



# 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

## Interim Results 2018 Corporate Presentation

*August 2018*



# Agenda

**Financial  
Highlights**



**Business  
Review**



**Outlook**



**Open  
Forum**





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## *Financial Highlights*



# Financial Highlights



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2018

2017  
(Restated)

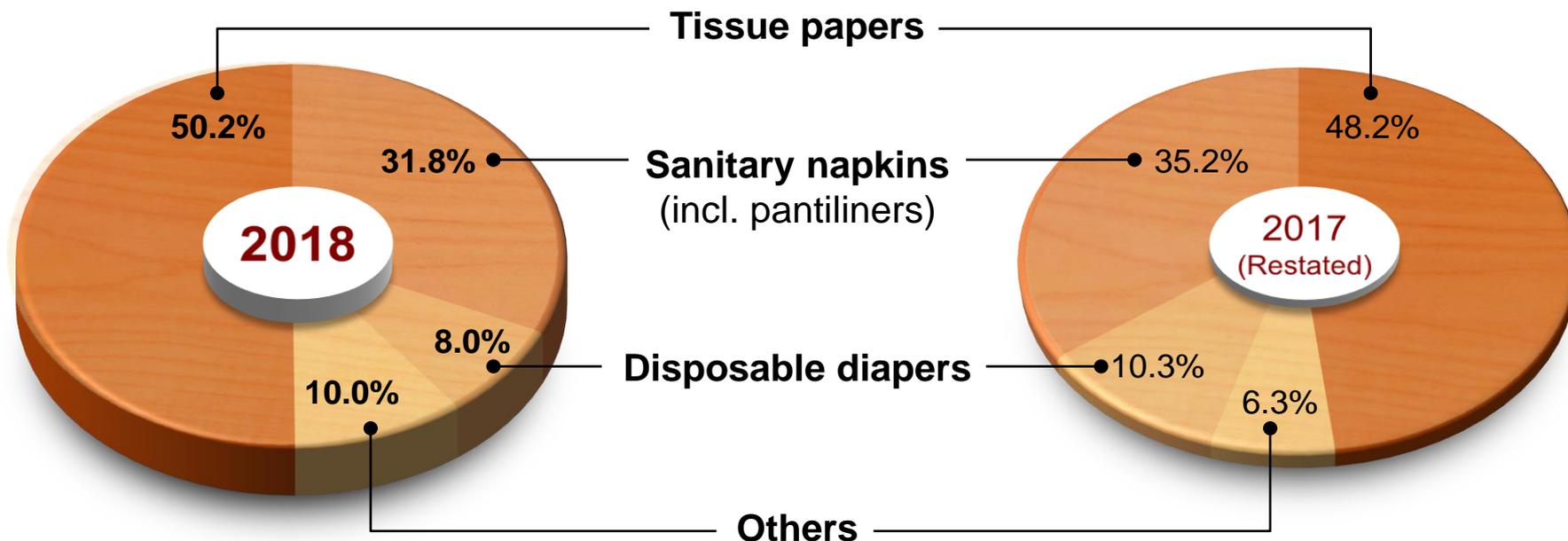
Change

(RMB '000)

For six months ended 30 June

	2018	2017 (Restated)	Change
<b>Revenue</b>	<b>10,136,897</b>	8,719,647	⬆️ 16.3%
<b>Gross profit</b>	<b>4,018,577</b>	3,808,032	⬆️ 5.5%
<b>Operating Profit</b>	<b>2,681,943</b>	2,616,808	⬆️ 2.5%
<b>Profit attributable to shareholders</b>	<b>1,946,907</b>	1,853,935	⬆️ 5.0%
<b>Earnings per share</b>			
— Basic	<b>RMB1.614</b>	RMB1.539	⬆️ 4.9%
— Diluted	<b>RMB1.613</b>	RMB1.539	⬆️ 4.8%
<b>Dividend per share</b>			
— Interim	<b>RMB1.00</b>	RMB0.95	⬆️ 5.3%

# Solid Revenue Base



By Business Segment	2018	2017 (Restated)	Change
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(RMB '000)

For six months ended 30 June

<b>Tissue paper</b>	<b>5,084,428</b>	4,199,201	⬆️ 21.1%
<b>Sanitary napkins (incl. pantliners)</b>	<b>3,222,746</b>	3,069,529	⬆️ 5.0%
<b>Disposable diapers</b>	<b>810,823</b>	899,686	⬇️ 9.9%
<b>Others</b>	<b>1,018,900</b>	551,231	⬆️ 84.8%

# Gross Profit Margin Overview

## By Business Segment

For six months ended 30 June

(%)	2018	2017 (Restated)
Tissue paper	25.8%	29.6%
Sanitary napkins (incl. pantliners)	69.3%	68.7%
Disposable diapers	39.9%	40.4%
Others	15.0%	16.7%
Overall	39.6%	43.7%

## Major factors affecting overall gross profit margin

Margin dropped in 1H2018 due to:

**PARTIALLY  
OFFSET**

■ Upgraded product mix

■ Increase in wood pulp prices



# Major Expenses

## Selling and distribution costs and administrative expenses

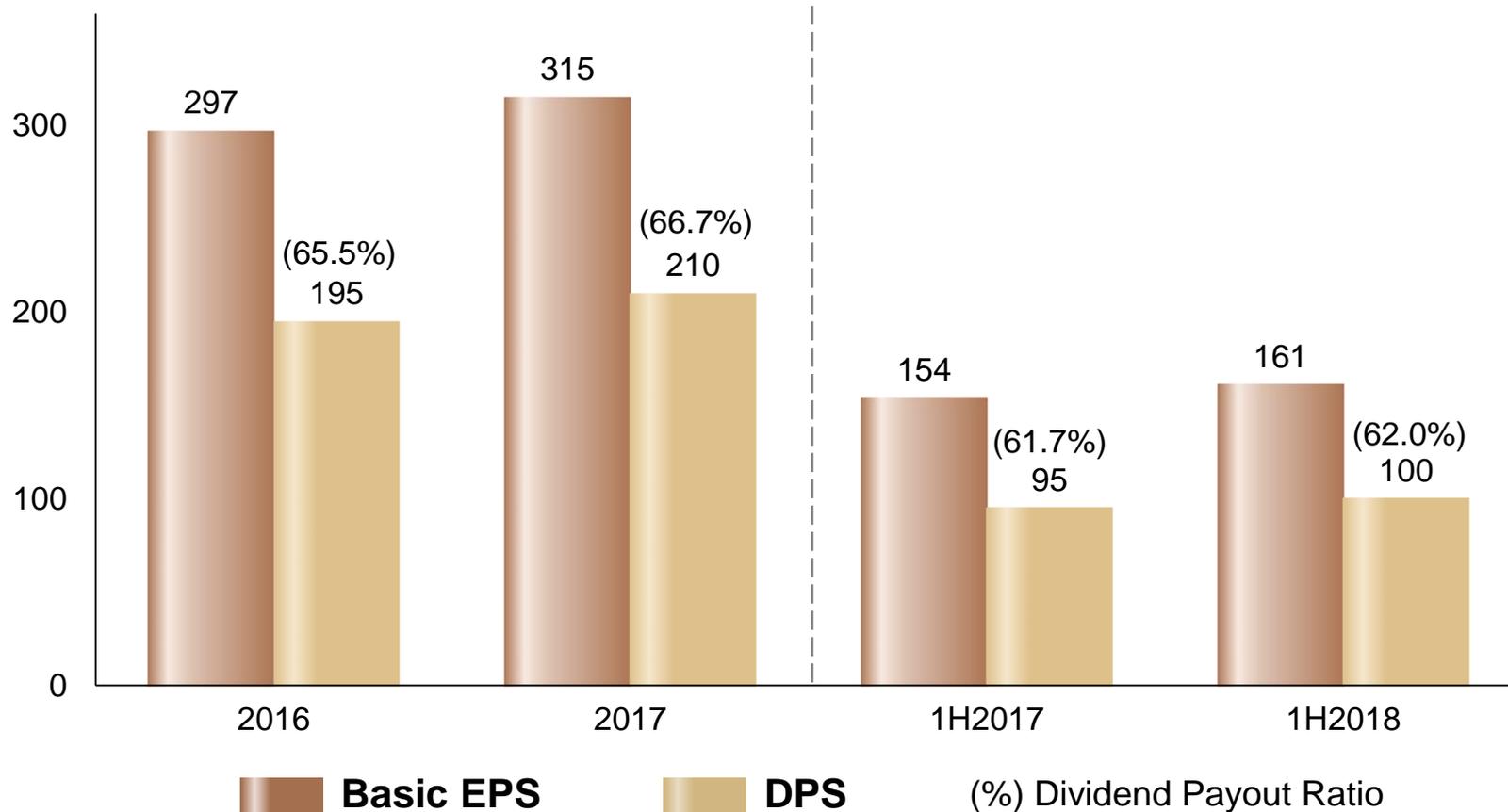
- ❖ Selling and distribution costs and administrative expenses accounted for approximately 17.2% of total revenue (2017 (Restated): 18.6%)
- ❖ Major expenses are as follows:

<i>(As % of revenue)</i>	<i>For six months ended 30 June</i>	
	<b>2018</b>	<b>2017 (Restated)</b>
<b>Marketing &amp; advertising expenses</b>	<b>2.3%</b>	1.0%
<b>Staff costs <i>(excluding labour costs)</i></b>	<b>2.8%</b>	3.6%
<b>Transportation expenses</b>	<b>3.6%</b>	4.3%
<b>Research and development</b>	<b>1.6%</b>	2.0%

# Basic EPS & DPS

1H2018 Dividend payout ratio: 62% (1H2017: 61.7%)

(RMB cents)



# Key Financial Indicators



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2018

2017

As at 30 June 2018/ 31 December 2017

<b>Cash on hand (RMB '000)</b>	<b>19,783,336</b>	20,932,456
<b>Convertible bonds liability portion (RMB '000)</b>	-	455,537
<b>Bonds payable (RMB '000)</b>	<b>2,992,796</b>	2,991,175
<b>Bank borrowings (RMB '000)</b>	<b>15,141,283</b>	15,631,443
<b>Current ratio</b>	<b>1.4 times</b>	1.3 times
<b>Gross gearing ratio</b>	<b>108.4%</b>	118.5%
<b>Net gearing ratio (net cash)</b>	<b>(9.9%)</b>	(11.5%)
<b>Finished goods turnover</b>	<b>37 days</b>	46 days
<b>Accounts receivable turnover (Restated)</b>	<b>44 days</b>	51 days
<b>Accounts payable turnover</b>	<b>63 days</b>	73 days

## Interest income: around RMB294.1million (1H2017: RMB223.6 million)

- ❖ Partly included in other gains:  
about RMB278.7 million (1H2017 : RMB150.5 million) interest income  
on bank deposits over 3 months (short-term investments)
- ❖ Partly included in finance income:  
about RMB15.4 million (1H2017 : RMB73.1 million)

## Interest expense:

- ❖ About RMB239.2 million  
(1H2017: RMB169.9 million)

## Net Interest Income:

- ❖ Around RMB54.9 million  
(1H2017: RMB53.7 million)



# Other Financial Information (Cont'd)

- ❖ Exchange gain: around RMB40.7 million  
(1H2017: Gain of RMB40.3 million)
- ❖ Included in other gains:  
gain of about RMB27.2 million  
(1H2017: Gain of RMB97.3 million)
- ❖ Arising mainly from purchase of raw materials  
from overseas suppliers
- ❖ Included in finance costs:  
a gain of about RMB13.5 million  
(1H2017 : Loss of RMB57.0 million)



## Government grants:

- ❖ About RMB157.4 million (1H2017: RMB171.9 million), as encouragement of the Group's contributions to the development of the local economy

**Effective tax rate: 20.8% (1H2017: 24.5%)**

## Capital expenditure incurred

- ❖ Around RMB443 million (1H2017: RMB330.6 million), mainly incurred for the new production lines





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## *Business Review*



## Market overview

- ❖ Mature females, who have more disposable income, pay more attention to product quality and tend to buy premium high-end product.
- ❖ High market penetration rate continues
- ❖ Stable development of the sanitary napkins market



## Business performance in 1H18 and 2H18 outlook

- ☑ Revenue grew by about 5.0% to approximately RMB3,223 million (1H2017 (Restated): RMB3,070 million), driven by upgraded product portfolio.
- ☑ Gross profit margin increased to about 69.3% (1H2017: (Restated) 68.7%), thanks to the increased proportion of high-end and upgraded products in the product mix which offset the impact of higher raw material costs.
- ☑ Expect steady sales growth in 2018 as a result of continuous optimisation of product portfolio and further expansion into the white-collar market with higher consumption power.
- ☑ To further develop more brand new, upgraded and repackaged products that suit the market needs to cater to consumer will continue to expand the product category of female care products and offer various product combos to provide full-cycle care for female.

## Market overview

- ❖ Growing disposable income and improving awareness of personal hygiene sustainably drives demand for tissue paper
- ❖ China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential
- ❖ Tightened environmental policies benefited large-scale manufacturers to gain market share and increase market penetration



## Business performance in 1H18 and 2H18 outlook

- ☑ Revenue largely increased by about 21.1% to approximately RMB5,084 million mainly due to the “small sales team operation” strategy that improved sales of traditional and modern channels, sustained strong sales growth of e-commerce channel, and the increased market share as a result of market consolidation.
- ☑ Gross profit margin decreased to about 25.8% (1H2017(Restated): 29.6%) due to persistent increase in the price of tissue wood pulp used in tissue paper production.
- ☑ Confident of mitigating the pressure from rising raw material costs with the positive effect of the “small sales team” operating model, launch of high-quality and high-end products and price hike of certain products in June.
- ☑ Current annualised production capacity is around 1,360,000 tons. It is expected to increase to approximately 1,420,000 tons by the second half of 2018.

# Disposable Diapers

## Market overview

- ❖ Potential users of disposable diapers increased thanks to implementation of “Two Child Policy” and a rapidly aging population in China
- ❖ Market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge untapped market potential.
- ❖ Sales from traditional sales channel dropped significantly due to the continuous adverse impact of online sales channel



## Business performance in 1H18 and 2H18 outlook

- ☑ Revenue decreased by about 9.9% to approximately RMB 811million, as a result of the significant drop in sales from the traditional channel by more than 30%, which still accounted for around 40% of the Group's sales, as impacted by the competition from online sales channel.
- ☑ Expedited the sales development through e-commerce channel in the past two years and during the period. As at 30 June 2018, sales of disposable diapers through e-commerce channel increased more than 30% of the overall diaper sales.
- ☑ Gross profit margin remained relatively stable at 39.9% (1H2017(Restated): 40.4%) by adjusting and narrowing the price difference between online and offline sales as well as increasing the proportion of high margin products in the product mix.
- ☑ Further promote its omni-channel strategy through increasing exclusive products for e-commerce channel and maternity stores in order to increase their contribution to diapers sales. Continue to upgrade current products, enrich the “Q.MO” series and shift the product positioning to high-end market so as to stand out as an outstanding “National Brand”.

## Market overview

- ❖ Contribution of online retail sales of physical goods to the total retail sales of consumer goods increased to 17.4% from 13.8% in the first half of 2017
- ❖ Continued shift of consumption from in-store shopping to online shopping



## Business performance in 1H18 and 2H18 outlook

- ☑ Revenue from e-commerce (including Retail Expert (零售通) and Wechat sales) exceeded 1.2 billion, up by more than 60%. Contribution to total sales revenue rose to approximately 12.7%.
- ☑ Continued to increase the coverage of its e-commerce channel and launched exclusive products and product combos for e-commerce sales channels.
- ☑ Adjusted the difference between online and offline pricing and selectively invested resources, the profitability of e-commerce sales therefore increased.
- ☑ The improved efficiency in sales, supplies, and logistics could equip the Group for the e-commerce peak season in the second half of the year.

# E-commerce – Strategic Collaborations



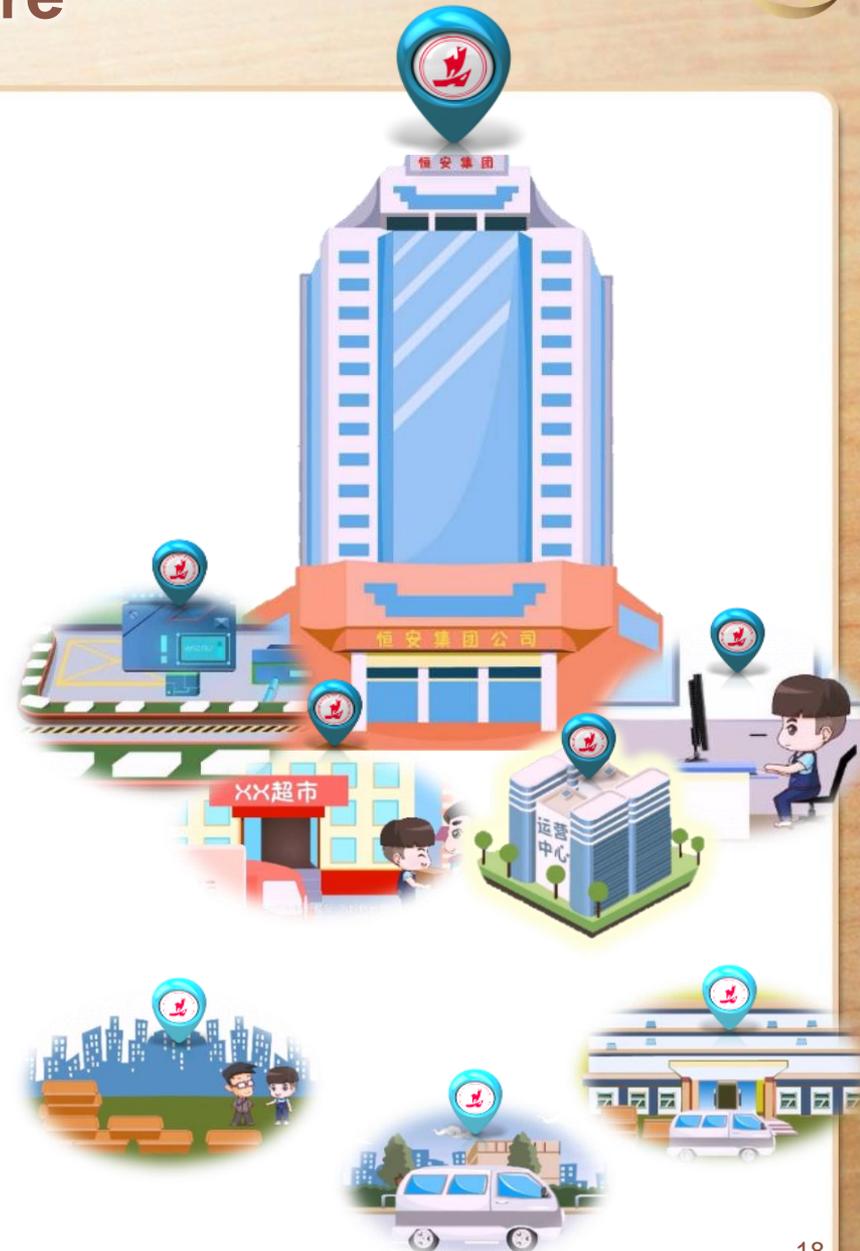
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- ❖ Through the strategic collaborations with well-known large-scale e-commerce operators in China, the Group started to make use of big data to analyse the discrepancy in online shopping habit between varied districts, ages and occupations
- ❖ Enable flexible allocation of the resources used in production, supplies, and sales.
- ❖ Through the Retail Expert (零售通) platform, the Group expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.



# Extended Small Team Structure

- ❖ Extended the “small team strategy” to the major business divisions, factories, operation centres and e-commerce units, the strategy has achieved initial success by gradually establishing the small sales team that were based on the platform
- ❖ Benefited from the Amoeba strategy, in addition to the double-digit sales growth achieved in the first half of 2018, the expense ratio continued to drop while the Group increased the spending in advertising and promotions. The expense ratio improved by more than 1% year-on-year.
- ❖ To extend the “small team operation” strategy to more operation divisions, to enhance the overall flexibility, operation, production, and sales efficiency.
- ❖ To further improve the expense ratio, stimulate sales growth by aligning to the “consumer-oriented” principle so as to satisfy consumers’ needs in the aspects of product development and sales.



# Expansion of product categories and entering into overseas markets



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Finland



finnpulp

Invested in  
Finnpulp  
in 2018

Acquired  
Sunway Kordis  
in 2018



SunKor



恒安集团  
HENGAN

Established in 1985

Malaysia

Acquired  
Wang-Zheng  
in 2017



皇城集团  
WANG-ZHENG BERHAD  
(811233F-0)

- ❖ As a “National Brand” and leading corporation in the fast moving family consumer product in China, Hengan has expanded its product categories and gradually entered into the overseas markets through various investments.

# Investment of Finnpulp

- ❖ In April 2018, the company announced that the investment of Finnpulp Oy (“Finnpulp”) with 5,833,333 shares in total, the share took up around 36.46% of Finnpulp. Under the Initial Investment Agreement, the Group enjoy an option to purchase up to 40-49% of the increased share capital of Finnpulp before the building phase begins.
- ❖ Finnpulp is currently engaged in planning and aiming to build a large-scale bio-product mill in Kuopio, Finland. The target of the planned mill is to produce approximately 1,200,000 tonnes of northern bleached softwood sulphate kraft pulp per year for global markets and other bio-products.



- ❖ The investment can enable the Group to secure stable supply of wood pulp in the long term, and therefore reinforce the long-term stable development of the Group's tissue business.
- ❖ The Group's investment in Finnpulp has gained positive responses from the local market as it will help Kuopio's economic development, promote infrastructure projects and create job opportunities.

# Other Acquisitions

## ❖ Acquisition of Sunway Kordis Holding Limited

- ❖ On 4 April 2018, the Group acquired the entire issued share capital of the Sunway Kordis Holding Limited (“Sunway Kordis”).
- ❖ Sunway Kordis principally engages in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia.
- ❖ The acquisition will further enhance the overall growth of the Group and is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside China.
- ❖ The Group will seek to leverage on Sunway Kordis’ overseas sales network to bring Hengan’s product to the overseas market.
- ❖ Revenue of Sunway Kordis Holding Limited:  
(for the three months between April to June 2018)  
Around RMB52.3 million was included in the Group’s revenue in the first half of 2018



# Other Acquisitions

## ❖ Updates on Wang-Zheng Berhad

- ❖ On 5 June 2017, the Group announced that it acquired an aggregate of 80 million shares of WangZheng Berhad, representing approximately 50.45% of the entity interest in Wang-Zheng
- ❖ Wang-Zheng's sales network covers the major sales channels in Southeast Asia, such as large-scale supermarkets and personal hygiene product stores. The Group will make good use of Wang-Zheng's current sales network to launch Hengan's products in the Malaysian market this year, gradually entering into the Malaysian and other Southeast Asian markets with the help of Wang-Zheng.
- ❖ Revenue from Wang-Zheng:  
(for the six months ended 30 June 2018)  
About RMB186.0 million (only one month revenue was recognised in last period), contributed additional revenue of RMB155.1 million to the Group



# A National Brand



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- ❖ 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.
- ❖ In May, the Group participated in the First Chinese Brand Expo, one of the event series under the China Brand Day.
- ❖ The Group will continue to launch new products with Chinese characteristics to promote China’s high quality household products and the brand of Hengan internationally in 2018.



为中国制造代言!





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## Outlook



# Market Outlook



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- ❖ Despite lingering uncertainties over Sino-US trade friction and volatile Chinese yuan exchange rates, China's economy will maintain a healthy and steady growth.
- ❖ Chinese's pursuit of quality of life will continue, driving the sustainable growth of the personal and household hygiene products market

- ❖ The Group will seize the opportunity arising from industry consolidation to further increase its market share
- ❖ The Group will continue to study the possibility of “Amoebaise” all operation units, in order to maximise the effectiveness of the “small team operation” strategy.
- ❖ To implement the “omni-channel strategy”, focus on selling high-end premium goods, and continue to monitor the possibility of opening up new channels
- ❖ To expand and extend the portfolio of personal and hygiene products and expend into the overseas markets.





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## Open Forum

