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Profit growth outlook stays intact; maintain BUY

- We expect improvement in revenue growth would ensue after 2Q22, which would face challenges brought by COVID-related measures and the low pork price
- The improvement of margin profile in 1Q22 confirms our previous expectation of margin improvement for FY22E; margins would also gain more support in 2H22 mainly due to relaxation of COVID-related measures and pork price increase
- Maintain **BUY**; current TP implies 19.40x/18.22x 22E/23E P/E, or 5.23x/4.95x 22E/23E P/B

Project FY22E revenue growth to stay at 1.8% YoY. We believe 2Q22 revenue growth will be fazed by the social distancing measures deployed across the nation and the low pork price, which has already resulted in packaged meat and fresh meat segment revenue decline of 4.9% YoY and 37.1% YoY in 1Q22. However, we expect relaxation of COVID-related measures in certain regions and higher pork price in 2H22 would boost revenue growth. Our revenue growth projections stay unchanged since these factors were accounted for in our previous forecasts. We expect FY22E revenue to grow 1.8% YoY, supported mainly by the 4.2% YoY revenue growth in packaged meat segment; meanwhile, revenue from fresh meat segment would decline by 0.1% YoY. Apr – Dec 2022 revenue growth would be 11.8% YoY while FY21-24E revenue CAGR would be 8.3%.

Expect margins to improve. We maintain the view that better margins to reflect the Group's higher operating efficiency and optimized product portfolio, as shown by GPM rising to 19.1% in 1Q22 vs. 14.8% in 1Q21 and NPM (to shareholders of the Company) rising to 10.6% in 1Q22 vs. 7.9% in 1Q21. In addition, higher pork price and relaxation of COVID-related measures in 2H22 would further support margins. We largely maintain our margin forecasts with adjustments made to interest income margins. We expect GPM, OPM, and NPM (to shareholders of the Company) to be 16.9%, 10.4%, and 9.6% for FY22E and stabilize to 16.2%, 9.9%, and 9.0% for FY24E. For FY22E, net profit (to shareholders of Company) would jump 33.6% YoY. Based on current forecast, net profit (to shareholders of the Company) in Apr – Dec 2022 would increase 47.2% YoY and NPM (to shareholders of the Company) in Apr – Dec 2022 would be 9.3% vs. 7.1% for the same period last year.

Maintain BUY; TP at RMB 36.4. Based on current estimates, FY22E basic EPS would jump 33.6% YoY in FY22E and FY21-24E basic EPS CAGR would be 16.0%. Maintain **BUY** on ability to maintain EPS growth. Our DCF-derived TP is slightly increased to reflect the increase in net profit (to shareholders of the Company) resulting from interest income margin adjustments. Current TP represents 19.40x/18.22x 22E/23E P/E, or 5.23x/4.95x 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	68,011	75,122	84,843
Chg (% YoY)	22.5	(9.7)	1.8	10.5	12.9
Net Profit (to shareholders of the Company) (RMB mn)	6,256	4,866	6,502	6,921	7,596
Chg (% YoY)	15.0	(22.2)	33.6	6.4	9.8
Basic EPS (RMB)	1.86	1.40	1.88	2.00	2.19
Chg (% YoY)	13.8	(24.7)	33.6	6.4	9.8
P/E (x)	15.53	20.61	15.43	14.49	13.20
BVPS (RMB)	6.9	6.6	7.0	7.4	7.8
P/B (x)	4.22	4.40	4.16	3.93	3.71
DPS (RMB)	2.32	1.30	1.50	1.60	1.75
Yield (%)	8.0	4.5	5.2	5.5	6.1
ROAA (%)	20.1	14.2	19.0	19.0	19.4
ROAE (%)	31.1	20.9	27.7	27.9	28.9

Source(s): The Group, ABCI Securities estimates

Company Report

May 23, 2022

Rating: BUY

TP: RMB 36.4

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Share price (RMB)	28.95
52Wk H/L (RMB)	36.85/23.5
Est. share price return	25.7%
Est. dividend yield	5.2%
Est. total return	30.9%
Previous rating & TP	BUY; RMB 36.2
Previous report date	Apr 11, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (bn)	3.46
Mkt cap (RMB bn)	100.30
3-mth ADT (RMB mn)	457.6

Shareholding (%)	
Rotary Vortex	70.33
HK Securities Clearing Co	3.17

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

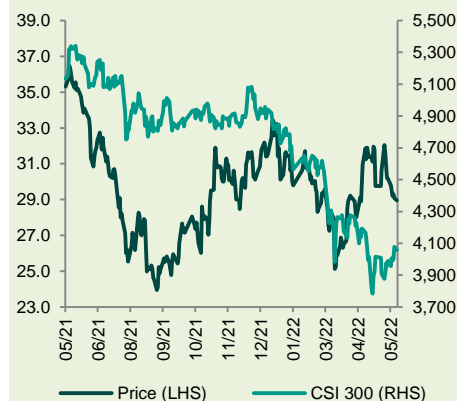
Price Performance (%)

	Absolute	Relative*
1-mth	(7.74)	(8.76)
3-mth	(2.33)	9.04
6-mth	(3.08)	14.39

* 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 May 23, 2022



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 (%)	9.4	9.1	9.4	9.1	
D/A (%)	6.4	6.3	6.5	6.2	N/A
Tax rate (%)	20.5	20.5	20.5	20.5	
Valuations					
TP (RMB)	36.4		36.2		TP and valuation are changed to reflect the slight increase in net profit (to shareholders of the Company)
P/E (x)	19.40	18.22	19.37	18.18	
P/B (x)	5.23	4.95	5.20	4.92	

Note: Previous report was published on Apr 11, 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)	68,011	75,122	84,843	68,011	75,122	84,843	0.0	0.0	0.0
Net profit (to shareholders of the Company) (RMB mn)	6,502	6,921	7,596	6,475	6,899	7,543	0.4	0.3	0.7
EPS (RMB)	1.88	2.00	2.19	1.87	1.99	2.18	0.4	0.3	0.7

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
Revenue	73,935	66,798	68,011	75,122	84,843
Core revenue	73,863	66,682	67,943	75,047	84,759
- Packaged meat products	28,098	27,351	28,506	29,525	30,828
- Fresh meat products	48,267	39,073	39,019	45,317	53,389
- Other products	5,199	6,307	7,138	8,013	8,973
- Intersegment elimination	(7,702)	(6,049)	(6,721)	(7,808)	(8,432)
Interest income	73	115	68	75	85
Commission and processing income	0	0	0	0	0
COGS	(62,157)	(56,469)	(56,485)	(62,643)	(71,062)
GP	11,778	10,329	11,526	12,479	13,782
Core GP	11,733	10,237	11,476	12,421	13,715
- Packaged pork product	8,045	7,827	8,201	8,528	9,032
- Fresh pork	3,098	1,979	2,700	3,199	3,909
- Other products	590	430	639	718	809
- Intersegment elimination	0	0	(64)	(25)	(36)
GP of interest income	46	92	51	59	67
GP of Commission and processing income	(0)	(1)	(0)	(0)	(1)
Business levy and taxes	(341)	(307)	(313)	(346)	(390)
S&D expenses	(1,645)	(1,874)	(1,819)	(1,964)	(2,160)
Admin expenses	(1,392)	(1,082)	(1,095)	(1,200)	(1,356)
Others expenses	(927)	(1,035)	(1,213)	(1,349)	(1,480)
Operating profit	7,473	6,032	7,086	7,620	8,395
- Packaged pork product	5,755	5,807	6,174	6,330	6,544
- Fresh pork	1,581	93	925	1,063	1,240
- Other products	51	132	98	113	127
- Intersegment elimination	87	0	(111)	113	484
Net finance income/(costs)	(33)	11	4	9	1
Others gain/(losses)	532	174	1,281	1,239	1,308
Pretax profit	7,973	6,216	8,371	8,868	9,703
Tax	(1,603)	(1,332)	(1,719)	(1,820)	(1,992)
Net profit	6,370	4,884	6,652	7,048	7,711
- Owners of the company	6,256	4,866	6,502	6,921	7,596
- Minority interest	114	18	150	127	115
Dividend	8,038	4,497	5,201	5,537	6,077
EPS (RMB)					
- Basic	1.86	1.40	1.88	2.00	2.19
- Diluted	1.86	1.40	1.88	2.00	2.19
DPS (RMB)	2.32	1.30	1.50	1.60	1.75

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	6,836	7,727	7,674
Trade and bills receivable	281	233	229	285	309
Inventories	6,378	5,669	6,816	5,997	7,761
Others	6,930	3,779	3,975	4,234	4,494
Current assets	22,074	17,520	17,856	18,243	20,237
PP&E & CIP	10,627	13,933	15,485	16,817	18,282
Biological assets	148	186	192	193	197
Intangible assets	1,027	1,067	1,105	1,141	1,179
Others	828	1,272	1,457	1,559	1,791
Non-current assets	12,630	16,457	18,239	19,709	21,448
Total assets	34,704	33,977	36,095	37,952	41,686
Trade and bills payable	1,712	2,144	2,295	2,373	3,121
ST borrowings	2,383	2,338	2,288	2,344	2,414
Others	5,900	5,493	6,109	6,150	7,582
Current liabilities	9,995	9,974	10,692	10,868	13,118
LT borrowings	15	13	15	19	13
Lease liabilities	0	216	237	245	256
Others	561	625	551	709	554
Non-current liabilities	576	853	802	973	822
Shareholders' equity	23,763	22,809	24,109	25,493	27,012
Minority interest	370	341	491	618	733
Total equity	24,133	23,150	24,600	26,111	27,746
Total liabilities and equity	34,704	33,977	36,095	37,952	41,686

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	6,652	7,048	7,711
Depreciation and amortization	980	1,047	1,124	1,196	1,295
Change in working capital	876	(1,372)	(1,618)	(660)	(1,415)
Others	596	1,476	136	605	323
Cash flow from operating activities	8,822	6,034	6,294	8,188	7,914
Change in PP&E, intangible assets, and other long-term assets	(1,137)	(3,919)	(1,716)	(1,206)	(1,362)
Change in investments related items	(2,797)	3,326	(675)	(464)	1,147
Others	282	0	0	0	0
Cash flow from investing activities	(3,652)	(592)	(2,392)	(1,670)	(215)
Change in bank borrowing	(720)	76	(48)	61	64
Others	532	(6,078)	(4,853)	(5,709)	(7,824)
Cash flow from financing activities	(188)	(6,002)	(4,901)	(5,648)	(7,760)
ForEx effect	2	4	2	3	3
Net change in cash and cash equivalent	4,984	(556)	(997)	872	(59)
Cash and cash equivalent at the end of FY	8,130	7,574	6,577	7,449	7,391

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	22.5	(9.7)	1.8	10.5	12.9
Core revenue	22.5	(9.7)	1.9	10.5	12.9
- Packaged meat products	11.7	(2.7)	4.2	3.6	4.4
- Fresh meat products	23.4	(19.0)	(0.1)	16.1	17.8
- Other products	52.0	21.3	13.2	12.3	12.0
GP	4.1	(12.3)	11.6	8.3	10.4
EBIT	13.4	(19.3)	17.5	7.5	10.2
Pretax Profit	16.6	(22.0)	34.7	5.9	9.4
Net profit (to owners of the company)	15.0	(22.2)	33.6	6.4	9.8
Profitability ratios (%)					
GPM	15.9	15.5	16.9	16.6	16.2
Core GPM	15.9	15.4	16.9	16.6	16.2
- Packaged meat products	28.6	28.6	28.8	28.9	29.3
- Fresh meat products	6.4	5.1	6.9	7.1	7.3
- Other products	11.3	6.8	8.9	9.0	9.0
OPM	10.1	9.0	10.4	10.1	9.9
Pretax margin	10.8	9.3	12.3	11.8	11.4
NPM (to owners of the company)	8.5	7.3	9.6	9.2	9.0
Return ratios (%)					
ROAA	20.1	14.2	19.0	19.0	19.4
ROAE	31.1	20.9	27.7	27.9	28.9
Liquidity ratio (x)					
Current ratio	2.2	1.8	1.7	1.7	1.5
Quick ratio	1.6	1.2	1.0	1.1	1.0
Cash ratio	0.8	0.8	0.6	0.7	0.6
Cash conversion cycle (days)					
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
Leverage ratios (%)					
Total debt to Total equity	9.9	10.2	9.4	9.1	8.8
Total debt to Total assets	6.9	7.0	6.4	6.3	5.9
Net (cash)/debt to Total equity	(25.2)	(23.7)	(18.4)	(20.5)	(18.9)
Net (cash)/debt to Total assets	(17.5)	(16.1)	(12.5)	(14.1)	(12.6)

Note: items may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
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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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