



## Shuanghui Development (000895 CH)

### Industry condition to benefit growth

- FY19 revenue grew 23.4% YoY, supported by the 8.8% YoY and 35.2% YoY growth in packaged meat product and fresh meat segments
- Margins declined on rising raw material costs
- Expect in FY19A-22E revenue CAGR of 25.6%, mainly supported by the 34.9% CAGR in fresh meat segment
- Maintain **BUY**; current TP implies 24.51x/19.56x 20E/21E P/E or 8.28x/7.35x 20E/21E P/B

**The ASF situation in China elevated ASP of fresh meat and meat products.** FY19 revenue grew 23.4% YoY. In FY19, packaged meat and fresh meat segment revenue increased by 8.8% YoY and 35.2% YoY, supported by ASP growth. Based on our calculation, FY19 ASP growth for packaged meat product was 8.6% YoY and 39.5% YoY for fresh meat. The sales volume of fresh meat segment declined by 3.1% YoY while that of packaged meat segment was flat YoY.

**Margins declined on higher raw material costs.** GPM, OPM, and NPM (to shareholders of the Company) fell to 18.8% (FY18: 21.8%), 10.9%(FY18: 12.5%), and 9.0%(FY18: 10.1%). We believe the increase of hog price in 2019 was the major culprit behind the margin decline. Based on our calculation, the unit cost of packaged meat product and fresh meat business increased by 12.2% YoY and 40.3% YoY. Nonetheless, the margin contraction was partially offset by decline in SG&A/sales ratio, which was 6.7% in FY19 (FY18: 7.8%).

**Working capital management affected by rising hog prices.** The Group's inventory turnover days increased from 34 in FY18 to 49 in FY19. We believe that the extension of inventory turnover days was a result of the increasing hog price in FY19. CCC in FY19 increased to 33 days. Despite the extension, working capital management was still efficient.

**Industry condition remains favorable to the Group.** We believe hog prices would continue to increase on lingering ASF and implementation of Phase I of the Sino-US trade deal. Despite the coronavirus outbreak, we believe the Group was able to compensate with flexible management of its factories and distribution channels. We expect FY19A-22E revenue CAGR to reach 25.6%, mainly supported by the 34.9% CAGR in fresh meat segment. We expect GPM and NPM (to shareholders of the Company) would stabilize at ~17% and 8% in FY20E and FY21E, with subsequent improvement to be seen in FY22E.

**Maintain BUY; raise TP to RMB 45.8.** We believe FY19 results showed that the Group was able to benefit from the ASF-induced price rise for hog/pork – a condition that we believe will persist in 2020. Maintain **BUY**. Our DCF-derived TP is raised to RMB 45.8, which represents 24.51x/19.56x 20E/21E P/E or 8.28x/7.35x 20E/21E 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	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	48,892	60,348	76,281	95,695	119,541
Chg (% YoY)	(3.33)	23.43	26.40	25.45	24.92
Net Profit (RMB mn)	4,912	5,438	6,197	7,764	10,778
Chg (% YoY)	13.72	10.70	13.97	25.28	38.83
Basic EPS (RMB)	1.48	1.64	1.87	2.34	3.25
Chg (% YoY)	13.04	10.70	13.97	25.28	38.83
P/E (x)	26.63	24.05	21.10	16.84	12.13
BVPS (RMB)	3.95	4.97	5.53	6.23	7.20
P/B (x)	9.97	7.93	7.13	6.33	5.47
DPS(RMB)	1.45	1.00	1.31	1.64	2.27
Yield (%)	3.68	2.54	3.32	4.16	5.77
ROAA (%)	21.38	21.12	21.32	23.23	27.68
ROAE (%)	33.67	35.29	34.13	37.85	45.61

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

## Company Report

Apr 3, 2020

Rating: **BUY**

TP: RMB 45.8

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Share price (RMB)	39.40
52Wk H/L(RMB)	40/21.17
Est. share price return	16.15%
Est. dividend yield	3.32%
Est. total return	19.46%
Previous rating & TP	BUY; RMB39.5
Previous report date	Feb 11, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

Issued shares (mn)	3,319.28
Mkt cap (HK\$ mn)	130,779.72
3-mth ADT (RMBmn)	615.19

Shareholding (%)	
Rotary Vortex	73.41
HK Securities Clearing Co	2.58
China Securities Finance Corp	1.75
Huijin Investment	0.95

Source(s): Bloomberg, Company

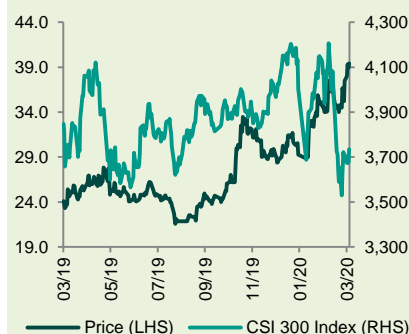
#### Price Performance (%)

	Absolute	Relative*
1-mth	15.78	24.01
3-mth	30.16	40.22
6-mth	59.51	61.58

\* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

#### 1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

Note: All pricing and market data as of Apr 2, 2020



**Exhibit 1: Change in assumptions, projections, and valuations**

Exhibit A: Change in assumptions, projections, and valuations					
FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
<b>Assumptions</b>					
GPM (%)	17.76	17.67	22.82	23.49	Expect high raw material cost increase would be the major contributor to margin decline
Pretax margin (%)	10.17	10.15	14.20	14.82	
NPM (to shareholders of the Company) (%)	8.12	8.11	11.09	11.66	
D/E (%)	18.68	18.84	20.68	20.00	Adjusted based on FY19 performance
D/A (%)	12.16	11.01	12.68	11.45	
Tax rate (%)	17.16	17.16	18.94	18.35	Adjusted based on FY19 rate
Revenue growth (YoY %)	26.40	25.45	19.99	18.91	High hog/pork price would continue to drive fresh meat segment growth
- Packaged meat	8.05	7.73	8.52	8.70	
- Fresh meat	36.82	35.18	26.43	25.33	
- Others	14.10	15.60	14.10	15.60	
<b>Projections</b>					
DRO (days)	1	1	1	1	Adjusted based on FY19 performance and future industry conditions
DIH (days)	50	51	57	56	
DPO (days)	18	18	19	18	
CCC (days)	33	34	40	39	
ROAA (%)	21.32	23.23	30.28	34.29	Adjusted based on projected margin profile
ROAE (%)	34.13	37.85	50.00	57.99	
EPS (RMB)	1.8670	2.3390	2.3284	2.9097	The decrease was mainly due to expected margin decline in FY20E & FY21E
<b>Valuations</b>					
TP (RMB)	45.8		39.5		Despite the lower level of EPS shown in FY20E and FY21E due to temporary margin decline, the high revenue growth sustained by expected higher hog/pork price and improvement in margins starting in FY22E would drive up valuation in our DCF model.
P/E (x)	24.51	19.56	21.66	16.96	
P/B (x)	8.28	7.35	9.60	9.09	

Note: Previous report was published on Feb 11, 2020

Source(s): The Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>48,892</b>	<b>60,348</b>	<b>76,281</b>	<b>95,695</b>	<b>119,541</b>
<b>Core revenue</b>	<b>48,739</b>	<b>60,310</b>	<b>76,205</b>	<b>95,599</b>	<b>119,422</b>
- Packaged meat product	23,127	25,163	27,190	29,291	31,498
- Fresh meat	28,917	39,100	53,498	72,317	95,967
- Others	2,658	3,422	3,904	4,513	5,100
- Intersegment elimination	(5,963)	(7,375)	(8,387)	(10,522)	(13,144)
<b>Interest income</b>	<b>153</b>	<b>38</b>	<b>76</b>	<b>96</b>	<b>119</b>
<b>Commission and processing income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
COGS	(38,227)	(48,977)	(62,691)	(78,718)	(97,103)
<b>GP</b>	<b>10,645</b>	<b>11,320</b>	<b>13,549</b>	<b>16,913</b>	<b>22,338</b>
<b>Core GP</b>	<b>10,512</b>	<b>11,333</b>	<b>13,513</b>	<b>16,881</b>	<b>22,319</b>
- Packaged meat product	7,090	7,160	7,094	6,949	6,893
- Fresh meat	2,861	3,606	5,634	9,055	14,515
- Others	581	778	872	1,026	1,143
- Intersegment elimination	(20)	(211)	(87)	(149)	(233)
<b>GP of interest income</b>	<b>133</b>	<b>(13)</b>	<b>37</b>	<b>33</b>	<b>20</b>
<b>GP of Commission and processing income</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Business levy and taxes	(348)	(297)	(376)	(471)	(589)
S&D expenses	(2,644)	(2,706)	(3,724)	(4,575)	(5,636)
Admin expenses	(1,146)	(1,308)	(1,670)	(2,048)	(2,489)
Others	(342)	(330)	(393)	(482)	(678)
<b>Operating profit</b>	<b>6,087</b>	<b>6,590</b>	<b>7,387</b>	<b>9,337</b>	<b>12,946</b>
- Packaged meat product	4,775	4,657	5,037	5,535	6,072
- Fresh meat	1,049	1,911	2,876	4,120	5,905
- Others	284	233	269	327	387
Net finance income/(costs)	(163)	(97)	(48)	(38)	(21)
Others	(316)	(177)	44	(39)	(87)
<b>Pretax profit</b>	<b>6,280</b>	<b>6,838</b>	<b>7,757</b>	<b>9,716</b>	<b>13,492</b>
Tax	(1,245)	(1,173)	(1,331)	(1,667)	(2,315)
<b>Net profit</b>	<b>5,035</b>	<b>5,666</b>	<b>6,426</b>	<b>8,049</b>	<b>11,176</b>
- Owners of the company	4,912	5,438	6,197	7,764	10,778
- Minority interest	123	228	229	285	398
Dividend	4,784	3,319	4,338	5,435	7,545
EPS (RMB)					
- Basic	1.4798	1.6382	1.8670	2.3390	3.2471
- Diluted	1.4798	1.6382	1.8670	2.3390	3.2471
DPS (RMB)	1.45	1.00	1.31	1.64	2.27

Source(s): The Company, ABCI Securities estimates



### Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash and cash equivalent	2,801	3,455	8,323	10,312	14,486
Trade and bills receivable	162	213	294	350	465
Inventories	4,245	8,801	8,362	13,751	13,435
Others	3,058	3,834	667	1,249	1,081
<b>Current assets</b>	<b>10,266</b>	<b>16,303</b>	<b>17,646</b>	<b>25,662</b>	<b>29,467</b>
PP&E	11,159	10,575	10,266	9,808	9,268
Construction in progress	112	174	143	114	100
Biological assets	66	54	59	69	70
Intangible assets	847	981	1,039	1,071	1,105
Others	415	545	340	612	536
<b>Non-current assets</b>	<b>12,599</b>	<b>12,330</b>	<b>11,847</b>	<b>11,674</b>	<b>11,078</b>
<b>Total assets</b>	<b>22,865</b>	<b>28,633</b>	<b>29,493</b>	<b>37,336</b>	<b>40,545</b>
Trade and bills payable	1,951	3,084	3,267	4,927	4,384
ST borrowings	3,132	3,345	3,570	4,092	4,566
Others	3,846	4,855	3,207	6,214	5,789
<b>Current liabilities</b>	<b>8,929</b>	<b>11,284</b>	<b>10,044</b>	<b>15,234</b>	<b>14,739</b>
LT borrowings	17	16	17	18	22
Deferred tax liabilities	73	152	133	169	234
Others	140	66	69	68	68
<b>Non-current liabilities</b>	<b>230</b>	<b>234</b>	<b>219</b>	<b>255</b>	<b>325</b>
Shareholders' equity	13,042	16,488	18,347	20,676	23,909
Minority interest	664	628	856	1,141	1,539
<b>Total equity</b>	<b>13,705</b>	<b>17,115</b>	<b>19,203</b>	<b>21,817</b>	<b>25,449</b>
<b>Total liabilities and equity</b>	<b>22,865</b>	<b>28,633</b>	<b>29,466</b>	<b>37,307</b>	<b>40,513</b>

Source(s): The Company, ABCI Securities estimates

### Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	5,035	5,666	6,426	8,049	11,176
Depreciation and amortization	976	958	985	1,018	1,038
Change in working capital	(1,409)	(3,631)	829	(3,970)	(139)
Others	275	1,431	914	786	1,173
<b>Cash flow from operating activities</b>	<b>4,876</b>	<b>4,424</b>	<b>9,154</b>	<b>5,883</b>	<b>13,248</b>
PP&E	(418)	(659)	(618)	(670)	(599)
Investments	(1,981)	(716)	1,640	637	(231)
Others	188	0	0	0	0
<b>Cash flow from investing activities</b>	<b>(2,210)</b>	<b>(1,375)</b>	<b>1,023</b>	<b>(33)</b>	<b>(829)</b>
Bank borrowing	(1,102)	(15)	225	524	478
Others	(4,833)	(2,370)	(3,532)	(4,615)	(5,786)
<b>Cash flow from financing activities</b>	<b>(5,935)</b>	<b>(2,385)</b>	<b>(3,307)</b>	<b>(4,091)</b>	<b>(5,308)</b>
<b>Net change in cash and cash equivalent</b>	<b>(3,269)</b>	<b>664</b>	<b>4,535</b>	<b>1,702</b>	<b>3,823</b>
ForEx effect	1	1	3	3	4
<b>Cash and cash equivalent at the end of FY</b>	<b>2,481</b>	<b>3,146</b>	<b>7,684</b>	<b>9,390</b>	<b>13,217</b>

Source(s): The Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Growth (YoY %)</b>					
Revenue	(3.33)	23.43	26.40	25.45	24.92
Core revenue	(3.39)	23.74	26.36	25.45	24.92
- Packaged meat products	2.06	8.80	8.05	7.73	7.54
- Fresh meat	(4.90)	35.22	36.82	35.18	32.70
- Others	14.78	28.71	14.10	15.60	13.00
Gross profit	10.21	6.34	19.70	24.82	32.08
Core GP	10.19	7.81	19.24	24.92	32.21
- Packaged meat products	2.58	0.99	(0.93)	(2.05)	(0.81)
- Fresh meat	33.27	26.04	56.24	60.72	60.31
- Others	22.08	33.81	12.09	17.67	11.43
EBIT	11.20	7.63	12.42	26.21	38.76
EBITDA	8.88	6.90	10.94	23.69	35.06
Pretax Profit	9.04	8.90	13.43	25.26	38.86
Net profit (to owners of the company)	13.72	10.70	13.97	25.28	38.83
<b>Profitability ratios (%)</b>					
GPM	21.77	18.76	17.76	17.67	18.69
Core GPM	21.57	18.79	17.73	17.66	18.69
- Packaged meat products	30.66	28.46	26.09	23.72	21.88
- Fresh meat	9.89	9.22	10.53	12.52	15.13
- Others	21.87	22.74	22.34	22.74	22.42
OPM	12.45	10.92	9.68	9.76	10.83
EBITDA margin	14.40	12.47	10.95	10.79	11.67
Pretax margin	12.84	11.33	10.17	10.15	11.29
NPM (to owners of the company)	10.05	9.01	8.12	8.11	9.02
<b>Core revenue contribution (%)</b>					
Packaged meat product	47.45	41.72	35.68	30.64	26.38
Fresh meat	59.33	64.83	70.20	75.65	80.36
Others	5.45	5.67	5.12	4.72	4.27
<b>Return ratios (%)</b>					
ROAA	21.38	21.12	21.32	23.23	27.68
ROAE	33.67	35.29	34.13	37.85	45.61
<b>Liquidity ratio (x)</b>					
Current ratio	1.15	1.44	1.76	1.68	2.00
Quick ratio	0.67	0.66	0.92	0.78	1.09
Cash ratio	0.31	0.31	0.83	0.68	0.98
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	34	49	50	51	51
Days of outstanding payable	18	17	18	18	18
CCC	18	33	33	34	34
<b>Leverage ratios (%)</b>					
Total debt/Total equity	22.98	19.64	18.68	18.84	18.03
Total debt/Total assets	13.77	11.74	12.16	11.01	11.32
Net cash (debt) /Total equity	2.54	0.55	24.67	28.43	38.89
Net cash (debt) /Total assets	1.52	0.33	16.06	16.61	24.41

Source(s): The Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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