

Hong Kong

HOLD (no change)

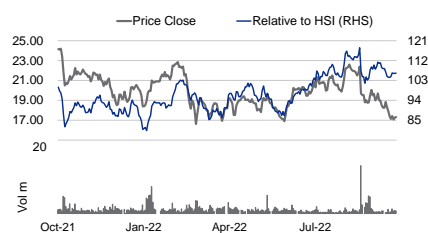
Consensus ratings*: Buy 11 Hold 7 Sell 0

Current price:	HK\$17.32
Target price:	HK\$17.70
Previous target:	HK\$20.90
Up/downside:	2.2%
CGI / Consensus:	-24.0%
Reuters:	3331.HK
Bloomberg:	3331 HK
Market cap:	US\$2,655m
	HK\$20,841m
Average daily turnover:	US\$2.91m
	HK\$22.85m
Current shares o/s:	999.4m
Free float:	26.4%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 22.2%.
- FY23F EPS decreased by 21.1%.
- FY24F EPS decreased by 14.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7.9	-12	-26.9
Relative (%)	3.6	6.2	7.5

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

Analyst

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Vinda International Holdings

Margin pressure expected to continue in 4Q22F

- Vinda reported 3Q22 revenue of HK\$4.4bn, up 6.5% yoy (+12.9% ccy. growth); Operating profit was down 78.2% yoy to HK\$77.0mn, below our expectations owing mainly to a significant gross profit drop due to higher wood pulp prices.
- We expect GPM pressure to continue in 4Q22F due mainly to high pulp prices. We believe price hikes will not fully mitigate the impact of high raw material costs.
- Vinda maintains its top-line target for 2022F, supported by decent organic growth of both tissue and personal care products.
- Maintain Hold with a new DCF-based TP of HK\$17.7, as we believe Vinda will continue to suffer from high cost pressure.
- In the long run, we expect Vinda's core competence to improve the product mix to help it further gain market share and improve its margins.

Vinda's 3Q22 results below our expectations

Vinda reported 3Q22 revenue of HK\$4.4bn, up 6.5% yoy, driven by both volume and ASP growth in the tissue and personal care segments. By month, Vinda achieved better progress in Aug and Sep, with nearly double-digit yoy growth, better than that in Jul. The ASP improvement in 3Q22 was driven mainly by two price hikes and mix upgrades in both mainland and overseas markets. Channel performance was fairly even. The B2B channel resumed well, driven mainly by a recovery in overseas business in Malaysia and Singapore. E-commerce continued to deliver the fastest growth in mainland China, in line with management expectations. Key accounts continued to face pressure due mainly to strict lockdown measures across the mainland, which impacted offline traffic. Traditional channels returned to nearly double-digit growth in 9M22, which will result in a better channel mix, as it is traditionally quite a profitable channel, per management.

Margin pressure expected to continue in 4Q22F

Vinda's GP dropped by 17.1% yoy to HK\$1.2bn; its GPM narrowed by 7.8ppts to 27.2% in 3Q22, due mainly to higher pulp prices. We expect Vinda to continue to face GP pressure in 4Q22F. Sales contribution from premium tissue products remained stable yoy at 36–37% in 3Q22. Sales of its high-end tissue brand, Tempo, grew by 10% yoy in 3Q22. Operating profit dropped by 78.2% to HK\$77.0mn, and its OPM narrowed by 6.8ppts to 1.8%. Vinda improved its distribution exps. control in 3Q22, and expected to continue in 4Q22F. Excluding FX losses from operating activities, the OPM was 2.9%. Total FX losses were HK\$54.1mn in 3Q22, and we expect the trend to continue in 4Q22F given the current weak Rmb. NPM was down 5.4ppts to 1.1%. We expect margin pressure to continue in 4Q22F, given the high pulp prices trending into 4Q22F and the continuing weak Rmb.

Vinda maintains its top-line target for 2022F

Management maintains its top-line target for 2022F and does not rule out the possibility of a further price hike in 4Q22F. We believe the top line will pick up, as company delayed some marketing activities into 4Q22F and the largest e-com festival, Nov 11, will likely drive online sales growth. Capex will be HK\$1.2bn–1.3bn in FY22F with 20% maintenance capex, lower than that in the previous two years, per management.

Maintain Hold with a new DCF-based TP of HK\$17.7

We cut our FY22–24F NP forecasts by 22.2%/21.1%/14.7%, respectively, to reflect margin pressure. We maintain our Hold rating with a new DCF-based TP of HK\$17.7 (risk-free rate: 4.0%, beta: 0.84, WACC: 7.6%). An upside risk would be pulp prices trending down result in better GPM. Key downside risks include 1) higher-than-expected pulp prices, which would put more pressure on GPM, 2) weaker-than-expected consumption demand, impacting top-line growth, and 3) intensive competition leading to the failure of price hikes.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (HK\$m)	16,512	18,676	19,948	21,651	23,667
Operating EBITDA (HK\$m)	3,503	3,347	2,431	3,051	3,740
Net Profit (HK\$m)	1,875	1,639	877	1,319	1,830
Core EPS (HK\$)	1.56	1.36	0.73	1.10	1.52
Core EPS Growth	64.3%	(12.8%)	(46.5%)	50.4%	38.7%
FD Core P/E (x)	11.07	12.69	23.71	15.76	11.36
DPS (HK\$)	0.47	0.50	0.20	0.31	0.43
Dividend Yield	2.71%	2.89%	1.18%	1.78%	2.46%
EV/EBITDA (x)	7.12	7.40	9.90	7.50	5.68
P/FCFE (x)	32.28	23.78	16.88	14.19	10.32
Net Gearing	35.9%	30.5%	24.4%	14.4%	2.8%
P/BV (x)	1.78	1.60	1.55	1.42	1.29
ROE	17.7%	13.3%	6.6%	9.4%	11.9%
% Change In Core EPS Estimates			(22.2%)	(21.1%)	(14.7%)
CGI/consensus EPS (x)			0.66	0.74	0.85

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Margin pressure expected to continue in 4Q22F

Figure 1: Semi-annual results and 2H22F forecasts

HK\$m	1H21	1H22	yoy	2H21	2H22F	yoy
Turnover	9,084.5	9,680.4	6.6%	9,591.2	10,267.9	7.1%
Cost of sales	(5,690.2)	(6,580.3)	15.6%	(6,389.2)	(7,445.4)	16.5%
Gross profit	3,394.3	3,100.1	-8.7%	3,202.0	2,822.5	-11.9%
Gross margin	37.4%	32.0%	-5.3pppts	33.4%	27.5%	-5.9pppts
Other operating income	22.6	30.6	35.4%	54.4	19.4	-64.3%
Distribution costs	(1,762.2)	(1,895.3)	7.6%	(1,910.0)	(1,967.2)	3.0%
Distribution costs as % of net sales	19.4%	19.6%	0.2pppts	19.9%	19.2%	-0.8pppts
General and administrative expenses	(444.1)	(478.4)	7.7%	(513.6)	(519.0)	1.1%
G & A expenses as % of net sales	4.9%	4.9%	0.1pppts	5.4%	5.1%	-0.3pppts
Operating profit	1,210.6	756.9	-37.5%	832.9	355.7	-57.3%
Operating margin	13.3%	7.8%	-5.5pppts	8.7%	3.5%	-5.2pppts
Interest income	12.3	10.0	-18.5%	6.9	10.0	45.1%
Foreign exchange gain, net	1.0	3.8	273.7%	(8.5)	(3.8)	-55.4%
Interest expenses	(64.7)	(39.0)	-39.7%	(40.7)	(62.0)	52.5%
Profit before tax	1,159.2	731.7	-36.9%	790.6	299.9	-62.1%
Tax	(191.9)	(94.0)	-51.0%	(119.3)	(60.8)	-49.1%
Net profit	967.3	637.7	-34.1%	671.3	239.1	-64.4%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

Figure 2: Quarterly results review

FYE Dec (HK\$m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22F	3Q22 vs 3Q21 yoy%
Revenue	4,470	4,615	4,105	5,486	4,566	5,114	4,374	5,893	6.5%
Gross profit	1,737	1,657	1,437	1,765	1,512	1,588	1,191	1,632	-17.1%
Gross margin (%)	38.9%	35.9%	35.0%	32.2%	33.1%	31.1%	27.2%	27.7%	-7.8% pts
Operating profit	703	508	354	478	446	311	77	279	-78.3%
Operating margin (%)	15.7%	11.0%	8.6%	8.7%	9.8%	6.1%	1.8%	4.7%	-6.8% pts
Net profit	553	414	266	405	344	294	49	190	-81.5%
Net profit margin (%)	12.4%	9.0%	6.5%	7.4%	7.5%	5.7%	1.1%	3.2%	-5.4% pts

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

Figure 3: Earnings revision

	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (HK\$m)	20,025.8	19,948.3	-0.4%	22,159.3	21,650.7	-2.3%	24,296.2	23,666.5	-2.6%
Gross margin	31.5%	29.7%	-1.8%	33.7%	31.2%	-2.5%	35.2%	32.9%	-2.3%
Distribution expen/sales	19.7%	19.4%	-0.3%	19.6%	19.0%	-0.6%	19.6%	18.9%	-0.7%
Operating margin	7.0%	5.6%	-1.4%	9.4%	7.6%	-1.7%	10.9%	9.6%	-1.3%
Net profit (HK\$m)	1,126.4	876.8	-22.2%	1,671.9	1,319.2	-21.1%	2,145.4	1,829.7	-14.7%
EPS (HK\$)	0.94	0.73	-22.2%	1.39	1.10	-21.1%	1.79	1.52	-14.7%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

Figure 4: Maintain Hold with a new DCF-based TP of HK\$17.7

FCF computation (HK\$ m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	1,112.6	1,653.5	2,263.2	2,195.3	2,129.4	2,065.5	2,003.6	1,943.5	1,885.2	1,828.6	1,773.8	1,720.5
Taxes	-154.7	-251.3	-348.5	-338.1	-327.9	-318.1	-308.5	-299.3	-290.3	-281.6	-273.1	-264.9
NOPAT	957.9	1,402.2	1,914.7	1,857.2	1,801.5	1,747.5	1,695.1	1,644.2	1,594.9	1,547.0	1,500.6	1,455.6
NOPAT growth	-44.7%	46.4%	36.5%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
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	2,314.4	2,837.2	3,428.2	3,385.9	3,345.4	3,306.8	3,270.0	3,234.9	3,201.5	3,169.7	3,139.5	3,110.9
Change in net working Capital	114.6	-173.2	-211.5	-213.6	-215.7	-217.9	-220.1	-222.3	-224.5	-226.7	-229.0	-231.3
Cash flow from operation	2,429.0	2,664.0	3,216.7	3,172.3	3,129.7	3,088.9	3,049.9	3,012.6	2,977.0	2,943.0	2,910.5	2,879.6
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	1,229.0	1,464.0	2,016.7	1,960.3	1,905.6	1,852.6	1,801.2	1,751.4	1,703.2	1,656.4	1,611.1	1,567.2
FCF growth	-8.1%	19.1%	37.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.7%	-2.7%	-2.7%
Terminal free cash flow	23,420.1											
Total discounted free cash flow	14,750.1											
Present value of terminal free cash flow	9,751.1											
Total present value of forecasted FCF	24,501.1											
Less: Net Debt / Leases	3,286.3											
Equity Value	21,214.8											
No. Shares (millions)	1,200.5											
Target price (HK\$)	17.70											

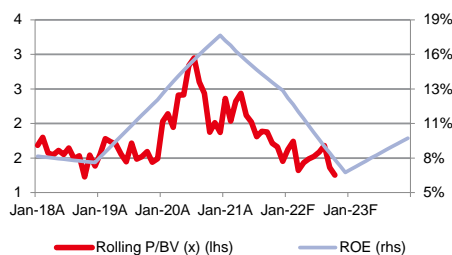
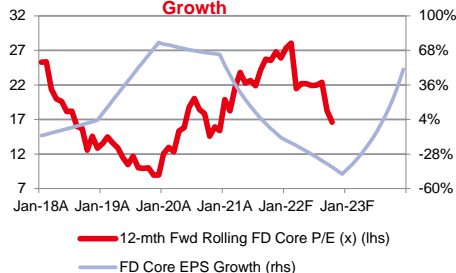
Assumptions	
Cost of equity	9.1%
Risk free rate	4.0%
Market risk premium	7.8%
Beta	0.84
Cost of debt (after tax)	3.0%
Target Debt / (Debt + Equity)	25.0%
WACC	7.6%
Terminal growth rate	1.0%

SOURCES: CGIS RESEARCH ESTIMATES, COMPANY DATA

Figure 5: Wood pulp price expected to remain high in 2H22F


SOURCES: CGIS RESEARCH, WIND

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	19,948	21,651	23,667
Gross Profit	6,223	6,596	5,923	6,748	7,790
Operating EBITDA	3,503	3,347	2,431	3,051	3,740
Depreciation And Amortisation	-1,050	-1,303	-1,319	-1,398	-1,477
Operating EBIT	2,453	2,043	1,113	1,653	2,263
Financial Income/(Expense)	-120	-86	-81	-83	-85
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	1,032	1,570	2,178
Exceptional Items					
Pre-tax Profit	2,327	1,950	1,032	1,570	2,178
Taxation	-452	-311	-155	-251	-349
Exceptional Income - post-tax					
Profit After Tax	1,875	1,639	877	1,319	1,830
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,875	1,639	877	1,319	1,830
Recurring Net Profit	1,875	1,639	877	1,319	1,830
Fully Diluted Recurring Net Profit	1,875	1,639	877	1,319	1,830

Cash Flow

(HK\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	3,503	3,347	2,431	3,051	3,740
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-896	28	115	-173	-211
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	54	-127	38	37	37
Net Interest (Paid)/Received	-158	-142	-101	-103	-105
Tax Paid	-498	-460	-155	-251	-349
Cashflow From Operations	2,004	2,646	2,328	2,561	3,112
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	4	4	4
Cash Flow From Investing	-1,725	-1,759	-1,196	-1,196	-1,196
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	-181	-272
Preferred Dividends					
Other Financing Cashflow	-77	-85	0	0	0
Cash Flow From Financing	-31	-638	-342	-81	-172
Total Cash Generated	248	248	790	1,284	1,744
Free Cashflow To Equity	643	874	1,232	1,465	2,016
Free Cashflow To Firm	437	1,029	1,233	1,468	2,021

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	1,815	3,099	4,843
Total Debtors	2,848	2,908	3,104	3,365	3,674
Inventories	4,774	4,427	3,820	4,058	4,324
Total Other Current Assets	0	0	0	0	0
Total Current Assets	8,371	8,360	8,738	10,522	12,840
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	5,246	5,572	5,936
Other Current Liabilities	215	119	119	119	119
Total Current Liabilities	7,835	6,598	6,301	6,627	6,991
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	10,965	11,392	11,855
Shareholders' Equity	11,667	13,019	13,453	14,591	16,149
Minority Interests	0	0	0	0	0
Total Equity	11,667	13,019	13,453	14,591	16,149

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	2.7%	13.1%	6.8%	8.5%	9.3%
Operating EBITDA Growth	35.4%	(4.4%)	(27.4%)	25.5%	22.6%
Operating EBITDA Margin	21.2%	17.9%	12.2%	14.1%	15.8%
Net Cash Per Share (HK\$)	-3.49	-3.31	-2.74	-1.75	-0.38
BVPS (HK\$)	9.74	10.84	11.21	12.15	13.45
Gross Interest Cover	17.81	19.39	11.01	16.05	21.55
Effective Tax Rate	19.4%	16.0%	15.0%	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	54.20	53.78	53.75
Inventory Days	142.2	139.0	107.3	96.5	96.6
Accounts Payables Days	187.0	170.9	139.9	132.0	132.2
ROIC (%)	17.7%	12.5%	6.4%	9.6%	13.2%
ROCE (%)	16.0%	11.8%	6.1%	8.6%	11.0%
Return On Average Assets	9.41%	7.29%	3.94%	5.56%	7.09%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Tissue sales volume change (%)	3.3%	8.6%	3.0%	6.9%	5.9%
Personal care sales volume change (%)	3.0%	12.0%	6.0%	9.0%	8.0%
Overall ASP change (%)	-0.5%	3.4%	3.0%	1.1%	2.7%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Vinda International Holdings (3331 HK)

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