

WH Group (288 HK) Better growth outlook in FY23E

- FY22 revenue growth declined due mainly to the pandemic in China; revenue growth to improve in FY23E on China's reopening and recovering momentum in consumer market
- Margin profile improved in FY22, but mixed margin performance is expected in FY23E
- Maintain **BUY**; TP implies 7.17x/6.77x 23E/24E P/E, or 0.96x/0.87x 23E/24E P/B

FY23E growth outlook to improve. FY22 revenue grew 3.1% YoY. Revenue of packaged meat segment went up 5.4% while pork segment revenue declined by 1.4% YoY. Regionally, the pandemic weigh on the overall growth in China and the country's revenue in packaged meat segment and pork segment declined 4.9% YoY and 17.2% YoY. We believe the post-pandemic recovery in China would be the major boost for the Group's revenue in FY23E, offsetting the impacts of macroeconomic headwinds overseas. As the pandemic ends and restrictions were lifted, we expect revenue growth to be 4.5% YoY for FY23E; packaged meat segment and pork segment would increase 4.5% YoY and 4.4% YoY; our projected revenue for FY23E/FY24E are up by 3.4%/5.4%. FY22-25E revenue CAGR is projected at 5.3%.

Mixed margin performance expected. In FY22, GPM, OPM, and NPM rose to 17.5%, 7.4%, and 5.0%. OPM of the packaged meat and pork segment increased to 14.2% and 0.3%. Higher margins were mainly due to the Group's ability to improve efficiency and product portfolio to offset higher raw material costs. The relatively low pork price in China, recovery of consumer market in China, product mix adjustment, and operational efficiency would help improve operating margin in FY23, but elimination of certain one-time non-operating gains (gain from disposal of assets at US\$ 414mn) in FY23E would result in stable NPM performance. We expect GPM, OPM, and NPM (to shareholders of the Company) to reach 18.0%, 7.5%, and 4.8% in FY23E. The higher revenue level projections and relatively stable margin performance result in increase of net profit projection in FY23E/24E by 15.8%/10.4%.

Maintain BUY; TP at HK\$ 6.2. The Group shows resilience in growth and profitability despite a tough year in FY22. Maintain **BUY**. We raise our DCF-derived TP (WACC: 8.3%; LT growth rate: 3.5%) due to the higher projected revenue and profit level and rollover of our forecast period. Current TP implies 7.17x/6.77x 23E/24E P/E, or 0.96x/0.87x 23E/24E P/B.

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

Results and Valuation

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	27,293	28,136	29,415	30,977	32,836
Chg (% YoY)	6.7	3.1	4.5	5.3	6.0
Net Profit (to shareholders of the Company) (US\$ mn)	1,068	1,370	1,413	1,496	1,607
Chg (% YoY)	29.0	28.3	3.2	5.8	7.4
Basic EPS (US cent)	7.55	10.68	11.02	11.66	12.52
Chg (% YoY)	34.3	41.4	3.2	5.8	7.4
P/E (x)	7.98	5.64	5.47	5.17	4.81
BVPS (US cent)	68.18	74.82	82.53	90.70	99.46
P/B (x)	0.88	0.81	0.73	0.66	0.61
DPS (HK\$ cent)	19.00	30.00	25.94	27.45	29.49
Yield (%)	4.0	6.3	5.5	5.8	6.2
ROAA (%)	6.8	8.4	8.0	7.9	8.0
ROAE (%)	11.4	14.9	14.0	13.5	13.2

Source(s): The Group, ABCI Securities estimates

Company Report

Apr 6, 2023

Rating: **BUY**

TP: **HK\$ 6.2**

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Share price (HK\$)	4.73
52Wk H/L (HK\$)	6.38/3.95
Est. share price return	31.1%
Est. dividend yield	5.5%
Est. total return	36.6%
Previous Rating & TP	BUY; HK\$5.9
Previous report date	Nov 4, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	60.69
3-mth ADT (HK\$ mn)	77.2

Major shareholders

Wan Long	(%)
	26.82

Source(s): Bloomberg, HKEx, ABCI Securities

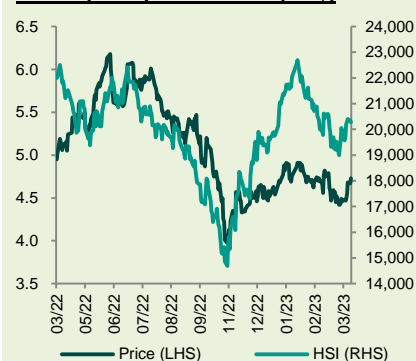
Sector Performance (%)

	Absolute	Relative*
1-mth	(0.42)	1.00
3-mth	1.50	0.86
6-mth	(2.87)	(21.58)

* 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 Apr 4, 2023; 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: 7.8494



Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY23E	FY24E	FY23E	FY24E	
Assumptions					
D/E (%)	26.8	23.3	29.6	24.1	Adjusted based on FY22 figures
D/A (%)	14.0	13.0	15.5	13.2	
Tax rate (%)	22.5	22.5	17.2	17.2	
Valuations					
TP (HK\$)	6.2		5.9		Raise TP due to higher revenue and profit projections and roll-over of forecast period
P/E (x)	7.17	6.77	7.90	7.11	
P/B (x)	0.96	0.87	0.98	0.85	

Note: 1) Previous report was published on Nov 4, 2022

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (US\$ mn)	29,415	30,977	32,836	28,458	29,400	N/A	3.4	5.4	N/A
Net profit (to owners of the Company) (US\$ mn)	1,413	1,496	1,607	1,220	1,355	N/A	15.8	10.4	N/A
EPS (US cent)	11.02	11.66	12.52	9.51	10.56	N/A	15.8	10.4	N/A

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	27,293	28,136	29,415	30,977	32,836
- Packaged meats	13,808	14,559	15,210	16,239	17,277
- Pork	11,969	11,797	12,312	12,723	13,437
- Others	1,516	1,780	1,893	2,015	2,122
COGS	(22,297)	(22,959)	(23,994)	(25,204)	(26,684)
Gross profit	4,996	5,177	5,421	5,773	6,151
Distribution and selling expenses	(2,038)	(2,082)	(2,248)	(2,361)	(2,493)
Admin expenses	(803)	(842)	(872)	(921)	(976)
Biological adjustment	(248)	(299)	(24)	(40)	14
Others	59	139	(71)	18	(7)
Operating profit	1,966	2,093	2,206	2,469	2,689
- Packaged meat	1,895	2,065	2,060	2,189	2,385
- Pork	3	30	192	312	340
- Others	68	(2)	(45)	(31)	(35)
Net finance cost	(139)	(169)	(140)	(133)	(130)
Share of profits from JV and associates	34	4	2	2	2
Other gains/(losses)	(161)	204	118	(19)	(72)
- Including: gain from disposal of assets	0	414	0	0	0
Pretax profit	1,700	2,132	2,186	2,319	2,488
Tax	(402)	(482)	(493)	(522)	(561)
Net profit	1,298	1,650	1,693	1,797	1,927
- Profit attributable to shareholders	1,068	1,370	1,413	1,496	1,607
- Minority interest	230	280	280	301	320
EPS					
- Basic (US cent)	7.55	10.68	11.02	11.66	12.52
- Diluted (US cent)	7.55	10.33	10.65	11.28	12.11
DPS (HK cent)	19.00	30.00	25.94	27.45	29.49

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalent	1,556	1,394	2,033	3,565	2,999
Trade and bills receivable	1,064	1,087	1,677	1,073	1,908
Inventory	2,625	2,855	3,552	3,285	3,674
ST Biological assets	1,263	1,343	1,573	1,616	1,744
Others	1,114	1,330	1,400	1,457	1,467
Total current assets	7,622	8,009	10,235	10,997	11,791
PP&E	6,367	6,536	6,580	6,880	7,216
LT Biological assets	168	201	153	175	203
Goodwill	2,070	1,992	1,992	1,992	1,992
Intangible assets	1,757	1,717	1,763	1,766	1,767
Interest in JV and associates	253	252	268	286	305
Others	1,174	1,148	1,276	1,301	1,370
Total non-current assets	11,789	11,846	12,033	12,400	12,854
Total assets	19,411	19,855	22,268	23,397	24,645
Trade and bills payable	1,149	1,395	1,202	1,335	1,419
ST borrowings & bank overdrafts	874	862	713	687	637
Accrued expenses and other payables	2,371	2,513	3,083	2,445	3,399
Others	181	215	220	280	250
Total current liabilities	4,575	4,985	5,218	4,746	5,704
LT Borrowings	3,140	2,504	2,413	2,347	2,247
Others	2,009	1,954	2,956	3,274	2,219
Total non-current liabilities	5,149	4,458	5,369	5,621	4,467
Shareholders' equity	8,748	9,600	10,589	11,636	12,761
Minority interest	939	812	1,092	1,392	1,713
Total equity	9,687	10,412	11,681	13,029	14,474
Total liabilities and equity	19,411	19,855	22,268	23,397	24,645

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)	FY21A	FY22E	FY23E	FY24E	FY25E
Pretax profit	1,700	2,132	2,186	2,319	2,488
Depreciation and amortization	679	757	885	962	887
Change in working capital	(410)	(282)	(1,262)	253	(354)
Others	(11)	(804)	(114)	(183)	237
Cash flow from operating activities	1,958	1,803	1,695	3,351	3,258
Change in PP&E	(910)	(1,003)	(890)	(1,057)	(1,192)
Others	501	653	946	265	(1,625)
Cash flow from investing activities	(409)	(350)	57	(792)	(2,817)
Change in borrowings	1,242	(648)	(240)	(92)	(150)
Others	(2,811)	(894)	(798)	(830)	(791)
Cash flow from financing activities	(1,569)	(1,542)	(1,038)	(922)	(941)
Net change in cash	(20)	(89)	714	1,637	(500)
ForEx effect	23	(73)	(74)	(105)	(66)
Cash at the end of FY	1,556	1,394	2,033	3,565	2,999

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	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY %)					
Revenue	6.7	3.1	4.5	5.3	6.0
- Packaged meat	13.5	5.4	4.5	6.8	6.4
- Pork	(2.7)	(1.4)	4.4	3.3	5.6
Gross profit	4.7	4.8	7.6	6.4	6.7
Operating profit	13.7	6.5	5.4	11.9	8.9
Net profit (to owners of the company)	29.0	28.3	3.2	5.8	7.4
Profitability ratios (%)					
GPM	17.2	17.5	18.0	18.2	18.3
OPM	7.2	7.4	7.5	8.0	8.2
- Packaged meat	13.7	14.2	13.5	13.5	13.8
- Pork	0.0	0.3	1.6	2.4	2.5
EBITDA margin	6.1	7.8	7.1	7.2	7.1
NPM (to owners of the company)	3.9	4.9	4.8	4.8	4.9
Revenue contribution (%)					
Packaged meat	50.6	51.7	51.7	52.4	52.6
Fresh pork	43.9	41.9	41.9	41.1	40.9
Hog production	5.6	6.3	6.4	6.5	6.5
Return ratios (%)					
ROAA	6.8	8.4	8.0	7.9	8.0
ROAE	11.4	14.9	14.0	13.5	13.2
Liquidity ratio (x)					
Current ratio	1.7	1.6	2.0	2.3	2.1
Quick ratio	0.8	0.8	1.0	1.3	1.1
Cash ratio	0.3	0.3	0.4	0.8	0.5
Cash conversion cycle (days)					
Days of outstanding receivable	13	14	17	16	16
Days of inventory on hand	43	44	49	50	48
Days of outstanding payable	17	20	19	19	19
CCC	39	37	47	47	45
Leverage ratios (%)					
Total debt/Equity	41.4	32.3	26.8	23.3	19.9
Total debt/Total assets	20.7	17.0	14.0	13.0	11.7

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

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim +9\%$)
Sell	Stock return $<$ - Market return ($\sim -9\%$)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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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