



Key Data

Share price (HK\$)	73.6
52Wk H/L(HK\$)	82.7 / 57.4
Issued shares (mn)	1,229
Market cap (HK\$mn)	90,456
30-day avg vol (HK\$mn)	159
Major shareholder (%):	
Sze Man Bok(Chairman)	18.62
Hui Lin Chit(CEO)	18.29

Source: Company, Bloomberg, ABCI Securities

Revenue composition by product in FY11 (%)

Tissue papers	47.0
Sanitary napkins	24.1
Disposable diapers	16.0
Food and snacks	9.0
Others	3.9

Source: Company

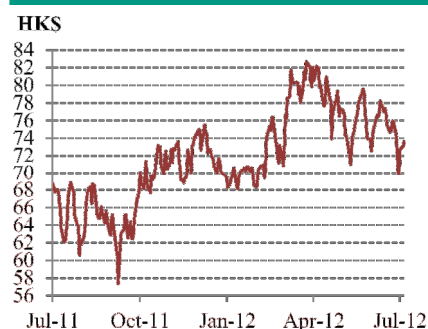
Share performance (%)

	Absolute	Relative*
1-mth	-2.5	-3.3
3-mth	-11.1	-4.2
6-mth	6.3	9.4

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Hengan Int'l (1044 HK) – UNRATED
Personal Products Industry

Key takeaways from investor call

We've attended the pre-blackout investor call of Hengan(1044). The management warned sales growth in 1H 2012 would be below budget but gross profit margin would improve due to falling raw material costs. We prefer to Vinda(3331) against Hengan given that the former would achieve rapid sales growth and improving margin.

Sales softened in 1H 2012: Due to weak end demand and fewer promotional activities compared with peers, a delayed tissue paper capacity expansion, the impact of food safety at jelly and some accounting changes, the management hinted that sales growth in 1H 2012 was lower than expected. Tissue papers sales growth was softer as Hengan concentrates on high-end products while its non-toilet roll products account for 70% of tissue sales. Sanitary napkins sales were good while diaper sales were weak for Hengan in 1H 2012. The overall diaper market has softened as some products were replaced by cotton diapers due to weak economy. Its QinQin's jelly sales dropped sharply given food safety issue on jelly. The jelly sales account for 60% of its total snacks sales, its snack food business account for 9% of total sales.

Raw materials dropped: The price of its major raw materials are on the down trend. Wood pulp price dropped to avg US\$590/tonne in 1H 2012vs US\$725/tonne in 1H 2011(-18%yoy), fluff pulp dropped to US\$650/tonne in 1H 2012vs US\$900/tonne in 1H 2011(-28%yoy). Petrochem price dropped ar 20% yoy. As pulp cost and petrochem cost account for 40% and 27% of COGS respectively, we believe its gross profit margin will improve in FY2012.

2H 2012 outlook: The group will increase promotion budget to boost sales in 2H 2012. 2H margin will be lower than 1H on higher promotion and A&P expenses. However, 2H margin will improve yoy due to sharp decline in raw material prices.

Switching idea: We prefer to buy Vinda(3331), the major competitor of Hengan(1044) in tissue paper business. In a weak economy, consumer would like to trade down to low-end products. Vinda will deliver good sales growth as 61.4% of its sales came from toilet roll in FY2011. The drop down of raw materials will lift up its gross profit margin.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales (HK\$ mn)	13,432	17,051	21,148	26,237	31,466
Chg (YoY)	24.0	26.9	24.0	24.1	19.9
Net Income (HK\$ mn)	2,438	2,649	3,550	4,391	5,240
Chg (YoY)	15.2	8.6	34.0	23.7	19.3
FD EPS (HK\$)	1.996	2.16	2.896	3.579	4.274
Chg (YoY)	12.8	8.2	34.1	23.6	19.4
PER (x)	30.0	27.7	20.7	16.7	14.0

Source: Company, Bloomberg, ABCI Securities estimates



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Comparison table

		FY08	FY09	FY10	FY11	CAGR (FY08-11)
1044 HK	Revenue (HK\$mn)	8,002	10,834	13,432	17,051	28.7%
HENGAN	Gross profit (HK\$ mn)	3,203	4,980	5,945	6,800	28.5%
	Net income (HK\$ mn)	1,341	2,118	2,438	2,649	25.5%
	Gross margin	40.0%	46.0%	44.3%	39.9%	
	Net margin	16.8%	19.5%	18.2%	15.5%	
	ROAA	14.6%	17.5%	14.9%	12.6%	
	ROAE	22.7%	27.3%	25.0%	23.2%	
3331 HK	Revenue (HK\$ mn)	2,424	2,776	3,602	4,765	25.3%
VINDA	Gross profit (HK\$ mn)	513	951	1,062	1,297	36.2%
	Net income (HK\$ mn)	78	166	398	369	34.7%
	Gross margin	21.2%	34.2%	29.5%	27.2%	
	Net margin	6.8%	14.3%	10.2%	8.5%	
	ROAA	6.1%	11.9%	8.6%	7.1%	
	ROAE	10.4%	21.1%	15.5%	13.9%	

Source: Bloomberg, ABCI Securities estimates



Disclosures

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