

WH Group

Further value lift from Smithfield re-rating

Earlier and better-than-expected margin improvements at Smithfield

WH's 2015 NP was well above consensus and UBS estimates, primarily due to Smithfield's (SFD) margin recovery in Q415. This supports our belief that SFD's profitability enhancement will drive share price upside potential, as we flagged in our note [Attractive valuation with multiple earning drivers](#) (7 March 2016). In addition to efficiency gains from optimisation in manufacturing and logistics, increasing imports from China should also benefit SFD's downstream profit through higher slaughtering volume and profitability. SFD management estimates the "One Smithfield" initiative will generate a 200bps improvement in SFD's downstream EBIT margin during 2015-17, of which 50-100bps was realised in 2015 due to brand portfolio integration.

Raise EPS forecasts to factor in further profitability improvement for Smithfield

We raise our 2016/2017/2018 earnings forecasts 17%/18%/20% to factor in margin improvement from SFD's downstream business and the higher base in 2015, given the results beat. We expect SFD's downstream EBIT margin to increase to 8.6% in 2017 from 7.1% in 2015, driven by both lower SG&A expenses and better gross profit margin. For Shuanghui, we expect volume growth to resume given accelerated industry consolidation and new product roll-outs, in addition to a low base effect.

Smithfield re-rating the key share price driver in the next one to two years

WH's valuation appears low at 6x 2017E EV/EBITDA, versus 9x/12x for China/global peers. The implied equity value for SFD is US\$2.7bn, versus US\$4.7bn upon its acquisition in September 2013. However, SFD's EBITDA increased 63% during 2013-15. We believe SFD is undervalued given its implied one-year forward PE of 5x versus 16x for its closest peer, Tyson Food (per Bloomberg). Despite the 34% drop in US hog prices in 2015, SFD's EBIT only dropped 11%, mainly aided by improved profitability at its downstream division, while the upstream division's EBIT contribution dropped from 40% in 2014 to 2%. We believe the continued enhancement of SFD profitability will further improve investor confidence in management's execution ability. Moreover, a successful roll-out of SFD-branded packaged meat products in China would likely change investors' bearish view on Shuanghui's packaged meat growth outlook.

Valuation: maintain Buy rating, raise price target to HK\$7.99

Our new price target of HK\$7.99 (prior: HK\$7.04) is based on a SOTP methodology, and implies 14x PE and 8x EV/EBITDA in 2017. Our valuation for each segment is based on PE multiples relative to local markets.

Equities

Hong Kong
Food Products

12-month rating **Buy**

12m price target **HK\$7.99**
Prior: HK\$7.04

Price **HK\$5.62**

RIC: 0288.HK BBG: 288 HK

Trading data and key metrics

52-wk range	HK\$6.06-3.84
Market cap.	HK\$82.3bn/US\$10.6bn
Shares o/s	14,648m (ORD)
Free float	12%
Avg. daily volume ('000)	19,639
Avg. daily value (m)	HK\$91.6
Common s/h equity (12/16E)	US\$6.41bn
P/BV (12/16E)	1.7x
Net debt / EBITDA (12/16E)	0.9x

EPS (UBS, diluted) (US\$)

	From	To	% ch	Cons.
12/16E	0.05	0.06	17	0.06
12/17E	0.06	0.07	18	0.07
12/18E	0.07	0.08	20	0.07

Christine Peng, CFA

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

Erica Poon Werkun, CFA

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

Abigail Sun

Associate Analyst
abigail.sun@ubs.com
+852-2971 7469

Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	11,253	22,243	21,209	21,519	22,016	22,771	23,524	24,385
EBIT (UBS)	922	1,677	1,621	1,716	1,884	2,027	2,141	2,287
Net earnings (UBS)	350	737	866	922	1,055	1,167	1,344	1,450
EPS (UBS, diluted) (US\$)	0.02	0.05	0.06	0.06	0.07	0.08	0.09	0.10
DPS (US\$)	0.00	0.00	0.02	0.02	0.02	0.02	0.03	0.00
Net (debt) / cash	(6,500)	(3,670)	(2,760)	(1,868)	(1,098)	(247)	788	1,331
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	8.2	7.5	7.6	8.0	8.6	8.9	9.1	9.4
ROIC (EBIT) %	16.6	18.3	17.6	18.5	20.1	21.2	21.9	23.0
EV/EBITDA (core) x	-	7.9	6.3	6.6	5.8	5.2	4.6	4.5
P/E (UBS, diluted) x	-	14.6	10.1	11.5	10.1	9.1	7.9	7.3
Equity FCF (UBS) yield %	-	5.5	11.5	6.9	10.0	11.0	13.2	14.3
Net dividend yield %	-	0.0	2.7	2.6	3.0	3.3	3.8	0.0

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\$5.62 on 31 Mar 2016 22:36 HKT

PIVOTAL QUESTIONS

Q: Will the discrepancy between China and US hog prices narrow in 2016?

Unlikely. The gap between China and US hog prices is still at a historical peak. However, we think hog prices in both countries will stay at current levels in 2016, due to a delayed supply response in both China and the US. We expect the gap to narrow in 2017.

[Attractive valuation with multiple earnings drivers →](#)

Q: Can synergies between Shuanghui and Smithfield drive earnings for WH Group in 2016/17?

Yes. We expect synergies to contribute 16%/10% of total profit in 2016/2017, mainly driven by: 1) the natural hedge between the China-US businesses against hog price volatility through pork imports; and 2) the launch of Smithfield western-style packaged meats in China in December 2015.

[Attractive valuation with multiple earnings drivers →](#)

Q: Will Smithfield's new CEO drive profitability improvement with efficiency gains in 2016/17?

Yes. Smithfield's SG&A expenses are much higher than Tyson's, as a result of multiple historical M&As. The new CEO's "One Smithfield" initiative resulted in a 50-100bps EBIT margin expansion for the downstream business in 2015 and the company expects a further 100-150bps of expansion in 2016-17.

[Attractive valuation with multiple earnings drivers →](#)

UBS VIEW

We believe the "One Smithfield" initiative will drive downstream profitability improvement for Smithfield through optimisation of sales, brand portfolio, manufacturing and logistics in 2015-17, raising investor confidence in management's execution ability. We think the re-rating of Smithfield will be the key share price driver in the next one to two years. In addition, we believe synergy between Shuanghui and Smithfield could continue through: 1) fresh pork exports from the US to China due to persistent large price discrepancies; and 2) promotion of Smithfield packaged meats in China.

EVIDENCE

Our view is well supported by: 1) an analysis of the US and China hog markets that suggests the current price discrepancy will continue in 2016; 2) synergies between Shuanghui and Smithfield in pork imports and new product launches; and 3) a comparison of the cost structure between Smithfield and Tyson, which indicates a high potential for profitability improvements.

WHAT'S PRICED IN?

Implied valuation of Smithfield appears to be unjustified: The share price implies a US\$2.7bn equity value for Smithfield, compared with US\$4.7bn upon the acquisition in September 2013, despite the 63% EBITDA increase over 2013-15. We believe the market has undervalued Smithfield at 5x one-year forward PE vs 16x for Tyson Foods (Bloomberg). The share price has recovered about 30% since the Q315 results announcement in October 2015, implying that part of the synergies have been priced in.

[more →](#)

UPSIDE / DOWNSIDE SPECTRUM

**Value drivers**

	China packaged meat volume	China packaged meat GPM	Fresh pork imports volume	Smithfield – EBIT margin
HK\$8.56 upside	1.71m tonne	32.2%	450k tonne	7.5%
HK\$7.99 target	1.67m tonne	31.8%	400k tonne	7.0%
HK\$4.30 downside	1.59m tonne	29.6%	300k tonne	3.0%

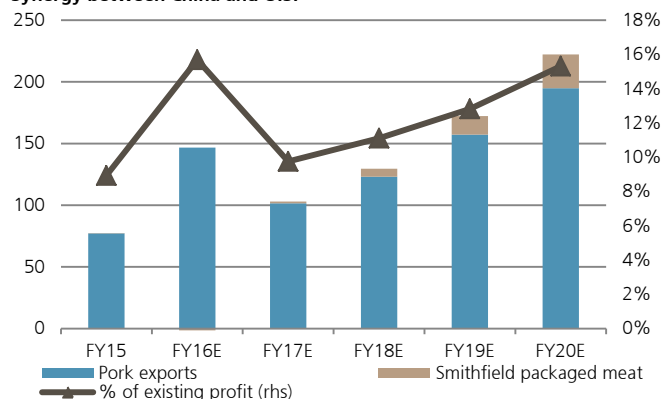
COMPANY DESCRIPTION

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.

OUR THESIS IN PICTURES

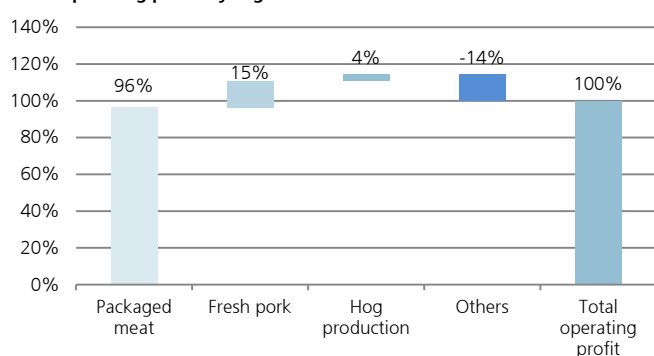
[return](#) ↑

Synergy between China and U.S.



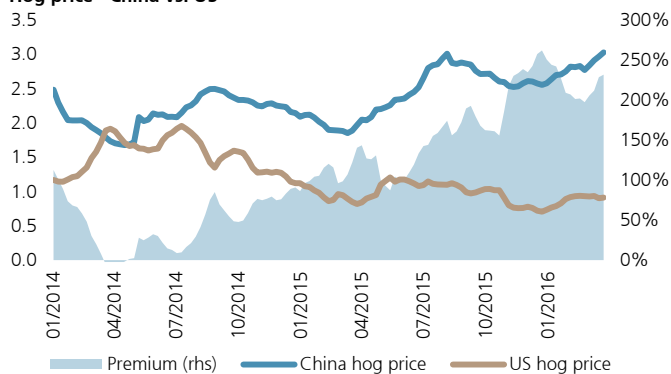
We expect synergies to be generated between China and the US from 2015 onwards.

2015 operating profit by segments



Packaged meat contributed 96% of total group operating profit in 2015.

Hog price - China vs. US



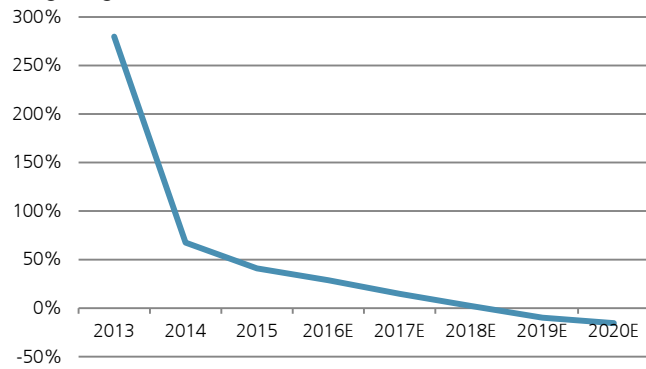
The gap between China and US hog prices (US\$/kg) is still at a historical high.

SG&A expenses comparison Smithfield vs. Tyson (average in 2012-14, US\$ m)

	Smithfield		Tyson	
	Financial	% of revenue	Financial	% of revenue
Revenue	13,986		35,003	
COGS	(12,538)	-89.7%	(32,592)	-93.1%
Gross profit	1,447	10.3%	2,411	6.9%
SGA	(848)	-6.1%	(1,047)	-3.0%
EBIT	599	4.3%	1,364	3.9%

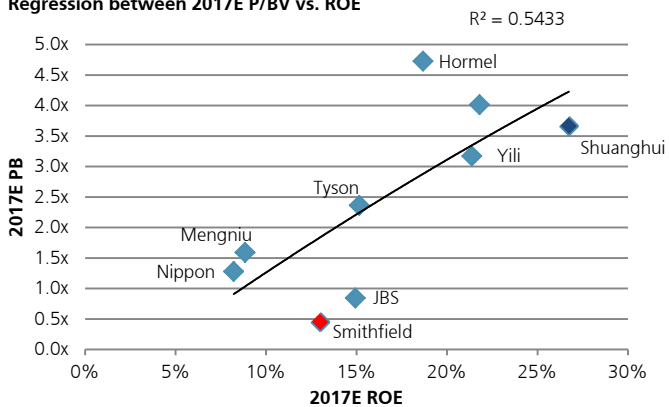
Smithfield's SG&A is 3% higher than Tyson's as a result of inefficient operations. We expect the new management team to make more efforts to improve profitability through cost-saving plans.

Net gearing ratio



The company deleveraged from 280% in 2013 to 41% in 2015.

Regression between 2017E P/BV vs. ROE



Smithfield appears to be undervalued at the current share price, with 13% 2017E ROE and 0.45x 2017E P/BV.

Sources for exhibits above: Company data, Wind, UBS estimates, Bloomberg consensus for non-covered companies (Tyson, Yili, Shuanghui, Nippon Meat, Hormel)

2015 results: strong beat due to Smithfield margin recovery

WH's 2015 net profit was 15% above our estimate, mainly due to Smithfield's margin recovery in Q415, while Shuanghui's net profit was broadly in line with our estimates. The 30% dividend pay-out was also a positive surprise, considering the company's continuous deleveraging since 2013.

Figure 1: 2015 results review

US\$ m	2014	2015	2015E	YoY	Diff vs. UBS	H114	H214	H115	H215	H1 YoY	H2 YoY
Revenue	22,243	21,209	20,695	-5%	2%	10,540	11,703	10,205	11,004	-3%	-6%
China	7,395	7,087	7,145	-4%	-1%	3,402	3,993	3,261	3,826	-4%	-4%
Packaged meat	4,039	3,559	3,788	-12%	-6%	1,989	2,050	1,771	1,788	-11%	-13%
Fresh pork	3,172	3,344	3,172	5%	5%	1,331	1,841	1,407	1,937	6%	5%
Hog production	7	9	8	29%	18%	3	4	3	6	0%	50%
Others	177	175	177	-1%	-1%	79	98	80	95	1%	-3%
US & international	14,848	14,122	13,550	-5%	4%	7,138	7,710	6,944	7,178	-3%	-7%
Packaged meat	7,173	7,088	6,748	-1%	5%	3,277	3,896	3,255	3,833	-1%	-2%
Fresh pork	5,540	4,717	4,704	-15%	0%	2,866	2,674	2,510	2,207	-12%	-17%
Hog production	522	940	422	80%	123%	215	307	518	422	141%	38%
International & others	1,613	1,377	1,677	-15%	-18%	781	833	661	716	-15%	-14%
Gross profit	3,946	4,144	3,669	5%	13%	1,936	2,010	1,945	2,199	0%	9%
SG&A	(2,269)	(2,523)	(2,186)	11%	15%	(1,100)	(1,169)	(1,182)	(1,341)	7%	15%
Operating profit	1,677	1,621	1,483	-3%	9%	836	841	763	858	-9%	2%
China	773	811	819	5%	-1%	405	368	375	436	-7%	18%
Packaged meat	711	782	785	10%	0%	353	358	363	419	3%	17%
Fresh pork	135	80	88	-41%	-9%	83	52	52	28	-37%	-46%
Packaged meat	450	668	603	48%	11%	211	239	342	326	62%	36%
Fresh pork	90	168	32	87%	421%	82	8	15	153	-82%	1813%
Hog production	337	12	85	-96%	-86%	135	202	28	(16)	-79%	-108%
International	93	50	64	-46%	-21%	46	47	27	23	-41%	-51%
OPM	8%	8%	7%	0.1ppt	0.5ppt	8%	7%	7%	8%	-0.5ppt	0.6ppt
Packaged pork	18%	22%	21%	4.4ppt	1.3ppt	18%	17%	20%	23%	2.7ppt	6.0ppt
Fresh meat	4%	2%	3%	-1.9ppt	-0.4ppt	6%	3%	4%	1%	-2.5ppt	-1.4ppt
US & international	6%	5%	5%	-0.4ppt	0.4ppt	6%	6%	5%	5%	-0.6ppt	-0.1ppt
Packaged meat	6%	9%	9%	3.2ppt	0.5ppt	6%	6%	11%	9%	4.1ppt	2.4ppt
Fresh pork	2%	4%	1%	1.9ppt	2.9ppt	3%	0%	1%	7%	-2.3ppt	6.6ppt
Hog production	65%	1%	20%	-63.3ppt	-18.8ppt	63%	66%	5%	-4%	-57.3ppt	-69.7ppt
International	6%	4%	4%	-2.1ppt	-0.2ppt	6%	6%	4%	3%	-1.8ppt	-2.4ppt
Financing cost	(371)	(219)	(176)	-41%	24%	(184)	(187)	(118)	(101)	-36%	-46%
Profit before tax	1,375	1,429	1,329	4%	8%	702	673	658	771	-6%	15%
Tax expense	(432)	(354)	(369)	-18%	-4%	(225)	(207)	(194)	(160)	-14%	-23%
Biological asset gain/(losses)	29	(80)	(64)	-376%	25%	165	(136)	(64)	(16)	-139%	-88%
Recurring net profit	737	866	753	18%	15%	366	371	367	499	0%	35%
Recurring net profit margin	3%	4%	5%	0.8ppt	-0.6ppt	3%	3%	4%	5%	0.1ppt	1.4ppt
Dividend pay-out ratio	0%	30%	0%	30ppt	30ppt	NA	NA	NA	NA	NA	NA

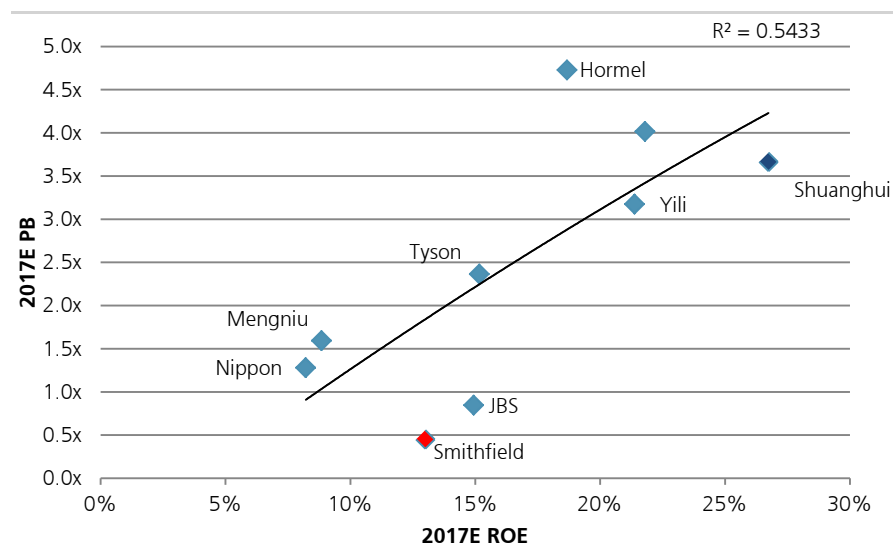
Source: Company data, UBS estimates

WHAT'S PRICED IN?

[return](#) ↑**Smithfield re-rating will be the key share price driver**

Despite the approximately 30% recovery in the share price since the company announced Q315 results, the current valuation of 5.7x 2017E EV/EBITDA still appears attractive compared with the averages of 8.9x/12.4x for its China/global peers.

The current share price implies a US\$2.7bn equity value for SFD, versus US\$4.7bn upon its acquisition in September 2013. However, SFD's EBITDA increased 63% during 2013-15. We believe SFD is undervalued given its implied one-year forward PE of 5x versus 16x for its closest peer, Tyson Food (per Bloomberg). Despite the 34% drop in US hog price in 2015, SFD's EBIT dropped 11%, mainly aided by improved profitability at its downstream division while the upstream division's EBIT contribution dropped from 40% in 2014 to 2%. We believe continued profitability enhancement of SFD through the "One Smithfield" initiative will further improve investor confidence in management's execution ability.

Figure 2: Regression between 2017E P/BV vs. ROE

Above data as of 31 March 2016.

Source: Company data, UBS estimates, Bloomberg consensus for non-covered companies (Tyson, Yili, Shuanghui, Nippon Meat, Hormel)

Figure 3: Valuation comparison

	Mkt	Share	Earnings				PEG		EV/Sales		EV/EBITDA		P/BV		EBIT margin		ROE		Div Yield	
	Cap	price	PER		CAGR															
Company	(US\$m)		16E	17E	15-17E	16E	17E	16E	17E	16E	17E	16E	17E	16E	17E	16E	17E	16E	17E	
WH Group	10,617	HK\$5.62	11.5x	10.1x	10%	1.1x	1.0x	0.6x	0.6x	6.5x	5.7x	1.7x	1.5x	8.0%	8.6%	15.1%	15.6%	3.7%	4.2%	
HK/China F&B																				
China Foods*	1,187	HK\$3.29	19.4x	19.8x	135%	0.1x	0.1x	0.4x	0.3x	7.4x	6.9x	1.5x	1.4x	3.4%	3.3%	8.0%	7.5%	1.8%	1.5%	
China Mengniu	6,239	HK\$12.34	20.5x	18.6x	-5%	-4.3x	-3.9x	1.1x	1.0x	9.4x	8.3x	1.7x	1.6x	5.0%	5.2%	8.6%	8.8%	1.1%	1.2%	
Huishan Dairy	5,074	HK\$2.92	85.8x	47.4x	-10%	-8.6x	-4.7x	5.0x	3.4x	30.3x	23.9x	3.0x	2.9x	18.4%	18.5%	3.2%	6.2%	0.3%	0.5%	
Bright Dairy & Food*	2,289	CNY12.00	25.8x	20.3x	31%	0.8x	0.7x	0.5x	0.5x	8.4x	7.4x	2.6x	2.5x	3.3%	3.5%	11.7%	13.4%	2.0%	2.8%	
Henan Shuanghui*	10,799	CNY21.11	15.0x	13.7x	10%	1.5x	1.3x	1.4x	1.3x	10.1x	9.5x	4.0x	3.7x	11.6%	12.1%	25.8%	26.7%	5.0%	5.3%	
Huiyuan Juice	1,017	HK\$2.97	-82.6x	83.0x	NA	NA	NA	1.5x	1.4x	15.5x	11.5x	0.6x	0.6x	1.4%	3.9%	-0.8%	0.8%	0.0%	0.0%	
Tingyi	6,266	HK\$8.67	24.6x	20.9x	8%	3.1x	2.6x	1.4x	1.5x	7.7x	6.5x	1.9x	1.8x	5.1%	6.4%	8.1%	9.0%	2.9%	3.4%	
UPC	3,448	HK\$6.19	25.3x	24.1x	5%	4.9x	4.7x	1.1x	1.0x	8.1x	8.0x	1.8x	1.7x	4.8%	4.8%	7.4%	7.3%	1.2%	1.2%	
Want Want	9,445	HK\$5.75	17.8x	19.4x	-4%	-4.6x	-5.0x	4.0x	4.2x	11.2x	12.0x	4.5x	4.0x	21.4%	20.2%	26.6%	21.8%	4.1%	3.8%	
Yili*	13,694	CNY14.57	17.2x	15.2x	15%	1.1x	1.0x	1.3x	1.2x	11.3x	9.9x	3.7x	3.2x	8.3%	8.7%	21.9%	21.4%	3.0%	3.4%	
Average			20.7x	19.0x	20.7%	1.9x	1.7x	1.8x	1.6x	9.9x	8.9x	2.5x	2.3x	8.3%	8.7%	12.0%	12.3%	2.1%	2.3%	
Global F&B																				
Tyson*	26,331	US\$66.66	16.7x	15.5x	16%	1.0x	1.0x	0.9x	0.9x	9.6x	9.4x	2.6x	2.4x	7.2%	7.1%	15.7%	15.2%	1.0%	1.1%	
Hormel Foods CRP*	22,914	US\$43.24	27.9x	26.6x	12%	2.4x	2.3x	2.4x	2.3x	16.3x	15.5x	5.1x	4.7x	13.0%	13.4%	18.9%	18.7%	1.5%	1.7%	
Coca-Cola Co.*	200,811	US\$46.39	23.9x	22.6x	2%	15.2x	14.4x	5.3x	5.8x	18.6x	18.1x	8.5x	8.0x	23.8%	26.9%	31.5%	33.4%	3.0%	3.2%	
Danone SA	43,404	EUR62.51	19.2x	17.8x	10%	1.9x	1.8x	1.7x	1.7x	11.3x	10.4x	2.6x	2.4x	13.2%	13.4%	14.2%	14.1%	2.6%	2.8%	
Diageo	67,893	GBP1,881.50	21.3x	19.2x	5%	4.3x	3.9x	5.2x	4.9x	16.2x	15.2x	5.5x	5.5x	28.2%	28.6%	27.1%	28.4%	3.1%	3.3%	
General Mills Inc.	37,655	US\$63.35	22.1x	20.9x	4%	5.8x	5.5x	2.8x	2.8x	13.8x	13.5x	7.4x	7.1x	16.8%	17.1%	34.0%	35.4%	2.8%	2.9%	
JBS SA	8,768	BRL10.95	7.0x	5.6x	3%	2.2x	1.8x	0.4x	0.3x	4.7x	4.3x	0.9x	0.8x	5.7%	5.9%	13.2%	14.9%	3.5%	3.2%	
Kellogg Co.	26,964	US\$76.55	20.7x	19.3x	7%	3.1x	2.9x	2.6x	2.5x	13.6x	13.0x	13.1x	13.0x	14.9%	15.6%	55.4%	56.4%	2.7%	2.8%	
Mondelez	62,472	US\$40.12	23.0x	20.0x	6%	3.8x	3.3x	2.9x	2.8x	15.8x	14.4x	2.1x	2.0x	14.8%	16.2%	9.6%	10.9%	1.7%	1.9%	
Nippon Meat*	4,497	JPY2480	18.1x	16.9x	0%	-57.5x	-54.0x	0.5x	0.5x	9.0x	8.5x	1.4x	1.3x	3.5%	3.7%	7.9%	8.2%	1.8%	1.8%	
Nestle SA	238,532	CHF71.85	20.5x	18.8x	10%	2.1x	1.9x	2.7x	2.6x	14.0x	13.0x	3.2x	3.0x	15.9%	16.2%	16.0%	16.5%	3.5%	3.8%	
Pepsico	149,753	US\$102.48	21.9x	20.2x	5%	4.1x	3.8x	2.7x	2.6x	13.6x	13.0x	13.1x	12.8x	16.1%	16.6%	56.9%	61.0%	2.9%	3.1%	
Unilever Plc	131,452	GBP3,152.50	22.0x	20.5x	7%	3.1x	2.9x	2.3x	2.2x	14.7x	13.8x	9.2x	10.5x	15.1%	15.4%	49.5%	47.9%	2.3%	2.5%	
Yakult	7,336	JPY4985	27.4x	28.3x	8%	3.5x	3.6x	2.5x	2.5x	11.9x	11.4x	2.2x	2.0x	10.8%	11.0%	8.4%	7.5%	1.0%	1.1%	
Average			20.8x	19.5x	6.7%	4.0x	3.8x	2.5x	2.5x	13.1x	12.4x	5.5x	5.4x	14.2%	14.8%	25.6%	26.3%	2.4%	2.5%	

*Not covered by UBS; Bloomberg consensus estimates.

Note: Above data as of 31 March 2016, outliers are excluded when calculating averages.

Source: Bloomberg, company data, UBS estimates

Our 2016/2017 revenue forecasts are 3%/4% below consensus, whereas our EBIT forecasts are 6%/6% above consensus, reflecting our positive view on Smithfield margin expansion through "One Smithfield" initiative and increasing fresh pork exports to China.

Our price target of HK\$7.99 implies 8x 2017E EV/EBITDA, similar to the industry average of 9x in China and much lower than the global average of 12x.

Figure 4: UBS versus consensus estimates (US\$ m)

	UBS		Consensus		Difference	
	2016E	2017E	2016E	2017E	2016E	2017E
Revenue	21,219	22,016	22,202	22,902	-3%	-4%
EBIT	1,716	1,884	1,612	1,775	6%	6%
Net income	922	1,056	864	954	7%	11%

Source: Bloomberg, UBS estimates

UPSIDE / DOWNSIDE SPECTRUM

[return](#) ↑

WH Group is trading at HK\$5.62 (as of 31 March 2016)

Value drivers	China packaged meat volume	China packaged meat GPM	Fresh pork imports volume	Smithfield – EBIT margin
HK\$8.56 upside	1.71m tonne	32.2%	450k tonne	7.5%
HK\$7.99 target	1.67m tonne	31.8%	400k tonne	7.0%
HK\$4.30 downside	1.59m tonne	29.6%	300k tonne	3.0%

Risk to the current share price is skewed (2.2:1) to the upside

WH Group is trading at HK\$5.62 (as of 31 March 2016).

Upside (HK\$8.56): We assume China's packaged meat volume picks up more quickly and rises to 1.71m tonnes by 2017 with a 32.2% GPM, slightly higher than in our base case. The improvement in packaged meat will be driven by both better growth of Shuanghui's organic business and a more rapid expansion of Smithfield packaged meat in China, assuming a more favourable competitive environment. We also factor in larger fresh pork exports to China, suggesting greater benefits from synergies. We assume Smithfield's EBIT margin expands more quickly through efficiency gains and China exports. Our upside scenario implies a valuation of HK\$8.56, implying 8x 2017E EV/EBITDA.

Downside (HK\$4.30): We assume an underperformance by Smithfield western-style packaged meats and weaker overall demand for packaged meats in China lead to flat volumes and slower margin expansion in 2016-17 for the China packaged meat business. We also assume smaller fresh pork exports to China, leading to lower margins at Smithfield. In addition, we factor in higher SG&A expenses for Smithfield, assuming its cost-saving plan is not as successful as expected. In this case, we derive a valuation of HK\$4.30 per share, implying 7x 2017E EV/EBITDA.

Base (HK\$7.99): We use a SOTP methodology, taking the sum of each business segment. Our valuation of each part is based on PE multiples relative to local markets. We raise our price target from HK\$7.04 to HK\$7.99 on the below assumptions:

- **US downstream business:** A major part of our earnings upgrades is contributed by potential margin expansion in Smithfield's downstream business, including both packaged meat and fresh pork. The new CEO initiated the "One Smithfield" program in 2015, aimed at improving profitability through integration of sales, brand portfolio, manufacturing and logistics. Smithfield had expanded through multiple M&As and each subsidiary operated independently in the past. The project aims to integrate all subsidiaries' businesses into six departments: packaged meat, fresh pork, hog production, international business, sales & marketing, and administrative.

The optimisations of the sales team and brand portfolio were completed in 2015, contributing 50-100bps of Smithfield's OP margin recovery. Management thinks an additional 100-150bps margin expansion could be realised in the next one to two years through efficiency gains in manufacturing and logistics. This is in line with our estimates.

We expect the overall operating profit margin for the US downstream business to expand from 7.1% in 2015 to 8.6% in 2017. We raise our estimates on fresh pork operating profit significantly as we previously expected it to turn lossmaking in 2016/17.

- **US upstream business:** We anticipate ASP decline in 2016, based on a US Department of Agriculture forecast of a 5% decline in US hog prices and our analysis of Smithfield's business. We raise our forecast ASP decline rate from 7% to 15% and cut our operating profit estimate considering its 2015 performance and that Smithfield management does not intend to expand its upstream business.
- **China packaged meat:** After a disappointing performance in the past two years, management has started to take action to expand its packaged meat business through: 1) active promotion of Smithfield packaged meat; 2) channel diversification; and 3) product mix upgrades with more profit coming from low-temperature meat products (LTMP). We expect meaningful volume and profit growth starting from 2016. We raise our 2016 volume/ASP growth rates 3ppts/3ppts in expectation of better management execution on new product promotions and therefore faster sales expansion. We lower our unit operating profit estimate in view of higher selling and marketing expenses.
- **China fresh pork:** We expect China's fresh pork volume to increase 33%/16%/7% in 2016/2017/2018 because 1) Shuanghui's management has adopted a volume-oriented strategy starting from 2016 to gain market share given the current low utilisation rate; and 2) the favourable competitive environment that encourages industry consolidation. We cut our 2016 ASP growth rate estimate 7ppts due to the higher-than-expected 2015 ASP. Our view on operating profit remains unchanged.
- **Net gearing ratio:** WH's net gearing ratio declined from 280% in 2013 to 41% by end-2015. We therefore anticipate lower financial costs and better cash positions going forward. We also raise our interest expense rate from 4% to 5% as the company has replaced some US\$-denominated debt with Rmb debt.

- **Foreign currency risk**

We think the company is exposed to foreign currency risk in two ways:

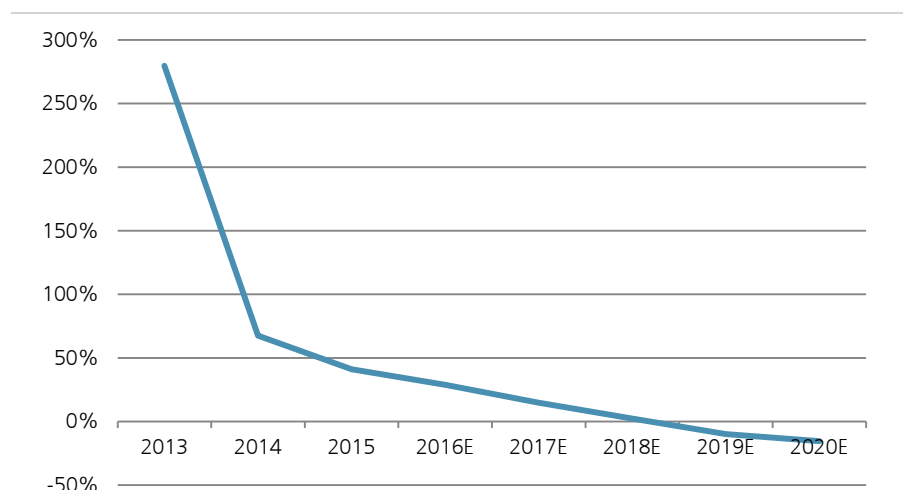
- (1) Translation losses will be generated from the mismatch between the operating currency of its China subsidiary (Rmb) and the reporting currency (US\$). Our earnings forecasts have factored in this part of the risk, which negatively affects the company's earnings from 2016E onwards.
- (2) The company had around US\$1.1bn of debt denominated in US\$ under the group itself at the end of 2015; management indicates most of this is scheduled to be repaid by the China subsidiary in 2016. We estimate US\$60m of FX losses (about 5% of net profit) in 2016, assuming 5.4% Rmb depreciation against the US\$ during the period.

Figure 5: Changes in key assumptions

US\$ m	New			Old			Change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
China									
Packaged meat									
Sales volume YoY change	3.8%	1.8%	3.2%	0.9%	6.2%	1.7%	3ppts	-4ppts	2ppts
ASP YoY change	6.0%	2.8%	3.1%	2.6%	2.3%	2.9%	3ppts	0ppts	0ppts
Unit operating profit (US\$/tonne)	465	481	509	479	501	524	-3%	-4%	-3%
Fresh pork									
Sales volume YoY change	32.6%	15.6%	6.8%	20.7%	15.6%	6.8%	12ppts	0ppts	0ppts
ASP YoY change	2.7%	-9.1%	1.8%	9.7%	-9.1%	1.8%	-7ppts	0ppts	0ppts
Unit operating profit (US\$/head)	6.4	7.7	7.4	6.4	7.7	7.4	0%	0%	0%
Total revenue	7,687	7,739	8,196	7,941	8,140	8,554	-3%	-5%	-4%
Total operating profit	831	904	982	825	943	1,003	1%	-4%	-2%
Operating profit margin	10.8%	11.7%	12.0%	10.4%	11.6%	11.7%	0.4ppts	0.1ppts	0.2ppts
US									
Packaged meat									
Sales volume YoY change	4.4%	4.3%	2.0%	2.3%	2.3%	2.2%	2ppts	2ppts	0ppts
ASP YoY change	-2.5%	1.0%	1.0%	-2.0%	1.0%	1.0%	-1ppts	0ppts	0ppts
Unit operating profit (US\$/tonne)	522	545	563	529	541	554	-1%	1%	2%
Fresh pork									
Sales volume YoY change	2.2%	0.0%	0.0%	2.2%	0.0%	0.0%	0ppts	0ppts	0ppts
ASP YoY change	-4.0%	1.0%	1.0%	-3.0%	1.0%	1.0%	-1ppts	0ppts	0ppts
Unit operating profit (US\$/head)	6.4	7.4	8.2	(0.9)	(0.4)	0.0	-797%	-1758%	72780%
Hog production									
Production volume YoY change	2.1%	0.0%	0.0%	2.0%	0.0%	0.0%	0ppts	0ppts	0ppts
ASP YoY change	-15.0%	1.0%	1.0%	-7.0%	1.0%	1.0%	-8ppts	0ppts	0ppts
Unit operating profit (US\$/head)	2.0	1.8	1.5	2.1	1.9	1.6	-6%	-5%	-4%
Total revenue	13,832	14,278	14,575	13,535	13,833	14,137	2%	3%	3%
Total operating profit	897	993	1,057	677	717	756	33%	39%	40%
Operating profit margin	6.5%	7.0%	7.3%	5.0%	5.2%	5.4%	1.5ppts	1.8ppts	1.9ppts
Corporate									
EBIT	1,716	1,884	2,027	1,502	1,660	1,760	14%	14%	15%
Finance income/(cost)	(178)	(143)	(113)	(136)	(108)	(84)	31%	32%	34%
Net profit attributable to shareholders	922	1,056	1,167	789	897	976	17%	18%	20%
Capital expenditure	748	613	644	709	597	603	6%	3%	7%

Source: Company data, UBS estimates

Figure 6: Net gearing ratio, WH



Source: Company data, UBS estimates

Figure 7: Sum-of-the-parts valuation

Divisions	Valuation methodology	Multiple	2017E earnings	NAV Total (US\$ m)	NAV per share (HK\$)	As % of total
China-downstream business	PE	17	463	7,870	4.16	52%
US- downstream business	PE	12	659	7,908	4.18	52%
US- upstream business	PE	10	-60	-596	-0.32	-4%
International integrated business	PE	12	-7	-83	-0.04	-1%
WH Group's equity value				15,099		
Total number of shares (million)				14,648		
Equity value per share (HK\$)				7.99		
Implied 2017E PE				14.3x		

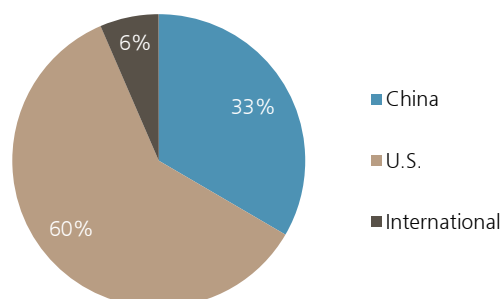
Source: Company data, UBS estimates

COMPANY DESCRIPTION

[return](#) ↑

Market Cap	HK\$82.3bn/US\$10.6bn
Shares Outstanding	14,648m
Industry and outlook	Food products
Region	Hong Kong
Website	www.wh-group.com

Revenue by region, 2015 (%)



WH Group is the No.1 global pork processor in key segments of the pork industry value chain, including hog production, fresh pork and packaged meat products. The company conduct 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.

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. The gap between China and US hog prices reached a historical high in 2015, and we expect the discrepancy to continue in 2016 due to delayed supply responses, which should benefit WH. In China's packaged meat sector, we expect accelerating industry consolidation as Shuanghui's two major competitors, Yurun and Jinluo, are both facing operational difficulties. We also expect industry consolidation in the slaughtering segment given that China's pork processing sector appears to be underdeveloped and fragmented.

EBIT by product segment

(US\$ m)	2014	2015	2016E	2017E	2018E
EBIT	1,677	1,621	1,716	1,884	2,027
Hog production - China	4	18	23	14	14
Hog production - US	337	12	32	29	25
Fresh pork - China	135	80	101	140	143
Fresh pork - US	90	168	204	235	259
Packaged meats - China	711	782	765	806	879
Packaged meats - US	450	668	753	820	864
International	93	50	49	49	49

Source: Company data, UBS estimates

WH Group (0288.HK)

	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Income statement (US\$m)										
Revenues	11,253	22,243	21,209	21,519	1.5	22,016	2.3	22,771	23,524	24,385
Gross profit	1,796	3,946	4,144	4,096	-1.2	4,287	4.7	4,457	4,607	4,795
EBITDA (UBS)	1,221	2,040	2,012	2,115	5.1	2,312	9.3	2,474	2,610	2,776
Depreciation & amortisation	(299)	(363)	(391)	(399)	2.0	(428)	7.2	(447)	(469)	(489)
EBIT (UBS)	922	1,677	1,621	1,716	5.9	1,884	9.8	2,027	2,141	2,287
Associates & investment income	3	63	14	15	5.0	15	0.0	15	15	15
Other non-operating income	(45)	6	13	1	-92.4	2	137.4	5	95	98
Net interest	(120)	(371)	(219)	(178)	18.9	(143)	19.7	(113)	(88)	(63)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	760	1,375	1,429	1,554	8.8	1,759	13.2	1,933	2,164	2,337
Tax	(214)	(432)	(354)	(419)	-18.3	(472)	-12.8	(516)	(551)	(593)
Profit after tax	546	943	1,075	1,135	5.6	1,287	13.3	1,417	1,612	1,744
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(196)	(206)	(209)	(214)	-2.2	(231)	-8.3	(250)	(269)	(294)
Extraordinary items	(613)	29	(80)	0	-	0	-	0	0	0
Net earnings (local GAAP)	(263)	766	786	922	17.3	1,055	14.5	1,167	1,344	1,450
Net earnings (UBS)	350	737	866	922	6.4	1,055	14.5	1,167	1,344	1,450
Tax rate (%)	28.2	31.4	24.8	26.9	8.7	26.8	-0.3	26.7	25.5	25.4
Per share (US\$)										
EPS (UBS, diluted)	0.02	0.05	0.06	0.06	6.4	0.07	14.5	0.08	0.09	0.10
EPS (local GAAP, diluted)	(0.02)	0.05	0.05	0.06	17.3	0.07	14.5	0.08	0.09	0.10
EPS (UBS, basic)	0.02	0.05	0.06	0.06	6.4	0.07	14.5	0.08	0.09	0.10
Net DPS (US\$)	0.00	0.00	0.02	0.02	17.1	0.02	14.5	0.02	0.03	0.00
Cash EPS (UBS, diluted)*	0.04	0.08	0.09	0.09	5.1	0.10	12.3	0.11	0.12	0.13
Book value per share	0.15	0.35	0.39	0.44	11.2	0.49	11.5	0.54	0.61	0.64
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
Balance sheet (US\$m)										
Cash and equivalents	932	1,000	1,154	1,346	16.6	1,416	5.2	1,767	2,302	2,345
Other current assets	4,235	4,374	4,059	3,713	-8.5	3,766	1.5	3,860	3,956	4,064
Total current assets	5,167	5,374	5,213	5,059	-3.0	5,183	2.4	5,627	6,258	6,409
Net tangible fixed assets	4,132	4,582	4,674	5,024	7.5	5,209	3.7	5,406	5,562	5,726
Net intangible fixed assets	3,615	3,561	3,516	3,516	0.0	3,516	0.0	3,516	3,516	3,516
Investments / other assets	1,242	1,203	898	889	-1.1	889	0.0	889	889	889
Total assets	14,156	14,720	14,301	14,487	1.3	14,796	2.1	15,438	16,224	16,540
Trade payables & other ST liabilities	2,062	2,403	2,253	2,283	1.3	2,322	1.7	2,397	2,474	2,560
Short term debt	760	719	606	606	0.00	606	0.00	606	606	606
Total current liabilities	2,822	3,122	2,859	2,889	1.0	2,928	1.4	3,003	3,080	3,166
Long term debt	6,672	3,951	3,308	2,608	-21.2	1,908	-26.8	1,408	908	408
Other long term liabilities	1,524	1,597	1,431	1,428	-0.2	1,428	0.0	1,428	1,428	1,428
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	11,018	8,670	7,598	6,925	-8.9	6,264	-9.5	5,839	5,416	5,002
Common s/h equity	2,270	5,130	5,763	6,408	11.2	7,147	11.5	7,964	8,904	9,339
Minority interests	868	920	940	1,154	22.7	1,385	20.1	1,635	1,904	2,198
Total liabilities & equity	14,156	14,720	14,301	14,487	1.3	14,796	2.1	15,438	16,224	16,540
Cash flow (US\$m)										
Net income (before pref divs)	(263)	766	786	922	17.3	1,055	14.5	1,167	1,344	1,450
Depreciation & amortisation	299	363	391	399	2.0	428	7.2	447	469	489
Net change in working capital	6	288	376	(21)	-	(15)	29.9	(19)	(19)	(22)
Other operating	704	143	60	186	209.9	202	8.8	219	233	255
Operating cash flow	746	1,560	1,613	1,486	-7.9	1,671	12.4	1,814	2,027	2,173
Tangible capital expenditure	(282)	(968)	(609)	(748)	-22.9	(613)	18.1	(644)	(625)	(653)
Intangible capital expenditure	(18)	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(4,652)	0	0	0	-	0	-	0	0	0
Other investing	(67)	247	(51)	426	-	29	-	31	36	39
Investing cash flow	(5,019)	(721)	(660)	(322)	51.2	(584)	-81.2	(613)	(589)	(614)
Equity dividends paid	(136)	0	(236)	(277)	-17.1	(317)	-14.5	(350)	(403)	(1,015)
Share issues / (buybacks)	0	2,284	(163)	0	-	0	-	0	0	0
Other financing	(22)	(174)	0	0	-	0	-	0	0	0
Change in debt & pref shares	7,162	(2,762)	(748)	(700)	6.42	(700)	0.00	(500)	(500)	(500)
Financing cash flow	7,004	(652)	(1,147)	(977)	14.9	(1,017)	-4.1	(850)	(903)	(1,515)
Cash flow inc/(dec) in cash	2,731	187	(194)	187	-	70	-62.6	351	535	43
FX / non cash items	(2,481)	(119)	348	5	-98.6	0	-	0	0	0
Balance sheet inc/(dec) in cash	250	68	154	192	24.7	70	-63.5	351	535	43

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

WH Group (0288.HK)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	-	14.0	11.1	11.5	10.1	9.1	7.9	7.3
P/E (UBS, diluted)	-	14.6	10.1	11.5	10.1	9.1	7.9	7.3
P/CEPS	-	9.8	7.0	8.0	7.2	6.6	5.9	5.5
Equity FCF (UBS) yield %	-	5.5	11.5	6.9	10.0	11.0	13.2	14.3
Net dividend yield (%)	-	0.0	2.7	2.6	3.0	3.3	3.8	0.0
P/BV x	-	2.1	1.5	1.7	1.5	1.3	1.2	1.1
EV/revenues (core)	-	0.7	0.6	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (core)	-	7.9	6.3	6.6	5.8	5.2	4.6	4.5
EV/EBIT (core)	-	9.7	7.8	8.1	7.1	6.3	5.6	5.4
EV/OpFCF (core)	-	11.4	8.9	8.6	7.4	6.5	5.8	5.5
EV/op. invested capital	-	1.8	1.4	1.5	1.4	1.3	1.2	1.2
Enterprise value (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	-	10,731	8,753	10,617	10,617	10,617	10,617	10,617
Net debt (cash)	3,006	5,085	3,215	2,314	1,483	673	(270)	(270)
Buy out of minorities	868	920	940	1,154	1,385	1,635	1,904	2,198
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	-	16,736	12,908	14,084	13,485	12,924	12,250	12,545
Non core assets	(536)	(539)	(185)	(175)	(175)	(175)	(175)	(175)
Core enterprise value	-	16,197	12,723	13,909	13,309	12,749	12,075	12,369
Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	80.2	97.7	-4.6	1.5	2.3	3.4	3.3	3.7
EBITDA (UBS)	74.4	67.1	-1.4	5.1	9.3	7.0	5.5	6.3
EBIT (UBS)	57.1	81.9	-3.3	5.9	9.8	7.5	5.7	6.8
EPS (UBS, diluted)	7.4	110.6	17.5	6.4	14.5	10.5	15.2	7.9
Net DPS	-	-	-	17.1	14.5	10.5	15.2	-
Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	16.0	17.7	19.5	19.0	19.5	19.6	19.6	19.7
EBITDA margin	10.8	9.2	9.5	9.8	10.5	10.9	11.1	11.4
EBIT margin	8.2	7.5	7.6	8.0	8.6	8.9	9.1	9.4
Net earnings (UBS) margin	3.1	3.3	4.1	4.3	4.8	5.1	5.7	5.9
ROIC (EBIT)	16.6	18.3	17.6	18.5	20.1	21.2	21.9	23.0
ROIC post tax	11.9	12.3	13.2	13.5	14.7	15.5	16.3	17.1
ROE (UBS)	17.2	19.9	15.9	15.1	15.6	15.4	15.9	15.9
Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	5.3	1.8	1.4	0.9	0.5	0.1	(0.3)	(0.5)
Net debt / total equity %	207.1	60.7	41.2	24.7	12.9	2.6	(7.3)	(11.5)
Net debt / (net debt + total equity) %	67.4	37.8	29.2	19.8	11.4	2.5	(7.9)	(13.0)
Net debt/EV %	-	22.7	21.7	13.4	8.2	1.9	(6.5)	(10.8)
Capex / depreciation %	94.4	NM	158.6	187.6	143.4	144.1	133.2	133.6
Capex / revenue %	2.5	4.4	2.9	3.5	2.8	2.8	2.7	2.7
EBIT / net interest	7.7	4.5	7.4	9.7	13.2	18.0	24.4	36.5
Dividend cover (UBS)	-	-	3.7	3.3	3.3	3.3	3.3	-
Div. payout ratio (UBS) %	-	-	27.3	30.0	30.0	30.0	30.0	-
Revenues by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	11,253	22,243	21,209	21,519	22,016	22,771	23,524	24,385
Total	11,253	22,243	21,209	21,519	22,016	22,771	23,524	24,385
EBIT (UBS) by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	922	1,677	1,621	1,716	1,884	2,027	2,141	2,287
Total	922	1,677	1,621	1,716	1,884	2,027	2,141	2,287

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

Forecast returns

Forecast price appreciation	+42.2%
Forecast dividend yield	2.6%
Forecast stock return	+44.8%
Market return assumption	6.5%
Forecast excess return	+38.3%

Valuation Method and Risk Statement

Our price target is derived from a sum-of-the-parts methodology. The valuation of each segment is based on PE multiples relative to local markets.

We believe the major risks for WH Group include: 1) the company's execution capability 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. 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. UBS acts or may act as principal in the debt securities (or in related derivatives) that may be the subject of this report.

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 ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

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 FINRA. Such analysts may not be associated persons of UBS Securities LLC and therefore are not subject to the FINRA restrictions 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; Abigail Sun.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
WH Group ²²	0288.HK	Buy	N/A	HK\$5.62	31 Mar 2016

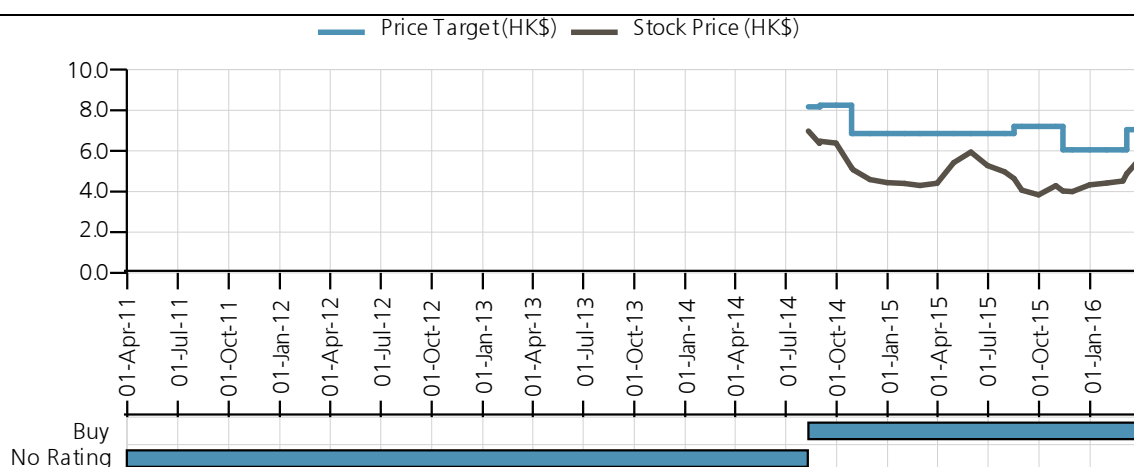
Source: UBS. All prices as of local market close.

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

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. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

WH Group (HK\$)



Source: UBS; as of 31 Mar 2016

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.

Global Research is provided to our clients through UBS Neo, the UBS Client Portal and UBS.com (each a "System"). It may also be made available through third party vendors and distributed by UBS and/or third parties via e-mail or alternative electronic means. The level and types of services provided by Global Research to a client may vary depending upon various factors such as a client's individual preferences as to the frequency and manner of receiving communications, a client's risk profile and investment focus and perspective (e.g. market wide, sector specific, long-term, short-term, etc.), the size and scope of the overall client relationship with UBS and legal and regulatory constraints.

When you receive Global Research through a System, your access and/or use of such Global Research is subject to this Global Research Disclaimer and to the terms of use governing the applicable System.

When you receive Global Research via a third party vendor, e-mail or other electronic means, your use shall be subject to this Global Research Disclaimer and to UBS's Terms of Use/Disclaimer (<http://www.ubs.com/global/en/legalinfo2/disclaimer.html>). By accessing and/or using Global Research in this manner, you are indicating that you have read and agree to be bound by our Terms of Use/Disclaimer. In addition, you consent to UBS processing your personal data and using cookies in accordance with our Privacy Statement (<http://www.ubs.com/global/en/legalinfo2/privacy.html>) and cookie notice (<http://www.ubs.com/global/en/homepage/cookies/cookie-management.html>).

If you receive Global Research, whether through a System or by any other means, you agree that you shall not copy, revise, amend, create a derivative work, transfer to any third party, or in any way commercially exploit any UBS research provided via Global Research or otherwise, and that you shall not extract data from any research or estimates provided to you via Global Research or otherwise, without the prior written consent of UBS.

For access to all available Global Research on UBS Neo and the Client Portal, please contact your UBS sales representative.

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. UBS Securities LLC is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule"), and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. **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) 018/09/2015 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. **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. It provides brokerage services bearing SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, NSE (Currency Derivatives Segment) INE230951431, BSE (Capital Market Segment) INB010951437; merchant banking services bearing SEBI Registration Number: INM000010809 and Research Analyst services bearing SEBI Registration Number: INH000001204. UBS AG, its affiliates or subsidiaries may have debt holdings or positions in the subject Indian company/companies. Within the past 12 months, UBS AG, its affiliates or subsidiaries may have received compensation for non-investment banking securities-related services and/or non-securities services from the subject Indian company/companies. The subject company/companies may have been a client/clients of UBS AG, its affiliates or subsidiaries during the 12 months preceding the date of distribution of the research report with respect to investment banking and/or non-investment banking securities-related services and/or non-securities services. With regard to information on associates, please refer to the Annual Report at: http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting.html

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 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

