



WH Group (288 HK) 3Q17 growth continued to pick up

- 3Q17 growth momentum picked up and OPM continued to improved; NPM was lower than that of previous quarters
- Geographical segments saw varying performance
- Acquisition in Poland and Romania may signal future moves to expand in Europe
- Maintain **BUY**; current TP represents 15.31x/13.38x 18E/19E P/E, or 2.43x/2.29x 18E/19E P/B

Growth picked up in 3Q17. 3Q17 total revenue growth reached 5.73% YoY, the highest quarterly growth in 2017 and was supported by the 9.52% YoY and 6.66% YoY growth in the packaged meat segment and fresh pork segment. Cost efficiency also improved, as 3Q17 OP grew 7.66% YoY. OP of packaged meat and fresh pork segment in 3Q17 grew 8.86% YoY and 14.58% YoY. 9M17 revenue was up 3.23% YoY (1H17: +1.96% YoY) and 9M17 OP was up 7.57% YoY (1H17: +7.52%). In 3Q17, revenues from China, the U.S., and Europe increased by 2.81% YoY, 5.81% YoY, and 20.16% YoY; OPs from China and Europe were up 14.15% YoY and 80.95% YoY, while the U.S. market recorded a 6.16% YoY OP decline.

Margins remain stable. The Group's 3Q17 OPM and EBITDA margin were 8.49% and 11.32%, consistent with the performance in the past two quarters. 9M17 OPM was 8.47%, slightly higher than that in 1H17. 3Q17 NPM (to owners of the Company) was 3.11%, lower than those in 1Q/2Q17, possibly due to decline in hog price in China. As a result of the lower net margin in 3Q17, 9M17 NPM (to owners of the Company) was 4.49% vs. 5.23% in 1H17. Yet, 9M17 NPM (to owners of the Company) (pre bio-adj) slightly increased to 4.78% from 4.70% in 9M16. 3Q17 OPM of packaged meat and fresh pork segments edged down to 11.46% and 4.58%, while that of hog production segment increased to 62.11%.

Recent acquisitions in Europe. The Group recently announced the acquisitions in Poland and Romania. We believe these acquisitions may signal more expansion in Europe in the future.

Decent outlook for FY18. We expect the Group's total revenue growth would pick up to 6.35% YoY in FY18E, supported by 6.19% YoY and 5.97% YoY revenue growth in the packaged meat and fresh meat segments; GPM would be stable at ~20% and NPM would improve to 4.74%.

Maintain BUY and TP to HK\$ 9.14. The Group's 3Q17 result demonstrates its ability to capture the market trends and the ability to execute their strategy consistently. Maintain **BUY** and our DCF-derived TP of HK\$ 9.14 represents 15.31x/13.38x 18E/19E P/E, or 2.43x/2.29x 18E/19E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 5) Commodity price risk; 6) Foreign exchange risk; 7) Interest rate risk; 8) Dilution of ROE resulted from deleveraging

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (US\$ mn)	21,209	21,534	22,219	23,630	25,520
Chg (% YoY)	(4.65)	1.53	3.18	6.35	8.00
Net Profit (US\$ mn)	786	1,036	1,050	1,120	1,281
Chg (% YoY)	2.61	31.81	1.39	6.61	14.43
Basic EPS (US\$)	0.0575	0.0758	0.0717	0.0764	0.0875
Chg (% YoY)	(10.71)	31.83	(5.41)	6.61	14.43
P/E (x)	17.14	13.00	13.75	12.90	11.27
BVPS (US\$)	0.3934	0.4312	0.4554	0.4813	0.5105
P/B (x)	2.51	2.29	2.16	2.05	1.93
DPS(HK\$)	0.13	0.26	0.18	0.19	0.23
Yield (%)	1.62	3.38	2.34	2.51	2.95
ROAA (%)	6.86	8.87	9.79	9.83	10.79
ROAE (%)	14.43	17.15	16.17	16.32	17.64

Source(s): Bloomberg, ABCI Securities estimates

Company Report Nov 20, 2017

Rating: **BUY**
TP: **HK\$ 9.14**

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Share price (HK\$)	7.70
52Wk H/L(HK\$)	8.65/5.66
Est. share price return	18.70%
Est. dividend yield	3.38%
Est. total return	22.08%
Previous Rating&TP	BUY; HK\$9.14
Previous report date	Aug 30, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

Issued shares (mn)	14,658.84
Market cap (HK\$ mn)	112,873.10
3-mth ADT (HK\$ mn)	365.84

Major shareholders

	(%)
Rise Grand	36.00
Wan Long	18.59
Teeroy Limited	6.88

Source(s): Bloomberg, HKEX

% of total revenue	FY17E
Packaged meat	52.58
Fresh Pork	43.15
Hog production	2.24

Source(s): ABCI Securities estimates

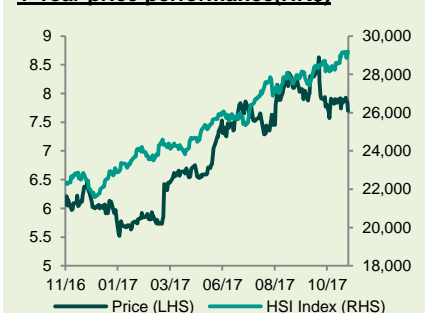
Sector Performance (%)

	Absolute	Relative*
1-mth	(2.41)	(4.21)
3-mth	(5.52)	(13.39)
6-mth	16.80	(2.08)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of closing of Nov 17, 2017

** Operating profits discussed in the report are before biological adjustment

*** Net profits (otherwise specified) are after biological adjustment



Exhibit 1: Quarterly OPM* of segments

(%)	1Q16	2Q16	1Q17	2Q17	3Q17	9M16	9M17
By product segment							
Packaged meat	15.34	13.44	11.94	12.89	11.46	13.42	12.08
China	24.45	21.31	18.80	21.68	22.77	21.65	21.21
U.S.	11.69	10.14	9.64	9.81	6.95	9.97	8.78
Others	7.46	5.88	4.62	3.11	1.62	5.93	2.94
Fresh pork	5.14	3.27	5.25	5.31	4.58	4.20	5.04
China	1.30	2.28	2.08	2.97	3.13	2.29	2.72
U.S.	9.94	4.84	8.43	7.39	6.29	7.01	7.38
Others	(0.88)	(2.94)	(0.67)	1.19	1.08	(4.62)	0.60
Hog production	(46.63)	21.94	7.83	33.03	62.11	5.36	29.19
China	300.00	300.00	266.67	200.00	250.00	281.82	237.50
U.S.	(55.26)	9.86	(10.46)	(5.32)	24.69	(7.33)	(0.30)
Others	(112.50)	(11.11)	110.00	191.67	183.33	40.00	164.71
By geo segment							
China	10.73	10.53	9.01	11.63	12.25	10.77	11.01
US	6.61	7.04	7.29	7.41	6.18	6.88	6.96
Others	2.61	3.66	7.27	11.08	8.50	4.07	9.02

* Before biological fair value adjustments

Source(s): The Group, ABCI Securities

Exhibit 2: Quarterly revenue and OP* growth

(YoY %)	1Q17	2Q17	3Q17	1H17	9M17
Revenue	3.16	0.79	5.73	1.96	3.23
By product segment					
Packaged meat	0.45	6.34	9.52	3.37	5.46
Fresh pork	6.55	(3.73)	6.66	1.20	3.00
Hog production	1.84	(29.68)	(57.40)	(13.52)	(31.61)
By geo segment					
China	(9.40)	(11.66)	2.81	(10.53)	(6.12)
U.S.	10.61	7.28	5.81	8.92	7.86
Others	12.42	14.37	20.16	13.46	15.88
Operating profit	2.20	12.59	7.66	7.52	7.57
By product segment					
Packaged meat	(21.79)	1.97	8.86	(10.79)	(5.07)
Fresh pork	8.85	56.41	14.58	28.27	23.69
Hog production	(117.11)	5.88	(16.90)	(216.67)	272.41
By geo segment					
China	(23.92)	(2.44)	14.15	(13.29)	(3.99)
US	21.88	12.80	(6.16)	17.12	9.12
Others	212.50	246.15	80.95	233.33	157.14

* Before biological fair value adjustments

Source(s): The Group, ABCI Securities

Exhibit 3: Acquisitions in Europe

Acquisition in Poland

Pini Polska	➤	Processed pork products: ham, salami, hot dogs and bacon
	➤	Packaged meats facility with capacity of 100 thousand metric tons
Pini Hamburger	➤	Production of sliced portioned and presses pork
	➤	Semi-Processed facility with capacity of 40 thousand metric tons
Royal Chicken	➤	In Construction
	➤	100 million bird/year
	➤	4 million hogs/year
	➤	Export approval: 85 countries
Pini Polonia	➤	Already own 33.5% share capital in Pini Polonia; completion of acquiring the remaining 66.5% is subject to attaining the anti-monopoly approval from relevant regulatory authorities

Acquisition in Romania

	➤	25,000 Metric Tons of branded, packaged meats in three plants
	➤	Nationwide distribution network to over 12,000 customers
Elit and Vericom	➤	Leading market position in higher margin Traditional Channel
	➤	Capacity to grow to 45,000 Metric Tons of branded, packaged meats
	➤	Completion in acquiring the two companies is subject to attaining anti-monopoly approval from relevant regulatory authorities

Source(s): The Group, ABCI Securities

Consolidated income statement (2015A-2019E)

FY ends at Dec 31 (US\$ mn, except per share data)	2015A	2016A	2017E	2018E	2019E
Revenue	21,209	21,534	22,219	23,630	25,520
- Packaged meat	11,240	11,074	11,683	12,406	13,588
- Fresh pork	8,591	9,178	9,588	10,161	10,920
- Hog production	990	844	499	574	499
- Others	388	438	450	489	513
COGS	(17,129)	(17,327)	(17,850)	(18,905)	(20,307)
Gross profit	4,080	4,207	4,370	4,724	5,212
Distribution and selling expenses	(1,783)	(1,794)	(1,830)	(1,950)	(2,106)
Admin expenses	(740)	(748)	(784)	(835)	(902)
Biological adjustment	(63)	170	123	(56)	(54)
Others	13	18	53	74	67
Operating profit	1,507	1,853	1,931	1,958	2,217
- Packaged meat	1,499	1,475	1,495	1,632	1,868
- Fresh pork	226	545	455	451	550
- Hog production	54	(40)	125	113	147
- Others	(222)	(192)	(144)	(238)	(348)
Net finance cost	(219)	(183)	(183)	(112)	(98)
Share of profits from JV and associates	14	33	37	43	51
Pretax profit	1,302	1,703	1,785	1,889	2,169
Tax	(307)	(465)	(454)	(488)	(556)
Net profit	995	1,238	1,331	1,401	1,613
- Profit attributable to shareholders	786	1,036	1,050	1,120	1,281
- Minority interest	209	202	280	295	340
EPS					
- Basic (US\$ cent)	5.75	7.58	7.17	7.64	8.75
- Diluted (US\$ cent)	5.50	7.25	7.10	7.57	8.67
DPS (HK\$ cent)	12.5	26.00	17.99	19.30	22.71

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2019E)

FY ends at Dec 31 (US\$ mn)	2015A	2016A	2017E	2018E	2019E
Cash and cash equivalent	1,137	1,139	635	1,675	1,283
Trade and bills receivable	725	793	652	949	745
Inventory	1,748	1,678	1,757	1,892	2,055
ST Biological assets	865	933	1,335	1,342	1,703
Others	738	305	206	332	229
Total current assets	5,213	4,848	4,585	6,190	6,016
PP&E	4,674	4,529	4,514	4,520	4,555
LT Biological assets	200	186	288	289	358
Goodwill	1,801	1,784	1,784	1,784	1,784
Intangible assets	1,715	1,681	1,653	1,622	1,592
Interest in JV and associates	185	181	195	210	226
Others	513	402	541	329	424
Total non-current assets	9,088	8,763	8,975	8,754	8,939
Total assets	14,301	13,611	13,561	14,945	14,955
Trade and bills payable	812	854	872	994	994
ST borrowings	606	1,011	774	674	588
Others	1,441	1,458	1,513	1,678	1,748
Total current liabilities	2,859	3,323	3,159	3,346	3,331
LT Borrowings	3,308	1,867	1,429	1,244	1,087
Others	1,431	1,383	1,298	2,006	1,421
Total non-current liabilities	4,739	3,250	2,727	3,250	2,508
Shareholders' equity	5,763	6,316	6,673	7,051	7,479
Minority interest	940	722	1,002	1,297	1,637
Total equity	6,703	7,038	7,675	8,349	9,116
Total liabilities and equity	14,301	13,611	13,561	14,945	14,955

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2015A-2019E)

FY ends at Dec 31 (US\$ mn)	2015A	2016E	2017E	2018E	2019E
Pretax profit	1,302	1,703	1,785	1,889	2,169
Depreciation and amortization	391	372	453	484	520
Change in working capital	191	30	(234)	(261)	(159)
Others	(271)	(255)	(407)	(457)	(536)
Cash flow from operating activities	1,613	1,850	1,596	1,655	1,993
Capex	(629)	(451)	(551)	(667)	(757)
Others	115	310	(17)	(47)	(26)
Cash flow from investing activities	(514)	(141)	(568)	(714)	(783)
Change in borrowings	(744)	(1,036)	(675)	(286)	(242)
Others	(157)	(637)	(528)	(479)	(502)
Cash flow from financing activities	(901)	(1,673)	(1,203)	(765)	(744)
Net change in cash	198	36	(174)	176	466
ForEx effect	(31)	(38)	18	(15)	(30)
Cash at the end of FY	1,125	1,123	967	1,127	1,563

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2015A-2019E)

FY ends at Dec 31	2015A	2016A	2017E	2018E	2019E
Growth (YoY %)					
Revenue	(4.65)	1.53	3.18	6.35	8.00
- Packaged meat	(5.39)	(1.48)	5.50	6.19	9.53
- Fresh pork	(8.26)	6.83	4.47	5.97	7.47
- Hog production	68.65	(14.75)	(40.92)	15.10	(13.05)
Gross profit	(5.96)	0.69	3.22	6.30	7.45
Operating profit	(2.91)	11.87	5.17	7.45	12.39
Net profit (to owners of the company)	2.61	31.81	1.39	6.61	14.43
Profitability ratios (%)					
GPM	19.54	20.21	20.18	20.21	20.62
OPM	7.34	8.30	8.69	8.28	8.69
- Packaged meat	13.34	13.32	12.80	13.15	13.75
- Fresh pork	2.63	5.94	4.75	4.44	5.04
- Hog production	5.45	(4.74)	25.05	19.76	29.38
EBITDA margin	9.64	10.39	8.65	8.74	9.10
NPM (to owners of the company)	3.71	4.81	4.73	4.74	5.02
Revenue contribution (%)					
Packaged meat	53.00	51.43	52.58	52.50	53.25
Fresh pork	40.51	42.62	43.15	43.00	42.79
Hog production	4.67	3.92	2.24	2.43	1.96
Return ratios (%)					
ROAA	6.86	8.87	9.79	9.83	10.79
ROAE	14.43	17.15	16.17	16.32	17.64
ROIC	9.69	12.55	17.41	24.97	29.73
Liquidity ratio (x)					
Current ratio	1.82	1.46	1.45	1.85	1.81
Quick ratio	0.91	0.67	0.47	0.88	0.68
Cash ratio	0.40	0.36	0.21	0.51	0.39
Cash conversion cycle (days)					
Days of outstanding receivable	13	13	12	12	12
Days of inventory on hand	39	36	35	35	36
Days of outstanding payable	18	18	18	18	18
CCC	35	32	30	30	30
Leverage ratios (%)					
Total debt/Equity	67.92	45.57	28.71	22.97	18.37
Total debt/Total assets	27.37	21.14	16.25	12.83	11.20

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

Source(s): Company, ABCI Securities estimates



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Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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