

## Company Note

### Hong Kong

#### ADD (no change)

Consensus ratings\*: Buy 7 Hold 6 Sell 1

Current price:	HK\$15.22
Target price:	HK\$17.20
Previous target:	HK\$16.90
Up/downside:	13.0%
CIMB / Consensus:	6.8%
Reuters:	3331.HK
Bloomberg:	3331 HK
Market cap:	US\$2,231m
	HK\$17,319m
Average daily turnover:	US\$0.38m
	HK\$2.93m
Current shares o/s:	999.4m
Free float:	25.0%
*Source: Bloomberg	

#### Key changes in this note

- FY17F EPS increased by 4.5%.
- FY18F EPS increased by 0.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.3	-1.8	29.6
Relative (%)	-2.8	-10	3.5

Major shareholders	% held
SCA Hygiene Holdings	51.4
Fu An International	21.7

#### Analyst(s)



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## Vinda International Holdings

### New strategies to drive growth in FY17

- We had a conference call with management on Vinda's new FY17 strategies.
- The new strategies are: 1) accelerating growth of its napkin product via launch of high-end Libresse brand, and 2) increase tissue exports to other Asian countries.
- We think this plan is sound, and raise our FY17-18F EPS forecasts by 0.3-4.5% for stronger sales growth and higher GPM.
- We maintain our Add rating, with a higher DCF-based TP of HK\$17.2. Our FY17-19F earnings forecasts are 7-23% above consensus.

#### Strong online growth to stay robust

Vinda remains the industry leader in e-commerce channels, with online sales growth of 78% yoy in FY16. E-commerce sales accounted for 18% of Vinda sales in FY16 (FY15: 13%), above the industry average of 7%. We expect online sales growth to stay robust in FY17, aiding Vinda's total sales to grow by 12.3% yoy. While Jan/Feb sales were partially impacted by an earlier CNY, management expects Mar's sales to resume its strong growth momentum as channel inventory has returned to normal levels.

#### Plans to accelerate napkin growth in FY17

Boosted by the acquisition of SCA's Asian personal care business in 2Q16, personal care contributed 17% of Vinda sales in FY16 (3% in FY15). Vinda targets to increase this ratio to 20% by FY17 and 30% in the next 5 years. High-end fully imported Libresse brand was launched in the e-commerce channels in 1Q17, and will expand to traditional channels if the sales feedback is good. Currently, both Libresse and the existing Via brand are being sold via major online platforms, i.e. JD.com, Tmall, YHD, etc.

#### To explore tissue export opportunities

Vinda will leverage on the distribution network acquired from SCA to sell tissues in Southeast Asian countries, and is targeting sales in the tens of millions (HK\$) in FY17. We raise our revenue forecasts in FY17-18F by 2.2-2.3% on the back of the two new strategies. Vinda plans to add 60kt tissue capacity in Zhejiang in 2H17, bringing total capacity to 1.1mt by end-FY17.

#### GPM set to continue expanding

We expect product mix improvements and increases in production efficiency to further drive up GPM to 32.0% in FY17F (FY16: 31.7%, FY15: 30.5%). High-end Tempo tissue achieved strong sales growth of c.30% yoy in FY16, accounting for c.5% of total sales. Higher margin soft pack and wet wipes grew 29% and 31%, respectively. Management expects wood pulp prices to stay stable yoy in FY17, despite the uptick in wood pulp prices YTD due to a delay in the capacity increase in Indonesia from 1Q17 to 2H17.

#### Distribution expenses ratio to remain high

Due to intense competition in the tissue market and higher logistics costs due to the expanding online channel, the distribution expenses ratio increased to 17.2% in FY16 (FY15: 16.1%). We expect this ratio to remain high at 16.9% in FY17F as we do not expect the intense competition within the tissue industry to ease anytime soon.

#### Maintain Add with higher DCF-based TP of HK\$17.2 (WACC: 8.7%)

Reiterate Add on Vinda due to its strong online growth and new growth opportunities in FY17F. Potential share price catalysts include further market share gains in the tissue segment through e-commerce. Downside risks include 1) higher-than-expected pulp prices, and 2) intensified pricing competition within the tissue industry.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (HK\$m)	9,696	12,057	13,537	15,272	16,531
Operating EBITDA (HK\$m)	1,216	1,685	1,687	2,043	2,186
Net Profit (HK\$m)	314	654	818	1,050	1,151
Core EPS (HK\$)	0.34	0.67	0.72	0.93	1.02
Core EPS Growth	(40.0%)	97.1%	8.1%	28.4%	9.6%
FD Core P/E (x)	44.94	22.80	21.09	16.43	14.99
DPS (HK\$)	0.10	0.18	0.20	0.26	0.28
Dividend Yield	0.66%	1.16%	1.32%	1.70%	1.86%
EV/EBITDA (x)	16.09	12.26	12.80	10.25	9.23
P/FCFE (x)	NA	46.25	NA	56.19	17.71
Net Gearing	87.8%	59.0%	57.4%	43.5%	30.8%
P/BV (x)	3.07	2.25	2.23	2.07	1.86
ROE	6.8%	12.5%	11.5%	13.3%	13.1%
% Change In Core EPS Estimates			4.45%	0.33%	
CIMB/consensus EPS (x)			1.07	1.20	1.23

SOURCE: COMPANY DATA, CIMB FORECASTS

# Strong online growth

**Figure 1: Earnings revision on Vinda**

	FY16A			FY17F			FY18F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (HK\$m)	11,513.5	12,056.5	4.7%	13,228.6	13,537.1	2.3%	14,936.7	15,272.0	2.2%
Gross margin	31.4%	31.7%	0.3%	31.6%	32.0%	0.4%	32.0%	32.5%	0.5%
Distribution exper/sales	16.7%	17.2%	0.5%	16.4%	16.9%	0.5%	15.9%	16.4%	0.5%
Operating margin	9.0%	8.4%	-0.6%	9.6%	9.5%	-0.1%	10.8%	10.6%	-0.2%
Reported net profit (HK\$m)	597.2	653.5	9.4%	782.7	817.6	4.5%	1,047.0	1,050.4	0.3%

SOURCES: CIMB, COMPANY REPORTS

**Figure 2: Vinda - FY16 results review**

HK\$m	1H16	1H15	yoy	2H16	2H15	yoy	FY16	FY15	yoy chg	Previous FY16F
Turnover	5,666.3	4,743.2	19.5%	6,390.2	4,952.8	29.0%	12,056.5	9,696.0	24.3%	11,561.0
Cost of sales	(3,893.9)	(3,246.7)	19.9%	(4,345.8)	(3,490.6)	24.5%	(8,239.6)	(6,737.3)	22.3%	(7,934.8)
Gross profit	1,772.5	1,496.5	18.4%	2,044.5	1,462.2	39.8%	3,816.9	2,958.7	29.0%	3,626.1
Gross margin	31.3%	31.6%	-0.3ppts	32.0%	29.5%	2.5ppts	31.7%	30.5%	1.2ppts	31.4%
Other operating income	1.2	(14.4)	-108.3%	(7.4)	(48.5)	-84.7%	(6.2)	(62.9)	-90.1%	10.0
Distribution costs	(910.8)	(728.3)	25.1%	(1,164.0)	(837.1)	39.0%	(2,074.7)	(1,565.5)	32.5%	(1,930.7)
Distribution costs as % of net sales	16.1%	15.4%	0.7ppts	18.2%	16.9%	1.3ppts	17.2%	16.1%	1.1ppts	16.7%
General and administrative expenses	(348.3)	(285.6)	22.0%	(380.1)	(292.1)	30.1%	(728.4)	(577.7)	26.1%	(671.5)
G & A expenses as % of net sales	6.1%	6.0%	0.1ppts	5.9%	5.9%	0.1ppts	6.0%	6.0%	0.0ppts	5.8%
Operating profit	514.6	468.2	9.9%	493.0	284.4	73.3%	1,007.6	752.6	33.9%	1,034.0
Operating margin	9.1%	9.9%	-0.8ppts	7.7%	5.7%	2.0ppts	8.4%	7.8%	0.6ppts	8.9%
Interest income	1.9	2.2	-13.1%	2.8	2.5	14.4%	4.7	4.6	2.2%	4.5
Foreign exchange gain, net	(0.7)	2.3	-129.3%	(19.8)	(203.1)	-90.3%	(20.4)	(200.8)	-89.8%	(10.0)
Interest expenses	(102.1)	(57.9)	76.3%	(81.4)	(49.6)	63.9%	(183.5)	(107.6)	70.6%	(230.1)
Share of profits of associates	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0
Profit before tax	413.6	414.7	-0.3%	394.7	34.2	1054.4%	808.3	448.9	80.1%	798.4
Tax	(92.3)	(83.9)	10.0%	(62.5)	(50.5)	23.6%	(154.8)	(134.4)	15.2%	(199.6)
Net profit	321.4	330.8	-2.9%	332.2	-16.4	-2130.4%	653.5	314.4	107.9%	598.8

SOURCES: CIMB, COMPANY REPORTS

**Figure 3: Wood pulp price trend**



SOURCES: CIMB, COMPANY REPORTS

**Figure 4: Vinda's FY17 segment performance**

	Tissue		Personal Care	
	2015	2016	2015	2016
Revenue (HK\$m)	9,357	10,023	339	2,034
Gross profit margin	30.7%	32.1%	26.3%	29.7%
Segment results margin	11.0%	10.6%	-26.2%	5.0%

SOURCES: CIMB, COMPANY REPORTS

**Figure 5: Vinda's market share by region**

<b>Tissue (Tempo, Vinda, Tork)</b>
Joint #1 in China, 16%
#1 in Hong Kong, 45%
<b>Incontinence (Tena, Dr. P)</b>
#1 in Taiwan, 39%
#1 in Singapore, 71%
#1 in Malaysia, 55%
<b>Feminine (Libresse, Via)</b>
#2 in Malaysia, 26%
<b>Baby (Liberio, Drypers, Sealer)</b>
#1 in Malaysia, 39%
#3 in Singapore, 16%

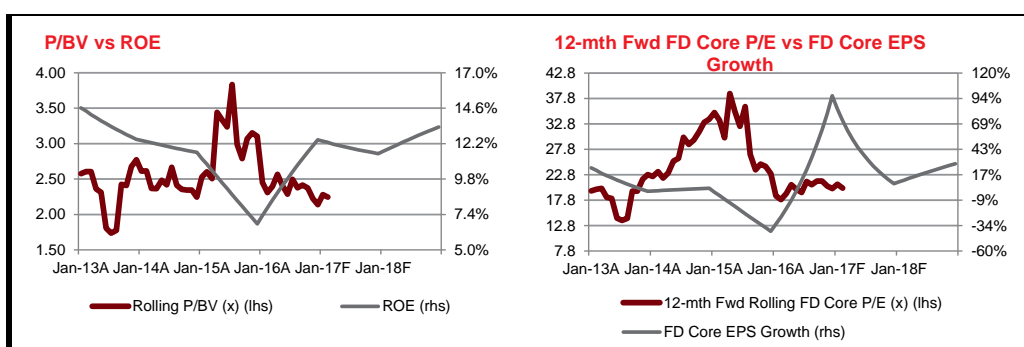
SOURCES: CIMB, COMPANY REPORTS

**Figure 6: Vinda's peer comps**

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)			3-year EPS	P/BV (x)		EV/EBITDA (x)		Dividend yield (x)	
			(LC\$)	(LC\$)	(US\$)	CY16F	CY17F	CY18F	CAGR (%)	CY16F	CY17F	CY16F	CY17F	CY16F	CY17F
Vinda	3331 HK	Add	15.2	17.2	2,232	22.8	21.1	16.4	20.7%	2.3	2.2	12.3	12.8	1.2%	1.3%
Hengan	1044 HK	Reduce	62.3	57.0	9,672	18.5	17.6	16.3	4.8%	4.0	3.7	11.7	10.9	3.5%	3.6%
C&S Paper	002511 CH	Non Rated	17.7	na	1,302	37.2	25.8	20.0	85.0%	3.3	2.9	16.7	13.5	0.3%	0.3%
Procter & Gamble	PG US	Non Rated	91.1	na	232,946	25.0	23.6	22.0	-1.2%	4.2	4.4	14.6	14.5	2.9%	3.0%
Kimberly Clark	KMB US	Non Rated	124.4	na	44,324	20.7	19.8	18.4	3.9%	N/A	N/A	12.8	12.1	2.9%	3.1%
Unicharm	8113 JP	Non Rated	2514.5	na	13,729	36.0	30.6	27.5	12.4%	3.7	3.4	13.9	12.9	0.6%	0.7%

SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(HK\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Total Net Revenues</b>	<b>9,696</b>	<b>12,057</b>	<b>13,537</b>	<b>15,272</b>	<b>16,531</b>
<b>Gross Profit</b>	<b>2,959</b>	<b>3,817</b>	<b>4,337</b>	<b>4,961</b>	<b>5,362</b>
<b>Operating EBITDA</b>	<b>1,216</b>	<b>1,685</b>	<b>1,687</b>	<b>2,043</b>	<b>2,186</b>
Depreciation And Amortisation	(464)	(677)	(406)	(424)	(443)
<b>Operating EBIT</b>	<b>753</b>	<b>1,008</b>	<b>1,281</b>	<b>1,619</b>	<b>1,743</b>
Financial Income/(Expense)	(103)	(179)	(191)	(228)	(218)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(201)	(20)	0	10	10
<b>Profit Before Tax (pre-EI)</b>	<b>484</b>	<b>904</b>	<b>1,094</b>	<b>1,404</b>	<b>1,539</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>449</b>	<b>808</b>	<b>1,090</b>	<b>1,401</b>	<b>1,535</b>
Taxation	(134)	(155)	(273)	(350)	(384)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>314</b>	<b>654</b>	<b>818</b>	<b>1,050</b>	<b>1,151</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>314</b>	<b>654</b>	<b>818</b>	<b>1,050</b>	<b>1,151</b>
Recurring Net Profit	339	731	820	1,053	1,154
<b>Fully Diluted Recurring Net Profit</b>	<b>339</b>	<b>731</b>	<b>820</b>	<b>1,053</b>	<b>1,154</b>

### Cash Flow

(HK\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>EBITDA</b>	<b>1,216</b>	<b>1,685</b>	<b>1,687</b>	<b>2,043</b>	<b>2,186</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(271)	911	(861)	(161)	(111)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	135	(121)	10	10	10
Net Interest (Paid)/Received	(119)	(176)	(195)	(233)	(223)
Tax Paid	(216)	(82)	(273)	(350)	(384)
<b>Cashflow From Operations</b>	<b>746</b>	<b>2,215</b>	<b>368</b>	<b>1,309</b>	<b>1,479</b>
Capex	(1,088)	(1,234)	(500)	(500)	(500)
Disposals Of FAs/subsidiaries	6	3	0	0	0
Acq. Of Subsidiaries/investments	0	302	0	0	0
Other Investing Cashflow	(137)	(105)	(12)	(2)	(2)
<b>Cash Flow From Investing</b>	<b>(1,220)</b>	<b>(1,035)</b>	<b>(512)</b>	<b>(502)</b>	<b>(502)</b>
Debt Raised/(repaid)	319	(820)	78	(500)	0
Proceeds From Issue Of Shares	8	401	0	0	0
Shares Repurchased					
Dividends Paid	(170)	(111)	(136)	(162)	(208)
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
<b>Cash Flow From Financing</b>	<b>158</b>	<b>(529)</b>	<b>(58)</b>	<b>(662)</b>	<b>(208)</b>
Total Cash Generated	(316)	651	(202)	146	769
<b>Free Cashflow To Equity</b>	<b>(155)</b>	<b>360</b>	<b>(65)</b>	<b>308</b>	<b>977</b>
<b>Free Cashflow To Firm</b>	<b>(355)</b>	<b>1,357</b>	<b>52</b>	<b>1,041</b>	<b>1,200</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(HK\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	393	1,015	814	960	1,729
Total Debtors	1,528	2,045	2,283	2,562	2,765
Inventories	2,367	1,785	2,192	2,316	2,355
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>4,288</b>	<b>4,845</b>	<b>5,289</b>	<b>5,838</b>	<b>6,849</b>
Fixed Assets	6,261	7,282	7,380	7,459	7,520
Total Investments	0	5	5	5	5
Intangible Assets	1,307	2,796	2,797	2,798	2,800
Total Other Non-Current Assets	647	700	701	702	702
<b>Total Non-current Assets</b>	<b>8,216</b>	<b>10,783</b>	<b>10,883</b>	<b>10,964</b>	<b>11,027</b>
Short-term Debt	1,253	1,222	1,300	800	800
Current Portion of Long-Term Debt					
Total Creditors	2,576	3,422	3,206	3,447	3,578
Other Current Liabilities	52	80	80	80	80
<b>Total Current Liabilities</b>	<b>3,882</b>	<b>4,724</b>	<b>4,586</b>	<b>4,327</b>	<b>4,458</b>
Total Long-term Debt	3,486	3,795	3,795	3,795	3,795
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	92	127	127	127	127
<b>Total Non-current Liabilities</b>	<b>3,578</b>	<b>3,922</b>	<b>3,922</b>	<b>3,922</b>	<b>3,922</b>
Total Provisions	96	203	203	203	203
<b>Total Liabilities</b>	<b>7,556</b>	<b>8,849</b>	<b>8,711</b>	<b>8,453</b>	<b>8,583</b>
Shareholders' Equity	4,948	6,780	7,461	8,349	9,293
Minority Interests	0	0	0	0	0
<b>Total Equity</b>	<b>4,948</b>	<b>6,780</b>	<b>7,461</b>	<b>8,349</b>	<b>9,293</b>

**Key Ratios**

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	21.4%	24.3%	12.3%	12.8%	8.2%
Operating EBITDA Growth	1.8%	38.5%	0.1%	21.1%	7.0%
Operating EBITDA Margin	12.5%	14.0%	12.5%	13.4%	13.2%
Net Cash Per Share (HK\$)	(4.35)	(4.00)	(3.91)	(3.20)	(2.52)
BVPS (HK\$)	4.95	6.78	6.82	7.34	8.17
Gross Interest Cover	7.32	6.01	6.58	6.98	7.84
Effective Tax Rate	29.9%	19.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	20.7%	21.4%	20.9%	20.9%	20.9%
Accounts Receivables Days	56.22	51.64	55.49	55.36	56.46
Inventory Days	119.1	92.2	78.9	79.8	76.3
Accounts Payables Days	130.7	131.0	130.0	116.4	113.6
ROIC (%)	8.7%	11.6%	11.6%	13.4%	14.2%
ROCE (%)	8.2%	10.2%	10.4%	12.6%	12.9%
Return On Average Assets	4.7%	7.7%	8.1%	9.9%	10.1%

SOURCE: CIMB RESEARCH, COMPANY DATA

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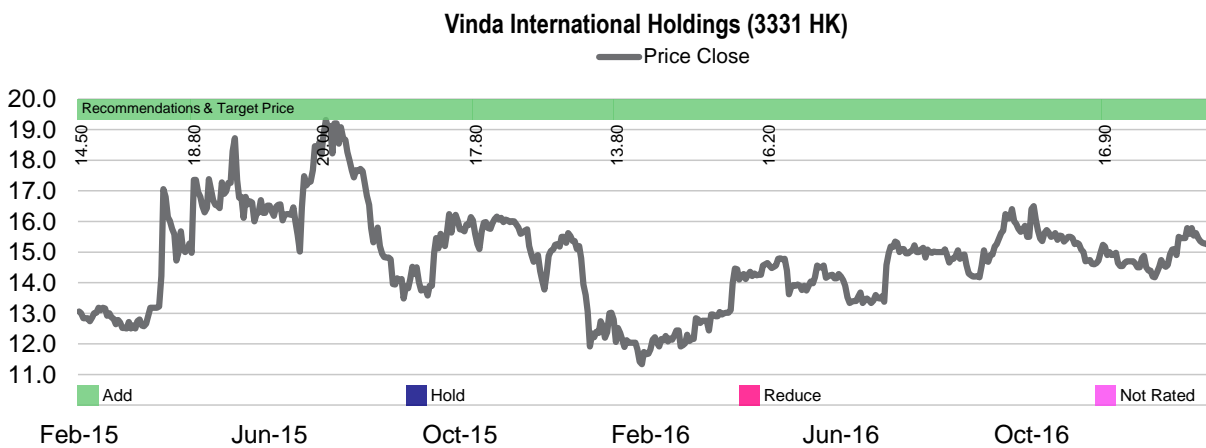
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Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

**Spitzer Chart for stock being researched ( 2 year data )**



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.**

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