

WH Group (288 HK)

Better margins to boost profit growth

- Revenue grew 6.7% YoY in FY21 and OPM/NPM improved, mainly supported by the performance of packaged meat segment
- For FY22E, we expect low pork price and COVID resurgence in China, as well as the tapering impact of post-pandemic recovery in the US would weigh on overall revenue growth
- Margins are expected to improve in FY22E, benefiting from low hog price in China, and improved product pricing; meanwhile operating cost increase would have limited impact; net profit (to shareholders of the Company) and basic EPS are expected to grow by 22.0% YoY and 34.5% YoY in FY22E
- Maintain **BUY**; TP implies 7.91x/7.26x 22E/23E P/E, or 1.07x/0.97x 22E/23E P/B

FY22E growth to see downward pressure. FY21 revenue grew 6.7% YoY. Revenue of packaged meat was up 13.5% YoY, supported by strong rebound in US&Mexico revenue (+18.9% YoY) and improving revenue growth from Europe (+11.0% YoY). Revenue of pork segment declined 2.7% YoY, mainly due to the low pork price in China and the resulting 12.1% YoY decline in the region's pork revenue. For FY22E, we expect the low pork price in China, COVID resurgence across China, and subsiding impact of post-pandemic recovery in the US to weigh on revenue growth. We estimate FY22E revenue to edge up 2.4% YoY, to be followed by 4.3%/4.6% YoY growth for FY23E/24E. Based on our projections, in FY21- 24E, revenue CAGR would be 3.7%.

Margin improvements to boost profit and EPS growth in FY22E. GPM in FY21 declined to 17.2% while OPM and NPM (to shareholders of the Company) rose to 7.2% and 3.9%. The higher OPM can be mainly attributed to the 8.1% YoY decline in admin expenses. OPM of the packaged meat segment rose 1.4ppt to 13.7%, as OPM improved across all regions. We expect the Group's GPM, OPM, and NPM (to shareholders of the Company) to reach 18.7%, 7.7%, and 4.7% in FY22E; higher GPM will be supported by relatively low hog prices in China and improved product pricings. The effects of COVID resurgence in China and rising energy costs, in our view, would be offset by enhanced operating efficiency. We expect GPM, OPM, and NPM (to shareholders of the Company) to be 18.9%, 8.0%, and 4.8% in FY24E. As a result of the margin improvements, net profit (to shareholders of the Company) and basic EPS are expected to grow by 22.0% YoY and 34.5% YoY in FY22E. Basic EPS FY21- 24E CAGR would be 15.0%.

Maintain BUY; TP at HK\$ 6.3. Maintain **BUY** on strong profit and basic EPS growth in FY22E. We lower our DCF-derived TP due to the adjustments in growth estimates and lower profitability forecasts. Current TP implies 7.91x/7.26x 22E/23E P/E, or 1.07x/0.97x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak, 3) Regulatory/policy risk; 4) Product quality/safety risk; 4) Risk of changing consumer taste; 5) Rising raw material costs; 6) Foreign exchange risk; 7) Interest rate risk; 8) Fluctuations in EPS and DPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	25,589	27,293	27,936	29,138	30,470
Chg (% YoY)	6.2	6.7	2.4	4.3	4.6
Net Profit (to shareholders of the Company) (US\$ mn)	828	1,068	1,303	1,420	1,475
Chg (% YoY)	(43.5)	29.0	22.0	9.0	3.8
Basic EPS (US cent)	5.62	7.55	10.16	11.07	11.50
Chg (% YoY)	(43.6)	34.3	34.5	9.0	3.8
P/E (x)	11.58	8.62	6.41	5.88	5.66
BVPS (US cent)	67.91	68.18	75.29	83.04	91.09
P/B (x)	0.96	0.95	0.86	0.78	0.71
DPS(HK\$)	0.18	0.19	0.24	0.26	0.27
Yield (%)	3.4	3.7	4.7	5.1	5.3
ROAA (%)	6.1	6.8	8.1	8.3	8.1
ROAE (%)	8.9	11.4	14.2	14.0	13.2

Source(s): The Group, Bloomberg, ABCI Securities estimates

Company Report

Apr 11, 2022

Rating: **BUY**

TP: HK\$ 6.3

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Share price (HK\$)	5.10
52Wk H/L(HK\$)	7.54/4.28
Est. share price return	23.5%
Est. dividend yield	4.7%
Est. total return	28.2%
Previous Rating &TP	BUY; HK\$8.4
Previous report date	Apr 16, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	65.43
3-mth ADT (HK\$ mn)	182.7

Major shareholders	(%)
Wan Long	26.82

Source(s): Bloomberg, HKEx, ABCI Securities

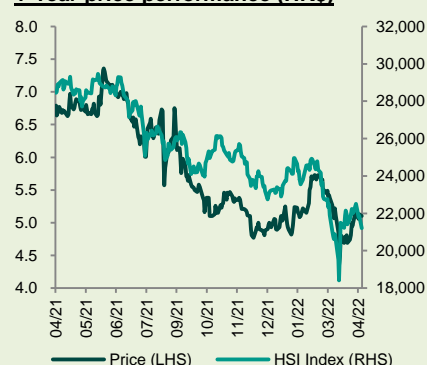
Sector Performance (%)

	Absolute	Relative*
1-mth	0.00	(3.21)
3-mth	0.00	10.35
6-mth	(3.41)	12.46

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Note: 1) All market data as of Apr 11, 2022; 2) Gross profit, operating profit, and related measures discussed are before biological adjustment; 3) Net profits and related measures refer to net profit after biological adjustment; 4) USD/HKD: 7.8387



Exhibit 1: Change in assumptions, projections, and valuations

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FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	33.2	26.8	28.4	25.3	Adjusted based on FY21 rates
D/A (%)	17.8	15.1	17.4	16.6	
Tax rate (%)	17.2	17.2	17.1	17.1	
Valuations					
TP (HK\$)	6.3		8.4		Change in TP and valuation due to revised revenue and profit projections: rollover of forecasts
P/E (x)	7.91	7.26	9.11	8.44	
P/B (x)	1.07	0.97	1.24	1.10	

Note: 1) Previous report was published on Apr 16, 2021

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (US\$ mn)	27,936	29,138	27,822	29,406	0.4	(0.9)
Net profit (to owners of the Company) (US\$ mn)	1,303	1,420	1,750	1,890	(25.5)	(24.9)
EPS (US cent)	10.16	11.07	11.87	12.82	(14.4)	(13.7)

Note: Net profit and EPS are after biological adjustment

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (US\$ mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	25,589	27,293	27,936	29,138	30,470
- Packaged meats	12,167	13,808	14,394	14,792	15,168
- Pork	12,296	11,969	12,062	12,812	13,700
- Others	1,126	1,516	1,480	1,534	1,602
COGS	(20,563)	(22,297)	(22,604)	(23,516)	(24,582)
Gross profit	5,026	4,996	5,332	5,622	5,888
Distribution and selling expenses	(1,914)	(2,038)	(2,109)	(2,192)	(2,294)
Admin expenses	(874)	(803)	(824)	(855)	(887)
Biological adjustment	(720)	(248)	(109)	(117)	(129)
Others	211	59	(138)	(141)	(143)
Operating profit	1,729	1,966	2,152	2,316	2,434
- Packaged meat	1,499	1,895	1,918	2,027	2,104
- Pork	341	3	446	486	515
- Others	(111)	68	(212)	(196)	(185)
Net finance cost	(135)	(139)	(172)	(155)	(141)
Share of profits from JV and associates	16	34	36	38	39
Other gains/(losses)	(295)	(161)	(83)	(104)	(150)
Pretax profit	1,315	1,700	1,933	2,095	2,182
Tax	(223)	(402)	(333)	(360)	(375)
Net profit	1,092	1,298	1,600	1,735	1,807
- Profit attributable to shareholders	828	1,068	1,303	1,420	1,475
- Minority interest	264	230	297	315	332
EPS					
- Basic (US cent)	5.62	7.55	10.16	11.07	11.50
- Diluted (US cent)	5.60	7.55	9.82	10.71	11.12
DPS (HK cent)	17.50	19.00	23.88	26.03	27.03

Note: 1) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	1,599	1,556	1,201	1,685	2,402
Trade and bills receivable	915	1,064	1,020	1,252	1,270
Inventory	2,641	2,625	3,210	3,257	3,362
ST Biological assets	1,047	1,263	1,284	1,456	1,464
Others	1,632	1,114	1,651	1,959	2,106
Total current assets	7,834	7,622	8,365	9,609	10,603
PP&E	5,531	6,367	6,416	6,491	6,569
LT Biological assets	135	168	165	142	159
Goodwill	2,008	2,070	2,070	2,070	2,070
Intangible assets	1,762	1,757	1,760	1,763	1,766
Interest in JV and associates	354	253	274	297	322
Others	1,091	1,174	1,285	1,245	1,312
Total non-current assets	10,881	11,789	11,970	12,007	12,197
Total assets	18,715	19,411	20,336	21,615	22,801
Trade and bills payable	913	1,149	1,275	1,203	1,308
ST borrowings & bank overdrafts	842	874	904	861	923
Others	2,312	2,552	2,575	2,637	2,703
Total current liabilities	4,067	4,575	4,754	4,702	4,934
LT Borrowings	1,840	3,140	2,715	2,413	2,047
Others	1,823	2,009	1,970	2,295	2,250
Total non-current liabilities	3,663	5,149	4,686	4,708	4,297
Shareholders' equity	10,005	8,748	9,660	10,654	11,687
Minority interest	980	939	1,236	1,551	1,883
Total equity	10,985	9,687	10,896	12,205	13,570
Total liabilities and equity	18,715	19,411	20,336	21,615	22,801

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (US\$ mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Pretax profit	1,315	1,700	1,933	2,095	2,182
Depreciation and amortization	503	547	648	737	857
Change in working capital	382	(59)	(749)	(795)	(123)
Others	157	(366)	112	148	108
Cash flow from operating activities	2,357	1,822	1,945	2,186	3,025
Change in PP&E	(539)	(873)	(764)	(759)	(859)
Others	(424)	464	(746)	(89)	(640)
Cash flow from investing activities	(963)	(409)	(1,510)	(848)	(1,499)
Change in borrowings	(514)	1,332	(395)	(344)	(304)
Others	35	(2,765)	(446)	(539)	(546)
Cash flow from financing activities	(479)	(1,433)	(841)	(883)	(850)
Net change in cash	915	(20)	(407)	455	675
ForEx effect	86	23	12	11	14
Cash at the end of FY	1,553	1,556	1,161	1,627	2,317

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	6.2	6.7	2.4	4.3	4.6
- Packaged meat	(1.3)	13.5	4.2	2.8	2.5
- Pork	11.6	(2.7)	0.8	6.2	6.9
Gross profit	9.8	7.1	0.6	4.0	4.6
Operating profit	(14.9)	13.7	9.5	7.6	5.1
Net profit (to owners of the company)	(43.5)	29.0	22.0	9.0	3.8
Profitability ratios (%)					
GPM	17.6	17.2	18.7	18.9	18.9
OPM	6.8	7.2	7.7	7.9	8.0
- Packaged meat	12.3	13.7	13.3	13.7	13.9
- Pork	2.8	0.0	3.7	3.8	3.8
EBITDA margin	8.9	9.1	9.7	10.1	10.3
NPM (to owners of the company)	3.2	3.9	4.7	4.9	4.8
Revenue contribution (%)					
Packaged meat	47.5	50.6	51.5	50.8	49.8
Fresh pork	48.1	43.9	43.2	44.0	45.0
Hog production	4.4	5.6	5.3	5.3	0.0
Return ratios (%)					
ROAA	6.1	6.8	8.1	8.3	8.1
ROAE	8.9	11.4	14.2	14.0	13.2
Liquidity ratio (x)					
Current ratio	1.9	1.7	1.8	2.0	2.1
Quick ratio	1.0	0.8	0.8	1.0	1.2
Cash ratio	0.4	0.3	0.3	0.4	0.5
Cash conversion cycle (days)					
Days of outstanding receivable	13.9	13.1	13.5	14.1	15.0
Days of inventory on hand	48.0	42.5	46.9	49.9	48.9
Days of outstanding payable	17.9	16.9	19.1	19.2	18.6
CCC	44.0	38.8	41.3	44.9	45.3
Leverage ratios (%)					
Total debt/Equity	26.8	45.9	33.2	26.8	21.9
Total debt/Total assets	14.3	20.7	17.8	15.1	13.0

Note: 1) Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj.

2) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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