



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



2022

ANNUAL RESULTS

Corporate Presentation



March 2023



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



AGENDA



Financial
Highlights



Business
Review



Outlook



Open
Forum

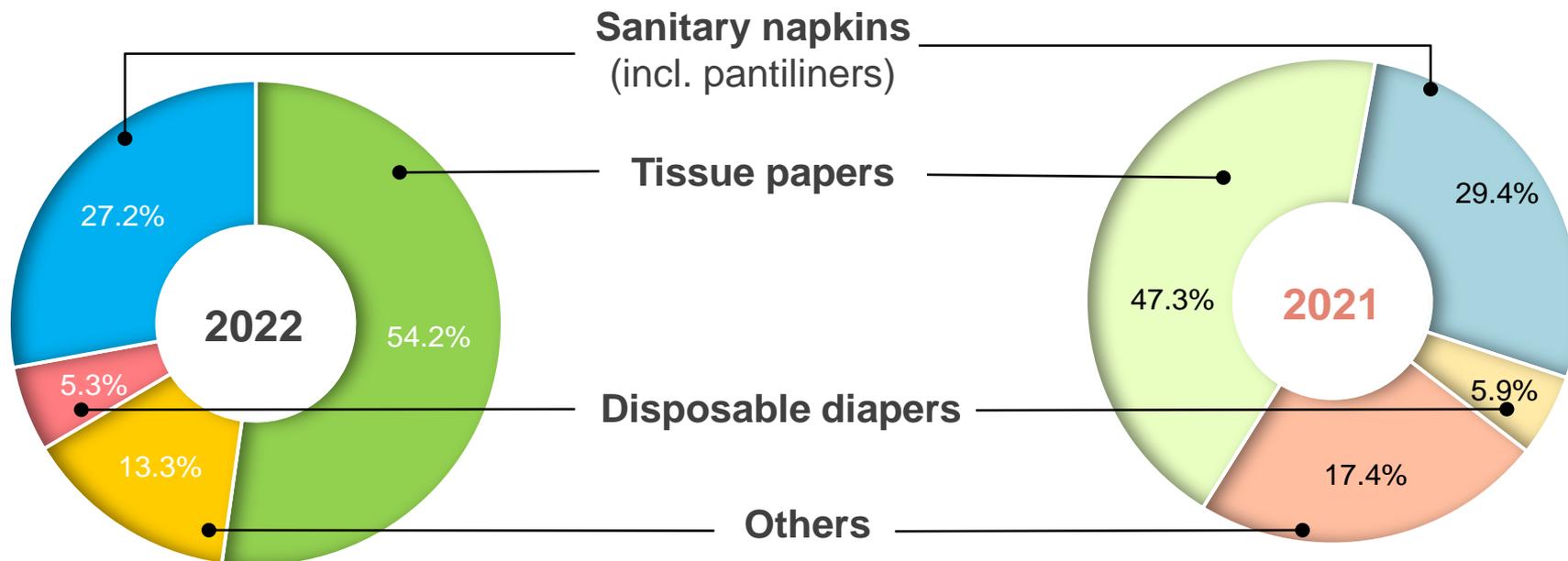
Financial Highlights



Financial Highlights

	2022	2021	Change
(RMB '000)	For the year ended 31 December		
Revenue	22,615,878	20,790,144	↑ 8.8%
Gross profit	7,689,499	7,772,318	↓ 1.1%
Operating Profit	2,869,154	4,543,591	↓ 36.9%
Profit attributable to shareholders	1,925,249	3,273,601	↓ 41.2%
*Profit attributable to shareholders (excluding exchange (losses) / gains from operating activities – net after tax)	2,826,459	3,160,020	↓ 10.6%
Earnings per share (RMB)			
– Basic	1.657	2.786	↓ 40.5%
– Diluted	1.657	2.786	↓ 40.5%
Dividend per share (RMB)			
– Interim	0.7	1.0	↓ 30.0%
– Final	0.7	0.7	N/A
*Exchange (losses) / gains from operating activities – net after tax	(901,210)	113,581	↓ 893.5%

Revenue Analysis



By Business Segment	2022	2021	Change
(RMB '000)	For the year ended 31 December		
Tissue paper	12,248,011	9,842,429	↑ 24.4%
Sanitary napkins (incl. pantliners)	6,156,060	6,116,530	↑ 0.7%
Disposable diapers	1,202,347	1,219,445	↓ 1.4%
Others	3,009,460	3,611,740	↓ 16.7%

Gross Profit Margin Overview

<i>By Business Segment</i>	2022	2021
(%)	<i>For the year ended 31 December</i>	
Tissue paper	20.7%	26.4%
Sanitary napkins (incl. pantliners)	66.8%	70.5%
Disposable diapers	36.9%	37.7%
Others	19.7%	11.0%
Overall	34.0%	37.4%

Major factors affecting overall gross profit margin

Margin decreased in 2022 due to:

➔ Significant increase in wood pulp prices and costs of petrochemical raw materials (e.g. Superabsorbent polymer and fluff pulp)



· Increase in premium & upgraded product mix with high GP margin

Major Expenses



Selling & distribution costs and administrative expenses



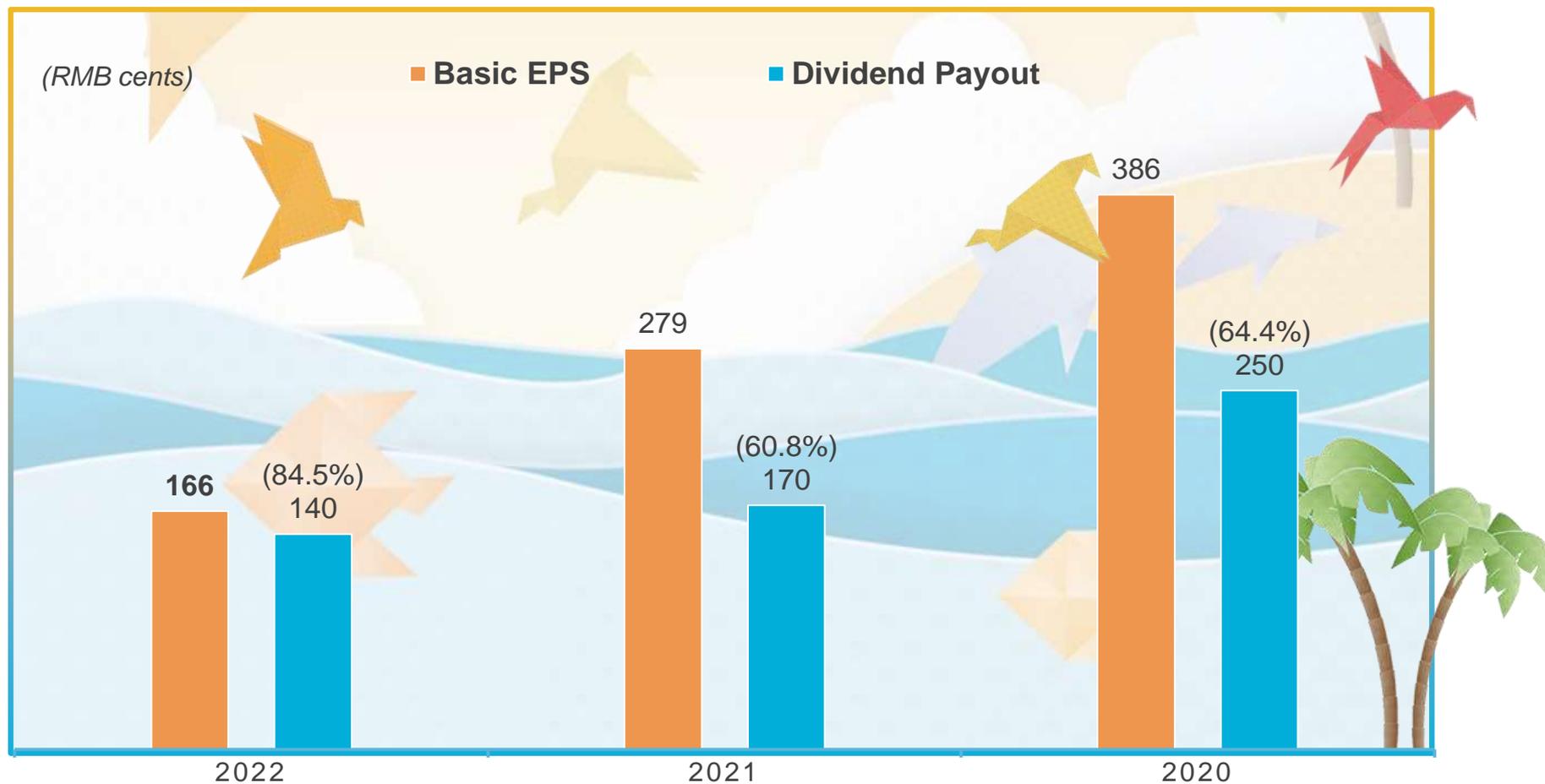
- Selling & distribution costs and administrative expenses accounted for approx. 21.6% of total revenue (2021: 21.8%)
- Major expenses are as follows:



By Business Segment	2022	2021
<i>(As % of revenue)</i>	<i>For the year ended 31 December</i>	
Marketing & advertising expenses	4.7%	4.6%
Staff costs (excluding labour costs)	4.3%	4.0%
Transportation expenses	4.1%	3.9%
Research & development	1.6%	1.7%

Basic EPS and DPS

2022 Dividend payout ratio: 84.5% (2021: 60.8%)



Key Financial Indicators



<i>By Business Segment</i>	2022	2021
	31 December 2022	31 December 2021
Cash on hand (RMB '000)	21,563,284	22,282,950
Bank borrowings and other borrowings (RMB '000)	17,029,952	18,227,095
Current ratio	1.4 times	1.2 times
Gross gearing ratio	87.20%	95.70%
Net gearing ratio (net cash)	(23.20%)	(21.30%)
Finished goods turnover	43 days	50 days
Accounts receivable turnover	48 days	56 days
Accounts payable turnover	67 days	67 days

Other Financial Information

Interest income: around RMB867.5 mn (2021: RMB961.6 mn)

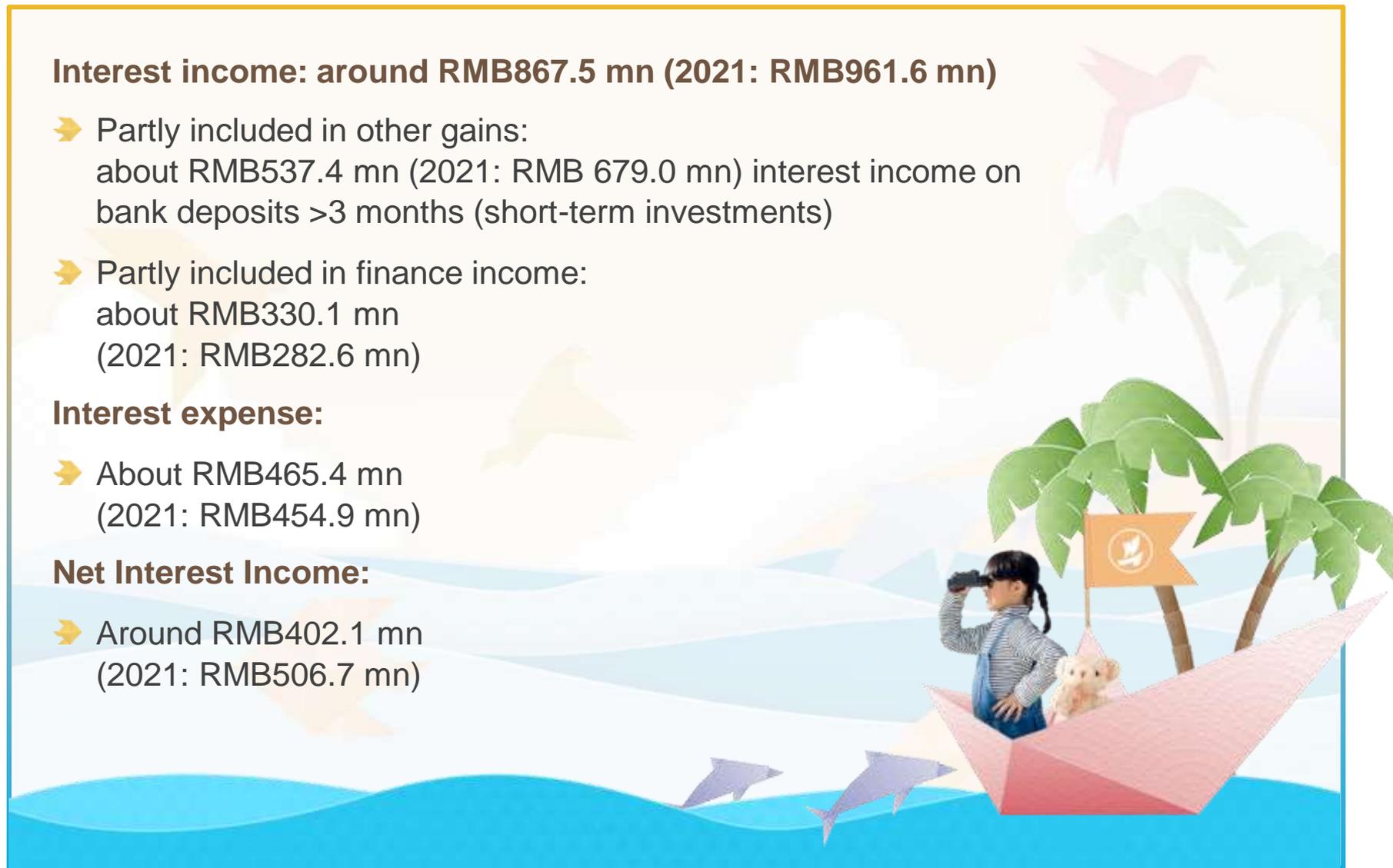
- ➔ Partly included in other gains:
about RMB537.4 mn (2021: RMB 679.0 mn) interest income on bank deposits >3 months (short-term investments)
- ➔ Partly included in finance income:
about RMB330.1 mn
(2021: RMB282.6 mn)

Interest expense:

- ➔ About RMB465.4 mn
(2021: RMB454.9 mn)

Net Interest Income:

- ➔ Around RMB402.1 mn
(2021: RMB506.7 mn)



Other Financial Information (Cont'd)



Exchange losses due to the significant depreciation of RMB against US\$ and HK\$: around RMB797.1 mn (2021: Gain of RMB121.2 mn)

Included in other gains: loss of about RMB912.9 mn
(2021: gain of RMB109.2 mn)

➔ Arising mainly from:

- Group's HK companies - RMB dividend receivable from PRC companies
- Purchase of raw materials from overseas suppliers

➔ Included in finance costs:
a gain of about RMB115.8 mn
(2021: Gain of RMB12.0 mn)

➔ Appropriate measure to be taken:

Group's HK companies – reduction of RMB dividend receivable balances
from the PRC companies

Other Financial Information (Cont'd)



Government grants:

- About RMB546.2 mn (2021: RMB477.5 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 31.2% (2021: 24.0%)

Capex incurred:

- Around RMB1,327.2 mn (2021: RMB640.40 mn), mainly incurred for the new production lines



Business Review



Sanitary Napkins

Market overview

- ➔ China has the world's largest feminine care products market, but the market competition is very fierce.
- ➔ Many domestic and foreign brands adopted price reductions and aggressive sales promotion strategies to tap into the mid-to-high-end market and young consumers.



Business performance in 2022 and 2023 outlook

- ➔ In 2022, despite the severe epidemic situation and fierce market competition, sales of the Group's sanitary napkin business still recorded an increase of approx. 0.7% to approx. RMB6,156 mn (2021: RMB6,117mn) thanks to the higher proportion of upgraded products and the continuous growth of traditional sales channels.
- ➔ As the Group adhered to a stable pricing strategy and the price of petrochemical raw materials increased when compared to prior years, the GP margin of the sanitary napkin business dropped by approx. 3.7 pts to approx. 66.8% (2021: 70.5%). The 2H 2022 GP margin of the sanitary napkin improved to about 68.4% from 65.3% in 2H 2022, due to the decrease in the costs of the petrochemical raw materials. Benefiting from the steady increase in the proportion of premium and upgraded products which offset the rising cost pressure, the GP margin is expected to remain stable in 2023
- ➔ The Group's sanitary napkin brand, “七度空间” has always been a leader in the domestic market. The Group continued to launch upgraded and premium products such as the “Ultra-thin” (特薄), “Extra-long - Night Use” (加長夜用), “Pants-style”(褲型) and the newly launched “Fruit moisturizing series” (果滋潤系列), were well-received by the market with enthusiastic sales response and increasing market share. The Group believes that the upgraded version of the “七度空间” series will continue to be the main growth driver for the sanitary napkin business in the future, which will help the Group to expand its market share and increase the revenue contribution of premium products.
- ➔ The Group will continue to expand new retail channels and increase the sales proportion of new retail channels, strive to develop higher quality products for new retail channels, adhere to a stable price strategy, and maintain stable growth in traditional channels, promoting the Group's long-term development and consolidating the Group's leading position.



Market overview

- The epidemic repeatedly impacted the Chinese economy and the overall retail market, the national health awareness has further improved, and the demand for tissue paper remained robust.
- In the face of rising costs and fierce market competition, some small and medium-sized tissue paper companies have withdrawn from the market.



Business performance in 2022 and 2023 outlook

- Hengan leveraged its strong capital strength, nationwide sales network, strong brand and diversified product portfolio to gain more market share in 2022. Thanks to its stable pricing strategy and effective managed sales promotions, the revenue of the Group's tissue paper business increased remarkably by approx. 24.4% to approx. RMB12.2 bn (2021: RMB9,842 mn).
- The wood pulp price surge exerted significant pressure on the Group's GP, which dropped to approx. 20.7% in 2022 (2021: 26.4%). Although the price of wood pulp has shown signs of a slight decline recently, it is expected that the positive impact of the drop in wood pulp price will be reflected in the cost of sales only in 2H 2023 after the Group consumes the existing high-cost wood pulp inventory. Therefore, the GP margin of the Group's tissue paper business is expected to improve in 2H 2023.
- Demand for tissue paper products remained at a high level. The Group's premium tissue paper products garnered very encouraging sales results. Among them, the sales of the "Cloudy Soft Skin" series recorded a growth of close to 80% and accounted for >10.0% of the overall tissue paper sales. Wet wipes business has maintained a good growth momentum. The sales of the Group's wet wipes business grew nearly 14.5% to approx. RMB842.0 mn (2021: RMB735.6 mn), accounting for approx. 6.9% of the sales of the tissue paper business (2021: 7.5%).
- The Group actively responded to the fragmentation of sales channels, and the efforts and resources invested in the early years gradually has entered the harvest period. The tissue paper sales in e-commerce channel increased by more than 46.0%, accounting for more than 34.0% of the sales of tissue paper, whereas tissue paper sales in emerging channels such as online-to-offline (O2O) platform and community group-buying recorded an encouraging growth of more than 15.0%.

Disposable Diapers

Market overview

- The improvement of people's living standards and the ageing population continue to promote the growth of China's adult disposable diaper market.
- The change in parenting concept and the trend of consumption upgrade have also promoted the continuous increase in the penetration rate of baby disposable diapers. There is enormous room for development in China's disposable diaper market.



Business performance in 2022 and 2023 outlook

- In 2022, the sales of the flagship premium product "Q•MO" maintained growth momentum and saw a y-o-y growth of nearly 17.4%, and its proportion further increased to >30.0%. Benefiting from the growing domestic adult incontinence products market and the higher penetration rate of the Group's adult disposable diapers, sales of the Group's adult disposable diaper business grew approx. 12.9% during the year, accounting for approx. 23.7% of the overall diaper sales.
- In 2022, the Group strived to strengthen the development of e-commerce and maternity sales channels. The proportion of sales of e-commerce and maternity sales channels increased to close to approx. 60.2% and approx. 18.5%, respectively. However, due to fierce market competition, the sales growth of the Group's premium products only partly offset the decline in the sales of mid-to-low-end products and products in traditional channels. As a result, the sales of the Group's disposable diaper business still fell approx.1.4% to approx.RMB1,202 mn (2021: RMB1,219 mn), accounting for approx. 5.3% (2021: 5.9%) of the Group's overall revenue.
- GP margin of the Group's disposable diapers business dropped to about 36.9% (2021: 37.7%) in the light of the rise in the cost of sales caused by the price increase in petrochemical raw materials which was offset by the increase in the proportion of sales of the higher-margin "Q•MO" products and adult disposable diapers. The GP margin of the disposable diaper business improved in 2H 2022 to approx. 38.7% as compared with 35.3% in 1H 2022.
- For the baby diaper business, the Group reshaped the "Anerle" brand, established a new brand positioning, and developed sports pants-style diapers to meet the needs of today's consumers. On the other hand, 'Q • MO" Magic Breath diapers have 3.6times the air holes of traditional diapers, and are very popular in the market. Through the dual-brand strategy, after a year of sorting out, the Group expects the sales of the entire baby diaper business to resume stable growth in 2023.
- The Group will invest more resources in the development of adult care products, so as to fully penetrate the "ElderJoy" (安而康) brand and its products into the domestic market and expand its market share in Southeast Asia.

Other Income and Household Products



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 2022 and 2023 outlook

- Regarding other income and household products, the Group's revenue for 2022 decreased by approx. 16.7% y-o-y to approx. RMB3,009 mn (2021: RMB3,612 mn), which was mainly attributed to the tight supply of raw materials and the higher demand for tissue paper products during the year and the Group's preference to keep raw materials in reserve. As a result, revenue from raw material trading business decreased by approx. RMB864 mn to RMB1.6 bn (2021: approx. RMB2.5 bn).
- Revenue from the Group's household products segment was approx. RMB326.0 mn (2021: RMB314.6 mn), a y-o-y increase of approx. 3.6%, accounting for 1.4% of the Group's revenue (2021: 1.5%), which was mainly because the export business of household products gradually picked up as the epidemic situation began to improve in other regions.
- In 2022, 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 continue to take advantage of these overseas sales network to bring Hengan's products to overseas markets.
- 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



MALAYSIA



- With the easing of the epidemic and the reopening of the region, the Group's Wang-Zheng Group business in Malaysia saw a steady recovery and its turnover increased by approx. 17.1% y-o-y to approx. RMB411.7 mn (2021: RMB351.6 mn), accounting for approx. 1.8% of the Group's overall sales (2021: approx. 1.7%).
- 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 premium 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 market is expanding, the national online retail sales of physical goods reached RMB12 tn in 2022, an increase of 6.2%, of which the online retail sales of consumer goods increased by 5.7%.
- The Group continues to innovate, develop and optimise e-commerce and other new retail channels, and adapt to the market trends to grasp business opportunities.

Tiktok Brand List

NO. 1	NO. 1
Hearttex	七度空間
Tissue Products	Sanitary Napkins Products



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

Top Rankings on Community E-commerce Platforms

Brand	Platform
 	
	  
	  
	  
	  

Business performance in 2022 and 2023 outlook

- During the year, the Group carried out upgrade products promotions for various brands in new channels, which received positive responses from the market and further enhanced the Group's brand awareness and market share in online and other new retail channels.
- The Group's e-commerce channels (including Retail Integrated and New Channel) maintained a strong development momentum and sales for the year soared over 26.8% to approx. RMB6.1 bn (2021: RMB4.8 bn), bringing the proportion of e-commerce sales up to approx. 26.9% (2021: 23.1%) of the Group's overall sales.
- In the future, the Group will continue to step up its efforts in developing its e-commerce brand flagship stores and emerging channels (such as Douyin), improve data analysis capabilities for end customers, and conduct precision marketing to boost conversion rates, and strive to achieve the strategic goal of becoming a global top-tier supplier of daily products. In response to the rapid development of the online market and the fragmentation of sales channels, the Group will carefully analyse the needs of customers in different channels, provide differentiated products that suit the characteristics and preferences of consumers in each channel, and continuously improve the seamless omni-channel consumer experience in both online and offline channels.
- The Group will actively build a brand community, interact with consumers through livestream sales and other community activities, and strengthen the connection with young consumers, attract the consumers with the new consumption models such as limited-edition products, community group-buying, and livestream sales, thus increasing the Group's market share in the e-commerce and new retail channels.

Environmental Social & Governance

Green and Low Carbon System

	FY 2022	FY 2021
Proportion of production companies with ISO 14001 certification	100%	100%
GHG emission intensity for paper production sector (tCO ₂ e/tonnes of paper)	0.99	1.00
Energy consumption intensity for paper production sector (tce/tonnes of paper)	0.31	0.32
Water consumption intensity for paper production sector (tonnes/tonnes of paper)	5.6	5.2
Water recycling rate	>99%	>99%

Forest Policy

	FY 2022	FY 2021
Percentage of paper production companies with FSC/CoC certification	100%	100%



Hengan awarded “2022 Green Sustainable Development Contribution” at the International Green Zero-Carbon Festival and ESG Summit.

Hengan’s solar power plate in factory



Hengan was honoured with “2022 Sustainable Development Industrial Enterprises Top 50” of Forbes China.

Environmental Social & Governance

Health & Safety

	FY 2022	FY 2021
Proportion of production companies with ISO 45001 certification	100%	100%
Lost days due to work injury (days)	2,883	3,033
Number and rate of work-related fatalities	0	0
Occupational disease cases	0	0

Community Investment

	FY 2022	FY 2021
Donations (RMB) including cash and in-kind donation for fighting COVID-19	67 million	21 million
Volunteer hours	2,782 hours	1,196 hours



Hengan always cares for the well-being of its employees. The Company regularly holds recreational activities for employees such as “Hengan Group’s Family Day” and birthday parties.



Hengan donated hygiene products worth RMB640,000 including sanitary napkins and disposable diapers to the disaster-stricken areas in Maerkang City, Aba Prefecture, Sichuan Province .



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HENGAN INTERNATIONAL GROUP CO., LTD



Outlook





Business Review for 2022 and plans for 2023

Leveraging its solid research and development and production capacities and positive brand image, coupled with extensive nationwide distribution and diversified product portfolio, Hengan will continue to demonstrate strong resilience in a challenging operating environment, successfully seized opportunity industry consolidation, and gained market share against the market trend.

Since the Group needs to consume the existing high-cost wood pulp inventory first, the positive impact of the decrease in wood pulp price is expected to reflect in the cost of the tissue paper business in 2H2022.

Further enhance the brand image of its products and set up a marketing department to comprehensively optimise the brand image; continue to enhance its product mix and accelerate product premiumisation, further develop sales channels to expand its customer base.

Continue to optimise the organisational structure, improve team efficiency, and allocate resources to improve infrastructure and enhance supply chain efficiency, such as cloudification of the SAP system, and strive to improve the quality of the system, so as to effectively monitor operational data and improve operational visibility to formulate appropriate business strategies.

Actively implement the 3 core strategies, including "focus on main businesses", "brand upgrade" and "long-termism", so as to lay a solid foundation for the sustainable development; focus on the development of the 3 core businesses of tissue paper, sanitary napkin and disposable diapers, actively develop higher quality new products and expand into new markets, accelerate penetration into rural markets and other markets in the mainland China, and seize the huge development opportunities in the domestic daily necessities market. The Group strives to become a "global top-tier supplier of daily products".

The Group plans to carry out production capacity expansion and technological upgrades in the future, including the establishment of a new upgraded sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian, and the expansion of tissue paper production capacity in Xiaogan, Hunan, and Yunfu, Guangdong. It is expected that the new production capacity will be put into operation successively in 2024.



Hengan SAP Upgrade Projects Launching Conference



Hengan is building a new upgraded sanitary napkin, disposable diapers, wet wipes plant in Neikeng, Fujian



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