

WH Group (288 HK)

Expect record high adj. NP in 2021E led by strong recovery in US market

FY20 adj. NP fell 29% to US\$973mn, 21%/10% below consensus/our estimates, due to weak US results. That said, US business had huge exceptional losses in FY20 (COVID-19 related costs, inventory provision, etc.). As US economy is continuing to open up and 2021 forward hog futures prices are higher than corresponding prices in 2019 (Figure 3), US business should have a strong recovery in FY21E. We lift our SOTP-based TP from HK\$9.30 to HK\$9.60. The stock trades at 9.7x FY21E adj. P/E, lower than historical average of 11.0x. We forecast WH to post record high adj. NP in FY21E. Share price is 26% below record high on 1 Feb 2018. Maintain Buy on undemanding valuation.

- **FY20 results missed due to exceptional items.** Revenue rose 6% to US\$25.6bn, in line. Payout ratio maintained at 40%. **(1) China:** segment profit climbed 19% to US\$1,140mn, in line, driven by 24% OP growth of packaged meat business. OP/tonne of packaged meat increased 25% to RMB3,634 after prices hikes in FY19. Pork business (fresh pork and hog production) OP increased 9%. **(2) US:** segment profit slumped 55% to US\$415mn, missed our estimates, mainly due to US\$820mn COVID-19 expenses, ~US\$110mn one-off items (litigation compensation and pension related) and ~US\$187mn increase of inventory provision. Pork business recorded US\$33mn operating loss (vs US\$233mn OP in FY19) on weak hog price. Packaged meat business OP fell 33% due to 4% volume drop and inventory provision. **(3) Europe:** segment profit rose 23% to US\$174mn, in line, driven by 70% OP growth of packaged meat business.
- **China segment profit to grow 5% in FY21E.** Management expects hog price to drop in FY21E, with 2H average price less than 1H. Packaged meat OP/tonne would increase steady on declining hog price. For fresh pork, OP is expected to drop due to less frozen pork import and narrowing pork price spread between China and US.
- **US segment profit to surge 108% in FY21E.** Firstly, management expects COVID-19 related costs to be reduced by US\$650-700mn in FY21E. Secondly, in FY20, the US\$110mn litigation compensation and pension related expenses were one-off. Thirdly, the increase in inventory provision was mainly due to COVID-19. We think such provision would notably drop in FY21E. Thanks to strong hog futures prices, we expect hog production business could be breakeven at least (vs US\$197mn loss in FY20) despite rising feed costs.
- **Maintain Buy.** We raise FY21/22E adj. NP estimates by 6%/1% because we are more positive in US market outlook. Our SOTP-based TP was raised from HK\$9.30 to HK\$9.60, representing 12.9x FY21E adj. P/E. **Catalysts:** (1) acceleration of vaccinations in US; (2) hog price drops in China.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	24,103	25,589	27,200	28,209	29,499
Net profit (US\$ mn)	1,380	973	1,415	1,524	1,639
Adj. net profit (US\$ mn)	1,378	973	1,415	1,524	1,639
Adj. EPS (US\$)	0.094	0.066	0.096	0.103	0.111
YoY growth (%)	31.5	(29.5)	45.3	7.7	7.5
Consensus EPS (US\$)	NA	NA	0.102	0.110	0.110
Adj. P/E (x)	9.8	14.1	9.7	9.0	8.4
P/B (x)	1.6	1.4	1.2	1.1	1.1
Yield (%)	4.4	2.4	4.1	4.4	4.8
Adj. ROAE (%)	16.8	10.4	13.4	13.2	13.0

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$9.60**
 (Previous TP **HK\$9.30**)
 Up/Downside **+33%**
 Current Price **HK\$7.22**

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	106,463
Avg 3 mths t/o (HK\$ mn)	284.04
52w High/Low (HK\$)	8.00/ 5.90
Total Issued Shares (mn)	14,745.5

Source: Bloomberg

Shareholding Structure

Rise Grand	34.11%
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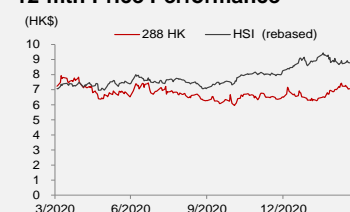
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.1%	3.4%
3-mth	8.5%	1.7%
6-mth	11.9%	-8.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

1. "WH Group – Recovery led by US market in 2021E" – 26 Feb 2021
2. "WH Group – US results strongly recovered in 3Q20" – 28 Oct 2020
3. "WH Group – US hog price boosted by German pork export ban" – 14 Sep 2020
4. "WH Group – 1H20 results below on epidemic-related costs" – 12 Aug 2020
5. "WH Group – Maintain Buy on undemanding valuation" – 13 Jul 2020
6. "WH Group – 1Q20 results on track" – 29 Apr 2020
7. "WH Group – FY19 results beat; 1Q20E NP growth still good" – 25 Mar 2020

Figure 1: FY20 results review

Y/E Dec (US\$mn)	FY20	FY19	% change
Revenue	25,589	24,103	6%
Cost of sales	(21,096)	(19,209)	10%
Gross profit	4,493	4,894	-8%
Other income	74	59	25%
SG&A expenses	(2,788)	(2,870)	-3%
Operating profit	1,779	2,083	-15%
Other expenses	(111)	(63)	76%
Finance costs	(135)	(144)	-6%
Other gains/(losses)	(47)	53	-189%
JV & associates	14	17	-18%
Profit before tax	1,500	1,946	-23%
Tax expenses	(263)	(336)	-22%
Non-controlling interests	(264)	(230)	15%
Net profit	973	1,380	-29%
Adj. net profit	973	1,378	-29%
DPS (HK\$)	0.175	0.315	-44%

Revenue by market

China revenue	10,828	8,756	24%
Packaged meat	4,037	3,615	12%
Pork	6,073	4,727	28%
Others	718	414	na
US revenue	12,363	13,159	-6%
Packaged meat	7,157	7,814	-8%
Pork	5,169	5,344	-3%
Others	37	1	3600%
Europe revenue	2,398	2,188	10%
Packaged meat	973	902	8%
Pork	1,054	944	12%
Others	371	342	8%

OP by market

China OP	1,140	957	19%
Packaged meat	836	673	24%
Pork	271	249	9%
Others	33	35	na
US OP	415	932	-55%
Packaged meat	571	847	-33%
Pork	(33)	233	-114%
Others	(123)	(148)	-17%
Europe OP	174	142	23%
Packaged meat	92	54	70%
Pork	103	88	17%
Others	(21)	0	na

Source: Company data, CMBIS

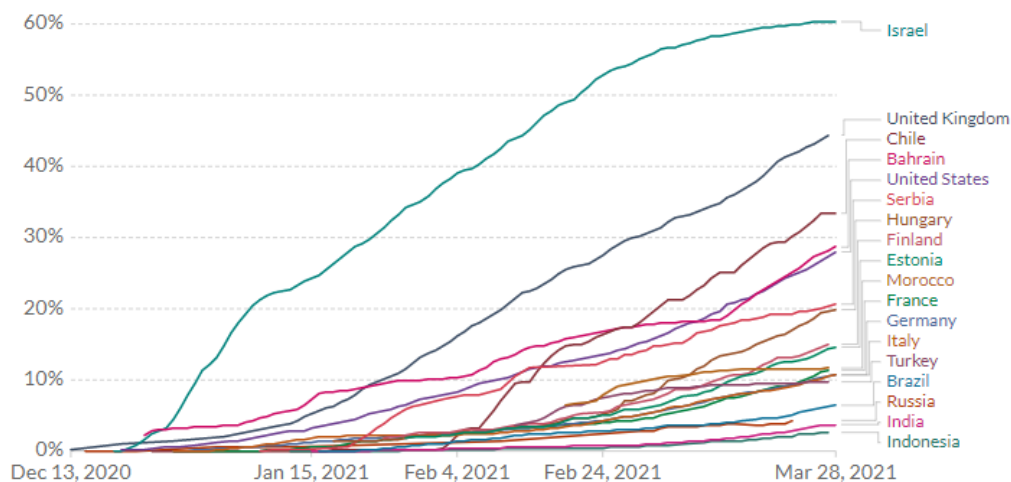
Figure 2: 28% of US people received at least one dose of vaccine as of 28 Mar 2021

Share of people who received at least one dose of COVID-19 vaccine

Share of the total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses.

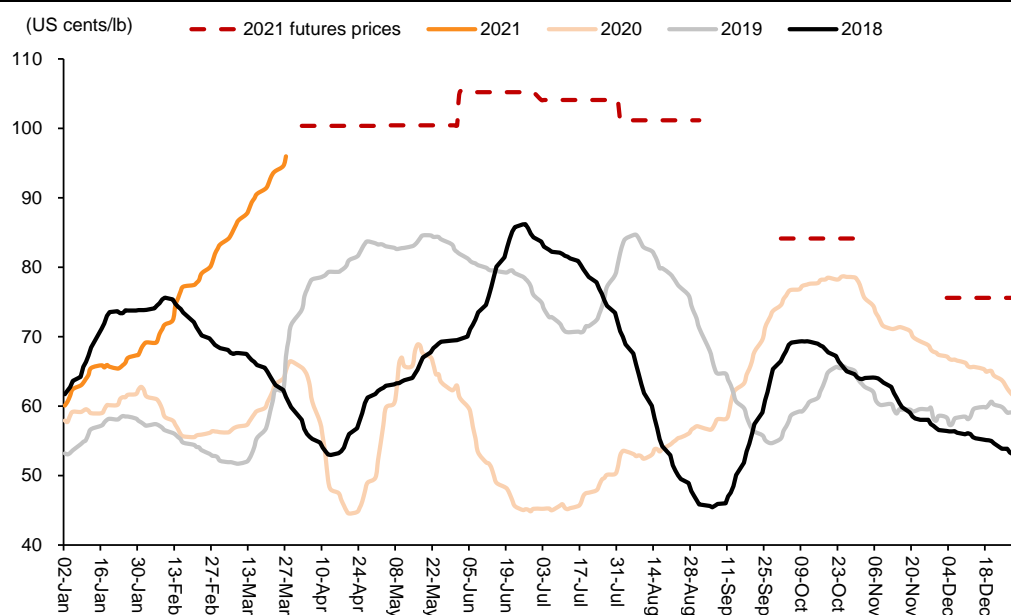


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Source: Official data collated by Our World in Data – Last updated 29 March, 12:10 (London time)
 OurWorldInData.org/coronavirus • CC BY

Source: Our World in Data

Figure 3: US 2021 hog forward futures trade well above 2018-2020 cash hog prices

Source: Bloomberg, CMBIS

Figure 4: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	27,200	28,209	29,499	25,969	27,550	na	5%	2%	na
Gross Profit	5,507	5,610	5,880	5,253	5,512	na	5%	2%	na
Operating Profit	2,308	2,457	2,632	2,214	2,454	na	4%	0%	na
Adj. net profit	1,415	1,524	1,639	1,331	1,514	na	6%	1%	na
Gross Margin	20.2%	19.9%	19.9%	20.2%	20.0%	na	flat	-0.1ppt	na
Operating Margin	8.5%	8.7%	8.9%	8.5%	8.9%	na	flat	-0.2ppt	na
Net Margin	5.2%	5.4%	5.6%	5.1%	5.5%	na	+0.1ppt	-0.1ppt	na

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	27,200	28,209	29,499	26,150	26,859	29,489	4%	5%	0%
Gross Profit	5,507	5,610	5,880	5,439	5,694	5,898	1%	-1%	0%
Operating Profit	2,308	2,457	2,632	2,312	2,494	2,647	0%	-2%	-1%
Net profit	1,415	1,524	1,639	1,473	1,599	1,696	-4%	-5%	-3%
Gross Margin	20.2%	19.9%	19.9%	20.8%	21.2%	20.0%	-0.6ppt	-1.3ppt	-0.1ppt
Operating Margin	8.5%	8.7%	8.9%	8.8%	9.3%	9.0%	-0.3ppt	-0.6ppt	-0.1ppt
Net Margin	5.2%	5.4%	5.6%	5.6%	6.0%	5.8%	-0.4ppt	-0.6ppt	-0.2ppt

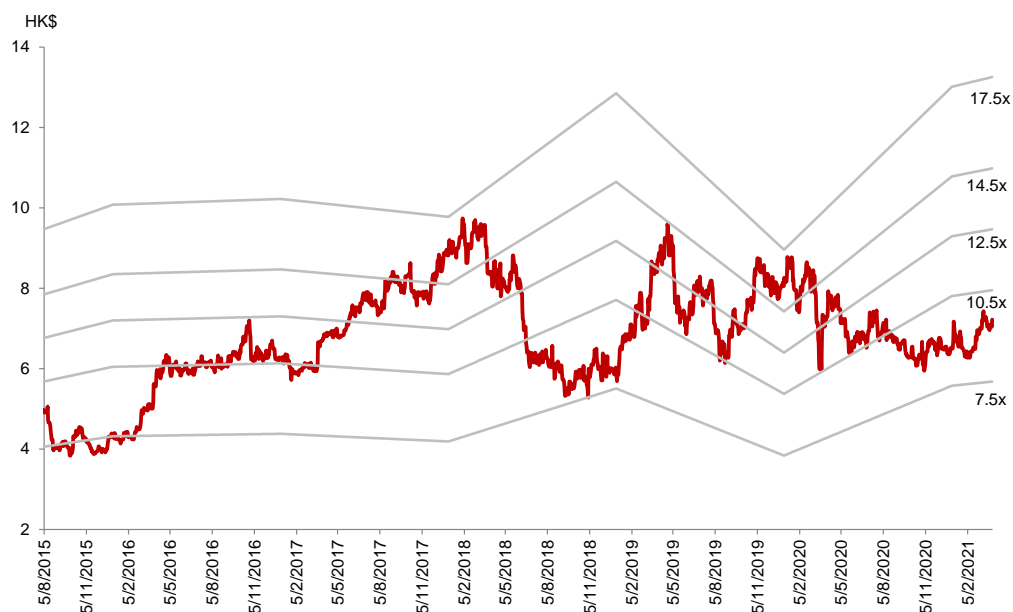
Source: Bloomberg, CMBIS estimates

Figure 6: SOTP-based valuation

Segment	FY21 P/E	FY21E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	783.0	7,830	10x FY21E P/E
China business	16.6	631.6	10,485	16.6x FY21E P/E
Total			18,315	
Value per share (HK\$)			9.6	
Implied FY21E P/E			12.9	

	Price (RMB)	Issue shares (mn)	Value (HK\$mn)	
Market cap of WH			106,463	
Mkt value of Shaughui stakes	43.88	3,464.7	90,210	based on 70.33% equity stakes and 30% holding company discount
Implied Smithfield value			16,252	

Source: Company data, Bloomberg, CMBIS estimates

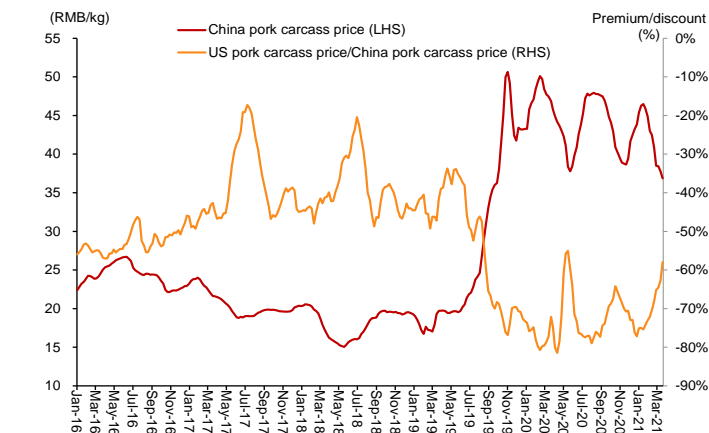
Figure 7: P/E band

Source: Bloomberg, Company data, CMBIS estimates

Figure 8: US hog generic future price rose 43% YTD and surpassed the peak in 2019

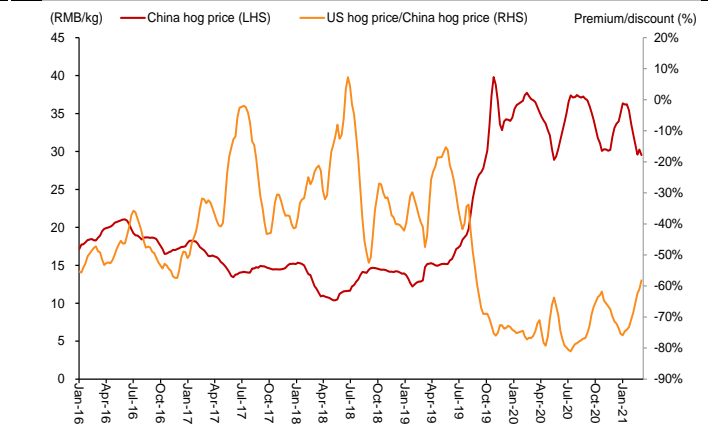
Source: Bloomberg, Company data, CMBIS estimates

Figure 9: The discount of US pork carcass price to China's narrowed to 58% on 21 Mar 2021



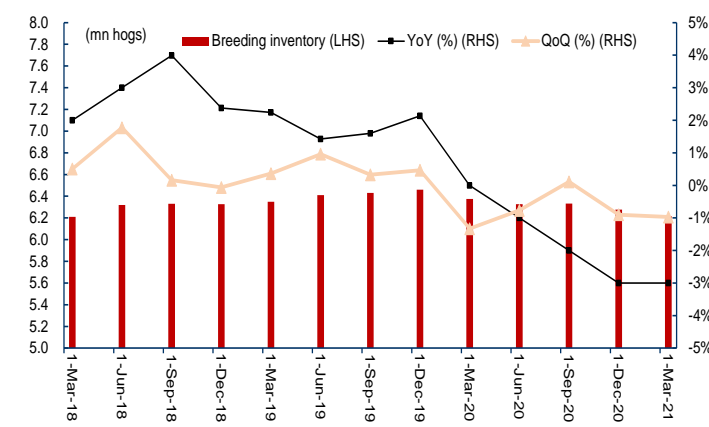
Source: Bloomberg, CMBIS

Figure 10: The discount of US hog price to China's was 58% on 10 Mar 2021



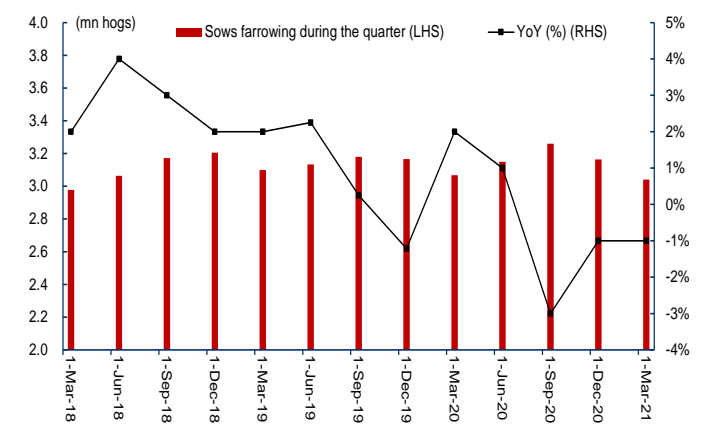
Source: Bloomberg, CMBIS

Figure 11: US breeding hog inventory was down 4% in the quarter ended 1 Mar 2021



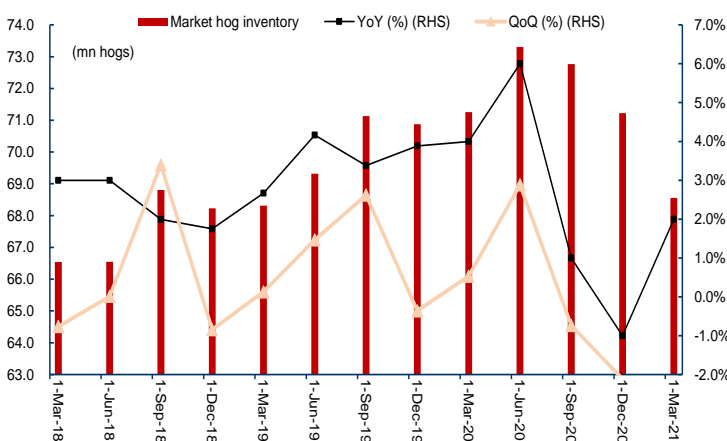
Source: USDA, CMBIS

Figure 12: Number of sows farrowing during the quarter ended 1 Mar 2021 was down 1%



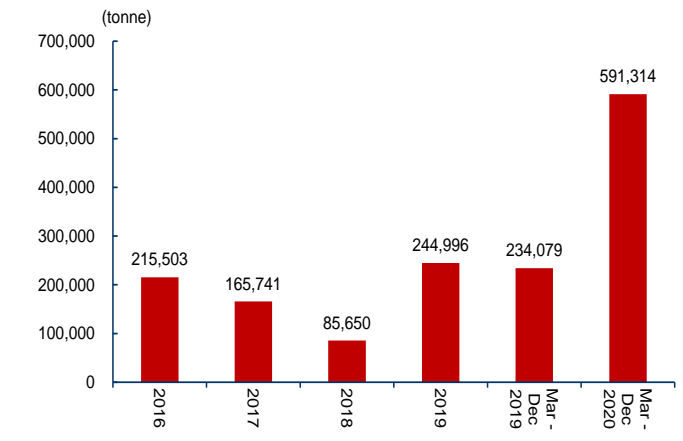
Source: USDA, CMBIS

Figure 13: US market hog inventory fell 1% in the quarter ended 1 Mar 2021



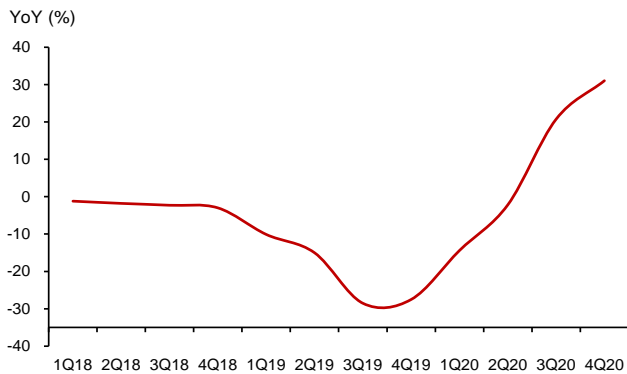
Source: USDA, CMBIS

Figure 14: China's pork import vol. from US between Mar and Dec 2021 jumped 153% YoY



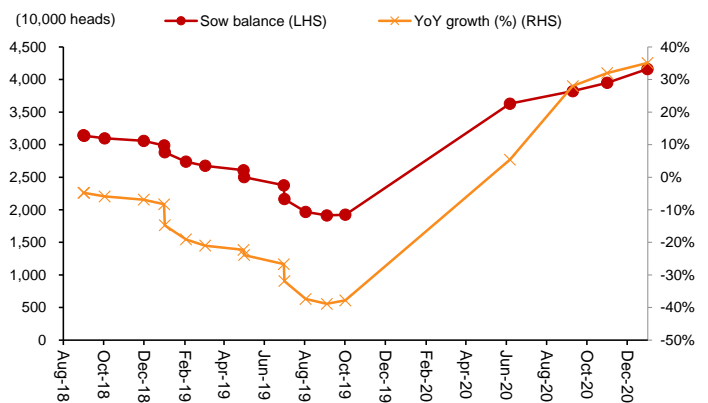
Source: WIND, CMBIS

Figure 15: China's hog inventory jumped 31% YoY in 4Q20



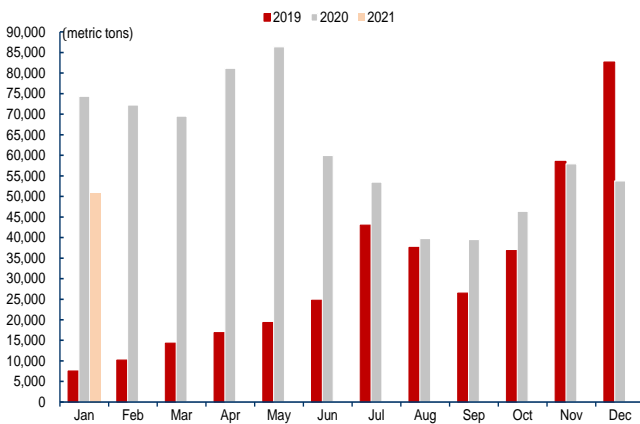
Source: WIND, CMBIS

Figure 16: China's sow balance YoY growth accelerated to 35.1% in Dec 2020



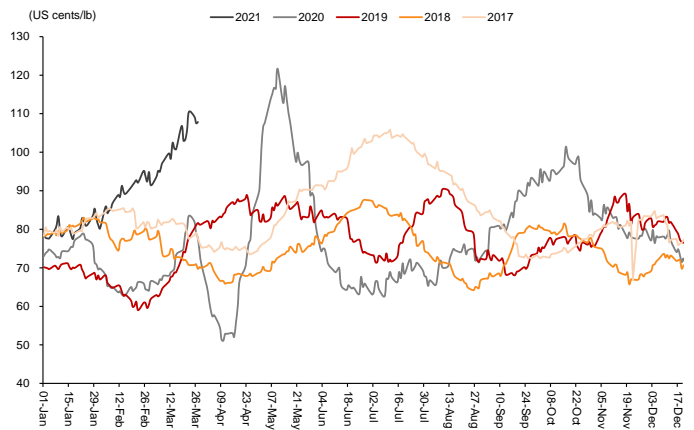
Source: WIND, CMBIS

Figure 17: US pork export volume to China was 50,814 metric tonnes in Jan 2021



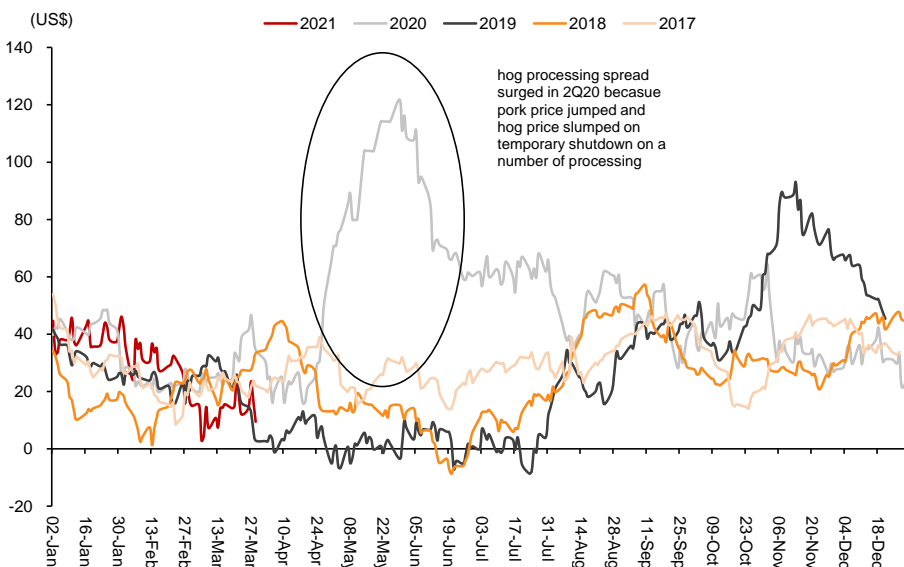
Source: US meat export federation

Figure 18: US pork price has been strong



Source: Bloomberg, CMBIS estimates

Figure 19: 2021 YTD US pork packers margin is low due to strong hog price



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	24,103	25,589	27,200	28,209	29,499
China	8,756	10,828	10,459	11,385	12,384
US	13,158	14,765	13,920	13,770	13,890
EUR	2,188	2,494	2,821	3,054	3,226
Cost of sales	(19,209)	(21,096)	(21,693)	(22,600)	(23,619)
Gross profit	4,894	4,493	5,507	5,610	5,880
Other income and gains	59	74	56	57	59
SG&A expenses	(2,870)	(2,788)	(3,255)	(3,211)	(3,306)
Operating profit	2,083	1,779	2,308	2,457	2,632
Finance cost	(144)	(135)	(136)	(118)	(117)
Other expenses	(63)	(111)	(63)	(63)	(63)
Other gains/(losses)	53	(47)	0	0	0
Share of profit of associate	4	4	4	5	5
Share of profit of JV	13	10	11	12	13
Profit before tax	1,946	1,500	2,124	2,293	2,471
Income tax	(336)	(263)	(422)	(455)	(491)
Non-controlling interests	(230)	(264)	(288)	(314)	(342)
Net profit	1,380	973	1,415	1,524	1,639
Adj. net profit	1,378	973	1,415	1,524	1,639

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,052		2,124	2,293	2,471
Depreciation and amortization	581		675	739	777
Change in working capital	(930)		57	(33)	(46)
Others	(240)		(355)	(466)	(501)
Net cash from operating	1,463	2,357	2,503	2,533	2,701
Capex & investments	(680)		(1,400)	(1,000)	(600)
Interest received	6		24	25	34
Others	(122)		0	0	0
Net cash from investing	(796)	(963)	(1,376)	(975)	(566)
Change of borrowings	3		(400)	(400)	0
Dividend paid	(464)		(679)	(861)	(935)
Proceeds from	31		0	0	0
Others	(163)		(126)	(126)	(126)
Financing cash flow	(593)	(479)	(1,205)	(1,388)	(1,061)
Net change in cash	74	915	(78)	170	1,074
Cash at the beginning	484	552	1,553	1,475	1,646
Exchange difference	(6)	86	0	0	0
Cash at the end	552	1,553	1,475	1,646	2,720
Bank and cash balance	552	1,553	1,521	1,692	2,766
Bank overdraft	0	0	(46)	(46)	(46)

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	10,575	10,881	11,781	12,218	12,219
PPE	5,406	5,531	6,406	6,816	6,789
Goodwill	3,667	3,770	3,762	3,754	3,746
JV/associates	347	354	369	386	404
Others	509	542	542	542	542
Current assets	6,707	7,834	7,728	8,063	9,330
Cash and pledged deposits	593	1,650	1,572	1,743	2,817
Inventory	2,903	2,641	2,580	2,688	2,809
Trade receivables	1,047	915	973	1,009	1,055
Others	2,164	2,628	2,603	2,623	2,649
Current liabilities	3,869	4,067	4,168	4,306	4,461
Borrowings	905	842	842	842	842
Trade payables	1,074	913	939	978	1,022
Other payables	1,686	2,136	2,196	2,288	2,391
Others	204	176	190	198	205
Non-current liabilities	3,961	3,663	3,332	2,990	3,058
Borrowings	2,187	1,840	1,440	1,040	1,040
Deferred revenue	1,114	1,270	1,339	1,397	1,465
Others	660	553	553	553	553
Minority Interest	768	980	922	940	957
Total net assets	9,452	10,985	12,009	12,985	14,031
Shareholders' equity	8,684	10,005	11,087	12,045	13,074

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
China	36.3	42.3	38.5	40.4	42.0
US	54.6	57.7	51.2	48.8	47.1
EUR	9.1	9.7	10.4	10.8	10.9
P&L ratios (%)					
Gross profit margin	20.3	17.6	20.2	19.9	19.9
Operating profit margin	8.6	7.0	8.5	8.7	8.9
Net profit margin	5.7	3.8	5.2	5.4	5.6
Adj. net profit margin	5.7	3.8	5.2	5.4	5.6
Payout ratio	42.8	34.2	40.0	40.0	40.0
Balance sheet ratios					
Current ratio (x)	1.7	1.9	1.9	1.9	0.0
Receivables turnover days	17	14	13	13	13
Payables turnover days	19	17	16	15	15
Inventory turnover days	47	48	44	43	42
Asset turnover (x)	1.4	1.4	1.4	1.4	0.0
Net gearing ratio (%)	31	14	10	5	0
Returns (%)					
Adj. ROAE	16.8	10.4	13.4	13.2	0.0
Adj. ROAA	9.9	6.9	8.9	9.2	0.0
Per share data					
Adj. EPS (US\$)	0.094	0.066	0.096	0.103	0.111
DPS (HK\$)	0.32	0.18	0.30	0.32	0.34
BVPS (US\$)	0.59	0.68	0.75	0.82	0.89

Source: Company data, CMBIS estimates

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NOT RATED	: Stock is not rated by CMBIS

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