



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號：1044

Interim Results 2017 Corporate Presentation

August 2017



Agenda



**Financial
Highlights**



**Business
Review**



Outlook



Open Forum





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Financial Highlights



Financial Highlights

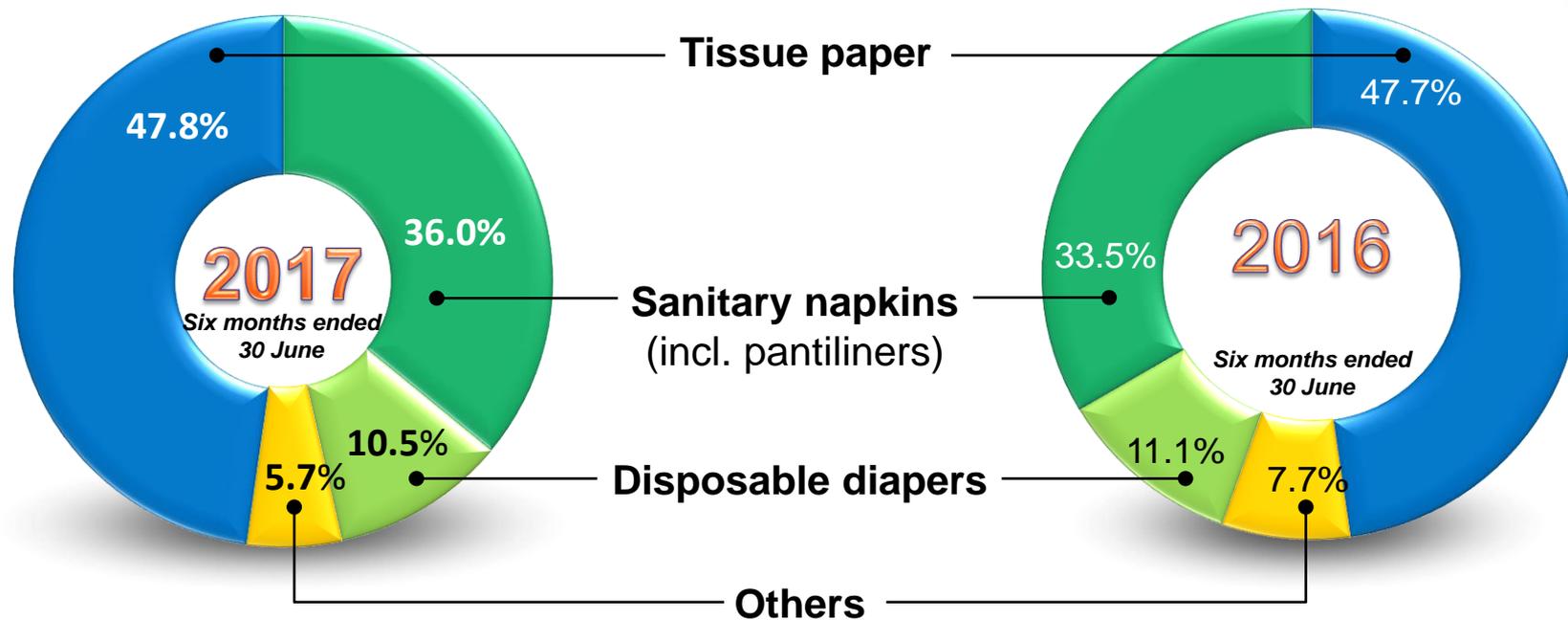


Continuing operations

Six months ended 30 June

(RMB '000)	1H2017	1H2016	Change
Revenue	9,562,746	9,577,341	0.2%
Gross profit	4,651,131	4,608,892	0.9%
Operating Profit	2,616,808	2,301,451	13.7%
Profit attributable to shareholders			
— Continuing operations	1,853,935	1,627,500	13.9%
— Discontinued operations	-	7,540	N/A
— Overall	1,853,935	1,635,040	13.4%
Earnings per share — basic			
— Continuing operations	RMB1.539	RMB1.340	14.9%
— Discontinued operations	-	RMB0.006	N/A
— Overall	RMB1.539	RMB1.346	14.3%

Solid Revenue Base



Continuing operations

Six months ended 30 June

(RMB '000)	2017	2016	Change
Tissue paper	4,569,685	4,567,635	▲ 0.1%
Sanitary napkins (incl. pantliners)	3,439,616	3,208,213	▲ 7.2%
Disposable diapers	1,001,198	1,067,384	▼ 6.2%
Others	552,247	734,109	▼ 24.8%

Gross Profit Margin Overview

– By Business Segment



Continuing operations

	Six months ended 30 June	
	2017	2016
Tissue paper	35.3%	37.7%
Sanitary napkins (incl. pantliners)	72.1%	71.8%
Disposable diapers	46.5%	49.8%
Overall	48.6%	48.1%

Major factors affecting overall gross profit margin

Margin increased in 2017
due to:

OFFSET

- Optimized product portfolio
- Enhanced economies of scale



- Intensified market competition
- Rising wood pulp prices

Major Expenses



Distribution costs and administrative expenses

- ☑ Distribution costs and administrative expenses accounted for approximately 25.8% of total revenue (1H2016: 26.8%)
- ☑ Major expenses are as follows:

Continuing operations

<i>(As % of revenue)</i>	<i>Six months ended 30 June</i>	
	2017	2016
Marketing, advertising & promotion expenses	9.8%	11.4%
Staff costs <i>(excluding labour costs)</i>	3.3%	3.9%
Transportation expenses	3.9%	3.3%
Research and development	1.8%	1.6%

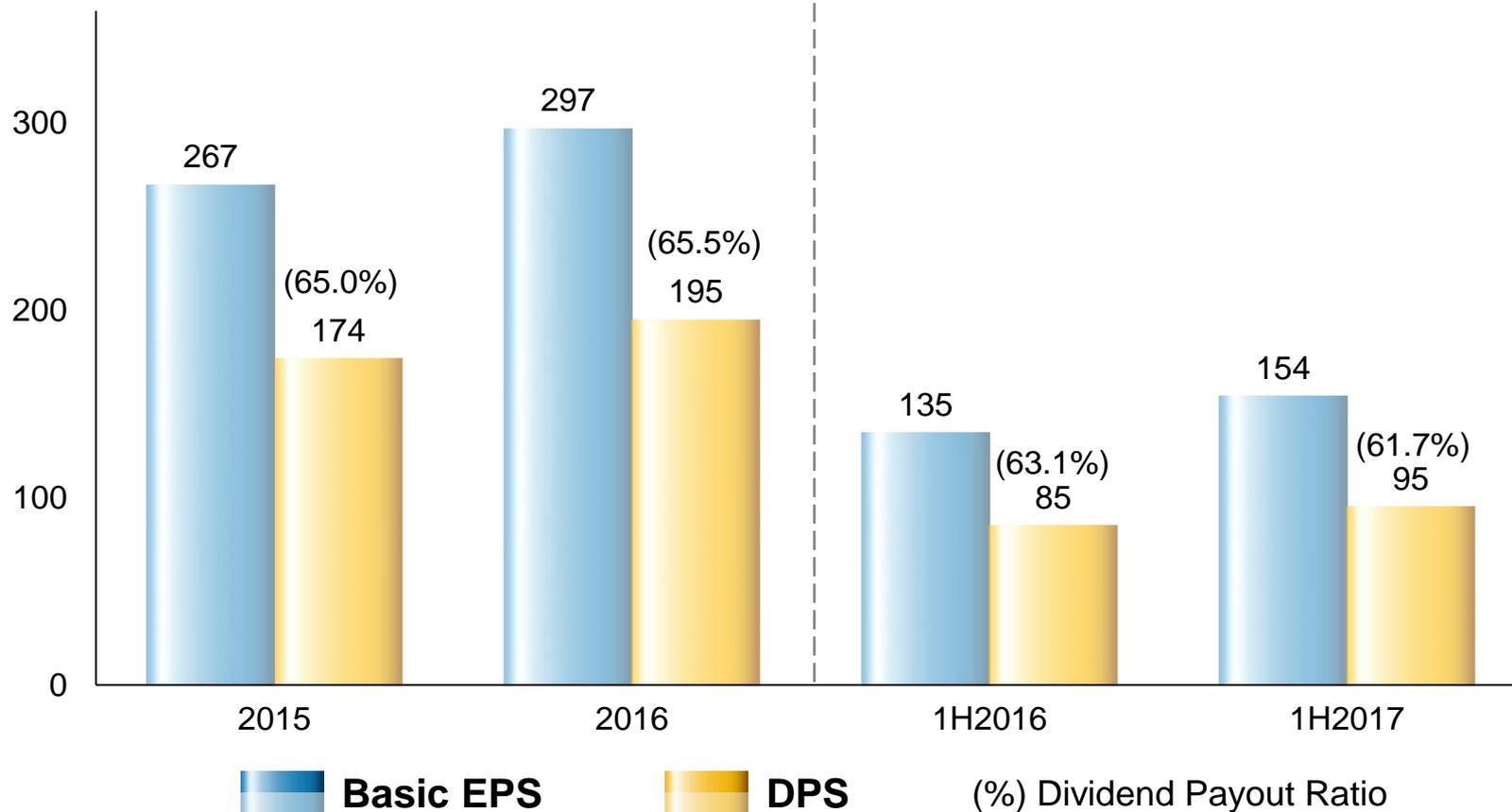
Basic EPS & DPS



1H2017 Dividend payout ratio: 61.7% (1H2016: 63.1%)

(RMB cents)

(RMB cents)



Key Financial Indicators



Continuing operations

	2017	2016
<i>As at 30 June 2017/ 31 December 2016:</i>		
Cash on hand (RMB '000)	20,899,942	16,649,499
Convertible bonds liability portion (RMB '000)	465,764	472,719
Bonds payable (RMB '000)	2,989,554	2,987,987
Bank borrowings (RMB '000)	16,419,578	12,455,274
Current ratio	1.3 times	1.4 times
Gross gearing ratio	130.2%	108.1%
Net gearing ratio (net cash)	(6.7%)	(4.9%)
<i>For the six months ended 30 June :</i>		
Finished goods turnover	47 days	44 days
Accounts receivable turnover	50 days	43 days
Accounts payable turnover	64 days	74 days

Other Financial Information



Continuing operations

Interest income: around RMB223.6 million (1H2016: RMB190.0 million)

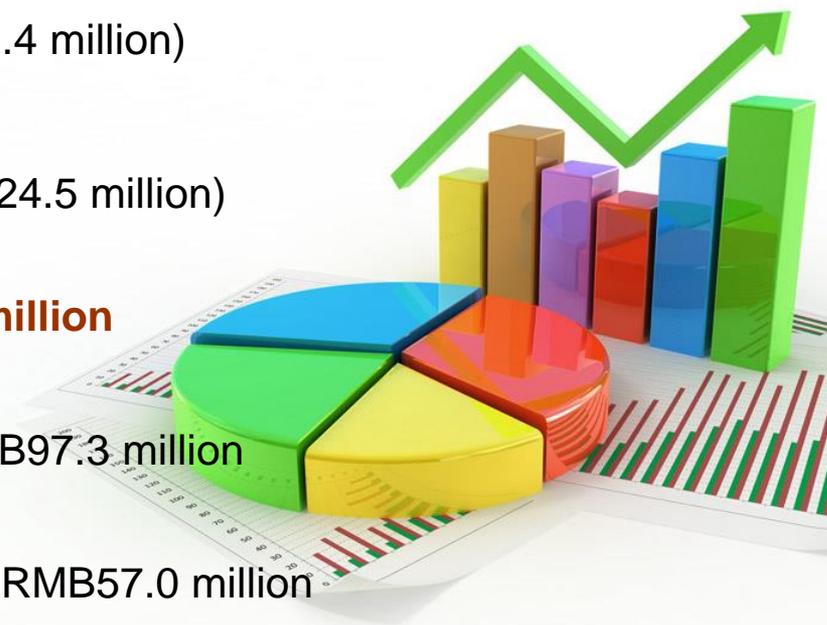
- Partly included in other gains:
about RMB150.5 million (1H2016 : RMB137.6 million) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB73.1 million (1H2016 : RMB52.4 million)

Interest expense:

- About RMB169.9 million (1H2016: RMB224.5 million)

Exchange gain due to the appreciation of Renminbi against US\$: around RMB40.3million (1H2016: Loss of RMB41.1 million)

- Included in other gains: gain of about RMB97.3 million (1H2016: Loss of RMB42.6 million)
- Included in finance costs: a loss of about RMB57.0 million (1H2016 : a gain of RMB1.5 million)



Other Financial Information *(Cont'd)*



Continuing operations

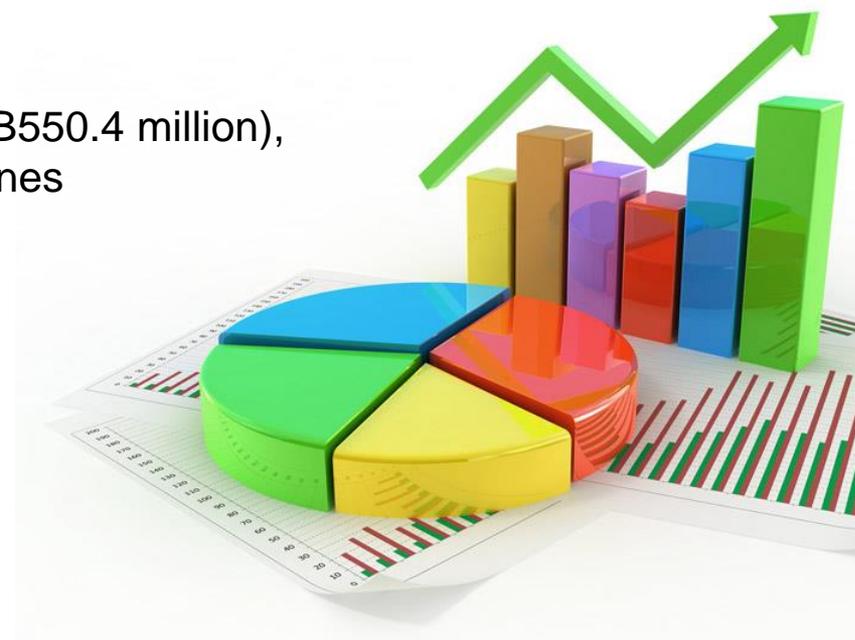
Government grants:

- ☑ About RMB171.9 million (1H2016: RMB195.8 million), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate: 24.5% (1H2016: 23.0%):

Capital expenditure incurred

- ☑ Around RMB330.6 million (1H2016: RMB550.4 million), mainly incurred for the new production lines





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Business Review



Sanitary Napkins



Market overview

- Accelerating urbanization and rising social and economic status of women have raised Chinese women's awareness of personal health, thereby supporting the development of the sanitary napkins market
- High market penetration and intense competition continue



Business performance in 1H2017 and 2H2017 outlook

- Revenue increased by about 7.2% to approximately RMB3,440 million, thanks to robust ecommerce sales and optimized product portfolio
- Gross profit margin increased to about 72.1% (1H2016 : 71.8%) as a result of the persistent decline in prices of petrochemical products, and optimized product portfolio
- Expect steady growth in sales in 2H2017 as result of product portfolio optimization, launch of new and upgraded products and online sales channels development

Tissue Paper



Market overview

- ☑ Stable economic growth in China, coupled with improving hygiene education and rising income level
- ☑ China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential



Business performance in 1H2017 and 2H2017 outlook

- ☑ Revenue of RMB 4,570 million was similar to that in the same period last year due to accelerating sales growth in e-commerce sales channel offset the negative impacts from the intense market competition
- ☑ Gross profit margin decreased to about 35.3% (1H2016: 37.7%) due to persistent increase in the price of tissue wood pulp used in tissue paper production and intense market competition
- ☑ Expect steady growth in sales in 2H2017 by launching new products, leveraging on “small sales team” business strategy and introducing online exclusive products to cater for consumption habit of e-commerce market
- ☑ Current annualized production capacity is around 1,260,000 tons. It is expected to increase to approximately 1,430,000 tons by 4Q2017 or 1H2018

Disposable Diapers



Market overview

- Urbanization, rising disposable personal income and consumers' pursuit of higher living standards continue to drive the demand for disposable diapers
- Market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge untapped market potential.



Business performance in 1H2017 and 2H2017 outlook

- Revenue decreased by about 6.2% to approximately RMB1,001 million
- Strategically developed disposable diapers business through online sales channels and maternity stores, with sales from online sales channels achieved triple-digit growth year-on-year, effectively easing the decline in sales.
- Gross profit margin dropped to around 46.5% (2016 first half: 49.8%) as prices of major raw material petrochemical products increased and market competition intensified
- To further promote the high-ended brand Q•MO, enhance the existing mid-to-high-end products
- Stay focused on producing and developing disposable diapers touting safety and quality



Business performance in 1H2017 and 2H2017 outlook

- ☑ In response to the changes in personal and hygiene products consumption habits, the Group has accelerated the development of the e-commerce sales channels, in the aspects of product type, sales model and product promotion.
- ☑ E-commerce business achieved extraordinary growth with core business segments benefited from rapid expansion of ecommerce sales channels. Revenue from e-commerce reached about RMB840 million, up by more than 160% over the same period in 2016.
- ☑ Contribution to total sales revenue rose to about 8.8% (first half of 2016: 3.3%)
- ☑ The Group's sales channel reform and warehouse adjustment will help enhance the efficiency of e-commerce sales channels, so as to deliver goods in an efficient manner and save distribution costs.
- ☑ To grasp the opportunities of peak season in 2H through efficient goods delivery and effective online promotion activities



Tmall flagship store



WeChat store

Streamlined Sales Team Structure – Hengan Amoeba Model – Completed in April 2017



Types of Amoeba Team	Total Number
Tradition Channel Amoeba	172
Modern Channel Amoeba	56
Total	228

8 Regional operations centers to support and manage amoeba:

- Fujian & Jiangxi, Guangdong & Guangxi and Hunan & Hubei, Shandong & Henan, South Western China, Eastern China, Northern China, North Western China, North Eastern China

Streamlined Sales Team Structure – Hengan Amoeba Model – Completed in April 2017



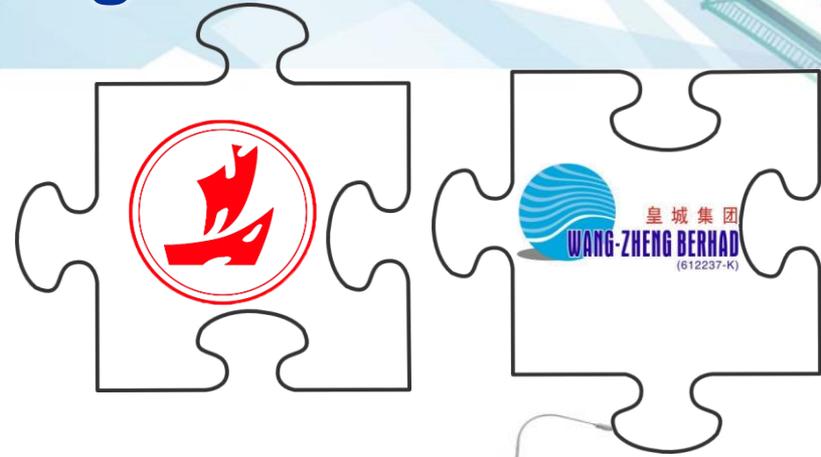
- After the transition period in the first four months, which affected the sales performance, positive impact of “small sales team” strategy on sales and expense ratio has been reflected gradually in May and June
- Expense ratio improved by about 1% in the first half of 2017
- Expect positive impact brought by the “small sales team” in the second half of 2017
- To provide more operational and distribution support to “small sales team” in the future
- To carefully conceive product sales and development direction according to consumer feedbacks reported by small sales team.



Acquisition of Wang-Zheng Berhad



- On 5 June 2017, the Group acquired an aggregate of 80 million shares of Wang-Zheng Berhad which listed on the Main Board of Bursa Malaysia Securities Berhad, representing approximately 50.45% of the equity interest of Wang-Zheng
- Wang-Zheng is mainly engaged in Investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers
- Acquisition is undertaken to expand the Group's business operations and diversify its revenue stream outside the People's Republic of China
- The Group will make good use of Wang-Zheng's sales network to bring its products to the Southeast Asian region





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Outlook



Market Outlook



China's rising per capital income and consumption upgrade will drive consumer demand for personal hygiene products and facilitate market development in the long term

The Group will continue to enhance operational efficiency, flexibly optimize its product mix according to the market conditions and launch new and upgraded products to cater to different consumer needs





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