



Shuanghui Development (000895 CH)

Paving the way for better margins

- Performance in 2Q17 started to turn around as margins improved, but topline growth momentum is still under pressure
- Overall sales volume improved in 2Q17, mainly driven by fresh meat sales; packaged meat sales volume in 2Q17 was similar to that in 2Q16
- Working capital management was efficient; the Group had a strong operation cash flow
- The decline of raw material costs and product portfolio restructuring would boost future performance
- Reiterate **BUY**; current TP represents 18.05x/16.25x 17E/18E P/E, and 6.26x/6.02x 17E/18E P/B

DO NOT overlook the QoQ improvement. The Group's revenue declined 5.81% and NP (to shareholders of the company) fell 11.0% YoY in 1H17. A closer look, however, revealed a better QoQ performance. Despite a 3.4% QoQ revenue decline, 2Q17 GP jumped 16.9% QoQ, while OP and NP (to shareholders of the company) increased 22.3% QoQ and 16.7% QoQ. As a result, GPM, OPM, and NPM increased to 20.6%, 11.5%, and 8.7% in 2Q17 vs. 17.0%, 9.1% and 7.2% in 1Q17.

Overall sales volume also improved in 2Q17. The Group's external sales volume of meat products increased only by 1% YoY in 1H17, mainly aided by the 3.9% YoY growth in 2Q17. In 2Q17, the packaged meat segment saw similar sales volume as that in 2Q16, while the fresh meat products sales volume grew 8.9% YoY. Underperformance in the packaged meat segment was mainly caused by declining sales volume of mid- and low-tier products in the high-temperature product category and the Group's restructuring of its product portfolio.

Working capital and cash flow were at healthy levels. The Group's CCC increased by 3 days YoY to 13 days in 1H17, driven by the 4-day increase in inventory turnover and 1-day decline in payable turnover. We believe the increase in inventory turnover can be attributed to the increasing hog prices. The Group's operating cash flow was RMB 2,236mn in 1H17 against a net profit of RMB 1,983mn. However, the cash position of RMB 2,691mn by end-1H17 was mainly boosted by the RMB 2,747mn short-term borrowing that led to a debt-to-equity ratio of 21% by end-1H17.

Maintain BUY with unchanged TP. We believe the combined impacts of declining raw material cost and product portfolio adjustment would benefit the Group in the future. Our projected 2016-19E CAGRs for revenue, GP and NP (to shareholders of the company) are 4.31%, 11.55%, and 15.97%. We also project the GPM and NPM (to shareholders of the company) would improve from 18.14% and 8.5% in 2016 to 22.18% and 11.68% in 2019E. We maintain **BUY** with an unchanged TP at RMB 27.9, which represents 18.05x/16.25x 17E/18E P/E and 6.26x/6.02x 17E/18E 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	53,309	55,522	58,840
Chg (% YoY)	(2.19)	15.99	2.82	4.15	5.98
Net Profit (RMB mn)	4,256	4,405	5,101	5,666	6,870
Chg (% YoY)	5.34	3.51	15.81	11.07	21.25
Basic EPS (RMB)	1.29	1.33	1.55	1.72	2.08
Chg (% YoY)	5.34	3.52	15.84	11.07	21.25
P/E (x)	17.61	17.01	14.68	13.22	10.90
BVPS (RMB)	5.09	4.30	4.46	4.63	4.84
P/B (x)	4.46	5.27	5.09	4.90	4.69
DPS (RMB)	1.25	1.20	1.39	1.55	1.87
Yield (%)	5.51	5.29	6.13	6.81	8.26
ROAA (%)	18.97	19.92	23.37	24.80	28.42
ROAE (%)	25.00	26.90	33.01	34.84	39.95

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 30, 2017

Rating: **BUY**

TP: RMB 27.9

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Share price (RMB)	22.70
52Wk H/L (RMB)	24.5/19.55
Est. share price return	22.91%
Est. dividend yield	5.29%
Est. total return	28.20%
Previous rating & TP	BUY; RMB27.9
Previous report date	Jul 14, 2017

Source(s): ABCI Securities

Key Data

Issued shares (mn)	3,299.56
Mkt cap (HK\$ mn)	74,899.97
3-mth ADT (RMBmn)	288.56

Shareholding (%) (as of end-1H17)	
Shuanghui Development	59.27
Rotary Vortex	13.98
China Securities Finance Corp	2.37
Sunshine Insurance	1.27

Source(s): Bloomberg, Company

% to total revenue	FY17E
Packaged meat products	44.06
Fresh meat products	59.75
Others	4.99

Source(s): ABCI Securities estimates

Price Performance (%)

	Absolute	Relative*
1-mth	7.18	3.93
3-mth	4.56	(7.43)
6-mth	11.98	(1.22)

* 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 Aug 30, 2017

Exhibit 1: ASP and volume growth assumption

(YoY %)	FY15A	FY16A	FY17E	FY18E	FY19E
ASP					
Packaged meat products	(1.98)	(1.69)	1.24	1.32	1.65
Slaughtering	7.44	11.73	(9.08)	(2.84)	3.63
VOL					
Packaged meat products	(8.33)	1.44	2.51	2.63	4.17
Slaughtering	(2.41)	16.11	10.20	5.14	1.45

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Quarterly performance

	1Q16	2Q16	1Q17	2Q17
Growth (YoY %)				
Total Revenue	28.28	22.70	(4.02)	(7.60)
- Packaged meat products	1.85	(4.86)	(2.54)	2.03
- Fresh meat products	58.60	58.78	(5.70)	(15.98)
- Others	50.18	44.18	9.79	7.24
GP	11.92	(1.19)	(10.31)	6.57
OP	41.90	(22.94)	(18.43)	0.59
Pretax profit	20.10	0.60	(18.38)	(3.12)
Net profit (to owners of the company)	16.65	1.44	(18.20)	(4.82)
Margins (%)				
GPM	18.18	17.83	16.99	20.56
OPM	10.66	10.53	9.06	11.46
Pretax margin	11.33	11.29	9.63	11.84
NPM (to owners of the company)	8.43	8.42	7.19	8.68
Sales volume (k tonnes)				
Fresh meat products	341.2	315.3	345.9	343.4
Packaged meat products	373.7	410	355.8	410

Source(s): The Group, ABCI Securities calculation



Consolidated income statement (FY15A-FY19E)

FY ends at Dec31 (RMB mn, except per share data)	FY15A	FY16A	FY17E	FY18E	FY19E	1H16	1H17
Revenue	44,697	51,845	53,309	55,522	58,840	25,529	24,045
Core revenue	44,697	51,822	53,176	55,317	58,570	25,527	23,997
- Packaged meat product	22,639	22,577	23,430	24,363	25,798	10,954	10,931
- Fresh meat	24,444	31,710	31,771	32,457	34,122	15,689	14,567
- Others	1,776	2,201	2,654	3,200	3,629	1,008	1,074
- Intersegment elimination	(4,162)	(4,666)	(4,679)	(4,702)	(4,978)	(2,122)	(2,575)
Interest income	-	23	133	205	269	1	48
Commission and processing income	-	0	0	0	0	-	0
COGS	(35,413)	(42,440)	(42,934)	(44,289)	(45,767)	(20,933)	(19,534)
GP	9,283	9,404	10,365	11,218	13,054	4,596	4,507
Core GP	9,283	9,383	10,242	11,028	12,803	4,594	4,463
- Packaged meat product	7,101	7,047	7,682	8,580	9,533	3,548	3,280
- Fresh meat	1,788	1,737	1,988	1,756	2,498	758	969
- Others	382	600	557	683	765	278	199
- Intersegment elimination	12	(1)	14	9	7	11	15
GP of interest income	-	21	124	190	251	1	44
GP of Commission and processing income	-	(0)	(0)	(0)	(0)	-	(0)
Business levy and taxes	(190)	(312)	(321)	(334)	(354)	(100)	(159)
S&D expenses	(2,299)	(2,272)	(2,324)	(2,400)	(2,530)	(1,099)	(1,167)
Admin expenses	(1,435)	(1,207)	(1,229)	(1,274)	(1,346)	(632)	(554)
Others	(109)	(173)	(166)	(203)	(237)	(60)	(164)
Operating profit	5,250	5,440	6,325	7,006	8,587	2,705	2,462
Net finance income/(costs)	4	18	2	6	9	14	(43)
Others	312	231	366	391	401	109	(6)
Pretax profit	5,675	5,862	6,859	7,606	9,234	2,888	2,577
Tax	(1,259)	(1,300)	(1,494)	(1,661)	(2,033)	(659)	(594)
Net profit	4,416	4,562	5,365	5,945	7,201	2,228	1,983
- Owners of the company	4,256	4,405	5,101	5,666	6,870	2,151	1,904
- Minority interest	161	156	263	279	331	77	79
Dividend	4,124	3,965	4,591	5,100	6,183	2,970	0
EPS (RMB)							
- Basic	1.2892	1.3346	1.5460	1.7172	2.0821	0.6518	0.5771
- Diluted	1.2892	1.3346	1.5460	1.7172	2.0821	0.6518	0.5771
DPS (RMB)	1.25	1.20	1.39	1.55	1.87	0.90	0.00

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E	1H16	1H17
Cash and cash equivalent	2,427	3,304	2,701	3,829	4,548	1,432	2,691
Trade and bills receivable	166	161	218	190	220	172	158
Inventories	3,385	3,220	3,649	3,480	3,881	2,882	3,321
Others	2,938	357	1,376	1,575	1,952	2,207	848
Current assets	8,916	7,041	7,944	9,075	10,601	6,693	7,018
PP&E	11,776	11,574	11,458	11,261	11,097	11,899	11,095
Construction in progress	715	533	553	567	559	403	708
Biological assets	53	71	81	112	166	61	77
Intangible assets	1,074	1,043	1,072	1,103	1,136	1,061	1,029
Others	350	1,091	1,194	1,270	1,402	360	404
Non-current assets	13,969	14,311	14,357	14,314	14,359	13,785	13,314
Total assets	22,884	21,352	22,301	23,388	24,960	20,479	20,332
Trade and bills payable	2,318	2,309	2,644	2,337	2,785	1,842	1,638
ST borrowings	600	1,055	1,089	1,130	1,203	607	2,747
Others	2,201	2,812	2,682	3,128	3,212	2,176	2,666
Current liabilities	5,119	6,176	6,415	6,596	7,200	4,625	7,052
LT borrowings	6	6	18	14	13	6	6
Deferred tax liabilities	16	49	15	33	26	15	49
Others	57	52	11	57	14	54	118
Non-current liabilities	79	107	44	104	53	74	172
Shareholders' equity	16,792	14,203	14,713	15,280	15,967	14,880	12,183
Minority interest	894	866	1,129	1,409	1,740	899	925
Total equity	17,687	15,069	15,842	16,688	17,706	15,779	13,108
Total liabilities and equity	22,884	21,352	22,301	23,388	24,960	20,479	20,332

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY15A-FY19E)

FY ends at Dec 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E	1H16	1H17
Net profit	4,416	4,562	5,365	5,945	7,201	2,228	1,983
Depreciation and amortization	880	946	1,076	1,225	1,415	466	469
Change in working capital	311	(172)	(236)	(34)	(53)	82	(410)
Others	159	210	430	470	523	65	194
Cash flow from operating activities	5,766	5,546	6,635	7,607	9,086	2,841	2,236
PP&E	(2,233)	(881)	(749)	(741)	(786)	0	(259)
Investments	(1,056)	2,645	6,872	8,123	6,218	0	(463)
Others	0	0	0	0	0	(5,994)	0
Cash flow from investing activities	(3,289)	1,764	6,123	7,382	5,432	(5,994)	(722)
Bank borrowing	271	426	46	38	72	1	2,008
Others	(3,241)	(7,168)	(4,223)	(4,869)	(5,433)	(4,048)	(4,071)
Cash flow from financing activities	(2,970)	(6,741)	(4,178)	(4,831)	(5,361)	(4,047)	(2,063)
Net change in cash and cash equivalent	(493)	569	(787)	1,123	725	(7,201)	(549)
ForEx effect	10	12	8	9	10	(3)	(0)
Cash and cash equivalent at the end of FY	2,395	3,487	2,707	3,839	4,575	(4,809)	2,427

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios (FY15A-FY19E)

FY ends at Dec 31	FY15A	FY16A	FY17E	FY18E	FY19E	1H16	1H17
Growth (YoY %)							
Revenue	(2.19)	15.99	2.82	4.15	5.98	25.42	(5.81)
Core revenue	(2.19)	15.94	2.61	4.03	5.88	25.41	(5.99)
- Packaged meat products	(10.14)	(0.27)	3.78	3.98	5.89	(1.47)	(0.21)
- Fresh meat	4.85	29.73	0.19	2.16	5.13	48.97	(7.15)
- Others	32.70	23.93	20.58	20.59	13.40	50.49	6.61
Gross profit	1.94	1.30	10.22	8.23	16.36	5.01	(1.94)
Core GP	1.94	1.07	9.16	7.68	16.10	4.98	(2.86)
- Packaged meat products	9.07	(0.76)	9.02	11.69	11.10	8.44	(7.57)
- Fresh meat	(19.84)	(2.83)	14.45	(11.67)	42.25	(18.34)	27.90
- Others	12.13	56.84	(7.04)	22.46	12.03	130.40	(28.48)
EBIT	8.75	4.74	15.64	11.07	22.39	12.58	(5.01)
EBITDA	9.31	4.39	16.00	11.28	21.57	11.56	(4.19)
Pretax Profit	5.63	3.29	17.01	10.90	21.40	9.48	(10.75)
Net profit (to owners of the company)	5.34	3.51	15.81	11.07	21.25	8.44	(10.99)
Profitability ratios (%)							
GPM	20.77	18.14	19.44	20.20	22.18	18.00	18.74
Core GPM	20.77	18.11	19.26	19.94	21.86	18.00	18.60
- Packaged meat products	31.37	31.21	32.79	35.22	36.95	32.39	30.01
- Fresh meat	7.31	5.48	6.26	5.41	7.32	4.83	6.65
- Others	21.53	27.25	21.01	21.34	21.08	27.63	18.54
OPM	11.75	10.49	11.86	12.62	14.59	10.59	10.24
EBITDA margin	13.64	12.28	13.85	14.80	16.98	12.66	12.87
Pretax margin	12.70	11.31	12.87	13.70	15.69	11.31	10.72
NPM (to owners of the company)	9.52	8.50	9.57	10.21	11.68	8.43	7.92
Core revenue contribution (%)							
Packaged meat product	50.65	43.57	44.06	44.04	44.05	42.91	45.55
Fresh meat	54.69	61.19	59.75	58.67	58.26	61.46	60.70
Others	3.97	4.25	4.99	5.78	6.20	3.95	4.48
Return ratios (%)							
ROAA	18.97	19.92	23.37	24.80	28.42	20.55	19.03
ROAE	25.00	26.90	33.01	34.84	39.95	27.17	28.87
ROIC	29.37	32.11	40.94	43.74	53.17	27.59	32.17
Liquidity ratio (x)							
Current ratio	1.74	1.14	1.24	1.38	1.47	1.45	1.00
Quick ratio	1.08	0.62	0.67	0.85	0.93	0.82	0.52
Cash ratio	0.47	0.53	0.42	0.58	0.63	0.31	0.38
Cash conversion cycle (days)							
Days of outstanding receivable	1	1	1	1	1	1	1
Days of inventory on hand	37	28	29	29	29	27	31
Days of outstanding payable	30	20	21	21	20	19	18
CCC	8	9	9	10	10	10	13
Leverage ratios (%)							
Total debt/Total equity	3.43	7.04	6.99	6.86	6.87	3.89	21.00
Total debt/Total assets	2.65	4.97	4.96	4.89	4.87	2.99	13.54
Net cash (debt) /Total equity	10.29	14.88	10.06	16.09	18.82	5.19	(0.47)
Net cash (debt) /Total assets	7.96	10.50	7.15	11.48	13.35	4.00	(0.30)

*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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