

**Hong Kong**
**ADD** (no change)

Consensus ratings\*: Buy 16 Hold 2 Sell 2

Current price:	HK\$21.00
Target price:	HK\$24.40
Previous target:	HK\$24.40
Up/downside:	16.2%
CGI / Consensus:	8.5%
Reuters:	3331.HK
Bloomberg:	3331 HK
Market cap:	US\$3,240m
	HK\$25,227m
Average daily turnover:	US\$3.64m
	HK\$30.43m
Current shares o/s:	999.4m
Free float:	26.4%

\*Source: Bloomberg

**Key changes in this note**

- FY22F net profit decreased by 3.4%.
- FY23F net profit decreased by 2.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.6	1.2	-16.8
Relative (%)	5	7.9	0.6

Major shareholders	% held
SCA Hygiene Holdings	54.6
Fu An International	19.0

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# Vinda International Holdings

## Price hike and lower pulp price to ease margin pressure

- Vinda reported FY21 revenue of HK\$18.7bn, up 13.1% yoy, and net profit of HK\$1.64bn, down 12.6% yoy, below our expectations because of lower margins.
- In Dec 2021, Vinda imposed another round of price hikes in its tissue product line, which will help improve margins in FY22F.
- The wood pulp price decreased in the past couple of months, and management expects the trend to continue in 1Q22F.
- Reiterate ADD with an unchanged DCF-based TP of HK\$24.40.

### Results missed because of higher margin pressure

With the constant FX rate, tissue sales were HK\$15.5bn in FY21, up 7.2% yoy, and sales of personal care products were HK\$3.2bn, up 6.2% yoy. E-commerce sales grew by 48.9% yoy in FY21, and the online sales contribution improved to 41% in FY21, from 39% in 9M21. Online sales contributed 50% of China sales. Because of higher costs of wood pulp, energy and packaging materials, especially in 2H21, Vinda's FY21 gross margin dropped by 2.4% pts yoy to 35.3%. Its gross margin for tissue products dropped by 2.9% pts yoy to 35.4%, and its gross margin for personal care products improved by 0.4% pt yoy to 35.1%. Vinda's full-year advertising and promotion expenses ratio was 8.2%, 0.9% pt higher than that in FY20, as it resumed its marketing campaign in brand building for premium feminine care products and penetrating new online channels after a pause in marketing in FY20 amid the pandemic. With the absence of government pandemic subsidies, its FY21 operating margin declined by 4.0% pts yoy to 10.9%.

### Additional price hikes in Dec 2021

In FY21, Vinda increased its capacity significantly from 1.25m tons to 1.39m tons, which included the capacity expansion planned but delayed since FY20. The additional capacity and promotions in new online channels, such as live broadcasting platforms and social e-commerce channels, put pressure on Vinda's ASP. With the sales scale increasing in the new online channels, Vinda started to raise prices in Aug 2021. The first round of price hikes was a success with 2% sales volume growth, ahead of the market average. In Dec 2021, Vinda imposed another round of price hikes for its whole tissue product line. The Dec price hike resulted in a decrease in sales volume, but management is confident that the volume drop will be temporary. 4Q21 overall tissue price growth was flat, and volume growth was about 2% yoy. In FY22F, Vinda will closely monitor the market and impose further price hikes if there are any opportunities. Vinda is also progressing well in its premiumization strategy, with over 30% yoy growth in its premium product sales, and premium products contributed about 35% of its mainland China sales.

### Downtrend in raw material prices may ease FY22F margin pressure

The wood pulp price decreased in the past couple of months, and management expects it to continue to gradually go down in 1Q22F. Energy and packaging material prices were also high in 4Q21, but Vinda noted that the pressure has eased recently.

### Reiterate ADD with an unchanged DCF-based TP of HK\$24.40

We cut our FY22–23F net profit forecasts by 3.4% and 2.9%, respectively, to reflect lower-than-expected margins, and rolled over our forecast to FY24F. We expect Vinda's margin pressure to ease in 1H22F, given recent price hikes and a downward-trending pulp price. We expect Vinda to benefit from improving demand for premium tissue products and its strong online sales expansion. Vinda will also benefit from the sales recovery in overseas markets, like Malaysia and Korea, in FY22F. A key catalyst is a margin increase. A key risk is a higher-than-expected wood pulp price.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	16,512	18,676	20,659	22,650	24,837
Operating EBITDA (HK\$m)	3,503	3,347	3,786	4,211	4,680
Net Profit (HK\$m)	1,875	1,639	1,898	2,185	2,509
Core EPS (HK\$)	1.56	1.36	1.58	1.82	2.09
Core EPS Growth	64.3%	(12.8%)	15.8%	15.1%	14.8%
FD Core P/E (x)	13.42	15.39	13.28	11.54	10.05
DPS (HK\$)	0.47	0.50	0.44	0.51	0.59
Dividend Yield	2.24%	2.38%	2.11%	2.43%	2.79%
EV/EBITDA (x)	8.38	8.72	7.31	6.14	5.06
P/FCFE (x)	39.13	28.83	12.24	10.86	9.32
Net Gearing	35.9%	30.5%	17.0%	3.9%	(8.3%)
P/BV (x)	2.16	1.94	1.74	1.55	1.38
ROE	17.7%	13.3%	13.8%	14.2%	14.5%
% Change In Core EPS Estimates			(3.38%)	(2.93%)	
CGI/consensus EPS (x)			0.97	0.95	

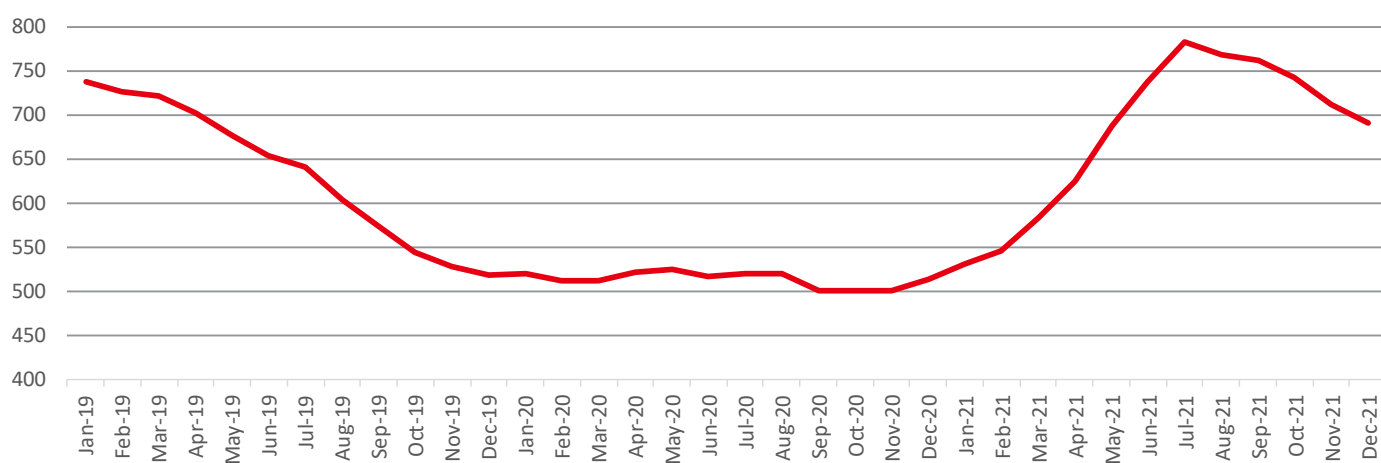
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Price hike and lower pulp price to ease margin pressure

**Figure 1: Vinda FY21 results review**

HK\$m	FY20	FY21	yoy
<b>Turnover</b>	<b>16,511.7</b>	<b>18,675.7</b>	<b>13.1%</b>
Cost of sales	(10,288.9)	(12,079.4)	17.4%
<b>Gross profit</b>	<b>6,222.8</b>	<b>6,596.3</b>	<b>6.0%</b>
Gross margin	37.7%	35.3%	-2.4ppts
Other operating income	142.8	77.0	-46.1%
Distribution costs	(2,960.7)	(3,672.1)	24.0%
Distribution costs as % of net sales	17.9%	19.7%	1.7ppts
General and administrative expenses	(952.2)	(957.7)	0.6%
G & A expenses as % of net sales	5.8%	5.1%	-0.6ppts
<b>Operating profit</b>	<b>2,452.7</b>	<b>2,043.5</b>	<b>-16.7%</b>
Operating margin	14.9%	10.9%	-3.9ppts
Interest income	17.3	19.2	11.2%
Foreign exchange gain, net	(5.7)	(7.5)	30.3%
Interest expenses	(137.7)	(105.4)	-23.5%
<b>Profit before tax</b>	<b>2,326.5</b>	<b>1,949.8</b>	<b>-16.2%</b>
Tax	(452.0)	(311.2)	-31.1%
<b>Net profit</b>	<b>1,874.5</b>	<b>1,638.6</b>	<b>-12.6%</b>

SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 2: China imported wood pulp price (US\$/ton)**


SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 3: Vinda earnings revisions**

	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (HK\$m)	20,659.0	20,659.0	0.0%	22,650.0	22,650.0	0.0%	N/A	24,837.1	N/A
Gross margin	36.7%	36.2%	-0.5%	36.8%	36.4%	-0.4%	N/A	36.6%	N/A
Distribution expen/sales	19.1%	19.3%	0.1%	18.9%	19.1%	0.1%	N/A	18.9%	N/A
Operating margin	12.6%	11.9%	-0.6%	13.0%	12.4%	-0.6%	N/A	12.9%	N/A
Net profit (HK\$m)	1,960.0	1,897.9	-3.2%	2,245.6	2,184.6	-2.7%	N/A	2,509.0	N/A
EPS (HK\$)	1.64	1.58	-3.4%	1.87	1.82	-2.9%	N/A	2.09	N/A

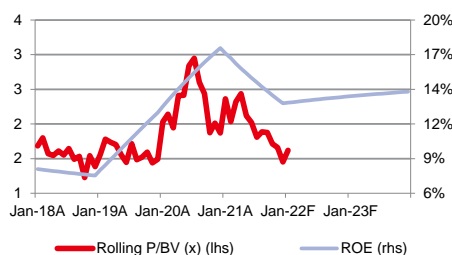
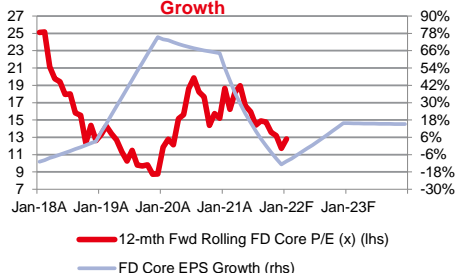
SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 4: Vinda DCF valuation**

FCF computation (HK\$ m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
<b>EBIT</b>	<b>2,467.6</b>	<b>2,813.0</b>	<b>3,203.4</b>	<b>3,235.4</b>	<b>3,138.3</b>	<b>2,981.4</b>	<b>2,772.7</b>	<b>2,523.2</b>	<b>2,270.8</b>	<b>2,089.2</b>	<b>1,963.8</b>	<b>1,885.3</b>
Taxes	-360.5	-414.9	-476.5	-481.3	-466.9	-443.5	-412.5	-375.3	-337.8	-310.8	-292.1	-280.5
<b>NOPAT</b>	<b>2,107.1</b>	<b>2,398.1</b>	<b>2,726.8</b>	<b>2,754.1</b>	<b>2,671.5</b>	<b>2,537.9</b>	<b>2,360.2</b>	<b>2,147.8</b>	<b>1,933.0</b>	<b>1,778.4</b>	<b>1,671.7</b>	<b>1,604.8</b>
<b>NOPAT growth</b>	<b>21.6%</b>	<b>13.8%</b>	<b>13.7%</b>	<b>1.0%</b>	<b>-3.0%</b>	<b>-5.0%</b>	<b>-7.0%</b>	<b>-9.0%</b>	<b>-10.0%</b>	<b>-8.0%</b>	<b>-6.0%</b>	<b>-4.0%</b>
D&A	1,356.6	1,435.0	1,513.5	1,528.6	1,543.9	1,559.4	1,574.9	1,590.7	1,606.6	1,622.7	1,638.9	1,655.3
<b>Funds from operation</b>	<b>3,463.7</b>	<b>3,833.1</b>	<b>4,240.3</b>	<b>4,282.7</b>	<b>4,215.4</b>	<b>4,097.3</b>	<b>3,935.2</b>	<b>3,738.5</b>	<b>3,539.6</b>	<b>3,401.1</b>	<b>3,310.6</b>	<b>3,260.1</b>
Change in net working Capital	-79.3	-182.0	-200.4	-202.4	-204.4	-206.4	-208.5	-210.6	-212.7	-214.8	-217.0	-219.1
<b>Cash flow from operation</b>	<b>3,384.3</b>	<b>3,651.2</b>	<b>4,040.0</b>	<b>4,080.4</b>	<b>4,011.0</b>	<b>3,890.8</b>	<b>3,726.7</b>	<b>3,527.9</b>	<b>3,327.0</b>	<b>3,186.2</b>	<b>3,093.6</b>	<b>3,041.0</b>
Capex	-1,200.0	-1,200.0	-1,200.0	-1,212.0	-1,224.1	-1,236.4	-1,248.7	-1,261.2	-1,273.8	-1,286.6	-1,299.4	-1,312.4
<b>Free cash flow from operation</b>	<b>2,184.3</b>	<b>2,451.2</b>	<b>2,840.0</b>	<b>2,868.4</b>	<b>2,786.9</b>	<b>2,654.5</b>	<b>2,478.0</b>	<b>2,266.7</b>	<b>2,053.1</b>	<b>1,899.7</b>	<b>1,794.2</b>	<b>1,728.6</b>
<b>FCF growth</b>	<b>63.3%</b>	<b>12.2%</b>	<b>15.9%</b>	<b>1.0%</b>	<b>-2.8%</b>	<b>-4.8%</b>	<b>-6.6%</b>	<b>-8.5%</b>	<b>-9.4%</b>	<b>-7.5%</b>	<b>-5.6%</b>	<b>-3.7%</b>
Terminal free cash flow	26,818.2											
Total discounted free cash flow	20,598.1											
Present value of terminal free cash flow	11,165.9											
Total present value of forecasted FCF	<b>31,764.0</b>											
Less: Net Debt / Leases	2,459.1											
<b>Equity Value</b>	<b>29,304.9</b>											
No. Shares (millions)	1,200.5											
<b>Target price (HK\$)</b>	<b>24.40</b>											
<b>Assumptions</b>												
<b>Cost of equity</b>										9.1%		
Risk free rate										4.0%		
Market risk premium										7.8%		
Beta										0.84		
<b>Cost of debt (after tax)</b>										3.0%		
<b>Target Debt / (Debt + Equity)</b>										25.0%		
<b>WACC</b>										7.6%		
<b>Terminal growth rate</b>										1.0%		

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS

**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**


### Profit & Loss

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>16,512</b>	<b>18,676</b>	<b>20,659</b>	<b>22,650</b>	<b>24,837</b>
<b>Gross Profit</b>	<b>6,223</b>	<b>6,596</b>	<b>7,480</b>	<b>8,241</b>	<b>9,080</b>
<b>Operating EBITDA</b>	<b>3,503</b>	<b>3,347</b>	<b>3,786</b>	<b>4,211</b>	<b>4,680</b>
Depreciation And Amortisation	(1,050)	(1,303)	(1,319)	(1,398)	(1,477)
<b>Operating EBIT</b>	<b>2,453</b>	<b>2,043</b>	<b>2,468</b>	<b>2,813</b>	<b>3,203</b>
Financial Income/(Expense)	(120)	(86)	(209)	(214)	(218)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(6)	(7)	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>2,327</b>	<b>1,950</b>	<b>2,258</b>	<b>2,600</b>	<b>2,986</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>2,327</b>	<b>1,950</b>	<b>2,258</b>	<b>2,600</b>	<b>2,986</b>
Taxation	(452)	(311)	(360)	(415)	(477)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,875</b>	<b>1,639</b>	<b>1,898</b>	<b>2,185</b>	<b>2,509</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,875</b>	<b>1,639</b>	<b>1,898</b>	<b>2,185</b>	<b>2,509</b>
Recurring Net Profit	1,875	1,639	1,898	2,185	2,509
<b>Fully Diluted Recurring Net Profit</b>	<b>1,875</b>	<b>1,639</b>	<b>1,898</b>	<b>2,185</b>	<b>2,509</b>

### Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>3,503</b>	<b>3,347</b>	<b>3,786</b>	<b>4,211</b>	<b>4,680</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(896)	28	(79)	(182)	(200)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	54	(127)	38	37	37
Net Interest (Paid)/Received	(158)	(142)	(217)	(222)	(226)
Tax Paid	(498)	(460)	(360)	(415)	(477)
<b>Cashflow From Operations</b>	<b>2,004</b>	<b>2,646</b>	<b>3,167</b>	<b>3,430</b>	<b>3,814</b>
Capex	(1,697)	(1,755)	(1,200)	(1,200)	(1,200)
Disposals Of FAs/subsidiaries	20	13	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	(48)	(18)	(8)	(8)	(8)
<b>Cash Flow From Investing</b>	<b>(1,725)</b>	<b>(1,759)</b>	<b>(1,208)</b>	<b>(1,208)</b>	<b>(1,208)</b>
Debt Raised/(repaid)	364	(12)	100	100	100
Proceeds From Issue Of Shares	53	23	0	0	0
Shares Repurchased					
Dividends Paid	(372)	(564)	(442)	(392)	(451)
Preferred Dividends					
Other Financing Cashflow	(77)	(85)	0	0	0
<b>Cash Flow From Financing</b>	<b>(31)</b>	<b>(638)</b>	<b>(342)</b>	<b>(292)</b>	<b>(351)</b>
Total Cash Generated	248	248	1,617	1,930	2,255
<b>Free Cashflow To Equity</b>	<b>643</b>	<b>874</b>	<b>2,059</b>	<b>2,322</b>	<b>2,706</b>
<b>Free Cashflow To Firm</b>	<b>437</b>	<b>1,029</b>	<b>2,176</b>	<b>2,443</b>	<b>2,832</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	749	1,025	2,642	4,572	6,828
Total Debtors	2,848	2,908	3,213	3,518	3,853
Inventories	4,774	4,427	3,589	3,924	4,291
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>8,371</b>	<b>8,360</b>	<b>9,444</b>	<b>12,014</b>	<b>14,972</b>
Fixed Assets	10,117	11,226	11,111	10,917	10,644
Total Investments	6	5	5	5	5
Intangible Assets	2,746	2,647	2,648	2,649	2,650
Total Other Non-Current Assets	1,882	1,944	1,917	1,890	1,865
<b>Total Non-current Assets</b>	<b>14,751</b>	<b>15,821</b>	<b>15,680</b>	<b>15,461</b>	<b>15,164</b>
Short-term Debt	1,818	936	936	936	936
Current Portion of Long-Term Debt					
Total Creditors	5,802	5,543	4,930	5,389	5,891
Other Current Liabilities	215	119	119	119	119
<b>Total Current Liabilities</b>	<b>7,835</b>	<b>6,598</b>	<b>5,985</b>	<b>6,444</b>	<b>6,946</b>
Total Long-term Debt	3,116	4,065	4,165	4,265	4,365
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	303	301	301	301	301
<b>Total Non-current Liabilities</b>	<b>3,419</b>	<b>4,366</b>	<b>4,466</b>	<b>4,566</b>	<b>4,666</b>
Total Provisions	200	198	198	198	198
<b>Total Liabilities</b>	<b>11,454</b>	<b>11,162</b>	<b>10,650</b>	<b>11,208</b>	<b>11,810</b>
Shareholders' Equity	11,667	13,019	14,474	16,267	18,326
Minority Interests	0	0	0	0	0
<b>Total Equity</b>	<b>11,667</b>	<b>13,019</b>	<b>14,474</b>	<b>16,267</b>	<b>18,326</b>

**Key Ratios**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	2.7%	13.1%	10.6%	9.6%	9.7%
Operating EBITDA Growth	35.4%	(4.4%)	13.1%	11.2%	11.1%
Operating EBITDA Margin	21.2%	17.9%	18.3%	18.6%	18.8%
Net Cash Per Share (HK\$)	(3.49)	(3.31)	(2.05)	(0.52)	1.27
BVPS (HK\$)	9.74	10.84	12.06	13.55	15.26
Gross Interest Cover	17.81	19.39	11.36	12.70	14.19
Effective Tax Rate	19.4%	16.0%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	30.0%	36.6%	28.0%	28.0%	28.0%
Accounts Receivables Days	55.66	55.44	53.30	53.52	53.66
Inventory Days	142.2	139.0	111.0	95.2	95.4
Accounts Payables Days	187.0	170.9	144.5	130.2	130.5
ROIC (%)	17.7%	12.5%	14.1%	16.1%	18.4%
ROCE (%)	16.0%	11.8%	13.0%	13.6%	14.1%
Return On Average Assets	9.41%	7.29%	8.55%	9.12%	9.47%

**Key Drivers**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Tissue sales volume change (%)	3.3%	8.6%	5.9%	5.9%	5.9%
Personal care sales volume change (%)	3.0%	12.0%	10.0%	8.0%	8.0%
Overall ASP change (%)	-0.5%	3.4%	3.6%	3.0%	3.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021		
619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

**Spitzer Chart for stock being researched ( 2 year data )**

**Vinda International Holdings (3331 HK)**

## RECOMMENDATION FRAMEWORK

### Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

## Analyst Certification

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

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