

## Shuanghui (000895 CH)

### Short-term pressure remains

- Growth momentum and margin improvement continue to hinge on the recovery in hog price and consumer market in the coming quarters; low hog price in the short term would pressure growth momentum and result in mixed performance in growth and margin profile
- Maintain **HOLD**; TP implies 16.2x/15.1x 24E/25E P/E, or 4.4x/3.8x 24E/25E P/B

**Pricing pressure to remain in the short-term.** Revenue decline by 8.9% YoY in 1Q24, reflecting the high-base effect resulted from the reopening in 1Q23 and the lingering low pork price. Revenue performance of different segments indicates downside pressure on pricing is more prominent in the fresh meat segment. According to the Group, it continues to expect hog price in China to pick up in 2H24E while overall FY24E average hog price would be at similar level to that of FY23. The continued decline of national sow inventory at of end-Mar 2024 and hogs slaughtered in Mar 2024 hints supply level is declining, which supports the Group's hog price outlook. We maintain that the bottoming out of hog price and the recovering consumer market would be the two major factors to simulate the Group's revenue growth, but short-term pricing pressure from the low hog price would pressure the Group's performance. We expect revenue growth in FY24E to reach 8.1% YoY and FY23-26E revenue CAGR is expected to reach 5.8%.

**Mixed margin performance in near term.** In 1Q24, on a YoY basis, the Group's GPM improved by 2.2ppt to 19.6% mainly on the low raw material costs, while OPM went up by 0.8ppt to 12.4% due to the increase in operating expenses relative to revenue. Based on the margin performance in 1Q24, we maintain that impairment resulted from the low pork price would impact the profitability in the short term; and current consumer market condition and the Group's efforts in expanding its points of sales would further increase SG&A expense ratios. We slightly lower our net profit projection mainly due to the increase in finance cost projections, as the Group's overall finance leverage increased by end-1Q24. We project GPM, OPM, and NPM (to shareholders of the Company) to reach 17.5%, 11.0%, and 9.0% in FY24E.

**Maintain HOLD; TP at RMB 27.3.** Maintain **HOLD** as we continue to expect short-term mixed performance in revenue and margins, which led to largely unchanged projections. We expect potential bottoming out of hog price and the recovering consumer market would be major triggers for turnaround. FY23-FY26E basic EPS CAGR is expected to be 8.9%. Our DCF-derived TP is unchanged as profit projection was lower by less than 1%. Current TP implies 16.2x/15.1x 24E/25E P/E, or 4.4x/3.8x 24E/25E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Low pork price remains for extended period; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes; 6) Fluctuations in EPS and DPS growth.

#### Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	62,731	60,097	64,988	67,796	71,181
Chg (% YoY)	(6.1)	(4.2)	8.1	4.3	5.0
Net Profit (to shareholders of the Company) (RMB mn)	5,621	5,053	5,840	6,255	6,535
Chg (% YoY)	15.5	(10.1)	15.6	7.1	4.5
Basic EPS (RMB)	1.62	1.46	1.69	1.81	1.89
Chg (% YoY)	15.5	(10.1)	15.6	7.1	4.5
P/E (x)	16.61	18.47	15.98	14.92	14.28
BVPS (RMB)	6.3	6.0	6.3	7.2	8.2
P/B (x)	4.27	4.48	4.31	3.73	3.29
DPS (RMB)	1.60	1.45	0.84	0.90	0.94
Yield (%)	5.9	5.4	3.1	3.4	3.5
ROAA (%)	16.2	14.0	15.2	15.0	14.7
ROAE (%)	25.2	23.7	27.5	26.8	24.5

Source(s): The Group, ABCI Securities estimates

## Company Report

May 2, 2024

Rating: **HOLD**

TP: **RMB 27.3**

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Share price (RMB)	26.94
52Wk H/L (RMB)	30.1/24.04
Est. share price return	1.3%
Est. dividend yield	3.1%
Est. total return	4.5%
Previous rating & TP	BUY; RMB 27.3
Previous report date	Apr 16, 2024

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	93.3
3-mth ADT (RMB mn)	416.6

Shareholding (%)	
Rotary Vortex	70.33

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

#### Price Performance (%)

	Absolute	Relative*
1-mth	2.6	0.7
3-mth	(4.5)	(13.6)
6-mth	3.2	2.6

\* 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 May 1, 2024

**Exhibit 1: Change in assumptions, projections, and valuations**

As of Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
<b>Assumptions</b>					
D/E (%)	41.0	30.3	30.1	22.3	Adjusted based on 1Q24 figures
D/A (%)	21.9	18.0	17.1	13.9	
Tax rate (%)	23.2	23.2	23.2	23.2	
<b>Valuations</b>					
TP (RMB)	27.3		27.3		TP stays the same mainly as net profit projection revised down by less than 1%
P/E (x)	16.2	15.1	16.2	15.1	
P/B (x)	4.4	3.8	4.4	3.8	

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

**Exhibit 2: Changes in major forecasts**

As of Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (RMB mn)	64,988	67,796	71,181	64,988	67,796	71,181	0.0	0.0	0.0
Net profit (to shareholders of the Company) (RMB mn)	5,840	6,255	6,535	5,844	6,260	6,542	(0.1)	(0.1)	(0.1)
EPS (RMB)	1.69	1.81	1.89	1.69	1.81	1.89	(0.1)	(0.1)	(0.1)

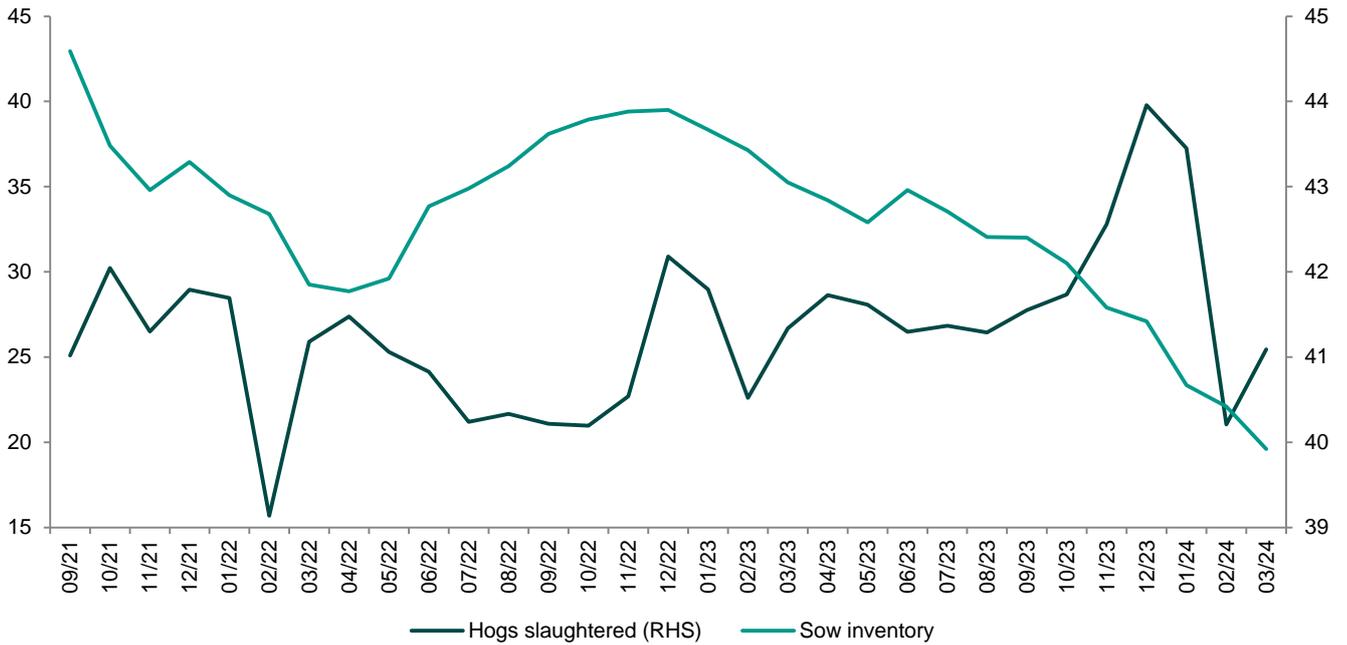
Source(s): ABCI Securities estimates

**Exhibit 3: Hog price in China (RMB/kg)**


Source(s): MOA, ABCI Securities



Exhibit 4: Hogs slaughtered and sow inventory in China (mn heads)



Source(s): MOA, NBS, ABCI Securities

Exhibit 5: Hog production volume and pork sales volume in China



Source(s): MOA, NBS, ABCI Securities

## Financial statements

### Consolidated income statement

As of Dec 31 (RMB mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>62,731</b>	<b>60,097</b>	<b>64,988</b>	<b>67,796</b>	<b>71,181</b>
<b>Core revenue</b>	<b>62,576</b>	<b>59,893</b>	<b>64,767</b>	<b>67,566</b>	<b>70,939</b>
- Packaged meat products	27,189	26,414	27,202	27,970	28,671
- Fresh meat products	33,464	30,970	33,776	34,558	35,375
- Other products	7,282	9,018	9,865	11,107	12,640
- Intersegment elimination	(5,358)	(6,510)	(6,075)	(6,070)	(5,746)
<b>Interest income</b>	<b>155</b>	<b>204</b>	<b>221</b>	<b>231</b>	<b>242</b>
<b>Commission and processing income*</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
COGS	(52,349)	(49,724)	(53,620)	(55,809)	(58,649)
<b>GP</b>	<b>10,382</b>	<b>10,373</b>	<b>11,368</b>	<b>11,987</b>	<b>12,532</b>
<b>Core GP</b>	<b>10,256</b>	<b>10,214</b>	<b>11,194</b>	<b>11,804</b>	<b>12,340</b>
- Packaged pork product	8,273	8,363	8,678	9,060	9,353
- Fresh pork	1,714	1,764	1,945	2,064	2,145
- Other products	269	86	571	679	874
- Intersegment elimination	0	0	0	0	(32)
<b>GP of interest income</b>	<b>126</b>	<b>160</b>	<b>175</b>	<b>184</b>	<b>193</b>
<b>GP of Commission and processing income</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(0)</b>	<b>(0)</b>
Business levy and taxes	(342)	(337)	(359)	(359)	(377)
S&D expenses	(1,927)	(1,914)	(2,094)	(2,198)	(2,330)
Admin expenses	(1,134)	(1,235)	(1,335)	(1,388)	(1,456)
Others expenses	(8)	(398)	(429)	(459)	(8,368)
<b>Operating profit</b>	<b>6,970</b>	<b>6,491</b>	<b>7,151</b>	<b>7,582</b>	<b>0</b>
- Packaged pork product	6,182	6,222	6,446	6,675	6,855
- Fresh pork	793	675	541	629	773
- Other products	(5)	(407)	164	278	287
- Intersegment elimination	0	0	0	0	0
Net finance income/(costs)	61	15	11	12	10
Others gain/(losses)	129	140	520	636	8,586
<b>Pretax profit</b>	<b>7,160</b>	<b>6,645</b>	<b>7,681</b>	<b>8,230</b>	<b>8,596</b>
Tax	(1,443)	(1,544)	(1,783)	(1,911)	(1,995)
<b>Net profit</b>	<b>5,717</b>	<b>5,102</b>	<b>5,899</b>	<b>6,319</b>	<b>6,601</b>
- Owners of the company	5,621	5,053	5,840	6,255	6,535
- Minority interest	96	49	59	152	152
<b>Dividend</b>	<b>5,543</b>	<b>5,024</b>	<b>2,920</b>	<b>3,127</b>	<b>3,268</b>
EPS (RMB)					
- Basic	1.62	1.46	1.69	1.81	1.89
- Diluted	1.62	1.46	1.69	1.81	1.89
<b>DPS (RMB)</b>	<b>1.60</b>	<b>1.45</b>	<b>0.84</b>	<b>0.90</b>	<b>0.94</b>

Note: items may not sum up due to rounding; commission and processing income are shown as 0 due to rounding.

Source(s): The Group, ABCI Securities estimates

**Consolidated balance sheet**

FY ends at Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	5,769	2,834	9,229	8,304	11,380
Trade and bills receivable	237	227	287	238	321
Inventories	6,121	8,267	6,466	9,041	7,234
Others	3,949	5,048	5,117	4,986	5,156
<b>Current assets</b>	<b>16,076</b>	<b>16,376</b>	<b>21,100</b>	<b>22,569</b>	<b>24,091</b>
PP&E & CIP	17,891	17,957	17,407	17,746	19,650
Biological assets	340	279	264	254	276
Intangible assets	1,224	1,283	1,332	1,388	1,437
Others	881	780	1,008	1,043	1,154
<b>Non-current assets</b>	<b>20,336</b>	<b>20,299</b>	<b>20,011</b>	<b>20,431</b>	<b>22,517</b>
<b>Total assets</b>	<b>36,412</b>	<b>36,675</b>	<b>41,112</b>	<b>42,999</b>	<b>46,608</b>
Trade and bills payable	3,919	3,736	3,682	3,962	3,827
ST borrowings	3,147	5,983	8,151	6,928	5,889
Others	6,435	4,296	5,712	5,123	6,323
<b>Current liabilities</b>	<b>13,501</b>	<b>14,015</b>	<b>17,545</b>	<b>16,014</b>	<b>16,039</b>
LT borrowings	12	962	808	743	721
Lease liabilities	207	210	331	338	376
Others	510	341	407	396	405
<b>Non-current liabilities</b>	<b>729</b>	<b>1,513</b>	<b>1,546</b>	<b>1,478</b>	<b>1,502</b>
Shareholders' equity	21,853	20,843	21,659	24,993	28,401
Minority interest	330	304	363	514	666
<b>Total equity</b>	<b>22,182</b>	<b>21,146</b>	<b>22,021</b>	<b>25,508</b>	<b>29,067</b>
<b>Total liabilities and equity</b>	<b>36,412</b>	<b>36,674</b>	<b>41,112</b>	<b>42,999</b>	<b>46,608</b>

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)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	5,717	5,102	5,899	6,319	6,601
Depreciation and amortization	1,294	1,563	1,252	1,076	944
Change in working capital	696	(3,931)	955	(4,061)	715
Others	(142)	654	224	216	353
<b>Cash flow from operating activities</b>	<b>7,565</b>	<b>3,388</b>	<b>8,329</b>	<b>3,550</b>	<b>8,613</b>
Change in PP&E, intangible assets, and other long-term assets	(3,384)	(2,389)	(1,082)	(1,059)	(2,529)
Change in investments related items	(24)	(739)	611	(35)	124
Others	(80)	(50)	0	0	(0)
<b>Cash flow from investing activities</b>	<b>(3,488)</b>	<b>(3,178)</b>	<b>(472)</b>	<b>(1,094)</b>	<b>(2,406)</b>
Change in bank borrowing	388	3,260	2,012	(1,289)	(1,063)
Others	(6,803)	(6,406)	(3,664)	(1,963)	(2,330)
<b>Cash flow from financing activities</b>	<b>(6,415)</b>	<b>(3,146)</b>	<b>(1,652)</b>	<b>(3,252)</b>	<b>(3,393)</b>
ForEx effect	1	4	3	3	4
<b>Net change in cash and cash equivalent</b>	<b>(2,337)</b>	<b>(2,932)</b>	<b>6,208</b>	<b>(793)</b>	<b>2,818</b>
<b>Cash and cash equivalent at the end of FY</b>	<b>5,236</b>	<b>2,304</b>	<b>8,512</b>	<b>7,719</b>	<b>10,537</b>

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	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY %)</b>					
Revenue	(6.1)	(4.2)	8.1	4.3	5.0
Core revenue	(6.2)	(4.3)	8.1	4.3	5.0
- Packaged meat products	(0.6)	(2.8)	3.0	2.8	2.5
- Fresh meat products	(14.4)	(7.5)	9.1	2.3	2.4
- Other products	15.4	23.9	9.4	12.6	13.8
GP	0.5	(0.1)	9.6	5.4	4.6
EBIT	15.6	(6.9)	10.2	6.0	4.4
Pretax Profit	15.2	(7.2)	15.6	7.1	4.5
Net profit (to owners of the company)	15.5	(10.1)	15.6	7.1	4.5
<b>Profitability ratios (%)</b>					
GPM	16.5	17.3	17.5	17.7	17.6
Core GPM	16.4	17.1	17.3	17.5	17.4
- Packaged meat products	30.4	31.7	31.9	32.4	32.6
- Fresh meat products	5.1	5.7	5.8	6.0	6.1
- Other products	3.7	1.0	5.8	6.1	6.9
OPM	11.1	10.8	11.0	11.2	0.0
Pretax margin	11.4	11.1	11.8	12.1	12.1
NPM (to owners of the company)	9.0	8.4	9.0	9.2	9.2
<b>Return ratios (%)</b>					
ROAA	16.2	14.0	15.2	15.0	14.7
ROAE	25.2	23.7	27.5	26.8	24.5
<b>Liquidity ratio (x)</b>					
Current ratio	1.2	1.2	1.2	1.4	1.5
Quick ratio	0.7	0.6	0.8	0.8	1.1
Cash ratio	0.4	0.2	0.5	0.5	0.7
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	35	46	51	57	55
Days of outstanding payable	21	27	26	24	25
CCC	15	21	27	34	32
<b>Leverage ratios (%)</b>					
Total debt to Total equity	14.6	33.2	41.0	30.3	22.9
Total debt to Total assets	8.9	19.1	21.9	18.0	14.3
Net (cash)/debt to Total equity	(11.4)	19.8	(0.9)	(2.2)	(16.2)
Net (cash)/debt to Total assets	(6.9)	11.4	(0.5)	(1.3)	(10.1)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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### 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.

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