

# Hocheng Corporation (1810 TT)

Non-rated Research Note  
90th Year of Celebration

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## Safe Harbor Statement

This document may contain forward-looking statements. These statements relate to future events or Hocheng Corporation (or HCG)'s future financial performance. Any statements that are not statements of historical fact (including without limitation statements to the effect that the company or its management "believes", "expects", "anticipates", "plans" and similar expressions) should be considered forward looking statements. There are a number of important factors that could cause HCG's actual results to differ materially from those indicated by the forward-looking statements. IPR Advisors and HCG disclaim any obligation to update any forward-looking statement.

## HCG (1810 TT) - Celebrating 90th Anniversary with Dynamism and Commitment

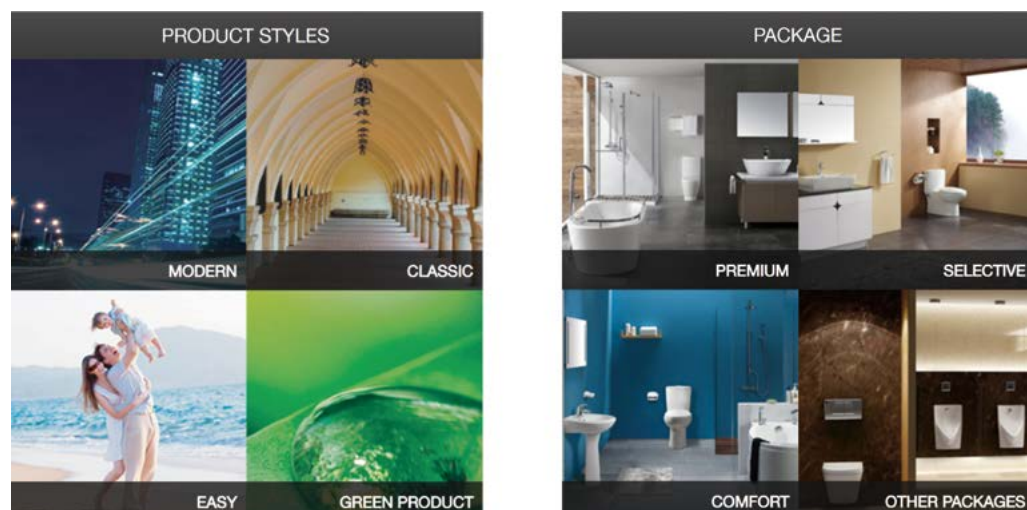


**1931**

Mr. Hocheng Chiu established Hocheng Pottery Manufacturing in Yin-Ko City, Taiwan with an initial capital of USD 12.50 and started the HCG legend.



HCG is one of the pioneer and leading bathroom and kitchen fixture providers in Taiwan; products include ceramic relating products, water supply facilities, architecture relating products, bullet proof products and ceramic materials used in dentistry. In recent years, HCG has been launching intelligent public restroom, smart application products and smart device products designed for aging population.



In December, 2021 HCG is celebrating its 90th anniversary of HCG founding in 1931. With 90 years of history and innovation are a great source of inspiration, influencing both the culture of the business and its development by the next generation. HCG believes that every craftsmanship of its bathroom fixture products has its own story of excellence. HCG's unwavering commitment to quality and customer satisfaction over the years has given the brand's products and services their renowned excellence. As the demand increased, HCG not only cover services in the Greater China, HCG also expand its footprints in the Philippines. Hocheng Philippines Corporation (HPC) was established in 1995. In 1997, a 10-hectare plant was opened in First Cavite Industrial Estate (FCIE) adding to the two existing state-of-the-art production bases in China. In just a few years, HCG successfully penetrated the Philippines domestic market with over 55% market share and became the no. 1 total bathroom solutions provider.





Currently, HCG has two plants in Taiwan, one located in Yingge and the other in Bade. Outside Taiwan, HCG has one plant in Suzhou, China and one plant in the Philippines. Its distributions network and sales offices cover China, the Philippines, Hong Kong, Indonesia, South Korea, Brunei, Malaysia, Qatar, Vietnam, Singapore, Kuwait, the United Arab Emirate and the United States of America.

## Family Business with Professional Management Team Over 90 years of experiences

HCG established in 1931, a family-owned businesses founded by its founder Mr. Hocheng Chiu. The founder Chinese motto was “Ho-Qi Bi Chen,” which means “Friendliness Conductive to Business Success.” The founder also believes in unity creates success story that he taught his seven sons to run the family business in harmony that led to great achievement. The founder handed over the business to his seven sons when he retired. The second generation of the family ran the business until 2003 with unity and success. In 2003, the majority of the second generation of the family members retired from its board of directors and handed over the business to the third generation. The current chairman of HCG, Mr. Kent Chiu today is the third generation from the founder’s family who runs the business with professional management team.



## First Generation – Founder Believes in Friendliness and Unity



## Second Generation – Ran the HCG Until 2003

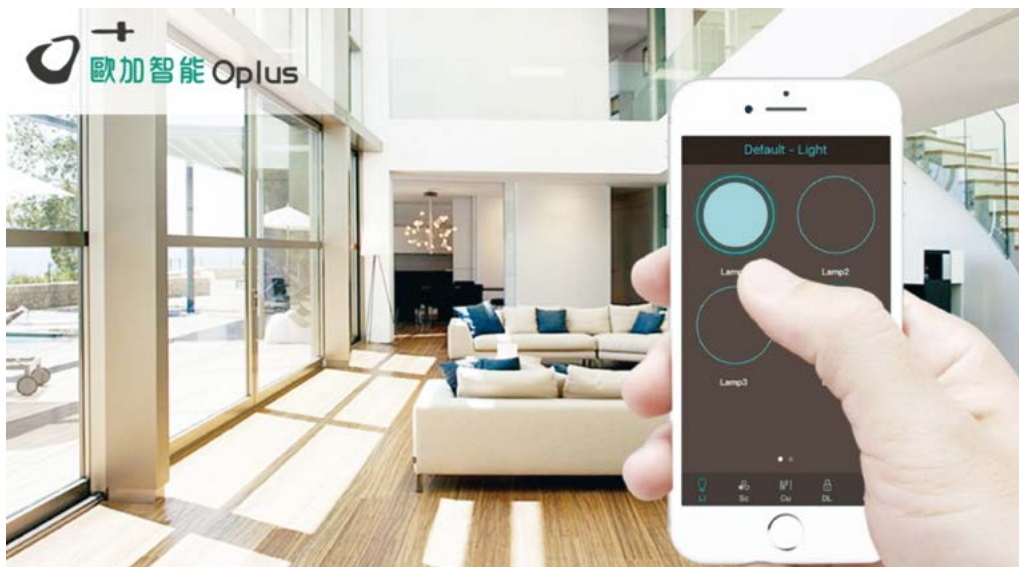


## Third Generation – Current Chairman Transforming HCG from Traditional to Innovator

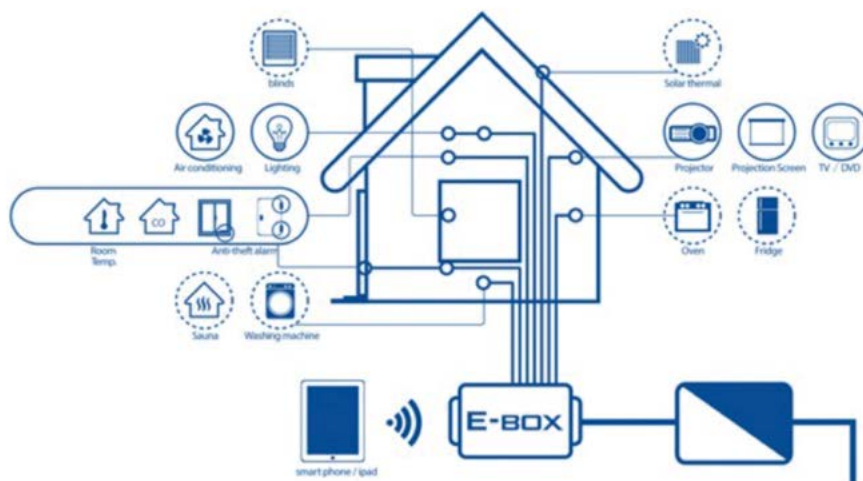


Over the past years, the traditional ceramic industry's market and profitability were in pressure due to intensified competition from cheap labors in the Greater China and ASEAN market. To compete and differentiate against its competitors, HCG adopt product diversifications strategy that successfully transform HCG from a traditional ceramic bathroom fixture manufacture to a winning innovator solution provider.

## HCG Winning Innovator with Oplus Future Innovation Revolution



Oplus system was introduced to the market in 2006. The logo "O+" symbolizes an open space with innovation addition. The system innovation connecting people's heart and environment with technology. Both hardware and software of the Oplus system consists the elements of "Easy" and "Simplicity," that can be user friendly products offer to its customers at all ages. With a simple click on mobile internet connection, the "O+" system can offer multi-tasks that offers a convenient home setup where appliances and devices can be automatically controlled remotely from anywhere with an internet connection using a mobile or other networked devices.



The mobile devices enable a smart home appliance, where you can make your home a lot more automated – in a smart home all devices are interconnected through the internet, allowing the user to control functions such as security access to the home, temperature, lighting, and a home theater remotely.

In addition, with increasing awareness of the aging population, HCG is also developing products to integrate the IoT concepts into healthcare for senior. For example, HCG is co-developing with Industrial Technology Research Institute on toilet products that is equipped with biochip that can test proteinuria, electrocardiography for elderly and more products that can help to provide easy digital health surveillance from home.

HCG offered hundreds of smart home products to help determine which ones are best for every room in your house. Major products include e-box and e-box mini and facial recognition.



E-box can control the electricity supply, which can monitor on the electric appliances' usage, it includes computer control that can integrate with sensor and internet equipment.



The HCG's "O+" system is designed to make your home more convenient to live in without spending lots of time or money.

## Future Growth Driver with Solid Composite Materials Development

Starting from 2003, with National Chung-Shan Institute of Science & Technology assistant, HCG has been actively devoting in composite material development. Currently, the ceramic used in bathroom fixture accounts 80% of the total ceramic business while defensive bullet proof products account the remaining 20% revenues. Today, HCG remains one of the key suppliers for Taiwan Ministry of National Defense.



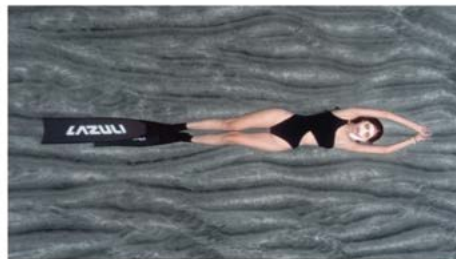
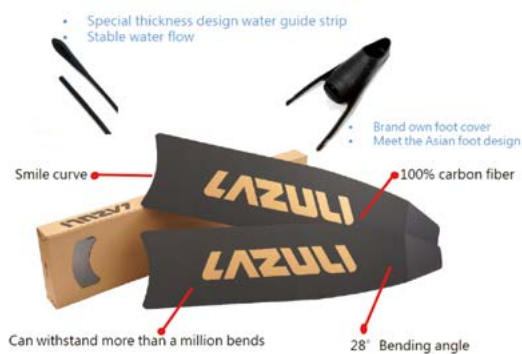
HCG bullet proof products can be apply on Taiwan self-develop CM-32 Armoured Vehicles, bullet proof shield, bullet proof suitcase and bullet proof vests.



In 2015, HCG business set its footprint in medical equipment area, which it targets to develop the Zirconia Block apply in dentistry. HCG medical equipment and material continues to get recognition by ISO13458 and was licensed with GMP. In 2020, the FDA from the United States of America also approved on HCG's Zirconia Block with 510(k) PMN, which once again prove that HCG products was highly valued and recognized with international standard. HCG launched a new brand of CERATOP in the United States and has successfully exported their first batch of products to the U.S. in mid-November, 2021.



Today, HCG continues to develop other composite materials, such as carbon fiber which can apply not only in their bathroom and kitchen fixtures but also other products. These composite material developments will offer HCG with more product diversification which will further drive HCG's future earnings growth.



## Comply the Environmental, Social and Governance (ESG) at Higher Standard

HCG's major businesses cover bathroom and kitchen fixtures, which highly utilizing natural gas, water and electricity to produce its products using raw materials such as clay, ceramic, SMC and other materials. To comply with its social responsibility, HCG not only comply the local government's environmental protection rules and regulations, it also trying to fulfill with international standard.

In addition, HCG continues to provide equal opportunities and human rights to all of its employees and staffs with customers and product responsibility. The company is run by both family and professional management team with more than 90 years of experiences, which offers business ethics, compliance and independence from its board with shareholders democracy.

## HCG Product Innovators Connecting Traditional Products with Innovations

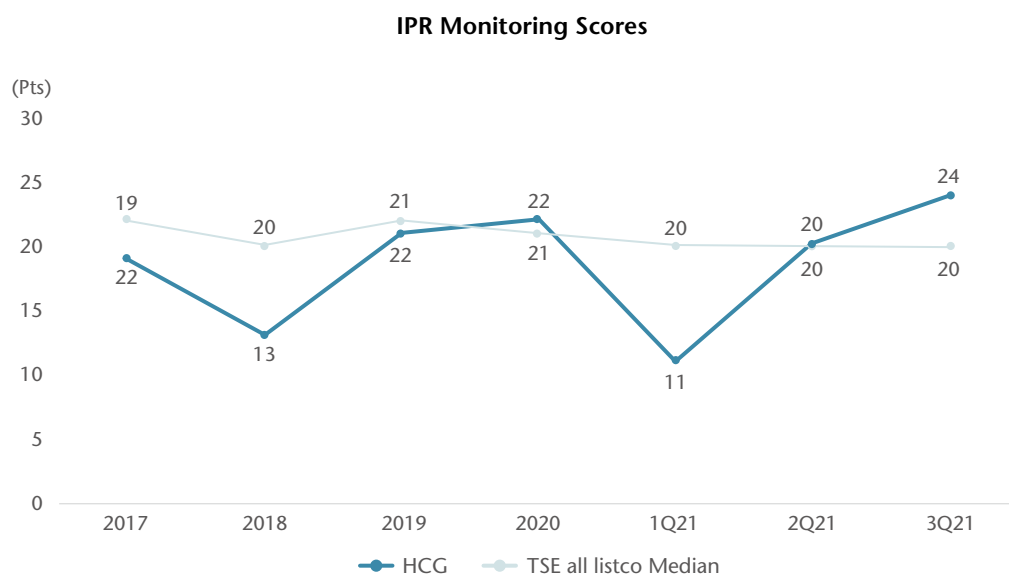






## IPR Monitoring Scores exceeds Median of Taiwan Stock Exchange all listco in 3Q21

IPR Monitoring Scores are derived from bottom-up stock selection criteria powered by big-data with statistical importance. HCG's IPR monitor scores reached new high level of 24 since 2017 on disposal gains in 3Q21. The cash may be used for 1) incubation of new businesses; and/or 2) returning to shareholders via capital reduction.



## Balance Sheet

(TWD mn)	2016	2017	2018	2019	2020	9M21
Cash and Cash Equivalents	878	945	849	803	1,055	2,583
Short-term Investment	568	567	340	277	252	207
AR&NR	2,157	1,807	1,618	1,406	1,279	1,192
Inventories	1,864	1,904	1,997	2,048	1,584	1,647
Other Current Assets	89	109	142	148	648	158
Total Current Assets	5,555	5,333	4,946	4,683	4,818	5,786
PPE	4,287	4,213	4,265	4,301	3,847	3,535
Long-term Investment	752	761	761	985	1,143	1,245
Other Non-current Assets	950	901	815	944	931	1,099
Total Assets	11,545	11,207	10,786	10,914	10,739	11,665
Short-term Borrowings	2,393	1,992	2,047	1,675	1,538	1,466
AP& NP& Accruals	1,289	1,139	1,206	1,137	1,112	1,167
Other Current Liabilities	1,167	519	459	979	982	391
Total Current Liabilities	4,848	3,649	3,712	3,792	3,633	3,024
Long-term Borrowings	399	1,171	1,049	872	707	647
Other Non-current Liabilities	584	550	483	543	447	416
Total Liabilities	5,831	5,371	5,244	5,207	4,787	4,087
Equity	5,714	5,837	5,542	5,707	5,952	7,579
Total Liabilities and Equity	11,545	11,207	10,786	10,914	10,739	11,665

## Income Statement

(TWD mn)	2016	2017	2018	2019	2020	9M21
Revenue	5,921	5,709	5,466	5,526	5,102	3,746
COGS	(4,425)	(4,171)	(4,163)	(4,138)	(3,847)	(2,810)
Gross Profit	1,496	1,539	1,303	1,389	1,255	936
Operating Expenses	(1,554)	(1,392)	(1,301)	(1,310)	(1,255)	(997)
Selling Exps	(1,013)	(895)	(770)	(789)	(716)	(559)
Administrative Exps	(382)	(349)	(377)	(354)	(405)	(324)
R&D Exps	(160)	(148)	(151)	(149)	(136)	(107)
Other Operating Exps	0	0	(3)	(17)	3	(8)
Operating Profit	(58)	146	2	79	0	(61)
Other Non-operating Income	414	101	(4)	11	129	1,902
Net Interest Exps	(61)	(51)	(67)	(70)	(69)	(41)
FX Gain/(Loss)	(25)	2	(16)	(6)	11	2
Income from Equity Method	(6)	0	0	1	1	0
Other Non-op Income	506	149	79	86	186	1,941
Pre-tax Income	356	247	(2)	90	129	1,842
Income Tax Expenses	(65)	(87)	(75)	(54)	(50)	(206)
Minority Interest	5	8	12	12	7	(521)
Discontinued Operations	0	0	0	0	0	0
Net Income to Parent	297	168	(66)	48	87	1,114
EPS (TWD)	1	0	(0)	0	0	3
Shares (mn)	370	370	370	370	370	370

## Cash Flow Statement

(TWD mn)	2016	2017	2018	2019	2020	9M21
Total Operating Cash flow	(315)	395	231	329	647	9
Net Income	291	160	(77)	36	79	1,114
Depreciation & Amortization	232	226	214	260	254	175
Change in WC	(448)	64	70	41	383	44
Other Operating Cash Flow	(391)	(56)	23	(9)	(69)	(1,324)
Total Investing Cash flow	239	(33)	(123)	(220)	23	1,848
CAPX (net)	316	(167)	(271)	(258)	(15)	1,788
Change in Long-term Investments	(118)	123	105	54	61	69
Other Investing Cash flow	41	10	43	(16)	(23)	(9)
Total Financing Cash flow	343	(263)	(209)	(141)	(366)	(295)
Issuance/(Buyback) of Shares	0	0	0	0	0	0
Cash Dividend Paid	(74)	(0)	(111)	(74)	(0)	(74)
Change in Total Debt	418	(262)	(98)	(31)	(335)	(199)
Other Financing Cash flow	(1)	(1)	(0)	(36)	(31)	(22)
Total Cash Flow	267	98	(102)	(32)	305	1,561
FX	(23)	(31)	5	(14)	(52)	(33)
Total Change in Cash	244	67	(97)	(46)	252	1,528

## Financial Ratios

	2016	2017	2018	2019	2020	9M21
Gross Margin (%)	25.3	26.9	23.8	25.1	24.6	25.0
EBITDA Margin (%)	17.9	10.9	5.0	7.8	11.4	105.7
Operating Margin (%)	(1.0)	2.6	0.0	1.4	0.0	(1.6)
Net Margin to Common (%)	5.0	2.9	(1.2)	0.9	1.7	29.7
Sales y-y Growth (%)	(0.9)	(3.6)	(4.3)	1.1	(7.7)	(0.5)
EBITDA y-y Growth (%)	112.3	(41.2)	(55.9)	56.2	34.9	846.8
Operating Income y-y Growth (%)	N/A	N/A	(98.6)	3,820.3	(99.8)	N/A
Net Income y-y Growth (%)	132.8	(43.4)	N/A	N/A	81.1	2,391.3
ROE (%)	5.2	2.9	(1.2)	0.9	1.5	22.3
ROA (%)	2.6	1.5	(0.6)	0.4	0.8	13.2
Accounts Receivable Turnover Days	117.7	119.4	111.4	97.3	94.1	87.9
Inventory Turnover Days	157.1	164.9	171.1	178.4	172.3	157.0
Accounts Payable Turnover Days	66.4	65.2	64.3	64.4	60.4	58.6
Cash Conversion Cycle Days	208.4	219.1	218.2	211.4	206.0	186.3
Fixed Asset Turnover (x)	1.4	1.3	1.3	1.3	1.3	1.4
Net Debt/(Cash) to Equity (%)	33.5	38.0	40.6	30.6	20.0	(6.2)
Interest Coverage Ratio (x)	5.6	4.3	1.0	2.1	2.8	44.3
PER (x)	0.0	21.6	0.0	39.3	87.4	74.2
PBR (x)	0.6	0.6	0.5	0.6	0.6	0.7
EV/EBITDA (x)	5.1	9.4	18.6	11.2	8.5	0.9
Cash Dividend Yield (%)	0.0	3.0	2.6	0.0	2.0	1.4