

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Aug 2018

COFCO Meat Holdings Ltd (1610 HK) : HOLD

Mkt. Cap: US\$606m | **3m Avg. Daily Val:** US\$0.42m

Last Traded Price (22 Aug 2018): HK\$1.22

Price Target 12-mth: HK\$1.07 (12.3% downside)

Analyst

Alison Fok +852 2971 1938; alisonfok@db.com

Mavis HUI +852 2863 8879; mavis_hui@db.com

Alice HUI CFA, +852 2971 1960 alicehuism@db.com

Hog price a drag while volume grows

- **1H18 net profit declined 95% y-o-y on weak hog prices, in-line**
- **Hog production volume grew 25% to 1.26m**
- **Expect 2H to see sequential improvement but oversupply situation likely to persist; reiterate HOLD with unchanged TP**

Forecasts and Valuation

FY Dec (RMB m)	2017A	2018F	2019F	2020F
Turnover	6,961	7,439	8,968	10,942
EBITDA	792	495	799	1,167
Pre-tax Profit	449	94	294	584
Net Profit	453	94	292	581
EPS (RMB)	0.12	0.02	0.07	0.15
EPS (HK\$)	0.13	0.03	0.09	0.17
EPS Gth (%)	(52.2)	(79.3)	211.3	98.7
Diluted EPS (HK\$)	0.12	0.03	0.09	0.17
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	1.44	1.47	1.55	1.72
PE (X)	9.2	44.2	14.2	7.1
P/Cash Flow (X)	22.6	11.0	6.3	4.1
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	6.7	12.2	8.2	5.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.8	0.8	0.8	0.7
Net Debt/Equity (X)	0.2	0.4	0.4	0.4
ROAE (%)	9.7	1.9	5.7	10.4

Earnings Rev (%):	Nil	Nil	Nil
Consensus EPS (RMB)	0.14	0.17	0.21
Other Broker Recs:	B: 6	S: 0	H: 1

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

[COFCO Meat - iBanking Login](#)

[COFCO Meat - Institution Login](#)

What's New

COFCO Meat (1610.HK) reported 1H18 results which are largely in line with market expectations. Net earnings before biological adjustment plunged 95% y-o-y to Rmb16m, dragged by weak hog prices (-26% y-o-y). Excluding one-off government compensation on the relocation of processed meat plant in Hengshan, Guangzhou, the company swung into the red with a Rmb72m loss. EBITDA declined by 53% to Rmb196m. Hog production volume grew by 25% y-o-y to 1.26m heads, while operating profit per head turned negative at -Rmb82/head (1H17: +Rmb338/head).

Hog production: Volume growth on target. Hog production sales declined 8% y-o-y to Rmb1,498m. The company's hog price declined by 26% y-o-y to Rmb10.9/kg in January-June 2018. Despite ongoing trade war, feed costs have been manageable, with soybean meal prices edging up by 1.2% y-o-y to Rmb3,115/ton. In addition, feed self-sufficiency ratio rose to 45% (1H17: 21%). In FY18F, we expect hog production volume to grow by 21% y-o-y to 2.7m heads. The company remains committed to reach 5.5m heads in capacity by 2020F, with an additional 5m heads via contract farming by 2022F. The company initiated contract farming in 1H18 with 840,000 piglets to kick-start the project.

Flash Note

Fresh pork: Profit improvement on high utilisation. Fresh pork operating profit per ton grew 25% y-o-y to Rmb710/ton. This is on the back of an increase in branded sales to 17.3% of total fresh pork sales (1H17: 14.9%) and improving utilisation rate to 84.3% (1H17: 76.7%). The company plans to commence construction of a plant in Hubei, which will add 1m heads by end-FY18., and another 1.5m heads in Beijing by FY19F.

Other categories reporting mixed performance. Processed meat sales grew 6% y-o-y to Rmb175m, while operating profit per ton contracted by 44% y-o-y to Rmb239/ton. Meat imports increased by 11% y-o-y to Rmb959m on strong beef volume (+57%). Beef sales volume accounted for 30.9% of total import sales volume in 1H18 (1H17: 22.5%).

Balance sheet. Net gearing rose to 43% (December 2017: 31%), on the back of capital expenditure of Rmb409m on hog capacity expansion in Hebei, Jiangsu, Hubei and Inner Mongolia. Capital expenditure plan remains unchanged at roughly Rmb1.1bn in FY18F. We estimate net gearing to maintain at 43% by end-FY18F.

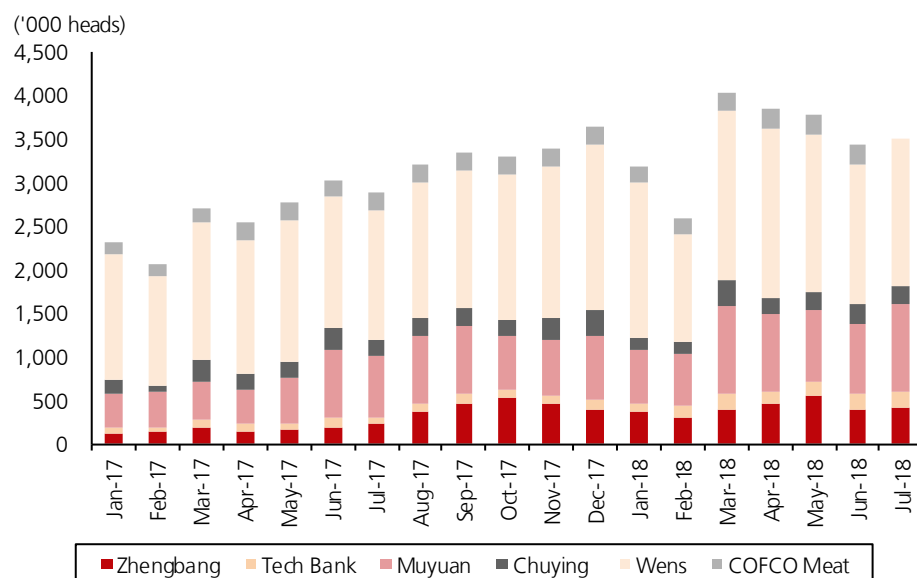
Still a volume game; maintain HOLD with TP unchanged at HK\$1.07, based on DCF. Industry hog prices had recovered to Rmb12.8/kg (-11.5% y-o-y) as of early August 2018, after reaching bottom at Rmb10.4/kg in May. We expect prices to average Rmb13/kg in FY18F. Due to rapid expansion by large-scale farms, there has been an oversupply in the market. While there will be sequential improvement in hog prices in 2H, we expect China's hog industry to remain volatile with top hog producers continuing their upstream expansion. In 1H18, we estimate top hog producers grew by 36% y-o-y. We expect upside on estimates could be limited in FY19F, capped by domestic and import supply. Maintain HOLD, TP unchanged.

Results summary

	Unit	1H17	1H18	% y-o-y	Results
Productivity metric					
Hog production volume	m heads	1.01	1.26	25	
Fresh pork sales volume	tons	80,000	91,000	14	
Branded pork sales volume	tons	14,000	20,000	43	
Processed meat sales volume	tons	4,700	5,500	17	
Meat import sales volume	tons	40,300	42,000	4	
Revenue from continuing operations (Rmb m)					
Hog production		935	876	-6	
Fresh Pork		1,345	1,274	-5	
Processed meat		164	173	5	
Meat import		855	940	10	
		3,299	3,264	-1	
Segment results					
Hog production		341	-103	-130	
Fresh Pork		45	65	43	Capacity utilisation increased by 7.6ppts to 84.3% in 1H18
Processed meat		2	89	n.m	Compensation granted by the government for the relocation of Guangdong Heshan plant and asset replacement premium totalled Rmb88m in 1H18
Meat import		4	31	688	
		392	82	-79	
Profit & Loss FYDec (Rmb m)					
Sales		3,299	3,264	-1	
Gross profit		6	32	401	
Gross profit ex. Bio		560	149	-73	
Operating profit		269	(190)	-171	
Operating profit ex. Bio		332	69	-79	
Finance cost		(41)	(59)	44	
Share of loss of a JV		(1)	0	-100	
Profit/loss before tax		227	(248)	-209	
Profit/loss before tax ex. Bio		290	11	-96	
Income tax		(1)	(0)	-100	
Net profit		226	(243)	-207	
Net profit ex. Bio		290	16	-95	
EBITDA (ex. Bio)		418	196	-53	
Gross margin (%)		17.0	4.6	-9.6	
Operating margin (%)		10.1	2.1	-4.7	
Net margin (%)		8.8	0.5	-5.4	
Key balance sheets & cash flow items					
Cash		1,226	1,307		
Debt		2,741	3,439		
Net cash / (debt)		(1,516)	(2,131)		
Net gearing (%)		31%	43%		

Source: Company, DBS HK

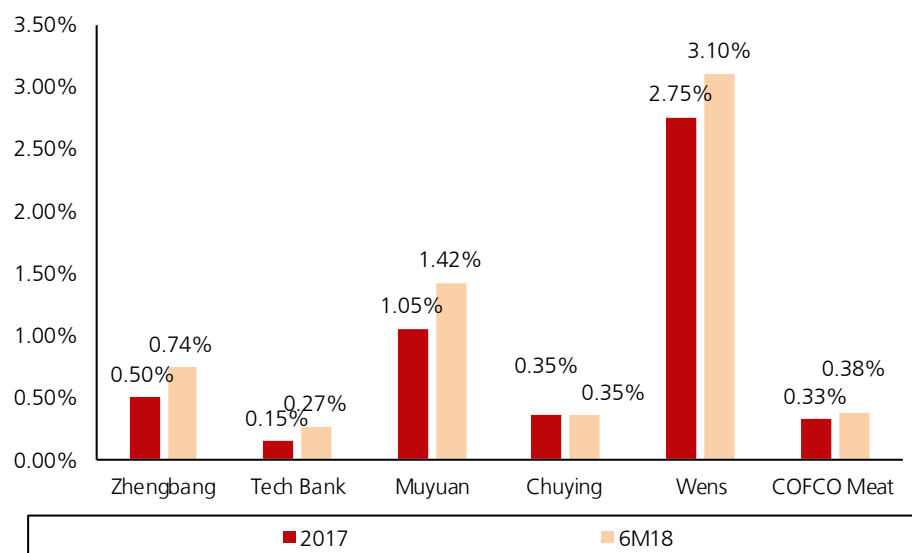
Monthly sales volume – Hog production



Source: Company, DBS est.

COFCO Meat derived from quarterly/interim performance

Hog production market share by volume (%) – Listed 5 hog producers' market share grew by 1.2ppts to 6.3% in Jan-Jun'18



Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Aug-17	HK\$1.59	HK\$1.90	Buy
2:	10-Nov-17	HK\$1.61	HK\$1.90	Buy
3:	1-Aug-18	HK\$1.18	HK\$1.07	Hold

Source: DBS HK

Analyst: Alison Fok

Mavis HUI

Alice HUI CFA,

DBS HK recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 23 Aug 2018 08:36:21 (HKT)

Dissemination Date: 23 Aug 2018 08:44:56 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank (Hong Kong) Limited ("DBS HK"). This report is solely intended for the clients of DBS Bank Ltd., DBS HK, DBS Vickers (Hong Kong) Limited ("DBSV HK"), and DBS Vickers Securities (Singapore) Pte Ltd. ("DBSVS"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBSVS or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 17 Aug 2018.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. **Compensation for investment banking services:**
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.
4. **Disclosure of previous investment recommendation produced:**
DBS Bank Ltd, DBSVS, DBS HK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-26043333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;"> Wong Ming Tek, Executive Director, ADBSR</p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	<p>This report is produced by DBS HK which is regulated by the Hong Kong Monetary Authority</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.

United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS HK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Bank (Hong Kong) Limited18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2521-1812

Flash Note

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd
Contact: Carol Wu
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 852 28204888
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand