

Sep 27, 2016
Company Report
Rating: BUY
TP: HK\$ 7.68

Share price (RMB) 6.37
Est. share price return 20.57%
Est. dividend yield 2.51%
Est. total return 23.08%

Previous Rating & TP N/A
Previous Report Date N/A

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Key Data

52Wk H/L(RMB)	6.5/3.74
Issued shares (mn)	14,648.42
Market cap (RMB mn)	93,310.44
3-mth avg daily turnover (RMB mn)	227.42
Major shareholder(s) (%):	
Heroic Zone Investment Ltd	23.71
CDH Shine I Ltd	8.18
CDH Shine II Ltd	6.53
Chang Yun Hlds Ltd	4.31

Source(s): Bloomberg, ABCI Securities

Key data

Revenue composition (%)	1H15	1H16
Packaged meat	52.00	51.10
Fresh pork	40.87	43.86
Hog production	5.33	3.04

Source(s): The Group, ABCI Securities

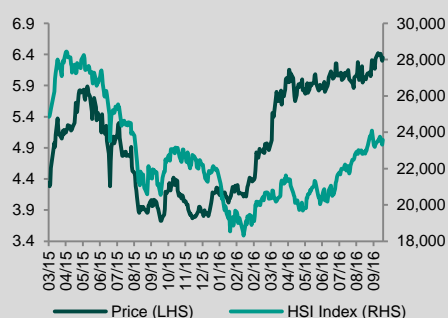
Share performance (%)

	Absolute	Relative*
1-mth	5.81	2.48
3-mth	8.49	(9.32)
6-mth	30.87	11.46

*Relative to HSI Index

Source(s): Bloomberg, ABCI Securities

Stock performance



Source(s): Bloomberg, ABCI Securities

* All pricing data as of closing of Sep 27, 2016

WH Group (288 HK)

A leading integrated player in the pork industry

- 1H16 result showed decent improvement; revenue growth increased from -3.18% YoY in 1H15 to 2.43% YoY in 1H16; OPM increased from 6.52% in 1H15 to 9.49% in 1H16. CCC of the Group decreased from 39.33 days in 1H15 to 36.83 days in 1H16
- Global footprint enables the Group to attain operating synergies. The Group's unique business model skewing toward the end of value chain enables advantages over competitors
- We expect the Group's revenue would grow by 10.61% CAGR from FY15 - FY18; GPM would maintain at above 19% and its NPM would be above 4% in the next three years
- Initiate coverage on the Group with a **BUY** rating and TP of HK\$ 7.68, representing 14.94x FY16E P/E and 2.38x FY16E P/B

1H16 results showed decent improvements. Revenue of the fresh pork segment, the largest growth contributor, expanded by 9.93 % YoY. OPM increased from 6.52% in 1H15 to 9.49% in 1H16. NPM also improved from 3.92% in 1H15 to 6.24% in 1H16. Moreover, overall CCC shortened to 36.83 days in 1H16 from 39.33 days in 1H15.

Unique features of the Group. The Group's operations across the world allow it to realize more operating synergies. In 1H16, it imported the low-cost pork from the U.S. to offset the effect of high pork price in China. In addition, the Group is the top operator of licensed slaughterhouses in China. As the gatekeeper of the Chinese pork market while the authorities are tightening the safety standard and reducing the number of licensed slaughterhouses, the Group would acquire more bargaining power over hog suppliers and influence on the pork price in the country.

The industry environment is supportive of the Group's growth. As pork price has peaked recently in China, we expect a mild decline in 2017. Nonetheless, we believe the Group's synergy among its geographical segments, unique operating model in China, and strong demand of pork in key markets would support growth. The Group's business segments would see consistent volume growth, but ASP growth would be more volatile due to the uncertainty in commodity price. We expect the Group's revenue growth to reach 11.43% YoY in FY18E, while its GPM and NPM would be above 19% and 4% in the next three years. Maintaining an efficient working capital management, CCC would be ~32 days in the next few years.

Initiate with BUY; TP at HK\$ 7.68. We apply the DCF and market multiple methods to derive our TP of HK\$ 7.68, which represents 14.94x/13.53x FY16E/17E P/E, and 2.38x/2.25x FY16E/17E P/B. Initiate with **BUY**.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Substitution effect from alternative protein sources; 4) Biological asset risk; 5) Regulatory risk; 5) Food safety risk, 6) Foreign exchange risk, 7) Interest rate risk.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (US\$ mn)	22,243	21,209	22,877	25,755	28,699
Chg (% YoY)	97.66	(4.65)	7.86	12.58	11.43
Net Profit (US\$ mn)	766	786	971	1,072	1,149
Chg (% YoY)	(391.25)	2.61	23.50	10.43	7.14
Basic EPS (US\$)	0.0644	0.0575	0.0663	0.0732	0.0784
P/E (x)	12.75	14.28	12.39	11.22	10.48
BVPS (US\$)	0.3502	0.3934	0.4162	0.4411	0.4680
P/B (x)	2.35	2.09	1.97	1.86	1.76
DPS (HK\$)	-	0.1250	0.1599	0.1823	0.1905
Yield (%)	0.00	1.96	2.51	2.86	2.99
ROAA (%)	5.31	5.42	6.54	6.70	6.69
ROAE (%)	20.69	14.43	16.37	17.07	17.25

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

An integrated leader in the pork industry

Spanning over China, U.S. and Europe, WH Group is an integrated meat processing company whose operation covers packaged meat, fresh pork, and hog production. Smithfield, one of the Group's wholly-owned subsidiaries, is an industry leader in the U.S. pork production industry with fresh meat and packaged meats products in both the domestic and international markets. According to the FY15 annual Report, Smithfield is the largest hog producer and pork processor in the world, and is the leader in numerous packaged meats categories. Shuanghui Development (000895 CH), another subsidiary of the Group, is a major player in the pork industry in China with extensive network of sales and production in 17 provinces/autonomous regions/municipalities.

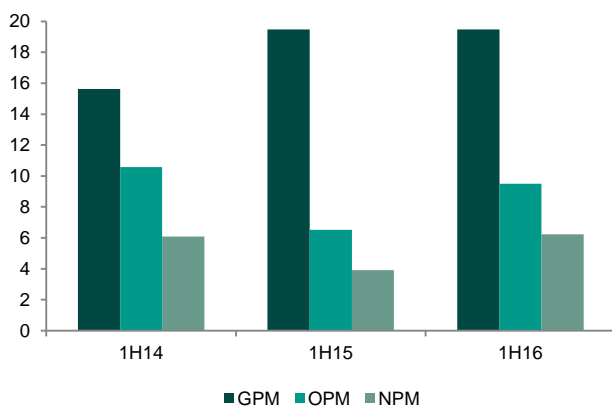
1H16 financial review

The Group's revenue grew by 2.43% YoY in 1H16, as compared to a decline of 3.18% YoY in 1H15, but performance varied across segments and regions. Fresh pork segment was the biggest growth contributor with a revenue growth of 9.93% YoY. Revenue of packaged meat was up by 0.66% YoY and that of hog production was down by 41.54% YoY. By region, its China business saw a revenue growth of 19.38% YoY in 1H16 vs. -4.14% YoY in 1H15. Revenue from the U.S. declined by 6.11% and the collective revenue from other regions stayed flat in 1H16.

In 1H16, revenue growth and effective cost control measures helped boost profitability. GPM was stable, while OPMs in the packaged meat and fresh pork segments improved, raising the overall post-biological adjustment OPM from 6.52% in 1H15 to 9.49% in 1H16. NPM (post-bio-adj.) also rose from 3.92% in 1H15 to 6.24% in 1H16. ROAA and ROAE increased significantly as a result.

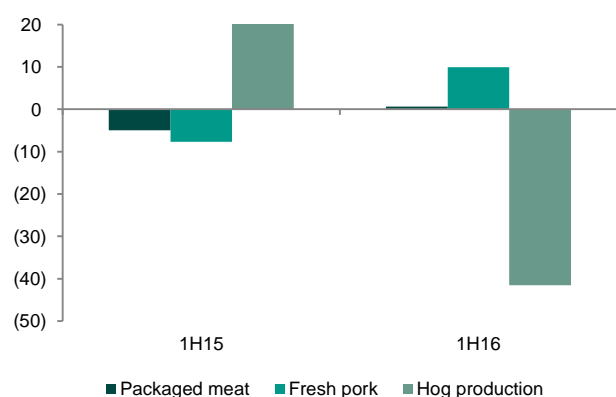
In terms of operating efficiency, receivable turnover days in 1H16 decreased from 14.57 in 1H15 to 13.11, and the inventory turnover days decreased from 41.22 in 1H15 to 37.98. Overall CCC shortened to 36.83 days in 1H16 from 39.33 days in 1H15. All these were positive in our view.

Exhibit 1: WH Group's profitability ratios (%)



Source(s): The Group, ABCI Securities

Exhibit 2: Revenue growth of segments in 1H16 (YoY %)



Source(s): The Group, ABCI Securities

Industry overview

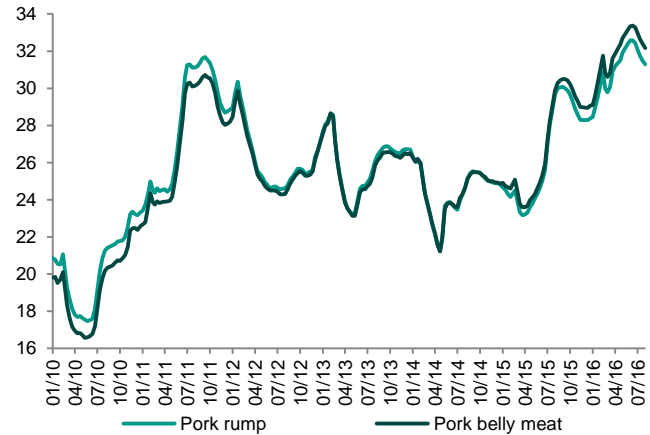
A highly cyclical industry driven by more than supply and demand

In the past few years, the retail and wholesale pork prices have been volatile. Average wholesale price of pork was ~RMB 16/kg in Apr 2014 and bounced back to more than ~RMB 27/kg in Jun 2016. Fluctuations in wholesale price

were also reflected in the retail price. According to the NBS, the price of pork belly meat and pork rump dived to ~RMB 21/kg in Apr 2014 and rebounded to exceed RMB 32/kg in June 2016. For the same period, the retail/wholesale prices of pork fluctuated with a standard deviation at ~ 3.

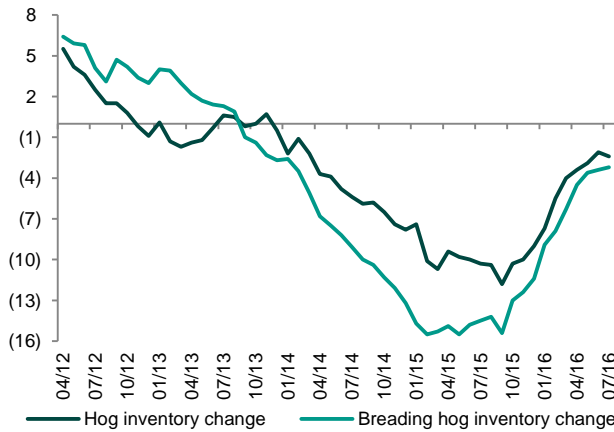
Exhibit 3: Wholesale price of pork in China (RMB/kg)


Source(s): Wind, ABCI Securities

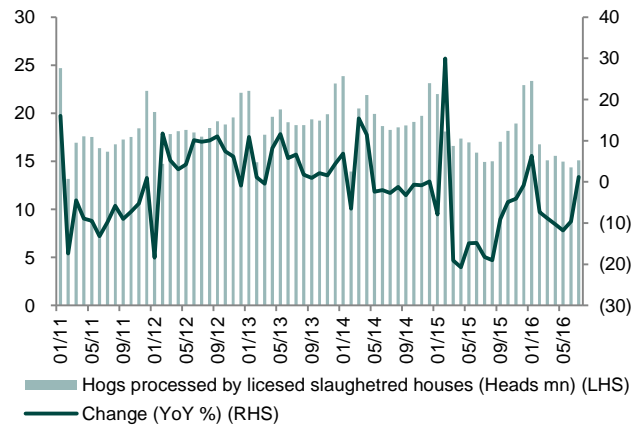
Exhibit 4: 50-city average retail price of pork (RMB/kg)


Source(s): Wind, ABCI Securities

Such price volatility toughens the life of hog farmers. It is easy to assume inventory of live hogs in China would fluctuate with the general pork price. However, NBS data suggest this is not necessarily the case. The inventory of live hogs declined since the start of 2013, coinciding with the pork price decline, meaning that the 2014 pork price decline might be the trigger of exit of farmers. However, after 2Q14, the live hog inventory declined when hog price improved, suggesting that other factors were in play to affect China's pork price.

Exhibit 5: Hog inventory still declining (YoY %)


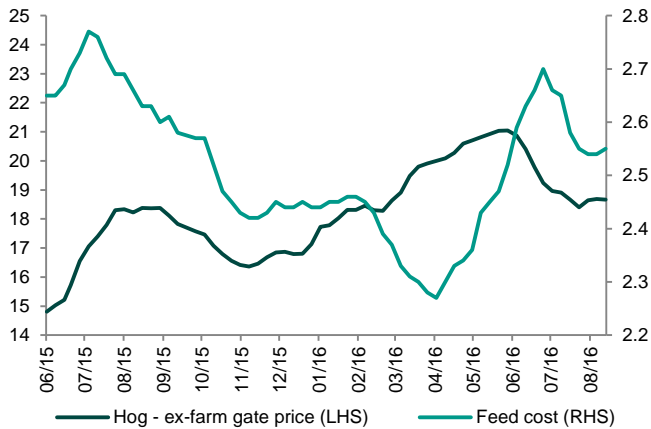
Source(s): Wind, ABCI Securities

Exhibit 6: Hogs processed by licensed slaughterhouses still sees tepid growth


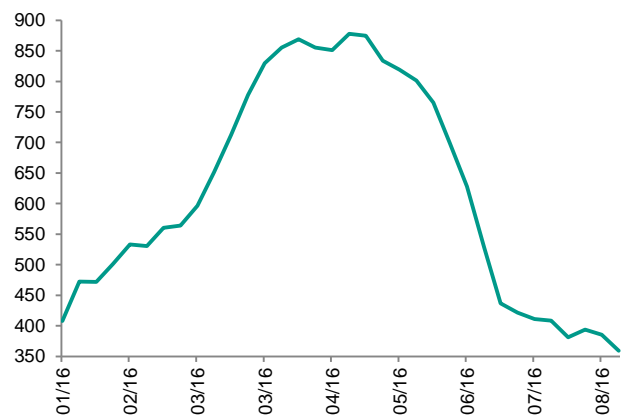
Source(s): Wind, ABCI Securities

Data also suggest the number of hogs processed in registered slaughterhouses have not gone up by much other than the months around Spring Festival, which does not support the theory that demand has been driving up hog price.

Even though pork price has been increasing, the expectation of hog raising profitability has been decreasing. The Hog Raising Profit Expectation index published by the NDRC shows the expected profit from hog raising peaked at around May 2016 and is now under RMB 400/head. As the price of feed has been rising since Apr 2016, the declining profit expectation suggest the limited bargaining power of hog farmers makes them unable to transfer the higher feed costs to their distributors or slaughterhouses. This may have contributed to the low/negative hog inventory growth observed.

Exhibit 7: Hog ex-farm gate price and feed cost (RMB/kg)


Source(s): Wind, ABCI Securities

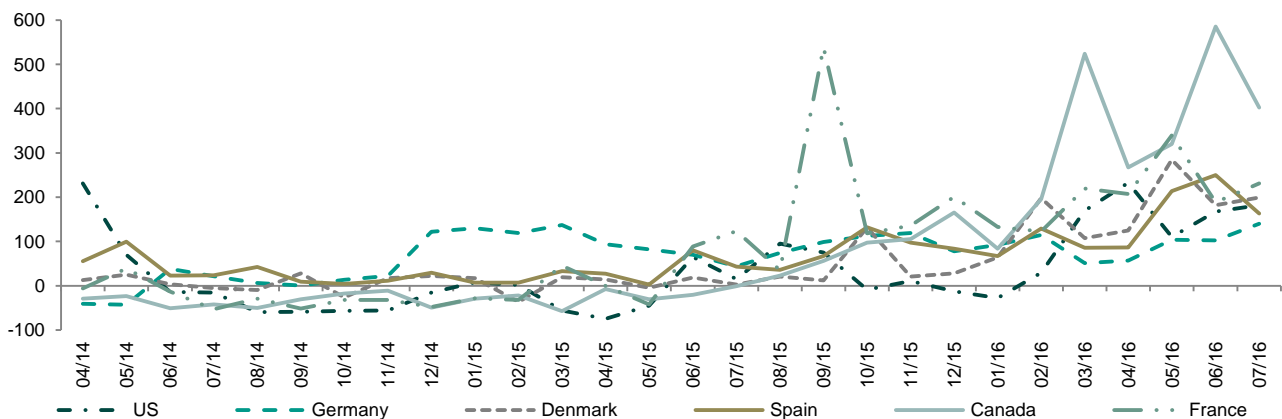
Exhibit 8: Profit expectation of hog raising (RMB/head)


Source(s): Wind, ABCI Securities

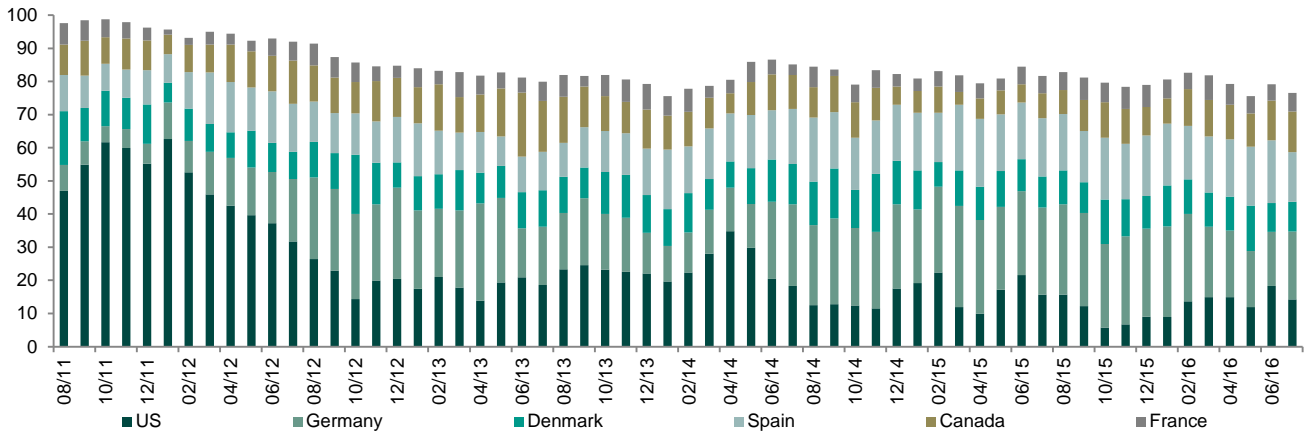
Great demand for pork in China

Since May 2015, China's import pork volume has shown accelerated growth. In June 2016, the imported pork volume reached an all-time high of 194.16mn kg, representing a growth of 214.6% YoY. Imported volume of pork from major production countries including the U.S., Germany, Denmark, Spain, Canada, and France have been increasing at the same time, among which import from Canada showed the largest growth of 585% YoY in June 2016, while other countries also experienced a triple-digit growth in recent months. Overall, demand for pork in China is high.

However, countries exporting pork to China have increased and diversified. The collective contribution from countries exporting pork to China (i.e. the U.S., Germany, Denmark, Spain, Canada, and France) has gone down from almost 100% in Aug 2011 to ~80% in Jul 2016. The U.S., once contributed to more than 60% of China's total import of pork, accounted for only 14.28% of pork import in Jul 2016, while contribution from Germany expanded to 20.41% in Jul 2016. These changes reflect that consumers' tastes are evolving and the competition has increased for those exporting pork to China.

Exhibit 9: Import volume of pork from various countries grew faster (YoY %)


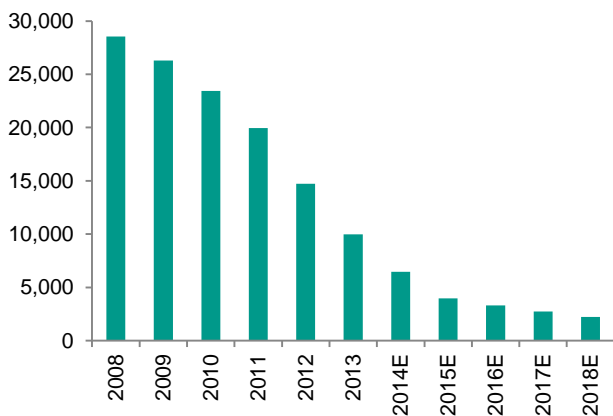
Source(s): Wind, ABCI Securities

Exhibit 10: Pork import volume contribution by major exporting countries (%)


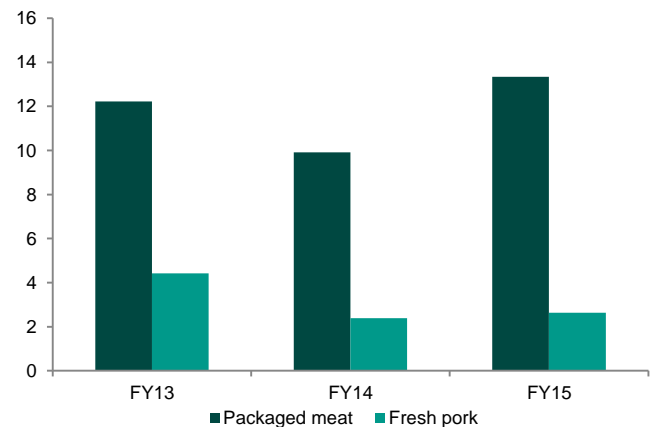
Source(s): Wind, ABCI Securities

Consolidation of the slaughtering industry in China

China is currently increasing the oversight on food safety in order to raise public confidence on the food industry. For the Chinese pork industry, one such measure is to consolidate the hog slaughtering industry. NBS data show the number of registered slaughterhouses declined from 28,560 in 2008 to 9,985 in 2013 and Frost & Sullivan also forecasted that the number of slaughterhouses will continue to decline in the future. As pork consumption continues to grow, this declining trend means the control over slaughtering operations would be invaluable to industry players.

Exhibit 11: Declining number of slaughtering houses in China


Source(s): Prospectus of the Group, ABCI Securities

Exhibit 12: OPM of packaged meat and fresh pork segment of the Group


Source(s): The Group, ABCI Securities

Higher gain towards the end of value chain

The industry has exhibited uneven value distribution along the industry value chain. As the Chinese authorities are increasing their oversight on the food and beverage industry, the entry barrier of the pork industry would increase. As a result, the licensed slaughterhouses, which are considered to be the gatekeepers of the fresh pork industry, would be able to exert more price pressure on the hog suppliers. In addition, as the Group's financials show, the GPM of the packaged meat segment was higher than other segments- a sign that the processed meat market may deliver better returns to players in the pork industry.

Competitive edges of the Group

Synergy across geographical and product segments

Synergy among the Group's key markets and product segments has given it the ability to defend against the industry's cyclicity. As pork price in the U.S. decreased while the opposite occurred in China in 1H16, the Group was able to take advantage of the situation and boost its topline growth in China to compensate for the decline in the U.S. During the same period, the Group was also able to adjust its product mix in the fresh pork segment to boost the OP in the U.S. market, offsetting the negative impact resulted from the lower price pass-through rate of fresh pork in the Chinese market. In addition, the global coordination of production enables the Group to manage costs more effectively. In 1H16, the Group was able to use the cheaper imported pork to produce its packaged meats products in China, resulting in the improved OPM of 22.85%.

Leading position in slaughterhouse operation

More importantly, the Group's operating model in China that skews toward the downstream business gives it various advantages. Most notable is the Group's slaughtering operation. As the number of registered slaughterhouses decreases and pork demand grows, the registered slaughterhouses, which are the gatekeepers of the fresh pork market, will acquire more bargaining power. According to the prospectus, the Group has the largest slaughtering operation in China while its hog-raising operation is still small. The percentage of hogs purchased from external suppliers for its fresh pork segment in China was ~98% in 2013 and 2014. Therefore, we believe the Group's slaughtering operation would continue to have immense influence on China's fresh pork market and enable the Group to reduce cost.

Continued diversification of business

The Group has been diversifying its business to reduce risk. Other than diversifying within the pork industry, the Group also expands its business portfolio to the poultry business. As of end-1H16, the Group has 5,468 k heads of poultry that consists of 4,939 k broilers and 529 k breeding stock. We believe that the diversification of business portfolio would help the Group hedge against business risk.

Shareholding change signals investor confidence

Background

On Aug 25, 2016, the Group announced that it had entered into three separate share transactions. In the first transaction, 880mn shares would be sold to independent third parties at HK\$ 5.95 (the placing agent would purchase any outstanding shares that are unsubscribed). In the second transaction, 383mn shares at HK\$ 5.95 were transferred to a group of investors by CHD Shine. In the third transaction, the CDH Shine II would sell 292mn shares at HK\$ 5.95 to Heroic Zone. After these transactions, the CDH Shareholders, the Heroic Zone, and the public shareholders would have the respective stakes of 19.77%, 23.71%, and 44.21%, as compared to 30.39%, 21.72%, and 35.59% before the transactions.

Synopsis of the shareholding changes

The share transaction has effectively reduced the stakes held by CDH Shareholders and increased the ones by Heroic Zone and the public shareholders. Even though the public holding increases, share price has remained stable after the announcement, showing that public shareholders are confident on the Group's prospect.



For the above transactions, shares were priced at HK\$ 5.95, representing a 21.83% premium over the 250-day average closing price of HK\$ 4.88 on Aug 25, and FY16E P/E of 11.57x and FY16E P/B of 1.84x. We believe this is an acceptable floor price to the investors involved, meaning that the Group's share price would find support at this level in the medium-to-short term.

Exhibit 13: Shareholding change before and after the transactions

	Approx. % holding as at the date of announcement	Approx. % holding as after the completion of all transactions
CDH Shareholders		
CDH Shine	11.92	5.57
CDH Shine II	6.61	4.54
CDH Shine III Limited	3.41	2.34
CDH Shine IV Limited	2.28	1.57
CDH V Shine II Limited	2.51	2.10
CDH Shine V Limited	1.89	1.89
CDH V Shine I Limited	1.76	1.76
Rise Grand		
Heroic Zone	21.72	23.71
Chang Yun Holdings limited	4.31	4.31
High Zenith Limited	2.40	2.40
Sure Pass Holdings Limited	3.91	3.91
Rich Matrix Global Limited	1.68	1.68
Directors		
Wan Long	0.01	0.01
Guo Lijun	0.00	0.00
Public Shareholders		
Placees	0.00	6.01
Transferees	0.00	2.61
Other public Shareholders	35.59	35.59

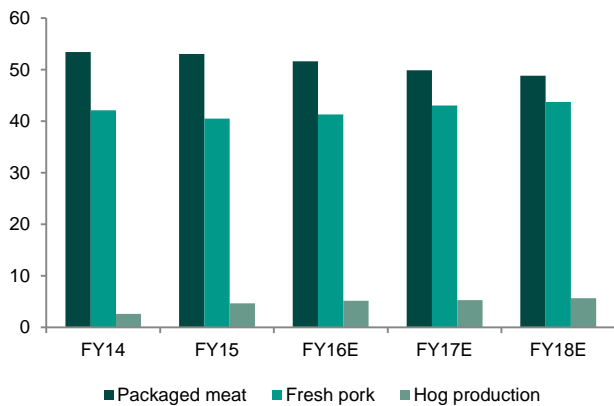
Source(s): The Group, ABCI Securities

Growth prospect

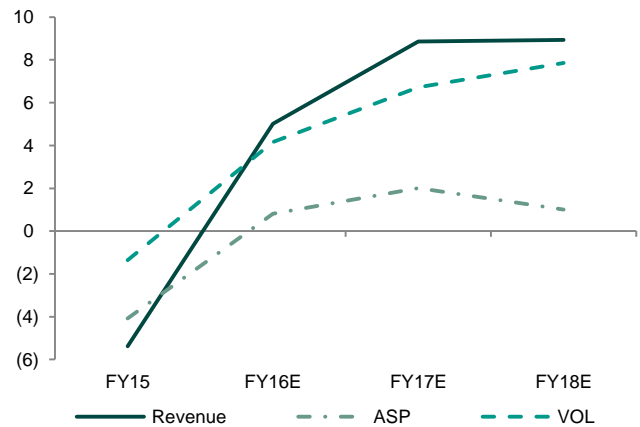
The recent price increase in the industry may have lifted prospect of the pork industry. However, we believe the current price has peaked based on the latest price trend and expect the high price would help stimulate the upstream hog supply in the future, hence bringing down the downstream hog price slightly in 2H16. As a result, we expect the average 50-city pork price (including the pork rump and pork belly meat) to be ~RMB 28/ kg in 2017.

We expect a mild price drop would not pose much challenge to the Group's leadership position, as it has the advantages in cross-regional synergy and controls a large amount of slaughterhouses, which enables a higher bargaining power. We believe that its product mix would continue to be stable, but the revenue contribution from packaged meat would fall from 53% in FY15 to 48.78% in FY18, and that from fresh pork would steadily rise from 40.51% in FY15 to 43.73% in FY18.

For the packaged meat segment, we expect ASP to edge up in the next few years (+2.01% YoY /+1.0% YoY in FY17E/18E), with the U.S. segment growing consistently at above 2% YoY. Volume growth would also rise to 6.72% YoY in FY17E and 7.86% YoY in FY18E as volume growth in China accelerates. This means the segment's revenue growth would be 8.86% YoY and 8.94% YoY in FY17E and FY18E.

Exhibit 14: Revenue contribution of segments (%)


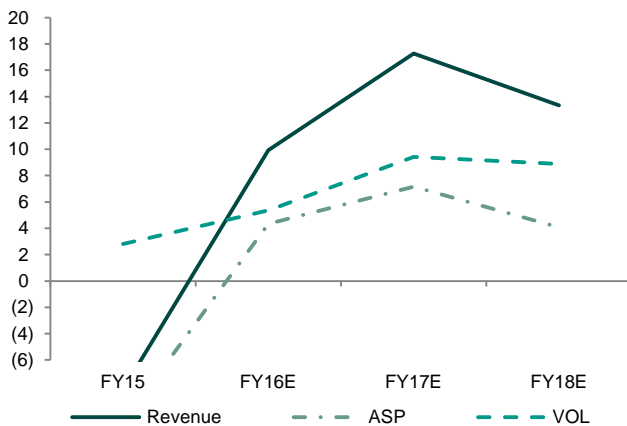
Source(s): The Group, ABCI Securities estimates

Exhibit 15: Revenue, ASP, and volume growth of packaged meat segment (YoY %)


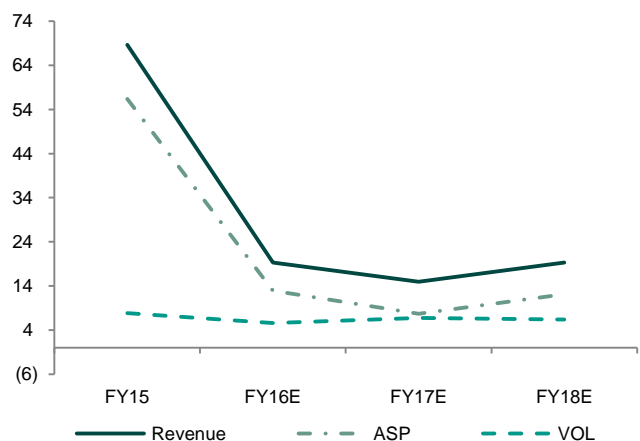
Source(s): The Group, ABCI Securities estimates

For the fresh pork segment, growth in pork price would likely reduce and we expect the segment's ASP to expand by 4.08% YoY in FY18E. Strong demand from China and recovering demand from the U.S. would continue to help boost the volume growth to 9.43% YoY in FY17E and 8.89% YoY in FY18E. This would translate into a revenue growth of 17.27% and 13.33% YoY in FY17E and FY18E.

As for the hog production segment, we believe performance would vary across regions. We project the segment ASP would grow by 7.68% YoY in FY17E and 12.16% YoY in FY18E; volume growth would be 6.73% YoY in FY17E and 6.4% YoY in FY18E. The segment revenue would still maintain a double-digit growth in the next few years. (FY17E: +14.93% YoY, FY18E: +19.34% YoY)

Exhibit 16: Revenue, ASP, and volume growth of fresh pork segment (YoY %)


Source(s): The Group, ABCI Securities estimates

Exhibit 17: Revenue, ASP, and volume growth of hog production segment (YoY %)


Source(s): The Group, ABCI Securities estimates

We project that the Group's GPM would be stable and reach 19.42% and 19.78% in FY17E and FY18E, thanks to the Group's inherent advantage and relatively low commodity costs. Even though we project the higher S&D expenses and the possible loss from biological assets would hurt the Group's profitability, we project its NPM would still sustain at above 4% in the next 3 years. ROAA and ROAE would also improve from 5.42% and 14.43% in FY15 to 6.69% and 17.25% in FY18E.



Valuation

In our view, the Group's global operation and its unique business model in China would allow it to sustain various advantages over its competitors. This would be reflected in the growing profitability and improving returns. In our DCF model, we assume a cost of equity of 10.01%, a cost of debt of 5.1%, a tax rate of 23.58%, and a debt-to-equity ratio of 32.44%. Applying the market multiple approach, we establish the benchmark P/E and P/B ratios by referencing several domestic and international peers. Based on both approaches, we derive a TP of HK\$ 7.68, representing 14.94x/13.53x FY16E/17E P/E and 2.38x/2.25x FY16E/17E P/B. Initiate with **BUY**.

Risk factors

Macroeconomic risk. As the economy continue to grow at a slow pace, the consumer market would inevitably suffer. If the macroeconomic condition deteriorates quicker than expected, even the highly defensive staple food industry would be negatively impacted.

Commodity price risk. The Group's operation substantially involves commodities in both its inputs and outputs. Fluctuation of commodity price would affect the Group's cost and sales. In addition, the fluctuation of hog/pork prices would lead to change in its biological assets, which would lead to biological assets impairment that ultimately affect the Group's bottom line.

Substitution effect from alternative protein sources. As the public becomes more health-conscious, consumers are offered a wider range of protein sources and pork demand may decline as a result. This would affect growth in the pork industry.

Biological asset risk. If the current price cycle of hog or pork reverses drastically, the Group would face the risk of biological asset impairment, which would ultimately reduce its reported profits.

Regulatory risk. The stringent regulation over food safety by the Chinese authorities is getting tighter in recent years. If the regulation continues to tighten, the compliance cost would increase for pork companies. In addition, any unexpected change in the pork industry regulation may disrupt the pork industry and the Group would be forced to change its strategy.

Food safety risk. The pork industry has once been scandalized by reports concerning ractopamine use in the hog raising industry although confidence is now largely restored. However, public trust could be hampered upon outbreak of food safety issues in the industry or the Group

Foreign exchange rate risk. The Group's operation covers China, the U.S., and Europe. The geographical diversification could lead to the use of different currencies for its operations. Therefore, the Group may be affected by the changes in foreign exchange rates.

Interest rate risk. The Group's borrowings carry fixed and floating rates. Changes in monetary policies in countries/regions in which the Group operates may result in higher interest costs for the Group.

Appendix: Financial Statements of the Group

Consolidated income statement (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Revenue	22,243	21,209	22,877	25,755	28,699	10,205	10,453
- Packaged meat	11,880	11,240	11,803	12,849	13,998	5,307	5,342
- Fresh pork	9,364	8,591	9,444	11,075	12,551	4,171	4,585
- Hog production	587	990	1,181	1,357	1,620	544	318
- Others	412	388	449	474	530	183	208
COGS	(18,828)	(17,129)	(18,448)	(20,753)	(23,023)	(8,217)	(8,417)
Gross profit	3,415	4,080	4,428	5,002	5,676	1,988	2,036
Distribution and selling expenses	(1,662)	(1,783)	(1,991)	(2,274)	(2,546)	(829)	(854)
Admin expenses	(758)	(740)	(862)	(952)	(1,069)	(353)	(339)
Biological adjustment	727	(63)	155	101	(103)	(147)	135
Others	6	13	40	61	83	6	14
Operating profit	1,728	1,507	1,771	1,938	2,041	665	992
- Packaged meat	1,178	1,499	1,549	1,714	1,857	729	769
- Fresh pork	223	226	418	453	466	58	191
- Hog production	412	54	42	72	77	44	(42)
- Others	(199)	(222)	(237)	(300)	(359)	(102)	(80)
Net finance cost	(371)	(219)	(196)	(211)	(224)	(118)	(96)
Share of profits from JV and associates	63	14	32	35	42	7	17
Pretax profit	1,420	1,302	1,607	1,763	1,859	554	913
Tax	(448)	(307)	(376)	(405)	(423)	(154)	(261)
Net profit	972	995	1,230	1,358	1,437	400	652
- Profit attributable to shareholders	766	786	971	1,072	1,149	303	551
- Minority interest	206	209	260	286	303	97	101
EPS							
- Basic (US\$ cent)	6.44	5.75	6.63	7.32	7.84	2.22	4.03
- Diluted (US\$ cent)	6.11	5.50	6.56	7.25	7.77	2.12	3.85
DPS (HK\$ cent)	0	12.5	15.99	18.23	19.05	0.00	5.00

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (USD mn, except per share data)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16A
Cash and cash equivalent	978	1,137	1,412	1,894	2,268	843	515
Trade and bills receivable	845	725	952	945	1,163	793	791
Inventory	1,900	1,748	1,963	2,264	2,477	1,831	1,750
ST Biological assets	1,014	865	1,069	1,090	1,120	895	1,016
Others	637	738	897	1,035	1,056	608	897
Total current assets	5,374	5,213	6,292	7,229	8,085	4,970	4,969
PP&E	4,582	4,674	4,818	5,053	5,262	4,603	4,644
LT Biological assets	220	200	225	239	246	213	191
Goodwill	1,815	1,801	1,797	1,797	1,797	1,815	1,797
Intangible assets	1,746	1,715	1,684	1,653	1,622	1,739	1,703
Interest in JV and associates	539	185	199	214	231	188	182
Others	444	513	380	440	448	456	387
Total non-current assets	9,346	9,088	9,102	9,396	9,608	9,014	8,904
Total assets	14,720	14,301	15,395	16,625	17,692	13,984	13,873
Trade and bills payable	850	812	1,056	1,080	1,262	577	491
ST borrowings	719	606	1,608	1,732	1,826	902	1,412
Others	1,553	1,441	1,825	1,833	2,291	1,313	1,388
Total current liabilities	3,122	2,859	4,490	4,645	5,379	2,792	3,291
LT Borrowings	3,951	3,308	2,663	2,868	3,024	3,475	2,338
Others	1,597	1,431	1,164	1,637	1,381	1,371	1,351
Total non-current liabilities	5,548	4,739	3,827	4,505	4,405	4,846	3,689
Shareholders' equity	5,130	5,763	6,097	6,461	6,856	5,485	6,086
Minority interest	920	940	981	1,013	1,052	861	807
Total equity	6,050	6,703	7,079	7,475	7,908	6,346	6,893
Total liabilities and equity	14,720	14,301	15,395	16,625	17,692	13,984	13,873

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

FY ends at Dec 31 (USD mn)	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Pretax profit	1,420	1,302	1,607	1,763	1,859	554	913
Depreciation and amortization	359	391	377	474	520	192	190
Change in working capital	227	191	(75)	(279)	97	(243)	(619)
Others	(446)	(271)	(356)	(403)	(425)	(197)	(130)
Cash flow from operating activities	1,560	1,613	1,553	1,554	2,051	306	354
Capex	(952)	(629)	(476)	(276)	(228)	(236)	(208)
Others	231	115	53	(196)	(208)	240	(141)
Cash flow from investing activities	(721)	(514)	(423)	(472)	(435)	4	(349)
Change in borrowings	(2,751)	(744)	(357)	(329)	(251)	(286)	(194)
Others	2,099	(157)	(187)	(231)	(232)	(162)	(456)
Cash flow from financing activities	(652)	(901)	(544)	(560)	(483)	(448)	(650)
Net change in cash	187	198	586	523	1,133	(138)	(645)
Cash at the beginning	799	958	1,125	1,710	2,179	958	1,125
ForEx effect	(28)	(31)	(1)	(54)	(98)	(1)	(15)
Cash at the end of FY	958	1,125	1,710	2,179	3,213	819	465

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (2012A-2018E)

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E	1H15A	1H16E
Growth (YoY %)							
Total revenue	97.66	(4.65)	7.86	12.58	11.43	(3.18)	2.43
- Packaged meat	91.24	(5.39)	5.01	8.86	8.94	(4.99)	0.66
- Fresh pork	106.12	(8.26)	9.93	17.27	13.33	(7.68)	9.93
- Hog production	207.33	68.65	19.27	14.93	19.34	120.24	(41.54)
Gross profit	92.61	19.47	8.54	12.95	13.47	20.70	2.41
Operating profit	519.35	(12.79)	17.52	9.44	5.32	(40.31)	49.17
Net profit	(391.25)	2.61	23.50	10.43	7.14	(11.40)	81.85
Profitability ratios (post-bio adj) (%)							
GPM	15.35	19.24	19.36	19.42	19.78	19.48	19.48
OPM	7.77	7.11	7.74	7.53	7.11	6.52	9.49
- Packaged meat	9.92	13.34	13.12	13.34	13.27	13.74	14.40
- Fresh pork	2.38	2.63	4.42	4.09	3.71	1.39	4.17
- Hog production	70.19	5.45	3.55	5.28	4.76	8.09	(13.21)
EBITDA margin	9.70	9.04	7.74	7.53	7.11	10.50	9.12
NPM	3.44	3.71	4.24	4.16	4.00	3.92	6.24
Revenue contribution (%)							
- Packaged meat	53.41	53.00	51.59	49.89	48.78	52.00	51.10
- Fresh pork	42.10	40.51	41.28	43.00	43.73	40.87	43.86
- Hog production	2.64	4.67	5.16	5.27	5.64	5.33	3.04
- Others	1.85	1.83	1.96	1.84	1.85	1.79	1.99
Return ratios (%)							
ROAA	5.31	5.42	6.54	6.70	6.69	2.12	3.96
ROAE	20.69	14.43	16.37	17.07	17.25	5.71	9.30
ROIC	7.49	7.66	9.38	9.91	10.31	2.90	5.22
Liquidity ratio (x)							
Current ratio	1.72	1.82	1.40	1.56	1.50	1.78	1.51
Quick ratio	0.79	0.91	0.73	0.83	0.83	0.80	0.67
Cash ratio	0.32	0.40	0.32	0.41	0.43	0.31	0.16
Cash conversion cycle (days)							
Days of outstanding receivable	13.96	13.43	13.28	13.35	13.32	14.57	13.11
Days of inventory on hand	37.29	39.01	37.00	37.34	37.43	41.22	37.98
Days of outstanding payable	16.41	17.87	18.27	18.52	18.39	16.46	14.26
CCC	34.85	34.58	32.02	32.18	32.36	39.33	36.83
Leverage ratios (%)							
Total debt/Equity	91.03	67.92	60.34	61.54	61.34	79.80	61.62
Total debt/Total assets	31.73	27.37	27.74	27.67	27.42	31.30	27.19

Source(s): Company, ABCI Securities estimates

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183