



# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

## Annual Results 2015 Corporate Presentation

March 2016



# Agenda



**Financial Highlights**



**Business Review**



**Outlook**

**Open Forum**



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## *Financial Highlights*

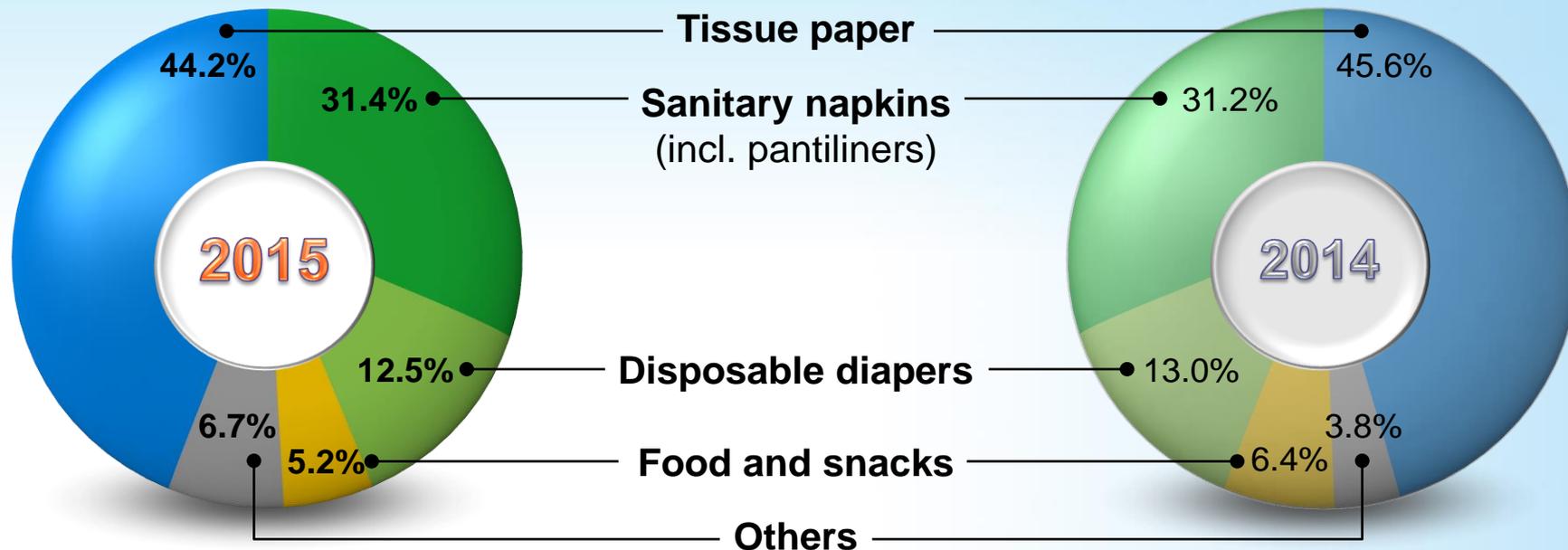


# Financial Highlights



(HK\$ '000)	For the year ended 31 December		
	2015	2014	Change
<b>Revenue</b>	24,450,468	23,830,778	2.6%
<b>Cost of sales</b>	(12,810,057)	(12,842,802)	0.3%
<b>Gross profit</b>	11,640,411	10,987,976	5.9%
<b>Operating profit</b>	6,151,002	5,750,058	7.0%
<b>Profit attributable to shareholders</b>	4,050,869	3,915,818	3.4%
<b>Earnings per share</b>			
– Basic	HK\$3.314	HK\$3.188	4.0%
– Diluted	HK\$3.308	HK\$3.184	3.9%
<b>Dividend per share</b>			
– Interim	HK\$0.95	HK\$0.85	
– Final	HK\$1.15	HK\$1.15	
– Total	HK\$2.10	HK\$2.00	5.0%

# Solid Revenue Base



(HK\$ '000)	For the year ended 31 December		
	2015	2014	Change
<b>Tissue paper</b>	10,800,191	10,857,293	↓ 0.5%
<b>Sanitary napkins (incl. pantliners)</b>	7,683,399	7,427,740	↑ 3.4%
<b>Disposable diapers</b>	3,044,739	3,094,573	↓ 1.6%
<b>Food and snacks</b>	1,267,144	1,534,749	↓ 17.4%
<b>Others</b>	1,654,995	916,423	↑ 80.6%

# Gross Profit Margin Overview

## – By Business Segment



(%)	For the year ended 31 December	
	2015	2014
Tissue paper	35.6%	34.5%
Sanitary napkins (incl. pantliners)	72.6%	68.5%
Disposable diapers	49.3%	45.3%
Food and snacks	42.2%	42.4%
Overall	47.6%	46.1%

### Major factors affecting overall gross profit margin

Margin increased in 2015  
due to:

- Optimized product portfolio
- Enhanced economies of scale
- Decrease in raw material prices

**OFFSET**

- Intensified market competition



# Major Expenses



## ○ **Distribution costs and administrative expenses**

- Distribution costs and administrative expenses accounted for approximately 25.3% of total revenue (2014: 26.9%)
- Major expenses are as follows:

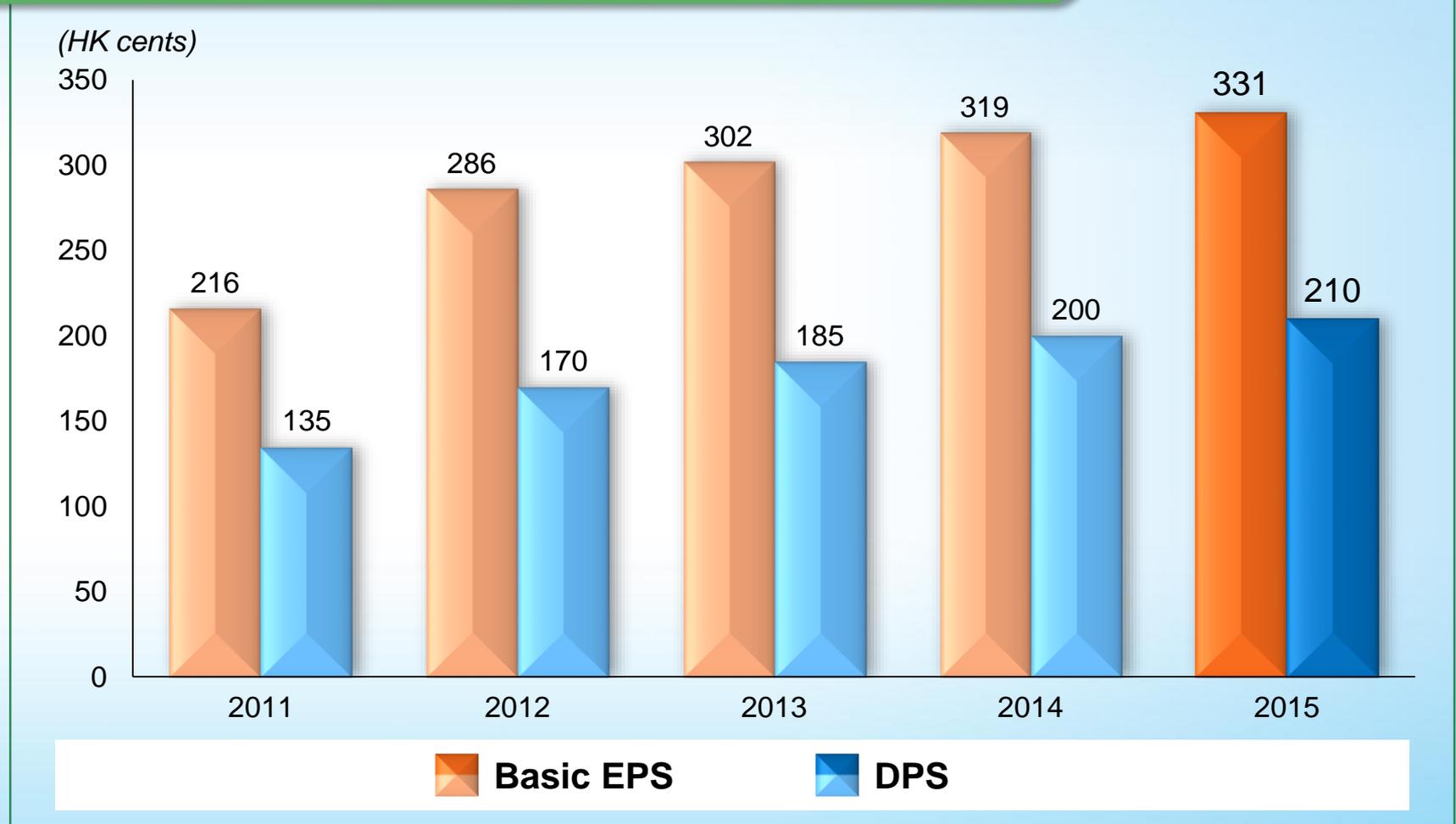
<i>(As % of revenue)</i>	<i>For the year ended 31 December</i>	
	<b>2015</b>	<b>2014</b>
<b>Marketing, advertising &amp; promotion expenses</b>	<b>10.2%</b>	10.9%
<b>Transportation expenses</b>	<b>3.2%</b>	4.2%
<b>Staff costs <i>(excluding labour costs)</i></b>	<b>3.7%</b>	3.9%
<b>Research and development</b>	<b>1.9%</b>	1.8%



# Basic EPS & DPS



2015 Dividend payout ratio: 63.1% (2014: 62.6%)



# Key Financial Indicators



	As at 31 December	
	2015	2014
<b>Cash on hand</b> (HK\$ '000)	<b>18,783,978</b>	22,432,839
<b>Convertible bonds liability portion</b> (HK\$ '000)	<b>5,558,495</b>	5,390,267
<b>Bank borrowings</b> (HK\$'000)	<b>11,573,518</b>	15,164,387
<b>Finished goods turnover</b>	<b>41 days</b>	49 days
<b>Accounts receivable turnover</b>	<b>38 days</b>	36 days
<b>Accounts payable turnover</b>	<b>71 days</b>	62 days
<b>Current ratio</b>	<b>1.2 times</b>	1.5 times
<b>Gross gearing ratio</b>	<b>98.3%</b>	116.5%
<b>Net gearing ratio (net cash)</b>	<b>(9.3%)</b>	(10.4%)
<b>Rate of return</b>	<b>23.2%</b>	22.2%



# Other Financial Information



## Interest income: around HK\$616 million (2014: HK\$707 million)

- ▶ Partly included in other gains:  
about HK\$389 million (2014: HK\$474 million) interest income on bank deposits over 3 months (short-term investments)
- ▶ Partly included in finance income:  
about HK\$227 million (2014: HK\$233 million)



## Interest expense:

- ▶ About HK\$495 million (2014: HK\$511 million)

# Other Financial Information *(Cont'd)*



## Exchange loss due to the depreciation of Renminbi against US\$ and HK\$: around HK\$429 million (2014: HK\$132 million)

- Included in other losses: about HK\$278 million (2014: HK\$2 million)
- Included in finance costs: about HK\$151 million (2014: HK\$130 million)
- Mainly arising from:
  - HK companies –
    - RMB dividend receivable from PRC companies: loss of about HK\$228 million
  - HK and Macau companies –
    - RMB bank deposits; and
  - PRC companies –
    - net US\$ bank loans: total loss of about HK\$103 million
- Appropriate measures taken and the latest position:
  - HK companies – currently RMB dividend receivable balance is nil
  - HK and Macau companies – RMB deposit balances are substantially reduced
  - PRC companies – currently has net US\$ bank deposits
- 2016 exchange losses are expected to be smaller than that of 2015



# Other Financial Information *(Cont'd)*



## Government grants:

- About HK\$613 million (2014: HK\$666 million)
- As encouragement of the Group's contributions to the development of the local economy

## Effective tax rate: 28.5% (2014: 25.6%):

- Increased as the Group has paid dividend withholding tax on the amount of dividend remitted to holding company out of China, and has provided dividend withholding tax for the dividend which may be remitted in the foreseeable future

## Capital expenditure incurred:

- Around HK\$1,375 million (2014: around HK\$1,755 million)
- Capex is mainly incurred for the new production lines





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## *Business Review*



# Sanitary Napkins



## Market overview

- Accelerating urbanization and rising living standards raised market penetration rate and continued to drive the development of sanitary napkin market
- Keen competition, distributors faced cash crunch and excess inventories, and devaluation of RMB limited growth rate



## Business performance in 2015 and 2016 outlook

- Revenue increased by about 3.4% to approximately HK\$7,683 million
- Gross profit margin increased to about 72.6% (2014: 68.5%) as a result of optimized product portfolio and continued decline in the prices of major raw materials, petrochemical products
- Expect sales performance to improve in 2016 as new and upgraded products received warm response and inventories at distributors have gradually returned to a reasonable level. Sales growth in 1Q 2016 is better than the sales growth in 2015

# Tissue Paper



## Market overview

- China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential
- Overall overcapacity in the industry, stiff competition and devaluation of RMB continued to impact the Group's tissue paper business



## Business performance in 2015 and 2016 outlook

- Revenue slightly declined by about 0.5% to approximately HK\$10.8 billion
- Excluding the sales of low-margin raw paper business (mainly for export purposes), the sales of domestic products increased mildly by about 1.5%
- Gross profit margin increased to about 35.6% (2014: 34.5%) as the drop in price of tissue wood pulp used in tissue paper production offset the negative impact of intense market competition
- Expect tissue sales to improve in 2016 as the newly-packaged products are well accepted by the market. There is a positive overall sales growth in 1Q2016
- Current annualized production capacity is around 1,020,000 tons. It is expected to increase to approximately 1,140,000 tons in 2H2016 or 1H2017

# Disposable Diapers



## Market overview

- Low penetration rate, accelerating urbanization, people's increasing awareness of personal hygiene, China's new two-child policy and improved living standards will continue to drive long term growth and market penetration rate
- Increasing competition brought by a large number of manufacturers entering the market



## Business performance in 2015 and 2016 outlook

- Revenue decreased slightly by about 1.6% to approximately HK\$3,045 million
- Mid-to-high-end diapers: sales increased by about 21.9%  
Low-end simplified diapers and mid-end diapers: sales dropped by about 22.6% and 16.1% respectively due to fierce competition
- Gross profit margin increased to about 49.3% (2014: 45.3%), due to optimized product portfolio and decrease in price of major raw materials, petrochemical products
- Will continue to enhance the promotion of brand and products, and expand business presence in maternity stores and e-commerce sales network
- Sales performance in 1Q2016 is better than that of 2015



## Market overview

- Demand for snack products affected by economic slowdown as they are not daily necessities
- Steady growth will remain in the long term as quality of living in China improves



## Business performance in 2015 and 2016 outlook

- Revenue decreased by about 17.4% to approximately HK\$1,267 million
- Gross profit margin remained fairly stable at about 42.2% (2014: 42.4%), as the decline in the costs of major raw materials, such as palm oil and packaging materials, offset the negative impact of intense market competition
- With reference to the announcement dated 11 January 2016, the company plans to spin off its food and snacks business. Related work is in progress and is expected to be completed in 2016. For more details, please refer to the company's upcoming announcements and circular

# Appointment of Professional Consultants



To further optimize the operation process of supply chain, logistics networks, inventory management and information technology planning, the Group appointed **IBM (China) Co., Ltd.** in 2014 to give professional advice on the above aspects

Signed a contract with **SAP** in 2014 to use its software in order to support the evolving business in the future

The above projects are expected to be completed in 2H2016 or 1H2017

Hired **PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd.** in February 2016 to provide advisory services regarding the preparation of "Environmental, Social and Governance Report". A detail report will be presented in the 2016 annual report





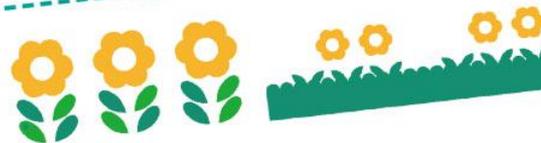
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## Outlook



# Market Outlook



▶ China's rising per capita income, accelerated urbanization and consumers' increasing awareness of personal hygiene will continue to bode well for the development of the personal hygiene market

▶ The Group will continue to pay close attention to the trends in raw material prices, and optimize product portfolio in light of market changes, to further improve its gross profit margin

2016





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## Open Forum

