農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

26 September 2012

Equity Focus

Vinda (3331 HK) – Buy

Personal Products Industry

Key Data

Share price (HK$)	11.26
Target price(HK$)	14.24
Upside potential(%)	26.5
52Wk H/L(HK$)	14.28 / 6.81
Issued shares (mn)	938.2
Market cap (HK$mn)	11,253
30-day avg vol (HK$mn)	43.9
Major shareholder (%):	
Li Chao Wang(Chairman)	23.93
SCA Hygiene Holding	21.65

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1HFY12 (%)

Toilet roll	61.2
Handkerchief tissue	10.6
Box issue	4.7
Softpack	15.4
Paper napkin	3.2
Others	4.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(13.5)	(16.9)
3-mth	(6.8)	(14.6)
6-mth	0.0	(0.1)

Source: Bloomberg
**Relative to Hang Seng Index*

1 year price performance

Source: Bloomberg

Analyst:
Name: Judy Hu
Tel: (852) 2147 8310
Email: judyhu@abci.com.hk

Key takeaways from the management meeting with Vinda

We've discussed the business development with the management of Vinda. We expect its gross profit margin and operating profit margin to further improve in the 2H as the wood pulp price are on the down trend. The expansion of capacity will further support its sales growth in FY13.

2HFY12 and FY13 outlook: We expect its 2H sales to increase by 23.1%YoY and 9.6%HoH. The new capacity of 150,000tons will commence operation at the end of 2012 and will give full year contribution next year. We expect its average wood pulp cost to drop to US$670/tons in 2HFY12. Its gross profit margin will be enhanced subsequently. We expect its GPM and OPM in 2H to improve by 0.9ppt and 1.5ppt to 32.2% (vs 31.3% in 1H) and 14.7% (vs 13.2% in 1H). We expect its sales and net profit to increase by 24.5%YoY and 35.3%YoY to HK$7,532mn and HK$791mn respectively in FY13.

Oversupply impact is limited: Market concerns that the tissue paper industry will have oversupply risk in coming years as the existing players aggressively expand their capacities and new entrants enter into the market. We believe the oversupply issue will have limit impact to the leading players, such as Hengan and Vinda, as brand tissue paper producers have stronger pricing power of its quality products and have established nationwide distribution network. We expect the leading players to further gain market share and grow faster than overall market.

Valuation: We give the counter a "Buy" rating and set target price at HK$14.24, representing 24x PER for FY12 and 18x PER for FY13.

Risk: Slower-than-expected sales growth in 2H; intensified competition and promotion; rebound of wood pulp price.

Forecast and Valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Turnover (HK$ mn)	3,602	4,765	6,052	7,532	8,752
Chg(%YoY)	29.8	32.3	27.0	24.5	16.2
Net Income (HK$ mn)	369	406	585	791	919
Chg(%YoY)	(7.3)	10.0	44.1	35.3	16.2
EPS (HK$)	0.398	0.426	0.585	0.791	0.919
EPS Chg(%)	(8.2)	7.2	37.2	35.3	16.2
DPS(HK$)	0.12	0.12	0.162	0.219	0.255
PE (x)	-	26.4	19.3	14.2	12.3
Dividend yield(%)	-	1.0	1.4	1.9	2.3

Source: Company, Bloomberg, ABCI Securities estimates

Oversupply impact is limited: Market concerns that the tissue paper industry will have oversupply risk as the existing players aggressively expand their capacities and new entrants enter into the market. According to CNHPIA (China National Household Paper Industry Association), there will be 1,512,500tons and 1,353,000tons new capacity to be installed in 2012 and 2013 respectively. Meanwhile, the new demand for household paper industry will be 525,400tons and 577,900tons for 2012 and 2013 respectively. We believe the oversupply issue will have limit impact to the leading players such as Hengan and Vinda because of the following reasons.

1) The average consumption of household paper per capita in China was 3.9kg in 2011(vs worldwide average consumption of 4.2kg/North America(25kg)/HK(>10kg)). The household paper industry will grow rapidly due to rising income and further market penetration.

2) In 2011, the capacity of the top 4 tissue paper producers (including Hengan, APP, Vinda and C&S) accounted for 27.8% of total capacity. Their total sales volume grew by 22.1%YoY to 1,404,800tons and accounted for 24.1% of total market supply. Their total sales value grew by 26.3%YoY and accounted for 30% of total market sales value. The brand tissue paper producers have stronger pricing power of its quality products and have established nationwide distribution network compared with smaller players.

We expect the leading players will further gain market share and grow faster than overall market. Smaller producers will be forced out of the market as China will exercise strict environment standard and close down small producers to speed up industry consolidation in the “Twelve-five year” plan.

2HFY12 and FY13 outlook: Vinda’s sales and net profit increased by 31.6%YoY and 35.1%YoY in 1HFY12 respectively. We expect its 2H sales to increase by 23.1%YoY and 9.6%HoH. The new capacity of 150,000tons will commence operation at the end of 2012 and will give full year contribution next year. In the 1HFY12, the average wood pulp cost was US$690/tons. The management anticipates wood pulp price will further drop to US$620/tons in Aug- Sep compared with US$670/tons in April-Jul. The management believes the wood pulp price to maintain stable for the next year. We expect its average wood pulp cost to drop to US$670/tons in 2HFY12 and to enhance its gross profit margin. We expect its GPM and OPM in 2H to improve by 0.9ppt and 1.5ppt to 32.2% (vs 31.3% in 1H) and 14.7% (vs 13.2% in 1H). We expect its sales and net profit to increase by 24.5%YoY and 35.3%YoY to HK$7,532mn and HK$791mn respectively in FY13.

Exhibit1: Top 4 tissue players capacity

(‘000 Tons)	2011	2012E	2013E	2015E
Hengan	600	900	900	1,200
App	600	790	1,390	-
Vinda	470	620	790	1,000
C&S	236	345	445	-
Total new capacity	21.0	74.9	87.0	-
% of total new capacity	36.6%	49.5%	64.3%	-

Source: CNHPIA

Exhibit2: China household-paper industry forecast

('000 Tons)	2007	2008	2009	2010	2011	2015E	2020E
Supply	4,100	4,437	4,791	5,248	5,821	6,800	8,300
Demand	3,572	3,913	4,197	4,663	5,254	6,300	7,100
China population(mn)	1,321	1,328	1,335	1,341	1,347	1,380	1,415
Per capita consumption (kg)	2.7	3.0	3.1	3.5	3.9	4.6	5.0

Source: CNHPIA

Exhibit3: 2H FY12 results review

(HK$ mn)	2011	2012	1H12	2H12	YoY growth	HoH growth
Turnover	4,765	6,052	2,887	3,164	23.1%	9.6%
Gross profit	1,297	1,922	903	1,019	47.9%	12.8%
Operating profit	506	848	381	466	80.9%	22.2%
Profit attributable to shareholders	406	585	258	327	52.1%	26.5%
Gross profit margin	27.2%	31.8%	31.3%	32.2%	+5.4ppt	+0.9ppt
Operating profit margin	10.6%	14.0%	13.2%	14.7%	+4.7ppt	+1.5ppt
Net profit margin	8.5%	9.7%	8.9%	10.3%	+2.0ppt	+1.4ppt
SG&A/sales	17.1%	17.8%	18.1%	17.5%	-	-
Effective tax rate	22.3%	25.6%	26.4%	25.0%	-	-

Source: Company data, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2007-2011 (~15%)
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183