



Company Report

Vinda (3331HK) – Buy Personal Products Industry

Initiate coverage with “Buy” (Target price of HK\$14.24)

Key data

Share price (HK\$)	11.54
Target price(HK\$)	14.24
Upside potential(%)	23.4
52Wk H/L(HK\$)	14.28 / 9.07
Issued shares (mn)	938.2
Market cap (HK\$m)	11,533
30-day avg vol (HK\$m)	57.1
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	3.9	(1.2)
3-mth	(12.1)	(20.5)
6-mth	(12.0)	(16.1)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 7 Nov, 2012

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With capacity-driven sales growth and stabilized cost, we forecast its net profit to grow by CAGR of 29.7% from 2011 to 2014. Weak pulp prices help to boost up its profit margin this year. The stock was down 32% from 2012 high, due to lower-than-expected earnings growth in 1HFY12. We initiate coverage on Vinda with a “Buy” rating based on earnings improvement driven by continued margin expansion.

Accelerating capacity expansion to boost sales: Its tissue paper output capacity will grow by CAGR of 24.2% in 2011-2014 (vs CAGR of 16.1% in 2008-2011). The new capacity in 2012 will come into operation in 2H and will factor into the 2H result subsequently. We expect its sales to grow by CAGR of 26.5% in 2011-2014. Although market concerns about the overcapacity of the tissue industry, we believe large producers with well-known brands will displace market share from small players. As the No.3 tissue producer in China, Vinda will gain more market shares in the industry consolidation.

Easing pulp prices to protect margin: Wood pulp cost accounted for ~60% of COGS. As upstream pulp industry indicates new pulp supply capacity will come to the market next year, global pulp cost is unlikely to see strong rebound in foreseeable future. The group’s average wood pulp cost dropped to US\$710/ton in 1H2012 from US\$808/ton in 2011. We expect the average wood pulp cost to ease 2.7% HoH to US\$691/ton in 2H2012 and its gross profit margin will be boosted by 4.3ppt in 2012 to 31.5%.

Initiate with “Buy”: We forecast its net profit growth of 41.1% YoY and 28.7% YoY respectively in FY12 and FY13. The stock is trading at 15.7x PER for FY13 or 23% discount to its major competitor Hengan’s. We initiate coverage with a “Buy” rating and set target price at HK\$14.24, representing 18x PER or 0.63 PEG for FY13 (vs Hengan’s PEG of 0.87).

Risk factors: pulp price hike; delaying new capacity commencement; intensified competition; new business development risk.

Forecast and valuation

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	3,602	4,765	6,193	7,909	9,636
Chg (%YoY)	29.8	32.3	30.0	27.7	21.8
Net Income(HK\$ mn)	369	406	572	737	886
Chg (%YoY)	-7.3	10.0	41.1	28.7	20.3
FD EPS(HK\$)	0.398	0.426	0.572	0.737	0.886
Chg (%YoY)	-8.9	7.0	34.4	28.7	20.3
PER (x)	-	27.1	20.2	15.7	13.0
NBV(HK\$)	2.90	3.30	4.02	4.95	5.59
P/B(x)	-	3.5	2.9	2.3	2.1
DPS(HK\$)	0.112	0.113	0.159	0.204	0.246
Dividend yield(%)	-	1.0	1.4	1.8	2.1
ROAE(%)	15.5	13.9	16.0	16.4	16.8
ROAA(%)	8.6	7.1	7.9	8.4	8.6

Source: Company data, ABCI Securities estimates



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Industry outlook

Low consumption household paper per capita in China: According to CNHPIA (China National Household Paper Industry Association), the total tissue consumption in domestic market reached Rmb66.2bn in 2011, representing a 12.7% YoY growth. The average consumption of household paper per capita in China was 3.9kg in 2011 (vs worldwide average consumption of 4.2kg, North America of 25kg, HK & Macau >10kg). The household paper industry will grow rapidly due to rising income and further market penetration.

Fragmented tissue industry: The tissue industry is fragmented by 1,600 manufacturers. In 2011, the top 15 players accounted for 43.5% of sales value (40.3% sales volume), while their capacity accounted for 45.2% of the total capacity. The capacity of the top 4 tissue paper producers (including Hengan (1044 HK), Asia Pulp & Paper (APP), Vinda (3331 HK) and C&S (002511 CH) accounted for 27.8% of total capacity. In 2011, their total sales volume grew by 22.1% YoY to 1,404,800tons and accounted for 24.1% of total market supply, while their total sales value grew by 26.3% YoY and accounted for 29% of total market sales value. The tissue market is still fragmented by small and middle-sized producers.

Accelerating industry consolidation: The top 4 players' market share increased from 25% in 2007 to 29% in 2011. We expect that the leading players will further gain market share due to its rapid expansion of capacity in next 2-3 years. Small players will be forced out of the market as China will exercise strict environment standard and speed up industry consolidation in the 12th five-year plan. We expect that the top 4 players' capacity weighting will increase to 34.6% in 2013 from 27.8% in 2011.

Exhibit1: Top 4 tissue players capacity

('000 Tons)	2008	2009	2010	2011	2012E	2013E
Hengan	360	420	540	600	900	900
App	352	422	542	600	790	950
Vinda	300	320	370	470	620	790
C&S	210	186	212	236	345	445
Total	1,222	1,348	1,664	1,906	2,655	3,085
Growth (YoY)	23.4%	10.3%	23.4%	14.5%	39.3%	16.2%
% of total industry capacity	22.1%	23.0%	26.5%	27.8%	33.3%	34.6%

Source: CNHPIA, ABCI Securities

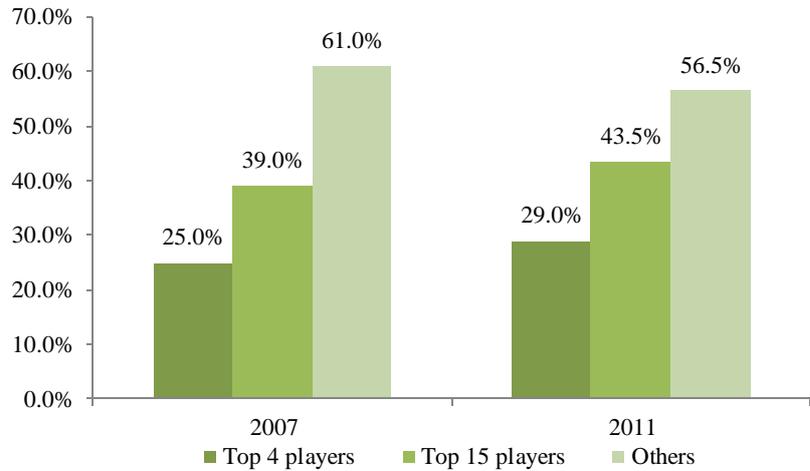
Exhibit2: China household-paper industry output and capacity

('000 Tons)	2008	2009	2010	2011	2012E	2013E
Output	4437	4791	5248	5821	6403	7043
Growth (YoY)	-	8.0%	9.5%	10.9%	10.0%	10.0%
Capacity	5,534	5,867	6,282	6,856	7,969	8,922
Growth (YoY)	-	6.0%	7.1%	9.1%	16.2%	12.0%
Utilization rate	80.2%	84.0%	86.4%	88.6%	86.4%	83.4%

Source: CNHPIA, ABCI Securities



Exhibit3: Sales value of top 4 players



Source: CNHPIA, ABCI Securities

Business analysis

Tissue paper business: Vinda started its tissue business in 1985 in China. Its sales grew by CAGR of 28.0% from 2007 to 2011, while its net profit grew by CAGR of 50.8% at the same period. It was ranked No.3 in the China market by sales value with 6.3% market share (after Hengan’s 9.4% and APP’s 6.4%). It has a wide product mix for tissue paper, which includes toilet rolls, handkerchief tissues, box tissues, softpacks and paper napkins. Its toilet roll accounted for 61.4% and 61.2% in FY11 and 1HFY12. The group distributes its products through traditional channel (Distributors), modern channels (Hypermarket, Supermarket) and B2B channel (Corporate clients). In the 1H2012, its sales through modern channel account for 37.6% of total sales (vs 35.6% in 2011). The management will gradually enhance its modern channel to distribute more high-margin products.

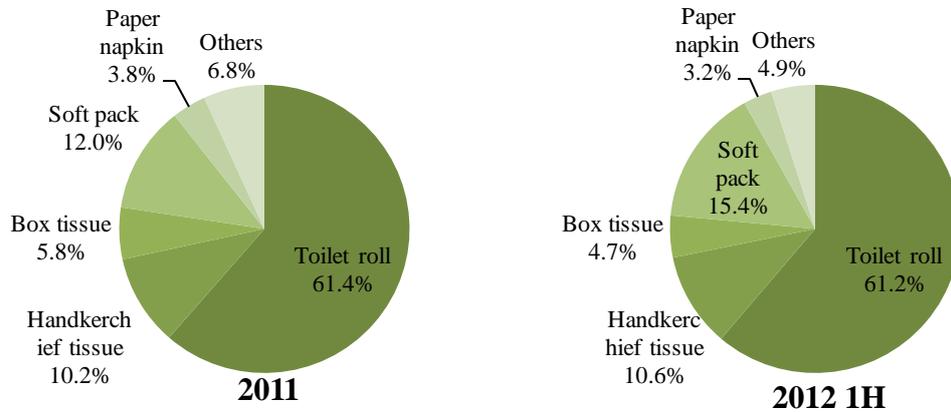
The group expanded its capacity at a CAGR of 16.1% in 2008-2011, slower than Hengan (CAGR of 18.6%) and APP (CAGR of 19.5%). Its tissue paper output capacity will grow by CAGR of 24.2% in 2011-2014. The new capacity in 2012 will come into operation in 2H and will factor into the 2HFY12 result subsequently.

Diaper business: In 2010, Vinda started its diaper business through a joint venture called V-care. Vinda owns 41% of the JV. According to the JV agreement, Vinda has a call option to buy the remaining 59% shares once the JV turns to profit, at no less than 10x trailing PE. The group set up 3 production lines at Xiaogan plant in Central China and developed over 40 SKUs under its self-develop brand ”Babifit”.

Currently the baby diaper industry was concentrated and dominated by foreign brands. According to CNHPIA, top 10 baby diaper players accounted for 83.4% of market share by revenue, while “Pampers” under P&G accounted for 43% of market share. The diaper market penetration rate is low in China (penetration rate reached 39.1% in 2010) as consumers in low-tier cities, villages and rural areas still use washable cotton diaper. With short business track record, we anticipate the JV will allocate more resources to develop new products and build its sales and distribution network in next several years. We expect its diaper business to turn to profitable in FY14.

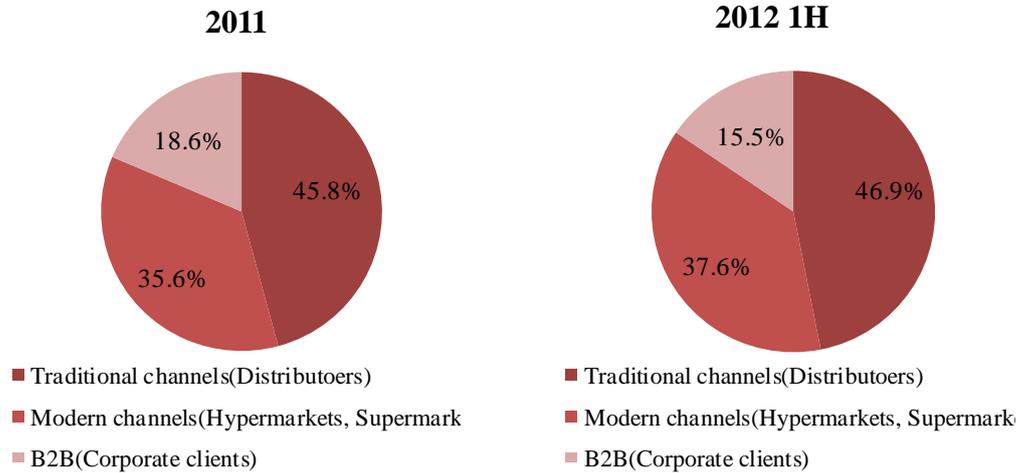


Exhibit4: Sales breakdown by products



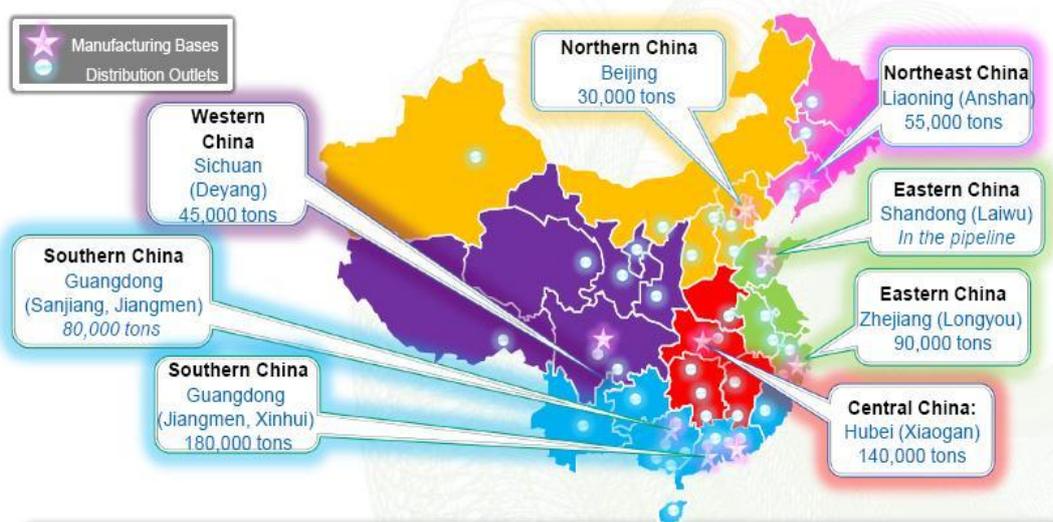
Source: Company data

Exhibit5: Sales breakdown by channels



Source: Company data

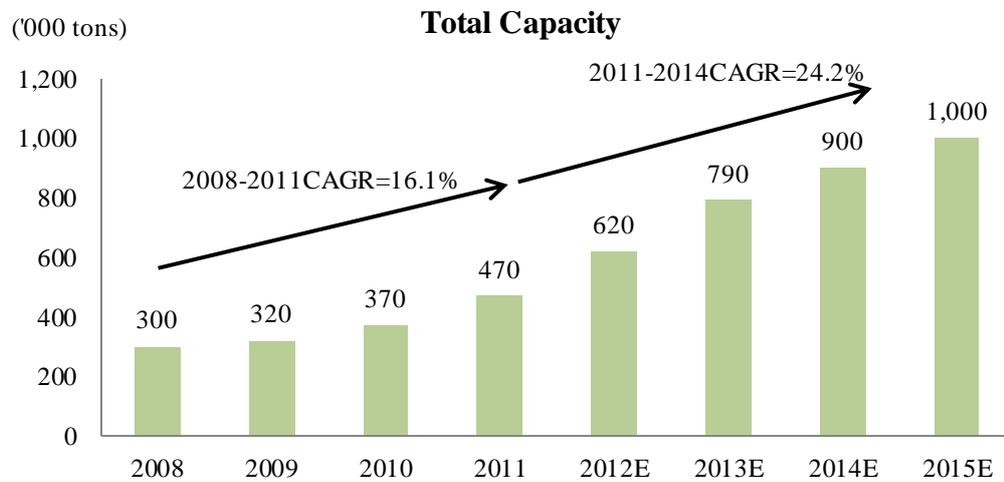
Exhibit6: Locations of production base and distribution outlets



Source: Company data



Exhibit7: Capacity expansion



Source: Company data

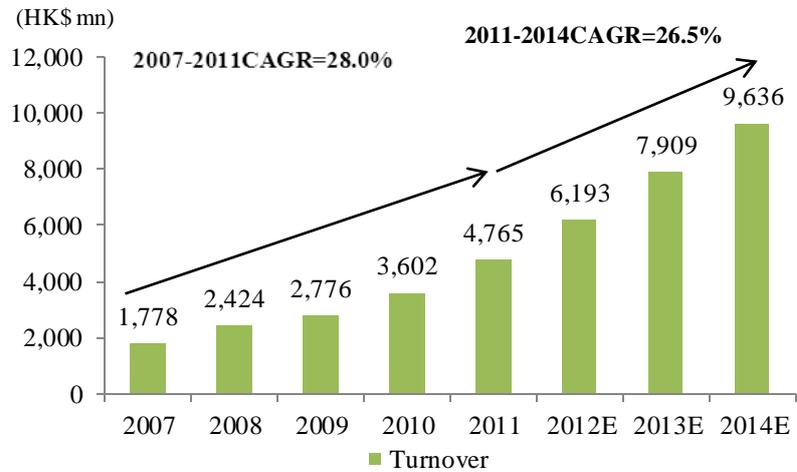
Earnings outlook: In 2007-2011, the group’s sales and net profit grew by CAGR of 28.0% and 50.8% respectively. The net profit grew faster than sales due to improving gross profit margin and operating profit margin. Better product mix and enhanced operating efficiency lifted up both gross profit margin and operating profit margin. Due to rapid expansion of capacity in 2011-2014, we expect its sales and net profit to grow by CAGR of 26.5% and 29.7% respectively.

Wood pulp represented 63.9% of COGS and 46.5% of sales in 2011. Currently 80% of the group’s wood pulps are imported from international market. According to the management, the group’s average wood pulp cost was US\$808/tons in 2011. Due to softening of wood pulp price in 2H2011, its average wood pulp cost dropped to US\$710/tons in 1H2012. We expect the whole year average wood pulp cost to drop to US\$700/tons in 2012, which will lift up its gross profit margin by 4.3ppt in 2012. Due to wood pulp capacity expansion in the upstream and weak global demand in the downstream, we believe the pulp cost is hard to have a sharp rebound in foreseeable future. We expect Vinda’s average wood pulp cost to further drop by 1.4% to US\$690/tons in 2013 and returned to US\$720/tons in 2014.

Owing to softening of raw material cost, we expect its gross profit margin to lift up to 31.5% in FY12 from 27.2% in FY11. We estimate its gross profit margin to drop slightly to 31.0% and 30.7% respectively in FY13 and FY14 as ASP hike will be slowed down due to capacity expansion.

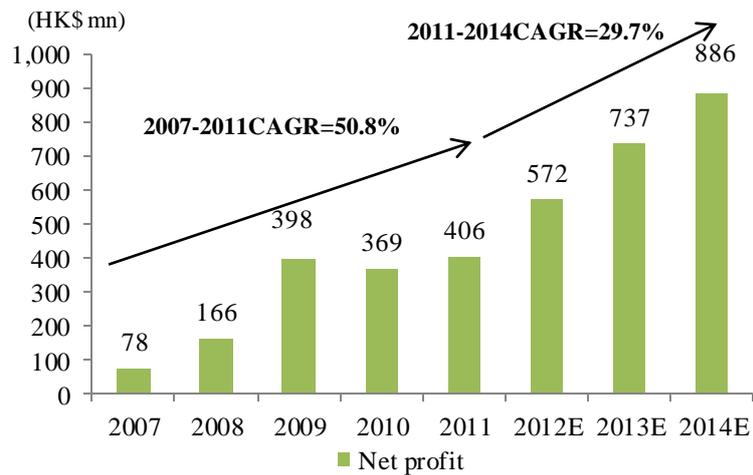


Exhibit 8: Sale growth in 2007-2014E



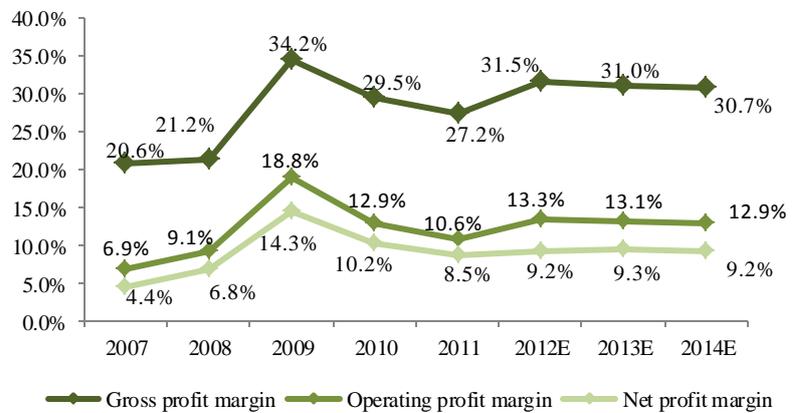
Source: Company data, ABCI Securities

Exhibit 9: Net profit growth in 2007-2014E



Source: Company data, ABCI Securities

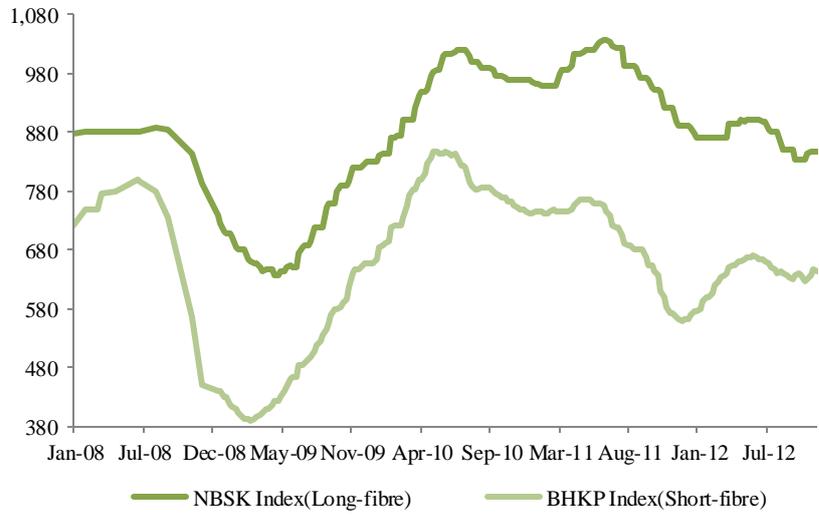
Exhibit 10: Margin trend



Source: Company data, ABCI Securities



Exhibit 11: Long-fibre and short-fibre wood pulp price



Source: Bloomberg



Comparison between Vinda and Hengan

Both Vinda and Hengan are the top tissue producers in China. We've compared several items of the two companies. Due to aggressive capacity expansion, Hengan's sales grew by CAGR of 32.7% in 2007-2011, faster than Vinda (Sales CAGR of 28.0% in 2007-2011). Hengan's gross profit margin is 4.2ppt-10.9ppt higher than Vinda due to its low proportion of toilet roll sales.

Vinda will speed up its tissue output capacity next 3 years to boost its sales. Although Vinda intends to optimize its product mix by lowering toilet roll sales to improve its gross profit margin, we estimate the proportion of its toilet roll sales will maintain above 60% of total sales in 2012-2014. Due to capacity expansion, the group still needs to promote low-end products to boost its sales and to gain market share next 2 years.

Exhibit 12: Comparison of Hengan and Vinda

	2007	2008	2009	2010	2011	2012 1H
Tissue sales(HK\$mn)						
Vinda	1,778	2,424	2,776	3,602	4,765	2,887
Hengan	2,585	3,875	4,456	6,114	8,018	4,411
Vinda as % of Hengan	68.8%	62.6%	62.3%	58.9%	59.4%	65.5%
% of revenue from toilet roll						
Vinda	60.6%	62.1%	62.4%	61.1%	61.4%	61.2%
Hengan	28.6%	31.3%	33.9%	33.4%	31.7%	29.3%
Marketshare						
Vinda	4.6%	5.4%	5.7%	6.2%	6.3%	-
Hengan	5.5%	7.5%	8.0%	8.4%	9.4%	-
Total capacity(000'tons)						
Vinda	240	300	320	370	470	470
Hengan	240	360	420	540	600	600
Tissue gross profit margin						
Vinda	20.6%	21.2%	34.2%	29.5%	27.2%	31.3%
Hengan	31.5%	31.6%	42.1%	37.3%	31.4%	36.1%
Difference(Hengan-Vinda)	10.9%	10.4%	7.9%	7.8%	4.2%	4.8%

Source: Company data, ABCI Securities



Site visit in Jiangmen, Guang Dong Province

We had a site visit at Vinda's Xinhui plant in Jiangmen, Guangdong province and met the manager of the plant.

- The annual capacity for its Xinhui plant has reached 180,000 tons. Currently it is the biggest plant by capacity of the group and accounts for 29% of total capacity at the end of 2012.
- The plant has divided into three parts: production center, warehouse and office. We've watched the whole procedure of its toilet roll production line. The production line is highly automatic from raw material input to finished goods packaging. The working environment is tidy and some technical workers are controlling the machines. However, we are not allowed to take photo on the production lines during the plant visit.
- The daily production capacity of raw paper reached 290-300tons/day. The manager said currently the utilization rate reached 100%.
- We observed a lot of trucks boarded outside the plant and waiting for upload the packed products.

Exhibit 13: Xinhui plant view



Source: ABCI Securities



Assumption and Valuation

We forecast its net profit to grow by CAGR of 29.7% from FY11 to FY14, with capacity-driven sales growth and stabilized cost pressure. The international peers are trading at ave. PER of 17.5x with 14.3% EPS growth in FY13, while its domestic peers are trading at ave. PER of 24.0x with 29.0% EPS growth. We initiate coverage of Vinda with a “Buy” rating and set target price at HK\$14.24, representing 18x PER for FY13 (PEG=0.63). The valuation is 20% discount to its ave. historical PER of 20x.

Exhibit 14: Capacity, volume and unit cost assumption

	2009	2010	2011	2012E	2013E	2014E
Capacity	320,000	370,000	470,000	620,000	790,000	900,000
YoY	6.7%	15.6%	27.0%	31.9%	27.4%	13.9%
Volume	224,196	281,814	335,044	430,550	549,900	663,325
YoY	16.8%	25.7%	18.9%	28.5%	27.7%	20.6%
Utilization rate	72.3%	81.7%	79.8%	79.0%	78.0%	78.5%
ASP	12,382.6	12,782.1	14,222.9	14,383.2	14,383.2	14,527.0
YoY	-1.9%	3.2%	11.3%	1.1%	0.0%	1.0%
Unit cost						
Pulp price(US\$/tons)	567.3	676.2	808.0	700.0	690.0	720.0
Pulp price(HK\$/tons)	4,339.7	5,172.6	6,181.0	5,355.0	5,278.5	5,508.0
pulp	4,643.5	5,534.6	6,613.7	5,729.9	5,648.0	5,893.6
packaging	1,225.9	1,303.8	1,337.0	1,467.1	1,467.1	1,481.8
chemicals	148.6	127.8	142.2	158.2	165.4	159.8
water&electricity	1,003.0	1,022.6	1,152.1	1,193.8	1,208.2	1,191.2
labour cost	371.5	409.0	483.6	546.6	560.9	552.0
depreciation	470.5	409.0	412.5	470.5	497.6	492.9
others	284.8	191.7	213.3	287.7	374.0	290.5
COGS						
pulp	1,041.0	1,559.7	2,215.9	2,467.0	3,105.8	3,909.3
packaging	274.8	367.4	447.9	631.7	806.7	982.9
chemicals	33.3	36.0	47.7	68.1	91.0	106.0
water&electricity	224.9	288.2	386.0	514.0	664.4	790.2
labour cost	83.3	115.3	162.0	235.3	308.5	366.2
depreciation	105.5	115.3	138.2	202.6	273.6	326.9
others	63.9	54.0	71.5	123.9	205.6	192.7
Total COGS	1,826.7	2,535.9	3,469.1	4,242.5	5,455.7	6,674.2
COGS as % of sales						
pulp	37.5%	43.3%	46.5%	39.8%	39.3%	40.6%
packaging	9.9%	10.2%	9.4%	10.2%	10.2%	10.2%
chemicals	1.2%	1.0%	1.0%	1.1%	1.2%	1.1%
water&electricity	8.1%	8.0%	8.1%	8.3%	8.4%	8.2%
labour cost	3.0%	3.2%	3.4%	3.8%	3.9%	3.8%
depreciation	3.8%	3.2%	2.9%	3.3%	3.5%	3.4%
others	2.3%	1.5%	1.5%	2.0%	2.6%	2.0%
Total	65.8%	70.4%	72.8%	68.5%	69.0%	69.3%

Source: Company data, ABCI Securities



Exhibit 15: Sales assumption

Sales breakdown	2009	2010	2011	2012E	2013E	2014E
Toilet roll	1,732.3	2,200.9	2,925.9	3,789.9	4,824.7	5,781.7
Handkerchief tissue	299.8	414.2	486.1	656.4	838.4	1,011.8
Box tissue	158.2	198.1	276.4	291.1	371.7	462.5
Soft pack	172.1	342.2	571.8	953.7	1,249.7	1,541.8
Paper napkin	124.9	133.3	181.1	198.2	253.1	308.4
Others	288.7	313.4	324.0	303.4	371.7	530.0
Total	2,776.1	3,602.2	4,765.3	6,192.7	7,909.3	9,636.1
As % of sales						
Toilet roll	62.4%	61.1%	61.4%	61.2%	61.0%	60.0%
Handkerchief tissue	10.8%	11.5%	10.2%	10.6%	10.6%	10.5%
Box tissue	5.7%	5.5%	5.8%	4.7%	4.7%	4.8%
Soft pack	6.2%	9.5%	12.0%	15.4%	15.8%	16.0%
Paper napkin	4.5%	3.7%	3.8%	3.2%	3.2%	3.2%
Others	10.4%	8.7%	6.8%	4.9%	4.7%	5.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, ABCI Securities

Peer comparison

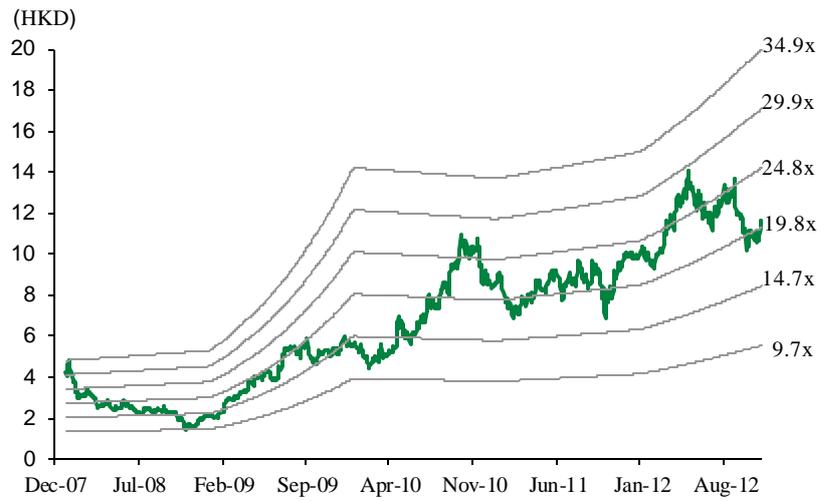
Exhibit 16: Valuation comparison

Code	Name	Price	Market cap	PE		EPS growth		EPS growth	ROE
			US\$(mn)	2012	2013	2012	2013	2012-2014CAGR	
China & HK peers									
002511 CH	C&S PAPER CO-A	Rmb19.3	644	26.9	19.9	75.1%	35.1%	31.9%	6.1%
3331 HK	VINDA INTL HLDGS	HK\$11.5	1,488	20.2	15.7	34.4%	28.7%	24.4%	16.0%
1044 HK	HENGAN INTL	HK\$70.6	11,188	25.0	20.3	34.0%	23.1%	21.3%	26.2%
Average				24.2	24.0	18.6	29.0%	25.9%	16.1%
International peers									
JNJ US	JOHNSON&JOHNSON PROCTER & GAMBLE	US\$70.9	195,474	13.9	12.9	2.8%	7.7%	7.2%	23.2%
PGUS	KIMBERLY-CLARK	US\$69.2	189,181	18.2	17.5	-3.2%	3.7%	6.1%	17.7%
KMB US	UNICHARM CORP	US\$83.3	32,910	15.9	14.9	8.5%	7.2%	7.1%	37.4%
8113 JP		JPY4295.0	11,155	34.1	24.7	-23.6%	38.7%	25.5%	14.9%
Average				20.5	17.5	-3.9%	14.3%	11.5%	23.3%

Source: Bloomberg, ABCI Securities

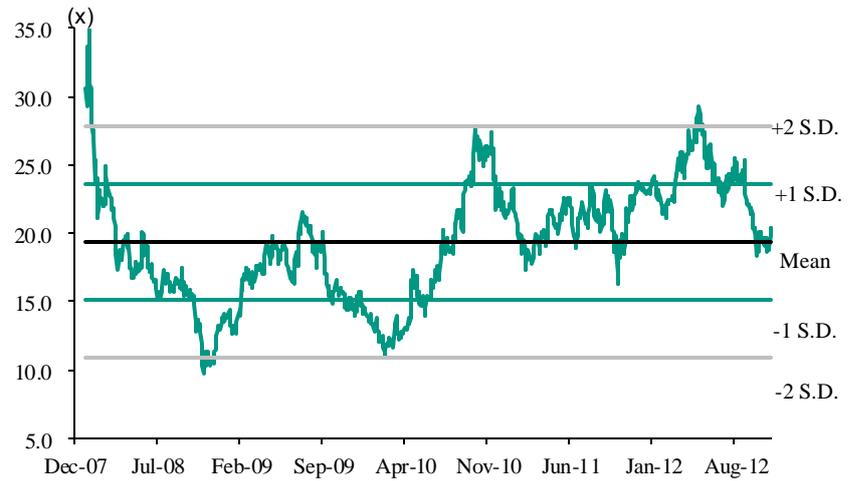


Exhibit 17: PEband



Source: ABCI Securities

Exhibit 18: Standard deviation



Source: ABCI Securities



Sensitivity analysis

We did a sensitivity analysis on the pulp price related to its profit in 2013. In our base case, we assume the average pulp price is US\$690/ tones in 2013. If the pulp price increases by 10%, we expect that its gross profit will drop 12.7%. Its operating profit and net profit will drop by 29.9% and 31.6% respectively. If the pulp price drops by 10%, we expect that its gross profit will increase by 12.7%. Its operating profit and net profit will increase by 29.9% and 31.6% respectively.

Exhibit 19: Sensitivity analysis for pulp price

2013E	Bear case	Base case	Bull case
Average pulp price/tones	759	690	621
Increase/decrease	10%	0%	-10%
Gross profit	2,143	2,454	2,764
Chg	-12.7%	0.0%	12.7%
Operating profit	726	1,037	1,348
Chg	-29.9%	0.0%	29.9%
Net profit	504	737	969
Chg	-31.6%	0.0%	31.6%
GPM	27.1%	31.0%	39.8%
OPM	9.2%	13.1%	27.7%
NPM	6.4%	9.3%	2.5%

Source: ABCI Securities



Vinda financial summary

Consolidated Income Statement

FY ended Dec 31 (HK\$ mn)	2010	2011	2012E	2013E	2014E
Turnover	3,602	4,765	6,193	7,909	9,636
Cost of sales	(2,540)	(3,469)	(4,242)	(5,456)	(6,674)
Gross profit	1,062	1,297	1,950	2,454	2,962
Selling and marketing costs	(445)	(575)	(780)	(989)	(1,205)
Administrative expenses	(181)	(239)	(359)	(443)	(530)
Other income and gains — net	28	23	15	15	15
Operating profit	463	506	826	1,037	1,242
Finance costs, net	(3)	19	(46)	(55)	(61)
Share of post-tax loss of an associate	0	(2)	(6)	0	0
Profit before income tax	460	522	773	982	1,181
Taxation	(91)	(116)	(201)	(246)	(295)
Profit attributable to shareholders	369	406	572	737	886
Diluted EPS (HK\$)	0.398	0.426	0.572	0.737	0.886
Dividend	112	113	159	204	246
DPS (HK\$)	0.112	0.113	0.159	0.204	0.246

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2010	2011	2012E	2013E	2014E
Non-current assets	2,532	3,393	4,578	5,505	6,091
Property, plant and equipment	2,273	3,022	4,083	4,878	5,328
Leasehold land and land use rights	160	185	213	235	249
Intangible asset	11	10	11	10	9
Deferred income tax assets	88	116	116	116	116
Others	0	60	156	266	388
Current assets	2,359	3,071	3,491	4,004	4,981
Inventories	1,322	1,372	1,770	2,271	2,673
Trade receivables, other receivables and prepayments	647	939	1,398	1,587	2,049
Prepayments to and receivables from related parties	1	43	43	43	43
Restricted bank deposits	0	1	1	1	1
Cash and cash equivalents	390	715	279	102	214
Total assets	4,891	6,464	8,069	9,510	11,072
Current liabilities	1,601	2,080	2,688	3,069	3,851
Trade payables, other payables and accrued expenses	980	1,210	1,739	1,856	2,524
Borrowings	557	801	881	1,146	1,260
Due to related parties	0	2	0	0	0
Current income tax liabilities	64	67	67	67	67
Non-current liabilities	602	1,245	1,360	1,486	1,626
Borrowings	530	1,151	1,266	1,393	1,532
Deferred government grants	70	74	74	74	74
Derivative financial instruments	0	17	17	17	17
Deferred income tax liabilities	2	2	2	2	2
Total equity	2,688	3,139	4,022	4,954	5,595

Source: Vinda, ABCI Securities estimates



Consolidated Cash Flow Statement

FY ended Dec 31 (HK\$ mn)	2010	2011	2012E	2013E	2014E
Profit before tax	460	522	773	982	1,181
Depreciation of property, plant and equipment	123	152	203	274	327
Amortisation of intangible assets	3	3	3	3	3
Amortisation of leasehold land and land use rights	4	5	5	6	7
Others	11	2	(52)	(55)	(61)
Operating profit before working capital changes	602	684	932	1,210	1,457
Increase in inventories	(410)	(50)	(398)	(501)	(402)
Increase in trade receivables, other receivables and prepayments	(242)	(291)	(458)	(190)	(462)
(Increase)/decrease in restricted bank deposits	0	(1)	0	0	0
(Increase)/decrease in amount due from related parties	4	(42)	0	0	0
Increase in trade payables, other payables and accrued expenses	295	189	529	117	668
Increase/(decrease) in amount due to a related party	(1)	2	0	0	0
Cash flows from operating activities	248	490	605	637	1,261
Interest paid	(25)	(36)	(51)	(60)	(66)
Income tax paid	(100)	(132)	(201)	(246)	(295)
Net cash generated from operating activities	122	322	353	332	899
Net cash used in investing activities	(469)	(821)	(1,295)	(1,095)	(795)
Net cash generated from financing activities	387	813	506	587	8
Net increase in cash and cash equivalents	41	314	(436)	(177)	112
Cash and cash equivalents, end of the year	390	715	279	102	214

Key Financial Ratios

Yr end 31 Dec	2010	2011	2012E	2013E	2014E
Revenue growth	29.8%	32.3%	30.0%	27.7%	21.8%
Net profit growth	-7.3%	10.0%	41.1%	28.7%	20.3%
Gross profit margin	29.5%	27.2%	31.5%	31.0%	30.7%
Operating margin	12.9%	10.6%	13.3%	13.1%	12.9%
Net profit margin	10.2%	8.5%	9.2%	9.3%	9.2%
ROAA	8.6%	7.1%	7.9%	8.4%	8.6%
ROAE	15.5%	13.9%	16.0%	16.4%	16.8%
Inventory turnover days	160	142	135	135	135
Account receivable days	80	89	69	69	69
Account payable days	84	84	87	83	83
Net debt/equity	26.0%	39.4%	46.5%	49.2%	46.1%
Dividend Payout ratio	30.5%	27.7%	27.7%	27.7%	27.7%
Dividend yield	1.0%	1.0%	1.4%	1.8%	2.1%

Source: Vinda, ABCI Securities estimates



Risk Factors

Pulp price hike: 80% of the group's pulps are imported from overseas market. The pulp cost accounts for 58.8% of COGS and 40.4% of sales respectively in 1HFY12. As the pulp price fluctuates sharply by international supply and demand, the group has limited bargaining power with the upstream pulp producers. Any price hike of pulp price will hurt its gross profit margin and earnings.

Delaying new capacity commencement: The group will expand its capacity next 3 years. The group targets to reach 1 million tons of capacity by 2015 from 470 tons in 2011, representing a CAGR of 20.8%. If the new capacity delays to commence operation, it will impact its sales and volume growth accordingly.

Intensified competition: The tissue paper industry in China is highly competitive with nearly 1,600 manufacturers. The top 4 producers (Hengan, APP, Vinda and C&S) account for 27.8% of total capacity and 30% of total sales. If the competition from existing producers and new entrants intensifies, it will hurt Vinda's sales growth and profit margin.

New business development risk: The group will allocate more resources to develop its diapers and sanitary napkins business on a step-by-step basis to diversify its product portfolio. As the two businesses are in an early investment stage, profit contribution to the group is limited.



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ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

Vinda International Holdings Limited

Appendix-Major products

Tissue paper products

Ultra-strong Series



Feel Series



Flowery Series



The Pleasant Soft Series



Kung Fu Panda Series



Soft & Smooth Series



Rewoo Products



Baby diapers

Babifit



Source: Company, ABCISecurities



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq 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	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ 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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Vinda International Holdings Limited

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