



**Key Data**

Share price (HK\$)	76.45
52Wk H/L(HK\$)	83.45 / 56.8
Issued shares (mn)	1,229
Market cap (HK\$mn)	93,959
30-day avg vol (HK\$mn)	163
Major shareholder (%):	
Sze Man Bok(Chairman)	18.62
Hui Lin Chit(CEO)	18.29

Source: Company, Bloomberg, ABCI Securities

**Revenue composition in 1HFY12(%)**

Tissue papers	48.8
Sanitary napkins	25.0
Disposable diapers	14.6
Food and snacks	8.9
Others	2.7

Source: Company

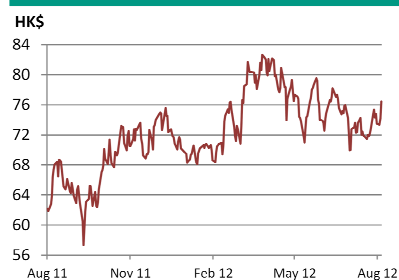
**Share performance (%)**

	Absolute	Relative*
1-mth	2.0	(0.8)
3-mth	(0.3)	(5.9)
6-mth	6.5	15.9

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

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Previous report: 1 Aug

Rating: Unrated

**Hengan (1044 HK) – Unrated**  
Personal Products Industry

**Key takeaways from company visit**

We met the management of Hengan this week. The group will boost its tissue papers sales in 2H as new production lines will commence operation in 2H. As raw material (pulp & petrochem) prices will maintain at 1H low level, we expect that its gross profit margin in 2H will maintain flat with 1H. However, its operating profit margin is expected lower than 1H FY12 due to more promotion and A&P expense.

**Impressive margin improvement:** Its 1H FY12 sales increased moderately by 10.4%YoY to HK\$9,042mn (5% lower than consensus) due to weak sales growth of tissue papers segment and disposable diapers segment. Its sanitary napkins sales grew by 22.5%YoY in 1H FY12. Its net profit surged by 37.6%YoY to HK\$1,626mn in 1H FY12, 1.4% higher than consensus. Due to drop of raw material cost and increasing high margin products sales, its gross profit margin increased by 5.6ppt to 44.2% in 1H FY12 (vs 38.6% in 1H FY11). Its operating profit margin increased by 7.1ppt to 23.6% in 1H FY12% (vs 16.5% in 1H FY11).

**2H FY12 outlook:** The delayed tissue paper production lines will commence operation in the 2H, adding total capacity to 900,000 tons at the end of FY12 (36.7% increase from 660,000tons in 1HFY12). The group will increase promotion to boost tissue paper sales in 2H FY12. The management expects its tissue paper sales growth to exceed sanitary napkin sales growth in 2H FY12..

**Valuation:** The stock is trading at 27.2x PER for FY12, 12.3% lower than its past 5 years average PER of 31x.

**Risk:** Slower-than-expected sales growth in 2H; Intensified competition and promotion

**Forecast and Valuation**

FY ended Dec 31	FY10A	FY11A	FY12E	FY13E	FY14E
Sales(HK\$ mn)	13,432	17,051	20,704	25,617	30,808
Chg (YoY)	24.0	26.9	21.4	23.7	20.3
Net Income (HK\$ mn)	2,438	2,649	3,438	4,261	5,045
Chg (YoY)	15.2	8.6	29.8	23.9	18.4
FD EPS (HK\$)	2.00	2.16	2.81	3.47	4.14
Chg (YoY)	12.8	8.2	29.9	23.7	19.2
DPS (HK\$)	8.58	10.04	11.01	12.51	14.28
NBV (HK\$)	1.30	1.35	1.77	2.16	2.50
PER (x)	-	35.4	27.2	22.0	18.5
P/B (x)	-	7.6	6.9	6.1	5.4
Dividend yield (%)	-	1.8	2.3	2.8	3.3
ROAA (%)	14.9	12.6	14.1	16.3	18.0
ROAE (%)	25.0	23.2	26.4	28.9	30.3

Source: Company, Bloomberg, ABCI Securities estimates



**Exhibit1: 1H FY12 results review**

(HK\$ mn)	1H11	1H12	YoY growth	HoH growth	Comments
Turnover	8,189	9,042	10.4%	2.0%	Sales growth was not good due to slower diaper and tissue paper growth
Sanitary napkins	1,848	2,265	22.5%	0.0%	
Disposable diapers	1,232	1,321	7.3%	(11.4%)	
Tissue paper	3,920	4,411	12.5%	7.6%	
Food and snacks	859	809	(5.8%)	18.4%	
Skin care products and others	330	236	(28.5%)	(27.1%)	
COGS	(5,029)	(5,043)	0.3%	(3.4%)	
Gross profit	3,160	3,999	26.5%	9.8%	
Other Income	82	185	-	-	
Distribution costs	(1,540)	(1,607)	4.4%	(3.8%)	
Administrative expenses	(352)	(439)	24.5%	10.1%	
Operating profit	1,349	2,138	58.5%	9.9%	Operating profit grew faster than sales growth due to improving gross profit margin and drop of SG&A / sales
Finance costs, net	65	(85)	-	-	
Profit before taxation	1,414	2,052	45.2%	11.5%	
Taxation	(206)	(411)	-	-	
Profit after taxation	1,207	1,642	36.0%	11.1%	
Minority interests	(26)	(15)	-	-	
Profit attributable to shareholders	1,182	1,626	37.6%	10.9%	
Gross profit margin	38.6%	44.2%	+5.6ppt	+3.12ppt	Improved by raw material cost decline
Operating profit margin	16.5%	23.6%	+7.1ppt	+1.66ppt	
Net profit margin	14.4%	18.0%	+3.6ppt	+1.45ppt	

Source: Bloomberg, ABCI Securities estimates



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