



Shuanghui Development (000895 CH)

Improving margins in 2017

- Revenue fell 2.4% YoY in FY17, mainly caused by the 4.1% YoY income decrease in fresh pork segment
- High sales volume growth in e-commerce channel and food services channel
- Margins continued to improve in FY17
- We believe hog price in China would continue to be pressured by high domestic supply
- Maintain **BUY**; current TP represents 19.70x/18.13x 18E/19E/ P/E, or 6.42x/6.20x 18E/19E P/B

Revenue growth fell short of expectation. Total revenue went down 2.4% YoY and core revenue dropped 2.7% YoY. The revenue decline was mainly caused by the 4.1% YoY revenue decrease in fresh pork segment, whose ASP fell 14.0% YoY and eradicated 11.6% YoY gain in sales volume. Gross profit increased by 2.7% YoY, mostly attributable to the 23.6% YoY rise in fresh meat segment gross profit. We believe the fall in domestic and overseas hog price decreased the cost for the Group, and changes in product structure in the fresh meat segment have enabled the gross profit growth. Also, high growth was seen in new sales channels - sales volume in e-commerce marketplace and food services rose 48.6% YoY and 40.2% YoY.

Margins expanded further in FY17. Overall GPM increased by ~1 ppt to 19.1% while core GPM increased to 18.9% due to the lower price of hog. The SG&A/sales ratio edged up only by 0.27 ppt, enabling further improvement in OPM and NPM.

Operating data show strength in fresh meat segment. Sales volume of fresh meat segment increased 11.6% YoY to 1,519.3k tons. In contrast, sales volume of meat product segment was down by 1.4% YoY to 1,583.6k tons. Based on our calculation, ASP of the meat product segment went up 1.8% YoY and that of the fresh meat product segment fell 14.1% YoY. The differing ASP and volume trend in the segments, in our view, was a result of declining pork price and the Group's efforts in adjusting product portfolio.

Excess supply will continue to pressure domestic hog price. Domestic hog supply is still ample and hog production continues to expand despite widening divergence in feed cost and ex-farm gate price. Even though China has recently imposed a 25% tariff on US pork import and has proposed a 25% tariff on soybean, we reckon that the US hog price would still be lower than that of China and the feed cost increase would take longer to trickle down the supply chain. Based on the factors discussed above, we believe pork price in China, at least in the medium-to-short term, will continue to be pressured by the high domestic supply and only when the excess capacity is reduced, pork price may start to rebound.

Maintain BUY; TP at RMB 29.42. We expect total revenue would increase at a 4.0% CAGR in 2017-20E, supported by the 3.03%/3.27% revenue CAGRs in the meat product and fresh meat segments. GPM and NPM (to owners of the Company) would rise to 20.2% and 10.1% in FY18E. Maintain **BUY**. Our DCF-derived TP of RMB 29.42 represents 19.70x/18.13x 18E/19E/ P/E, or 6.42x/6.20x 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) Inflation risk; 6) Commodity price risk.

Results and Valuation

FY ended Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	51,845	50,578	52,780	55,035	56,900
Chg (% YoY)	15.99	(2.44)	4.35	4.27	3.39
Net Profit (RMB mn)	4,405	4,319	4,929	5,353	5,721
Chg (% YoY)	3.51	(1.95)	14.11	8.60	6.88
Basic EPS (RMB)	1.33	1.31	1.49	1.62	1.73
Chg (% YoY)	3.52	(1.91)	14.11	8.60	6.88
P/E (x)	19.02	19.39	16.99	15.64	14.64
BVPS (RMB)	4.30	4.43	4.58	4.74	4.92
P/B (x)	5.90	5.73	5.54	5.35	5.16
DPS (RMB)	2.10	1.10	1.34	1.46	1.56
Yield (%)	8.27	4.33	5.30	5.75	6.15
ROAA (%)	19.59	19.12	20.47	21.41	22.00
ROAE (%)	26.90	28.29	31.13	32.25	32.84

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 9, 2018

Rating: **BUY**

TP: **RMB 29.42**

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Share price (RMB)	25.38
52Wk H/L(RMB)	30.19/19.55
Est. share price return	15.92%
Est. dividend yield	5.30%
Est. total return	21.21%
Previous rating & TP	BUY;RMB31.2
Previous report date	Nov 20, 2017

Source(s): ABCI Securities

Key Data

Issued shares (mn)	3,299.56
Mkt cap (HK\$ mn)	83,742.79
3-mth ADT (RMBmn)	387.41

Shareholding (%) (as of end-2017)	
Shuanghui Development	59.27
Rotary Vortex	13.98
HK Securities Clearing Co	1.89
China Securities Finance Corp	1.46

Source(s): Bloomberg, Company

% to total revenue	FY18E
Packaged meat products	44.51
Fresh meat products	59.04
Others	4.95

Source(s): ABCI Securities estimates

Price Performance (%)

	Absolute	Relative*
1-mth	(10.95)	(4.72)
3-mth	(7.14)	0.88
6-mth	3.30	4.02

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance(RMB)

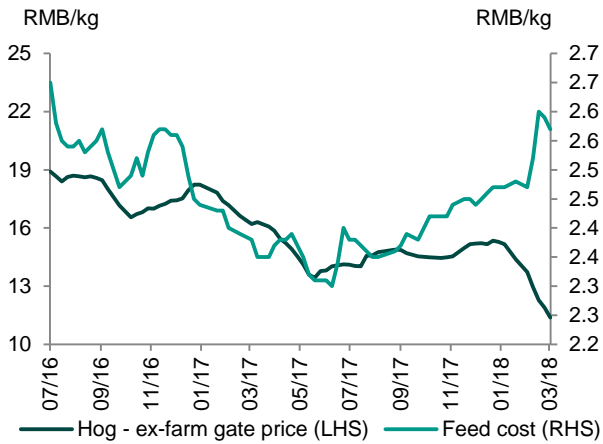


Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of closing of Apr 9, 2018

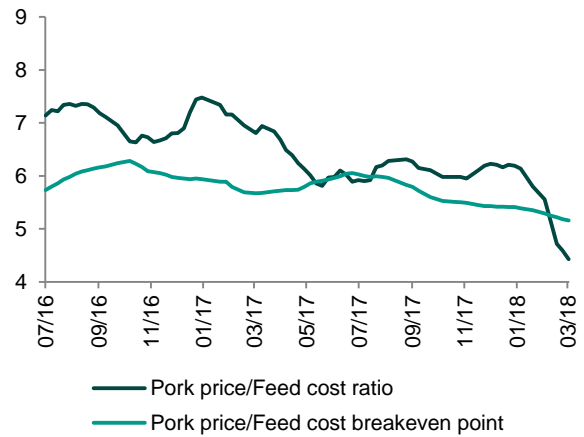


Exhibit 1: Ex-farm gate price of hog and feed cost



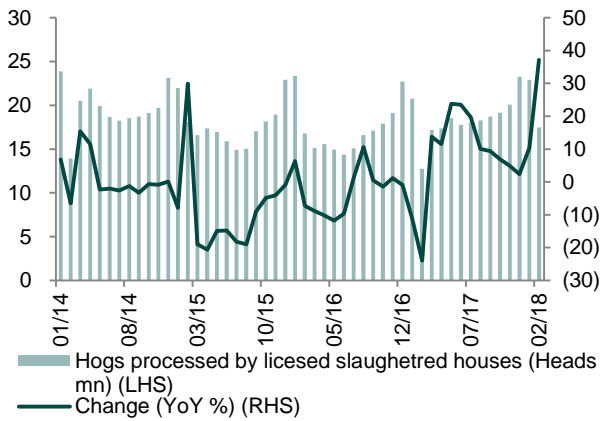
Source(s): Wind, ABCI Securities

Exhibit 2: Breakeven point analysis for hog farmers



Source(s): Wind, ABCI Securities

Exhibit 3: Hog slaughtering volume growth



Source(s): Wind, ABCI Securities

Exhibit 4: Wholesale pork price trend (RMB/kg)



Source(s): Wind, ABCI Securities



Consolidated income statement (FY16A-FY20E)

FY ends at Dec31 (RMB mn, except per share data)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	51,845	50,578	52,780	55,035	56,900
Core revenue	51,822	50,447	52,585	54,783	56,694
- Packaged meat product	22,577	22,659	23,405	24,101	24,782
- Fresh meat	31,710	30,407	31,047	32,386	33,484
- Others	2,201	2,316	2,603	2,952	3,247
- Intersegment elimination	(4,666)	(4,935)	(4,470)	(4,657)	(4,819)
Interest income	23	131	195	252	206
Commission and processing income	0	0	0	0	0
COGS	(42,440)	(40,907)	(42,603)	(44,115)	(45,392)
GP	9,404	9,658	10,162	10,901	11,492
Core GP	9,383	9,540	9,982	10,668	11,302
- Packaged meat product	7,047	6,912	7,540	7,969	8,214
- Fresh meat	1,737	2,147	1,893	2,092	2,424
- Others	600	476	542	599	654
- Intersegment elimination	(1)	5	8	7	10
GP of interest income	21	119	181	234	191
GP of Commission and processing income	(0)	(1)	(1)	(1)	(1)
Business levy and taxes	(312)	(346)	(318)	(331)	(343)
S&D expenses	(2,272)	(2,402)	(2,281)	(2,366)	(2,443)
Admin expenses	(1,207)	(1,128)	(1,212)	(1,259)	(1,301)
Others	(173)	(254)	(237)	(282)	(289)
Operating profit	5,440	5,528	6,114	6,663	7,116
Net finance income/(costs)	18	(55)	7	(10)	10
Others	230	(45)	256	258	288
Pretax profit	5,862	5,759	6,615	7,192	7,703
Tax	(1,300)	(1,249)	(1,443)	(1,582)	(1,701)
Net profit	4,562	4,511	5,172	5,611	6,002
- Owners of the company	4,405	4,319	4,929	5,353	5,721
- Minority interest	156	191	243	258	281
Dividend	6,929	3,630	4,436	4,818	5,149
EPS (RMB)					
- Basic	1.3346	1.3091	1.4938	1.6223	1.7339
- Diluted	1.3346	1.3091	1.4938	1.6223	1.7339
DPS (RMB)	2.10	1.10	1.34	1.46	1.56

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY16A-FY20E)

FY ends at Dec 31 (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash and cash equivalent	3,304	6,163	6,181	6,558	8,282
Trade and bills receivable	161	161	217	154	224
Inventories	3,220	2,928	3,536	3,361	3,607
Others	1,099	764	1,765	1,690	1,986
Current assets	7,784	10,017	11,699	11,763	14,098
PP&E	11,574	11,500	11,253	11,011	10,654
Construction in progress	533	154	158	156	147
Biological assets	71	69	85	95	109
Intangible assets	1,043	1,005	1,030	1,056	1,083
Others	1,091	345	838	859	967
Non-current assets	14,311	13,073	13,363	13,177	12,961
Total assets	22,094	23,089	25,063	24,940	27,059
Trade and bills payable	2,309	1,848	3,030	1,846	3,260
ST borrowings	1,055	1,942	2,624	2,649	2,414
Others	2,812	3,616	3,018	3,264	3,338
Current liabilities	6,176	7,407	8,672	7,759	9,012
LT borrowings	6	5	33	29	27
Deferred tax liabilities	49	67	90	74	96
Others	52	142	64	82	74
Non-current liabilities	107	215	187	185	197
Shareholders' equity	14,203	14,617	15,110	15,645	16,217
Minority interest	866	850	1,093	1,351	1,632
Total equity	15,069	15,467	16,203	16,996	17,850
Total liabilities and equity	21,352	23,089	25,063	24,940	27,059

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY16A-FY20E)

FY ends at Dec 31 (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Net profit	4,562	4,511	5,172	5,611	6,002
Depreciation and amortization	946	957	1,007	1,037	1,070
Change in working capital	122	(83)	529	(955)	1,113
Others	(84)	(79)	510	466	600
Cash flow from operating activities	5,546	5,306	7,218	6,159	8,784
PP&E	(881)	(447)	(792)	(864)	(761)
Investments	2,645	49	7,948	6,086	4,883
Others	0	(3)	0	0	0
Cash flow from investing activities	1,764	(402)	7,156	5,222	4,122
Bank borrowing	426	1,727	710	21	(237)
Others	(7,168)	(4,207)	(3,854)	(4,725)	(5,123)
Cash flow from financing activities	(6,741)	(2,481)	(3,144)	(4,704)	(5,359)
Net change in cash and cash equivalent	569	2,423	782	382	1,750
ForEx effect	12	(0)	17	18	22
Cash and cash equivalent at the end of FY	2,976	5,399	6,198	6,598	8,370

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (FY16A-FY20E)

FY ends at Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Growth (YoY %)					
Revenue	15.99	(2.44)	4.35	4.27	3.39
Core revenue	15.94	(2.65)	4.24	4.18	3.49
- Packaged meat products	(0.27)	0.36	3.29	2.97	2.83
- Fresh meat	29.73	(4.11)	2.11	4.31	3.39
- Others	23.93	5.25	12.37	13.40	10.00
Gross profit	1.30	2.71	5.22	7.27	5.42
Core GP	1.07	1.68	4.63	6.87	5.95
- Packaged meat products	(0.76)	(1.92)	9.08	5.70	3.08
- Fresh meat	(2.83)	23.56	(11.83)	10.54	15.85
- Others	56.84	(20.58)	13.71	10.59	9.11
EBIT	4.74	3.00	9.85	9.34	6.63
EBITDA	4.39	1.60	9.72	8.21	6.37
Pretax Profit	3.29	(1.75)	14.85	8.74	7.10
Net profit (to owners of the company)	3.51	(1.95)	14.11	8.60	6.88
Profitability ratios (%)					
GPM	18.14	19.10	19.25	19.81	20.20
Core GPM	18.11	18.91	18.98	19.47	19.93
- Packaged meat products	31.21	30.50	32.21	33.07	33.15
- Fresh meat	5.48	7.06	6.10	6.46	7.24
- Others	27.25	20.56	20.81	20.29	20.13
OPM	10.49	10.93	11.58	12.11	12.51
EBITDA margin	12.28	12.79	13.45	13.95	14.36
Pretax margin	11.31	11.39	12.53	13.07	13.54
NPM (to owners of the company)	8.50	8.54	9.34	9.73	10.05
Core revenue contribution (%)					
Packaged meat product	43.57	44.92	44.51	43.99	43.71
Fresh meat	61.19	60.27	59.04	59.12	59.06
Others	4.25	4.59	4.95	5.39	5.73
Return ratios (%)					
ROAA	19.59	19.12	20.47	21.41	22.00
ROAE	26.90	28.29	31.13	32.25	32.84
ROIC	31.27	36.45	42.63	43.84	48.41
Liquidity ratio (x)					
Current ratio	1.26	1.35	1.35	1.52	1.56
Quick ratio	0.74	0.96	0.94	1.08	1.16
Cash ratio	0.53	0.83	0.71	0.85	0.92
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	28	27	28	29	28
Days of outstanding payable	20	19	21	20	20
CCC	9	10	8	9	9
Leverage ratios (%)					
Total debt/Total equity	7.04	12.59	16.40	15.76	13.68
Total debt/Total assets	4.80	8.44	10.60	10.74	9.02
Net cash (debt) /Total equity	14.88	27.25	21.75	22.83	32.72
Net cash (debt) /Total assets	10.15	18.26	14.06	15.56	21.58

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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