

China / Hong Kong Company Update

WH Group Ltd

Bloomberg: 288 HK Equity | Reuters: 0288.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jun 2022

BUY

Last Traded Price (2 Jun 2022): HK\$6.13 (HSI : 21,082)
Price Target 12-mth: HK\$6.72 (10% upside) (Prev HK\$6.57)

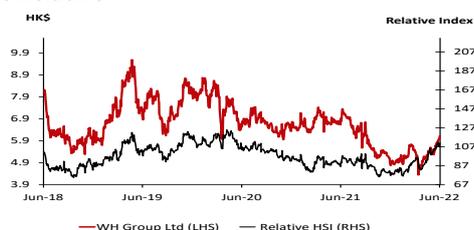
Analyst

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What's New

- Margins to improve for China pork business amid pork price uptrend while packaged meats to maintain decent profit
- Sound US performance to sustain in later quarters with strong market demand and effective cost control
- Europe operations to see sequential recovery in the near-term
- Maintain BUY with revised TP of HK\$6.72

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021A	2022F	2023F
Turnover	25,589	27,293	28,240	29,183
EBITDA	2,252	2,435	3,040	3,267
Pre-tax Profit	1,500	1,658	2,235	2,428
Net Profit	973	1,047	1,434	1,572
Net Pft (Pre Ex) (core profit)	973	1,047	1,434	1,572
Net Profit Gth (Pre-ex) (%)	(29.5)	7.6	37.0	9.6
EPS (US\$)	0.07	0.07	0.11	0.12
EPS (HK\$)	0.52	0.58	0.88	0.96
EPS Gth (%)	(29.4)	12.5	51.0	9.6
Diluted EPS (HK\$)	0.52	0.58	0.88	0.96
DPS (HK\$)	0.18	0.20	0.30	0.33
BV Per Share (HK\$)	5.31	4.85	6.23	7.31
PE (X)	11.9	10.6	7.0	6.4
P/Cash Flow (X)	4.6	5.7	5.3	4.9
P/Free CF (X)	5.9	10.7	7.7	7.0
EV/EBITDA (X)	6.0	5.9	4.1	3.5
Net Div Yield (%)	2.9	3.3	4.9	5.4
P/Book Value (X)	1.2	1.3	1.0	0.8
Net Debt/Equity (X)	0.1	0.2	0.1	0.0
ROAE (%)	10.4	11.2	15.2	14.2
Earnings Rev (%)			2	3
Consensus EPS (US\$)			0.10	0.11
Other Broker Recs:		B:16	S:0	H:1

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

A better FY22 with margin recovery

Investment Thesis

China operations to recover. WH Group's fresh pork business should deliver better profitability in 1H22 led by the relatively low pork prices in China. Potentially higher pork prices in 2H22 could also underpin higher margins for WH Group's frozen pork sales in China. We believe WH Group will also be able to benefit from the current prices to build up its raw material inventory for its packaged meat division at a lower cost, supporting decent unit profit of c.RMB4,000/ton for FY22, while its sales volume may also grow a mid-single digit rate.

Sound US performance to sustain. With its ongoing cost management and strong pricing power that is supported by the strong demand in the US, WH Group could continue to record decent performance in packaged meat business and attain unit profit of US\$600+/ton for the full year. We believe WH Group's fresh pork business could also outperform the industry with its higher slaughtering margins.

Better recovery in Europe. Operations in Europe have turned around from loss to profit so far in 2Q22, with ample room for margin improvements. We believe the company also continues to seek suitable M&A targets in Europe to improve its growth prospects.

Valuation:

We raised FY22/FY23F earnings by 2%/3%, in view of better sales recovery and profitability. Our new TP of HK\$6.72 is based on SOTP valuation - we value China operations at 13x rolling PE and US operations at 6x (previous TP: 13x and 6x FY22 PE).

Where we differ:

We are slightly more positive than the consensus on FY22/FY23F earnings in view of faster margin recovery ahead.

Key Risks to Our View:

Declining domestic demand; volatility in raw material prices; regulatory changes; food safety issues; disease outbreaks.

At A Glance

Issued Capital (m shrs)	12,830
Mkt Cap (HKm/US\$m)	78,648 / 10,025
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)	20.34
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	



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WH Group Ltd**WHAT'S NEW**

China to see sequential improvement amid pork price recovery. While hog prices lingered at a relatively low level during 1Q22 in China, WH Group's fresh pork business has improved y-o-y as it benefited from a better meat-hog price spread in hog slaughtering. The favourable pork price has enabled WH Group's unit profit in packaged meats to reach a record high of RMB4,500/ton. Meanwhile, hog prices in China have bottomed out and started to rebound in April, going back to RMB16+/kg by end of May. As the markets expect hog and pork prices to further recover in 2H22, WH Group could also leverage on the lower pork prices in 1H22 to build up its pork inventory and deliver better margins for its frozen pork segment in later quarters when prices rise. We believe WH Group should be able to sustain a unit profit of RMB50-70/head in its pork segment for FY22/23. The frozen stock inventory could also benefit the company's packaged meats business with lower raw material costs. As such, WH Group should achieve a unit profit of RMB4,000/ton in FY22 and sustain the margins going forward, along with its continuing product mix upgrade driven by its new products (with 30%+ higher average selling price vs. the others).

Covid-19 disruptions to ease. The COVID resurgence has affected WH Group's business since late-March, with a different impact on different regions. For example, in Shanghai, Jilin and Beijing, WH Group was able to see strong volume increase in packaged meat sales as WH Group's products are included in the government's food supply list, and demand was thus higher during the lockdown. Other cities with less COVID-19 impact saw weaker demand for packaged meats driven by tightening social distancing measures and less travel across provinces and cities. Overall, we believe WH Group's sales volume of packaged meats could have dropped by a low-single digit during April to May this year in China. However, the recent relaxation of COVID-19 restrictions in certain cities brings good news. Nationwide travel could start to resume gradually in June-July and boost the demand for packaged meats. In addition, WH Group's ongoing efforts in new products (e.g., ready meals) and channels (e.g., online business) should further support the volume growth in FY22/FY23. We expect WH Group to achieve 4%+ volume CAGR in its packaged meat sales in FY22-23 in China.

US business to sustain decent performance. WH Group continues to see favourable demand in both retail and food service channels, which have provided WH Group with strong pricing power. As a result, WH Group was able

to achieve a unit profit of US\$800+/ton in packaged meats during 1Q22. While the raw material prices (mainly feeds and pork) have been trending higher, WH Group should face moderate pressure as it should be able to partially mitigate the risks through its successful formula-based pricing and negotiation for packaged meat sales. WH Group should also continue to add value to its fresh pork business with appropriate timing and processing that better fits customers' needs. While pork sales volume may see a slight decline in FY22, we believe WH Group could continue to outperform the market with higher slaughtering profits. Meanwhile, WH Group is also committed to cost control with its automated processes to reduce labour reliance and hedging strategies to cushion raw material pricing pressure. In general, cost pressure should be well managed in FY22. We also believe WH Group is looking at a 10%+ operating profit margin for its US business in the longer run.

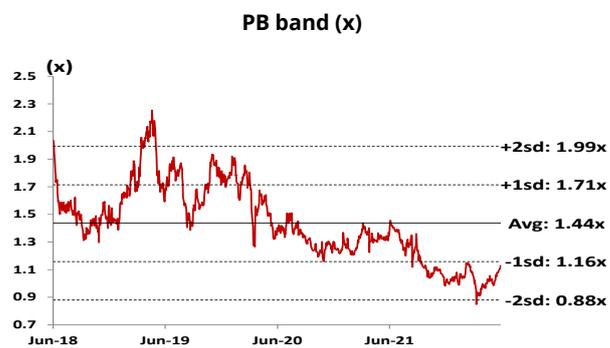
Europe operations to recover better. While pressure on raw material costs and market demand could linger in the near term, WH Group has seen m-o-m margin improvements in Europe. QTD, Europe operations have turned around from loss to profit vs. 1Q22, thanks to its effective price adjustments and ongoing cost management. Although unit profit of packaged meats has reached c.US\$300+/ton vs. <US\$200/ton in FY19, we still see ample room for improvement compared to China and the US. The newly acquired business in Europe may also continue to support a double-digit volume growth for WH Group's packaged meat sales in FY22. WH Group should continue to seek appropriate targets to expand its business further in Europe in the medium to long run.

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-2021, the group had a total of 4.26m tonnes of packaged meat production capacity (US: 2.06m tonnes; China: 1.73m tonnes; Europe: 0.48m tonnes), and 64.78m heads of fresh pork production capacity (China: 23.13m heads; US: 34.02m heads; Europe: 7.63m heads).

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
China	8,756	10,828	10,516	11,231	11,534
US	13,159	12,363	14,184	14,207	14,745
Others	2,188	2,398	2,593	2,802	2,904
Total	24,103	25,589	27,293	28,240	29,183
Segment result (US\$ m)					
China	957	1,140	930	1,162	1,206
US	932	415	919	1,008	1,100
Others	142	174	117	144	201
Total	2,031	1,729	1,966	2,314	2,507
Segment result Margins (%)					
China	10.9	10.5	8.8	10.4	10.5
US	7.1	3.4	6.5	7.1	7.5
Others	6.5	7.3	4.5	5.1	6.9
Total	8.4	6.8	7.2	8.2	8.6

Source: Company, DBS HK

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	24,103	25,589	27,293	28,240	29,183
Cost of Goods Sold	(18,102)	(21,096)	(22,587)	(22,986)	(23,639)
Gross Profit	6,001	4,493	4,706	5,254	5,544
Other Opng (Exp)/Inc	(3,977)	(2,788)	(2,841)	(2,940)	(3,038)
Operating Profit	2,024	1,705	1,865	2,314	2,507
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	52	(87)	(98)	24	24
Net Interest (Exp)/Inc	(130)	(118)	(109)	(103)	(103)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,946	1,500	1,658	2,235	2,428
Tax	(336)	(263)	(381)	(514)	(558)
Minority Interest	(230)	(264)	(230)	(287)	(298)
Preference Dividend	0	0	0	0	0
Net Profit	1,380	973	1,047	1,434	1,572
Net Profit before Except.	1,380	973	1,047	1,434	1,572
EBITDA	2,518	2,252	2,435	3,040	3,267
Growth					
Revenue Gth (%)	6.6	6.2	6.7	3.5	3.3
EBITDA Gth (%)	21.0	(10.6)	8.1	24.8	7.5
Opg Profit Gth (%)	24.1	(15.8)	9.4	24.1	8.3
Net Profit Gth (%)	31.8	(29.5)	7.6	37.0	9.6
Margins & Ratio					
Gross Margins (%)	24.9	17.6	17.2	18.6	19.0
Opg Profit Margin (%)	8.4	6.7	6.8	8.2	8.6
Net Profit Margin (%)	5.7	3.8	3.8	5.1	5.4
ROAE (%)	16.8	10.4	11.2	15.2	14.2
ROA (%)	8.5	5.4	5.5	7.1	7.2
ROCE (%)	12.4	9.4	9.2	10.8	10.7
Div Payout Ratio (%)	43.3	34.2	34.5	34.5	34.5
Net Interest Cover (x)	15.6	14.4	17.1	22.5	24.3

Source: Company, DBS HK

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Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	5,406	5,531	6,367	6,633	7,209
Invt in Associates & JVs	347	354	253	253	253
Other LT Assets	4,822	4,996	5,169	5,179	5,189
Cash & ST Invt	593	1,650	1,600	2,620	3,510
Inventory	2,903	2,641	2,625	2,671	2,747
Debtors	1,555	1,427	1,732	1,836	1,946
Other Current Assets	1,656	2,116	1,665	1,829	2,015
Total Assets	17,282	18,715	19,411	21,021	22,869
ST Debt	905	796	874	1,000	1,000
Creditors	720	1,223	1,222	1,273	1,313
Other Current Liab	2,244	2,048	2,479	2,520	2,586
LT Debt	2,187	1,840	3,140	3,140	3,140
Other LT Liabilities	1,774	1,823	2,009	1,969	1,930
Shareholder's Equity	8,684	10,005	8,748	10,181	11,961
Minority Interests	768	980	939	939	939
Total Cap. & Liab.	17,282	18,715	19,411	21,021	22,869
Non-Cash Wkg. Capital	3,150	2,913	2,321	2,544	2,809
Net Cash/(Debt)	(2,499)	(986)	(2,414)	(1,520)	(630)
Debtors Turn (avg days)	58.5	45.7	42.4	42.4	42.4
Creditors Turn (avg days)	21.7	15.8	18.6	18.6	18.6
Inventory Turn (avg days)	58.5	45.7	42.4	42.4	42.4
Asset Turnover (x)	1.5	1.4	1.4	1.4	1.3
Current Ratio (x)	1.7	1.9	1.7	1.9	2.1
Quick Ratio (x)	0.6	0.8	0.7	0.9	1.1
Net Debt/Equity (X)	0.3	0.1	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	0.3	0.1	0.3	0.1	0.1
Capex to Debt (%)	22.0	20.9	23.0	14.5	14.5
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

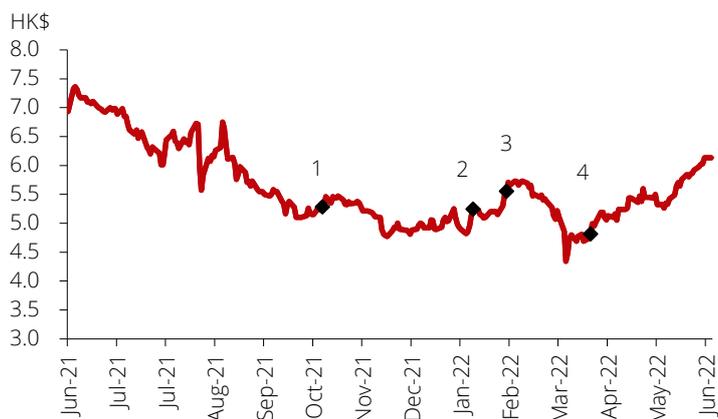
Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	2,052	1,315	1,700	2,235	2,428
Dep. & Amort.	451	644	679	691	726
Tax Paid	(233)	(418)	(288)	(514)	(558)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	136	585	298	(287)	(298)
Chg in Wkg.Cap.	(930)	382	(410)	(223)	(265)
Other Operating CF	(13)	(12)	(27)	0	0
Net Operating CF	1,463	2,496	1,952	1,903	2,033
Capital Exp.(net)	(680)	(551)	(922)	(600)	(600)
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	(116)	(412)	513	(50)	(48)
Net Investing CF	(796)	(963)	(409)	(650)	(648)
Div Paid	(375)	(599)	(332)	(358)	(494)
Chg in Gross Debt	2,457	3,279	5,220	126	0
Capital Issues	(132)	880	(1,931)	0	0
Other Financing CF	(2,543)	(4,039)	(4,390)	0	0
Net Financing CF	(593)	(479)	(1,433)	(232)	(494)
Currency Adjustments	0	0	0	0	0
Chg in Cash	74	1,054	110	1,020	890
Opg CFPS (US\$)	0.16	0.14	0.17	0.17	0.18
Free CFPS (US\$)	0.05	0.13	0.07	0.10	0.11

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Oct-21	HK\$5.23	HK\$7.30	Buy
2:	21-Jan-22	HK\$5.13	HK\$8.30	Buy
3:	9-Feb-22	HK\$5.30	HK\$6.30	Buy
4:	29-Mar-22	HK\$4.74	HK\$6.57	Buy

Source: DBS HK

Analyst: Mavis Hui
Clement Xu

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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