



Shuanghui Development (000895 CH)

Falling trend reversed in 3Q17

- Declining trend in the first two quarters were reversed in 3Q17 and growth was seen across product segments; declines in 9M17 revenue and NP (to owners of the Company) narrowed while GP grew
- Margins continued to improve in 3Q17, lifting the 9M17 margin performance compared to that of 1H17
- Operating data show strong market demand
- Reiterate **BUY**; current TP represents 19.06x/14.79x 18E/19E P/E, or 6.77x/6.47x 18E/19E P/B

Growth emerged in 3Q17. In 3Q17, the Group's revenue grew 3.58% YoY, reversing the declining trend seen in the previous two quarters. GP, OP, and NP (to owners of the Company) grew by 16.29% YoY, 22.05% YoY, and 10.78% YoY. 3Q17 is also the first quarter in 2017 to record growth in all three product segments. Packaged meat products, fresh meat products, and other products recorded revenue growth of 3.77% YoY, 2.81% YoY, and 15.62% YoY in 3Q17. Declines in 9M17 revenue and NP (to owners of the Company) narrowed while GP grew 4.32% YoY (vs. 1.94% YoY decline in 1H17).

Consistent improvement in margins. The Group's margins continued to improve in 3Q17. GPM, OPM, and NPM increased to 21.01%, 12.50% and 9.38%. The improving 3Q17 margins also helped lift 9M17 GPM, OPM, and NPM to 19.55%, 11.05%, and 8.44%.

Operating data showed solid market demand in 3Q17. In 9M17, the number of slaughtered hogs reached 10.09mn, up 13.12% YoY; the number for 3Q17 was 3.74mn, up 37.9% YoY. Total sales volume of packaged & fresh meat products in 9M17 reached 2,278k tonnes, up 4.7% YoY; the number for 3Q17 was 823k tonnes, up 11.7% YoY. Rising volume of slaughtered hog and sales reflected solid market demand in 3Q17.

Changes in shareholdings. The Group experienced several changes in shareholdings. Shareholding of HK Securities Clearing's increased from 0.87% by end-1H17 to 1.50% by end-3Q17; shareholding of China Securities Finance Corporate Limited decreased to 1.17% by end-3Q17 from 1.37% by end-1H17. In addition, three new entities entered the top 10 shareholders list. We believe that the changes of shareholding show healthy market interest in the Group.

Maintain BUY, revise TP to RMB 31.2. We expect the Group to maintain a stable growth and margin in 2018; with revenue, GP, OP, and NP (to owners of the Company) growing by 4.08% YoY, 10.81% YoY, 15.51% YoY, and 15.11% YoY. GPM, OPM, and NPM would be 19.93%, 12.35%, and 9.98%. Performance in 3Q17 shows continuous improvement and demonstrates the Group's ability to capture the market trends. Maintain **BUY** and our DCF-derived TP of RMB 31.2 represents 19.06x/14.79x 18E/19E P/E, or 6.77x/6.47x 18E/19E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 4) Inflation risk; 5) Commodity price risk.

Results and Valuation

FY ended Dec 31	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (RMB mn)	44,697	51,845	52,005	54,128	57,829
Chg (% YoY)	(2.19)	15.99	0.31	4.08	6.84
Net Profit (RMB mn)	4,256	4,405	4,693	5,402	6,959
Chg (% YoY)	5.34	3.51	6.53	15.11	28.82
Basic EPS (RMB)	1.29	1.33	1.42	1.64	2.11
Chg (% YoY)	5.34	3.52	6.56	15.11	28.82
P/E (x)	20.77	20.07	18.83	16.36	12.70
BVPS (RMB)	5.09	4.30	4.45	4.61	4.82
P/B (x)	5.26	6.22	6.02	5.81	5.55
DPS(RMB)	1.25	1.20	1.28	1.47	1.90
Yield (%)	4.67	4.49	4.78	5.50	7.09
ROAA (%)	18.97	19.92	20.87	22.28	27.23
ROAE (%)	25.00	26.90	30.42	33.38	40.69

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 20, 2017

Rating: BUY

TP: RMB 31.2

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Share price (RMB)	26.78
52Wk H/L(RMB)	28.57/19.55
Est. share price return	16.50%
Est. dividend yield	4.49%
Est. total return	20.99%
Previous rating & TP	BUY;RMB27.9
Previous report date	Aug 30, 2017

Source(s): ABCI Securities

Key Data

Issued shares (mn)	3,299.56
Mkt cap (HK\$ mn)	88,362.17
3-mth ADT (RMBmn)	409.21

Shareholding (%) (as of end-3Q17)	
Shuanghui Development	59.27
Rotary Vortex	13.98
HK Securities Clearing Co	1.50
China Securities Finance Corp	1.17

Source(s): Bloomberg, Company

% to total revenue	FY17E
Packaged meat products	44.06
Fresh meat products	59.63
Others	5.12

Source(s): ABCI Securities estimates

Price Performance (%)

	Absolute	Relative*
1-mth	9.57	4.26
3-mth	23.18	12.22
6-mth	34.64	11.59

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

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



Exhibit 1: Quarterly performance

	1Q16	2Q16	3Q16	1Q17	2Q17	3Q17
Growth (YoY %)						
Total Revenue	28.28	22.70	8.30	(4.02)	(7.60)	3.58
- Packaged meat products	1.85	(4.86)	(0.84)	(2.54)	2.03	3.77
- Fresh meat products	58.60	58.78	16.99	(5.70)	(15.98)	2.81
- Others	50.18	44.18	24.71	9.79	7.24	15.62
GP	11.92	(1.19)	(3.59)	(10.31)	6.57	16.29
OP	41.90	(22.94)	(2.76)	(18.43)	0.59	22.05
Pretax profit	20.10	0.60	(2.44)	(18.38)	(3.12)	12.18
Net profit (to owners of the company)	16.65	1.44	(0.96)	(18.20)	(4.82)	10.78
Margins (%)						
GPM	18.18	17.83	18.72	16.99	20.56	21.01
OPM	10.66	10.53	10.61	9.06	11.46	12.50
Pretax margin	11.33	11.29	11.59	9.63	11.84	12.55
NPM (to owners of the company)	8.43	8.42	8.77	7.19	8.68	9.38

Source(s): The Group, ABCI Securities calculation

Exhibit 2: YTD performance

	1H16	9M16	1H17	9M17
Growth (YoY %)				
Total Revenue	25.42	19.12	(5.81)	(2.67)
- Packaged meat products	(1.47)	(1.25)	(0.21)	1.20
- Fresh meat products	48.97	42.55	(7.15)	(6.47)
- Others	50.49	38.17	6.61	11.06
GP	5.01	1.89	(1.94)	4.32
OP	12.58	6.86	(5.01)	4.30
Pretax profit	9.48	5.12	(10.75)	(2.96)
Net profit (to owners of the company)	8.44	4.86	(10.99)	(2.90)
Margins (%)				
GPM	18.00	18.24	18.74	19.55
OPM	10.59	10.60	10.24	11.05
Pretax margin	11.31	11.40	10.72	11.37
NPM (to owners of the company)	8.43	8.54	7.92	8.44

Source(s): The Group, ABCI Securities calculation

Exhibit 3: Shareholding change (%)

Eng name	Chn name	3Q17	1H17	2016
HN Luohe Shuanghui Ind Grp	河南省漯河市双汇实业集团有限责任公司	59.27	59.27	59.27
Rotary Vortex Ltd	罗特克斯有限公司	13.98	13.98	13.98
China Securities Finance Corporate Ltd	中国证券金融股份有限公司	1.17	1.37	2.37
Sunshine Insurance – Traditional product	阳光人寿保险股份有限公司—传统保险产品	N/A	1.27	1.27
Central Huijin Asset Management	中央汇金资产管理有限责任公司	0.96	0.96	0.96
Hong Kong Securities Clearing Co	香港中央结算有限公司	1.50	0.87	N/A
GIC Private Limited	新加坡政府投资公司	0.62	0.62	0.63
Social Security Fund – One-zero-eight	全国社保基金一零八组合	N/A	0.56	0.53
Social Security Fund – One-zero-one	全国社保基金一零一组合	0.56	0.56	0.53
HN Hongbao Group	河南鸿宝集团有限公司	0.53	N/A	N/A
Sino-Europe Value Discover Equity Fund	中国建设银行股份有限公司—中欧价值发现股票型证券投资基金	0.42	N/A	N/A
Xinhua Insurance – Dividend Fund -018L-FH002 Shen	新华人寿保险股份有限公司—分红—个人分红-018L-FH002 深	0.41	N/A	N/A

Note: some English names of shareholders are for identification purposes only

Source(s): The Group, ABCI Securities



Consolidated income statement (FY15A-FY19E)

FY ends at Dec31 (RMB mn, except per share data)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	44,697	51,845	52,005	54,128	57,829
Core revenue	44,697	51,822	51,875	53,928	57,564
- Packaged meat product	22,639	22,577	22,856	23,998	25,970
- Fresh meat	24,444	31,710	30,931	31,314	32,858
- Others	1,776	2,201	2,654	3,200	3,629
- Intersegment elimination	(4,162)	(4,666)	(4,565)	(4,584)	(4,893)
Interest income	0	23	130	200	265
Commission and processing income	0	0	0	0	0
COGS	(35,413)	(42,440)	(42,261)	(43,327)	(44,681)
GP	9,283	9,404	9,735	10,787	13,129
Core GP	9,283	9,383	9,614	10,601	12,883
- Packaged meat product	7,101	7,047	7,108	8,216	9,705
- Fresh meat	1,788	1,737	1,936	1,695	2,406
- Others	382	600	557	683	765
- Intersegment elimination	12	(1)	13	8	7
GP of interest income	0	21	121	186	246
GP of Commission and processing income	0	(0)	(0)	(0)	(0)
Business levy and taxes	(190)	(312)	(313)	(326)	(348)
S&D expenses	(2,299)	(2,272)	(2,267)	(2,340)	(2,486)
Admin expenses	(1,435)	(1,207)	(1,199)	(1,242)	(1,323)
Others	(109)	(173)	(152)	(194)	(241)
Operating profit	5,250	5,440	5,803	6,685	8,731
Net finance income/(costs)	4	18	(12)	(19)	(21)
Others	312	231	367	392	403
Pretax profit	5,675	5,862	6,310	7,251	9,353
Tax	(1,259)	(1,300)	(1,375)	(1,583)	(2,059)
Net profit	4,416	4,562	4,935	5,668	7,294
- Owners of the company	4,256	4,405	4,693	5,402	6,959
- Minority interest	161	156	242	266	335
Dividend	4,124	3,965	4,223	4,862	6,263
EPS (RMB)					
- Basic	1.2892	1.3346	1.4222	1.6371	2.1090
- Diluted	1.2892	1.3346	1.4222	1.6371	2.1090
DPS (RMB)	1.2500	1.2015	1.2800	1.4734	1.8981

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalent	2,427	3,304	3,949	5,118	5,756
Trade and bills receivable	166	161	209	189	214
Inventories	3,385	3,220	3,541	3,433	3,753
Others	2,938	357	1,571	1,813	2,162
Current assets	8,916	7,041	9,270	10,554	11,885
PP&E	11,776	11,574	11,458	11,261	11,097
Construction in progress	715	533	553	567	559
Biological assets	53	71	81	112	166
Intangible assets	1,074	1,043	1,072	1,103	1,136
Others	350	1,091	1,190	1,270	1,399
Non-current assets	13,969	14,311	14,353	14,314	14,357
Total assets	22,884	21,352	23,623	24,867	26,242
Trade and bills payable	2,318	2,309	2,555	2,325	2,669
ST borrowings	600	1,055	2,673	2,686	2,746
Others	2,201	2,812	2,547	3,145	3,140
Current liabilities	5,119	6,176	7,774	8,156	8,555
LT borrowings	6	6	44	34	30
Deferred tax liabilities	16	49	14	33	24
Others	57	52	11	57	14
Non-current liabilities	79	107	68	124	69
Shareholders' equity	16,792	14,203	14,672	15,212	15,908
Minority interest	894	866	1,108	1,375	1,710
Total equity	17,687	15,069	15,780	16,587	17,618
Total liabilities and equity	22,884	21,352	23,623	24,867	26,242

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Net profit	4,416	4,562	4,935	5,668	7,294
Depreciation and amortization	880	946	1,076	1,225	1,415
Change in working capital	311	(172)	(208)	(26)	(72)
Others	159	210	441	515	590
Cash flow from operating activities	5,766	5,546	6,244	7,382	9,228
PP&E	(2,233)	(881)	(749)	(741)	(786)
Investments	(1,056)	2,645	6,872	8,123	6,218
Others	0	0	0	0	0
Cash flow from investing activities	(3,289)	1,764	6,123	7,382	5,432
Bank borrowing	271	426	1,655	4	56
Others	(3,241)	(7,168)	(4,234)	(4,479)	(5,179)
Cash flow from financing activities	(2,970)	(6,741)	(2,578)	(4,475)	(5,123)
Net change in cash and cash equivalent	(493)	569	460	1,163	645
ForEx effect	10	12	11	12	13
Cash and cash equivalent at the end of FY	2,395	3,487	3,958	5,132	5,791

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (FY15A-FY19E)

FY ends at Dec 31	FY15A	FY16A	FY17E	FY18E	FY19E
Growth (YoY %)					
Revenue	(2.19)	15.99	0.31	4.08	6.84
Core revenue	(2.19)	15.94	0.10	3.96	6.74
- Packaged meat products	(10.14)	(0.27)	1.23	5.00	8.22
- Fresh meat	4.85	29.73	-2.46	1.24	4.93
- Others	32.70	23.93	20.58	20.59	13.40
Gross profit	1.94	1.30	3.52	10.81	21.71
Core GP	1.94	1.07	2.47	10.27	21.52
- Packaged meat products	9.07	(0.76)	0.86	15.59	18.13
- Fresh meat	(19.84)	(2.83)	11.43	(12.46)	41.98
- Others	12.13	56.84	(7.04)	22.46	12.03
EBIT	8.75	4.74	6.09	15.51	30.43
EBITDA	9.31	4.39	7.80	15.06	28.35
Pretax Profit	5.63	3.29	7.63	14.93	28.98
Net profit (to owners of the company)	5.34	3.51	6.53	15.11	28.82
Profitability ratios (%)					
GPM	20.77	18.14	18.72	19.93	22.70
Core GPM	20.77	18.11	18.53	19.66	22.38
- Packaged meat products	31.37	31.21	31.10	34.24	37.37
- Fresh meat	7.31	5.48	6.26	5.41	7.32
- Others	21.53	27.25	21.01	21.34	21.08
OPM	11.75	10.49	11.16	12.35	15.10
EBITDA margin	13.64	12.28	13.20	14.59	17.52
Pretax margin	12.70	11.31	12.13	13.40	16.17
NPM (to owners of the company)	9.52	8.50	9.02	9.98	12.03
Core revenue contribution (%)					
Packaged meat product	50.65	43.57	44.06	44.50	45.12
Fresh meat	54.69	61.19	59.63	58.07	57.08
Others	3.97	4.25	5.12	5.93	6.30
Return ratios (%)					
ROAA	18.97	19.92	20.87	22.28	27.23
ROAE	25.00	26.90	30.42	33.38	40.69
ROIC	29.37	32.11	37.21	40.93	52.93
Liquidity ratio (x)					
Current ratio	1.74	1.14	1.19	1.29	1.39
Quick ratio	1.08	0.62	0.74	0.87	0.95
Cash ratio	0.47	0.53	0.51	0.63	0.67
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	37	28	29	29	29
Days of outstanding payable	30	20	21	21	20
CCC	8	9	9	10	10
Leverage ratios (%)					
Total debt/Total equity	3.43	7.04	17.21	16.40	15.76
Total debt/Total assets	2.65	4.97	11.50	10.94	10.58
Net cash (debt) /Total equity	10.29	14.88	7.81	14.46	16.91
Net cash (debt) /Total assets	7.96	10.50	5.22	9.64	11.35

*Return ratios and CCC measures are annualized

Source(s): Company, ABCI Securities estimates



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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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