



Rating
Buy

Asia
China

Consumer

Company
Hengan Intl. Alert

Reuters 1044.HK	Bloomberg 1044 HK	Exchange HKG	Ticker 1044
ADR Ticker HEGIY	ISIN US42551N1046		

Date
27 March 2015

Company Update

Price at 26 Mar 2015 (HKD)	91.90
Price target - 12mth (HKD)	95.10
52-week range (HKD)	93.35 - 76.35
HANG SENG INDEX	24,497

Winnie Mak

Research Analyst
(+852) 2203 6178
winnie.mak@db.com

1Q15 input cost benefits in pocket

We held a lunch with Hengan management and investors on 26 March 2015, and key takeaways are as below:-

1Q15: no promotion yet and therefore keeping most of the cost benefits

In 2014, pulp/petrochem related/packaging accounted for 36%/28%/8-9% of COGS, while the remaining of COGS included labor/depn/utilities/raw materials for snacks and other businesses. Hengan started to enjoy lower pulp price from August 2014, and lower oil price from 4Q14. In 1Q15, lower input cost benefits are staying, and the company has not started any promotion and therefore keeping most of such benefits. To recall, in 2H14, sanitary napkins GPM was 70% (1H14: 66.9%) and that of tissue was 35.9% (1H14: 33.2%).

From April: may reinvest on tissue A&P

Hengan will seek a balance between tissue market share and profitability this year, comparing to only profitability in 2H14. This is because input cost savings from sanitary napkins and diapers are giving Hengan competitive advantage compared to pure tissue makers. The company will hold its sales strategy meeting soon, and will then fix a plan for A&P effort on tissue for the rest of the year.

To increase coverage of sizeable baby stores from 50% to 100% by 2016

It now covers less than 10,000 baby stores, or c. 50% of sizeable baby stores. In 2015-16, it plans to penetrate into the remaining 50%. In 2014, baby stores accounted for 7% of its diaper sales, up 300% yoy. In 2014, low-end declined to 16% of its diaper sales (2013: 20%), mid/high-end was up 70% yoy but not like-for-like comparison as the growth was contributed by new products. Mid end products sales declined, as Hengan upgraded the product and raised price by 30% in mid 2014 and thus affected sales. High-end Q.MO is a relatively new brand, and will take more time to establish a position.

Princess day and night

Sanitary napkins ASP increase is driven by new products and product mix improvement. Space 7 (including Princess series) accounted for 86% of sales, and that of Anerle/Anle was 12%/2% only. Space 7 has virtually nothing in the night-use segment, and Hengan is looking to launch more new night-use products, including a 42cm-night-use napkin.

0.36m tonne of new tissue capacity on hold

Now Hengan sees the overcapacity of tissue in China to ease only in 2016/2017. It has put 0.36m tonne of new capacity on hold (current capacity: 1.02m), and will consider putting those new capacity overseas, depending on progress of overseas sales.

Stock data

Market cap (HKDm)	112,522
Market cap (USDm)	14,511
Shares outstanding (m)	1,226.8
Major shareholders	Sze Man Bok (19.76%)
Free float (%)	59
Avg daily value traded (USDm)	22.8

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (HKDm)	23,831	27,114	32,095
Net Profit (HKDm)	3,915.8	4,688.6	5,653.3
DB EPS (HKD)	3.12	3.72	4.47
PER (x)	26.3	24.7	20.5
Yield (net) (%)	2.4	2.6	3.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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