

Hengan (1044.HK)

Sanitary napkin business is expected to improve in 2H, e-commerce and other businesses grow fast

China | Consumer | Company report

6 August 2019

Investment Summary

Hengan is about to announce its interim result for FY2019. We expect the tissue business will meet the market expectation, but the performance of the sanitary napkin business may be disappointing. This is mainly due to the unsatisfactory performance of the traditional channel which accounts for more than 70% of the sanitary napkin business revenue. Hengan has continued to increase the direct sales ratio through its amoeba teams. But the adjustment has affected the sales performance of the channel. The amoeba attainment rate is also lower than last year's 50%, but the situation is expected to improve in 2H of the year. Besides, the business will be repositioned as a premium personal hygiene business, with new product lines including cotton pads, make-up removers and facial masks will be launched recently.

Due to the lower amoeba attainment rate, we expect that the proportion of overall SG&A expenses to revenue to increase y.o.y. in 1H of the year. At the same time, the fall in the price of wood pulp will have a lagging effect on GPM. GPM in Q1 of the year was still under pressure, but has improved both quarterly and y.o.y. in Q2. Due to the large drop in wood pulp prices in June and July, the improvement of GPM in the Q3 is expected to be more pronounced.

However, the overall GPM of this year needs to take into account of the accelerated growth of other incomes, which is with lower GPM. Revenue from household products segment amounted to only 1.1% in FY2018, including the revenue contribution from the newly acquired Sunway Kordis. Hengan has stepped up its efforts to develop the household products business so as to expand its market coverage in recent years. Sunway Kordis is principally engaged in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia. In 2019, the company plans to further utilise the experience of Sunway Kordis in household product industry and develop the coverage of Hengan's household product. It will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

The management still maintains the growth guidance on the overall revenue and tissue business to be mid-to-high single digit. It does not has the palm to adjust the selling price of its tissue products this year. However, the price of raw wood pulp is expected to fall, and the price war of low-priced products such as rolled paper will be more intense in 2H of the year. In order to seize the market share, Hengan will launch more promotion activities. According to the management team. It will continue to optimize its product portfolio, introduce new products such as baby wet wipes and large-sized wet wipes for household use in 2H.

The revenue of diaper business is expected to continue dropping y.o.y. in 1H, but turn into positive growth in 2H. According to the management team, during 1H, the penetration of e-commerce has increased, high-end products with high GPM also performed well. The e-commerce business currently accounts for more than 40% of the diaper business revenue and is expected to further increase to 60% in the next three to five years. The overall e-commerce business still maintained a 40 to 50% y.o.y. increase in 1H, and the proportion to total revenue also increased from 14 to 15% last year. It has begun to explore new retail models such as "lingshoutong" with Jingdong and Alibaba. We maintain Hengan's Buy rating, but with a target P/E of 18x and a target price of 70.6. (current price as of August 1, 2019)

Buy

CMP HKD57.7

(Closing price at 2/8/2019)

TARGET HKD 70.6(+22.4%)

COMPANY DATA

O/S SHARES (MN) :	1189
MARKET CAP (HKDMN) :	68644
52 - WK LO/HI (HKD):	51.8/72.9

SHARE HOLDING PATTERN, %

Director Hui Lin Chit	20.32
Director Szeman Bok	19.82

PRICE PERFORMANCE, %

	1M	3M	1Y
Hengan	-3.1	-14.4	-17.4
HSI	-6.8	-10.1	-2.9

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY17	FY18	FY19E	FY2E
Net Sales	20514	22155	23706	25128
Net Profit	3800	4156	4602	5048
EPS, RMB	3.2	3.5	3.9	4.2
PER, x	16.3	14.7	13.3	12.1
BVPS, RMB	14.1	15.3	16.5	17.8
P/BV, x	3.6	3.3	3.1	2.9
ROE, %	22.4%	24.1%	25.0%	25.7%

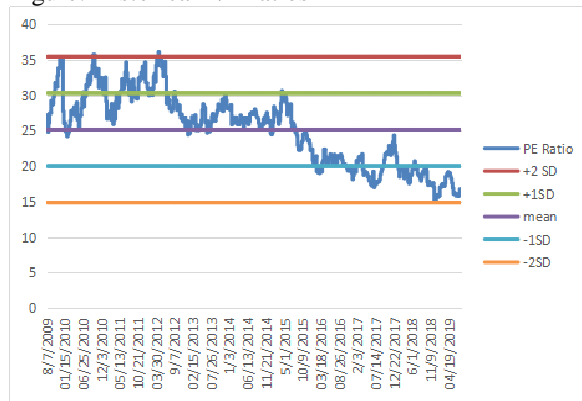
Source: Company reports, Phillip Securities Est.

Research Analyst
Tracy Ku (2277 6516)
 tracyku@phillip.com.hk

Investment Thesis, Valuation & Risk

We maintain Hengan`s Buy rating with a target P/E of 18x and a target price of 70.6. The risks that need to be watched include top-line growth rate missing from expectation, wood pulp prices fluctuating sharply, industry competition increasing significantly, and Ameba units missing sales target. (current price as of 2nd August, 2019)

Figure: Historical P/E ratios



Source: Bloomberg, Phillip Securities

Financials

FYE	2017	2018	2019E	2020E	2021E
Valuation Ratios					
Price to Earnings (P/E)	16.3	16.3	14.7	13.3	12.1
Price to Book (P/B)	3.8	3.6	3.3	3.1	2.9
Per Share Data (RMB)					
EPS	3.1	3.2	3.5	3.9	4.2
Book Value Per Share	13.6	14.1	15.3	16.5	17.8
Dividend Per Share	2.1	2.2	2.4	2.7	3.0
Growth (%)					
Revenue	NA	13.5%	7.0%	6.0%	5.0%
Operating Income	NA	3.0%	8.5%	9.8%	8.9%
Net Profit	NA	0.1%	9.4%	10.7%	9.7%
Margins (%)					
Gross Profit Margin	41.8%	38.2%	38.7%	39.2%	39.7%
Operating Profit Margin	29.2%	26.5%	26.6%	27.3%	28.0%
Net Profit Margin	21.0%	18.6%	18.8%	19.4%	20.1%
Key Ratios					
ROE (%)	23.3%	22.4%	24.1%	25.0%	25.7%
ROA (%)	9.8%	8.3%	9.0%	9.3%	9.6%
Income Statement (RMB)					
Revenue	18080	20514	22155	23706	25128
- Cost of Goods Sold	-10526	-12678	-13582	-14414	-15153
Gross Income	7554	7836	8573	9292	9975
- Operation Expenses	-3422	-3469	-3747	-3890	-3998
Operating Income	5272	5429	5889	6464	7040
Pretax Income	4961	4904	5365	5939	6515
- Minority Interest	7	7	8	9	10
Net Profit	3794	3800	4156	4602	5048

Source: Company, Phillip Securities (HK) Research Estimates
Exchange rate assumption is 0.8905
(Financial figures as at 2nd August 2019)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005