

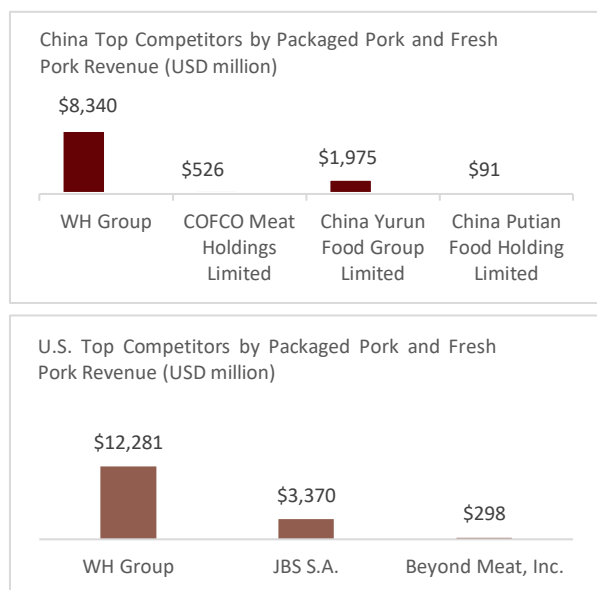
Snapshot

WH Group Limited is an investment holding company that derives its revenue from the production, wholesale, and retail sale of meat products in China, U.S. and Europe. Bulk of its 2019 revenue is derived from production of packaged meat (51.2%) and fresh pork (41.8%), with the remainder from other segments such as hog production, production of flavoring ingredients and biological pharmaceutical materials. Popular brands include Smithfield and Farmland in the U.S. as well as Shuanghui in China.

Drivers of Sustainability

Market Share

WH Group's U.S. business contributes the most to revenue (54.6%), followed by the Chinese market (36.3%). The group has a strong foothold in both the Chinese and U.S. markets based on 2019 revenues from their fresh pork and processed meat segments. WH Group ranks 5th by revenue (via wholly owned subsidiary Smithfield Foods) in the U.S. market behind major meat processing companies such as JBS S.A. Unlike WH Group, most of its U.S. competitors process other varieties of meat and poultry besides pork. As compared to the U.S. market, the Chinese market for fresh pork and processed pork is relatively fragmented with potential for consolidation. In China, the WH Group is the largest player in the market, with revenues exceeding its top 3 competitors by a huge margin.



Competitive Advantage

WH Group has an extensive distribution channel comprising of 18 logistics centers across 15 provinces in China. WH Group employs state of the art technology and is one of the earliest companies in China to be certified according to international standards such as ISO9001, ISO14001, ISO22000 and HACCP. Vertical integration allows better quality control as most of WH Group's suppliers are subsidiaries of the group. WH Group has a nationally accredited research and development center with multiple facilities in China supported by a 200 strong research team. Similarly, its innovation center based in the U.S. collaborates with key clients to develop new products.

New Market Potential

The production facility in China is underutilized (utilization rates 71.6% for processed meat, 53.6% for hog processing). WH Group has spare capacity to support expansion into new territories by export.

WH Group has a history of breaking into new territories by acquiring established players. The group doubled its operating profit from US\$886 million in 2013 to US\$1.61 billion in 2014 after successful acquisition of U.S. based Smithfield Foods. Cash and Marketable securities have been declining in the past 5 years (down by 35% from 2015 to 2019), suggesting that future acquisitions may have to be financed with more debt and equity.

Employee Engagement

WH Group has a staff development program geared towards operational efficiency while maintaining safety standards, contributing to its low incident rate of 1.78 per 200,000 working hours. The group aims to attract and retain the best by share incentives and its defined benefit pension plan.

Cost Savings

Its centralized procurement allows WH Group to take advantage of cost benefits. There is room for price negotiation for raw materials since most of the group's suppliers are its subsidiaries.

Enterprise Risks

Commodity Price Risk

WH Group's revenue is sensitive to the changes in commodity prices. The Asian Swine Flu in 2019 decimated the global supply of hogs by 22% compared to 2018 causing hog prices to skyrocket. However, WH Group's revenue remained resilient due to the indispensability of pork in the Chinese market. On the contrary, the group's revenue can be hit hard by unfavorable movements in commodity prices. To mitigate this risk, WH Group hedges the sales of fresh pork and package meats as well as the raw material prices with forward contracts.

Currency and Interest Rate Risk

WH Group's borrowings are largely at fixed rates (77.1%). The remaining of the debt portfolio are hedged against interest fluctuations. For each territory the group operates in, income and expenses, assets and liabilities are matched with the same currency. However, the group still experienced losses due to foreign currency translation every year in the past 5 years except 2016.

Financial Risk and Access to financing

WH Group has a debt ratio of 26.7%, lower than the peer average of 55.4%. A substantial amount (29%) of debt is expected to mature by 2020, reducing the debt ratio further. The group also has a healthy interest coverage ratio of 13.8x, higher than the peer average of 7.5x. Average cost of debt stands at 3.5% with a credit rating of BBB (Standard and Poor's), with a low estimated probability of default of 0.8607%.

ESG Performance

Corporate Governance

Issue	Indicator
Shareholder Rights	Separate resolutions are proposed at Shareholders' meetings for all material issues, including election of individual directors and will be voted on by poll. Poll results are posted on the Hong Kong stock exchange website and WH Group's website on the same day of the poll.
Transparency and Related Parties	Smithfield, WH Group's subsidiary is the only US hog producer to publicly disclose the use of antibiotics. WH Group employs clean labels and an online glossary that defines more than 100 ingredients, to assist consumers in making informed choices.
Audit and Accounting	The Audit Committee is comprised three independent non-executive Directors. The committee is also responsible for oversight of external auditor Ernst and Young, ensuring objectivity and compliance to applicable standards. 2019 Auditor's Report indicated that the group's consolidated financial statements represented a "true and fair view" of their financial standing and were in compliance with International Financial Reporting Standards.
Board Oversight	The board has the final jurisdiction for major decisions. For instance, as outlined in the prospectus for its IPO in 2014, the board has the discretion over any dividend payment as well as the termination of the share incentive program.

Sustainability Risk Management

Issue	Indicator
GHG Emissions and Energy Management	China and U.S. businesses adopt ISO 14001 Environment Management System Certification, which is the world's most recognized environmental management certification standard. The group's operations in China reported a reduction of approximately 4,000 metric tons of carbon dioxide emissions attributable to the use of renewable energy.
Waste Management	The disposable of non-hazardous waste in 2019 decreased by 18.3% compared to previous year and the total volume of recycled non-hazardous waste stood at 293,608 metric tons. The group invested \$4.79 million to renovate wastewater treatment facilities to include phosphorus and nitrogen removal capabilities.
Product Quality and Safety	WH Group was involved in a food safety scandal in 2011 over traces of banned hog growth enhancement drug clenbuterol hydrochloride found in one of its subsidiaries. A second incident surfaced in 2012, where maggots and excessive bacteria were found in their sausages. Since then, the group has bounced back with more stringent quality control protocols. The group's 2019 sustainability report highlights that majority of their plants in China have passed the ISO 9001, ISO 22000/HACCP Certification.
Customer Welfare	In 2019, the group added 10 new healthy choices across brands in the U.S. such as produces with no artificial ingredients, added nitrites or nitrates, preservatives, monosodium glutamate or added hormones. The group strives to deliver healthier products through constant research and development.
Selling Practices and Product Labelling	The group strictly complies with laws and regulations such as the "Advertising Law of the People's Republic of China" and the "Consumer Protection Law of the People's Republic of China" in China. In 2019, the began using clearer labels. For instance, Nathan's brand included an all-natural beef label and Carando brand started to use no MSG and no artificial flavors or colors labels.

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