

HOG PRICE INCREASES: HAS THE SECTOR BOTTOMED OUT?

18 September 2019

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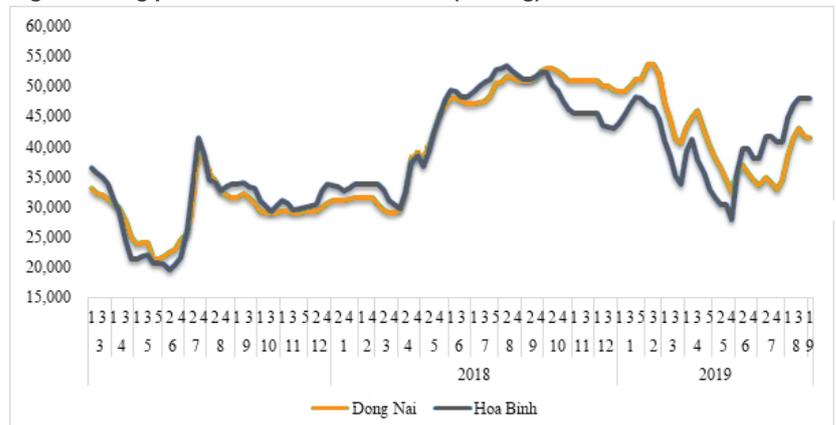
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Contracted supply pushed domestic hog prices upwards

According to data from Agromonitor, hog prices in Vietnam started to recover from May 2019 after declining 30-40% from its peak in Feb due to the outbreak of African Swine Flu (ASF). As of Sep 15, hog prices averaged VND45,000-50,000/kg in the North (+60% from the low in May) and VND36,000-45,000/kg in the South (+42% from May). This could be a result of the continuously contracted supply, given that approx. 4.5m pigs (10-12% of supply) were culled by end-Aug and small-scale farms remained hesitant about herd repopulation.

The divergence between prices in the North and in the South was due to earlier responses to ASF and also earlier stabilization of the Northern market, which was the first to report the outbreak of the disease.

Figure 1: Hog price movements in Vietnam (VND/kg)



Source: Agromonitor

4Q19-1Q20 outlook: Prices could rise further as demand picks up seasonally

Market researcher Ipsos Business Consulting estimates that the sow/boar herd could have contracted by 30% yoy, with the biggest blow dealt to small-scale farms. Meanwhile Rabobank forecasts that Vietnam's hog production for the full year could fall by 15-19% yoy.

The temporary decline in supply, accompanied by the revival of demand for large-scale consumption (children returning to school in September and the upcoming Tet holiday at the end of Jan 2020) could create a shortage of 500,000 tonnes of pork (20% of demand) in 2020, according to Ipsos. **We believe hog prices have bottomed out and would remain trending up into 2020**, benefitting those surviving from the epidemic.

The situation could be worsened due to the supply shortage in China, which was also caused by the outbreak of ASF. China Agriculture and Rural Affairs reported a 26.7% decline in sow inventory and 25.8% drop in hog inventory by end-Jun. This led to the surge in hog prices with current price averaging VND80,000-90,000/kg (more than double since Jun 2019). The price difference could trigger an influx of hogs from Vietnam to China (which is usually through border import), hence worsening the domestic shortage and further boosting prices. However, data on border trade is often unavailable, therefore it is difficult to gauge the effect of this move in a quantifiable way.

Figure 2: China's hog prices in Guangdong and Guangxi provinces from 2016-Aug 2019 (VND/kg)

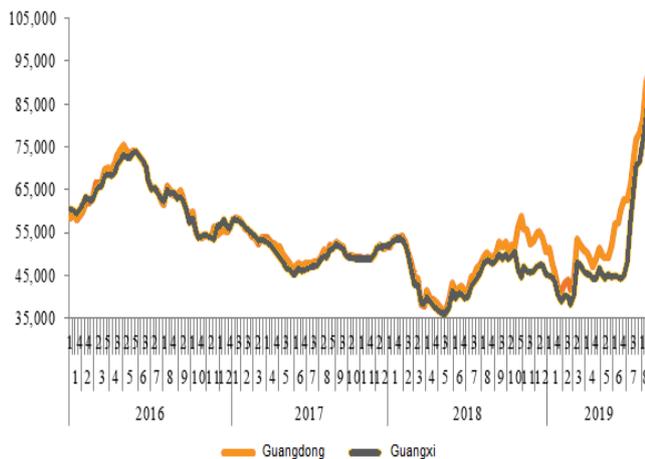
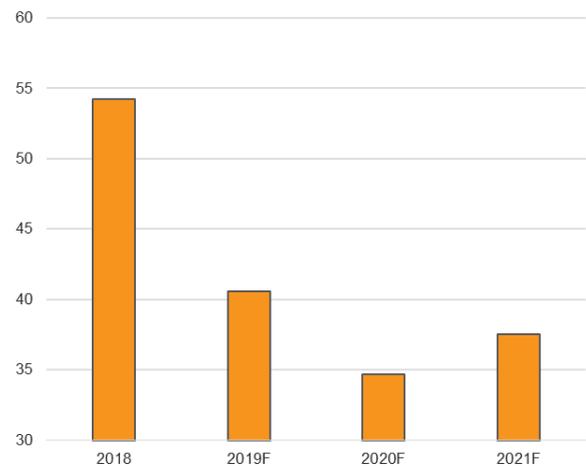


Figure 3: China's pork production is expected to be impacted for years (m tonnes)



Source: Agromonitor

Source: China Statistics Bureau, Rabobank 3Q19

On another note, the easing of the US-China trade war, if possible, could conversely resume US pork export into China and partly relieve the price situation.

ASF outbreak bring opportunities to large players

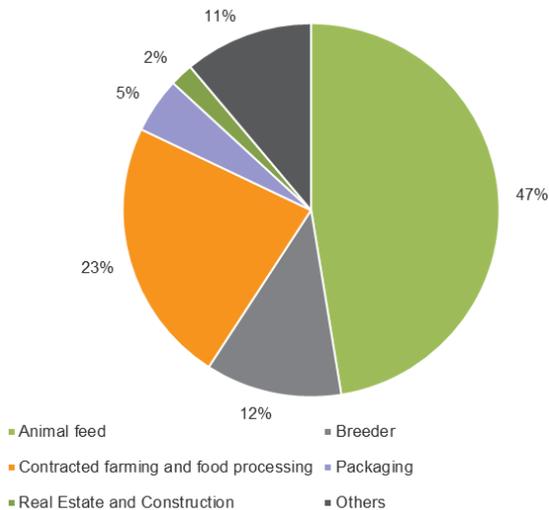
The small-scale farmers bear the highest impact from the ASF outbreaks, due to lack of preventive measures and biosecurity practices. Hence, this would benefit large-scale producers whose herds are yet to be infected thanks to strict application of preventive measures such as: Dabaco (DBC VN, Not Rated), Masan Meatlife (unlisted, MML, Masan Group's subsidiary), CP Vietnam (unlisted), to name a few. Some players involving in the poultry-raising segment like DBC, CP Vietnam might also take advantage of the rising demand of poultry meat as a substitute for pork.

Among the three listed relevant companies in the stock market, **we believe Dabaco (DBC VN, Not Rated) might be the biggest beneficiary from the recovery in hog prices**, for the following reasons:

- DBC has the highest exposure to the hog-raising activities, given that approx. 30% of its FY18F revenue came from raising sow/boar and porker. This does not even include its feed segment with almost 50% of total volume consisting of swine feed. The respective contribution of hog-raising segment to net revenue of other players such as Vilico (VLC VN, Not Rated) and Hoa Phat Group (HPG VN, ADD, TP: VND26,139) are minimal at 2.0% and 8.2%. Regarding Masan Meatlife, its investment into the hog-rearing and meat processing market is fairly recent (since 2018), therefore the segment is yet to contribute much to MML's overall business performance.
- The majority of DBC's farms are located in Northern provinces (Bac Ninh, Ha Tinh, Tuyen Quang), which were exposed to the disease outbreak earlier where the rate of new outbreak has now subsided. Prices in the North recovered faster than the South to the level seen earlier in the year. We think prices in the North could remain at a high level until 2020 due to (1) supply shortage mentioned earlier, (2) transportation restriction among provinces to prevent the expansion of the disease, and (3) possible border export to further tighten local supply. In a recent interview, the

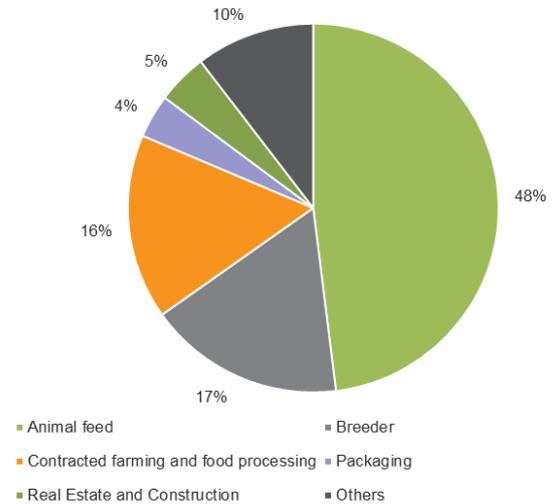
company's Chairman expects prices to go up in the last four months of 2019 into 2020, helping the company achieve its annual profit plan of VND356bn (flat yoy, 6M19: VND27.6bn).

Figure 4: DBC's 2018 revenue by segment



Source: VND RESEARCH, Company reports

Figure 5: DBC's 2018 gross profit by segment

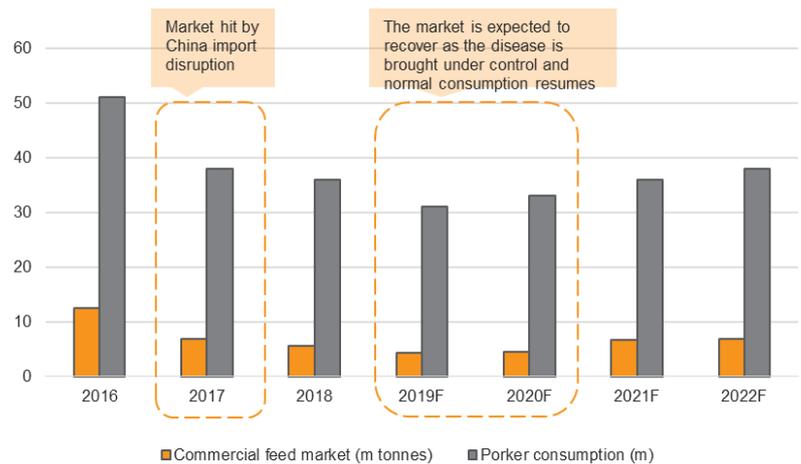


Source: VND RESEARCH, Company reports

Feed market needs more time to recover

While the rearing and meat/food processing segment might see an immediate effect from higher hog prices, it takes more time for the swine feed segment to catch up. According to Masan Meatlife (MML), prices need to stabilize for 6-9 months for the pig feed market to fully recover, as farmers weigh the prospects of repopulation vs. the risk of the herd being reinfected.

Figure 6: Commercial feed market is expected to bounce back in 2020F



Source: Masan Meatlife

We think MML will benefit more from the recovery of the feed segment than DBC, given its higher market share of 11% vs. DBC's 5%, and pig feed contributed over 50% of MML's 2018 net revenue.

Other information

Figure 7: Peer comparison

| Company | Bloomberg | | Share Price (local curr) | Target Price (local curr) | Market Cap (US\$ m) | P/E (x) | | P/B (x) | | Recurring ROE (%) | | EV/EBITDA (x) | | Dividend Yield (%) | |
|---------------------------------|-----------|--------|--------------------------|---------------------------|---------------------|-------------|-------------|------------|------------|-------------------|--------------|---------------|------------|--------------------|-------------|
| | Ticker | Recm. | | | | FY18A | FY19F | FY18A | FY19F | FY18A | FY19F | FY18A | FY19F | FY18A | FY19F |
| Dabaco* | DBC VN | NR | 22,700.0 | NA | 89.0 | 5.7 | NA | 0.8 | NA | 13.7% | NA | 6.9 | NA | 4.0% | NA |
| Charoen Pokphand Foods | CPF TB | ADD | 26.3 | 35.5 | 7,399.2 | 14.6 | 15.4 | 1.4 | 1.3 | 4.8% | 7.9% | 15.5 | 11.9 | 0.0% | 0.0% |
| Charoen Pokphand Indonesia | CPIN IJ | REDUCE | 5,250.0 | 3,000.0 | 6,105.6 | 18.9 | 26.7 | 4.4 | 4.2 | 26.0% | 16.1% | 12.2 | 16.1 | 1.1% | 2.2% |
| Japfa Ltd | JAP SP | ADD | 0.5 | 0.5 | 642.8 | 6.3 | 10.6 | 0.8 | 0.8 | 14.2% | 7.4% | 4.5 | 6.2 | 4.1% | 2.1% |
| Malindo Feedmill | MAIN IJ | REDUCE | 935.0 | 800.0 | 148.5 | 7.3 | 7.7 | 1.1 | 1.0 | 16.1% | 13.7% | 5.9 | 5.2 | 1.7% | 5.4% |
| Average sector ex-Dabaco | | | | | 3,574.0 | 11.8 | 15.1 | 1.9 | 1.8 | 15.3% | 11.3% | 9.5 | 9.8 | 1.7% | 2.4% |

*2018 numbers adjusted for the recent stock dividend of 10%

Source: CIMB RESEARCH, BLOOMBERG, VND RESEARCH (AS AT SEP 17)

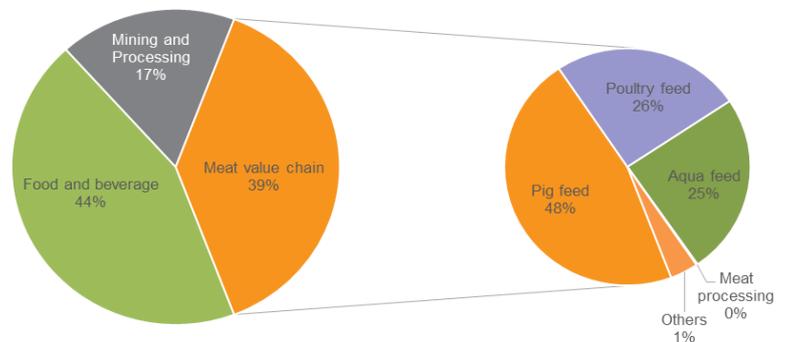
DBC is trading at a TTM P/E of 7.0x, higher than its 2018 P/E due to sluggish 2Q19 performance as a result of ASF outbreak. Its FY19F P/E (based on the company's 2019 guidance) of 5.8x is much lower than peer average at 15.1x, despite an ROE similar to peer average (11.5% vs.11.3%).

Figure 8: Overview of Dabaco and Masan Meatlife

| | Dabaco | Masan Meatlife |
|--|--|---|
| Ticker | DBC VN | The company expects to list on the stock exchange by end-2019. |
| Core business | - Feed production: ~47% of 2018 revenue, providing swine, poultry, aqua feed and other animal feed - Breeding, farming and meat processing: 35% of 2018 revenue - Others: 18% of 2018 revenue | - Feed production: ~99% of 2018 revenue, providing swine, poultry, aqua feed and other animal feed - Farming and meat processing: <1% of 2018 revenue |
| Capacity | - 6 feed mills with total capacity of 1m tonnes/year - Sow herd size: ~30,000 heads - Porker size: 163,000 heads - Meat processing plants with meat-processing facilities, food-processing line with capacity of 12,000 tonnes/yr, egg-processing lines | - Total feed mill capacity: 3.2m tonnes/year - Porker capacity: 10,000 porkers, targeted to increase to 250,000 by 1H2020F - Slaughtering house and chilled meat processing plant with annual capacity of 1.4m warm porker/840k chill porkers |
| Farm and plant location | Bac Ninh, Hai Phong, Ha Nam, Tuyen Quang | Ha Nam |
| Distribution channel of food products | - Owns 6 supermarkets in Bac Ninh, distributing its own products - Food product distributed in supermarket chains such as Big C, Vinmart, Lotte, etc | - Distribution of chilled meat products through its own store (11 stores), supermarket stores (47 MT stores) and franchise stores (97 stores). Data by end-Jul 2019. |
| Pig feed market share | 5% | 11% |
| Financial summary | - 2018 revenue: US\$288m - 2018 EBITDA: US\$34m | - 2018 revenue: US\$603m - 2018 EBITDA: US\$56m |

Source: VND RESEARCH, Company reports

Figure 9: MSN and MML's 2018 revenue by segment



Source: Masan Group, Masan Meatlife

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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. |

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