

# Vinda International (3331.HK)

Revenue growth in 2Q slows down,  
1H profit margins still under pressure  
Consumer | Personal Care Products

14 August 2023

Vinda is a leading hygiene company in Asia, with core business segments including tissue, incontinence care, feminine care, baby care and professional hygiene solution under key brands Vinda, Tempo, Tork, TENA, Dr. P, Libresse, Libero and Drypers.

## Revenue growth in 2Q slows down, 1H profit margins still under pressure

In 1H FY2023, total revenue of Vinda amounted to HK\$10,070 million, representing an increase of 10.1% organically and of 4.0% (presented in Hong Kong Dollar). 1Q and 2Q revenues were HK\$4,969 million and HK\$5,101 million, a year-on-year increase of 15.5% and 5.5% respectively. 1H Net profit declined by 81.1% to HK\$121 million. The net profit margin narrowed by 5.4 ppts to 1.2%. Basic EPS was 10.0 HK cents (1H FY2022: 53.0 HK cents), and an interim dividend of 10.0 HK cents (1H FY2022: 10.0 HK cents) per share.

Despite the gradual reduction of the pulp prices since the end of 2022, costs in the first half of the year were still impacted by the inventories with relatively high price, and on gross margin, which decreased by 6.9 ppts year-on-year to 25.1%. Gross profit was down by 18.5% to HK\$2,527 million. EBITDA fell by 42.3% to HK\$818 million while EBITDA margin was narrowed by 6.5 ppts to 8.1%. Total foreign exchange loss was HK\$0.3 million (H1 2022: HK\$22.4 million loss), of which HK\$5.4 million loss came from operating activities (H1 2022: HK\$26.2 million loss), and HK\$5.1 million gain was due to financing activities (H1 2022: HK\$3.8 million gain).

In terms of business segments, revenue from tissue segment amounted to HK\$8,361 million in 1H FY2023, which delivered a year-on-year increase of 5.0% or an organic sales growth of 11.5%, representing 83% of Vinda's total revenue (1H FY2022: 82%). The gross margin of tissue segment was 23.8% during this Period (H1 2022: 31.6%). Vinda adhered to focus on premium categories, resulting in a double-digit growth of the premium tissue portfolio in mainland China as well as an increasing proportion of revenue. The impact from the high-cost wood pulp inventory and promotion had been relieved to an extent by the premium categories for its relatively higher profit margin.

Revenue from the personal care business decreased by 0.5% to HK\$1,708 million in 1H FY2023, which was a 3.7% increase at constant exchange rates and represented 17% of the Vinda's total revenue (1H FY2022: 18%), revenue by category was HK\$556 million for baby care, HK\$400 million for feminine care and HK\$752 million for incontinent care. Gross margin of the personal care segment was 31.2% (1H FY2022: 34.1%), of which baby care was 24.0%, feminine care was 46.7% and incontinent care was 28.2%.

In terms of capacity planning, the annual designed production capacity of the Vinda's papermaking facilities was 1,390,000 tons as at 30 June 2023. The Southeast Asia regional headquarters in Malaysia was officially put into operation on 16 December 2022. It is Vinda's first overseas innovation and R&D centre, which would help Vinda to accurately meet consumer demand in the Southeast Asian market and strengthen its regional supply chain footprint, improving Vinda's production and sales efficiency in Southeast Asia.

## Sell

CMP HKD17.70  
(Closing price as of 10 August)  
Target HKD 9.78 (-44.7%)

## COMPANY DATA

O/S SHARES (MN) :	1,203.275
MARKET CAP (HKD MN) :	21298.2
52 - WK HI/LO (HKD):	25.50/14.24

## SHARE HOLDING PATTERN, %

Essity Aktieboloag	51.59%
LI Chao Wang	21.04%

## PRICE VS. HSI



Source: Phillip Securities (HK) Research

## KEY FINANCIALS

HKD mn	FY21	FY22	FY23E	FY24E
Revenue	18,676	19,418	20,044	20,619
Net profit	1,638	706	441	635
Reported EPS	1.36	0.59	0.37	0.53
P/E ratio, x	13.0	30.2	48.4	33.7
Dividend Yield, %	2.8%	2.3%	1.3%	1.7%

Source: Company reports, Phillip Securities Est.

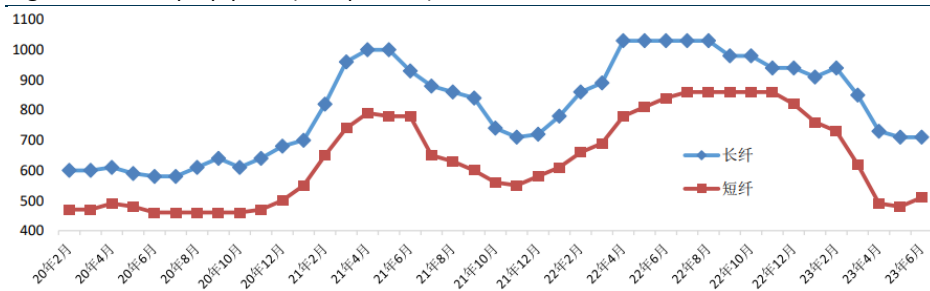
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In terms of sales channel, traditional distributors, key accounts managed supermarkets and hypermarkets, B2B corporate customers and e-commerce platforms accounted for 24%, 21%, 9% and 46%, respectively, of the total revenue. The e-commerce revenue recorded the most significant growth with an organic increase of 23.6% year-on-year.

Despite the gradual reduction of the pulp prices in the first half of the year, due to inventory cycle factors, the expected cost reduction trend will not be reflected until the second half of the year.

Figure 1: wood pulp price (US\$ per ton)



Source: Vinda, PSHK

### Company valuation

economic recovery and consumer sentiment remain uncertain, we adjusted the gross profit margin forecasts for 2023 to 2024 from 30.2% / 31.1% to 26.6% / 27.6% respectively, and further lowered the company's EPS forecast for FY2023E-FY2024E to 36.6 cents and 52.8 cents respectively (lowered by 50.3% and 43.9% compared to the report in March 2023), with TP HKD\$9.78, implies a FY2024E P/E of 18.6x, in line with its 5-years average +1SD. Our investment rating is "Sell".

### Risk factors

1) wood pulp prices rise more than expected; 2) Large fluctuations in RMB; 3) Economic recovery momentum slower than expected, consumer confidence weakens further; and 4) Industry competition is intense than expected.

## Financial

**Consolidated Statement of Profit or Loss**

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	16,512	18,676	19,418	20,044	20,619
<b>COGS</b>	(10,289)	(12,079)	(13,934)	(14,717)	(14,932)
<b>Gross Profit</b>	6,223	6,596	5,483	5,327	5,687
Selling expenses	(2,961)	(3,672)	(3,837)	(3,831)	(3,900)
General & Admin exp	(952)	(958)	(912)	(923)	(959)
Others	143	77	72	60	49
<b>Operating Profit</b>	2,453	2,044	807	632	878
Finance costs	(126)	(94)	(60)	(138)	(118)
Share of result of a JV	(0.2)	(0.2)	(0.0)	(0.2)	(0.2)
<b>Profit before tax</b>	2,326	1,950	747	494	760
Income tax	(452)	(311)	(41)	(53)	(125)
<b>Shareholders Net profit</b>	1,874	1,638	706	441	635
<b>Reported EPS, Diluted</b>	1.56	1.36	0.59	0.37	0.53
<b>DPS</b>	0.47	0.50	0.40	0.24	0.30
<b>Payout ratio</b>	30%	37%	68%	64%	56%
<b>Shares outstanding</b>	1,198	1,201	1,203	1,205	1,207

**Key Financial Data**

Dec Y/E	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratio</b>					
P/S ratio, x	1.3	1.1	1.1	1.1	1.0
P/E ratio, x	11.3	13.0	30.2	48.4	33.7
Dividend Yield, %	2.7%	2.8%	2.3%	1.3%	1.7%

**Per share data (HKD)**

EPS	1.56	1.36	0.59	0.37	0.53
BVPS	9.74	10.84	9.98	10.67	10.94
DPS (HKD)	0.47	0.50	0.40	0.24	0.30

**Growth & Margin**

<b>Growth</b>					
Revenue Growth	2.7%	13.1%	4.0%	3.2%	2.9%
Gross Profit Growth	24.8%	6.0%	-16.9%	-2.9%	6.8%
Operating Profit Growth	56.3%	-16.7%	-60.5%	-21.6%	38.9%
Net Profit Growth	64.7%	-12.6%	-56.9%	-37.6%	44.0%
<b>Margin</b>					
Gross Profit Margin	37.7%	35.3%	28.2%	26.6%	27.6%
Operating Profit Margin	14.9%	10.9%	4.2%	3.2%	4.3%
Net Profit Margin	11.4%	8.8%	3.6%	2.2%	3.1%

**Key Ratios**

ROE	17.7%	13.3%	5.6%	3.4%	4.9%
ROA	8.8%	6.9%	2.9%	1.8%	2.5%

**Consolidated Statement of Financial Position**

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non Current Asset</b>					
PPE	10,117	11,226	10,354	11,725	12,087
Others	4,633	4,595	4,350	4,530	4,473
<b>Total Non Current Assets</b>	14,751	15,821	14,704	16,255	16,560
<b>Current Asset</b>					
Inventory	4,774	4,427	6,015	5,500	5,144
Trade and other receivables	2,435	2,364	2,340	2,628	2,682
Bank balance and cash	749	1,025	607	604	738
Others	413	544	624	550	554
<b>Total Current Assets</b>	8,371	8,360	9,585	9,281	9,118
<b>Total Assets</b>	23,122	24,181	24,289	25,536	25,678
<b>Non Current Liabilities</b>					
Long-term debt	2,890	2,936	2,801	3,049	2,874
Other Non-current Liabilities	729	1,628	661	1,620	1,612
<b>Total Non-current Liabilities</b>	3,619	4,564	3,462	4,669	4,487
<b>Current Liabilities</b>					
Interest-bearing Borrowings	1,445	867	299	979	805
Trade payables	5,640	5,432	7,549	6,725	6,874
Others	749	300	978	304	302
<b>Total Current Liabilities</b>	7,835	6,598	8,827	8,008	7,981
<b>Equity</b>					
Shareholders' equity	11,667	13,019	12,000	12,859	13,210
Non-controlling interests	-	-	-	-	-
<b>Total equity</b>	11,667	13,019	12,000	12,859	13,210
<b>Total Liabilities and Equity</b>	23,122	24,181	24,289	25,536	25,678

**Consolidated Statement of Cash Flow**

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>CFO</b>					
Profit before income tax	2,326	1,950	747	494	760
D&A add-back	1,148	1,248	1,296	1,041	1,191
Others	(574)	(540)	(498)	(53)	(125)
Net (inc)/dec working capital	(896)	(12)	536	(44)	444
<b>Net cash flow from operating activities</b>	2,004	2,646	2,081	1,437	2,270
<b>CFI</b>					
Purchase of PP&E	(1,697)	(1,755)	(1,100)	(1,427)	(1,445)
Others	(28)	(5)	(2)	(48)	(51)
<b>Net cash flow from investing activities</b>	(1,725)	(1,759)	(1,102)	(1,475)	(1,496)
<b>CFF</b>					
Dividends paid	(372)	(564)	(602)	(600)	(284)
Others	341	(74)	(738)	217	(356)
<b>Net cash flows from financing activities</b>	(31)	(638)	(1,339)	(383)	(640)
<b>Net Change in Cash</b>	248	248	(360)	(422)	134
<b>Cash and CE at Y/E</b>	749	1,025	607	604	738

Current Price as of: August 10

Source: PSHK Est.

**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

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