

WH Group (288 HK)

Recovery led by US market in 2021E

We lowered FY20-22E adj. NP by 2-11% given that 4Q20E US businesses were weaker than expected. That said, we forecast FY21E adj. NP to rebound 23% driven by US market, mainly on higher hog price and reducing COVID-19 related expenses. We think if FDA authorizes to use Johnson & Johnson vaccine, which would accelerate vaccinations in US, would be a catalyst. Our SOTP-based TP is lifted from HK\$8.70 to HK\$9.30, equivalent to 13.2x FY21E P/E, as we rolled forward our valuation basis. The stock trades at 9.9x FY21E P/E, lower than historical average of 10.9x. Maintain Buy on undemanding valuation.

■ **US businesses hit by COVID-19 and one-off items.** We forecast US OP to fall by 49% to US\$471mn in FY20E. We estimate US\$191mn loss in hog production in FY20E (US\$11 loss/head). Due to low hog price, less hedging positions and rising feed costs, we estimate loss widened to US\$155mn in 4Q20E (vs US\$16mn loss in 3Q20). Next, the sales volumes of packaged meat and fresh pork segments in 4Q20E was behind our expectation due to surge of COVID-19 cases. Also, there were one-off provisions regarding settlement of a nuisance lawsuit in North Carolina and termination of a pension account.

■ **China OP to rise by 19% to US\$1,136mn in FY20E.** We expect a flat sales volume of packaged meat in 4Q20E due to a later CNY in 2021. 4Q20E OP margin would be stable compared to 3Q20. Packaged meat would see 29% OP growth to US\$867mn. For fresh pork, 4Q20E OP would decline QoQ due to less sales of frozen pork. Number of processed hog would resume positive growth in 4Q20E. Fresh pork OP would drop 13% to US\$229mn in FY20E.

■ **Expect recovery in 2021E.** In US, we estimate 55% OP growth given that **(1) hog price rebound:** Current month hog future price +28% YTD and forward futures prices are well above corresponding cash hog prices in 2020 (Figure 2). FDA's approval of Johnson & Johnson vaccine, which just requires one dose, should accelerate vaccinations. Food service demand should recover when lock-down restrictions ease; **(2) less COVID-19 related costs:** such amount has been decreasing QoQ since 2Q20 (US\$350mn/250mn in 2Q/3Q20); In China, we expect 9% OP growth. Packaged meat margin would improve on declining hog price resulting from recovery of hog/sow inventory in China (+31%/+35% YoY in 4Q20).

■ **Maintain Buy.** We cut FY20/21/22E adj. NP estimates by 11%/8%/2% given that US market recovery was weaker than expected. **Catalysts:** (1) acceleration of vaccinations in US; (2) hog price drops in China.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	22,605	24,103	25,545	25,969	27,550
Net profit (US\$ mn)	1,047	1,380	1,035	1,331	1,514
Adj. net profit (US\$ mn)	1,046	1,378	1,085	1,331	1,514
Adj. EPS (US\$)	0.071	0.094	0.074	0.090	0.103
YoY growth (%)	(4.9)	31.5	(21.4)	22.6	13.7
Consensus EPS (US\$)	NA	NA	0.088	0.102	0.109
Adj. P/E (x)	12.5	9.5	12.2	9.9	8.7
P/B (x)	1.7	1.5	1.3	1.2	1.1
Yield (%)	2.9	4.5	3.4	4.3	4.9
Adj. ROAE (%)	13.8	16.8	11.5	12.5	13.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$9.30
(Previous TP) HK\$8.70
Up/Downside +34%
Current Price HK\$6.96

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	102,629
Avg 3 mths t/o (HK\$ mn)	249.22
52w High/Low (HK\$)	8.59/ 5.90
Total Issued Shares (mn)	14,720.8

Source: Bloomberg

Shareholding Structure

Rise Grand	34.11%
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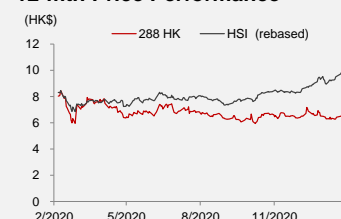
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.1%	2.1%
3-mth	1.2%	-9.5%
6-mth	-1.8%	-15.5%

Source: Bloomberg

12-mth Price Performance



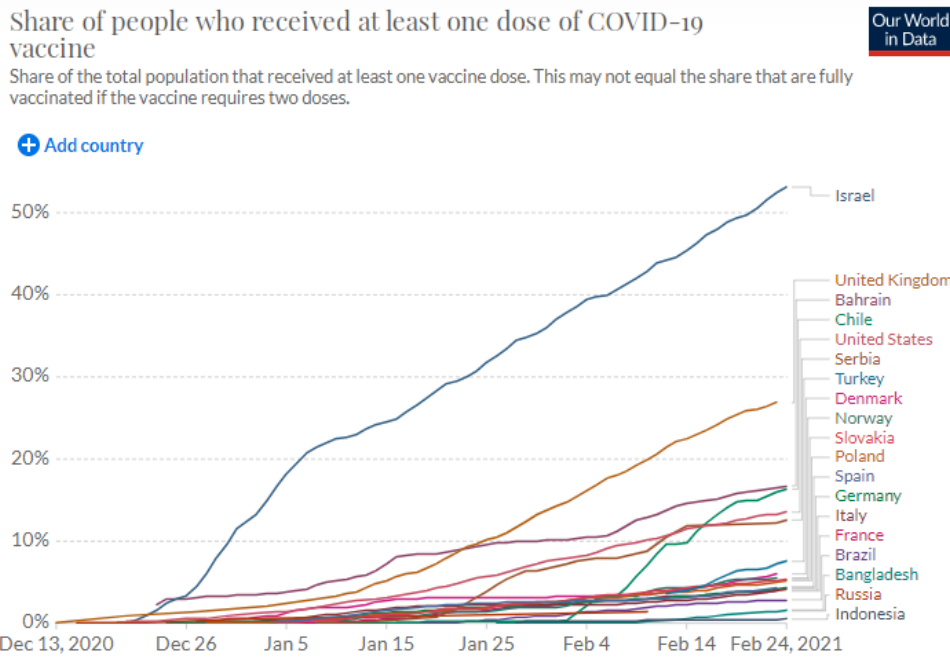
Source: Bloomberg

Auditor: EY

Related Reports

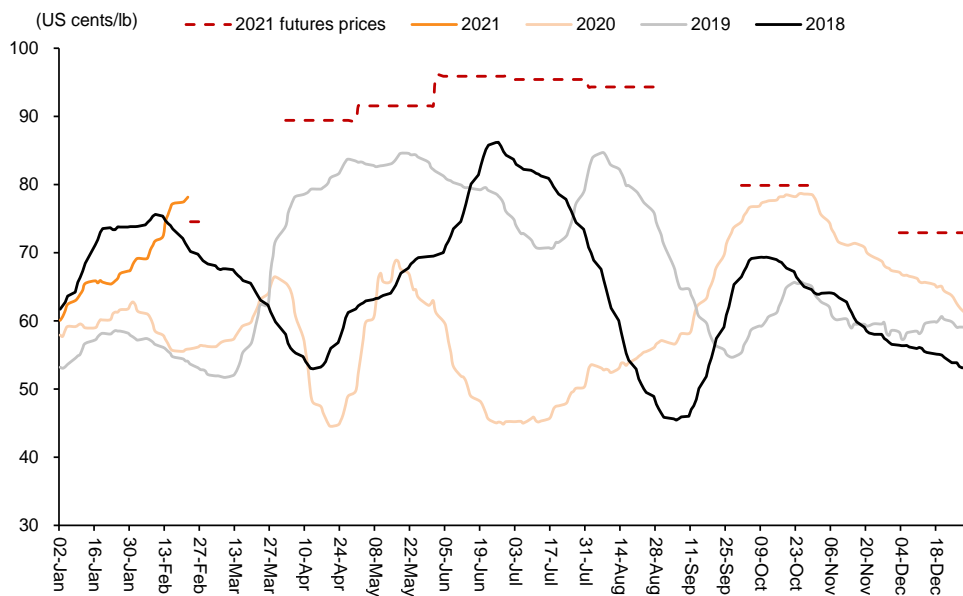
- "WH Group – US results strongly recovered in 3Q20" – 28 Oct 2020
- "WH Group – US hog price boosted by German pork export ban" – 14 Sep 2020
- "WH Group – 1H20 results below on epidemic-related costs" – 12 Aug 2020
- "WH Group – Maintain Buy on undemanding valuation" – 13 Jul 2020
- "WH Group – 1Q20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

Figure 1: 13.5% of US people received at least one dose of vaccine as of 24 Feb 2021



Source: Our World in Data

Figure 2: US 2021 hog forward futures trade above 2018-2020 cash hog prices



Source: Bloomberg, CMBIS

Figure 3: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,545	25,969	27,550	25,680	26,750	28,462	-1%	-3%	-3%
Gross Profit	4,834	5,253	5,512	5,290	5,434	5,598	-9%	-3%	-2%
Operating Profit	1,845	2,214	2,454	2,021	2,326	2,451	-9%	-5%	0%
Adj. net profit	1,085	1,331	1,514	1,232	1,445	1,537	-12%	-8%	-2%
Gross Margin	18.9%	20.2%	20.0%	20.6%	20.3%	19.7%	-1.7ppt	-0.1ppt	+0.3ppt
Operating Margin	7.2%	8.5%	8.9%	7.9%	8.7%	8.6%	-0.7ppt	-0.2ppt	+0.3ppt
Net Margin	4.2%	5.1%	5.5%	4.8%	5.4%	5.4%	-0.6ppt	-0.3ppt	+0.1ppt

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	25,545	25,969	27,550	25,270	26,030	26,714	1%	0%	3%
Gross Profit	4,834	5,253	5,512	5,127	5,462	5,700	-6%	-4%	-3%
Operating Profit	1,845	2,214	2,454	2,016	2,291	2,471	-9%	-3%	-1%
Net profit	1,085	1,331	1,514	1,269	1,478	1,591	-15%	-10%	-5%
Gross Margin	18.9%	20.2%	20.0%	20.3%	21.0%	21.3%	-1.4ppt	-0.8ppt	-1.3ppt
Operating Margin	7.2%	8.5%	8.9%	8.0%	8.8%	9.2%	-0.8ppt	-0.3ppt	-0.3ppt
Net Margin	4.2%	5.1%	5.5%	5.0%	5.7%	6.0%	-0.8ppt	-0.6ppt	-0.5ppt

Source: Bloomberg, CMBIS estimates

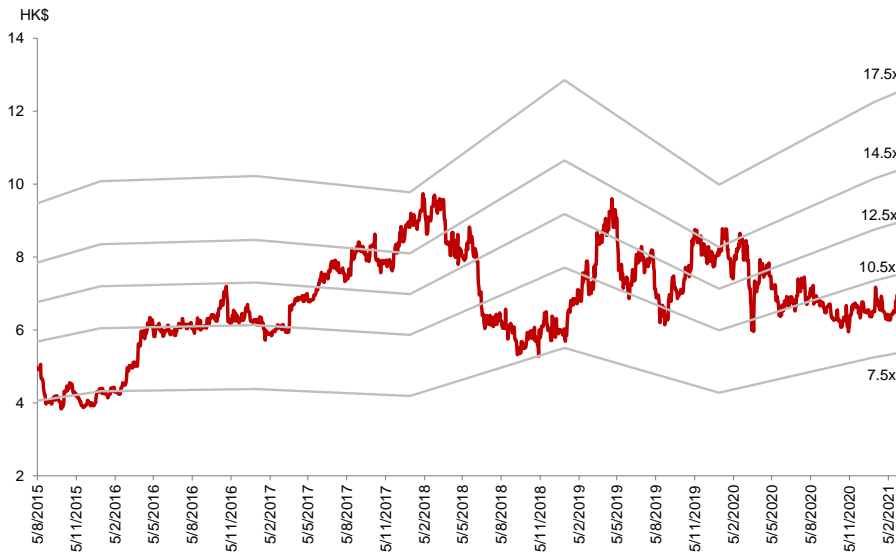
Figure 5: SOTP-based valuation

Segment	FY21 P/E	FY21E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	679.4	6,794	10x FY21E P/E
China business	16.6	652.0	10,823	16.6x FY21E P/E
Total			17,617	
Value per share (HK\$)			9.3	
Implied FY21E P/E			13.2	

	Price (RMB)	Issue shares (mn)	Value (HK\$mn)	
Market cap of WH			102,629	
Mkt value of Shaughui stakes	47.25	3,464.7	97,139	based on 70.33% equity stakes and 30% holding company discount
Implied Smithfield value			5,490	

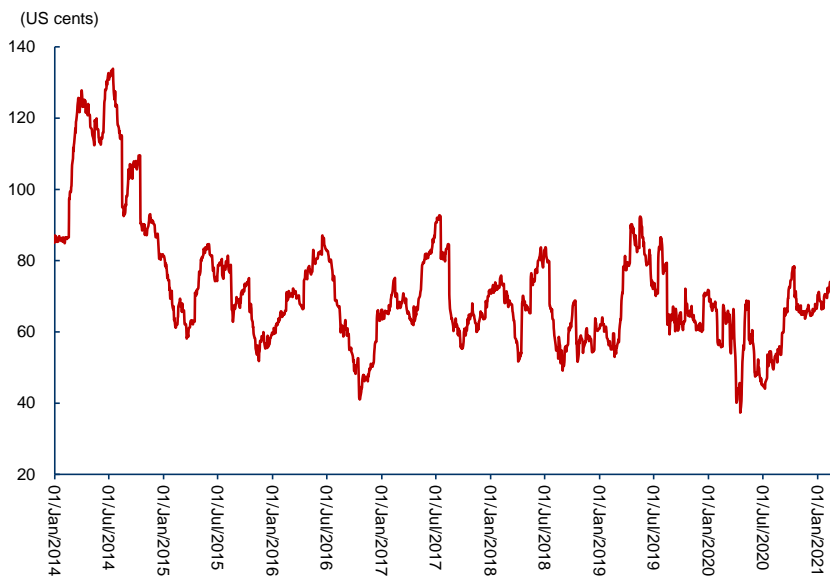
Source: Company data, Bloomberg, CMBIS estimates

Figure 6: P/E band



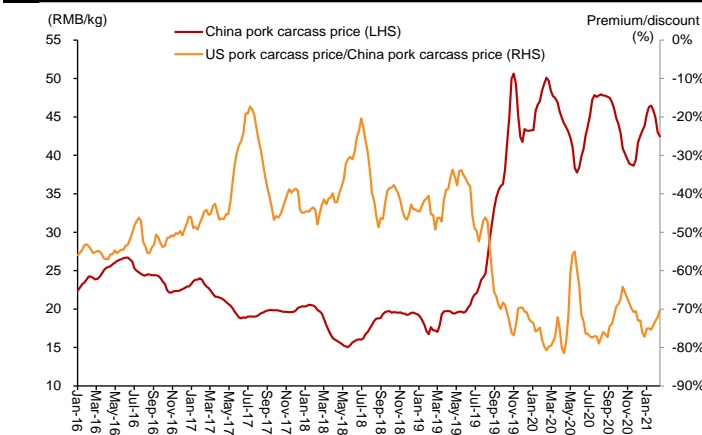
Source: Bloomberg, Company data, CMBIS estimates

Figure 7: US hog generic future price rose 28% YTD and approached the peak in 2019



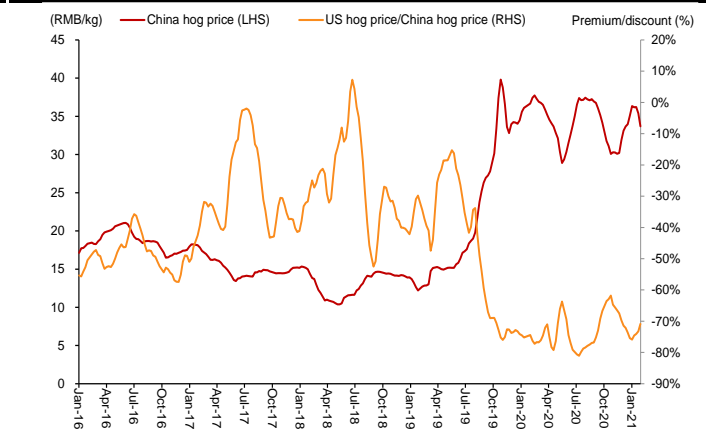
Source: Bloomberg, Company data, CMBIS estimates

Figure 8: The discount of US pork carcass price to China's was 70% on 14 Feb 2021



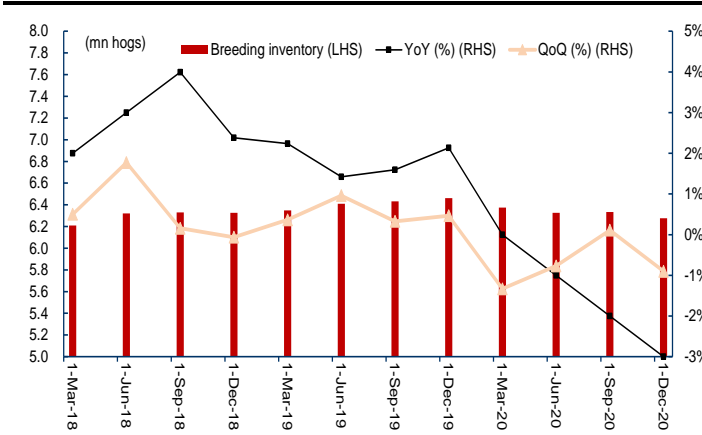
Source: Bloomberg, CMBIS

Figure 9: The discount of US hog price to China's was 71% on 3 Feb 2021



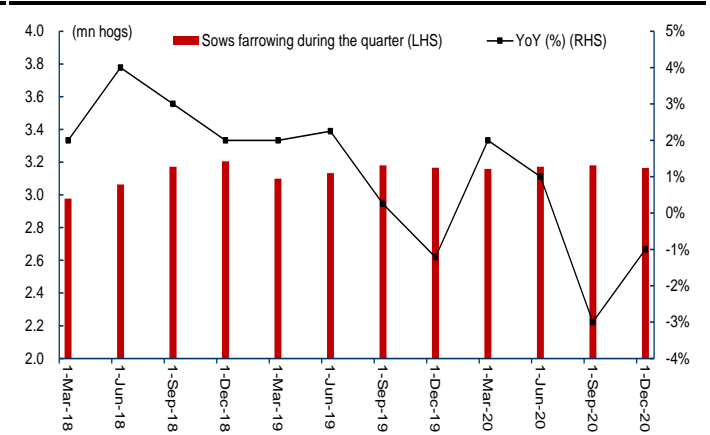
Source: Bloomberg, CMBIS

Figure 10: Growth of US breeding hog inventory was down 1% in the quarter ended 1 Dec 2020



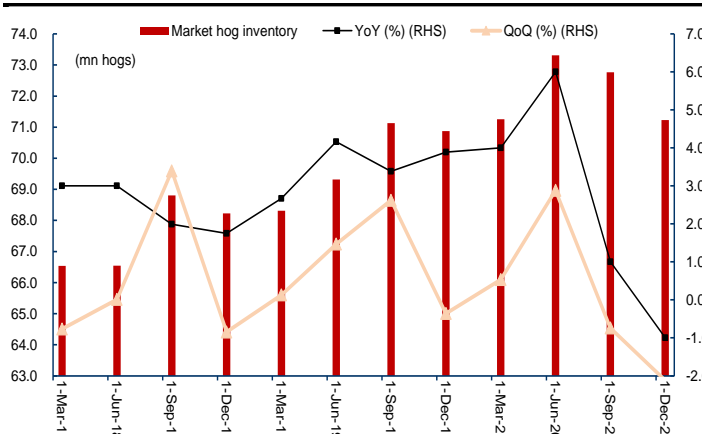
Source: USDA, CMBIS

Figure 11: Number of sows farrowing during the quarter ended 1 Dec 2020 was down 1%



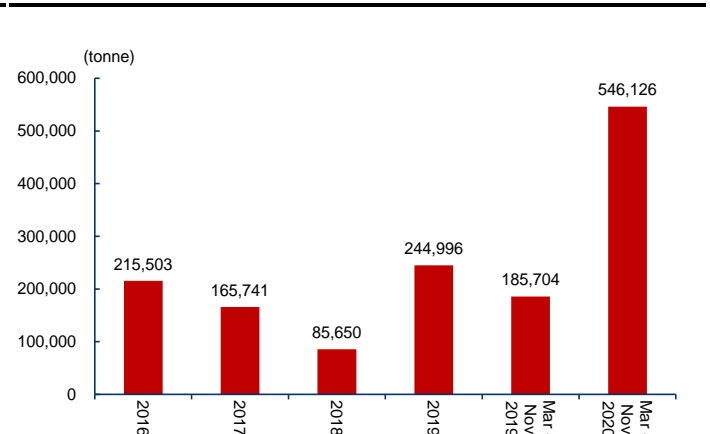
Source: USDA, CMBIS

Figure 12: Growth of US market hog inventory fell 1% in the quarter ended 1 Dec 2020



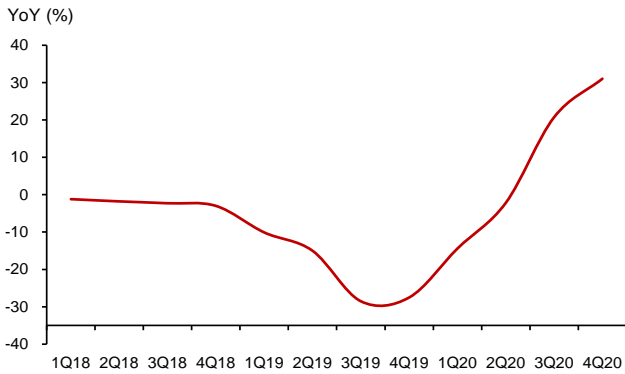
Source: USDA, CMBIS

Figure 13: China's pork import vol. from US between Mar and Nov 2020 jumped 194% YoY



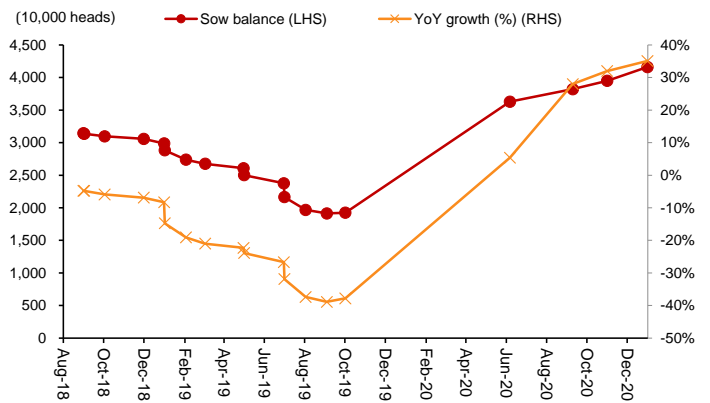
Source: WIND, CMBIS

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



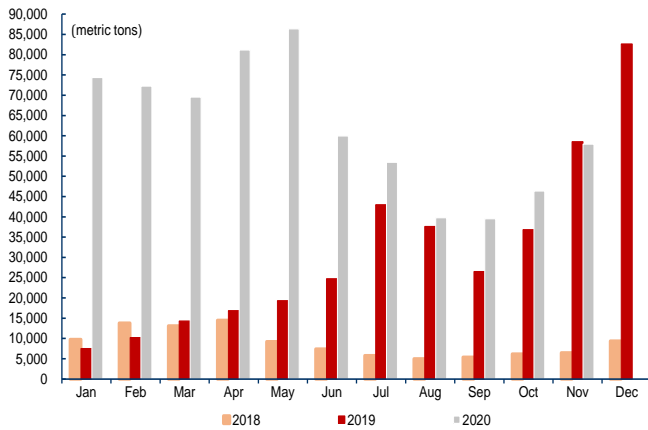
Source: WIND, CMBIS

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



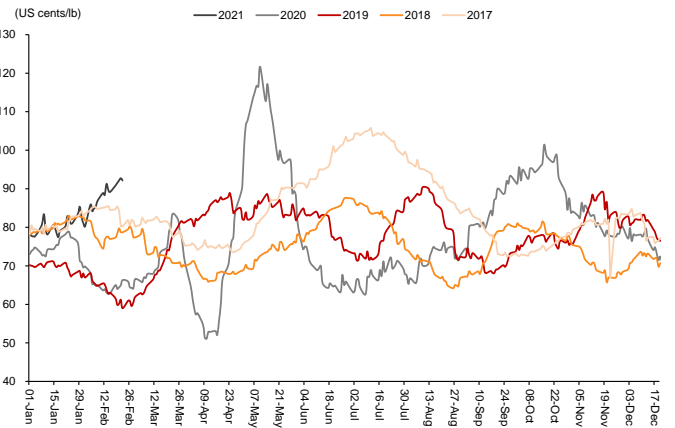
Source: WIND, CMBIS

Figure 16: US pork export volume to China rebounding in Nov 2020



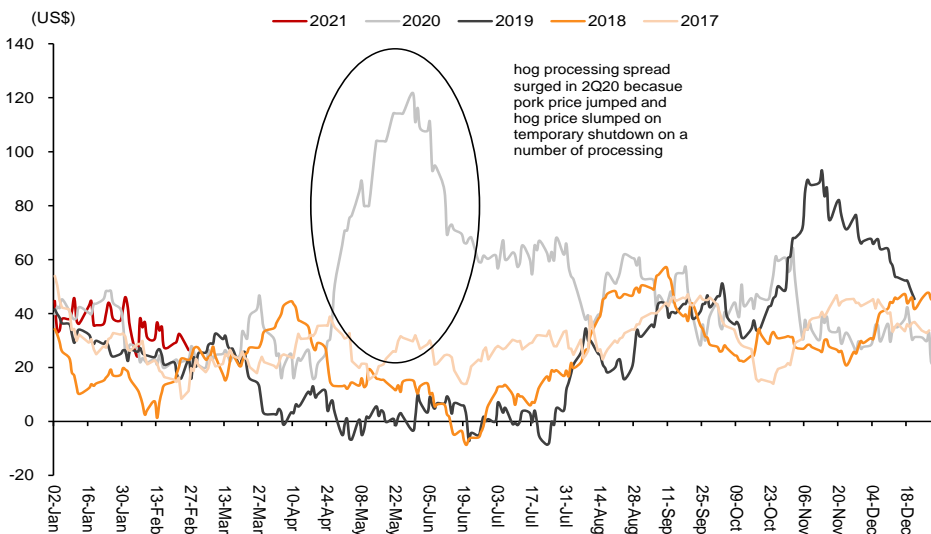
Source: US meat export federation

Figure 17: Year-to-date US pork price is trending up in Nov 2020



Source: Bloomberg, CMBIS estimates

Figure 18: Year-to-date US pork packers margin is similar to 2020



Source: Bloomberg, CMBIS

Figure 19: Major assumptions for US market

(US\$mn)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	7,773	7,814	7,120	7,517	7,820
growth %	-0.4%	0.5%	-8.9%	5.6%	4.0%
Sales volume (mn metric tons)	1.46	1.45	1.36	1.41	1.46
growth %	0.9%	-0.5%	-6.5%	4.0%	3.0%
ASP (US\$/ton)	5,324	5,378	5,243	5,322	5,375
growth %	-1.3%	1.0%	-2.5%	1.5%	1.0%
OP margin	10.1%	10.8%	8.2%	11.0%	11.5%
Fresh pork segment					
External revenue	4,790	4,467	4,088	4,186	4,301
growth %	-3.4%	-6.7%	-8.5%	2.4%	2.7%
Hog processed (mn heads)	33.95	34.51	32.10	34.02	34.70
growth %	-1.4%	1.7%	-7.0%	6.0%	2.0%
OP/head (US\$)	1.4	4.3	6.8	6.0	5.0
Hog production segment					
External revenue	619	877	961	847	876
growth %	21.4%	41.7%	9.6%	-11.9%	3.5%
Hog produced (mn heads)	16.47	17.68	17.33	17.50	17.59
growth %	0.5%	7.4%	-2.0%	1.0%	0.5%
OP/head (US\$)	(8.9)	4.7	(11.0)	(8.0)	(2.0)
Total external revenue					
Total external revenue	13,182	13,158	12,170	12,549	12,996
Packaged meat	7,773	7,814	7,120	7,517	7,820
Fresh pork	4,790	4,467	4,088	4,186	4,301
Hog production	619	877	961	847	876
Segment profit	615	932	471	730	868
growth %	-33.4%	51.5%	-49.4%	54.8%	19.0%
Packaged meat	785	847	584	827	900
Fresh pork	48	150	218	204	174
Hog production	(147)	83	(191)	(140)	(35)
Others	(71)	(148)	(141)	(162)	(170)
Segment profit margin	4.7%	7.1%	3.9%	5.8%	6.7%

Source: Company data, CMBIS estimates

Figure 20: Major assumptions for China market

(US\$mn)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	3,458	3,615	4,090	4,677	4,938
growth %	4.4%	4.5%	13.1%	14.4%	5.6%
Sales volume (mn metric tons)	1.60	1.60	1.60	1.66	1.71
growth %	1.1%	0.0%	-0.1%	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	5,936	4,935	5,453
growth %	-7.8%	31.8%	25.6%	-16.9%	10.5%
Hog processed (mn heads)	16.31	13.20	6.87	10.64	13.83
growth %	14.3%	-19.0%	-48.0%	55.0%	30.0%
OP/head (Rmb)	72.7	137.8	230.0	85.0	60.0
Hog production segment					
External revenue	8	2	3	5	34
growth %	-27.3%	-75.0%	69.1%	44.8%	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	-600.0	150.0	100.0
Total external revenue	7,328	8,756	10,812	10,500	11,396
Packaged meat	3,458	3,615	4,090	4,677	4,938
Fresh pork	3,584	4,725	5,936	4,935	5,453
Hog production	8	2	3	5	34
Others	278	414	783	882	971
Segment profit	922	957	1,140	1,237	1,313
growth %	75.6%	3.8%	19.1%	8.5%	6.1%
Packaged meat	712	673	867	1,029	1,096
Fresh pork	179	262	229	141	129
Hog production	5	(13)	(6)	2	11
Others	26	35	50	65	77
Segment profit margin	12.6%	10.9%	10.5%	11.8%	11.5%

Source: Company data, CMBIS estimates

Figure 21: Major assumptions for Europe market

(US\$mn)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	916	902	1,021	1,172	1,282
growth %	39.2%	-1.5%	13.2%	14.8%	9.3%
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%	8.3%	9.3%	9.6%
Fresh pork segment					
External revenue	762	886	1,089	1,209	1,292
growth %	12.6%	16.3%	22.9%	11.1%	6.8%
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	3.5	5.5	5.5
Hog production segment					
External revenue	61	58	81	152	162
growth %	19.6%	-4.9%	40.3%	86.7%	6.5%
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	15.0	5.0	5.0
Total external revenue					
Total external revenue	2,095	2,188	2,563	2,921	3,157
Packaged meat	916	902	1,021	1,172	1,282
Fresh pork	762	886	1,089	1,209	1,292
Hog production	61	58	81	152	162
Others	356	342	372	387	421
Segment profit	113	142	163	177	202
growth %	-16.3%	25.7%	14.4%	8.7%	14.3%
Packaged meat	50	54	85	109	123
Fresh pork	19	(9)	26	46	49
Hog production	29	97	65	24	25
Others	15	0	(14)	(2)	5
Segment profit margin	5.4%	6.5%	6.3%	6.0%	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	25,545	25,969	27,550
China	7,328	8,756	10,812	10,500	11,396
US	13,182	13,158	12,170	12,549	12,996
EUR	2,095	2,188	2,563	2,921	3,157
Cost of sales	(18,103)	(19,209)	(20,712)	(20,716)	(22,038)
Gross profit	4,502	4,894	4,834	5,253	5,512
Other income and gains	98	59	78	91	97
SG&A expenses	(2,871)	(2,870)	(3,067)	(3,131)	(3,155)
Operating profit	1,729	2,083	1,845	2,214	2,454
Finance cost	(115)	(144)	(135)	(131)	(111)
Other expenses	(74)	(63)	(63)	(63)	(63)
Other gains/(losses)	(21)	53	(50)	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	1,617	2,042	2,305
Income tax	(293)	(336)	(327)	(414)	(467)
Non-controlling interests	(210)	(230)	(255)	(297)	(323)
Net profit	1,047	1,380	1,035	1,331	1,514
Adj. net profit	1,046	1,378	1,085	1,331	1,514

Cash flow summary

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,411	2,052	1,617	2,042	2,305
Depreciation and amortization	441	581	593	611	645
Change in working capital	(570)	(930)	209	114	(83)
Others	(27)	(240)	(321)	(455)	(482)
Net cash from operating	1,255	1,463	2,098	2,311	2,385
Capex & investments	(811)	(680)	(600)	(800)	(600)
Interest received	6	6	20	33	39
Others	(412)	(122)	0	0	0
Net cash from investing	(1,217)	(796)	(580)	(767)	(561)
Change of borrowings	4	3	0	(400)	(400)
Dividend paid	(795)	(464)	(721)	(663)	(818)
Proceeds from	9	31	1,017	0	0
Others	(8)	(163)	(116)	(116)	(116)
Financing cash flow	(790)	(593)	181	(1,178)	(1,333)
Net change in cash	(752)	74	1,698	366	491
Cash at the beginning	1,279	484	552	2,250	2,617
Exchange difference	(43)	(6)	0	0	0
Cash at the end	484	552	2,250	2,617	3,107
Bank and cash balance	525	552	2,250	2,617	3,107
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	10,713	11,035	11,125
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	509	509
Current assets	5,460	6,707	8,412	8,666	9,429
Cash and pledged deposits	579	593	2,291	2,658	3,148
Inventory	2,022	2,903	2,817	2,677	2,848
Trade receivables	1,135	1,047	1,110	1,128	1,197
Others	1,724	2,164	2,194	2,203	2,237
Current liabilities	3,328	3,869	3,884	3,884	4,073
Borrowings	860	905	705	705	705
Trade payables	977	1,074	1,158	1,158	1,232
Other payables	1,430	1,686	1,818	1,818	1,934
Others	61	204	203	202	201
Non-current liabilities	3,552	3,961	4,203	3,813	3,459
Borrowings	2,259	2,187	2,387	1,987	1,587
Deferred revenue	695	1,114	1,156	1,166	1,212
Others	598	660	660	660	660
Minority Interest	672	768	895	975	1,053
Total net assets	8,418	9,452	11,039	12,004	13,023
Shareholders' equity	7,746	8,684	10,143	11,029	11,970

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
China	32.4	36.3	42.3	40.4	41.4
US	58.3	54.6	47.6	48.3	47.2
EUR	9.3	9.1	10.0	11.2	11.5
P&L ratios (%)					
Gross profit margin	19.9	20.3	18.9	20.2	20.0
Operating profit margin	7.6	8.6	7.2	8.5	8.9
Net profit margin	4.6	5.7	4.1	5.1	5.5
Adj. net profit margin	4.6	5.7	4.2	5.1	5.5
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	2.3
Receivables turnover days	17	17	15	16	15
Payables turnover days	21	19	20	20	20
Inventory turnover days	40	47	50	48	46
Asset turnover (x)	1.5	1.4	1.3	1.3	1.3
Net gearing ratio (%)	30	30	11	4	(3)
Returns (%)					
Adj. ROAE	13.8	16.8	11.5	12.6	13.2
Adj. ROAA	8.2	9.9	7.1	8.4	9.1
Per share data					
Adj. EPS (US\$)	0.071	0.094	0.074	0.090	0.103
DPS (HK\$)	0.20	0.32	0.23	0.30	0.34
BVPS (US\$)	0.53	0.59	0.69	0.75	0.81

Source: Company data, CMBIS estimates

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