

Shuanghui (000895 CH)

Revenue growth to remain steady in FY23E

- 1H23 revenue grew 9.2% YoY though slowdown in 2Q23; the weak consumer market and the relatively low pork price will add uncertainty to the Group's overall revenue growth
- Margin profile deteriorated in 1H23 and 2Q23; we expect limited room for price improvement and demand-side pressure would weigh on overall FY23E margin
- Maintain **BUY**; TP implies 17.28x/14.66x 23E/24E P/E, or 4.06x/3.66x 23E/24E P/B

Revenue growth is expected to be 7.4% YoY in FY23E. 1H23 revenue growth was 9.2%YoY, with 2Q23 revenue growth slowing from 13.9% YoY in 1Q23 to 4.5% YoY in 2Q23. Revenue growth of different segments also decreased in 2Q23, with packaged meat and fresh pork segments increasing only 1.9% YoY and 8.8% YoY in 2Q23 (vs. 4.7% YoY and 14.8% YoY in 1Q23). Recovery in China's consumer market would continue to be challenged by the lackluster economy and pork price increase would be mild due to strong supply and persisting demand-side pressure. We expect the Group's revenue growth to be 7.4% YoY for FY23E; revenue of packaged meat and fresh pork segments would be 9.1% YoY and 6.0% YoY.

Room for margin improvement is limited in FY23E. 1H23 GPM, OPM, and NPM (to shareholders of the Company) were 17.5%, 11.5%, and 9.3%, compared to 18.1%, 12.1%, and 9.8% in 1H22. Margins deteriorated in 2Q23, with OPM and NPM (to shareholders of the Company) declining to 11.4% and 9.1% from 11.6% and 9.5% in 1Q23. Margins of the packaged meat segment dropped while those of the fresh pork segment improved. Consumer market recovery proves to be more challenging than expected and consumers may have turned more price-sensitive. In addition, the ample supply of hog in the market also limits hog price growth. We expect FY23E GPM, OPM, and NPM (to shareholders of the Company) to be 16.0%, 11.0%, and 8.4% vs. 16.9%, 11.4%, and 9.2% as previously projected.

Maintain BUY; TP at RMB 28.3. We expect the Group's revenue to maintain steady growth momentum, but margin improvement would be limited, resulting in lower DCF-derived TP. Maintain **BUY**. Current TP represents 17.28x/14.66x 23E/24E P/E, or 4.06x/3.66x 23E/24E P/B.

Risk factors: 1) Macroeconomic risk; 2) Fluctuating raw material costs; 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

FY ended Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	66,798	62,731	67,364	72,340	75,200
Chg (% YoY)	(9.7)	(6.1)	7.4	7.4	4.0
Net Profit (to shareholders of the Company) (RMB mn)	4,866	5,621	5,675	6,687	7,386
Chg (% YoY)	(22.2)	15.5	1.0	17.8	10.5
Basic EPS (RMB)	1.40	1.62	1.64	1.93	2.13
Chg (% YoY)	(24.7)	15.5	1.0	17.8	10.5
P/E (x)	18.27	15.82	15.67	13.29	12.04
BVPS (RMB)	6.6	6.3	7.0	7.7	8.6
P/B (x)	3.90	4.07	3.69	3.32	2.99
DPS (RMB)	1.30	1.00	0.98	1.16	1.28
Yield (%)	5.1	3.9	3.8	4.5	5.0
ROAA (%)	14.2	16.3	15.9	17.9	18.5
ROAE (%)	20.9	25.2	24.7	26.3	26.1

Source(s): The Group, ABCI Securities estimates

Company Report

Aug 16, 2023

Rating: **BUY**

TP: RMB 28.3

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Share price (RMB)	25.66
52Wk H/L(RMB)	27.36/22.65
Est. share price return	10.3%
Est. dividend yield	3.8%
Est. total return	14.1%
Previous rating & TP	BUY; RMB 32.0
Previous report date	Apr 6, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	88.9
3-mth ADT (RMB mn)	162.3

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.30

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

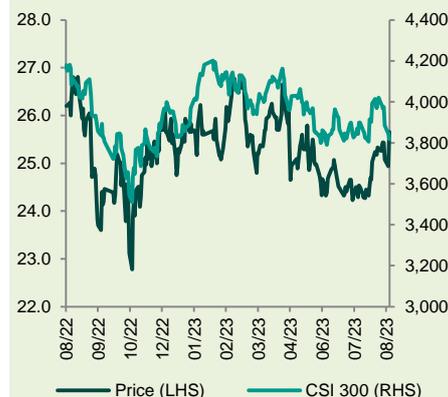
Price Performance (%)

	Absolute	Relative*
1-mth	4.73	6.81
3-mth	1.46	5.98
6-mth	(1.95)	5.46

* 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 Aug 16, 2023



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 (%)	11.3	4.6	11.2	4.6	Adjusted based on 1H23 figures
D/A (%)	7.7	3.2	7.7	3.2	
Tax rate (%)	20.1	20.1	20.1	20.1	
Valuations					
TP (RMB)	28.3		32.0		Revise down TP mainly due to lower profit projections
P/E (x)	17.28	14.66	17.95	16.58	
P/B (x)	4.06	3.66	4.56	4.11	

Note: Previous report was published on Apr 6, 2023

Source(s): 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 (RMB mn)	67,364	72,340	75,200	67,251	72,340	77,518	0.2	0.0	(3.0)
Net profit (to shareholders of the Company) (RMB mn)	5,675	6,687	7,386	6,175	6,687	7,852	(8.1)	0.0	(5.9)
EPS (RMB)	1.64	1.93	2.13	1.78	1.93	2.27	(8.1)	0.0	(5.9)

Source(s): ABCI Securities estimates



Financial statements

Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	66,798	62,731	67,364	72,340	75,200
Core revenue	66,682	62,576	67,213	72,178	75,031
- Packaged meat products	27,351	27,189	29,651	32,762	34,619
- Fresh meat products	39,073	33,464	35,487	36,756	40,866
- Other products	6,307	7,282	7,884	8,592	9,451
- Intersegment elimination	(6,049)	(5,358)	(5,808)	(5,932)	(9,904)
Interest income	115	155	151	162	169
Commission and processing income	0	0	0	0	0
COGS	(56,469)	(52,349)	(56,615)	(60,000)	(61,850)
GP	10,329	10,382	10,748	12,340	13,350
Core GP	10,237	10,256	10,630	12,212	13,216
- Packaged pork product	7,827	8,273	8,278	10,087	10,781
- Fresh pork	1,979	1,714	2,119	1,866	2,110
- Other products	430	269	233	259	325
- Intersegment elimination	0	0	0	0	0
GP of interest income	92	126	119	128	135
GP of Commission and processing income	(1)	(1)	(1)	(1)	(1)
Business levy and taxes	(307)	(342)	(310)	(333)	(346)
S&D expenses	(1,874)	(1,927)	(2,143)	(2,325)	(2,378)
Admin expenses	(1,082)	(1,134)	(1,300)	(1,396)	(1,451)
Others expenses	(1,035)	(8)	402	(175)	(561)
Operating profit	6,032	6,970	7,398	8,111	8,615
- Packaged pork product	5,807	6,182	6,713	7,433	7,863
- Fresh pork	93	793	723	755	842
- Other products	132	(5)	(38)	(77)	(90)
- Intersegment elimination	0	0	0	0	0
Net finance income/(costs)	11	61	9	9	10
Others gain/(losses)	174	129	(209)	347	751
Pretax profit	6,216	7,160	7,198	8,468	9,376
Tax	(1,332)	(1,443)	(1,449)	(1,706)	(1,888)
Net profit	4,884	5,717	5,749	6,762	7,488
- Owners of the company	4,866	5,621	5,675	6,687	7,386
- Minority interest	18	96	74	75	152
Dividend	4,497	3,465	3,405	4,012	4,432
EPS (RMB)					
- Basic	1.40	1.62	1.64	1.93	2.13
- Diluted	1.40	1.62	1.64	1.93	2.13
DPS (RMB)	1.30	1.00	0.98	1.16	1.28

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalent	7,839	5,769	3,744	6,515	5,494
Trade and bills receivable	233	237	267	288	295
Inventories	5,669	6,121	6,801	7,332	7,020
Others	3,779	3,844	3,809	3,518	3,668
Current assets	17,520	15,971	14,621	17,653	16,478
PP&E & CIP	13,933	17,891	18,745	19,498	21,620
Biological assets	186	340	234	242	269
Intangible assets	1,067	1,224	1,248	1,332	1,388
Others	1,272	881	1,055	1,106	1,158
Non-current assets	16,457	20,336	21,281	22,178	24,434
Total assets	33,977	36,307	35,902	39,831	40,912
Trade and bills payable	2,144	3,919	2,239	3,904	2,356
ST borrowings	2,338	3,147	2,675	1,177	1,001
Others	5,493	6,435	5,615	6,539	6,276
Current liabilities	9,974	13,501	10,529	11,620	9,633
LT borrowings	13	12	12	12	11
Lease liabilities	216	207	316	326	364
Others	625	510	520	597	522
Non-current liabilities	853	729	847	935	897
Shareholders' equity	22,809	21,853	24,123	26,798	29,752
Minority interest	341	330	403	478	630
Total equity	23,150	22,182	24,526	27,276	30,382
Total liabilities and equity	33,977	36,412	35,902	39,831	40,912

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)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit	4,884	5,717	5,749	6,762	7,488
Depreciation and amortization	1,047	1,294	1,196	1,295	1,107
Change in working capital	(1,372)	696	(3,859)	308	(2,805)
Others	1,476	(142)	148	240	98
Cash flow from operating activities	6,034	7,565	3,235	8,605	5,887
Change in PP&E, intangible assets, and other long-term assets	(3,919)	(3,384)	(1,636)	(1,362)	(2,569)
Change in investments related items	3,326	(24)	(227)	560	(32)
Others	0	(80)	0	0	0
Cash flow from investing activities	(592)	(3,488)	(1,862)	(803)	(2,602)
Change in bank borrowing	76	388	(475)	(1,501)	(179)
Others	(6,078)	(6,803)	(2,627)	(3,802)	(4,010)
Cash flow from financing activities	(6,002)	(6,415)	(3,102)	(5,303)	(4,189)
ForEx effect	4	1	1	2	2
Net change in cash and cash equivalent	(556)	(2,337)	(1,729)	2,502	(901)
Cash and cash equivalent at the end of FY	7,574	5,236	3,507	6,009	5,107

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	(9.7)	(6.1)	7.4	7.4	4.0
Core revenue	(9.7)	(6.2)	7.4	7.4	4.0
- Packaged meat products	(2.7)	(0.6)	9.1	10.5	5.7
- Fresh meat products	(19.0)	(14.4)	6.0	3.6	11.2
- Other products	21.3	15.4	8.3	9.0	10.0
GP	(12.3)	0.5	3.5	14.8	8.2
EBIT	(19.3)	15.6	6.1	9.6	6.2
Pretax Profit	(22.0)	15.2	0.5	17.6	10.7
Net profit (to owners of the company)	(22.2)	15.5	1.0	17.8	10.5
Profitability ratios (%)					
GPM	15.5	16.5	16.0	17.1	17.8
Core GPM	15.4	16.4	15.8	16.9	17.6
- Packaged meat products	28.6	30.4	27.9	30.8	31.1
- Fresh meat products	5.1	5.1	6.0	5.1	5.2
- Other products	6.8	3.7	3.0	3.0	3.4
OPM	9.0	11.1	11.0	11.2	11.5
Pretax margin	9.3	11.4	10.7	11.7	12.5
NPM (to owners of the company)	7.3	9.0	8.4	9.2	9.8
Return ratios (%)					
ROAA	14.2	16.3	15.9	17.9	18.5
ROAE	20.9	25.2	24.7	26.3	26.1
Liquidity ratio (x)					
Current ratio	1.8	1.2	1.4	1.5	1.7
Quick ratio	1.2	0.7	0.7	0.9	1.0
Cash ratio	0.8	0.4	0.4	0.6	0.6
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	45	35	42	49	46
Days of outstanding payable	13	21	19	18	18
CCC	34	15	24	32	29
Leverage ratios (%)					
Total debt to Total equity	10.2	14.6	11.3	4.6	3.6
Total debt to Total assets	7.0	8.9	7.7	3.2	2.7
Net (cash)/debt to Total equity	(23.7)	(11.4)	(4.0)	(19.2)	(14.5)
Net (cash)/debt to Total assets	(16.1)	(7.0)	(2.7)	(13.2)	(10.8)

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 ($\sim 9\%$)
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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