



# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號: 1044

## Annual Results 2013 Corporate Presentation

*March 2014*



# Agenda



- ▶ Financial Highlights
- ▶ Business Review
- ▶ Outlook
- ▶ Open Forum







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## ***Financial Highlights***



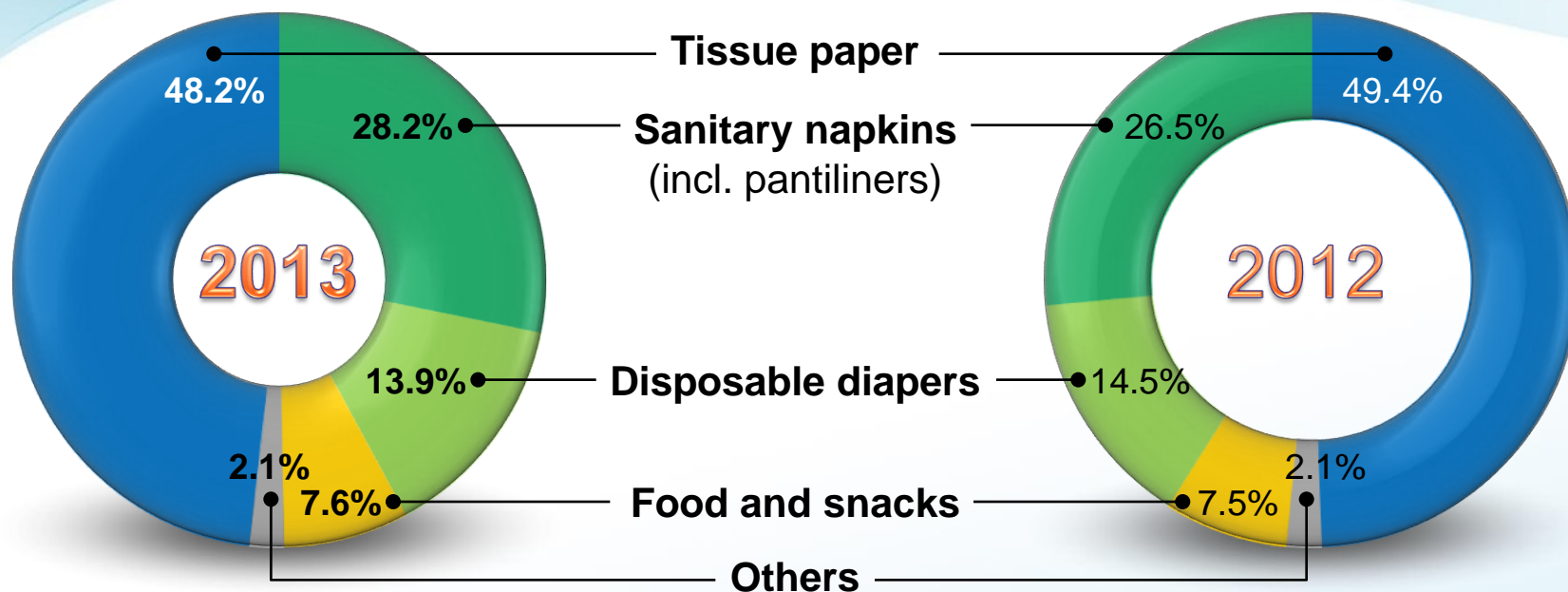
# Financial Highlights



	2013	2012	Change
(HK\$ '000)	For the year ended 31 December		
Revenue	21,186,368	18,524,233	↑ 14.4%
Cost of sales	(11,626,908)	(10,209,030)	↑ 13.9%
Gross profit	9,559,460	8,315,203	↑ 15.0%
Operating profit	5,087,848	4,740,835	↑ 7.3%
Net profit	3,721,031	3,518,705	↑ 5.8%
Earnings per share			
– Basic	HK\$3.024	HK\$2.863	↑ 5.6%
– Diluted	HK\$3.021	HK\$2.861	↑ 5.6%
Dividend per share			
– Interim	HK\$0.85	HK\$0.75	
– Final	HK\$1.00	HK\$0.95	
– Total	HK\$1.85	HK\$1.70	↑ 8.8%



# Solid Revenue Base



	2013	2012	Change
(HK\$ '000)	For the year ended 31 December		
<b>Tissue paper</b>	<b>10,204,020</b>	9,146,766	↑ 11.6%
<b>Sanitary napkins (incl. pantliners)</b>	<b>5,972,695</b>	4,915,462	↑ 21.5%
<b>Disposable diapers</b>	<b>2,938,186</b>	2,685,473	↑ 9.4%
<b>Food and snacks</b>	<b>1,604,655</b>	1,387,487	↑ 15.7%
<b>Others</b>	<b>466,812</b>	389,045	↑ 20.0%



# Gross Profit Margin Overview

## – By Business Segment



	2013	2012
<i>For the year ended 31 December</i>		
Tissue paper	34.1%	35.4%
Sanitary napkins (incl. pantliners)	66.3%	65.8%
Disposable diapers	44.5%	42.9%
Food and snacks	42.3%	38.2%
Overall	45.1%	44.9%

### Major factors affecting overall gross profit margin

Margin remained stable across major business segments in 2013 due to:

- ▶ Optimization of product portfolio
- ▶ Better economies of scale
- ▶ Stringent cost control



- ▶ Slight increase in raw material prices
- ▶ Intensified market competition





# Major Expenses



## *Distribution costs and administrative expenses*

- ▶ Distribution costs and administrative expenses accounted for approximately 24.8% of total revenue (2012: 22.3%)
- ▶ Major expenses are as follows:

	2013	2012
	<i>As % of revenue</i>	
<b>Marketing, advertising &amp; promotion expenses</b>	<b>8.8%</b>	8.2%
<b>Transportation expenses</b>	<b>4.2%</b>	4.2%
<b>Staff costs</b> <i>(excluding labour costs)</i>	<b>4.0%</b>	3.6%
<b>Research and development</b>	<b>1.3%</b>	0.1%

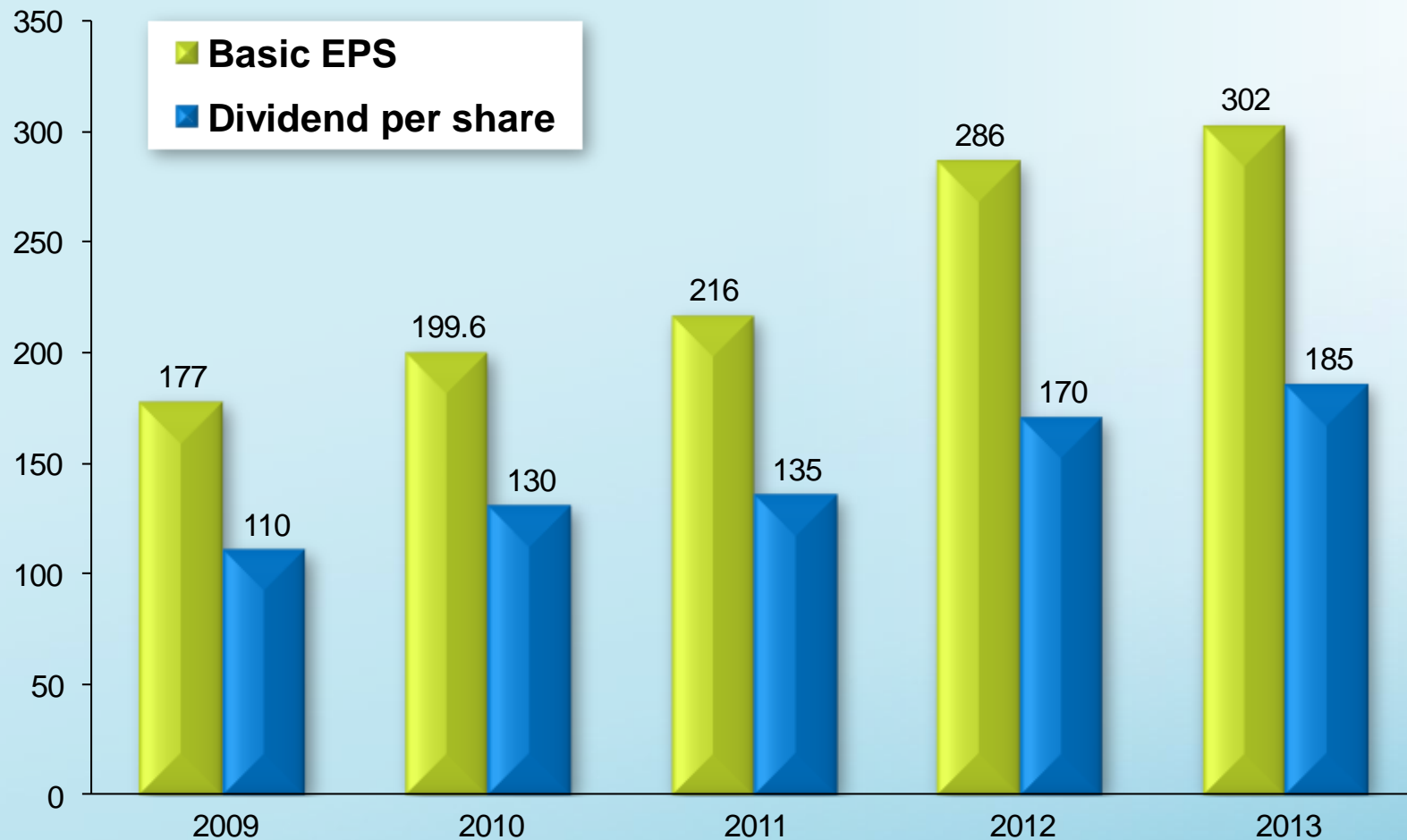


# Basic EPS & DPS



**2013 Dividend payout ratio: 61.2%**

(HK cents)





# Key Financial Indicators



	2013	2012
	<i>As at 31 December</i>	
Cash on hand (HK\$ '000)	20,438,069	11,452,149
Convertible bonds (HK\$'000)	5,227,130	—
Finished goods turnover	55 days	47 days
Accounts receivable turnover	35 days	37 days
Accounts payable turnover	61 days	66 days
Current ratio	1.6 times	1.5 times
Gross gearing ratio	117.5%	79.8%
Net gearing ratio (net cash)	(5.8%)	(1.1%)
Rate of return	22.5%	25.0%



# Other Financial Information



## *Interest income:*

- ▶ Partly included in other gains:  
about HK\$334 million (2012: HK\$238 million)
- ▶ Partly included in finance income:  
about HK\$106 million (2012: HK\$38 million)

## *Interest expense:*

- ▶ About HK\$356 million (2012: HK\$225 million)



# Other Financial Information (Cont'd)



## ***Government grants:***

- ▶ About HK\$404 million (2012: HK\$337 million)
- ▶ As encouragement of the Group's contributions to the development of the local economy

## ***Effective tax rate: 24.8% (2012: 22.1%)***

- ▶ PRC subsidiaries: tax preferential treatment expiring and more provision for dividend withholding tax

## ***Capital expenditure incurred:***

- ▶ Around HK\$1.2 billion (2012: around HK\$2.6 billion)
- ▶ Capex is mainly incurred for the new production lines







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## ***Business Review***



# Tissue Papers



## Market overview

- ▶ China's market for high-quality tissue paper was expanding on the back of rising living standard and increasing awareness of health and hygiene
- ▶ China's annual tissue paper consumption per capita is still far behind than that of other developed countries, indicating enormous market potentials
- ▶ Tissue-paper production capacity investment has been increasing, thus resulting in over capacity and intensifying competition in the short term



## Business performance in 2013 and 2014 outlook

- ▶ Revenue increased by about 11.6% to approximately HK\$10.2 billion
- ▶ Gross profit margin dropped to about 34.1% (2012: 35.4%), due to slight increase in prices of tissue wood pulp and strengthened marketing and brand promotion in 2H 2013
- ▶ Revenue from tissue paper sales in the PRC market increased by about 14.2%
- ▶ Raw paper export sales, which had a lower margin relatively, saw a double-digit decline in revenue due to keen price competition
- ▶ Consider expansion to overseas market starting from 2Q 2014



# Sanitary Napkins



## Market overview

- ▶ Rising living standard and accelerating urbanization continues to drive the demand and market penetration rate of sanitary napkins products



## Business performance in 2013 and 2014 outlook

- ▶ Revenue increased by about 21.5% to approximately HK\$5,973 million
- ▶ Gross profit margin was about 66.3% (2012: 65.8%)
- ▶ Pressure from slight increase in raw material prices and negative impact of intensified market competition was offset by the optimization of product portfolio
- ▶ Continue to focus on product innovation, optimize product mix, improve product quality and increase the sales of mid-to-high-end products in 2014





# Disposable Diapers



## Market overview

- ▶ Penetration rate of diapers is still very low in China
- ▶ Chinese government's loosened birth control policy will benefit the expansion of market



## Business performance in 2013 and 2014 outlook

- ▶ Revenue increased by about 9.4% to approximately HK\$2,938 million, mainly because inventories of the old version products in the distribution channels were substantially cleared and the upgraded version products were well accepted by the market
- ▶ New product series (“拉拉裤”) was introduced in 4Q 2013
- ▶ Mid-to-high-end diapers: sales increased by about 17.9%  
Low end simplified diapers: sales dropped by about 10.6%
- ▶ Gross profit margin increased to about 44.5% (2012: 42.9%), as increase in sales of higher end products offset the slight increase in raw material prices
- ▶ Expand new distribution channels by entering various maternity stores and expanding online sales network on a number of platforms, including “yhd.com”, “Tmall.com” and “JD.com”, thus enhanced market coverage



# Food and Snacks



## Market overview

- ▶ Impact of the industrial gelatine issue on the snack industry abated
- ▶ Snack business expected to keep booming in the long term along with the improvement of Chinese people's quality of living



## Business performance in 2013 and 2014 outlook

- ▶ Total revenue grew by about 15.7% to approximately HK\$1,605 million
- ▶ Gross profit margin increased to about 42.3% (2012: 38.2%), due to the decline in costs of major raw materials such as sugar and palm oil
- ▶ Continue to commit resources to enriching its product portfolio so as to cater to the different tastes of consumers in 2014



# Appointment of Professional Consultants



To further optimize the operation process of supply chains, logistics networks, inventory management and information technology planning, the Group engaged **IBM China Company Limited** in March 2014 to provide professional recommendations in regard to the above aspects

The Group also appointed **Yonyou Software Co. Ltd.** to update and improve Hengan's information systems, including system upgrades, enhancement of information systems management for sales networks and production process, as well as construction of electronic warehouse system in order to support the evolving business in the future





# Other Business Updates



## Recognition and Awards

**International**

***“Forbes Asia’s Fabulous 50”***

**China**

***“Top 500 Private Firms for 2013”***

***“慈善公益事業功勳獎”***





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## Outlook





# Outlook



**Economic improvement of Europe and the US will be conducive to China's steady economic growth**



**Accelerating urbanization, growth of people's income and consumers' increasing awareness of personal hygiene will support the growth of high-quality hygiene products**



**The Chinese government's relaxed birth control policy will benefit the baby product market**







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## *Open Forum*

