

WH Group (288 HK) Expect improvement ahead

- Revenue growth to be impacted by adverse operating environment in the China and the US/Mexico market in FY23E
- Weakness in the pork segment will weigh on overall margin in the near term
- We expect the Group is poised for improvement in coming years due to better operating environment
- Maintain **BUY**; TP implies 9.63x/7.58x 23E/24E P/E, or 0.88x/0.81x 23E/24E P/B

Revenue growth hampered by adverse operating environment in FY23E. 3Q23 revenue declined 9.1% YoY in 3Q23 vs. 6.9% YoY in 2Q23. Revenue of packaged meat and pork segments dropped 6.6% YoY and 14.9% YoY in 3Q23 vs. 8.5% YoY and 6.6% YoY. In addition, 3Q23 sales volume of packaged meat and pork fell 3.8% YoY and 1.8% YoY to 790k tons and 935k tons. Inflation in the US has curtailed meat consumption, while macroeconomic weakness in China has hindered post-pandemic consumption recovery. In addition, depreciation of RMB against USD also resulted in unfavorable translation of the China region performance. In the short term, we believe the operating environment would remain challenging and business in 4Q23 will be under pressure. We currently project FY23E revenue to decline by 7.0% YoY; FY23E revenue of packaged meat and pork segments to decline by 8.0% YoY and 7.5% YoY. Revenue growth in FY24E and FY25E is expected to pick up to 4.3% YoY and 5.5% YoY.

Pork segment to weigh on margin. In 3Q23 OPM was 6.4%, while OPM of packaged meat and pork segments were 13.9% and -0.9%. Pork segment has been weighing on the overall margin since 4Q22, as performance in the US & Mexico region was the major cause. We expect the challenging US market condition would continue to weigh on the pork segment margin profile, but better operating efficiency and other segments' performance would offset the negative impacts. We project FY23E OPM to be 6.1%, and FY23E OPM of packaged meat and pork segments to be 15.3% and -4.0%. FY23E NPM (to shareholders of the Company) would be 3.5%. Overall margin profile would improve in FY24E and FY25E.

Maintain BUY; TP at HK\$ 5.4. We believe business would be mainly affected by the soft economy at present and the Group's performance will likely improve once operating environment turns more favorable in coming years. Maintain **BUY**. We lower our DCF-derived TP to reflect the lower revenue and profit projections. Current TP implies 9.63x/7.58x 23E/24E P/E, or 0.88x/0.81x 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	26,164	27,297	28,796
Chg (% YoY)	6.7	3.1	(7.0)	4.3	5.5
Net Profit (to shareholders of the Company) (US\$ mn)	1,068	1,370	921	1,169	1,270
Chg (% YoY)	29.0	28.3	(32.8)	27.0	8.7
Basic EPS (US cent)	7.55	10.68	7.18	9.11	9.90
Chg (% YoY)	34.3	41.4	(32.8)	27.0	8.7
P/E (x)	7.90	5.58	8.31	6.54	6.02
BVPS (US cent)	68.18	74.82	78.80	85.17	92.11
P/B (x)	0.87	0.80	0.76	0.70	0.65
DPS(HK\$ cent)	19.00	30.00	16.82	21.36	23.21
Yield (%)	4.1	6.4	3.6	4.6	5.0
ROAA (%)	6.8	8.4	5.6	6.6	7.0
ROAE (%)	11.4	14.9	9.3	11.1	11.2

Source(s): The Group, ABCI Securities estimates

Company Report Nov 9, 2023 Rating: BUY TP: HK\$ 5.4

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

Share price (HK\$)	4.66
52Wk H/L(HK\$)	4.97/3.88
Est. share price return	15.9%
Est. dividend yield	3.6%
Est. total return	19.5%
Previous Rating & TP	BUY; HK\$5.8
Previous report date	Aug 16, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	59.79
3-mth ADT (HK\$ mn)	83.1

Major shareholders

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

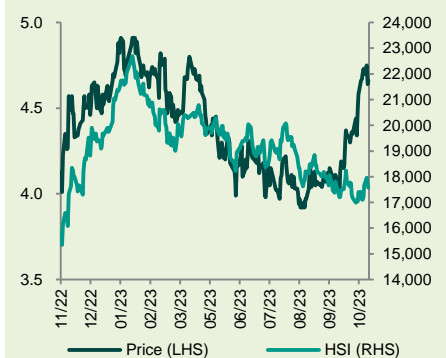
Sector Performance (%)

	Absolute	Relative*
1-mth	11.2	10.7
3-mth	13.4	23.5
6-mth	5.2	17.6

* 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 8, 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: 7.8150



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 (%)	28.2	25.0	27.3	24.1	Adjusted based on 3Q23 disclosures
D/A (%)	15.7	13.5	14.9	13.2	
Tax rate (%)	22.5	22.5	22.5	22.5	
Valuations					
TP (HK\$)	5.4		5.8		Lower TP due to lower revenue and profit projections
P/E (x)	9.63	7.58	8.21	7.68	
P/B (x)	0.88	0.81	0.91	0.84	

Note: 1) Previous report was published on Aug 16, 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)	26,164	27,297	28,796	28,535	29,687	30,867	(8.3)	(8.1)	(6.7)
Net profit (to owners of the Company) (US\$ mn)	921	1,169	1,270	1,158	1,238	1,279	(20.5)	(5.6)	(0.7)
EPS (US cent)	7.18	9.11	9.90	9.03	9.65	9.97	(20.5)	(5.6)	(0.7)

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	26,164	27,297	28,796
- Packaged meats	13,808	14,559	13,391	14,025	14,623
- Pork	11,969	11,797	10,914	11,257	12,051
- Others	1,516	1,780	1,859	2,015	2,122
COGS	(22,297)	(22,959)	(21,546)	(22,313)	(23,386)
Gross profit	4,996	5,177	4,619	4,984	5,410
Distribution and selling expenses	(2,038)	(2,082)	(2,060)	(2,075)	(2,207)
Admin expenses	(803)	(842)	(863)	(811)	(856)
Biological adjustment	(248)	(299)	(24)	(40)	(28)
Others	59	139	(85)	(153)	(171)
Operating profit	1,966	2,093	1,586	1,904	2,149
- Packaged meat	1,895	2,065	2,048	1,999	2,045
- Pork	3	30	(431)	(130)	82
- Others	68	(2)	(30)	36	22
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	(23)	40	(46)
Pretax profit	1,700	2,132	1,424	1,813	1,985
Tax	(402)	(482)	(321)	(408)	(446)
Net profit	1,298	1,650	1,103	1,404	1,539
- Profit attributable to shareholders	1,068	1,370	921	1,169	1,270
- Minority interest	230	280	182	235	269
EPS					
- Basic (US cent)	7.55	10.68	7.18	9.11	9.90
- Diluted (US cent)	7.55	10.33	6.95	8.82	9.58
DPS (HK cent)	19.00	30.00	16.82	21.36	23.21

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	1,064	2,956	1,735
Trade and bills receivable	1,064	1,087	1,372	1,051	1,562
Inventory	2,625	2,855	2,640	3,146	2,767
ST Biological assets	1,263	1,343	1,573	1,616	1,744
Others	1,114	1,330	1,172	1,423	1,221
Total current assets	7,622	8,009	7,820	10,192	9,029
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	1,261	1,284	1,302
Total non-current assets	11,789	11,846	12,037	12,292	12,417
Total assets	19,411	19,855	19,857	22,485	21,446
Trade and bills payable	1,149	1,395	848	1,473	867
ST borrowings & bank overdrafts	874	862	713	687	637
Accrued expenses and other payables	2,371	2,513	2,379	2,368	2,485
Others	181	215	144	303	165
Total current liabilities	4,575	4,985	4,084	4,831	4,154
LT Borrowings	3,140	2,504	2,413	2,347	2,247
Others	2,009	1,954	2,256	3,149	1,729
Total non-current liabilities	5,149	4,458	4,669	5,497	3,976
Shareholders' equity	8,748	9,600	10,110	10,928	11,817
Minority interest	939	812	994	1,229	1,498
Total equity	9,687	10,412	11,104	12,157	13,315
Total liabilities and equity	19,411	19,855	19,857	22,485	21,446

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	1,424	1,813	1,985
Depreciation and amortization	679	757	885	957	869
Change in working capital	(410)	(282)	(874)	121	(577)
Others	(11)	(804)	45	(80)	244
Cash flow from operating activities	1,958	1,803	1,480	2,811	2,521
Change in PP&E	(910)	(1,003)	(890)	(942)	(897)
Others	501	653	(38)	911	(1,967)
Cash flow from investing activities	(409)	(350)	(927)	(31)	(2,864)
Change in borrowings	1,242	(648)	(240)	(92)	(150)
Others	(2,811)	(894)	(604)	(708)	(691)
Cash flow from financing activities	(1,569)	(1,542)	(844)	(800)	(841)
Net change in cash	(20)	(89)	(291)	1,979	(1,183)
Forex effect	23	(73)	(39)	(87)	(38)
Cash at the end of FY	1,556	1,394	1,064	2,956	1,735

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	(7.0)	4.3	5.5
- Packaged meat	13.5	5.4	(8.0)	4.7	4.3
- Pork	(2.7)	(1.4)	(7.5)	3.1	7.0
Gross profit	4.7	4.8	(8.7)	7.8	8.8
Operating profit	13.7	6.5	(24.2)	20.1	12.8
Net profit (to owners of the company)	29.0	28.3	(32.8)	27.0	8.7
Profitability ratios (%)					
GPM	17.2	17.5	17.2	17.8	18.3
OPM	7.2	7.4	6.1	7.0	7.5
- Packaged meat	13.7	14.2	15.3	14.2	14.0
- Pork	0.0	0.3	(4.0)	(1.2)	0.7
EBITDA margin	6.1	7.8	5.1	6.3	6.5
NPM (to owners of the company)	3.9	4.9	3.5	4.3	4.4
Revenue contribution (%)					
Packaged meat	50.6	51.7	51.2	51.4	50.8
Fresh pork	43.9	41.9	41.7	41.2	41.8
Hog production	5.6	6.3	7.1	7.4	7.4
Return ratios (%)					
ROAA	6.8	8.4	5.6	6.6	7.0
ROAE	11.4	14.9	9.3	11.1	11.2
Liquidity ratio (x)					
Current ratio	1.7	1.6	1.9	2.1	2.2
Quick ratio	0.8	0.8	0.9	1.1	1.1
Cash ratio	0.3	0.3	0.3	0.6	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	28.2	25.0	21.7
Total debt/Total assets	20.7	17.0	15.7	13.5	13.4

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