



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code 股份代號 : 1044



Interim Results 2021

Corporate Presentation



August 2021

Agenda



Financial Highlights



Business Review



Outlook



Open Forum





Financial Highlights

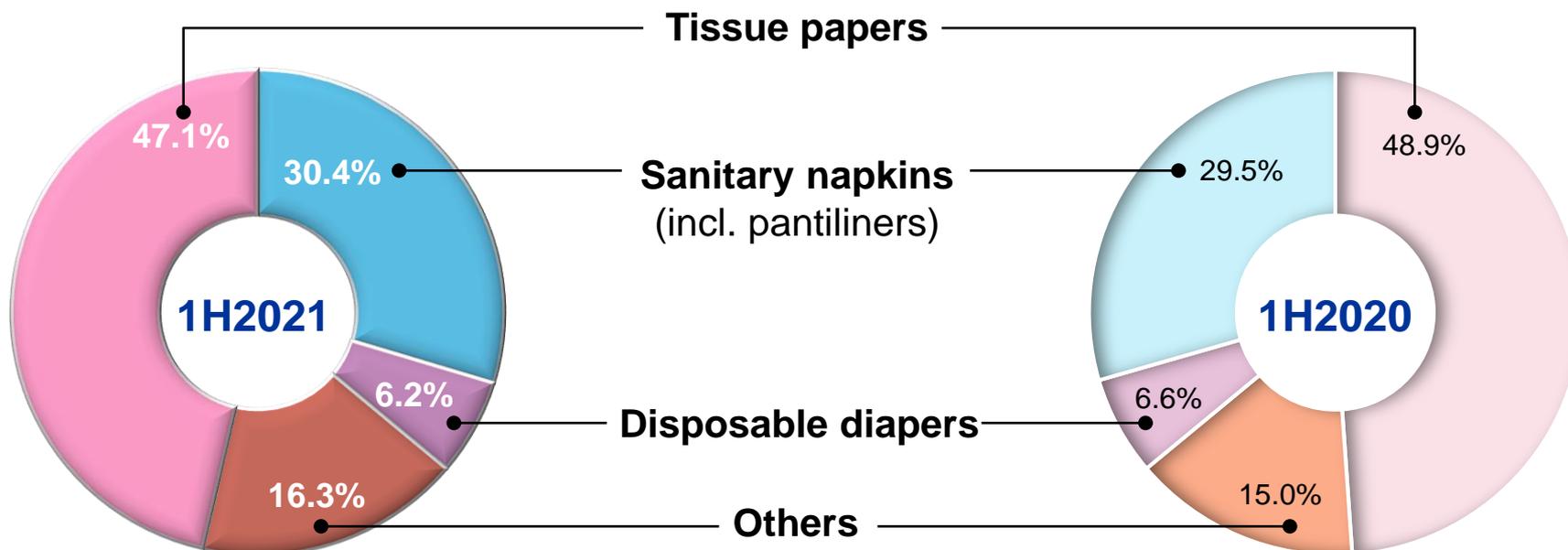


Financial Highlights



	2021	2020	Change
<i>(RMB '000)</i>			
	<i>For the six months ended 30 June</i>		
Revenue	9,973,914	10,927,862	⬇️ 8.7%
Gross profit	3,930,671	4,815,619	⬇️ 18.4%
Operating Profit	2,540,583	3,185,111	⬇️ 20.2%
Profit attributable to shareholders	1,860,292	2,259,528	⬇️ 17.7%
Earnings per share (RMB)			
– Basic and Diluted	1.574	1.899	⬇️ 17.1%
Dividend per share (RMB)			
— Interim	1.00	1.20	⬇️ 16.7%

Solid Revenue Base



By Business Segment	2021	2020	Change
(RMB '000)	For the six months ended 30 June		
Tissue paper	4,696,522	5,349,011	⬇️ 12.2%
Sanitary napkins (incl. pantliners)	3,029,970	3,222,684	⬇️ 6.0%
Disposable diapers	619,668	722,181	⬇️ 14.2%
Others	1,627,754	1,633,986	⬇️ 0.4%

Gross Profit Margin Overview

By Business Segment	2021	2020
(%)	For the six months ended 30 June	
Tissue paper	29.2%	35.0%
Sanitary napkins (incl. pantliners)	70.0%	70.4%
Disposable diapers	36.2%	38.6%
Others	13.2%	24.2%
Overall	39.4%	44.1%

Major factors affecting overall gross profit margin

Margin decreased in 1H2021 due to:

- Increase in costs of some petrochemical raw materials (e.g. Superabsorbent polymer)
- Increase in promotion expenses to offset against revenue
- Decrease in revenue due to intensified market competition and fragmentation of sales channels



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

Selling and distribution costs and administrative expenses

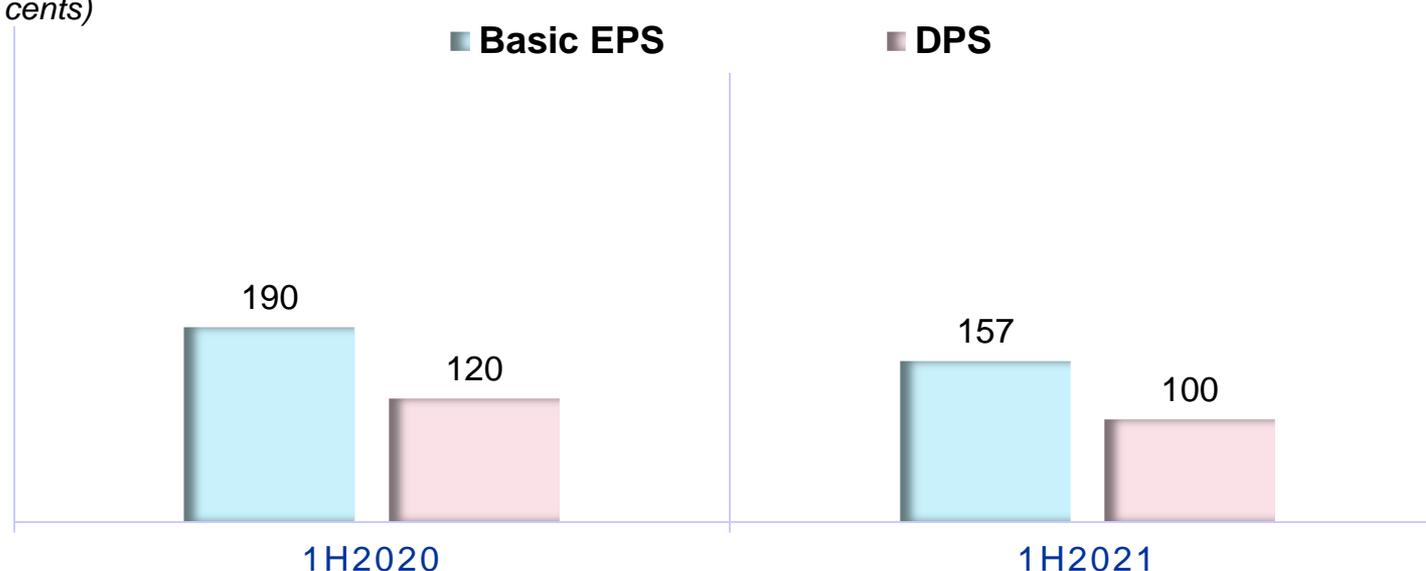
- Selling and distribution costs and administrative expenses accounted for approx. 19.3% of total revenue (1H2020: 19.4%)
- Major expenses are as follows:

	2021	2020
(As % of revenue)	For the six months ended 30 June	
Marketing & advertising expenses	2.3%	3.8%
Staff costs (excluding labour costs)	3.7%	3.4%
Transportation and packaging expenses	3.5%	3.7%
Research and development	1.4%	1.6%

Return to Shareholders

1H2021 Return to shareholders ratio: 83.6% (1H2020: 63.2%)

(RMB cents)



Return to Shareholders

(RMB '000)

2021

2020

30 June 2021

Proposed interim dividend	1,175,121	1,427,625
Repurchase of 8,800,000 shares	380,194	-
Total return to shareholders	1,555,315	1,427,625
Total return to shareholders ratio¹	83.6%	63.2

Note 1: Total return to shareholders ratio = ((Proposed interim dividend amounts + repurchase of sales considerations) / profit attributable to shareholders)

Key Financial Indicators



	2021	2020
(RMB '000)	30 June 2021	31 December 2020
Cash on hand (RMB '000)	27,284,746	23,970,698
Corporate bonds, super short-term, and short-term commercial papers (RMB '000)	4,999,804	998,938
Bank and other borrowings (RMB '000)	18,713,581	19,837,362
Current ratio	1.3 times	1.4 times
Gross gearing ratio	122.6%	107.3%
Net gearing ratio (net cash)	(18.5%)	(16.1%)
Finished goods turnover	50 days	49 days
Accounts receivable turnover	59 days	57 days
Accounts payable turnover	60 days	63 days

Interest income: around RMB 474.8mn (1H2020: RMB543.6 mn)

- Partly included in other gains:
about RMB 365.7mn (1H2020: RMB 433.0mn) interest income on bank deposits over 3 months (short-term investments)
- Partly included in finance income:
about RMB 109.1mn
(1H2020: RMB110.6 mn)

Interest expense:

- About RMB 235.3mn
(1H2020: RMB399.5 mn)

Net Interest Income:

- Around RMB 239.5mn
(1H2020: RMB144.1 mn)



Exchange gain: around RMB 12.6mn (1H2020: Loss of RMB85.3 mn)

- Included in other gains: gain of about RMB 14.2mn (1H2020: loss of RMB88.0 mn)
Arising mainly from purchase of raw materials from overseas suppliers
- Included in finance costs: a loss of about RMB 1.6mn
(1H2020: gain of RMB2.7 mn)



Government grants:

- About RMB 153.6mn (1H2020: RMB165.0 mn), as encouragement of the Group's contributions to the development of the local economy

Effective tax rate:

- 22.7% (1H2020: 22.1 %)

Capital expenditure incurred:

- Around RMB 285.8mn (1H2020: RMB247.6 mn), mainly incurred for the new production lines





Business Review



Market overview

- ☺ China has the world's largest feminine care products market where competition is fierce and is highly saturated.
- ☺ International brands adopt aggressive pricing strategy to substantially reduce prices and increase concessionary measures to seize the market share of mid-to-high-end cities and young consumers.
- ☺ Development of e-commerce and emerging sales channels will become the key growth drivers of the market.



Business performance in 1H2021 and 2H2021 outlook

- ☺ In 1H2021, due to competitors' aggressive pricing strategies to capture mid-to-high-end market share and the further fragmented sales channels, the sales of the sanitary napkin business recorded a decline of approximately 6.0% to approximately RMB3,029,970,000 (2020 first half: RMB3,222,684,000).
- ☺ During the period, the cost of petrochemical raw materials used in sanitary napkins has stabilised, coupled with the Group's adherence to a rational and stable pricing strategy, the gross profit margin of the sanitary napkin business has maintained a relative stable level at approximately 70.0% (2020 first half: 70.4%).
- ☺ The Group will continue developing the premium market. The premium "Space 7" market which aimed at the mature white-collar market received positive response during the period, which is believed to be a key growth point in the future, expanding the Group's share in the sanitary napkin market.
- ☺ Going forward, the Group will step up its efforts to expand new retail channels and strengthening the development of exclusive products on new retail channels, adopting a stable pricing strategy to support the long-term development and consolidate the Group's leading position in the mid-to-high-end market. The Group will continue to actively R&D other feminine care products beyond sanitary napkins, steadily developing the feminine care industry, capture growth opportunities brought by consumption upgrade and actively exploring opportunities to sell the Group's sanitary napkin products to overseas markets.

Market overview

- ☺ National health awareness remained at a high level and the market demand for tissue paper products returned to a rational level.
- ☺ As consumers no longer worry about the shortage of tissue paper supply affected by the pandemic, consumer attitudes are more cautious and price sensitive.



Business performance in 1H2021 and 2H2021 outlook

- ☺ In 1H 2021, although the cost of wood pulp grew significantly during the period, many tissue companies had to increase promotional expenses and reduce prices to strive for market share. With further intensified market competition, the decline in average selling price has caused the overall tissue paper market to record a double-digit year-on-year decline and Hengan is no exception.
- ☺ The sales of the Group's tissue paper business fell approximately 12.2% to approximately RMB4,696,522,000 (2020 first half: RMB 5,349,011,000). Due to its increase in promotion expenses during the period to maintain its market competitiveness, the Group's tissue gross profit margin tally to approximately 29.2% (1H2020: 35.0%)
- ☺ In view of the extraordinary high base last year, sales of wet wipes during the period decreased by approximately 21.9% year-on-year to approximately RMB346,282,000 (2020 first half: RMB443,150,000), while it recorded a double-digit growth compared with the same period in 2019, reflecting the sustained sound development of the wet wipe business.
- ☺ During the period, the Group launched the new premium series of "Cloudy Soft Skin" (云感柔肤) with an aim to provide high-quality experience product to customer and received positive market response, which significantly increased its portion of sales to the overall tissue sales.
- ☺ As the living habits of people change and the level of consumption continues to rise, the tissue paper market continues to expand and competition is gradually intensifying, the Group will develop more products targeting at accurately meeting consumers' needs and continuously seizing business opportunities to expand its market share in domestic tissue market and maintain its leading market position.

Disposable Diapers

Market overview

- As the penetration rate of domestic adult care products is still lower than that of developed countries, the domestic adult diaper market is still at the nascent stage of development.
- The market penetration rate is increasing continuously, the market size and compound annual growth rate of adult incontinence products in China soared from 2016 to 2020.
- National consumption upgrade will continue to be the driving force for the industry players to upgrade its product and launch premium products to untap the growth potentials in the market.



Business performance in 1H2021 and 2H2021 outlook

- In 1H2021, the upgraded premium “Q·MO” products performed well, with sales increased by approximately 31.5% year-on-year, and its proportion further increased to approximately 27.3%. As the market of adult incontinence products in China is growing, the Group’s adult disposable diaper business recorded mid-single digit growth, and the market penetration rate of “ElderJoy” (安而康) has gradually increased as well.
- As the sales channels of the Group’s disposable diaper market have become more diverse, the sales in traditional channel have accelerated decline and offset the sales growth of the Group’s premium disposable diaper. The Group’s disposable diaper business recorded a decrease of approximately 14.2% to approximately RMB619,668,000 (2020 first half: RMB722,181,000).
- Despite the increase in the sales of premium products, the tight supply of superabsorbent polymer, a raw material used in the manufacturing of disposable diapers has led to cost escalation and the additional cost incurred relating to the clearance of the mid-end outdated diaper products, thus, the gross profit margin of the disposable diaper segment dropped to approximately 36.2% (2020 first half: 38.6%).
- The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the “ElderJoy” and “Banitore” (便利妥) brands and increasing its market share in Southeast Asia. In the future, the Group will continue to develop the baby care market and the adult care market in parallel with a premiumisation strategy. In addition to e-commerce sales channels, the Group will strive to develop new retail channels and also increase cooperation with maternal stores, nursing homes and hospitals.

Market overview

- ☺ The Group has stepped up its efforts to develop the household products business to expand its market coverage.
- ☺ The Group's other income also includes revenue from Wang-Zheng Group in Malaysia, the revenue from Sunway Kordis Holding Limited, revenue from the trading of raw materials and surgical masks and other medical related products.



Business performance in 1H2021 and 2H2021 outlook

- ☺ Regarding other income, the Group's revenue in the first half of the year decreased by approximately 0.4% year-on-year to approximately RMB1,627,754,000 (2020 first half: RMB1,633,986,000), which was mainly attributed to the decline in demand for surgical masks in view of the stabilisation of the pandemic and the decline in sales of overseas business affected by the cities' lockdown from the pandemic.
- ☺ Revenue from the Group's household products segment was approximately RMB152,502,000 (2020 first half: RMB192,509,000), representing a year-on-year decrease of approximately 20.8%, accounting for 1.5% of the Group's operating revenue (2020 first half: 1.8%), which was mainly attributed to the decline in exports of household products due to the pandemic.
- ☺ The Group continued to expand its household products business to increase its presence in the sector. The Group has 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. In addition, The Group will seek to leverage on Sunway Kordis's overseas sales network to bring Hengan's products to overseas market.
- ☺ The Group will continue to devote itself to the R&D 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

- During the period, the Group's Wang-Zhang Group business in Malaysia was affected by the pandemic and recorded a turnover of approximately RMB172,582,000 (2020 first half: RMB183,287,000), accounting for approximately 1.7% of the Group's overall sales (2020 first half: 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 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 diapers into the Southeast Asian market.
- In the future, the Group will continue to upgrade its existing Wang-Zheng products, research and develop and launch more high-end products under the Hengan brand and strengthen its market share in Malaysia and Southeast Asia.



Market overview

- ☺ The global pandemic has made online shopping the new normal, accelerated the mature development of the domestic online shopping market, and promoted the vibrant development of new shopping channels along with mainstream e-commerce platforms.
- ☺ As a convenient way of shopping, online shopping has become part of the daily life of domestic consumers.
- ☺ The outstanding growth of e-commerce provided profit to e-commerce companies and accelerated retailers' investment in e-commerce operations.



Business performance in 1H2021 and 2H2021 outlook

- ☺ In 1H2021, sales revenue of the Group's e-commerce channels (including Retail Integrated (“零售通”) and New Channel (“新通路”) returned to a growth to approximately over RMB2.0 billion (1H2020: over RMB1.9 billion). The Group's new channels (including O2O platforms, Community Group-buying, etc.) have made good progress.
- ☺ The Group will review and optimise the sales strategy of its e-commerce and new channels from time to time, strengthen the sales and promotional efforts of online stores, and actively integrate online and offline channels to provide consumers with a better shopping experience.
- ☺ In the future, the Group will actively analyse the data of end customers to allocate cost precisely in devising relevant sales strategies. By carefully analysing the needs of customers and providing consumers with different products in different channels help to develop new retail channels and consolidate sales through traditional channels.
- ☺ The Group also hopes to bring speciality products and stable pricing into the new retail market to minimise impact on sales and profits, reduce the impact on other channels and at the same time maintain competitiveness.

Green Production

1H 2021

Proportion of production companies with ISO 14001 certification

100%

Energy consumption per unit product of the papermaking segment



The advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking (GB31825-2015) (≤ 420 kg standard coal/ton)

Water consumption per ton of paper in the Hengan papermaking segment



The upper limit of water withdrawal per ton of product specified in GB/T18916.5 Water Quotas Part 5:Paper Products

Forest Policy

1H 2020

Percentage of paper production companies with FSC/CoC certification

6/6



Staff Training



Renovated Dining Hall with staff survey result considered



Cultural Activities for Staff



Environmental, Social & Governance



Health & Safety

1H 2021

Proportion of production Co. with ISO 45001

100%

Community Participations

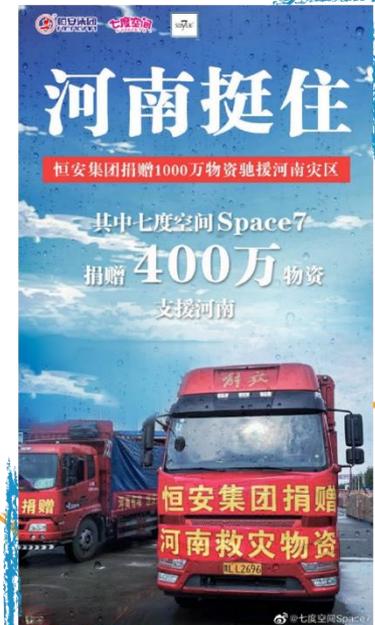
Jan. 2021, Donate over 10,000 adult diapers to Hebei Province to fight COVID-19

May. 2021, Donate 64,000 adult diapers to the Elderly Homes in Beijing, Shanghai, Chengdu, etc.

ESG rating

Hengan FTSE ESG rating increased by 22%, higher than industry average and China average.

MSCI ESG rating upgraded by one level



Donations to relief flooding in Henan



Donation to Hebei



Donation to Elderly Homes



Outlook



Market Outlook



China's economy continues its steady recovery, the external uncertainties will pose challenges for the country's economic recovery

Upward trend of wood pulp prices will exert pressure on the Group's profitability in 2H2021. The Group will closely monitor the prices of imported wood pulp, petrochemical raw materials etc.

Due to the volatile pandemic situation and the ongoing trend of domestic consumption upgrades, national health awareness and consumers' expectations on product quality will continue to increase. The Group will take the premium products strategy as the core of future development by allocating more resources to increase the contribution of high-end products

The pandemic has accelerated the digitalisation of the global retail industry, the Group strives to find more potential customers to increase the sales proportion in e-commerce and new retail channels. The Group will also consolidate traditional channels and integrate online and offline retail models to promote omnichannel sales and provide a more complete consumer experience to support the long-term development. By analysing consumer preferences and market changes, resource allocation and market share could be further optimised

Continuing to forge ahead with premium products strategy and industrial expansion as the long-term development target and actively expand industries with high growth potential, namely feminine care, infant child care, elderly care, and household products





Open Forum

