



Shuanghui Development (000895 CH)

Strong profit and EPS growth ahead

- Low pork price negatively impacted the FY21 performance; overall revenue declined by 9.7% YoY and fresh meat product revenue declined by 19.0% YoY; higher SG&A/revenue ratio impacted OPM/NPM
- COVID resurgence to weigh on growth in FY22E as household income and social mobility are disrupted; the low pork price would also exert downward pressure on growth
- Expect overall margin profile to improve on low pork price, the Group's improving product pricing capability, and better operating efficiency in FY22E; in FY22E, net profit (to shareholders of the Company) and basic EPS would both grow by 33.1% YoY
- Maintain **BUY**; current TP implies 19.37x/18.18x 22E/23E PE, or 5.20x/4.92x 22E/23E PB

COVID resurgence to weigh on revenue growth. FY21 revenue declined by 9.7% YoY. Fresh meat product revenue dropped 19.0% YoY due to the low pork price; meanwhile packaged meat product revenue was down 2.7% YoY. Despite the propensity to fill up pantry amid social distancing measures during the recent COVID resurgence, we believe the disruption in household income growth and social mobility would weigh on short-term demand for meat products and ultimately the Group's overall growth performance. We expect overall and packaged meat revenue to go up 1.8% YoY and 4.2% YoY for FY22E. Revenue of fresh meat products would decline by 0.1% mainly due to the low pork price. FY23E/24E overall revenue growth would bounce back to 10.5%/12.9% YoY, as we expect normalization of demand. FY21-24E revenue CAGR is expected to be 8.3%.

FY22E basic EPS to grow by 33.1% YoY. FY21 GPM declined to 15.5%. GPM of packaged meat product remained relatively stable while that of fresh meat products declined. The lower GPM and higher SG&A/revenue ratio had impacted OPM, which was down by 0.9ppt to 8.9%. We expect the Group's pricing capability to improve and the relatively low pork prices would provide more cost buffer against other potential raw material cost increase. Despite that COVID resurgence will result in higher operating costs, especially S&D expenses, we expect higher operating efficacy to enable improvements in OPM and NPM (to shareholders of the Company). We project GPM, OPM, and NPM (to shareholders of the Company) to reach 16.9%, 10.4%, and 9.5% for FY22E and stabilize to 16.2%, 9.9%, and 8.9% for FY24E; in FY22E, net profit (to shareholders of the Company) and basic EPS would grow by 33.1% YoY, respectively.

Maintain BUY; TP at RMB 36.2. Maintain **BUY** on the strong profit and basic EPS growth in FY22E. We lower our DCF-derived TP as the revenue and profitability levels were revised down. Current TP represents 19.37x/18.18x 22E/23E PE, or 5.20x/4.92x 22E/23E PB.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Rising raw material costs; 4) Regulatory/policy risk; 5) Product quality/safety risk; 6) Risk of changing consumer tastes; 7) Fluctuations in EPS and DPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	73,935	66,798	68,011	75,122	84,843
Chg (% YoY)	22.5	(9.7)	1.8	10.5	12.9
Net Profit (to shareholders of the Company) (RMB mn)	6,256	4,866	6,475	6,899	7,543
Chg (% YoY)	15.0	(22.2)	33.1	6.6	9.3
Basic EPS (RMB)	1.86	1.40	1.87	1.99	2.18
Chg (% YoY)	13.8	(24.7)	33.1	6.6	9.3
P/E (x)	15.44	20.49	15.40	14.45	13.22
BVPS (RMB)	6.86	6.58	6.96	7.36	7.79
P/B (x)	4.20	4.37	4.14	3.91	3.69
DPS (RMB)	2.32	1.30	1.50	1.59	1.74
Yield (%)	8.1	4.5	5.2	5.5	6.1
ROAA (%)	20.1	14.2	19.2	19.2	19.5
ROAE (%)	31.1	20.9	27.6	27.8	28.7

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

Company Report

Apr 11, 2022

Rating: **BUY**

TP: RMB 36.2

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Share price (RMB)	28.78
52Wk H/L (RMB)	40.45/23.5
Est. share price return	25.8%
Est. dividend yield	5.2%
Est. total return	31.0%
Previous rating & TP	BUY; RMB 44.8
Previous report date	Apr 16, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	99.71
3-mth ADT (RMB mn)	372.4

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.10

Source(s): Bloomberg, The Group, ABCI Securities

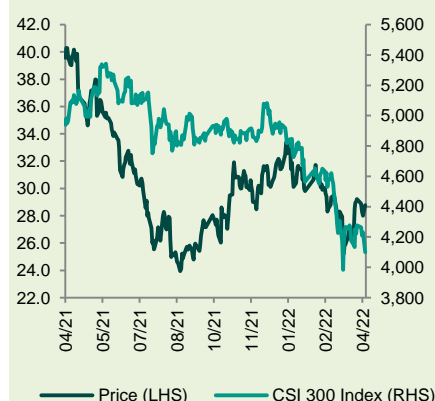
Price Performance (%)

	Absolute	Relative*
1-mth	1.70	6.46
3-mth	(8.40)	6.12
6-mth	4.46	21.31

* 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 11, 2022



Exhibit 1: Change in assumptions, projections, and valuations

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FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	9.4	9.1	10.2	10.8	Adjusted based on FY21 rates
D/A (%)	6.5	6.2	8.1	7.6	
Tax rate (%)	20.5	20.5	20.2	19.9	
Valuations					
TP (RMB)	36.2		44.8		TP and valuation change due to revised revenue and profit projections; rollover of forecasts
P/E (x)	19.37	18.18	18.79	16.12	
P/B (x)	5.20	4.92	5.47	4.97	

Note: Previous report was published on Apr 16, 2021

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue (RMB mn)	68,011	75,122	85,576	91,800	(20.5)	(18.2)
Net profit (to owners of the Company) (RMB mn)	6,475	6,899	8,262	9,634	(21.6)	(28.4)
EPS (RMB)	1.87	1.99	2.38	2.78	(21.5)	(28.4)

Source(s): ABCI Securities estimates



Financial statements

Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	73,935	66,798	68,011	75,122	84,843
Core revenue	73,863	66,682	67,943	75,047	84,759
- Packaged meat products	28,098	27,351	28,506	29,525	30,828
- Fresh meat products	48,267	39,073	39,019	45,317	53,389
- Other products	5,199	6,307	7,138	8,013	8,973
- Intersegment elimination	(7,702)	(6,049)	(6,721)	(7,808)	(8,432)
Interest income	73	115	68	75	85
Commission and processing income	0	0	0	0	0
COGS	(62,157)	(56,469)	(56,520)	(62,670)	(71,129)
GP	11,778	10,329	11,491	12,451	13,714
Core GP	11,733	10,237	11,476	12,421	13,715
- Packaged pork product	8,045	7,827	8,201	8,528	9,032
- Fresh pork	3,098	1,979	2,700	3,199	3,909
- Other products	590	430	639	718	809
- Intersegment elimination	0	0	(64)	(25)	(36)
GP of interest income	46	92	16	31	0
GP of Commission and processing income	(0)	(1)	(0)	(0)	(1)
Business levy and taxes	(341)	(307)	(313)	(346)	(390)
S&D expenses	(1,645)	(1,874)	(1,819)	(1,964)	(2,160)
Admin expenses	(1,392)	(1,082)	(1,095)	(1,200)	(1,356)
Others expenses	(1,146)	(1,126)	(1,185)	(1,311)	(1,411)
Operating profit	7,255	5,940	7,078	7,631	8,397
- Packaged pork product	5,755	5,807	6,174	6,330	6,544
- Fresh pork	1,581	93	925	1,063	1,240
- Other products	5	40	48	55	60
Net finance income/(costs)	(33)	11	4	9	1
Others gain/(losses)	751	265	1,280	1,240	1,308
Pretax profit	7,973	6,216	8,362	8,880	9,705
Tax	(1,603)	(1,332)	(1,716)	(1,823)	(1,992)
Net profit	6,370	4,884	6,646	7,058	7,713
- Owners of the company	6,256	4,866	6,475	6,899	7,543
- Minority interest	114	18	171	158	170
Dividend	8,038	4,497	5,180	5,520	6,035
EPS (RMB)					
- Basic	1.86	1.40	1.87	1.99	2.18
- Diluted	1.86	1.40	1.87	1.99	2.18
DPS (RMB)	2.32	1.30	1.50	1.59	1.74

Note: items may not sum up due to rounding

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	8,486	7,839	7,574	8,110	7,956
Trade and bills receivable	281	233	229	285	309
Inventories	6,378	5,669	6,816	7,391	8,213
Others	6,930	3,779	2,877	3,064	3,177
Current assets	22,074	17,520	17,496	18,850	19,655
PP&E	10,304	10,835	11,614	12,033	12,572
Construction in progress	323	3,097	3,658	4,571	5,497
Biological assets	148	186	192	193	197
Intangible assets	1,027	1,067	1,105	1,141	1,179
Others	828	1,272	1,346	1,447	1,680
Non-current assets	12,630	16,457	17,915	19,385	21,124
Total assets	34,704	33,977	35,411	38,235	40,780
Trade and bills payable	1,712	2,144	2,235	2,458	2,892
ST borrowings	2,384	2,351	2,305	2,368	2,435
Others	5,899	5,479	5,459	6,293	6,801
Current liabilities	9,995	9,974	10,000	11,119	12,128
LT borrowings	15	13	12	13	13
Deferred tax liabilities	203	267	194	352	197
Others	358	573	589	598	608
Non-current liabilities	576	853	795	962	819
Shareholders' equity	23,763	22,809	24,104	25,484	26,992
Minority interest	370	341	512	670	840
Total equity	24,133	23,150	24,616	26,154	27,832
Total liabilities and equity	34,704	33,977	35,411	38,235	40,780

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	6,370	4,884	6,646	7,058	7,713
Depreciation and amortization	980	1,047	1,124	1,196	1,295
Change in working capital	945	1,300	(1,176)	(241)	(612)
Others	527	(1,197)	748	935	1,074
Cash flow from operating activities	8,822	6,034	7,342	8,947	9,470
Change in PP&E	(1,137)	(3,919)	(1,796)	(1,291)	(1,453)
Change in investments related items	(2,797)	3,326	(1,561)	(1,741)	(2,317)
Others	282	0	0	0	0
Cash flow from investing activities	(3,652)	(592)	(3,357)	(3,032)	(3,770)
Change in bank borrowing	(720)	76	(46)	63	68
Others	532	(6,078)	(4,603)	(5,524)	(5,874)
Cash flow from financing activities	(188)	(6,002)	(4,650)	(5,460)	(5,806)
Net change in cash and cash equivalent	4,982	(560)	(665)	455	(106)
ForEx effect	2	4	2	2	2
Cash and cash equivalent at the end of FY	8,130	7,574	6,911	7,368	7,265

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (YoY %)					
Revenue	22.5	(9.7)	1.8	10.5	12.9
Core revenue	22.5	(9.7)	1.9	10.5	12.9
- Packaged meat products	11.7	(2.7)	4.2	3.6	4.4
- Fresh meat products	23.4	(19.0)	(0.1)	16.1	17.8
- Other products	52.0	21.3	13.2	12.3	12.0
GP	4.1	(12.3)	11.3	8.4	10.1
EBIT	20.0	(16.6)	18.1	8.3	9.8
EBITDA	8.8	(15.2)	17.3	7.5	9.5
Pretax Profit	16.6	(22.0)	34.5	6.2	9.3
Net profit (to owners of the company)	15.0	(22.2)	33.1	6.6	9.3
Profitability ratios (%)					
GPM	15.9	15.5	16.9	16.6	16.2
Core GPM	15.9	15.4	16.9	16.6	16.2
- Packaged meat products	28.6	28.6	28.8	28.9	29.3
- Fresh meat products	6.4	5.1	6.9	7.1	7.3
- Other products	11.3	6.8	8.9	9.0	9.0
OPM	9.8	8.9	10.4	10.2	9.9
EBITDA margin	11.1	10.4	12.0	11.7	11.3
Pretax margin	10.8	9.3	12.3	11.8	11.4
NPM (to owners of the company)	8.5	7.3	9.5	9.2	8.9
Return ratios (%)					
ROAA	20.1	14.2	19.2	19.2	19.5
ROAE	31.1	20.9	27.6	27.8	28.7
Liquidity ratio (x)					
Current ratio	2.2	1.8	1.7	1.7	1.6
Quick ratio	1.6	1.2	1.1	1.0	0.9
Cash ratio	0.8	0.8	0.8	0.7	0.7
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	45	39	40	41	40
Days of outstanding payable	14	13	14	13	13
CCC	31	28	28	29	28
Leverage ratios (%)					
Total debt/Total equity	9.9	10.2	9.4	9.1	8.8
Total debt/Total assets	6.9	7.0	6.5	6.2	6.0
Net cash (debt) /Total equity	25.2	23.7	21.4	21.9	19.8
Net cash (debt) /Total assets	17.5	16.1	14.8	15.0	13.5

Source(s): The Group, ABCI Securities estimates



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

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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