

China / Hong Kong Company Update

Vinda Int'l

Bloomberg: 3331 HK EQUITY | Reuters: 3331.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Oct 2020

BUY

Last Traded Price (22 Oct 2020): HK\$22.80 (HSI : 24,786)

Price Target 12-mth: HK\$29.41 (29% upside) (Prev HK\$33.67)

Analyst

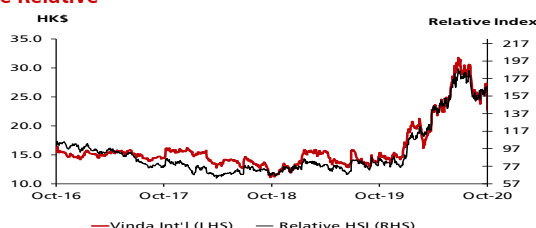
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What's New

- **Currently trading at an undemanding c.10x FY21F PE as share price has corrected by c.20% post 3Q20 operating results**
- **Expect 4Q20F sales to return to the growth track thanks to Double 11 sales as more promotion effort will be in place**
- **Premium product and online sales continued to see 20%+ growth in 3Q20 and such trend should sustain in the medium term**
- **We cut FY20F/21F earnings by 6%/5% to reflect slower growth of 3Q20. Reiterate BUY with lower TP of HK\$29.41**

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2019A	2020F	2021F	2022F
Turnover	16,074	16,452	17,546	18,675
EBITDA	2,678	3,576	3,648	3,975
Pre-tax Profit	1,371	2,309	2,346	2,646
Net Profit	1,138	1,848	1,900	2,197
Net Pft (Pre Ex) (core profit)	1,138	1,848	1,900	2,197
Net Profit Gth (Pre-ex) (%)	75.3	62.3	2.8	15.6
EPS (HK\$)	0.95	1.55	1.59	1.84
EPS (HK\$)	0.95	1.55	1.59	1.84
EPS Gth (%)	75.2	62.3	2.8	15.6
Diluted EPS (HK\$)	0.95	1.54	1.59	1.84
DPS (HK\$)	0.28	0.45	0.47	0.54
BV Per Share (HK\$)	7.92	9.00	9.28	9.80
PE (X)	23.9	14.7	14.3	12.4
P/Cash Flow (X)	10.8	9.1	8.1	8.2
P/Free CF (X)	21.1	18.0	14.3	14.9
EV/EBITDA (X)	11.6	8.5	8.2	7.6
Net Div Yield (%)	1.2	2.0	2.0	2.4
P/Book Value (X)	2.9	2.5	2.5	2.3
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
ROAE (%)	12.5	18.3	17.4	19.3

Earnings Rev (%): (6) (5) (9)
 Consensus EPS (HK\$) 1.58 1.70 1.91
 Other Broker Recs: B: 18 S: 1 H: 0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Weak sales concerns overdone: Likely bouncing back in 4Q20

Investment Thesis

Buy the dip: Short-term disruption overdone. Sluggish 3Q20 sales have triggered Vinda's share price to correct by c.20%. The stock is currently trading at c.10x FY21F PE, close to 1SD below of its 4-year average, undemanding in our view.

Double 11 sales set to be a short-term catalyst. Given Vinda's larger online market share and excellent relationships with e-commerce platforms, we believe it is likely to achieve mid-teen growth in 4Q20 on the back of strengthened promotion.

Dual growth engine: Premium products and online sales. We expect premium products to sustain double-digit growth in the medium term (28% sales contribution in 3Q20). Online sales (34% of Vinda's sales in 9M20) should also continue to drive sustainable growth.

Valuation:

We have cut our FY20F/21F/22F earnings forecasts by 6%/5%/9% on the company's underperformance in 3Q20. Our new TP is HK\$29.4 based on 18.5x FY21F PE (previously 20x), which is equivalent to its 4-year average PE.

Where we differ:

We believe 3Q20's muted sales were only temporary due to increasing market competition. 4Q20F sales are likely to return to the growth track once more promotions are in place.

Key Risks to Our View:

Faster-than-expected raw material price hikes; intensified market competition, resurgence of COVID-19 cases.

At A Glance

Issued Capital (m shrs)	1,195
Mkt Cap (HK\$m/US\$m)	27,246 / 3,516
Major Shareholders (%)	
Essity Aktiebolag (publ)	51.8
Fu An International Co., Ltd.	22.6
Free Float (%)	25.6
3m Avg. Daily Val. (US\$m)	9.93
GICS Industry: Consumer Staples / Household & Personal Products	



Live more, Bank less

WHAT'S NEW

Vinda (3331.HK) has released its operating data for 3Q20 with key takeaways as follows:

Muted sales in 3Q20 on intensifying competition. Sales were flattish at RMB3.8bn in 3Q20 vs. 25% sales increase in 2Q20, mainly due to intensifying market competition. Despite double-digit growth of its premium brands (e.g. Tempo grew 30%+ y-o-y), sales volume in 3Q20 was largely flattish dragged by underperformance of the lower-to-mid-end products. By 3Q20, premium products accounted for 28% of overall sales vs. 23% in 3Q19. However, the product mix improvement was also offset by higher discounts on some of Vinda's products. Channel-wise, online sales continued to see 20%+ growth in 3Q20, while offline channel remained under pressure. In 9M20, its online sales contributed c.34% of group revenue and 44% of China sales.

Margins saw y-o-y improvement, but still lower than in 1H20. GP margin expanded by 5.6ppts to 36.9% (vs. 38.5% in 1H20) while OP margin increased by 4.6ppts to 14.2% in 3Q20 (vs. 16.5% in 1H20). This was mainly due to 1) limited sales discounts in 1H20 except for "618" as sales were mainly driven by channel refilling, 2) smaller promotion efforts in 1H20 as compared to 3Q20 which saw increased competition.

Intensified competition in tissue sector. We understand C&S (002511.CH, Not rated) offered attractive discounts on its products in 3Q20 and this should have led to decent sales growth and market share expansion. However, according to C&S's preliminary results, its earnings are expected to grow at 30-50% vs. a similar growth of 48% for Vinda's operating income in 3Q20, despite Vinda's slower sales growth. This implies that C&S had offered more price discount and spent more A&P expenses. We believe Vinda has shifted its focus on regaining its market share and achieve sales growth in 4Q20F and expect the company to ramp up its promotional efforts to catch up with peers.

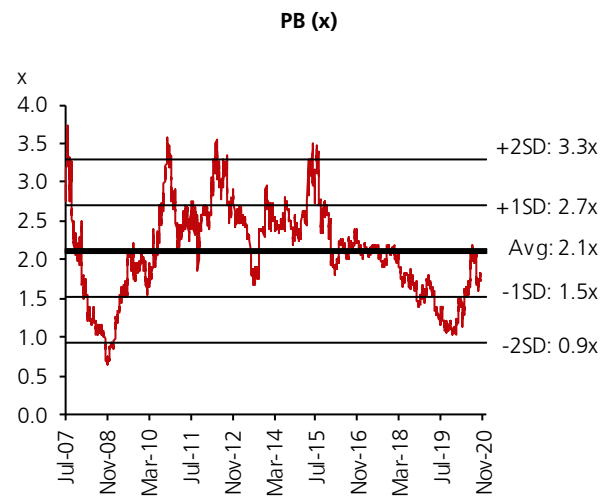
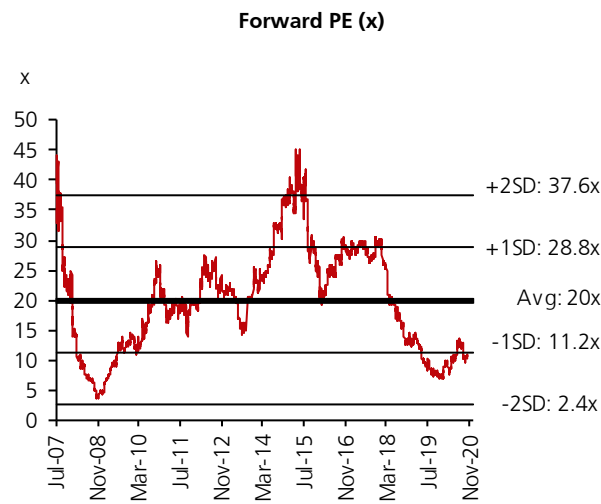
4Q20F outlook: All eyes on double 11. We expect Vinda to achieve mid-teen sales growth in 4Q20, driven by strong online sales, especially during Double 11 shopping festival. The online channel has been Vinda's traditional strength given its larger market share and close relationship with major e-commerce platforms. We believe the company would also increase its discounts and A&P efforts to boost sales volume. We estimate its GP/OP margin to be at 36.1%/13.8% in 4Q20F, similar to its 3Q20 level.

Maintain BUY with TP of HK\$29.4. In view of the underperformance in 3Q20, we have lowered our FY20F/21F/22F earnings forecasts by 6%/5%/9%. Vinda's share price has dropped by c.20% since the announcement of its 3Q20 operating results, and is currently trading at c.10x FY21F PE, about 1SD below its 4-year average, undemanding in our view. We believe that the share price has already factored in the sales weakness in 3Q20 and the company should be able to regain ground quickly in 4Q20. Going forward, we are still positive about Vinda's premium product growth and online channel advantage in the medium term.

Company Background

Vinda is a manufacturer of personal hygiene products including tissue, feminine and baby care under the brands "Vinda", "Tempo", "Tork", "TENA", "Dr. P", "Libresse", "VIA", "Libero" and "Drypers". In recent years, Vinda has been actively expanding its premium tissue products. In 2019, Vinda relaunched its feminine care brand "Libresse" in mainland China.

Historical PE and PB



Source: Thomson Reuters, DBS HK

Key Assumptions

FY	2018A	2019A	2020F	2021F	2022F
Tissue sales	12,111.5	13,254.0	13,535.7	14,513.6	15,460.3
Personal care sales	2,767.1	2,820.3	2,916.2	3,032.8	3,214.8
Tissue gross margin	27.6	31.4	37.9	36.2	36.7
Personal care gross margin	30.4	29.1	35.0	33.0	33.0
E-commerce channel growth	31.3	25.3	27.0	23.0	20.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (HK\$ m)					
Tissue	12,111	13,254	13,536	14,514	15,460
Personal care	2,767	2,820	2,916	3,033	3,215
Total	14,879	16,074	16,452	17,546	18,675
Segment revenue (HK\$ m)					
Tissue	977	1,537	2,468	2,645	2,888
Personal care	222	186	355	306	337
Total	1,199	1,722	2,823	2,951	3,225
Segment revenue Margins (%)					
Tissue	8.1	11.6	18.2	18.2	18.7
Personal care	8.0	6.6	12.2	10.1	10.5
Total	8.1	10.7	17.2	16.8	17.3

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	14,879	16,074	16,452	17,546	18,675
Cost of Goods Sold	(10,692)	(11,089)	(10,296)	(11,288)	(11,944)
Gross Profit	4,187	4,985	6,155	6,258	6,731
Other Opng (Exp)/Inc	(3,167)	(3,416)	(3,665)	(3,740)	(3,917)
Operating Profit	1,020	1,570	2,490	2,518	2,814
Other Non Opng (Exp)/Inc	(6)	(6)	(6)	(6)	(6)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(216)	(193)	(175)	(167)	(162)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	798	1,371	2,309	2,346	2,646
Tax	(148)	(232)	(462)	(446)	(450)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	649	1,138	1,848	1,900	2,197
Net Profit before Except.	649	1,138	1,848	1,900	2,197
EBITDA	1,962	2,678	3,576	3,648	3,975
Growth					
Revenue Gth (%)	10.3	8.0	2.3	6.7	6.4
EBITDA Gth (%)	8.8	36.5	33.5	2.0	9.0
Opg Profit Gth (%)	3.7	53.9	58.6	1.1	11.7
Net Profit Gth (%)	4.6	75.3	62.3	2.8	15.6
Margins & Ratio					
Gross Margins (%)	28.1	31.0	37.4	35.7	36.0
Opg Profit Margin (%)	6.9	9.8	15.1	14.4	15.1
Net Profit Margin (%)	4.4	7.1	11.2	10.8	11.8
ROAE (%)	7.4	12.5	18.3	17.4	19.3
ROA (%)	3.4	5.9	9.6	9.4	10.5
ROCE (%)	5.8	9.1	13.5	13.3	14.7
Div Payout Ratio (%)	36.8	29.4	29.4	29.4	29.4
Net Interest Cover (x)	4.7	8.1	14.3	15.1	17.4

Source: Company, DBS HK

Balance Sheet (HK\$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	8,997	8,858	9,185	9,384	9,611
Invts in Associates & JVs	0	3	3	3	3
Other LT Assets	4,285	4,491	4,573	4,663	4,762
Cash & ST Invts	574	460	775	981	1,020
Inventory	2,746	3,223	2,166	3,742	2,509
Debtors	2,428	2,214	2,282	2,500	2,591
Other Current Assets	37	32	33	35	37
Total Assets	19,068	19,281	19,017	21,308	20,533
ST Debt	1,023	584	584	584	584
Creditors	4,436	4,604	3,450	5,380	3,963
Other Current Liab	191	422	375	372	369
LT Debt	4,223	3,572	3,200	3,200	3,200
Other LT Liabilities	465	636	657	680	705
Shareholder's Equity	8,730	9,463	10,751	11,092	11,712
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	19,068	19,281	19,017	21,308	20,533
Non-Cash Wkg. Capital	584	443	656	526	805
Net Cash/(Debt)	(4,671)	(3,696)	(3,009)	(2,804)	(2,764)
Debtors Turn (avg days)	58.1	52.7	49.9	49.7	49.7
Creditors Turn (avg days)	167.2	165.3	114.2	115.9	116.0
Inventory Turn (avg days)	108.5	109.2	95.5	95.5	95.5
Asset Turnover (x)	0.8	0.8	0.9	0.9	0.9
Current Ratio (x)	1.0	1.1	1.2	1.1	1.3
Quick Ratio (x)	0.5	0.5	0.7	0.5	0.7
Net Debt/Equity (X)	0.5	0.4	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.5	0.4	0.3	0.3	0.2
Capex to Debt (%)	21.8	29.4	38.9	38.9	39.0
Z-Score (X)	NA	NA	NA	NA	NA

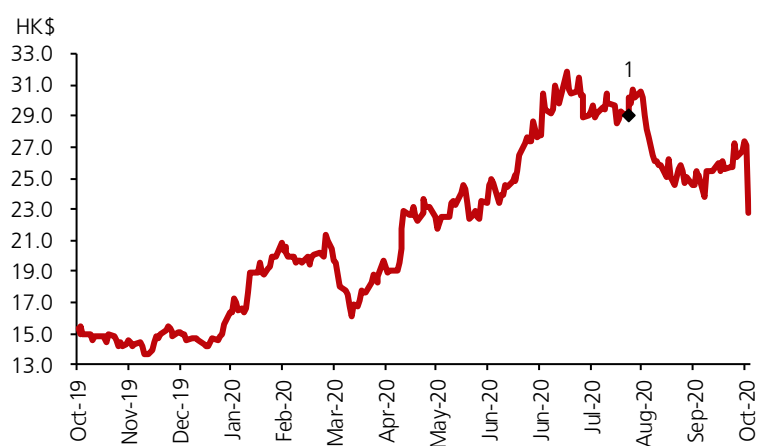
Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	798	1,371	2,309	2,346	2,646
Dep. & Amort.	943	1,109	1,086	1,130	1,161
Tax Paid	(185)	(173)	(343)	(331)	(334)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	(17)	0	0	0
Chg in Wkg.Cap.	(282)	153	(165)	135	(274)
Other Operating CF	59	70	95	100	106
Net Operating CF	1,332	2,514	2,982	3,380	3,306
Capital Exp.(net)	(1,146)	(1,224)	(1,472)	(1,474)	(1,474)
Other Invts.(net)	(60)	(65)	(68)	(71)	(75)
Invts in Assoc. & JV	0	(3)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	22	19	16	30	29
Net Investing CF	(1,184)	(1,273)	(1,524)	(1,515)	(1,519)
Div Paid	(239)	(251)	(543)	(558)	(646)
Chg in Gross Debt	178	(1,028)	(500)	(1,000)	(1,000)
Capital Issues	5	3	0	0	0
Other Financing CF	0	(71)	(71)	(71)	(71)
Net Financing CF	(57)	(1,347)	(1,114)	(1,630)	(1,717)
Currency Adjustments	0	0	0	0	0
Chg in Cash	91	(106)	344	235	69
Opg CFPS (HK\$)	1.35	1.98	2.63	2.71	3.00
Free CFPS (HK\$)	0.16	1.08	1.26	1.59	1.53

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	17-Aug-20	HK\$29.10	HK\$33.67	Buy

Source: DBS HK

Analyst: Vincent YANG

Mavis HUI

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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