

## Shuanghui Development (000895 CH) Non-public issuance of new shares to support expansion

- Issuance of new shares (no more than 331,928,219 shares) to targeted investors to raise up to RMB 7bn
- Proceeds would be used for capacity construction in broiler industrialization projects (47.57% of total proceeds used, same for below) and hog production (14.14%), technical transformation of hog processing and prepared products (5.14%) and packaged meat processing (3.86%), construction of the headquarters office in the PRC (10.71%), and replenishment of working capital (18.57%)
- We believe these projects would benefit the Group in the long term; added revenue of the projects would only start in FY22, however
- New share issuance will dilute EPS; our current FY20E EPS growth forecast is 0.92% YoY (previous 13.97% YoY)
- Maintain **BUY**; current TP implies 27.10x/21.98x 20E/21E P/E, or 6.47x/5.94x 20E/21E P/B

**Non-public issuance of new shares to raise up to RMB 7bn.** The Group announced that it would conduct a non-public issuance of new shares (no more than 331,928,219) to qualified investors for no more than RMB 7bn to support new projects in capacity construction, new technical transformation, construction of new headquarters office in the PRC, and replenishment of working capital. Immediately after the non-public new share issuance, WH Group would remain an indirect controlling shareholder of the Group holding a 66.74% stake through Rotary Vortex.

**Venturing into the broiler business.** About 47.57% of the proceeds raised would be used for two projects related to capacity construction of broiler industrialization – one in Zhoukou, Henan Province, another in Fuxin, Liaoning Province. The two projects combined will have a breeder capacity of 2.2mn sets/yr, a broiler production capacity of 200mn birds/yr, a slaughtering capacity of 200mn birds/yr, and a feed production capacity of 1.3mn tons/yr. However, the Group's planned production capacity is not significant compared to the annual domestic production in China. According to our calculation, the annual production volume of white-feathered and yellow-feathered broilers in 2018 in China was 91bn birds, meaning the Group's broiler business would take up around 0.22% of the 2018 domestic production volume.

**Benefits of the new projects would emerge at different time points.** The new technical transformation of hog processing and prepared products and packaged meats processing would each take 12 months to complete; the capacity construction for broiler industrialization in Fuxin Liaoning Province would take 24 months, while the one in Zhoukou Hubei Province would take 18 months. The different completion time would mean the benefits will be seen at different time points.

### Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	48,892	60,348	75,805	88,418	102,499
Chg (% YoY)	(3.33)	23.43	25.61	16.64	15.93
Net Profit (RMB mn)	4,912	5,438	6,036	7,441	10,138
Chg (% YoY)	13.72	10.70	11.01	23.28	36.25
Basic EPS (RMB)	1.48	1.64	1.65	2.04	2.78
Chg (% YoY)	13.04	10.70	0.92	23.28	36.25
P/E (x)	27.36	24.72	24.49	19.87	14.58
BVPS (RMB)	3.95	4.97	6.93	7.54	8.37
P/B (x)	10.24	8.15	5.84	5.37	4.84
DPS (RMB)	1.45	1.00	1.16	1.43	1.94
Yield (%)	3.58	2.47	2.86	3.52	4.80
ROAA (%)	21.38	21.12	18.36	18.50	22.80
ROAE (%)	33.67	35.29	27.90	27.16	33.39

Source(s): The Company, Bloomberg, ABCI Securities estimates

## Company Report

May 19, 2020

Rating: **BUY**

TP: RMB 44.8

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (RMB)	40.49
52Wk H/L(RMB)	44.1/21.17
Est. share price return	10.64%
Est. dividend yield	2.86%
Est. total return	13.50%
Previous rating & TP	BUY; RMB45.8
Previous report date	Apr 3, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

Issued shares (mn)	3,319.28
Mkt cap (HK\$ mn)	134,397.74
3-mth ADT (RMBmn)	657.22

Shareholding (%)	
Rotary Vortex	73.41
HK Securities Clearing Co	2.58
China Securities Finance Corp	1.75
Huijin Investment	0.95

Source(s): Bloomberg, Company

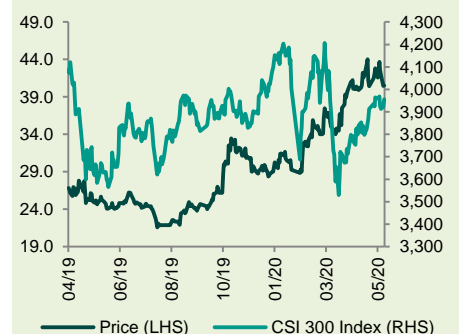
### Price Performance (%)

	Absolute	Relative*
1-mth	1.48	(1.73)
3-mth	12.79	14.97
6-mth	26.10	25.69

\* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

### 1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

Note: All pricing and market data as of May 19, 2020



**EPS dilution.** The non-public share issuance would enlarge the total number of shares. We assume that the total new share issued would be the maximum amount of 331,928,219, which represents 9.09% of the enlarged number of shares. Given that the revenue and profit contribution from these projects would only start in 2022, we believe EPS will be diluted in 2020/21. Our current FY20E EPS growth forecast is 0.92% YoY post issuance vs. our previous forecast of 13.97% YoY.

**FY19-22E revenue CAGR at 19.3%.** The Group's investments in the aforementioned projects would increase its production efficiency, capacity, and market competitiveness. Entering the broiler production business will enhance the product range in the meat product business. We estimate the broiler business would only start to bring in additional income no earlier than 2H22E due to the long construction phase, and the technical transformation projects would improve production efficiency and product pricing starting in FY22. We revise down the FY19-22E revenue CAGR to 19.3% (previous: 25.6%) due to lower pork price growth expectation in China. We believe near-term revenue growth would be supported by revenue CAGR of packaged pork products (FY19-22E CAGR of 7.8%) and fresh pork products (FY19-22E CAGR of 23.5%). We project FY19-22E ASP CAGR of packaged pork products to be 7.0% while that of fresh pork to be 21.1%.

**Maintain BUY; TP at RMB 44.8.** We believe the Group's market leadership would be strengthened through these projects in the long term. Maintain **BUY**. We revise down our DCF-derived TP due to the short-term increase in investment costs, the lower growth expectation for pork price, and the increase of share numbers. Current TP represents 27.10x/21.98x 20E/21E P/E, or 6.47x/5.94x 20E/21E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 4) Inflation risk; 5) Commodity price risk; 6) Prolonged pandemic risk; 7) EPS dilution resulted from new share issuance.



**Exhibit 1: Change in assumptions, projections, and valuations**

FY ends at Dec 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
<b>Assumptions</b>					
GPM (%)	17.65	18.09	17.76	17.67	Lower margins due to the lower growth estimates for pork price
Pretax margin (%)	9.97	10.53	10.17	10.15	
NPM (to shareholders of the Company) (%)	7.96	8.42	8.12	8.11	
D/E (%)	16.65	16.17	18.68	18.84	Decrease due to new share issuance
D/A (%)	11.73	10.69	12.16	11.01	
Tax rate (%)	17.16	17.16	17.16	17.16	N/A
<b>Valuations</b>					
Revenue growth (YoY %)	25.61	16.64	26.40	25.45	Lower growth due to lower growth estimates for pork price
- Packaged meat	8.05	7.73	8.05	7.73	
- Fresh meat	35.47	21.29	36.82	35.18	
- Others	14.10	15.60	14.10	15.60	
TP (RMB)	44.8		45.8		Lower growth estimates for pork price and increase in investment costs reduce FCFF and TP; mixed change in P/E and P/B due to diluted EPS and enlarged equity base
P/E (x)	27.10	21.98	24.51	19.56	
P/B (x)	6.47	5.94	8.28	7.35	

Note: Previous report was published on Apr 3, 2020

Source(s): ABCI Securities estimates

**Exhibit 2: Change in major forecasts**

FY ends at Dec 31	Current report			Previous report			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue (RMB mn)	75,805	88,418	102,499	76,281	95,695	119,541	0.00	(7.84)	(14.49)
Net profit (to owners of the Company) (RMB mn)	6,036	7,441	10,138	6,426	8,049	11,176	(4.36)	(16.44)	(17.35)
EPS (RMB)	1.6532	2.0380	2.7767	1.8670	2.3390	3.2471	(9.84)	(21.25)	(22.09)

Note: Previous report was published on Apr 3, 2020

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>48,892</b>	<b>60,348</b>	<b>75,805</b>	<b>88,418</b>	<b>102,499</b>
<b>Core revenue</b>	<b>48,739</b>	<b>60,310</b>	<b>75,729</b>	<b>88,330</b>	<b>102,397</b>
- Packaged pork product	23,127	25,163	27,190	29,291	31,498
- Fresh pork	28,917	39,100	52,970	64,247	73,622
- Other products	2,658	3,422	3,904	4,513	8,547
- Intersegment elimination	(5,963)	(7,375)	(8,335)	(9,722)	(11,270)
<b>Interest income</b>	<b>153</b>	<b>38</b>	<b>76</b>	<b>88</b>	<b>102</b>
<b>Commission and processing income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
COGS	(38,227)	(48,977)	(62,389)	(72,364)	(82,100)
<b>GP</b>	<b>10,645</b>	<b>11,320</b>	<b>13,376</b>	<b>15,995</b>	<b>20,313</b>
<b>Core GP</b>	<b>10,512</b>	<b>11,333</b>	<b>13,340</b>	<b>15,966</b>	<b>20,297</b>
- Packaged pork product	7,090	7,160	7,094	7,359	7,697
- Fresh pork	2,861	3,606	5,460	7,718	10,580
- Other products	581	778	872	1,026	1,143
- Intersegment elimination	(20)	(211)	(86)	(137)	(199)
<b>GP of interest income</b>	<b>133</b>	<b>(13)</b>	<b>37</b>	<b>30</b>	<b>17</b>
<b>GP of Commission and processing income</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Business levy and taxes	(348)	(297)	(373)	(435)	(505)
S&D expenses	(2,644)	(2,706)	(3,700)	(4,227)	(4,833)
Admin expenses	(1,146)	(1,308)	(1,660)	(1,892)	(2,134)
Others expenses	(342)	(330)	(381)	(459)	(635)
<b>Operating profit</b>	<b>6,087</b>	<b>6,590</b>	<b>7,173</b>	<b>8,893</b>	<b>12,119</b>
- Packaged pork product	4,775	4,657	5,037	5,535	6,072
- Fresh pork	1,049	1,911	2,899	3,421	3,803
- Other products	284	233	269	327	1,146
Net finance income/(costs)	(163)	(97)	(24)	8	7
Others gain/losses	(316)	(177)	45	(22)	(46)
<b>Pretax profit</b>	<b>6,280</b>	<b>6,838</b>	<b>7,556</b>	<b>9,312</b>	<b>12,691</b>
Tax	(1,245)	(1,173)	(1,297)	(1,598)	(2,178)
<b>Net profit</b>	<b>5,035</b>	<b>5,666</b>	<b>6,259</b>	<b>7,714</b>	<b>10,513</b>
- Owners of the company	4,912	5,438	6,036	7,441	10,138
- Minority interest	123	228	223	273	375
Dividend	4,784	3,319	4,225	5,209	7,097
EPS (RMB)					
- Basic	1.4798	1.6382	1.6532	2.0380	2.7767
- Diluted	1.4798	1.6382	1.6532	2.0380	2.7767
DPS (RMB)	1.45	1.00	1.16	1.43	1.94

Note: "Other products" included the new broiler business

Source(s): The Company, ABCI Securities estimates



**Consolidated balance sheet**

FY ends at Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash and cash equivalent	2,801	3,455	15,601	15,466	17,005
Trade and bills receivable	162	213	291	304	395
Inventories	4,245	8,801	8,280	12,049	10,937
Others	3,058	3,834	928	1,326	1,035
<b>Current assets</b>	<b>10,266</b>	<b>16,303</b>	<b>25,099</b>	<b>29,145</b>	<b>29,372</b>
PP&E	11,159	10,575	10,433	12,331	14,476
Construction in progress	112	174	143	114	100
Biological assets	66	54	59	69	70
Intangible assets	847	981	1,039	1,071	1,105
Others	415	545	339	591	501
<b>Non-current assets</b>	<b>12,599</b>	<b>12,330</b>	<b>12,013</b>	<b>14,176</b>	<b>16,252</b>
<b>Total assets</b>	<b>22,865</b>	<b>28,633</b>	<b>37,113</b>	<b>43,321</b>	<b>45,624</b>
Trade and bills payable	1,951	3,084	3,229	4,189	3,602
ST borrowings	3,132	3,345	4,334	4,613	4,815
Others	3,846	4,855	3,153	5,599	4,813
<b>Current liabilities</b>	<b>8,929</b>	<b>11,284</b>	<b>10,716</b>	<b>14,400</b>	<b>13,231</b>
LT borrowings	17	16	20	20	23
Deferred tax liabilities	73	152	131	148	198
Others	140	66	69	68	68
<b>Non-current liabilities</b>	<b>230</b>	<b>234</b>	<b>220</b>	<b>236</b>	<b>290</b>
Shareholders' equity	13,042	16,488	25,299	27,531	30,572
Minority interest	664	628	850	1,123	1,498
<b>Total equity</b>	<b>13,705</b>	<b>17,115</b>	<b>26,149</b>	<b>28,654</b>	<b>32,070</b>
<b>Total liabilities and equity</b>	<b>22,865</b>	<b>28,633</b>	<b>37,086</b>	<b>43,291</b>	<b>45,591</b>

Source(s): The Company, ABCI Securities estimates

**Consolidated cash flow statement**

FY ends at Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	5,035	5,666	6,259	7,714	10,513
Depreciation and amortization	976	958	924	970	1,091
Change in working capital	(1,409)	(3,631)	875	(3,016)	635
Others	275	1,431	942	763	1,096
<b>Cash flow from operating activities</b>	<b>4,876</b>	<b>4,424</b>	<b>9,000</b>	<b>6,431</b>	<b>13,335</b>
PP&E	(418)	(659)	(701)	(2,963)	(3,372)
Investments	(1,981)	(716)	1,640	637	(231)
Others	188	0	0	0	0
<b>Cash flow from investing activities</b>	<b>(2,210)</b>	<b>(1,375)</b>	<b>940</b>	<b>(2,326)</b>	<b>(3,603)</b>
Bank borrowing	(1,102)	(15)	993	279	206
Others	(4,833)	(2,370)	3,419	(4,494)	(5,543)
<b>Cash flow from financing activities</b>	<b>(5,935)</b>	<b>(2,385)</b>	<b>4,411</b>	<b>(4,215)</b>	<b>(5,338)</b>
<b>Net change in cash and cash equivalent</b>	<b>(3,269)</b>	<b>664</b>	<b>11,253</b>	<b>(326)</b>	<b>1,428</b>
ForEx effect	1	1	5	5	5
<b>Cash and cash equivalent at the end of FY</b>	<b>2,481</b>	<b>3,146</b>	<b>14,404</b>	<b>14,082</b>	<b>15,516</b>

Source(s): The Company, ABCI Securities estimates



Key operating and financial ratios

FY ends at Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Growth (YoY %)</b>					
Revenue	(3.33)	23.43	25.61	16.64	15.93
Core revenue	(3.39)	23.74	25.57	16.64	15.93
- Packaged pork product	2.06	8.80	8.05	7.73	7.54
- Fresh pork	(4.90)	35.22	35.47	21.29	14.59
- Other products	14.78	28.71	14.10	15.60	89.37
Gross profit	10.21	6.34	18.16	19.58	27.00
Core GP	10.19	7.81	17.71	19.68	27.13
- Packaged pork product	2.58	0.99	(0.93)	3.74	4.59
- Fresh pork	33.27	26.04	51.42	41.35	37.09
- Other products	22.08	33.81	12.09	17.67	116.29
EBIT	11.20	7.63	9.16	23.81	36.37
EBITDA	8.88	6.90	7.27	21.82	33.95
Pretax Profit	9.04	8.90	10.49	23.25	36.28
Net profit (to owners of the company)	13.72	10.70	11.01	23.28	36.25
<b>Profitability ratios (%)</b>					
GPM	21.77	18.76	17.65	18.09	19.82
Core GPM	21.57	18.79	17.62	18.08	19.82
- Packaged pork product	30.66	28.46	26.09	25.12	24.44
- Fresh pork	9.89	9.22	10.31	12.01	14.37
- Other products	21.87	22.74	22.34	22.74	25.97
OPM	12.45	10.92	9.46	10.06	11.82
EBITDA margin	14.40	12.47	10.65	11.13	12.86
Pretax margin	12.84	11.33	9.97	10.53	12.38
NPM (to owners of the company)	10.05	9.01	7.96	8.42	9.89
<b>Core revenue contribution (%)</b>					
Packaged meat product	47.45	41.72	35.90	33.16	30.76
Fresh meat	59.33	64.83	69.95	72.74	71.90
Others	5.45	5.67	5.16	5.11	8.35
<b>Return ratios (%)</b>					
ROAA	21.38	21.12	18.36	18.50	22.80
ROAE	33.67	35.29	27.90	27.16	33.39
<b>Liquidity ratio (x)</b>					
Current ratio	1.15	1.44	2.34	2.02	2.22
Quick ratio	0.67	0.66	1.57	1.19	1.39
Cash ratio	0.31	0.31	1.46	1.07	1.29
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	1	1	1	1	1
Days of inventory on hand	34	49	50	51	51
Days of outstanding payable	18	17	18	18	18
CCC	18	33	33	34	34
<b>Leverage ratios (%)</b>					
Total debt/Total equity	22.98	19.64	16.65	16.17	15.09
Total debt/Total assets	13.77	11.74	11.73	10.69	10.61
Net cash (debt) /Total equity	2.54	0.55	43.01	37.81	37.94
Net cash (debt) /Total assets	1.52	0.33	30.30	25.01	26.67

Note: "Other products" included the new broiler business

Source(s): The Company, ABCI Securities estimates



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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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**Office address: ABC International Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: 852) 2868 2183**