

## Wens Foodstuffs Group Co., Ltd.'s 2019-1 Corporate Bond

**Credit rating of this bond:** AAA

**Credit rating of this issuer:** AAA

**Rating outlook:** Stable

**Scale of this bond issuance:** Up to CNY 500 million

**Maturity of this bond:** 5 years (3+2)

**Debt servicing method:** Annual interest payment, bullet repayment of principal at maturity

**Rating Assigned Date:** August 23, 2019

**Key financial data:**

Item	2016	2017	2018	March 2019
Total assets (CNY 100mn)	414.38	490.40	539.50	530.90
Owners' equity (CNY 100mn)	313.79	333.69	355.74	354.43
Long-term liabilities (CNY 100mn)	0.00	33.77	49.00	43.41
Total liabilities (CNY 100mn)	0.00	59.47	71.32	76.08
Operating income (CNY 100mn)	593.55	556.57	572.36	139.66
Net profit (CNY 100mn)	122.38	69.99	42.56	-4.55
EBITDA (CNY 100mn)	141.72	93.23	69.89	--
Net cash flow from operating activities (CNY 100mn)	146.53	79.94	64.94	-4.36
Operating profit margin (%)	28.14	19.95	16.73	4.86
ROE (%)	44.98	21.62	12.35	-1.28
Debt-to-asset ratio (%)	24.27	31.95	34.06	33.24
Total debt-to-capitalization ratio (%)	0.00	15.13	16.70	17.67
Current ratio (x)	1.88	1.63	1.64	1.64
EBITDA-to-total liabilities ratio (x)	--	1.57	0.98	--
EBITDA-to-interest cover (x)	269.56	57.92	23.60	--
EBITDA/scale of this bond issuance (x)	28.34	18.65	13.98	--

Note: 1. Figures may not sum due to rounding; unless otherwise stated, the currency herein refers to the Chinese yuan (CNY); 2. Unless otherwise stated, all financial data herein are consolidated; 3. Financial data for January-March 2019 are unaudited, and the relevant indicators are non-annualized.

**Rationale**

The rating assigned to Wens Foodstuffs Group Co., Ltd. (hereinafter referred to as the "Company" or "Wens Foodstuffs") by United Credit Ratings Co. (hereinafter referred to as "United Ratings") reflects that as a leading livestock and poultry breeding company in China, Wens Foodstuffs boasts substantial competitive advantages in terms of market position, operational scale, breeding technology, business model and profitability. In recent years, the Company's assets have increased somewhat, with a relatively light debt burden, industry leading profitability, and continued net cash inflows from operating activities. In the meanwhile, United Ratings has also noted factors that could have an adverse impact on its credit rating. For example, the livestock and poultry breeding industry is highly exposed to market and animal disease risks, feed prices are volatile, and pork prices are likely to decline.

Going forward, Wens Foodstuffs will continue to expand its pig breeding business and steadily develop its broiler breeding business. The Company is poised to further strengthen its profitability and overall strength as it is possible that pork prices rise substantially in China due to a shrinking supply of pork. United Ratings' rating outlook for the Company is "stable".

Taking all the above into consideration, based on a comprehensive assessment of the Company's long-term credit profile and its ability to repay this bond, United Ratings concludes that the risk of nonpayment is extremely low.

**Strengths**

1. The Company is a leading livestock and poultry breeder in China, with a comprehensive hog and broiler breeding system. It boasts

several core technologies in areas such as feed nutrition and animal disease prevention and treatment, leading its peers in breeding technology.

2. The Company has topped the national list in terms of the amount of hog slaughter and broiler slaughter in recent years. With its breeding model featuring “company+farmers (or family farms)” being adopted in more than 20 provinces and municipalities across China, the Company boasts substantial advantages in terms of production scale.

3. The Company and farmers (or family farms) breed animals, take measures to prevent animal diseases, procure baby chicks and piglets, apply feed, and sell products under a unified scheme, thus assuring product quality and food safety. A mature management system has formed.

4. In recent years, the Company’s assets have increased somewhat, with a relatively light debt burden, a sound financial position, and continued net cash inflows from operating activities.

### Concerns

1. The livestock and poultry breeding industry in which the Company operates is highly cyclical and highly exposed to market volatility and animal disease risks.

2. In recent years, the Company has witnessed a decline in both hog prices and broiler sales as the hog cycle is at a downward phase and there are several outbreaks of African swine flu and H7N9 avian influenza in China. Its overall operating performance has weakened somewhat.

3. Feed accounts for a large portion of the Company’s operating costs. Feed prices have been quite volatile in recent years, posing a big challenge for its cost control efforts.

### Analysts

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