

# China / Hong Kong Company Update

## Vinda Int'l

Bloomberg: 3331 HK EQUITY | Reuters: 3331.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Jan 2022

### BUY

Last Traded Price (26 Jan 2022): HK\$21.00 (HSI : 24,290)  
Price Target 12-mth: HK\$25.53 (22% upside) (Prev HK\$25.91)

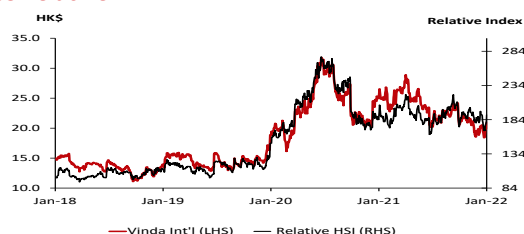
#### Analyst

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#### What's New

- GP margin to stay supportive via effective premiumisation strategy and cost control capabilities
- Further investments on brand building, product R&D and sales channels could beef up future growth power
- Strengthening e-commerce advantages should also reinforce a positive medium-term outlook. Maintain BUY

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	16,512	18,676	21,247	23,824
EBITDA	3,601	3,291	3,885	4,367
Pre-tax Profit	2,326	1,950	2,434	2,925
Net Profit	1,874	1,638	2,044	2,428
Net Profit Gth (%)	64.7	(12.6)	24.8	18.8
EPS (HK\$)	1.56	1.36	1.70	2.02
EPS Gth (%)	64.3	(12.8)	24.8	18.8
Diluted EPS (HK\$)	1.44	1.26	1.57	1.87
DPS (HK\$)	0.44	0.38	0.48	0.57
BV Per Share (HK\$)	9.74	10.84	10.95	11.56
PE (X)	13.4	15.4	12.3	10.4
P/Cash Flow (X)	12.6	9.5	10.5	8.7
P/Free CF (X)	76.9	27.9	41.9	24.9
EV/EBITDA (X)	8.0	8.8	7.5	6.6
Net Div Yield (%)	2.1	1.8	2.3	2.7
P/Book Value (X)	2.2	1.9	1.9	1.8
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE(%)	17.7	13.3	15.6	18.0
Earnings Rev (%)			(1)	(2)
Consensus EPS (HK\$)			1.54	1.86
Other Broker Recs:		B:11	S:2	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Premium products in the spotlight

#### Investment Thesis

**Consumption upgrades.** The high-end tissue product portfolio, which scored over 30% y-o-y growth in 2021, is expected to sustain its rapid growth, given the accelerated premiumisation trend in China. Such performance should also help in supporting group profitability and create synergies for the growth of other products.

**Expansion of feminine care market share.** Vinda's feminine care products achieved fast growth in China last year along with substantial increase in repeated purchases. This should reinforce the group's total market position and profitability.

**E-commerce advantage.** Vinda is among the leading players in the industry that sustains strong e-commerce penetration in China (77% of group revenue in 2021). With continuous investment in channel deployment, its strength should continue to drive performance ahead.

#### Valuation:

We have trimmed our FY22/FY23 net profit estimates by 1%/2%, given the trend of increasing investments in selling and marketing expenses. Our new TP of HK\$25.53 is based on 15x FY22 PE, which is equivalent to its four-year average PE.

#### Where we differ:

We maintain a conservative attitude amid potential raw material cost fluctuation and the pandemic impacts. Nevertheless, increasing investments in brand building, channel deployment, etc. should all support growth and profitability over the next few years.

#### Key Risks to Our View:

Higher-than-expected raw material price hikes; intensified market competition; and resurgence of new COVID-19 cases.

#### At A Glance

Issued Capital (m shrs)	1,201
Mkt Cap (HK\$m/US\$m)	25,221 / 3,239
Major Shareholders (%)	
Essity Aktiebolag (publ)	51.7
Fu An International Co., Ltd.	21.9
Free Float (%)	26.4
3m Avg. Daily Val. (US\$m)	4.02
GICS Industry: Consumer Staples / Household & Personal Products	



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## Vinda Int'l

### WHAT'S NEW

#### Takeaways from 2021 results briefing:-

**2021 final results in line.** Vinda reported 2021 revenue of HKD18,675.7m, up 13.1% y-o-y. Operating profit declined by 16% to HK\$2,043m, with an operating margin of 10.8% (2020: 14.9%). EBITDA margin dropped by 4.2ppt to 17.6%. Net profit declined by 12.6% to HK\$1,638m, along with a net margin dip by 2.6ppt to 8.8%. Final DPS of 40 HK cents was declared; making full-year DPS of 50 HK cents (2020: 47 HK cents).

#### Segmental performance:

- **Tissue.** The tissue segment accounted for HK\$15,501m of revenue, an increase of 13.9% y-o-y and represented 83% of group revenue (2020: 82%). Premium/high-end product portfolio scored over 30% growth in 2021, and contributed around 35% of total tissue revenue.
- **Personal care.** The revenue from the personal care segment increased by 9.3% to HK\$3,175m, representing 17% of group revenue. In particular, feminine care products scored over 100% growth in Mainland China, and contributed significantly to gross margin expansion of personal care business. As of 2021, the market share of Vinda's premium feminine care products in Mainland China reached around 7%.

#### Profitability and expense ratios:

- **Gross profit margin.** Vinda has taken actions to offset higher raw material costs in 2021. These included product price lifts; further product-mix upgrade towards the higher margin products; continuous improvement of operational efficiency; as well as a more agile sourcing strategy, hence partially offsetting the rising cost pressure. Gross margin reached 35.3% for the group (2020: 37.7%), comprising segmental gross margins of 35.4% (2020: 38.3%) and 35.1% (2020: 35.1%) for the tissue segment and personal care segment, respectively.
- **SG&A expenses.** Selling & marketing expenses ratio increased to 19.7% in 2021 (2020: 17.9%), mainly due higher investments in marketing & brand building, sales channels, new customer acquisitions and new retail channel deployment, etc., being necessary deployments to strengthen future growth. Meanwhile, the improvement of commercial capabilities and optimisation of operational efficiency did lead to around

a 0.5ppt decrease in the administrative expense ratio, to 5.3% of sales.

**Improving e-commerce advantages.** E-commerce is becoming the dominant sales distribution channel. At group level: traditional channels, key accounts (e.g., supermarkets & hypermarkets), B2B corporate customers and B2C e-platforms accounted for 25%, 23%, 11%, and 41% of revenue, respectively. Specifically, in Mainland China (77.4% of Vinda's group revenue), revenue contribution from e-commerce increased to 50% in 2021 (2020: 46%). Coupled with continuous investments to strengthen its leading position in online sales, Vinda should maintain positive growth prospects over the medium-term.

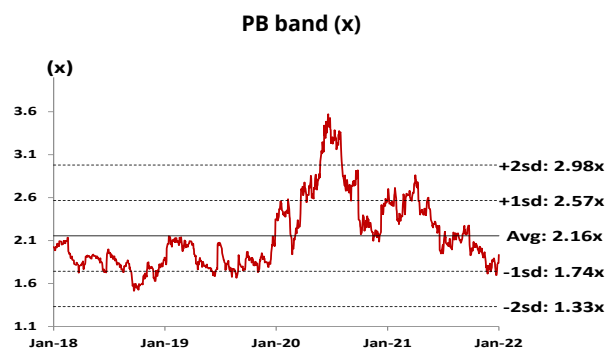
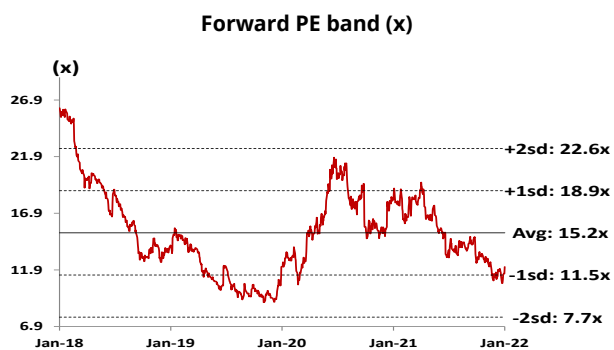
**Overall outlook.** Vinda targets to gain sustainable growth in both its revenue and profit, particularly for the tissue segment given its strong product innovation efforts. For the personal care segment, riding on successful performance of its feminine care products in the Chinese market, Vinda targets to increase product penetration to gain more market share in Mainland China in 2022 and onwards, while sustaining current leading positions in its overseas markets this year amid lingering COVID-19 disruptions. Its incontinence portfolio will also focus on achieving accelerated growth ahead. All in all, the company targets to achieve a double-digit growth in the Mainland China market this year, and more prudently targets at mid to high single-digit growth in overseas markets as the pandemic might bring some uncertainties in its progress.

#### Company Background

Vinda is a manufacturer of personal hygiene products including tissue paper and personal care products (e.g. feminine, baby and continence care products) under the brands of "Vinda", "Tempo", "Tork", "TENA", "Dr. P", "Libresse", "VIA", "Libero", and "Drypers". In recent years, Vinda has been actively expanding its premium tissue and personal care products to further enhance its brand- and product-mix and enrich overall brand portfolio.

## Vinda Int'l

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Vinda Int'l

## Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Tissue sales	13,254.0	13,608.0	15,501.0	17,738.3	19,929.2
Personal care sales	2,820.3	2,904.0	3,175.0	3,508.4	3,894.3
Tissue gross margin	31.4	38.3	35.4	35.8	36.0
Personal care gross margin	29.1	34.7	35.1	35.5	36.0
E-commerce channel growth	25.3	27.5	23.0	24.0	22.0

Source: Company, DBS HK

## Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	16,074	16,512	18,676	21,247	23,824
Cost of Goods Sold	(11,089)	(10,289)	(12,079)	(13,651)	(15,247)
<b>Gross Profit</b>	<b>4,985</b>	<b>6,223</b>	<b>6,596</b>	<b>7,596</b>	<b>8,576</b>
Other Opng (Exp)/Inc	(3,416)	(3,770)	(4,553)	(5,027)	(5,517)
<b>Operating Profit</b>	<b>1,570</b>	<b>2,453</b>	<b>2,043</b>	<b>2,569</b>	<b>3,059</b>
Other Non Opg (Exp)/Inc	(6)	(6)	(7)	(7)	(7)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(193)	(120)	(86)	(128)	(127)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,371</b>	<b>2,326</b>	<b>1,950</b>	<b>2,434</b>	<b>2,925</b>
Tax	(232)	(452)	(311)	(389)	(497)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,138</b>	<b>1,874</b>	<b>1,638</b>	<b>2,044</b>	<b>2,428</b>
Net Profit before Except.	1,138	1,874	1,638	2,044	2,428
EBITDA	2,678	3,601	3,291	3,885	4,367
<b>Growth</b>					
Revenue Gth (%)	8.0	2.7	13.1	13.8	12.1
EBITDA Gth (%)	36.5	34.4	(8.6)	18.0	12.4
Opg Profit Gth (%)	53.9	56.3	(16.7)	25.7	19.1
Net Profit Gth (%)	75.3	64.7	(12.6)	24.8	18.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.0	37.7	35.3	35.8	36.0
Opg Profit Margin (%)	9.8	14.9	10.9	12.1	12.8
Net Profit Margin (%)	7.1	11.4	8.8	9.6	10.2
ROAE (%)	12.5	17.7	13.3	15.6	18.0
ROA (%)	5.9	8.8	6.9	8.3	9.5
ROCE (%)	9.1	12.8	9.8	11.6	13.4
Div Payout Ratio (%)	29.4	28.1	28.1	28.1	28.1
Net Interest Cover (x)	8.1	20.4	23.7	20.1	24.2

Source: Company, DBS HK

## Vinda Int'l

**Balance Sheet (HK\$ m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	8,858	10,117	11,226	11,865	12,831
Invts in Associates & JVs	3	2	2	2	3
Other LT Assets	4,491	4,631	4,593	4,717	4,783
Cash & ST Invts	460	749	1,025	939	1,164
Inventory	3,223	4,774	4,427	4,502	4,609
Debtors	2,214	2,809	2,864	2,807	2,984
Other Current Assets	32	39	44	50	56
<b>Total Assets</b>	<b>19,281</b>	<b>23,122</b>	<b>24,181</b>	<b>24,883</b>	<b>26,430</b>
ST Debt	584	1,445	867	997	991
Creditors	4,604	5,640	5,432	5,799	6,745
Other Current Liab	422	749	300	416	355
LT Debt	3,572	2,986	3,929	3,869	3,782
Other LT Liabilities	636	633	635	653	674
Shareholder's Equity	9,463	11,667	13,019	13,149	13,883
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>19,281</b>	<b>23,122</b>	<b>24,181</b>	<b>24,883</b>	<b>26,430</b>
Non-Cash Wkg. Capital	443	1,232	1,604	1,145	549
Net Cash/(Debt)	(3,696)	(3,682)	(3,771)	(3,927)	(3,609)
Debtors Turn (avg days)	52.7	55.5	55.4	48.7	44.4
Creditors Turn (avg days)	165.3	144.8	131.3	118.1	117.7
Inventory Turn (avg days)	109.2	141.9	139.0	119.4	109.1
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.9
Current Ratio (x)	1.1	1.1	1.3	1.2	1.1
Quick Ratio (x)	0.5	0.5	0.6	0.5	0.5
Net Debt/Equity (X)	0.4	0.3	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.3
Capex to Debt (%)	29.4	37.8	36.3	37.2	39.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

**Cash Flow Statement (HK\$ m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,371	2,326	1,950	2,434	2,925
Dep. & Amort.	1,109	1,148	1,248	1,316	1,308
Tax Paid	(173)	(498)	(460)	(576)	(735)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(17)	(15)	0	0	0
Chg in Wkg.Cap.	153	(896)	0	(610)	(452)
Other Operating CF	70	(62)	(91)	(152)	(147)
<b>Net Operating CF</b>	<b>2,514</b>	<b>2,004</b>	<b>2,647</b>	<b>2,412</b>	<b>2,898</b>
Capital Exp.(net)	(1,224)	(1,677)	(1,742)	(1,810)	(1,885)
Other Invts.(net)	(65)	(34)	(45)	(37)	(39)
Invts in Assoc. & JV	(3)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	19	(15)	27	60	44
<b>Net Investing CF</b>	<b>(1,273)</b>	<b>(1,725)</b>	<b>(1,759)</b>	<b>(1,788)</b>	<b>(1,879)</b>
Div Paid	(251)	(372)	(564)	(575)	(683)
Chg in Gross Debt	(1,028)	364	(12)	(79)	(55)
Capital Issues	3	53	23	0	0
Other Financing CF	(71)	(77)	(85)	(85)	(85)
<b>Net Financing CF</b>	<b>(1,347)</b>	<b>(31)</b>	<b>(638)</b>	<b>(739)</b>	<b>(822)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(106)	248	249	(114)	197
Opg CFPS (HK\$)	1.98	2.42	2.20	2.52	2.79
Free CFPS (HK\$)	1.08	0.27	0.75	0.50	0.84

Source: Company, DBS HK

**Vinda Int'l**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Sep-21	HK\$22.50	HK\$25.91	Buy

Source: DBS HK

Analyst: *Mavis HUI*  
*Kay Tan*

## Vinda Int'l

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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