

WH Group (288 HK)

Solidifying leadership

- FY19 revenue growth was 6.6% YoY, supported by 1.5% YoY and 10.3% YoY increase in packaged meat and fresh pork segments; China is the region with the highest revenue growth
- Overall margin improved; GPM, OPM, and NPM (to shareholders of the Company) increased to 20.3%, 8.4%, and 6.1% in FY19
- Industry conditions remain favorable to the Group; FY19-22E revenue CAGR at 9.4%
- Maintain **BUY**; TP implies 11.67x/10.00x 20E/21E P/E or 1.85x/1.63x 20E/21E P/B

Revenue growth reached 6.6% YoY in FY19. Revenue growth of packaged meat and fresh pork segment was 1.5% YoY and 10.3% YoY vs. 3.1% YoY and -4.1% YoY in FY18. China recorded the largest revenue growth of 19.5% YoY in FY19. We believe the Group has been capitalizing on the rising hog/pork price in China as well as the synergies between its China and US operations.

Group-level margin improved. In FY19, GPM, OPM, and NPM (to shareholders of the Company) increased to 20.3%, 8.4%, and 6.1% from 19.9%, 7.3%, and 4.2% in FY18. OPM of package meat segment was flat YoY at 12.8%; OPM of fresh meat segment improved to 4.0% while OPM of hog production segment turned around from -16.4% in FY18 to 17.8% in FY19. OPM of China, the US, and Europe were 10.9%, 7.1%, and 6.5%. The risen hog/pork prices have added to the cost pressure, but the Group was able to attain higher margins through leveraging the US-China hog price difference and successful hedging program in the US operation.

Expect revenue CAGR of 9.4% in FY19A-22E. We expect that the Group to benefit from the tight supply of hog in China and enforcement of the Phase I trade deal between China and the US. FY19E-22E revenue CAGRs of packaged meat, fresh pork, and hog production segments are expected to be 2.0%, 17.2%, and 2.0%. GPM, OPM and NPM (to shareholders) are expected to increase to 22.6%, 10.0%, and 6.8% in FY22E. In our view, the COVID-19 outbreak would not have significant impact on the Group's operations, as we believe staple consumption is largely unaffected and the Group's operational flexibility would compensate for the decrease in business activities.

TP at HK\$ 9.6; maintain BUY. With the issue of ASF lingering, the industry would continue to experience supply constraint; execution of the Sino-US Phase I trade deal would increase pork export to China from the US operation. Industry conditions would continue to favor the Group and help solidify its leadership position in the global market. Maintain **BUY**. Our DCF-derived TP represents 11.67x/10.00x 20E/21E P/E or 1.85x/1.63x 20E/21E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Risk of revenue and profit loss over trade war; 4) Product quality/safety risk; 4) Risk of changing consumer tastes; 5) Commodity price risk; 6) Foreign exchange risk; 7) Interest rate risk

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (US\$ mn)	22,605	24,103	26,208	28,586	31,525
Chg (% YoY)	1.01	6.63	8.73	9.07	10.28
Net Profit (to shareholders of the Company) (US\$ mn)	943	1,465	1,563	1,824	2,135
Chg (% YoY)	(16.77)	55.36	6.69	16.70	17.07
Basic EPS (US\$ cent)	6.43	9.96	10.61	12.39	14.50
Chg (% YoY)	(14.72)	54.90	6.55	16.70	17.07
P/E (x)	14.50	9.36	8.79	7.53	6.43
BVPS (US\$ cent)	52.78	58.99	66.85	76.14	86.97
P/B (x)	1.77	1.58	1.40	1.22	1.07
DPS(HK\$)	0.20	0.32	0.33	0.38	0.45
Yield (%)	2.77	4.36	4.55	5.31	6.22
ROAA (%)	7.55	10.41	9.71	10.23	10.66
ROAE (%)	12.42	17.83	16.87	17.32	17.78

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

Company Report

Apr 3, 2020

Rating: **BUY**

TP: **HK\$ 9.6**

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Share price (HK\$)	7.23
52Wk H/L(HK\$)	9.95/5.92
Est. share price return	32.78%
Est. dividend yield	4.55%
Est. total return	37.33%
Previous Rating & TP	BUY; HK\$9.4
Previous report date	Feb 11, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	14,727.52
Market cap (HK\$ mn)	106,480.00
3-mth ADT (HK\$ mn)	343.54

Major shareholders

	(%)
Heroic Zone	23.59
Mondrian Investment Partners	5.03
Chang Yun Holdings	4.29
Wan Long	3.90
High Zenith	2.38

Source(s): Bloomberg, HKEX

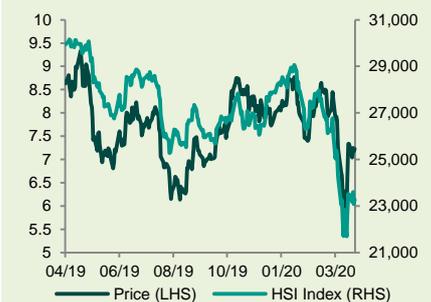
Sector Performance (%)

	Absolute	Relative*
1-mth	(10.07)	1.25
3-mth	(12.47)	5.82
6-mth	2.84	13.03

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note: 1) All pricing and market data as of Apr 2, 2020; 2) Gross and operating profits discussed in the report are before biological adjustment, 3) Net profits are after biological adjustment; 4) USD/HKD: 7.7521

Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
Assumptions					
GPM (%)	21.75	22.10	21.01	22.93	Adjusted based on FY19 margin profile and expected impact from product price and raw material cost increase
Pretax margin (%)	8.31	8.92	7.81	9.14	
NPM (to shareholders of the Company) (%)	5.96	6.38	5.05	5.93	
D/E (%)	34.46	34.35	42.05	41.75	Adjusted based on FY19 ratio
D/A (%)	19.13	19.96	23.31	23.13	
Tax rate (%)	17.84	17.62	19.63	19.63	Adjusted based on FY19 rate
Revenue growth (YoY %)					
- Packaged meat	8.73	9.07	7.74	9.33	Adjusted based on FY19 growth performance and future industry condition
- Fresh pork	1.79	2.10	3.76	4.70	
- Hog production	18.01	16.30	12.01	13.93	
	(5.84)	4.86	16.73	20.00	
Projections					
DRO (days)	16	16	15	15	Adjusted based on FY19 performance and expected increase in hog price increase in China
DIH (days)	49	45	45	44	
DPO (days)	20	20	20	20	
CCC (days)	46	41	40	39	
ROAA (%)	9.71	10.23	8.58	9.66	Adjusted based on overall improvement of margin profile
ROAE (%)	16.87	17.32	14.27	16.11	
EPS (US\$)	10.61	12.39	8.91	11.44	Adjusted based on FY19 performance and projected growth profile, and updated number of shares
Valuations					
TP (HK\$)	9.6		9.4		Despite the mixed change in growth and margin profile shown in the next two FYs, the expected higher hog/pork price in China and the expected increase in overall sales volume as a result of the execution of Sino-US Phase I Trade Deal are the major drivers for the increase of our DCF valuation.
P/E (x)	11.67	10.00	16.68	13.58	
P/B (x)	2.10	1.85	2.06	1.83	

Note: 1) Previous report was published on Feb 11, 2020; 2) Except for tax rate and net profit related figures, other profit figures are pre-bio adj

Source(s): The Company, ABCI Securities estimates

Financial Statements

Consolidated income statement

FY ends at Dec 31 (US\$ mn, except per share data)	2018A	2019A	2020E	2021E	2022E
Revenue	22,605	24,103	26,208	28,586	31,525
- Packaged meat	12,147	12,331	12,552	12,816	13,102
- Fresh pork	9,136	10,078	11,893	13,832	16,235
- Hog production	688	937	882	925	995
- Others	634	757	880	1,014	1,192
COGS	(17,907)	(18,871)	(20,417)	(22,138)	(24,275)
Gross profit	4,698	5,232	5,791	6,448	7,249
Distribution and selling expenses	(2,139)	(2,059)	(2,430)	(2,623)	(2,850)
Admin expenses	(732)	(811)	(988)	(980)	(1,088)
Biological adjustment	(339)	(230)	(94)	(133)	(128)
Others	3	49	31	(7)	(31)
Operating profit	1,491	2,181	2,309	2,705	3,154
- Packaged meat	1,547	1,574	1,608	1,669	1,720
- Fresh pork	246	403	518	618	733
- Hog production	(113)	167	161	170	182
- Others	(30)	(113)	22	247	519
Net finance cost	(115)	(144)	(157)	(182)	(203)
Share of profits from JV and associates	35	15	22	24	26
Pretax profit	1,411	2,052	2,175	2,546	2,976
Tax	(258)	(357)	(388)	(449)	(528)
Net profit	1,153	1,695	1,787	2,098	2,449
- Profit attributable to shareholders	943	1,465	1,563	1,824	2,135
- Minority interest	210	230	224	274	313
EPS					
- Basic (US cent)	6.43	9.96	10.61	12.39	14.50
- Diluted (US cent)	6.40	9.90	10.29	12.01	14.06
DPS (HK cent)	20.00	31.50	32.91	38.40	44.96

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (US\$ mn)	2018A	2019A	2020E	2021E	2022E
Cash and cash equivalent	525	552	1,939	3,071	4,798
Trade and bills receivable	1,135	1,047	1,322	1,264	1,587
Inventory	2,022	2,903	2,640	2,797	2,995
ST Biological assets	947	1,107	1,268	1,454	1,682
Others	831	1,098	1,227	1,402	1,704
Total current assets	5,460	6,707	8,396	9,988	12,766
PP&E	5,300	5,406	5,860	6,112	6,248
LT Biological assets	147	137	194	209	236
Goodwill	1,847	1,955	1,955	1,955	1,955
Intangible assets	1,734	1,712	1,665	1,659	1,652
Interest in JV and associates	352	347	379	414	452
Others	458	1,018	1,075	1,139	1,145
Total non-current assets	9,838	10,575	11,128	11,488	11,688
Total assets	15,298	17,282	19,524	21,476	24,454
Trade and bills payable	977	1,074	1,112	1,291	1,276
ST borrowings	860	905	1,093	1,255	1,392
Others	1,491	1,890	1,986	1,441	1,772
Total current liabilities	3,328	3,869	4,191	3,986	4,440
LT Borrowings	2,259	2,187	2,641	3,032	3,365
Others	1,293	1,774	1,854	1,979	2,262
Total non-current liabilities	3,552	3,961	4,496	5,011	5,627
Shareholders' equity	7,746	8,684	9,846	11,214	12,808
Minority interest	672	768	992	1,266	1,579
Total equity	8,418	9,452	10,837	12,479	14,387
Total liabilities and equity	15,298	17,282	19,524	21,476	24,454

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (US\$ mn)	2018A	2019E	2020E	2021E	2022E
Pretax profit	1,411	2,052	2,175	2,546	2,976
Depreciation and amortization	437	473	499	544	585
Change in working capital	(570)	(773)	(168)	(836)	(698)
Others	(23)	(289)	(255)	(312)	(423)
Cash flow from operating activities	1,255	1,463	2,251	1,942	2,440
Capex	(811)	(703)	(885)	(903)	(917)
Others	(406)	(93)	(17)	219	543
Cash flow from investing activities	(1,217)	(796)	(902)	(684)	(374)
Change in borrowings	4	(27)	643	552	470
Others	(794)	(566)	(664)	(704)	(806)
Cash flow from financing activities	(790)	(593)	(21)	(152)	(335)
Net change in cash	(752)	74	1,327	1,107	1,731
ForEx effect	(43)	(6)	(8)	(31)	(40)
Cash at the end of FY	484	552	1,872	2,948	4,639

Source(s): The Company, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	2018A	2019A	2020E	2021E	2022E
Growth (YoY %)					
Revenue	1.01	6.63	8.73	9.07	10.28
- Packaged meat	3.14	1.51	1.79	2.10	2.23
- Fresh pork	(4.09)	10.31	18.01	16.30	17.38
- Hog production	20.28	36.19	(5.84)	4.86	7.59
Gross profit	1.90	6.11	6.76	8.59	9.58
Operating profit	(11.34)	23.09	13.70	17.13	16.60
Net profit (to owners of the company)	(16.77)	55.36	6.69	16.70	17.07
Profitability ratios (%)					
GPM	19.92	20.30	21.75	22.10	22.59
OPM	7.30	8.43	8.81	9.46	10.00
- Packaged meat	12.74	12.76	12.81	13.03	13.13
- Fresh pork	2.69	4.00	4.35	4.47	4.51
- Hog production	(16.42)	17.82	18.27	18.36	18.33
EBITDA margin	9.32	11.08	10.74	11.38	11.87
NPM (to owners of the company)	4.17	6.08	5.96	6.38	6.77
Revenue contribution (%)					
Packaged meat	53.74	51.16	47.89	44.83	41.56
Fresh pork	40.42	41.81	45.38	48.39	51.50
Hog production	3.04	3.89	3.37	3.24	3.16
Return ratios (%)					
ROAA	7.55	10.41	9.71	10.23	10.66
ROAE	12.42	17.83	16.87	17.32	17.78
Liquidity ratio (x)					
Current ratio	1.64	1.73	2.00	2.51	2.88
Quick ratio	0.75	0.70	1.07	1.44	1.82
Cash ratio	0.17	0.15	0.48	0.79	1.10
Cash conversion cycle (days)					
Days of outstanding receivable	17	16	16	16	16
Days of inventory on hand	40	47	49	45	43
Days of outstanding payable	21	19	20	20	19
CCC	36	44	46	41	41
Leverage ratios (%)					
Total debt/Equity	40.27	35.61	34.46	34.35	33.06
Total debt/Total assets	20.39	17.89	19.13	19.96	19.45

* Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj.

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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