20.0% of total revenue (2018: 16.9%)
- ❖ Major expenses are as follows:

	2019	2018
<i>(As % of revenue)</i>	<i>For the year ended 31 December</i>	
Marketing & advertising expenses	5.0%	2.0%
Staff costs <i>(excluding labour costs)</i>	3.4%	3.3%
Transportation and packaging expenses	3.6%	3.8%
Research and development	1.8%	2.0%

Basic EPS & DPS

2019 Dividend payout ratio: 68.5% (2018: 69.4%)

(RMB cents)



Key Financial Indicators

	2019	2018
(RMB '000)	As at 31 December	
Cash on hand (RMB '000)	22,977,561	25,919,500
Bonds payable (RMB '000)	3,994,474	9,986,824
Bank borrowings (RMB '000)	17,613,967	14,275,540
Current ratio	1.3 times	1.3 times
Gross gearing ratio	120.9%	145.1%
Net gearing ratio (net cash)	(7.6%)	(9.9%)
Finished goods turnover	43 days	41 days
Accounts receivable turnover	53 days	46 days
Accounts payable turnover	68 days	72 days

Interest income: around RMB965.6 million (2018: RMB735.2million)

- Partly included in other gains:
about RMB833.3 million (2018: RMB636.8 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB132.3 million
(2018 : RMB98.4 million)

Interest expense:

- About RMB770.7 million
(2018: RMB630.2 million)

Net Interest Income:

- Around RMB194.9 million
(2018: RMB105.0 million)



Other Financial Information (Cont'd)

Exchange loss: around RMB81.6 million (2018: Loss of RMB15.3 million)

- Included in other gains: loss of about RMB89.3 million (2018: loss of RMB32.0 million)
 - Arising mainly from purchase of raw materials from overseas suppliers
- Included in finance costs:
a gain of about RMB7.7 million
(2018: gain of RMB16.7 million)



Other Financial Information (Cont'd)

Government grants:

- About RMB692.4 million (2018: RMB517.5 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 22.4% (2018: 22.4 %)

Capital expenditure incurred:

- Around RMB729.4 million (2018: RMB845.8 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 2019 and 2020 outlook

- Revenue at RMB6,487 million (2018: RMB6,594 million), sales returned to low-single digit growth in 2H and achieved high single-digit growth in 4Q, above the industry average
- Gross profit margin increased to about 70.3% (2018: 69.4%) due to the increase in the proportion of high-end products in its product portfolio, and the decline in the cost of petrochemical raw materials
- The Group required small sales teams to strengthen the construction and maintenance of point-of-sales in order to enhance the capabilities of precision marketing and be more responsive to consumer needs
- The Group continued to launch upgrade and premium products including new Space 7 to expand the high-end and high quality market.
- Launched a new feminine care brand, 'Origin and Prime' (若颜初), and launched products such as cotton towels, makeup removers, moisturizing facial masks and other feminine care products. to continue vigorous research and development of other feminine care products beyond sanitary napkins, steadily developing the "feminine care industry" to open up new growth opportunities.

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 2019 and 2020 outlook

- Revenue increased by about 12.3% to approximately RMB11.5 billion (2018: RMB10.2 billion) mainly attributable to the significant sales growth of upgraded products such as 'Tea Classical' series and Bamboo π series, coupled with strong growth in e-commerce sales
- The sales of the Group's wet wipe products (including "Super Mini" wet wipes) maintained significant growth. The revenue of wet wipes amounted to approximately RMB606.7 million (2018: RMB500.4 million), increased by approximately 21.2% year on year.
- Gross profit margin of tissue products remarkably improved from 25.0% in 1H to 30.1% in 2H as the benefits bought by the decline in wood pulp costs were gradually reflected
- As the wood pulp prices are expected to remain at a low level, the gross profit margin of tissue paper will continue to improve in 1H 2020
- To focus on the promotion of the super high-end new series 'Cloudy Skin' (云感亲肤) to improve the consumer experience with double-sided stereoscopic embossed high quality tissue paper with cotton soft skin like.
- To focus on the promotion of the highly popular "Super Mini" wet wipes and also launched wet toilet paper and baby wipes 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 2019 and 2020 outlook

- 🌐 Revenue was approximately RMB1,439 million (2018: RMB1,536 million), sales decline narrowed from 7.4% in 1H to 5.1% in 2H as e-commerce channel effectively drove sales growth and the proportion of the Group's disposable diapers sales through e-commerce channel increased to more than 40% , while upgraded high-end products 'Q • MO' and 'Soft and Thin' achieved satisfactory sales performance
- 🌐 Gross profit margin increased to around 40.5% (2018: 39.2 %) benefitting from the decline in the petrochemical raw material costs and the increase in the proportion of high-margin products
- 🌐 Revenue of adult diapers increased 27.2% to RMB222,532,000 million, contribution to the overall diaper revenue increased to 15.5% (2018: 11.4%)
- 🌐 To leverage on “small team operating model” to swiftly respond to the market, to improve the sales performance of disposable diapers in the e-commerce channel, and integrate online store with offline maternity stores to attract families to make one-stop consumption in the 'Q• MO' online flagship store. To forge ahead towards the long-term goal of developing high-end market.
- 🌐 To cooperate with nursing homes and hospitals and supply adult disposable diapers and mattresses to develop the elderly care products business in the long run

Household Products

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 first-aid products under the brands of 'Banitore' and 'Bandi', 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 2019 and 2020 outlook

- Revenue from household products segment increased by 63.6% to RMB376.9 million (2018: RMB230.4 million), which accounted for approximately 1.7% (2018: 1.1%) of the Group's revenue. It included revenue from Sunway Kordis amounted to approximately RMB244.0 million (2018: RMB201.3 million).
- 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

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
- The e-commerce channel has become one of the Group's high-growth direct sales channels



Business performance in 2019 and 2020 outlook

- Revenue from e-commerce (including Retail Integrated platform and WeChat sales) exceeded approximately RMB4.4 billion, up by more than 50% year-on-year. E-commerce's contribution to the total sales revenue also rose to approximately 19.8% (2018: 14.4%).
- The Group's core brands such as Space 7, Hearttex and 'Q •MO' have opened official flagship online stores which are operated directly by the Group, enabling the Group to unify its sales strategy and flexibly adjusted its product portfolio
- Through Retail Expert (「零售通」) and New Channel (「新通路」) platforms, the Group also expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.
- To leverage on big data technology to analyse consumer data to better understand market demand and consumer preferences to formulate effective strategies
- To continue to launch high-margin and different combinations of exclusive themed products to further garner market share in the e-commerce channel.
- E-commerce will remain the driving force of the overall sales growth.

Further enhanced the operational efficiency of “small sales team”

- Further enhanced the “Small team operating model” in terms of quality and standardisation
- Encouraged small sales team to sell products directly to retailers and provide upgraded and premium products that cater to the varying needs of customers
- Despite a period of transition and adjustment in 1H2019 which affected sales growth, the positive effects of a series of optimisation measures became increasingly evident in 2H2019
- The Group maintained steady progress and achieved a near double-digit growth in overall sale in 2019
- In July 2019, the Group promulgated the refined rules for the ‘small sales team’ operating model to strengthen the control of operating expenses, to increase the support and supervision by the regional operation centres
- To further improve the Group’s overall flexibility and market responsiveness to take full advantage of the “small team” strategy





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 RMB446.6 million and 16.9 million respectively, accounting for approximately 2.0% and 0.4% 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



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
- ✿ In 2020, the Group will continue to promote Hengan's products in the Russian market in order to gradually establish its brand reputation in the local market.



FINLAND

- ✿ The Supreme Administrative Court (KHO) rejected the environmental permit for Finnpulp. The Company is engaging in discussions in relation to the next course of action
- ✿ Despite the change in the development of Finnpulp, the Group will continue to look for suitable overseas investment opportunities according to operation needs and the industry environment



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 production license and inspection certificate issued by the Government.

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



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



Outlook

Market Outlook

Uncertainties over China-US trade friction, softening Chinese yuan and the novel coronavirus epidemic

Industrial upgrading and consumption upgrading coupled with rising personal hygiene awareness of citizens to promote the high-quality and sophisticated development of the personal hygiene product market in the long run

The Group expects the wood pulp prices to stay at the low levels in 1H 2020, helping further improve the gross profit margin

To deepen implementation of “small team operation” strategy, strive to improve the flexibility and market responsiveness of the sales team in order to swiftly respond to the ever-evolving market demands

To step up efforts to develop the omni-channel retail strategy

To expand to the feminine care business, baby care business and adult care business in the long-term

To export the Hengan brand to the overseas markets





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