

WH Group (288 HK) Reiterate BUY on potential Smithfield listing

- Listing of Smithfield's US and Mexico operation would enhance WH Group's financial position
- Listing valuation is affected by Smithfield's operating performance, WH Group's present valuation, and share price performance of comparable listing precedents
- Maintain **BUY**; TP implies 8.9x/7.8x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B

Proposed spin-off of part of business of Smithfield Foods. WH Group announced a proposed spin-off of business of Smithfield Foods, Inc. operated in the U.S. and Mexico (Smithfield for short) for a separate listing on either the NYSE or the Nasdaq. WH Group has not specified the timeline or listing valuation. Some of the consumer goods companies have listed their subsidiaries in the US - a notable case would be Amer Sports (AS US) by Anta (2020 HK) in early 2024. We believe that successful listing of subsidiaries would encourage China's consumer goods companies to follow suit, strengthening their foreign presence and laying the groundwork for future global expansion.

Pork segment weighed on recent performance. According to WH Group, Smithfield's revenue declined by 10.1% YoY and 8.1% YoY in 2023 and 1Q24. 1Q24 revenue decline of packaged meat segment lessened, but that of pork segment accelerated. Product segment OPM of Smithfield varied, with packaged meat segment OPM outperforming that of pork segment. In recent quarters, Smithfield's pork segment revenue was lower than that of Tyson Foods (TSN US), which is one of its major US peers, and operating profit of its pork segment was less than that of Tyson, which is also reflected in the OPM performance. We believe Smithfield needs to engineer a turnaround to boost listing valuation. WH Group mentioned efforts are underway to improve its North American farm portfolio recently. The targeted restructuring efforts would help streamline the pork segment operations and potentially act as a catalyst to increase listing valuation.

Maintain BUY; TP at HK\$ 6.6. Reiterate **BUY** on WH Group's improved profitability in 1Q24, projected recovery in growth momentum, and potential enhancement of financial position resulted from the Smithfield listing. Yet, the listing still faces uncertainties. As such, our DCF-derived TP remains unchanged for now. Current TP represents 8.9x/7.8x 24E/25E P/E, or 1.0x/0.9x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer taste; 5) Pork price remains low for an extended period; 6) Foreign exchange risk; 7) Interest rate risk; 8) Fluctuations in EPS and DPS growth; 9) Potential failure of Smithfield listing.

Results and Valuation

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	28,136	26,236	27,279	27,818	28,121
Chg (% YoY)	3.1	(6.8)	4.0	2.0	1.1
Net profit ⁽³⁾ (US\$ mn)	1,370	629	1,210	1,387	1,516
Chg (% YoY)	28.3	(54.1)	92.3	14.6	9.4
Basic EPS (US cent)	10.68	4.90	9.43	10.81	11.82
Chg (% YoY)	41.4	(54.1)	92.3	14.6	9.4
P/E (x)	6.31	13.74	7.15	6.23	5.70
BVPS (US cent)	74.82	76.62	82.22	89.72	97.76
P/B (x)	0.90	0.88	0.82	0.75	0.69
DPS (HK\$)	0.30	0.30	0.26	0.30	0.32
Yield (%)	5.7	5.7	4.9	5.6	6.1
ROAA (%)	8.4	4.4	7.8	8.2	8.6
ROAE (%)	14.9	6.5	11.9	12.6	12.6

Source(s): The Group, ABCI Securities estimates

Company Report Jul 16, 2024 Rating: BUY TP: HK\$ 6.6

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Share price (HK\$)	5.23
52Wk H/L(HK\$)	5.92/3.88
Est. share price return	25.8%
Est. dividend yield	4.9%
Est. total return	30.7%
Previous Rating & TP	BUY; HK\$ 6.6
Previous report date	May 2, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	12.8
Market cap (HK\$ bn)	67.1
3-mth ADT (HK\$ mn)	122.5

Major shareholders

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

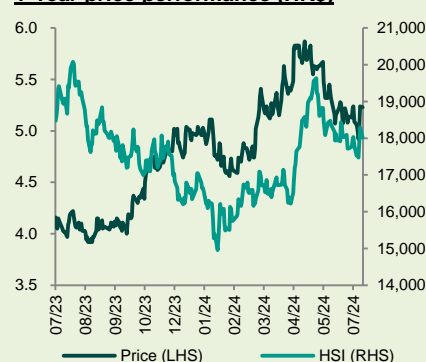
Sector Performance (%)

	Absolute	Relative*
1-mth	1.2	0.7
3-mth	(5.3)	(13.0)
6-mth	2.3	(8.6)

* 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 Jul 15, 2024; 2) Gross profit, operating profit, and related measures discussed are before biological adjustment; 3) Net profits and related measures refer to net profit attributable to shareholders of the Company after biological adjustment; 4) USD/HKD: 7.8074; 5) Smithfield's US&Mexico operating figures are represented by the US&Mexico operating figures published by the Group.

Financial impacts on WH Group. As of end-FY23, WH Group had US\$ 1,156mn in bank balance and cash, and US\$ 3,228mn in total debts (including bank borrowings, senior unsecured notes, and loans from third parties); total debts/total assets ratio was at 16.8% and total debts/total equity ratio was at 30.5%. Assuming the listing is priced at 9.4x FY23 operating profit and 25% of the shares are being sold, the proceeds from the listing would be US\$ 775.5mn, which represents 67.1% of the bank balance and cash and 24.0% of total debt as of end-FY23. For the purpose of this analysis, let's assume that the listing was completed by the end of FY23. Under this assumption, the pro forma total debt/total assets ratio and total debt/total equity ratio would be at 16.2% and 28.4%, respectively, as of end-FY23. The additional cash from the proceeds would strengthen the Group's financial position upon a successful listing of Smithfield.

Spinoff valuation to face limitations beyond operating performance. Smithfield Foods was acquired by the Group in Sep 2013 for a total consideration of US\$ 4.9bn. At the time of acquisition, the consideration represented 9.4x FY13 operating profit or 26.7x the FY13 net profit. Assuming the listing valuation has the same operating profit multiple as that of the 2013 acquisition, Smithfield's total market cap would be US\$ 3.1bn (9.4x FY23 operating profit at US\$ 330mn). For the listing market cap to be equivalent to the total consideration of the 2013 acquisition (US\$ 4.9bn), the listing operating profit multiple has to be 14.9x – which is challenging in our view. First, we believe Smithfield's less-than-sanguine operating performance recently may limit the valuation. Second, the existing valuation level of WH Group, which was ~5.8x FY23 operating profit as of Jul 15, would serve as a natural cap on Smithfield's IPO valuation. Third, Amer Sports (AS US), a subsidiary of Anta (2020 HK), witnessed a post-listing price decrease due to fears that China's present macroeconomic conditions would affect its operations. Investors may be nervous that Smithfield's post-listing price performance may follow a similar path as Amer Sports.

Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	26.4	22.4	26.4	22.4	N/A
D/A (%)	13.5	12.6	13.5	12.6	
Tax rate (%)	20.2	20.3	20.2	20.3	
Valuations					
TP (HK\$)	6.6		6.6		N/A
P/E (x)	8.9	7.8	8.9	7.8	
P/B (x)	1.0	0.9	1.0	0.9	

Note: for previous report publication date please refer to the cover page of this company report

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

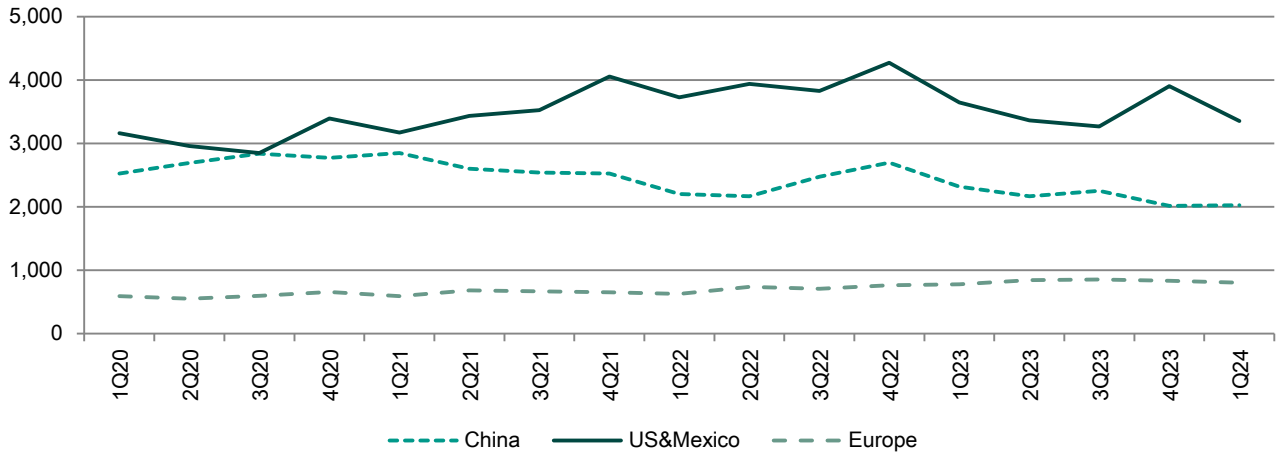
FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (US\$ mn)	27,279	27,818	28,121	27,279	27,818	28,121	0.0	0.0	0.0
Net profit (to owners of the Company) (US\$ mn)	1,210	1,387	1,516	1,210	1,387	1,516	0.0	0.0	0.0
EPS (US cent)	9.43	10.81	11.82	9.43	10.81	11.82	0.0	0.0	0.0

Note: Net profit and EPS are after biological adjustment

Source(s): ABCI Securities estimates

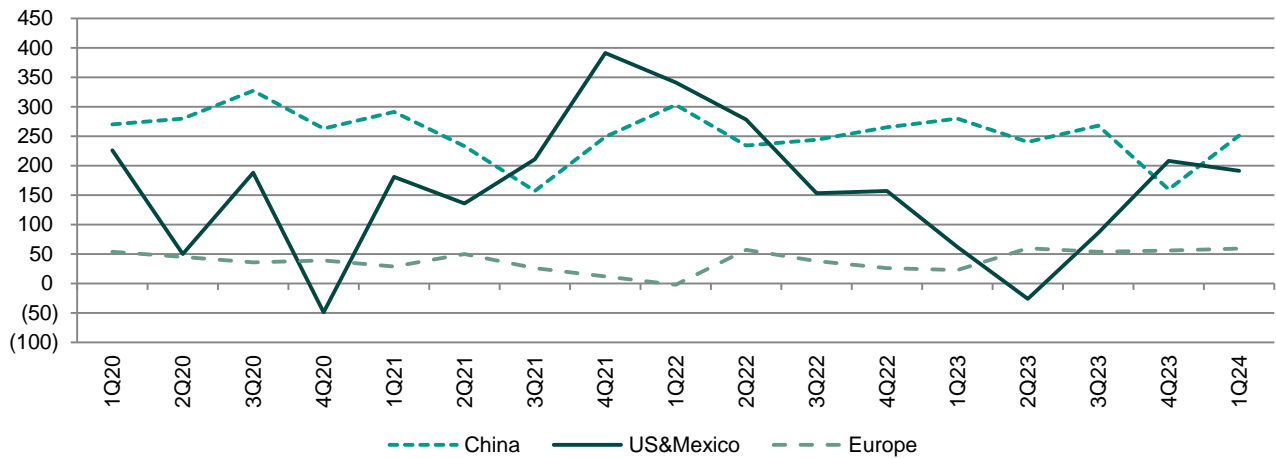


Exhibit 3: Revenue of WH Group – by geographical segment (US\$ mn)



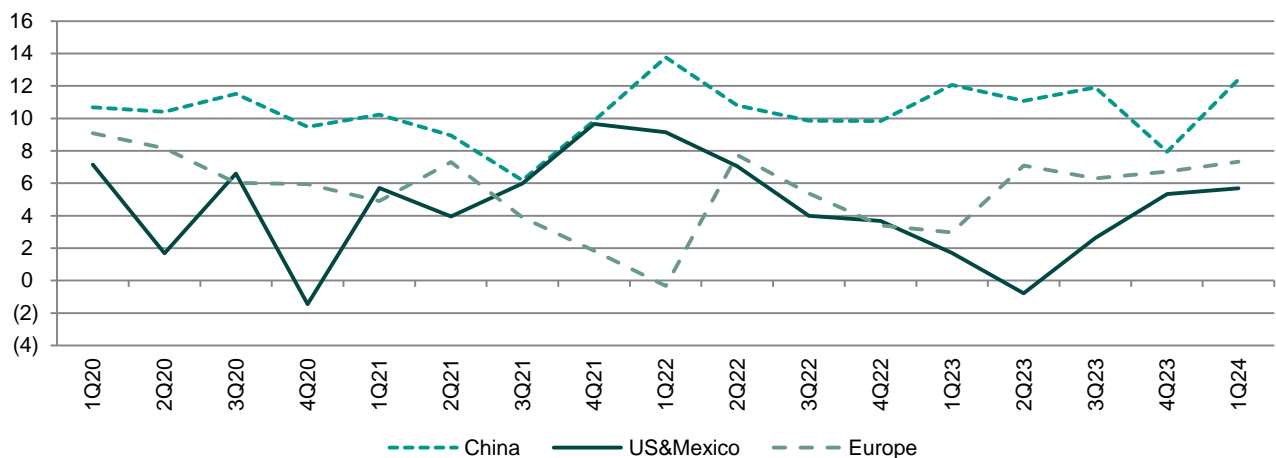
Source(s): WH Group, ABCI Securities

Exhibit 4: Operating profit of WH Group – by geographical segment (US\$ mn)



Source(s): WH Group, ABCI Securities

Exhibit 5: OPM of WH Group – by geographical segment (%)



Source(s): WH Group, ABCI Securities

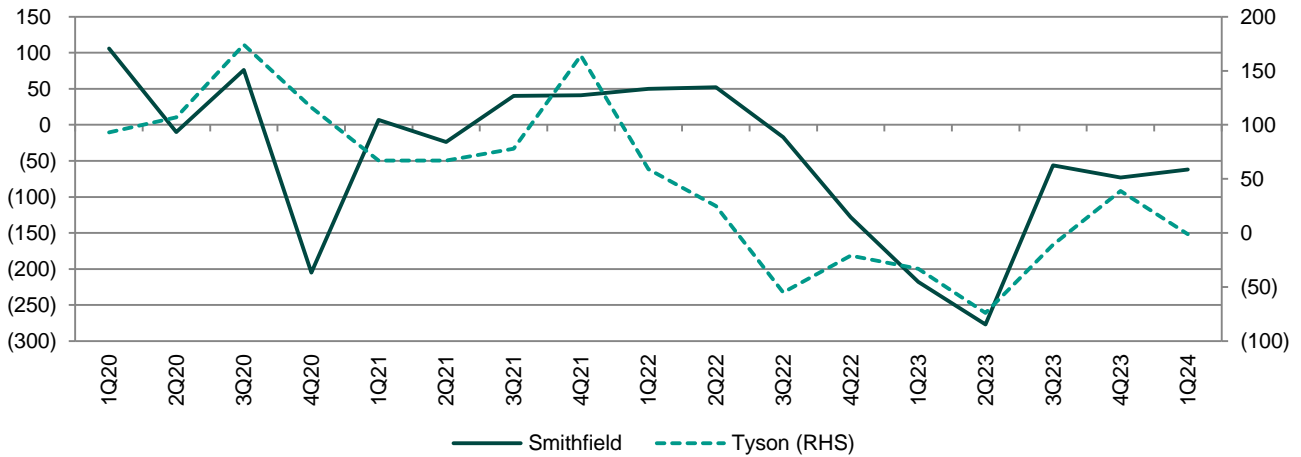


Exhibit 6: Pork segment revenue comparison – Smithfield & Tyson (US\$ mn)



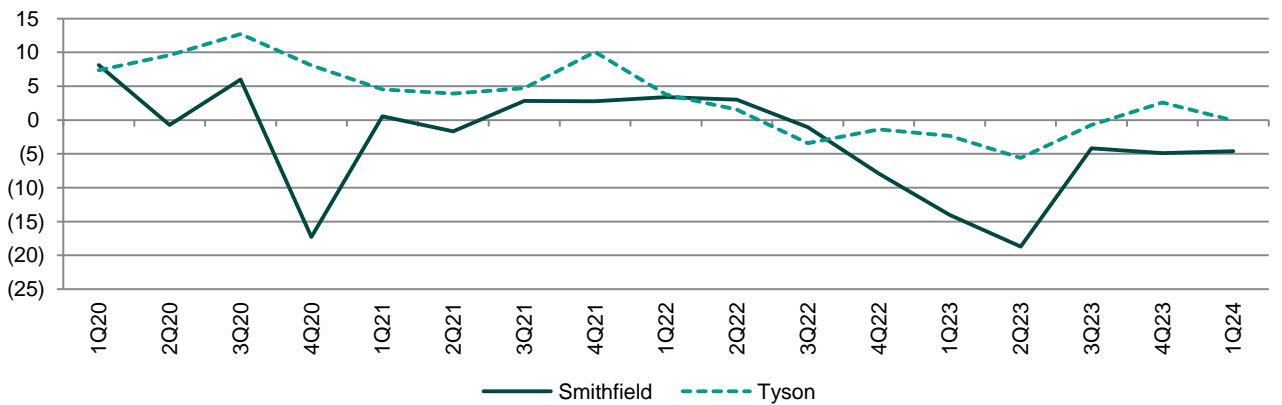
Note: Smithfield pork revenue is WH Group's pork segment revenue in US & Mexico
Source(s): WH Group, Tyson Foods, ABCI Securities

Exhibit 7: Pork segment operating profit comparison - Smithfield & Tyson (US\$ mn)

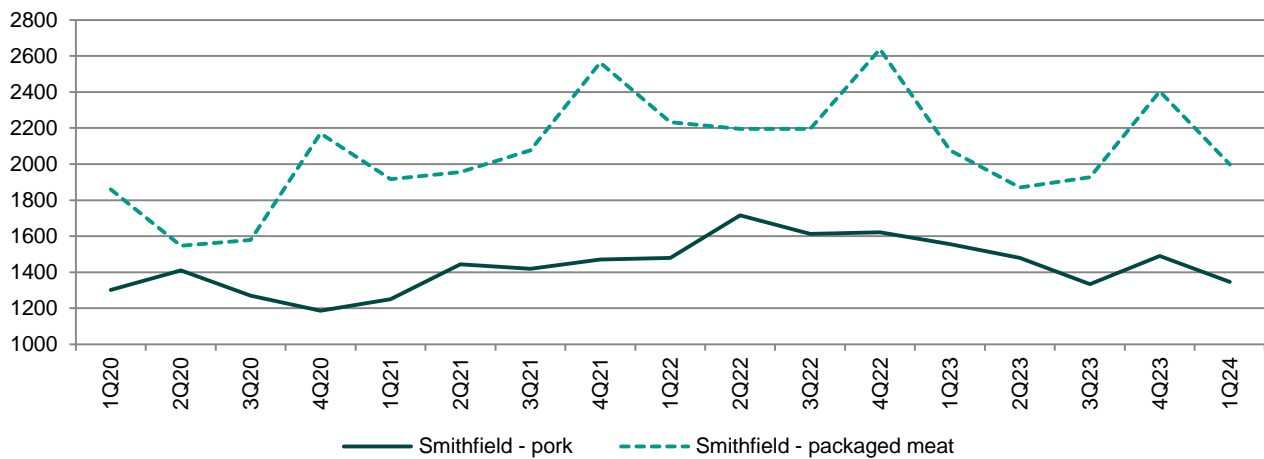


Note: Smithfield pork operating profit is WH Group's pork segment operating profit in US & Mexico
Source(s): WH Group, Tyson Foods, ABCI Securities

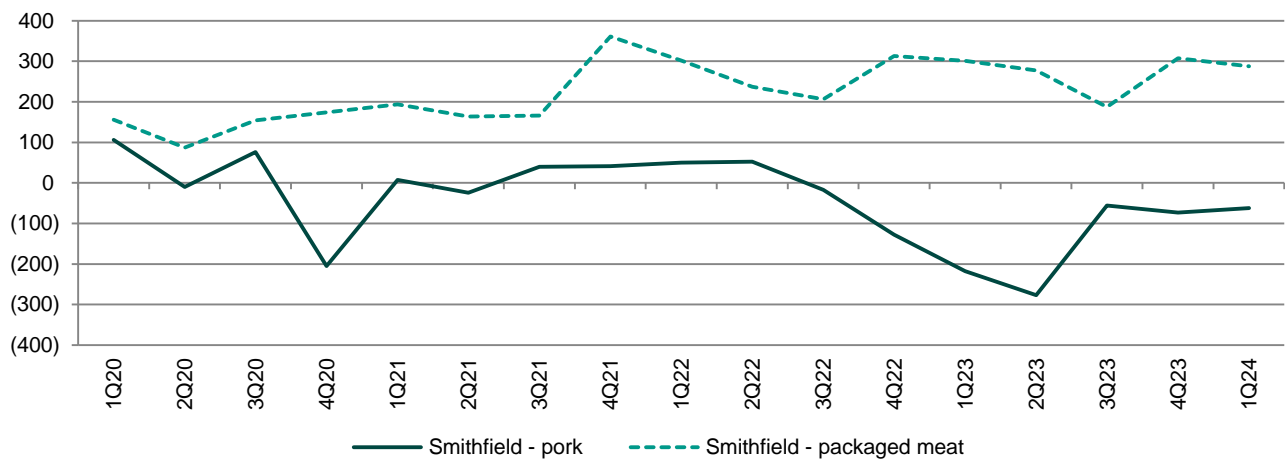
Exhibit 8: Pork segment OPM comparison - Smithfield & Tyson (%)



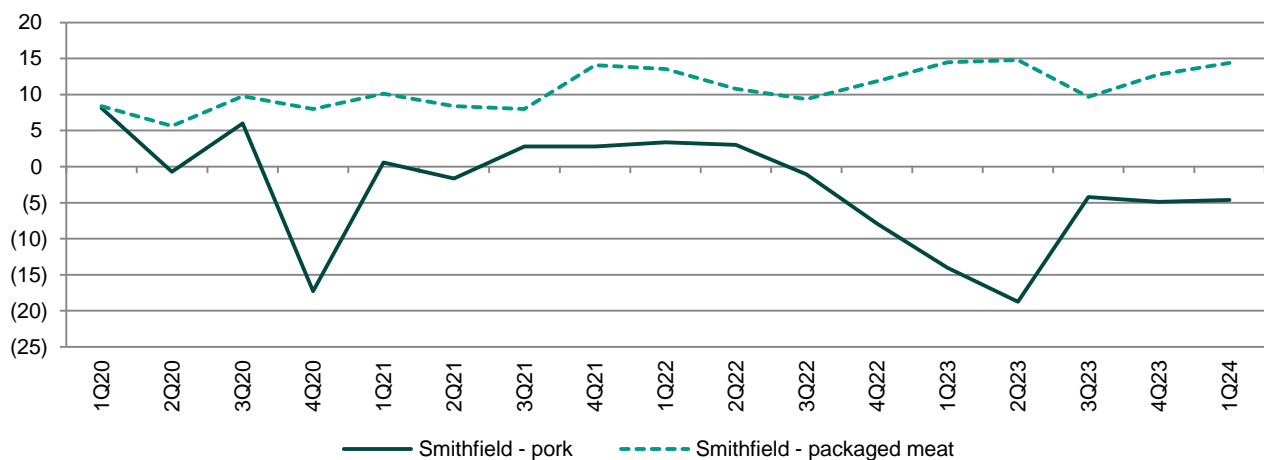
Note: Smithfield pork OPM is WH Group's pork segment OPM in US & Mexico
Source(s): WH Group, Tyson Foods, ABCI Securities

Exhibit 9: Smithfield segment revenue comparison (US\$ mn)


Note: revenue figures are derived from WH Group's US & Mexico revenue for corresponding product segments
 Source(s): WH Group, ABCI Securities

Exhibit 10: Smithfield segment operating profit comparison (US\$ mn)


Note: operating profit figures are derived from WH Group's US & Mexico operating profits for corresponding product segments
 Source(s): WH Group, ABCI Securities

Exhibit 11: Smithfield segment OPM comparison (%)


Note: OPM figures are derived from WH Group's US & Mexico OPM for corresponding product segments
 Source(s): WH Group, ABCI Securities



Exhibit 12: Valuation multiple represented by acquisition consideration of Smithfield Foods in 2013

Total acquisition consideration in 2013 (US\$ bn)	4.9		
FY end - end of Apr or beg of May	FY11	FY12	FY13
EBIT (US\$ bn)	1.1	0.7	0.5
<i>EBIT multiple (x)</i>	<u>4.5</u>	<u>6.8</u>	<u>9.4</u>
Net profit (US\$ bn)	0.5	0.4	0.2
<i>Net profit multiple (x)</i>	<u>9.4</u>	<u>13.6</u>	<u>26.7</u>

Source(s): WH Group, ABCI Securities calculation

Exhibit 13: Valuation of comparable peers in the U.S.

Name	Ticker	FY end	P/E		P/B		ROAE		ROAA	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Tyson Foods	TSN US	Sep	22.5	16.3	1.1	1.1	4.7	6.7	2.0	3.6
Hormel Foods	HRL US	Oct	19.2	18.0	2.0	1.9	10.9	11.2	6.4	7.0
Pilgrim's Pride	PPC US	Dec	10.5	10.8	2.4	2.1	21.8	20.0	6.8	7.4

Note: as of Jul 15,2024

Source(s): Bloomberg, ABCI Securities

Financial Statements

Consolidated income statement

As of Dec 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	28,136	26,236	27,279	27,818	28,121
- Packaged meats	14,559	13,523	14,062	14,740	15,163
- Pork	11,797	10,810	11,198	10,997	10,813
- Others	1,780	1,903	2,020	2,080	2,144
COGS	(22,959)	(21,111)	(22,064)	(22,400)	(22,464)
Gross profit	5,177	5,125	5,216	5,418	5,657
Distribution and selling expenses	(2,082)	(1,977)	(2,063)	(2,105)	(2,133)
Admin expenses	(842)	(889)	(924)	(942)	(953)
Biological adjustment	(299)	(836)	33	27	15
Others	139	48	(147)	(117)	(181)
Operating profit	2,093	1,471	2,114	2,281	2,405
- Packaged meat	2,065	2,050	2,138	2,242	2,303
- Pork	30	(480)	(18)	23	57
- Others	(2)	(99)	(6)	16	45
Net finance cost	(169)	(169)	(148)	(135)	(131)
Share of profits from JV and associates	4	(38)	(8)	(5)	(4)
Other gains/(losses)	204	(207)	116	238	332
Pretax profit	2,132	1,057	2,074	2,378	2,602
Tax	(482)	(197)	(419)	(482)	(528)
Net profit	1,650	860	1,654	1,896	2,073
- Profit attributable to shareholders	1,370	629	1,210	1,387	1,516
- Minority interest	280	231	444	509	557
EPS					
- Basic (US cent)	10.68	4.90	9.43	10.81	11.82
- Diluted (US cent)	10.33	4.75	9.13	10.46	11.44
DPS (HK cent)	30.00	30.00	25.77	29.53	32.30

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

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalent	1,394	1,156	3,872	4,532	5,049
Trade and bills receivable	1,087	873	1,548	976	1,601
Inventory	2,855	2,919	2,934	3,059	2,958
ST Biological assets	1,343	1,149	1,187	1,295	1,308
Others	1,330	1,217	1,189	1,189	1,237
Total current assets	8,009	7,314	10,730	11,052	12,153
PP&E	6,536	6,602	6,769	6,828	6,938
LT Biological assets	201	214	228	243	249
Goodwill	1,992	2,043	2,043	2,043	2,043
Intangible assets	1,717	1,707	1,766	1,797	1,857
Interest in JV and associates	252	224	237	251	266
Others	1,148	1,075	1,245	1,291	1,268
Total non-current assets	11,846	11,865	12,287	12,452	12,620
Total assets	19,855	19,179	23,018	23,504	24,774
Trade and bills payable	1,395	1,240	1,535	1,296	1,501
ST borrowings & bank overdrafts	862	1,106	1,007	897	852
Accrued expenses and other payables	2,513	2,150	2,762	2,554	2,414
Others	215	162	258	227	281
Total current liabilities	4,985	4,658	5,562	4,974	5,049
LT Borrowings	2,504	2,122	2,090	2,061	2,000
Others	1,954	1,824	3,628	3,259	2,928
Total non-current liabilities	4,458	3,946	5,719	5,321	4,928
Shareholders' equity	9,600	9,831	10,549	11,512	12,543
Minority interest	812	744	1,188	1,698	2,254
Total equity	10,412	10,575	11,737	13,209	14,797
Total liabilities and equity	19,855	19,179	23,018	23,504	24,774

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of Dec 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Pretax profit	2,132	1,057	2,074	2,378	2,602
Depreciation and amortization	802	779	861	739	781
Change in working capital	(665)	(157)	157	(113)	(555)
Others	(466)	(62)	(172)	(517)	(722)
Cash flow from operating activities	1,803	1,617	2,920	2,487	2,105
Change in PP&E	(913)	(576)	(791)	(792)	(1,205)
Others	563	(87)	1,688	185	870
Cash flow from investing activities	(350)	(663)	898	(607)	(335)
Change in borrowings	(605)	(140)	(131)	(139)	(107)
Others	(937)	(1,035)	(857)	(981)	(1,087)
Cash flow from financing activities	(1,542)	(1,175)	(988)	(1,120)	(1,194)
Net change in cash	(89)	(221)	2,830	760	577
Forex effect	(73)	(17)	(114)	(100)	(59)
Cash at the end of FY	1,394	1,156	3,872	4,532	5,049

Note: Items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of Dec 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Revenue	3.1	(6.8)	4.0	2.0	1.1
- Packaged meat	5.4	(7.1)	4.0	4.8	2.9
- Pork	(1.4)	(8.4)	3.6	(1.8)	(1.7)
Gross profit	4.8	(13.7)	12.8	4.4	2.3
Operating profit	6.5	(29.7)	43.7	7.9	5.5
Net profit (to owners of the company)	28.3	(54.1)	92.3	14.6	9.4
Profitability ratios (%)					
GPM	17.5	16.2	17.6	18.0	18.2
OPM	7.4	5.6	7.8	8.2	8.6
- Packaged meat	14.2	15.2	15.2	15.2	15.2
- Pork	0.3	(4.4)	(0.2)	0.2	0.5
Pretax margin	7.8	3.9	6.0	7.0	7.3
NPM (to owners of the company)	4.9	2.4	4.4	5.0	5.4
Revenue contribution (%)					
Packaged meat	51.7	51.5	51.5	53.0	53.9
Fresh pork	41.9	41.2	41.0	39.5	38.5
Hog production	6.3	7.3	7.4	7.5	7.6
Return ratios (%)					
ROAA	8.4	4.4	7.8	8.2	8.6
ROAE	14.9	6.5	11.9	12.6	12.6
Liquidity ratio (x)					
Current ratio	1.6	1.6	1.9	2.2	2.4
Quick ratio	0.8	0.7	1.2	1.3	1.6
Cash ratio	0.3	0.3	0.7	0.9	1.0
Cash conversion cycle (days)					
Days of outstanding receivable	14	14	16	16	17
Days of inventory on hand	44	50	48	49	49
Days of outstanding payable	20	23	23	23	23
CCC	37	41	42	42	43
Leverage ratios (%)					
Total debt/Equity	32.3	30.5	26.4	22.4	19.3
Total debt/Total assets	17.0	16.8	13.5	12.6	11.5

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 ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (HSI total return index 2005-23 averaged at 7.4%)

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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