

China / Hong Kong Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jan 2019

WH Group Ltd (288 HK) : BUY

Mkt. Cap: US\$12,575m | **3m Avg. Daily Val:** US\$28.1m

Last Traded Price (15 Jan 2019): HK\$6.72

Price Target 12-mth: HK\$8.01 (19.2% upside) (Prev HK\$7.50)

Analyst

Alison FOK +852 36684170; alisonfok@db.com

Mavis HUI +852 36684188; mavis_hui@db.com

Alice HUI CFA +852 36684182 alicehui@db.com

Re-rating catalysts on the horizon

- We hosted WH Group on a non-deal roadshow to address market concerns; we maintain positive on FY19 as US operations expected to post improvements q-o-q; resolution in trade disputes could be a potential catalyst
- Raised FY19F earnings by 4%; reiterate BUY with TP raised to HK\$8.01 with improving visibility

Forecasts and Valuation

FY Dec (US\$ m)	2017A	2018F	2019F	2020F
Turnover	22,379	22,581	23,980	24,850
EBITDA	2,053	1,879	1,959	2,069
Pre-tax Profit	1,478	1,584	1,710	1,848
Net Profit	1,127	1,068	1,148	1,245
Net Pft (Pre Ex) (core profit)	1,127	1,068	1,148	1,245
Net Profit Gth (Pre-ex) (%)	15.5	(8.8)	7.5	8.5
EPS (US\$)	0.08	0.07	0.08	0.08
EPS (HK\$)	0.60	0.57	0.61	0.66
Core EPS (HK\$)	0.60	0.57	0.61	0.66
Core EPS (US\$)	0.08	0.07	0.08	0.08
EPS Gth (%)	10.0	(5.2)	7.5	8.5
Core EPS Gth (%)	10.0	(5.2)	7.5	8.5
Diluted EPS (HK\$)	0.62	0.57	0.61	0.66
DPS (HK\$)	0.26	0.17	0.18	0.20
BV Per Share (HK\$)	3.94	4.30	4.74	5.22
PE (X)	11.3	11.9	11.0	10.2
Core PE (X)	11.3	11.9	11.0	10.2
P/Cash Flow (X)	8.4	10.9	11.5	10.5
P/Free CF (X)	12.9	35.0	25.1	21.1
EV/EBITDA (X)	7.4	8.1	7.6	7.1
Net Div Yield (%)	3.9	2.5	2.7	2.9
P/Book Value (X)	1.7	1.6	1.4	1.3
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
ROAE (%)	16.4	13.7	13.5	13.3
Earnings Rev (%):		n.a	4	n.a
Consensus EPS (US\$)		0.07	0.08	0.09
Other Broker Recs:		B: 22	S: 0	H: 0

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

[WH Group Ltd - iBanking Login](#)

[WH Group Ltd - Institution Login](#)

What's New

We hosted WH Group on a non-deal roadshow (NDR) last week to address market concerns on trade war issues, view on market supply and demand, and African Swine Fever impact. We came away with a positive view that the Group will post a steady recovery particularly at its US operations. We expect rebalancing of market supply post-trade tariff volatilities should help hog prices to recover in FY19F, driving an improvement in slaughter margins. We reiterate our Buy call with earnings adjustments of 4% in FY19F on better US slaughter margins from improving meat-hog price spread. Accordingly, we also raised our TP to HK\$8.01 with improving US visibility, based on SOTP valuation (US FY19F PE raised from 9x to 11x).

We summarise the key highlights of the NDR:

Expect US operations to post q-o-q recovery. The US operations had been impacted by over-supply and trade issues, which led to a 39% y-o-y decline in US operating profit in 9M18. Despite softer hog prices, meat prices held up fairly well, with an improvement seen in slaughter margins q-o-q. Hog farming is expected to remain in the red in 4Q18. Processed meat is expected to record steady growth, supported by better efficiency and lower hog prices.

Improvement expected from cost efficiencies in the medium run. Transportation is typically outsourced in the US, and costs have been rising faster than expected. The Group targets to build 8 distribution centres by 2020 to support its requirements and improve cost efficiency.



Live more, Bank less

Flash Note

Market demand remains firm despite trade volatilities. WH Group's US operations had exported 70k/160k/280k/230k tonnes to China in FY14-17. However, exports to China are expected to fall significantly in FY18 (10M18: pork sector exports to HK/China recorded a decline of 25% y-o-y in volume terms). This, however, have been offset by good demand from South/Central America & Asia. In 10M18, US pork industry's export volume and value grew by 5% and 2% respectively. Mexico remains the most important market in terms of trade, accounting for c.33% of pork industry's export volume. We expect any resolution to settle the trade dispute between Mexico and the US would be positive to slaughter margins.

Recovery to continue into FY19. US hog prices are expected to recover as market demand remains firm in both domestic and overseas markets. In Dec 2018, US hog futures averaged at 58cents/lb (-12.9% y-o-y, -6.8% m-o-m), with the full-year averaging at 65 cents/lb.

African Swine Fever is a key concern for investors. The African Swine Flu outbreak began in August 2018, with most of the provinces now impacted. While slaughter earnings were impacted by sudden transport restrictions and hog price divergence between provinces in 3Q18, the Group has since proactively capitalised on the price differences with slaughter earnings expected to post better results q-o-q.

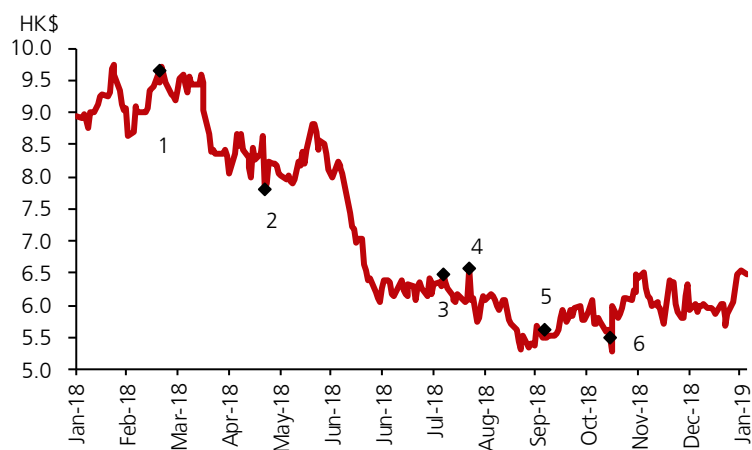
Packaged meat could be impacted by higher hog prices and phasing out of low-end products. In 4Q18, packaged meat margin could see some impact from higher raw material costs particularly chicken prices. The Company has raised prices for selective packaged meat products by 2-3% with a target to maintain mid-single digit sales growth in FY19F. The priority would be to maintain stable margins (20-21% operating margin). The Group is in the process of eliminating low-end products to strengthen its margin. At the same time, it is focused on delivering the right products to customers, such as low-temperature Chinese style products (双汇熟食).

China hog prices could fall post-CNY, but would likely continue to trend higher on tighter market supply. With the disease outbreak, hog prices have risen q-o-q to Rmb12.61/kg in Dec'18 (but -12.9% y-o-y). While prices could fall after Chinese New Year (CNY) due to seasonality, the Group expects hog prices to remain on an uptrend in 2H19 on tighter market supply.

Europe remains a bright spot. As the smallest contributor (9% of 9M18 sales), Europe presents the best growth opportunities in the medium term. 4Q18 is expected to maintain similar momentum as 9M18 (operating profit +18%). The Group is ramping up slaughter and packaged meat utilisation which should deliver better margins in the medium term. In 9M18, packaged meat and slaughter OP margin stood at 6.2% and 1.9%, vs. US' 2-year average OP margin of 9.7%.

Flash Note

Target Price & Ratings History



Source: DBS HK

Analyst: Alison FOK

Mavis HUI

Alice HUI CFA

Flash Note

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: 15 Jan 2019 16:54:48 (HKT)

Dissemination Date: 15 Jan 2019 17:04:19 (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.

Flash Note

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 11 Jan 2019.
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.

Flash Note

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 603-2604 3333 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 units 608-610, 6th Floor, Gate Precinct Building 5, PO Box 506538, 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.

Flash Note

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) Limited13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Flash Note

DBS Regional Research Offices

HONG KONG**DBS Bank (Hong Kong) Ltd****Contact: Carol Wu**

13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
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