Vinda International Holdings Limited
2022 Q1 Results Conference Call
9:00 am HKT, 22 April 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 first quarter 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, this is Karen. Before we start our Q1 result, I would first like to give you all a very brief explanation on why we changed our announcement date. Basically the only reason for the change is for us to be aligned with the rescheduled announcement date of Q1 results with controlling shareholder Essity who is listed on the NASDAQ stock exchange. We also realigned our announcement date to make sure that we provide full transparency to the market, so thank you for making the time to attend our call today in such a short notice.

Before I go into the numbers, I would also like to give you a brief reminder that for our Q1 result we only announce some of the key financial highlight numbers, so we will not be able to give you a full detailed breakdown of all the financial numbers this time. Coming back to our Q1 financial highlights, I think all of you have read the announcement today that for Q1, start of the year, we felt like the environment is still very challenging and very volatile, especially for mainland China. There has been a COVID restriction and resurgence in terms of cases in mainland China, and we saw COVID restrictions measures extended in many regions in China and that basically created two impacts, one is that we saw a lower level of demand from not only the consumers but also some of our customers. Some of these restrictions also created challenges for us in areas such as difficulty to deliver to our customers and consumers from time to time, and also there has been some inbound and outbound logistics disruptions. And of course, for example, I mean when we had the lockdown in the key areas such as Shenzhen, we'd have to delay some of the promotion activities that were planned. So these are some of the reasons behind, and some key challenges to us in Q1 in mainland China.

And it's a similar case for our overseas business, particularly in Malaysia. In February, our production was also impacted by the COVID resurgence, where our capacity was forced to reduce as to be compliant to the local government's COVID policies, so that also created some challenges in our overseas market as well.

Coming back to mainland China, where we're happy to see that despite the challenging environment, our tissue pricing continues to improve compared to the last quarter, and this is something that we have communicated quarter over quarter. This is one of the priorities that we have been working to further improve our margins. Despite the fact that we were determined to put up our price, we did see some volume pressures in January and February, given the competitive pressure that we saw from our peers. But the good thing is we saw a very strong comeback in March. This is a very important thing for us because this is basically a piece of evidence showing that our pricing action works and this gives us a very good foundation to go into Q2 and the rest of the quarters in 2022. Another highlight for mainland China is personal care. Despite the challenges that I mentioned, we saw a continuous strong momentum in the personal care category, both incontinence and of course the feminine care, which is a very important category for us to continue the strong growth momentum in 2022.

When it comes to gross profit margin, while pricing and mix improved compared to Q1 last year, also a sharp increase in personal care, continued to positively impact our gross profit margin line. But compared to Q1 last year, basically we saw a very significant increase in input cost in area not only for wood pulp but also in other production cost items such as energy and packaging cost. This basically resulted in a decrease in the gross profit margin by 5.8 percentage point. When it comes to OP margin, it decreased by 5.9 percentage point compared to Q1 last year. SG&A increased slightly and this is due to our commitment to continuously invest in our strong brands and new forms of sales channels, especially in E-commerce. And of course China feminine care and this is something that we are very committed to continuously to invest for future growth and for future profit improvement.

During Q1 this year, we also face slightly higher logistic cost. This is a result of the COVID situation that we saw in Q1. Basically we have to incur additional cost in terms of logistics and delivery to make sure that we can continue to service our customers and consumers. Group revenue up by 2.2% compared to Q1 last year and basically represents a flat organic growth of just 0.1% compared to the same period last year. We had a very high base in Q1 last year. This year we are impacted by a lot of macro challenges that I mentioned. I think I also touched on that we had some volume challenges particularly for January and February. Basically, due to the fact that we saw some of our key competitors still continue with relatively low pricing level, but we took pricing actions actually at the end of Q4 last year. But as I said before, I mean this was only the case in January and February, we saw a strong comeback in March because our pricing has been very consistent and the pricing pressure is actually on the competitive side, so we actually saw a strong comeback in volume while we are pricing being flat in March. This is of course something that we're very happy to see and gives us more confidence to continue to further improve our pricing in the coming quarters.

On the group level, personal care contribution increased from 18% to 20% in the same period last year, and again this is supported primarily by strong sales particularly in our feminine category in mainland China.

For the Group revenue by channels, this is quite consistent and E-commerce continues to outgrow the other channels. And that is a trend that we have been seeing for this quarters and also the past few years. The E-commerce contribution at this quarter also increased by 1% compared to the same period last year.
A little bit more detail from mainland China revenue and channel mix. Over the quarter, the organic growth for mainland China is -1.9%. For all the reasons that I mentioned before, Q1 growth for mainland China was impacted by COVID in many regions and many places in China. This is a big difference to what we've seen last year.

In the first 3 months we saw overall in mainland China, a low economic activity and low demand from consumers and customers. And this time, because a lot of these lockdowns and measures are focused in first and second tier cities, such as Shenzhen where in the cities we have significant market share, as a result of that, these measures have created some challenges for our operations which I talked about in areas such as retail, delivery, logistics and etc. These challenges basically had an impact on all of our channels. Not only offline but also E-commerce was impacted as well while E-commerce contribution still continued to improve in mainland China. The contribution from E-commerce further increases to 45% of our total sales in China compared to 44% in the same quarter in the previous year.

A little bit more details on gross profit, gross profit declined by 12.9% compared to the same period last year and gross profit margin declined by 5.8 percentage point. This is again largely due to a result of the significant input cost inflation compared to the same period last year. We are happy to see that over the period we have better pricing, better product mix improvement and also increasing contribution from personal care. All of these factors, something that we have been working over the quarters and they're paying off and they're contributing positively to our gross profit margin. But of course, all of this work that we have done was simply not enough to compensate for the huge rise in the inflation, especially in the product cost category.

As a result of that, we will continue to work on the pricing. Actually, started from last year, as you remember, we already took multiple pricing actions to improve our margin. And of course, Q1 was no exception. During Q1, we are very happy to see that our pricing continued to improve despite the competitive pressure and we will determine to work on our pricing continuously.

And with the macro headwinds that we will be seeing in the coming quarters, it is of course, you know it’s very important and necessary for us to continue to take necessary pricing actions in 2022. And with all the groundwork and multiple pricing that we have already done last year and also a good pricing level that we saw in Q1, this gives us a lot of confidence to continue the work in this area in 2022. Despite the decrease in the gross profit margin compared to same period last year, our gross profit margin actually improved on a sequential basis by almost 1 percentage point compared to Q4 2021. And this is again contributed by better pricing and strong sales of personal care.

When it comes to operating profit, it was down by 36.5% compared to Q1 2021 and OP margin down from 15.7% to 9.8% and again due to the fact that we are at our historical peak when it comes to OP margin last year for Q1. So it was very difficult to compete with that kind of level of OP margin. And if you remember for Q1 last year, we were basically still consuming a lot of pulp which we purchased at a very low point. And obviously this is not the case starting from second half last year and of course this has the impact on our OP margin in Q1 2022. For SG&A, it's actually very stable compared to the same period last year. As I touched on before, despite you know the environment is a bit challenging, which we believe will be temporary, it is very important that we continue to invest in innovation, strong brands, new sales channels and of course personal care to make sure that we continue to strengthen our market position but also allow us to grow in the long term. OP margin compared to the last quarter, again we saw an improvement of 1ppt. And this is thanks to the improvement in of course our GP margin line on sequential basis, and of course efficient spending between the lines.

I will not go into a lot of details on EBITDA, but just to conclude our presentation today, despite the very volatile and difficult operating environments, we feel that our business continues to perform well and we continue to execute our strategy very successfully and this is something that we have talked about quarter over quarter. Product mix improvement, premiumization, continue expansion of our personal care presence and with all of these above we are very confident that we will continue to achieve sustainable and profitable growth.

Despite the competitive pressure, in particular, when it comes to pricing during the quarter, we were also able to continue to improve our net selling prices to offset some of the cost pressures. And of course this will take some time for us to do that over the next coming quarters. Looking forward into Q2 and the rest of the quarters in the 2022, COVID restrictions particularly for mainland China, still remain one of the top uncertainties for us. This of course would need to be temporary and demand will of course recover once these restrictions are lifted.

We are also seeing COVID related measures are also relaxing in overseas market, which is positive for us in markets such as Malaysia, Singapore and Hong Kong and this we believe will help speed up the market recovery and also to achieve a better demand in those markets. In near term, we expect input costs will remain high and we will commit to delivering a balanced and profitable growth while we are navigating through an elevated cost environment in 2022. We will continue, I think I have talked about that a few times already, to be very committed in taking meaningful and broad based pricing actions in Q2 and we will continue to review our pricings on a constant basis throughout the year to offset the inflationary pressures. Pricing is a very important component for us to do that, and the whole team is very committed in delivering a continuous improvement in pricing.

Of course, in addition to pricing, there are other actions that we have taken that we will be taking to offset the cost pressures and of course a further acceleration in growth in premium category is one way in doing so. We're very confident that we will continue to do that because it continues making improvements, something that we have seen for years, and faster growth in the premium categories in the past years have already shown the continuous improvement to our profit, so we will of course continue to do that. In addition to pricing and mix, we are also pursuing initiatives to further lift our operational efficiencies, and we will remain very disciplined with our spending. So all of these balanced set of actions we believe will not only help us to offset the cost pressures over time, but this will also help us to preserve our top line growth.

Despite all of these near term challenges, we will remain committed in investing in our brands and commercial capabilities, especially in areas such as premium products, personal care and of course, new sales channels in China. These investments are important for our long-term growth and profit expansion and we’ll remain very confident that we will manage through this difficult environment with excellence and we will continue to build a stronger Vinda for long term success. So that's all for my presentations.