

WH Group (HKG: 0288)	Fundamental																								
<p><b>Industry: Consumer Staples</b></p> <p>WH Group Limited is the largest pork producer in the world with strong presence in China, the US, and Europe. The company derives majority of revenue from fresh pork and packaged meat production.</p> <p><b>Credit Rating:</b> <b>BBB(Stable) / Baa2(Stable)*</b></p>	<p><b>USPs</b></p> <ul style="list-style-type: none"><li>• Largest pork producer in the world, geographically diversified and vertically integrated.</li><li>• Strong cash generating ability (5 year CAGR of operating cash flow at 7.9%).</li><li>• Strong credit profile, low leverage.</li></ul> <table><tr><th>Quantitative Factors</th><th>Dec-20</th><th>Dec-19</th></tr><tr><td>Total Debt / Total Capitalization (%)</td><td>17%</td><td>21%</td></tr><tr><td>Total Debt / EBITDA (x)</td><td>1.4</td><td>1.1</td></tr><tr><td>EBITDA / Interest Expense (x)</td><td>11.6</td><td>16.0</td></tr><tr><td>CFO / Total Debt (%)</td><td>107%</td><td>58%</td></tr><tr><td>EBIT / Total Capitalization (%)</td><td>8%</td><td>15%</td></tr><tr><td>EBIT / Sales (%)</td><td>4%</td><td>8%</td></tr><tr><td>EBITDA / Total Assets (%)</td><td>8%</td><td>13%</td></tr></table> <p><b>Business and Financial Risks</b></p> <ul style="list-style-type: none"><li>• Susceptible to supply chain disruption caused by disease outbreak (Rising pork prices amid 2019 Asian Swine Flu caused a contraction of gross profit margin from 20% in 2019 to 15% in 2020).</li><li>• Downward pressure on credit rating if gross profit margin continues to decline (In 2020, use of illegal swine fever vaccines among farmers in China led to hog deaths. However hog prices are expected to soften in 2021).</li></ul>	Quantitative Factors	Dec-20	Dec-19	Total Debt / Total Capitalization (%)	17%	21%	Total Debt / EBITDA (x)	1.4	1.1	EBITDA / Interest Expense (x)	11.6	16.0	CFO / Total Debt (%)	107%	58%	EBIT / Total Capitalization (%)	8%	15%	EBIT / Sales (%)	4%	8%	EBITDA / Total Assets (%)	8%	13%
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\*S&P and Moody’s Issuer Ratings

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Comparative Analysis				
<ul style="list-style-type: none"> <li>WH Group's credit profile stands out among peer group.</li> </ul>				
	WH Group Limited (SEHK:288)	Wens Foodstuff Group Co., Ltd. (SZSE:300498)	New Hope Liuhe Co., Ltd. (SZSE:000876)	Jiangxi Zhengbang Technology Co.Ltd. (SZSE:002157)
<b>Credit Ratings</b>				
Rating (S&P / Moody's / Fitch)	BBB/Baa2/BBB+	BBB/NR/BBB+	NR/NR/NR	NR/NR/NR
Outlook	Stable/Stable/Stable	Stable/-/Stable	-/-/-	-/-/-
Dec- 2020 Revenue (mln USD)	25,589	11,636	17,057	7,636
Dec-2020 EBITDA (mln USD)	1,568	1,595	1,416	1,437
<b>Key Credit Metrics (Dec-2020)</b>				
EBITDA Margin (%)	6%	14%	8%	19%
EBITDA/Interest Expense (x)	11.6	25.0	9.6	10.1
Total Debt/EBITDA (x)	1.9	1.9	4.4	2.3
Net Debt/EBITDA (x)	0.4	1.3	3.4	0.8
Net Debt/Equity (%)	7%	29%	61%	31%

Source: S&P Global Capital IQ

## ESG

### ESG Performance

Key Issue	Performance vs Peers (MSCI)	Rationale
<b>Environment</b>	<b>Laggard</b>	
Water Stress	Leader	Better efforts to reduce water stress vs peers.
Packing Material and Waste	Leader	Efforts to reduce impact of packing are in line with peers.
Raw Material Sourcing	Leader	Has limited exposure to business segments dependent on raw materials with high environmental impact.
Product Carbon Footprint	Laggard	All revenue derived from carbon intensive products.
<b>Social</b>	<b>At Industry Average</b>	
Health and Safety	Leader	No exposure to high risk business segments (injury and fatality).
Opportunities in Nutrition and Health	Leader	Well-positioned to exploit opportunities from eco-friendly and healthier products vs peers.
Product Safety and Quality	Laggard	Higher exposure to business segments associated with frequent quality and safety issues.
<b>Governance</b>	<b>Leader</b>	
Corporate Governance	Leader	-
Corporate Behaviour	Laggard	Fewer/less comprehensive initiatives to address business ethics and corruption issues vs peers.

Source: MSCI ESG Manager

### Material ESG Risks

Environment	Social	Government
<p>Higher compliance costs from high product carbon footprint</p> <ul style="list-style-type: none"> <li>All revenue is derived from carbon intensive products. May incur higher operational costs should China adopt carbon taxes.</li> </ul>	<p>Reputational and operational risks due to rising concerns on employee safety and product quality amid COVID-19 pandemic</p> <ul style="list-style-type: none"> <li>South Dakota Smithfield plant continued operations at 60% capacity despite publicly announcing closure for deep cleaning.</li> <li>Highest fatality rate per 100,000 employees (vs. meat packers of the MSCI ACWI Index).</li> </ul> <p>Risk of increased costs from large scale product recalls; reputational risk</p> <ul style="list-style-type: none"> <li>Last product recall in 2018 from Poland due to potential Salmonella taints.</li> </ul>	<p>Regulatory risks or loss of market access due to corruption scandals or political and social instability</p> <ul style="list-style-type: none"> <li>WH Group lags behind industry standards for bribery and anti-corruption practices.</li> </ul>

Source: MSCI ESG Manager