

China/Hong Kong Company Update

WH Group Ltd

Bloomberg: 288 HK Equity | Reuters: 0288.HK

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DBS Group Research . Equity

21 Jan 2022

BUY

Last Traded Price (20 Jan 2022): HK\$5.13 (HSI : 24,952)
Price Target 12-mth: HK\$8.30 (62% upside) (Prev HK\$7.30)

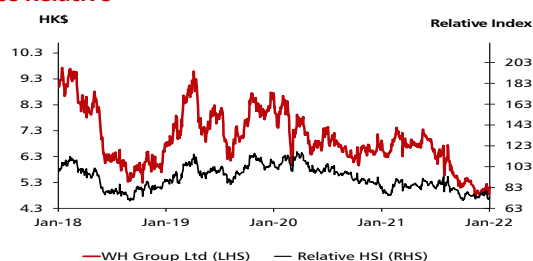
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What's New

- Expect China pork segment to see stabilising profitability with favourable hog prices
- US packaged meat and pork segment to see gradual recovery driven by favourable price spread
- Maintain BUY, TP adjusted upwards to HK\$8.3

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2019A	2020A	2021F	2022F
Turnover	24,103	25,589	26,799	27,758
EBITDA	2,518	2,113	2,008	2,127
Pre-tax Profit	1,946	1,500	1,780	1,919
Net Profit	1,380	973	1,133	1,293
Net Profit Gth (Pre-ex) (%)	31.8	(29.5)	16.4	14.1
EPS (US\$)	0.09	0.07	0.09	0.10
EPS (HK\$)	0.73	0.51	0.68	0.78
EPS Gth (%)	31.8	(29.4)	33.6	14.1
Diluted EPS (HK\$)	0.73	0.51	0.68	0.78
DPS (HK\$)	0.31	0.18	0.27	0.27
BV Per Share (HK\$)	4.57	5.27	5.37	5.99
PE (X)	7.1	10.0	7.5	6.6
P/Cash Flow (X)	6.7	4.1	8.3	7.4
P/Free CF (X)	12.5	5.4	20.1	15.5
EV/EBITDA (X)	5.2	5.5	6.1	5.7
Net Div Yield (%)	6.1	3.4	5.3	5.3
P/Book Value (X)	1.1	1.0	1.0	0.9
Net Debt/Equity (X)	0.3	0.1	0.3	0.2
ROAE (%)	16.8	10.4	12.0	13.8

Earnings Rev (%)			24	14
Consensus EPS (US\$)			0.08	0.10
Other Broker Recs:		B:21	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Stable recovery

Investment Thesis

China operations to see a reprieve. China accounted for 42%/67% of FY20 sales/operating profit. China hog prices have seen mild stabilisation in 3Q21, with management expectations that prices will remain manageable between Rmb14-18/kg in FY22F. This should stabilise the profitability of the group's Pork segment.

US operations bolstered by domestic economy recovery. COVID-19 had a negative impact on the group's US business from its disruption in production plants and impact on B2B channels. Operating profit declined 55% y-o-y in FY20. The US operations have benefited from the reopening of the economy, with improving volumes recorded in the packaging meat segment. In 3Q21, sales to catering channel has reached c.90% of 2019 levels, suggesting strong improvement and normalisation in channel mix. While domestic hog prices is expected to remain high in FY22F, domestic demand remains buoyant, with meat-hog price spread should remain attractive. We forecast US operating profit to recover by 39% y-o-y in FY22F, driven by packaged meat.

Reprieve from one-off losses. WH Group is expected to account for US\$340m worth of lawsuit settlement, with roughly US\$170m to be accounted for in 4Q21. Without this occurrence, WH Group should see a reprieve in earnings in FY22F.

Valuation:

Our TP is based on SOTP valuation, where we value China operations at 14x and US operations at 9x, on greater exposure to the upstream segment. The stock is trading at 6.4x FY22F PE

Where we differ:

Our FY22F earnings is lower than consensus as we take a more conservative view on China operations, which will be offset by US operations recovery.

Key Risks to Our View:

Declining domestic demand, volatility in raw material prices (corn and hog prices), trade and regulation changes, food safety, and disease outbreaks.

At A Glance

Issued Capital (m shrs)	14,745
Mkt Cap (HK\$/US\$m)	75,642 / 9,715
Major Shareholders (%)	
Rise Grand Group Ltd.	27.1
Wan (Long)	7.2
Mondrian Investment Partners Ltd.	6.0
Free Float (%)	59.7
3m Avg. Daily Val. (US\$m)	19.03
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



Watchlist the stock on Insights Direct to receive prompt updates



WH Group Ltd

Company Background

WH Group is the largest pork company in the world, with leading positions in China, the US, and key markets in Europe. The group operates an integrated pork business chain including hog production, fresh pork, and packaged meat. WH Group is a controlling shareholder of Shuanghui Development (000895:CH) with a 70.33% stake, Asia's largest meat processing business, and controls 100% of Smithfield. As at end-2020, the group had a total of 4.25m tons of packaged meat production capacity (US: 2.12m tons; China: 1.71m tons; Europe: 0.42m tons), and 65.42m heads of fresh pork production capacity (China: 23.73m heads; US: 34.6m heads; Europe: 7.63m heads).

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

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Segmental Breakdown (US\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (US\$ m)					
China	7,328	8,756	10,828	10,627	11,388
US	13,182	13,159	12,363	13,677	13,835
Others	2,095	2,188	2,398	2,494	2,534
Total	22,605	24,103	25,589	26,799	27,758
Segment result (US\$ m)					
China	922	957	1,140	1,130	976
US	615	932	415	707	844
Others	113	142	174	162	177
Total	1,650	2,031	1,729	1,999	1,998
Segment result Margins (%)					
China	12.6	10.9	10.5	10.6	8.6
US	4.7	7.1	3.4	5.2	6.1
Others	5.4	6.5	7.3	6.5	7.0
Total	7.3	8.4	6.8	7.5	7.2

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	22,605	24,103	25,589	26,799	27,758
Cost of Goods Sold	(18,103)	(18,102)	(21,096)	(21,932)	(22,790)
Gross Profit	4,502	6,001	4,493	4,867	4,968
Other Opng (Exp)/Inc	(2,871)	(3,977)	(2,788)	(2,867)	(2,970)
Operating Profit	1,631	2,024	1,705	1,999	1,998
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	22	52	(87)	(115)	24
Net Interest (Exp)/Inc	(103)	(130)	(118)	(104)	(103)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,550	1,946	1,500	1,780	1,919
Tax	(293)	(336)	(263)	(312)	(336)
Minority Interest	(210)	(230)	(264)	(335)	(290)
Preference Dividend	0	0	0	0	0
Net Profit	1,047	1,380	973	1,133	1,293
EBITDA	2,081	2,518	2,113	2,008	2,127
Growth					
Revenue Gth (%)	1.0	6.6	6.2	4.7	3.6
EBITDA Gth (%)	1.4	21.0	(16.1)	(5.0)	5.9
Opg Profit Gth (%)	(12.3)	24.1	(15.8)	17.3	(0.1)
Net Profit Gth (%)	(7.1)	31.8	(29.5)	16.4	14.1

Margins & Ratio

Gross Margins (%)	19.9	24.9	17.6	18.2	17.9
Opg Profit Margin (%)	7.2	8.4	6.7	7.5	7.2
Net Profit Margin (%)	4.6	5.7	3.8	4.2	4.7
ROAE (%)	13.8	16.8	10.4	12.0	13.8
ROA (%)	6.9	8.5	5.4	6.1	6.8
ROCE (%)	10.4	12.4	9.4	10.8	10.6
Div Payout Ratio (%)	48.2	43.3	34.2	39.9	35.0
Net Interest Cover (x)	15.8	15.6	14.4	19.2	19.4

Source: Company, DBS HK

WH Group Ltd

Balance Sheet (US\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	5,300	5,406	5,531	6,007	6,503
Invt in Associates & JVs	352	347	354	354	354
Other LT Assets	4,186	4,822	4,996	4,996	4,996
Cash & ST Invt	579	593	1,650	492	731
Inventory	2,022	2,903	2,641	2,746	2,853
Debtors	1,493	1,555	1,427	1,521	1,612
Other Current Assets	1,366	1,656	2,116	2,252	2,406
Total Assets	15,298	17,282	18,715	18,369	19,455
ST Debt	819	905	796	1,500	1,500
Creditors	453	720	1,223	1,251	1,280
Other Current Liab	2,056	2,244	2,048	2,120	2,195
LT Debt	2,259	2,187	1,840	1,840	1,840
Other LT Liabilities	1,293	1,774	1,823	1,788	1,754
Shareholder's Equity	7,746	8,684	10,005	8,890	9,906
Minority Interests	672	768	980	980	980
Total Cap. & Liab.	15,298	17,282	18,715	18,369	19,455
Non-Cash Wkg. Capital	2,372	3,150	2,913	3,148	3,397
Net Cash/(Debt)	(2,499)	(2,499)	(986)	(2,848)	(2,609)
Debtors Turn (avg days)	40.8	58.5	45.7	45.7	45.7
Creditors Turn (avg days)	19.7	21.7	15.8	15.8	15.8
Inventory Turn (avg days)	40.8	58.5	45.7	45.7	45.7
Asset Turnover (x)	1.5	1.5	1.4	1.4	1.5
Current Ratio (x)	1.6	1.7	1.9	1.4	1.5
Quick Ratio (x)	0.6	0.6	0.8	0.4	0.5
Net Debt/Equity (X)	0.3	0.3	0.1	0.3	0.2
Net Debt/Equity ex MI (X)	0.3	0.3	0.1	0.3	0.3
Capex to Debt (%)	26.3	22.0	20.9	18.0	18.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	1,411	2,052	1,315	1,780	1,919
Dep. & Amort.	437	451	503	124	106
Tax Paid	(234)	(233)	(418)	(312)	(336)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	227	136	587	(335)	(290)
Chg in Wkg.Cap.	(570)	(930)	382	(235)	(249)
Other Operating CF	(16)	(13)	(12)	0	0
Net Operating CF	1,255	1,463	2,357	1,022	1,150
Capital Exp.(net)	(811)	(680)	(551)	(600)	(601)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(406)	(116)	(412)	(35)	(34)
Net Investing CF	(1,217)	(796)	(963)	(635)	(635)
Div Paid	(505)	(375)	(599)	(331)	(276)
Chg in Gross Debt	8,658	2,457	3,279	704	0
Capital Issues	1	(132)	880	(1,917)	0
Other Financing CF	(8,944)	(2,543)	(4,039)	0	0
Net Financing CF	(790)	(593)	(479)	(1,544)	(276)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(752)	74	915	(1,158)	239
Opg CFPS (US\$)	0.12	0.16	0.13	0.10	0.11
Free CFPS (US\$)	0.03	0.05	0.12	0.03	0.04

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Apr-21	HK\$6.87	HK\$7.60	Buy
2:	27-Oct-21	HK\$5.23	HK\$7.30	Buy

Source: DBS HK

Analyst: Alison FOK

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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