

Shuanghui (000895 CH)

Revenue growth under pressure

- Revenue growth under pressure in the short term, but recovery to ensue when macro condition stabilizes
- Margin to benefit from improving operating efficiency and better macroeconomic condition in the future
- Maintain **BUY**; TP implies 17.86x/16.06x 23E/24E P/E, or 4.58x/4.05x 23E/24E P/B

Growth to recover once macro challenges subside. As the consumer market continues to be affected by the macro challenges, consumption of meat products were subdued in 3Q23, in which the Group's revenue declined 5.1% YoY, and revenue of packaged meat and fresh meat segment dropped 0.1% YoY and 8.2% YoY. We expect the overall growth momentum may slightly pick up towards end of the year but low pork prices would continue to affect the fresh meat segment revenue. For FY23E, we project revenue to grow 3.2% YoY; revenue of packaged meat and fresh meat is expected to be up 6.0% YoY and down 0.1% YoY. FY22-25E revenue CAGR is projected at 6.1%.

Margin to stabilize after FY23E. We believe margin profile would be stable after FY23E, since operating efficiency would keep improving and better macroeconomic conditions would help elevate product pricings. However, we project FY23E GPM, OPM, and NPM (to shareholders of the Company) to lower to 16.3%, 11.1% and 8.4%, as the weakness in consumer market recovery would extend into 4Q23.

Maintain BUY; TP at RMB 28.1. Macro challenges will suppress revenue growth in the short term though growth would recover when the economy improves. Maintain **BUY**. We lower DCF-derived TP mainly due to lower revenue and profit projections. Current TP represents 17.86x/16.06x 23E/24E P/E, or 4.58x/4.05x 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	64,764	69,028	74,974
Chg (% YoY)	(9.7)	(6.1)	3.2	6.6	8.6
Net Profit (to shareholders of the Company) (RMB mn)	4,866	5,621	5,450	6,063	6,763
Chg (% YoY)	(22.2)	15.5	(3.0)	11.3	11.5
Basic EPS (RMB)	1.40	1.62	1.57	1.75	1.95
Chg (% YoY)	(24.7)	15.5	(3.0)	11.3	11.5
P/E (x)	18.19	15.75	16.24	14.60	13.09
BVPS (RMB)	6.6	6.3	6.1	6.9	7.8
P/B (x)	3.88	4.05	4.17	3.68	3.26
DPS (RMB)	1.30	1.00	0.94	1.05	1.17
Yield (%)	5.1	3.9	3.7	4.1	4.6
ROAA (%)	14.2	16.3	14.2	13.8	14.6
ROAE (%)	20.9	25.2	25.3	26.8	26.4

Source(s): The Group, ABCI Securities estimates

Company Report

Nov 14, 2023

Rating: **BUY**

TP: RMB 28.1

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Share price (RMB)	25.55
52Wk H/L (RMB)	27.5/24.04
Est. share price return	10.0%
Est. dividend yield	3.7%
Est. total return	13.7%
Previous rating & TP	BUY; RMB 28.3
Previous report date	Aug 16, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	88.52
3-mth ADT (RMB mn)	225.4

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.39

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

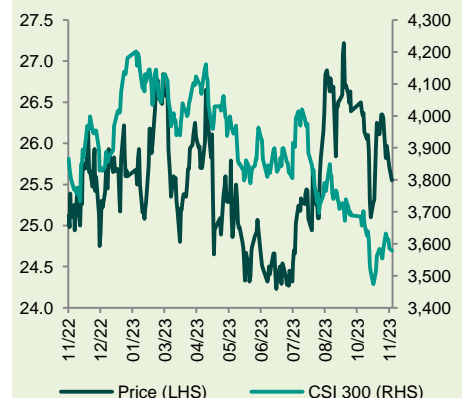
Price Performance (%)

	Absolute	Relative*
1-mth	(3.1)	0.2
3-mth	1.9	9.7
6-mth	1.0	10.1

* 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 Nov 13, 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 (%)	55.1	45.9	11.3	4.6	Adjusted based on 3Q23 figures
D/A (%)	28.7	23.9	7.7	3.2	
Tax rate (%)	20.1	20.1	20.1	20.1	
Valuations					
TP (RMB)	28.1		28.3		Revise down TP mainly due to lower revenue and profit projections
P/E (x)	17.86	16.06	17.28	14.66	
P/B (x)	4.58	4.05	4.06	3.66	

Note: Previous report was published on Aug 16, 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)	64,764	69,028	74,974	67,364	72,340	75,200	(3.9)	(4.6)	(0.3)
Net profit (to shareholders of the Company) (RMB mn)	5,450	6,063	6,763	5,675	6,687	7,386	(4.0)	(9.3)	(8.4)
EPS (RMB)	1.57	1.75	1.95	1.64	1.93	2.13	(4.0)	(9.3)	(8.4)

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	64,764	69,028	74,974
Core revenue	66,682	62,576	64,619	68,873	74,806
- Packaged meat products	27,351	27,189	28,813	30,400	32,717
- Fresh meat products	39,073	33,464	33,430	36,749	40,082
- Other products	6,307	7,282	7,884	8,592	9,451
- Intersegment elimination	(6,049)	(5,358)	(5,508)	(6,867)	(7,444)
Interest income	115	155	145	155	168
Commission and processing income	0	0	0	0	0
COGS	(56,469)	(52,349)	(54,215)	(57,597)	(62,402)
GP	10,329	10,382	10,549	11,431	12,572
Core GP	10,237	10,256	10,435	11,309	12,438
- Packaged pork product	7,827	8,273	8,565	9,165	10,081
- Fresh pork	1,979	1,714	1,637	1,893	2,083
- Other products	430	269	233	251	273
- Intersegment elimination	0	0	0	0	0
GP of interest income	92	126	114	123	135
GP of Commission and processing income	(1)	(1)	(1)	(1)	(1)
Business levy and taxes	(307)	(342)	(344)	(367)	(397)
S&D expenses	(1,874)	(1,927)	(2,060)	(2,219)	(2,370)
Admin expenses	(1,082)	(1,134)	(1,207)	(1,286)	(1,397)
Others expenses	(1,035)	(8)	222	112	(67)
Operating profit	6,032	6,970	7,160	7,670	8,341
- Packaged pork product	5,807	6,182	6,523	6,897	7,431
- Fresh pork	93	793	744	891	1,038
- Other products	132	(5)	(108)	(117)	(129)
- Intersegment elimination	0	0	0	0	0
Net finance income/(costs)	11	61	9	9	10
Others gain/(losses)	174	129	(257)	(2)	217
Pretax profit	6,216	7,160	6,912	7,678	8,568
Tax	(1,332)	(1,443)	(1,392)	(1,547)	(1,726)
Net profit	4,884	5,717	5,520	6,131	6,842
- Owners of the company	4,866	5,621	5,450	6,063	6,763
- Minority interest	18	96	71	68	152
Dividend	4,497	3,465	3,270	3,638	4,058
EPS (RMB)					
- Basic	1.40	1.62	1.57	1.75	1.95
- Diluted	1.40	1.62	1.57	1.75	1.95
DPS (RMB)	1.30	1.00	0.94	1.05	1.17

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	9,826	15,445	14,599
Trade and bills receivable	233	237	252	283	293
Inventories	5,669	6,121	6,801	6,733	7,044
Others	3,779	3,844	3,990	3,514	3,679
Current assets	17,520	15,971	20,869	25,975	25,615
PP&E & CIP	13,933	17,891	18,104	18,322	18,638
Biological assets	186	340	272	264	254
Intangible assets	1,067	1,224	1,248	1,332	1,388
Others	1,272	881	1,058	1,110	1,119
Non-current assets	16,457	20,336	20,683	21,028	21,398
Total assets	33,977	36,307	41,551	47,003	47,013
Trade and bills payable	2,144	3,919	1,981	3,858	2,520
ST borrowings	2,338	3,147	10,931	10,275	8,734
Others	5,493	6,435	5,241	6,543	6,284
Current liabilities	9,974	13,501	18,152	20,676	17,538
LT borrowings	13	12	933	905	832
Lease liabilities	216	207	326	331	338
Others	625	510	501	590	527
Non-current liabilities	853	729	1,759	1,826	1,698
Shareholders' equity	22,809	21,853	21,240	24,033	27,158
Minority interest	341	330	400	468	620
Total equity	23,150	22,182	21,640	24,501	27,778
Total liabilities and equity	33,977	36,412	41,551	47,003	47,013

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	5,520	6,131	6,842
Depreciation and amortization	1,047	1,294	1,196	1,295	1,080
Change in working capital	(1,372)	696	(4,355)	1,342	(3,175)
Others	1,476	(142)	347	317	138
Cash flow from operating activities	6,034	7,565	2,709	9,085	4,885
Change in PP&E, intangible assets, and other long-term assets	(3,919)	(3,384)	(2,136)	(1,082)	(1,059)
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)	(2,362)	(523)	(1,091)
Change in bank borrowing	76	388	8,683	(686)	(1,615)
Others	(6,078)	(6,803)	(5,063)	(2,843)	(2,858)
Cash flow from financing activities	(6,002)	(6,415)	3,620	(3,528)	(4,473)
ForEx effect	4	1	3	5	5
Net change in cash and cash equivalent	(556)	(2,337)	3,970	5,039	(674)
Cash and cash equivalent at the end of FY	7,574	5,236	9,206	14,245	13,571

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)	3.2	6.6	8.6
Core revenue	(9.7)	(6.2)	3.3	6.6	8.6
- Packaged meat products	(2.7)	(0.6)	6.0	5.5	7.6
- Fresh meat products	(19.0)	(14.4)	(0.1)	9.9	9.1
- Other products	21.3	15.4	8.3	9.0	10.0
GP	(12.3)	0.5	1.6	8.4	10.0
EBIT	(19.3)	15.6	2.7	7.1	8.7
Pretax Profit	(22.0)	15.2	(3.5)	11.1	11.6
Net profit (to owners of the company)	(22.2)	15.5	(3.0)	11.3	11.5
Profitability ratios (%)					
GPM	15.5	16.5	16.3	16.6	16.8
Core GPM	15.4	16.4	16.1	16.4	16.6
- Packaged meat products	28.6	30.4	29.7	30.1	30.8
- Fresh meat products	5.1	5.1	4.9	5.2	5.2
- Other products	6.8	3.7	3.0	2.9	2.9
OPM	9.0	11.1	11.1	11.1	11.1
Pretax margin	9.3	11.4	10.7	11.1	11.4
NPM (to owners of the company)	7.3	9.0	8.4	8.8	9.0
Return ratios (%)					
ROAA	14.2	16.3	14.2	13.8	14.6
ROAE	20.9	25.2	25.3	26.8	26.4
Liquidity ratio (x)					
Current ratio	1.8	1.2	1.1	1.3	1.5
Quick ratio	1.2	0.7	0.8	0.9	1.1
Cash ratio	0.8	0.4	0.5	0.7	0.8
Cash conversion cycle (days)					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	45	35	42	47	46
Days of outstanding payable	13	21	19	18	18
CCC	34	15	24	30	29
Leverage ratios (%)					
Total debt to Total equity	10.2	14.6	55.1	45.9	34.6
Total debt to Total assets	7.0	8.9	28.7	23.9	20.5
Net (cash)/debt to Total equity	(23.7)	(11.4)	9.7	(17.2)	(17.9)
Net (cash)/debt to Total assets	(16.1)	(7.0)	5.0	(8.9)	(10.6)

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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