

# Shuanghui (000895 CH)

## Revenue to grow in 2H22; maintain BUY

- On track to revenue growth in 2H22 as COVID is contained, pork prices in China stay elevated, and macro environment is stabilized
- We expect operational efficiency and product portfolio adjustments would help offset certain impacts from cost inflation, resulting in overall margin improvement in FY2E
- Maintain **BUY**; current TP implies 17.59x/16.93x 22E/23E P/E, or 5.29x/4.98x 22E/23E P/B

**Growth momentum to pick up in 2H22.** 1H22 revenue declined 19.9% YoY, while revenue of packaged meat and fresh meat segments dropped 3.0% YoY and 32.3% YoY. Weakening pork prices and social distancing measures were the main culprits of the decline. As COVID tames down, pork prices stay elevated, and macroeconomic condition stabilizes, We expect revenue would grow in 2H22, based on the assumption that COVID situation remains contained, macroeconomic condition improves, and 2H22 average national pork price would increase by 15% YoY. We expect FY22 revenue to go up 1.8% YoY, similar to our previous forecast. In FY22E, revenue growth of packaged meat would reach 13.3% YoY, while fresh meat segment revenue would decline 6.6% YoY. Our projections indicate 2H22 revenue growth to reach 25.5% YoY while revenue growth of packaged meat segment and fresh meat segment would be at 29.4% and 23.1% YoY. FY21-24E revenue CAGR is projected at 7.2%, supported by the 11.2%/4.1% revenue CAGRs in packaged meat/fresh meat segments. The lower future growth trajectory is due to lower expected growth from fresh meat segment.

**Profitability to be affected by cost inflation.** GPM, OPM, and NPM (to shareholders of the Company) increased to 18.1%, 12.1%, and 9.8% in 1H22 vs. 14.6%, 8.7% and 7.3% in 1H21. Despite COVID resurgence, GPM, OPM, and NPM (to shareholders of the Company) stabilized at 17.1%, 10.9%, and 9.0% in 2Q22. Low pork prices in 1H22 contributing to strong GPM (32.0%) and OPM (24.3%) of packaged meat segment was the main cause of improved margins. We believe the Group would be able to improve operational efficiency and product portfolio to offset partial impacts of the pork price increase in 2H22, resulting in FY22E margin profile improvement. We expect FY22E GPM, OPM, and NPM (to shareholders of the Company) to be 17.5%, 10.6%, and 9.6% and decline to 16.7%, 9.9%, and 8.9% in FY24E. Based on our current estimates, 2H22 GPM, OPM, and NPM (to shareholders of the Company) would be 17.1%, 9.5%, and 9.5%.

**Maintain BUY; TP at RMB 33.1.** We project basic EPS would grow by 34.0% in FY22E and 62.7% YoY in 2H22. Maintain **BUY** on growth recovery in 2H22. We lower our TP to reflect the lower revenue and profit projections for FY23E and FY24E. Current TP represents 17.59x/16.93x 22E/23E P/E, or 5.29x/4.98x 22E/23E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Prolonged COVID-19 outbreak; 3) Rising raw material costs; 4) Regulatory/policy risk; 5) Product quality/safety risk; 6) Risk of changing consumer tastes; 7) Fluctuations in EPS and DPS growth.

### Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	73,935	66,798	67,998	74,289	82,368
Chg (% YoY)	22.5	(9.7)	1.8	9.3	10.9
Net Profit (to shareholders of the Company) (RMB mn)	6,256	4,866	6,520	6,775	7,349
Chg (% YoY)	15.0	(22.2)	34.0	3.9	8.5
Basic EPS (RMB)	1.86	1.40	1.88	1.96	2.12
Chg (% YoY)	13.8	(24.7)	34.0	3.9	8.5
P/E (x)	14.15	18.78	14.02	13.49	12.44
BVPS (RMB)	6.9	6.6	6.3	6.7	7.1
P/B (x)	3.85	4.01	4.21	3.97	3.73
DPS (RMB)	2.32	1.30	1.51	1.56	1.70
Yield (%)	8.8	4.9	5.7	5.9	6.4
ROAA (%)	20.1	14.2	19.4	19.4	19.7
ROAE (%)	31.1	20.9	29.3	30.3	30.9

Source(s): The Group, ABCI Securities estimates

## Company Report

Aug 25, 2022

Rating: **BUY**

TP: RMB 33.1

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Share price (RMB)	26.38
52Wk H/L (RMB)	33.9/23.5
Est. share price return	25.5%
Est. dividend yield	5.7%
Est. total return	31.2%
Previous rating & TP	BUY; RMB 36.4
Previous report date	May 23, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	91.40
3-mth ADT (RMB mn)	437.1

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.49

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

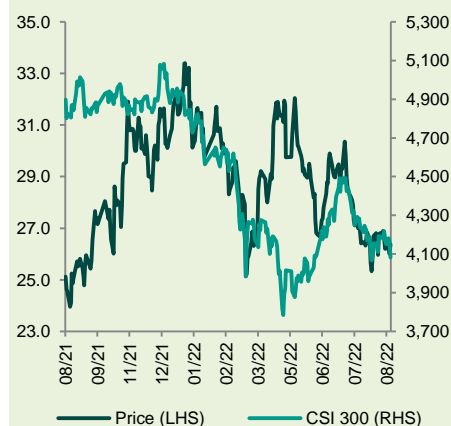
### Price Performance (%)

	Absolute	Relative*
1-mth	(0.11)	3.56
3-mth	(8.88)	(9.58)
6-mth	(10.30)	1.39

\* 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 Aug 24, 2022

**Exhibit 1: Changes in assumptions and valuations**

FY ends at Dec 31	Current report		Previous report		Rationale
	FY22E	FY23E	FY22E	FY23E	
<b>Assumptions</b>					
D/E (%)	15.7	14.0	9.4	9.1	Adjusted based on 1H22 rates
D/A (%)	10.0	9.2	6.4	6.3	
Tax rate (%)	20.5	20.5	20.5	20.5	
<b>Valuations</b>					
TP (RMB)	33.1		36.4		Lower TP on lower profit and revenue projections in FY23E & FY24E
P/E (x)	17.59	16.93	19.40	18.22	
P/B (x)	5.29	4.98	5.23	4.95	

Note: Previous report was published on May 23, 2022

Source(s): 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 (RMB mn)	67,998	74,289	82,368	68,011	75,122	84,843	(0.0)	(1.1)	(2.9)
Net profit (to shareholders of the Company) (RMB mn)	6,520	6,775	7,349	6,502	6,921	7,596	0.3	(2.1)	(3.3)
EPS (RMB)	1.88	1.96	2.12	1.88	2.00	2.19	0.1	(2.2)	(3.1)

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>73,935</b>	<b>66,798</b>	<b>67,998</b>	<b>74,289</b>	<b>82,368</b>
<b>Core revenue</b>	<b>73,863</b>	<b>66,682</b>	<b>67,880</b>	<b>74,161</b>	<b>82,226</b>
- Packaged meat products	28,098	27,351	30,975	34,647	37,625
- Fresh meat products	48,267	39,073	36,488	39,309	44,060
- Other products	5,199	6,307	7,138	8,013	8,973
- Intersegment elimination	(7,702)	(6,049)	(6,721)	(7,808)	(8,432)
<b>Interest income</b>	<b>73</b>	<b>115</b>	<b>117</b>	<b>128</b>	<b>142</b>
<b>Commission and processing income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
COGS	(62,157)	(56,469)	(56,085)	(61,736)	(68,583)
<b>GP</b>	<b>11,778</b>	<b>10,329</b>	<b>11,912</b>	<b>12,553</b>	<b>13,785</b>
<b>Core GP</b>	<b>11,733</b>	<b>10,237</b>	<b>11,825</b>	<b>12,453</b>	<b>13,673</b>
- Packaged pork product	8,045	7,827	9,858	10,109	10,973
- Fresh pork	3,098	1,979	1,607	1,891	2,106
- Other products	590	430	425	478	630
- Intersegment elimination	0	0	(64)	(25)	(36)
<b>GP of interest income</b>	<b>46</b>	<b>92</b>	<b>88</b>	<b>101</b>	<b>113</b>
<b>GP of Commission and processing income</b>	<b>(0)</b>	<b>(1)</b>	<b>(0)</b>	<b>(0)</b>	<b>(1)</b>
Business levy and taxes	(341)	(307)	(326)	(342)	(379)
S&D expenses	(1,645)	(1,874)	(2,030)	(2,215)	(2,483)
Admin expenses	(1,392)	(1,082)	(1,095)	(1,187)	(1,316)
Others expenses	(927)	(1,035)	(1,282)	(1,351)	(1,484)
<b>Operating profit</b>	<b>7,473</b>	<b>6,032</b>	<b>7,179</b>	<b>7,458</b>	<b>8,123</b>
- Packaged pork product	5,755	5,807	6,708	7,151	7,986
- Fresh pork	1,581	93	865	922	1,024
- Other products	51	132	135	155	173
- Intersegment elimination	87	0	(529)	(770)	(1,060)
Net finance income/(costs)	(33)	11	4	9	1
Others gain/(losses)	532	174	1,211	1,213	1,265
<b>Pretax profit</b>	<b>7,973</b>	<b>6,216</b>	<b>8,394</b>	<b>8,680</b>	<b>9,388</b>
Tax	(1,603)	(1,332)	(1,724)	(1,782)	(1,927)
<b>Net profit</b>	<b>6,370</b>	<b>4,884</b>	<b>6,670</b>	<b>6,899</b>	<b>7,460</b>
- Owners of the company	6,256	4,866	6,520	6,775	7,349
- Minority interest	114	18	150	124	112
<b>Dividend</b>	<b>8,038</b>	<b>4,497</b>	<b>5,216</b>	<b>5,420</b>	<b>5,879</b>
EPS (RMB)					
- Basic	1.86	1.40	1.88	1.96	2.12
- Diluted	1.86	1.40	1.88	1.96	2.12
<b>DPS (RMB)</b>	<b>2.32</b>	<b>1.30</b>	<b>1.51</b>	<b>1.56</b>	<b>1.70</b>

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalent	8,486	7,839	3,965	3,538	3,259
Trade and bills receivable	281	233	229	281	300
Inventories	6,378	5,669	6,816	5,907	7,652
Others	6,930	3,779	3,613	3,404	3,654
<b>Current assets</b>	<b>22,074</b>	<b>17,520</b>	<b>14,624</b>	<b>13,130</b>	<b>14,865</b>
PP&E & CIP	10,627	13,933	17,643	20,279	21,728
Biological assets	148	186	232	273	307
Intangible assets	1,027	1,067	1,105	1,141	1,179
Others	828	1,272	1,261	1,400	1,585
<b>Non-current assets</b>	<b>12,630</b>	<b>16,457</b>	<b>20,241</b>	<b>23,093</b>	<b>24,799</b>
<b>Total assets</b>	<b>34,704</b>	<b>33,977</b>	<b>34,865</b>	<b>36,223</b>	<b>39,664</b>
Trade and bills payable	1,712	2,144	2,264	2,329	2,977
ST borrowings	2,383	2,338	3,399	3,264	3,182
Others	5,900	5,493	6,172	6,048	7,358
<b>Current liabilities</b>	<b>9,995</b>	<b>9,974</b>	<b>11,835</b>	<b>11,642</b>	<b>13,517</b>
LT borrowings	15	13	13	39	31
Lease liabilities	0	216	281	316	326
Others	561	625	555	567	548
<b>Non-current liabilities</b>	<b>576</b>	<b>853</b>	<b>849</b>	<b>921</b>	<b>905</b>
Shareholders' equity	23,763	22,809	21,690	23,045	24,515
Minority interest	370	341	491	615	727
<b>Total equity</b>	<b>24,133</b>	<b>23,150</b>	<b>22,181</b>	<b>23,660</b>	<b>25,241</b>
<b>Total liabilities and equity</b>	<b>34,704</b>	<b>33,977</b>	<b>34,865</b>	<b>36,223</b>	<b>39,664</b>

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)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	6,370	4,884	6,670	6,899	7,460
Depreciation and amortization	980	1,047	1,124	1,196	1,295
Change in working capital	876	(1,372)	(1,659)	(618)	(1,529)
Others	596	1,476	210	464	463
<b>Cash flow from operating activities</b>	<b>8,822</b>	<b>6,034</b>	<b>6,344</b>	<b>7,940</b>	<b>7,689</b>
Change in PP&E, intangible assets, and other long-term assets	(1,137)	(3,919)	(3,976)	(1,636)	(1,362)
Change in investments related items	(2,797)	3,326	(477)	(204)	504
Others	282	0	0	0	0
<b>Cash flow from investing activities</b>	<b>(3,652)</b>	<b>(592)</b>	<b>(4,453)</b>	<b>(1,840)</b>	<b>(859)</b>
Change in bank borrowing	(720)	76	1,122	(165)	(90)
Others	532	(6,078)	(6,773)	(6,341)	(7,013)
<b>Cash flow from financing activities</b>	<b>(188)</b>	<b>(6,002)</b>	<b>(5,651)</b>	<b>(6,506)</b>	<b>(7,104)</b>
ForEx effect	2	4	1	1	1
<b>Net change in cash and cash equivalent</b>	<b>4,984</b>	<b>(556)</b>	<b>(3,759)</b>	<b>(404)</b>	<b>(272)</b>
<b>Cash and cash equivalent at the end of FY</b>	<b>8,130</b>	<b>7,574</b>	<b>3,815</b>	<b>3,411</b>	<b>3,139</b>

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
<b>Growth (YoY %)</b>					
Revenue	22.5	(9.7)	1.8	9.3	10.9
Core revenue	22.5	(9.7)	1.8	9.3	10.9
- Packaged meat products	11.7	(2.7)	13.3	11.9	8.6
- Fresh meat products	23.4	(19.0)	(6.6)	7.7	12.1
- Other products	52.0	21.3	13.2	12.3	12.0
GP	4.1	(12.3)	15.3	5.4	9.8
EBIT	13.4	(19.3)	19.0	3.9	8.9
Pretax Profit	16.6	(22.0)	35.0	3.4	8.2
Net profit (to owners of the company)	15.0	(22.2)	34.0	3.9	8.5
<b>Profitability ratios (%)</b>					
GPM	15.9	15.5	17.5	16.9	16.7
Core GPM	15.9	15.4	17.4	16.8	16.6
- Packaged meat products	28.6	28.6	31.8	29.2	29.2
- Fresh meat products	6.4	5.1	4.4	4.8	4.8
- Other products	11.3	6.8	5.9	6.0	7.0
OPM	10.1	9.0	10.6	10.0	9.9
Pretax margin	10.8	9.3	12.3	11.7	11.4
NPM (to owners of the company)	8.5	7.3	9.6	9.1	8.9
<b>Return ratios (%)</b>					
ROAA	20.1	14.2	19.4	19.4	19.7
ROAE	31.1	20.9	29.3	30.3	30.9
<b>Liquidity ratio (x)</b>					
Current ratio	2.2	1.8	1.2	1.1	1.1
Quick ratio	1.6	1.2	0.7	0.6	0.5
Cash ratio	0.8	0.8	0.3	0.3	0.2
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	72	45	37	41	44
Days of outstanding payable	14	13	14	13	13
CCC	60	34	24	29	32
<b>Leverage ratios (%)</b>					
Total debt to Total equity	9.9	10.2	15.7	14.0	12.8
Total debt to Total assets	6.9	7.0	10.0	9.2	8.1
Net (cash)/debt to Total equity	(25.2)	(23.7)	(2.2)	(0.9)	(0.1)
Net (cash)/debt to Total assets	(17.5)	(16.1)	(1.4)	(0.6)	(0.1)

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 ( $\sim 10\%$ )
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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