

Hong Kong
ADD (no change)

Consensus ratings*: Buy 16 Hold 3 Sell 2

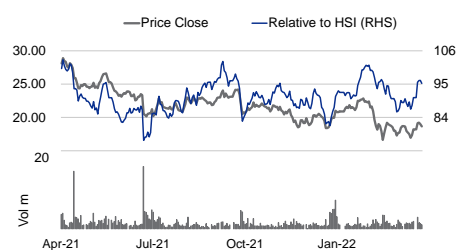
Current price:	HK\$18.66
Target price:	HK\$23.40
Previous target:	HK\$24.40
Up/downside:	25.4%
CGI / Consensus:	-3.8%

Reuters:	3331.HK
Bloomberg:	3331 HK
Market cap:	US\$2,862m
	HK\$22,452m
Average daily turnover:	US\$3.96m
	HK\$30.96m
Current shares o/s:	999.4m
Free float:	26.4%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 5.8%.
- FY23F EPS decreased by 4.2%.
- FY24F EPS decreased by 4.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1	-5.7	-30.4
Relative (%)	4.7	11.6	-2.2

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

Analysts
Hang Xu

T (852) 3698 6308

E xuhang@chinastock.com.hk

Lei Yang

T (86) 21 6162 9676

E yangleil@chinastock.com.hk

Vinda International Holdings

Price hikes expected to continue

- Vinda reported 1Q22 revenue of HK\$4.6bn, up 2.2% yoy, and net profit of HK\$344m, down 37.8% yoy, below our expectations because weaker sales because of the pandemic rebound and a sales volume impact from the sales price hike in Dec 2021.
- Vinda is planning another round of meaningful and broader-based price increases in 2Q22F and multiple hikes in the full year.
- Reiterate ADD with a new DCF-based TP of HK\$23.4.

Results below expectations amid the pandemic rebound

With the constant FX rate, 1Q22 sales were flat yoy. Tissue sales were HK\$3.7bn in 1Q22, down 0.3% yoy, while sales of personal care products were HK\$913m, up 13.5% yoy. E-commerce sales grew by 5.0% yoy in 1Q22, and the online sales contribution improved to 37% in 1Q22, from 36% in 1Q21. Organic sales growth in mainland China was down 1.9% yoy because of low economy activity and low demand from both consumers and customers from other channels amid the pandemic rebound in top-tier cities, which are Vinda's primary focus. Online sales contributed 45% of China sales. Because of continuing higher costs of wood pulp, energy and packaging materials in 1Q22, Vinda's 1Q22 gross margin dropped by 5.8% pts yoy to 33.1%, offset partially by a price hike in Dec 2021, a product mix upgrade, and a higher contribution from personal care products. Vinda's 1Q22 SG&A expenses increased slightly as it continued to invest in brand building, new channels, and feminine care products. In the quarter, Vinda also faced slightly higher logistics costs amid the pandemic rebound and traffic restrictions. Its 1Q22 operating margin declined by 5.9% pts yoy to 9.8%, but improved by 1.1% pts qoq, making it the first qoq improvement in the past four quarters.

Continued price increases expected in 2Q22F and FY22F

Vinda started to raise prices in Aug 2021, and it imposed the latest round of price hikes for its whole tissue product line in Dec 2021. As a result, in Jan–Feb 2022, it faced some competitive pressure, as its major competitors did not follow the price hike. But the situation changed in Mar 2022 as Vinda's competitors started to raise their prices, and Vinda saw a strong return in volume sales, indicating a successful price hike and providing more confidence for Vinda to continue to raise prices in the coming quarters. Vinda is planning another round of meaningful and broader-based price increases in 2Q22F and multiple hikes in the full year.

Other measures to mitigate raw material cost pressure

The wood pulp price was back on an upward trend in the past month because of uncertainties in the international situation and increases in overall commodity prices. To cope with the rising raw material costs, Vinda will continue to improve the sales of its premium and feminine care products. In 1Q22, Vinda's high-end brand, Tempo, and wet wipe products both enjoyed double-digit sales growth, and premium products accounted for over 35% of the total revenue and China tissue revenue. Vinda will also improve its operational efficiencies and will continue its disciplined spending. Meanwhile, overseas markets, such as Malaysia, Singapore and Hong Kong, are relaxing the pandemic control measures, which is expected to benefit Vinda's overseas sales.

Reiterate ADD with a new DCF-based TP of HK\$23.4

We cut our FY22–24F net profit forecasts by 5.8%, 4.2% and 4.1%, respectively, to reflect the pandemic rebound impact on sales. We expect Vinda to benefit from improving demand for premium tissue products, online sales expansion and sales recovery in overseas markets, such as 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	20,272	22,435	24,601
Operating EBITDA (HK\$m)	3,503	3,347	3,654	4,101	4,559
Net Profit (HK\$m)	1,875	1,639	1,787	2,092	2,407
Core EPS (HK\$)	1.56	1.36	1.49	1.74	2.00
Core EPS Growth	64.3%	(12.8%)	9.1%	17.1%	15.0%
FD Core P/E (x)	11.92	13.67	12.54	10.71	9.31
DPS (HK\$)	0.47	0.50	0.42	0.49	0.56
Dividend Yield	2.52%	2.68%	2.23%	2.62%	3.01%
EV/EBITDA (x)	7.58	7.88	6.82	5.65	4.63
P/FCFE (x)	34.77	25.62	11.25	10.12	8.59
Net Gearing	35.9%	30.5%	17.6%	4.9%	(7.2%)
P/BV (x)	1.92	1.72	1.56	1.39	1.24
ROE	17.7%	13.3%	13.1%	13.7%	14.1%
% Change In Core EPS Estimates			(5.84%)	(4.22%)	(4.08%)
CGI/consensus EPS (x)			0.99	0.96	0.98

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Price hikes expected to continue

Figure 1: Vinda 1Q22 results review

FYE Dec (HK\$m)	1Q21	1Q22	yoy%
Revenue	4,470	4,566	2.1%
Gross profit	1,737	1,512	-13.0%
Gross margin (%)	38.9%	33.1%	-5.7% pts
Operating profit	703	446	-36.6%
Operating margin (%)	15.7%	9.8%	-6.0% pts
Net profit	553	344	-37.8%
Net profit margin (%)	12.4%	7.5%	-4.8% pts

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	20,272.4	-1.9%	22,650.0	22,434.9	-0.9%	24,837.1	24,601.4	-0.9%
Gross margin	36.2%	35.8%	-0.4%	36.4%	36.0%	-0.4%	36.6%	36.2%	-0.4%
Distribution expen/sales	19.3%	19.3%	0.0%	19.1%	19.1%	0.0%	18.9%	18.9%	0.0%
Operating margin	11.9%	11.5%	-0.4%	12.4%	12.0%	-0.4%	12.9%	12.5%	-0.4%
Net profit (HK\$m)	1,897.9	1,787.0	-5.8%	2,184.6	2,092.3	-4.2%	2,509.0	2,406.7	-4.1%
EPS (HK\$)	1.58	1.49	-5.8%	1.82	1.74	-4.2%	2.09	2.00	-4.1%

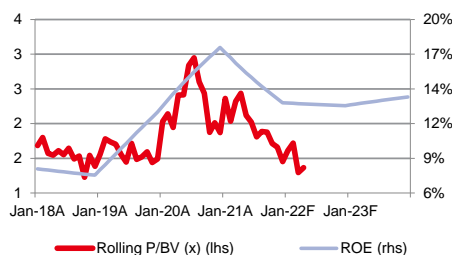
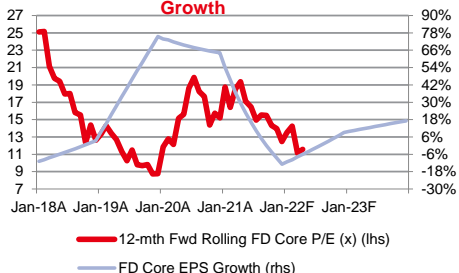
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: Vinda DCF valuation

FCF computation (HK\$ m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	2,335.6	2,703.2	3,081.6	3,112.4	3,019.0	2,868.1	2,667.3	2,427.3	2,184.5	2,009.8	1,889.2	1,813.6
Taxes	-339.4	-397.4	-457.1	-461.7	-447.8	-425.4	-395.6	-360.0	-324.0	-298.1	-280.2	-269.0
NOPAT	1,996.2	2,305.9	2,624.5	2,650.7	2,571.2	2,442.7	2,271.7	2,067.2	1,860.5	1,711.7	1,609.0	1,544.6
NOPAT growth	15.2%	15.5%	13.8%	1.0%	-3.0%	-5.0%	-7.0%	-9.0%	-10.0%	-8.0%	-6.0%	-4.0%
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
Funds from operation	3,352.8	3,740.9	4,138.0	4,179.4	4,115.1	4,002.0	3,846.6	3,657.9	3,467.1	3,334.3	3,247.9	3,199.9
Change in net working Capital	-36.2	-197.6	-197.6	-199.6	-201.6	-203.6	-205.7	-207.7	-209.8	-211.9	-214.0	-216.2
Cash flow from operation	3,316.6	3,543.3	3,940.3	3,979.7	3,913.5	3,798.4	3,640.9	3,450.2	3,257.3	3,122.4	3,033.8	2,983.7
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
Free cash flow from operation	2,116.6	2,343.3	2,740.3	2,767.7	2,689.4	2,562.0	2,392.2	2,189.0	1,983.5	1,835.9	1,734.4	1,671.3
FCF growth	58.3%	10.7%	16.9%	1.0%	-2.8%	-4.7%	-6.6%	-8.5%	-9.4%	-7.4%	-5.5%	-3.6%
Terminal free cash flow	25,930.0	Assumptions										
Total discounted free cash flow	19,873.9	Cost of equity										
Present value of terminal free cash flow	10,796.1	Risk free rate										
		Market risk premium										
		Beta										
Total present value of forecasted FCF	30,670.0	Cost of debt (after tax)										
Less: Net Debt / Leases	2,526.9	Target Debt / (Debt + Equity)										
Equity Value	28,143.2	WACC										
No. Shares (millions)	1,200.5	Terminal growth rate										
Target price (HK\$)	23.40											

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
Total Net Revenues	16,512	18,676	20,272	22,435	24,601
Gross Profit	6,223	6,596	7,254	8,079	8,903
Operating EBITDA	3,503	3,347	3,654	4,101	4,559
Depreciation And Amortisation	(1,050)	(1,303)	(1,319)	(1,398)	(1,477)
Operating EBIT	2,453	2,043	2,336	2,703	3,082
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
Profit Before Tax (pre-EI)	2,327	1,950	2,126	2,490	2,864
Exceptional Items					
Pre-tax Profit	2,327	1,950	2,126	2,490	2,864
Taxation	(452)	(311)	(339)	(397)	(457)
Exceptional Income - post-tax					
Profit After Tax	1,875	1,639	1,787	2,092	2,407
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,875	1,639	1,787	2,092	2,407
Recurring Net Profit	1,875	1,639	1,787	2,092	2,407
Fully Diluted Recurring Net Profit	1,875	1,639	1,787	2,092	2,407

Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	3,503	3,347	3,654	4,101	4,559
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(896)	28	(36)	(198)	(198)
(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)	(339)	(397)	(457)
Cashflow From Operations	2,004	2,646	3,099	3,322	3,715
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)
Cash Flow From Investing	(1,725)	(1,759)	(1,208)	(1,208)	(1,208)
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)	(369)	(432)
Preferred Dividends					
Other Financing Cashflow	(77)	(85)	0	0	0
Cash Flow From Financing	(31)	(638)	(342)	(269)	(332)
Total Cash Generated	248	248	1,549	1,845	2,175
Free Cashflow To Equity	643	874	1,991	2,214	2,607
Free Cashflow To Firm	437	1,029	2,109	2,335	2,732

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	2,574	4,420	6,594
Total Debtors	2,848	2,908	3,153	3,485	3,817
Inventories	4,774	4,427	3,545	3,909	4,275
Total Other Current Assets	0	0	0	0	0
Total Current Assets	8,371	8,360	9,273	11,814	14,687
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
Total Non-current Assets	14,751	15,821	15,680	15,461	15,164
Short-term Debt	1,818	936	936	936	936
Current Portion of Long-Term Debt					
Total Creditors	5,802	5,543	4,870	5,369	5,869
Other Current Liabilities	215	119	119	119	119
Total Current Liabilities	7,835	6,598	5,925	6,424	6,924
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
Total Non-current Liabilities	3,419	4,366	4,466	4,566	4,666
Total Provisions	200	198	198	198	198
Total Liabilities	11,454	11,162	10,590	11,188	11,788
Shareholders' Equity	11,667	13,019	14,363	16,087	18,062
Minority Interests	0	0	0	0	0
Total Equity	11,667	13,019	14,363	16,087	18,062

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	2.7%	13.1%	8.5%	10.7%	9.7%
Operating EBITDA Growth	35.4%	(4.4%)	9.2%	12.2%	11.2%
Operating EBITDA Margin	21.2%	17.9%	18.0%	18.3%	18.5%
Net Cash Per Share (HK\$)	(3.49)	(3.31)	(2.10)	(0.65)	1.08
BVPS (HK\$)	9.74	10.84	11.96	13.40	15.05
Gross Interest Cover	17.81	19.39	10.75	12.20	13.65
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	53.78	53.28	53.66
Inventory Days	142.2	139.0	111.8	94.8	95.4
Accounts Payables Days	187.0	170.9	145.4	129.7	130.5
ROIC (%)	17.7%	12.5%	13.4%	15.5%	17.7%
ROCE (%)	16.0%	11.8%	12.4%	13.2%	13.7%
Return On Average Assets	9.41%	7.29%	8.13%	8.83%	9.19%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Tissue sales volume change (%)	3.3%	8.6%	3.9%	6.9%	5.9%
Personal care sales volume change (%)	3.0%	12.0%	8.0%	9.0%	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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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)

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