

# WH Group (288 HK)

## Attractive valuation; expect record high adj. NP in 2021E

1Q21 adj. NP fell 17% YoY to US\$293mn, but rebounded 253% QoQ. US market resumed profitable in 1Q21 with US\$181mn OP, vs US\$49mn operating loss in 4Q20. COVID-19 related expenses sharply reduced from US\$220mn in 4Q20 to US\$38mn in 1Q21. We expect US market to have strong recovery in FY21E led by catering demand recovery, high hog futures prices and significantly decreasing exceptional expenses. WH is confident to cut COVID-19 related expenses from US\$820mn in FY20 to below US\$150mn in FY21E, and believes its FY21E US OP is in a good position to return to FY19 level. We forecast WH to post record high adj. NP in FY21E. Share price is 32% below record high on 1 Feb 2018. The stock trades at 9.0x FY21E P/E, below historical average of 11x. Maintain Buy on undemanding valuation.

- **US market OP fell 20% YoY US\$181mn. (1) Packaged meat:** OP +24% YoY to US\$194mn. Volume saw 4% YoY growth, the first time since the COVID-19 outbreak, on strong retail demand and fast-recovering catering demand. **(2) Pork (hog production and fresh pork):** OP fell 93% YoY to US\$7mn mainly due to high raw materials cost like grains. US market recorded US\$38mn COVID-19 related expenses, significantly lower than US\$220mn in 4Q20. Management is confident to control COVID-19 related expenses within US\$150mn in FY20E (vs US\$820mn in FY20).
- **China market OP grow 8% YoY to US\$291mn. (1) Packaged meat:** OP +16% YoY to US\$220mn, led by 11% volume growth (partly due to late CNY holiday in 2021). OP/tonne rebounded to RMB3,600/tonne from RMB3,300/tonne in 4Q20. **(2) Pork:** OP fell 19% YoY to US\$50mn. Number of hog processed rose 12% to 1.9mn as China's hog inventory recovered. The OP decline was due to lower profitability from sales of frozen pork.
- **FY21E outlook.** (1) US market: Driven by demand recovery, sharp reduction in COVID-19 related costs and raw materials cost control measures, management believe US market is in a good position to get back to OP level in FY19. (2) China market: Management expects OP/tonne of packaged meat to increase steady underpinned by hog price decline. The Company will invest certain gain from hog price drop in marketing and share some gain to customers to increase sales volume. Also, the Company separated its catering business into an individual BU in 1Q21 to better develop packaged meat and offer tailor-made fresh pork to business customers.
- **Maintain Buy.** We keep our FY21-23E estimates unchanged. Our SOTP-based TP was still at 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	0.094	0.104	0.111
Adj. P/E (x)	9.1	13.0	9.0	8.3	7.7
P/B (x)	1.4	1.3	1.1	1.1	1.0
Yield (%)	4.7	2.6	4.5	4.8	5.2
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\$9.60)
Up/Downside	+44%
Current Price	HK\$6.66

### China Staples Sector

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### Stock Data

Mkt Cap (HK\$ mn)	98,206
Avg 3 mths t/o (HK\$ mn)	309.91
52w High/Low (HK\$)	7.86/ 5.90
Total Issued Shares (mn)	14,745.2

Source: Bloomberg

### Shareholding Structure

Rise Grand	34.11%
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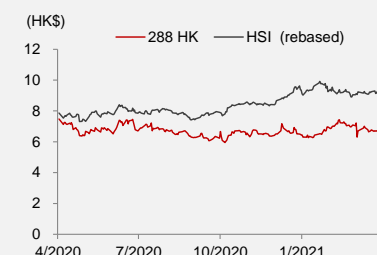
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.5%	-8.5%
3-mth	2.3%	3.9%
6-mth	4.7%	-9.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: EY

### Related Reports

1. "WH Group – Expect record high adj. NP in FY21E led by strong recovery in US market" – 31 Mar 2021
2. "WH Group – Recovery led by US market in 2021E" – 26 Feb 2021
3. "WH Group – US results strongly recovered in 3Q20" – 28 Oct 2020
4. "WH Group – US hog price boosted by German pork export ban" – 14 Sep 2020
5. "WH Group – 1H20 results below on epidemic-related costs" – 12 Aug 2020

**Figure 1: 1Q21 results review**

<b>Y/E Dec (US\$mn)</b>	<b>1Q21</b>	<b>1Q20</b>	<b>% change</b>
<b>Revenue by market</b>			
<b>China revenue</b>	<b>2,846</b>	<b>2,527</b>	<b>13%</b>
Packaged meat	1,092	939	16%
Pork	1,523	1,478	3%
Others	231	110	110%
<b>US revenue</b>	<b>3,173</b>	<b>3,161</b>	<b>0%</b>
Packaged meat	1,916	1,859	3%
Pork	1,251	1,302	-4%
Others	6	0	na
<b>Europe revenue</b>	<b>591</b>	<b>594</b>	<b>-1%</b>
Packaged meat	231	233	-1%
Pork	266	272	-2%
Others	94	89	6%
<b>OP by market</b>			
<b>China OP</b>	<b>291</b>	<b>270</b>	<b>8%</b>
Packaged meat	220	190	16%
Pork	50	62	-19%
Others	21	18	17%
<b>US OP</b>	<b>181</b>	<b>226</b>	<b>-20%</b>
Packaged meat	194	156	24%
Pork	7	106	-93%
Others	(20)	(36)	-44%
<b>Europe OP</b>	<b>29</b>	<b>54</b>	<b>-46%</b>
Packaged meat	28	14	100%
Pork	5	41	-88%
Others	(4)	(1)	na
<b>Revenue</b>	<b>6,610</b>	<b>6,282</b>	<b>5%</b>
EBITDA	672	711	-5%
Operating profit	501	550	-9%
Net profit	293	353	-17%

Source: Company data, CMBIS

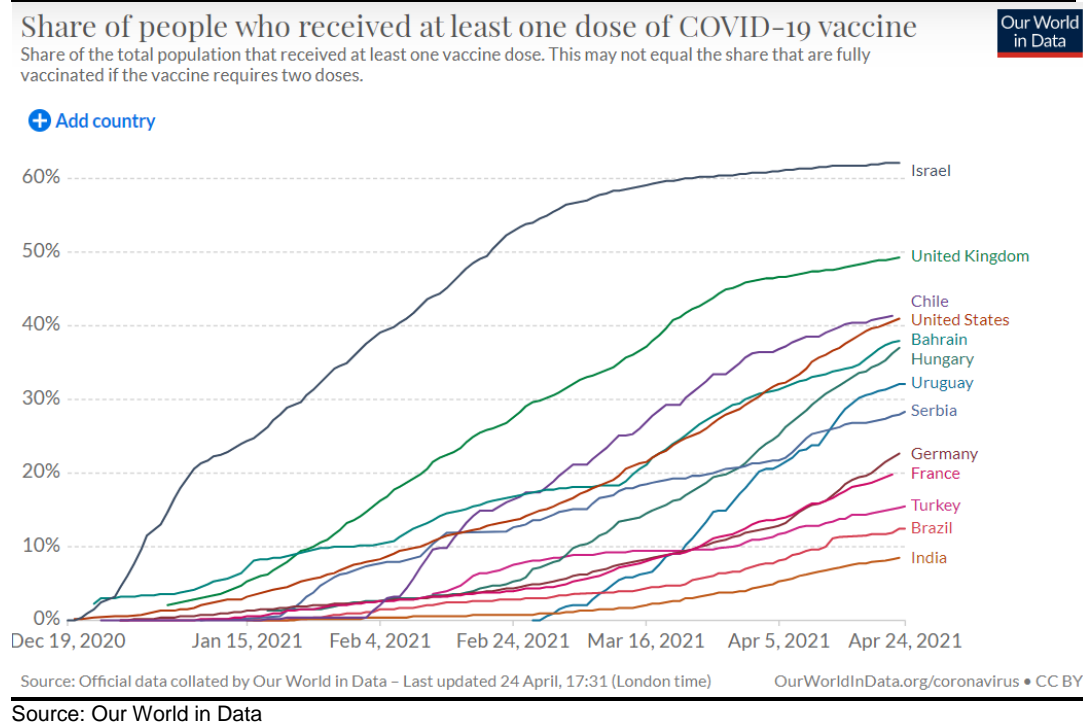
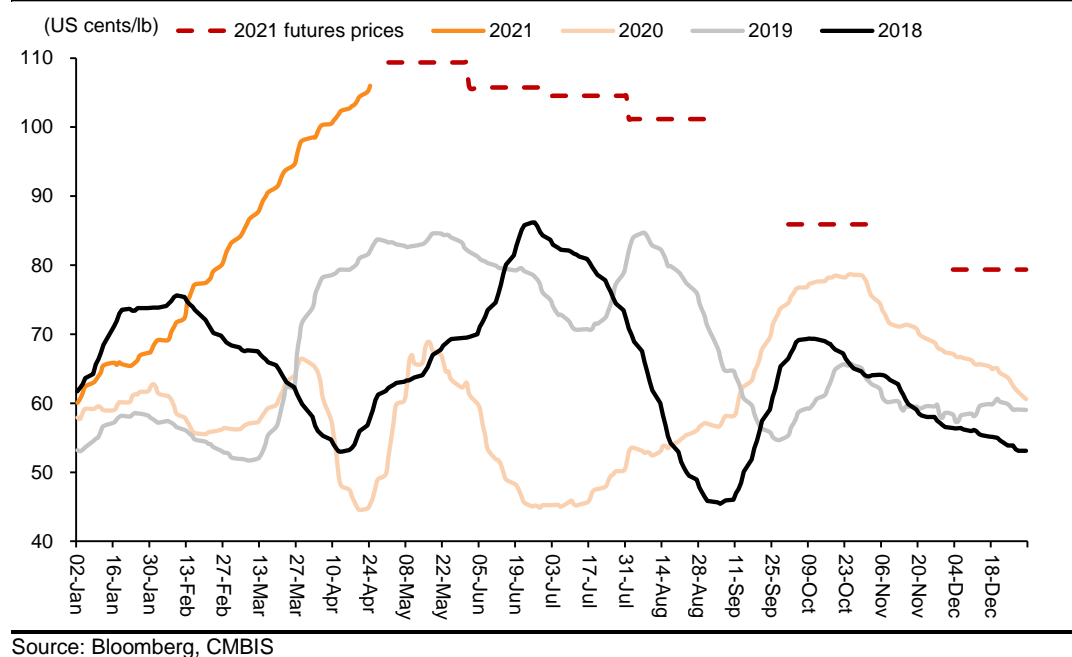
**Figure 2: 41% of US people received at least one dose of vaccine as of 23 Apr 2021****Figure 3: US 2021 hog forward futures trade well above 2018-2020 cash hog prices**

Figure 4: 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	26,645	27,313	28,724	2%	3%	3%
Gross Profit	5,507	5,610	5,880	5,334	5,517	5,860	3%	2%	0%
Operating Profit	2,308	2,457	2,632	2,187	2,420	2,582	6%	2%	2%
Net profit	1,415	1,524	1,639	1,381	1,537	1,661	2%	-1%	-1%
Gross Margin	20.2%	19.9%	19.9%	20.0%	20.2%	20.4%	+0.2ppt	-0.3ppt	-0.5ppt
Operating Margin	8.5%	8.7%	8.9%	8.2%	8.9%	9.0%	+0.3ppt	-0.2ppt	-0.1ppt
Net Margin	5.2%	5.4%	5.6%	5.2%	5.6%	5.8%	flat	-0.2ppt	-0.2ppt

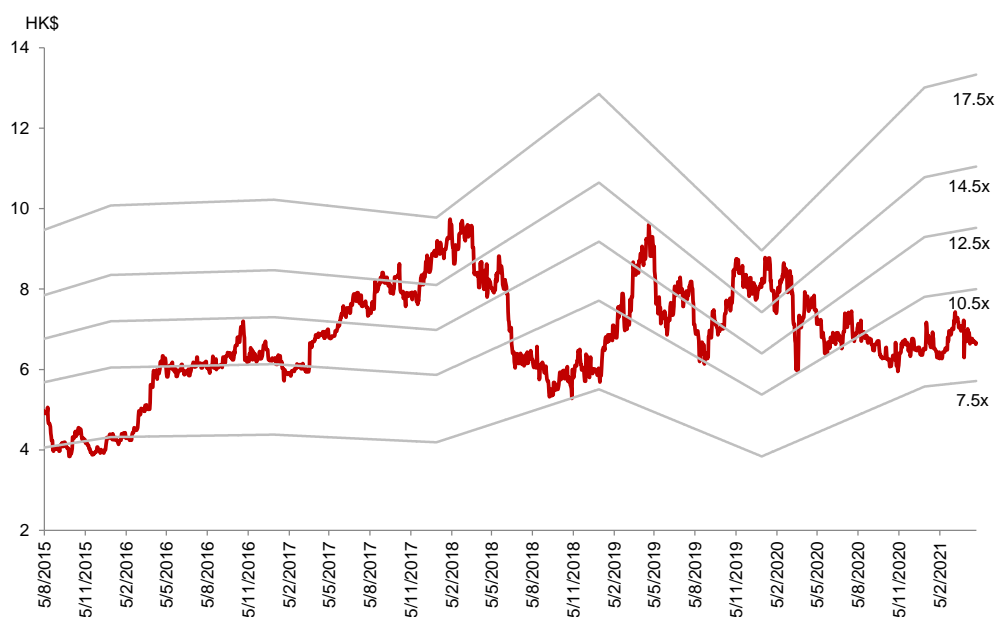
Source: Bloomberg, CMBIS estimates

Figure 5: SOTP-based valuation

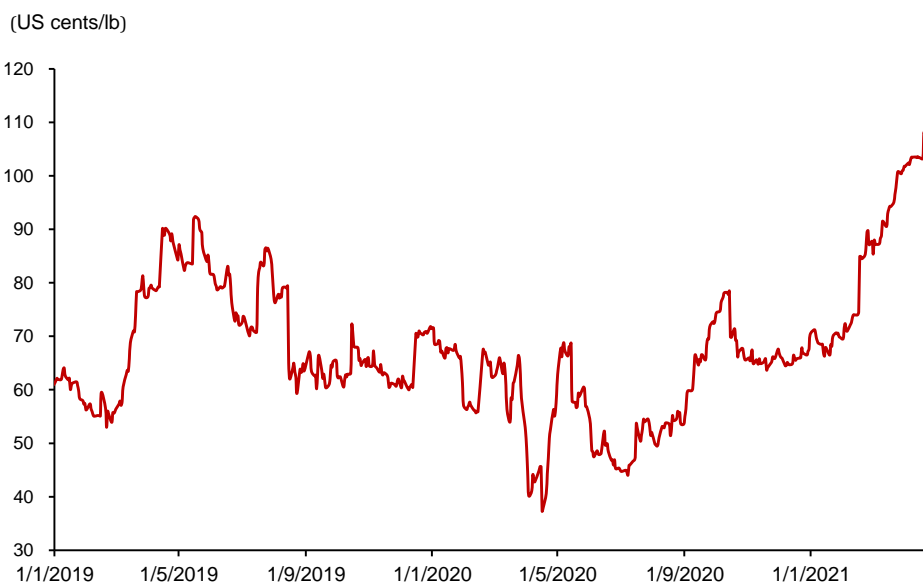
Segment	FY21 P/E	FY21E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	783.0	7,830	10x FY21E P/E
China business	16.6	631.6	10,485	16.6x FY21E P/E
<b>Total</b>			<b>18,315</b>	
Value per share (HK\$)			9.6	
Implied FY21E P/E			12.9	

	Price (RMB)	Issue shares (mn)	Value (HK\$mn)	
Market cap of WH			98,205	
Mkt value of Shaughui stakes	39.87	3,464.7	81,084	based on 70.33% equity stakes and 30% holding company discount
Implied Smithfield value			17,121	implied 2.8x FY21E P/E

Source: Company data, Bloomberg, CMBIS estimates

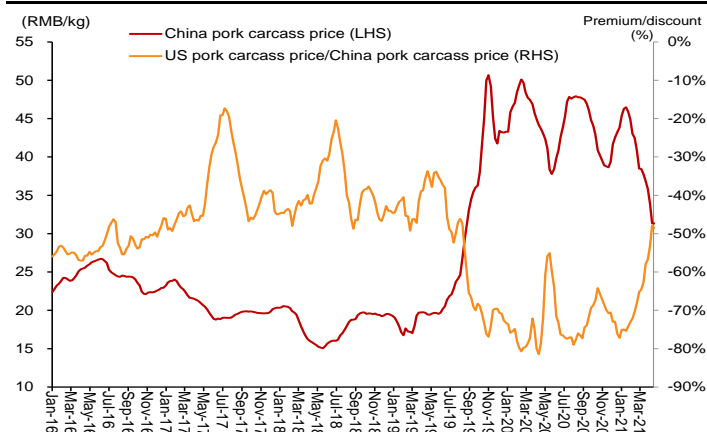
**Figure 6: P/E band**

Source: Bloomberg, Company data, CMBIS estimates

**Figure 7: US hog generic future price rose 56% YTD and surpassed the peak in 2019**

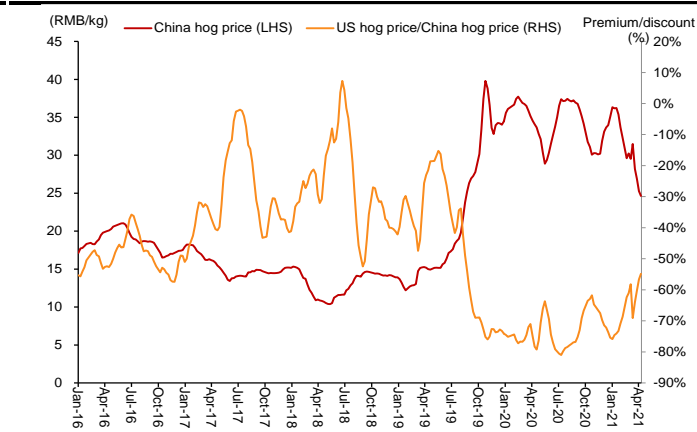
Source: Bloomberg, Company data, CMBIS estimates

**Figure 8: The discount of US pork carcass price to China's narrowed to 49% on 18 Apr 2021**



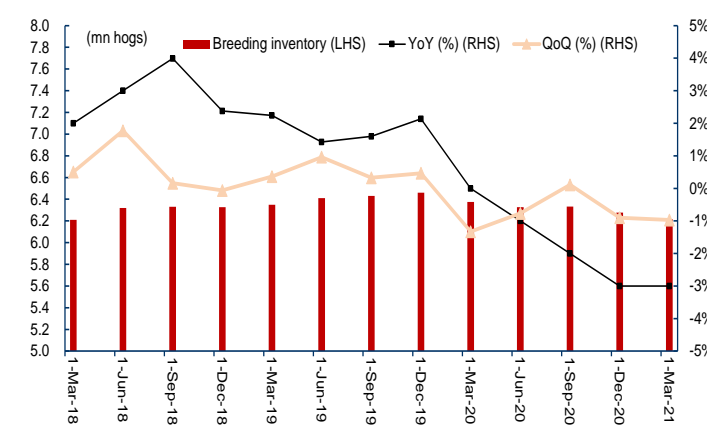
Source: Bloomberg, CMBIS

**Figure 9: The discount of US hog price to China's was 55% on 14 Apr 2021**



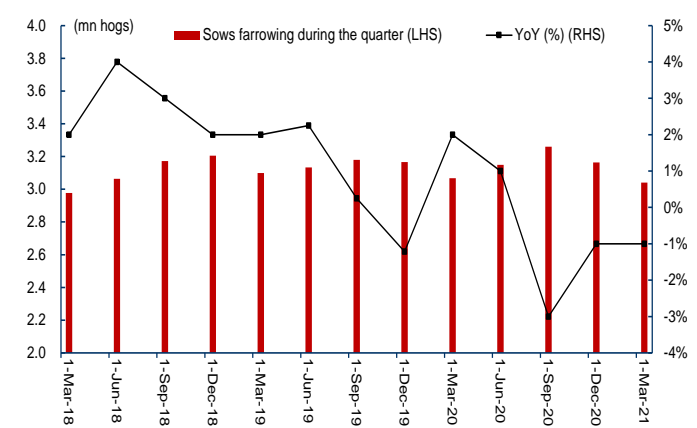
Source: Bloomberg, CMBIS

**Figure 10: US breeding hog inventory was down 4% in the quarter ended 1 Mar 2021**



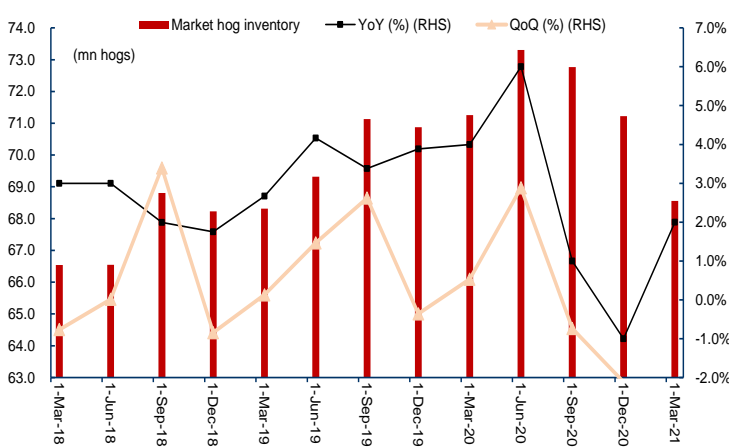
Source: USDA, CMBIS

**Figure 11: Number of sows farrowing during the quarter ended 1 Mar 2021 was down 1%**



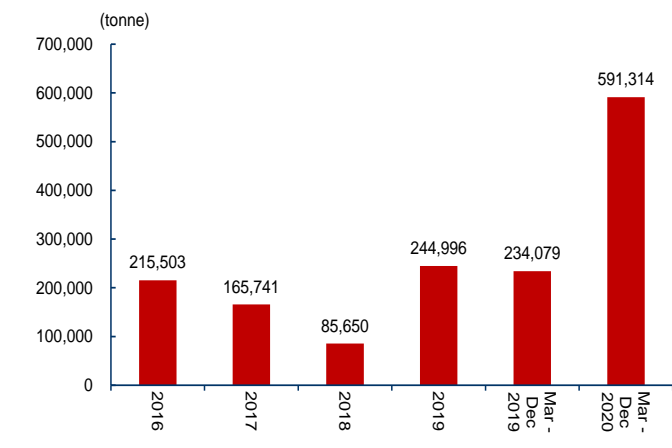
Source: USDA, CMBIS

**Figure 12: US market hog inventory fell 1% in the quarter ended 1 Mar 2021**

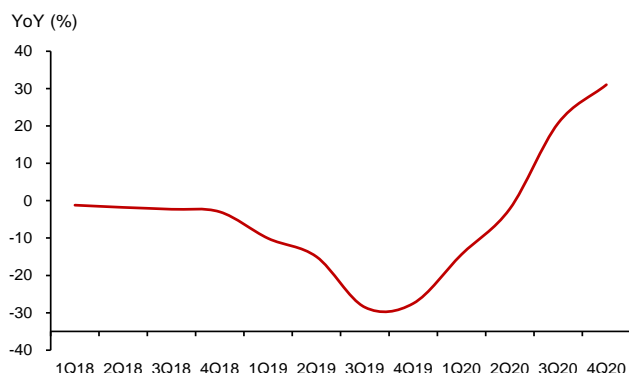


Source: USDA, CMBIS

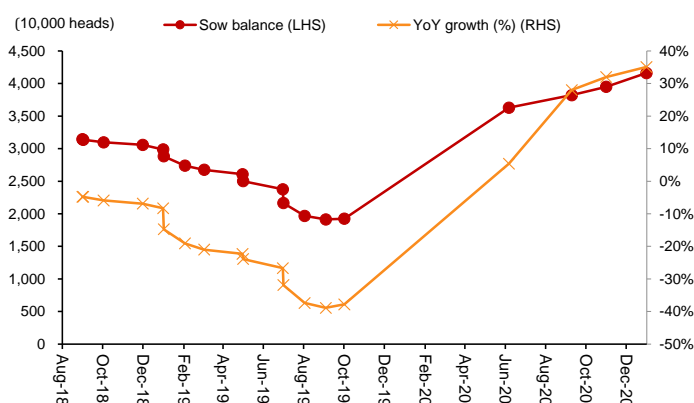
**Figure 13: China's pork import vol. from US between Mar and Dec 2021 jumped 153% YoY**



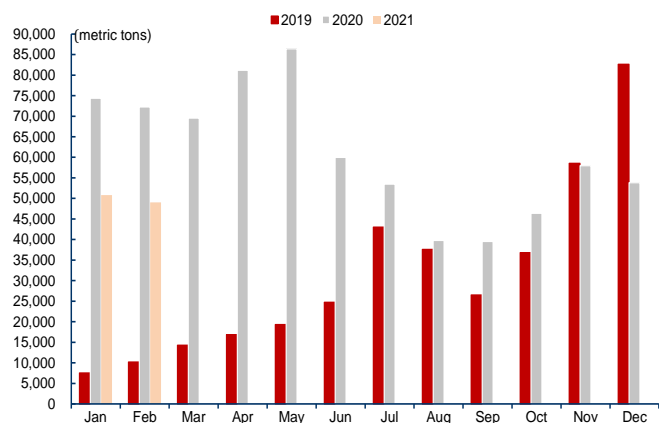
Source: WIND, CMBIS

**Figure 14: China's hog inventory jumped 31% YoY in 4Q20**

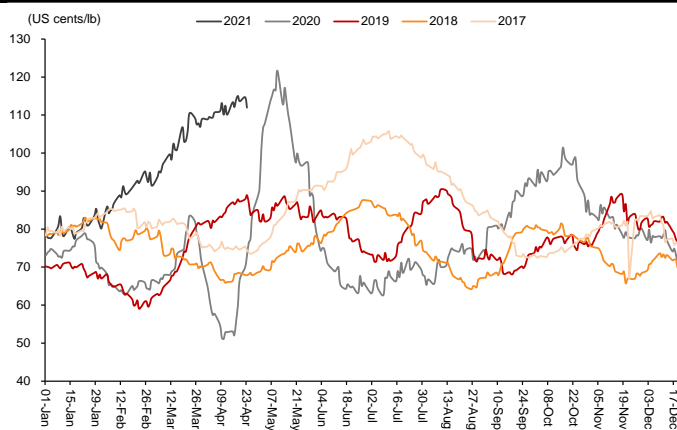
Source: WIND, CMBIS

**Figure 15: China's sow balance YoY growth accelerated to 35.1% in Dec 2020**

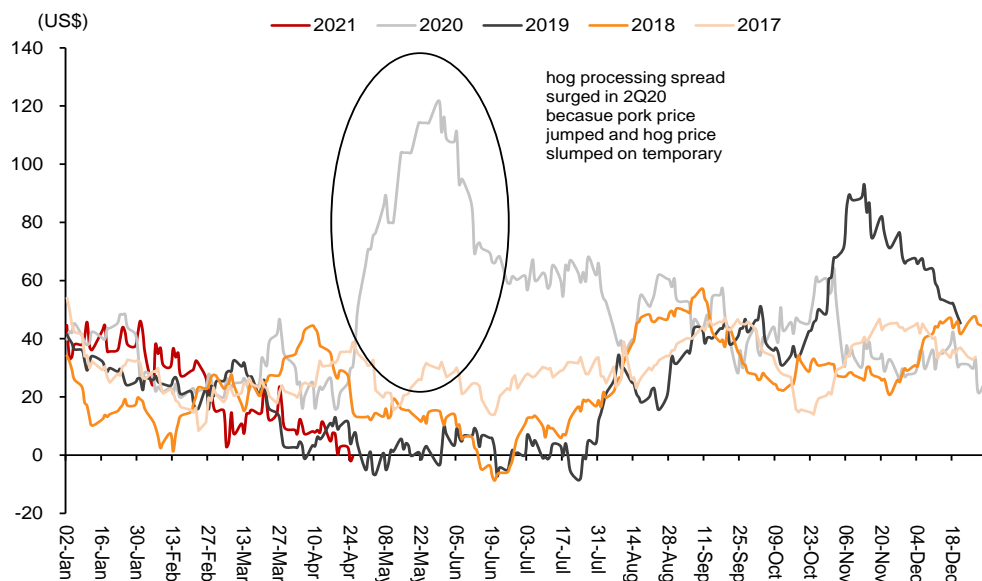
Source: WIND, CMBIS

**Figure 16: US pork export volume to China was 49,0464 metric tonnes in Feb 2021**

Source: US meat export federation

**Figure 17: US pork price has been strong**

Source: Bloomberg, CMBIS estimates

**Figure 18: 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
<b>Revenue</b>	<b>24,103</b>	<b>25,589</b>	<b>27,200</b>	<b>28,209</b>	<b>29,499</b>
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)
<b>Gross profit</b>	<b>4,894</b>	<b>4,493</b>	<b>5,507</b>	<b>5,610</b>	<b>5,880</b>
Other income and gains	59	74	56	57	59
SG&A expenses	(2,870)	(2,788)	(3,255)	(3,211)	(3,306)
<b>Operating profit</b>	<b>2,083</b>	<b>1,779</b>	<b>2,308</b>	<b>2,457</b>	<b>2,632</b>
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)
<b>Net profit</b>	<b>1,380</b>	<b>973</b>	<b>1,415</b>	<b>1,524</b>	<b>1,639</b>
<b>Adj. net profit</b>	<b>1,378</b>	<b>973</b>	<b>1,415</b>	<b>1,524</b>	<b>1,639</b>

### Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,052	1,315	2,124	2,293	2,471
Depreciation and amortization	581	644	675	739	777
Change in working capital	(930)	382	57	(33)	(46)
Others	(240)	16	(355)	(466)	(501)
<b>Net cash from operating</b>	<b>1,463</b>	<b>2,357</b>	<b>2,503</b>	<b>2,533</b>	<b>2,701</b>
Capex & investments	(680)	(551)	(1,400)	(1,000)	(600)
Interest received	6	10	24	25	34
Others	(122)	(422)	0	0	0
<b>Net cash from investing</b>	<b>(796)</b>	<b>(963)</b>	<b>(1,376)</b>	<b>(975)</b>	<b>(566)</b>
Change of borrowings	3	(514)	(400)	(400)	0
Dividend paid	(464)	(845)	(679)	(861)	(935)
Proceeds from	31	1,015	0	0	0
Others	(163)	(135)	(126)	(126)	(126)
<b>Financing cash flow</b>	<b>(593)</b>	<b>(498)</b>	<b>(1,205)</b>	<b>(1,388)</b>	<b>(1,061)</b>
<b>Net change in cash</b>	<b>74</b>	<b>896</b>	<b>(78)</b>	<b>170</b>	<b>1,074</b>
Cash at the beginning	484	552	1,553	1,475	1,646
Exchange difference	(6)	86	0	0	0
<b>Cash at the end</b>	<b>552</b>	<b>1,553</b>	<b>1,475</b>	<b>1,646</b>	<b>2,720</b>
Bank and cash balance	552	1,599	1,521	1,692	2,766
Bank overdraft	0	(46)	(46)	(46)	(46)

### Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>10,575</b>	<b>10,881</b>	<b>11,781</b>	<b>12,218</b>	<b>12,219</b>
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
<b>Current assets</b>	<b>6,707</b>	<b>7,834</b>	<b>7,728</b>	<b>8,063</b>	<b>9,330</b>
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
<b>Current liabilities</b>	<b>3,869</b>	<b>4,067</b>	<b>4,168</b>	<b>4,306</b>	<b>4,461</b>
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
<b>Non-current liabilities</b>	<b>3,961</b>	<b>3,663</b>	<b>3,332</b>	<b>2,990</b>	<b>3,058</b>
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
<b>Minority Interest</b>	<b>768</b>	<b>980</b>	<b>922</b>	<b>940</b>	<b>957</b>
<b>Total net assets</b>	<b>9,452</b>	<b>10,985</b>	<b>12,009</b>	<b>12,985</b>	<b>14,031</b>
<b>Shareholders' equity</b>	<b>8,684</b>	<b>10,005</b>	<b>11,087</b>	<b>12,045</b>	<b>13,074</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
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
<b>P&amp;L ratios (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
Adj. ROAE	16.8	10.4	13.4	13.2	0.0
Adj. ROAA	9.9	6.9	8.9	9.2	0.0
<b>Per share data</b>					
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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**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
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**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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