



# 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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## Interim Results 2019 Corporate Presentation

*August 2019*



# Agenda



## FINANCIAL HIGHLIGHTS



## BUSINESS REVIEW



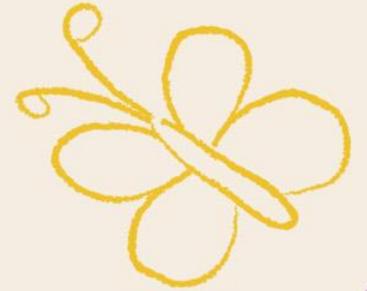
## OUTLOOK



## OPEN FORUM



# FINANCIAL HIGHLIGHTS



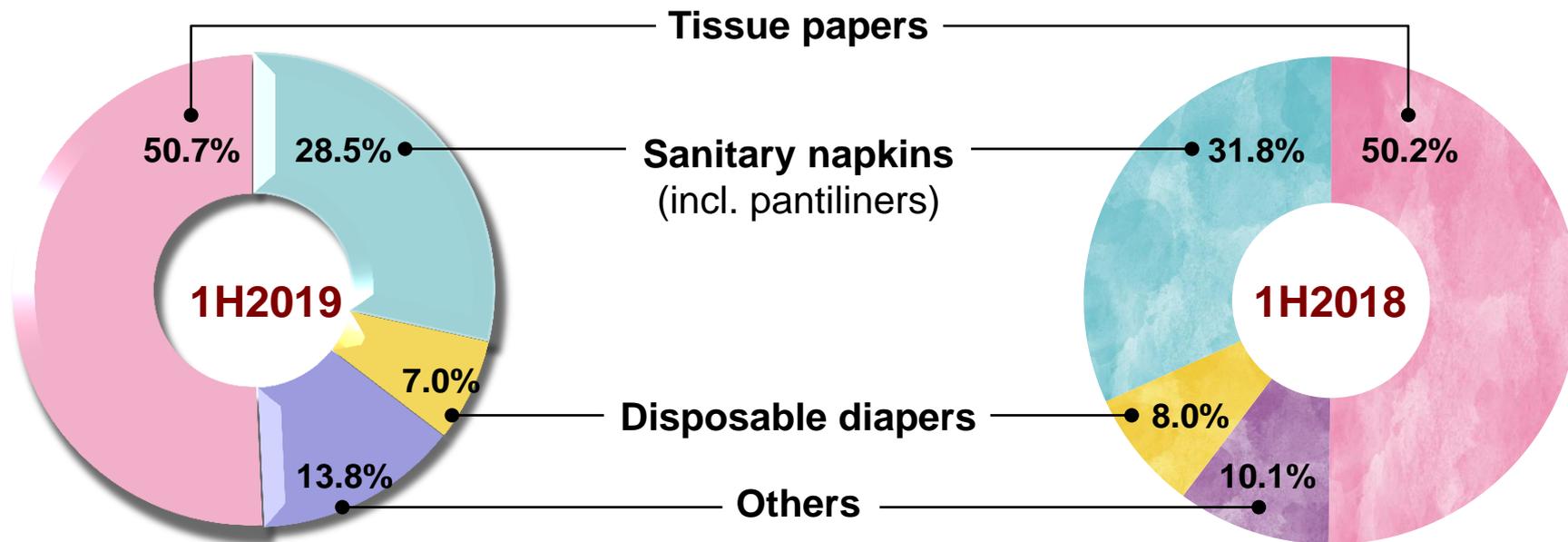
# Financial Highlights



For six months ended 30 June

(RMB '000)	2019	2018	Change	
<b>Revenue</b>	<b>10,776,606</b>	10,136,897		<b>6.3%</b>
<b>Gross profit</b>	<b>4,018,867</b>	4,018,577		<b>0.01%</b>
<b>Operating profit</b>	<b>2,658,154</b>	2,681,943		<b>0.9%</b>
<b>Profit attributable to shareholders</b>	<b>1,877,782</b>	1,946,907		<b>3.6%</b>
<b>Earnings per share (RMB)</b>				
– Basic	<b>RMB1.578</b>	RMB1.614		<b>2.2%</b>
– Diluted	<b>RMB1.578</b>	RMB1.613		<b>2.2%</b>
<b>Dividend per share (RMB)</b>				
– Interim	<b>RMB1.00</b>	RMB1.00		

# Solid Revenue Base



## By Business Segment

For six months ended 30 June

(RMB '000)

	2019	2018	Change
Tissue paper	5,460,742	5,084,428	↑ 7.4%
Sanitary napkins (incl. pantliners)	3,075,156	3,222,746	↓ 4.6%
Disposable diapers	750,666	810,823	↓ 7.4%
Others	1,490,042	1,018,900	↑ 46.2%

# Gross Profit Margin Overview

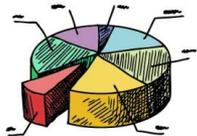
## By Business Segment

For six months ended 30 June

(%)	2019	2018
Tissue paper	25.0%	25.8%
Sanitary napkins (incl. pantliners)	70.3%	69.3%
Disposable diapers	40.6%	39.9%
Others	12.5%	15.0%
Overall	37.3%	39.6%

## Major factors affecting overall gross profit margin

### Margin decreased in 1H2019:



Increase in the proportion of revenue from other business which has lower margin

**OFFSET**

- Prices of wood pulp gradually declined
- High-end & Upgraded product mix



## ***Selling and distribution costs and administrative expenses***

- Selling and distribution costs and administrative expenses accounted for approximately 18.8% of total revenue (2018: 17.2%)
- Major expenses are as follows:

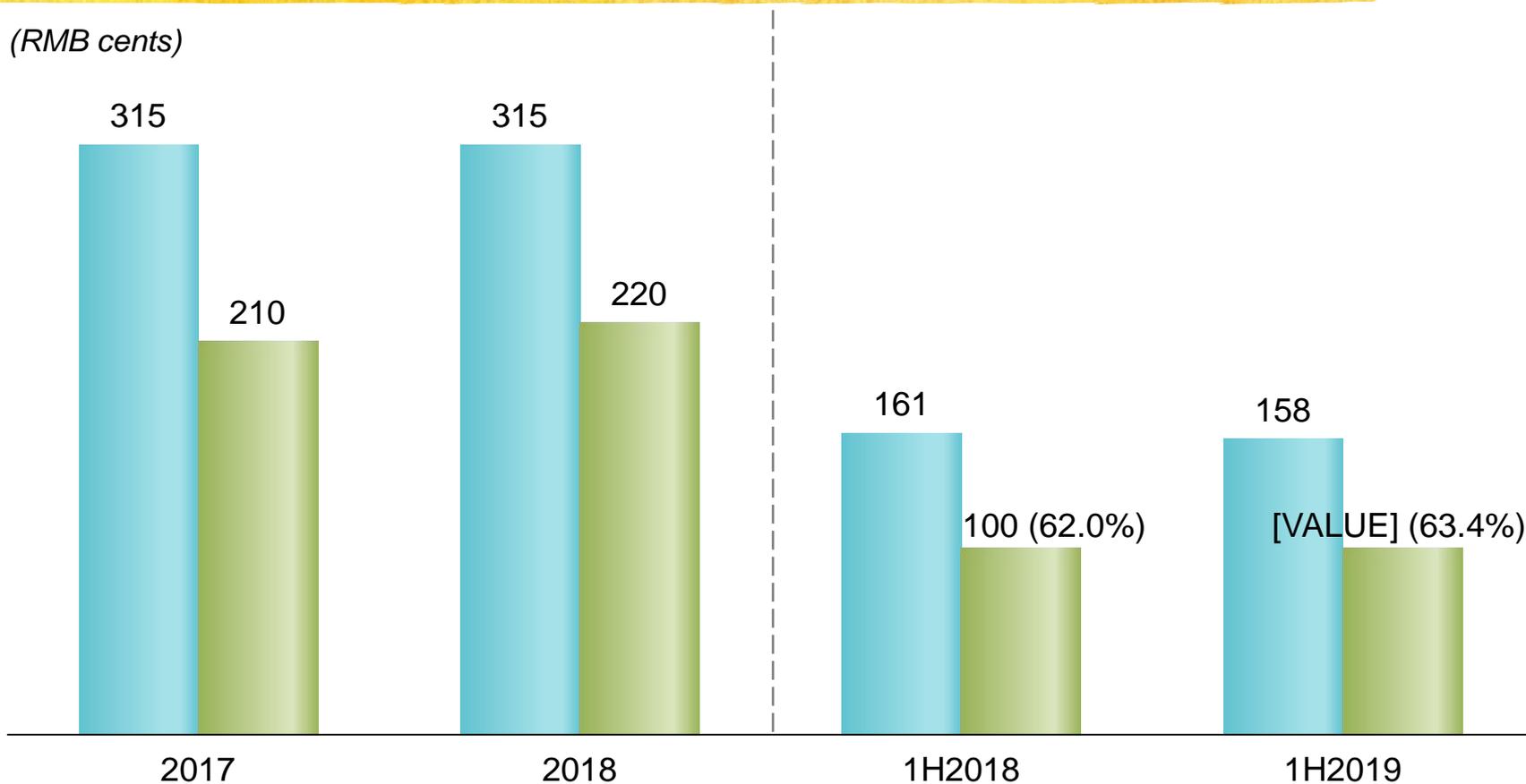
<i>(As % of revenue)</i>	<i>For six months ended 30 June</i>	
	<b>2019</b>	<b>2018</b>
<b>Marketing &amp; advertising expenses</b>	<b>3.5%</b>	2.3%
<b>Staff costs</b> <i>(excluding labour costs)</i>	<b>3.1%</b>	2.8%
<b>Transportation expenses</b>	<b>3.4%</b>	3.6%
<b>Research and development</b>	<b>1.6%</b>	1.6%

# Basic EPS & DPS



**1H2019 Dividend payout ratio: 63.4% (1H2018: 62%)**

(RMB cents)



Basic EPS      DPS      (%) Dividend Payout Ratio

# Key Financial Indicators



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<i>(RMB '000)</i>	<b>2019</b> As at 30 June	<b>2018</b> As at 31 December
<b>Cash on hand</b> <i>(RMB '000)</i>	<b>24,634,136</b>	25,919,500
<b>Bonds payable</b> <i>(RMB '000)</i>	<b>8,990,898</b>	9,986,824
<b>Bank borrowings</b> <i>(RMB '000)</i>	<b>15,094,316</b>	14,275,540
<b>Current ratio</b>	<b>1.3 times</b>	1.3 times
<b>Gross gearing ratio</b>	<b>141.7%</b>	145.1%
<b>Net gearing ratio</b> <i>(net cash)</i>	<b>(3.2%)</b>	(9.9%)
<b>Finished goods turnover</b>	<b>45 days</b>	41 days
<b>Accounts receivable turnover</b>	<b>51 days</b>	46 days
<b>Accounts payable turnover</b>	<b>75 days</b>	72 days

## **Interest income: around RMB538.4 million (1H2018: RMB294.1 million)**

- Partly included in other gains:  
about RMB455.9 million (1H2018: RMB278.7 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:  
about RMB82.5 million  
(1H2018 : RMB15.4 million)

## **Interest expense:**

- About RMB422.5 million  
(1H2018: RMB248.5 million)

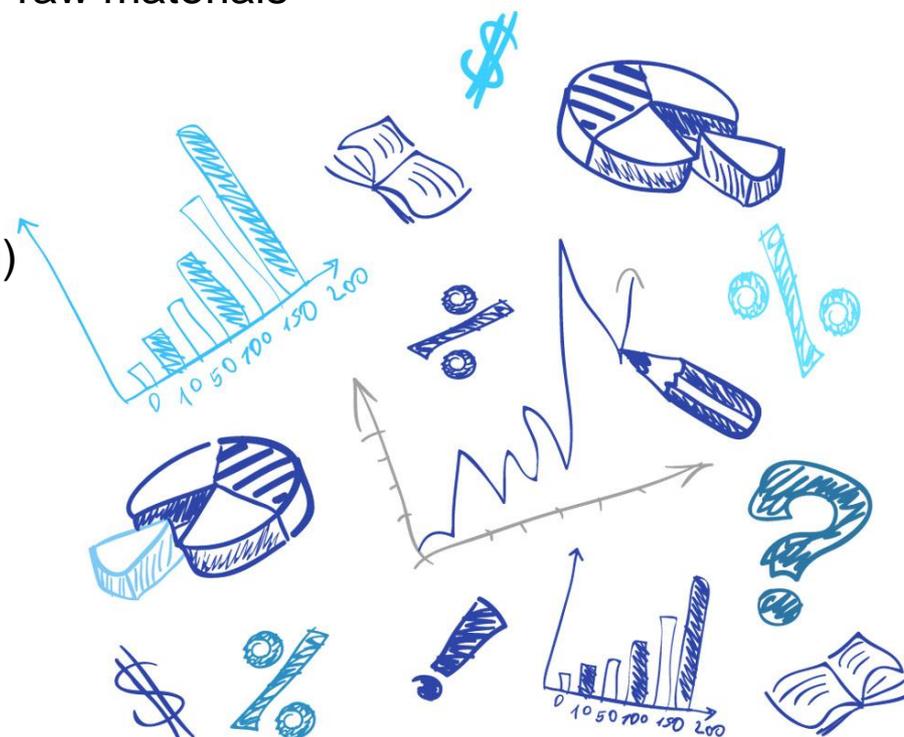
## **Net Interest Income:**

- Around RMB115.9 million  
(1H2018: RMB45.6 million)



## **Exchange loss: around RMB25.5 million (1H2018: Gain of RMB40.7 million)**

- Included in other loss: loss of about RMB41.6 million (1H2018: Gain of RMB27.2 million)
  - Arising mainly from purchase of raw materials from overseas suppliers
- Included in finance costs: a gain of about RMB16.1 million (1H2018: Gain of RMB13.5 million)



## **Government grants:**

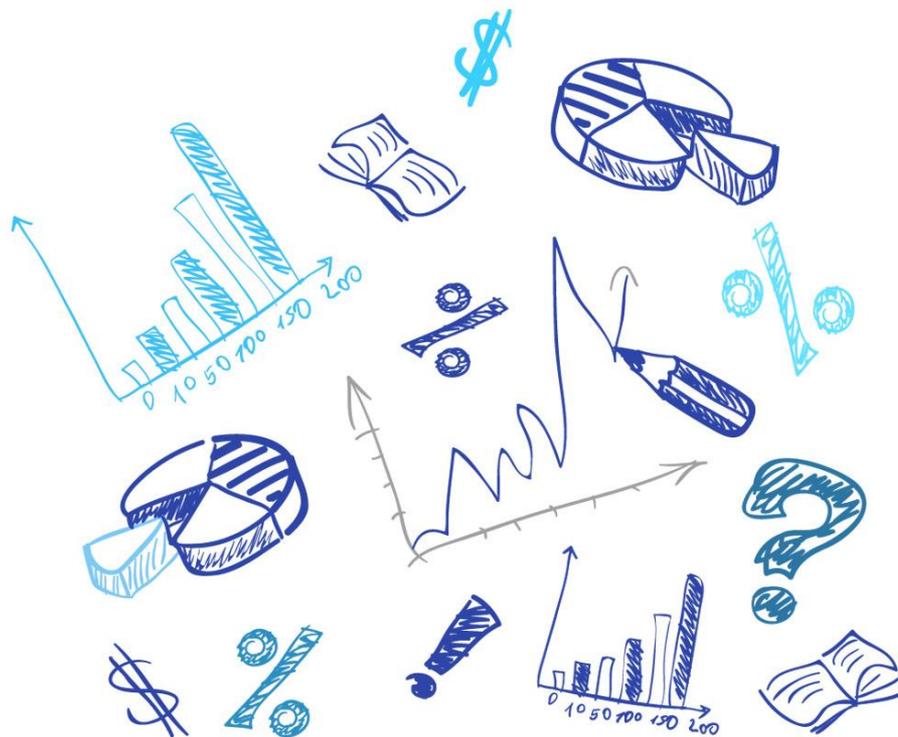
- About RMB171.1 million (1H2018: RMB157.4 million), as encouragement of the Group's contributions to the development of the local economy

## **Effective tax rate:**

- 19.3% (1H2018: 20.8%)

## **Capital expenditure incurred:**

- Around RMB195.9 million (1H2018: RMB442.9 million), mainly incurred for the new production lines



# BUSINESS REVIEW



## Market overview

- China's sanitary napkin market has seen undergone development with fierce competition
- Market penetration continuously increased with the market heading for saturation
- Product upgrade will become the key growth driver of the market in the future



## Business performance in 1H2019 and 2H2019 outlook

- ☑ During the period, the Group increased its efforts to transform the traditional sales channels, encourage small sales team to sell products directly to retailers and provide upgraded and premium products that cater to the varying needs of customers. As the sales of sanitary napkins through traditional channel accounted for over 60% of its sales, the sales of sanitary napkins inevitably underwent a period of transition and adjustment under the Group's transformation of traditional channels. Revenue decreased by about 4.6% to approximately RMB3,075 million (1H2018: RMB3,223 million).
- ☑ Gross profit margin increased to about 70.3% (1H2018: 69.3%) as the Group increased the proportion of premium products in the product mix and the costs of petrochemical raw material remained steady.
- ☑ To reinforce direct sale, strengthen New Retail sales channel collaborations to expand the coverage of retail stores and promote the best upgraded products to the market in order to achieve long term sustainable development of the sanitary napkin business.
- ☑ To research and develop as well as to upgrade the functions, materials and packaging of high margin products
- ☑ To vigorously research and develop feminine hygiene products beyond sanitary napkins in order to expand into the feminine care product market, opening up new growth opportunities

## Market overview

- Constant improvement in diversity and quality of China's tissue products to satisfy consumers' demand for varying and high-quality tissue products
- With product upgrades and innovation, the overall market still has huge untapped potential.
- Wood pulp prices decreased in the first half of 2019, benefitting the tissue paper industry



## Business performance in 1H2019 and 2H2019 outlook

- ☑ Revenue increased by about 7.4% to approximately RMB5,461 million mainly attributable to the good market responses to key promoted products such as “Tea Classical series” and The Bamboo π series, coupled with strong growth in sales from e-commerce channels.
- ☑ As wood pulp prices decreased in 1H2019, the decline in raw material costs began to be reflected gradually in 1H2019, gross profit margin rebounded from about 19.2% in 2H2018 to about 25.0% in 1H2019, which was at the level close to the same period of last year (1H2018: 25.8%).
- ☑ Expect the price of wood pulp will continue to decline in 2H2019 and the gross profit margin of tissue paper will continue to improve notably in 2H2019.
- ☑ To expand its product portfolio of the Bamboo π series to include toilet rolls and kitchen paper, and grasp the trend of environmental protection
- ☑ To continue focus on promoting the highly popular “Super mini” wet wipes and to expand its product portfolio to include wet toilet paper and baby wipes to maintain its leading position in the wet tissue market.
- ☑ The Group's annualised production capacity was approximately 1,420,000 tons by end of June 2019.

# Disposable Diapers



## Market overview

- Market penetration rate of disposable diapers in China is still lower than that of the developed countries
- Rising level of national education and increasing health awareness will propel the number of baby and adult disposable diapers users, thereby continuing to drive the growth of the overall market
- National pursuit of higher living standards and the trend of consumption upgrade will support the market expansion of high-quality and high-margin products



## Business performance in 1H2019 and 2H2019 outlook

- ☑ Revenue amounted to approximately RMB751 million, narrowing the decline to about 7.4% which accounted for approximately 7.0% of the Group's revenue, mainly due to the strong sales performance of upgraded high-end products "Q·MO" and "Soft and Thin " which reported triple-digit growth and double-digit growth respectively, coupled with accelerated sales through e-commerce channel.
- ☑ After years of reinforcing investment in e-commerce, the proportion of sales through e-commerce channel increased to more than 40% of the overall sales of disposable diapers, and the sales of e-commerce channels increased by more than 10% year-on-year, effectively alleviating the decline.
- ☑ Gross profit margin increased by 0.7 percentage points to about 40.6%, thanks to stable petrochemical raw material costs and the increase in the proportion of high-margin products.
- ☑ To leverage on its understanding of the market and swift response through the "small sales team" to improve the sales performance in the e-commerce channel, sell other baby care products in the Q·MO online flagship store, while integrate online store with offline maternity stores to attract families to make one-stop consumption in the "Q·MO" online flagship store and expand the premium high-end market
- ☑ To cooperate with nursing homes and hospitals to supply adult disposable diapers and other care products to tap into the substantial growth of the elderly care demand

# 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 in April 2018.
- 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 RMB154,170,000 (1H2018: RMB62,591,000), accounting for approximately 1.4% (1H2018: 0.6%) of the Group's revenue.
- In 2019, the Group will further utilise the extensive experience of Sunway Kordis in household product industry to vigorously 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



- Hengan successfully expanded into the Malaysian market in 2018 with the launch of high-end adult diapers and the Banitore brand in order to establish a foothold in the elderly care industry
- In 1H2019, the “Super mini” wet wipes series continued to sustain strong sales momentum in Malaysia while disposable adult and baby diapers also achieved good sales and received great word-of-mouth reviews.
- The revenue and net profit of Wang-Zheng amounted to RMB208 million and 8.1 million respectively, accounting for approximately 1.9 % and 0.4 % of the Group’s total revenue and net profit respectively.
- In 2H2019, Wang-Zheng will vigorously promote Hengan’s products to the Southeast Asian market through various sales channels (including e-commerce channel) and establish brand image and high-quality product philosophy
- To continue to upgrade existing Wang-Zheng products and develop high-end products



## Market overview

- Contribution of online retail sales of physical goods to the total retail sales of consumer goods increased to about 19.6% from 17.4% in 1H2018
- Continued expansion of online shopping market as online shopping has become a leisure activity for urbanites



## Business performance in 1H2019 and 2H2019 outlook

- ☑ Revenue from e-commerce (including Retail Integrated (零售通) platform and WeChat sales) exceeded RMB2 billion, up by more than 50%. Contribution to total sales revenue rose to approximately 19.4%. Rapid growth of e-commerce channel boosted the sales of tissue paper business and narrowed the sales decline of disposable diapers business.
- ☑ Made use of self-operated official flagship online stores to unify its sales strategy and flexibly adjust its product portfolio
- ☑ 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 Integrated (「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.
- ☑ To launch more online exclusive packaging and combo packages as well as high margin themed products to boost sales and further garner market share in the e-commerce channel

# Streamlined Operation Team Structure – enhancing the implementation



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- The “Small sales team” operating model has been implemented for more than two years and has extended to all divisions of the Group.
- In 1H2019, the Group stepped up its efforts to transform the traditional sales and strengthen connection with point-of-sales, to enhance the Group’s direct -to-consumer capabilities.
- The Group promulgated the reformed rules for the “Small sales team” operating model at the mid-year review meeting in order to strengthen the supervision and promote the operating efficiency of the “Small sales team”. The Group will optimize the operational rules and strengthen the control of operating expenses, increase the support and supervision of the “small sales team” by the regional operation centers.
- The Group believes that the operational efficiency and expense ratio will be improved in 2H2019 after reinforcing efficient investment.
- The extensive establishment of direct sales model through the “small sales team” will help the Group to swiftly implement decisions, increase the sales proportion of new products and high-margin products, benefiting the Group's long-term development.



# International Business Development



FINLAND



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



RUSSIA



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



Established in 1985

Hengan has expanded its product category and gradually entered into the overseas markets through various investments.

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



MALAYSIA



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

INDONESIA



# OUTLOOK



# Market Outlook

Lingering uncertainties over global economic growth, continuous trade frictions and rising geopolitical risks

Ongoing optimization of China's economic structure and continuous consumption upgrade are set to unleash the consumption demand, thereby promoting the high-quality development of the personal hygiene product market in the long run.



The Group expects the wood pulp prices to stay at low levels, easing the cost pressure and further improving gross profit margin

To continue to deepen implementation of the "small team operating model" strategy, to achieve benefit maximization and efficiency optimization.

To vigorously strengthen the omni-channel development, and increase e-commerce penetration



To expand to the feminine care industry, baby care industry and elderly care industry in the long term



To promote the Hengan brand to the overseas markets

# OPEN FORUM

