



WH Group (288 HK) Smooth sailing in 2017

- FY16 topline growth missed expectations, but margin improvement was more than expected ; dividend payout increased to 44.26%
- We expect the trade relations between China and the U.S. to be stable; we also believe that the U.S. trade policy would not have adverse changes for the agricultural sector
- We expect there would be smaller margin improvement compared to FY16 as US-China hog price gap narrows
- Maintain **BUY**; current TP represents FY17E/18E P/E of 12.77x/11.72x and FY17E/FY18E P/B of 2.16x/2.03x

FY16 topline missed expectation, but margin expansion was a surprise. The Group's revenue growth was 1.53% in FY16, missing our previous estimates of 4.63%. But margins improved more than we initially estimated, which is attributable to the larger than estimated US-China synergy, the initial efforts in streamlining the Smithfield business implemented in 2016, and its leadership position in the global meat processing industry.

Annual dividend payout increased to 44.26%. The Group announced a final dividend of HK\$ 0.21 per share. The total dividend payout of the Group for FY16 was HK\$ 0.26, representing a dividend payout ratio of 44.26%. The higher dividend payout ratio shows that the Group has confidence in maintaining a healthy cash flow in the future. We expect that the Group to maintain a payout ratio of no less than 30%.

Trade relations between China and the US should be stable. We believe trade relations between China and the US would remain stable since agricultural sector export is beneficial for the Trump administration to reduce trade deficits. Hence, we believe the U.S. would not impose restrictive trade policies on the pork and meat processing industry

Margin and growth to steadily improve in FY17. We expect the China hog price to stabilize in 2017 and the US-China hog price gap to be narrower than FY16. The Group would mostly rely on business expansion efforts and cost-saving initiatives in the U.S. operation to boost growth and margins. For FY17E, we expect the volume of packaged meat, fresh pork, and hog production would grow at 6.9%, 6.0%, and 0.81%, the ASP of these three segments to grow by 1.2%, 0.7%, 6.0%. Overall GPM and NPM would be 19.42% and 4.55%.

Maintain BUY, TP at HK\$ 7.68. Based on our growth and profitability outlook, we maintain **BUY** rating and TP at HK\$ 7.68, which represents FY17E/18E P/E of 12.77x/11.72x and FY17E/FY18E P/B of 2.16x/2.03x.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Substitution effect from alternative protein sources; 4) Biological asset risk; 5) Regulatory risk; 6) Food safety risk; 7) Foreign exchange risk; 8) Interest rate risk; 9) 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	23,167	25,762	28,676
Chg (% YoY)	(4.65)	1.53	7.58	11.20	11.31
Net Profit (US\$ mn)	786	1,036	1,134	1,235	1,356
Chg (% YoY)	2.61	31.81	9.50	8.89	9.76
Basic EPS (US\$)	0.0575	0.0758	0.0774	0.0843	0.0925
Chg (% YoY)	(10.71)	31.83	2.15	8.89	9.76
P/E (x)	14.98	11.36	11.12	10.21	9.31
BVPS (US\$)	0.3934	0.4312	0.4574	0.4859	0.5168
P/B (x)	2.19	2.00	1.88	1.77	1.67
DPS (HK\$)	0.13	0.26	0.19	0.21	0.24
Yield (%)	1.87	3.89	2.89	3.16	3.57
ROAA (%)	6.86	8.87	10.42	10.49	10.97
ROAE (%)	14.43	17.15	17.43	17.88	18.46

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 30, 2017

Rating: **BUY**

TP: HK\$ 7.68

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Share price (HK\$)	6.69
Est. share price return	14.80%
Est. dividend yield	3.89%
Est. total return	18.68%
Previous Rating&TP	BUY;HK\$ 7.68
Previous report date	Nov 8, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.21/5.04
Issued shares (mn)	14,651.07
Market cap (HK\$ mn)	98,015.65
3-mth ADT (HK\$ mn)	153.43

Major shareholders

	(%)
Rise Grand	36.00
Wan Long	16.19
CDH	9.27
Teeroy Limited	6.88

Source(s): Bloomberg, HKEX,

% of total revenue	FY17E
Packaged meat	51.72
Fresh Pork	42.30
Hog production	3.89

Source(s): ABCI Securities estimates

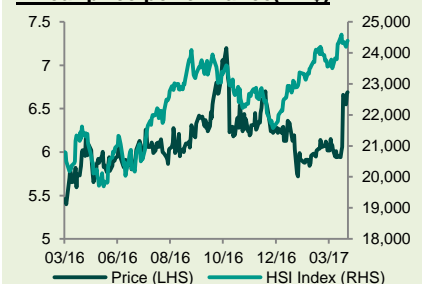
Sector Performance (%)

	Absolute	Relative*
1-mth	10.21	7.34
3-mth	7.56	(4.94)
6-mth	5.69	2.11

* 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 Mar 29, 2017

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	23,167	25,762	28,676
- Packaged meat	11,240	11,074	11,981	13,192	14,860
- Fresh pork	8,591	9,178	9,800	11,056	12,169
- Hog production	990	844	902	970	1,042
- Others	388	438	484	545	605
COGS	(17,129)	(17,327)	(18,611)	(20,612)	(22,990)
Gross profit	4,080	4,207	4,556	5,151	5,686
Distribution and selling expenses	(1,783)	(1,794)	(1,908)	(2,126)	(2,367)
Admin expenses	(740)	(748)	(817)	(910)	(1,013)
Biological adjustment	(63)	170	116	(59)	(60)
Others	63	(47)	55	81	75
Operating profit	1,557	1,788	2,001	2,136	2,321
- Packaged meat	1,499	1,475	1,534	1,735	1,945
- Fresh pork	226	545	465	491	613
- Hog production	54	(40)	43	18	6
- Others	(222)	(192)	(40)	(107)	(244)
Net finance cost	(219)	(183)	(126)	(104)	(90)
Share of profits from JV and associates	14	33	37	43	51
Pretax profit	1,302	1,703	1,912	2,075	2,282
Tax	(307)	(465)	(475)	(530)	(575)
Net profit	995	1,238	1,437	1,545	1,706
- Profit attributable to shareholders	786	1,036	1,134	1,235	1,356
- Minority interest	209	202	303	326	359
EPS					
- Basic (US\$ cent)	5.75	7.58	7.74	8.43	9.25
- Diluted (US\$ cent)	5.50	7.25	7.67	8.35	9.17
DPS (HK\$ cent)	12.5	26.00	19.32	21.17	23.90

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	850	1,700	1,288
Trade and bills receivable	725	793	714	1,032	872
Inventory	1,748	1,678	1,903	2,075	2,394
ST Biological assets	865	933	1,242	1,482	1,760
Others	738	305	251	345	293
Total current assets	5,213	4,848	4,960	6,633	6,606
PP&E	4,674	4,529	4,554	4,574	4,625
LT Biological assets	200	186	268	319	370
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	549	340	440
Total non-current assets	9,088	8,763	9,003	8,849	9,037
Total assets	14,301	13,611	13,963	15,482	15,643
Trade and bills payable	812	854	960	1,078	1,187
ST borrowings	606	1,011	779	683	599
Others	1,441	1,458	1,658	1,836	2,017
Total current liabilities	2,859	3,323	3,396	3,598	3,802
LT Borrowings	3,308	1,867	1,439	1,262	1,106
Others	1,431	1,383	1,402	2,154	1,453
Total non-current liabilities	4,739	3,250	2,841	3,416	2,559
Shareholders' equity	5,763	6,316	6,701	7,119	7,572
Minority interest	940	722	1,025	1,350	1,710
Total equity	6,703	7,038	7,726	8,469	9,281
Total liabilities and equity	14,301	13,611	13,963	15,482	15,643

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	1,912	2,075	2,282
Depreciation and amortization	391	372	458	491	530
Change in working capital	191	39	(169)	(512)	(102)
Others	(271)	(264)	(434)	(501)	(554)
Cash flow from operating activities	1,613	1,850	1,766	1,553	2,156
Capex	(629)	(451)	(986)	(991)	(1,113)
Others	115	310	373	256	301
Cash flow from investing activities	(514)	(141)	(613)	(735)	(811)
Change in borrowings	(744)	(1,036)	(660)	(273)	(240)
Dividends paid	(162)	(382)	(541)	(521)	(547)
Others	5	(255)	0	(0)	(0)
Cash flow from financing activities	(901)	(1,673)	(1,201)	(794)	(787)
Net change in cash	198	36	(47)	24	557
ForEx effect	(31)	(38)	5	(2)	(35)
Cash at the end of FY	1,125	1,123	1,081	1,103	1,624

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

FY ends at Dec 31	2015A	2016A	2017E	2018E	2019E
Growth (YoY %)					
Revenue	(4.65)	1.53	7.58	11.20	11.31
- Packaged meat	(5.39)	(1.48)	8.19	10.11	12.64
- Fresh pork	(8.26)	6.83	6.77	12.82	10.07
- Hog production	68.65	(14.75)	6.88	7.48	7.47
Gross profit	19.47	3.11	8.30	13.06	10.40
Operating profit	(12.79)	22.96	8.01	6.73	8.66
Net profit (to owners of the Group)	2.61	31.81	9.50	8.89	9.76
Profitability ratios (%)					
GPM	19.24	19.54	19.67	19.99	19.83
OPM	7.11	8.60	8.64	8.29	8.09
- Packaged meat	13.34	13.32	12.80	13.15	13.09
- Fresh pork	2.63	5.94	4.75	4.44	5.04
- Hog production	5.45	(4.74)	4.73	1.81	0.60
EBITDA margin	9.04	10.51	8.64	8.29	8.09
NPM	3.71	4.81	4.90	4.79	4.73
Revenue contribution (%)					
Packaged meat	53.00	51.43	51.72	51.21	51.82
Fresh pork	40.51	42.62	42.30	42.91	42.44
Hog production	4.67	3.92	3.89	3.76	3.63
Return ratios (%)					
ROAA	6.86	8.87	10.42	10.49	10.97
ROAE	14.43	17.15	17.43	17.88	18.46
ROIC	9.69	12.55	19.04	28.51	33.23
Liquidity ratio (x)					
Current ratio	1.82	1.46	1.46	1.84	1.74
Quick ratio	0.91	0.67	0.53	0.86	0.65
Cash ratio	0.40	0.36	0.26	0.48	0.34
Cash conversion cycle (days)					
Days of outstanding receivable	13.43	12.77	11.79	12.28	12.03
Days of inventory on hand	39.01	36.39	35.32	35.13	35.39
Days of outstanding payable	17.87	17.62	17.57	17.89	17.73
CCC	34.58	31.54	29.54	29.52	29.69
Leverage ratios (%)					
Total debt/Equity	91.03	67.92	45.57	28.71	22.97
Total debt/Total assets	31.73	27.37	21.14	15.88	12.56

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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