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Report Review of June 2024
Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

TMT, Semiconductors, Consumer & Healthcare (Eric Li)

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This month I released reports of Hengan (1044.HK).

For the year ended 31 December 2023 (FY2023), Hengan's revenue increased by 5.1% to RMB23,768mn, above market expectation. During the year, operating profit increased significantly by 38.6% to RMB3,978mn (FY2022: RMB2,869mn). Although the depreciation of the Renminbi against the US dollar and the HK dollar during the year resulted in an operating foreign exchange loss after tax of RMB150mn, the loss was significantly reduced by about 83.6% compared with the operating FX loss before tax of RMB901mn in 2022. Therefore, profit attributable to shareholders of the Company was RMB2,801mn (FY2022: RMB1,925mn), representing a significant yoy increase of 45.5%. Excluding the operating FX loss after tax, profit attributable to shareholders of the Company increased by 4.3% yoy, mainly reflecting the improvement in the company's gross profit margin as a result of the decline in the cost of wood pulp and upgrades of products. Basic EPS was RMB2.415 (FY2022: RMB1.657), with full-year dividend RMB1.40 per share, unchanged yoy.

During the year under review, raw material prices dropped in the second half of the year, leading to intensified market promotions and price competition. The decline in the price of wood pulp, the main raw material for tissue paper, in the second half of the year compared to the first half of the year, coupled with the robust growth in the company's upgraded products and premium product series resulted in a significant improvement in the gross profit of the tissue paper business. FY2023, the company's overall gross profit increased by 4.2% to RMB8,011mn (FY2022:RMB7,689mn). Although the gross profit margin was under pressure in the 1HFY2023, the overall gross profit margin for the full year still recorded at 33.7% (FY2022: 34.0%), almost consistent with last year. Gross profit the 2HFY2023 even significantly improved to 36.5% (2HFY2022: 32.8%). It is expected that in 2024, premium high margin products will continue to experience significant growth, leading to a continuous improvement in the gross profit margin.

Despite a challenging operating environment, Hengan leverages its strong comprehensive competitive advantages and effective profit-focused sales strategies to continue expanding its market share and further solidify its robust business resilience. The company's three core business segments—tissue paper, sanitary napkins, and diapers—have maintained steady growth in revenue over the past two years. The decline in raw material prices in the second half of last year intensified industry marketing and price competition. However, the company prudently allocated promotional resources and continued to record significant growth in high-end, high-margin products. Gross profit margins are expected to remain stable. Hengan maintains a healthy financial condition with a significant improvement in its debt ratio to 69.8%, placing it in a net cash position.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20240607	1044.HK	Hengan	EL	Buy	26.55	35.15	32.4%	23.80	-10.36%	27.20	-12.50%

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

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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