



Company Report: Vinda International (03331 HK)

公司报告: 维达国际 (03331 HK)

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GTJA Research 国泰君安研究

Rich Valuation on Slow Earnings Growth in 2015

2015年业绩低增长, 估值不算十分吸引

- SCA and V-Care contributed 2.6% of total revenue to Vinda in 2014 and Vinda's 2014 results beat market expectation on lower-than-expected FOREX loss. Wet-wipes and E-commerce business are two growth drivers of the Company with higher profitability than other products and distribution channels. **SCA lent HK\$2.0 billion to Vinda and effective interest rate is expected to be at least 1ppt lower than bank borrowings.**
- Vinda offers better products with premium pricing. Though expected to achieve success in the long run, short term price competition is inevitable due to oversupply of tissue paper in China. **In addition, RMB depreciation, which has missed our previous expectation, harms both top-line and bottom-line.** Incorporation of SCA business may not post immediate positive impact to the Company's earnings in 2015. We revise down Vinda's EPS in 2015 by 9.6%. To conclude, we expect Vinda's EPS to arrive at HK\$0.619, HK\$0.777 and HK\$0.859 in 2015-2017, respectively.
- **With lower sales and gross margin assumptions, our earnings forecast for 2015 is roughly 5% below market consensus.** Valuation is just fair and thus, we downgrade Vinda's investment rating to "Neutral" but maintain TP at HK\$13.00, which represents 21.0x 2015 PER, 16.7x 2016 PER and 15.1x 2017 PER. Such valuation is very close to the historical valuation of the Company and we think premium valuation will not be awarded to Vinda under weak market sentiment towards F&B sector.
- 爱生雅及维安洁于2014年贡献维达收入2.6%, 而受惠于汇兑亏损较预期为少, 维达2014年业绩胜市场预期。湿巾及网购预期将推动公司增长, 而该产品及渠道较其他产品及渠道的利润率为高。**爱生雅合共贷款20亿港元予维达, 而有效利率预期较银行贷款低最少1个百分点。**
- 维达较同业提供更好的产品予消费者, 但相对地价格较高。虽然该策略长期将成功, 但短期中国生活用纸产能过剩下价格竞争将不可避免。另一方面, **人民币贬值对公司收入及净利均有负面影响, 情况较我们此前预期为差。**合并爱生雅业务预期不会于2015年对公司有重大的贡献。我们下调维达2015年每股净利9.6%。综合而言, 我们预期维达2015-2017年每股净利分别为0.619、0.777及0.859港元。
- 由于较低的收入及毛利率预测, 我们对维达2015年的净利预期较市场低约5%。估值一般, 因此, 我们下调维达的投资评级至“中性”, 但目标价维持在13.00港元, 相当于21.0倍2015年市盈率、16.7倍2016年市盈率及15.1倍2017年市盈率。现估值与公司历史估值相若, 我们认为食品饮料板块的投资气氛比较疲弱, 投资者不会给过高的估值予维达。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

HK\$13.00

Revised from 原目标价:

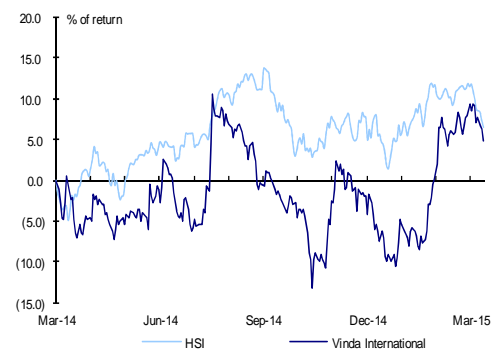
HK\$13.00

Share price 股价:

HK\$12.640

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(1.1)	11.9	4.8
Rel. % to HS index 相对恒指变动 %	1.4	10.1	(1.7)
Avg. share price(HK\$) 平均股价 (港元)	12.9	12.0	11.9

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
FY13A	6,798	543	0.543	(0.4)	23.3	4.654	2.7	0.156	1.2	12.4
FY14A	7,985	593	0.594	9.4	21.3	5.089	2.5	0.160	1.3	12.2
FY15F	9,502	618	0.619	4.1	20.4	5.470	2.3	0.185	1.5	11.7
FY16F	10,701	776	0.777	25.6	16.3	6.089	2.1	0.210	1.7	13.5
FY17F	11,914	858	0.859	10.5	14.7	6.767	1.9	0.235	1.9	13.4

Shares in issue (m) 总股数 (m)	998.5	Major shareholder 大股东	SCA 51.4%
Market cap. (HK\$ m) 市值 (HK\$ m)	12,620.8	Free float (%) 自由流通比率 (%)	25.0
3 month average vol. 3 个月平均成交股数 ('000)	462.0	FY15 Net gearing (%) 15 年净负债/股东资金 (%)	71.2
52 Weeks high/low (HK\$) 52 周高/低	13.340 / 10.480	FY14-17 PEG (x) 市盈率/增长率 (倍)	1.6

Source: the Company, Guotai Junan International.

Vinda International 维达国际 (03331 HK)

Company Report

SCA and V-Care Contributed HK\$205 Million in Sales to Vinda in 2014. Vinda consolidated SCA's results in 4Q14 and revenue contributed by such business amounted to HK\$173 million in 2014. Excluding such contribution (but includes contribution from V-Care), adjusted revenue of Vinda in 4Q14 amounted to HK\$2,170 million, up 15.8% YoY. On the other hand, Vinda also consolidated V-Care's results since August. Such business contributed revenue of HK\$32 million during August and December 2014 but this is likely that V-Care reported negative sales growth in 2014 as V-Care's sales amounted to HK\$91 million in 2013. Excluding new contributions from SCA and V-Care, adjusted revenue of Vinda in 2014 was HK\$7,781 million, up 14.5% YoY.

Table-1: Quarterly Results Breakdown

HK\$ million	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	1,621	1,692	1,612	1,874	1,768	1,912	1,963	2,342
YoY Growth	n.a.	n.a.	n.a.	n.a.	9.1%	13.0%	21.8%	25.0%
Gross Profit	462	497	434	579	515	571	617	706
YoY Growth	n.a.	n.a.	n.a.	n.a.	11.4%	15.1%	42.2%	21.8%
Gross Margin	28.5%	29.4%	26.9%	30.9%	29.1%	29.9%	31.4%	30.1%
YoY Growth	n.a.	n.a.	n.a.	n.a.	0.6 ppt	0.5 ppt	4.5 ppt	-0.8 ppt
Core Operating Expenses *	301	274	311	373	370	371	438	447
YoY Growth	n.a.	n.a.	n.a.	n.a.	22.9%	35.3%	40.7%	20.1%
Core Operating Profit **	161	223	123	207	145	201	179	258
YoY Growth	n.a.	n.a.	n.a.	n.a.	-10.1%	-9.9%	46.1%	25.0%
Core Operating Margin	9.9%	13.2%	7.6%	11.0%	8.2%	10.5%	9.1%	11.0%
YoY Growth	n.a.	n.a.	n.a.	n.a.	-1.7 ppt	-2.7 ppt	1.5 ppt	SAME

Source: the Company, Guotai Junan International.

* Net of other income/gains.

** Include FOREX which was stated in other income.

Rising Contribution from Wet Wipes and E-Commerce Business. Wet wipes accounted for 1.9% of Vinda's household paper business sales in 2014, up from 1.4% in 2013. Although ASP for wet wipes in 2014 dropped by 5.7% YoY, to HK\$22,495 per ton, such product's ASP was the second highest among Vinda's existing household products portfolio. We believe wet wipes' gross margin to be higher than other products and such product's sales growth is expected to remain fast on low base and rising acceptance of such product. On the other hand, E-commerce channel accounted for 7.0% of Vinda's total sales in 2014, up from 2.6% in 2013. Specifically, Vinda generated 8.6% revenue from E-commerce channel in 2H14, up from 5.1% in 1H14. According to the management, profitability of E-commerce channel is the highest among other distribution channels. With improvements of product mix and channel mix, we expect Vinda to re-invest such extra earnings in brand building for long term growth and/or absorb production cost increment internally.

SCA Offers Attractive Interest Rate to Vinda. As of 31 Dec. 2014, loans from SCA amounted to HK\$2,030 million and represented 45.5% of total borrowings (bank borrowings and loans from SCA) of Vinda. The effective interest rates of HK\$ and RMB bank borrowings of Vinda were 1.52%~3.32% and 4.50%~6.90%, respectively, while those of related party's loan carries effective interest rates of 1.48%~2.29% and 3.39%, respectively. Of which, SCA lent at least HK\$1,200 million (denominated in HK\$) to Vinda at an effective interest rate of just 1.48%~1.50%. We believe Vinda will receive full support in both operational and financial perspectives from SCA.

Offers Premium Quality at Premium Pricing. The Consumer Council of Hong Kong released a report at “Choice” magazine in Jan. 2015 regarding the pricing and quality of box tissue and softpack sold in Hong Kong, which includes the majority of the major brands such as Tempo, Kleenex, Scott, Vinda, Virjoy, Breeze, Hearttex, C&S, etc... Although Vinda’s average price per 100 sheets of 3-ply tissue paper is significantly higher than that of other brands’ (Hearttex, C&S, Virjoy and Breeze) 2-ply tissue paper by 15%-50%, Vinda offers premium quality of tissue paper to consumers, which outperforms most of the Chinese brands as well as international brands. We believe consumers are looking for differentiated tissue paper and they are willing to pay premium price for such product, which Vinda is able to offer such products to the market.

Capacity Expansion Continues. Vinda’s production capacity reached 890,000 tons by the end of 2014 and 90,000 tons will be added in 2015. Although industrial paper manufacturing companies are tapping into household paper market, we do not expect these industrial paper manufacturing companies to succeed in household paper market as distribution channels are totally different for industrial paper and household paper products. On the other hand, Vinda considered procuring jumbo rolls instead of adding new capacity in the past. However, with financial backup from SCA and better quality control, we believe Vinda will continue adding new capacity instead of procuring jumbo rolls in 2016.

Negative Impact from RMB Depreciation. Vinda recorded a FOREX loss of HK\$55 million in 1H14 as RMB depreciated 2.4% during the period. However, the Company made a FOREX gain of HK\$37 million in 2H14 when RMB stayed flat in 2H14 vs. that in 1H14. Despite the fact that over 80% of Vinda’s cash and trade receivables were denominated in RMB as of the end of 2014, the Company’s borrowings and loans from SCA were mainly denominated in HK\$. Currently RMB depreciated only 0.8% YTD against HK\$. Thus, we expect Vinda to record FOREX loss in 2015 but such loss is not expected to post material negative impact to the Company’s results in 2015. However, RMB depreciation missed our previous forecast and we need to trim our previous earnings forecast (lower ASP and FOREX loss).

Earnings Forecast Assumptions and Revisions:

Revise Down Earnings on Lower Contribution from Personal Care Sales, Lower Gross Margin and FOREX Loss. We revise down Vinda’s ASP as we believe more promotions have to be done in order for the Company to achieve higher utilisation rate. In addition, weakening RMB also harms Vinda’s ASP. On the other hand, revenue contribution from personal care business, which includes SCA and V-Care, could be lower than what we had expected. We also lower our previous gross margin assumption in 2015 as contribution from higher-margin personal care business is lower than previous expectation, lower ASP and slight rebound in short-fibre pulp price. Net profit in 2015 is revised down by 9.6% as we expect Vinda to record FOREX loss of HK\$13 million vs. FOREX gain of HK\$37 million forecasted previously. To conclude, we expect Vinda’s net profit to be HK\$618 million, HK\$776 million and HK\$858 million in 2015-2017, up 4.1%, 25.6% and 10.5% YoY, respectively. Vinda’s EPS is expected to arrive at HK\$0.619, HK\$0.777 and HK\$0.859 in 2015-2017, up 4.1%, 25.6% and 10.5% YoY, respectively. The net profit growth in 2016 is attributable to gross margin improvement on expected slight decrease in pulp price and mild FOREX gain vs expected FOREX loss in 2015.

Table-2: Key Assumptions – Exclude Personal Care Business

HK\$ million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Sales Volume (k tons)	648.1	724.0	801.3	613.3	684.2	5.7%	5.8%
YoY Growth	16.6%	11.7%	10.7%	12.6%	11.6%	4.0 ppt	0.1 ppt
Blended ASP (RMB / ton)	11,232	11,268	11,285	11,455	11,472	-1.9%	-1.8%
YoY Growth	-0.2%	0.3%	0.2%	0.4%	0.1%	-0.5 ppt	0.2 ppt
RMB/HK\$	1.240	1.245	1.250	1.275	1.285	-2.7%	-3.1%

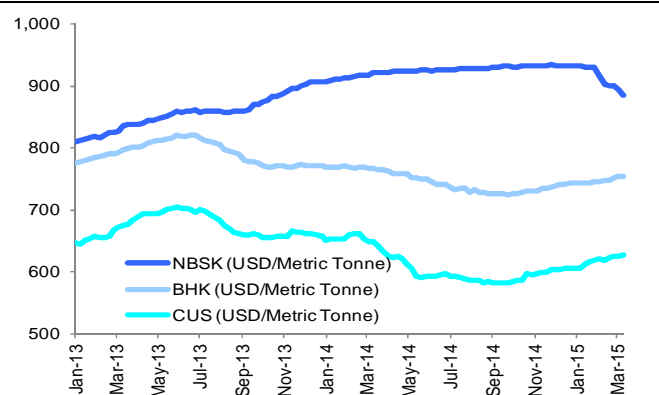
Source: Guotai Junan International.

Table-3: Earnings Estimate Revisions

HK\$ million	NEW			OLD		CHANGE	
	2015F	2016F	2017F	2015F	2016F	2015F	2016F
Revenue	9,502	10,701	11,914	9,910	11,124	-4.1%	-3.8%
Gross Profit	2,834	3,272	3,649	3,026	3,401	-6.3%	-3.8%
Operating Profit	881	1,067	1,190	936	1,062	-5.9%	0.5%
Net Profit	618	776	858	683	771	-9.6%	0.7%
EPS (HK\$)	0.619	0.777	0.859	0.684	0.772	-9.6%	0.7%
Gross Margin	29.8%	30.6%	30.6%	30.5%	30.6%	-0.7 ppt	SAME
Operating Margin	9.3%	10.0%	10.0%	9.4%	9.5%	-0.2 ppt	0.4 ppt
Net Margin	6.5%	7.3%	7.2%	6.9%	6.9%	-0.4 ppt	0.3 ppt

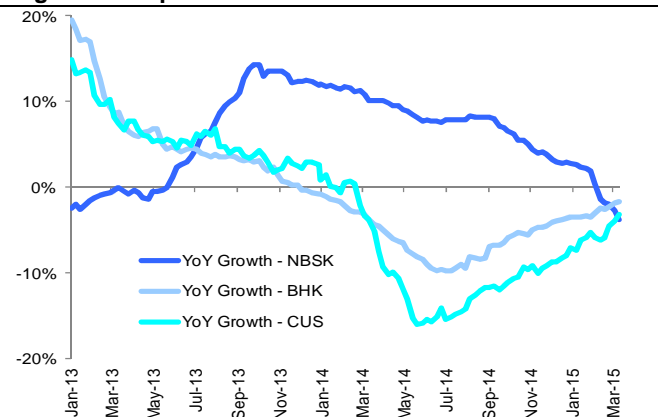
Source: Guotai Junan International.

Figure-1: Pulp Prices



Source: FOEX.

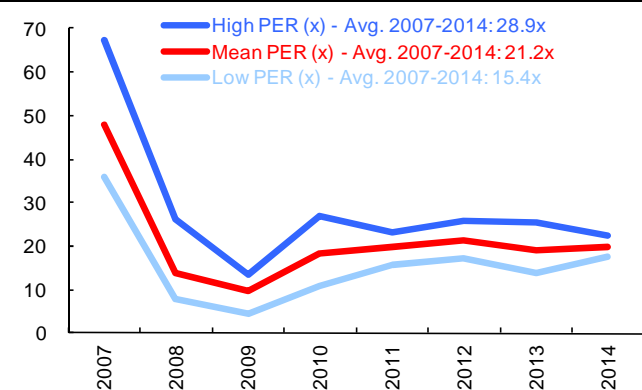
Figure-2: Pulp Prices – YoY Growth



Source: FOEX.

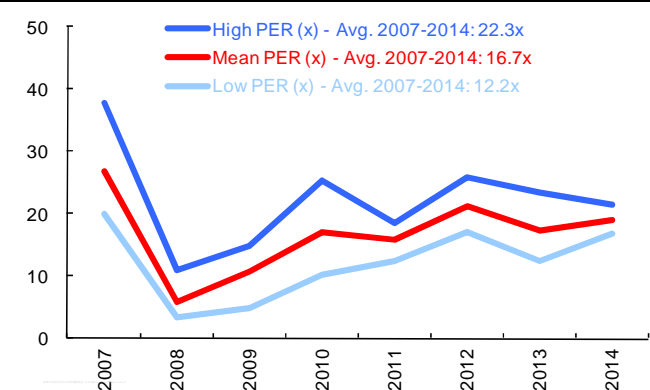
Downgrade to “Neutral” but Maintain TP at HK\$13.00. Vinda’s share price outperformed HSI by 13.1% in the past 2 months on satisfactory 4Q14 results. However, with sharp fall in RMB, the Company’s top line and bottom line will be negatively affected. Incorporation with SCA China business will not bring material positive impact to Vinda in 2015. Our earnings forecast for 2015 is roughly 5% below market consensus on lower sales and gross margin assumptions. Current valuation is rich and we downgrade the Company’s rating from “Accumulate” to “Neutral” but hold TP at HK\$13.00. The TP represents 21.0x 2015 PER, 16.7x 2016 PER and 15.1x 2017 PER, which is very close to the average valuation of current year (21.2x) and 12-month forward PER (16.7x) of the Company. As market sentiment towards F&B sector remains relatively weak, premium valuation will not be awarded to Vinda.

Figure-3: Vinda Current Year PER Band



Source: the Company, Bloomberg, Guotai Junan International.

Figure-4: Vinda 12-Month Forward PER Band



Source: the Company, Bloomberg, Guotai Junan International.

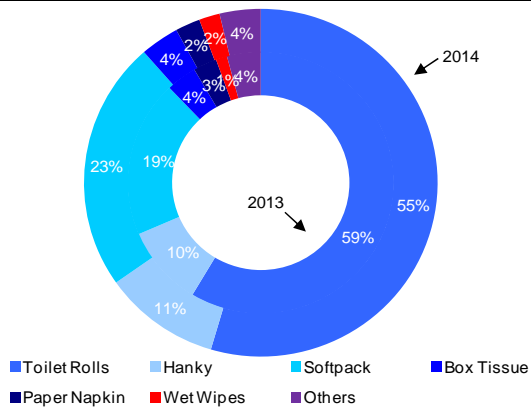
Appendix:

Table-4: 2014 Annual Results Review

HK\$ million	Income Statement								
	2013	2014	YoY	1H13	1H14	YoY	2H13	2H14	YoY
Revenue	6,798	7,985	17.5%	3,314	3,680	11.1%	3,484	4,305	23.6%
COGS	(4,826)	(5,577)	15.5%	(2,356)	(2,594)	10.1%	(2,470)	(2,982)	20.7%
Gross Profit	1,972	2,409	22.2%	958	1,086	13.3%	1,014	1,323	30.5%
Other income/gains	40	91	129.8%	(2)	29	n.a.	41	62	51.2%
Selling costs	(946)	(1,188)	25.7%	(438)	(527)	20.3%	(507)	(661)	30.3%
Administrative expenses	(372)	(472)	27.1%	(165)	(208)	25.8%	(206)	(264)	28.2%
Core EBIT	694	839	20.9%	352	379	7.6%	342	460	34.7%
Finance income, net	(27)	(5)	-82.2%	(23)	(37)	60.8%	(34)	(42)	24.8%
Share of an associate	(57)	(79)	39.5%	(16)	(4)	-72.4%	(11)	(0)	-96.0%
Core Profit before tax	610	755	23.7%	313	337	7.6%	297	418	40.7%
FOREX	62	(18)	n.a.	53	(55)	n.a.	9	37	321.7%
Income tax	(130)	(144)	10.8%	(83)	(60)	-27.8%	(47)	(84)	79.4%
Net Profit	543	593	9.3%	284	222	-21.8%	259	371	43.4%
Gross Margin	29.0%	30.2%	1.2 ppt	28.9%	29.5%	0.6 ppt	29.1%	30.7%	1.6 ppt
Core EBIT Margin	10.2%	10.5%	0.3 ppt	10.6%	10.3%	-0.3 ppt	9.8%	10.7%	0.9 ppt
Net Margin	8.0%	7.4%	-0.6 ppt	8.6%	6.0%	-2.5 ppt	7.4%	8.6%	1.2 ppt

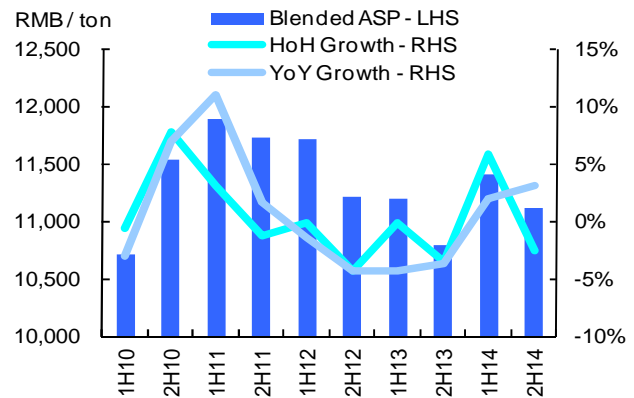
Source: the Company.

Figure-5: Sales Value Breakdown – By Product



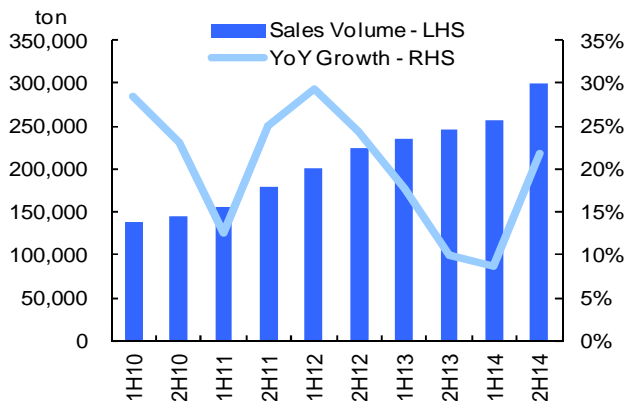
Source: the Company.

Figure-6: Vinda Blended ASP (RMB)



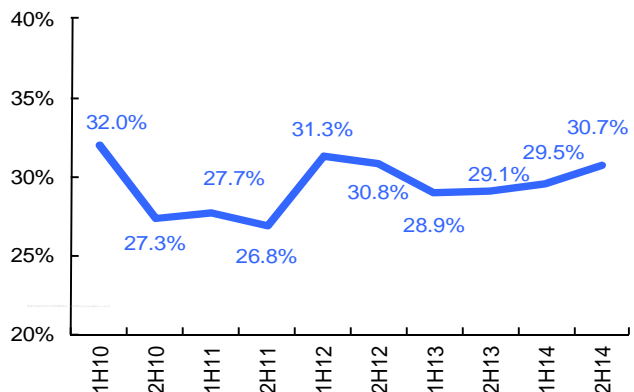
Source: the Company, Bloomberg, Guotai Junan International.

Figure-7: Vinda Sales Volume



Source: the Company, Guotai Junan International.

Figure-8: Vinda Gross Margin



Source: the Company.

Financial Statements and Ratios

Income Statement					
Year end Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue	6,798	7,985	9,502	10,701	11,914
Cost of sales	(4,826)	(5,577)	(6,668)	(7,429)	(8,264)
Gross Profit	1,972	2,409	2,834	3,272	3,649
Other income/gains	40	91	43	43	43
Selling costs	(946)	(1,188)	(1,425)	(1,605)	(1,787)
Admin. expenses	(372)	(472)	(570)	(642)	(715)
Operating Profit	694	839	881	1,067	1,190
Interest income, net	(57)	(79)	(86)	(90)	(86)
Share of an associate	(27)	(5)	0	0	0
Core Profit before tax	610	755	795	977	1,104
Net exchange gain	62	(18)	(13)	25	25
Income tax	(130)	(144)	(164)	(225)	(271)
Reported Net Profit	543	593	618	776	858
EPS (HK\$)	0.543	0.594	0.619	0.777	0.859
DPS (HK\$)	0.156	0.160	0.185	0.210	0.235

Cash Flow Statement					
Year end Dec (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
Profit before income tax	610	755	795	977	1,104
Depreciation of PP&E	264	357	416	477	543
Chg. in working capital	178	(206)	(5)	(161)	(48)
Others	(232)	(67)	(149)	(185)	(222)
Net CFO	820	839	1,057	1,108	1,377
Purchase of PP&E	(1,269)	(1,018)	(1,000)	(750)	(1,000)
Others	(132)	(1,354)	(26)	(26)	(26)
Net CFI	(1,401)	(2,372)	(1,026)	(776)	(1,026)
Borrowings	676	(313)	65	(200)	100
Dividends paid	(161)	(148)	(168)	(195)	(220)
Others	(9)	2,029	170	0	(200)
Net CFF	506	1,569	67	(395)	(320)
Chg. in cash	(75)	35	99	(63)	31
Effect of exchange rate	12	(5)	(6)	3	3
Beginning Cash	754	690	720	812	752
Ending Cash	690	720	812	752	787

Source: the Company, Guotai Junan International.

Balance Sheet					
As at Dec 31 (HK\$ m)	FY13A	FY14A	FY15F	FY16F	FY17F
PP&E	5,102	5,902	6,435	6,736	7,222
Others	608	1,965	1,953	2,022	2,055
Non-current assets	5,710	7,867	8,389	8,757	9,277
Inventories	1,643	2,029	2,173	2,293	2,575
Receivables	1,286	1,524	1,650	1,841	2,040
Cash	690	720	812	752	787
Others	45	63	75	90	108
Current assets	3,663	4,336	4,710	4,977	5,510
Payables	1,820	2,309	2,587	2,752	3,203
Borrowings	1,032	1,556	1,500	1,265	1,200
Others	58	154	164	195	212
Current liabilities	2,911	4,020	4,250	4,212	4,615
Borrowings	1,705	2,909	3,200	3,235	3,200
Others	110	194	187	207	215
Non-current liabilities	1,815	3,102	3,387	3,442	3,415
Shareholders' equity	4,647	5,081	5,461	6,080	6,757
BPS (HK\$)	4.654	5.089	5.470	6.089	6.767

Financial Ratio					
	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue Growth (%)	12.8	17.5	19.0	12.6	11.3
Gross Profit Growth (%)	6.3	22.2	17.7	15.4	11.5
Operating Profit Growth (%)	(10.1)	20.9	5.0	21.1	11.5
Net Profit Growth (%)	1.2	9.3	4.1	25.6	10.5
Gross Margin (%)	29.0	30.2	29.8	30.6	30.6
Operating Margin (%)	10.2	10.5	9.3	10.0	10.0
Net Margin (%)	8.0	7.4	6.5	7.3	7.2
ROA (%)	6.3	5.5	4.9	5.8	6.0
ROE (%)	12.4	12.2	11.7	13.5	13.4
Inventory turnover days	116.8	120.2	115.0	110.0	107.5
Receivable turnover days	64.5	64.2	61.0	59.7	59.5
Payable turnover days	122.6	135.1	134.0	131.5	131.5
Cash conversion cycle	58.7	49.2	42.0	38.2	35.5
Current Ratio (x)	1.3	1.1	1.1	1.2	1.2
Quick Ratio (x)	0.7	0.6	0.6	0.6	0.6
Net gearing (%)	44.0	73.7	71.2	61.6	53.5
Net interest cover (x)	12.2	10.6	10.3	11.9	13.8
Payout ratio (%)	28.7	26.9	29.9	27.0	27.4

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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