

WH Group (288 HK)

Improvement expected in 2H23

- 1H23 revenue declined by 2.1% YoY on weakened growth in both China and the US; based on 1H23 results and our conservative outlook for 2H23, we lower our overall revenue growth forecast
- Margin was mixed in 1H23; we expect improvement to be seen in 2H23
- Maintain **BUY**; TP implies 8.21x/7.68x 23E/24E P/E, or 0.91x/0.84x 23E/24E P/B

Weakness in China and the US markets weighed on 1H23 growth. In 1H23, total revenue declined by 2.1% YoY; revenue of packaged meat segment decreased by 5.9% YoY while sales volume dropped 0.9% YoY; pork segment revenue grew by 0.5% YoY while sales volume fell by 0.2% YoY. The US region was weighing on the overall revenue growth since fallen sales volume and pricing slashed revenue in both segments. As for China, performance was mainly affected by the depreciation of RMB against USD and the low pork price in the region. We lower our FY23E revenue growth forecast, taking into account of (1) 1H23 growth performance; (2) a more conservative outlook for the consumer market in both China and the US; (3) continued downward pressure on RMB/USD exchange rate. We revise down FY23E revenue growth projection to 1.4% YoY. For packaged meat and pork segments, we expect growth to be -0.7% YoY and 3.2% YoY vs. 4.5% YoY and 4.4% YoY as previously projected. For 2H23, we estimate revenue growth to be 4.6% YoY; revenue of packaged meat and pork segments would increase by 4.2% YoY and 5.6% YoY. Higher growth in 2H23 is mainly due to expectation that the Group's efforts in increasing product offering and enhancing sales strategy offset some of the negative impacts from the market.

Mixed margin in 1H23. In 1H23, OPM was at 4.9%; OPM of packaged meat segment was relatively stable at 16.1% and that of pork segment was -7.3%. Meanwhile, NPM was 3.2% in 1H23 as it improved from 2.9% in 1Q23 to 3.5% in 2Q23. For the packaged meat segment, OPM performance across all geographical regions was relatively stable, although China's operating profit was affected by the currency translation. For the pork segment, OPM in China and the US fell in 2Q23, due to the low pork price in China and unfavorable market condition in the US. We lower our projected OPM and NPM to 5.8% and 4.1% for FY23E; OPM of packaged meat and pork segment are 13.4% and -1.9% in FY23E. For 2H23, OPM and NPM are projected at 6.6% and 4.8%; OPM of packaged meat and pork segment are 11.2% and 2.6%. The improved pork segment OPM is mainly due to expectation of higher cost efficiency in the US market; in contrast, demand-side pressure in China and the US are expected to weigh on the OPM of packaged meat segment.

Maintain BUY; TP at HK\$ 5.8. We expect overall growth and margins to improve in 2H23 due to higher operational efficiency improvement and optimization in product offerings and sales strategy. Maintain **BUY**. Current TP implies 8.21x/7.68x 23E/24E P/E, or 0.91x/0.84x 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	28,535	29,687	30,867
Chg (% YoY)	6.7	3.1	1.4	4.0	4.0
Net Profit (to shareholders of the Company) (US\$ mn)	1,068	1,370	1,158	1,238	1,279
Chg (% YoY)	29.0	28.3	(15.5)	6.9	3.3
Basic EPS (US cent)	7.55	10.68	9.03	9.65	9.97
Chg (% YoY)	34.3	41.4	(15.5)	6.9	3.3
P/E (x)	6.67	4.71	5.58	5.22	5.05
BVPS (US cent)	68.18	74.82	81.14	87.90	94.87
P/B (x)	0.74	0.67	0.62	0.57	0.53
DPS (HK\$ cent)	0.19	0.30	0.21	0.23	0.23
Yield (%)	4.8	7.6	5.4	5.7	5.9
ROAA (%)	6.8	8.4	6.8	6.8	6.8
ROAE (%)	11.4	14.9	11.6	11.4	10.9

Source(s): The Group, ABCI Securities estimates

Company Report

Aug 16, 2023

Rating: BUY

TP: HK\$ 5.8

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Share price (HK\$)	3.94
52Wk H/L (HK\$)	5.72/3.94
Est. share price return	47.2%
Est. dividend yield	5.4%
Est. total return	52.6%
Previous Rating & TP	BUY; HK\$6.2
Previous report date	Apr 6, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	50.55
3-mth ADT (HK\$ mn)	69.3

Major shareholders

Wan Long	26.82
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Source(s): Bloomberg, HKEx, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	(4.6)	0.99
3-mth	(8.37)	(0.15)
6-mth	(15.63)	(3.7)

* 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 Aug 16, 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: 7.8263



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 (%)	27.3	24.1	26.8	23.3	Adjusted based on 1H23 figures
D/A (%)	14.9	13.2	14	13	
Tax rate (%)	22.5	22.5	22.5	22.5	
Valuations					
TP (HK\$)	5.8		6.2		Lower TP due to lower revenue and profit projections
P/E (x)	8.21	7.68	7.17	6.77	
P/B (x)	0.91	0.84	0.96	0.87	

Note: 1) Previous report was published on Apr 6, 2023

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)	28,535	29,687	30,867	29,415	30,977	32,836	(3.0)	(4.2)	(6.0)
Net profit (to owners of the Company) (US\$ mn)	1,158	1,238	1,279	1,413	1,496	1,607	(18.1)	(17.2)	(20.4)
EPS (US cent)	9.03	9.65	9.97	11.02	11.66	12.52	(18.1)	(17.2)	(20.4)

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	28,535	29,687	30,867
- Packaged meats	13,808	14,559	14,455	14,914	15,299
- Pork	11,969	11,797	12,177	12,759	13,446
- Others	1,516	1,780	1,903	2,015	2,122
COGS	(22,297)	(22,959)	(23,538)	(24,365)	(25,290)
Gross profit	4,996	5,177	4,997	5,322	5,577
Distribution and selling expenses	(2,038)	(2,082)	(2,189)	(2,263)	(2,347)
Admin expenses	(803)	(842)	(855)	(882)	(918)
Biological adjustment	(248)	(299)	(24)	(40)	(28)
Others	59	139	(269)	52	18
Operating profit	1,966	2,093	1,660	2,189	2,302
- Packaged meat	1,895	2,065	1,943	2,059	2,115
- Pork	3	30	(237)	162	223
- Others	68	(2)	(45)	(31)	(35)
Net finance cost	(139)	(169)	(140)	(133)	(121)
Share of profits from JV and associates	34	4	2	2	3
Other gains/(losses)	(161)	204	270	(138)	(206)
Pretax profit	1,700	2,132	1,791	1,919	1,978
Tax	(402)	(482)	(404)	(432)	(444)
Net profit	1,298	1,650	1,387	1,487	1,534
- Profit attributable to shareholders	1,068	1,370	1,158	1,238	1,279
- Minority interest	230	280	229	249	255
EPS					
- Basic (US cent)	7.55	10.68	9.03	9.65	9.97
- Diluted (US cent)	7.55	10.33	8.74	9.34	9.65
DPS (HK cent)	19.00	30.00	21.19	22.65	23.40

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	1,326	3,356	1,952
Trade and bills receivable	1,064	1,087	1,594	1,041	1,761
Inventory	2,625	2,855	3,147	3,170	3,224
ST Biological assets	1,263	1,343	1,573	1,616	1,744
Others	1,114	1,330	1,338	1,427	1,361
Total current assets	7,622	8,009	8,979	10,610	10,041
PP&E	6,367	6,536	6,580	6,769	6,828
LT Biological assets	168	201	153	175	203
Goodwill	2,070	1,992	2,012	2,012	2,012
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	1,272	1,284	1,312
Total non-current assets	11,789	11,846	12,048	12,293	12,427
Total assets	19,411	19,855	21,028	22,902	22,468
Trade and bills payable	1,149	1,395	1,111	1,369	1,209
ST borrowings & bank overdrafts	874	862	713	687	637
Accrued expenses and other payables	2,371	2,513	2,581	2,591	2,581
Others	181	215	180	277	191
Total current liabilities	4,575	4,985	4,586	4,924	4,617
LT Borrowings	3,140	2,504	2,413	2,347	2,247
Others	2,009	1,954	2,577	3,063	1,886
Total non-current liabilities	5,149	4,458	4,990	5,411	4,133
Shareholders' equity	8,748	9,600	10,411	11,277	12,172
Minority interest	939	812	1,041	1,290	1,545
Total equity	9,687	10,412	11,452	12,567	13,718
Total liabilities and equity	19,411	19,855	21,028	22,902	22,468

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	1,791	1,919	1,978
Depreciation and amortization	679	757	885	957	869
Change in working capital	(410)	(282)	(1,306)	655	(1,037)
Others	(11)	(804)	(27)	(95)	238
Cash flow from operating activities	1,958	1,803	1,343	3,436	2,049
Change in PP&E	(910)	(1,003)	(890)	(942)	(897)
Others	501	653	465	461	(1,670)
Cash flow from investing activities	(409)	(350)	(425)	(481)	(2,567)
Change in borrowings	1,242	(648)	(240)	(92)	(150)
Others	(2,811)	(894)	(697)	(734)	(693)
Cash flow from financing activities	(1,569)	(1,542)	(937)	(826)	(843)
Net change in cash	(20)	(89)	(19)	2,129	(1,361)
ForEx effect	23	(73)	(49)	(99)	(43)
Cash at the end of FY	1,556	1,394	1,326	3,356	1,952

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	1.4	4.0	4.0
- Packaged meat	13.5	5.4	(0.7)	3.2	2.6
- Pork	(2.7)	(1.4)	3.2	4.8	5.4
Gross profit	4.7	4.8	(1.0)	6.4	4.9
Operating profit	13.7	6.5	(20.7)	31.9	5.2
Net profit (to owners of the company)	29.0	28.3	(15.5)	6.9	3.3
Profitability ratios (%)					
GPM	17.2	17.5	17.1	17.5	17.7
OPM	7.2	7.4	5.8	7.4	7.5
- Packaged meat	13.7	14.2	13.4	13.8	13.8
- Pork	0.0	0.3	-1.9	1.3	1.7
EBITDA margin	6.1	7.8	6.0	6.2	6.1
NPM (to owners of the company)	3.9	4.9	4.1	4.2	4.1
Revenue contribution (%)					
Packaged meat	50.6	51.7	50.7	50.2	49.6
Fresh pork	43.9	41.9	42.7	43.0	43.6
Hog production	5.6	6.3	6.7	6.8	6.9
Return ratios (%)					
ROAA	6.8	8.4	6.8	6.8	6.8
ROAE	11.4	14.9	11.6	11.4	10.9
Liquidity ratio (x)					
Current ratio	1.7	1.6	2.0	2.2	2.2
Quick ratio	0.8	0.8	0.9	1.2	1.1
Cash ratio	0.3	0.3	0.3	0.7	0.4
Cash conversion cycle (days)					
Days of outstanding receivable	13	14	17	16	16
Days of inventory on hand	43	44	47	47	46
Days of outstanding payable	17	20	19	19	19
CCC	39	37	44	45	44
Leverage ratios (%)					
Total debt/Equity	41.4	32.3	27.3	24.1	21.0
Total debt/Total assets	20.7	17.0	14.9	13.2	12.8

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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