

Leading Tissue Maker

China Consumer

Vinda International Holdings Limited (3331 HK)

Not Rated

Company background. Founded in 1991, Vinda is China's leading branded tissue paper manufacturer with an estimated 14.7% share of the high-end tissue market in 2006. Its flagship brand, Vinda, is a well-recognized premium tissue brand in the country. In 2005, it was named the "Most Influential Household Paper Brand" by the China Top 10 Most Influential Brands Selection Committee and one of the "Top 100 Most Valuable Famous Trademarks" by the China Brand Research Institute.

Production capacity. Currently Vinda has five production bases with 14 paper machines located in Beijing, Guangdong, Hubei and Sichuan, and a total production capacity of around 190,000 tonnes. Three new lines will be added by end-2007, boosting the company's output capacity of about 240,000 tonnes. Vinda's products include toilet paper, paper handkerchiefs, facial tissue and paper napkins targeted at the mid-to high-end markets.

Shareholders. After the IPO, Svenska Cellulosa AB (SCA) (SCAB SS), the world's leading producer of hygiene products, will become a strategic investor with 14.85% and Cathay Paper, a private equity firm will hold 9.85%.

Table 1: Offer statistics

No. of shares offered	300.57m
Fund raised	HK\$1.1-1.12b
Price range	HK\$3.18-3.68
Offer P/E (FY12/06A F.D.) (Based on 858.76m shares)	25.6x – 29.6x
FY12/05A EPS Basic (Based on 40.48m shares)	HK\$0.1442
FY12/06A EPS Basic (Based on 42.33m shares)	HK\$0.2523
Market cap.	US\$350.1m – 405.1m
IPO close	29-June
Listing	10-July

Source: Company data

Table 2: Use of proceeds of HK\$709.9m at HK\$3.68 per share

	(%)
Paper making machines acquisitions	35.8
New manufacturing facilities construction	20.4
Processing machines and related facilities acquisitions	17.9
Short term loans repayment	19.4
Working capital	6.5
Total	100.0

Source: Company data

Table 3: Turnover breakdown

Year to Dec (%)	04A	05A	06A
Toilet paper	56.2	57.9	61.5
Paper handkerchiefs	14.9	13.6	11.5
Facial tissue paper	13.0	10.6	8.1
Paper napkins	7.0	6.8	5.1
Others*	8.9	11.1	13.8
Total	100.0	100.0	100.0

Source: Company data

* "Others" include wet wipes, paper towels, paper cup mats and jumbo rolls.

Table 4: Financial highlights

Year to Dec (HK\$m)	04A	05A	06A
Turnover	726.0	925.9	1,358.2
Gross profit	200.7	248.4	340.2
Operating profit	80.6	97.3	159.0
Pre-tax profit	63.1	70.5	113.7
Net profit	45.2	58.4	106.8

Source: Company data

Table 5: Margin trends

Year to Dec (%)	04A	05A	06A
Gross	27.6	26.8	25.0
Operating	11.1	10.5	11.7
Net	6.2	6.3	7.9

Source: SBI E2-Capital

Investment Highlights

- ❑ **Well-recognized brand.** According to the China National Household Paper Industry Association, Vinda was ranked the second for its composite strength in tissue paper in 2005 and 323rd among China's top 500 best brands. Its brand value stood at RMB3.43b in 2006, according to the China Management Research Institute and China Brand Value Assessment Centre.
- ❑ **Impressive growth.** Vinda's production capacity rose at a CAGR of 37.4%, revenue at 36.8% and net profit at 53.8% from 2004 to 2006.
- ❑ **Rapid capacity expansion.** After almost doubling its capacity over the last three years, Vinda plans to expand by around 40.0% in 2007 to 240,000 tonnes per annum to become China's largest tissue manufacturer in terms of production volume.
- ❑ **International strategic alliance.** Sweden's SCA (SCAB SS) is the world's third-largest tissue supplier and the largest in Europe. In the last two years, Vinda provided OEM tissue manufacturing services to SCA in Australia. SCA has acquired P&G's tissue businesses (Tempo, Charmin and Bounty brands) in Europe and Hong Kong. Their potential strategic partnership in OEM or cobranding could create synergies for both.
- ❑ **Huge growth potential.** China's is one of the world's largest tissue markets in terms of sales volume. In 2005, China's tissue market was about 4.2m tonnes, compared with 3.7m tonnes for the rest of Asia-Pacific, 7.6m tons for North America and 6.9m tonnes in Europe. Accounting for around 20.0% of China's total tissue market, the high-end segment grew 25.0% YoY in 2005. Revenue growth of the overall market at 14.0% was double that of volume growth in 2005.
- ❑ **Future payout.** Vinda expects to maintain its dividend payout at not less than 25.0% after the IPO.
- ❑ **Further brand building.** After sponsoring the China National Women Volleyball Term and the National Bowling Championships, Vinda has entered into a marketing arrangement with the National Basketball Association (NBA) for the national and regional television broadcast of NBA games in China.
- ❑ **New products.** The company plans to extend its portfolio to kitchen paper towels and paper towels for the away-from-home market.

Valuation.

We estimate net profit of the bigger companies in the sector to grow more than 25.0% YoY in FY12/07F and FY12/08F. We expect Vinda to be priced at the high-end of its expected offer range, given its famous brand and fast expansion and to trade close to Hengan's FY12/06A P/E of 41.0x.

Table 6: Peer comparisons

Company	Ticker	Currency	Price	Mkt Cap. (US\$m)	Hist. P/E (x)	Fwd Yr1 P/E (x)	Fwd Yr2 P/E (x)	His ROE (%)	Fwd Yr 1 PEG (x)
P & G	PG US	US\$	61.43	193,438.4	21.0	20.3	17.6	21.8	1.7
Kimberly-Clark	KMB US	US\$	66.80	30,469.7	16.7	15.8	14.7	25.7	2.0
Uni-Charm	8113 JP	JPY	6,890	3,860.5	29.8	25.7	22.7	12.3	na
Kao Corp	4452 JP	JPY	3,210	14,300.0	30.4	25.1	23.4	11.8	na
Jonhson & Johnson	JNJ US	US\$	61.45	177,993.5	15.6	15.2	14.4	28.3	1.9
Hengan	1044 HK	HK\$	26.45	3,658.2	41.0	34.8	26.7	27.2	1.5
Empresa CMPC S.A.	CMPC CI	CLP	19,385	7,340.0	29.1	16.8	17.8	4.6	na
Hindustan Unilever	HUVR IN	INR	190.5	10,290.5	22.2	23.4	20.5	78.9	1.3
Average					25.7	22.1	19.7	26.3	1.7

Source: Bloomberg & SBI E2-Capital