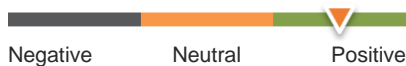


DABACO GROUP (DBC) – UPDATE

| | | | | |
|----------------------------------|----------------------------------|--------------------------------|----------------------|---------------------------------|
| Market Price VND19,950 | Target Price VND30,700 | Dividend Yield 2.05% | Rating ADD | Sector CONSUMER GOODS |
|----------------------------------|----------------------------------|--------------------------------|----------------------|---------------------------------|

Outlook – Short term



Outlook – Long term



Valuation



11 February 2020

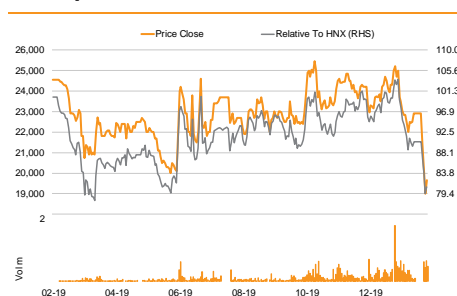
Duc Nguyen Tien

duc.nguyentien2@vndirect.com.vn

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

| | |
|------------------------------|---------|
| 52w high (VND) | 26,300 |
| 52w low (VND) | 18,700 |
| 3m Avg daily volume (shares) | 203,889 |
| 3m Avg daily value (VNDm) | 4,815 |
| Market cap (VNDbn) | 1,731 |
| Outstanding shares (m) | 91.1 |
| Free float (%) | 62 |
| TTM P/E (x) | 5.9 |
| Current P/B (x) | 0.7 |

Ownership

| | |
|---------------------------|-------|
| Nguyen Nhu So (Chairman) | 18.3% |
| SSI Securities Company | 11.0% |
| Fraser Investment Holding | 8.7% |
| Others | 62.0% |

Source: VND RESEARCH

Decent 2020F outlook

Farm and food business accelerated in 4Q19 to make up for the weakness of animal feed. 4Q19 farm and food revenue soared 87% yoy to VND1,110bn, mainly driven by a 54% yoy increase in pork average selling price (ASP) to VND74,000/kg due to African Swine Fever (ASF) outbreak. Meanwhile, animal feed revenue fell 29.7% yoy to VND707bn on weaker demand. The new edible oil business, starting since Sep 2019, added VND174bn to the quarter's total revenue. Overall, DBC's 4Q19 revenue grew 14.1% yoy to VND2,085bn. For FY19, DBC's revenue rose 7.7% yoy to VND7,187bn as animal feed sales were down 8.1% yoy, while farm and food sales grew 22.8% yoy.

Gross profit margin improved in 4Q19. GPM advanced 6.2% pts yoy to 23.5% in 4Q19 on blended impact of higher farm & food products' prices, lower material price (global soymeal price eased 6% yoy) and a 17% yoy increase in depreciation expense, which largely came from the new edible oil factory. However, ASF hurt food and farm product prices in 9M19 (-12% yoy) thus FY19 GPM gained only 0.2% pts to 16.3%.

Robust earnings growth in FY20, on the back of high pork price.

We expected FY20 revenue and net profit to grow 19.7% yoy and 94.3%, respectively, on the back of a 37% yoy increase in pork ASP. Then, FY21F revenue and net profit growth are expected to decelerate to 10.7% yoy and 0.8% yoy respectively as we believe pork price will decline to pre-ASF level.

Reiterate ADD with TP of VND30,700. We maintain our ADD rating with a 10-year DCF-based TP (WACC 8.0%, Cost of equity 14.2%, long term growth 1.0%). As DBC's business is not directly hit by the nCoV outbreak, we believe DBC's sharp price decline in the past two weeks was mainly caused by the market's overreaction amid the outbreak. We expect DBC's share price will recover when investor sentiment improves along with better control of the disease.

Re-rating catalysts include higher-than-expected rises in pork prices and faster-than-projected fall in prices of input material for animal feed. Downside risks include faster-than-expected fall in pork prices.

| Financial summary (VND) | 12-18A | 12-19A | 12-20E | 12-21E |
|-------------------------|--------|---------|--------|--------|
| Net revenue (bn) | 6,674 | 7,187 | 8,606 | 9,528 |
| Revenue growth | 14.0% | 7.7% | 19.7% | 10.7% |
| Gross margin | 16.2% | 16.3% | 17.7% | 16.8% |
| EBITDA margin | 12.6% | 11.3% | 14.4% | 13.3% |
| Net profit (bn) | 360 | 304 | 590 | 595 |
| Net profit growth | 80.0% | (15.6%) | 94.3% | 0.8% |
| FD EPS | 3,700 | 3,136 | 6,091 | 6,139 |
| BVPS | 25,555 | 28,623 | 38,087 | 46,621 |
| ROAE | 13.7% | 10.5% | 17.1% | 13.9% |

Source: VND RESEARCH

2019 recap: Positive 4Q19 results offset the lacklustre 9M19 performance

Figure 1: Earnings review

| VNDbn | 4Q19 | 4Q18 | %yoy chg | 2019 | 2018 | %yoy chg | 2019F | % vs our FY19F forecast | Comment |
|------------------------------|--------------|--------------|-----------------|--------------|--------------|-----------------|--------------|-------------------------|---|
| Revenue | 2,085 | 1,827 | 14.1% | 7,187 | 6,674 | 7.7% | 7,039 | 102.1% | |
| Animal feed | 707 | 1,005 | -29.7% | 3,042 | 3,312 | -8.1% | 2,850 | 106.7% | ASP fell 15.0% yoy and sales volume dropped 14.7% yoy in 4Q19 as ASF reduced Vietnam's pig herd size, while competition was heated among producers. |
| Farm & Food | 1,110 | 595 | 86.6% | 2,974 | 2,422 | 22.8% | 2,871 | 103.6% | In 4Q19, ASP of piglet, chickens, pork and eggs jumped 70% yoy due to ASF-induced pork shortage. Additionally, sales volume rose 16.6% yoy as capacity rose 10% and the utilisation rate advanced to 100% from 93.4%. |
| Edible oil | 174 | - | 100.0% | 174 | - | 100.0% | 93 | 187.1% | The edible oil factory was inaugurated in 3Q19 but operation began in 4Q19. Sale volume was estimated at 9.8m litres, much higher than expected. |
| Others | 94 | 226 | -58.5% | 997 | 941 | 6.0% | 1,225 | 81.4% | In 4Q19, real estate revenue plunged 74% yoy as most revenue of FY19 was booked in 3Q19. In FY19, real estate revenue soared 98% yoy, and that by commercial segment dropped 21% yoy. |
| Gross profit | 489 | 316 | 54.7% | 1,174 | 1,079 | 8.9% | 911 | 118.4% | |
| GPM | 23.5% | 17.3% | 6.2% pts | 16.3% | 16.2% | 0.2% pts | 12.9% | 124.9% | 4Q19 GPM rose sharply, mainly driven by higher selling prices of farm & food products. |
| SG&A | 154 | 172 | -10.4% | 561 | 540 | 4.0% | 561 | 100.1% | |
| SG&A as % of revenue | 7.4% | 9.4% | -2.0% pts | 7.8% | 8.1% | -0.3% pts | 8.0% | -0.2% pts | Lower SG&A as % of revenue dropped as DBC didn't have to make provision for NPL in 2019. |
| EBIT | 335 | 144 | 132.3% | 613 | 539 | 13.7% | 350 | 175.2% | |
| EBIT margin | 16.1% | 7.9% | 8.2% pts | 8.5% | 8.1% | 0.5% pts | 5.0% | 3.6% pts | |
| Depreciation | 79 | 67 | 17% | 312 | 253 | 23.6% | 294 | 106.4% | Depreciation increased mostly due to the new edible oil factory |
| EBITDA | 414 | 212 | 95.6% | 925 | 792 | 16.9% | 643 | 143.8% | |
| EBITDA margin | 19.9% | 11.6% | 8.3% pts | 12.9% | 11.9% | 1.0% pts | 9.1% | 3.7% pts | |
| Other profit | 64 | 44 | 45.0% | 268 | 146 | 83.9% | 107 | 250.6% | Interest expense increased by 55.4% to VND294 billion in FY19 because of increasing short-term debt financing to customers, expanding pig breeding and cooking oil production. |
| Other profit as % of revenue | 3.1% | 2.4% | 0.7% pts | 3.7% | 2.2% | 1.5% pts | 1.5% | 2.2% pts | |
| Pre-tax profit | 271 | 100 | 170.8% | 345 | 368 | -6.2% | 243 | 142.0% | |
| EBT margin | 13.0% | 5.5% | 7.5% pts | 4.8% | 5.5% | -0.7% pts | 3.5% | 1.3% pts | |
| Tax | 13 | 11 | 16.7% | 40 | 33 | 20.5% | 36 | 109.5% | |
| Tax rate | 4.8% | 11.1% | -6.3% pts | 11.6% | 9.0% | 2.6% pts | 15% | -3.4% pts | |
| NPAT | 258 | 89 | 189.9% | 305 | 335 | -8.8% | 207 | 147.8% | FY19 NPAT was higher than forecasted driven by actual average pork price was 15% higher than expected and pork shortage condition amid ASF outbreak in Vietnam and China. |
| Net margin | 12.4% | 4.9% | 7.5% pts | 4.2% | 5.0% | -0.8% pts | 2.9% | 1.3% pts | |
| FD EPS (VND) | 2,834 | 977 | 189.9% | 3,349 | 3,672 | -8.8% | 2,267 | 147.8% | |

Source: VNDIRECT RESEARCH

Earnings expected to record robust growth in FY20F but stay flat in FY21F

We believe that farmers and pig husbandry companies are adapting to the presence of ASF disease and we expect Vietnam's pig herd size to recover from 2H20F. Such expectation would lead pork supply to recover to normal level in 1H21F. Therefore, we expect pork price to gradually decline then stay stable at the 15% above the pre-ASF level since 1H21F. Meanwhile animal feed price could improve as demand increases. DBC is expected to enjoy robust earnings growth of 94.3% yoy in FY20F thanks to high average pork price on the back of higher gross margin. On the other hand, FY21F net profit growth is likely to stay flat at 0.8% yoy, driven by the reduction of pork price and lower gross margin.

Forecast and valuation

Figure 2: VNDirect Research's forecasts of DBC's FY20-22F business results

| VNDbn | 2019 | 2020 | 2021 | 2022 |
|-----------------------|--------------|--------------|--------------|---------------|
| Net revenue | 7,187 | 8,606 | 9,528 | 10,343 |
| % yoy | 7.7% | 19.7% | 10.7% | 9.2% |
| <i>Animal feed</i> | -8.2% | 8.9% | 2.0% | 3.5% |
| <i>Farm& food</i> | 10.1% | 23.8% | 26.0% | 13.5% |
| <i>Edible oil</i> | 100.0% | 273.5% | 12.2% | 10.1% |
| <i>Others</i> | 18.9% | 20.0% | 13.8% | 13.3% |
| Gross profit | 1,174 | 1,522 | 1,597 | 1,686 |
| Gross margin | 16.3% | 17.7% | 16.8% | 16.3% |
| SG&A | (561) | (750) | (830) | (901) |
| SG&A as % revenue | 7.8% | 8.7% | 8.7% | 8.7% |
| EBIT | 613 | 772 | 766 | 785 |
| EBIT margin | 8.5% | 9.0% | 8.0% | 7.6% |
| %yoy | 13.7% | 26.0% | -0.7% | 2.5% |
| Net profit | 304 | 590 | 595 | 611 |
| Net margin | 4.2% | 6.9% | 6.2% | 5.9% |
| %yoy | -15.6% | 94.3% | 0.8% | 2.7% |
| EPS diluted | 3,136 | 6,091 | 6,139 | 6,308 |
| EPS growth | -15.3% | 94.3% | 0.8% | 2.7% |

Source: VNDIRECT RESEARCH

Figure 3: Discounted Cash Flow

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|---------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| EBIT | 657 | 675 | 692 | 769 | 824 | 868 | 934 | 1,004 | 1,072 | 1,147 |
| Add: Depreciation | 407 | 435 | 457 | 477 | 496 | 515 | 533 | 551 | 569 | 587 |
| Less Capital expenditure | (386) | (391) | (396) | (401) | (407) | (413) | (420) | (426) | (433) | (441) |
| Changes in Working Capital | (20) | (582) | (219) | (234) | (181) | (192) | (204) | (216) | (229) | (242) |
| Free Cash Flow (FCF) | 659 | 137 | 534 | 611 | 732 | 778 | 844 | 913 | 979 | 1,051 |
| Less Taxes Paid | (76) | (78) | (80) | (89) | (96) | (101) | (108) | (117) | (124) | (133) |
| Free Cash Flows to Firm | 582 | 59 | 453 | 522 | 637 | 677 | 736 | 797 | 855 | 918 |
| Terminal Value | | | | | | | | | | 10,888 |
| PV of FCFF | 539 | 50 | 360 | 383 | 433 | 426 | 428 | 430 | 427 | 424 |
| PV of Terminal Value | | | | | | | | | | 2,899 |

Source: VNDIRECT RESEARCH

Figure 4: Discounted Cash Flows - Future Cash Flows to Firm (FCFF)

| | |
|--|---------------|
| Present value of Future Cash Flows to Firm (VNDbn) | 3,900 |
| Present value of Terminal value (VNDbn) | 2,899 |
| Enterprise Value (VNDbn) | 6,799 |
| Net debt (VNDbn) | (4,003) |
| Equity Value | 2,796 |
| No. of Outstanding Share (million) | 91 |
| Equity value per share (VND) | 30,692 |
| WACC | 8.0% |
| Cost of Equity | 14.2% |
| Long-term growth | 1.0% |

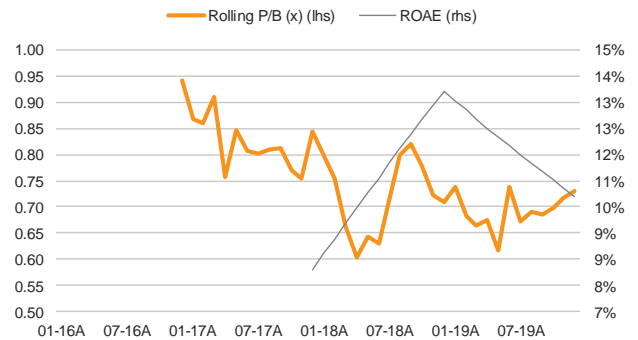
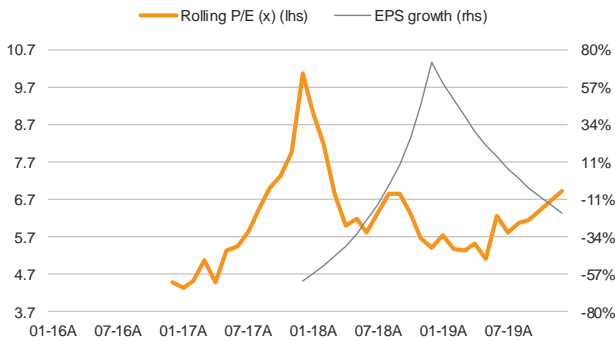
Source: VND RESEARCH

Figure 5: Peer comparison (Data as of 11th Feb 2020)

| | Bloomberg | | Target price (VND) | Market cap (US\$m) | EPS growth (%) | | P/E (x) | | P/B (x) | | ROE (%) | | ROA (%) | | D/E(x) |
|---------------------|---------------|------------|--------------------|--------------------|----------------|--------------|-------------|-------------|------------|------------|--------------|--------------|-------------|-------------|------------|
| | code | Recom. | | | TTM | FY20F | TTM | FY20F | TTM | FY20F | TTM | FY20F | TTM | FY20F | |
| CPFoods | CPF TB | NR | N/a | 8,134 | 24.1% | 15.1% | 15.4 | 14.1 | 1.4 | 1.2 | 9.6% | 9.0% | 2.6% | 3.1% | 1.4 |
| New Hope Liuhe Co | 000876 CH | NR | N/a | 11,000 | 157.1% | 122.6% | 22.9 | 10.0 | 3.1 | 2.7 | 14.6% | 28.0% | 6.4% | 13.6% | 0.6 |
| Tyson Food Group | TSN US | NR | N/a | 30,651 | -31.1% | 18.0% | 16.2 | 13.1 | 2.3 | 2.0 | 15.0% | 16.5% | 6.5% | 7.3% | 0.8 |
| IOI Group | IOI MK | NR | N/a | 6,785 | 3.5% | 6.5% | 43.9 | 33.6 | 3.0 | 3.0 | 6.6% | 9.4% | 3.8% | 5.6% | 0.5 |
| Average | | | | 14,143 | 38.4% | 40.5% | 24.6 | 17.7 | 2.5 | 2.2 | 11.5% | 15.7% | 4.8% | 7.4% | 0.8 |
| Median | | | | 9,567 | 13.8% | 16.5% | 19.6 | 13.6 | 2.7 | 2.4 | 12.1% | 12.9% | 5.1% | 6.4% | 0.7 |
| Dabaco Group | DBC VN | ADD | 30,700 | 77 | -15.6% | 91.2% | 5.9 | 4.6 | 0.7 | 0.8 | 10.6% | 18.2% | 3.4% | 6.1% | 1.8 |

Source: VNDIRECT RESEARCH, Bloomberg

Valuation



Income statement

| (VNDbn) | 12-19A | 12-20E | 12-21E |
|--------------------------------------|--------------|--------------|--------------|
| Net revenue | 7,187 | 8,606 | 9,528 |
| Cost of sales | (6,012) | (7,084) | (7,932) |
| Gen & admin expenses | (268) | (387) | (429) |
| Selling expenses | (294) | (363) | (402) |
| Operating profit | 613 | 772 | 766 |
| Operating EBITDA | 925 | 1,179 | 1,201 |
| Depreciation and amortisation | (312) | (407) | (435) |
| Operating EBIT | 613 | 772 | 766 |
| Interest income | 27 | 54 | 61 |
| Financial expense | (303) | (166) | (163) |
| Net other income | 6 | 8 | 9 |
| Income from associates & JVs | 0 | 0 | 0 |
| Pre-tax profit | 344 | 668 | 673 |
| Tax expense | (40) | (78) | (78) |
| Minority interest | 0 | 0 | 0 |
| Net profit | 304 | 590 | 595 |
| Adj. net profit to ordinary | 304 | 590 | 595 |
| Ordinary dividends | (46) | (50) | (55) |
| Retained earnings | 258 | 540 | 540 |

Balance sheet

| (VNDbn) | 12-19A | 12-20E | 12-21E |
|---------------------------------------|--------------|---------------|---------------|
| Cash and equivalents | 165 | 522 | 648 |
| Short term investments | 485 | 581 | 643 |
| Accounts receivables | 412 | 504 | 558 |
| Inventories | 3,136 | 3,755 | 4,158 |
| Other current assets | 222 | 698 | 830 |
| Total current assets | 4,420 | 6,060 | 6,837 |
| Fixed assets | 5,053 | 4,689 | 4,489 |
| Total investments | 86 | 87 | 87 |
| Other long-term assets | 33 | 63 | 69 |
| Total assets | 9,593 | 10,898 | 11,483 |
| Short-term debt | 3,238 | 2,999 | 3,104 |
| Accounts payable | 912 | 1,092 | 1,209 |
| Other current liabilities | 671 | 1,119 | 941 |
| Total current liabilities | 4,820 | 5,210 | 5,253 |
| Total long-term debt | 1,415 | 1,370 | 1,125 |
| Other liabilities | 331 | 430 | 439 |
| Share capital | 911 | 1,002 | 1,102 |
| Retained earnings reserve | 348 | 853 | 1,357 |
| Shareholders' equity | 3,026 | 3,888 | 4,666 |
| Minority interest | | | |
| Total liabilities & equity | 9,593 | 10,898 | 11,483 |

Cash flow statement

| (VNDbn) | 12-19A | 12-20E | 12-21E |
|---|--------------|--------------|--------------|
| Pretax profit | 344 | 668 | 673 |
| Depreciation & amortisation | 312 | 407 | 435 |
| Tax paid | (55) | (78) | (78) |
| Other adjustments | 289 | 100 | 84 |
| Change in working capital | (692) | (84) | (518) |
| Cash flow from operations | 198 | 1,013 | 596 |
| Capex | (845) | (386) | (391) |
| Proceeds from assets sales | 2 | 34 | 11 |
| Others | (105) | (96) | (62) |
| Other non-current assets changes | 26 | (29) | (7) |
| Cash flow from investing activities | (922) | (477) | (449) |
| New share issuance | 83 | 0 | 0 |
| Shares buyback | 0 | 0 | 0 |
| Net borrowings | 784 | (284) | (140) |
| Other financing cash flow | (129) | 0 | 0 |
| Dividends paid | 0 | 100 | 110 |
| Cash flow from financing activities | 738 | (184) | (30) |
| Cash and equivalents at beginning of period | 150 | 165 | 522 |
| Total cash generated | 14 | 352 | 117 |
| Cash and equivalents at the end of period | 164 | 517 | 639 |

Key ratios

| | 12-19A | 12-20E | 12-21E |
|--------------------------|---------|--------|--------|
| Dupont | | | |
| Net profit margin | 4.2% | 6.9% | 6.2% |
| Asset turnover | 0.80 | 0.84 | 0.85 |
| ROAA | 3.4% | 5.8% | 5.3% |
| Avg assets/avg equity | 3.11 | 2.96 | 2.62 |
| ROAE | 10.5% | 17.1% | 13.9% |
| Efficiency | | | |
| Days account receivable | 10.8 | 10.8 | 10.8 |
| Days inventory | 190.4 | 194.0 | 191.3 |
| Days creditor | 55.4 | 56.4 | 55.6 |
| Fixed asset turnover | 1.51 | 1.77 | 2.08 |
| ROIC | 4.0% | 7.1% | 6.7% |
| Liquidity | | | |
| Current ratio | 0.9 | 1.2 | 1.3 |
| Quick ratio | 0.3 | 0.4 | 0.5 |
| Cash ratio | 0.1 | 0.2 | 0.2 |
| Cash cycle | 145.8 | 148.4 | 146.5 |
| Growth rate (yoy) | | | |
| Revenue growth | 7.7% | 19.7% | 10.7% |
| Operating profit growth | 13.7% | 26.0% | (0.7%) |
| Net profit growth | (15.6%) | 94.3% | 0.8% |
| EPS growth | (15.6%) | 94.3% | 0.8% |

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Duc Nguyen Tien – Analyst

Email: duc.nguyentien2@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>