



Shuanghui (000895 CH)

Maintain BUY on recovering revenue growth momentum

- Further recovery in revenue growth as we expect pork prices to see more upward pressure in 4Q22 & FY23E and COVID restrictions to lessen in 2023
- Margin profile stabilizing in 4Q22 and improvement to ensue in FY23E
- Maintain **BUY**; TP implies 19.57x/17.45x 22E/23E P/E, or 5.18x/4.89x 22E/23E P/B

Revenue growth recovery to continue. 3Q22 revenue grew 3.4%; revenue of packaged meat declined 2.1% YoY while that of fresh meat segment increased 2.0% YoY. Overall external sales volume in 9M22 declined 4.89%, indicating 3Q22 overall external sales volume was down 5.5% YoY. 3Q22 results indicate a weak consumer market induced by the social-distancing measures in China, which we expect will continue to impact performance in 4Q22 and early 2023, though recent increases in pork prices would boost pricing ability. We project FY22E revenue to decline 7.9% YoY compared to 1.8% YoY growth forecast in previous report as we expect 1.7% YoY decline for the packaged meat segment and 16.4% YoY decline for the fresh meat segment. In 4Q22, total revenue would grow 7.2% YoY, and the net revenue of packaged meat and fresh meat segment would increase 1.6% YoY and 5.9% YoY. Revenue growth momentum is expected to pick up further in FY23E assuming a stronger consumer market and lessening COVID-related restrictions. FY21-24E revenue CAGR would be 2.5%.

4Q22 margins to remain stable. In 3Q22, GPM, OPM, and NPM (to shareholders of the Company) were 15.8%, 10.1%, and 8.0% vs. 17.1%, 10.9%, and 9.0% in 2Q22. We believe the lower GPM is mainly caused by increasing pork prices since end-1H22. Operating environment remains challenging in the short term since pork prices are likely to remain high and COVID measures will remain in place, but we expect conditions would improve in FY23E. We project GPM, OPM, and NPM (to shareholders of the Company) to be 16.8%, 11.0%, and 8.8% in FY22E and 17.1%, 11.1%, and 8.7% in FY24E; in 4Q22 GPM, OPM, and NPM (to shareholders of the Company) to be 15.8%, 10.0% and 8.1%.

Maintain BUY; TP at RMB 30.7. Maintain **BUY** on the expected recovery in revenue growth. Our projected basic EPS is expected to grow by 11.7% YoY in FY22E and 12.1% YoY in FY23E. We lower our DCF-derived TP due to lower revenue and profit projections. Current TP represents 19.57x/17.45x 22E/23E P/E, or 5.18x/4.89x 22E/23E P/B.

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	61,532	67,138	71,973
Chg (% YoY)	22.5	(9.7)	(7.9)	9.1	7.2
Net Profit (to shareholders of the Company) (RMB mn)	6,256	4,866	5,436	6,097	6,290
Chg (% YoY)	15.0	(22.2)	11.7	12.1	3.2
Basic EPS (RMB)	1.86	1.40	1.57	1.76	1.82
Chg (% YoY)	13.8	(24.7)	11.7	12.1	3.2
P/E (x)	13.10	17.40	15.57	13.88	13.46
BVPS (RMB)	6.9	6.6	5.9	6.3	6.6
P/B (x)	3.56	3.71	4.12	3.89	3.68
DPS (RMB)	2.32	1.30	1.26	1.41	1.45
Yield (%)	9.5	5.3	5.1	5.8	5.9
ROAA (%)	20.1	14.2	15.1	15.8	16.7
ROAE (%)	31.1	20.9	25.1	28.8	28.1

Source(s): The Group, ABCI Securities estimates

Company Report

Nov 7, 2022

Rating: **BUY**

TP: RMB 30.7

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Share price (RMB)	24.43
52Wk H/L (RMB)	33.9/22.65
Est. share price return	25.7%
Est. dividend yield	5.1%
Est. total return	30.8%
Previous rating & TP	BUY; RMB 33.1
Previous report date	Aug 25, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	84.64
3-mth ADT (RMB mn)	244.47

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.26

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

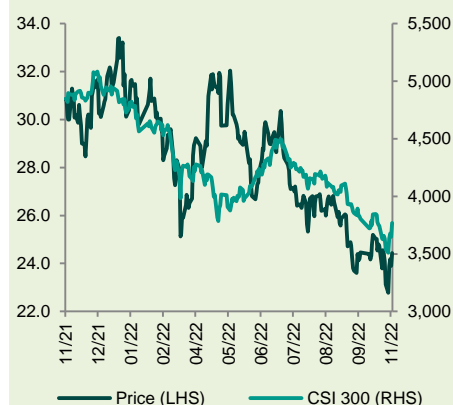
Price Performance (%)

	Absolute	Relative*
1-mth	0.16	(1.08)
3-mth	(5.49)	2.66
6-mth	(17.91)	(11.85)

* 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 Nov 4, 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 (%)	44.1	35.2	15.7	14.0	Adjusted based on 3Q22 company release
D/A (%)	23.4	19.8	10.0	9.2	
Tax rate (%)	20.4	20.2	20.5	20.5	
Valuations					
TP (RMB)	30.7		33.1		Lower TP due to lower profit and revenue projections
P/E (x)	19.57	17.45	17.59	16.93	
P/B (x)	5.18	4.89	5.29	4.98	

Note: Previous report was published on Aug 25, 2022

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (RMB mn)	61,532	67,138	71,973	67,998	74,289	82,368	(9.5)	(9.6)	(12.6)
Net profit (to shareholders of the Company) (RMB mn)	5,436	6,097	6,290	6,520	6,775	7,349	(16.6)	(10.0)	(14.4)
EPS (RMB)	1.57	1.76	1.82	1.88	1.96	2.12	(16.6)	(10.0)	(14.4)

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	61,532	67,138	71,973
Core revenue	73,863	66,682	61,394	66,987	71,812
- Packaged meat products	28,098	27,351	26,897	31,354	32,961
- Fresh meat products	48,267	39,073	32,684	34,076	36,756
- Other products	5,199	6,307	6,803	7,366	8,027
- Intersegment elimination	(7,702)	(6,049)	(4,991)	(5,808)	(5,932)
Interest income	73	115	138	151	161
Commission and processing income	0	0	0	0	0
COGS	(62,157)	(56,469)	(51,182)	(55,479)	(59,685)
GP	11,778	10,329	10,350	11,658	12,288
Core GP	11,733	10,237	10,248	11,541	12,161
- Packaged pork product	8,045	7,827	8,186	9,362	9,732
- Fresh pork	3,098	1,979	1,657	1,740	1,866
- Other products	590	430	405	439	563
- Intersegment elimination	0	0	0	0	0
GP of interest income	46	92	103	118	128
GP of Commission and processing income	(0)	(1)	(1)	(1)	(1)
Business levy and taxes	(341)	(307)	(293)	(309)	(331)
S&D expenses	(1,645)	(1,874)	(1,960)	(2,136)	(2,314)
Admin expenses	(1,392)	(1,082)	(1,176)	(1,296)	(1,389)
Others expenses	(927)	(1,035)	(157)	(301)	(252)
Operating profit	7,473	6,032	6,765	7,617	8,002
- Packaged pork product	5,755	5,807	6,229	7,099	7,458
- Fresh pork	1,581	93	683	694	736
- Other products	51	132	(147)	(176)	(192)
- Intersegment elimination	87	0	0	0	0
Net finance income/(costs)	(33)	11	4	9	1
Others gain/(losses)	532	174	221	192	76
Pretax profit	7,973	6,216	6,990	7,818	8,079
Tax	(1,603)	(1,332)	(1,429)	(1,578)	(1,641)
Net profit	6,370	4,884	5,562	6,240	6,438
- Owners of the company	6,256	4,866	5,436	6,097	6,290
- Minority interest	114	18	125	143	148
Dividend	8,038	4,497	4,349	4,877	5,032
EPS (RMB)					
- Basic	1.86	1.40	1.57	1.76	1.82
- Diluted	1.86	1.40	1.57	1.76	1.82
DPS (RMB)	2.32	1.30	1.26	1.41	1.45

Note: items may not sum up due to rounding

Source(s): The Group, 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	8,825	8,787	5,233
Trade and bills receivable	281	233	307	206	317
Inventories	6,378	5,669	6,816	5,818	6,367
Others	6,930	3,779	4,772	4,108	3,828
Current assets	22,074	17,520	20,719	18,919	15,745
PP&E & CIP	10,627	13,933	16,352	18,288	19,009
Biological assets	148	186	211	234	242
Intangible assets	1,027	1,067	1,171	1,248	1,332
Others	828	1,272	999	1,081	1,112
Non-current assets	12,630	16,457	18,733	20,852	21,695
Total assets	34,704	33,977	39,453	39,771	37,440
Trade and bills payable	1,712	2,144	2,933	2,598	3,153
ST borrowings	2,383	2,338	9,149	7,776	3,422
Others	5,900	5,493	5,606	6,173	6,209
Current liabilities	9,995	9,974	17,688	16,548	12,783
LT borrowings	15	13	12	11	11
Lease liabilities	0	216	281	316	326
Others	561	625	504	566	583
Non-current liabilities	576	853	797	892	921
Shareholders' equity	23,763	22,809	20,530	21,749	23,007
Minority interest	370	341	438	581	729
Total equity	24,133	23,150	20,968	22,330	23,736
Total liabilities and equity	34,704	33,977	39,453	39,771	37,440

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	5,562	6,240	6,438
Depreciation and amortization	980	1,047	1,124	1,196	1,295
Change in working capital	876	(1,372)	(1,240)	(552)	(940)
Others	596	1,476	125	486	536
Cash flow from operating activities	8,822	6,034	5,570	7,370	7,328
Change in PP&E, intangible assets, and other long-term assets	(1,137)	(3,919)	(4,006)	(1,636)	(1,362)
Change in investments related items	(2,797)	3,326	(477)	(204)	504
Others	282	0	0	0	0
Cash flow from investing activities	(3,652)	(592)	(4,483)	(1,840)	(859)
Change in bank borrowing	(720)	76	6,876	(1,375)	(4,357)
Others	532	(6,078)	(7,048)	(4,177)	(5,546)
Cash flow from financing activities	(188)	(6,002)	(173)	(5,552)	(9,904)
ForEx effect	2	4	3	3	2
Net change in cash and cash equivalent	4,984	(556)	916	(18)	(3,432)
Cash and cash equivalent at the end of FY	8,130	7,574	8,490	8,472	5,040

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)	(7.9)	9.1	7.2
Core revenue	22.5	(9.7)	(7.9)	9.1	7.2
- Packaged meat products	11.7	(2.7)	(1.7)	16.6	5.1
- Fresh meat products	23.4	(19.0)	(16.4)	4.3	7.9
- Other products	52.0	21.3	7.9	8.3	9.0
GP	4.1	(12.3)	0.2	12.6	5.4
EBIT	13.4	(19.3)	12.2	12.6	5.1
Pretax Profit	16.6	(22.0)	12.5	11.8	3.3
Net profit (to owners of the company)	15.0	(22.2)	11.7	12.1	3.2
Profitability ratios (%)					
GPM	15.9	15.5	16.8	17.4	17.1
Core GPM	15.9	15.4	16.7	17.2	16.9
- Packaged meat products	28.6	28.6	30.4	29.9	29.5
- Fresh meat products	6.4	5.1	5.1	5.1	5.1
- Other products	11.3	6.8	5.9	6.0	7.0
OPM	10.1	9.0	11.0	11.3	11.1
Pretax margin	10.8	9.3	11.4	11.6	11.2
NPM (to owners of the company)	8.5	7.3	8.8	9.1	8.7
Return ratios (%)					
ROAA	20.1	14.2	15.1	15.8	16.7
ROAE	31.1	20.9	25.1	28.8	28.1
Liquidity ratio (x)					
Current ratio	2.2	1.8	1.2	1.1	1.2
Quick ratio	1.6	1.2	0.8	0.8	0.7
Cash ratio	0.8	0.8	0.5	0.5	0.4
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	72	45	37	41	43
Days of outstanding payable	14	13	17	18	17
CCC	60	34	20	24	27
Leverage ratios (%)					
Total debt to Total equity	9.9	10.2	44.1	35.2	14.8
Total debt to Total assets	6.9	7.0	23.4	19.8	9.4
Net (cash)/debt to Total equity	(25.2)	(23.7)	2.0	(4.1)	(7.3)
Net (cash)/debt to Total assets	(17.5)	(16.1)	1.1	(2.3)	(4.6)

Note: items may not sum up due to rounding

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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