WH Group (288 HK)
Defensive margin profile; maintain BUY

- Social distancing measures and low pork price in China would weigh on revenue growth in 2Q22, as suggested by the 1Q22 growth figures, but their impacts would be reduced in 2H22 as the pandemic situation would improve and pork price would recover
- The Group's ability to maintain higher cost efficiency and execute product mix optimization, post-pandemic demand recovery in China, and pricing level increase later this year would support FY22E margin improvement
- Maintain **BUY**; TP implies 7.90x/7.25x 22E/23E P/E, or 1.07x/0.97x 22E/23E P/B

Company Report
May 20, 2022
Rating: BUY
TP: HK$ 6.3

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FY22E revenue growth at 2.4% YoY. We expect overall 2Q22 revenue would see more downward pressure, after the 0.8% YoY decline in 1Q22; 2Q22 revenue growth would be negatively affected by prolonged social distancing measures and low pork price in China, as suggested by 2.8% YoY and 38.3% YoY decline in China region's packaged meat and pork segments' revenue in 1Q22; demand recovery and increase of pricing levels in US & Mexico region would partially offset such impacts, however. Looking forward, 2H22 revenue growth should perform better than 1H22 as we expect relaxation of social distancing measures in China region and pork price would increase. Based on 1Q22 results and our expectations, we maintain FY22E revenue growth at 2.4% YoY; FY22E revenue growth of packaged meat and fresh meat segment are at 4.2% YoY and 0.8% YoY; revenue in Apr-Dec 2022 is expected to grow by 3.4% YoY. FY21-24E revenue CAGR stays at 3.7%.

Margin expected to improve for FY22E. We believe the Group's ability to maintain higher cost efficiency and execute product mix optimization were the main reasons OPM rising from 7.6% in 1Q21 to 9.8% 1Q22 and NPM (to shareholders of the Company) rising from 7.7% in 1Q21 to 8.8% in 1Q22. Post-pandemic demand recovery in China and pricing level increase later this year would also help the Group to maintain margin improvement in FY22E. We maintain our previous margin projections. GPM, OPM, and NPM (to shareholders of the Company) are expected to be 18.7%, 7.7%, and 4.7% for FY22E and improve to 18.9%, 8.0%, and 4.8% for FY24E. Based on current forecasts, net profit (to shareholders of the Company) is expected to increase by 30.0% YoY in Apr-Dec 2022; NPM (to shareholders of the Company) would also increase to 3.4% in Apr-Dec 2022 vs. 2.7% in the same period last year.

Maintain BUY; TP at HK$ 6.3. We expect FY22E growth of net profit (to shareholders of the Company) and basic EPS to be at 22.0% YoY and 34.5% YoY. Maintain **BUY** on the ability to maintain strong profit and EPS growth. Our DCF-derived TP stays unchanged and represents 7.90x/7.25x 22E/23E P/E, or 1.07x/0.97x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak, 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer taste; 6) Rising raw material costs; 7) Foreign exchange risk; 8) Interest rate risk; 9) Leverage risk, 10) Fluctuations in EPS and DPS growth.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US$ mn)	25,589	27,293	27,936	29,138	30,470
Chg (%,YoY)	6.7	2.4	4.3	4.6	2.8
Net Profit (to shareholders of the Company) (US$ mn)	828	1,068	1,303	1,420	1,475
Chg (%,YoY)	(43.5)	29.0	22.0	9.0	3.9
Basic EPS (US cent)	5.62	7.55	10.16	11.07	11.50
Chg (% YoY)	(43.6)	34.3	34.5	9.0	3.9
P/E (x)	12.79	9.52	7.08	6.49	6.25
BVPS (US cent)	67.91	68.18	75.29	83.04	91.08
P/B (x)	1.06	1.05	0.95	0.87	0.79
DPS(HK$)	0.18	0.19	0.24	0.26	0.27
Yield (%)	3.1	3.4	4.2	4.6	4.8
ROAA (%)	6.2	6.8	8.1	8.3	8.1
ROAE (%)	8.9	11.4	14.2	14.0	13.2

Source(s): The Group, ABCI Securities estimates

Share price (HK$)	5.64
52Wk H/L(HK$)	7.54/4.28
Est. share price return	11.7%
Est. dividend yield	4.2%
Est. total return	15.9%
Previous Rating &TP	BUY; HK$6.3
Previous report date	Apr 11, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK$ bn)	72.49
3-mth ADT (HK$ mn)	151.5

Major shareholders	(%)
Wan Long	26.82

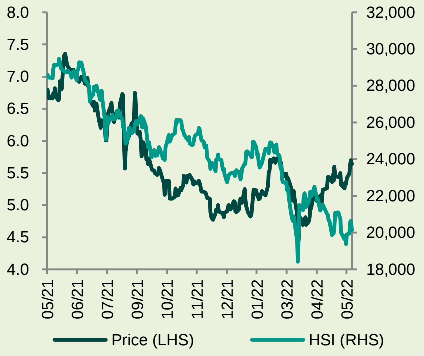
Source(s): Bloomberg, HKEx, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	7.22	11.54
3-mth	(1.57)	15.72
6-mth	8.25	27.93

* Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK$)



Source(s): Bloomberg, ABCI Securities

Note: Note: 1) All market data as of May 19, 2022; 2) Gross profit, operating profit, and related measures discussed are before biological adjustment; 3) Net profits and related measures refer to net profit after biological adjustment:4) USD/HKD: 7.8482

Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report FY22E	Current report FY23E	Previous report FY22E	Previous report FY23E	Rationale
Assumptions					
D/E (%)	33.2	26.8	33.2	26.8	
D/A (%)	17.8	15.1	17.8	15.1	N/A
Tax rate (%)	17.2	17.2	17.2	17.2	
Valuations					
TP (HK$)	6.3		6.3		
P/E (x)	7.90	7.25	7.91	7.26	Growth and profit forecasts are unchanged
P/B (x)	1.07	0.97	1.07	0.97	

Note: Previous report was published on Apr 11, 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 (US$ mn)	27,936	29,138	30,470	27,936	29,138	30,470	0.0	0.0	0.0
Net profit (to shareholders of the Company) (US$ mn)	1,303	1,420	1,475	1,303	1,420	1,475	0.0	0.0	0.0
EPS (US$ cent)	10.16	11.07	11.50	10.16	11.07	11.50	0.0	0.0	0.0

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

Financial Statements

Consolidated income statement

FY ends at Dec 31 (US$ mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**25,589**	**27,293**	**27,936**	**29,138**	**30,470**
- Packaged meats	12,167	13,808	14,394	14,792	15,168
- Pork	12,296	11,969	12,062	12,812	13,700
- Others	1,126	1,516	1,480	1,534	1,602
COGS	(20,563)	(22,297)	(22,604)	(23,516)	(24,582)
Gross profit	**5,026**	**4,996**	**5,332**	**5,622**	**5,888**
Distribution and selling expenses	(1,914)	(2,038)	(2,109)	(2,192)	(2,294)
Admin expenses	(874)	(803)	(824)	(855)	(887)
Biological adjustment	(720)	(248)	(109)	(117)	(129)
Others	211	59	(138)	(141)	(143)
Operating profit	**1,729**	**1,966**	**2,152**	**2,316**	**2,434**
- Packaged meat	1,499	1,895	1,918	2,027	2,104
- Pork	341	3	446	486	515
- Others	(111)	68	(212)	(196)	(185)
Net finance cost	(135)	(139)	(172)	(155)	(141)
Share of profits from JV and associates	16	34	36	38	39
Other gains/(losses)	(295)	(161)	(83)	(104)	(150)
Pretax profit	**1,315**	**1,700**	**1,933**	**2,096**	**2,182**
Tax	(223)	(402)	(333)	(360)	(375)
Net profit	**1,092**	**1,298**	**1,600**	**1,736**	**1,807**
- Profit attributable to shareholders	828	1,068	1,303	1,420	1,475
- Minority interest	264	230	297	316	332
EPS					
- Basic (US cent)	5.62	7.55	10.16	11.07	11.50
- Diluted (US cent)	5.60	7.55	9.82	10.70	11.12
DPS (HK cent)	**17.50**	**19.00**	**23.91**	**26.05**	**27.06**

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

FY ends at Dec 31 (US$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	1,599	1,556	1,051	1,538	2,254
Trade and bills receivable	915	1,064	1,020	1,252	1,270
Inventory	2,641	2,625	3,210	3,257	3,362
ST Biological assets	1,047	1,263	1,284	1,456	1,464
Others	1,632	1,114	1,800	2,107	2,253
Total current assets	**7,834**	**7,622**	**8,365**	**9,609**	**10,603**
PP&E	5,531	6,367	6,416	6,491	6,569
LT Biological assets	135	168	165	142	159
Goodwill	2,008	2,070	2,070	2,070	2,070
Intangible assets	1,762	1,757	1,760	1,763	1,766
Interest in JV and associates	354	253	274	297	322
Others	1,091	1,174	1,285	1,245	1,312
Total non-current assets	**10,881**	**11,789**	**11,970**	**12,007**	**12,197**
Total assets	**18,715**	**19,411**	**20,335**	**21,616**	**22,800**
Trade and bills payable	913	1,149	1,275	1,203	1,308
ST borrowings & bank overdrafts	796	874	788	713	647
Accrued expenses and other payables	2,136	2,371	2,371	2,424	2,489
Others	222	181	320	362	490
Total current liabilities	**4,067**	**4,575**	**4,754**	**4,702**	**4,934**
LT Borrowings	1,840	3,140	2,715	2,413	2,047
Others	1,823	2,009	1,970	2,295	2,248
Total non-current liabilities	**3,663**	**5,149**	**4,685**	**4,708**	**4,296**
Shareholders' equity	10,005	8,748	9,660	10,654	11,686
Minority interest	980	939	1,236	1,552	1,884
Total equity	**10,985**	**9,687**	**10,896**	**12,206**	**13,571**
Total liabilities and equity	**18,715**	**19,411**	**20,335**	**21,616**	**22,800**

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 (US$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	1,315	1,700	1,933	2,096	2,182
Depreciation and amortization	644	679	798	893	1,016
Change in working capital	507	(410)	(749)	(795)	(123)
Others	(109)	(147)	(36)	(7)	(48)
Cash flow from operating activities	**2,357**	**1,822**	**1,945**	**2,188**	**3,027**
Change in PP&E	(539)	(910)	(942)	(943)	(940)
Others	(424)	501	(503)	319	(403)
Cash flow from investing activities	**(963)**	**(409)**	**(1,445)**	**(624)**	**(1,343)**
Change in borrowings	(514)	1,242	(395)	(344)	(304)
Others	35	(2,675)	(719)	(795)	(810)
Cash flow from financing activities	**(479)**	**(1,433)**	**(1,114)**	**(1,139)**	**(1,114)**
Net change in cash	**915**	**(20)**	**(613)**	**425**	**570**
ForEx effect	86	23	(7)	29	19
Cash at the end of FY	**1,553**	**1,556**	**936**	**1,390**	**1,978**

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	6.2	6.7	2.4	4.3	4.6
- Packaged meat	(1.3)	13.5	4.2	2.8	2.5
- Pork	11.6	(2.7)	0.8	6.2	6.9
Gross profit	(8.2)	4.7	11.0	5.5	4.6
Operating profit	(14.9)	13.7	9.5	7.6	5.1
Net profit (to shareholders of the company)	(43.5)	29.0	22.0	9.0	3.9
Profitability ratios (%)					
GPM	17.6	17.2	18.7	18.9	18.9
OPM	6.8	7.2	7.7	7.9	8.0
- Packaged meat	12.3	13.7	13.3	13.7	13.9
- Pork	2.8	0.0	3.7	3.8	3.8
Pretax margin	5.9	6.1	6.6	6.8	6.7
NPM (to shareholders of the company)	3.2	3.9	4.7	4.9	4.8
Revenue contribution (%)					
Packaged meat	47.5	50.6	51.5	50.8	49.8
Fresh pork	48.1	43.9	43.2	44.0	45.0
Hog production	4.4	5.6	5.3	5.3	5.3
Return ratios (%)					
ROAA	6.2	6.8	8.1	8.3	8.1
ROAE	8.9	11.4	14.2	14.0	13.2
Liquidity ratio (x)					
Current ratio	1.9	1.7	1.8	2.0	2.1
Quick ratio	1.0	0.8	0.8	1.0	1.2
Cash ratio	0.4	0.3	0.2	0.3	0.5
Cash conversion cycle (days)					
Days of outstanding receivable	14	13	14	14	15
Days of inventory on hand	49	43	47	50	49
Days of outstanding payable	18	17	19	19	19
CCC	45	39	42	45	46
Leverage ratios (%)					
Total debt/Equity	24.4	41.4	33.2	26.8	21.9
Total debt/Total assets	14.3	20.7	17.8	15.1	13.0

Note: 1) Excluding measures relating to NP (to shareholders 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

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~10%)
Hold	- Market return rate (~-10%) ≤ 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 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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