

WH Group (288 HK)

FY19E results beat; 1Q20E NP growth still good

FY19 adj. NP +32% to US\$1,378mn, 4% above our estimates (12% above Bloomberg estimates) due to better-than-expected US hog production profit and lower-than-expected effective tax rate. Dividend payout ratio rebounded from 36% in FY18 to 43% in FY19. Impact from COVID-19 outbreak is insignificant. We expect profit growth in 1Q20E should be good led by US market where hog production segment turns around by hedging (vs US\$157mn loss in 1Q19) and YoY better fresh pork margin. We reduced our TP from HK\$10.80 to HK\$9.50, representing 13.0x FY20E P/E. Maintain Buy, we expect China's tariff exclusion policy could narrow price gap between China and US pork prices and improve WH's earnings. Trading at 8.8x FY20E P/E, valuation is attractive as WH trades below historical average P/E of 10.7x but its NP is expected to grow in FY20E.

- **FY19 results beat.** Revenue rose 7% to US\$24,103mn, in line. (1) **China:** segment profit rose 4% led by 46% profit growth from fresh pork (sale of low-cost inventory) but offset by 5% profit drop in packaged meat profit (high hog price). (2) **US:** segment profit jumped 52%, driven by turnaround of hog production (hedging gain) and 8% growth of packaged meat profit. (3) **Europe:** segment profit rose 26% driven by 234% profit growth from hog production on higher hog price.
- **COVID-19 impact.** (1) **China:** The virus outbreak caused short-term issues in labor shortage and logistics but were solved by government shortly. The impact on packaged meat retail sales was insignificant. (2) **US:** Business so far is normal. The Company is running 100% at all production facilities as pork industry is ordered by government to work continuously. Management believes no labor shortage as US unemployment rate could increase amid COVID-19 outbreak.
- **FY20E outlook.** (1) **China:** Management expects hog price was peaked in Jan 20. We expect China segment profit to drop by 7% due to decline in fresh pork profit arising from reducing hog processed volume (ASF). We expect packaged meat segment to keep sales volume. OP/tonne is estimated to increase slightly thanks to price hikes in 2019 and launch of mid-to-high end new products. (2) **US:** Management expects hog production to remain profitable because of successful hedging strategy. Beginning 1 Mar, Chinese government allows its enterprises to apply for 30% tariff exclusion for US pork import for one year. We expect fresh pork margin to improve because of more export sales (usually higher prices than domestic sales). We expect 1Q20E net profit would see strong growth driven by turnaround in hog production and YoY better fresh pork margin (Figure 16).
- **Lower TP to HK\$9.50.** We trimmed FY20E adj. net profit estimates by 1% mainly to reflect lower US hog production profit (lean hog futures prices fell in Mar) but partly offset by higher US fresh pork margin. Our SOTP-based TP is reduced from HK\$10.80 to HK\$9.50 as we lowered P/E multiples of both China as well as US and Europe businesses after de-rating of peers. Our TP represents 13.0x FY20E P/E (vs 15.3x FY20E P/E previously). **Catalyst:** China reduces tariff rate further or sharply increases import from US. **Risks:** uncertainties from COVID-19 outbreak, packaged meat and fresh pork margins below expectation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	22,605	24,103	25,148	25,930	26,912
Net profit (US\$ mn)	1,047	1,380	1,415	1,436	1,556
Adj. net profit (US\$ mn)	1,046	1,378	1,415	1,436	1,556
Adj. EPS (US\$)	0.071	0.094	0.096	0.098	0.106
YoY growth (%)	(4.9)	31.5	2.6	1.5	8.3
Consensus EPS (US\$)	na	na	0.096	0.102	0.135
Adj. P/E (x)	11.8	9.0	8.8	8.7	8.0
P/B (x)	1.6	1.4	1.3	1.2	1.1
Yield (%)	3.0	4.8	4.9	5.0	5.4
Adj. ROAE (%)	13.8	16.8	15.6	14.5	14.4

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$9.50
(Previous TP	HK\$10.80)
Up/Downside	+44%
Current Price	HK\$6.60

China Staples Sector

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Stock Data

Mkt Cap (HK\$ mn)	97,202
Avg 3 mths t/o (HK\$ mn)	306.07
52w High/Low (HK\$)	9.95/ 5.92
Total Issued Shares (mn)	14,664.2

Source: Bloomberg

Shareholding Structure

Rise Grand	35.83%
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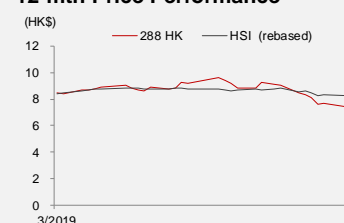
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-30.1%	-12.1%
3-mth	-24.7%	-3.2%
6-mth	-15.3%	2.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

1. "WH Group – 4Q19 momentum continued and a positive 2020" – 13 Jan 2020
2. "WH Group – 3Q19 NP +79%, China's packaged meat and fresh pork margins could continue in 4Q19E" – 29 Oct 2019
3. "WH Group – NDR takeaways; China market is improving in 3Q19E" – 25 Sep 2019
4. "WH Group – US hog futures rallied as trade tensions ease" – 14 Sep 2019
 "WH Group – Expect a better 2H19" – 14 Aug 2019
5. "WH Group – 1H19 preview; expect a better 2H19" – 24 Jul 2019

Figure 1: FY19 results review

Y/E Dec (US\$mn)	FY19	FY18	% change
Revenue	24,103	22,605	7%
Cost of sales	(19,209)	(18,103)	6%
Gross profit	4,894	4,502	9%
Other income	59	98	-40%
SG&A expenses	(2,059)	(2,871)	-28%
Operating profit	(811)	1,729	-147%
Other expenses	(63)	(74)	-15%
Finance costs	(144)	(115)	25%
Other gains/(losses)	53	(21)	-352%
JV & associates	17	31	-45%
Profit before tax	(948)	1,550	-161%
Tax expenses	(336)	(293)	15%
Non-controlling interests	(230)	(210)	10%
Net profit	(1,514)	1,047	-245%
Adj. net profit	1,378	1,046	32%
DPS (HK\$)	0.315	0.200	58%
<u>Revenue by market</u>			
China revenue	10,062	8,417	20%
Packaged meat	3,615	3,458	5%
Fresh pork	5,671	4,355	30%
Hog production	20	59	-66%
Others	756	545	39%
US revenue	18,666	17,871	4%
Packaged meat	7,817	7,777	1%
Fresh pork	7,567	7,333	3%
Hog production	3,282	2,761	19%
Europe revenue	3,420	3,377	1%
Packaged meat	943	957	-1%
Fresh pork	1,339	1,273	5%
Hog production	723	686	5%
Others	415	461	-10%
<u>OP by market</u>			
China OP	957	922	4%
Packaged meat	673	712	-5%
Fresh pork	262	179	46%
Hog production	(13)	5	na
Others	35	26	35%
US OP	932	615	52%
Packaged meat	847	785	8%
Fresh pork	150	48	213%
Hog production	83	(147)	na
Others	(148)	(71)	108%
Europe OP	142	113	26%
Packaged meat	54	50	8%
Fresh pork	(9)	19	na
Hog production	97	29	234%
Others	0	15	-100%
<u>Packaged meat margin (%)</u>			
China	18.6	20.6	(2.0)
US	10.8	10.1	0.7
Europe	5.7	5.2	0.5

Source: Company data, CMBIS

Figure 2: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,148	25,930	26,912	25,958	26,726	na	-3%	-3%	na
Gross Profit	5,097	5,284	5,511	5,288	5,511	na	-4%	-4%	na
Operating Profit	2,250	2,303	2,461	2,297	2,330	na	-2%	-1%	na
Adj. net profit	1,415	1,436	1,556	1,433	1,443	na	-1%	0%	na
Gross Margin	20.3%	20.4%	20.5%	20.4%	20.6%	na	+1.1ppt	+0.4ppt	na
Operating Margin	8.9%	8.9%	9.1%	8.8%	8.7%	na	+0.5ppt	+0.2ppt	na
Net Margin	5.6%	5.5%	5.8%	5.5%	5.4%	na	+0.3ppt	+0.1ppt	na

Source: Company data, CMBIS estimates

Figure 3: CMBI estimates vs consensus

US\$ mn	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,148	25,930	26,912	25,613	26,669	na	-2%	-3%	na
Gross Profit	5,097	5,284	5,511	5,160	5,511	na	-1%	-4%	na
Operating Profit	2,250	2,303	2,461	2,148	2,335	na	5%	-1%	na
Net profit	1,415	1,436	1,556	1,384	1,496	na	2%	-4%	na
Gross Margin	20.3%	20.4%	20.5%	20.1%	20.7%	na	+0.2ppt	-0.3ppt	na
Operating Margin	8.9%	8.9%	9.1%	8.4%	8.8%	na	+0.5ppt	+0.1ppt	na
Net Margin	5.6%	5.5%	5.8%	5.4%	5.6%	na	+0.2ppt	-0.1ppt	na

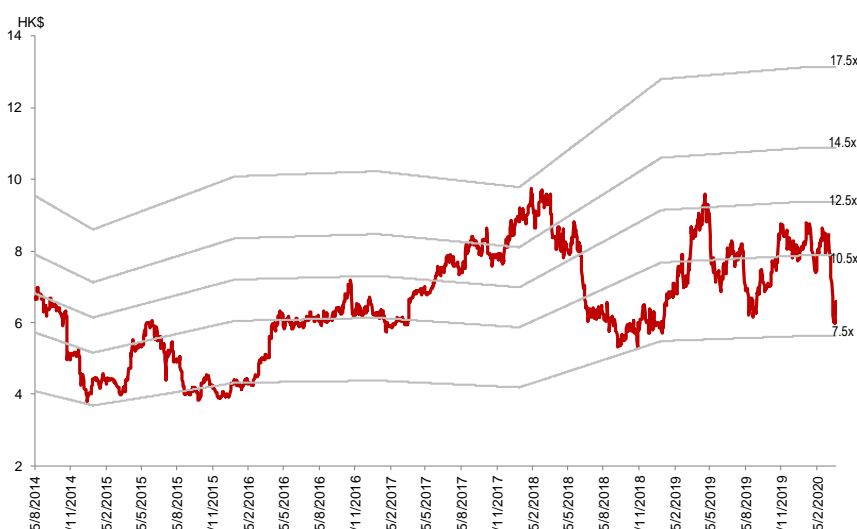
Source: Bloomberg, CMBIS estimates

Figure 4: SOTP-based valuation

Segment	FY20 P/E	FY20E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	840.7	8,407	10x FY20E P/E
China business	16.6	574.5	9,536	30% discount on HK listed peers' average 23.7x FY20E P/E
Total			17,944	
Value per share (HK\$)			9.5	
Implied FY20E P/E			13.0	

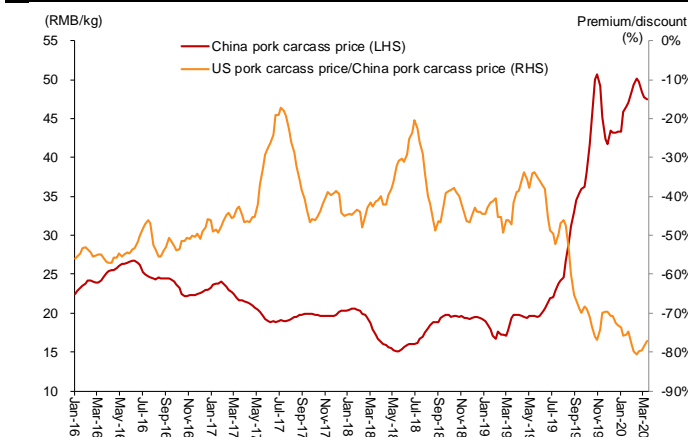
Source: Company data, Bloomberg, CMBIS estimates

Figure 5: P/E band



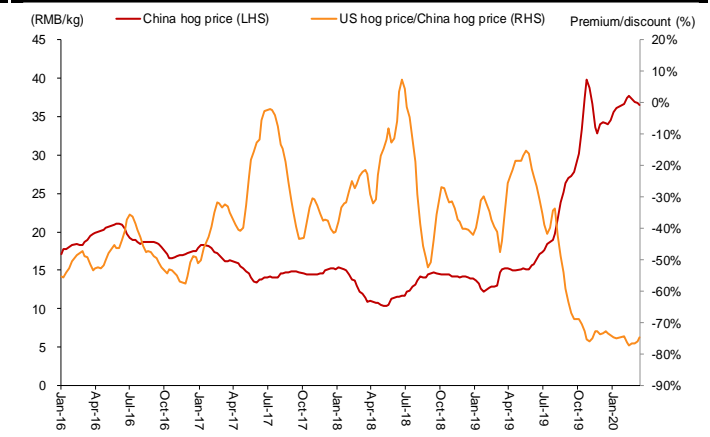
Source: Bloomberg, Company data, CMBIS estimates

Figure 6: The discount of US pork carcass price to China's was 77% on 15 Mar 2020



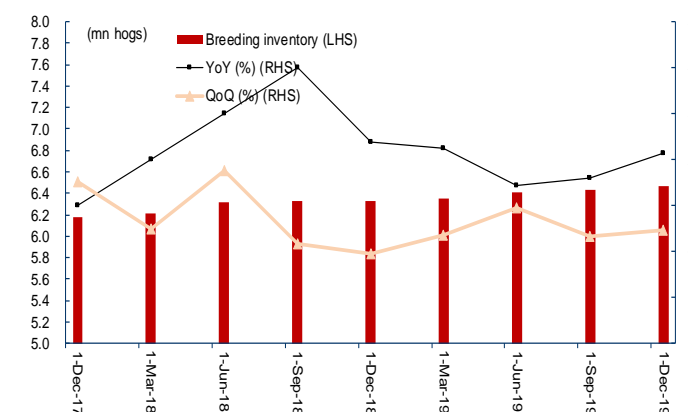
Source: Bloomberg, CMBIS

Figure 7: The discount of US hog price to China's was 75% on 18 Mar 2020



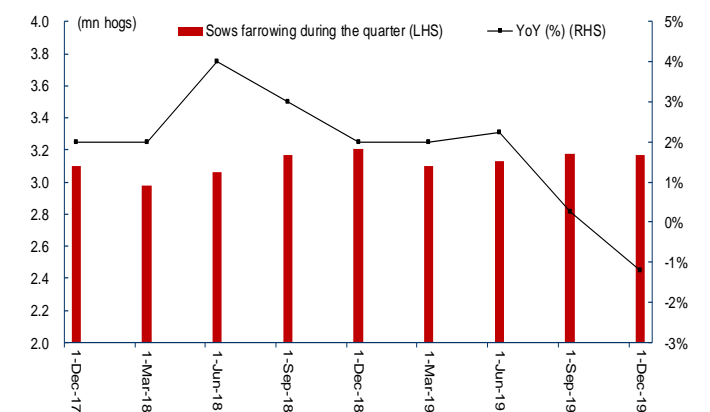
Source: Bloomberg, CMBIS

Figure 8: Growth of US breeding hog inventory was 2% in the quarter ended 1 Dec 2019



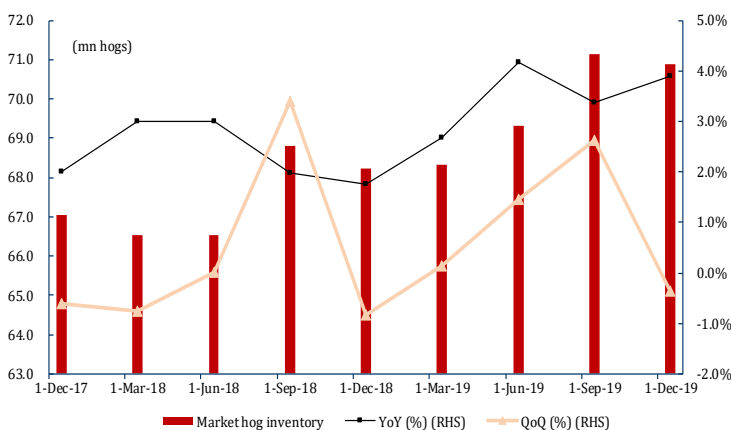
Source: USDA, CMBIS

Figure 9: Number of sows farrowing during the quarter ended 1 Dec 2019 fell 1%



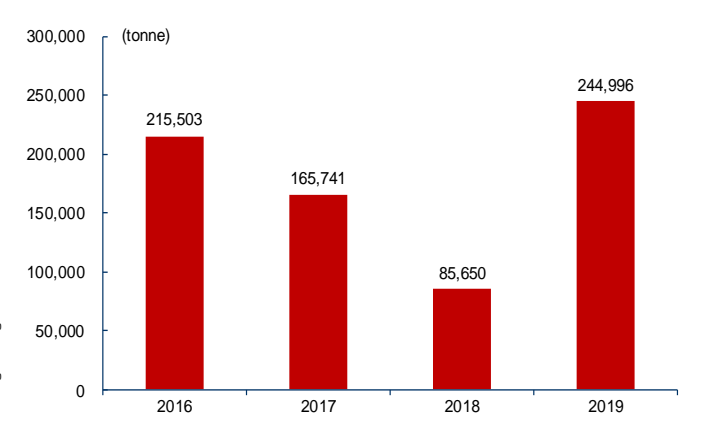
Source: USDA, CMBIS

Figure 10: Growth of US total hog inventory was 3% in the quarter ended 1 Dec 2019

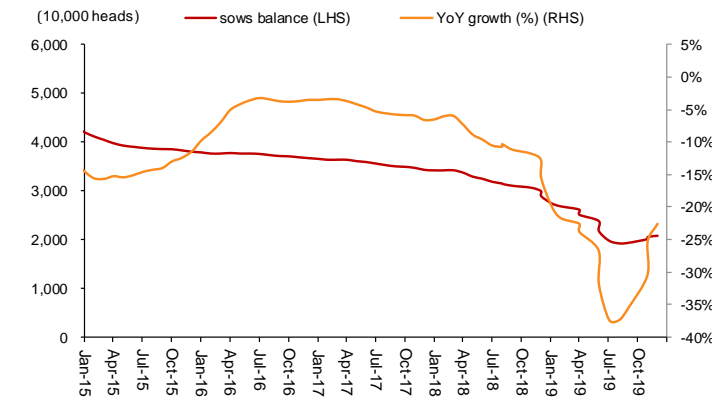


Source: USDA, CMBIS

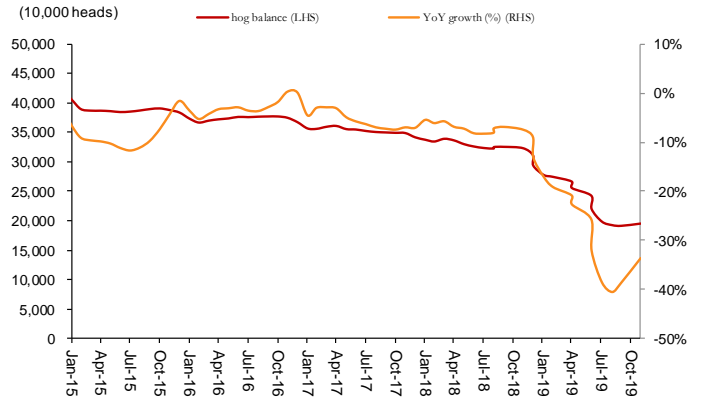
Figure 11: China's pork import volume from US surged 186% in 2019



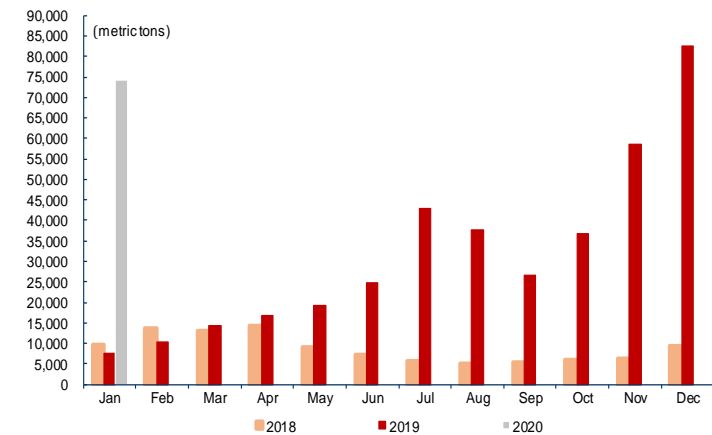
Source: WIND

Figure 12: Sows balance decline in China narrowed to 23% YoY in Feb 2020


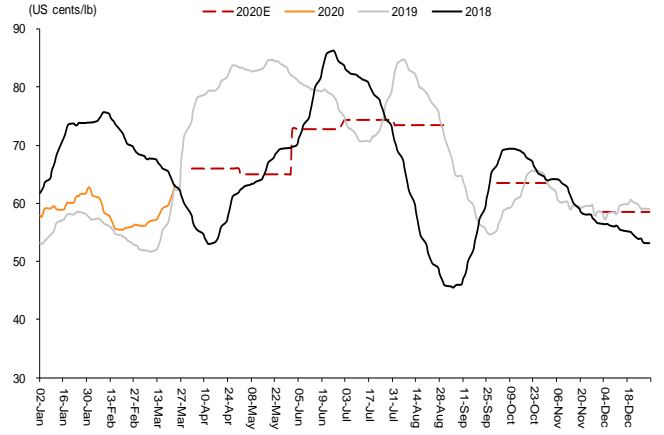
Source: WIND, CMBIS

Figure 13: Hogs balance decline in China narrowed to 34% YoY in Dec 2019


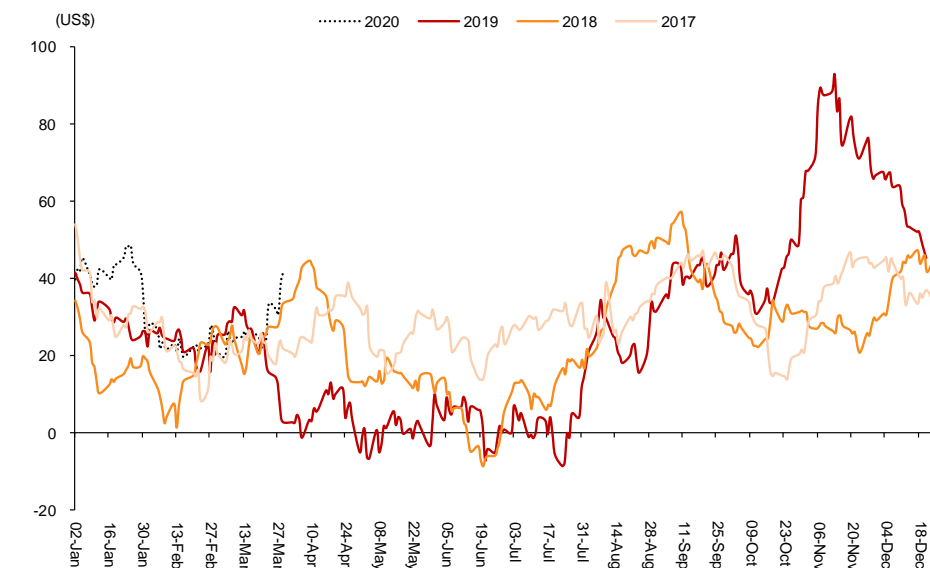
Source: WIND, CMBIS

Figure 14: US pork export volume to China grew by 887% in Jan 2020


Source: US meat export federation

Figure 15: US hog futures prices have softened since COVID-19 outbreak in US


Source: Bloomberg, CMBIS estimates

Figure 16: US pork packers margins has been improving in 2020


Source: Bloomberg, CMBIS

Figure 17: Major assumptions for US market

(US\$mn)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	7,773	7,814	7,888	7,887	8,045
growth %	-0.4%	0.5%	0.9%	0.0%	2.0%
Sales volume (mn metric tons)	1.46	1.45	1.44	1.45	1.47
growth %	0.9%	-0.5%	-1.0%	1.0%	1.0%
ASP (US\$/ton)	5,324	5,378	5,485	5,431	5,485
growth %	-1.3%	1.0%	2.0%	-1.0%	1.0%
OP margin	10.1%	10.8%	11.1%	11.6%	12.0%
Fresh pork segment					
External revenue	4,790	4,467	5,275	5,092	5,071
growth %	-3.4%	-6.7%	18.1%	-3.5%	-0.4%
Hog processed (mn heads)	33.95	34.51	35.20	35.91	36.63
growth %	-1.4%	1.7%	2.0%	2.0%	2.0%
OP/head (US\$)	1.4	4.3	8.0	7.0	7.0
Hog production segment					
External revenue	619	877	1,029	986	976
growth %	21.4%	41.7%	17.3%	-4.1%	-1.1%
Hog produced (mn heads)	16.47	17.68	18.03	18.40	18.76
growth %	0.5%	7.4%	2.0%	2.0%	2.0%
OP/head (US\$)	(8.9)	4.7	6.0	2.0	(1.0)
Total external revenue	13,182	13,158	14,192	13,965	14,092
Packaged meat	7,773	7,814	7,888	7,887	8,045
Fresh pork	4,790	4,467	5,275	5,092	5,071
Hog production	619	877	1,029	986	976
Segment profit	615	932	1,110	1,040	1,032
growth %	-33.4%	51.5%	19.1%	-6.3%	-0.8%
Packaged meat	785	847	876	915	966
Fresh pork	48	150	282	251	256
Hog production	(147)	83	108	37	(19)
Others	(71)	(148)	(155)	(163)	(171)
Segment profit margin	4.7%	7.1%	7.8%	7.4%	7.3%

Source: Company data, CMBIS estimates

Figure 18: Major assumptions for China market

(US\$m)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	3,458	3,615	4,016	4,056	4,097
growth %	4.4%	4.5%	11.1%	1.0%	1.0%
Sales volume (mn metric tons)	1.60	1.60	1.60	1.62	1.63
growth %	1.1%	0.0%	0.0%	1.0%	1.0%
ASP (Rmb/ton)	14,303	15,673	17,553	17,553	17,553
growth %	1.3%	9.6%	12.0%	0.0%	0.0%
OP margin %	20.6%	18.6%	18.0%	20.5%	21.5%
Fresh pork segment					
External revenue	3,584	4,725	3,796	4,556	5,125
growth %	-7.8%	31.8%	-19.7%	20.0%	12.5%
Hog processed (mn heads)	16.31	13.20	7.92	11.88	14.85
growth %	14.3%	-19.0%	-40.0%	50.0%	25.0%
OP/head (Rmb)	72.7	137.8	110.0	60.0	50.0
Hog production segment					
External revenue	8	2	1	2	2
growth %	-27.3%	-75.0%	-40.5%	35.0%	20.0%
Hog produced (mn heads)	0.29	0.13	0.07	0.10	0.12
growth %	-6.1%	-54.9%	-50.0%	50.0%	20.0%
OP/head (Rmb)	113.0	-683.8	-1200.0	400.0	300.0
Total external revenue	7,328	8,756	8,368	9,224	9,895
Packaged meat	3,458	3,615	4,016	4,056	4,097
Fresh pork	3,584	4,725	3,796	4,556	5,125
Hog production	8	2	1	2	2
Others	278	414	554	610	671
Segment profit	922	957	887	998	1,061
growth %	75.6%	3.8%	-7.3%	12.6%	6.3%
Packaged meat	712	673	723	832	881
Fresh pork	179	262	124	102	106
Hog production	5	(13)	(11)	6	5
Others	26	35	51	59	69
Segment profit margin	12.6%	10.9%	10.6%	10.8%	10.7%

Source: Company data, CMBIS estimates

Figure 19: Major assumptions for Europe market

(US\$mn)	FY18	FY19	FY20E	FY21E	FY22E
Packaged meat segment					
External revenue	916	902	1,013	1,089	1,167
growth %	39.2%	-1.5%	12.3%	7.5%	7.2%
Sales volume (mn metric tons)	0.29	0.28	0.29	0.31	0.32
growth %	18.0%	-2.0%	5.0%	5.0%	5.0%
ASP (EUR/ton)	3,818	3,627	3,736	3,848	3,964
growth %	23.0%	-5.0%	3.0%	3.0%	3.0%
OP margin	5.5%	6.0%	6.2%	6.8%	7.3%
Fresh pork segment					
External revenue	762	886	1,136	1,180	1,251
growth %	12.6%	16.3%	28.3%	3.9%	6.0%
Hog processed (mn heads)	5.83	6.08	6.69	7.36	7.87
growth %	14.6%	4.4%	10.0%	10.0%	7.0%
OP/head (EUR)	3.9	-1.7	-2.0	4.0	4.0
Hog production segment					
External revenue	61	58	68	66	64
growth %	19.6%	-4.9%	17.1%	-2.7%	-3.0%
Hog produced (mn heads)	4.17	3.99	4.11	4.24	4.36
growth %	18.0%	-4.3%	3.0%	3.0%	3.0%
OP/head (EUR)	8.2	27.2	33.0	22.0	18.0
Total external revenue	2,095	2,188	2,588	2,741	2,924
Packaged meat	916	902	1,013	1,089	1,167
Fresh pork	762	886	1,136	1,180	1,251
Hog production	61	58	68	66	64
Others	356	342	371	406	442
Segment profit	113	142	187	198	198
growth %	-16.3%	25.7%	32.0%	5.9%	0.0%
Packaged meat	50	54	63	74	85
Fresh pork	19	(9)	(12)	27	29
Hog production	29	97	125	85	71
Others	15	0	11	12	13
Segment profit margin	5.4%	6.5%	7.2%	7.2%	6.8%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	22,605	24,103	25,148	25,930	26,912
China	7,328	8,756	8,368	9,224	9,895
US	13,182	13,158	14,192	13,965	14,092
EUR	2,095	2,188	2,588	2,741	2,924
Cost of sales	(18,103)	(19,209)	(20,051)	(20,645)	(21,400)
Gross profit	4,502	4,894	5,097	5,284	5,511
Other income and gains	98	59	63	73	82
SG&A expenses	(2,871)	(2,870)	(2,909)	(3,055)	(3,132)
Operating profit	1,729	2,083	2,250	2,303	2,461
Finance cost	(115)	(144)	(126)	(125)	(104)
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	2,082	2,138	2,319
Income tax	(293)	(336)	(423)	(434)	(470)
Non-controlling interests	(210)	(230)	(244)	(268)	(293)
Net profit	1,047	1,380	1,415	1,436	1,556
Adj. net profit	1,046	1,378	1,415	1,436	1,556

Cash flow summary

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,411	0	2,082	2,138	2,319
Depreciation and amortization	441	0	597	609	621
Change in working capital	(570)	0	229	85	(42)
Others	(27)	0	(764)	(461)	(503)
Net cash from operating	1,255	1,463	2,144	2,371	2,394
Capex & investments	(811)		(600)	(600)	(600)
Interest received	6		15	25	34
Others	(412)		0	0	0
Net cash from investing	(1,217)	(796)	(585)	(575)	(566)
Change of borrowings	4	0	127	(400)	(400)
Dividend paid	(795)	0	(721)	(772)	(794)
Others	1	0	0	0	0
Net cash from financing	(790)	(593)	(594)	(1,172)	(1,194)
Net change in cash	(752)	74	965	624	634
Cash at the beginning	1,279	484	552	1,517	2,141
Exchange difference	(43)	(6)	0	0	0
Cash at the end	484	552	1,517	2,141	2,775
Bank and cash balance	525	552	1,517	2,141	2,775
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	10,631	10,629
PPE	5,300	5,406	5,552	5,686	5,808
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	7,564	8,179	8,974
Cash and pledged deposits	579	593	1,558	2,182	2,816
Inventory	2,022	2,903	2,727	2,668	2,765
Trade receivables	1,135	1,047	1,092	1,126	1,169
Others	1,724	2,164	2,186	2,202	2,223
Current liabilities	3,328	3,869	4,095	4,180	4,289
Borrowings	860	905	1,010	1,010	1,010
Trade payables	977	1,074	1,121	1,154	1,197
Other payables	1,430	1,686	1,760	1,812	1,878
Others	61	204	204	204	204
Non-current liabilities	3,552	3,961	3,681	3,306	2,936
Borrowings	2,259	2,187	2,209	1,809	1,409
Deferred revenue	695	1,114	812	837	867
Others	598	660	660	660	660
Minority Interest	672	768	886	991	1,107
Total net assets	8,418	9,452	10,391	11,323	12,378
Shareholders' equity	7,746	8,684	9,505	10,332	11,270

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
China	32.4	36.3	33.3	35.6	36.8
US	58.3	54.6	56.4	53.9	52.4
EUR	9.3	9.1	10.3	10.6	10.9
P&L ratios (%)					
Gross profit margin	19.9	20.3	20.3	20.4	20.5
Operating profit margin	7.6	8.6	8.9	8.9	9.1
Net profit margin	4.6	5.7	5.6	5.5	5.8
Adj. net profit margin	4.6	5.7	5.6	5.5	5.8
Payout ratio	35.8	43.0	43.0	43.0	43.0
Balance sheet ratios					
Current ratio (x)	1.6	1.7	1.8	2.0	2.1
Receivables turnover days	17	17	16	16	16
Payables turnover days	21	19	20	20	20
Inventory turnover days	40	47	51	48	46
Asset turnover (x)	1.5	1.4	1.4	1.4	1.4
Net gearing ratio (%)	30	30	16	6	(3)
Returns (%)					
Adj. ROAE	13.8	16.8	15.6	14.5	14.4
Adj. ROAA	8.2	9.9	9.4	9.2	9.6
Per share data					
Adj. EPS (US\$)	0.071	0.094	0.096	0.098	0.106
DPS (HK\$)	0.20	0.32	0.32	0.33	0.35
BVPS (US\$)	0.53	0.59	0.65	0.70	0.77

Source: Company data, CMBIS estimates

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