

WH Group (288 HK)

US results strongly recovered in 3Q20

3Q20 NP fell 5% to US\$340mn, better than our expectation on stronger-than-expected US and China results. 9M20 NP +9% to US\$890mn, accounting for 80% of our FY20E NP (vs 71-72% in FY17 and FY18). Though epidemic continues in US, management believes the worst should be seen in 2Q20. Maintain Buy on undemanding valuation. Smithfield business is free even if we apply 30% holding company discount on WH's Shuanghui equity interests value (Figure 5).

- China market OP +13% in 3Q20. (1) Packaged meat:** OP rose 12%. OP/tonne was ~RMB3,700, less than RMB3,800 in 1H20 because of increased marketing expenses. Sales volume growth improved to 2.3% (vs 1.5% drop in 1H20) led by new products and new channels (EC, food service). **(2) Fresh pork:** Though number of hogs processed fell 46% to 1.4mn, sales volume only fell 6% as the Company increased sales of frozen pork. OP jumped 33% on ~65% increase of hog price.
- US market OP dropped 2% in 3Q20.** 3Q20 OP strongly recovered from 81% drop in 2Q20 as costs related to epidemic narrowed from US\$350mn to ~US\$250mn. **(1) Packaged meat:** Sales volume recovered from 12% drop in 2Q20 to 10% drop in 3Q. OP slightly fell 1% as OPM climbed 1.0ppt to 9.8% on lower raw materials costs. **(2) Fresh pork:** The decline of number of hogs processed rebounded from 16% in 2Q20 to 8% in 3Q20 as the impact of epidemic on utilization rate eased. OP jumped from US\$27mn in 2Q20 to US\$92mn in 3Q20 due to reduced epidemic costs. **(3) Hog production:** Hog price decreased 19% YoY. Loss was limited at US\$16mn (vs US\$37mn loss in 2Q20) thanks to US\$200mn hedging gain.
- Outlook. (1) China market:** Management targets mid-single-digit volume growth of packaged meat in FY21E. OP/tonne would increase YoY on lower hog price (sow balance +28% YoY as at end of Sep 2020) but partly offset by rising investment in marketing and channels. **(2) US market:** As number of new cases of COVID-19 reached record high in Oct, management expects further headwinds in coming six months. But the worst should be seen in 2Q20 and demand would recover in FY21E.
- Maintain Buy.** We raised FY20E NP by 11% on better US packaged meat and fresh pork and China fresh pork results but lowered FY21/22E NP by 2%/5% on lowered US profit on continuing epidemic. Our SOTP-based TP is changed from HK\$8.20 to HK\$8.70, representing 13.3x FY20E P/E. **Catalysts:** severe AFS outbreak in Germany and US economy fully reopens.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	22,605	24,103	25,680	26,750	28,462
Net profit (US\$ mn)	1,047	1,380	7	4	6
Adj. net profit (US\$ mn)	1,046	1,378	1,232	1,445	1,537
Adj. EPS (US\$)	0.071	0.094	0.084	0.098	0.104
YoY growth (%)	(4.9)	31.5	(10.7)	17.3	6.4
Consensus EPS (US\$)	na	na	0.093	0.104	0.110
Adj. P/E (x)	11.2	8.5	9.6	8.2	7.7
P/B (x)	1.5	1.4	1.1	1.1	1.0
Yield (%)	3.2	5.0	4.5	5.2	5.6
Adj. ROAE (%)	13.8	16.8	13.0	13.4	13.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$8.70**
 (Previous TP **HK\$8.20**)
 Up/Downside **+39%**
 Current Price **HK\$6.24**

China Staples Sector

Albert Yip, CFA
 (852) 3900 0838
 albertyip@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	91,986
Avg 3 mths t/o (HK\$ mn)	228.08
52w High/Low (HK\$)	8.90/ 5.92
Total Issued Shares (mn)	14,720.8

Source: Bloomberg

Shareholding Structure

Rise Grand	35.83%
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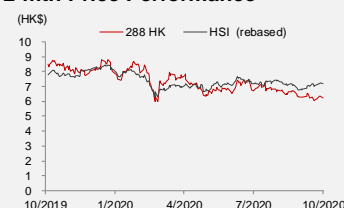
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.3%	-6.5%
3-mth	-6.8%	-7.6%
6-mth	-16.9%	-20.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

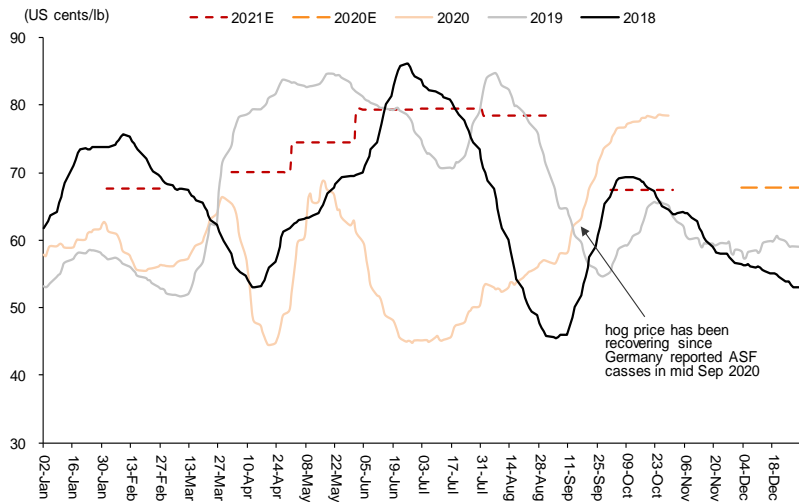
Related Reports

- "WH Group – US hog price boosted by German pork export ban" – 14 Sep 2020
- "WH Group – 1H20 results below on epidemic-related costs" – 12 Aug 2020
- "WH Group – Maintain Buy on undemanding valuation" – 13 Jul 2020
- "WH Group – 1Q20 results on track" – 29 Apr 2020
- "WH Group – FY19 results beat; 1Q20E NP growth still good" – 25 Mar 2020
- "WH Group – 4Q19 momentum continued and a positive 2020" – 13 Jan 2020

Figure 1: 3Q20 results review

Y/E Sep (US\$mn)	3Q20	3Q19	% change
Revenue by market			
China revenue	2,839	2,372	20%
Packaged meat	1,110	969	15%
Fresh pork	1,526	1,267	20%
Hog production	0	0	na
Others	203	136	49%
US revenue	2,849	3,093	-8%
Packaged meat	1,579	1,793	-12%
Fresh pork	940	1,076	-13%
Hog production	330	224	47%
Europe revenue	511	493	4%
Packaged meat	220	213	3%
Fresh pork	198	184	8%
Hog production	13	16	-19%
Others	80	80	0%
OP by market			
China OP	320	284	13%
Packaged meat	233	209	11%
Fresh pork	92	69	33%
Hog production	(1)	(3)	-67%
Others	(4)	9	-144%
US OP	203	207	-2%
Packaged meat	154	155	-1%
Fresh pork	92	(5)	-1940%
Hog production	(16)	88	-118%
Others	(27)	(31)	-13%
Europe OP	36	39	-8%
Packaged meat	31	19	63%
Fresh pork	8	(11)	na
Hog production	4	30	-87%
Others	(7)	1	-800%
Packaged meat margin (%)			
China	21.0	21.6	(0.6)
US	9.8	8.6	1.2
Europe	14.1	8.9	5.2
Revenue	6,286	6,066	4%
EBITDA	717	699	3%
Operating profit	551	530	4%
Net profit	340	357	-5%

Source: Company, CMBIS

Figure 2: German pork ban accelerated the recovery of US hog price


Source: Bloomberg, CMBIS

Figure 3: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,680	26,750	28,462	25,440	26,795	27,751	1%	0%	3%
Gross Profit	5,290	5,434	5,598	5,075	5,410	5,554	4%	0%	1%
Operating Profit	2,021	2,326	2,451	1,874	2,374	2,565	8%	-2%	-4%
Adj. net profit	1,232	1,445	1,537	1,108	1,480	1,625	11%	-2%	-5%
Gross Margin	20.6%	20.3%	19.7%	20.0%	20.2%	20.0%	+0.6ppt	+0.1ppt	-0.3ppt
Operating Margin	7.9%	8.7%	8.6%	7.4%	8.9%	9.2%	+0.5ppt	-0.2ppt	-0.6ppt
Net Margin	4.8%	5.4%	5.4%	4.4%	5.5%	5.9%	+0.4ppt	-0.1ppt	-0.5ppt

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,440	26,795	27,751	25,829	26,613	27,072	-2%	1%	3%
Gross Profit	5,075	5,410	5,554	5,257	5,540	5,669	-3%	-2%	-2%
Operating Profit	1,874	2,374	2,565	2,078	2,283	2,408	-10%	4%	7%
Net profit	1,108	1,480	1,625	1,348	1,537	1,621	-18%	-4%	0%
Gross Margin	20.0%	20.2%	20.0%	20.4%	20.8%	20.9%	-0.4ppt	-0.6ppt	-0.9ppt
Operating Margin	7.4%	8.9%	9.2%	8.0%	8.6%	8.9%	-0.6ppt	+0.3ppt	+0.3ppt
Net Margin	4.4%	5.5%	5.9%	5.2%	5.8%	6.0%	-0.8ppt	-0.3ppt	-0.1ppt

Source: Bloomberg, CMBIS estimates

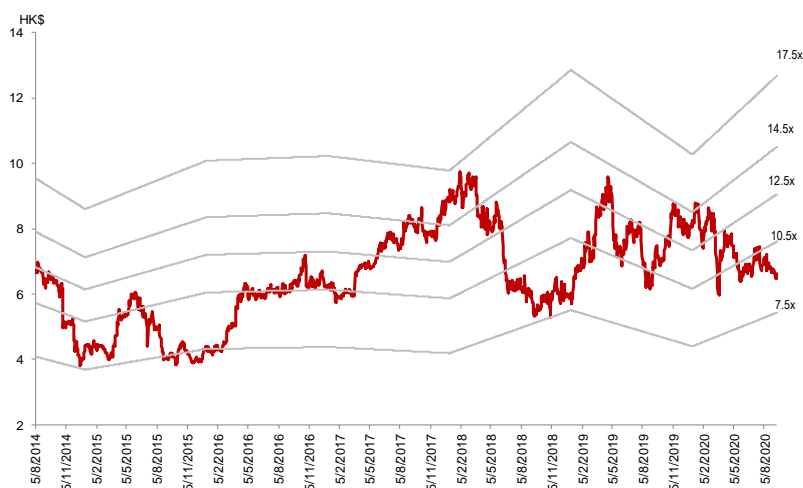
Figure 5: SOTP-based valuation

Segment	FY20 P/E	FY20E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	630.5	6,305	10x FY20E P/E
China business	16.6	601.8	9,990	30% discount on HK listed peers' average 23.7x FY20E P/E
Total			16,294	
Value per share (HK\$)			8.7	
Implied FY20E P/E			13.3	

	Price (RMB)	Issue shares (mn)	Value (HK\$mn)	Remarks
Market cap of WH			91,986	
Mkt value of Shaunghui stakes	49.37	3,464.7	95,274	based on 70.33% equity stakes and 30% holding company discount
Implied Smithfield value			(3,287)	

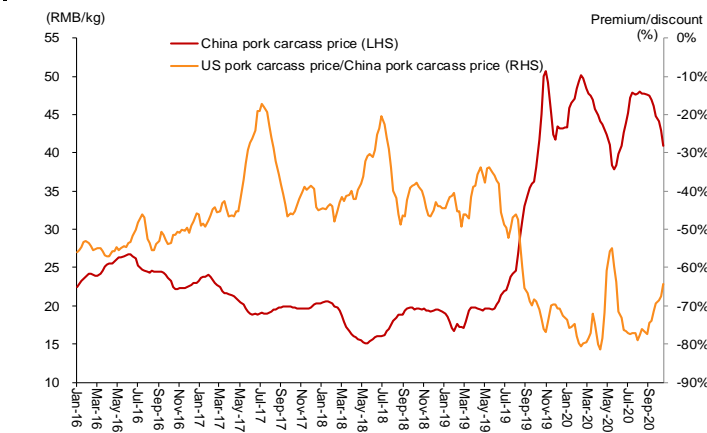
Source: Company data, Bloomberg, CMBIS estimates

Figure 6: P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 7: The discount of US pork carcass price to China's was 64% on 18 Oct 2020



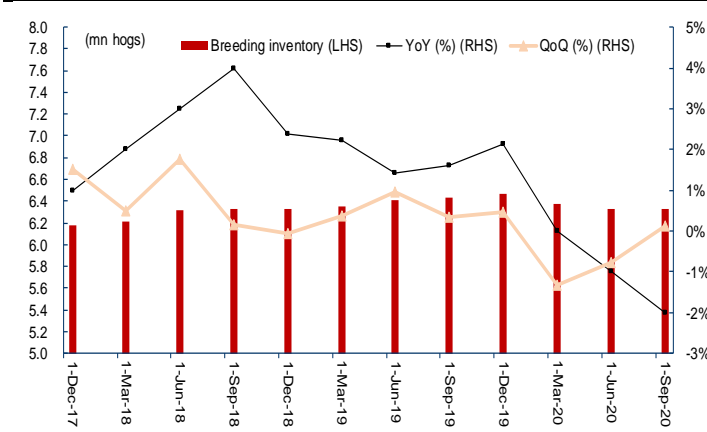
Source: Bloomberg, CMBIS

Figure 8: The discount of US hog price to China's was 63% on 21 Oct 2020



Source: Bloomberg, CMBIS

Figure 9: Growth of US breeding hog inventory was down 2% in the quarter ended 1 Sep 2020



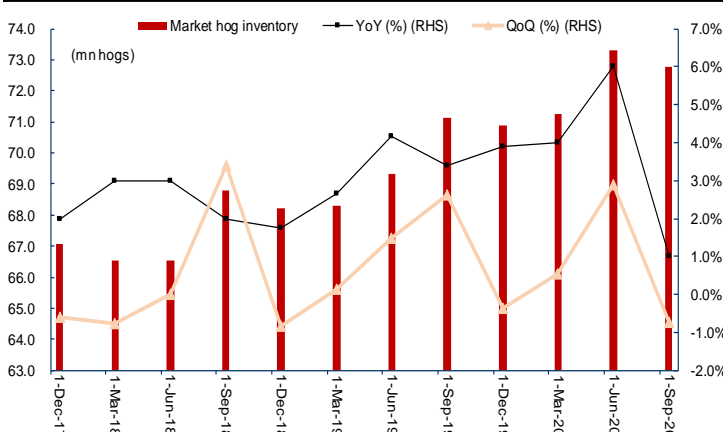
Source: USDA, CMBIS

Figure 10: Number of sows farrowing during the quarter ended 1 Sep 2020 down 3%



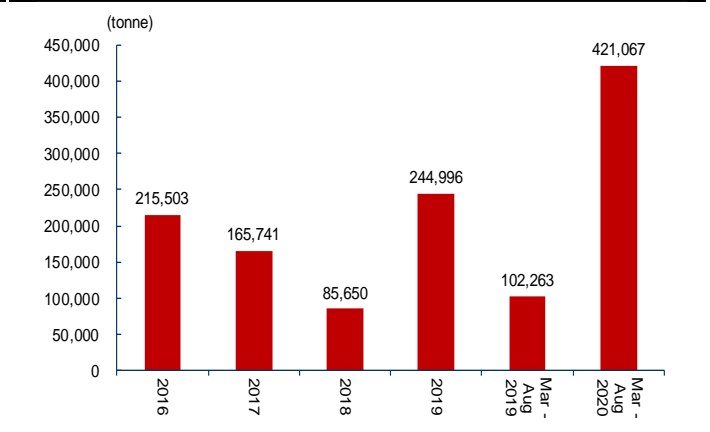
Source: USDA, CMBIS

Figure 11: Growth of US market hog inventory was 1% in the quarter ended 1 Sep 2020



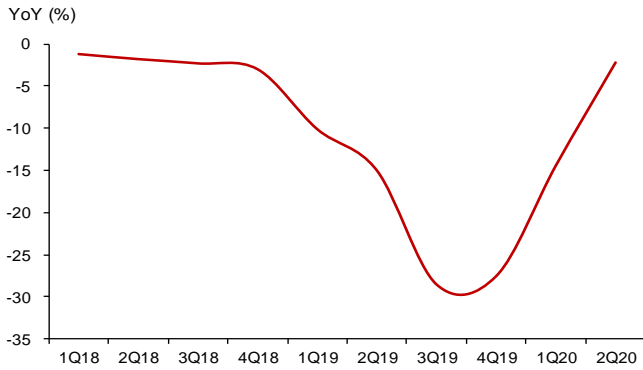
Source: USDA, CMBIS

Figure 12: China's pork import vol. from US between Mar and Aug 2020 rose by more than three times YoY



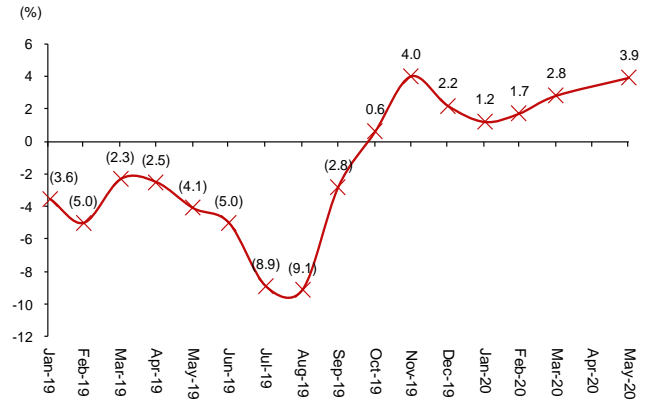
Source: WIND, CMBIS

Figure 13: The YoY decline of hog inventory narrowed to 2.2% in 2Q20



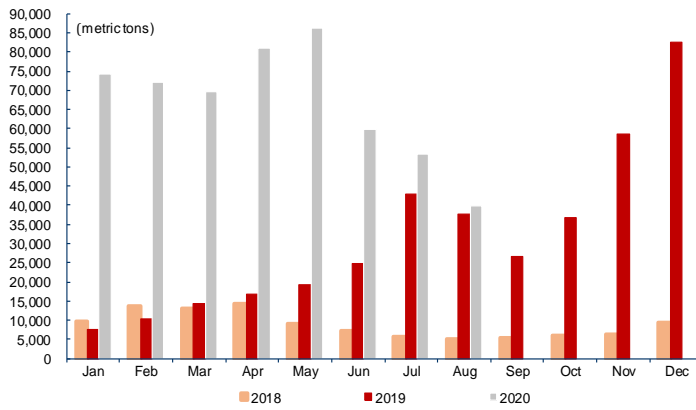
Source: WIND, CMBIS

Figure 14: Sow balance MoM growth accelerated to 3.9% in May 2020



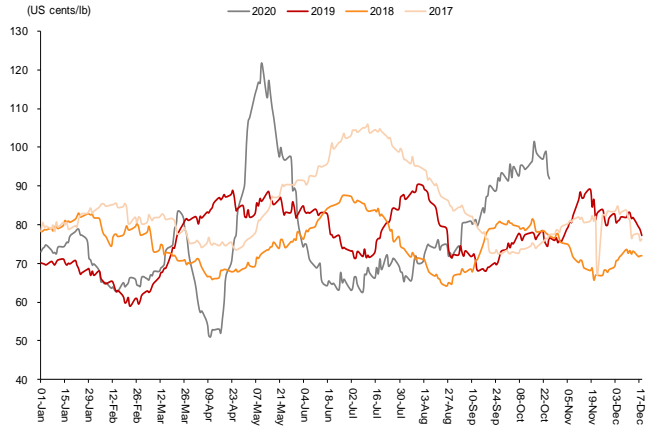
Source: WIND, CMBIS

Figure 15: Growth of US pork export volume to China is narrowing



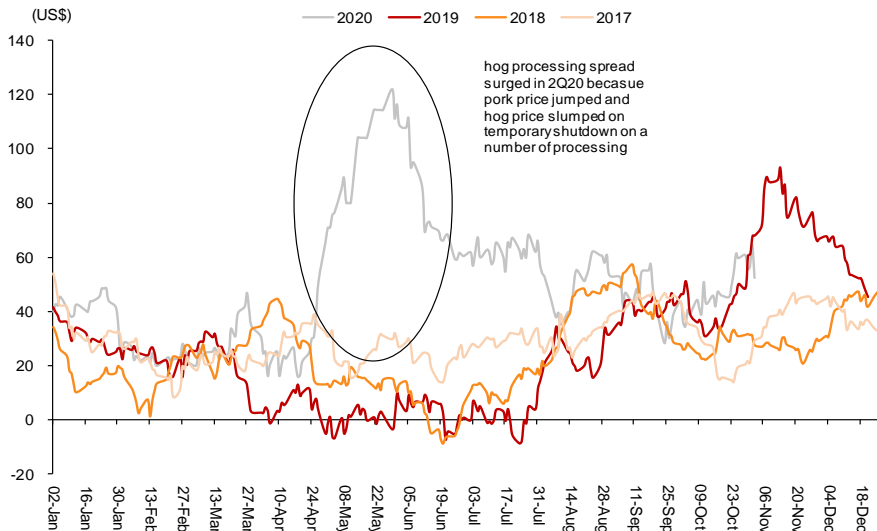
Source: US meat export federation

Figure 16: US pork price climbed after Germany discovered ASF in Sep 2020



Source: Bloomberg, CMBIS estimates

Figure 17: 3Q20-to-date US pork packers margins has improved YoY



Source: Bloomberg, CMBIS

Figure 18: Major assumptions for US market

(US\$m)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	7,773	7,814	7,159	7,667	7,821
growth %	-0.4%	0.5%	-8.4%	7.1%	2.0%
Sales volume (mn metric tons)	1.46	1.45	1.37	1.43	1.45
growth %	0.9%	-0.5%	-6.0%	5.0%	1.0%
ASP (US\$/ton)	5,324	5,378	5,243	5,348	5,402
growth %	-1.3%	1.0%	-2.5%	2.0%	1.0%
OP margin	10.1%	10.8%	8.2%	11.6%	12.0%
Fresh pork segment					
External revenue	4,790	4,467	4,342	4,556	4,538
growth %	-3.4%	-6.7%	-2.8%	4.9%	-0.4%
Hog processed (mn heads)	33.95	34.51	32.79	35.08	35.78
growth %	-1.4%	1.7%	-5.0%	7.0%	2.0%
OP/head (US\$)	1.4	4.3	8.0	5.0	5.0
Hog production segment					
External revenue	619	877	868	916	893
growth %	21.4%	41.7%	-1.1%	5.6%	-2.5%
Hog produced (mn heads)	16.47	17.68	17.15	17.58	17.67
growth %	0.5%	7.4%	-3.0%	2.5%	0.5%
OP/head (US\$)	(8.9)	4.7	(3.0)	1.0	(1.0)
Total external revenue					
Total external revenue	13,182	13,158	12,368	13,139	13,253
Packaged meat	7,773	7,814	7,159	7,667	7,821
Fresh pork	4,790	4,467	4,342	4,556	4,538
Hog production	619	877	868	916	893
Segment profit	615	932	657	921	930
growth %	-33.4%	51.5%	-29.5%	40.1%	1.0%
Packaged meat	785	847	587	890	939
Fresh pork	48	150	262	175	179
Hog production	(147)	83	(51)	18	(18)
Others	(71)	(148)	(141)	(162)	(170)
Segment profit margin	4.7%	7.1%	5.3%	7.0%	7.0%

Source: Company data, CMBIS estimates

Figure 19: Major assumptions for China market

(US\$m)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	3,458	3,615	4,054	4,417	4,663
growth %	4.4%	4.5%	12.2%	8.9%	5.6%
Sales volume (mn metric tons)	1.60	1.60	1.61	1.67	1.72
growth %	1.1%	0.0%	0.5%	3.5%	3.5%
ASP (Rmb/ton)	14,303	15,673	17,632	18,161	18,524
growth %	1.3%	9.6%	12.5%	3.0%	2.0%
OP margin %	20.6%	18.6%	21.2%	22.0%	22.2%
Fresh pork segment					
External revenue	3,584	4,725	5,859	5,388	6,412
growth %	-7.8%	31.8%	24.0%	-8.0%	19.0%
Hog processed (mn heads)	16.31	13.20	6.60	9.90	13.86
growth %	14.3%	-19.0%	-50.0%	50.0%	40.0%
OP/head (Rmb)	72.7	137.8	230.0	75.0	55.0
Hog production segment					
External revenue	8	2	1	2	11
growth %	-27.3%	-75.0%	-40.5%	38.0%	600.0%
Hog produced (mn heads)	0.29	0.13	0.07	0.10	0.69
growth %	-6.1%	-54.9%	-50.0%	50.0%	600.0%
OP/head (Rmb)	113.0	-683.8	-1200.0	400.0	250.0
Total external revenue					
	7,328	8,756	10,713	10,704	12,074
Packaged meat	3,458	3,615	4,054	4,417	4,663
Fresh pork	3,584	4,725	5,859	5,388	6,412
Hog production	8	2	1	2	11
Others	278	414	799	898	988
Segment profit					
	922	957	1,116	1,152	1,250
growth %	75.6%	3.8%	16.6%	3.2%	8.5%
Packaged meat	712	673	860	972	1,035
Fresh pork	179	262	217	108	111
Hog production	5	(13)	(11)	6	25
Others	26	35	51	66	78
Segment profit margin					
	12.6%	10.9%	10.4%	10.8%	10.3%

Source: Company data, CMBIS estimates

Figure 20: Major assumptions for Europe market

(US\$m)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	916	902	1,020	1,154	1,260
growth %	39.2%	-1.5%	13.1%	13.1%	9.1%
Sales volume (mn metric tons)	0.28	0.28	0.29	0.31	0.32
growth %	17.9%	-1.5%	5.0%	5.0%	5.0%
ASP (EUR/ton)	2,738	2,895	3,040	3,131	3,225
growth %	13.2%	5.7%	5.0%	3.0%	3.0%
OP margin	5.5%	6.0%	7.5%	7.8%	8.0%
Fresh pork segment					
External revenue	762	886	1,118	1,213	1,293
growth %	12.6%	16.3%	26.2%	8.5%	6.5%
Hog processed (mn heads)	5.83	6.08	6.57	6.96	7.31
growth %	14.6%	4.4%	8.0%	6.0%	5.0%
OP/head (EUR)	2.8	-1.3	2.5	2.5	2.5
Hog production segment					
External revenue	61	58	88	146	155
growth %	19.6%	-4.9%	52.3%	65.6%	5.8%
Hog produced (mn heads)	4.17	3.99	3.79	3.91	4.02
growth %	18.0%	-4.3%	-5.0%	3.0%	3.0%
OP/head (EUR)	5.9	21.7	17.0	15.0	15.0
Total external revenue					
	2,095	2,188	2,599	2,907	3,135
Packaged meat	916	902	1,020	1,154	1,260
Fresh pork	762	886	1,118	1,213	1,293
Hog production	61	58	88	146	155
Others	356	342	372	393	428
Segment profit	113	142	165	182	200
growth %	-16.3%	25.7%	15.9%	10.9%	9.6%
Packaged meat	50	54	77	90	100
Fresh pork	19	(9)	19	21	22
Hog production	29	97	74	70	72
Others	15	0	(5)	2	5
Segment profit margin	5.4%	6.5%	6.3%	6.3%	6.4%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	22,605	24,103	25,680	26,750	28,462
China	7,328	8,756	10,713	10,704	12,074
US	13,182	13,158	12,368	13,139	13,253
EUR	2,095	2,188	2,599	2,907	3,135
Cost of sales	(18,103)	(19,209)	(20,390)	(21,316)	(22,864)
Gross profit	4,502	4,894	5,290	5,434	5,598
Other income and gains	98	59	87	102	110
SG&A expenses	(2,871)	(2,870)	(3,357)	(3,210)	(3,257)
Operating profit	1,729	2,083	2,021	2,326	2,451
Finance cost	(115)	(144)	(117)	(113)	(93)
Other expenses	(74)	(63)	(63)	(63)	(63)
Other gains/(losses)	(21)	53	0	0	0
Share of profit of associate	8	4	4	4	5
Share of profit of JV	23	13	17	19	20
Profit before tax	1,550	1,946	1,862	2,173	2,320
Income tax	(293)	(336)	(377)	(441)	(470)
Non-controlling interests	(210)	(230)	(253)	(287)	(312)
Net profit	1,047	1,380	1,232	1,445	1,537
Adj. net profit	1,046	1,378	1,232	1,445	1,537

Cash flow summary

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,411	2,052	1,862	2,173	2,320
Depreciation and amortization	441	581	597	615	649
Change in working capital	(570)	(930)	198	73	(78)
Others	(27)	(240)	(707)	(469)	(489)
Net cash from operating	1,255	1,463	1,950	2,392	2,402
Capex & investments	(811)	(680)	(600)	(800)	(600)
Interest received	6	6	19	34	42
Others	(412)	(122)	0	0	0
Net cash from investing	(1,217)	(796)	(581)	(766)	(558)
Change of borrowings	4	3	0	(400)	(400)
Dividend paid	(795)	(464)	(721)	(697)	(802)
Proceeds from	9	31	1,017	0	0
Others	(8)	(163)	0	0	0
Financing cash flow	(790)	(593)	297	(1,097)	(1,202)
Net change in cash	(752)	74	1,666	529	642
Cash at the beginning	1,279	484	552	2,218	2,747
Exchange difference	(43)	(6)	0	0	0
Cash at the end	484	552	2,218	2,747	3,389
Bank and cash balance	525	552	2,218	2,747	3,389
Bank overdraft	(41)	0	0	0	0

Balance sheet

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,838	10,575	10,603	10,825	10,795
PPE	5,300	5,406	5,552	5,880	5,974
Goodwill	3,581	3,667	3,658	3,649	3,640
JV/associates	352	347	368	391	416
Others	605	509	509	519	509
Current assets	5,460	6,707	8,345	8,924	9,877
Cash and pledged deposits	579	593	2,259	2,788	3,430
Inventory	2,022	2,903	2,773	2,754	2,954
Trade receivables	1,135	1,047	1,116	1,162	1,236
Others	1,724	2,164	2,197	2,220	2,256
Current liabilities	3,328	3,869	3,839	3,972	4,194
Borrowings	860	905	705	705	705
Trade payables	977	1,074	1,140	1,192	1,278
Other payables	1,430	1,686	1,790	1,871	2,007
Others	61	204	204	204	204
Non-current liabilities	3,552	3,961	3,876	3,509	3,162
Borrowings	2,259	2,187	2,387	1,987	1,587
Deferred revenue	695	1,114	829	862	915
Others	598	660	660	660	660
Minority Interest	672	768	893	1,012	1,144
Total net assets	8,418	9,452	11,234	12,268	13,316
Shareholders' equity	7,746	8,684	10,341	11,256	12,172

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
China	32.4	36.3	41.7	40.0	42.4
US	58.3	54.6	48.2	49.1	46.6
EUR	9.3	9.1	10.1	10.9	11.0
P&L ratios (%)					
Gross profit margin	19.9	20.3	20.6	20.3	19.7
Operating profit margin	7.6	8.6	7.9	8.7	8.6
Net profit margin	4.6	5.7	4.8	5.4	5.4
Adj. net profit margin	4.6	5.7	4.8	5.4	5.4
Payout ratio	35.8	43.0	43.0	43.0	43.0
Balance sheet ratios					
Current ratio (x)	1.6	1.7	2.2	2.2	2.4
Receivables turnover days	17	17	15	16	15
Payables turnover days	21	19	20	20	20
Inventory turnover days	40	47	51	47	46
Asset turnover (x)	1.5	1.4	1.4	1.4	1.4
Net gearing ratio (%)	30	30	9	0	(8)
Returns (%)					
Adj. ROAE	13.8	16.8	13.0	13.4	13.1
Adj. ROAA	8.2	9.9	8.2	9.0	9.2
Per share data					
Adj. EPS (US\$)	0.071	0.094	0.084	0.098	0.104
DPS (HK\$)	0.20	0.32	0.28	0.33	0.35
BVPS (US\$)	0.53	0.59	0.70	0.76	0.83

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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