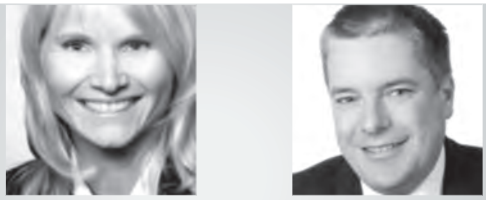

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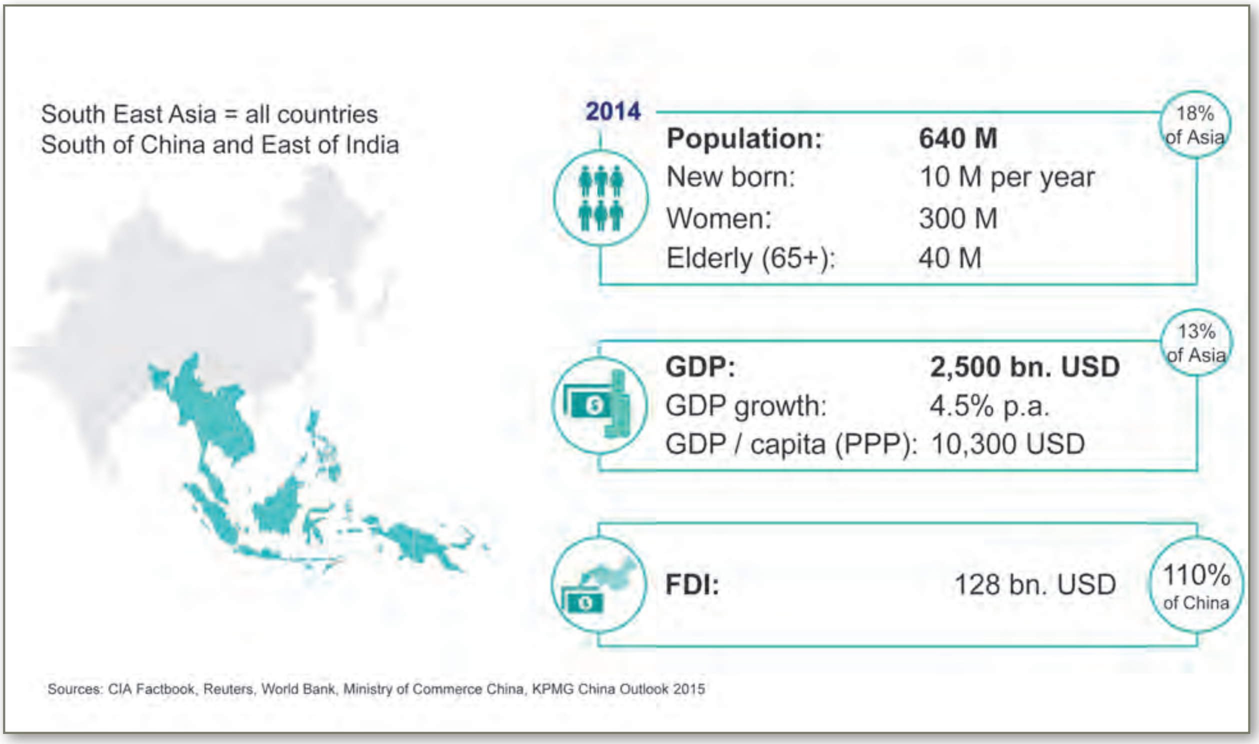
Is Southeast Asia the new China? A review of the Hygiene Industry in the region

The Southeast Asian region by definition consists of all countries south of China and east of India. In total, these are 11 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-East and Vietnam. In these countries, we find a population of 640 M, with 10 M new born babies each year, 300 M women and 40 M elderly people. Compared to the US, this is twice the population with about the same share of new born babies but with a much lower share of elderly.

About 13% of Asia's total GDP is generated in this region, which is growing with an average of 4.5% per year and has a GDP per capita of USD 10,300. China's GDP per capita, for example is 12,900 USD. In the past year, the foreign direct investment in this region exceeded China's and amounted to USD 128 bn. Five countries represent 90% of the region's GDP and population: Indonesia, Thailand, Philippines, Malaysia and Viet-nam. The highest number of inhabitants has Indonesia with more than 250 M, followed by the Philippines and Vietnam with around 100 M, Thailand with 68 M and Malaysia with 31 M people, being the least populated country. Concerning the urbanization of the population the countries differ immensely. While 75% of Malaysia's population lives in cities, rendering the country almost as developed as Western countries (the USA, for example has 81% urban population), Vietnam has a very rural society with only 34% of its population living in cities. The shares of urban population in Thailand, Indonesia and the Philippines are around 50% (Philippines only 44%).

The fertility rates in the region also vary considerably. With more than 3 children born per woman, the Philippines have the highest birth rate, followed by Malaysia (2.55) and Indonesia (2.15), Vietnam (1.83) and Thailand with only 1.5 children born per woman. This is lower than in China (1.6 children per woman) and is basically due to birth control initiatives that were introduced in the 80s and obviously worked very successfully. This also leads to the consequence that a large proportion of the Thai population is over 65 years old.



CONSEQUENCES FOR THE HYGIENE INDUSTRY

There is a correlation between the GDP per capita per year of a country and the probability to buy absorbent hygiene products. We usually assume that the readiness to buy hygiene products starts at about USD 1,000 GDP/capita with sanitary protection products. If the country's economy moves on to 3,500 USD per capita, consumers will usually start buying baby diapers, over USD 7,000 baby wipes, and at a level of USD 10,000+ the incontinence market starts to develop. In terms of the five key countries we analyzed, there are three types of economies: Indonesia, Thailand and Malaysia with over USD 10,000 of GDP per capita per year, the Philippines, with a GDP per capita of USD 7,000 per year, whereas Vietnam only reaches USD 5,600.

INDONESIA

Indonesia has the largest hygiene market of the selected countries. The major hygiene converting investment began in the early 80s with the com-pany Softex, a textile company that started the production of femcare prod-ucts, then moved into the diaper market (Happy Nappy, Sweety Baby) and is also producing the "confidence" adult care products. In the late 1990s, Unicharm and the Thai DSG Group invested in Indonesia and in 2010, there was an investment wave by Unicharm, Softex, Kao, and P&G.

Schlegel und Partner estimates that the penetration rates for disposable hygiene products in Indonesia are over 70% in femcare, around 20% in baby diapers and still on a very low level in incontinence products. Unicharm, with a market share of over 60% in baby diapers and over 40% in femcare and incontinence products, clearly leads the market, followed by Kao in sanitary protection. Softex and DSG gained importance in recent years. Femcare offers a wide variety of products with more players entering the market, and we estimate the CAGR of around 5%. In baby diapers, there is huge potential because of high birth rates and low penetration rates, consequently we estimate a CAGR of 15%. We see a growing importance of incontinence products, but it will remain a niche market.

THAILAND

In Thailand, very early investments came from Unicharm, Johnson&Johnson and the Thai DSG group in the 1990s, Kao started producing in the mid 00's, and DSG added more capacity in 2012. We identified a very substantial market for femcare products with penetration rates of 85%, with Unicharm having more than 50% of market share and Kao being number 2. In baby diapers, we have a penetration rate of 30%, also with Unicharm being clearly number 1 with over 60% of the market shares. Inconti-nence products, with 10%, has one of the highest penetration rates in that region, basically because of the aging population and also because Thailand is a popular retirement destination for elderly people. In femcare, we identified a major trend in ultra-thin products, while in baby diapers, pull ups remain the most important product, already accounting for over 75% of the market.

MALAYSIA

Kao started producing in Malaysia even before the 1990s. Major capacity was added by Kimberly-Clark, DSG and SCA until the year 2000. Latest investments again stem from SCA and DSG around the year 2010. The Malaysian market is a very mature femcare market with lots of variety and many different products with odor control features. Schlegel und Partner estimates the femcare market penetration to be over 90%, with the market leaders Kimberly-Clark and Kao. Also, for the baby diaper market, the market penetration is higher than 80%, with SCA being number 1 with a market share of 25%. With an estimated penetration rate >10%, the incontinence market is the most developed in the region. SCA also leads the incontinence segment with a share of more than 60%.

PHILIPPINES

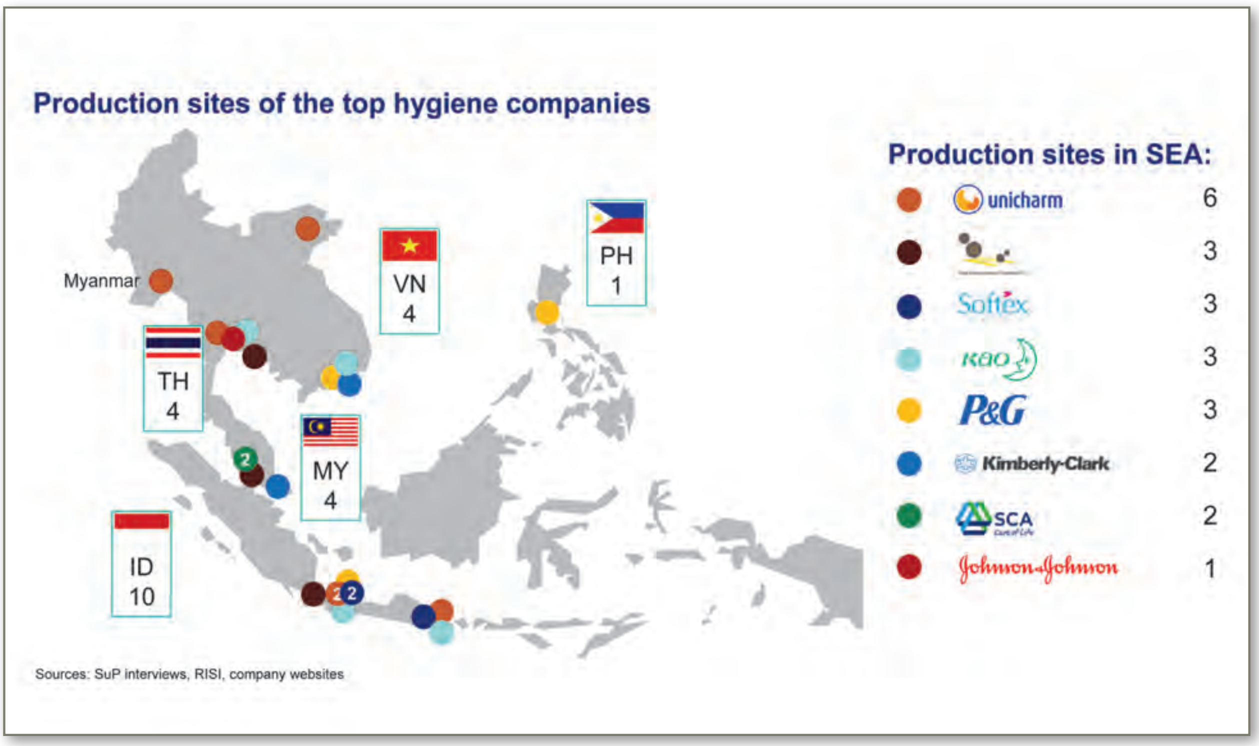
Johnson&Johnson and P&G invested quite early in the Philippines, but after their activities no further investments were taken by global brand owners. The femcare penetration rate is around 70%, baby diapers more than 15% and incontinence is still very small. Johnson&Johnson clearly leads the femcare market with a market share of over 50%, whereas P&G is number 1 in baby diapers, followed by the local JS Unitrade. Due to the low disposable income and the lack of investments, we do not predict a major change in the Philippines.

VIETNAM

Vietnam saw some converting investments in the 1990s from Kimberly-Clark, P&G and Kao and another by Unicharm in 2005. The hygiene market is on a very low level with a penetration rate in femcare of about 50%, baby diapers only 15% and incontinence below 1%. KC leads the sanitary protection market and is number 2 in baby diapers, whereas Unicharm is number 2 in sanitary protection and number 1 in baby diapers. P&G is seen on the third place, and there is also competition from local companies like KyVy. Due to the low disposable income we cannot project a major shift or push in the hygiene market, but due to low penetration rates of all products there are still some market expansions possible.

ACTIVITIES OF THE SPUNBOND HYGIENE PLAYERS

We find a spunbond capacity of around 200,000 t in the selected countries, with Thailand having the highest share of capacity (88 kt), followed by Malaysia (70 kt) and Indonesia (around 50 kt). The investment



COUNTRY FOCUS

into spunbond capacity is in line with the main brand owner/converter investment, so many spunbond lines where established in 2010 (Asahi Kasei, PT Multi Spunindo Jaya, Toray, Fibertex).

THROUGH-AIR-BOND NONWOVENS

Around 40,000 t of carded through-air-bond stable fiber lines are currently installed: 16,000 t in Thailand, 14,000 t in Indonesia and 12,000 t in Malaysia. None of the global players is present in the region. The market is dominated by Shanp Deng and Japanese players.

PROSPECTS FOR THE NONWOVENS INDUSTRY

The nonwovens for the hygiene industry manufactured in the SEA region all have a good standard quality. There is still no spunlace nonwoven capacity in the market and also carded through-air-bond nonwovens lack capacity.

SUMMARY

SEA remains an attractive growth region for hygiene producers, but major investment flows in hygiene converting and nonwovens are already completed. There is increasing competition at converter level, especially as local players are becoming stronger and new players are still entering the market.

The main task for all players is to increase product awareness. Television ads and further marketing and POS activities significantly represent this effort to make the products more popular to the end-consumers and to finally increase the market penetration. Like in all developing regions, even though the end-consumer might not have a lot of money to spend, the money that is spent on hygiene products needs to be invested well. End-consumers do not want to have any trade-offs in quality, especially not if they are first users. ■