China Personal Hygiene Sector

5 December 2012

Short-term pain, long-term gain

China's tissue paper players face imminent overcapacity due to their aggressive expansion plans. Stable wood pulp prices are the sector's saving grace, mitigating what would otherwise be a critical issue for the industry. In keeping with our cautious outlook, we prefer Hengan (1044 HK, Outperform) to Vinda (3331 HK, Netural) on the strength of Hengan's leading market position, portfolio diversification and superior product mix. Hengan's valuation remains attractive at 20x P/E for FY13F against its three-year forward P/E of 27x. We initiate coverage on Hengan with an Outperform rating and downgrade Vinda from Outperform to Neutral.

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Initiation on Personal Hygiene Sector

Short-term pain, long-term gain

- **Overcapacity within China's tissue paper sector a near-term concern.** Leading tissue paper players, including Hengan and Vinda, have in the past few years attempted to capitalize on China's fragmented tissue paper industry through aggressive capacity expansion. We see a significant oversupply situation developing in 2H12, worsening in 2013, and leading to: (1) pricing pressure, (2) a slowdown in trade-up momentum, and (3) industry consolidation.
- **Low pulp cost a mitigating factor.** Oversupply and resulting margin erosion are being offset to some degree by low pulp cost. We forecast pulp cost for leading tissue manufacturers of around US$650/ton for FY12F compared with US$710/ton in FY11; moreover, we expect pulp cost to remain in check throughout FY13-14F as new pulp capacity comes on line globally. We forecast pulp cost in China of around US$660/ton for FY13-14F.
- **Leading players to benefit from market consolidation.** Based on our analysis, overcapacity will improve in FY14F. Though near-term downside will remain for all of China's tissue paper players, we believe the country's leading players will benefit in the long run thanks to their unrivalled scale and brand power. In time, many of the smaller players in the market will exit, leaving Hengan and Vinda room to increase market share, we believe from 9% and 6% in 2011 to 15% and 11% in 2015.
- **Brand loyalty for sanitary napkins; upside in diapers.** Sanitary napkins typically engender considerable consumer loyalty compared with other product categories. The penetration rate for this category is already high at 87%, yet we forecast healthy high-teen growth for the leading players. We also see high growth potential in the diaper market as the industry's penetration rate for this segment is only 39%. The top-six diaper manufacturers account for 80% of the market and look set to raise existing entry barriers to new players even higher.
- **Prefer Hengan to Vinda on lower tissue paper exposure.** On a 12-month view, we downgrade Vinda from Outperform to Neutral given its large exposure to the tissue paper segment. Meanwhile, we initiate coverage on Hengan with an Outperform rating based on its smaller exposure to the tissue paper segment due to product diversification.

Valuations summary

Company	Hengan (1044 HK)	Vinda (3331 HK)
Rating	Outperform	Neutral
Share price	70.10	10.36
Target price (HK$)	81.40	10.60
Upside/downside (%)	18.5	3.9
Market cap (US$m)	11,116	1,585
EPS growth – CY12 (%)	39	25
EPS growth – CY13 (%)	16	16
P/E (x) FY12	23	19
P/E (x) FY13	20	17

** Prices as at close on 5 December 2012*

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Investment summary

We initiate coverage on China's personal hygiene sector with an Outperform rating on Hengan (1044 HK) and a Neutral rating on Vinda (3331 HK). Hengan and Vinda are leading personal hygiene players in China based on their 15% aggregate market share of the domestic tissue paper market. We consider Vinda a well-run company with an excellent track record, a widely recognized brand, and a strong market position. However, near-term oversupply within the domestic tissue paper industry is likely to weigh on the counter. In our view, Hengan will fare better than Vinda because of its diversified product portfolio in sanitary napkins and baby diapers.

We believe China's tissue paper industry is facing an imminent supply and demand imbalance. Leading tissue paper players, including Hengan and Vinda, have in the past few years attempted to capitalize on China's fragmented tissue paper industry through aggressive capacity expansion.

So far, the major tissue players have had a good run. But it would appear the party may soon be coming to an end as signs are appearing that the industry's demand-supply dynamics are at an inflection point caused by an imminent surge in capacity in FY12-13F leading to oversupply. The implications for China's tissue paper players are twofold: pricing pressure and industry consolidation. A slowdown in trade-up momentum due to the adverse macro environment is another issue. The near-term overhang posed by the sector's oversupply is likely to weigh on China's tissue paper players, particularly Vinda, which concentrates on tissue paper products.

Near-term downside threatens all of China's tissue paper players. Yet we believe the country's leading players will still manage to benefit in the long run thanks to their unrivalled scale and brand power. In time, many of the smaller players in the market will exit, leaving Hengan and Vinda room to increase market share, we believe from 9% and 6% in 2011 to 15% and 11%, respectively, in 2015.

While overcapacity will define the tissue paper industry in FY12-13F, low pulp cost will prevent overcapacity from becoming a crippling issue. Both Hengan and Vinda have been accumulating pulp at around US$650/ton, compared with US$710/ton in FY11; moreover, we expect pulp cost to remain in check throughout FY13-14F as new pulp capacity comes on line globally. This will alleviate some of the pressure from oversupply on average selling prices.

In addition to tissue paper products, China's personal and family hygiene industry, valued at over RMB110b in 2011, also encompasses female hygiene and baby diaper products. We expect the market leaders in sanitary napkins to maintain steady growth based on brand loyalty. The penetration rate for sanitary napkins is already high at 87%, yet we forecast healthy high-teen growth for the leading players, in particular Hengan.

In our view, disposable diapers have the highest growth potential among the different personal hygiene products thanks to the segment's low penetration rate of 39%. The top-six diaper manufacturers, a group that includes Hengan, account for 80% of the market and look set to raise existing entry barriers to new players even higher through new product launches.

Year-to-date, the share price of Vinda is up 4% while Hengan's is down 4%. We believe the market has underestimated Hengan's capacity to contend with the oversupply issue bedeviling the sector while overestimating Vinda's. To put it briefly, Hengan's product mix and diversified business better equips it do deal with oversupply than Vinda, in our view. Hengan's lower-margin toilet rolls account for around 30% of total sales compared with c.60% for Vinda. In terms of diversification, tissue paper accounts for 47% of Hengan's revenue compared with 100% at Vinda's. Trading at 20x for FY13F, Hengan's valuation compares favorably to its three-year forward trading P/E and is therefore a promising investment in our view; which is why we prefer Hengan over Vinda on a 12-month view.

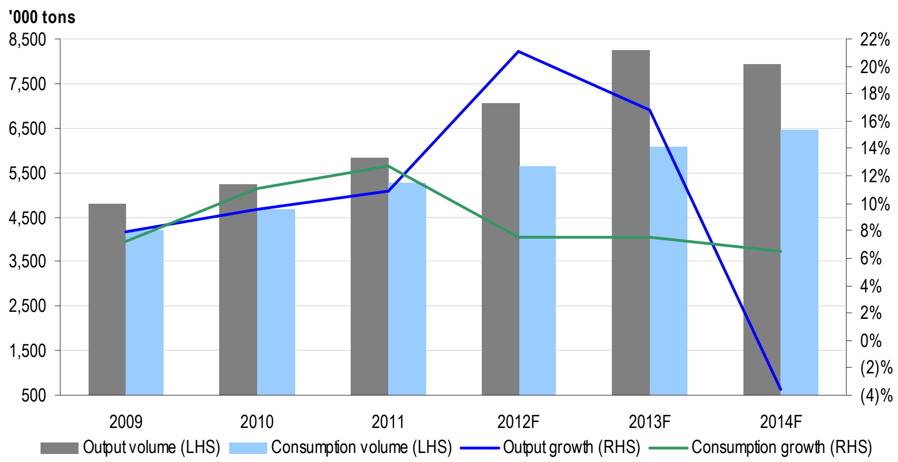
Potential 2013 demand-supply imbalance in tissue paper

Leading tissue paper players, including Hengan and Vinda, have in the past few years attempted to capitalize on China's fragmented tissue paper industry through aggressive capacity expansion. Supply and demand were roughly in balance throughout 2010-2011. During this period, rapid capacity growth underpinned strong sales growth of 27% at Hengan and 32% at Vinda. So far, it has been a good run for the major tissue players, but now we worry that the party may soon be coming to an end as signs are cropping up that the industry's demand-supply dynamics are at an inflection point caused by an imminent surge in capacity in FY12-13F leading to oversupply. The industry's major players, keen to avert this situation, have delayed capacity expansion plans; however, our analysis indicates these efforts may only be putting off the inevitable. Our view is that oversupply will become an issue in FY13F and will remain an overhang for all the domestic tissue paper players until the demand-supply imbalance is righted.

Capacity growth to outstrip consumption growth in FY12-13F

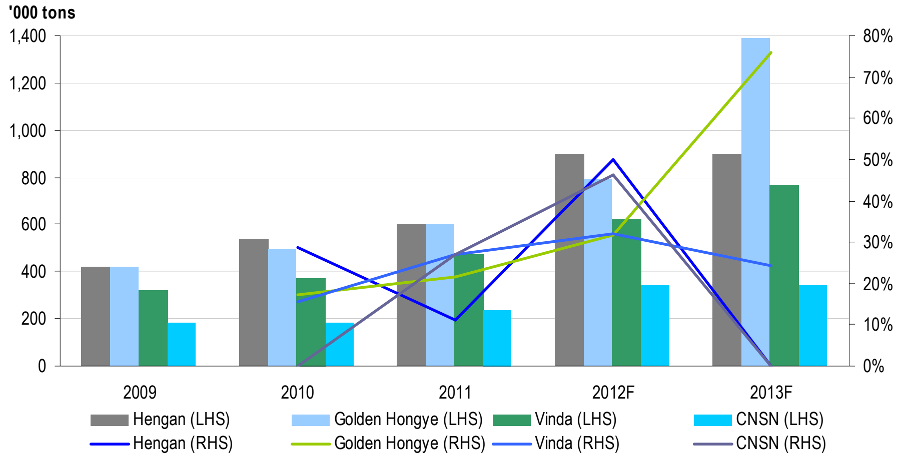
We forecast over 2.8m tons of capacity will be added in 2012-2013F (1.5m tons in 2012 and 1.3m tons in 2013) compared with around 1.0m tons added in 2010-2011 (457k tons in 2010 and 572k tons in 2011), according to the China National Household Paper Industry Association (CNHPIA). China's top-four players, namely, Hengan, Vinda, CNSN (002511 CH, Not Rated), and Gold Hongye, the tissue paper company of APP Group, plan to add 749k tons and 750k tons of capacity in 2012-2013F, respectively. Meanwhile, new industry players are entering the market, enticed by the sector's healthy demand growth. Based on our forecasts, the top-four players will account for as little as 51% of total new capacity growth in 2012 and 53% in 2013. Given our consumption growth forecast of 7.5% for 2012-2013F and assuming a utilization rate of 84%, we believe China's tissue paper industry will see excess supply of 0.9m tons, 1.7m tons, and 0.9m tons in 2012-2014F, respectively, compared with only c.0.1m tons of excess supply in 2011.

Overcapacity of tissue paper in China



Source: CNHPIA, CCBIS

Capacity plans of China's top-four tissue paper players



Source: CNHPIA, CCBIS

Product pricing pressure ahead

Based on announced capacity expansion plans, we believe overcapacity within China's tissue paper segment is an inevitability and that the market will not be able to digest the new capacity. As a result, selling prices of tissue paper products will come under pressure amidst fierce competition. While there is some brand value attached to tissue paper products, brand loyalty is, in general, low for toilet paper, which accounts for 65% of the total tissue paper product market. Thus, the risk of margin erosion for manufacturers of these products is high and we foresee several of the smaller players exiting the industry over time. Yet we do not expect the sector's larger players to be among the casualties. They will fare better than their smaller competitors as toilet tissue for these firms tends to represent a lower proportion of total tissue paper sales than is the case with the smaller tissue paper manufacturers. At Hengan toilet tissue represents around 30% of total tissue paper sales; at Gold Hongye Paper the figure is 55%; at CNSN it is 58%, and for both Kimberly-Clark (KMB US, Not Rated) and Oji Nepia the figure is about 20%. Vinda is an exception, with toilet tissue contributing about 60% of total sales. Based on the current product mix of both Vinda and Hengan, we believe the latter is better equipped to weather the anticipated pricing pressure.

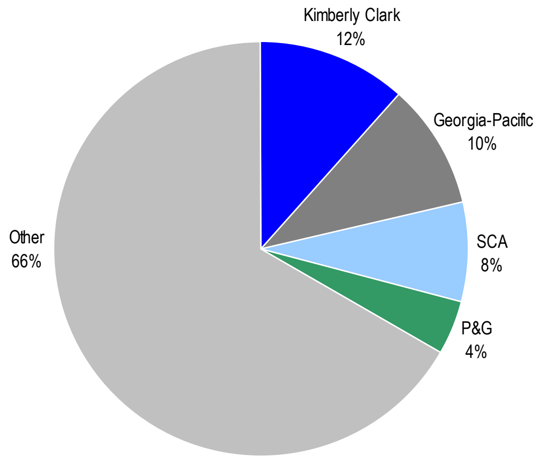
Trade up momentum to slow

Overcapacity is not the only problem looming over the sector. China's tissue paper market for FY13F will be starting from a high base that is likely to decline along with China's slowing GDP growth. We assume the consumption growth rate for China's tissue paper market at about 7.5%, higher than the CNHPIA estimate of 6.0%. In our view, a slowdown in trade-up momentum for tissue paper products is one of the key symptoms of the weaker economy. In the past, trading up within the tissue product segment has benefited tier-one tissue manufacturers like Hengan and Vinda as top-tier players were able to differentiate themselves on franchise power and access to a nationwide network and high quality wood pulp. According to CNHPIA, high-end wood pulp-based tissue paper production as a percentage of total production in China has increased from 47% in 2010 to above 59% in 2011. However, as competition intensifies and economic growth slows, consumers may stick with cheaper products and defer switching to higher quality products. We believe this will hamper sales volume growth at both Hengan and Vinda, with Vinda hurt the most. For this reason we prefer Hengan over Vinda as the tissue paper segment at Hengan accounts for less than 48% of Hengan's sales compared with 100% of Vinda's.

Large players to prevail in the long-term

We look for the overcapacity issue bedeviling the tissue paper industry to improve in 2015F as excess supply is digested by the market and once competition forces out the sector's smaller players. The tissue paper market in China is highly fragmented with around 1,600 tissue paper manufacturers in 2011. The combined market share of the top-four players in China was c.24% in 2011. Compare this to the top-four players in the global market with a c.34% share. As the top-tier players in China outpace their smaller competitors, we look for Hengan and Vinda to increase market share from 9% and 6% in 2011 to 15% and 11% in 2015F, respectively. Over time, the growing market share dominance of the industry's larger players will translate to further economies of scale and cost benefits. In an effort to realize this outcome, the strategy of Hengan and Vinda has been to focus on improving their product mix in lieu of concentrating on price. Both companies are in good position to benefit from the development of China's tissue paper industry which will see consumers trade up over the long run.

Market share of global tissue paper (2011)



Source: Tissue World, CCBIS

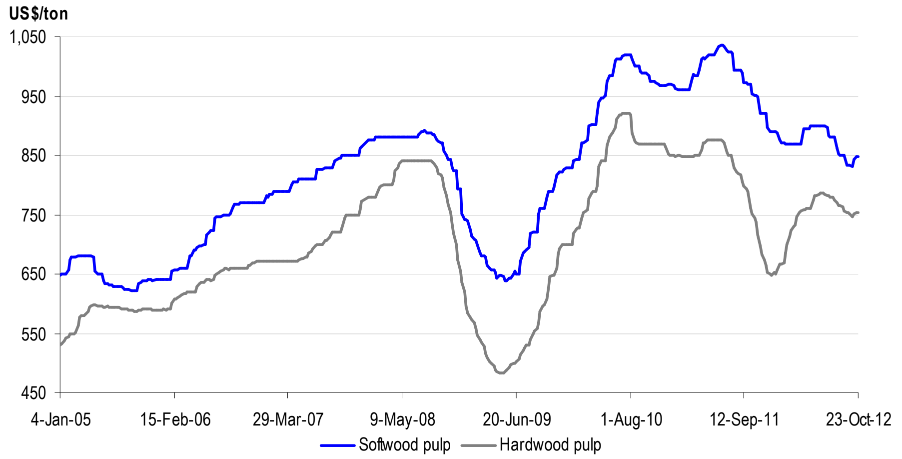
Wood pulp price to stay low

Overcapacity will define the tissue paper industry in FY12F-13F. Only low pulp cost prevents overcapacity from becoming a crippling issue. Pulp, including both short-fiber bleached hardwood kraft pulp (BHKP) and long-fibre northern bleached softwood kraft pulp (NSBK), is the major raw material in tissue paper, accounting for 50-60% of the cost of sales. Pulp prices are currently down 12% YoY on average. We expect low pulp price to persist in 2012-2014F and even into 2015F due to the aggressive capacity build up by hardwood pulp players in South America. While there are concerns that QE3 in the US will spur a rally in commodity prices, including wood pulp prices, we believe rapid capacity expansion of wood pulp production will be what shapes the industry outlook.

Why we believe pulp prices will remain low

In 2011, hardwood pulp price and softwood pulp prices peaked at US$877/ton and US$1,035/ton, respectively, before coming down. Year-to-date, hardwood and softwood pulp prices have fallen 10% and 12% YoY on average. Low pulp prices allow for margin expansion for tissue paper manufacturers. Top-tier tissue paper players are likely to enjoy low-cost pulp for the remainder of the year – Hengan has one month of pulp stock in hand and three months in transit as at September 2012, while Vinda's wood pulp cost has been largely locked in for August 2012 to February 2013.

Wood pulp prices in China



Source: Bloomberg, CCBIS

We believe low pulp prices will persist over the next few years. We forecast pulp cost for leading tissue manufacturers of around US$650/ton for FY12F, compared with US$710/ton in FY11 and we expect pulp cost to remain in check throughout FY13-14F as new pulp capacity comes on line globally. We forecast pulp cost in China of around US$660/ton for FY13-14F. China is a country with a shortage of raw materials and is therefore reliant on imports. About 70% of wood pulp used in China is imported, which makes wood pulp prices in China highly susceptible to international market volatility. According to *China Pulp and Paper* magazine, China's wood pulp consumption will grow at a rate of 8% YoY in 2012F compared with a 11% CAGR for 2005-2011. China's demand is being fed by a long and growing list of large bleached hardwood kraft pulp mills in based in South America. Active players include Stora Enso, Arauco, CMPC, Fibria and Suzano. At the same time, the global economic slowdown, particularly in Europe and the US, has put a damper on global consumption for wood pulp. It is reasonable to assume low pulp cost will support the margins of leading paper producers in China.

Upcoming wood pulp capacity expansion projects

Company	Country	Capacity (m tons)	Grade	Targeted start-up date
Ilim pulp (Bratsk)	Russia	0.7	BSK	2Q12
Eldorado	Brazil	1.5	BHK	4Q12
Suzano	Brazil	1.3	BHK	2013
Stora Enso/Arauco	Uruguay	1.3	BHK	2013
Veracel	Brazil	1.5	BHK	2014
Suzano	Brazil	1.3	BHK	2014
Gunns	Australia	1.0	BHK/BSK	2014
Fibria	Brazil	1.5	BHK	2015
Klabin	Brazil	1.5	BHK	2015
CMPC	Brazil	1.5	BHK	2015

Source: Shandong Pulp and Paper, CCBIS

Impact of renminbi appreciation on margins

Tissue paper manufacturers are sensitive to changes in the US-dollar/renminbi exchange rate as a most of their wood pulp is imported from Canada, Indonesia and Brazil. As pulp costs are calculated in US dollars, the earnings of these companies are sensitive to changes in the US-dollar/renminbi exchange rate, so they benefit from renminbi appreciation against the US dollar. We estimate that each 1.0% appreciation in the renminbi against the US dollar translates to about a 0.7% increase in net profit for Hengan in FY12F and 3.0% for Vinda.

Foreign exchange sensitivity analysis for Hengan and Vinda

RMB/US$ change (%)	(5)	(3)	(1)	1	3	5
Hengan						
Change in net profit	(3.5)	(2.0)	(0.7)	0.7	1.9	3.1
Vinda						
Change in net profit	(15.4)	(9.0)	(3.0)	2.9	8.5	13.9

Source: CCBIS estimates

Dissecting the verticals

China's personal and family hygiene industry was valued at over RMB110b in 2011. It comprises three key segments: tissue paper (RMB66b), female hygiene products (RMB26b) and baby diapers (RMB18b). In our view, disposable diapers have the highest growth potential thanks to the segment's low penetration rate. With respect to the tissue paper industry, we look for the top players to grow through capacity expansion, taking market share from the smaller players. For sanitary napkins, we expect market leaders to maintain steady growth based on brand loyalty.

Summary of personal hygiene product segments in China

	Tissue paper	Sanitary napkins	Baby diapers
Market size (RMB b)	66	26	18
Penetration rate (%)	c.40	87	39
Expected growth rate (%)	c.8	c.8	c.25
Top-5 market share (%)	27	68	62
Leading companies:	Hengan, Gold Hongye, Vinda, CNSN	Hengan, P&G, Uni-Charm	P&G, Hengan, Uni-Charm

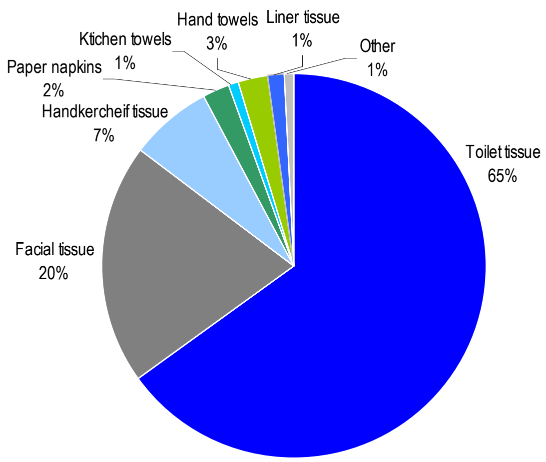
Source: CNHPIA, CCBIS

Tissue paper – market consolidation continues

China is the world's second-largest producer and consumer of tissue paper, with a market size of RMB66b. According to the China National Household Industry Association (CNHIA), China produced 5.7m tons and consumed 5.2 tons of tissue paper in 2011, equivalent to 3.9kg of tissue paper per capita.

The tissue paper market in China comprises five key segments: (1) toilet paper; (2) facial tissue; (3) handkerchief tissue; (4) paper napkins; and (5) hand towels. In terms of product structure, toilet tissue accounts for 65% of the market followed by facial tissue at 20%, handkerchief tissue at 7%, paper napkins at 2% and hand towels at 3%. In developed countries, the amount of toilet tissue consumed as a proportion of all tissue products comes to about 55%. Compared with this, the product mix for tissue paper in China appears high as a result of the low contribution from wipes, a category which includes kitchen towels and hand towels. This is because wipes have far less weighting within the product mix of Chinese tissue paper manufacturers than tissue paper manufacturers in developed countries.

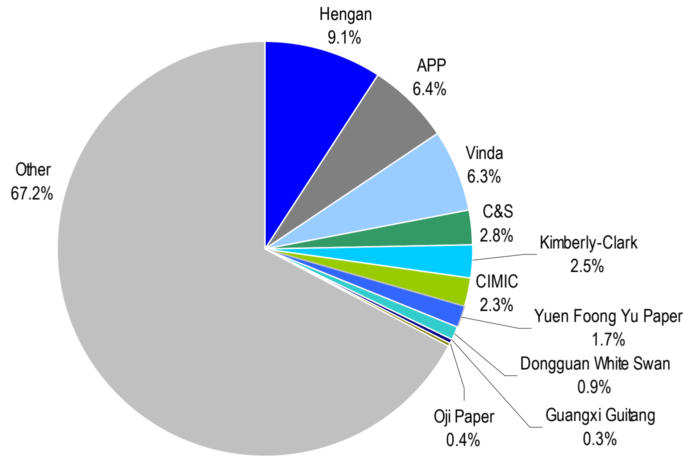
Product mix of China's tissue paper industry (2011)



Source: CNHPIA, CCBIS

Given the nearly 1,600 players within China's tissue paper industry, competition is heated and the stakes high, especially as there is a limited number of large players, among them Hengan (Hearttex), Vinda, Kimberly Clark (Kleenex), APP (Breeze), and CNSN (C&S). Hengan is currently the largest tissue paper manufacturer in China. Gold Hongye is the tissue paper company of APP Group China and the second-largest tissue paper manufacturer in China. Vinda is the first large-scale manufacturer of tissue paper in China and has evolved to become the third-largest tissue paper manufacturer in the country.

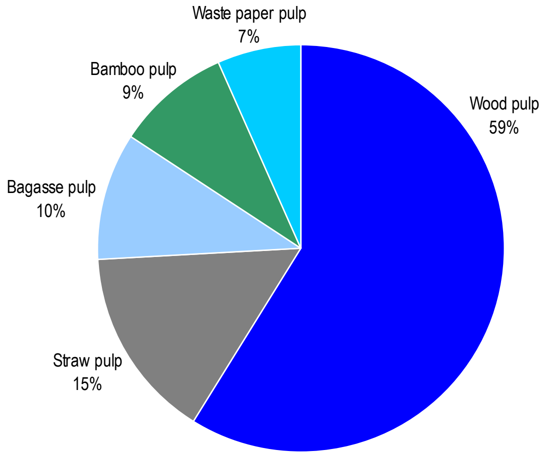
Market share of China's tissue paper industry (2011)



Source: CNHPIA, CCBIS

Raw materials are an important determinant of success within the industry. We note that the proportion of wood pulp rose from 47% in 2010 to 59% in 2011, probably because: (1) low wood pulp cost since 2H11 has made it feasible for manufactures that previously could not afford wood pulp to enter the market; and (2) more stringent sewage discharge requirements favor the use of wood pulp.

Pulp mix within China's tissue industry (2011)



Source: CNHPIA, CCBIS

In our view, the entry barriers put up by large-scale tissue paper manufacturers in China are moderate. These barriers come in the form of the capital-intensive nature of the business, constraints from China's environmental protection agencies, and limited and relatively expensive raw material supply. Key growth drivers for China's larger tissue paper manufacturing companies include improving living standards, growing awareness of the importance of hygiene, marketing promotions by leading players and a more rigorous regulatory regime. Penetration by leading manufacturers into less developed areas is also expected to improve the quality of tissue paper products in those areas, availing local consumers of the opportunity to trade up.

The leaders of the global tissue paper market are Kimberly-Clark (12%), Georgia-Pacific (10%), SCA (8%) and P&G (4%). Of these, only Kimberly-Clark and SCA have gained any significant traction in China's high-end tissue paper segment. Kimberly Clark is a popular brand in the minds of consumers in large cities – Kleenx, for example, boasts a c.25% market share of the tissue paper market in Beijing and Shanghai. That said, Kimberly Clark mainly focuses on diapers in China and does not plan to expand its tissue business. It follows that its market share is likely to shrink as its peers undertake aggressive expansion. SCA has a more passive approach to selling in the Chinese market. The world's third-largest hygiene company has expanded its footprint in China through its pre-IPO investment in Vinda. Since the IPO, SCA has gradually increased its holding in Vinda to the point where it is now Vinda's second-largest shareholder, with a 21.7% interest. In our view, for the foreseeable future, international companies are not going to pose a great threat to domestic brands in the tissue paper segment.

We believe the long-term outlook for China's tissue paper market remains bright on the premise that per-capita consumption in China, which was 3.9 kg in 2011, is poised to rise significantly, soon outpacing the global average, which was c.5.3kg in 2011 (with the US, Germany and France at over 16kg, respectively). Based on our conservative forecasts, we expect China's tissue paper consumption to increase at a 6.6% CAGR, from 5.2m tons in 2011 to 6.8m in 2015, equivalent to 4.9 kg per capita.

In our view, table tissue and paper napkins have tremendous prospects for growth given that the proportion of wipes in developed countries is 30% compared with only 3% in China. However, because of overcapacity, we believe that tissues and toilet paper in China will develop at a rate similar to GDP growth.

Sales growth by category	2011 growth rate (%)
Tissue	12.4
Toilet paper	13.2
Handkerchief tissue, facial tissue	8.1
Table tissue, paper napkins	25.1

Source: CNHPIA, CCBIS

Sanitary napkins – loyal customers mean resilient sales

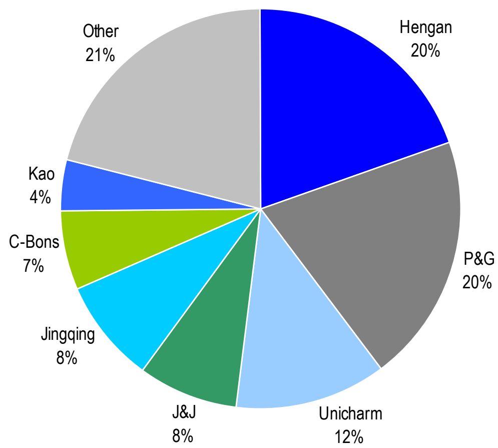
According to the CNHPIA, the market size for sanitary napkins and pantyliners was about RMB26bin 2011. Output and sales volume were about 72b pieces and 65b pieces, respectively, in 2011. Consumption volume was up 6% YoY in 2011; market penetration rate was 87%. For pantyliners, output and sales volume was 34b units and 31b units, respectively, in 2011. Consumption volume was up 7% YoY in 2011.

China's feminine hygiene products have entered into a mature growth phase, with sales growth of 8% in 2011. China's sanitary napkin market can be characterized by strong brand loyalty, a high penetration rate and relatively high market share concentration. In 2011, the market consisted of 710 manufacturers; there were few national brands and brand concentration within the upscale market was very high. Sales of the top-15 sanitary napkin/panty liner manufactures made up 77% of China's total market in 2011. These manufacturers are still mainly located in Shanghai, Guangdong and Fujian. The upscale sanitary napkin and pantyliner market is known for its aggressive advertising and R&D. The sanitary napkin market is mainly occupied by international players including P&G (Whisper), Uni-Charm (Sofy), J&J (Stayfree), Kao (Laurier) and Kimberly-Clark (Kotex). Hengan stands out among domestic players with its sizable 20% market share. The company has been increasing market share in the sanitary napkin business with growth that outstrips industry growth. In FY11 the company launched its Space 7 "Princess" series through its traditional channels, which rely on distributors in seven provinces targeting the upscale market. We also note several newcomers to the hygiene product market, including Vinda, Hennan Yinge and Shandong Dongshun.

Any time a newcomer attempts to gain traction in a relatively mature segment, especially one characterized by strong customer stickiness, it will encounter challenges. Conversely, the incumbents in the segment have a tremendous advantage. For this reason we believe Hengan, with its relatively large market share, will retain its leadership position in sanitary napkin products.

Key industry growth drivers are likely to be market expansion in tier-three and tier-four cities, rising demand for premium and diversified products and higher per capita usage of sanitary napkins. Hengan will benefit thanks to its diversified brand portfolio coupled with its unrivalled distribution network with excellent penetration in lower-tier cities.

Market share of China's sanitary napkin industry (2011)



Source: CNHPIA, CCBIS

Baby diapers – robust demand leads to intense competition

China's baby diaper market, with an estimated size of RMB18b, is one of the fastest growing in the world. In 2011, sales of baby diapers grew 27% underpinned by sales volume growth of 24%. The penetration rate in China for disposable baby diapers remains low at 39%, compared with over 90% in the US, as they are not widely used in rural areas as they are prohibitively expensive for most rural consumers. We expect the baby diapers market to continue to enjoy rapid growth of above 20% for the next three years for the following two reasons:

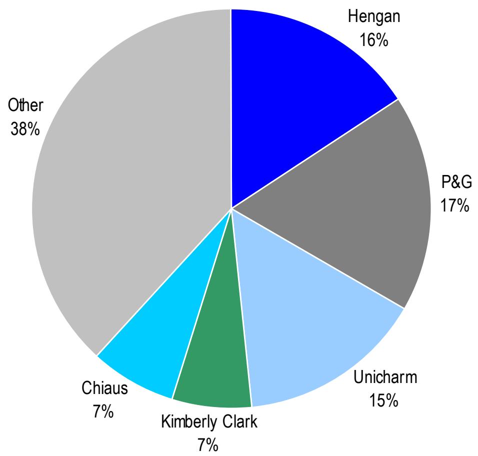
- Loosening of government family planning policies leading to more rapid population growth;
- The willingness on the part of Chinese parents to spend more money on their children as family incomes rise.

Although there are 509 registered baby diaper manufacturers in China, the market is concentrated with the top-ten players accounting for over 83% of all sales in 2011. This has not deterred many small- and medium-sized enterprises producing low-end products from entering the market looking to exploit its tremendous potential, a development that has affected the healthy development of the industry. For example, Hengan diaper sales grew only 7% in 1H12, compared with the industry growth rate of over 20%. To address this, the company gradually launched its Q-MO series of diapers in multiple cities in 3Q11. In 3Q12 the product went nationwide.

In addition to improvements in quality and product innovation, baby diaper manufacturers in China are also turning their attention to the labeling and packaging of their products in a bid to enhancing their branding. Meanwhile, Kimberly-Clark and P&G have been exploring the online shopping channel in collaboration with Amazon.com, while Unicharm and Beishute are working with Taobao (the Chinese equivalent to Amazon.com).

In our view, domestic players will face the greatest threat from international players within baby diapers, a segment we view as particularly competitive in view of overcapacity and the high quality demanded by baby diaper customers. For example, though Hengan ranks second in the baby diaper market, its segment growth nevertheless trails the industry as a whole.

Market share of China's baby diaper industry (2011)



Source: CNHPIA, CCBIS

Distribution strengths of Hengan and Vinda

Hengan has long been dominant in China's rural areas, in large part thanks to its distribution system comprising over 2,700 exclusive distributors and 370 sales offices in China. Around 65% of Hengan's sales are made through the traditional channel through distributors, while 25% are made through more modern trade channels, namely supermarkets. Vinda had 176 sales offices and 1,295 distributors as at the end of 1H12, compared with 155 and 1,174 as at FY11. Compared with Hengan and CNSN, Vinda has a higher sales weighting in modern channels and corporate business; it is lower in traditional channels. Hengan has been able to rapidly grow sales in new geographical regions courtesy of its wide distribution network. In view of under-penetration within China's tissue paper and baby diaper markets, we favor Hengan's bottom-up approach to expanding its geographical footprint through distributors thereupon working on the brand loyalty of its newly won customers. It is no coincidence that both Hengan and Vinda have established their respective bases of production in close proximity to their key customers, as this minimizes transportation costs.

In our view, domestic companies are in a better position to capture rapid growth in lower-tier cities because their distribution networks already have deep penetration in those areas. International firms such as Kimberly-Clark and P&G often focus on large cities and rely on the expansion of modern trade retailers to expand their footprint.

The following table offers a comparison between the leading personal hygiene players in China.

Peer comparisons

	Hengan (1044 HK)	Vinda (3331 HK)	Gold Hongye/APP (Not listed)	C&S Paper (002511 CH)	Kimberly-Clark (KMB US)	Unicharm (8113 JP)	P&G (PG US)
Manufacturing base	Fujian, Shandong, Hunan	Guangdong, Zhejiang, Hubei, Sichuan, Beijing, Liaoning	Hainan, Hubei, Liaoling, Suzhou, Shenyang, Suning	Guangdong, Sichuan, Zhejiang, Hubei	Beijing, Nanjing, Shanghai and Guangzhou	N/A	Hainan, Hubei, Liaoling
Establishment	1985	1985	1996	1989	Entered China in 1994	Entered China in 2001	Entered China in 1988
Non-tissue paper	Disposable diapers, sanitary napkins, food & snacks, skin care products	Planning to enter disposable diaper and sanitary napkin markets	Nil	Nil	Diapers and other personal care products, healthcare products	Baby care, health care, feminine care, and health care	Feminine hygiene products, baby care
Tissue paper brands	Hearttex (心相印)	Vinda (维达)	Breeze	C&S (洁柔), Sun (太阳)	Kleenex, Scott		
Female hygiene brands	An Erle, Anle	Nil	Nil	Nil	Kotex, Comfort & Beauty	Sofy	Whisper, Naturella
Baby diaper brands	An Erle	Babifit	Nil	Nil	Huggies	Mami Poko	Pampers
Tissue paper production capacity at end-2012 (ton)	900,000	620,000	902,000	345,000	N/A	N/A	N/A
Tissue paper market share (%)	9	6	6	3	3	N/A	N/A
Sanitary napkin market share (%)	20	N/A	N/A	N/A	N/A	12	20
Baby diaper market share (%)	16	N/A	N/A	N/A	7	15	17
Toilet rolls % of tissue paper	31	61	55	58	20	N/A	N/A
Number of distributors	2,700	1174	N/A	692	N/A	N/A	N/A
Sales offices	370	155	N/A	N/A	N/A	N/A	N/A
Traditional channels	65%	47%	N/A	80%	N/A	N/A	N/A
Modern channels	25%	38%	N/A	15%	N/A	N/A	N/A

Source: Bloomberg, Company data, CCBIS

Operation and financial comparisons

Company	FY06	FY07	FY08	FY09	FY10	FY11
Revenue (HK$m)						
Hengan	4,115	5,687	8,002	10,834	13,432	17,051
Vinda	1,358	1,778	2,424	2,776	3,602	4,765
C&S Paper	–	1,266	1,616	1,829	2,035	2,225
Kimberly-Clark	130,097	142,510	151,170	148,173	153,404	162,271
Revenue growth (%)						
Hengan	35.8	38.2	40.7	35.4	24.0	26.9
Vinda	46.7	30.9	36.4	14.5	29.8	32.3
C&S Paper	–	–	27.6	13.1	11.3	9.4
Kimberly-Clark	5.2	9.5	6.1	(2.0)	3.5	5.8
Gross profit margin (%)						
Hengan	41.8	40.0	40.0	46.0	44.3	39.9
Vinda	25.0	20.6	21.2	34.2	29.5	27.2
C&S Paper	–	18.9	23.8	34.8	29.8	25.5
Kimberly-Clark	30.3	31.7	30.2	33.6	33.2	29.5
Operating profit margin (%)						
Hengan	21.7	22.1	18.5	23.6	21.0	18.3
Vinda	11.0	5.9	9.8	18.8	12.6	10.6
C&S Paper	–	5.0	7.1	11.3	9.6	5.6
Kimberly-Clark	12.5	15.1	13.1	14.8	14.0	11.7
Net profit margin (%)						
Hengan	16.9	17.7	16.8	19.5	18.2	15.5
Vinda	7.9	4.4	6.8	14.3	10.2	8.5
C&S Paper	–	3.3	3.5	6.9	6.1	4.4
Kimberly-Clark	9.0	10.0	8.7	9.9	9.3	7.6

Source: Bloomberg, Company data, CCBIS

Valuing the companies

In our view, Hengan and Vinda, two leading Hong Kong-listed FCG companies, are a good proxy to resilient demand for stable consumer goods amidst the weak domestic economy. Vinda's share price has been up 4% YTD, while Hengan has been down 4% YTD, compared with 9% for the HSCEI Index. We attribute the surge in Vinda's share price to the narrowing of the valuation gap between itself and Hengan as it has delivered strong earnings since its IPO. While both counters have delivered strong financial performances, we believe that the looming danger of overcapacity presents an overhang to both of these stocks.

We could not identify listed domestic companies that would serve as good comparables with either Hegan or Vinda. While there are a number of Hong Kong-listed staples names, including Tingyi (322 HK, Not Rated), Uni-President China (220 HK, Not Rated) and CRE, they are, for the most part, food and beverage-type companies that do not manufacture personal hygiene products. Moreover, Hengan, a clear leader within its industry, is typically regarded as a benchmark in terms of peer valuation.

International personal hygiene brands such as P&G and Uni-Charm, direct competitors of Hengan and Vinda, have strong brand franchises, synergistic multi-product portfolios and global diversification. However they tend to operate in mature markets, which limits their growth profiles to single-digits. On average, they trade at 18x FY13F P/E. In our view, Hengan and Vinda deserve a valuation at least in line with these companies as they boast much higher growth rates of over 20% that are, moreover, sustainable as China's market is still highly fragmented and, therefore, ripe for consolidation.

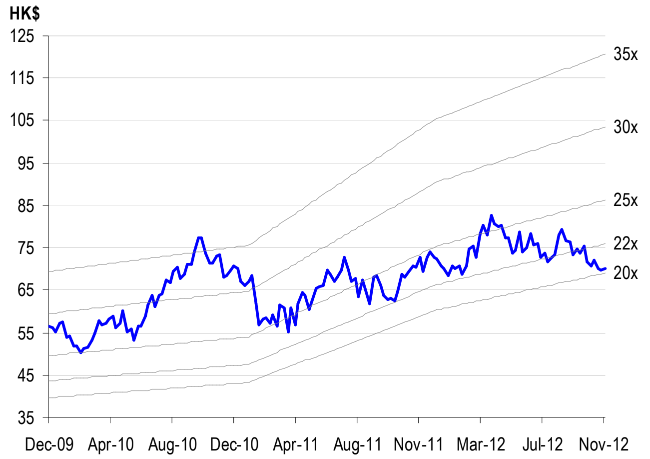
Hengan versus Vinda

We believe Hengan's sustained earnings quality should help it better weather the pressures associated with overcapacity within the tissue paper space. Hengan's profit margins are consistently higher than Vinda's due to the contribution of higher margin products such as diapers and sanitary napkins, as well as its better product mix within the tissue paper product segment. Hengan's diversified range of products also makes it less sensitive to fluctuations in wood pulp prices compared with Vinda. Since tissue paper only accounts for 47% of Hengan's revenue compared with 100% of Vinda's revenue, we prefer Hengan to Vinda due to the excess capacity we believe will soon come on to the market. We forecast net profit of HK$3,695m, HK$4,275m and HK$4,912m and EPS of HK$3.012, HK$3.485, HK$4.005, for FY12-14F, respectively.

In valuing Hengan, we recognize that: (1) the company is a bellwether within the personal hygiene space; (2) there are no listed comparables in Hong Kong; and (3) it has high earnings growth. We set our target price at 23x, implying a PE/G ratio of 1x applied to Hengan's three-year forward EPS CAGR of 23% and 18.5% upside from the current share price. We believe our target multiple is conservative as it is lower than the three-year forward trading average of 27x.

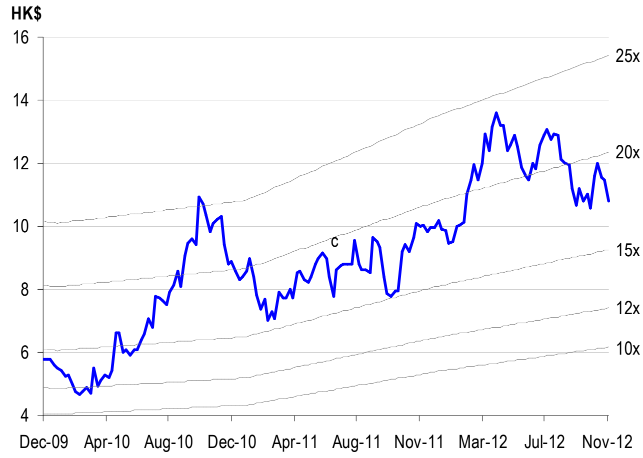
Vinda has seen share price performance in line with the market on the back of strong profit growth and a valuation re-rating. However, given imminent overcapacity in the tissue paper market, we expect earnings growth to slow in 2013F, limiting the potential for a further re-rating on a 12-month view. We expect a valuation re-rating to take place in 2015 as the overcapacity issue is resolved. Vinda is currently trading at 17x P/E FY13F, equivalent to only a 15% discount to Hengan. We forecast net profit of HK$539m, HK$624m and HK$722m and EPS of HK$0.539, HK$0.624, HK$0.722, for FY12-14F, respectively. We value the company on 17x FY13F at a target price of HK$10.60, based on a three-year historical forward P/E and equivalent to a 35% discount to Hengan, the industry leader.

Hengan's forward P/E bands



Source: Bloomberg, CCBIS estimates

Vinda's forward P/E bands



Source: Bloomberg, CCBIS estimates

Stock recommendations

Below we summarize our target valuations for Hengan and Vinda, the listed tissue paper players covered in this report.

CCBI personal hygiene products universe

		Share price	Target pirce	EPS (YoY, %)			Upside	P/E (x)	
Company	**Stock code**	**(HK$)**	**(HK$)**	**CY12F**	**CY13F**	**CCBIS rating**	**(%)**	**CY12F**	**CY13F**
Hengan	1044 HK	70.10	81.40	39	16	Outperform	18.5	23	20
Vinda	3331 HK	10.36	10.60	25	16	Neutral	3.9	19	17

Source: CCBIS estimates

Valuation summary – Hong Kong-listed staples companies

	Stock	Current rating/	Share price	Market cap	3M average value traded	EPS growth (%)#		P/E (x)		PE/G (x)	Yield (%)	P/B (x)	ROAE (%)	Net cash/	Net
Company	**code**	**target price (HK$)**	**(HK$)**	**(US$m)**	**(US$m)**	**CY12**	**CY13**	**CY12**	**CY13**	**CY12**	**CY12**	**CY12**	**CY12**	**share (%)**	**gearing (%)**
Consumer products															
Want Want China	151 HK	Not Rated	11.40	19,442	16	29	24	35.8	28.8	1.2	1.7	12.1	37.3	2	Net cash
Tingyi	322 HK	Not Rated	22.65	16,332	15	12	26	34.7	27.5	1.0	2.0	6.5	20.2	Net debt	25
Hengan*	1044 HK	Outperform/81.40	70.10	11,108	27	39	16	23.3	20.1	0.6	2.7	6.3	28.4	1	Net cash
CRE	291 HK	Not Rated	28.65	8,868	12	(29)	21	34.0	28.0	1.3	1.8	1.8	6.3	4	Net cash
Tsingtao Brew	168 HK	Not Rated	43.10	7,026	8	6	19	25.7	21.6	1.1	0.8	3.6	15.4	9	Net cash
Mengniu Dairy	2319 HK	Not Rated	20.40	4,651	11	(6)	30	19.4	14.9	0.5	1.1	2.3	12.6	20	Net cash
Uni-president China	220 HK	Not Rated	9.44	4,381	5	189	23	30.5	24.8	1.1	0.9	3.6	12.1	Net debt	11
L'Occitane	973 HK	Not Rated	24.30	4,627	3	NA	18	26.5	22.4	1.2	1.1	22.0	20.0	6	Net cash
China Foods	506 HK	Not Rated	7.59	2,737	5	46	23	22.5	18.2	0.8	1.5	2.9	12.9	0	Net cash
China Agri	606 HK	Not Rated	4.12	2,789	5	(32)	26	10.9	8.6	0.3	1.7	0.8	7.4	Net debt	95
Biostime	1112 HK	Not Rated	24.95	1,937	2	29	31	17.8	13.6	0.4	2.3	5.3	29.8	15	Net cash
Shenguan	829 HK	Not Rated	3.91	1,676	1	13	22	13.6	11.1	0.5	3.1	4.2	34.4	4	Net cash
Vinda*	3331 HK	Neutral/10.60	10.36	1,335	8	25	16	19.2	16.6	0.8	1.7	2.6	15.1	Net debt	34
Huabao	336 HK	Not Rated	3.47	1,406	3	NA	6	6.2	5.9	1.0	5.4	6.5	25.9	12	Net cash
China Modern Dairy	1117 HK	Not Rated	1.92	1,188	1	NA	43	15.3	10.7	0.3	0.0	2.9	9.4	Net debt	40
Yurun Food*	1068 HK	Underperform/4.20	5.12	1,203	11	NA	NA	NA	NA	NA	0.0	0.6	(1.4)	Net debt	23
Yashili	1230 HK	Not Rated	2.15	977	1	56	17	12.8	10.9	0.6	3.8	1.5	11.0	43	Net cash
Tibet 5100*	1115 HK	Outperform/2.70	2.56	848	1	20	27	11.9	9.4	0.6	2.1	2.4	21.8	32	Net cash
Huiyuan Juice	1886 HK	Not Rated	2.79	532	0	(61)	28	27.4	21.3	0.7	0.8	0.7	2.0	Net debt	56
Real Nutri*	2010 HK	Outperform/4.50	2.81	407	2	11	17	4.2	3.6	0.4	0.8	0.7	19.3	65	Net cash
Magic*	1633 HK	Outperform/3.40	3.04	400	1	33	29	12.6	9.8	0.4	1.5	1.9	16.3	38	Net cash
Prince Frog*	1259 HK	Outperform/3.30	2.61	339	1	33	22	8.7	7.2	0.3	2.3	1.8	22.7	39	Net cash
BaWang Group	1338 HK	Not Rated	0.66	248	1	(42)	NA	-4.8	51.9	NA	0.0	NA	(38.6)	38	Net cash
Dynasty Wines	828 HK	Not Rated	1.35	217	0	400	112	79.4	37.5	0.3	0.2	0.8	2.1	24	Net cash
Tontine Wines	389 HK	Not Rated	0.75	195	0	(5)	15	6.8	5.9	0.4	NA	0.7	7.9	103	Net cash
Besunyen	926 HK	Not Rated	0.48	98	0	NA	NA	NA	NA	NA	NA	0.4	NA	97	Net cash
Average ex-Dynasty Wines						**18**	**24**	**17.3**	**16.4**	**0.7**	**1.7**	**3.6**	**13.4**		

Price as at close on 5 December 2012

*# Calculated in Hong Kong dollar terms; * Denotes CCBIS estimates*

Source: Bloomberg, CCBIS estimates

Valuation summary – Global-listed personal hygiene companies

Company	Stock code	Current rating/ target price (HK$)	Share price (HK$)	Market cap (US$m)	3M average value traded (US$m)	EPS growth (%)#		P/E (x)		PE/G (x)	Yield (%)	P/B (x)	ROAE (%)	Net cash/ share (%)	Net gearing (%)
						CY12	CY13	CY12	CY13	CY12	CY12	CY12	CY12		
Consumer products															
P&G	PG US	Not Rated	69.31	189,510	620.4	NA	6	17.8	16.8	2.7	3.2	6.0	17.1	Net debt	40
Kimberly-Clark	KMB US	Not Rated	85.81	33,886	163.9	30	7	16.4	15.3	2.2	3.4	6.5	37.8	Net debt	88
Unilever	ULVR LN	Not Rated	24.12	111,769	75.9	6	9	18.1	16.7	1.9	3.3	5.2	29.5	Net debt	59
Kao	4452 JP	Not Rated	2,254.00	14,999	48.5	NA	12	19.7	17.7	1.5	2.7	8.4	10.8	1	Net cash
Unicharm	8113 JP	Not Rated	4,280.00	11,200	34.5	NA	10	24.5	22.3	2.3	0.8	14.0	14.3	Net debt	16
LG Household	051900 KS	Not Rated	644,000.00	8,769	14.4	NA	NA	NA	NA	NA	0.6	9.5	27.8	Net debt	62
Colgate Palmolive	CL US	Not Rated	107.58	50,830	184.7	7	10	20.1	18.3	1.9	2.3	20.9	105.1	Net debt	155
Average							**14**	**9**	**19.4**	**17.8**					

Source: Bloomberg, CCBIS estimates

Key industry risks

Rising pulp prices. Wood pulp is the key raw material for tissue paper producers, accounting for over 50% of total cost of sales. The availability of pulp can, at times, be limited and the price volatile. Should China's tissue paper players be unable to pass on higher costs, profitability would erode accordingly.

Business risk from price war. Top-tier players within the tissue paper industry are aggressively increasing capacity. Should competition intensify or should overcapacity develop, companies may begin selling their products at discounted prices, thereby curtailing Vinda's capacity to pass on higher pulp costs to its customers, with negative implications for the company's profitability.

Risks related to China's economy. Domestic personal hygiene producers derive a majority of their sales from the China market. They are, therefore, exposed to regulatory, political, and economic risk. Should new policies be implemented or should the political climate change or the economy weaken, the company's profitability could be adversely affected.

Slower acceptance of the benefits of proper hygiene. When selling their diaper products, domestic players often target tier-three and tier-four cities where standards of hygiene tend to be somewhat lower than in China's more prominent cities. Many households still do not consider baby diapers a necessity. Slower acceptance of hygiene could hamper diaper sales and cause our general growth assumptions to overshoot.

Currency risk. Tissue paper manufacturers typically purchase wood pulp from Canada, Indonesia and Brazil. Because wood pulp costs are denominated in US dollars, tissue paper manufacturers are exposed to currency fluctuation risk. Any slowdown in the rate of renminbi appreciation, or even worse, a depreciation of the renminbi, would erode the purchasing power of China's tissue paper manufacturers.

Porter and SWOT analysis

Porter

	Tissue paper	Sanitary napkins	Disposable diapers
Supplier's bargaining power	**Moderate to high** International major pulp companies account for most of the supply for domestic producers. Annual purchases of the leading Chinese players represent only a small percentage of the production volume of these suppliers. As such, we expect suppliers to have only moderate-to-high bargaining power over tissue paper players.	**Moderate** Most companies source fluff pulp and petrochemical materials pulp from suppliers in the international market, particularly the US. As a result, we expect suppliers to have moderate-to-high bargaining power over leading tissue paper players.	**Moderate** Most companies source fluff pulp and petrochemical materials pulp from suppliers in the international market, particularly the US. As a result, we expect suppliers to have moderate-to-high bargaining power over the leading tissue paper players.
Threat of substitutes	**Moderate** The inclination to substitute with other local tissue brands is being curbed by new product rollouts and newfound brand loyalty, particularly for tissue paper. In our view, the threat from substitute companies is moderate.	**Low** The sanitary market is relatively concentrated with the top-15 players making up 86% of the total market in terms of sales. That said, sanitary napkins are known to have strong brand loyalty. Partly for this reason, we believe the threat from substitutes is low.	**High** The disposable diaper market remains poorly penetrated and highly fragmented. Rural areas for the most part have not developed the habit of using disposable diapers. The threat from substitutes is high within this segment.
Rivalry among existing companies	**Moderate to high** China's tissue paper market is both enormous and fragmented, yet there are few sizable and reputable tissue paper brands.	**Low to moderate** In our view, there is no urgency on the part of major players to undercut prices as rivalry among existing companies is relatively moderate.	**High** Competition has become fierce as many small- and medium-sized enterprises making low-grade products have entered the market.
Threat of new entrants	**Moderate** Entry barriers to the tissue paper industry are moderate due to the capital-intensive nature of the business. Companies are also required to invest in environmental control measures in order to comply with the government's increasingly stringent regulations.	**Low to moderate** Consumer preference for well-known brands makes it increasingly difficult for newcomers to compete. Thus the threat of new entrants is low to moderate.	**High** Entry barriers to the baby diapers market are relatively low given market fragmentation.
Buyer's bargaining power	**Moderate** As tissue paper products are considered necessities and account for only a small part of household expenses, consumers are unlikely to cut back on consumption in difficult economic times. Nevertheless, consumers tend to be price-sensitive about tissue products, in particular, toilet roll. We also look for consumers to become more quality-conscious as general living standards improve.	**Moderate** Because sanitary napkins are considered necessities, consumers are relatively less sensitive to price changes within this segment. However, customers can be quite quality conscious about sanitary napkins given the highly intimate nature of this product. Because of this, we view the buyer's bargaining power as moderate.	**Moderate** Disposable diapers are not considered necessities, especially by rural consumers accustomed to using re-usable cotton diapers. During hard economic times, consumption of disposable diapers tends to decline. Therefore, we consider the bargaining power of buyers within this segment to be moderate.

Source: CCBIS

SWOT

	Hengan	Vinda
Strengths	➢ Well-established brands representing premium tissue products. ➢ Enjoys leading positions in several industries.	➢ Well-established brands with strong customer loyalty. ➢ Strategically-located production facilities nationwide helping to bring down logistics costs.
Weaknesses	➢ Excessive price movement in wood pulp prices may give rise to large fluctuations in profit margin. ➢ Investment in non-core business.	➢ Excessive price movements in wood pulp prices may cause large fluctuations in profit margins. ➢ High concentration risk
Opportunities	➢ To expand capacity and geographical coverage through acquisitions. ➢ To increase the contribution from new high-margin products such as wet tissues and kitchen paper towels with a view to improving the company's overall profit margins.	➢ To expand its capacity and geographical coverage through acquisitions. ➢ To diversify its product range through the addition of diaper and sanitary napkins business lines.
Threats	➢ Price competition among peers weighing on Hengan's margins as tissue paper products are highly price-sensitive. ➢ Overcapacity causing some margin erosion.	➢ Price competition among peers weighing on Vinda's margins as tissue paper products are highly price-sensitive. ➢ Overcapacity leading to margin erosion.

Source: CCBIS

Hengan (1044 HK)

Dominant

Unrivalled leadership in personal hygiene market. Hengan holds top positions across three key segments within China's personal hygiene market. It was first in tissue paper and second in both sanitary napkins and baby diapers in 2011. Now one of the largest domestic FMCG makers in China, Hengan's success was built on a diversified portfolio of products, well-recognized brands and distribution strength.

- **Capacity expansion buoys top-line growth.** Hengan looks to entrench its leading position within the tissue paper market, with plans to add 300k tons of new capacity this year, roughly equivalent to 50% capacity growth to reach an annual capacity of 900k tons in FY12. As a result, we project strong top-line growth of 22% in FY12F and 23% in FY13F for its tissue business. While Hengan is not immune to the industry's persistent tissue paper oversupply issue, the fact that tissue paper accounts for only about 48% of Hengan's total sales in FY12F works in its favor.
- **Resilient sales in sanitary napkins.** Thanks to its well-recognized brand and product quality, Hengan's sanitary napkins have seen robust growth despite the industry's already high penetration rate, which we believe will not change in the next three years. We look for sales growth of 22%, 16%, and 14% in FY12-14F, respectively.
- **Better disposable diaper sales through promotions.** We expect diaper sales to improve in 2H12 on the back of increased promotions and improvements in product design. We forecast sales growth for disposable diapers of 8%, 19%, and 17% in FY12-14F, respectively.
- **Initiate with Outperform.** We initiate coverage on Hengan with an Outperform rating. Our target price implies FY13F P/E of 23x based on 1.0x PEG, which in our view is conservative against its three-year forward P/E of 27x.

Financial forecast

Year to 31 December	2010	2011	2012F	2013F	2014F
Revenue (HK$m)	13,432	17,051	20,296	24,324	28,268
Net profit (HK$m)	2,438	2,649	3,695	4,275	4,912
EPS (HK)	2.00	2.16	3.01	3.49	4.00
EPS (YoY, %)	13	8	39	16	15
Yield (%)	1.8	1.9	2.7	3.1	3.6
P/E (x)	35.4	32.6	23.4	20.2	17.6
ROAE (%)	25.0	23.2	28.4	29.5	30.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CCBIS estimates

Company Rating: Outperform
(initiation)

Price: HK$70.10

Target: HK$81.40

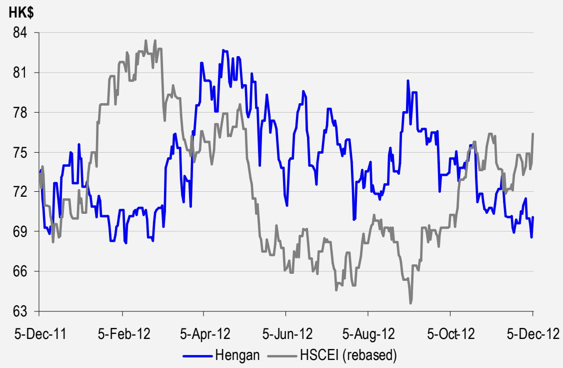
(initiation)

Trading data

52-week range	HK$66.8 – 83.45
Market capitalization (m)	HK$86,155/US$11,116
Shares outstanding (m)	1,229
Free float (%)	59
3M average daily T/O (m share)	2.8
3M average daily T/O (US$m)	26.6
Expected return (%) – 1 year	18.5%

Closing price on 5 December 2012

Stock price vs. HSCEI



Source: Bloomberg

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Investment highlights

Bellwether in personal hygiene space

Hengan's position atop China's personal hygiene industry is unrivalled. It holds top positions across three key segments within the sector in terms of revenue: In 2011 it was first in tissue paper, second in sanitary napkins and second in baby diapers. Underpinning its success is a diversified and well-recognized product and brand portfolio (not to mention an extensive nation-wide distribution network). Hengan has expanded rapidly over the years along with growing consumer demand for high-quality personal hygiene products. It has become one of the largest fast moving consumer goods (FMCG) companies in China.

A key investment attraction of Hengan lies in its long track record of producing high quality products. Founded in 1985, Hengan was the first feminine napkin producer in China. Later, in 1996 and 1997, management demonstrated its prescience in spotting the potential of the diaper and tissue paper segments and began to broaden the company's product offering accordingly. Hengan has since thrived due to its superior branding and multi-segment strategy, rising to leading positions in the three markets it serves.

As mentioned, Hengan boasts a diversified portfolio of well-established brands. Thanks to its well received Hearttex series of tissue paper products, Hengan leads China's tissue paper segment with a 9% market share in 2011. Its first product, sanitary napkins, sold under the Anle and Enerle brands, ranks second within its segment with 20% market share, thanks to a strategy of focusing on the mid-to-high end segment. Hengan's diaper business ranks second in the China market and has shown impressive penetration of third- and fourth-tier cities, laying the groundwork to later tap the segment's immense development potential.

Products under the Hengan brand

Business segments	Product category	Key products
Tissue paper products	Facial tissue Pocket handkerchiefs Toilet paper Wet tissues	
Feminine care	Sanitary napkins Pantyliners	
Disposable diapers	Baby diapers Adult diapers	

Source: Company, CCBIS

In addition to the company's exceptional brand recognition, diversified portfolio, long track record and extensive distribution network, it also enjoys better economies of scale and high production efficiency compared with peers. It has been able to extract synergies from its three segments by sharing its distribution network and by procurement through combined purchases of raw materials for sanitary napkins and baby diapers.

Tissue paper – aggressive capacity rollout buoys top-line growth

Tissue paper has been Hengan's bread and butter, accounting for 47% of the company's total sales in 2011. Hengan markets its tissue paper products under its Hearttex series which includes facial tissue, wet tissue, toilet roll and pocket handkerchiefs. Hearttex enjoys a positive reputation among tissue paper products in China evinced by its market share, the largest in its space since 2000. To capitalize on China's fragmented tissue paper market and further entrench its leadership within the sector, Hegan plans to add 300k tons of new capacity this year, heading towards annual capacity of 900k tons by end FY12F.

Hengan's capacity expansion in 1H12 had been slower than scheduled, which curtailed its sales growth in the period. According to our estimates, capacity increased a mere 15% in 1H12 due to delays opening the production lines in Chongqing and Wuhu. However, as more capacity was brought on line at the end of 1H12, Hengan will be able to increase production volume by 24% and 25% in FY12F-13F. This is what underpins our sales growth forecast for Hengan's tissue paper segment of 22% and 23% in FY12F-13F.

Despite our concern over tissue paper overcapacity, we understand Hengan is not committed to further expansion plans beyond FY12, which gives it sufficient time to ramp up its facilities. Tissue paper accounts for only 47% of Hengan's revenue compared with 100% of Vinda's in FY11 thanks to product diversification, a feature of the company that mitigates the impact of overcapacity on its overall profitability.

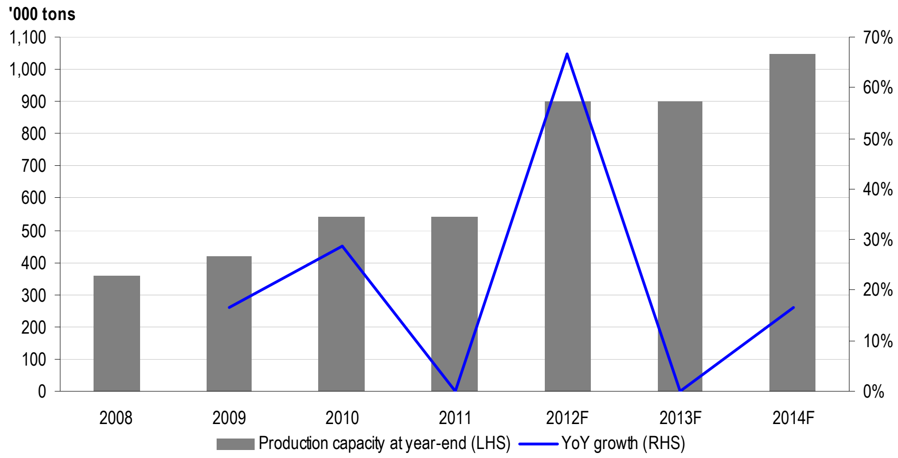
Our projection of a 20% CAGR for Hengan tissue paper sales in FY11-15F coupled with expected industry CAGR of 6% and industry consolidation in the same period, implies Hengan is likely to increase its market share from 9% in 2011 to 15% in 2015F.

Hengan's capacity expansion plans for 2012

Scheduled	Actual	Capacity	Pro-rated capacity
Chongqing			
4Q11	1Q12	60,000	60,000
1Q12	2Q12	60,000	45,000
2Q12	late July	60,000	25,000
Jinjiang			
late July	late July	60,000	25,000
Wuhu			
3Q12	3Q12	120,000	30,000
Total capacity added		**360,000**	**185,000**

Source: Company data, CCBIS

Hengan capacity growth



Source: Company data, CCBIS

Hengan's tissue paper segment, with a toilet roll/tissue mix of 29%/71%, compares favorably to Vinda's mix of 61%/39% in 1H12 as tissue paper typically garners higher gross margin. Hengan delivered gross margin of 31% for its tissue paper segment compared with Vinda's 27% in 2011. Hengan continues to adjust its product structure to increase gross margin contribution from toilet tissue, which has lower gross margin. As a proportion of tissue paper, Hengan's toilet tissue paper sales mix fell from 31% in 1H11 to 29% in 1H12.

In contrast to Vinda, Hengan adheres to a passive pulp procurement strategy entailing purchasing wood pulp on an as-needed basis without resorting to speculation on price trends. Given our assumption of stable wood pulp prices, we consider the difference between Vinda and Hengan's procurement strategies negligible in terms of impact on profitability in FY12F-13F. At the beginning of September, Hengan had four months of pulp inventory (one month on hand and three months in transit) at an average cost of below US$640/ton, compared with an average cost of US$710/ton in 2011, which bodes well for the Hengan's margins.

Sanitary napkins – strong demand continues despite high market penetration

Sanitary napkins are the second-largest contributor to Hengan's business, accounting for 24% of total sales in FY12F. We like Hengan's exposure to this segment as it tends to engender high customer loyalty and thus stickier demand.

Sales of Hengan's sanitary napkins and pantyliners sold under the mid-to-high-end brands, Anele and Anerle, grew 30% in 2011, compared with market growth of 8%. We attribute Hengan's rapid expansion to its superiority in product development that differentiates the company from its competitors. The company excels in developing new products that cater to different preferences and different age groups. For example, the company's "Space 7" series targeting young female consumers between the ages of 15 and 22 has been well received. Hengan has been better able to leverage growing demand in China for high-quality disposable hygiene products. Despite high product penetration in China (87% in 2011), we expect Hengan to continue to see strong sales growth within the segment as it pursues market share. As things stand, the top-15 manufacturers take up 77% of the market. Hengan looks to continue selling new high-end products at higher price points, with a view to enhancing market share. It launched the high-end Space 7 "Princess" series in seven provinces and cities in December 2011 subsequently rolling out nationwide in 1H12. We expect the new high-end products to buoy strong sales growth within their respective segments. We also look for Hengan to sustain strong growth of around 20% by taking market share from smaller players in the near term.

Baby diapers – promotion to boost penetration of lower tier cities

Hengan sells its baby diapers under the Anerle brand and its adult diapers under the ElderJoy brand, which together are on track to account for 16% of the company's total sales in FY12F. Although Hengan ranks second within the diaper market, Hengan's sales have not been satisfactory considering the company's 11% segment growth trails industry growth of 22% in FY11. In other words, Hengan may be losing market share to small- and medium-sized players entering the market and to international brands.

We attribute slower-than-expected growth at Hengan to the following two factors, both of which we deem temporary.

- Consumers in lower-tier cities tend to be price conscious and do not see baby diapers as a necessity. Since Hengan is targeting third- and fourth-tier cities, demand for its baby diapers tends to slow during economic downturns. We look for a turnaround as the macro-economy improves and accelerating urbanization continues.

- Hengan's first diaper product was not well accepted by consumers. Management came to the conclusion that thinness, dryness and fineness are the key characteristics of quality diapers. Thus, to stimulate better sales, Hengan launched its Q. Mo series (formerly the "Day and Night" series) in major cities in late August 2011. It plans to launch the product nationwide by early 3Q12.

We expect Hengan to be more aggressive in offering promotions in 2H12 following weak sales of its diapers in 1H12. Our view is that these promotions will translate to higher sales in the near term. Given that mid-to-high end diapers displayed healthy mid-teen growth against a sales decline in the mid-teens for low-end products in 1H12, we believe the company will see a turnaround in sales by focusing on thicker, dryer, and finer diapers targeted at the mid-to-high end market in the longer run.

Financial analysis

CCBI estimates vs. consensus

	2012F	2013F
Consensus	2.825	3.478
CCBIS estimates	3.012	3.485
	6.6%	0.2%

Source: CCBIS estimates

We forecast Hengan's net profit will increase 39%, 16%, and 15% in FY12F-14F, to reach HK$3,695m, HK$4,275m and HK$4,912m.

Key earnings drivers

We forecast sales will increase 19%, 20%, and 16% in FY12F-14F.

- **ASP.** We expect tissue paper ASP at Hengan to decline 2%, 2%, and 1% in FY12F-14F, respectively, due to customer trade-downs to toilet paper and rising competition from capacity expansion. With respect to sanitary napkins, we assume ASP will rise 13%, 8%, and 7% in FY12-14F, respectively, following the introduction of a wider range of high-end products, including Hengan's Space 7 Princess series, and product mix optimization. For diapers, we look for 5.0%, 6.0%, and 6.0% increases in ASP in FY12-14F, respectively, as the Chinese economy improves and after Hengan's high-end Q.Mo series is launched nationwide.

- **Volume.** For tissue paper, we assume 24%, 25% and 17% increases in volume to reflect Hengan's new capacity additions in FY12-14F, respectively. For sanitary napkins, we forecast volume growth of 8%, 7%, and 7%, respectively, which is in line with the historical trend. For diapers we assume 3%, 12%, and 11% volume growth in FY12-14F, respectively, reflecting a pickup in demand from customers thanks improved product quality.

Costs assumptions

- **Pulp.** Pulp accounts for 32% of tissue paper's COGS. We factor in a -15%, 0%, and 0% cost change in wood pulp for FY12-14F, respectively.

- **Petrochemical raw materials.** Petrochemical raw materials accounted for 21% of Hengan's COGS for disposable diapers and sanitary napkins in FY11. Hengan uses over 30 types of petrochemical raw material. SAP and non-woven fabric cost are representative indicators of petrochemical raw material cost trends, as they make up a third of petrochemical raw material costs. As prices of petrochemical raw materials correlate to the price of oil, we forecast Hengan's petrochemical raw material costs will register -6%, 3% and 3% growth in FY12-14F, respectively, in keeping with higher oil prices over the next two years.

- **Fluff pulp.** Fluff pulp accounted for c.5% of Hengan's COGS in 2011. Based on management guidance, fluff pulp prices declined over 30% on average in 1H12. We forecast Hengan fluff pulp cost growth of -30%, 3% and 3% for FY12-14F, respectively. We model Hengan has three months of fluff pulp stock in 1H12.

Other assumptions

- **SG&A expenses.** We expect total SG&A expenses to decline from 23.2% in FY11 to below 22% in FY12F-14F following a change in the accounting treatment of promotion incentives for distributors. The company will lower the ex-factor price instead of granting promotional subsidies to distributors.

- **Tax rate.** We assume the effective tax rate will rise from 17.5% in FY11 to 20.0% in FY12F-14F to reflect the discontinuation of the preferential tax treatment for certain subsidiaries in China. We note that the company is subject to income taxes in both China and Hong Kong, where it is subject to a tax rate, lower than the rate in China.

Cash flow

- **Capex.** We forecast Hengan's capex at HK$2,400m, HK$2,400m and HK$1,000m for FY12F-14F in view of the company's capacity expansion plans for the tissue paper segment for this period compared with HK$2,204m in FY11. We expect Hengan to generate operating cash flow of HK$4,575m, HK$4,636m, and HK$6,388m in FY12-14F, respectively, which will comfortably address its financing requirements.

- **Net gearing.** We expect Hengan's net gearing level to remain at net cash levels in FY12F-14F.

Hengan – profit and loss

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F	1H11	2H11	1H12	2H12F
Total revenue	8,002	10,834	13,432	17,051	20,296	24,324	28,268	8,189	8,862	9,042	11,255
Tissue papers	3,875	4,456	6,114	8,018	9,761	11,958	13,845	3,920	4,098	4,411	5,351
Sanitary napkins	2,016	2,546	3,170	4,114	5,002	5,784	6,597	1,848	2,266	2,265	2,738
Disposable diapers	1,874	2,160	2,447	2,723	2,942	3,493	4,099	1,232	1,491	1,321	1,621
Food and snacks products	63	863	1,203	1,543	1,774	2,093	2,512	859	683	809	965
Skin care products and others	174	808	498	653	816	996	1,215	330	323	236	581
Revenue (YoY, %)		35	24	27	19	20	16	27	27	10	27
Tissue paper		15	37	31	22	23	16	34	29	13	31
Sanitary napkins		26	24	30	22	16	14	28	31	23	21
Disposable diapers		15	13	11	8	19	17	8	14	7	9
Food and snack products		1,268	39	28	15	18	20	28	28	(6)	41
Skin care products and other		363	(38)	31	25	22	22	32	30	(28)	80
Revenue mix (%)											
Tissue paper	48	41	46	47	48	49	49	48	46	49	48
Sanitary napkins	25	24	24	24	25	24	23	23	26	25	24
Disposable diapers	23	20	18	16	14	14	15	15	17	15	14
Food and snack products	1	8	9	9	9	9	9	10	8	9	9
Skin care products and other	2	7	4	4	4	4	4	4	4	3	5
COGS	(4,799)	(5,853)	(7,487)	(10,250)	(11,265)	(13,667)	(15,974)	(5,029)	(5,221)	(5,043)	(6,222)
Gross profit	**3,203**	**4,980**	**5,945**	**6,800**	**9,032**	**10,657**	**12,294**	**3,160**	**3,640**	**3,999**	**5,033**
YoY (%)		56	19	14	33	18					
Gross margin (%)	40.0	46.0	44.3	39.9	44.5	43.8	43.5	38.6	41.1	44.2	44.7

(continued on next page)

Hengan – profit and loss (continued from previous page)

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F	1H11	2H11	1H12	2H12F
Advertising and promotional expense	(756)	(1,058)	(1,493)	(1,704)	(1,766)	(2,116)	(2,459)	(811)	(893)	(778)	(988)
YoY (%)		40	41	14	4	20	16			(4)	11
As % of sales	(9.4)	(9.8)	(11.1)	(10.0)	(8.7)	(8.7)	(8.7)	(9.9)	(10.1)	(8.6)	(8.8)
Transportation expense	(380)	(479)	(558)	(688)	(792)	(876)	(1,018)	(328)	(360)	(353)	(439)
YoY (%)		26	16	23	15	11	16			8	22
As % of sales	(4.7)	(4.4)	(4.2)	(4.0)	(3.9)	(3.6)	(3.6)	(4.0)	(4.1)	(3.9)	(3.9)
Other SG&A expense	(629)	(949)	(1,143)	(1,571)	(1,950)	(2,313)	(2,688)	(754)	(817)	(916)	(1,034)
YoY (%)		51	20	37	24	19	16			21	27
As % of sales	(7.9)	(8.8)	(8.5)	(9.2)	(9.6)	(9.5)	(9.5)	(9.2)	(9.2)	(10.1)	(9.2)
Total SG&A	(1,764)	(2,487)	(3,194)	(3,963)	(4,507)	(5,305)	(6,165)	(1,892)	(2,070)	(2,046)	(2,461)
YoY (%)		41	28	24	14	18	16			8	19
As % of sales	(22.1)	(23.0)	(23.8)	(23.2)	(22.2)	(21.8)	(21.8)	(23.1)	(23.4)	(22.6)	(21.9)
Other gains – net	93	107	249	456	365	438	509	82	374	185	180
As % of sales	1.2	1.0	1.9	2.7	1.8	1.8	1.8	1.0	4.2	2.0	1.6
EBIT	1,531	2,601	3,000	3,294	4,890	5,790	6,638	1,349	1,945	2,138	2,752
YoY (%)		70	15	10	48	18	15			58	42
EBIT margin (%)	19.1	24.0	22.3	19.3	24.1	23.8	23.5	16.5	21.9	23.6	24.5
D&A	286	342	385	443	660	839	928				
YoY (%)		20	12	15	49	27	11				
EBITDA	1,817	2,943	3,384	3,737	5,549	6,629	7,566				
YoY (%)		62	15	10	48	19	14				
EBITDA margin (%)	22.7	27.2	25.2	21.9	27.3	27.3	26.8				
Net finance income	46	45	110	109	63	71	78	128	(19)	23	40
Net finance costs	(67)	(63)	(72)	(148)	(264)	(294)	(319)	(63)	(85)	(108)	(156)
Profit before tax	**1,511**	**2,583**	**3,038**	**3,255**	**4,689**	**5,567**	**6,397**	**1,414**	**1,841**	**2,052**	**2,636**
YoY (%)		71	18	7	44	19	15	(5)	19	45	43
PBT margin	18.9	23.8	22.6	19.1	23.1	22.9	22.6	17.3	20.8	22.7	23.4
Income tax	(166)	(416)	(552)	(570)	(938)	(1,225)	(1,407)	(206)	(363)	(411)	(527)
Effective tax rate (%)	(11.0)	(16.1)	(18.2)	(17.5)	(20.0)	(22.0)	(22.0)	(14.6)	(19.7)	(20.0)	(20.0)
Non-controlling interests	(4)	(50)	(48)	(37)	(56)	(68)	(78)	(26)	(11)	(15)	(41)
Net profit	**1,341**	**2,118**	**2,438**	**2,649**	**3,695**	**4,275**	**4,912**	**1,182**	**1,467**	**1,626**	**2,068**
YoY (%)		58	15	9	39	16	15	(2)	19	38	41
Net margin (%)	16.8	19.5	18.2	15.5	18.2	17.6	17.4	14.4	16.6	18.0	18.4
FY12-FY14 net profit CAGR (%)					**15.3**						
Number of outstanding shares - fully diluted	1,144	1,196	1,221	1,226	1,226	1,226	1,226				
EPS (HK$)	**1.172**	**1.770**	**1.996**	**2.160**	**3.012**	**3.485**	**4.005**				
YoY		51	13	8	39	16	15				
DPS (HK$)	**0.722**	**1.121**	**1.303**	**1.353**	**1.898**	**2.196**	**2.523**				
YoY		55	16	4	40	16	15				

Source: Company data, CCBIS estimates

Hengan – balance sheet

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F	1H12
Inventory	2,128	2,175	2,760	2,934	3,300	4,264	4,576	3,433
Trade and bills receivables	780	883	1,396	1,893	2,000	2,665	2,756	1,555
Other receivables, prepayments and deposits	195	261	532	590	590	590	590	739
Current finance lease receivables	14	10	0	0	0	0	0	0
Derivative financial instruments	0	14	14	0	0	0	0	0
Restricted bank deposits	17	11	59	69	69	69	69	59
Cash	1,611	4,450	5,989	8,258	7,477	6,798	8,850	7,230
Current assets	4,745	7,803	10,750	13,744	13,435	14,385	16,841	13,016
Property, plant and equipment	3,081	3,536	4,519	5,203	6,944	8,505	8,577	6,278
Construction in-progress	813	808	665	2,054	2,054	2,054	2,054	2,274
Leasehold land and land use rights	239	398	614	850	850	850	850	1,015
Intangible assets	626	616	607	601	601	601	601	596
Prepayments for non-current assets	467	429	538	439	439	439	439	329
Deferred income tax assets	68	89	98	131	131	131	131	171
Non-current finance lease receivables	10	0	0	0	0	0	0	0
Long-term bank deposits	0	469	786	296	296	296	296	2,034
Non-current assets	5,304	6,345	7,827	9,575	11,316	12,877	12,949	12,698
Bank loans (current)	297	2,175	3,815	6,815	6,387	6,387	6,387	6,387
Trade and bills payables	898	1,273	1,319	1,881	1,822	2,372	2,705	1,689
Other payables and accrued charges	481	565	660	969	1,464	1,777	2,077	1,199
Deferred income on government grants	2	2	0	0	0	0	0	0
Derivative financial instruments	0	0	0	2	2	2	2	1
Current income tax liabilities	80	160	283	345	345	345	345	303
Current liabilities	1,758	4,175	6,077	10,012	10,020	10,882	11,515	9,579
Borrowings	46	555	1,497	404	404	404	404	2,666
Convertible bonds	1,465	0	0	0	0	0	0	0
Deferred government grants	8	5	5	4	4	4	4	3
Amortisation	0	0	0	0	0	0	0	0
Deferred income tax liabilities	57	115	173	181	181	181	181	165
Non-current liabilities	1,576	676	1,675	588	588	588	588	2,835
Shareholder equity	6,484	9,017	10,503	12,341	13,708	15,290	17,107	12,972
Minority interests	232	280	322	377	434	502	580	327
Total assets	10,049	14,148	18,577	23,319	24,751	27,262	29,791	25,714
Total liabilities and equity	10,049	14,148	18,577	23,319	24,751	27,262	29,791	25,714

Source: Company data, CCBIS estimates

Hengan – cash flow statement

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F
EBT	1,511	2,583	3,038	3,255	4,689	5,567	6,397
D&A	286	342	385	443	660	839	928
Other non-cash adjustment	43	23	(11)	(79)	201	222	241
Operating cash flow before changes in working capital	1,839	2,948	3,412	3,620	5,549	6,629	7,566
Working capital changes:							
Inventories	(591)	(44)	(504)	(37)	(365)	(964)	(312)
Trade receivables and other receivables	120	(154)	(718)	(435)	(107)	(665)	(91)
Trade payables and other payables	123	60	477	758	436	862	633
Total working capital changes	(348)	(137)	(745)	286	(36)	(768)	230
Income tax paid	(167)	(295)	(388)	(550)	(938)	(1,225)	(1,407)
Operating cash flow	**1,324**	**2,516**	**2,280**	**3,356**	**4,575**	**4,636**	**6,388**
Capex for acquisition of:	0	0	0	0	0	0	0
Property, plant and equipment	(1,004)	(779)	(1,035)	(2,204)	(2,400)	(2,400)	(1,000)
Total capex	(1,004)	(779)	(1,035)	(2,204)	(2,400)	(2,400)	(1,000)
Free cash flow	**320**	**1,736**	**1,245**	**1,152**	**2,175**	**2,236**	**5,388**
Other investing cash flow	(164)	(538)	(543)	(3,272)	63	71	78
Net proceeds from issuance of ordinary shares	0	0	0	0	0	0	0
Interest paid	(16)	(41)	(75)	(157)	(264)	(294)	(319)
Dividends paid	(732)	(1,096)	(1,466)	(1,594)	(2,328)	(2,693)	(3,094)
Dividends paid to non-controlling interest	(2)	(2)	(2)	(1)	0	0	0
Payment for discounted bills	0	(1)	(398)	0	0	0	0
Proceeds from share issued under the employee share option scheme	0	397	123	120	0	0	0
Net cash flow	**(595)**	**457**	**(1,116)**	**(3,753)**	**(354)**	**(679)**	**2,053**
Proceeds from bank borrowings	321	3,995	5,011	6,705	0	0	0
Repayment of bank borrowings	(333)	(1,568)	(2,458)	(4,877)	(428)	0	0
Effect of FX	58	(4)	102	165	0	0	0
Gross cash flow	**(549)**	**2,879**	**1,539**	**(1,760)**	**(781)**	**(679)**	**2,053**

Source: Company data, CCBIS estimates

Hengan – financial ratios

Year to 31 December	2008	2009	2010	2011	2012F	2013F	2014F
ROAE (%)	21	27	25	23	28	29	30
ROAA (%)	13	18	15	13	15	16	17
Average inventory days	162	134	120	101	101	101	101
Average receivable days	36	28	31	35	35	35	35
Average payable days	68	68	63	57	60	56	58
Cash conversion cycle (days)	129	94	88	80	76	80	78
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CCBIS estimates

Company specific risk

Diversification into non-core business

Hengan will spend HK$360m to convert a building in the city of Xiamen in the province of Fujian into a hotel. Previously, the company planned to build a training center and office building on the site. Hengan management claims it has inked a management contract for the hotel with Hilton Hotel Management for a 15-year period. The hotel is expected to be opened some time in October 2014. Aside from this project, the company has no plans to develop other hotels. Despite management's explanation that Hengan's diversification in the form of a hotel investment is a one-off event, we believe diversification into a non-core business will be viewed as a negative by the market.

Negative sentiment lingers in snack foods

In 2008, Hengan entered the snack food segment when it acquired a 51% investment in Qin Qin. We attribute weak sales growth in snack foods at Hengan to negative sentiment incurred by the industrial gelatin-tainted fruit-jelly scandal. Hengan's snack food is of fairly high quality, yet its fruit jelly sales, which make up over 60% of the segment, have yet to recover to pre-scandal levels. Should the scandal, which occurred last April, linger in the minds of consumers, sales for Hengan's snack food will continue to suffer.

Diaper segment competition

Oversupply from an influx of new players has affected the healthy development of the industry. Should this continue, we believe Hengan's baby diaper sales will remain poor and affect the company's overall profitability.

Exposure to fluctuation in raw material prices

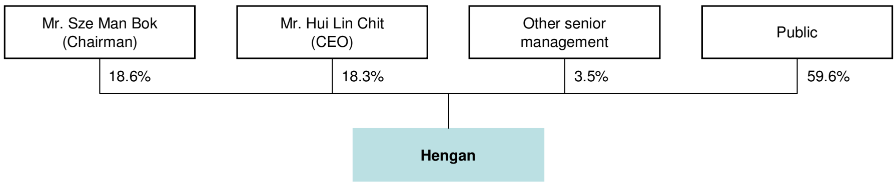
Wood pulp, fluff pulp, and petro chemicals are principal raw materials for the company. As these are commodity products, they are subject to supply demand dynamics, investor sentiment, and macro-economic conditions. Their fluctuations may drive up input costs of the company and erode margin.

Overcapacity within the tissue paper industry

Intense competition, coupled with over capacity, may lead to a fall in prices, adversely affecting company profitability.

Senior management and shareholding structure

Hengan – shareholding structure



Source: Company

Hengan– executive directors

Name	Position	Profile
Mr. SZE Man Bok	Chairman	➢ Responsible for the Group's overall corporate direction and business strategy ➢ One of Hengan's founding shareholders.
Mr. HUI Lin Chit	Deputy Chairman and Chief Executive Officer	➢ Responsible for strategic planning, human resources and the overall management of the Group ➢ One of Hengan's founding shareholders. ➢ Is the senior economist in the PRC and a member of the National Committee of the Chinese People's Political Consultative Conference ➢ Is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association
Mr. Xu Shui Shen	Chief Operating Officer and the Director of Business Development Department	➢ Responsible for the development and implementation of the Group's sales strategy, operations and business management ➢ Joined the group in 1985 and has over 27 years of experience in quality control management and business development
Mr. XU Da Zuo	Deputy Director of Finance	➢ Responsible for overseeing and monitoring the accounting the finance functions for the group ➢ Joined the group in 1985 and has over 27 years of experience in accounting and internal audit ➢ Senior accountant in the PRC ➢ Vice-chairman of the Youth Trade Association in Fujian
Mr. XU Chun Man	General Manager	➢ Responsible for the overall management, business development and operations of Hengan (Shaanxi) Hygiene Products Co. Ltd. and Hengan (Shaanxi) Paper Products Co. Ltd.
Mr. SZE Wong Kim	Executive Director	➢ Responsible for the overall strategy of the Group ➢ Worked in two accountancy firms in Australia
Mr. HUI Ching Chi	Executive Director	➢ Responsible for merger and acquisition projects of the Group ➢ Employed in a major international bank in London before joining in 2008
Mr. LOO Hong Shing Vincent	Chief Financial Officer	➢ Has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and PRC ➢ Worked in an international accounting firm in Hong Kong before joining Hengan in 2004

Source: Company data

Vinda (3331 HK)

The contender

Company Rating: Neutral
(downgrade from Outperform)

Price: HK$10.36
Target: HK$10.60
(down from HK$13.60)

Leading tissue paper brand in China. Vinda is a key player in China's tissue paper market, ranked third after Hengan and Asian Pulp and Paper (APP) in terms of sales revenue. Its primary brand, "Vinda", is widely recognized and enjoys a reputation for product quality.

- **Aggressive capacity expansion spells pricing pressure.** The company is sticking to its aggressive capacity target of 620k tons for end-2012 versus 470k tons as at end-June 2012 and 470k tons as at end-2011. We expect pricing pressure from oversupply to come to bear on Vinda as reflected in our ASP growth forecasts of 0.2%, -0.4% and 0.0% for FY12-14F.
- **Reliance on tissue paper sales hurts near-term outlook.** While we were encouraged by the fully-fledged rollout of Vinda's Babifit diaper in 2H12, at present the company still derives all of its revenue from the tissue paper segment, in particular low-margin toilet paper, which is notable for its fickle customer loyalty. In 1H12, toilet paper accounted for 61% of sales compared with 29% for Hengan's tissue paper segment. This, and our concerns about overcapacity within the industry, account for the downside risk we see for Vinda on a 12-month view.
- **Effective pulp management.** Vinda differentiates itself from other tissue paper players with its proactive inventory management. The company estimates that its current pulp inventory is sufficient till February 2013 and represents less than its 1H12 cost of sales of around US$670/ton. We believe that stable pulp prices (with a downward bias in the near term) will partly offset the overcapacity issue.
- **Downgraded to Neutral.** We downgrade the stock and roll over our target multiple from FY12F to FY13F. We also lower our target price, from HK$13.60 to HK$10.60, based on 17x FY13F.

Financial forecast

Year to 31 December	2010	2011	2012F	2013F	2014F
Revenue (HK$m)	3,602	4,765	6,015	7,503	9,406
Net profit (HK$m)	369	406	539	624	722
EPS (HK$)	0.404	0.433	0.557	0.634	0.728
EPS (YoY, %)	(10)	10	25	16	16
P/E (x)	26.3	24.0	19.2	16.6	14.4
Yield (%)	1.2	1.2	1.7	1.9	2.2
FCF yield (%)	(3.6)	(5.1)	(4.9)	(7.3)	2.3
ROAE (%)	15.5	13.9	15.1	14.7	15.3
P/B (x)	3.6	3.1	2.4	2.2	2.0
Net gearing (%)	26	39	34	51	45

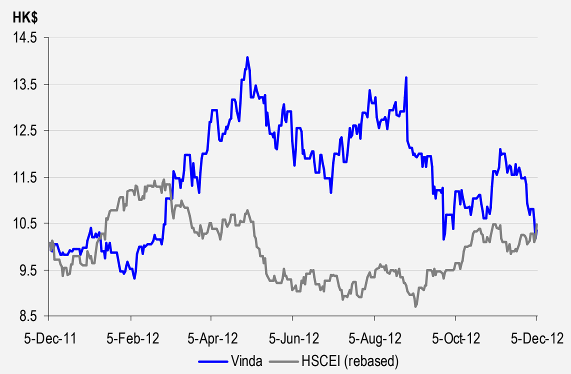
Source: Company data, CCBIS estimates

Trading data

52-week range	HK$6.81 – 14.28
Market capitalization (m)	HK$12,280/US$1,585
Shares outstanding (m)	1,000
Free float (%)	52
3M average daily T/O (m share)	2.6
3M average daily T/O (US$m)	8.6
Expected return (%) – 1 year	3.9%

Closing price on 5 December 2012

Stock price and HSCEI



Source: Bloomberg

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Investment highlights

Vinda is a key player in China's tissue paper market, ranked third after Hengan and Asian Pulp and Paper (APP) in terms of sales revenue. Its primary brand, "Vinda", is widely recognized and enjoys a reputation for product quality. Leveraging its superior brand recognition and popular products, the company is well-positioned for the long term to benefit from on-going consolidation within China's fragmented tissue paper and toilet paper markets. Indeed, its market share, at 6% in 2011, is set to increase rapidly supported by aggressive capacity expansion plans as well as active new product launches.

At the same time, Vinda's acquisition of a diaper and sanitary napkin company in 2011 will allow Vinda to diversify its product line, gain exposure to two rapidly growing markets and achieve synergies among the three types of products.

Well-known brand and popular products

Vinda adheres to a dual brand strategy with its main brand, Vinda, targeting the mid-to-high end segment. Its core brand enjoys a reputation for high quality thanks to its successful personalized marketing campaign. Its "Pleasant Goat" series, featuring hugely popular cartoon characters in China and the "Feel" series, featuring fashionable prints, have both been well received. At the same time, the company has been able to extend its footprint in the low-end segment through its secondary brand, "Rewoo".

Vinda looks to broaden its product range by introducing a new wet tissue product that commands high product margins of over 40% (versus c.27% for toilet roll). The target for its wet tissue product is for it to account for 10% of total revenue in around three years.

In order to cater to consumers in rural areas, Vinda began to market a trial low-priced non-wood pulp product, Rewoo, in 2011. This new product is priced at an over 10% discount to Vinda's wood pulp products. Rewoo, made from sugarcane pulp, is marketed as a low-carbon and environmentally-friendly product. Production of Rewoo is currently outsourced. Despite lower selling prices, we model its gross profit margin will only be marginally lower than that of comparable wood pulp products. While we believe that Rewoo helps reduce Vinda's reliance on wood pulp and offers alternatives to price-sensitive customers, we expect revenue contribution from Rewoo to be modest as high quality products will remain Vinda's core competence.

Selected products

Primary brand products

	Blue Classic	Pleasant Goat	Feel
			
Target customers	**High-end consumers**	**Children, young mothers and cartoon fans**	**Consumers in their 20s and early 30s**

Secondary brand products

	Flowery	Rewoo
		
Target customers	**Medium/high-grade series for second- and third-tier cities**	**Non-wood pulp products for third-tier cities**

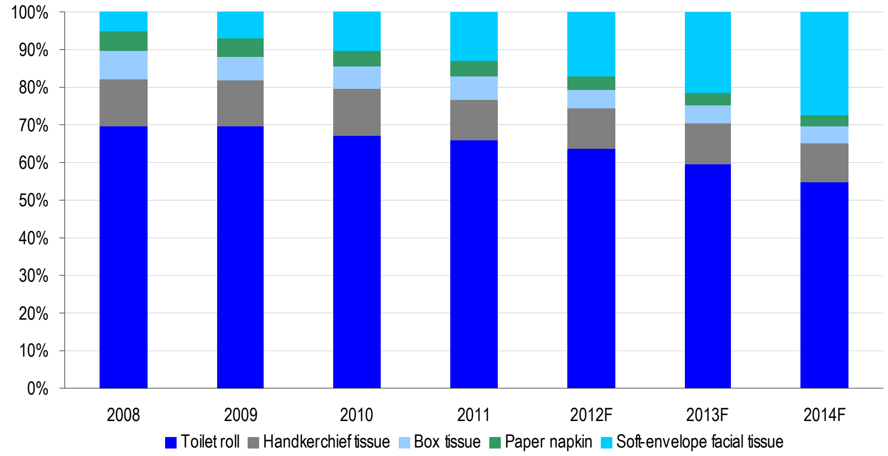
Source: Company

Product mix optimization

Toilet paper roll remains Vinda's largest source of revenue, accounting for about 61% of total revenue in 2011. Tissue products such as handkerchief tissue, hard-envelope facial tissue, paper napkins and soft-envelope facial tissue, accounted for 32% of company revenue in 2011. Other products, including kitchen towels, unpackaged toilet paper and wet tissue made up the remainder. Although toilet roll yielded the lowest gross profit margins, Vinda believes toilet paper, a basic necessity, provides the Vinda brand the wherewithal to penetrate households within virtually any income group in China. Nevertheless, the company plans to gradually reduce the contribution of toilet roll, down to about 50% in favor higher-priced higher-margin products such as tissue paper.

Lower-margin toilet roll products accounted for about 61% of Vinda's total revenue in 1H12 compared with only 29% for Hengan. We expect the current product mix geared toward toilet rolls to dampen Vinda's near-term sales growth as intense competition and overcapacity erode sales of products that lack brand loyalty, including toilet paper. We believe there is room for Vinda to grow its revenue from higher-margin products through improvements to the product mix.

Vinda's tissue paper product mix



Source: Company data, CCBIS estimates

Aggressive capacity expansion spells pricing pressure

Vinda expects its aggressive capacity expansion to lead to market share gains. The company has set a capacity target of 620k tons for end-2012, versus 470k tons as at end-June and 470k tons as at end-2011. The group has thus far been able to maintain its product prices despite worries on overcapacity in the industry. However, Vinda has deferred about 80k/tons of additional capacity until next year, causing sales volume growth to undershoot market expectations. As capacity mounts, we see pricing pressure for Vinda.

Vinda has grown its ASPs over the years resulting in overall improvement in gross profit margin and product mix optimization. However, with overcapacity imminent, we expect Vinda to see possible ASP erosion. We further expect ASP to increase 0.2% in FY12F but retreat 0.4% in FY13F as a result of capacity overheating.

Effective pulp management

We believe that recent stable pulp prices, which have a downward bias in the near term, will partly offset pricing pressure on the industry. In the current environment, Vinda's proactive inventory management – accumulating pulp when its cost is low and holding inventory when cost is high – will hold it in good stead. We do not expect a significant difference between this approach and Hengan's predicated on our outlook for stable pulp prices. However, should the company accumulate pulp and prices go down further, performance would be hurt. The company estimates that its current pulp inventory is sufficient till February 2013 and has a cost lower than its 1H12 cost of sales of around US$670/ton.

Sanitary napkins and disposable diapers still small portion

Vinda's exposure to the sanitary napkin and disposable diaper markets remains negligible, mainly because it was a relative latecomer to these markets. The company entered the sanitary napkin and disposable diaper markets in China in 2010 through a 77.8% subscription in a Guangdong company that produces and distributes sanitary napkins and disposable diapers in China. Vinda plans to focus more on baby diapers as the penetration rate by this category remains relatively low in second- and third-tier cities. After a year of pilot sales, Vinda is now looking forward to a fully-fledged rollout out of its Babifit diaper in 2H12. While we expect strong growth for its diaper segment, we believe that tissue paper will remain the key revenue contributor in the near term. This means that Vinda will face the brunt of the industry's overcapacity problems given its lack of diversification in other products.

Key earnings drivers

CCBI forecasts vs. Bloomberg consensus

	2012F	2013F
Consensus	0.566	0.748
CCBIS estimates	0.539	0.624
	(4.7)%	(16.6)%

Source: CCBIS estimates

We forecast Vinda's net profit will increase 33%, 16% and 16% in FY12-14F to reach HK$539m, HK$ 624m and HK$722m, respectively.

Key earnings drivers

We forecast sales to increase 26%, 25%, and 25% for FY12-14F, respectively.

- **ASP.** We forecast ASP will grow 0.2%, -0.4% and 0.0% in FY12F-14F, in view of significant ASP pressure in 2013 as a result of industry-wide overcapacity. ASP growth in FY12F and FY14F will mainly derive from product mix enhancements.

- **Volume.** We expect volume growth of 26%, 25%, and 25% in FY12-14F, respectively, underpinned by the company's aggressive capacity expansion plans.

Costs assumptions

- **Pulp.** Pulp is the main raw material used in the production of tissue paper. It is expected to account for 57% of total COGS in FY12F. Based on recent trends and the industry's demand-supply outlook, we forecast wood pulp price growth of -15%, 0%, and 0% in FY12F-14F.

- **Packaging material.** Packaging material typically accounts for about 16% of total costs. We look for Vinda's cost per unit of production to increase 8%, 5% and 5% in FY12-14F, respectively.

- **Labor.** We assume labor costs will increase 18%, 5%, and 5% in FY12-14F, respectively.

Other assumptions

- **SG&A expenses.** Resulting from the push to bolster sales, advertising and promotional (A&P) expenses as a percentage of revenue will increase to above 6% in FY12F-14F compared with 5% in FY11 according to our forecasts. Overall, SG&A expense as a percentage of total revenue is likely to increase from 17% in FY11 to 18% in FY12F due to option expense of c.HK$50m in FY12F.

- **Tax rate.** We assume the effective tax rate to be 26%, 25% 25% in FY12-14F, respectively, after accounting for the non-deductible tax impact from an option expense, which was incurred mostly in FY12.

Cash flow

- **Capex.** Vinda had HK$826m in capex in FY11. We forecast a jump in capex as Vinda accelerates its capacity expansion plans over the next two years. We model capacity addition per ton at around HK$8,000. As such, we forecast capex to be HK$1.3b, HK$1.3b and HK$770m for FY12-15F, respectively, compared with operating cash flow of HK$823m, HK$585m, and HK$995m for the same three-year period (FY12F-15F).

- **Net gearing.** As capex being put in for capacity expansion exceeds operating cash flow, we expect Vinda's net gearing level to rise from 34% in FY12F to 51% and 45% for FY13F-14F. Since its IPO in July 2007, Vinda conducted two placements, one in September 2010 and the other in April 2012. The placements were intended to enhance liquidity, fund capacity expansion and lower the company's gearing. Given the company's rising net gearing levels, we would not be surprised if additional financing will be needed to support its expansion plans.

Vinda International – profit and loss

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F	1H11	2H11	1H12	2H12F
Revenue	**2,424**	**2,776**	**3,602**	**4,765**	**6,015**	**7,503**	**9,406**	**2,195**	**2,571**	**2,887**	**3,127**
YoY (%)	36	15	30	32	26	25	25	30	34	32	22
Cost of sales	(1,911)	(1,825)	(2,540)	(3,469)	(4,128)	(5,272)	(6,700)	(1,587)	(1,882)	(1,984)	(2,144)
Gross profit	**513**	**951**	**1,062**	**1,297**	**1,887**	**2,230**	**2,706**	**607**	**689**	**903**	**984**
YoY (%)	51	85	12	22	46	18	21	13	32	49	43
Gross margin	21.2	34.2	29.5	27.2	31.4	29.7	28.8	27.7	26.8	31.3	31.5
Advertising and promotional expense	(45)	(107)	(171)	(244)	(379)	(450)	(564)				
YoY (%)	(36)	140	60	42	55	19	25				
as % of revenue	1.8	3.9	4.8	5.1	6.3	6.0	6.0				
Transportation expense	(89.9)	(111.6)	(172.3)	(198.8)	(240.6)	(300.1)	(376.2)				
YoY (%)	14	24	54	15	21	25	25				
as % of revenue	3.7	4.0	4.8	4.2	4.0	4.0	4.0				
Other SG&A expense	(163)	(218)	(283)	(371)	(475)	(585)	(734)				
YoY (%)	55	34	30	31	28	23	25				
as % of revenue	6.7	7.9	7.8	7.8	7.9	7.8	7.8				
Total SG&A expense	(297)	(437)	(626)	(814)	(1,095)	(1,335)	(1,674)	(370)	(444)	(522)	(573)
YoY (%)	17	47	43	30	35	22	25	6	20	18	10
as % of revenue	12.3	15.7	17.4	17.1	18.2	17.8	17.8	16.8	17.3	18.1	18.3
Other income	4	9	28	23	1	5	5	10	13	0	1
EBIT	**220**	**523**	**463**	**506**	**793**	**900**	**1,037**	**248**	**258**	**381**	**412**
YoY (%)	**79**	**138**	**(11)**	**9**	**57**	**13**	**15**	**(6)**	**30**	**54**	**60**
EBIT margin	**9.1**	**18.8**	**12.9**	**10.6**	**13.2**	**12.0**	**11.0**	**11.3**	**10.0**	**13.2**	**13.2**
Depreciation & Amortization	97	115	125	156	216	280	328	0	0	0	0
EBITDA	317	638	589	661	1,009	1,180	1,365	0	0	0	0
YoY (%)	66	102	(8)	12	53	17	16	0	0	0	0
EBITDA margin	13.1	23.0	16.3	13.9	16.8	15.7	14.5	0.0	0.0	0.0	0.0
Share of profit from associate	0	0	0	(2)	(6)	0	0	(1)	(2)	(3)	(3)
Finance income	3	2	3	5	6	6	4	2	3	4	3
Finance costs	(28)	(29)	(28)	(44)	(62)	(74)	(78)	(17)	(27)	(27)	(47)
Net foreign exchange transaction gain	0	0	22	58	0	0	0	20	38	(5)	5
Profit before tax	**195**	**495**	**460**	**522**	**732**	**831**	**962**	**252**	**270**	**351**	**369**
Tax	(29)	(97)	(91)	(116)	(192)	(208)	(241)	(61)	(55)	(93)	(100)
Effective tax rate	15	20	20	22	26	25	25	24	20	26	27
Net profit	**166**	**398**	**369**	**406**	**539**	**624**	**722**	**191**	**215**	**258**	**269**
YoY (%)	**112**	**140**	**(7)**	**10**	**33**	**16**	**16**	**(4)**	**44**	**35**	**25**
Net margin	**6.8**	**14.3**	**10.2**	**8.5**	**9.0**	**8.3**	**7.7**	**8.7**	**8.3**	**8.9**	**8.6**
Basic EPS (HK$) – using outstanding # of shares	0.184	0.440	0.394	0.432	0.539	0.624	0.722	0.204	0.228	0.267	0.272
YoY (%)	112	139	(10)	10	25	16	16	(7)	30	31	19
Diluted EPS (HK$)	0.184	0.437	0.398	0.432	0.539	0.624	0.722	0.201	0.232	0.264	0.276
YoY (%)	78	138	(9)	9	25	16	16	(7)	27	32	19

Source: Company data, CCBIS estimates

Vinda International – balance sheet

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F	1H12
Inventory	492	912	1,322	1,372	1,410	1,913	2,125	1,346
Trade and notes receivables	213	358	488	724	825	1,190	1,439	750
Other receivables	46	51	159	215	241	150	188	152
Amt due from related parties	5	5	1	43	10	10	10	61
Derivative financial	0	0	0	0	0	0	0	0
Pledged deposits	1	1	0	1	0	0	0	1
Cash	172	347	390	715	1,132	524	550	1,336
Current assets	930	1,675	2,359	3,071	3,617	3,786	4,312	3,663
Property, plant and equipment	1,866	1,839	2,273	3,022	4,110	5,132	5,575	3,205
Intangible assets	1	7	11	10	8	6	4	10
Leasehold and land use rights	103	145	160	185	180	176	171	187
Investment properties	0	0	0	0	0	0	0	30
Deferred tax assets	48	73	88	116	140	140	140	140
Non-current assets	2,018	2,064	2,532	3,393	4,491	5,507	5,945	3,628
Borrowings (current)	436	513	557	801	1,200	1,200	1,200	1,172
Trade and notes payables	209	392	604	721	862	1,160	1,410	597
Other payables	221	288	376	489	537	685	871	483
Dividend payable	0	0	0	0	0	0	0	0
Amount due to a related party	1	1	0	0	0	0	0	0
Current income tax liabilities	29	59	64	67	75	80	80	74
Current liabilities	896	1,253	1,601	2,080	2,676	3,127	3,563	2,326
Borrowings	308	350	530	1,151	1,300	1,600	1,600	994
Deferred government grants	33	63	70	74	90	94	99	92
Deferred income tax liabilities	2	2	2	2	2	2	2	3
Non-current liabilities	343	416	602	1,245	1,409	1,713	1,718	1,111
Shareholders' equity	1,709	2,070	2,688	3,139	4,023	4,453	4,976	3,854
Total assets	2,948	3,738	4,891	6,464	8,108	9,294	10,256	7,291
Total liabilities and equity	2,948	3,738	4,891	6,464	8,108	9,294	10,256	7,291
Gross debt	744	863	1,088	1,952	2,500	2,800	2,800	2,166
Net debt (cash)	572	516	698	1,238	1,368	2,276	2,250	830
Net gearing (%)	33	25	26	39	34	51	45	22

Source: Company data, CCBIS estimates

Vinda International – cash flow statement

Year to 31 December (HK$m)	2008	2009	2010	2011	2012F	2013F	2014F
EBIT	220	523	463	506	793	900	1,037
D&A	97	115	125	156	216	280	328
EBITDA	317	638	589	661	1,009	1,180	1,365
Adjustments for other non-cash items	23	30	13	25	20	8	9
Operating cash flow before working capital changes due to	340	668	602	686	1,029	1,188	1,374
Inventory	10	(420)	(410)	(50)	(37)	(503)	(213)
Trade and other receivables	(12)	(152)	(242)	(291)	(126)	(275)	(287)
Trade and other payables	105	304	295	189	189	446	436
Increase in derivative financial instruments	0	0	0	0	0	0	0
Net increase in amt due from/to related parties	(1)	0	3	(40)	33	0	0
Total change in working capital	102	(267)	(354)	(192)	59	(332)	(64)
Interest received	3	2	3	5	6	6	4
Interest paid	(28)	(31)	(25)	(36)	(62)	(74)	(78)
Tax paid	(46)	(92)	(100)	(132)	(209)	(203)	(241)
Operating cash flow	371	280	125	330	823	585	995
Capex	(513)	(159)	(472)	(826)	(1,300)	(1,300)	(770)
Free cash flow after capex	(142)	121	(347)	(495)	(477)	(715)	225
Purchase of own shares	0	0	0	0	0	0	0
Net proceeds from issue of new shares	0	2	275	5	470	0	0
Proceeds from government grants	0	0	0	0	0	0	0
Increase in amount due to related parties	0	0	0	0	0	0	0
Dividend paid	(20)	(69)	(112)	(112)	(125)	(194)	(199)
Net cash flow	(162)	55	(184)	(603)	(131)	(908)	26
Proceeds from bank loans	943	1,546	(1,289)	(1,384)	0	0	0
Repayment of bank loans	(877)	(1,428)	1,513	2,305	548	300	0
Increase in pledged deposits	6	0	1	(1)	1	0	0
Forex effect	11	0	2	11	0	0	0
Gross cash flow	(80)	175	43	327	417	(608)	26

Source: Company data, CCBIS estimates

Vinda International – Financial ratios

Year to 31 December	2008	2009	2010	2011	2012F	2013F	2014F
ROAE (%)	10	21	16	14	15	15	15
ROAA (%)	6	12	9	7	7	7	7
Average inventory days	95	140	160	142	123	115	110
Average receivable days	31	38	43	46	47	49	51
Average payable days	34	60	72	70	70	70	70
Cash conversion cycle	92	118	132	118	100	94	91

Source: Company data, CCBIS estimates

Company-specific risk

Gearing and frequent fund raising activities

Since the company's IPO in 2007, it has placed its shares twice in order to increase liquidity, diversify its shareholding base, fund capacity expansion and lower its gearing level. Based of our forecasted net gearing levels of around 35, 52, 46 for FY12F-FY14F, we can not rule out the possibility of further fund raising efforts. Should this occur, it would put downward pressure on the share price.

Chairman sell-down activities

Vinda's controlling shareholder, Fu An, a firm owned by chairman Li Chao Wang, sold 4% of its stake in Vinda to Vinda's second-largest shareholder, SCA, in April 2012. We believe any future sell-down would put downward pressure on the stock.

Execution risk associated with sanitary napkin and baby diaper segments

In view of fierce competition within the sanitary napkin and baby diaper segments, Vinda's foray into these new businesses will prove highly challenging. Should profitability be less than expected after these businesses ramp up, Vinda's stock price is likely to be negatively affected.

Active pulp management

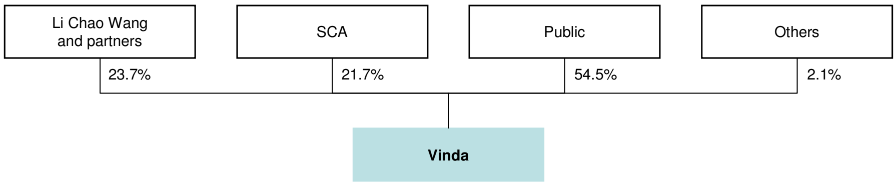
Vinda's active pulp management lends itself to pulp cost risk. Should Vinda bet on the wrong side of pulp cost, it would suffer from high input costs which would hurt profitability.

Cannibalization of Rewoo brand

We believe Vinda's dual brand strategy allows it to cater to both the urban and rural markets thereby winning market share. However, Vinda is also exposed to cannibalization risk. The acceptance of the Rewoo brand may reduce sales of its core product, Vinda, and negatively affect the profitability of the company.

Senior management and shareholding structure

Vinda – shareholding structure



Source: Company

Vinda – executive directors

Name	Position	Profile
Mr. LI Chao Wang	Chairman	➢ Founder of the Group. ➢ Currently serves as an executive director and the chairman. Retired from the role of CEO in January 2010. ➢ Over 25 years of experience in the China's household paper industry.
Ms YU Yi Fang	Vice chairman	➢ Assists Mr. Li in pursuing the company's strategic development. ➢ Formerly the chief operating officer. ➢ Over 25 years of experience within China's household paper industry and over 19 years of financial management experience.
Ms ZHANG Dong Fang	CEO	➢ Served as vice president of a Swiss multi-national group that was a leading flavors and fragrances producer. Was with the firm from 1998 to 2008. While there, Ms Zhang gained extensive experience in business management in the fast-moving consumer goods (FMCG) business.
Mr. TSANG Zee Ho, Paul	CFO	➢ Joined Vinda in 2007 ➢ Held various senior finance and management positions with public and private companies, including associate director of Deloitte & Touche Corporate Finance, general manager of Century City Group and CFO of a private group of companies with diversified operations in Guangzhou
Mr. Zhang Jian	COO	➢ Served as a manager in the production, marketing and procurement departments, and deputy manager and general manager of the company as a whole.
Mr. Richard SU	Assistant to CEO	➢ Responsible for the centralized material procurement of the Group. ➢ Over 20 years of experience in sourcing and trade management.
Mr. HE Hui Xian	VP of Sales and Marketing	➢ Responsible for regional sales management in China as well as overseas markets. ➢ Held various managerial roles for the sales department, including EVP of the company.
Mr. TANG Hai Tang	VP of Sales and Marketing	➢ Responsible for marketing & media as well as key accounts. ➢ Previously served as deputy general manager of one of the company's subsidiaries, as well as marketing director and EVP for the company.
Mr. HU Yong Jin	VP of Sales and Marketing	➢ Responsible for regional sales management in China. ➢ Previously served as manager, deputy manger, general manger and EVP of one the company's subsidiaries.

Source: Company data

Rating definitions

Outperform **(O)** – expected return > 10% over the next twelve months

Neutral **(N)** – expected return between -10% and 10% over the next twelve months

Underperform **(U)** – expected return < -10% over the next twelve months

Analyst Certification:

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Disclaimers:

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