China / Hong Kong Industry Focus

China Pork Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 May 2020

High demand, short supply

- **African Swine Fever and COVID-19 have tightened pork supplies in China and accelerated upstream consolidation, favouring big players**
- **Lower tariffs, a 3-4x Sino-US hog price spread, and rising demand for semi-processed foods in China have all prompted us to project a 57% surge in 2020 import volumes**
- **Reiterate BUY on WH Group as a key beneficiary of tighter supplies yet higher pork demand in China**

Pork prices stay at high levels. The COVID-19 impact to Chinese hog farms could well be short-lived, as we see production volume of top upstream players rebounded by 46% m-o-m in March 2020. Nevertheless, lingering effects from the African Swine Fever (AFS) since 2019 should uphold hog prices in China, as aggressive capacity expansion of large-scale farms would not be adequate to offset the supply gap over the next two years. We expect PRC pork shortage, estimated in excess of 10m tonnes in FY19, to expand to 18m tonnes in FY20F before contracting to c.10m tonnes by FY21F along with the sow herd recovery. Hence, our latest house view on Chinese hog prices stands at Rmb30/26 per kg for FY20/21, significantly higher than its 5-year average of c.Rmb16/kg.

Rising imports could sustain in near-term. China's pork shortage should unlikely be fulfilled by expansion of upstream players in the near-term. We expect pork imports to rise substantially by 57% y-o-y in FY20F to 3.9m tonnes and meet c.10% of total consumption.

Reiterate BUY call on WH Group. We maintain BUY on WH Group as a direct beneficiary of tight hog supplies in China over the medium-term with strong US upstream sourcing. Its ability to source lower cost imports as raw materials for its downstream business in China to offset impact from higher domestic input costs. We also lift its earnings by 20% for this year, as the company's improving packaged meat sales volume in China and lower input costs should more than offset any temporary partial disruption of its supply chain in US operations.

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Recommendation & valuation

Company Name	Currency	Price Local$	Target Price Local$	Recom	Mkt Cap US$m	PE 20F x
COFCO Meat*	HKD	2.38	2.57	HOLD	1,198	4.1
Wh Group*	HKD	7.14	9.62	BUY	13,568	8.8

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

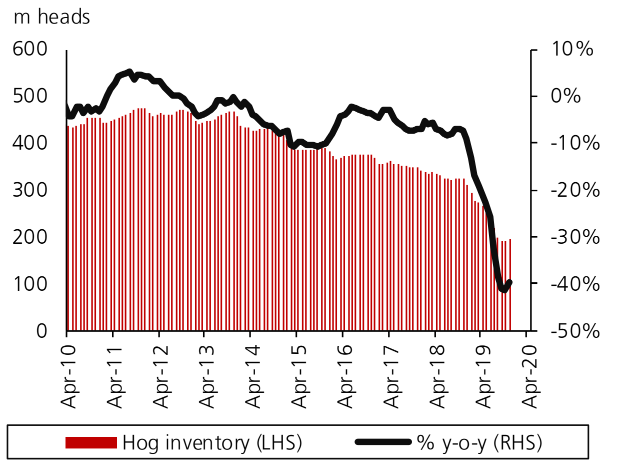
Closing price as at 12 May 2020

DBS
Live more, Bank less

Expect shortfall for the next 2 years

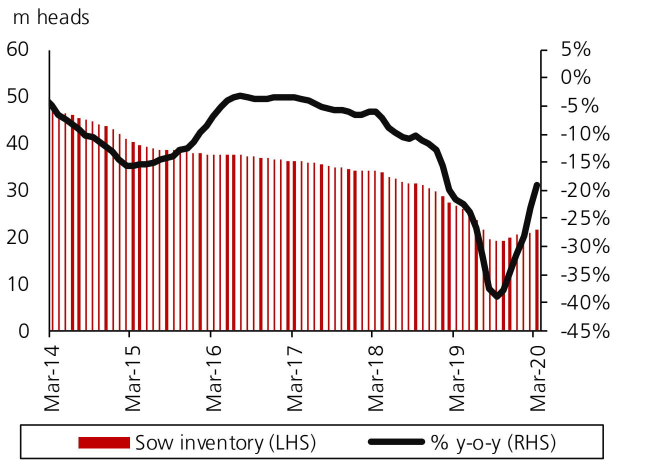
Following the outbreak of African Swine Fever in 2018, sow and hog inventories have declined by 23% and 30% y-o-y respectively in 2019. Our estimates point to a shortfall in pork of up to 10m tonnes in FY19. Assuming production falls a further 20% y-o-y (1Q20: -30% y-o-y), we expect the shortfall will further expand to >18m tonnes in FY20F, thereafter shortfall drops back to c.10m tons in FY21F assuming sow and hog herd steadily recovers.

Hog inventory



Source: MoA, DBS HK

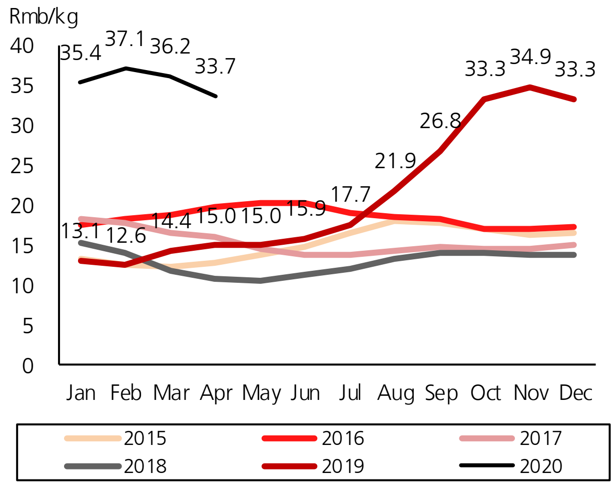
Sow inventory



Source: MoA, DBS HK

The outbreak of COVID-19 had a mild impact on hog production due to logistic disruptions. On 31 January 2020, the Ministry of Agriculture, Ministry of Transport and Ministry of Public Security issued a notice to guarantee the ease of transportation of products within the vegetable basket, which includes necessity goods such as pork, fresh dairy and vegetables to reach various supply chains and consumers. Hog prices surged higher during CNY, of which around Rmb3/kg of the increase was caused by the disruption. Hog prices have since trended down m-o-m post-CNY on the back of a slack season, particularly in North and East China, and we expect 4Q peak season will see prices picking up again. Relative to its 5-year average, we expect live hog prices to trend 80%/63% higher in FY20/21F.

Average live hog prices



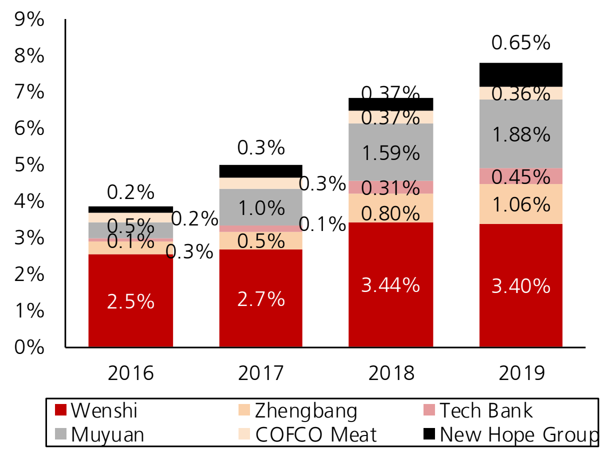
Source: MoA, DBS HK

In addition, key government departments including Ministry of Agriculture and Rural Affairs, NDRC, Ministry of Finance, Ministry of Natural Resources, Ministry of Ecology and Environment, Ministry of Transportation and the Banking and Insurance Regulatory Commission issued several policy measures related to infrastructure, loan discounts, transportation, and subsidies to support the industry. In Dec'19, MOA initiated a program under "Agricultural Enterprise to lead 10,000 households on swine farming to alleviate poverties with 15 leading hog producers to sign for 19 projects in cities amongst Hubei and Sichuan with investment amount up to Rmb50bn to release an additional 22m heads in capacity. Year-to-date, the government has released roughly 330k tons of frozen pork reserve in the market to help ease market pricing, close to double of the volume released in FY19, based on our estimates. According to the Central No.1 Document, hog production is targeted to stabilise by the end of 2020.

Upstream consolidation ahead

Food traceability and securitisation of the supply chain to play an ever more important role post outbreak of African Swine Fever and COVID-19. China's hog production market concentration remains low with an estimated 7.8% aggregate market share held by the top 6 players (2015:3.85%). With the disruption caused by African Swine Fever and COVID-19, the acceleration in market concentration has been evident. Recent events have highlighted the crucial need to ensure food traceability, and securitisation in the supply chain will play an ever more important role in the sector.

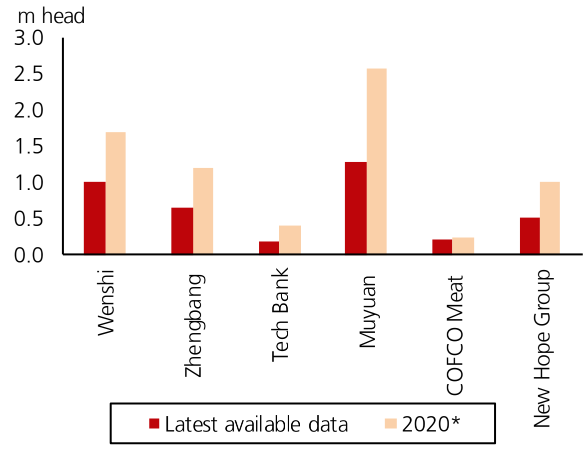
Top 6 hog farmers market share (annual)



Source: Company data, DBS HK

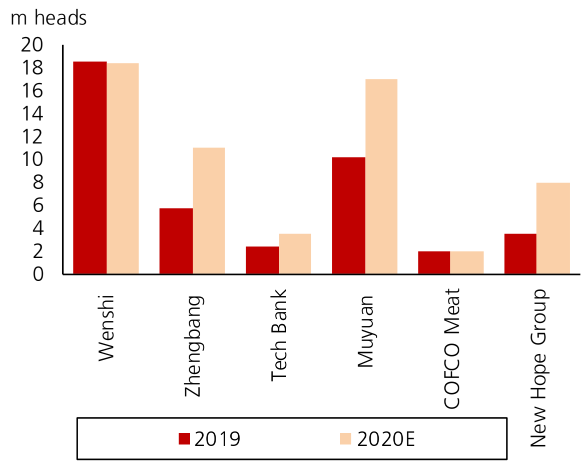
Overall sow inventories have declined despite strong recovery seen in some of the major upstream players, as the economic losses from ASF has caused financial limitations to expand by smaller players. Key players have targeted higher sow inventories to help hog production recover.

Sow inventories and target* (based on latest available data)



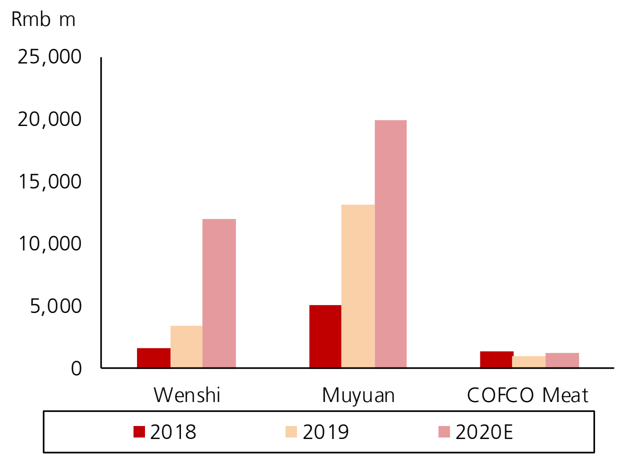
Source: Company data, DBS HK

2020 hog production target *



Source: Various news sources, Company, DBS HK
Tech bank target will include piglets, and fattening pigs which may exceed 50% of contribution

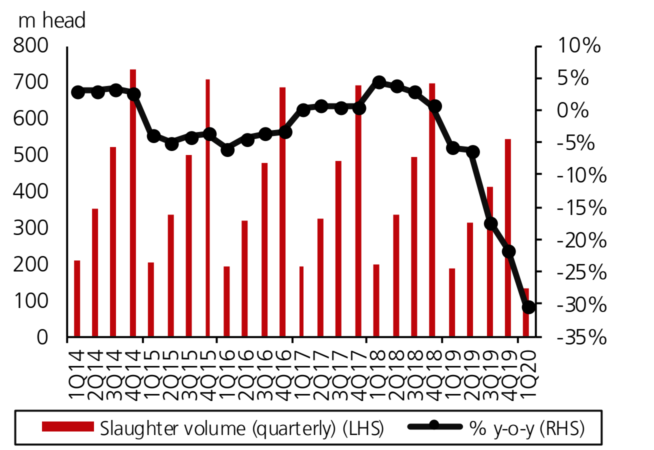
Targeted capex expenditure in FY20F



Source: Company data, DBS HK
Wenshi's capital expenditure to reach Rmb10-12bn

Growing trend from transporting hogs to transporting pork. To cater to the trend of "transporting hogs" to "transporting pork," hog producers are adjusting their slaughter capacity to be close to hog farms. For example, COFCO Meat has recently completed the construction of its slaughter capacity. Other players, such as Muyuan, are working with Chaozhou and Anhui governments to build slaughter plants to cater to demand in Chaozhou.

Industry production volume - quarterly

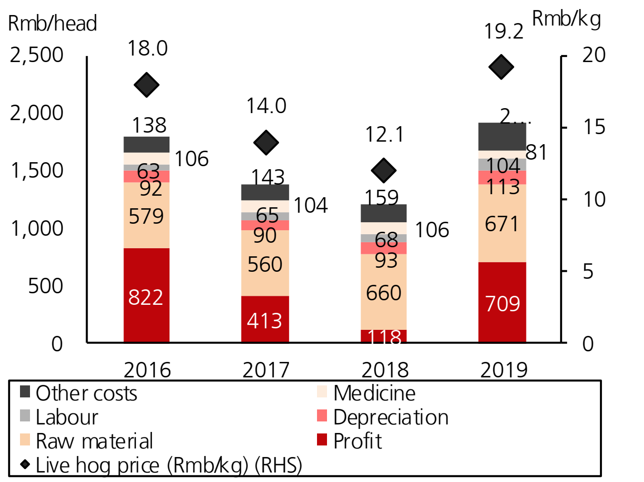


Source: Company data, DBS HK

Rising automation, AI and IoT to lower cost of breeding. Top tier companies are actively exploring ways to raise productivity through automation and AI technology. For example, Wenshi has built more than 300 standardised IoT breeding demonstration pens with supporting systems including videos, sensors, fans, automatic feeders and automatic manure scrapers. Through such exercises, the number of workers required per farm reduces from 5-6 to 1-2 workers, which significantly reduces the cost of breeding.

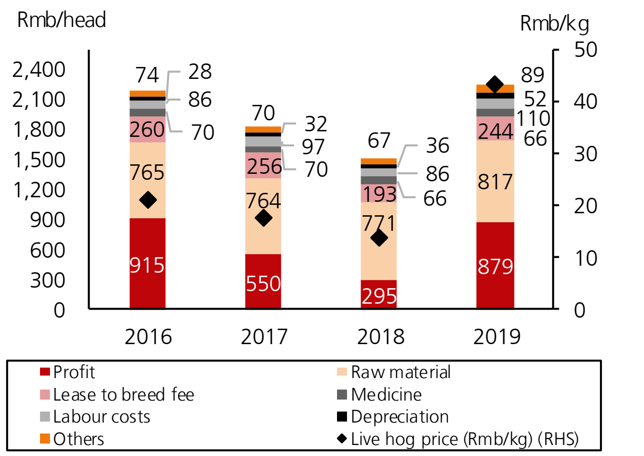
Centralisation of data to build integration in supply chain and scalability in the long run. Besides the focus on hog farming, a full integration across the supply chain has already been built up and ready for scalability by key players. Most have established ERP systems to integrate information systems from production, sales, finance, human resources to centralise all data.

Cost breakdown per head – Muyuan: Profit per head rose 500%+ Rmb709/head in FY19



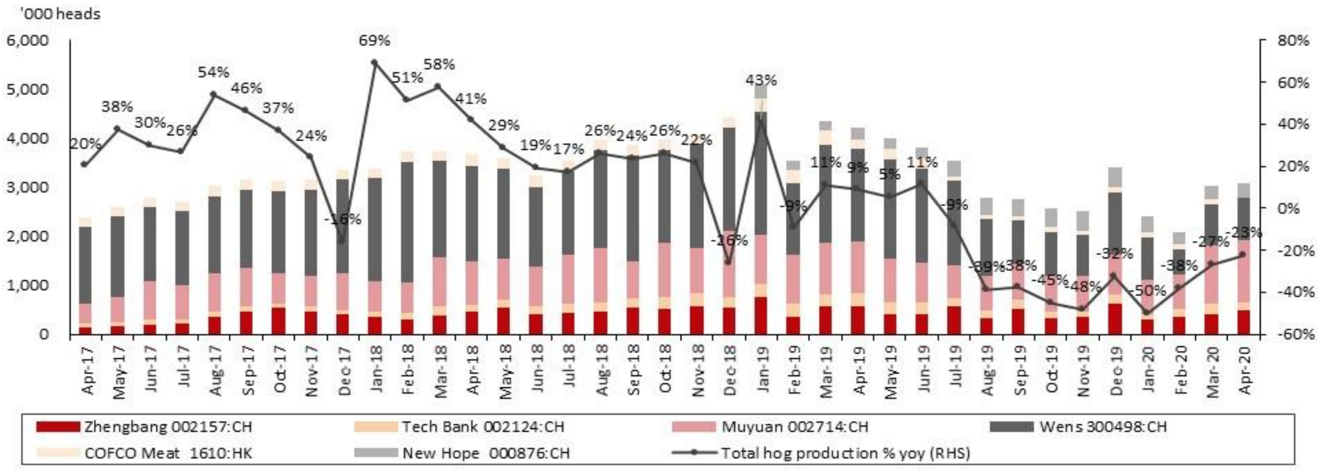
Source: Company data, DBS HK

Cost breakdown per head – Wenshi: Profit per head rose 197% y-o-y to Rmb879/head in FY19



Source: Company data, DBS HK

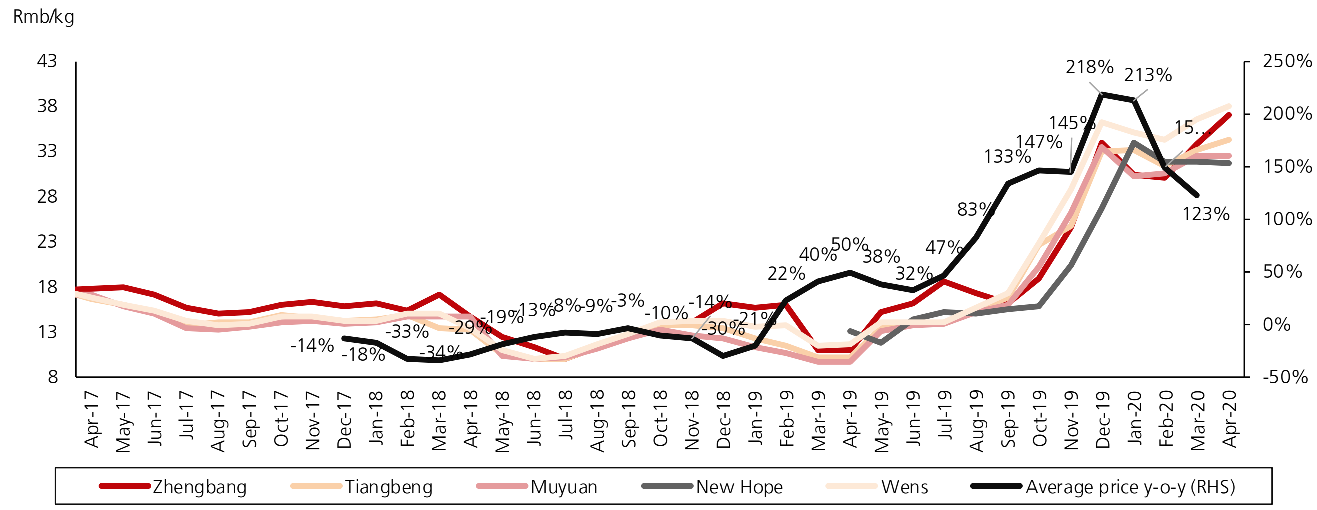
Top 6 listed players' monthly hog production: Muyuan & New Hope Group recorded positive production volume y-o-y growth in April'20 of 19% and 39% respectively



Source: Company data, DBS HK

**Jan-Apr'20 y-o-y includes New Hope Group monthly hog production in total production volume change y-o-y and excludes COFCO Meat y-o-y*

Top 6 listed players' monthly commercial hog prices:



Source: Company data, DBS HK

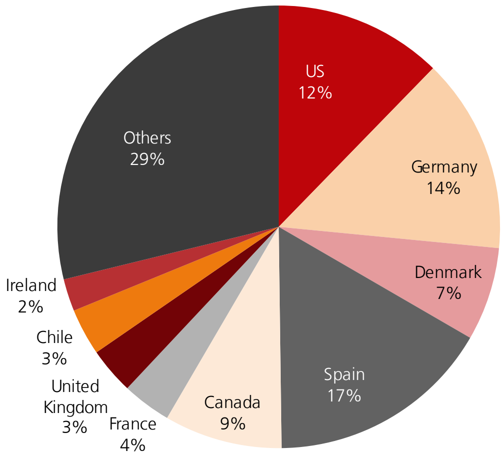
**Jan-Apr'20 y-o-y includes New Hope Group monthly hog production in total production volume change y-o-y and excludes COFCO Meat y-o-y*

Imports to meet part of the shortfall

A race to take advantage of attractive price spread. With the reduction in tariff on US pork, US pork exports to China/Hong Kong have surged by 177% y-o-y in 1Q20, according to China Customs. While supply disruption may impact exports in April 2020, we believe most of the concerns should be lifted with the enforcement of the defensive protection law to keep meat processing plants running. Some of WH Group's largest processing plants in South Dakota and Virginia, United States, have tentatively resumed operations. That said, there is some political risk with the US potentially reigniting the trade war with China in relation to the COVID-19 outbreak.

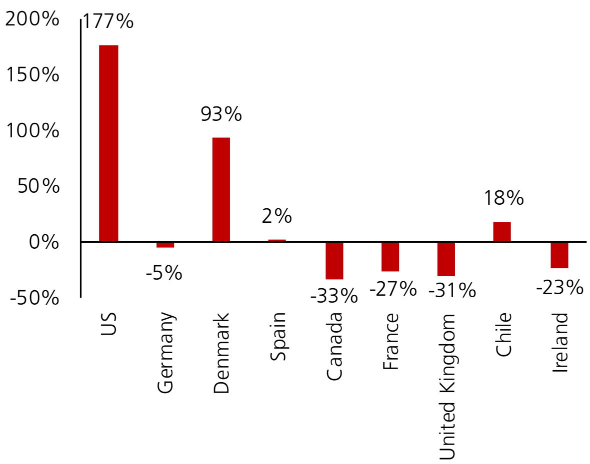
Decoupling in the long run. In view of the looming political risk, we believe China is actively seeking to diversify its sources of pork imports and raise its own self-sufficiency to reduce disruption in its agricultural supply chain. In 2019, the US accounted for 12% of total import volumes, according to China Customs.

China pork imports – 2019



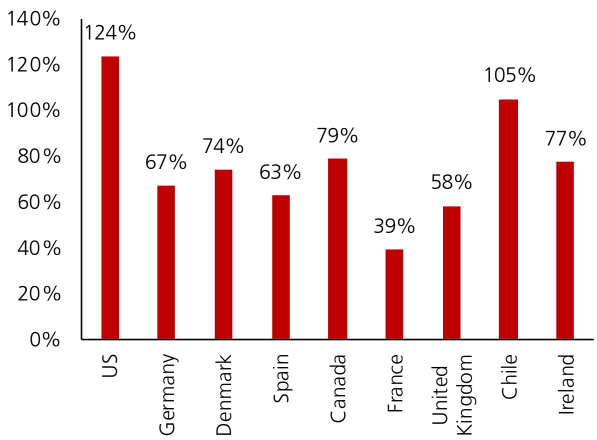
Source: China Customs

Pork import volume in 1Q20 (% chg y-o-y)



Source: China Customs

Pork imports average pricing in 1Q20 (% chg y-o-y)

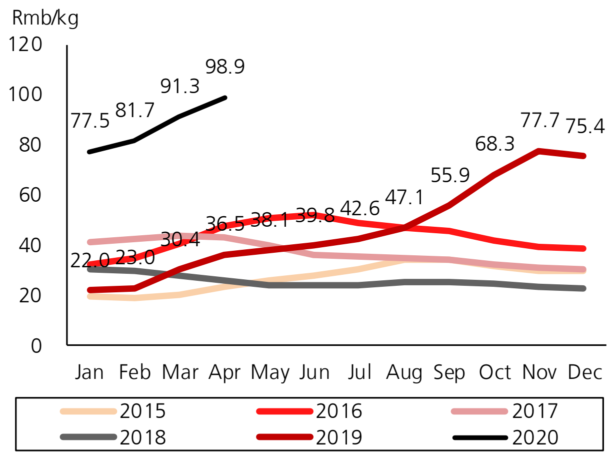


Source: China Customs, DBS HK

Appetite for plant-based products. Cargill has launched **PlantEver** products via a partnership with KFC to offer plant-based nuggets in three stores in tier 1 cities, and demand has been strong. Cargill plans to launch a series of plant-based products for food services and consumers by end-June 2020.

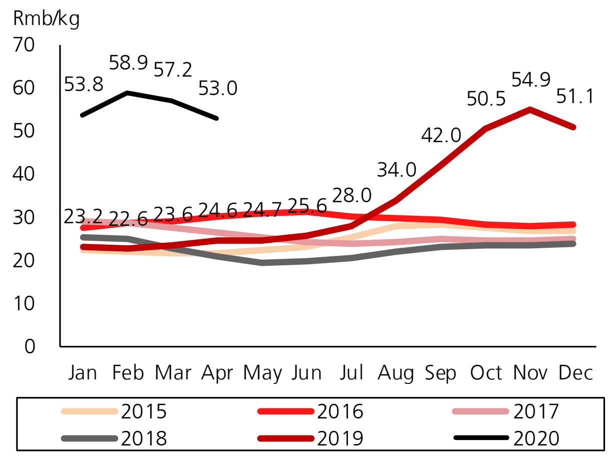
Starbucks is also rolling out a new plant-based lunch menu in collaboration with **Beyond Meat** and **Omnipork** to promote non-meat products. Some of the plant-based start-ups include **Starfield Food and Science Technology**, using seaweed protein, which is working together with 6 major restaurant chains including Papa John's, Brut Eatery, Hong Li Village (红荔村), Nayuki, Gaga Chef and Element Fresh. New Hope Group have indicated their intention to launch plant-based products in 2020 too.

Piglet prices



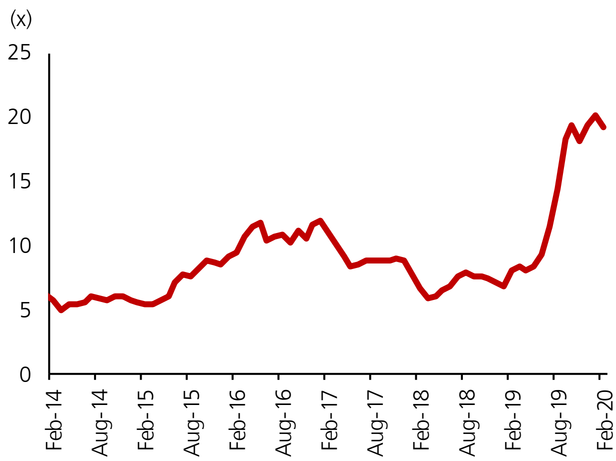
Source: MOA

Pork prices



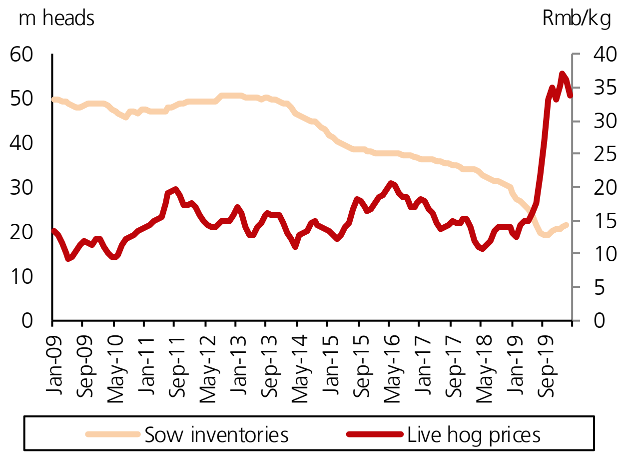
Source: MOA

Hog to feed ratio (x)



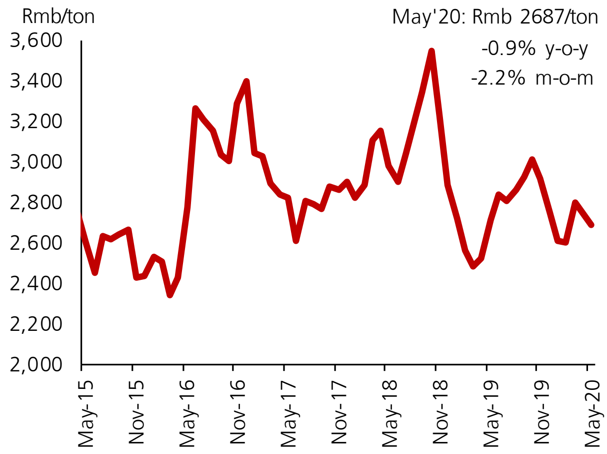
Source: MOA, DBS HK estimate

Live hog prices vs. sow inventories

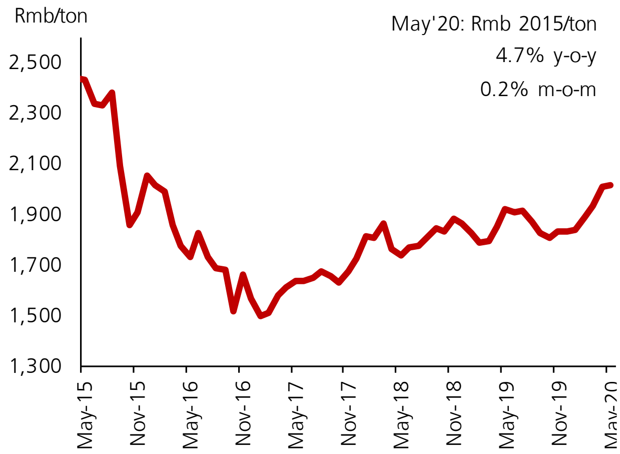


Source: MOA

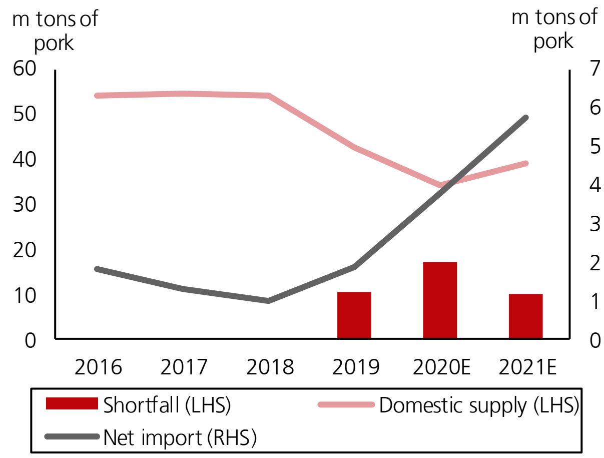
Dalian soybean meal spot prices – China



Dalian corn spot prices - China



Pork supply & demand



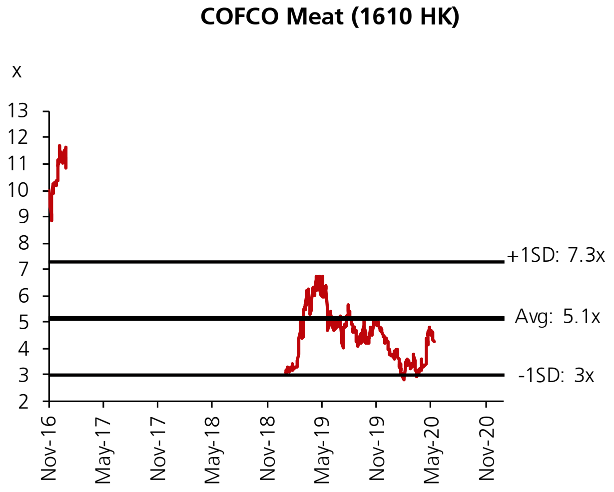
Source: DCE, DBS HK

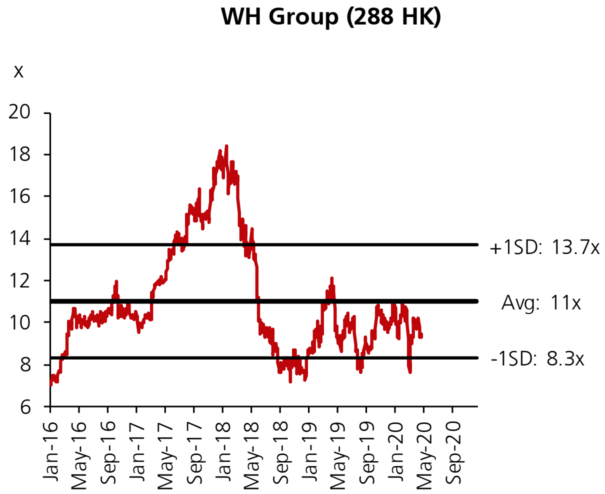
Valuation table

Company Name	Code	Currency	Price Local$	Target Price Local$	Recom	Mkt Cap US$m	Fiscal Yr	PE 20F x	PE 21F x	Yield 20F %	Yield 21F %	P/Bk 20F x	P/Bk 21F x	EV/EBITDA 20F x	EV/EBITDA 21F x	ROE 20F %	ROE 21F %
COFCO Meat*	1610 HK	HKD	2.38	2.34	HOLD	1,198	Dec	4.1	4.0	1.8	1.8	1.1	0.9	5.3	5.7	29.8	23.5
Wh Group*	288 HK	HKD	7.14	9.62	BUY	13,568	Dec	8.8	8.4	4.5	4.7	1.4	1.3	7.0	6.8	16.7	15.6
Average								**6.4**	**6.2**	**3.2**	**3.3**	**1.2**	**1.1**	**6.2**	**6.3**	**23.2**	**19.5**
Henan Shuanghui Inv.& Dev.'A'	000895 CH	CNY	42.33	n.a.	NR	19,838	Dec	23.3	20.9	3.4	3.7	7.2	6.3	15.5	14.4	33.0	32.6
Muyuan Foods 'A'	002714 CH	CNY	116.03	n.a.	NR	36,116	Dec	7.3	8.2	2.4	2.1	4.6	3.2	6.8	7.7	64.1	38.0
Wens Foodstuff Group	300498 CH	CNY	29.67	n.a.	NR	22,250	Dec	5.0	7.0	6.1	5.5	2.3	2.0	4.4	6.0	48.4	29.6
New Hope Liuhe 'A'	000876 CH	CNY	30.66	n.a.	NR	18,251	Dec	9.1	8.9	3.2	2.9	3.2	2.4	8.2	8.2	37.0	28.0
Average								**11.9**	**12.0**	**3.9**	**3.8**	**4.7**	**3.8**	**8.9**	**9.3**	**48.5**	**33.4**
Brf Brasil Foods On	BRFS3 BZ	BRL	20.37	n.a.	NR	2,812	Dec	16.1	13.8	1.7	1.5	2.3	2.1	5.9	5.6	9.2	13.2
Jbs On	JBSS3 BZ	BRL	23.74	n.a.	NR	11,005	Dec	9.5	7.9	4.0	2.3	2.1	1.8	4.8	4.9	16.4	25.7
Average								**12.8**	**10.9**	**2.8**	**1.9**	**2.2**	**1.9**	**5.4**	**5.2**	**12.8**	**19.4**

 # FY20: FY21; FY21: FY22
*Source: Thomson Reuters, *DBS HK*

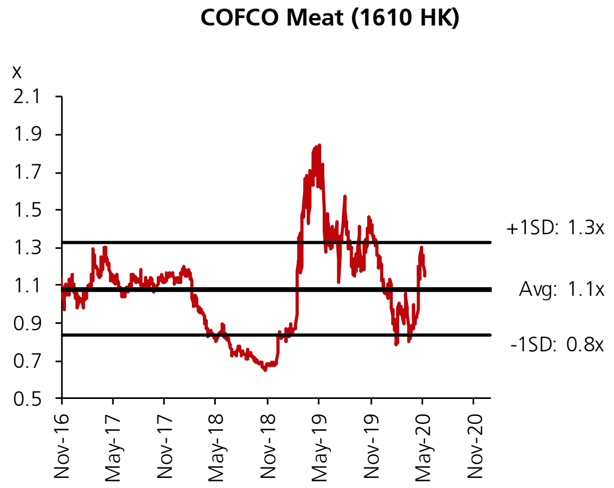
PE charts

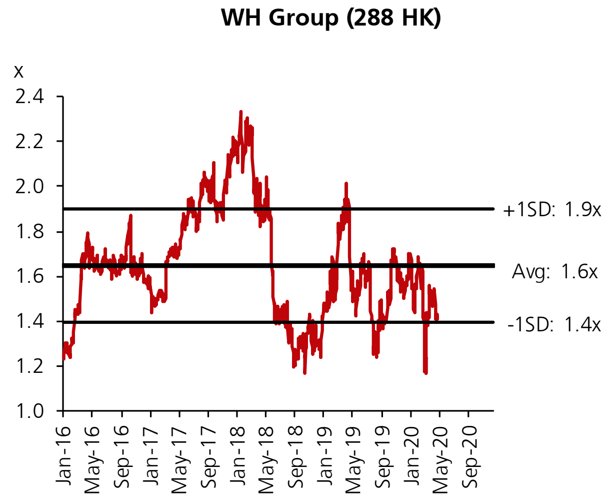




Source: Thomson Reuters, DBS HK

PB charts





Source: Thomson Reuters, DBS HK

Industry Focus

COFCO Meat Holdings Ltd

Bloomberg: 1610 HK Equity | Reuters: 1610.HK **Refer to important disclosures at the end of this report**

HOLD

Last Traded Price (13 May 2020): HK$2.38 (**HSI :** 24,246)
Price Target 12-mth: HK$2.34 (1.6% downside)

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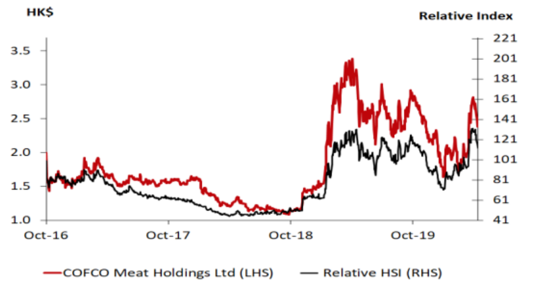
Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2018A	2019A	2020F	2021F
Turnover	7,168	11,079	17,168	19,260
EBITDA	184	855	2,913	2,625
Pre-tax Profit	(636)	1,531	2,087	2,102
Net Profit	(628)	1,574	2,091	2,108
Net Pft (Pre Ex) (core profit)	(198)	425	2,091	2,108
EPS (RMB)	(0.16)	0.40	0.54	0.54
EPS (HK$)	(0.18)	0.44	0.59	0.59
Core EPS (HK$)	(0.06)	0.12	0.59	0.59
Core EPS (RMB)	(0.05)	0.11	0.54	0.54
EPS Gth (%)	N/A	N/A	32.9	0.8
Core EPS Gth (%)	N/A	N/A	392.1	0.8
Diluted EPS (HK$)	(0.30)	0.76	0.59	0.59
DPS (HK$)	0.00	0.04	0.04	0.04
BV Per Share (HK$)	1.31	1.70	2.24	2.79
PE (X)	(13.5)	5.4	4.1	4.0
Core PE (X)	(42.9)	20.0	4.1	4.0
P/Cash Flow (X)	202.4	(8.1)	5.5	4.6
P/Free CF (X)	(6.6)	(4.2)	34.8	10.2
EV/EBITDA (X)	59.4	18.2	5.3	5.7
Net Div Yield (%)	0.0	1.8	1.8	1.8
P/Book Value (X)	1.8	1.4	1.1	0.9
Net Debt/Equity (X)	0.5	1.1	0.8	0.6
ROAE (%)	(13.1)	29.3	29.8	23.5
Earnings Rev (%):			New	New
Consensus EPS (RMB)			0.55	0.56
Other Broker Recs:		B:10	S:0	H:3

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

Steady build-up

- **Sixth-largest hog producer in China to take a slice of the growing market**
- **Steady downstream expansion to build an integrated supply chain**
- **Maintain HOLD, TP at HK$2.34**

Sixth-largest hog producer in China. COFCO Meat is the sixth-largest listed hog producer in China with a 0.36% market share by volume across seven provinces, with an expanding downstream and import distribution business. With the impact of African Swine Fever (AFS) and COVID-19, the group's hog production volume declined 22% in FY19, and we expect this to contract by 5% in FY20F and rebound by 30% in FY21F (1Q20: -62% y-o-y) due to a depletion in sow inventory in FY19. Live hog prices are expected to remain high in FY20 due to severely depleted industry inventories. We forecast hog prices to be higher at Rmb27/kg and Rmb25/kg in FY20/21F. We estimate that every 2% change in hog prices could have a 5% impact on FY20F earnings.

Steady expansion downstream. COFCO Meat aims to become a branded food business in the long run. The company added 1m heads in slaughter capacity in Huanggang Hubei in FY19 with expansion continuing in Northeast and North China to cater to the trend of transporting pork, rather than hogs in the medium term to reduce the risk of disease outbreak. Through its Joycome brand, the company aims to increase its branded fresh pork sale business to enhance profit margin. Lastly, with rising price disparity, we expect its import distribution business to continue to perform strongly.

Maintain HOLD; TP at HK$2.34. While the group has maintained stable market share, we expect the surge in earnings to have already been priced in at this stage. Maintain HOLD, TP at HK$2.34, based on DCF valuation.

At A Glance

Issued Capital (m shrs)	3,902
Mkt Cap (HK$m/US$m)	9,287 / 1,198
Major Shareholders (%)	
COFCO Corporation	29.1
Kohlberg Kravis Roberts & Co. L.P.	10.8
Baring Private Equity Asia Ltd.	10.4
DCP, Ltd.	5.1
Free Float (%)	44.6
3m Avg. Daily Val. (US$m)	9.28
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

ed-TH / sa- CS / DL

COFCO Meat Holdings Ltd

Income Statement (RMB m)

FY Dec	2018A	2019A	2020F	2021F
Turnover	7,168	11,079	17,168	19,260
Cost of Goods Sold	(7,157)	(10,986)	(14,273)	(16,381)
Gross Profit	11	93	2,895	2,879
Other Opng (Exp)/Inc	(523)	1,601	(646)	(615)
Operating Profit	(511)	1,693	2,250	2,264
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	429	(1,148)	0	0
Net Interest (Exp)/Inc	(124)	(162)	(162)	(162)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	(430)	1,149	0	0
Pre-tax Profit	(636)	1,531	2,087	2,102
Tax	(10)	(9)	(51)	(51)
Minority Interest	19	52	54	57
Preference Dividend	0	0	0	0
Net Profit	(628)	1,574	2,091	2,108
Net Profit before Except.	(198)	425	2,091	2,108
EBITDA	184	855	2,913	2,625
Sales Gth (%)	3.0	54.5	55.0	12.2
EBITDA Gth (%)	(76.8)	365.1	240.6	(9.9)
Opg Profit Gth (%)	(196.5)	(431.1)	32.8	0.6
Net Profit Gth (%)	N/A	N/A	32.9	0.8
Effective Tax Rate (%)	N/A	0.6	2.4	2.4

Balance Sheet (RMB m)

FY Dec	2018A	2019A	2020F	2021F
Net Fixed Assets	5,971	6,668	7,295	7,924
Invts in Assocs & JVs	21	0	0	0
Other LT Assets	1,184	1,214	1,238	1,263
Cash & ST Invts	1,163	640	763	1,483
Inventory	536	3,181	4,500	5,165
Debtors	156	182	282	317
Other Current Assets	1,229	4,238	4,306	4,380
Total Assets	10,260	16,124	18,385	20,532
ST Debt	2,057	6,301	6,301	6,301
Creditors	501	463	655	751
Other Current Liab	1,240	1,420	1,453	1,488
LT Debt	1,448	1,333	1,333	1,333
Other LT Liabilities	240	447	489	489
Shareholder's Equity	4,676	6,057	7,997	9,955
Minority Interests	98	104	158	214
Total Cap. & Liab.	10,260	16,124	18,385	20,532
Non-Cash Wkg. Cap	180	5,719	6,981	7,623
Net Cash/(Debt)	(2,342)	(6,994)	(6,871)	(6,151)

Cash Flow Statement (RMB m)

FY Dec	2018A	2019A	2020F	2021F
Pre-Tax Profit	(647)	1,522	2,091	2,108
Dep. & Amort.	266	310	663	361
Tax Paid	0	(8)	(9)	(51)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg.Cap.	251	(1,901)	(1,262)	(641)
Other Operating CF	171	(973)	62	58
Net Operating CF	42	(1,049)	1,544	1,835
Capital Exp.(net)	(1,333)	(966)	(1,300)	(1,000)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	11	0	0
Other Investing CF	(622)	960	0	0
Net Investing CF	(1,955)	4	(1,300)	(1,000)
Div Paid	0	0	(150)	(150)
Chg in Gross Debt	1,177	1,930	0	0
Capital Issues	0	0	0	0
Other Financing CF	79	(489)	(836)	35
Net Financing CF	1,256	1,441	(986)	(115)
Currency Adjustments	0	0	0	0
Chg in Cash	(657)	397	(743)	720

Rates & Ratio

FY Dec	2018A	2019A	2020F	2021F
Gross Margins (%)	0.2	0.8	16.9	14.9
Opg Profit Margin (%)	(7.1)	15.3	13.1	11.8
Net Profit Margin (%)	(8.8)	14.2	12.2	10.9
ROAE (%)	(13.1)	29.3	29.8	23.5
ROA (%)	(6.5)	11.9	12.1	10.8
ROCE (%)	(6.4)	14.8	14.4	12.8
Div Payout Ratio (%)	N/A	9.5	7.2	7.1
Net Interest Cover (x)	NM	10.4	13.9	13.9
Asset Turnover (x)	NM	NM	NM	NM
Debtors Turn (avg days)	7.9	6.0	6.0	6.0
Creditors Turn (avg days)	26.8	16.7	16.7	16.7
Inventory Turn (avg days)	28.6	115.1	115.1	115.1
Current Ratio (x)	0.8	1.0	1.2	1.3
Quick Ratio (x)	0.3	0.1	0.1	0.2
Net Debt/Equity (X)	0.5	1.1	0.8	0.6
Capex to Debt (%)	38.0	12.7	17.0	13.1
Z-Score (X)	N/A	N/A	N/A	N/A
N.Cash/(Debt)PS (RMB)	(0.66)	(1.96)	(1.93)	(1.73)
Opg CFPS (RMB)	(0.05)	0.22	0.72	0.63
Free CFPS (RMB)	(0.33)	(0.52)	0.06	0.21

Interim Income Statement (RMB m)

FY Dec	1H2018	2H2018	1H2019	2H2019
Turnover	3,264	3,904	4,403	6,676
Cost of Goods Sold	(3,115)	(3,716)	(4,533)	(5,555)
Gross Profit	149	188	(130)	1,121
Other Oper. (Exp)/Inc	(80)	(339)	(59)	(387)
Operating Profit	69	(151)	(189)	733
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	(1)	0	0
Net Interest (Exp)/Inc	(59)	(66)	(84)	(78)
Exceptional Gain/(Loss)	(259)	(171)	370	779
Pre-tax Profit	(248)	(388)	97	1,435
Tax	0	(10)	(4)	(6)
Minority Interest	5	14	49	3
Net Profit	(243)	(384)	142	1,431
Net profit bef Except.	16	(214)	(227)	652
Sales Gth (%)	(1.1)	6.6	34.9	71.0
Opg Profit Gth (%)	(79.1)	(160.3)	(372.2)	(586.2)
Net Profit Gth (%)	N/A	N/A	N/A	N/A
Gross Margins (%)	4.6	4.8	(3.0)	16.8
Opg Profit Margins (%)	2.1	(3.9)	(4.3)	11.0
Net Profit Margins (%)	(7.5)	(9.8)	3.2	21.4

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2018A	2019A	2020F	2021F
Revenues (RMB m)				
Hog production	1,702	3,505	6,619	8,274
Fresh Pork	2,808	3,217	2,928	2,693
Processed meat	372	447	530	546
Imported meat	2,287	5,157	7,091	7,747
Others	0	0	0	0
Total	7,168	11,079	17,168	19,260
Segment result (RMB m)				
Hog production	(279)	277	2,057	2,044
Fresh Pork	107	83	55	70
Processed meat	93	(11)	6	6
Imported meat	36	103	132	144
Key Assumptions				
Hog price (Rmb/kg)	6.2	14.1	27.0	25.0
Production volume (m head)	2.6	2.0	1.9	2.5

Source: Company, DBS HK

Industry Focus

WH Group Ltd

Bloomberg: 288 HK Equity | Reuters: 0288.HK

Refer to important disclosures at the end of this report

BUY

Last Traded Price (12 May 2020):HK$7.14 (HSI : 24,246)
Price Target 12-mth: HK$9.62 (34.8% upside) (Prev HK$9.40)

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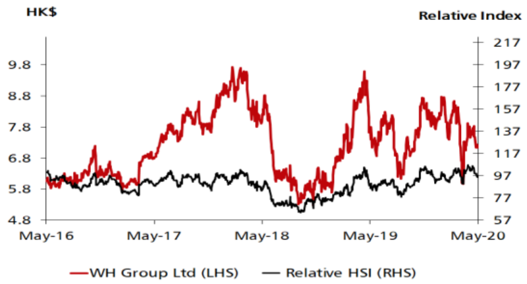
Price Relative



Forecasts and Valuation

FY Dec (US$ m)	2018A	2019A	2020F	2021F
Turnover	22,605	24,103	28,858	29,993
EBITDA	2,081	2,518	2,431	2,472
Pre-tax Profit	1,446	1,716	2,190	2,254
Net Profit	943	1,150	1,549	1,615
Net Pft (Pre Ex) (core profit)	1,047	1,380	1,549	1,615
EPS (US$)	0.06	0.08	0.10	0.11
EPS (HK$)	0.49	0.60	0.81	0.85
Core EPS (HK$)	0.55	0.72	0.81	0.85
Core EPS (US$)	0.07	0.09	0.10	0.11
EPS Gth (%)	(19.4)	22.0	34.7	4.3
Core EPS Gth (%)	(7.1)	31.8	12.2	4.3
Diluted EPS (HK$)	0.49	0.60	0.81	0.85
DPS (HK$)	0.26	0.20	0.32	0.34
BV Per Share (HK$)	4.06	4.55	5.16	5.68
PE (X)	14.5	11.9	8.8	8.4
Core PE (X)	13.0	9.9	8.8	8.4
P/Cash Flow (X)	10.9	9.3	13.7	9.6
P/Free CF (X)	30.7	17.4	34.8	16.7
EV/EBITDA (X)	8.1	6.7	7.0	6.8
Net Div Yield (%)	3.7	2.8	4.5	4.7
P/Book Value (X)	1.8	1.6	1.4	1.3
Net Debt/Equity (X)	0.3	0.3	0.2	0.2
ROAE (%)	12.4	14.0	16.7	15.6
Earnings Rev (%):			20	New
Consensus EPS (US$)			0.10	0.11
Other Broker Recs:		B:25	S:0	H:0

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

The rise of a pork empire

- **Medium-term positive catalysts from tightened supply and attractive price spread**
- **Disruption in US supply chain raises uncertainty but expect steady recovery ahead**
- **Maintain BUY; TP at HK$9.6**

Medium-term catalysts from tightened supply and attractive price disparity. Due to tightened China supply, we expect China's packaged meat sector to sustain decent growth in FY20, supported by multiple price hikes seen in FY19, a recovery in sales volume and lower input cost.

Disruption in US supply chain; expect steady recovery ahead. With the outbreak of COVID-19, five plants (two abattoirs and three packaged meat facilities) were closed temporarily, accounting for 25% of annual production volume. Since then, the plants have steadily resumed operations with the support of the government. While the US catering channels are also impacted, which account for 30% of US packaged meat sales, we expect the impact to be temporary and recovery should begin in 4Q20.

Maintain BUY; TP at HK$9.6. We have adjusted our earnings for FY20 by 20% and introduced FY21F earnings and adjusted our PE target on US operations to 11x (Previously 13x) on the impact of COVID-19. We forecast that China operations could outperform that of the US with improving packaged meat operating margin while US's strong performance in 1Q20 could see sequential contraction due to COVID-19. We remain positive on the group's unique market position to capitalise on the supply shortage in China with attractive price spread to sustain over the next two years. Maintain BUY, TP adjusted to HK$9.6.

At A Glance

Issued Capital (m shrs)	14,721
Mkt Cap (HK$m/US$m)	105,108 / 13,568
Major Shareholders (%)	
Rise Grand Group Ltd.	23.6
Wan (Long)	6.3
Free Float (%)	70.1
3m Avg. Daily Val. (US$m)	46.42
GICS Industry: Consumer Staples / Food, Beverage & Tobacco	

ed-TH / sa- CS / DL

WH Group Ltd

Income Statement (US$ m)

FY Dec	2018A	2019A	2020F	2021F
Turnover	22,605	24,103	28,858	29,993
Cost of Goods Sold	(18,103)	(19,209)	(22,953)	(24,090)
Gross Profit	**4,502**	**4,894**	**5,906**	**5,903**
Other Opng (Exp)/Inc	(2,871)	(2,870)	(3,636)	(3,569)
Operating Profit	**1,631**	**2,024**	**2,270**	**2,334**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	22	52	14	14
Net Interest (Exp)/Inc	(103)	(130)	(94)	(94)
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	(104)	(230)	0	0
Pre-tax Profit	**1,446**	**1,716**	**2,190**	**2,254**
Tax	(293)	(336)	(378)	(389)
Minority Interest	(210)	(230)	(263)	(250)
Preference Dividend	0	0	0	0
Net Profit	**943**	**1,150**	**1,549**	**1,615**
Net Profit before Except.	1,047	1,380	1,549	1,615
EBITDA	2,081	2,518	2,431	2,472
Sales Gth (%)	1.0	6.6	19.7	3.9
EBITDA Gth (%)	1.4	21.0	(3.5)	1.7
Opg Profit Gth (%)	(12.3)	24.1	12.1	2.8
Net Profit Gth (%)	(19.4)	22.0	34.7	4.3
Effective Tax Rate (%)	20.3	19.6	17.3	17.3

Balance Sheet (US$ m)

FY Dec	2018A	2019A	2020F	2021F
Net Fixed Assets	5,300	5,406	5,859	6,335
Invts in Assocs & JVs	352	347	347	347
Other LT Assets	4,186	4,822	4,822	4,822
Cash & ST Invts	579	593	582	754
Inventory	2,022	2,903	3,469	3,641
Debtors	1,493	1,555	1,812	1,918
Other Current Assets	1,366	1,656	1,800	1,963
Total Assets	15,298	17,282	18,691	19,779
ST Debt	819	905	905	905
Creditors	453	720	565	556
Other Current Liab	2,056	2,244	2,663	2,790
LT Debt	2,259	2,187	2,187	2,187
Other LT Liabilities	1,293	1,774	1,746	1,720
Shareholder's Equity	7,746	8,684	9,858	10,853
Minority Interests	672	768	768	768
Total Cap. & Liab.	15,298	17,282	18,691	19,779
Non-Cash Wkg. Cap	2,372	3,150	3,854	4,175
Net Cash/(Debt)	(2,499)	(2,499)	(2,510)	(2,338)

Cash Flow Statement (US$ m)

FY Dec	2018A	2019A	2020F	2021F
Pre-Tax Profit	1,411	2,052	2,190	2,254
Dep. & Amort.	437	451	147	124
Tax Paid	(234)	(233)	(378)	(389)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	227	136	(263)	(250)
Chg in Wkg.Cap.	(570)	(930)	(704)	(321)
Other Operating CF	(16)	(13)	0	0
Net Operating CF	1,255	1,463	992	1,418
Capital Exp.(net)	(811)	(680)	(600)	(600)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(406)	(116)	(28)	(26)
Net Investing CF	(1,217)	(796)	(628)	(626)
Div Paid	(505)	(375)	(375)	(619)
Chg in Gross Debt	8,658	2,457	0	0
Capital Issues	1	(132)	0	0
Other Financing CF	(8,944)	(2,543)	0	0
Net Financing CF	(790)	(593)	(375)	(619)
Currency Adjustments	0	0	0	0
Chg in Cash	(752)	74	(11)	172

Rates & Ratio

FY Dec	2018A	2019A	2020F	2021F
Gross Margins (%)	19.9	20.3	20.5	19.7
Opg Profit Margin (%)	7.2	8.4	7.9	7.8
Net Profit Margin (%)	4.2	4.8	5.4	5.4
ROAE (%)	12.4	14.0	16.7	15.6
ROA (%)	6.2	7.1	8.6	8.4
ROCE (%)	10.3	12.0	12.6	12.1
Div Payout Ratio (%)	53.6	32.6	40.0	40.0
Net Interest Cover (x)	15.8	15.6	24.1	24.8
Asset Turnover (x)	1.5	1.5	1.6	1.6
Debtors Turn (avg days)	40.8	55.2	55.2	55.2
Creditors Turn (avg days)	19.7	20.4	20.4	20.4
Inventory Turn (avg days)	40.8	55.2	55.2	55.2
Current Ratio (x)	1.6	1.7	1.9	1.9
Quick Ratio (x)	0.6	0.6	0.6	0.6
Net Debt/Equity (X)	0.3	0.3	0.2	0.2
Capex to Debt (%)	26.3	22.0	19.4	19.4
Z-Score (X)	N/A	N/A	N/A	N/A
N.Cash/(Debt)PS (US$)	(1.31)	(1.31)	(1.31)	(1.22)
Opg CFPS (US$)	0.12	0.16	0.11	0.12
Free CFPS (US$)	0.03	0.05	0.03	0.06

Interim Income Statement (US$ m)

FY Dec	1H2018	2H2018	1H2019	2H2019
Turnover	11,169	11,436	11,127	12,976
Cost of Goods Sold	(8,905)	(9,198)	(8,967)	(10,242)
Gross Profit	**2,264**	**2,238**	**2,160**	**2,734**
Other Oper. (Exp)/Inc	(1,411)	(1,460)	(1,398)	(1,472)
Operating Profit	**853**	**778**	**762**	**1,262**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	39	(5)	(7)	73
Net Interest (Exp)/Inc	(55)	(60)	(70)	(74)
Exceptional Gain/(Loss)	(44)	(60)	102	(332)
Pre-tax Profit	**793**	**653**	**787**	**929**
Tax	(176)	(117)	(120)	(216)
Minority Interest	(103)	(107)	(101)	(129)
Net Profit	**514**	**429**	**566**	**584**
Net profit bef Except.	558	489	464	917
Sales Gth (%)	4.8	(2.4)	(0.4)	13.5
Opg Profit Gth (%)	(5.8)	(18.4)	(10.7)	62.2
Net Profit Gth (%)	(7.7)	(30.0)	10.1	36.1
Gross Margins (%)	20.3	19.6	19.4	21.1
Opg Profit Margins (%)	7.6	6.8	6.8	9.7
Net Profit Margins (%)	4.6	3.8	5.1	4.5

Segmental Breakdown (US$ m) / Key Assumptions

FY Dec	2018A	2019A	2020F	2021F
Revenues (US$ m)				
China	7,328	8,756	11,529	11,530
US	13,182	13,159	15,045	15,847
Others	2,095	2,188	2,285	2,616
	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A
Total	22,605	24,103	28,858	29,993
Segment result (US$ m)				
China	922	957	1,094	1,040
US	615	932	985	1,099
Others	113	142	191	195
Total	1,650	2,031	2,270	2,334
Segment result Margins (%)				
China	12.6	10.9	9.5	9.0
US	4.7	7.1	6.5	6.9
Others	5.4	6.5	8.4	7.5
Total	7.3	8.4	7.9	7.8

Source: Company, DBS HK

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*

Completed Date: 13 May 2020 12:29:38 (HKT)
Dissemination Date: 13 May 2020 19:57:33 (HKT)

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

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