

WH Group (288 HK)

Maintain BUY on accelerated profit growth

- Growth of net profit (to shareholders of the Company) to accelerate on better product pricings and improving operating efficiency
- We expect revenue growth to be stable at ~2% YoY in FY22E and FY23E; 4Q22 revenue growth would be 3.7% YoY vs. 4.1% YoY in 3Q22 due to global challenges arising from inflation and social-distancing measures in China
- Maintain **BUY**; TP implies 8.56x/7.90x 22E/23E P/E, or 1.07x/0.98x 22E/23E P/B

Expect revenue growth to stabilize in FY22E and FY23E. In 3Q22, the Group's revenue growth was 4.1% YoY; revenue of packaged meat and pork segment increased 1.5% YoY and 6.3% YoY. Low growth in packaged meat segment can be attributed to COVID measures in China. Due to the expected higher inflationary pressure in the global consumer market and social-distancing measures in China, we project a stable revenue growth for the next two years. We estimate the Group's revenue to increase by 2.2% YoY in FY22E and 2.0% YoY in FY23E. FY22 packaged meat revenue would grow 5.5% YoY, while pork segment revenue would decline 1.9% YoY, attributable to the low pork prices in China in 1H22. Based on current estimates, we project 4Q22 revenue growth to be 3.7% YoY, while revenue growth of packaged meat and pork segments would be 2.4% YoY and 6.0% YoY.

Margin profile to remain stable with profit growth acceleration. In 3Q22, OPM and NPM (to shareholders of the Company) was 6.2% and 1.1% vs. 8.3% and 2.6% in 2Q22; OPM of packaged meat and pork segments were 12.7% and 0.1% vs 13.9% and 2.7% in 2Q22. We expect better pricing capability as a result of the global inflation and improving operating efficiency would elevate margins and profit growth. However, COVID measures in China and the 3Q22 operating loss of the US & Mexico pork segment at US\$ 17mn would weigh on FY22E profitability. We project OPM and NPM (to shareholders of the Company) to be 7.6% and 4.0% in FY22E and 8.2% and 4.6% in FY24E. FY22E OPM of packaged meat and pork segments would be 13.6% and 1.3%. Based on the current estimates, in 4Q22, OPM and NPM (to shareholders of the Company) would be 6.2% and 3.9%; OPM of packaged meat and pork segments would be 11.5% and 0.9%. Growth of net profit (to shareholders of the Company) is expected to increase from 5.5% YoY in FY22E to 11.0% YoY in FY24E.

Maintain BUY; TP at HK\$ 5.9. Maintain **BUY** on accelerated net profit growth outlook. Nonetheless, our revenue and profitability forecasts are adjusted downward on macroeconomic challenges and COVID policy in China. FY22E/4Q22E basic EPS growth would be 16.3%/31.8% YoY. Our DCF-derived TP is revised down to HK\$ 5.9 (vs. HK\$ 6.6), representing 8.56x/7.90x 22E/23E P/E, or 1.07x/0.98x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak, 3) Regulatory/policy risk; 4) 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	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	25,589	27,293	27,900	28,458	29,400
Chg (% YoY)	6.2	6.7	2.2	2.0	3.3
Net Profit (to shareholders of the Company) (US\$ mn)	828	1,068	1,126	1,220	1,355
Chg (% YoY)	(43.5)	29.0	5.5	8.3	11.0
Basic EPS (US cent)	5.62	7.55	8.78	9.51	10.56
Chg (% YoY)	(43.6)	34.3	16.3	8.3	11.0
P/E (x)	9.09	6.77	5.82	5.37	4.84
BVPS (US cent)	67.91	68.18	70.39	77.05	84.44
P/B (x)	0.75	0.75	0.73	0.66	0.60
DPS(HK\$)	0.18	0.19	0.21	0.22	0.25
Yield (%)	4.4	4.7	5.2	5.6	6.2
ROAA (%)	6.2	6.8	6.9	7.2	7.6
ROAE (%)	8.9	11.4	12.7	12.9	13.1

Source(s): The Group, ABCI Securities estimates

Company Report

Nov 4, 2022

Rating: BUY

TP: HK\$ 5.9

Analyst: Paul Pan
 Tel: (852) 2147 8829
 Email: paulpan@abci.com.hk

Share price (HK\$)	4.01
52Wk H/L(HK\$)	6.38/3.95
Est. share price return	47.1%
Est. dividend yield	5.2%
Est. total return	52.3%
Previous Rating & TP	BUY; HK\$6.6
Previous report date	Aug 24, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	51.45
3-mth ADT (HK\$ mn)	100.85

Major shareholders

Wan Long	(%)	26.82
----------	-----	-------

Source(s): Bloomberg, HKEx, ABCI Securities

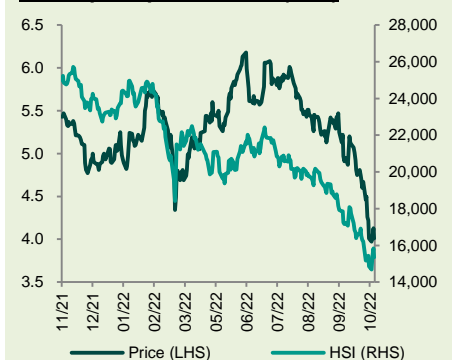
Sector Performance (%)

	Absolute	Relative*
1-mth	(17.66)	(7.47)
3-mth	(30.38)	(7.98)
6-mth	(26.29)	1.02

* 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 Nov 3, 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: 7.85



Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
Assumptions					
D/E (%)	38.2	29.6	36.6	27.7	Adjusted based on 3Q22 company releases
D/A (%)	18.7	15.5	18.6	15.1	
Tax rate (%)	17.2	17.2	17.2	17.2	
Valuations					
TP (HK\$)		5.9		6.6	Lower TP due to lower revenue and profit projections
P/E (x)	8.56	7.90	7.17	7.00	
P/B (x)	1.07	0.98	1.15	1.03	

Note: 1) Previous report was published on Aug 24, 2022

Source(s): The Group, 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)	27,900	28,458	29,400	27,982	29,271	30,719	(0.3)	(2.8)	(4.3)
Net profit (to owners of the Company) (US\$ mn)	1,126	1,220	1,355	1,506	1,542	1,561	(25.2)	(20.9)	(13.2)
EPS (US cent)	8.78	9.51	10.56	11.74	12.02	12.17	(25.2)	(20.9)	(13.2)

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	27,900	28,458	29,400
- Packaged meats	12,167	13,808	14,564	14,680	15,222
- Pork	12,296	11,969	11,740	12,154	12,484
- Others	1,126	1,516	1,596	1,623	1,694
COGS	(20,563)	(22,297)	(22,775)	(23,209)	(23,915)
Gross profit	5,026	4,996	5,126	5,249	5,485
Distribution and selling expenses	(1,914)	(2,038)	(2,142)	(2,181)	(2,255)
Admin expenses	(874)	(803)	(835)	(844)	(874)
Biological adjustment	(720)	(248)	(89)	(44)	14
Others	211	59	48	193	46
Operating profit	1,729	1,966	2,108	2,373	2,416
- Packaged meat	1,499	1,895	1,983	2,050	2,026
- Pork	341	3	154	356	402
- Others	(111)	68	(29)	(32)	(11)
Net finance cost	(135)	(139)	(180)	(164)	(144)
Share of profits from JV and associates	16	34	(32)	(32)	(32)
Other gains/(losses)	(295)	(161)	(241)	(385)	(250)
Pretax profit	1,315	1,700	1,655	1,793	1,990
Tax	(223)	(402)	(285)	(308)	(342)
Net profit	1,092	1,298	1,370	1,485	1,648
- Profit attributable to shareholders	828	1,068	1,126	1,220	1,355
- Minority interest	264	230	244	264	293
EPS					
- Basic (US cent)	5.62	7.55	8.78	9.51	10.56
- Diluted (US cent)	5.60	7.55	8.49	9.20	10.21
DPS (HK cent)	17.50	19.00	20.68	22.40	24.87

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 bank balances	1,599	1,556	1,372	1,255	1,518
Trade and bills receivable	915	1,064	1,324	1,350	1,260
Inventory	2,641	2,625	2,935	3,262	3,225
ST Biological assets	1,047	1,263	1,498	1,573	1,616
Others	1,632	1,114	1,270	1,516	2,254
Total current assets	7,834	7,622	8,400	8,956	9,873
PP&E	5,531	6,367	6,347	6,580	6,880
LT Biological assets	135	168	193	153	175
Goodwill	2,008	2,070	2,037	2,037	2,037
Intangible assets	1,762	1,757	1,760	1,763	1,766
Interest in JV and associates	354	253	260	277	296
Others	1,091	1,174	1,342	1,320	1,418
Total non-current assets	10,881	11,789	11,939	12,130	12,572
Total assets	18,715	19,411	20,339	21,086	22,445
Trade and bills payable	913	1,149	1,264	1,211	1,217
ST borrowings & bank overdrafts	796	874	788	713	647
Accrued expenses and other payables	2,136	2,371	2,740	2,684	2,588
Others	222	181	182	213	207
Total current liabilities	4,067	4,575	4,974	4,821	4,659
LT Borrowings	1,840	3,140	3,015	2,913	2,747
Others	1,823	2,009	2,392	2,275	2,721
Total non-current liabilities	3,663	5,149	5,407	5,189	5,469
Shareholders' equity	10,005	8,748	9,032	9,886	10,834
Minority interest	980	939	926	1,190	1,483
Total equity	10,985	9,687	9,957	11,076	12,318
Total liabilities and equity	18,715	19,411	20,339	21,086	22,445

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	1,655	1,793	1,990
Depreciation and amortization	644	679	764	893	962
Change in working capital	507	(410)	(631)	(815)	(762)
Others	(109)	(147)	144	142	63
Cash flow from operating activities	2,357	1,822	1,932	2,012	2,253
Change in PP&E	(539)	(910)	(1,003)	(890)	(1,057)
Others	(424)	501	(169)	45	175
Cash flow from investing activities	(963)	(409)	(1,172)	(845)	(882)
Change in borrowings	(514)	1,242	(211)	(529)	(304)
Others	35	(2,675)	(641)	(711)	(760)
Cash flow from financing activities	(479)	(1,433)	(852)	(1,239)	(1,064)
Net change in cash	915	(20)	(92)	(72)	307
ForEx effect	86	23	(91)	(46)	(45)
Cash at the end of FY	1,553	1,556	1,372	1,255	1,518

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	2.2	2.0	3.3
- Packaged meat	(1.3)	13.5	5.5	0.8	3.7
- Pork	11.6	(2.7)	(1.9)	3.5	2.7
Gross profit	(8.2)	4.7	6.6	2.4	4.4
Operating profit	(14.9)	13.7	7.2	12.6	1.8
Net profit (to owners of the company)	(43.5)	29.0	5.5	8.3	11.0
Profitability ratios (%)					
GPM	17.6	17.2	18.0	18.0	18.2
OPM	6.8	7.2	7.6	8.3	8.2
- Packaged meat	12.3	13.7	13.6	14.0	13.3
- Pork	2.8	0.0	1.3	2.9	3.2
EBITDA margin	5.9	6.1	5.9	6.1	6.3
NPM (to owners of the company)	3.2	3.9	4.0	4.3	4.6
Revenue contribution (%)					
Packaged meat	47.5	50.6	52.2	51.6	51.8
Fresh pork	48.1	43.9	42.1	42.7	42.5
Hog production	4.4	5.6	5.7	5.7	5.8
Return ratios (%)					
ROAA	6.2	6.8	6.9	7.2	7.6
ROAE	8.9	11.4	12.7	12.9	13.1
Liquidity ratio (x)					
Current ratio	1.9	1.7	1.7	1.9	2.1
Quick ratio	1.0	0.8	0.8	0.9	1.1
Cash ratio	0.4	0.3	0.3	0.3	0.3
Cash conversion cycle (days)					
Days of outstanding receivable	14	13	15	17	16
Days of inventory on hand	49	43	45	49	50
Days of outstanding payable	18	17	19	19	19
CCC	45	39	41	47	47
Leverage ratios (%)					
Total debt/Equity	24.4	41.4	38.2	29.6	24.1
Total debt/Total assets	14.3	20.7	18.7	15.5	13.2

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

Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2022 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183**