



WH Group (288 HK)

Decent growth and margin in 1Q17

- 1Q17 revenue grew by 3.16% YoY; excluding the debt refinancing related costs and taxes, the pre-bio. adj. net profit (to owners of the Company) would have grown by 10.2% YoY
- Margins remained stable; 1Q17 OPM was 7.86% vs. 7.93% in 1Q16; pre-bio. adj. NPM (to owners of the Company) that excludes the debt refinancing related costs and taxes was 4.66% vs 4.36% in 1Q16
- Maintain **BUY**; current TP represents FY17E/18E P/E of 13.16x/11.77x and FY17E/FY18E P/B of 2.17x/2.04x

Decent growth momentum in 1Q17. In 1Q17, the Group saw revenue growth of 3.16% YoY. Operating profit recorded slightly lower growth of 2.2% YoY. Decline (9.33% YoY) of pre-bio. adj. net profit (to owners of the Company) was mainly due to the costs and taxes related to the Group's debt refinancing. Excluding such costs and taxes, the Group's pre-bio. adj. net profit (to owners of the Company) would have grown by 10.2% YoY.

Stable margins showed resilience in the integrated business model. The Group's OPM was stable at 7.86% in 1Q17 vs. 7.93% in 1Q16, but the reported pre-bio. adj. NPM (to owners of the Company) decreased from 4.36% in 1Q16 to 3.84% in 1Q17. However, if the debt refinancing related costs and tax were excluded, the pre-bio. adj. NPM (to owners of the Company) would have been 4.66% in 1Q17.

Varying segment performance. Sales growth of 6.55% YoY for fresh pork outperformed the 0.45% YoY for packaged meat and 1.84% YoY for hog production, which was partly due to the acquisition of Clougherty Packing. Fresh pork saw volume growth of 9.6% YoY and OP growth of 8.85% YoY, but declining hog price in China and relatively low hog price in the U.S. have been pressuring the fresh pork's ASP, which declined by 0.03% YoY. The packaged meat segment showed no volume growth and OP decline of 21.79%, signaling the Group may still face challenges in rising costs and promoting the packaged meat products.

Maintain BUY, TP at HK\$ 7.68. Growth momentum and margin performance in 1Q17 were satisfactory. The Group's integrated business model has been resilient amid pressure exerted by external operating environment and challenges in expanding business segments. Maintain **BUY** rating and TP at HK\$ 7.68, which represents FY17E/18E P/E of 13.16x/11.77x and FY17E/FY18E P/B of 2.17x/2.04x .

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 | 23,459 | 25,842 | 28,758 |
| Chg (% YoY) | (4.65) | 1.53 | 8.94 | 10.16 | 11.29 |
| Net Profit (US\$ mn) | 786 | 1,036 | 1,100 | 1,231 | 1,347 |
| Chg (% YoY) | 2.61 | 31.81 | 6.22 | 11.86 | 9.46 |
| Basic EPS (US\$) | 0.0575 | 0.0758 | 0.0751 | 0.0840 | 0.0920 |
| Chg (% YoY) | (10.71) | 31.83 | (0.91) | 11.86 | 9.46 |
| P/E (x) | 15.29 | 11.60 | 11.70 | 10.46 | 9.56 |
| BVPS (US\$) | 0.3934 | 0.4312 | 0.4566 | 0.4850 | 0.5157 |
| P/B (x) | 2.23 | 2.04 | 1.93 | 1.81 | 1.70 |
| DPS(HK\$) | 0.13 | 0.26 | 0.19 | 0.21 | 0.24 |
| Yield (%) | 1.83 | 3.81 | 2.74 | 3.09 | 3.48 |
| ROAA (%) | 6.86 | 8.87 | 10.09 | 10.46 | 10.90 |
| ROAE (%) | 14.43 | 17.15 | 16.92 | 17.85 | 18.38 |

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 4, 2017

Rating: BUY

TP: HK\$ 7.68

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| | |
|-------------------------|---------------|
| Share price (HK\$) | 6.83 |
| Est. share price return | 12.45% |
| Est. dividend yield | 3.81% |
| Est. total return | 16.25% |
| Previous Rating&TP | BUY; HK\$7.68 |
| Previous report date | Mar 30, 2017 |

Source(s): Bloomberg, ABCI Securities

Key Data

| | |
|----------------------|------------|
| 52Wk H/L(HK\$) | 7.21/5.66 |
| Issued shares (mn) | 14,651.07 |
| Market cap (HK\$ mn) | 100,066.80 |
| 3-mth ADT (HK\$ mn) | 183.50 |

Source(s): Bloomberg

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 | 51.07 |
| Fresh Pork | 43.02 |
| Hog production | 3.85 |

Source(s): ABCI Securities estimates

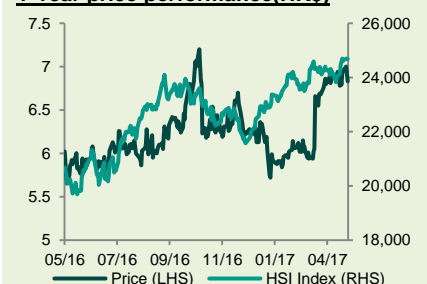
Sector Performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 1.04 | (0.76) |
| 3-mth | 15.57 | 8.26 |
| 6-mth | 10.16 | 0.41 |

* 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 May 4, 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 | 23,459 | 25,842 | 28,758 |
| - Packaged meat | 11,240 | 11,074 | 11,981 | 13,192 | 14,860 |
| - Fresh pork | 8,591 | 9,178 | 10,092 | 11,135 | 12,252 |
| - Hog production | 990 | 844 | 902 | 970 | 1,042 |
| - Others | 388 | 438 | 484 | 545 | 605 |
| COGS | (17,129) | (17,327) | (18,846) | (20,675) | (23,056) |
| Gross profit | 4,080 | 4,207 | 4,613 | 5,167 | 5,703 |
| Distribution and selling expenses | (1,783) | (1,794) | (1,933) | (2,133) | (2,374) |
| Admin expenses | (740) | (748) | (827) | (913) | (1,016) |
| Biological adjustment | (63) | 170 | 107 | (56) | (58) |
| Others | 63 | (47) | 55 | 81 | 75 |
| Operating profit | 1,557 | 1,788 | 2,016 | 2,146 | 2,330 |
| - Packaged meat | 1,499 | 1,475 | 1,534 | 1,735 | 1,945 |
| - Fresh pork | 226 | 545 | 479 | 494 | 618 |
| - Hog production | 54 | (40) | 43 | 18 | 6 |
| - Others | (222) | (192) | (39) | (101) | (239) |
| Net finance cost | (219) | (183) | (183) | (113) | (99) |
| Share of profits from JV and associates | 14 | 33 | 37 | 43 | 51 |
| Pretax profit | 1,302 | 1,703 | 1,869 | 2,076 | 2,281 |
| Tax | (307) | (465) | (476) | (537) | (585) |
| Net profit | 995 | 1,238 | 1,394 | 1,540 | 1,696 |
| - Profit attributable to shareholders | 786 | 1,036 | 1,100 | 1,231 | 1,347 |
| - Minority interest | 209 | 202 | 293 | 324 | 357 |
| EPS | | | | | |
| - Basic (US\$ cent) | 5.75 | 7.58 | 7.51 | 8.40 | 9.20 |
| - Diluted (US\$ cent) | 5.50 | 7.25 | 7.44 | 8.32 | 9.11 |
| DPS (HK\$ cent) | 12.5 | 26.00 | 18.74 | 21.10 | 23.75 |

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 | 988 | 1,739 | 1,462 |
| Trade and bills receivable | 725 | 793 | 733 | 1,019 | 891 |
| Inventory | 1,748 | 1,678 | 1,948 | 2,042 | 2,440 |
| ST Biological assets | 865 | 933 | 1,110 | 1,438 | 1,613 |
| Others | 738 | 305 | 256 | 341 | 298 |
| Total current assets | 5,213 | 4,848 | 5,035 | 6,579 | 6,704 |
| PP&E | 4,674 | 4,529 | 4,554 | 4,574 | 4,625 |
| LT Biological assets | 200 | 186 | 239 | 310 | 339 |
| 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 | 552 | 339 | 442 |
| Total non-current assets | 9,088 | 8,763 | 8,977 | 8,838 | 9,008 |
| Total assets | 14,301 | 13,611 | 14,012 | 15,417 | 15,712 |
| Trade and bills payable | 812 | 854 | 987 | 1,050 | 1,229 |
| ST borrowings | 606 | 1,011 | 777 | 681 | 597 |
| Others | 1,441 | 1,458 | 1,696 | 1,810 | 2,055 |
| Total current liabilities | 2,859 | 3,323 | 3,459 | 3,541 | 3,882 |
| LT Borrowings | 3,308 | 1,867 | 1,435 | 1,258 | 1,103 |
| Others | 1,431 | 1,383 | 1,413 | 2,172 | 1,475 |
| Total non-current liabilities | 4,739 | 3,250 | 2,848 | 3,430 | 2,577 |
| Shareholders' equity | 5,763 | 6,316 | 6,689 | 7,106 | 7,556 |
| Minority interest | 940 | 722 | 1,015 | 1,340 | 1,697 |
| Total equity | 6,703 | 7,038 | 7,705 | 8,446 | 9,253 |
| Total liabilities and equity | 14,301 | 13,611 | 14,012 | 15,417 | 15,712 |

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 | 1,869 | 2,076 | 2,281 |
| Depreciation and amortization | 391 | 372 | 458 | 491 | 530 |
| Change in working capital | 191 | 39 | (42) | (601) | 17 |
| Others | (271) | (264) | (427) | (508) | (562) |
| Cash flow from operating activities | 1,613 | 1,850 | 1,858 | 1,457 | 2,266 |
| Capex | (629) | (451) | (826) | (1,098) | (988) |
| Others | 115 | 310 | 213 | 363 | 176 |
| Cash flow from investing activities | (514) | (141) | (613) | (735) | (811) |
| Change in borrowings | (744) | (1,036) | (666) | (272) | (240) |
| Dividends paid | (162) | (382) | (535) | (510) | (545) |
| Others | 5 | (255) | (0) | (0) | (0) |
| Cash flow from financing activities | (901) | (1,673) | (1,202) | (782) | (785) |
| Net change in cash | 198 | 36 | 44 | (59) | 670 |
| ForEx effect | (31) | (38) | (5) | 5 | (43) |
| Cash at the end of FY | 1,125 | 1,123 | 1,162 | 1,108 | 1,736 |

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

| FY ends at Dec 31 | 2015A | 2016A | 2017E | 2018E | 2019E |
|-------------------------------------|---------|---------|-------|-------|-------|
| Growth (YoY %) | | | | | |
| Revenue | (4.65) | 1.53 | 8.94 | 10.16 | 11.29 |
| - Packaged meat | (5.39) | (1.48) | 8.19 | 10.11 | 12.64 |
| - Fresh pork | (8.26) | 6.83 | 9.96 | 10.34 | 10.03 |
| - Hog production | 68.65 | (14.75) | 6.88 | 7.48 | 7.47 |
| Gross profit | 19.47 | 3.11 | 9.66 | 11.99 | 10.38 |
| Operating profit | (12.79) | 22.96 | 8.81 | 6.43 | 8.56 |
| Net profit (to owners of the Group) | 2.61 | 31.81 | 6.22 | 11.86 | 9.46 |
| Profitability ratios (%) | | | | | |
| GPM | 19.24 | 19.54 | 19.67 | 19.99 | 19.83 |
| OPM | 7.11 | 8.60 | 8.59 | 8.30 | 8.10 |
| - 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 | 8.59 | 8.30 | 8.10 |
| NPM (to owners of the Group) | 3.71 | 4.81 | 4.69 | 4.76 | 4.69 |
| Revenue contribution (%) | | | | | |
| Packaged meat | 53.00 | 51.43 | 51.07 | 51.05 | 51.67 |
| Fresh pork | 40.51 | 42.62 | 43.02 | 43.09 | 42.60 |
| Hog production | 4.67 | 3.92 | 3.85 | 3.75 | 3.62 |
| Return ratios (%) | | | | | |
| ROAA | 6.86 | 8.87 | 10.09 | 10.46 | 10.90 |
| ROAE | 14.43 | 17.15 | 16.92 | 17.85 | 18.38 |
| ROIC | 9.69 | 12.55 | 18.55 | 28.44 | 33.11 |
| Liquidity ratio (x) | | | | | |
| Current ratio | 1.82 | 1.46 | 1.46 | 1.86 | 1.73 |
| Quick ratio | 0.91 | 0.67 | 0.57 | 0.88 | 0.68 |
| Cash ratio | 0.40 | 0.36 | 0.29 | 0.50 | 0.38 |
| 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 | 35.30 | 35.13 | 35.39 |
| Days of outstanding payable | 17.87 | 17.62 | 17.57 | 17.89 | 17.73 |
| CCC | 34.58 | 31.54 | 29.52 | 29.53 | 29.69 |
| Leverage ratios (%) | | | | | |
| Total debt/Equity | 67.92 | 45.57 | 28.71 | 22.97 | 18.37 |
| Total debt/Total assets | 27.37 | 21.14 | 15.79 | 12.58 | 10.82 |

* All measures are post-bio. adj.

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

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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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