

## WH Group (288 HK)

### 1Q19 net profit fell but earnings outlook still positive

- ❖ **Maintain Buy** We revised up FY19/20/21E net profit estimates by 18%/16%/14% mainly to factor in higher US hog production profit but lower China packaged meat margin. Given that number of sows in China is decreasing (down 22% YoY in Mar 19) and it takes around 18 months to increase hog supply, US hog production business will benefit from China's insufficient supply (China pork production volume is five times of US in 2018E). We expect US hog price will go up in FY19E and FY20E. Our SOTP-based TP is lifted from HK\$9.00 to HK\$11.10, representing 15.0x FY19E P/E. We raised US & Europe business' valuation multiple from 10.3x to 14.0x on better growth outlook, but lower China business' valuation from 19.0x to 16.8x on lower earnings.
- ❖ **1Q19 net profit fell 21%** OP decreased 10% mainly because of heavy loss in US hog production and packaged meat margin decline in China. The decline of net profit was greater than OP, primarily due to increase of financing cost in US. Management expects the finance cost will become lower for rest of FY19E as US market profitability will improve.
- ❖ **US hog production to make good profit in FY19E** US hog production suffered loss of US\$157mn (~US\$36 loss/head) in 1Q19 due to 19% YoY drop of hog price. US hog price began to rally in Mar driven by China's hog price increase and saw 44% YoY growth in 2Q19-to-date (from 1-26 Apr). Management targets a good profit of US\$25-40+/head for the rest of FY19E.
- ❖ **US packaged meat margin beat** Packaged meat profit jumped 32% led by 3.7pt OPM expansion to 13.1% due to better product mix and fall of hog price. Though hog price is expected to increase in rest of FY19E, management revealed there are price adjustment mechanism terms in supply contracts to raise ASP.
- ❖ **China packaged meat margin below** Packaged meat revenue dropped 2% due to RMB depreciation. OP fell 14% due to increase of raw materials prices and wages and marketing expenses and OPM fell 2.4pt to 16.9%. Management targets to keep FY19E OPM at 1Q19 level by (1) raising ASP by 2.5% for 50% of product portfolio in Apr and further adjust ASP later in FY19E; (2) benefiting from VAT cut; (3) use of imported meat to lower cost.
- ❖ **China fresh pork margin above** OP soared 105% to US\$80m in 1Q19 as the Company continued to gain market share (hog processed +20.7% YoY) and took advantage from low hog price amid ASF outbreak. OP/head of fresh pork rose from RMB63 in 1Q18 to RMB114 in 1Q19, which was higher than the RMB86 in 4Q18. However, management expect OP/head will be lower in rest of FY19E as hog price will go up.

#### Earnings summary

| (YE Dec)                  | FY17A  | FY18A  | FY19E  | FY20E  | FY21E  |
|---------------------------|--------|--------|--------|--------|--------|
| Revenue (US\$ mn)         | 22,379 | 22,605 | 24,857 | 26,899 | 27,100 |
| Net profit (US\$ mn)      | 1,127  | 1,047  | 1,368  | 1,467  | 1,510  |
| Adj. net profit (US\$ mn) | 1,090  | 1,046  | 1,368  | 1,467  | 1,510  |
| Adj. EPS CHG (US\$)       | 0.075  | 0.071  | 0.093  | 0.100  | 0.103  |
| Adj. EPS CHG (%)          | 1.0    | (4.9)  | 30.8   | 7.2    | 2.9    |
| Adj. P/E (x)              | 15.1   | 15.8   | 12.1   | 11.3   | 11.0   |
| P/B (x)                   | 2.2    | 2.1    | 1.9    | 1.7    | 1.6    |
| Yield (%)                 | 3.1    | 2.3    | 3.7    | 4.0    | 4.1    |
| ROAE (%)                  | 15.8   | 13.8   | 16.6   | 16.0   | 15.1   |
| Net gearing (%)           | 22     | 30     | 20     | 14     | 8      |

Source: Company, Bloomberg estimates

### Buy (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | HK\$11.10 |
| (Previous TP) | HK\$9.00) |
| Upside        | +26%      |
| Current Price | HK\$8.82  |

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#### Staples Sector

|                          |           |
|--------------------------|-----------|
| Mkt. Cap. (HK\$mn)       | 129,528   |
| Avg. 3mths t/o (HK\$mn)  | 562.7     |
| 52W High/Low (HK\$)      | 9.95/5.11 |
| Total Issued Shares (mn) | 14,686    |

Source: Bloomberg

#### Shareholding Structure

|            |        |
|------------|--------|
| Rise Grand | 35.94% |
|------------|--------|

Source: Bloomberg

#### Share performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 5.0%     | 2.1%     |
| 3-mth | 29.3%    | 20.7%    |
| 6-mth | 57.5%    | 37.0%    |

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

Auditor: EY

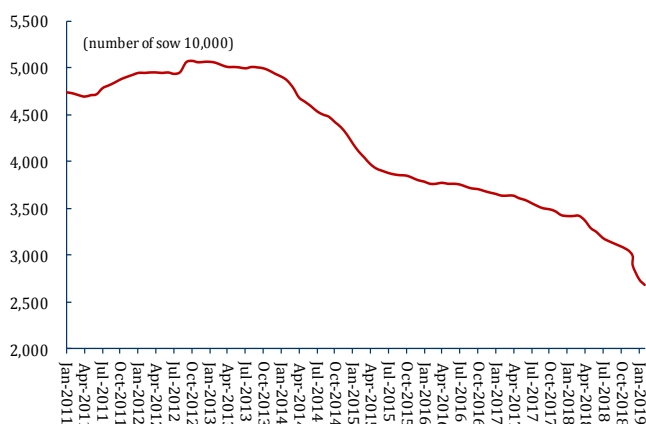
Web-site: [www.wh-group.com](http://www.wh-group.com)

Figure 1: 1Q19 results review

| Y/E Dec (US\$m)                 | 1Q19         | 1Q18         | % change    |
|---------------------------------|--------------|--------------|-------------|
| <b>China revenue</b>            | <b>1,764</b> | <b>1,878</b> | <b>-6%</b>  |
| Packaged meat                   | 860          | 875          | -2%         |
| Fresh pork                      | 833          | 937          | -11%        |
| Hog production                  | 2            | 2            | 0%          |
| Others                          | 69           | 64           | 8%          |
| <b>US revenue</b>               | <b>3,093</b> | <b>3,292</b> | <b>-6%</b>  |
| Packaged meat                   | 1,816        | 1,912        | -5%         |
| Fresh pork                      | 1,145        | 1,197        | -4%         |
| Hog production                  | 132          | 183          | -28%        |
| <b>Europe revenue</b>           | <b>425</b>   | <b>450</b>   | <b>-6%</b>  |
| Packaged meat                   | 190          | 193          | -2%         |
| Fresh pork                      | 151          | 171          | -12%        |
| Hog production                  | 12           | 15           | -20%        |
| Others                          | 72           | 71           | 1%          |
| <b>China OP</b>                 | <b>223</b>   | <b>214</b>   | <b>4%</b>   |
| Packaged meat                   | 145          | 169          | -14%        |
| Fresh pork                      | 80           | 39           | 105%        |
| Hog production                  | (5)          | 2            | -350%       |
| Others                          | 3            | 4            | -25%        |
| <b>US OP</b>                    | <b>110</b>   | <b>141</b>   | <b>-22%</b> |
| Packaged meat                   | 237          | 180          | 32%         |
| Fresh pork                      | 68           | 11           | 518%        |
| Hog production                  | (157)        | (21)         | 648%        |
| Others                          | (38)         | (29)         | 31%         |
| <b>Europe OP</b>                | <b>8</b>     | <b>24</b>    | <b>-67%</b> |
| Packaged meat                   | 15           | 13           | 15%         |
| Fresh pork                      | 0            | 6            | -100%       |
| Hog production                  | (6)          | 6            | -200%       |
| Others                          | (1)          | (1)          | 0%          |
| <b>Packaged meat margin (%)</b> |              |              |             |
| China                           | 16.9         | 19.3         | (2.5)       |
| US                              | 13.1         | 9.4          | 3.6         |
| Europe                          | 7.9          | 6.7          | 1.2         |

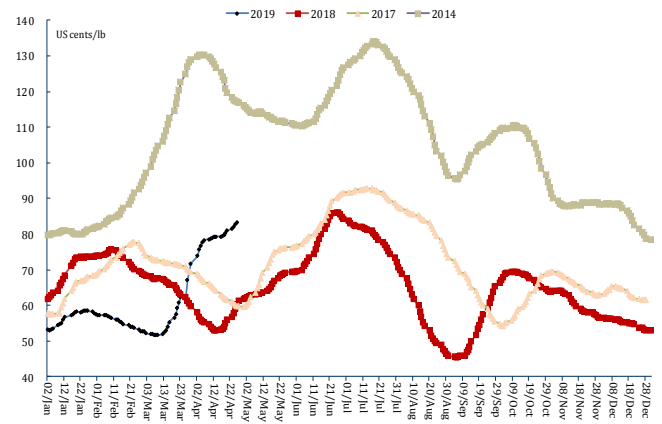
Source: Company data, CMBIS

Figure 2: China's sow balance fell 15.6% YoY to 28.82mn heads in Jan 2019



Source: Wind

Figure 3: CME US lean hog index



Source: Bloomberg, CMBIS

**Figure 4: SOTP-based valuation**

| Segment                | FY19 P/E | FY19 net profit (US\$m) | Valuation (US\$m) | Remarks   |
|------------------------|----------|-------------------------|-------------------|---|
| US & Europe businesses | 14.0     | 864.2                   | 12,099            | Tyson Foods historical average forward P/E plus 1sd     |
| China business         | 17.6     | 503.9                   | 8,869             | 30% discount on HK listed peers' average 25.1x FY19 P/E |
| <b>Total</b>           |          |                         | <b>20,968</b>     |   |
| Value per share (HK\$) |          |                         | 11.1              |   |
| Implied FY19 P/E       |          |                         | 15.3              |   |

Source: Company data, Bloomberg, CMBIS estimates

**Figure 5: Peers valuation table**

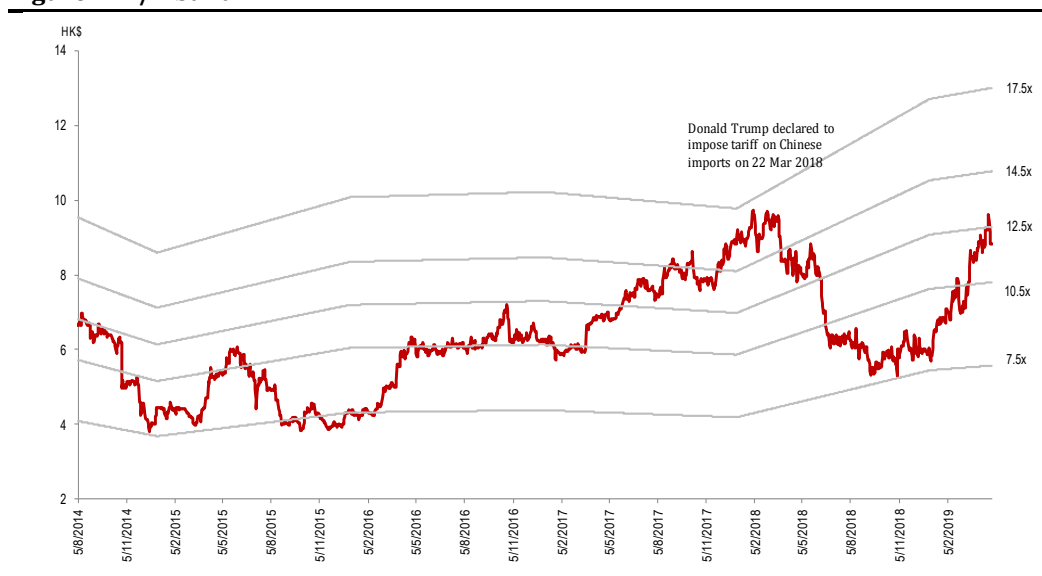
| Staples             | Stock code | Rating | Price (HK\$) | TP   | Upside/downside (%) | Mkt cap (HK\$m) | Y/E    | P/E (x)     |             |             | EPS growth (%) |           |           | Revenue growth (%) |          |          | Yield (%)  | P/B (x)    |     |
|---------------------|------------|--------|--------------|------|---------------------|-----------------|--------|-------------|-------------|-------------|----------------|-----------|-----------|--------------------|----------|----------|------------|------------|-----|
|                     |            |        |              |      |                     |                 |        | FY1         | FY2         | FY3         | FY1            | FY2       | FY3       | FY1                | FY2      | FY3      |            | FY1        | FY1 |
| WH                  | 288        | HK Buy | 8.82         | 11.1 | 26.0                | 129,528         | Dec-17 | 15.8        | 14.4        | 13.1        | (5)            | 11        | 9         | 1                  | 10       | 8        | 2.3        | 2.1        |     |
| Want Want #         | 151        | HK Buy | 6.24         | 7.4  | 18.6                | 77,684          | Mar-18 | 19.5        | 18.4        | 17.2        | 11             | 9         | 8         | 4                  | 5        | 6        | 2.5        | 4.3        |     |
| CR Beer             | 291        | HK NR  | 34.80        | na   | na                  | 112,897         | Dec-17 | 100.8       | 48.7        | 34.4        | (17)           | 104       | 42        | 7                  | 7        | 6        | 0.6        | 5.1        |     |
| Tsingdao Beer       | 168        | HK NR  | 46.65        | na   | na                  | 68,739          | Dec-17 | 36.6        | 32.5        | 29.6        | 17             | 13        | 10        | 9                  | 5        | 4        | 1.2        | 3.0        |     |
| Mengniu             | 2319       | HK NR  | 29.20        | na   | na                  | 114,720         | Dec-17 | 32.2        | 25.1        | 20.7        | 48             | 28        | 21        | 15                 | 12       | 11       | 0.7        | 3.9        |     |
| Hengan              | 1044       | HK NR  | 70.40        | na   | na                  | 83,753          | Dec-17 | 19.2        | 16.9        | 15.7        | 0              | 13        | 8         | 13                 | 9        | 6        | 3.5        | 4.4        |     |
| Vinda               | 3331       | HK NR  | 15.50        | na   | na                  | 18,522          | Dec-17 | 28.5        | 22.5        | 18.7        | 1              | 28        | 21        | 10                 | 10       | 9        | 1.1        | 2.1        |     |
| Ting Yi             | 322        | HK NR  | 12.90        | na   | na                  | 72,512          | Dec-17 | 25.3        | 22.7        | 21.2        | 35             | 11        | 7         | 3                  | 5        | 5        | 2.2        | 3.2        |     |
| Uni-President China | 220        | HK NR  | 7.15         | na   | na                  | 30,883          | Dec-17 | 25.7        | 22.7        | 20.3        | 17             | 14        | 12        | 5                  | 5        | 5        | 2.8        | 2.0        |     |
| Sun Art             | 6808       | HK NR  | 6.96         | na   | na                  | 66,396          | Dec-17 | 22.4        | 21.6        | 20.0        | (7)            | 2         | 8         | (3)                | 3        | 4        | 2.0        | 2.4        |     |
| Vitasoy             | 345        | HK NR  | 39.65        | na   | na                  | 42,092          | Mar-18 | 54.6        | 47.0        | 38.1        | 31             | 16        | 23        | 21                 | 12       | 19       | 1.0        | 12.6       |     |
| H&H International   | 1112       | HK NR  | 48.20        | na   | na                  | 30,867          | Dec-17 | 31.4        | 18.3        | 15.0        | (11)           | 72        | 22        | 25                 | 17       | 14       | 0.8        | 5.8        |     |
| Dali Food           | 3799       | HK NR  | 5.55         | na   | na                  | 76,002          | Dec-17 | 17.8        | 16.0        | 14.5        | 8              | 10        | 10        | 5                  | 8        | 8        | 3.4        | 4.2        |     |
| Zhou Hei Ya         | 1458       | HK NR  | 4.18         | na   | na                  | 9,962           | Dec-17 | 15.7        | 13.2        | 12.2        | (28)           | 18        | 8         | (1)                | 11       | 12       | 2.1        | 2.1        |     |
| <b>Average</b>      |            |        |              |      |                     |                 |        | <b>31.8</b> | <b>24.3</b> | <b>20.8</b> | <b>7</b>       | <b>25</b> | <b>15</b> | <b>8</b>           | <b>9</b> | <b>8</b> | <b>1.9</b> | <b>4.1</b> |     |
| <b>Ex-WH</b>        |            |        |              |      |                     |                 |        | <b>33.0</b> | <b>25.1</b> | <b>21.4</b> | <b>8</b>       | <b>26</b> | <b>15</b> | <b>9</b>           | <b>8</b> | <b>8</b> | <b>1.8</b> | <b>4.2</b> |     |

Source: Company data, Bloomberg, CMBIS estimates

**Figure 62: Our FY19-21E adj. net profit estimates are in line with consensus**

| US\$ mn, Dec-YE  | Our estimates |        |        | Consensus |        |        | Difference |         |         |
|------------------|---------------|--------|--------|-----------|--------|--------|------------|---------|---------|
|                  | FY19E         | FY20E  | FY21E  | FY19E     | FY20E  | FY21E  | FY19E      | FY20E   | FY21E   |
| Revenue          | 24,857        | 26,899 | 27,100 | 23,946    | 25,368 | 26,395 | 3.8%       | 6.0%    | 2.7%    |
| Gross profit     | 4,987         | 5,447  | 5,564  | 4,847     | 5,111  | 5,398  | 2.9%       | 6.6%    | 3.1%    |
| Operating profit | 2,101         | 2,209  | 2,299  | 1,862     | 1,999  | 2,116  | 12.8%      | 10.5%   | 8.7%    |
| Adj. net profit  | 1,368         | 1,467  | 1,510  | 1,190     | 1,298  | 1,350  | 15.0%      | 13.0%   | 11.8%   |
| Gross margin     | 20.1%         | 20.3%  | 20.5%  | 20.2%     | 20.1%  | 20.4%  | +0.1ppt    | +0.2ppt | +0.1ppt |
| Operating margin | 8.5%          | 8.2%   | 8.5%   | 7.4%      | 7.4%   | 7.7%   | +1.1ppt    | +0.8ppt | +0.8ppt |
| Adj. net margin  | 5.5%          | 5.5%   | 5.6%   | 4.7%      | 4.7%   | 4.9%   | +0.8ppt    | +0.8ppt | +0.7ppt |

Source: Bloomberg estimates, CMBIS estimates

**Figure 7: P/E band**

Source: Company data, Bloomberg, CMBIS estimates

**Figure 8: Major assumptions for US market**

| (US\$mn)                      | FY17          | FY18          | FY19E         | FY20E         | FY21E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Packaged meat segment</b>  |               |               |               |               |               |
| External revenue              | 7,807         | 7,773         | 7,844         | 8,200         | 8,489         |
| <i>growth %</i>               | 9.6%          | -0.4%         | 0.9%          | 4.5%          | 3.5%          |
| Sales volume (mn metric tons) | 1.45          | 1.46          | 1.45          | 1.48          | 1.52          |
| <i>growth %</i>               | 3.3%          | 0.9%          | -1.0%         | 2.5%          | 2.5%          |
| ASP (US\$/ton)                | 5,395         | 5,324         | 5,430         | 5,539         | 5,594         |
| <i>growth %</i>               | 6.1%          | -1.3%         | 2.0%          | 2.0%          | 1.0%          |
| OP margin                     | 9.3%          | 10.1%         | 10.5%         | 10.0%         | 11.5%         |
| <b>Fresh pork segment</b>     |               |               |               |               |               |
| External revenue              | 4,961         | 4,790         | 5,333         | 5,656         | 5,074         |
| <i>growth %</i>               | 11.7%         | -3.4%         | 11.3%         | 6.1%          | -10.3%        |
| Hog processed (mn heads)      | 34.43         | 33.95         | 34.96         | 35.31         | 34.61         |
| <i>growth %</i>               | 8.0%          | -1.4%         | 3.0%          | 1.0%          | -2.0%         |
| OP/head (US\$)                | 12.6          | 1.4           | 5.5           | 5.0           | 5.0           |
| <b>Hog production segment</b> |               |               |               |               |               |
| External revenue              | 510           | 619           | 656           | 690           | 642           |
| <i>growth %</i>               | -35.8%        | 21.4%         | 6.0%          | 5.1%          | -6.9%         |
| Hog produced (mn heads)       | 16.38         | 16.47         | 16.63         | 16.97         | 16.63         |
| <i>growth %</i>               | 4.8%          | 0.5%          | 1.0%          | 2.0%          | -2.0%         |
| OP/head (US\$)                | (4.2)         | (8.9)         | 12.5          | 20.0          | 5.0           |
| <b>Total external revenue</b> |               |               |               |               |               |
| <b>Total external revenue</b> | <b>13,278</b> | <b>13,182</b> | <b>13,834</b> | <b>14,546</b> | <b>14,204</b> |
| Packaged meat                 | 7,807         | 7,773         | 7,844         | 8,200         | 8,489         |
| Fresh pork                    | 4,961         | 4,790         | 5,333         | 5,656         | 5,074         |
| Hog production                | 510           | 619           | 656           | 690           | 642           |
| <b>Segment profit</b>         | <b>923</b>    | <b>615</b>    | <b>1,139</b>  | <b>1,243</b>  | <b>1,136</b>  |
| <i>growth %</i>               | 3.9%          | -33.4%        | 85.2%         | 9.1%          | -8.6%         |
| Packaged meat                 | 726           | 785           | 824           | 821           | 977           |
| Fresh pork                    | 433           | 48            | 192           | 177           | 173           |
| Hog production                | (68)          | (147)         | 208           | 339           | 83            |
| Others                        | (168)         | (71)          | (85)          | (94)          | (97)          |
| <b>Segment profit margin</b>  | <b>7.0%</b>   | <b>4.7%</b>   | <b>8.2%</b>   | <b>8.5%</b>   | <b>8.0%</b>   |

Source: Company data, CMBIS estimates

**Figure 9: Major assumptions for China market**

| (US\$mn)                      | FY17         | FY18         | FY19E        | FY20E        | FY21E        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Packaged meat segment</b>  |              |              |              |              |              |
| External revenue              | 3,312        | 3,458        | 3,590        | 3,753        | 3,943        |
| growth %                      | -1.0%        | 4.4%         | 3.8%         | 4.5%         | 5.1%         |
| Sales volume (mn metric tons) | 1.58         | 1.60         | 1.62         | 1.64         | 1.69         |
| growth %                      | -1.4%        | 1.1%         | 1.0%         | 1.5%         | 3.0%         |
| ASP (Rmb/ton)                 | 14,126       | 14,303       | 14,875       | 15,321       | 15,627       |
| growth %                      | 2.2%         | 1.3%         | 4.0%         | 3.0%         | 2.0%         |
| OP margin %                   | 20.9%        | 20.6%        | 15.0%        | 14.5%        | 18.0%        |
| <b>Fresh pork segment</b>     |              |              |              |              |              |
| External revenue              | 3,888        | 3,584        | 4,442        | 5,271        | 5,182        |
| growth %                      | -7.3%        | -7.8%        | 24.0%        | 18.7%        | -1.7%        |
| Hog processed (mn heads)      | 14.27        | 16.31        | 18.10        | 19.00        | 21.47        |
| growth %                      | 15.5%        | 14.3%        | 11.0%        | 5.0%         | 13.0%        |
| OP/head (Rmb)                 | 48.8         | 72.7         | 65.0         | 50.0         | 50.0         |
| <b>Hog production segment</b> |              |              |              |              |              |
| External revenue              | 11           | 8            | 11           | 15           | 14           |
| growth %                      | -21.4%       | -27.3%       | 42.4%        | 29.3%        | -3.2%        |
| Hog produced (mn heads)       | 0.31         | 0.29         | 0.30         | 0.31         | 0.31         |
| growth %                      | 0.0%         | -6.1%        | 3.0%         | 3.0%         | 3.0%         |
| OP/head (Rmb)                 | 498.0        | 113.0        | 250.0        | 450.0        | 150.0        |
| <b>Total external revenue</b> |              |              |              |              |              |
| <b>Total external revenue</b> | <b>7,446</b> | <b>7,328</b> | <b>8,346</b> | <b>9,371</b> | <b>9,504</b> |
| Packaged meat                 | 3,312        | 3,458        | 3,590        | 3,753        | 3,943        |
| Fresh pork                    | 3,888        | 3,584        | 4,442        | 5,271        | 5,182        |
| Hog production                | 11           | 8            | 11           | 15           | 14           |
| Others                        | 235          | 278          | 302          | 332          | 366          |
| <b>Segment profit</b>         | <b>525</b>   | <b>922</b>   | <b>754</b>   | <b>738</b>   | <b>911</b>   |
| growth %                      | -36.2%       | 75.6%        | -18.3%       | -2.1%        | 23.5%        |
| Packaged meat                 | 692          | 712          | 538          | 544          | 710          |
| Fresh pork                    | 103          | 179          | 176          | 142          | 160          |
| Hog production                | 23           | 5            | 11           | 21           | 7            |
| Others                        | (293)        | 26           | 28           | 31           | 34           |
| <b>Segment profit margin</b>  | <b>7.1%</b>  | <b>12.6%</b> | <b>9.0%</b>  | <b>7.9%</b>  | <b>9.6%</b>  |

Source: Company data, CMBIS estimates

**Figure 10: Major assumptions for Europe market**

| <b>(US\$m)</b>                | <b>FY17</b>  | <b>FY18</b>   | <b>FY19E</b> | <b>FY20E</b> | <b>FY21E</b> |
|-------------------------------|--------------|---------------|--------------|--------------|--------------|
| <b>Packaged meat segment</b>  |              |               |              |              |              |
| External revenue              | 658          | 916           | 1,109        | 1,280        | 1,478        |
| growth %                      | 8.4%         | 39.2%         | 21.1%        | 15.4%        | 15.5%        |
| Sales volume (mn metric tons) | 0.24         | 0.29          | 0.32         | 0.36         | 0.40         |
| growth %                      | 11.6%        | 18.0%         | 13.0%        | 12.0%        | 10.0%        |
| ASP (EUR/ton)                 | 3,105        | 3,818         | 4,009        | 4,289        | 4,504        |
| growth %                      | -0.5%        | 23.0%         | 5.0%         | 7.0%         | 5.0%         |
| OP margin                     | 2.6%         | 5.5%          | 6.7%         | 6.2%         | 7.5%         |
| <b>Fresh pork segment</b>     |              |               |              |              |              |
| External revenue              | 677          | 762           | 1,086        | 1,173        | 1,316        |
| growth %                      | 24.7%        | 12.6%         | 42.5%        | 8.0%         | 12.2%        |
| Hog processed (mn heads)      | 5.09         | 5.83          | 7.28         | 8.01         | 8.81         |
| growth %                      | 0.6%         | 14.6%         | 25.0%        | 10.0%        | 10.0%        |
| OP/head (EUR)                 | 2.5          | 3.9           | 3.5          | 3.5          | 4.0          |
| <b>Hog production segment</b> |              |               |              |              |              |
| External revenue              | 51           | 61            | 67           | 70           | 68           |
| growth %                      | 41.7%        | 19.6%         | 9.6%         | 4.1%         | -2.1%        |
| Hog produced (mn heads)       | 3.53         | 4.17          | 4.30         | 4.42         | 4.56         |
| growth %                      | 8.9%         | 18.0%         | 3.0%         | 3.0%         | 3.0%         |
| OP/head (EUR)                 | 32.4         | 8.2           | 10.0         | 13.0         | 10.0         |
| <b>Total external revenue</b> | <b>1,655</b> | <b>2,095</b>  | <b>2,677</b> | <b>2,982</b> | <b>3,391</b> |
| Packaged meat                 | 658          | 916           | 1,109        | 1,280        | 1,478        |
| Fresh pork                    | 677          | 762           | 1,086        | 1,173        | 1,316        |
| Hog production                | 51           | 61            | 67           | 70           | 68           |
| Others                        | 269          | 356           | 415          | 459          | 528          |
| <b>Segment profit</b>         | <b>135</b>   | <b>113</b>    | <b>153</b>   | <b>174</b>   | <b>198</b>   |
| <b>growth %</b>               | <b>75.3%</b> | <b>-16.3%</b> | <b>35.8%</b> | <b>13.5%</b> | <b>13.5%</b> |
| Packaged meat                 | 17           | 50            | 75           | 80           | 110          |
| Fresh pork                    | 11           | 19            | 22           | 23           | 29           |
| Hog production                | 101          | 29            | 37           | 48           | 38           |
| Others                        | 6            | 15            | 20           | 24           | 21           |
| <b>Segment profit margin</b>  | <b>8.2%</b>  | <b>5.4%</b>   | <b>5.7%</b>  | <b>5.8%</b>  | <b>5.8%</b>  |

Source: Company data, CMBIS estimates

## Financial statements

### Income statement

| Year-end Dec 31 (US\$mn)             | FY17          | FY18          | FY19E         | FY20E         | FY21E         |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                       | <b>22,379</b> | <b>22,605</b> | <b>24,857</b> | <b>26,899</b> | <b>27,100</b> |
| Cost of sales                        | (17,766)      | (18,103)      | (19,869)      | (21,452)      | (21,536)      |
| Gross profit                         | 4,613         | 4,502         | 4,987         | 5,447         | 5,564         |
| Other income and gains               | 113           | 98            | 91            | 90            | 95            |
| SG&A expenses                        | (2,753)       | (2,871)       | (2,977)       | (3,328)       | (3,359)       |
| Operating profit                     | 1,973         | 1,729         | 2,101         | 2,209         | 2,299         |
| Finance cost                         | (198)         | (115)         | (117)         | (103)         | (102)         |
| Other expenses                       | (326)         | (74)          | (50)          | (50)          | (50)          |
| Other gains/(losses)                 | 7             | (21)          | 0             | 0             | 0             |
| Share of profit/(loss) of associates | 8             | 8             | 8             | 9             | 9             |
| Share of profit/(loss) of JV         | 14            | 23            | 30            | 33            | 36            |
| Profit before tax                    | 1,478         | 1,550         | 1,972         | 2,098         | 2,192         |
| Income tax expense                   | (165)         | (293)         | (423)         | (452)         | (468)         |
| Non-controlling interests            | (186)         | (210)         | (181)         | (179)         | (215)         |
| <b>Net profit</b>                    | <b>1,127</b>  | <b>1,047</b>  | <b>1,368</b>  | <b>1,467</b>  | <b>1,510</b>  |
| <b>Adj net profit</b>                | <b>1,090</b>  | <b>1,046</b>  | <b>1,368</b>  | <b>1,467</b>  | <b>1,510</b>  |
| <b>Adj EPS (US\$)</b>                | <b>0.075</b>  | <b>0.071</b>  | <b>0.093</b>  | <b>0.100</b>  | <b>0.103</b>  |

Source: Company data, CMBIS estimates

**Balance sheet**

| <b>Year-end Dec 31 (US\$mn)</b> | <b>FY17</b>   | <b>FY18</b>   | <b>FY19E</b>  | <b>FY20E</b>  | <b>FY21E</b>  |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Fixed assets</b>             | <b>9,592</b>  | <b>9,838</b>  | <b>10,208</b> | <b>10,548</b> | <b>10,862</b> |
| PPE                             | 5,037         | 5,300         | 5,644         | 5,956         | 6,238         |
| Prepaid lease payments          | 197           | 175           | 171           | 167           | 163           |
| Biological assets               | 181           | 147           | 147           | 147           | 147           |
| Goodwill and intangible assets  | 3,580         | 3,581         | 3,572         | 3,563         | 3,554         |
| Investment in JV/associates     | 295           | 352           | 390           | 432           | 477           |
| Others                          | 239           | 222           | 222           | 222           | 222           |
| Pledged bank deposits           | 5             | 4             | 4             | 4             | 4             |
| Deferred tax assets             | 58            | 57            | 57            | 57            | 57            |
| <b>Current assets</b>           | <b>5,666</b>  | <b>5,460</b>  | <b>6,274</b>  | <b>6,849</b>  | <b>7,112</b>  |
| Biological assets               | 990           | 947           | 947           | 947           | 947           |
| Inventories                     | 1,905         | 2,022         | 2,264         | 2,444         | 2,454         |
| Trade receivables               | 989           | 1,135         | 1,248         | 1,351         | 1,361         |
| Prepayments                     | 222           | 358           | 394           | 426           | 429           |
| Others                          | 120           | 419           | 419           | 419           | 419           |
| Pledged bank deposits           | 69            | 54            | 54            | 54            | 54            |
| Cash and cash equivalents       | 1,371         | 525           | 949           | 1,209         | 1,448         |
| <b>Total assets</b>             | <b>15,258</b> | <b>15,298</b> | <b>16,482</b> | <b>17,397</b> | <b>17,974</b> |
| <b>Current liabilities</b>      | <b>3,499</b>  | <b>3,328</b>  | <b>3,544</b>  | <b>3,757</b>  | <b>3,770</b>  |
| Trade payables                  | 1,076         | 977           | 1,072         | 1,158         | 1,162         |
| Other payables                  | 1,472         | 1,430         | 1,570         | 1,695         | 1,701         |
| Bank borrowings and overdraft   | 901           | 860           | 860           | 860           | 860           |
| Others                          | 50            | 61            | 42            | 45            | 47            |
| <b>Non-current liabilities</b>  | <b>3,537</b>  | <b>3,552</b>  | <b>3,418</b>  | <b>3,278</b>  | <b>2,984</b>  |
| Bank borrowings                 | 2,297         | 2,259         | 2,059         | 1,859         | 1,559         |
| Others                          | 601           | 695           | 761           | 821           | 827           |
| Deferred tax liabilities        | 639           | 598           | 598           | 598           | 598           |
| <b>Total liabilities</b>        | <b>7,036</b>  | <b>6,880</b>  | <b>6,962</b>  | <b>7,035</b>  | <b>6,754</b>  |
| <b>Equity</b>                   | <b>8,222</b>  | <b>8,418</b>  | <b>9,520</b>  | <b>10,362</b> | <b>11,221</b> |
| Shareholders' equity            | 7,445         | 7,746         | 8,739         | 9,590         | 10,440        |
| Non-controlling interests       | 777           | 672           | 781           | 772           | 781           |

Source: Company data, CMBIS estimates



## Cash flow statement

| Year-end Dec 31 (US\$m)                         | FY17         | FY18           | FY19E        | FY20E          | FY21E          |
|---|--------------|----------------|--------------|----------------|----------------|
| Profit before tax                               | 1,501        | 1,411          | 1,972        | 2,098          | 2,192          |
| Share of (profit)/loss of JV and associates     | (22)         | (35)           | (38)         | (42)           | (45)           |
| Depreciation and amortization                   | 394          | 441            | 469          | 501            | 531            |
| Net finance cost                                | 186          | 103            | 99           | 88             | 84             |
| Others  | 212          | 139            | (12)         | 17             | (39)           |
| Change of working capital                       | (321)        | (570)          | (156)        | (105)          | (12)           |
| Tax paid  | (438)        | (234)          | (423)        | (452)          | (468)          |
| <b>Operating cash flow</b>                      | <b>1,512</b> | <b>1,255</b>   | <b>1,911</b> | <b>2,106</b>   | <b>2,243</b>   |
| Capex   | (530)        | (811)          | (800)        | (800)          | (800)          |
| Interest received                               | 12           | 6              | 18           | 15             | 19             |
| Others  | (266)        | (412)          | (58)         | (57)           | (56)           |
| <b>Investing cash flow</b>                      | <b>(784)</b> | <b>(1,217)</b> | <b>(840)</b> | <b>(842)</b>   | <b>(837)</b>   |
| Change of borrowings                            | 64           | 4              | (200)        | (200)          | (300)          |
| Dividend paid                                   | (668)        | (795)          | (447)        | (804)          | (866)          |
| Proceeds from shares/securities issuance        | 11           | 9              | 0            | 0              | 0              |
| Others  | 2            | (8)            | 0            | 0              | 0              |
| <b>Financing cash flow</b>                      | <b>(591)</b> | <b>(790)</b>   | <b>(647)</b> | <b>(1,004)</b> | <b>(1,166)</b> |
| <b>Net change of cash flow</b>                  | <b>137</b>   | <b>(752)</b>   | <b>424</b>   | <b>260</b>     | <b>240</b>     |
| <b>Cash at the beginning of the year</b>        | <b>1,121</b> | <b>1,250</b>   | <b>498</b>   | <b>921</b>     | <b>1,181</b>   |
| <b>Forex effect</b>                             | <b>(9)</b>   | <b>0</b>       | <b>0</b>     | <b>0</b>       | <b>0</b>       |
| <b>Cash and cash equivalents at end of year</b> | <b>1,250</b> | <b>498</b>     | <b>921</b>   | <b>1,181</b>   | <b>1,421</b>   |
| - Bank balances and cash                        | 1,371        | 525            | 949          | 1,209          | 1,448          |
| - Bank overdrafts                               | (92)         | (41)           | (41)         | (41)           | (41)           |

Source: Company data, CMBIS estimates

## Financial ratios

| Year-end Dec 31                     | FY17 | FY18  | FY19E | FY20E | FY21E |
|-------------------------------------|------|-------|-------|-------|-------|
| <b>Sales mix (%)</b>                |      |       |       |       |       |
| Packaged meat                       | 52.6 | 53.7  | 50.5  | 49.2  | 51.3  |
| Fresh pork                          | 42.6 | 40.4  | 43.7  | 45.0  | 42.7  |
| Hog production                      | 2.6  | 3.0   | 3.0   | 2.9   | 2.7   |
| Others                              | 2.3  | 2.8   | 2.9   | 2.9   | 3.3   |
| <b>Profit &amp; loss ratios (%)</b> |      |       |       |       |       |
| Gross profit margin                 | 20.6 | 19.9  | 20.1  | 20.3  | 20.5  |
| Operating profit margin             | 8.8  | 7.6   | 8.5   | 8.2   | 8.5   |
| Net profit margin                   | 5.0  | 4.6   | 5.5   | 5.5   | 5.6   |
| Adj net profit margin               | 4.9  | 4.6   | 5.5   | 5.5   | 5.6   |
| <b>Growth (%)</b>                   |      |       |       |       |       |
| Revenue                             | 3.9  | 1.0   | 10.0  | 8.2   | 0.7   |
| Gross profit                        | 6.0  | -2.4  | 10.8  | 9.2   | 2.1   |
| Operating profit                    | 2.9  | -12.4 | 21.5  | 5.2   | 4.1   |
| Net profit                          | 11.1 | -7.1  | 30.7  | 7.2   | 2.9   |
| Adj net profit                      | 7.5  | -4.0  | 30.8  | 7.2   | 2.9   |
| <b>Balance sheet ratios</b>         |      |       |       |       |       |
| Current ratio (x)                   | 1.6  | 1.4   | 1.8   | 1.8   | 1.9   |
| Quick ratio (x)                     | 1.1  | 0.9   | 1.1   | 1.2   | 1.2   |
| A/C receivable turnover days        | 15   | 17    | 17    | 18    | 18    |
| A/C payable turnover days           | 20   | 21    | 19    | 19    | 20    |
| Inventory turnover days             | 37   | 40    | 39    | 40    | 42    |
| Asset turnover                      | 1.5  | 1.5   | 1.5   | 1.5   | 1.5   |
| Total assets/total equity           | 1.9  | 1.8   | 1.7   | 1.7   | 1.6   |
| Net gearing (%)                     | 22   | 30    | 20    | 14    | 8     |
| ROAE (%)                            | 15.8 | 13.8  | 16.6  | 16.0  | 15.1  |
| ROAA (%)                            | 8.8  | 8.2   | 9.7   | 9.7   | 9.8   |

Source: Company data, CMBIS estimates

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