

WH Group (288 HK)

Est. 12% NP decline in 1H21E; 2H21E NP to rebound strongly

We forecast 1H21E NP to drop by 12% YoY to US\$481mn led by lower China OP and US\$83mn litigation expense. 2H21E NP is estimated to jump 95% YoY to US\$827mn driven by US market recovery. We lower FY21-23E adj. NP est. by 5-8% and TP to HK\$8.90. MTD share price has fallen 6%, we think the weaker-than-expected 2Q21E operation was priced in. We think the resignation of Smithfield CEO does not affect its operations. The new CEO spent most of last decade in overseeing European operations, successfully expanded the scale and improved its packaged meat margin (from 5.5% in FY16 to 9.0% in FY20). The stock trades at 9.6x FY21E P/E, below historical average of 11.1x. **Catalyst:** If the share buyback offer (13% of issued shares) is approved, we estimate it could enhance FY22E EPS by ~9%. FY22E P/E would be more attractive at 7.9x. Maintain Buy on undemanding valuation.

- 1H21E US OP to drop 8% YoY to US\$253mn.** Excluding the US\$83mn litigation settlement payment, OP would increase 22% YoY in 1H21E. **(1) Packaged meat:** While catering demand continued to recover, retail demand was affected by soaring pork price in 2Q21. We estimate a low sd YoY volume growth and a slight QoQ OP/tonne improvement in 2Q21E. **(2) Pork (hog production and fresh pork):** Because hog price rose faster than pork price in 2Q21, we expect loss in fresh pork segment but good profit in hog production. We estimate pork segment will be marginally profitable in 2Q21E.
- 1H21E China OP to fall by 8% YoY to US\$498mn.** **(1) Packaged meat:** We estimate a high sd YoY volume decline on high base in 2Q21E. OP/tonne would decline YoY in 2Q21E due to less favorable product mix. We expect segment OP would be flat YoY in 1H21E. **(2) Fresh pork:** We expect hog slaughtering volume and profitability to improve in 2Q21E given that China's hog supply further recovered. However, due to sharp fall of pork price in China in 2Q21, we think profitability of frozen pork sales would decrease and expect inventory impairment of frozen pork in 2Q21E.
- FY21E outlook.** **(1) US market:** We expect the packaged meat profitability would improve QoQ in 3Q21E given that the increase of product price already caught up with hog price increase. The Company will launch small size fresh pork packs to improve margin. **(2) China market:** We think the plunge of hog price in 2Q21 could be overshoot because some hog farms postponed the sale of hogs from 1Q21 to 2Q21 to speculate higher hog price in 2Q21. Because pork demand usually increases when Mid-Autumn festival is approaching, impairment impact of frozen pork could be reversed when hog price rebounds in 3Q21E.
- Maintain Buy.** We lower FY21-23E adj. NP est. by 5-8% to factor in litigation settlement payment, lower packaged meat segment profit in China and fresh pork segment profit in US. Our SOTP-based TP was trimmed from HK\$9.60 to HK\$8.90, representing 12.9x FY21E adj. P/E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	24,103	25,589	26,999	27,994	29,268
Net profit (US\$ mn)	1,380	973	1,308	1,446	1,557
Adj. net profit (US\$ mn)	1,378	973	1,308	1,446	1,557
Adj. EPS (US\$)	0.094	0.066	0.089	0.098	0.106
YoY growth (%)	31.5	(29.5)	34.3	10.6	7.6
Consensus EPS (US\$)	NA	NA	0.092	0.100	0.107
Adj. P/E (x)	9.0	12.8	9.6	8.7	8.0
P/B (x)	1.4	1.3	1.1	1.1	1.0
Yield (%)	4.8	2.7	4.2	4.6	5.0
Adj. ROAE (%)	16.8	10.4	12.5	12.6	12.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$8.90**
 (Previous TP **HK\$9.60**)
 Up/Downside **+35%**
 Current Price **HK\$6.58**

China Staples Sector

Albert Yip, CFA
 (852) 3900 0838
 albertyip@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	97,027
Avg 3 mths t/o (HK\$ mn)	239.08
52w High/Low (HK\$)	7.55/ 5.90
Total Issued Shares (mn)	14,745.2

Source: Bloomberg

Shareholding Structure

Rise Grand	34.11%
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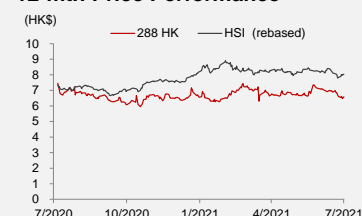
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.0%	-5.9%
3-mth	-2.5%	0.2%
6-mth	-0.3%	1.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

- "WH Group – Attractive valuation; expect record high adj. NP in FY21E" – 28 Apr 2021
- "WH Group – Expect record high adj. NP in FY21E led by strong recovery in US market" – 31 Mar 2021
- "WH Group – Recovery led by US market in 2021E" – 26 Feb 2021
- "WH Group – US results strongly recovered in 3Q20" – 28 Oct 2020

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Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	26,999	27,994	29,268	27,200	28,209	29,499	-1%	-1%	-1%
Gross Profit	5,352	5,470	5,764	5,507	5,610	5,880	-3%	-2%	-2%
Operating Profit	2,128	2,335	2,503	2,308	2,457	2,632	-8%	-5%	-5%
Adj. net profit	1,308	1,446	1,557	1,415	1,524	1,639	-8%	-5%	-5%
Gross Margin	19.8%	19.5%	19.7%	20.2%	19.9%	19.9%	-0.4ppt	-0.4ppt	-0.2ppt
Operating Margin	7.9%	8.3%	8.6%	8.5%	8.7%	8.9%	-0.6ppt	-0.4ppt	-0.3ppt
Net Margin	4.8%	5.2%	5.3%	5.2%	5.4%	5.6%	-0.4ppt	-0.2ppt	-0.3ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,999	27,994	29,268	26,723	27,291	28,367	1%	3%	3%
Gross Profit	5,352	5,470	5,764	5,505	5,595	5,714	-3%	-2%	1%
Operating Profit	2,128	2,335	2,503	2,199	2,403	2,571	-3%	-3%	-3%
Net profit	1,308	1,446	1,557	1,366	1,493	1,607	-4%	-3%	-3%
Gross Margin	19.8%	19.5%	19.7%	20.6%	20.5%	20.1%	-0.8ppt	-1.0ppt	-0.4ppt
Operating Margin	7.9%	8.3%	8.6%	8.2%	8.8%	9.1%	-0.3ppt	-0.5ppt	-0.5ppt
Net Margin	4.8%	5.2%	5.3%	5.1%	5.5%	5.7%	-0.3ppt	-0.3ppt	-0.4ppt

Source: Bloomberg, CMBIS estimates

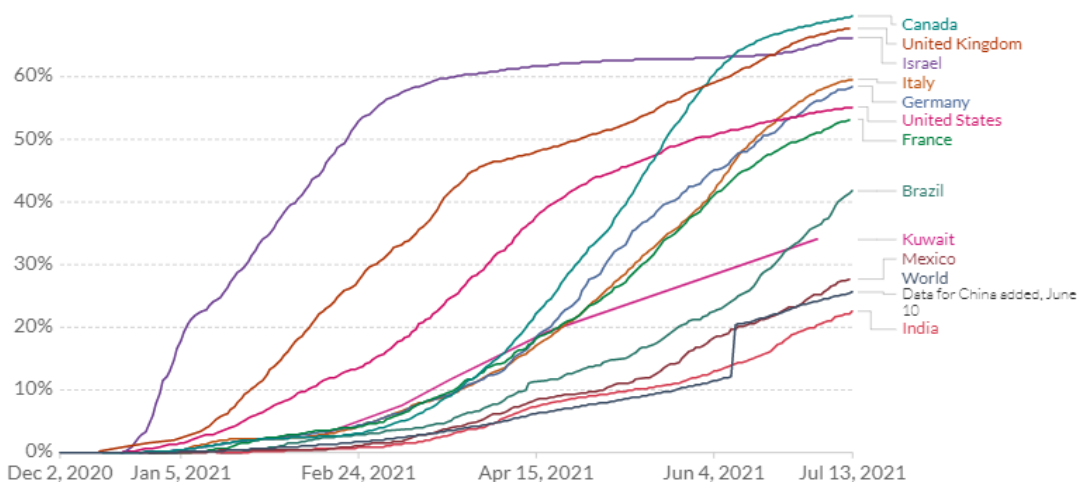
Figure 3: 55.1% of US people received at least one dose of vaccine as of 14 July 2021

Share of people who received at least one dose of COVID-19 vaccine

Share of the total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses. This data is only available for countries which report the breakdown of doses administered by first and second doses.

Our World in Data

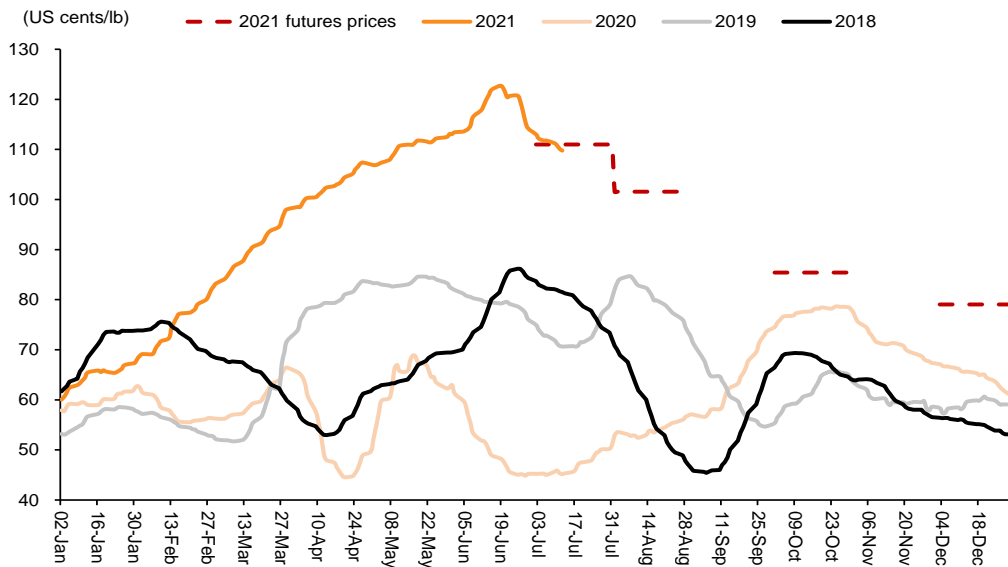
+ Add country



Source: Official data collated by Our World in Data - Last updated 14 July 2021, 11:30 (London time)

OurWorldInData.org/coronavirus • CC BY

Source: Our World in Data

Figure 4: US 2021 hog prices and futures trade well above 2018-2020 cash hog prices


Source: Bloomberg, CMBIS

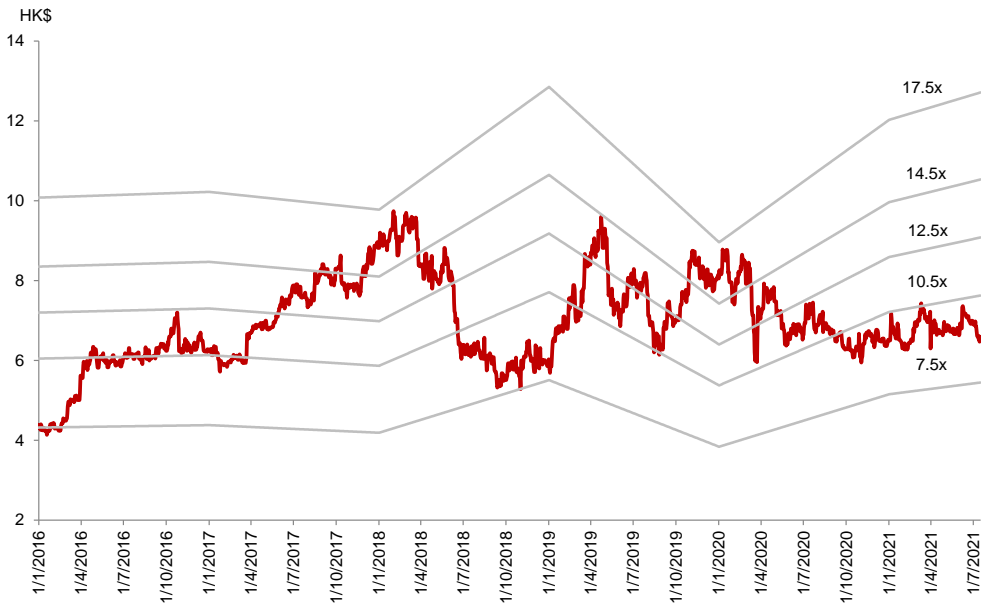
Figure 5: SOTP-based valuation

Segment	FY21 P/E	FY21E net profit (US\$mn)	Valuation (US\$mn)	Remarks
US & Europe businesses	10.0	735.4	7,354	10x FY21E P/E
China business	16.6	572.2	9,498	16.6x FY21E P/E
Total			16,852	
Value per share (HK\$)			8.9	
Implied FY21E P/E			12.9	

	Price (RMB)	Issue shares (mn)	Value (HK\$mn)	
Market cap of WH			97,036	
Mkt value of Shaunghui stakes	29.88	3,464.7	86,810	based on 70.33% equity stakes
Implied Smithfield value			10,226	implied 1.8x FY21E P/E

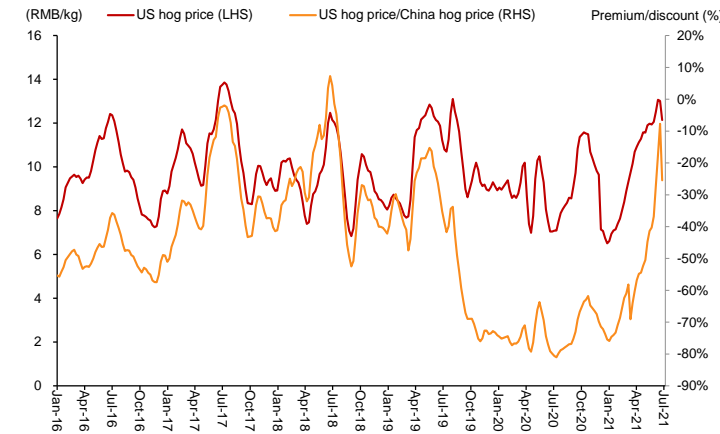
Source: Company data, Bloomberg, CMBIS estimates

Figure 6: P/E band



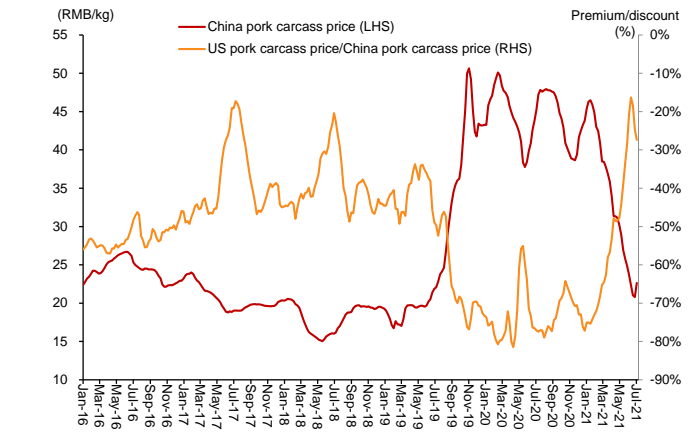
Source: Bloomberg, Company data, CMBIS estimates

Figure 7: The discount of US pork carcass price to China's narrowed to 25% on 30 Jun 2021



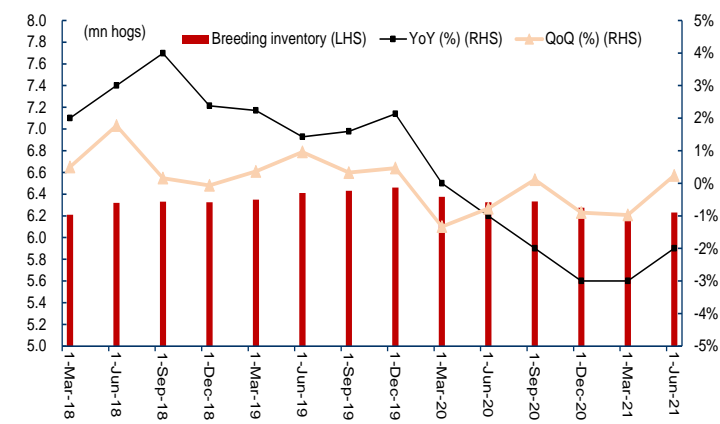
Source: Bloomberg, CMBIS

Figure 8: The discount of US hog price to China's was 27% on 4 Jul 2021



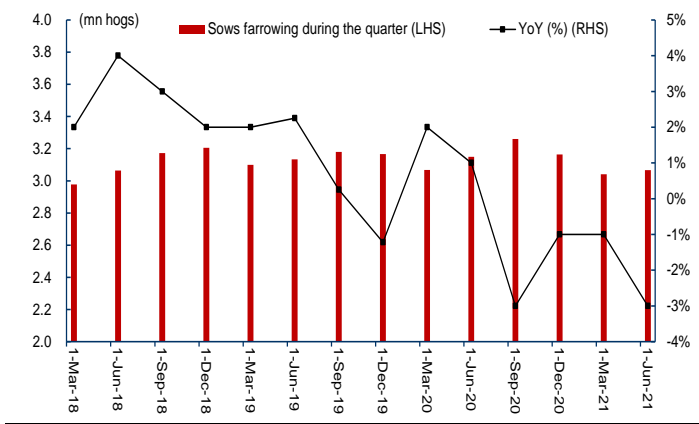
Source: Bloomberg, CMBIS

Figure 9: US breeding hog inventory was down 2% in the quarter ended 1 Jun 2021



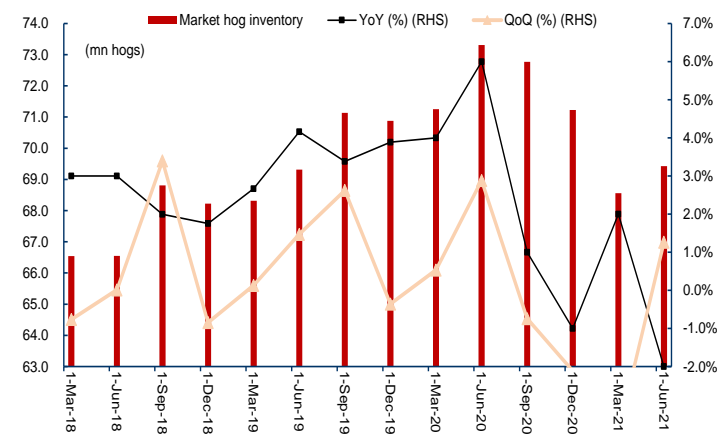
Source: USDA, CMBIS

Figure 10: Number of sows farrowing during the quarter ended 1 Jun 2021 was down 3%



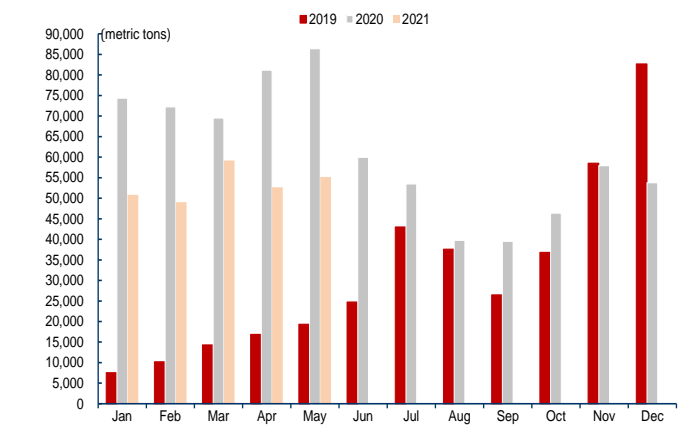
Source: USDA, CMBIS

Figure 11: US market hog inventory fell 1% in the quarter ended 1 Mar 2021



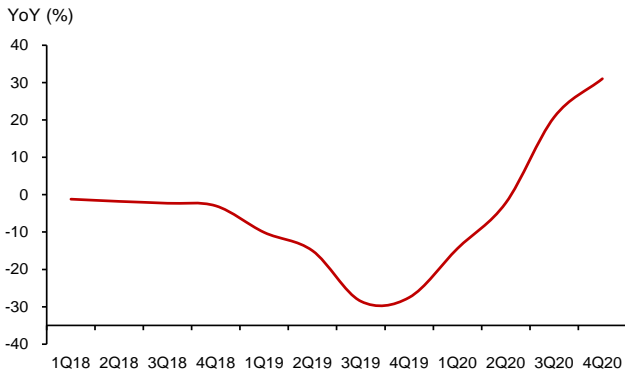
Source: USDA, CMBIS

Figure 12: US pork export volume to China fell in 2021



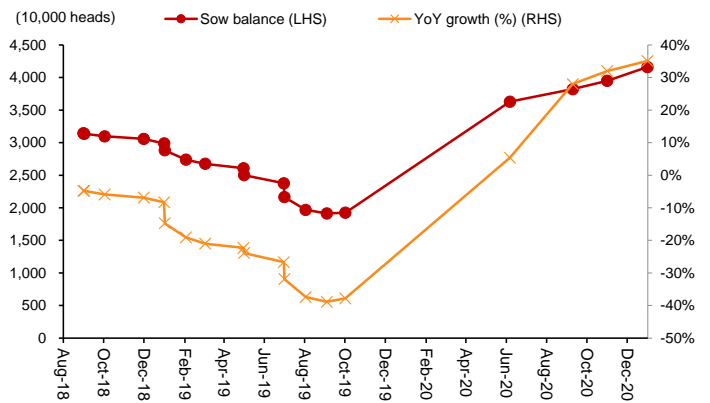
Source: US meat export federation, CMBIS

Figure 13: China's hog inventory jumped 31% YoY in 4Q20



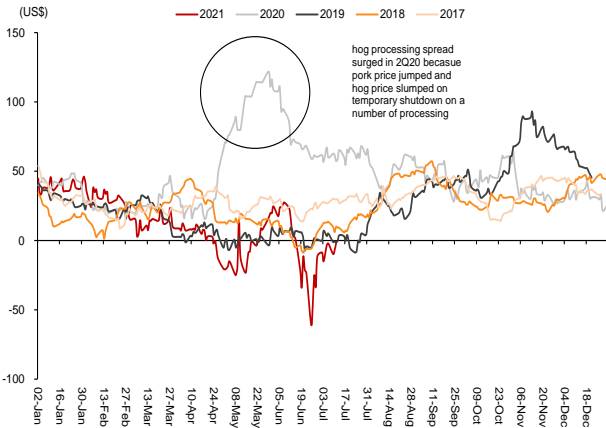
Source: WIND, CMBIS

Figure 14: China's sow balance YoY growth accelerated to 35.1% in Dec 2020



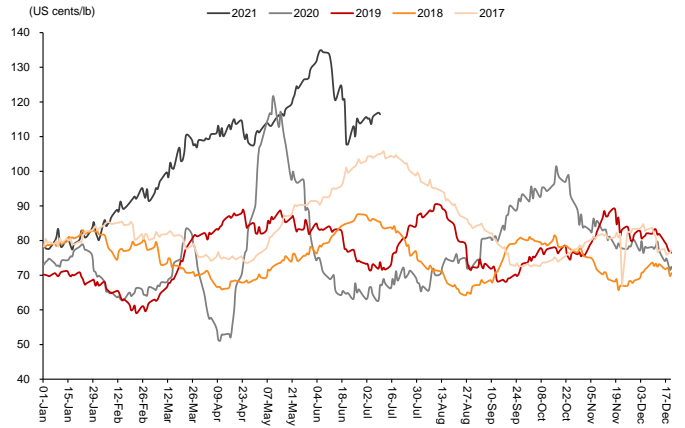
Source: WIND, CMBIS

Figure 15: US pork packers margin is rebounding from low level



Source: Bloomberg, CMBIS

Figure 16: US pork price has been strong



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	24,103	25,589	26,999	27,994	29,268
China	8,756	10,828	10,258	11,170	12,153
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)	(21,647)	(22,524)	(23,505)
Gross profit	4,894	4,493	5,352	5,470	5,764
Other income and gains	59	74	79	80	89
SG&A expenses	(2,870)	(2,788)	(3,304)	(3,215)	(3,350)
Operating profit	2,083	1,779	2,128	2,335	2,503
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	4	5
Share of profit of JV	13	10	11	12	13
Profit before tax	1,946	1,500	1,944	2,171	2,341
Income tax	(336)	(263)	(386)	(453)	(488)
Non-controlling interests	(230)	(264)	(251)	(273)	(297)
Net profit	1,380	973	1,308	1,446	1,557
Adj. net profit	1,378	973	1,308	1,446	1,557

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,052	1,315	1,944	2,171	2,341
Depreciation and amortization	581	644	675	739	777
Change in working capital	(930)	382	68	(33)	(46)
Others	(240)	16	(324)	(460)	(495)
Net cash from operating	1,463	2,357	2,363	2,417	2,577
Capex & investments	(680)	(551)	(1,400)	(1,000)	(600)
Interest received	6	10	23	22	30
Others	(122)	(422)	0	0	0
Net cash from investing	(796)	(963)	(1,377)	(978)	(570)
Change of borrowings	3	(514)	(400)	(400)	0
Dividend paid	(464)	(845)	(679)	(815)	(900)
Proceeds from	31	1,015	0	0	0
Others	(163)	(135)	(126)	(126)	(126)
Financing cash flow	(593)	(479)	(1,205)	(1,342)	(1,026)
Net change in cash	74	915	(219)	98	981
Cash at the beginning	484	552	1,553	1,334	1,432
Exchange difference	(6)	86	0	0	0
Cash at the end	552	1,553	1,334	1,432	2,413
Bank and cash balance	552	1,599	1,380	1,478	2,459
Bank overdraft	0	(46)	(46)	(46)	(46)

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	10,575	10,881	11,781	12,218	12,219
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
Current assets	6,707	7,834	7,570	7,828	8,997
Cash and pledged deposits	593	1,650	1,431	1,529	2,510
Inventory	2,903	2,641	2,574	2,679	2,795
Trade receivables	1,047	915	965	1,001	1,047
Others	2,164	2,628	2,599	2,619	2,645
Current liabilities	3,869	4,067	4,161	4,295	4,444
Borrowings	905	842	842	842	842
Trade payables	1,074	913	937	975	1,017
Other payables	1,686	2,136	2,192	2,281	2,380
Others	204	176	190	198	205
Non-current liabilities	3,961	3,663	3,325	2,983	3,050
Borrowings	2,187	1,840	1,440	1,040	1,040
Deferred revenue	1,114	1,270	1,332	1,390	1,457
Others	660	553	553	553	553
Minority Interest	768	980	885	865	840
Total net assets	9,452	10,985	11,864	12,768	13,722
Shareholders' equity	8,684	10,005	10,980	11,903	12,881

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
China	36.3	42.3	38.0	39.9	41.5
US	54.6	57.7	51.6	49.2	47.5
EUR	9.1	9.7	10.4	10.9	11.0
P&L ratios (%)					
Gross profit margin	20.3	17.6	19.8	19.5	19.7
Operating profit margin	8.6	7.0	7.9	8.3	8.6
Net profit margin	5.7	3.8	4.8	5.2	5.3
Adj. net profit margin	5.7	3.8	4.8	5.2	5.3
Payout ratio	42.8	34.2	40.0	40.0	40.0
Balance sheet ratios					
Current ratio (x)	1.7	1.9	1.8	1.8	2.0
Receivables turnover days	17	14	13	13	13
Payables turnover days	19	17	16	15	15
Inventory turnover days	47	48	44	43	43
Asset turnover (x)	1.4	1.4	1.4	1.4	1.4
Net gearing ratio (%)	31	14	11	7	(1)
Returns (%)					
Adj. ROAE	16.8	10.4	12.5	12.6	12.6
Adj. ROAA	9.9	6.9	8.2	8.7	9.0
Per share data					
Adj. EPS (US\$)	0.094	0.066	0.089	0.098	0.106
DPS (HK\$)	0.32	0.18	0.27	0.30	0.33
BVPS (US\$)	0.59	0.68	0.74	0.81	0.87

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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