

WH Group (288 HK)

Reiterate BUY on margin improvement

- Expect improving hog prices in the coming quarters in the U.S. and China markets, boosting growth momentum
- Margin profile improvement in 1Q24 confirms our outlook for the Group's margin profile trend in FY24E
- Maintain **BUY**; TP implies 8.9x/7.8x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B

Expect growth to pick up in coming quarters. 1Q24 revenue declined by 8.3% YoY, while revenue of packaged meat and pork segments declined by 4.2% YoY and 13.7% YoY, due to soft demand or weakened consumer market across three major geographical regions and the relatively low pricing levels in the U.S. and China markets. However, we expect growth is likely to pick up in coming quarters. According to the Group, the hog price in the U.S. would start picking up in 2Q24; hog price in China is expected to go up in 2H24 while 2024 average hog price would be similar to that of 2023. The continued decline of sow inventory in China in Mar 2024 and the stabilizing supplies in the U.S. market indicate subsiding supply-side pressure on hog prices in these two markets. We expect revenue to grow by 4.0% YoY in FY24E and FY23-26E revenue CAGR to reach 2.3%.

Better margin profile in sight. OPM of packaged meat was 17.5% in 1Q24, supported by the relatively low prices in China and the U.S. markets, stabilization of product pricings in the U.S., and enhanced pricing levels in Europe. Pork segment's 1Q24 OPM was -1.1%, but the Group's efforts in enhancing the farm portfolio in the U.S. helped reduce some losses. More notably, on a YoY basis, in 1Q24, the Group's NPM⁽³⁾ went up by 4.6ppt, while OPM went up by 2.7ppt, which we estimate was due to the reduce impairment of the Group's inventory and biological assets resulted from downsizing of upstream business and slowdown of hog price decline. We expect OPM and NPM⁽³⁾ to reach 7.8% and 4.4% in FY24E.

Maintain BUY; TP at HK\$ 6.6. Maintain **BUY** on the Group's improving profitability in 1Q24 and potential turnaround in growth momentum. Our expected FY23-26E basic EPS CAGR is at 34.1%. We raise our DCF-derived TP to reflect the increase profit level projections. Current TP represents 8.9x/7.8x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer taste; 5) Pork price remains low for an extended period; 6) Foreign exchange risk; 7) Interest rate risk; 8) Fluctuations in EPS and DPS growth.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	28,136	26,236	27,279	27,818	28,121
Chg (% YoY)	3.1	(6.8)	4.0	2.0	1.1
Net profit ⁽³⁾ (US\$ mn)	1,370	629	1,210	1,387	1,516
Chg (% YoY)	28.3	(54.1)	92.3	14.6	9.4
Basic EPS (US cent)	10.68	4.90	9.43	10.81	11.82
Chg (% YoY)	41.4	(54.1)	92.3	14.6	9.4
P/E (x)	6.84	14.90	7.75	6.76	6.18
BVPS (US cent)	74.82	76.62	82.22	89.72	97.76
P/B (x)	0.98	0.95	0.89	0.81	0.75
DPS(HK\$)	0.30	0.30	0.26	0.30	0.32
Yield (%)	5.2	5.2	4.5	5.2	5.7
ROAA (%)	8.4	4.4	7.8	8.2	8.6
ROAE (%)	14.9	6.5	11.9	12.6	12.6

Source(s): The Group, ABCI Securities estimates

Company Report

May 2, 2024

Rating: BUY

TP: HK\$ 6.6

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	5.72
52Wk H/L(HK\$)	5.92/3.88
Est. share price return	15.4%
Est. dividend yield	4.5%
Est. total return	19.9%
Previous Rating & TP	BUY; HK\$6.2
Previous report date	Apr 16, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.8
Market cap (HK\$ bn)	73.4
3-mth ADT (HK\$ mn)	137.4

Major shareholders

Wan Long	(%)
	26.82

Source(s): Bloomberg, HKEx, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	6.5	1.6
3-mth	20.4	9.9
6-mth	22.7	20.7

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: 1) All market data as of May 1, 2024; 2) Gross profit, operating profit, and related measures discussed are before biological adjustment; 3) Net profits and related measures refer to net profit attributable to shareholders of the Company after biological adjustment; 4) USD/HKD: 7.8283.

Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	26.4	22.4	25.9	22.1	Adjusted based on 1Q24 figures
D/A (%)	13.5	12.6	13.3	12.4	
Tax rate (%)	20.2	20.3	20.2	20.3	
Valuations					
TP (HK\$)	6.6		6.2		Higher TP due to higher profit projections
P/E (x)	8.9	7.8	8.8	7.5	
P/B (x)	1.0	0.9	1.0	0.9	

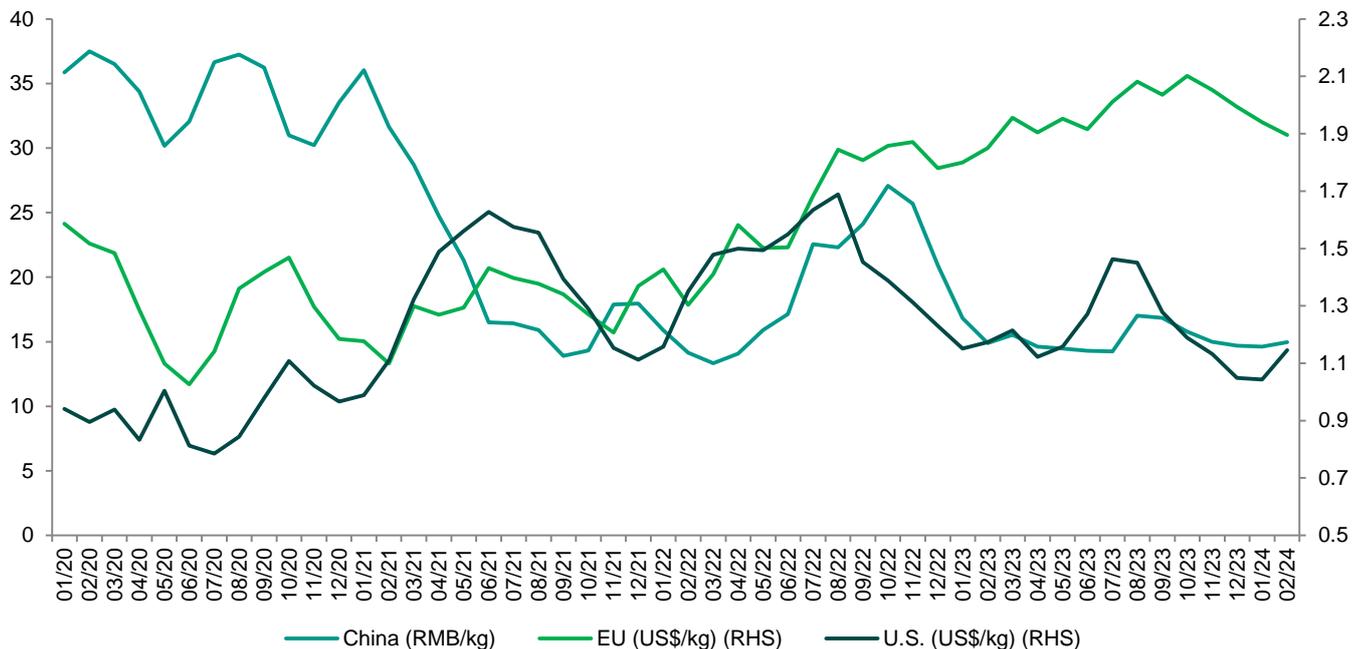
Note: for previous report publication date please refer to the cover page of this company report
Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (US\$ mn)	27,279	27,818	28,121	27,279	27,818	28,121	0.0	0.0	0.0
Net profit (to owners of the Company) (US\$ mn)	1,210	1,387	1,516	1,160	1,356	1,487	4.3	2.2	2.0
EPS (US cent)	9.43	10.81	11.82	9.04	10.57	11.59	4.3	2.2	2.0

Note: Net profit and EPS are after biological adjustment
Source(s): ABCI Securities estimates

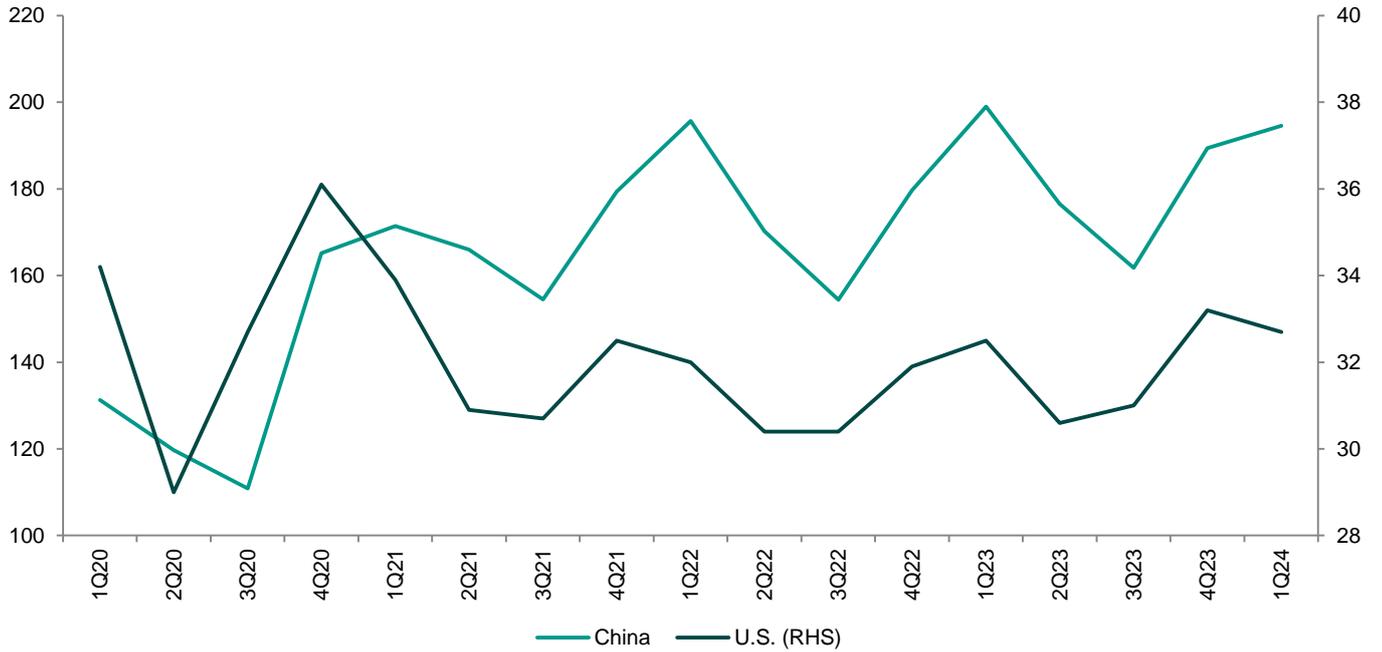
Exhibit 3: Hog price in China, the US, and Europe



Note: EU price is European Commission carcass price multiplied by 0.755
Source(s): MOA, USDA, European Commission, ABCI Securities



Exhibit 4: Hog production volume in China and the US (mn heads)



Source(s): MOA, USDA, ABCI Securities

Exhibit 5: Hogs slaughtered and sow inventory in China (mn heads)



Source(s): MOA, NBS, ABCI Securities



Financial Statements

Consolidated income statement

As of Dec 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	28,136	26,236	27,279	27,818	28,121
- Packaged meats	14,559	13,523	14,062	14,740	15,163
- Pork	11,797	10,810	11,198	10,997	10,813
- Others	1,780	1,903	2,020	2,080	2,144
COGS	(22,959)	(21,111)	(22,064)	(22,400)	(22,464)
Gross profit	5,177	5,125	5,216	5,418	5,657
Distribution and selling expenses	(2,082)	(1,977)	(2,063)	(2,105)	(2,133)
Admin expenses	(842)	(889)	(924)	(942)	(953)
Biological adjustment	(299)	(836)	33	27	15
Others	139	48	(147)	(117)	(181)
Operating profit	2,093	1,471	2,114	2,281	2,405
- Packaged meat	2,065	2,050	2,138	2,242	2,303
- Pork	30	(480)	(18)	23	57
- Others	(2)	(99)	(6)	16	45
Net finance cost	(169)	(169)	(148)	(135)	(131)
Share of profits from JV and associates	4	(38)	(8)	(5)	(4)
Other gains/(losses)	204	(207)	116	238	332
Pretax profit	2,132	1,057	2,074	2,378	2,602
Tax	(482)	(197)	(419)	(482)	(528)
Net profit	1,650	860	1,654	1,896	2,073
- Profit attributable to shareholders	1,370	629	1,210	1,387	1,516
- Minority interest	280	231	444	509	557
EPS					
- Basic (US cent)	10.68	4.90	9.43	10.81	11.82
- Diluted (US cent)	10.33	4.75	9.13	10.46	11.44
DPS (HK cent)	30.00	30.00	25.84	29.61	32.38

Note: 1) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork; 2) Items may not sum up due to rounding.

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	1,394	1,156	3,872	4,532	5,049
Trade and bills receivable	1,087	873	1,548	976	1,601
Inventory	2,855	2,919	2,934	3,059	2,958
ST Biological assets	1,343	1,149	1,187	1,295	1,308
Others	1,330	1,217	1,189	1,189	1,237
Total current assets	8,009	7,314	10,730	11,052	12,153
PP&E	6,536	6,602	6,769	6,828	6,938
LT Biological assets	201	214	228	243	249
Goodwill	1,992	2,043	2,043	2,043	2,043
Intangible assets	1,717	1,707	1,766	1,797	1,857
Interest in JV and associates	252	224	237	251	266
Others	1,148	1,075	1,245	1,291	1,268
Total non-current assets	11,846	11,865	12,287	12,452	12,620
Total assets	19,855	19,179	23,018	23,504	24,774
Trade and bills payable	1,395	1,240	1,535	1,296	1,501
ST borrowings & bank overdrafts	862	1,106	1,007	897	852
Accrued expenses and other payables	2,513	2,150	2,762	2,554	2,414
Others	215	162	258	227	281
Total current liabilities	4,985	4,658	5,562	4,974	5,049
LT Borrowings	2,504	2,122	2,090	2,061	2,000
Others	1,954	1,824	3,628	3,259	2,928
Total non-current liabilities	4,458	3,946	5,719	5,321	4,928
Shareholders' equity	9,600	9,831	10,549	11,512	12,543
Minority interest	812	744	1,188	1,698	2,254
Total equity	10,412	10,575	11,737	13,209	14,797
Total liabilities and equity	19,855	19,179	23,018	23,504	24,774

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Pretax profit	2,132	1,057	2,074	2,378	2,602
Depreciation and amortization	802	779	861	739	781
Change in working capital	(665)	(157)	157	(113)	(555)
Others	(466)	(62)	(172)	(517)	(722)
Cash flow from operating activities	1,803	1,617	2,920	2,487	2,105
Change in PP&E	(913)	(576)	(791)	(792)	(1,205)
Others	563	(87)	1,688	185	870
Cash flow from investing activities	(350)	(663)	898	(607)	(335)
Change in borrowings	(605)	(140)	(131)	(139)	(107)
Others	(937)	(1,035)	(857)	(981)	(1,087)
Cash flow from financing activities	(1,542)	(1,175)	(988)	(1,120)	(1,194)
Net change in cash	(89)	(221)	2,830	760	577
Forex effect	(73)	(17)	(114)	(100)	(59)
Cash at the end of FY	1,394	1,156	3,872	4,532	5,049

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	3.1	(6.8)	4.0	2.0	1.1
- Packaged meat	5.4	(7.1)	4.0	4.8	2.9
- Pork	(1.4)	(8.4)	3.6	(1.8)	(1.7)
Gross profit	4.8	(13.7)	12.8	4.4	2.3
Operating profit	6.5	(29.7)	43.7	7.9	5.5
Net profit (to owners of the company)	28.3	(54.1)	92.3	14.6	9.4
Profitability ratios (%)					
GPM	17.5	16.2	17.6	18.0	18.2
OPM	7.4	5.6	7.8	8.2	8.6
- Packaged meat	14.2	15.2	15.2	15.2	15.2
- Pork	0.3	(4.4)	(0.2)	0.2	0.5
Pretax margin	7.8	3.9	6.0	7.0	7.3
NPM (to owners of the company)	4.9	2.4	4.4	5.0	5.4
Revenue contribution (%)					
Packaged meat	51.7	51.5	51.5	53.0	53.9
Fresh pork	41.9	41.2	41.0	39.5	38.5
Hog production	6.3	7.3	7.4	7.5	7.6
Return ratios (%)					
ROAA	8.4	4.4	7.8	8.2	8.6
ROAE	14.9	6.5	11.9	12.6	12.6
Liquidity ratio (x)					
Current ratio	1.6	1.6	1.9	2.2	2.4
Quick ratio	0.8	0.7	1.2	1.3	1.6
Cash ratio	0.3	0.3	0.7	0.9	1.0
Cash conversion cycle (days)					
Days of outstanding receivable	14	14	16	16	17
Days of inventory on hand	44	50	48	49	49
Days of outstanding payable	20	23	23	23	23
CCC	37	41	42	42	43
Leverage ratios (%)					
Total debt/Equity	32.3	30.5	26.4	22.4	19.3
Total debt/Total assets	17.0	16.8	13.5	12.6	11.5

Note: 1) Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj. 2) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork; 3) Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (HSI total return index 2005-23 averaged at 7.4%)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2024 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2147 8863**