



**Vinda International Holdings Limited**  
**2018 Q1 Results Conference Call**  
**9:30 am HKT, 27 April 2018**

**Speakers**

Mr. Christoph Michalski, CEO (**CM**)

Ms. Vicky Tan, CFO & Company Secretary (**VT**)

Ms. Venus Wong, Assistant Corporate Affairs Manager (**VW**)

**Presentation**

VW: Good Morning ladies and gentlemen, welcome to Vinda International's first quarter results briefing call. This is Venus, Assistant Corporate Affairs Manager. On the line we also have our CEO, Mr. Christoph Michalski, and CFO, Ms. Vicky Tan. Today's call will last for about 30 minutes. Christoph will present the results and then we will open for Q&A. Just a reminder, we have sent you a presentation deck this morning. Please check your email box or download it from our website. Now I would like to pass it on to Christoph please.

CM: Good morning everyone. Thank you for joining our results call. I think overall we had a very good quarter one topline growth, which was very strong, by leveraging our effort in product mix enhancement, cost saving programme, and successful price management, which started from Q4. We had also improved basically all key margin indicators compared to Q4 2017 and it's a little bit behind Q1 2017. I will elaborate on the figures that you find on page 2.

I move first to the revenue growth, our overall growth was 21.8%, corresponding to the organic growth rate of nearly 12% (11.7%). The difference was basically driven by exchange rate of RMB compared to HKD. But, I would like to highlight this basically strong organic growth came from all regions of China, North Asia and Southeast Asia.

The reasons behind this growth clearly we had some marketing activities in Q1 that results in strong sales. We also had a price increase taking effect and that was driving basically some of the topline. As you know, with the high pulp prices in China, some smaller players were not operating well and we basically had a boost in volume growth.

The mix between tissue and personal care is relatively stable. In this quarter, personal care remained 19% against 81% for tissue.

Let me move to the gross profit. I guess most of you will be interested into that considering the very strong growth of the pulp price. So if you take Q1 2018 over Q1 2017, short fiber has increased by 46% and long fiber by 38%, a very very significant increase. Despite of that, we have already be able to improve our gross margin in Q1 2018 toward Q4 2017 by 0.6 percentage point, and it is still slightly below Q1 2017 by 1.9 percentage points.

How did we manage that? We had increased our prices by around 5%, and we had continuously worked on the portfolio focusing on high-margin categories and higher gross margin products. We have a very active cost-saving program in place and supply chain. Despite the very very significant cost increase in pulp, we could basically manage our margins and I am very happy to say compare to our results discussion for the full year 2017, our gross margin has already increased compared to Q4 last year.

Let me move to operating profit, here again, operating profit is up 12.8%. The margin is back to 8.8%, which is only slightly less than Q1 2017, and significantly higher than Q4 2017. What we have done here is clearly very significant control of administrative expenses, which had gone down at a percentage of sales. Also, we had reviewed marketing and sales expenses programme in order to focus really on those which are driving the high gross margins and our key marketing activities. We also had a small foreign exchange gain of about HKD20 million.

If you look at the EBITDA, the picture will be even better. Here you can see that in Q1 2017, our EBITDA margin was 15.5% and today it's 15.1%. We are getting back and this is very significantly better than Q4 2017 at 11.8%.

I am very happy to say that we are on a good track and we are currently on a second round price increase which should take full effect by May/June. So, I am very confident we will also see the strength continues in Q2.

Revenue by channel, not much to say about it. On slide 7, for those who have the slide in front of you, basically we have now a relatively stable relative size of all the segments. We continued to grow well on e-commerce and B2B, and the other channels had also recovered a little bit in growth.

That is basically all I would like to say about the numbers you are aware of for Q1. For Q1 and Q3, we only give very limited amount of numbers and we will have a full disclosure of results in the interim report for the half year and for the full year. Thank you.

VW: Thank you Christoph. We will now open for Q&A.

### **Question and Answer section**

#### **Emily Lee (EL) from Nomura**

EL: Hi management, thanks for taking my question and congratulations on the very solid set of results in Q1. I got a few questions. First of all, I was wondering if you could help us to break down Q1 topline growth by ASP as well as volume. And secondly, just want to double check if we have only implemented a 5% hike in terms of pricing since Q4 to the end of Q1, and we also mentioned that Q2 we will be seeing another round of price hike, just wondering what kind of magnitude we should be expecting. That would be it for now, thank you!

CM: Okay, thank you, thank you for your two questions. When it comes to topline growth, if we do the overall analysis of the portfolio, we probably have about 40% of our growth coming from volume, 40% coming from price, and around 20% coming from product mix. In the price, you have a little bit of product mix as well, because we don't do the SKU, but we do it more on a category level. But overall that gives you a good indication on where the growth is coming from.

To your second question, the price hike we had, I think was fully implemented now the 5%, we see our price per ton coming through in a good way. The second price increase that we are currently implementing is already in the making, so we have a little bit in April, hopefully quite significant impact in May, and fully implemented in June and it should be at a very similar level. So as I mentioned to you for the full year results, we have now basically programmes in place, and they cover basically price increases, and they are covering of focus on the portfolio by going for higher added value products, and higher gross margin products, and very significant cost savings in the supply chain but also reveal of our general admin, sales and marketing expenditures. Thank you.

EL: Thank you, can I just have one follow up question? Just wondering, what's our take now in terms of the pulp price expectation in the remaining time of the year?

CM: Well, I should know I decided not to give any forecast on the pulp price anymore since I got it so wrong last year. But as you know we are buying pulp and have about 4-5 months lead time. And what we can see from there is the price increases of pulp, the speed of increase has slowed down significantly. So I think we are talking about, between Q1 this year and Q4 last year, we are talking about a 7% price increase, and we see that trend slowing a little bit in Q2.

VT: But we expect the pulp will not come down significantly in the year, so will remain on a high price, but not a dramatic jump like last year. But this is only our speculations, so it's difficult to tell.

#### **Anson Chan (AC) from Daiwa Capital**

AC: Hi good morning, Chris, Vicky and Venus. Just a few questions. First is about our volume growth, how do you see compare with the China market in Q1? Is it faster or slower? And the second question is on the channels, as you mentioned, e-commerce channel contribution has been largely steady year on year, but we see that our competitor are getting more aggressive there, do we see any risk of market share loss or what's our strategy in e-commerce now? Thank you.

CM: Well, in Q1, we have relatively stable market share overall in the China market. Basically we see a competitive situation, where some of our key competitors have actually raised prices as well, while one of them is still hesitant and basically have only lowered their promotion level a little bit, so there's also price increase if you like, but maybe not aggressive as we have been. But I think our strategy is right, we need to come back to a reasonable margin, currently we go for a little bit of trade off when it comes to growth vs price. I don't expect this to last for a long time, as long as our price level is in line with pulp cost, then I think we will go back. Our growth is mainly driven, not by price, but is driven by innovation and new product into the market and the general trend towards higher added-value products in China.

So when it comes to channels, yes, you are absolutely right, finally some of our competitors realize that e-commerce is important, which was important for Vinda for a very long time already. Our market share is still the market leader in all the key platforms. We were by far the largest player in e-commerce, as we have started more or less the first people in e-commerce. But I am not particularly worried about that, at the end of the day, we are basically fighting in e-commerce for the premium market. And I think we are very successful here.

And then the second thing is, as you know Q1 is actually less active in e-commerce, and the key changes when we see it for the year is actually Q2 was 18 June and Q4 was double eleven (e-festival). Thank you.

**Lucy Yu (LY) from Bank of America Merrill Lynch**

LY: Hello management, I got one question about your margin trend for the following quarters. As you mentioned, you may raise price in the second quarter, but it'd be a gradual process throughout the quarter. Can we say that, starting from Q3, we are going to see some margin expansion assuming that the pulp price growth would be moderate as you have expected? Thank you.

CM: So let me just clarify. We have absolute visibility on Q2 pulp cost and as Vicky has already said, it's just a moderate increase while we are still increasing prices. So my expectation is that our margin will improve in Q2 as well, particularly when it comes to gross margin. The Q2 tends to be a very important quarter for e-commerce and big launches we have planned, so the marketing and sales expenditure will be a little bit higher. But overall I expect a positive impact on all margin levels, more on gross margin, a little bit less maybe in operating margin. And I expect this trend to be very slowly continuing in Q3 and Q4. But I think it is probably fair to say, as I said in our result presentation, to say we go to margin level as we had in 2015 and 2014 because it will always take a little bit of time, until the margin stabilizes after a very very significant pulp price increase.

LY: So it is fair to say that the price hike in Q2 will be more than off-set the potential pulp price hike that you will be expected.

CM: Well both price increases are going through as we hope the first went through quite okay. We will have calibrated basically the pulp price increase that happened in 2017 and it slowly increased in 2018 as we have seen now. However as I said, we cannot really have a comment on pulp prices in the 2H2018. And that is clearly crucial to having a final view on what our margins would be. Having said that, what we continue to do is focus very very strongly on higher-gross-margin products and we are also driving very significant cost-saving programmes. And these cost-saving programmes will have a lasting effect throughout the year and will have a bigger impact in 2H.

VT: So we are trying very hard to have another round of price hike in Q2, and we hope that we could go through. But we see from the first round of price hike that was quite successful.

**Dustin Wei (DW) from Morgan Stanley**

DW: Hello management, my first question is regarding the bottom growth. Some of the competitors are really following the price hike as mentioned and they just cut back some promotions. According to some market data, some of their bottom growths are stronger in Q1. I think it is sort of different company strategy to focus on margin or the bottom. Just in case, the competition would be more willing to focus on the bottom side and decide not just to increase the price, which Vinda has been doing, how would you react to that? I mean, if your bottom growth is slightly lower than the industry, would you sort of changing your pricing strategy?

CM: I think this is a little bit speculative question because currently our competitors are following us. Some might or might not have a stronger volume growth. I think what matters to Vinda is we want to be an added-value business, we want double-digit growth in China. Nothing has changed our ambition. We want to basically increase our presence in personal care and we have very good business in North Asia and Southeast Asia. So, I think the challenge we are facing is basically to manage the balance between how much topline growth we take and how much profitability we make. Currently, we are pretty full when it comes to our capacity and supply chain will be installing capacity which basically allows us to run a very efficient supply chain and grow.

If competitors would go into price war as they had done in the past, we do not follow that immediately but we promote first and see how it goes and as you know in the past, our strategy of permanent innovation was very very successful and growths in Vinda are coming from these areas. So I do not think that the situation you described would really materialize nor materialize if we go into the major price war. As you always said, if we had now grown very significantly faster to a much lower margin, then your question would be in the other way. I think we are on a good trajectory to recover on margin. And as we said, our focus on double-digit growth in China is continuing.

DW: Thank you. And you'd have another round of price hike. Is that part of the original plan you made by end of last year, or is sort of something changed happening in the Q1 so you decided to push another round of price hike?

CM: Thank you. We are very pragmatic with these prices so we see when the pulp prices went up, we decided to go for a price increase at the end of Q4, which was implemented in Q1. We saw that the pulp price continued to rise. So it's necessary to do another price round and that basically is, when the pulp price stops going up, we would probably not implement the third price round but when the pulp price will go up significantly, we might even go for the third round of price hike. But all our price increases have been quite moderate, so they do it across the whole portfolio. They are always in the area of around 4-5%. So it's actually a very moderate strategy, because we will recover some of the other increases of pulp by doing our cost-saving and by focusing on our portfolio mix.

VT: As always, I think we always need to calibrate out the pricing strategy after we see the recession from the market and how our other competitors react on our price increase, because if we launch some price increase and it doesn't work as well as we expected, we need to adjust that and we cannot just sit there. So we always need to calibrate according to the market and our peers.

DW: Thanks a lot. My final question is, in terms of the bottom growth of overall industry, so you sort of describe that the overall pricing. It seems to me that only one or two major competitors haven't really followed through. So is that fair to say that, the overall industry, like when you look at the Nielson data or some retail data, the overall pricing has increased, and if that is the case, increased by how much?

CM: I think it is a bit too early to say because there is a lack of data in Nielson. So I think I'd put a much better position in the half-year result to give you the fact of how price increases had happened actually on the market side. We only have Nielsen data up to March and it's basically one month where our price increases are fully there. I think competitors are implementing as we speak of first-round of price increases. So it's a bit too early to tell from here.

Let me just follow up one comment which is, there is no competitor in China which has cheap pulp. So every competitor, big, small or medium will face the same cost when it comes to raw material.

### **Closing**

CM: I would like to thank you for joining the meeting this morning. We are confident that we will continue the trend of improved profitability, without sacrificing significant growth and I am happy to see you all in Q2, where our results announcement is in the second part of July. Thank you for your attention and have a good day.