

WH Group (288 HK)

Revenue growth to resume in 2H22; maintain BUY

- Expect total revenue growth to accelerate on relaxation of social distancing measures in China and high pork prices in China and the US starting from 2H22
- Persistent inflationary pressure could weigh on margins, but we expect to see high profit levels with adjustments in pricing, product portfolio, and operations, which will drive up EPS growth in FY22
- Maintain **BUY**; TP implies 7.17x/7.00x 22E/23E P/E, or 1.15x/1.03x 22E/23E P/B

Total revenue growth to accelerate in 2H22. 1H22 revenue growth was 0.5% YoY, while revenue in packaged meat and pork segments moved by 9.4% YoY and -9.6% YoY. Low pork prices and social distancing measures in China in 1H22 were major factors quelling growth. In 2H22, we expect the Group to benefit from higher pork prices in China and the US and relaxation of COVID-related social distancing measures in China, though high US pork prices would suppress the sales volume of imported fresh meat in China. We project FY22E revenue growth to reach 2.5% YoY, and revenue of packaged meat and pork segments would go up 4.4% YoY and 0.9% YoY. Based on our current projections, 2H22 revenue growth would be 4.5% YoY, while 2H22 packaged meat revenue would be similar to 2H21 and revenue growth of pork segment would be 11.9% YoY. FY21-24E revenue CAGR would be 4.0%, and those of packaged meat and pork segments would be 4.9% and 3.1%.

Cost inflation pressure to persist in 2H22. 1H22 GPM, OPM, and NPM (to shareholders of the Company) reached 19.6%, 9.0%, and 5.7%, vs. 16.8%, 6.9%, and 4.9% in 1H21, showing the Group's ability to handle challenges brought by COVID resurgence in China. We expect inflationary pressure to persist in 2H22, but product portfolio improvement and better operational efficiency would partially offset increases in raw material costs and SG&A expenses. We project GPM, OPM and NPM (to shareholders of the Company) to be 19.1%, 8.0%, and 5.4% in FY22E and 18.6%, 7.9%, and 5.1% in FY24E. Our current projections represent 2H22 GPM, OPM and NPM (to shareholders of the Company) at 18.7%, 7.0%, and 5.1%.

Maintain BUY; TP at HK\$ 6.6. We expect FY22E net profit (to shareholders of the Company) and basic EPS to grow by 41.0% YoY and 55.4% YoY, and 2H22 net profit (to shareholders of the Company) and basic EPS to grow by 79.5%YoY and 85.8% YoY. Maintain **BUY** on revenue growth recovery in 2H22. We revise up our DCF-derived TP due to higher revenue and profit projections. Current TP represents 7.17x/7.00x 22E/23E P/E, or 1.15x/1.03x 22E/23E P/B.

Risk factors: 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Regulatory/policy risk; 4) Product quality/safety risk; 4) 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	27,982	29,271	30,719
Chg (% YoY)	6.2	6.7	2.5	4.6	4.9
Net Profit (to shareholders of the Company) (US\$ mn)	828	1,068	1,506	1,542	1,561
Chg (% YoY)	(43.5)	29.0	41.0	2.4	1.3
Basic EPS (US cent)	5.62	7.55	11.74	12.02	12.17
Chg (% YoY)	(43.6)	34.3	55.4	2.4	1.3
P/E (x)	12.09	9.00	5.79	5.65	5.58
BVPS (US cent)	67.91	68.18	73.10	81.51	90.03
P/B (x)	1.00	1.00	0.93	0.83	0.75
DPS(HK\$)	0.18	0.19	0.28	0.28	0.29
Yield (%)	3.3	3.6	5.2	5.3	5.4
ROAA (%)	6.2	6.8	9.3	8.9	8.5
ROAE (%)	8.9	11.4	16.6	15.5	14.2

Source(s): The Group, ABCI Securities estimates

Company Report

Aug 24, 2022

Rating: BUY

TP: HK\$ 6.6

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Share price (HK\$)	5.33
52Wk H/L(HK\$)	6.89/4.28
Est. share price return	23.8%
Est. dividend yield	5.2%
Est. total return	29.0%
Previous Rating & TP	BUY; HK\$6.3
Previous report date	May 20, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.83
Market cap (HK\$ bn)	68.39
3-mth ADT (HK\$ mn)	104.7

Major shareholders	(%)
Wan Long	26.82

Source(s): Bloomberg, HKEx, ABCI Securities

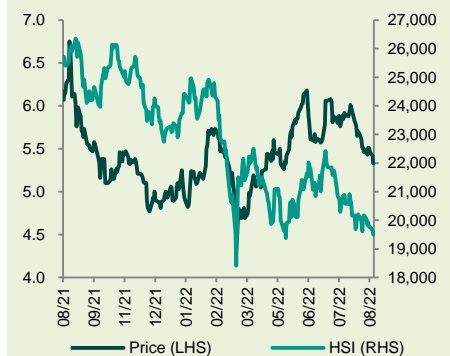
Sector Performance (%)

	Absolute	Relative*
1-mth	(9.66)	(4.29)
3-mth	(7.47)	(1.61)
6-mth	(5.16)	11.92

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:: 1) All market data as of Aug 23, 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: 7.8472



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 (%)	36.6	27.7	33.2	26.8	Adjusted based on 1H22 rates
D/A (%)	18.6	15.1	17.8	15.1	
Tax rate (%)	17.2	17.2	17.2	17.2	
Valuations					
TP (HK\$)	6.6		6.3		Higher TP due to higher profit projections
P/E (x)	7.17	7.00	7.90	7.25	
P/B (x)	1.15	1.03	1.07	0.97	

Note: 1) Previous report was published on May 20, 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)	27,982	29,271	30,719	27,936	29,138	30,470	0.2	0.5	0.8
Net profit (to owners of the Company) (US\$ mn)	1,506	1,542	1,561	1,303	1,420	1,475	15.6	8.6	5.9
EPS (US cent)	11.74	12.02	12.17	10.16	11.07	11.50	15.6	8.6	5.9

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	27,982	29,271	30,719
- Packaged meats	12,167	13,808	14,418	15,223	15,921
- Pork	12,296	11,969	12,071	12,425	13,104
- Others	1,126	1,516	1,493	1,623	1,694
COGS	(20,563)	(22,297)	(22,521)	(23,645)	(24,874)
Gross profit	5,026	4,996	5,462	5,626	5,845
Distribution and selling expenses	(1,914)	(2,038)	(2,137)	(2,243)	(2,357)
Admin expenses	(874)	(803)	(826)	(868)	(913)
Biological adjustment	(720)	(248)	41	56	14
Others	211	59	(309)	(198)	(173)
Operating profit	1,729	1,966	2,230	2,373	2,416
- Packaged meat	1,499	1,895	1,979	2,050	2,026
- Pork	341	3	280	356	402
- Others	(111)	68	(29)	(32)	(11)
Net finance cost	(135)	(139)	(176)	(159)	(141)
Share of profits from JV and associates	16	34	9	6	6
Other gains/(losses)	(295)	(161)	171	56	29
Pretax profit	1,315	1,700	2,233	2,276	2,310
Tax	(223)	(402)	(384)	(391)	(397)
Net profit	1,092	1,298	1,849	1,885	1,913
- Profit attributable to shareholders	828	1,068	1,506	1,542	1,561
- Minority interest	264	230	343	343	352
EPS					
- Basic (US cent)	5.62	7.55	11.74	12.02	12.17
- Diluted (US cent)	5.60	7.55	11.35	11.62	11.77
DPS (HK cent)	17.50	19.00	27.63	28.29	28.65

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 cash equivalent	1,599	1,556	1,155	1,208	1,414
Trade and bills receivable	915	1,064	1,331	1,419	1,307
Inventory	2,641	2,625	3,189	3,598	3,846
ST Biological assets	1,047	1,263	1,513	1,662	1,732
Others	1,632	1,114	1,275	1,573	2,339
Total current assets	7,834	7,622	8,463	9,460	10,638
PP&E	5,531	6,367	6,412	6,669	7,041
LT Biological assets	135	168	195	162	188
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	1,351	1,335	1,442
Total non-current assets	10,881	11,789	12,014	12,243	12,770
Total assets	18,715	19,411	20,477	21,703	23,408
Trade and bills payable	913	1,149	1,264	1,266	1,289
ST borrowings & bank overdrafts	796	874	788	713	647
Accrued expenses and other payables	2,136	2,371	2,598	2,545	2,767
Others	222	181	227	208	242
Total current liabilities	4,067	4,575	4,878	4,732	4,944
LT Borrowings	1,840	3,140	3,015	2,913	2,747
Others	1,823	2,009	2,180	2,232	2,444
Total non-current liabilities	3,663	5,149	5,195	5,145	5,192
Shareholders' equity	10,005	8,748	9,379	10,458	11,551
Minority interest	980	939	1,025	1,368	1,720
Total equity	10,985	9,687	10,404	11,827	13,271
Total liabilities and equity	18,715	19,411	20,477	21,703	23,408

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	2,233	2,276	2,310
Depreciation and amortization	644	679	767	900	974
Change in working capital	507	(410)	(1,054)	(1,028)	(745)
Others	(109)	(147)	6	37	(3)
Cash flow from operating activities	2,357	1,822	1,953	2,186	2,536
Change in PP&E	(539)	(910)	(1,069)	(920)	(1,138)
Others	(424)	501	(197)	204	(3)
Cash flow from investing activities	(963)	(409)	(1,266)	(716)	(1,141)
Change in borrowings	(514)	1,242	(211)	(529)	(304)
Others	35	(2,675)	(800)	(844)	(843)
Cash flow from financing activities	(479)	(1,433)	(1,011)	(1,373)	(1,147)
Net change in cash	915	(20)	(324)	97	248
ForEx effect	86	23	(77)	(44)	(42)
Cash at the end of FY	1,553	1,556	1,155	1,208	1,414

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	2.5	4.6	4.9
- Packaged meat	(1.3)	13.5	4.4	5.6	4.6
- Pork	11.6	(2.7)	0.9	2.9	5.5
Gross profit	(8.2)	4.7	13.7	3.0	3.7
Operating profit	(14.9)	13.7	13.4	6.4	1.8
Net profit (to owners of the company)	(43.5)	29.0	41.0	2.4	1.3
Profitability ratios (%)					
GPM	17.6	17.2	19.1	18.8	18.6
OPM	6.8	7.2	8.0	8.1	7.9
- Packaged meat	12.3	13.7	13.7	13.5	12.7
- Pork	2.8	0.0	2.3	2.9	3.1
EBITDA margin	5.9	6.1	7.4	7.2	7.0
NPM (to owners of the company)	3.2	3.9	5.4	5.3	5.1
Revenue contribution (%)					
Packaged meat	47.5	50.6	51.5	52.0	51.8
Fresh pork	48.1	43.9	43.1	42.4	42.7
Hog production	4.4	5.6	5.3	5.5	5.5
Return ratios (%)					
ROAA	6.2	6.8	9.3	8.9	8.5
ROAE	8.9	11.4	16.6	15.5	14.2
Liquidity ratio (x)					
Current ratio	1.9	1.7	1.7	2.0	2.2
Quick ratio	1.0	0.8	0.8	0.9	1.0
Cash ratio	0.4	0.3	0.2	0.3	0.3
Cash conversion cycle (days)					
Days of outstanding receivable	14	13	15	17	16
Days of inventory on hand	49	43	47	52	55
Days of outstanding payable	18	17	19	19	19
CCC	45	39	44	50	52
Leverage ratios (%)					
Total debt/Equity	24.4	41.4	36.6	27.7	22.4
Total debt/Total assets	14.3	20.7	18.6	15.1	12.7

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 ($\sim 10\%$)
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.

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