

## Company Overview

Figure 1. WH Group revenue by segment

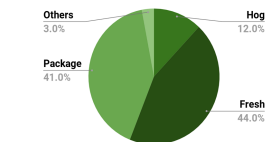
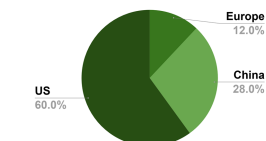


Figure 2. WH Group revenue by geography split



WH Group Limited ("WH Group") engages in the production, slaughtering, wholesale, and retail sale of fresh and frozen meat products in China, the United States, and selected European markets. It operates through Packaged Meats, Fresh Pork, Hog Production, and others segments. In addition, WH Group engages in hog farming activities.

(HKD B)	FY17A	FY18A	FY19E	FY20E
Revenue	173,795	175,550	187,632	201,333
Gr Rate (%)	3.9	1.0	6.9	7.3
EBITDA	19,500	13,870	18,235	19,804
Margin (%)	11.2	7.9	9.7	9.8
Net Income	8,789	7,323	9,374	10,762
Margin (%)	5.1	4.2	5.0	5.4
ROA (%)	9.2	5.5	9.6	9.6
ROE (%)	17.3	13.9	16.1	15.7
EV/EBITDA	9.3	7.4	8.2	7.5
P/E Ratio	14.5	12.0	12.9	16.1

## Investment Thesis

Figure 5. WH Group market leadership in pork production

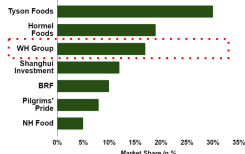
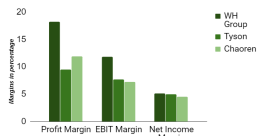


Figure 6. Leadership in margins vs peers



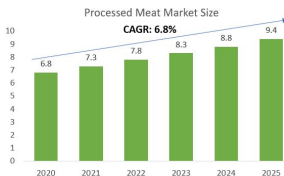
- Market leadership through economies of scale.** WH Group is the largest pork company in the world and the market leader in China and the US. It is well positioned to expand further into untapped regions through competitive prices. Economies of scale is seen from their leadership in profit margins, 75th percentile in EBIT margins and consistent net income margins. Competitive prices are achieved from cost savings generated from economies of scale which can provide an advantage over their peers.
- Well-positioned to benefit from rising demand of processed and fresh pork segments.** WH Group operates with state-of-the-art technological equipment in production and in hog farms. Constant product innovations and product freshness enable WH Group to maintain and grow market share.
- Diversified supply chain and geographical reach to provide comparative advantage.** WH Group takes control of entire supply chains in all their markets and stands out due to their diversified supply chain as compared to peers who operate in domestic markets. Global foothold improves profitability through arbitrage due to their ability to get cheaper inputs whilst selling outputs at a higher price in other markets.

## 12M Industry Outlook

Figure 3. Rising pork prices



Figure 4. Processed meat market



- Uncertainties with African Swine Flu may keep inventories of fresh China pork low.** The on-going African Swine Flu has killed millions of pigs across Asia. Many small farmers are left bankrupt despite soaring pork prices as this fever has a high fatality rate coupled with widespread culling of suspected hogs. WH Group is able to tap on hog supplies from its US farms which are not affected by the Swine Flu to continue supplying fresh pork products to the Chinese market.
- Increasing supply of U.S hogs to China due to Phase I trade truce.** China is ensuring additional purchases of U.S agriculture products by \$32 billion over the next 2 years and waiving its 62% tariffs on U.S pork products. Increased supply of pork products will increase the top line for WH Group as demand from China normalises.
- Growing prominence in consumption of processed meat.** Processed meat market is forecasted to grow at CAGR of 6.8% over the next 5 years due to perceived convenience of preparation for cooking. WH Group benefits as it supplies a wide range of processed meats to key regions such as Asia and Europe. In addition, their strong branding in the processed meat segment and foothold in the pork supply chain provides opportunities for ease of expansion in these key regions.

## Valuation

Figure 7. Football field analysis

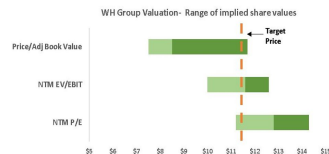


Figure 8. Street estimates for WH Group 12M price target

Contributor	Ratings	Price Target	Upside
CMB International	BUY	\$10.80	26.6%
DBS	BUY	\$9.40	10.2%
UBS	BUY	\$10.47	22.7%

We utilised +1 FY EV/EBIT, Price to Adjusted Book Value and +1 FY P/E ratios as metrics when valuing WH Group. EV/EBIT was used as depreciation and amortization is a relatively significant line item given the company's capital-intensive production process.

Comparable companies selected were large cap companies operating in similar business segments as WH Group, mainly packaged foods and agricultural production. These include companies such as Hormel Foods, Chaoren Pokphand Foods, Wens Foodstuffs as well as Tyson Foods.

The 12M price target was a blended average of the median price of the three metrics used in the football field valuation. This was a relatively conservative estimate, taking into consideration that WH Group is the world's top pork producer by volume. We arrived at our target price of HKD \$11.67, which reflects +1FY PE 16.1x, +1FY PB 2.31x and +1FY EV/EBIT 8.41x. This is an upside of +36.8% based on the closing price of HKD\$8.53 on the valuation date.