

## WH Group

### Potential rerating on deleveraging from 2015 [EXTRACT]

#### 2014 earnings preview: China downstream business remained soft in Q4

We forecast WH's recurring net profit to reach US\$715m in 2014, representing 118% YoY growth on 6% revenue growth (based on pro forma data). We attribute this to the turnaround of US hog production, resilient margins at the US fresh pork and packaged meat businesses, and strong volume growth in the China slaughtering business. However, we think the China packaged meat business could remain soft in the near term. For 2014 we forecast 3% EBIT growth for the China business on 2% revenue growth, which implies a 13% Q414 EBIT decline and 1% revenue growth.

#### 2015 outlook: earnings upside from synergies and lower China hog prices

We forecast 35% earnings growth in 2015 to US\$961m, on flat revenue growth, driven by: 1) a US\$160m reduction in financing costs; 2) lower feed costs to support the integrated US business; and 3) a recovery in the China packaged meat business, as we notice that Shuanghui has stepped up its pace of innovation by upgrading high-temperature meat products and launching new low-temperature meat products to explore food service channels. Earnings upside could come from: 1) an expansion of US fresh pork exports given the larger US/China hog price gap, suggesting synergies could come into play; and 2) lower-than-expected China hog prices amid the deflationary environment. The latest China hog prices are 7% below the 2014 average, compared to the UBS forecast of 5% YoY growth in 2015, suggesting margin upside potential on lower costs.

#### Expect rerating opportunities from improving balance sheet

We expect rerating opportunities due to the company's improving balance sheet, illustrated by its: 1) lower net gearing ratio (61%/47% in 2015E/2016E); and 2) refinancing activities to replace existing loans at lower interest rates. WH entered into a US\$1.5bn facility agreement in September 2014 at an interest rate of LIBOR plus 2.48-3.08%, compared to LIBOR plus 4.5% for existing loans.

#### Valuation: maintain Buy rating and price target of HK\$6.85

We maintain our Buy rating in view of the company's solid fundamentals and attractive valuation. We derive our price target from a sum-of-the-parts valuation; it implies 13x 2016E PE.

#### Equities

Hong Kong  
Food Products

**12-month rating** Buy

**12m price target** HK\$6.85

**Price** HK\$4.30

**RIC:** 0288.HK **BBG:** 288 HK

#### Trading data and key metrics

**52-wk range** HK\$6.98-3.80

**Market cap.** HK\$63.0bn/US\$8.12bn

**Shares o/s** 14,648m (ORD)

**Free float** 12%

**Avg. daily volume ('000)** 22,982

**Avg. daily value (m)** HK\$99.6

**Common s/h equity (12/14E)** US\$5.04bn

**P/BV (12/14E)** 1.6x

**Net debt / EBITDA (12/14E)** 2.1x

#### EPS (UBS, diluted) (US\$)

	From	To	% ch	Cons.
<b>12/14E</b>	0.05	0.05	-0.25	0.06
<b>12/15E</b>	0.07	0.07	-3.38	0.06
<b>12/16E</b>	0.07	0.07	-3.34	0.07

#### Christine Peng, CFA

Analyst  
christine-y.peng@ubs.com  
+852-2971 7571

#### Anne Huang

Associate Analyst  
anne.huang@ubssecurities.com  
+86-213-866 8833

#### Erica Poon Werkun, CFA

Analyst  
erica-poon.werkun@ubs.com  
+852-2971 8605

Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	5,455	6,243	11,253	22,609	22,706	24,200	25,648	27,081
<b>EBIT (UBS)</b>	234	587	922	1,644	1,800	1,820	1,938	2,043
<b>Net earnings (UBS)</b>	124	326	350	715	961	980	1,062	1,137
<b>EPS (UBS, diluted) (US\$)</b>	0.01	0.02	0.02	0.05	0.07	0.07	0.07	0.08
<b>DPS (US\$)</b>	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.02
<b>Net (debt) / cash</b>	(263)	480	(6,557)	(4,194)	(3,509)	(3,070)	(2,688)	(2,243)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	4.3	9.4	8.2	7.3	7.9	7.5	7.6	7.5
<b>ROIC (EBIT) %</b>	-	26.7	16.5	17.4	18.2	17.7	17.9	17.8
<b>EV/EBITDA (core) x</b>	-	-	-	6.9	5.7	5.5	5.1	4.7
<b>P/E (UBS, diluted) x</b>	-	-	-	11.4	8.4	8.3	7.6	7.1
<b>Equity FCF (UBS) yield %</b>	-	-	-	4.3	10.8	8.7	8.1	9.2
<b>Net dividend yield %</b>	-	-	-	2.6	3.6	3.6	3.9	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$4.30 on 27 Feb 2015 22:39 HKT

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

# Investment Thesis

## WH Group

### Investment case

We have a Buy rating on WH Group, as we expect re-rating opportunities from its lower net gearing ratio from 2015E. We consider valuation attractive as we estimate the current implied equity value of Smithfield is below its market cap of US\$3.6bn before WH Group's acquisition. We expect earnings upside in 2015 to come from: 1) materialisation of synergies with the expansion of US fresh pork exports, due to the larger US/China hog price gap; and 2) lower-than-expected China hog prices amid the deflationary environment.

### Upside scenario

In our upside scenario, we assume volume growth in the China packaged meat business accelerates to 10% in 2015 and 2016 (base case of 7%/6% growth in 2015/2016) on better-than-expected sales of new products. We also assume China hog prices in 2015-16 remain at the 2014 average (base case of 5%/3% increases in 2015/2016). In this scenario, our 2016 earnings estimate would rise 8%, and valuation would be HK\$7.40/share.

### Downside scenario

In our downside scenario, we assume no volume growth for the China packaged meat business in 2015-16 due to worse-than-expected new product launches. Furthermore, we assume profit at the US fresh pork unit declines to the 2012 level of US\$50/tonne in 2016 (base case of US\$100/tonne), if synergies are worse than expected due to declining exports. Our 2016 earnings estimate would decline 18% as a result. If we assume 12x 2016E PE, the same as multiples for US peers, we estimate a valuation of HK\$5.18/share.

### Upcoming catalysts

Volume increases for China packaged meat products could be a positive catalyst. Better-than-expected synergies between the China and US businesses would likely provide further upside. The lower gearing ratio from 2015 could lead to a further rerating of the stock, in our view. In contrast, worse-than-expected performance of the China packaged meat segment could be a negative catalyst.

12-month rating

Buy

12m price target

HK\$6.85

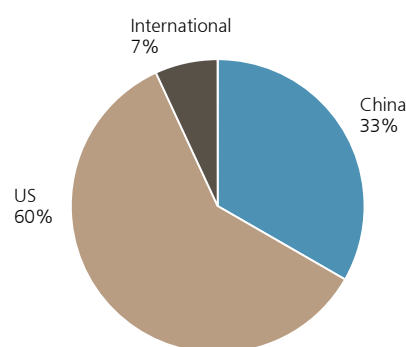
### Business description

WH Group is the leading global company in key segments of the pork industry value chain, including hog production, fresh pork and packaged meat products. The company conducts its business primarily in China, the US, and major markets in Europe. WH Group operates its China business through Shuanghui Group's subsidiaries, and in the US and other countries through subsidiaries of Smithfield, which also holds a 37% stake in Campofrio, the largest meat company in Europe by sales value.

### Industry outlook

China is the largest pork market and largest importer of pork in the world. We believe it will remain the major driving force of global animal protein industry growth. While we expect further cost pressure on hog production in China, the US is the lowest-cost hog producer in the world. This should provide opportunities for the two complementary markets and benefit WH Group. In addition, China's pork processing sector appears underdeveloped and fragmented, and we expect industry consolidation in the slaughtering segment and value to increase in the packaged meat segment. These would benefit WH Group's China downstream business.

### Revenue by region, 2014E



Source: Company data, UBS estimates

### EBIT by product segment

(US\$ m)	2012	2013	2014E	2015E	2016E
EBIT	587	1,191	1,644	1,800	1,820
Hog production-China	11	7	8	19	20
Hog production-US	NA	-46	330	173	127
Fresh pork-China	63	113	165	165	186
Fresh pork-US	NA	73	125	146	287
Packaged meats-China	505	678	692	752	837
Packaged meats-US	NA	387	438	629	485
International	NA	55	96	133	116

Note: 2013 numbers are based on pro-forma data.  
Source: Company data, UBS estimates

*This is an extract from our sector report, China Consumer Staples Sector—Will consumer staples companies benefit from another oil-led commodity crunch, as in 2009? published on 2 March 2015. For more detail, please refer to the longer report.*

## WH Group (0288.HK)

Income statement (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
<b>Revenues</b>	<b>5,455</b>	<b>6,243</b>	<b>11,253</b>	<b>22,609</b>	<b>100.9</b>	<b>22,706</b>	<b>0.4</b>	<b>24,200</b>	<b>25,648</b>	<b>27,081</b>
Gross profit	590	999	1,796	3,721	107.2	3,933	5.7	4,108	4,387	4,651
<b>EBITDA (UBS)</b>	<b>322</b>	<b>700</b>	<b>1,221</b>	<b>2,029</b>	<b>66.2</b>	<b>2,218</b>	<b>9.3</b>	<b>2,261</b>	<b>2,414</b>	<b>2,552</b>
Depreciation & amortisation	(88)	(113)	(299)	(385)	28.7	(418)	8.8	(441)	(475)	(509)
<b>EBIT (UBS)</b>	<b>234</b>	<b>587</b>	<b>922</b>	<b>1,644</b>	<b>78.3</b>	<b>1,800</b>	<b>9.5</b>	<b>1,820</b>	<b>1,938</b>	<b>2,043</b>
Associates & investment income	2	3	3	11	261.6	11	0.0	11	11	11
Other non-operating income	75	28	(45)	(36)	20.5	7	-	5	0	(4)
Net interest	(57)	(15)	(120)	(343)	-186.0	(183)	46.7	(156)	(129)	(102)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>254</b>	<b>603</b>	<b>760</b>	<b>1,276</b>	<b>67.9</b>	<b>1,635</b>	<b>28.1</b>	<b>1,679</b>	<b>1,820</b>	<b>1,948</b>
Tax	(71)	(134)	(214)	(371)	-73.5	(457)	-23.1	(461)	(496)	(528)
<b>Profit after tax</b>	<b>183</b>	<b>469</b>	<b>546</b>	<b>905</b>	<b>65.7</b>	<b>1,178</b>	<b>30.1</b>	<b>1,218</b>	<b>1,324</b>	<b>1,420</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(59)	(143)	(196)	(190)	2.9	(216)	-13.6	(238)	(262)	(283)
Extraordinary items	5	(1)	(613)	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>129</b>	<b>325</b>	<b>(263)</b>	<b>715</b>	<b>-</b>	<b>961</b>	<b>34.5</b>	<b>980</b>	<b>1,062</b>	<b>1,137</b>
<b>Net earnings (UBS)</b>	<b>124</b>	<b>326</b>	<b>350</b>	<b>715</b>	<b>104.2</b>	<b>961</b>	<b>34.5</b>	<b>980</b>	<b>1,062</b>	<b>1,137</b>
Tax rate (%)	28.0	22.2	28.2	29.1	3.3	28.0	-3.9	27.5	27.3	27.1
<b>Per share (US\$)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
EPS (UBS, diluted)	0.01	0.02	0.02	0.05	104.2	0.07	34.5	0.07	0.07	0.08
EPS (local GAAP, diluted)	0.01	0.02	(0.02)	0.05	-	0.07	34.5	0.07	0.07	0.08
EPS (UBS, basic)	0.01	0.02	0.02	0.05	104.2	0.07	34.5	0.07	0.07	0.08
Net DPS (US\$)	0.00	0.00	0.00	0.01	-	0.02	34.5	0.02	0.02	0.02
Cash EPS (UBS, diluted) <sup>1</sup>	0.01	0.03	0.04	0.08	69.4	0.09	25.5	0.10	0.10	0.11
Book value per share	0.11	0.12	0.15	0.34	122.0	0.39	14.8	0.44	0.49	0.55
Average shares (diluted)	14,648.42	14,648.42	14,648.42	14,648.42	0.0	14,648.42	0.0	14,648.42	14,648.42	14,648.42
<b>Balance sheet (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Cash and equivalents	554	674	875	932	6.6	917	-1.6	657	338	83
Other current assets	1,149	596	4,292	4,399	2.5	4,398	0.0	4,608	4,932	5,257
<b>Total current assets</b>	<b>1,703</b>	<b>1,270</b>	<b>5,167</b>	<b>5,332</b>	<b>3.2</b>	<b>5,315</b>	<b>-0.3</b>	<b>5,264</b>	<b>5,270</b>	<b>5,340</b>
Net tangible fixed assets	1,387	1,411	4,132	4,600	11.3	4,876	6.0	5,296	5,673	6,043
Net intangible fixed assets	565	566	3,615	3,571	-1.2	3,571	0.0	3,571	3,571	3,571
Investments / other assets	227	250	1,242	1,058	-14.8	1,058	0.0	1,058	1,058	1,058
<b>Total assets</b>	<b>3,882</b>	<b>3,497</b>	<b>14,156</b>	<b>14,560</b>	<b>2.9</b>	<b>14,820</b>	<b>1.8</b>	<b>15,189</b>	<b>15,573</b>	<b>16,012</b>
Trade payables & other ST liabilities	811	624	2,062	1,966	-4.7	1,963	-0.2	2,102	2,156	2,194
Short term debt	808	164	760	954	25.54	954	0.00	954	954	954
<b>Total current liabilities</b>	<b>1,619</b>	<b>788</b>	<b>2,822</b>	<b>2,920</b>	<b>3.5</b>	<b>2,917</b>	<b>-0.1</b>	<b>3,056</b>	<b>3,110</b>	<b>3,148</b>
Long term debt	9	30	6,672	4,172	-37.5	3,472	-16.8	2,772	2,072	1,372
Other long term liabilities	121	129	1,524	1,371	-10.0	1,371	0.0	1,371	1,371	1,371
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>1,749</b>	<b>947</b>	<b>11,018</b>	<b>8,464</b>	<b>-23.2</b>	<b>7,761</b>	<b>-8.3</b>	<b>7,200</b>	<b>6,553</b>	<b>5,891</b>
Common s/h equity	1,548	1,789	2,270	5,038	122.0	5,785	14.8	6,477	7,245	8,063
Minority interests	585	761	868	1,058	21.9	1,275	20.4	1,513	1,774	2,057
<b>Total liabilities &amp; equity</b>	<b>3,882</b>	<b>3,497</b>	<b>14,156</b>	<b>14,560</b>	<b>2.9</b>	<b>14,820</b>	<b>1.8</b>	<b>15,189</b>	<b>15,573</b>	<b>16,012</b>
<b>Cash flow (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net income (before pref divs)	129	325	(263)	715	-	961	34.5	980	1,062	1,137
Depreciation & amortisation	88	113	299	385	28.7	418	8.8	441	475	509
Net change in working capital	5	53	6	(63)	-	(2)	97.2	(71)	(271)	(287)
Other operating	29	182	704	167	-76.3	192	15.4	216	244	269
<b>Operating cash flow</b>	<b>251</b>	<b>673</b>	<b>746</b>	<b>1,203</b>	<b>61.2</b>	<b>1,570</b>	<b>30.6</b>	<b>1,566</b>	<b>1,511</b>	<b>1,628</b>
Tangible capital expenditure	(289)	(135)	(282)	(852)	-202.0	(695)	18.4	(860)	(853)	(879)
Intangible capital expenditure	(40)	(16)	(18)	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	(4,652)	0	-	0	-	0	0	0
Other investing	202	365	(67)	(42)	-	24	-	22	18	14
<b>Investing cash flow</b>	<b>(127)</b>	<b>214</b>	<b>(5,019)</b>	<b>(893)</b>	<b>82.2</b>	<b>(671)</b>	<b>24.9</b>	<b>(838)</b>	<b>(835)</b>	<b>(865)</b>
Equity dividends paid	(38)	(105)	(136)	0	100.0	(214)	NM	(288)	(294)	(319)
Share issues / (buybacks)	0	0	0	2,054	-	0	-	0	0	0
Other financing	0	6	(22)	0	-	0	-	0	0	0
Change in debt & pref shares	28	(623)	7,162	(2,306)	-	(700)	69.64	(700)	(700)	(700)
<b>Financing cash flow</b>	<b>(10)</b>	<b>(722)</b>	<b>7,004</b>	<b>(252)</b>	<b>-</b>	<b>(914)</b>	<b>-262.9</b>	<b>(988)</b>	<b>(994)</b>	<b>(1,019)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>114</b>	<b>165</b>	<b>2,731</b>	<b>57</b>	<b>-97.9</b>	<b>(15)</b>	<b>-</b>	<b>(261)</b>	<b>(318)</b>	<b>(255)</b>
FX / non cash items	-	(45)	(2,530)	0	-	0	-	0	0	0
<b>Balance sheet inc/(dec) in cash</b>	<b>-</b>	<b>120</b>	<b>201</b>	<b>57</b>	<b>-71.4</b>	<b>(15)</b>	<b>-</b>	<b>(261)</b>	<b>(318)</b>	<b>(255)</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.<sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## WH Group (0288.HK)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	-	-	-	11.4	8.4	8.3	7.6	7.1
P/E (UBS, diluted)	-	-	-	11.4	8.4	8.3	7.6	7.1
P/CEPS	-	-	-	7.4	5.9	5.7	5.3	4.9
Equity FCF (UBS) yield %	-	-	-	4.3	10.8	8.7	8.1	9.2
Net dividend yield (%)	-	-	-	2.6	3.6	3.6	3.9	4.2
P/BV x	-	-	-	1.6	1.4	1.3	1.1	1.0
EV/revenues (core)	-	-	-	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (core)	-	-	-	6.9	5.7	5.5	5.1	4.7
EV/EBIT (core)	-	-	-	8.5	7.1	6.8	6.3	5.9
EV/OpFCF (core)	-	-	-	9.3	7.5	7.3	6.7	6.2
EV/op. invested capital	-	-	-	1.5	1.3	1.2	1.1	1.1
<b>Enterprise value (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Market cap.	-	-	-	8,122	8,122	8,122	8,122	8,122
Net debt (cash)	-	(108)	3,039	5,375	3,851	3,289	2,879	2,466
Buy out of minorities	585	761	868	1,058	1,275	1,513	1,774	2,057
Pension provisions/other	0	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,556</b>	<b>13,248</b>	<b>12,924</b>	<b>12,775</b>	<b>12,645</b>
Non core assets	(33)	(33)	(536)	(528)	(528)	(528)	(528)	(528)
<b>Core enterprise value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,028</b>	<b>12,720</b>	<b>12,396</b>	<b>12,247</b>	<b>12,117</b>
<b>Growth (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Revenue	-	14.4	80.2	100.9	0.4	6.6	6.0	5.6
EBITDA (UBS)	-	117.4	74.4	66.2	9.3	1.9	6.8	5.7
EBIT (UBS)	-	150.9	57.1	78.3	9.5	1.1	6.5	5.4
EPS (UBS, diluted)	-	162.9	7.4	104.2	34.5	1.9	8.4	7.0
Net DPS	-	-	-	-	34.5	1.9	8.4	7.0
<b>Margins &amp; Profitability (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Gross profit margin	10.8	16.0	16.0	16.5	17.3	17.0	17.1	17.2
EBITDA margin	5.9	11.2	10.8	9.0	9.8	9.3	9.4	9.4
EBIT margin	4.3	9.4	8.2	7.3	7.9	7.5	7.6	7.5
Net earnings (UBS) margin	2.3	5.2	3.1	3.2	4.2	4.0	4.1	4.2
ROIC (EBIT)	-	26.7	16.5	17.4	18.2	17.7	17.9	17.8
ROIC post tax	-	20.7	11.8	12.3	13.1	12.8	13.0	12.9
ROE (UBS)	-	19.5	17.2	19.6	17.8	16.0	15.5	14.9
<b>Capital structure &amp; Coverage (x)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net debt / EBITDA	0.8	(0.7)	5.4	2.1	1.6	1.4	1.1	0.9
Net debt / total equity %	12.3	(18.8)	209.0	68.8	49.7	38.4	29.8	22.2
Net debt / (net debt + total equity) %	11.0	(23.2)	67.6	40.8	33.2	27.8	23.0	18.1
Net debt/EV	-	-	-	29.9	27.6	24.8	21.9	18.5
Capex / depreciation %	NM	119.5	94.4	NM	166.1	195.1	179.4	172.6
Capex / revenue %	5.3	2.2	2.5	3.8	3.1	3.6	3.3	3.2
EBIT / net interest	4.1	39.1	7.7	4.8	9.8	11.7	15.0	19.9
Dividend cover (UBS)	-	5.4	-	3.3	3.3	3.3	3.3	3.3
Div. payout ratio (UBS) %	-	18.4	-	30.0	30.0	30.0	30.0	30.0
<b>Revenues by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	5,455	6,243	11,253	22,609	22,706	24,200	25,648	27,081
<b>Total</b>	<b>5,455</b>	<b>6,243</b>	<b>11,253</b>	<b>22,609</b>	<b>22,706</b>	<b>24,200</b>	<b>25,648</b>	<b>27,081</b>
<b>EBIT (UBS) by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	234	587	922	1,644	1,800	1,820	1,938	2,043
<b>Total</b>	<b>234</b>	<b>587</b>	<b>922</b>	<b>1,644</b>	<b>1,800</b>	<b>1,820</b>	<b>1,938</b>	<b>2,043</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

## Forecast returns

---

Forecast price appreciation	+59.3%
Forecast dividend yield	3.6%
Forecast stock return	+62.9%
Market return assumption	6.7%
Forecast excess return	+56.2%

---

## Statement of Risk

We believe the key risks for the consumer industry include: 1) any significant slowdown in the economy and consumption; 2) competition; 3) cost inflation; 4) price resistance; 5) a change in government policies; 6) regulation; and 7) forex; and 8) refinancing risks.

We believe the major risks for WH Group include: 1) the company's execution capabilities to integrate Smithfield's business after the acquisition and realise synergy benefits; 2) conflicts of interest with the A-share listed company in China; 3) international operations risk; and 4) trade barriers. The major risks for the sector, in our view, include: 1) price volatility of agricultural commodities and livestock; 2) outbreaks of disease; 3) food safety and industry regulations; and 4) higher environmental protection costs to comply with stricter government regulations.

## Required Disclosures

This report has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures). The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

**Analyst Certification:** Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

### UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	37%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	42%	32%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS:** **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES:** **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

**UBS AG Hong Kong Branch:** Christine Peng, CFA; Erica Poon Werkun, CFA. **UBS Securities Co. Limited:** Anne Huang.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>WH Group</b> <sup>4, 13, 22</sup>	0288.HK	Buy	N/A	HK\$4.30	27 Feb 2015

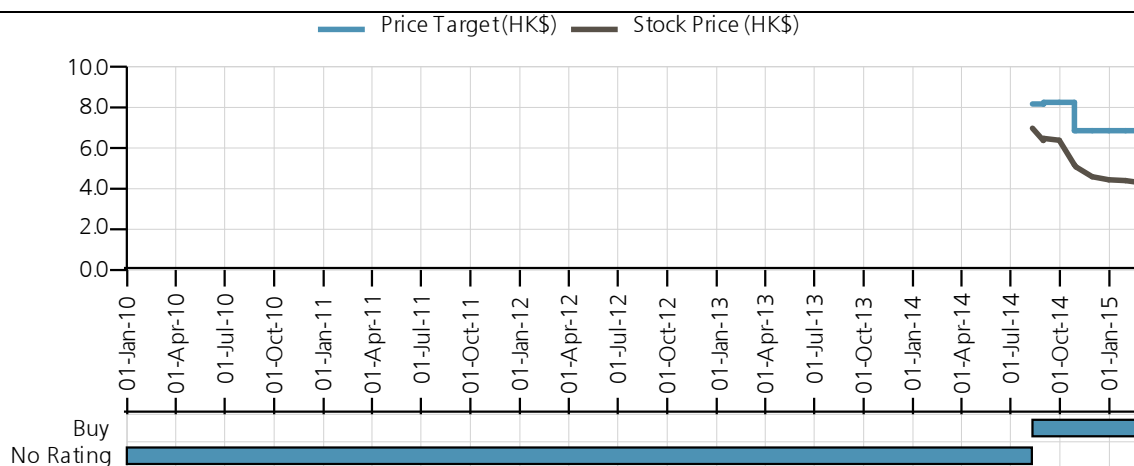
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
22. UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### WH Group (HK\$)



Source: UBS; as of 27 Feb 2015



## Global Disclaimer

This document has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce regulated by the Polish Financial Supervision Authority. Where an analyst of UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce has contributed to this document, the document is also deemed to have been prepared by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Bank (OOO). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited (Registration No. 1995/011140/07), an authorised user of the JSE and an authorised Financial Services Provider (FSP 7328). **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **Dubai:** The information distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [MCI (P) 016/09/2014 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services License No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the information, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If the information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: [www.ubs.com/ecs-research-fsg](http://www.ubs.com/ecs-research-fsg). **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (Capital Markets Services License No.: CMSL/A0063/2007). This material is intended for professional/institutional clients only and not for distribution to any retail clients. **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2015. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

