Vinda International Holdings Limited
2022 Q3 Results Conference Call
9:30 am HKT, 18 October 2022

Speakers

Ms. Karen Li, CEO (KL)
Ms. Vicky Tan, CFO & Company Secretary (VT)
Mr. Benjamin Zhao, Senior IR Manager (BZ)

Presentation

BZ: Good morning ladies and gentlemen, welcome to Vinda International's 2022 Q3 results update call.

On the line we have our CEO, Ms. Karen Li, CFO, Ms. Vicky Tan, and Senior IR Manager, Mr. Benjamin Zhao. Today's call will last for about 30 minutes. Karen will first 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 the time to Karen. Karen, please.

KL: Good morning, everyone. Our Q3 results you can see this morning reflect a very challenging, difficult and volatile operating environment. During the quarter, we faced several pressures, one being on the sales side, we've had multiple lockdowns in China and one being in our city where we had the major level of capacity in. So, this had a bit of impact not only on our production but also on our ability to deliver to our customers and consumers. As you can understand whenever that happens, we also have some impacts on our marketing plan on that side.

We also faced the pressures from input cost inflation. Input cost inflation was unprecedentedly high in Q3 compared to the last quarter. And on top of that, the major currency swings in particularly for RMB and also MYR being our main operational currency also created some additional pressures for us in Q3. However, we feel that we have managed well through this quarter with all of these significant volatilities that I have mentioned and the actions we have taken to counteract these headwinds and our continued execution of our long-term strategy will position us well for long-term sustainable and profitable growth.

So, some quick review on the financial highlights, over the quarter despite all the challenges that I talked about, we have achieved in level of organic growth of 12.9%. With growth coming from both volume and price for both tissue and personal care. However, as I mentioned before, because of the significant depreciation, particularly for RMB and MYR, we have some translational effects and that translates to only 6.5% growth over the quarter.

Gross profit margin was impacted by a sharp rise in input cost in particularly pulp. All of these input cost impact including pulp and energy and etc., the negative impact was actually more than 10% in terms of gross profit margin compared to the same period last year, but of course that means that we are able to offset some of these by pricing and the other actions that I have mentioned before. So, over the last period, gross profit margin was at a level of 27.2% and that represents to a decline of 7.8 percentage points. Operating profit margin was obviously impacted by the significant drop in gross profit margin, but this was however helped us as well by a better SG&A efficiency as we have accelerated some cost savings programs in order to continue to mitigate the cost inflation.

During the quarter, we also recorded a significant FX loss in particularly on the operating item at the level of 51 million Hong Kong dollars. And as a result of all of this above, net profit margin is at the level of 1.1% and that represents to 5.4 percentage points drop compared to the same period last year.

If we look at the first nine months, organic growth is at 8.8%, which is in line with our expectations and in line with the targets that we have set at the beginning of the year. But of course, for gross profit margin and operating margin as well as net margin, we see quite a significant drop mainly due to the sharp rise in input cost inflation, which we did not anticipate before and also foreign currency pressures, which would not be planned at the beginning of the year. Of course, our gross profit margin and net profit margin would have been worse if we did not implement all of these important actions that I talked about, includes a continuous rise in our selling price, continuous mix improvement and also some efficiency programs in both supply chain and in our SG&A line.

When it comes to a little bit more breakdown on group revenue, for the first nine months, our group revenue is up by 8.8% organic growth, and over the last quarter we were able to secure a strong organic sale of 12.9%. As I mentioned before, the growth comes from both tissue revenue and a good mix of rise in both the volume and price mix. If we take a look at our monthly developments closely, you can see that we're able to achieve a relatively good sales growth month over month, and obviously July was lower month, but as we progressed into the end of Q3, we're able to secure in either over double digit or close to double digit growth every month. And as I mentioned before, we're very happy to see that the growth not only comes from volume but a significant part of that comes from price and mix, which is the important action that we need to continue to take in order to mitigate the cost inflation. We see good pricing development in all regions, not only in China but also in our oversea business as well.

For our group revenues by channels, you can see that on a group level for the first nine months, the split between different channels is quite even. We saw positive growth in basically all of our channels including key accounts, E-commerce, traditional channels and even B2B business. A lot of our B2B business is coming back quite nicely in our overseas regions as most of the COVID restrictions were lifted in countries such as Malaysia and Singapore. E-commerce still represents the channel that grows fast and obviously that is mainly driven by mainland China.

For revenue and channel mix within China, E-commerce continues to be the fastest growing channel for us, which is in line with our expectation and our targets. Key accounts is the one that under a bit of pressure especially coming into 2022. We saw that multiple lockdowns and all of these restriction created some challenges for offline traffic in particularly in big supermarkets. Traditional channels is back on growth momentum. For the first nine months, we have recorded a growth that is close to double digits and again that is really important, because traditionally and even today, it is still a quite profitable channel for us. So that created some opportunities for us to improve our channel mix.

For the first nine months, our gross profit is down by 11%, and that is obviously like we have mentioned multiple times, driven by a rising input cost in particularly coming into Q3. For Q3, our gross profit is down by 17% and gross profit margin for the first nine months has declined from 36.6% to a level of 30.5%, again that is driven by mainly a sharp rise in the raw material costs in particularly for Q3. We have also presented the graph here that shows you the pulp price development over the past few years. As you can see, since we last spoke both long fiber and short fiber still sitting at a historically high level for quite some time, and now it is expected to remain at a relatively high level for the foreseeable future to come. So again, we reiterate the importance for us to continue to work on our pricing and mix, etc., because this is a little bit different to what we anticipated at the beginning of the year that the assumption of pulp price would come down, and this is obviously not the case from what we see. And as we have mentioned before, the depreciation of RMB against USD puts additional pressure for us on the pulp price side as we are buying pulp in USD as the dominant currency.

Operating profits mainly driven by a drop in gross profits, despite all the actions that we have taken, for example, pricing and mix improvement and also savings program and things like that, because of the time difference and also the rise in raw material price was simply too sharp and too high, we're not able to mitigate all of that to impacts on operating profit line. So for the first nine months, operating profit is down by 46.7%, for Q3 alone our operating profit was down significantly by over 70%. In Q3, we have mentioned that we saw the biggest rise in terms of pulp cost on sequential basis and the magnitude of the rise was simply too high that all the actions that we have taken in a single quarter was not enough to cover all of those negative impacts coming from pulp. But obviously, as our assumption has changed before, especially pulp price will remain at a high level, we will continue and accelerate our price increase program also the other actions that we have put in place, in order to secure a stable profit margin level, not only for the remaining of the year, but also for 2023.

Operating margins for the first nine months is down from the level of 11.9% to 5.9%. I mentioned before that over the quarter we have recorded quite a significant FX loss and if we put that back into the equation, our operating margin level would be at the level of 6.5%. And you can see that we have two consecutive quarters where we had significant pressures on operating margin, and for Q3 we have quite a bit of pressure like I mentioned before, this significant sharp rise in raw material prices created quite a bit of pressure for us on the operating margin line.

I will not go into details on EBITDA, as basically, that is the same story with operating margin, but maybe I'll say a few quick words on the outlook. So looking ahead into Q4 and for the rest of 2022, we are still on track to achieve our full year top line targets. As you can see that for the first nine months, our organic growth is pretty much in line with our expectations and the target that we've set in the beginning of the year. And of course, we will continue to focus in premium category and personal care growth and this is our core focus in terms of sales, and our priorities that we'll definitely to continue to execute that strategy.

So far we are quite happy with the approach that we have taken in terms of growing price, volumes and mix, and with the uncertainties that we will be facing in the future, we will definitely continue and to take appropriate or balanced approach for our growth in top line, market share, but maybe more importantly, and margin management. And in terms of the cost outlook, I think we expect the operating environment will remain quite challenging with another quarter of perhaps the high raw material cost and also possible worsening FX impacts, that might potentially create some additional pressures for us on the cost side and on the FX side. So with all those challenges and uncertainties, we will definitely continue to make progress in improving our margins by continuing to raise price, accelerate our mix improvement and the other mechanisms we talked about all the time, which is better efficiency and potential additional cost saving programs.

Finally, we will continue to manage our company with financial discipline in this challenging environment to make sure that Vinda will continue to grow sustainably and profitably into the future. We remain very confident in the potential of our categories and all the main regions that we operating in and all of the actions that I have mentioned before. I believe that will not only help us to improve our underlying margins over time, but will also give us a better and more sustainable fundamental to go into 2023 and into the future.