



Shuanghui Development (000895 CH) Growth accelerated in 2Q19

- 1H19 core revenue grew 7.7% YoY; 2Q19 core revenue grew 15.9% YoY, supported by a turnaround in fresh meat segment and the steady performance of the packaged meat products segment
- Rising raw material costs shrank margin in 1H19; we expect the inflationary pressure on hog and pork would persist in China
- Expect in FY18-21E, revenue CAGR to reach 8.25%, GPM would be stable at ~21%; NPM (to owners of the Company) to edge up from 9.55% in FY19E to 9.75% in FY21E
- Maintain **BUY**; current TP represents 17.24x/15.96x 19E/20E P/E, or 6.46x/6.21x 19E/20E P/B

Growth momentum increased in 2Q19. In 1H19, core revenue grew 7.7% YoY; packaged meat products and fresh meat segments saw revenue growth of 4.2% YoY and 7.8% YoY. Overall growth momentum improved in 2Q19 - core revenue in 2Q19 was 15.9% YoY vs. the 0.3% YoY decline in 1Q19, among which packaged meat products segment maintain a revenue growth at above 4% YoY while fresh meat segment revenue grew 26.9% YoY, as opposed to the 5.2% YoY decline in 1Q19. We believe the Group's effort on product mix restructuring and marketing has been successful as evidenced by the turnaround in 2Q19.

Mounting cost pressure. Margins deteriorated 1H19. Core GPM, OPM, NPM (to owners of the Company) decreased to 19.5%, 11.2%, and 9.4% in 1H19 from 21.4%, 12.4%, and 10.1% in 1H18. Core GPM declined from 21.0% in 1Q19 to 18.2% in 2Q19; with OPM of packaged meat products declining from 16.5% in 1Q19 to 16.1% in 2Q19 and OPM of fresh meat falling from 9.4% in 1Q19 to 4.2% in 2Q19. Margin contraction shows the plight of rising raw material costs. On a brighter note, the Group was able to further reduce S&D expenses/revenue and admin expenses/revenue ratios amid a challenging environment.

FY18-21E revenue CAGR to reach 8.3%. We expect revenue CAGRs of packaged meat products and fresh meat segments to be 7.4% and 7.1%, supported by volume CAGRs of 5.7% and 5.7%. With rising raw material costs, GPM and NPM (to owners of the Company) may fluctuate. We estimate GPM to stay steady at ~21% and NPM (to owners of the Company) would edge up from 9.6% in FY19E to 9.8% in FY21E.

Maintain BUY with TP at RMB 26.4. As the supply-side constrain continues to persist in the medium term, rising raw material cost is adding pressure to margins. The ability to raise product prices, timely adjustment of product mix in response to market changes, and reducing operating costs would be crucial to the Group's future performance. We maintain **BUY** on the assumption that the Group would be able to parlay its success in 2Q19 to the rest of the year. Our DCF-derived TP of RMB 26.4 represents 17.24x/15.96x 19E/20E P/E, or 6.46x/6.21x 19E/20E P/B. The TP is lower than previous to reflect the lower projection on margins.

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.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	50,578	48,932	52,878	57,226	62,067
Chg (% YoY)	(2.44)	(3.26)	8.06	8.22	8.46
Net Profit (RMB mn)	4,319	4,915	5,052	5,458	6,050
Chg (% YoY)	(1.95)	13.78	2.80	8.03	10.85
Basic EPS (RMB)	1.31	1.49	1.53	1.65	1.83
Chg (% YoY)	(1.91)	13.78	2.80	8.03	10.85
P/E (x)	16.71	14.68	14.28	13.22	11.93
BVPS (RMB)	4.43	3.93	4.09	4.25	4.43
P/B (x)	4.94	5.56	5.35	5.15	4.93
DPS (RMB)	1.10	1.45	1.38	1.49	1.65
Yield (%)	5.03	6.63	6.30	6.81	7.55
ROAA (%)	19.12	21.63	21.89	22.74	23.80
ROAE (%)	28.29	33.36	35.21	36.20	38.12

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 22, 2019

Rating: **BUY**

TP: RMB 26.4

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Share price (RMB)**	21.87
52Wk H/L(RMB)	28.05/21.15
Est. share price return	20.71%
Est. dividend yield	6.63%
Est. total return	27.34%
Previous rating & TP	BUY; RMB29.42
Previous report date	Apr 3, 2018

Source(s): ABCI Securities

Key Data

Issued shares (mn)	3,299.56
Mkt cap (HK\$ mn)	72,161.34
3-mth ADT (RMBmn)	334.96

Shareholding (%) (as of end-3Q17)	
Shuanghui Development	59.27
Rotary Vortex	13.98
HK Securities Clearing Co	1.89
China Securities Finance Corp	1.76

Source(s): Bloomberg, Company

% to total revenue	FY19E
Packaged meat products	45.35
Fresh meat products	58.10
Others	5.06

Source(s): ABCI Securities estimates

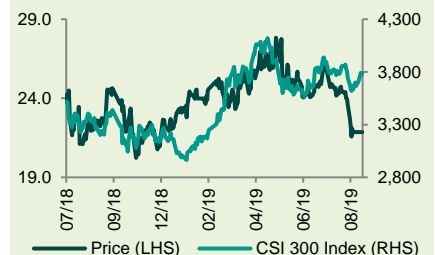
Price Performance (%)

	Absolute	Relative*
1-mth	(9.70)	(9.37)
3-mth	(13.15)	(18.36)
6-mth	(9.05)	(21.26)

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of closing of Aug 21, 2019

** The Group have halted trading of its shares

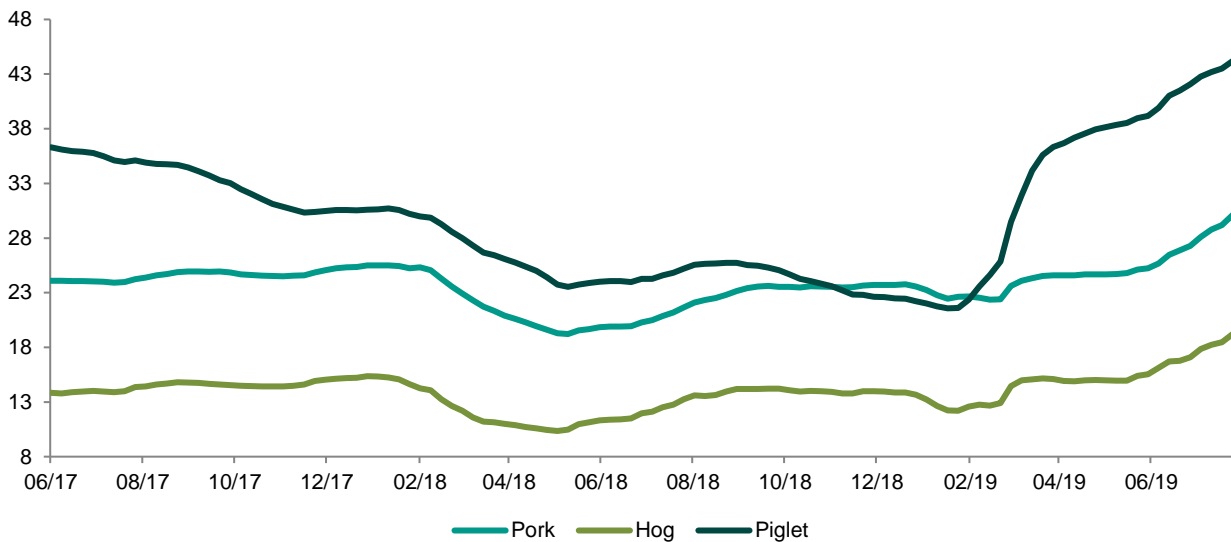
China market overview – A brief discussion

Inflationary pressure on hog and pork prices is likely to persist

In China, the hog and sow inventories declined by 25.8% YoY and 26.7% YoY in Jun 2019 and further by 32.2% YoY and 31.9% YoY in Jul 2019, showing the lingering impact of African Swine Flu (ASF). As a result, wholesale price of piglet, hog and pork increased to RMB 44.19/kg, RMB 19.21/kg and RMB 30.10/kg as of the 1st week of Aug 2019, representing YoY growth of 75.4%, 45.0%, and 38.9% or YTD growth of 96.6%, 38.5%, and 27.0%. The supply constraint shows no signs of abating.

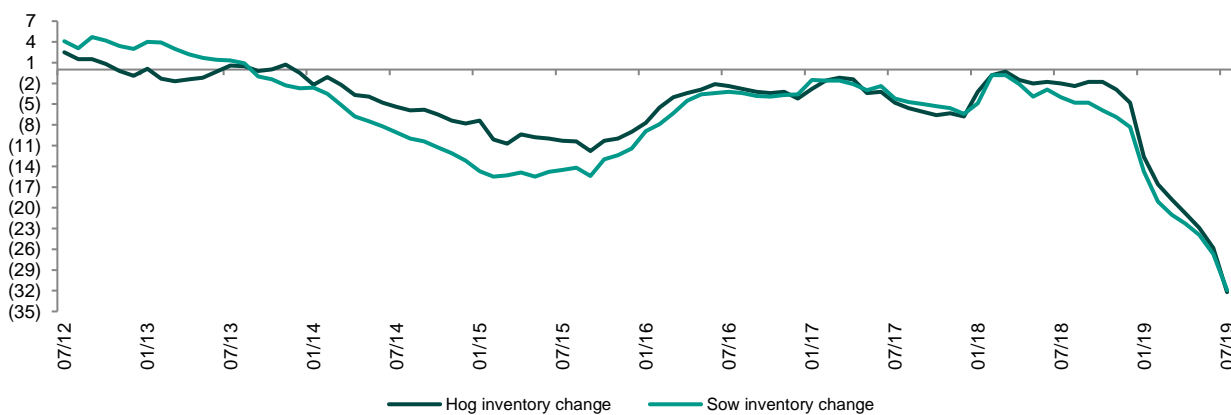
The ASF situation will continue to reduce the supplies of hog and pork, inflating prices of both in the medium term. The rising raw material costs, while pressuring GP, would also provide opportunities for the Group to raise product prices, which we believe would be crucial for margin support.

Exhibit 1: Wholesale price of hog/pork/piglet in China (RMB/kg)



Source(s): MOA, ABCI Securities

Exhibit 2: Hog and sow inventories in China (YoY %)



Source(s): MOA, ABCI Securities



Quarterly performance

Exhibit 3: Quarterly figures

FY ends at Dec 31 (RMB mn, excl. EPS data)	1Q18A	2Q18A	1Q19A	2Q19A
Revenue	12,060	11,672	11,974	13,481
Core revenue	11,994	11,627	11,960	13,473
Packaged meat products	5,630	5,792	5,864	6,039
Fresh meat	7,051	6,902	7,007	8,032
Others	696	545	616	752
GP	2,426	2,719	2,519	2,443
Core GP	2,365	2,680	2,511	2,448
OP	1,349	1,581	1,522	1,320
Packaged meat products	1,066	1,268	969	973
Fresh meat	231	261	536	291
Others	47	55	14	56
NP (to owners of the Company)	1,064	1,321	1,279	1,102
EPS – basic (RMB)	0.3224	0.4005	0.3877	0.3341

Source(s): The Group, ABCI Securities

Exhibit 4: Quarterly financial performance

FY ends at Dec 31	1Q18A	2Q18A	1Q19A	2Q19A
Growth (YoY %)				
Revenue	(1.38)	(1.23)	(0.71)	15.50
Core revenue	(1.78)	(1.34)	(0.28)	15.88
Packaged meat products	7.44	1.78	4.16	4.26
Fresh meat	(9.38)	(5.44)	(5.21)	26.90
Others	21.54	22.57	(1.25)	21.84
GP	16.76	11.93	3.86	(10.14)
Core GP	14.68	11.65	6.18	(8.66)
OP	21.82	16.71	3.16	(18.08)
Packaged meat products	11.17	4.92	(9.12)	(23.27)
Fresh meat	123.74	116.48	131.88	11.52
Others	34.06	163.76	(69.22)	1.03
NP (to owners of the Company)	21.09	28.87	19.36	(14.50)
EPS - basic	21.07	28.86	20.25	(16.58)
Profitability (%)				
GPM	20.11	23.30	21.04	18.12
Core GPM	19.72	23.05	21.00	18.17
OPM	11.19	13.55	12.71	9.79
Packaged meat products	18.94	21.89	16.52	16.11
Fresh meat	3.28	3.78	9.35	4.17
Others	12.31	14.51	3.84	12.03
NPM (to owners of the Company)	8.82	11.32	10.68	8.18

Source(s): The Group, ABCI Securities



Financial statements

Consolidated income statement (FY17A-FY21E)

FY ends at Dec31 (RMB mn, except per share data)	FY17A	FY18A	FY19E	FY20E	FY21E	1H18	1H19
Revenue	50,578	48,932	52,878	57,226	62,067	23,732	25,455
Core revenue	50,447	48,767	52,825	57,168	62,005	23,621	25,434
- Packaged meat product	22,659	23,211	24,857	26,614	28,777	11,422	11,903
- Fresh meat	30,407	28,917	30,834	32,859	35,488	13,952	15,039
- Others	2,316	2,576	2,922	3,334	3,854	1,241	1,368
- Intersegment elimination	(4,935)	(5,937)	(5,788)	(5,637)	(6,114)	(2,994)	(2,876)
Interest income	131	164	53	57	62	1	0
Commission and processing income	0	0	0	0	0	0	0
COGS	(40,907)	(38,324)	(41,696)	(45,212)	(48,988)	(18,576)	(20,474)
GP	9,658	10,585	11,176	12,007	13,071	5,145	4,963
Core GP	9,540	10,444	11,129	11,957	13,017	5,046	4,960
- Packaged meat product	6,912	7,031	7,375	7,898	8,630	3,425	3,134
- Fresh meat	2,147	2,878	3,160	3,342	3,552	1,434	1,573
- Others	476	555	598	723	846	189	250
- Intersegment elimination	5	(20)	(5)	(6)	(11)	(2)	3
GP of interest income	119	142	48	51	56	(10)	(18)
GP of Commission and processing income	(1)	(1)	(1)	(1)	(1)	(0)	(0)
Business levy and taxes	(346)	(343)	(318)	(345)	(374)	(174)	(134)
S&D expenses	(2,402)	(2,632)	(2,810)	(3,029)	(3,230)	(1,267)	(1,351)
Admin expenses	(1,070)	(1,129)	(1,222)	(1,292)	(1,363)	(501)	(534)
Others	(254)	(342)	(332)	(375)	(404)	(240)	(72)
Operating profit	5,528	6,065	6,493	6,966	7,700	2,930	2,842
- Packaged meat product	4,695	4,747	4,108	4,486	4,948	2,334	1,942
- Fresh meat	617	1,049	1,343	1,574	1,870	492	827
- Others	211	289	295	354	430	102	70
Net finance income/(costs)	(55)	(55)	(57)	(49)	(39)	(27)	(42)
Others	(45)	(323)	(76)	(67)	(68)	(58)	7
Pretax profit	5,759	6,332	6,693	7,225	7,997	3,085	2,998
Tax	(1,249)	(1,255)	(1,445)	(1,561)	(1,718)	(626)	(519)
Net profit	4,511	5,076	5,248	5,665	6,279	2,459	2,479
- Owners of the company	4,319	4,915	5,052	5,458	6,050	2,385	2,382
- Minority interest	191	162	196	207	229	73	97
Dividend	3,630	4,784	4,547	4,912	5,445	0	0
EPS (RMB)							
- Basic	1.3091	1.4894	1.5312	1.6542	1.8336	0.7229	0.7218
- Diluted	1.3091	1.4894	1.5312	1.6542	1.8336	0.7229	0.7218
DPS (RMB)	1.10	1.45	1.38	1.49	1.65	0.00	0.00

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY17A-FY21E)

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	1H19
Cash and cash equivalent	6,163	2,618	1,765	4,624	5,008	1,637
Trade and bills receivable	161	162	195	185	232	174
Inventories	2,928	4,228	8,057	6,181	8,890	7,204
Others	764	2,753	1,521	1,390	1,171	3,413
Current assets	10,017	9,761	11,538	12,381	15,300	12,427
PP&E	11,500	11,098	10,742	10,237	9,725	10,756
Construction in progress	154	112	101	91	83	151
Biological assets	69	66	68	67	66	41
Intangible assets	1,005	942	967	995	1,024	928
Others	345	369	389	428	447	373
Non-current assets	13,073	12,587	12,267	11,818	11,344	12,249
Total assets	23,089	22,348	23,805	24,199	26,645	24,676
Trade and bills payable	1,848	1,928	2,821	1,635	3,597	3,216
ST borrowings	1,942	2,323	3,338	3,183	3,246	3,175
Others	3,616	3,880	2,756	3,734	3,322	3,382
Current liabilities	7,407	8,131	8,915	8,552	10,165	9,773
LT borrowings	5	5	17	12	11	5
Deferred tax liabilities	67	73	78	86	83	116
Others	142	139	73	72	72	136
Non-current liabilities	215	218	168	170	167	258
Shareholders' equity	14,617	12,974	13,479	14,025	14,630	13,551
Minority interest	850	1,025	1,221	1,428	1,657	1,095
Total equity	15,467	13,999	14,700	15,453	16,287	14,645
Total liabilities and equity	23,089	22,348	23,783	24,175	26,619	24,676

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY17A-FY21E)

FY ends at Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	1H18	1H19
Net profit	4,511	5,076	5,248	5,665	6,279	2,459	2,479
Depreciation and amortization	957	976	1,008	1,035	1,055	490	487
Change in working capital	(83)	(1,409)	(2,995)	739	(831)	(1,437)	(1,616)
Others	265	552	417	642	516	406	188
Cash flow from operating activities	5,650	5,195	3,678	8,081	7,019	1,919	1,538
PP&E	(447)	(449)	(756)	(623)	(638)	(239)	(237)
Investments	49	(1,801)	3,013	4,219	3,192	(222)	(908)
Others	(3)	0	0	0	0	0	0
Cash flow from investing activities	(402)	(2,251)	2,257	3,595	2,554	(461)	(1,145)
Bank borrowing	1,727	379	1,027	(159)	62	57	614
Others	(4,207)	(6,736)	(5,103)	(4,835)	(5,223)	(3,741)	(1,919)
Cash flow from financing activities	(2,481)	(6,357)	(4,076)	(4,995)	(5,161)	(3,683)	(1,306)
Net change in cash and cash equivalent	2,768	(3,413)	(561)	2,885	398	(2,226)	(913)
ForEx effect	(0)	1	5	12	14	0	0
Cash and cash equivalent at the end of FY	5,744	2,332	1,776	4,674	5,085	3,518	1,419

Source(s): Company, ABCI Securities estimates



Key operating and financial ratios (FY17A-FY21E)

FY ends at Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E	1H18	1H19
Growth (YoY %)							
Revenue	(2.44)	(3.26)	8.06	8.22	8.46	(1.30)	7.3
Core revenue	(2.65)	(3.33)	8.32	8.22	8.46	(1.57)	7.7
- Packaged meat products	0.36	2.44	7.09	7.07	8.13	4.49	4.2
- Fresh meat	(4.11)	(4.90)	6.63	6.57	8.00	(4.22)	7.8
- Others	5.25	11.23	13.40	14.10	15.60	15.53	10.2
Gross profit	2.71	9.60	5.58	7.44	8.86	14.15	(3.5)
Core GP	1.68	9.47	6.56	7.43	8.86	13.05	(1.7)
- Packaged meat products	(1.92)	1.72	4.90	7.09	9.27	4.42	(8.5)
- Fresh meat	23.56	34.07	9.82	5.73	6.29	47.96	9.7
- Others	(20.58)	16.62	7.75	20.81	16.95	(5.24)	32.3
EBIT	3.00	10.82	6.52	7.55	10.39	20.72	(8.1)
EBITDA	1.60	8.53	6.47	6.58	9.45	18.27	(7.1)
Pretax Profit	(1.75)	9.94	5.71	7.95	10.69	19.70	(2.8)
Net profit (to owners of the company)	(1.95)	13.78	2.80	8.03	10.85	23.97	0.8
Profitability ratios (%)							
GPM	19.10	21.63	21.14	20.98	21.06	21.68	19.50
Core GPM	18.91	21.42	21.07	20.91	20.99	21.36	19.50
- Packaged meat products	30.50	30.29	29.67	29.68	29.99	29.98	26.33
- Fresh meat	7.06	9.95	10.25	10.17	10.01	10.28	10.46
- Others	20.56	21.56	20.48	21.69	21.94	15.20	18.25
OPM	10.93	12.40	12.28	12.17	12.41	12.35	11.16
EBITDA margin	12.79	14.35	14.13	13.92	14.05	15.43	13.36
Pretax margin	11.39	12.94	12.66	12.63	12.89	13.00	11.78
NPM (to owners of the company)	8.54	10.04	9.55	9.54	9.75	10.05	9.36
Core revenue contribution (%)							
Packaged meat product	44.92	47.60	47.06	46.55	46.41	48.35	46.80
Fresh meat	60.27	59.30	58.37	57.48	57.23	59.07	59.13
Others	4.59	5.28	5.53	5.83	6.21	5.25	5.38
Return ratios (%)							
ROAA	19.12	21.63	21.89	22.74	23.80	22.03	21.09
ROAE	28.29	33.36	35.21	36.20	38.12	34.06	35.92
Liquidity ratio (x)							
Current ratio	1.35	1.20	1.29	1.45	1.51	1.25	1.27
Quick ratio	0.96	0.68	0.39	0.72	0.63	0.67	0.53
Cash ratio	0.83	0.32	0.20	0.54	0.49	0.55	0.17
Cash conversion cycle (days)							
Days of outstanding receivable	1	1	1	1	1	1	1
Days of inventory on hand	27	34	54	57	56	34	51
Days of outstanding payable	19	17	19	19	18	17	20
CCC	10	18	36	40	39	19	32
Leverage ratios (%)							
Total debt/Total equity	12.59	16.63	22.82	20.68	20.00	14.28	21.71
Total debt/Total assets	8.44	10.42	14.09	13.20	12.22	9.50	12.89
Net cash (debt) /Total equity	27.25	2.07	10.81	9.25	10.75	12.43	10.54
Net cash (debt) /Total assets	18.26	1.30	6.68	5.90	6.57	8.27	6.26

Source(s): Company, ABCI Securities estimates

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Analyst Certification

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Definition of equity rating

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

Notes: 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 2005 (HSI total return index 2005-17 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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