

Company Note

I Hong Kong

ADD (no change)

Consensus ratings*: Buy 8 Hold 7 Sell 1

Current price:	HK\$13.38
Target price:	HK\$16.20
Previous target:	HK\$16.20
Up/downside:	21.1%
CIMB / Consensus:	13.0%
Reuters:	3331.HK
Bloomberg:	3331 HK
Market cap:	US\$1,961m
	HK\$15,208m
Average daily turnover:	US\$1.80m
	HK\$13.97m
Current shares o/s:	999.4m
Free float:	25.0%

* Source: Bloomberg

Key changes in this note

- FY16F Revenue increased by 4.4%.
- FY16F EPS increased by 0.8%
- FY16F ROE increased by 0.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.4	-6.3	-27
Relative (%)	-12.1	-9.3	-13.1

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

Analyst(s)



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Vinda International Holdings

An upcoming Asia hygiene powerhouse

- 1H16's net profit was in line with our expectation (54% of our full-year forecast), driven by rapid sales network expansion and product mix upgrade.
- We expect the strong sales momentum to continue, and believe growth in the personal care segment will accelerate.
- We fine tune our FY16-18 EPS forecasts by between -0.4% and 0.8%.
- Maintain Add, DCF-based target price remains at HK\$16.20 (WACC:8.7%).

Solid 1H16 results

Vinda's 1H16 net profit slipped 2% yoy to HK\$321m. The topline grew by a strong 19.5% due to sales network expansion and rapid e-commerce channel growth. GPM contracted by a slight 0.3% pts yoy to 31.3%, as Vinda started to use cheaper wood pulp since 2Q16. OPM was down 0.9% pts yoy due to brand building activities and higher amortisation due to the SCA Asia acquisition; partially offset by lower FX loss with the shift towards Rmb loan exposure. An interim dividend of HK\$0.05/share was proposed.

Strong sales growth momentum to continue

High-end Tempo tissue maintained its solid growth as it was further rolled out in China. Organic growth of the tissue segment remained volume driven (+12.5% yoy), as ASP stayed stable (+1.5% yoy). Product mix upgrade continued. There was also a tailwind from the successful penetration into e-commerce channels, as topline contribution rose to 17% in 1H16, from 14% in FY15. Vinda has remained the market leader in most e-commerce platforms, and we expect this to drive topline growth by 18.7% in FY16.

Personal care segment growth likely to accelerate

Prior to the SCA Asia acquisition in April, Vinda's lack of production capability in the personal care segment was a limiting factor. With the addition of 3 production plants in Malaysia and Taiwan, we expect the organic personal care segment growth to reach 30% in FY16.

On its way to becoming an Asia hygiene powerhouse

Vinda gained end-market access to multiple Asian countries in which SCA Asia's personal care products hold various market leadership positions. Management will begin launching its tissue products in some Southeast Asian test markets in 3Q16, as they believe the paper quality of tissue products in these countries is still low. We anticipate the expansion into new markets to be a growth driver for FY17.

Reduced FX exposure in borrowings

Forex losses from foreign currency debt (HK\$201m) dampened Vinda's earnings in FY15. Since then, Vinda has increased its Rmb-denominated debt to 61% in 1H16, from just 10% in 1H15, and has only incurred a HK\$0.7m financing FX loss in 1H16. We believe this should help alleviate a key investor concern on this stock.

Maintain Add

Maintain Add, with an unchanged DCF-based target price of HK\$16.20 as we adjust FY16-18F EPS by -0.4% to 0.8%. Strong sales momentum is expected to continue as Vinda expands into new markets. Tissue roll-out to Asia markets is a mid-term catalyst, and lower FX debt exposure will alleviate investors' concerns. Downside risks include slower-than-expected growth from the personal care segment.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (HK\$m)	7,985	9,696	11,513	12,944	14,367
Operating EBITDA (HK\$m)	1,195	1,216	1,413	1,684	2,016
Net Profit (HK\$m)	593	314	597	787	1,034
Core EPS (HK\$)	0.56	0.34	0.60	0.79	1.04
Core EPS Growth	3.4%	(40.0%)	77.1%	31.7%	31.2%
FD Core P/E (x)	23.69	39.51	22.31	16.94	12.91
DPS (HK\$)	0.16	0.10	0.17	0.22	0.29
Dividend Yield	1.19%	0.75%	1.25%	1.65%	2.16%
EV/EBITDA (x)	14.32	14.58	12.37	10.14	8.14
P/FCFE (x)	NA	NA	20.72	67.97	50.44
Net Gearing	73.7%	87.8%	74.5%	59.4%	42.5%
P/BV (x)	2.63	2.70	2.44	2.16	1.88
ROE	11.6%	6.8%	11.5%	13.5%	15.6%
% Change In Core EPS Estimates			0.74%	0.29%	(0.46%)
CIMB/consensus EPS (x)			0.88	1.05	1.25

SOURCE: COMPANY DATA, CIMB FORECASTS

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Distribution expenses ratio likely to increase in 2H16

Competitors such as Hengan have stepped up their promotions in the tissue segment beginning May. Coupled with Vinda's priority in expanding the reach of its personal care segment, we expect a ramp up in the distribution expenses ratio by 0.8% pts in FY16.

Figure 1: Earnings revision

	FY16F			FY17F			FY18F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (HK\$m)	11,028.4	11,513.5	4.4%	12,281.0	12,944.4	5.4%	13,548.8	14,367.1	6.0%
Gross margin	31.1%	31.4%	0.3%	31.2%	31.5%	0.3%	31.4%	31.8%	0.4%
Distribution expen/sales	15.9%	16.7%	0.8%	15.7%	16.1%	0.4%	15.4%	15.4%	0.0%
Operating margin	8.9%	9.0%	0.1%	9.7%	9.9%	0.2%	10.5%	11.1%	0.5%
Reported net profit (HK\$m)	592.6	597.2	0.8%	784.8	787.2	0.3%	1,038.5	1,033.9	-0.4%

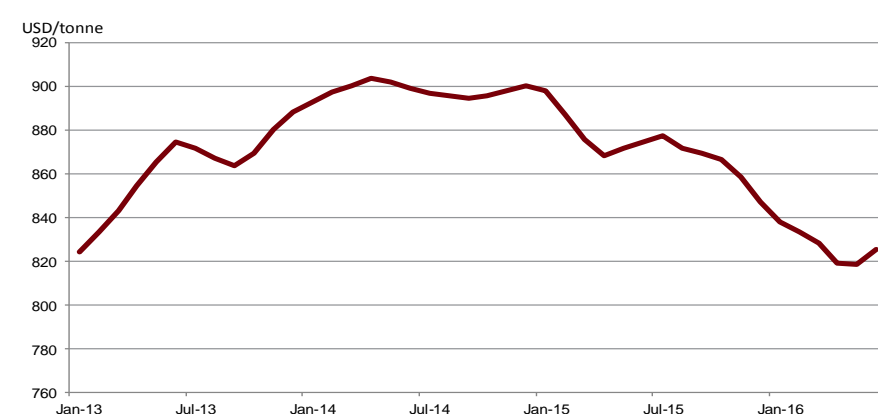
SOURCES: CIMB, COMPANY REPORTS

Figure 2: 1H16 results review

HK\$m	1H16	1H15	yoy	2H16F	2H15	yoy	FY16F	FY15	yoy chg
Turnover	5,666.3	4,743.2	19.5%	5,847.1	4,952.8	18.1%	11,513.5	9,696.0	18.7%
Cost of sales	(3,893.9)	(3,246.7)	19.9%	(4,006.3)	(3,490.6)	14.8%	(7,900.2)	(6,737.3)	17.3%
Gross profit	1,772.5	1,496.5	18.4%	1,840.8	1,462.2	25.9%	3,613.3	2,958.7	22.1%
Gross margin	31.3%	31.6%	-0.3ppts	31.5%	29.5%	2.0ppts	31.4%	30.5%	0.9ppts
Other operating income	1.2	(14.4)	-108.3%	8.8	(48.5)	-118.1%	10.0	(62.9)	-115.9%
Distribution costs	(910.8)	(728.3)	25.1%	(1,012.0)	(837.1)	20.9%	(1,922.8)	(1,565.5)	22.8%
Distribution costs as % of net sales	16.1%	15.4%	0.7ppts	17.3%	16.9%	0.4ppts	16.7%	16.1%	0.6ppts
General and administrative expenses	(348.3)	(285.6)	22.0%	(320.4)	(292.1)	9.7%	(668.7)	(577.7)	15.8%
G & A expenses as % of net sales	6.1%	6.0%	0.1ppts	5.5%	5.9%	-0.4ppts	5.8%	6.0%	-0.2ppts
Operating profit	514.6	468.2	9.9%	517.3	284.4	81.9%	1,031.8	752.6	37.1%
Operating margin	9.1%	9.9%	-0.8ppts	8.8%	5.7%	3.1ppts	9.0%	7.8%	1.2ppts
Interest income	1.9	2.2	-13.1%	2.6	2.5	6.3%	4.5	4.6	-2.2%
Foreign exchange gain, net	(0.7)	2.3	-129.3%	(9.3)	(203.1)	-95.4%	(10.0)	(200.8)	-95.0%
Interest expenses	(102.1)	(57.9)	76.3%	(127.9)	(49.6)	157.7%	(230.1)	(107.6)	113.8%
Share of profits of associates	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%	382.6	34.2	1019.2%	796.3	448.9	77.4%
Tax	(92.3)	(83.9)	10.0%	(106.8)	(50.5)	111.2%	(199.1)	(134.4)	48.1%
Net profit	321.4	330.8	-2.9%	275.8	-16.4	-1786.1%	597.2	314.4	89.9%

SOURCES: CIMB, COMPANY REPORTS

Figure 3: Wood pulp prices (USD/tonne)



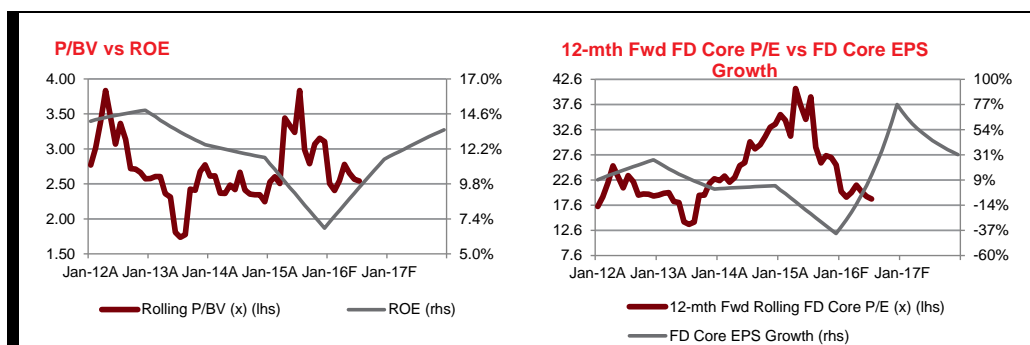
SOURCES: CIMB, BLOOMBERG

Figure 4: Revenue breakdown by distribution channel

	1H16	FY15
Traditional channels (Distributors)	44%	46%
B2B (Corporate Clients)	11%	12%
Modern channels (Hypermarkets, supermarkets)	28%	29%
E-commerce	17%	13%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(HK\$m)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	7,985	9,696	11,513	12,944	14,367
Gross Profit	2,409	2,959	3,613	4,081	4,571
Operating EBITDA	1,195	1,216	1,413	1,684	2,016
Depreciation And Amortisation	(373)	(464)	(382)	(403)	(425)
Operating EBIT	822	753	1,032	1,281	1,591
Financial Income/(Expense)	(79)	(103)	(226)	(231)	(223)
Pretax Income/(Loss) from Assoc.	(5)	0	0	0	0
Non-Operating Income/(Expense)	(1)	(201)	(10)	0	10
Profit Before Tax (pre-EI)	753	484	800	1,053	1,382
Exceptional Items					
Pre-tax Profit	737	449	796	1,050	1,378
Taxation	(144)	(134)	(199)	(262)	(345)
Exceptional Income - post-tax					
Profit After Tax	593	314	597	787	1,034
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	593	314	597	787	1,034
Recurring Net Profit	564	339	600	790	1,037
Fully Diluted Recurring Net Profit	564	339	600	790	1,037

Cash Flow

(HK\$m)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	1,195	1,216	1,413	1,684	2,016
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(173)	(271)	(172)	(185)	(185)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(25)	135	8	8	8
Net Interest (Paid)/Received	(100)	(119)	(230)	(236)	(227)
Tax Paid	(59)	(216)	(199)	(262)	(345)
Cashflow From Operations	839	746	821	1,008	1,267
Capex	(1,018)	(1,088)	(500)	(500)	(500)
Disposals Of FAs/subsidiaries	24	6	0	0	0
Acq. Of Subsidiaries/investments	(1,350)	0	0	0	0
Other Investing Cashflow	(28)	(137)	(22)	(12)	(2)
Cash Flow From Investing	(2,372)	(1,220)	(522)	(512)	(502)
Debt Raised/(repaid)	(313)	319	347	(300)	(500)
Proceeds From Issue Of Shares	0	8	0	0	0
Shares Repurchased					
Dividends Paid	(148)	(170)	(50)	(84)	(110)
Preferred Dividends					
Other Financing Cashflow	2,029	0	0	0	0
Cash Flow From Financing	1,569	158	297	(384)	(610)
Total Cash Generated	35	(316)	596	113	155
Free Cashflow To Equity	(1,846)	(155)	646	197	265
Free Cashflow To Firm	(1,434)	(355)	529	733	992

BY THE NUMBERS

Balance Sheet

(HK\$m)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	720	393	989	1,103	1,258
Total Debtors	1,585	1,528	1,802	2,018	2,233
Inventories	2,029	2,367	2,469	2,649	2,794
Total Other Current Assets	1	0	0	0	0
Total Current Assets	4,336	4,288	5,261	5,770	6,284
Fixed Assets	5,902	6,261	6,384	6,484	6,564
Total Investments	0	0	0	0	0
Intangible Assets	1,400	1,307	1,308	1,309	1,310
Total Other Non-Current Assets	565	647	650	653	656
Total Non-current Assets	7,867	8,216	8,342	8,447	8,531
Short-term Debt	1,556	1,253	1,600	1,300	800
Current Portion of Long-Term Debt					
Total Creditors	2,349	2,576	2,781	2,992	3,166
Other Current Liabilities	114	52	52	52	52
Total Current Liabilities	4,020	3,882	4,434	4,344	4,018
Total Long-term Debt	2,909	3,486	3,486	3,486	3,486
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	99	92	92	92	92
Total Non-current Liabilities	3,008	3,578	3,578	3,578	3,578
Total Provisions	95	96	96	96	96
Total Liabilities	7,122	7,556	8,108	8,018	7,693
Shareholders' Equity	5,081	4,948	5,495	6,199	7,122
Minority Interests	0	0	0	0	0
Total Equity	5,081	4,948	5,495	6,199	7,122

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	17.5%	21.4%	18.7%	12.4%	11.0%
Operating EBITDA Growth	21.7%	1.8%	16.2%	19.1%	19.7%
Operating EBITDA Margin	15.0%	12.5%	12.3%	13.0%	14.0%
Net Cash Per Share (HK\$)	(3.75)	(4.35)	(4.09)	(3.68)	(3.03)
BVPS (HK\$)	5.09	4.95	5.49	6.20	7.12
Gross Interest Cover	10.14	7.32	4.50	5.45	7.02
Effective Tax Rate	19.5%	29.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	21.2%	20.7%	20.9%	20.9%	20.9%
Accounts Receivables Days	64.22	56.22	50.88	52.04	52.36
Inventory Days	120.2	119.1	112.0	105.4	101.4
Accounts Payables Days	135.1	130.7	121.3	116.4	112.5
ROIC (%)	12.5%	8.7%	10.9%	13.1%	15.8%
ROCE (%)	9.9%	8.2%	10.2%	11.9%	14.2%
Return On Average Assets	7.7%	4.7%	7.9%	9.2%	11.1%

SOURCE: CIMB RESEARCH, COMPANY DATA

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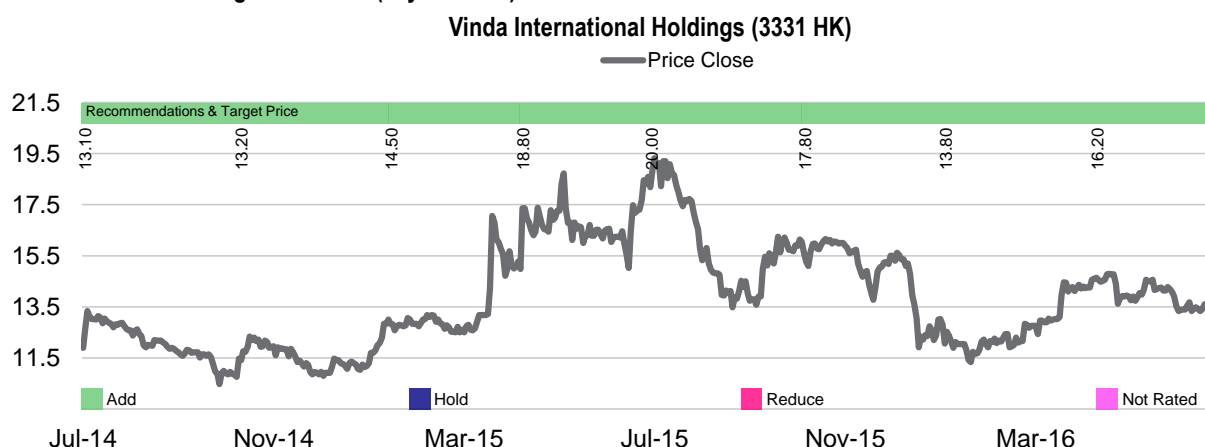
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2016		
1574 companies under coverage for quarter ended on 30 June 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	7.1%
Hold	32.2%	2.9%
Reduce	9.8%	0.6%

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 2015, Anti-Corruption Progress Indicator 2015.

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Level 4: Certified

Level 5: Extended.

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Definition:

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.