

## BAF VIET NAM AGRICULTURE JSC (BAF) – INITIATION

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND26,700	VND33,500	0.00%	ADD	FOOD AND BEVERAGE

23 September 2022

**Outlook – Short term:** Positive  
**Outlook – Long term:** Positive  
**Valuation:** Positive

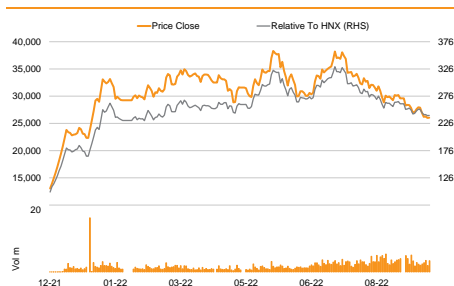
Consensus\*: Add:0 Hold:0 Reduce:0

Target price / Consensus: na

### Key changes in the report

> N/a

### Price performance



Source: VNDIRECT RESEARCH

### Key statistics

52w high (VND)	38,300
52w low (VND)	13,044
3m Avg daily value (VNDmn)	97,192
Market cap (VNDbn)	2,819
Free float (%)	56
TTM P/E (x)	11.6
Current P/B (x)	1.40

### Ownership

Siba Holdings	20.5%
Bui Huong Giang	13.3%
Phan Ngoc An	6.4%
Others	59.8%

Source: VNDIRECT RESEARCH

### Analyst(s):



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## A pick-me-up in volatile time

- We think BAF is well-positioned to ride on the growing local demand of clean, traceable and affordable meat.
- Earnings is expected to grow 22.4%-10.2% yoy over FY23-24F on the back of its strong expansion in farming and processing.
- Initiate coverage with Add rating and target price of VND33,500.

### A rising star in Feed-Farm-Food (3F) business

Established in 2017, BAF initially involved in agri-products trading then strongly tapped into 3F business through several M&A since 2020. Currently, BAF focuses in porker value chain with two animal feed factories and 15 farms with over 200,000 pig heads, among top 5 largest swine farming companies in Vietnam. In 2021, BAF delivered almost its volume for meat processing companies, eg Masan MeatLife.

### Ambitious capacity expansion during FY22-23F

BAF aims to get about 10% live hog market share by 2030F, equivalent to c. VND14,000bn of revenue. During FY22-23F, the company enter a heavy investment cycle with 2 slaughter factories, 5 porker farms, 2 piglet farms and 3 combined piglet and porker farms which will come online since 3Q22F – 1Q23F. These projects will lift BAF's pig herd up 226% from current scale and also finalize its "Food" segment in 3F business model. Trailing the success of CP Food and Masan Meatlife, BAF will benefit from rising demand of clean and traceable meat.

### Strong earnings growth over FY23-24F backed by Food segment expansion

BAF experienced softer growths of both topline and bottom-line as the company narrowed down agri-products trading business. An inflection point to be coming in FY23 as 3F business revenue to grow 54.0% yoy, contribute 35.8% to total revenue. GM will improve 0.7% pts as 3F business segment increase its contribution to BAF's gross profit by 6.1% pts in FY23F. Overall, BAF's net profit is forecasted to rise 22.4% yoy in FY23F, then grow steadily from FY24F after a strong growth period FY21-23F of 10.2% yoy.

### Initiate coverage with Add rating and target price of VND33,500

BAF's share price has corrected 31.5% from its peak on 25 May, following the market overall performance, bringing its valuation to 9.1x FY23F P/E. We see BAF as a relatively defensive pick with visible earnings growth (16.2% over FY23-24F) and encouraging profitability (ROE >15%) among the rising cost-push inflation and tightening capital market. Potential re-rating catalysts include 1) higher-than-expected demand for meat products, and 2) higher-than-expected live hog price. Downside risks include 1) lower-than-expected meat consumption in Vietnam, 2) slower-than-expected expansion of Siba Food stores, and 3) the prices of key animal food rising faster than expected.

Financial summary (VND)	12-21A	12-22E	12-23E	12-24E
Net revenue (bn)	10,434	5,788	6,828	7,471
Revenue growth	(18.8%)	(44.5%)	18.0%	9.4%
Gross margin	4.7%	9.5%	10.2%	10.7%
EBITDA margin	3.5%	6.6%	5.9%	4.9%
Net profit (bn)	322	343	420	463
Net profit growth	602.3%	6.5%	22.4%	10.2%
Recurring profit growth				
Basic EPS	2,243	2,389	2,925	3,224
Adjusted EPS	2,243	2,389	2,925	3,224
BVPS	18,652	17,067	19,997	23,224
ROAE	31.9%	17.6%	15.8%	14.9%

Source: VND RESEARCH

## A PICK-ME-UP IN VOLATILE TIME

### Investment thesis

#### We like BAF for:

- Growing demand of clean and traceable meat has bring growth opportunities for large-scale poultry enterprises with high stocking densities and more biosecure.
- Fueled by industry expertise shareholders and strong financial capacity, BAF is embarking the expansion phase to be among top 3 country largest swine farming, which behind GreenFeed Vietnam by 2030F.
- We expect BAF's net profit to grow at average 16.2% over FY23-24F, driven by capacity expansion. Gross margin will improve 0.7% pts as 3F business segment increase its contribution to BAF's gross profit by 6.1% pts in FY23F with GM much higher agribusiness segment.
- BAF's share price has corrected 31.5% from its peak on 25 May, following the market overall performance, bringing its valuation to 9.1x FY23F P/E. We see BAF as a relatively defensive pick among the rising cost-push inflation and tightening capital market.

**We initiate coverage on BAF with ADD rating.** Our target price is VND33,500, which is based on the combination of 10-year-DCF (WACC: 13.7%, LTG: 1.0%) and target EV/EBITDA of 8.5x. We use target EV/EBITDA – which is 1.7x higher than Dabaco (DBC, HOSE VN) of 5.1x as the company is in the early stage of heavy CAPEX investment period with fast construction of farm and factory projects.

**Potential re-rating catalysts include** 1) higher-than-expected demand for meat products, and 2) higher-than-expected live hog price.

**Downside risks include** 1) lower-than-expected meat consumption in Vietnam, 2) slower-than-expected expansion of Siba Food stores, and 3) the prices of key animal food rising faster than expected.

#### Investment risks

- Unfavorable weather conditions along with export restrictions in some major agricultural exporting countries in the world may put pressure on world agricultural prices to return to upward momentum.
- For new company (such as BAF), we see some barriers to entering the 3F business industry include 1) competition from companies that already have had market share, and 2) a closed system of factories and farms from the production of animal feed to the supply of output meat products to the market. Vietnam's meat market value was estimated at US\$8.92bn in 2021, of which CP Vietnam, a subsidiary of Thai's CP Group, is Vietnam's largest meat producer with the porker market share estimated at 17-18%. Some other major porker producers include Dabaco, Hoa Phat Group, Green Feed, Masan Meat Life and Vissan, Meat Deli (brand of Masan Meatlife has been launched since the end of 2019). After 2 years of launching, Meat Deli products have been widely available on the Winmart supermarket system and achieved about 2-3% market share.

Figure 1: Valuation summary (Unit: VND)

Methodology	Price	Weight	Weighted price
FCFF	34,720	50%	17,360
EV/EBITDA	32,200	50%	16,100
<b>Target price</b>			<b>33,500</b>

Source: VNDIRECT RESEARCH

**Figure 2: Discounted cash flows - future cash flows to firm (FCFF) approach**

Present value of Free Cash Flows to Firm (VNDbn)	3,570
Present value of Terminal value (VNDbn)	1,228
Enterprise Value (VNDbn)	4,798
Net debt (VNDbn)	185
Equity Value	4,983
No. of Outstanding Share (million)	144
<b>Equity value per share (VND)</b>	<b>34,720</b>
<hr/>	
WACC	13.7%
Cost of Equity	14.6%
Long-term growth	1.0%

Source: VNDIRECT RESEARCH

**Figure 3: Multiples (EV/EBITDA)**

EBITDA 2022-23F (VNDbn)	594
Target EV/EBITDA (x)	8.5
Total debt (VNDbn)	814
Minority interest (VNDbn)	-
Cash & Equivalent (VNDbn)	381
Equity value (VNDbn)	<b>4,616</b>
Total share outstanding (m)	143.5
<b>Implied share price 2022F (VND)</b>	<b>32,200</b>

Source: VNDIRECT RESEARCH

**Figure 4: Discounted cash flow model (Unit:VNDbn)**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
<b>EBIT</b>	<b>179</b>	<b>418</b>	<b>442</b>	<b>540</b>	<b>592</b>	<b>624</b>	<b>638</b>	<b>630</b>	<b>662</b>	<b>679</b>	<b>697</b>	<b>719</b>	<b>744</b>
Add: Depreciation & Amortization	17	32	63	143	227	292	329	359	392	428	467	509	553
Less Capital expenditure	(192)	(482)	(521)	(785)	(822)	(420)	(278)	(304)	(331)	(357)	(385)	(407)	(430)
Changes in Working Capital	1,633	(157)	(369)	(67)	195	(39)	228	232	233	237	245	192	201
<b>Free Cash Flow (FCF)</b>	<b>1,637</b>	<b>(189)</b>	<b>(385)</b>	<b>(169)</b>	<b>193</b>	<b>457</b>	<b>917</b>	<b>917</b>	<b>957</b>	<b>987</b>	<b>1,024</b>	<b>1,013</b>	<b>1,068</b>
Less Taxes Paid	(12)	(69)	(68)	(84)	(92)	(97)	(99)	(98)	(103)	(104)	(106)	(109)	(113)
<b>Free Cash Flows to Firm</b>	<b>1,625</b>	<b>(258)</b>	<b>(453)</b>	<b>(252)</b>	<b>101</b>	<b>360</b>	<b>818</b>	<b>819</b>	<b>854</b>	<b>884</b>	<b>918</b>	<b>904</b>	<b>955</b>
<b>Terminal Value</b>													<b>4,776</b>
<b>PV of FCFF</b>	<b>1,625</b>	<b>(258)</b>	<b>(453)</b>	<b>(222)</b>	<b>78</b>	<b>245</b>	<b>489</b>	<b>431</b>	<b>396</b>	<b>360</b>	<b>329</b>	<b>285</b>	<b>265</b>
<b>PV of Terminal Value</b>													<b>1,228</b>

Source: VNDIRECT RESEARCH

**Figure 5: Peer comparison (data at Sep 23, 2022)**

Company	Ticker	Target price LC\$	Price LC\$	Mkt cap US\$m	P/E (x)		3-year EPS CAGR (%)	EV/EBITDA (x)		ROA (%)		ROE (%)	
					FY22F	FY23F		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
<b>Regional listed meat producers</b>													
Charoen pokphand foods PUB	CPF TB	N/a	25.0	5,625	14.9	12.8	13.3	12.0	13.1	2.1	2.3	6.9	7.5
Thai union group PCL	TU TB	N/a	17.3	2,155	11.9	10.6	11.5	11.0	10.3	4.0	4.4	11.0	11.8
DABACO corp	DBC VN	25,000	27,200	278	16.3	10.2	53.7	5.1	4.0	4.1	6.3	8.7	12.3
Masan MeatLife Corporatiom	MML VN	73,400	58,900	813	44.8	59.8	170.3	108.1	41.0	8.5	5.6	8.2	6.1
Vissan JSC	VSN VN	N/a	26,700	91	N/a	N/a	3.4	N/a	N/a	N/a	N/a	N/a	N/a
Hoang Anh Gia Lai JSC	HAG VN	N/a	14,450	565	17.0	10.7	N/a	N/a	N/a	N/a	N/a	13.6	17.9
<i>Average</i>				<i>1,588</i>	<i>21.0</i>	<i>20.8</i>	<i>50.5</i>	<i>34.1</i>	<i>17.1</i>	<i>4.7</i>	<i>4.7</i>	<i>9.7</i>	<i>11.1</i>
<i>Median</i>				<i>689</i>	<i>16.3</i>	<i>10.7</i>	<i>13.3</i>	<i>11.5</i>	<i>11.7</i>	<i>4.1</i>	<i>5.0</i>	<i>8.7</i>	<i>11.8</i>
<b>BAF Vietnam agriculture JSC</b>	<b>BAF VN</b>	<b>33,500</b>	<b>26,700</b>	<b>163</b>	<b>11.2</b>	<b>9.1</b>	<b>N/a</b>	<b>8.4</b>	<b>7.3</b>	<b>5.9</b>	<b>6.5</b>	<b>17.6</b>	<b>15.8</b>

Source: VNDIRECT RESEARCH, BLOOMBERG



**A rising star in Feed-Farm-Food (3F) business**

**Background**

BAF Viet Nam Agriculture Joint Stock Company (BAF) was established in Apr 2017 with an initial charter capital of VND30bn, involving in trading agricultural products. In Jul 2018, the company tapped into hog farming business with initial capacity of 79,200 porkers and 14,800 piglets. By Mar 2019, BAF reset the entire farming system and expanded its business into Feed and Food, the other pillar of 3F model (Feed- Farm-Food).

Currently, BAF operates two animal feed factories for internal demand, 15 farms with capacity of 109,200 porkers and 18,200 piglets and aims to build two meat processing in Binh Phuoc and Hoa Binh with capacity of 240 porkers/hour.

**Figure 6: BAF's development stage**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Since its inception, BAF imported 1,200 piglets from Genesus Corporation (Canada), top 3 global high-quality breeding stock supplier. Genesus purebred pigs are suitable for breeding conditions in Vietnam regarding good adaptation, rapid weight gain, and fertility, thus meeting producers' requirements and consumers.

**Figure 7: Porkers are raised in high bio-security industrial scale farm**      **Figure 8: BAF aims to operate following the 3F model**



Source: VNDIRECT RESEARCH, COMPANY WEBSITE



Source: VNDIRECT RESEARCH, COMPANY WEBSITE

Figure 9: BAF's farming system spreading across the country

Number	Farm	Address	Lease term	Begin year	Area	Farming capacity
1	Đak Lak 1	Buon Don District, Dak Lak Province			14.1 ha	12,000 porkers
2	Phu Yen 1	Phu Yen Province, Vietnam			14 ha	5,000 piglets
3	Tay Ninh 1	Tan Bien District, Tay Ninh Province			11.9 ha	12,000 porkers
4	Tay Ninh 2	Tan Bien District, Tay Ninh Province			10.8 ha	2,400 piglets
5	Xanh 1	Tan Bien District, Tay Ninh Province			16 ha	30,000 porks
6	Binh Phuoc 1	Dong Phu District, Binh Phuoc Province	15 years	2019	10.5 ha	1,200 piglets
7	Binh Phuoc 2	Dong Phu District, Binh Phuoc Province	15 years	2019	15 ha	1,200 piglets
8	Binh Thuan 1	Duc Linh District, Binh Thuan Province	15 years	2018	12 ha	20,000 porkers
9	Binh Thuan 2	Ham Tan district, Binh Thuan province	15 years	2019	12,3 ha	2,400 piglets
10	Vung Tau 1	Xuyen Moc District, Ba Ria - Vung Tau Province	15 years	2017	12 ha	2,400 piglets
11	Binh duong 2	Bac Tan Uyen District, Binh Duong Province	10 years	2017	17 ha	14,400 porkers
12	Binh Duong 3	Bac Tan Uyen District, Binh Duong Province	10 years	2018	15 ha	13,000 porkers
13	Thanh Hoa 1	Thach Thanh District, Thanh Hoa Province	15 years	2019	10.5 ha	2,400 piglets
14	Vinh Phuc 1	Yen Lac District, Vinh Phuc Province	10 years	2018	4.8 ha	7,800 porkers
15	Hoa Binh 1	Luong Son District, Hoa Binh Province	13 years	2019	8.7 ha	1,200 piglets

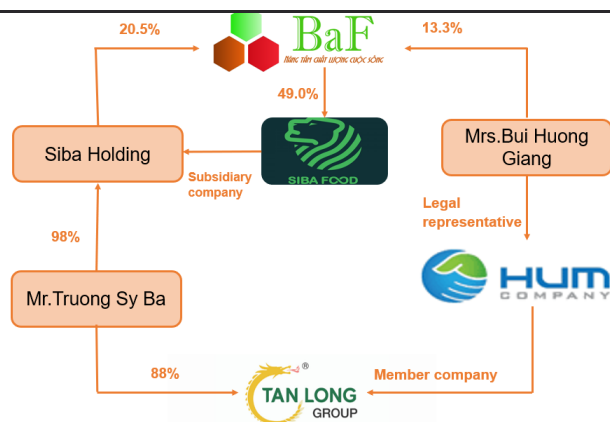
Source: VNDIRECT RESEARCH, COMPANY REPORTS

### BAF is a puzzle in Tan Long Group's ecosystem

BAF was listed on the Ho Chi Minh Stock Exchange since Dec 2021. By Mar 2022, Siba Holding JSC acquired 20.5% stake to become the largest shareholder, following by CEO Bui Huong Giang (13.3%) and Mr. Phan Ngoc An (6.4%). BAF's CEO also used to own HUM JSC (a member of Tan Long Group JSC). Since 15 Mar, Mr. Truong Sy Ba, Chairman of both Siba Holding and Tan Long Group was officially appointed as the new chairman of BAF.

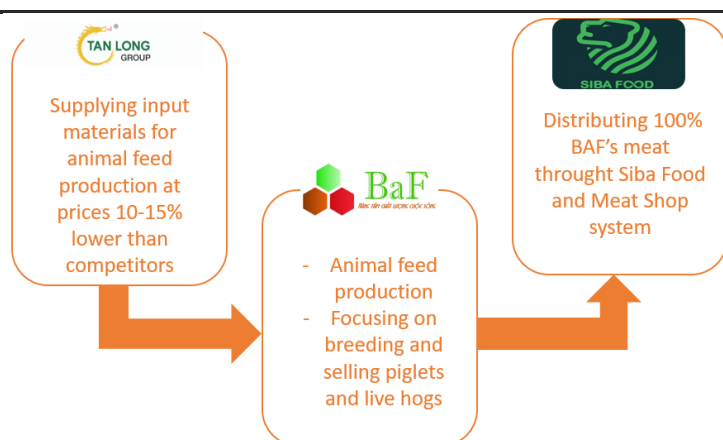
Tan Long Group is the leader in animal feed ingredients import in Vietnam, accounting for more than 25% of the total annual import volume of grain. The Group has supplied more than 400,000 tonnes/month of raw materials to more than 250 customers and factories across the country. The company is a partner of global suppliers such as Cargill, CHS, Sojitz, and Green Plains. Besides, and cooperates with C.P. Group, Masan Group, JAPFA, ANCO, and Green Feed. Besides, the group is also the largest producer and exporter of Japonica rice in Vietnam and Asia. Not only trading agricultural products, but Tan Long also cooperates with Posco Daewoo Group of Korea to invest in a closed value chain of livestock products Feed - Farm - Food (3F model). Tan Long Group also expands its farming business in Myanmar.

Figure 10: BAF and Tan Long Group 's ownership matrix



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 11: Tan Long Group's ecosystem



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We believe that BAF will be the key for Tan Long Group to enter the 3F business. Along with that, thanks to the great support from Tan Long Group, BAF can access to raw materials resources with reasonable and stable price. Therefore, the cost of BAF's animal feed lower 10-15% than the competitors, according to the management.

**Figure 12: Management team has deep expertise in the livestock industry**

	Experience
Truong Sy Ba - Chairman	Chairman of Tan Long Group - one of the largest exporters of rice and trading agricultural products in Vietnam
Bui Huong Giang - CEO	Business management of trading agricultural products and raw materials for animal feed segment in Tan Long Group. Managing Director of HUM JSC (mainly exporting rice and trading agricultural products)
Phan Ngoc An - BOD member	13 years holding executive management positions in the field of animal feed production, livestock and poultry at GreenFeed Vietnam, Nong Lam Vina, UsAgri Vietnam.
Huynh Van Loc - Production manager	Nearly 10 years as production manager and internal control at large farms, companies such as CP, Japfa...
Tran Thi Thu Thuy - Director of Nutrition	25 years experience in research and production Nutritional bran, at the same time as a senior adviser for Masan Nutri-science, Hoa Phat, Proconco, and Institute Agricultural Science in the South

Source: VNDIRECT RESEARCH, COMPANY REPORTS

### BAF aims to be the Top 3 largest 3F listed companies in term of total herd size by 2030F

In the 2021 annual report, BAF has set the goal to reach top 3 companies with completed 3F chain (Feed - Farm - Food) in 2030F in which the company's scale reaches 100 pig farms, 11 animal feed factories (with total herd size of 2.5 million herds and total capacity of 2.3 million tonnes bran per year) and a distribution system of 15,200 stores.

We believe that BAF will have a basis to achieve its goal of being in the top 3 leading 3F companies in Vietnam thanks to: 1) the company already has a closed system of 02 animal factories and 15 farms and has the ability to raise capital quickly to meet the farm expansion's demand, 2) experienced management team, and 3) available distribution system thanks to resonance from Siba Holding.

**Figure 13: BAF's current scale compared to other listed meat producers in Vietnam**

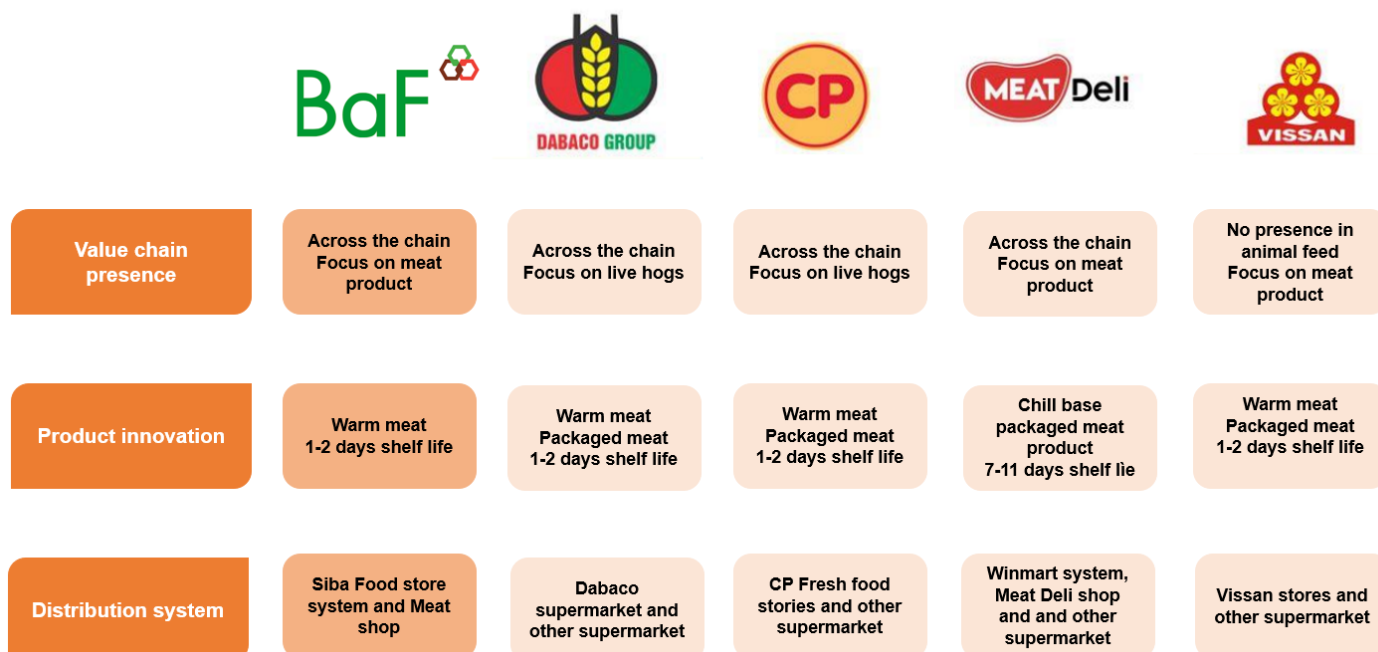
	BAF	MML	DBC	CP food	VSN
<b>Scale</b>					
Farm	15	01	08	Mainly cooperate in purchasing from farmers	Mainly cooperate in purchasing from farmers
Animal feed factories	02	13 (Partnership with De Heus)	10	10	0
Farming capacity (herds)	127,400	250,000	nearly 1 million	N/a	N/a
Meat processing factory	0	02	0	5	01 industrial cluster and 01 factory
<b>Distribution system</b>	50 Siba food supermarket, 250 Meat shop and traditional markets	more than 2,700 points of sale, of which 2,300 stores belong to the Winmart system in Hanoi and Ho Chi Minh City)	Dabaco supermarket system (04) and traditional markets	CP Food store system and distributed at almost supermarket systems across the country	100 distributors and over 130,000 sales points nationwide.

Source: VNDIRECT RESEARCH, COMPANY REPORTS



In our view, BAF is orienting its 3F business in a closed chain similar to big players in the meat industry like Dabaco and CP. BAF focuses on breeding and supplying live porker to the market through traditional channels and Siba Food stores. Similar to Dabaco and CP Food, BAF's products are warm porker with a shelf life of 1-2 days, focusing on the middle-class customer segment at a reasonable price. Meanwhile, Masan MeatLife mainly imports live porker from third parties and focuses on processing and distributing cool meat (7-11 days storage time) and value-added products. Besides supplying fresh meat to the market, BAF aim to produce and supply ready to cook products such as sausages, porker jambon. We believe such good products will be favoured by busy families and young people, who do not spend too much time on cooking.

Figure 14: BAF is orienting its 3F business in a closed chain similar to big players in the meat industry



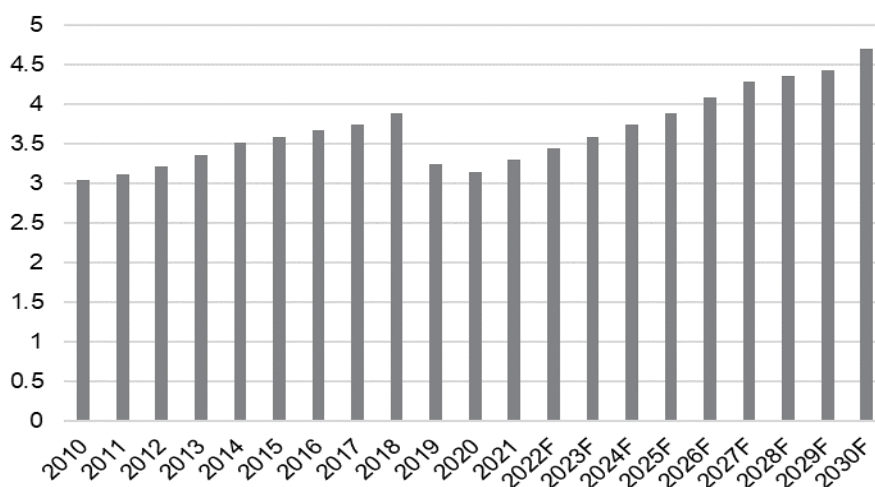
Source: VNDIRECT RESEARCH, COMPANY REPORTS

### Feed - Farm – Food business: Key driver for FY22-23F earnings growth

#### Meat demand recovery, in which 3F meat is going to replace untraceable meat

Porker is the staple meat in Vietnam, accounting for 66% of the total meat consumption, followed by poultry and beef. According to the Organization for Economic Co-operation and Development (OECD), porker consumption in Vietnam is forecast to reach 3.4m tonnes in 2022F and CAGR of 3.1% in 2022-2030F.

Despite the fact that porker is the main meat, the local porker market remains at a low base as nearly 95% of the consumed porker is warm meat and unsafe. We believe that higher income, increasing in nutritional knowledge and health awareness of Vietnamese people especially after the effects of African swine fever (ASF) and Covid-19 will lead to stronger demand for clean meat. This trend is particularly strong in urban areas, thanks to the development of a modern trade channel that has made it easier for consumers to access clean, branded and sourced meat. Therefore, we believe that the Vietnamese porker market still has growth potential in term of meat consumption and 3F businesses will benefit from the trend of switching to clean meat in urban areas.

**Figure 15: Vietnam's porker consumption is forecasted to grow 3.1% p.a in 2021-30F (unit: mT)**


Source: VNDIRECT RESEARCH, COMPANY REPORTS

### The rapid expansion and tap into food producing segment

Realizing potential growth from the 3F model, from July 2020, BAF signed a strategic partnership contract with Genesus to exclusively source high-quality piglets in the Vietnamese market. In 2022-23F, the company plans to expand the pig herd quickly with ten projects in Tay Ninh, Binh Phuoc and Nghe An. These projects are expected to come into operation in 3Q22F – 1Q23F and help the company increase its capacity in piglets and porkers. We estimate that in 2023F, BAF will reach a total capacity of 379,200 porkers (+247.3% yoy) and 44,450 piglets (+144.2% yoy). In our view, the new projects will help BAF meet the growing demand for clean meat in Vietnam. We estimate that after the farms are put into operation, BAF will be 45% larger than Masan MeatLife in term of porker herd size and the piglet size is similar to Dabaco's (about 48,500 piglets).

**Figure 16: BAF plans to expand the pig herd quickly with ten projects in Tay Ninh, Binh Phuoc and Nghe An**

Number	Farm	Address	Area	Completion time	Capacity
1	Xanh 1	Tan Bien District, Tay Ninh Province	16 ha	Apr-22	30,000 porkers
2	Xanh 2	Tan Bien District, Tay Ninh Province	10.6 ha	3Q/22F	30,000 porkers
3	Nam An Khanh	Tan Bien District, Tay Ninh Province	18.4 ha	3Q/22F	5,000 piglets
4	Dong An Khanh	Tan Chau District, Tay Ninh Province	14.9 ha	3Q/22F	5,000 piglets
5	Bac An Khanh	Tan Chau District, Tay Ninh Province	16.5 ha	3Q/22F	30,000 porkers
6	Hai Dang	Tan Chau District, Tay Ninh Province	66 ha	3Q/22F	5,000 piglets + 30,000 porkers
7	Phu Yen 2	Song Hinh District, Phu Yen Province	25.0 ha	3Q/22F	30,000 porkers
8	Thien Phu Son	Bu Dang District, Binh Phuoc Province	103.5 ha	1Q23F	6,250 piglets + 30,000 porkers
9	Tan Hop	Tan Ky District, Nghe An Province	32.5 ha	1Q23F	60,000 porkers
10	Giai Xuan	Tan Ky District, Nghe An Province	52.1 ha	1Q23F	5,000 piglets + 30,000 porkers

Source: VNDIRECT RESEARCH, COMPANY REPORTS

In addition, BAF is investing in two meat processing factories in Binh Duong and Hoa Binh with a capacity of 240 heads/hour, starting in Q3-Q4/22F respectively. We believe that slaughterhouses and food processing factories will become an important link for BAF to complete the 3F chain. Products from the slaughterhouse will be consumed through traditional distribution channels (large wet markets in Ho Chi Minh and neighboring cities such as Binh Duong, Dong Nai, Long An) and modern distribution channels including Siba Food convenience store system and supermarkets.



Figure 17: Siba Food store



Source: VNDIRECT RESEARCH, INTERNET

Figure 18: BAF porker are sold in Siba Food supermarket



Source: VNDIRECT RESEARCH, INTERNET

Siba Food already has a large store system in Ho Chi Minh and Hanoi with 50 supermarkets and 250 Meat shops in July 2022. In our view, the Siba Food store system will help BAF to spread products across big cities and quickly capture market share mainly in Ho Chi Minh and Ha Noi.

**Feed: First year of recording revenue from animal feed**

BAF has an animal feed factory in Vung Tau with a designed capacity of 60,000 tonnes/year specializing in bran and pig feed. In Jan 2022, BAF has put the Tay Ninh animal feed factory into operation with a designed capacity of 200,000 tonnes/year. According to the management, the current capacity of the two factories is enough to supply bran for the internal pig herd. BAF's pig herd is expected to increase sharply in 2022F, thus the company plans to build two animal feed factories in Nghe An and Binh Dinh with a capacity of 200,000 tonnes/year/plant. At end-2022F, the total production capacity will reach 460,000 tonnes/year, nearly 8 times higher than in 2021.

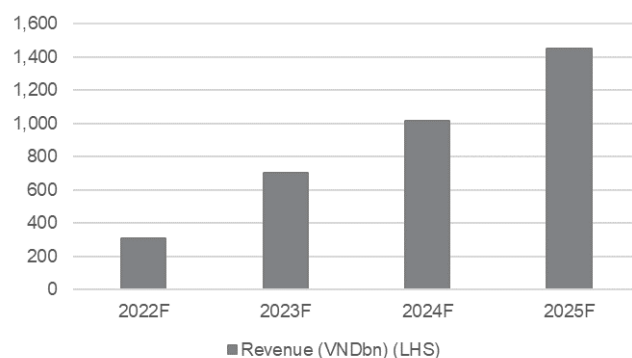
In our view, animal feed factories will mainly serve the internal feed demand, thus the rapid increase in pig herd size in the period 2022-23F will lead to the increasing internal demand for animal feed. We estimate the total output of animal feed production in 2022F to reach more than 100,000 tonnes and increase by 36.0% yoy in 2023F. In addition to providing animal feed for internal farms, BAF will also take advantage of the remaining output of animal feed to sell with piglet at a preferential price. Thus, we expect BAF's animal feed sale volume to reach about 26,000 tonnes in 2022F and increase 34.8% yoy in FY23F. Overall, we forecast the animal feed segment will start to record revenue of VND308bn in FY22F and VND703bn in FY23F (+128.1% yoy), contributing 5.3%/10.3% to BAF's total revenue, respectively.

Figure 19: Completion progress of BAF's animal feed factories

Animal feed factories	Area (m2)	Capacity (tonnes/year)	Construction progress
Phu My Animal Feed Factory (Vung Tau)	5,000	60,000	Active
Tay Ninh Animal Feed Factory	30,000	200,000	Active since Jan 2022
Nghe An Animal Feed Factory	30,000	200,000	Put into operation in Jun 2022
Binh Dinh Animal Feed Factory	35,000	200,000	Commencement in 4Q22

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 20: We expect BAF's animal feed revenue to grow at CAGR of 67.1% during FY22-25F



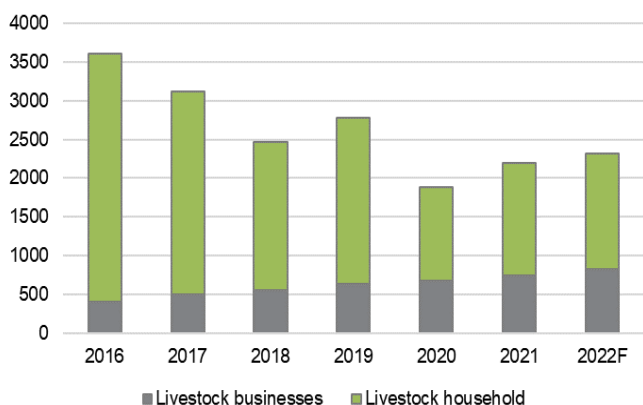
Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Farm & Food: Maintain double-digit revenue growth momentum**

Currently, BAF is supplying both piglets and porker to the market, in which mainly is porker.

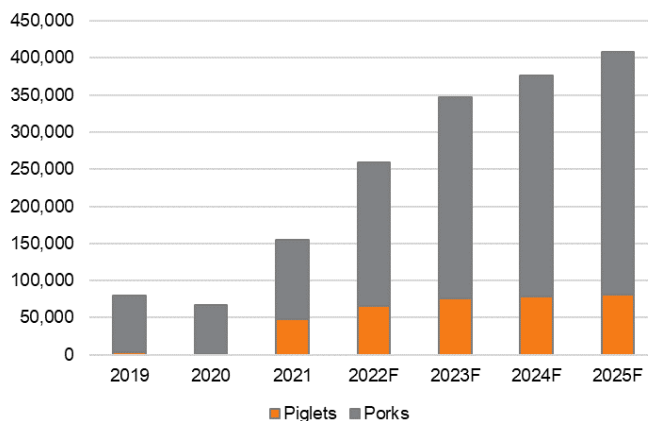
- Based on our estimate, about 4% of BAF's porker is distributed through Siba Food, with an average of 5-6 porker/POS/month in 2021. The remain was distributed through traditional channel. Siba Food currently has 50 supermarkets and 250 BAF Meat shops. BAF plans to rapidly expand its distribution system through Siba food in 2022F with the aim of building and supplying BAF branded meat directly to consumers. ASF outbreak re-emerged in many cities in 1Q22, making smallholder farmers severely affected by the lack of biosecurity in the barn system. As a result, the supply of live porker from smallholder farmers has decreased significantly. We believe that 3F businesses can take advantage of this opportunity to capture more market share from smallholder farmers. We expect BAF's porker sale volume to increase 79.9%/40.0% yoy in FY22-23F. In which, sale volume through traditional channel increase by 114.1%/32.1% yoy. Meanwhile, we expect the number of Siba Food supermarkets will increase by 50%/50% yoy while the Meat shop will increase by 100%/50% yoy in FY22-23F, ensuring 15-20% the output of BAF's porker in FY22-23F.
- For BAF's piglet sale volume, we believe that the recent increase in swine prices along with the decline in prices of corn, soybeans, and wheat (main input materials for animal feed) will create an incentive for farmers to re-herd to meet high demand for meat during the Tet holiday season. In our view, BAF can benefit from this trend as BAF's piglets are popular due to its quality stock, good adaptation, rapid weight gain, and high fertility, according to our survey. Thus, we expect BAF's piglet sale volume to increase by 38.4%/15.5% yoy in FY22-23F.

**Figure 21: Vietnam's sow herd by farming area in 2016-22F (unit: thousand heads)**



Source: VNDIRECT RESEARCH, AGROMONITOR

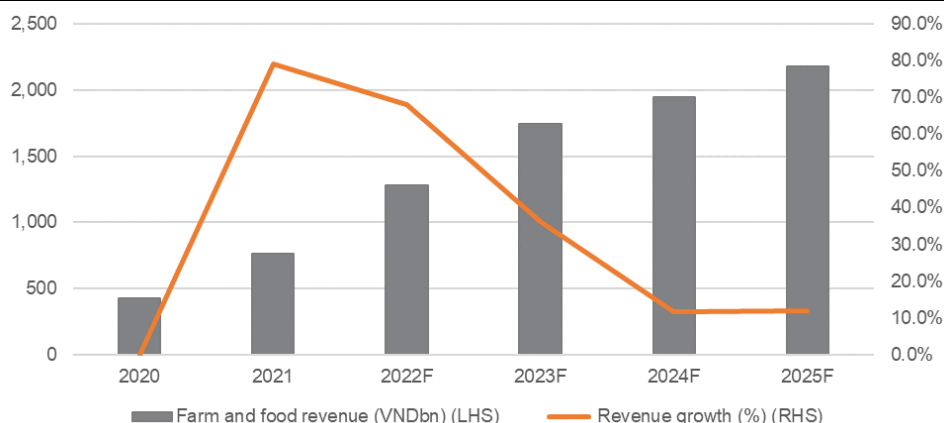
**Figure 22: BAF's porker sales volume is forecasted to increase sharply in 2022-25F (unit: heads)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

In 2022F, we expect the average live hog price to decrease by 2.9% yoy compared to VND61,600 recorded in 2021 mainly due to a high base in 6M21. Therefore, BAF's ASP is forecasted to decrease slightly by 2.9% yoy in FY22F. Overall, we expect BAF's farm and food revenue to grow significantly by 68.0%/36.2% yoy in FY22-23F.

Figure 23: BAF's farm and food revenue to post a CAGR of 33.6% in FY21-25F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Swine price maintain short-term upward momentum before cooling down in 4Q22F**

We expect swine prices to peak in 3Q22F then gradually cool down in 4Q22F (see our [Meat production sector note](#) for further discussion). Domestic swine price on Sep 15 decreased by 10% compared to Jul 22 due to strong re-herd activity in the North and the impact of ASF epidemic in the South, causing farmers to sell off which increased supply continuously.

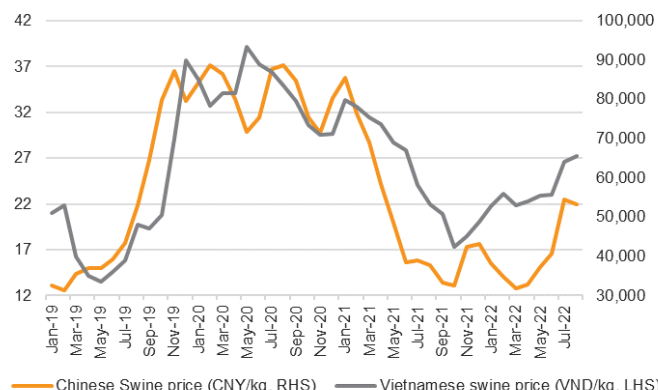
However, we saw that swine price in China tended to recover at the end of August as school kitchens reopened after the summer and meat consumption demand increased due to the approaching Mid-Autumn festival and Independence Day. Chinese swine price has reached CNY24.07/kg in 21 Sep, the highest point from early 2022. In our view, Vietnam's swine price has a correlation with Chinese swine price as China is the main export market of Vietnam's pork through unofficial-quota trade. Higher demand for meat in China may lead to an increase in the demand for meat imports through unofficial channels, indirectly affecting the swine price in Vietnam to increase soon. Therefore, we believe that domestic swine price will maintain short-term upward momentum before cooling down in 4Q22F, which is benefit for meat producers such as CP Foods, Dabaco, BAF and so on.

Figure 24: Chinese swine price tended to increase from 19 Aug, 2022



Source: VNDIRECT RESEARCH, ZHUWANG

Figure 25: Vietnam's swine price has a correlation with Chinese swine price

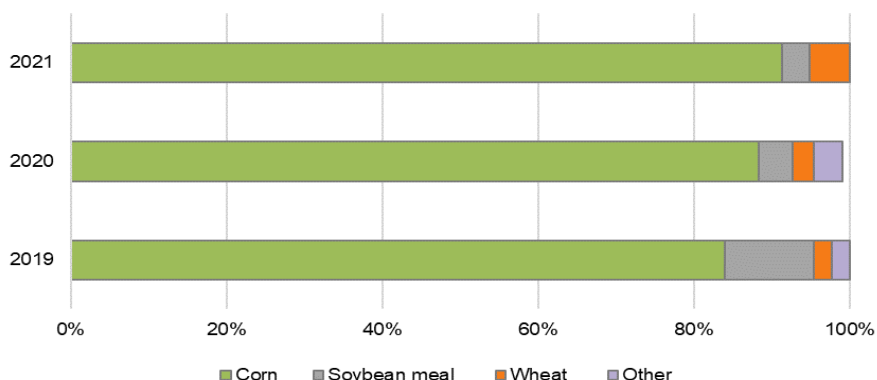


Source: VNDIRECT RESEARCH, ZHUWANG, ANOVA FEED

**Agricultural trading: Actively cutting revenue to focus on 3F business**

Starting trading agricultural products from 2017, BAF has a network of close customers, suppliers who are strategic partners nationwide such as Tan Long Group Joint Stock Company, T&T Group, De Heus Co., Ltd. Agricultural trading accounted for 92-97% of BAF's total revenue in FY18-21. BAF's main products include corn, soybean meal, and wheat which are input materials for animal feed production.

**Figure 26: Proportion of BAF's agricultural products in 2019-2021 (unit: %)**

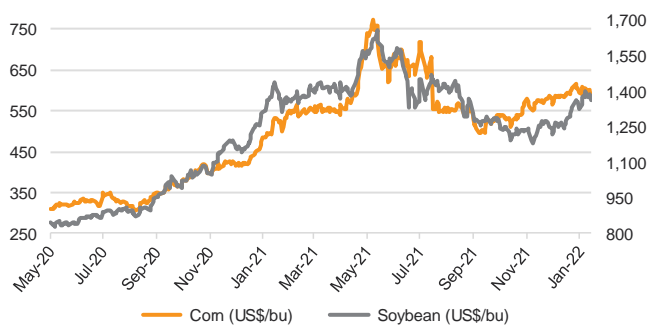


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Although contributing the main proportion to BAF's revenue, the agricultural trading segment recorded a low GM (1-2% per our estimate). According to the management, agricultural trading was potential, however it is a problematic playground for new businesses like BAF. Therefore, from the beginning of 2020, the company decided to change its strategy in operating structure, focusing on 3F business. Specifically, the proportion of revenue from agricultural products tended to decrease gradually from 97.5% in FY19 to 92.7% in FY21. Therefore, we forecast BAF's sales volume in agricultural trading to decrease by 60.0% yoy in 2022F based on the management's plan.

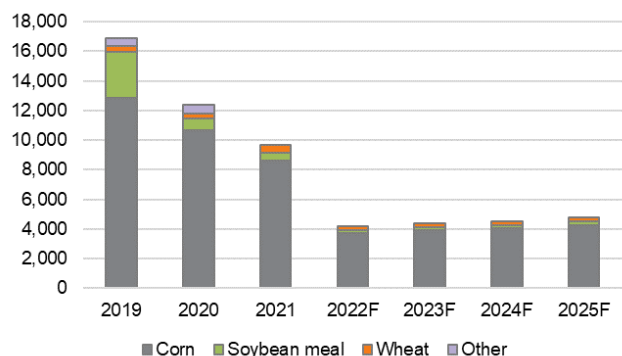
According to World Banks, wheat, corn, and soybean meal price are forecasted to rise 42.7%/19.4%/9.7% yoy in 2022F. Thus, BAF's average selling price is forecasted to increase 10.1% yoy in FY22F. Overall, we expect BAF's agricultural trading segment to record revenue of VND4,197bn in FY22F, declining 56.6% yoy.

**Figure 27: Material input prices for animal feed increased significantly in 2020-21**



Source: VNDIRECT RESEARCH, BLOOMBERG

**Figure 28: Agricultural trading revenue is forecasted to decrease sharply in FY22F as BAF focuses on the 3F business (unit: VNDbn)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS



## BAF to enjoy favourable earnings growth in FY23F thanks to higher gross margin

### Net profit record slight growth in FY22F due to input cost pressures...

We expect average global commodity to stay at higher price for the whole year compared to 2021. Meanwhile, hog prices are forecast to decrease by 2.9% yoy in 2022F. Therefore, we expect Farm & food's GM to decline by 4.9% pts in FY22F. In addition, 3F business will start to record gross profit from the animal feed segment in 2022F, which has lower GM of 5.4% (base on our estimate). Therefore, total GM of 3F business segment is forecasted to record a decrease of 9.9% pts in FY22F. However, we expect 3F business segment to increase its contribution to BAF's gross profit from 55.9% in FY21 to 75.6% in FY22F. Meanwhile, GM of agricultural trading is projected to slightly rise 0.9% pts to 3.2% thanks to higher selling price. As a result, we forecast BAF's blended GM to increase 4.8% pts in FY22F to 9.4%.

In addition, as we forecast 3F business increases its contribution of proportion to BAF's NPAT with tax incentive period of 15%, BAF's tax rate is expected to be cut to 16.6% in FY22F from 17.6% in FY21. Overall, BAF's net profit is forecasted to rise 6.5% yoy in FY22F.

### ... but increase double-digit in FY23F

For FY23F, we expect 3F business to grow 54.0% yoy mainly thanks to 54.0% increase in 3F business, in which sale volume rise by 33.8% while selling price nearly flat by 0.2%. Meanwhile, revenue from agribusiness increase slightly by 4.3% yoy thanks to 14.5% yoy increase in sale volume while selling price decline 10.3% yoy. In conclusion, BAF's net revenue increase by 18.0% yoy in FY23F. In addition, we expect 3F business segment to increase its contribution to BAF's gross profit by 6.1% pts in FY23F with GM of 23.2%, much higher than 2.9% in agribusiness. As a result, we forecast BAF's blended GM to increase 0.7% pts in FY23F to 10.2%. Overall, BAF's net profit is forecasted to rise 22.4% yoy in FY23F.

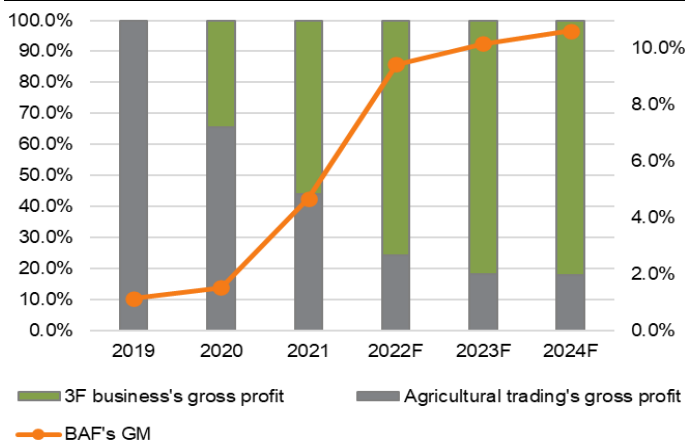
For FY24F, we forecast net revenue to increase 9.3% yoy in which 3F segment increase 20.8% yoy while agribusiness nearly flat by 2.8% yoy. We expect BAF's net profit to grow steadily from FY24F after a strong growth period FY21-23F by 10.2% yoy in FY24F.

Figure 29: VNDirect's forecast on BAF's business in the period FY22-24F

Unit: VNDbn	2020	2021	2022F	2023F	2024F
<b>Net revenue</b>	<b>12,846</b>	<b>10,434</b>	<b>5,788</b>	<b>6,828</b>	<b>7,471</b>
% yoy	-25.7%	-18.8%	-44.5%	18.0%	9.4%
<i>Agribusiness</i>	12,415	9,671	4,197	4,378	4,502
<i>3F business</i>					
<i>Animal feed</i>	N/a	N/a	308	703	1,018
<i>Farm and food</i>	426	762	1,281	1,744	1,948
<b>Gross profit</b>	<b>195</b>	<b>488</b>	<b>549</b>	<b>698</b>	<b>797</b>
Gross margin	1.5%	4.7%	9.5%	10.2%	10.7%
<b>SG&amp;A</b>	<b>17</b>	<b>70</b>	<b>107</b>	<b>158</b>	<b>205</b>
SG&A as % revenue	0.1%	0.7%	1.8%	2.3%	2.7%
<b>EBIT</b>	<b>179</b>	<b>418</b>	<b>442</b>	<b>540</b>	<b>592</b>
EBIT margin	1.4%	4.0%	7.6%	7.9%	7.9%
<b>EBT</b>	<b>58</b>	<b>390</b>	<b>411</b>	<b>503</b>	<b>555</b>
EBT margin	0.5%	3.7%	7.1%	7.4%	7.4%
<b>Tax</b>	<b>12</b>	<b>69</b>	<b>68</b>	<b>84</b>	<b>92</b>
Tax rate	20.9%	17.6%	16.6%	16.6%	16.6%
<b>Net profit</b>	<b>46</b>	<b>322</b>	<b>343</b>	<b>420</b>	<b>463</b>
Net margin	0.4%	3.1%	5.9%	6.1%	6.2%
<b>EPS diluted (VND)</b>	<b>917</b>	<b>2,243</b>	<b>2,389</b>	<b>2,925</b>	<b>3,224</b>

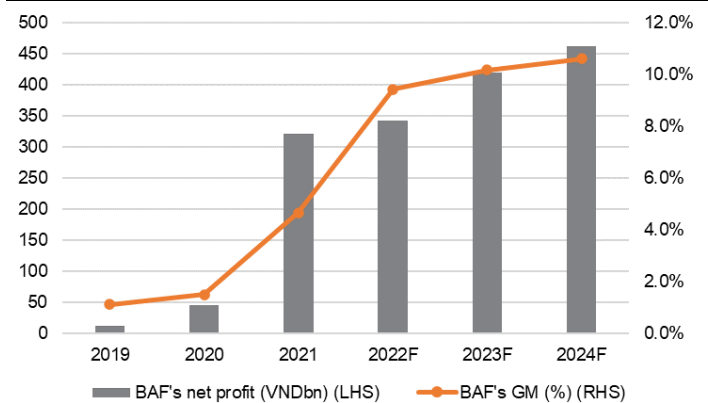
Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 30: 3F business increases its contribution to blended gross profit in FY22-24F**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 31: Net profit will grow in FY22-23F thanks to improving gross margin**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 32: 6M22 results comparison**

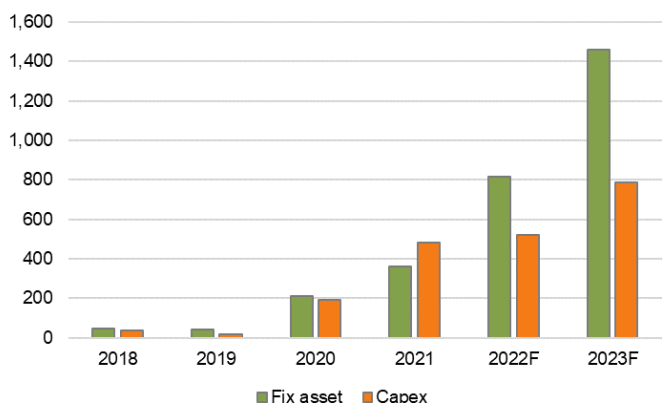
VNDbn	6M22	6M21	% yoy	2022 forecast	% our forecast	Comment
<b>Revenue</b>	<b>2,969</b>	<b>5,251</b>	-43.5%	<b>5,788</b>	51.3%	
Agricultural trading	2,348	4,963	-52.7%	4,197	55.9%	Revenue from the agricultural business segment decreased by 52.7% yoy as businesses actively cut sales volume to narrow this segment and focus on investing in livestock production.
Feed-Farm-Food	621	288	115.9%	1,589	39.1%	We expect revenue from livestock activities to record higher growth in the second half of 2022 thanks to increased demand for meat consumption and storage before the Tet holiday.
Other	2	0.4	335.9%	3	58.7%	
<b>Gross profit</b>	<b>207</b>	<b>276</b>	-25.0%	<b>546</b>	37.9%	
Agricultural trading	72.9	145.1	-49.8%	132.9	54.8%	
Feed-Farm-Food	135.1	132.0	2.3%	413.4	32.7%	
Other	0.1	(0.9)	N/a	0.2	57.6%	
<b>Gross margin</b>	<b>7.0%</b>	<b>5.3%</b>	<b>1.7% pts</b>	<b>9.4%</b>	<b>-2.5% pts</b>	
Agricultural trading	3.1%	2.9%	0.2% pts	3.2%	-0.1% pts	
Feed-Farm-Food	21.8%	45.9%	-24.2% pts	26.0%	-4.3% pts	We expect hog prices to increase by 31.8% yoy in the second half of 2022, thereby supporting BAF's pork retail price to recover in the second half, helping the company improve its gross margin in this segment.
Other	5.9%	N/a		6.0%	-0.1% pts	
<b>SG&amp;A</b>	<b>65</b>	<b>27</b>	<b>141.0%</b>	<b>107</b>	60.5%	
SG&A as % revenue	2.2%	0.5%	1.7% pts	1.8%	0.3% pts	
Selling expenses	26	5	436.8%	55	47.2%	
% revenue	0.9%	0.1%	0.8% pts	1.0%	-0.1% pts	
G&A expenses	39	22	75.9%	52	74.5%	
% revenue	1.3%	0.4%	0.9% pts	0.9%	0.4% pts	
<b>EBIT</b>	<b>142</b>	<b>249</b>	<b>-42.9%</b>	<b>442</b>	32.2%	
EBIT margin	4.8%	4.7%	0.0% pts	7.6%	-2.8% pts	
<b>Pre-tax profit</b>	<b>155</b>	<b>246</b>	<b>-37.0%</b>	<b>411</b>	37.7%	
Pre-tax margin	5.2%	4.7%	0.5% pts	7.1%	-1.9% pts	
<b>Tax</b>	<b>26</b>	<b>45</b>	<b>-42.2%</b>	<b>68</b>	38.1%	
Effective tax rate	16.8%	18.3%	-1.5% pts	16.6%	0.2% pts	
<b>Net profit</b>	<b>128</b>	<b>201</b>	<b>-36.5%</b>	<b>343</b>	37.3%	
Net margin	4.3%	3.8%	0.5% pts	5.9%	-1.6% pts	
<b>FD EPS (VND)</b>	<b>1,401</b>	<b>4,022</b>	<b>-65.2%</b>	<b>2,389</b>	58.6%	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Financial health – Huge capital demand to fulfil expansion plan**

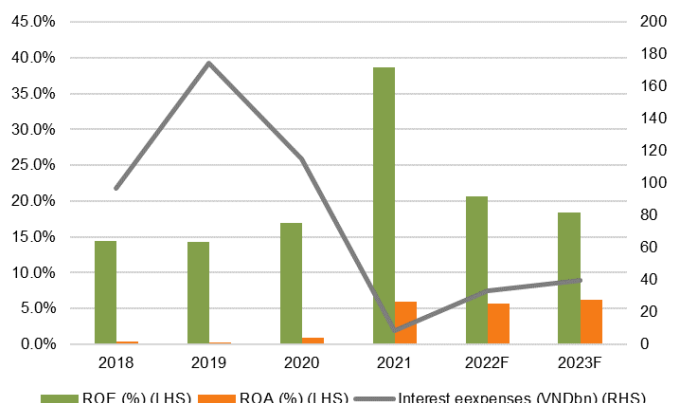
In long-term strategy for the next 5 years, BAF aims to become the Top 3 companies in terms of 3F completion chain, having 35-40 farms by 2026F with total breeding sows 65,000-70,000 heads and total commercial porker of 2.5 million heads. In 2030F, the total herd are expected to increase to 2.5 million heads with 200,000 piglets. With this investment plan, we expect the investment capital demand to be VND2,500bn by FY23F.

**Figure 33: BAF's fix asset and capex in FY18-23F**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 34: BAF's earning power in FY18-23F**

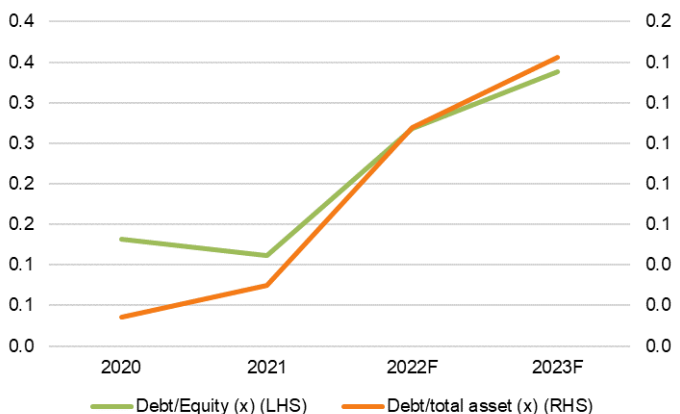


Source: VNDIRECT RESEARCH, COMPANY REPORTS

In which about VND700bn come from raising equity through issuing shares, nearly VND1,600bn come from issuing bonds to the public and issuing bonds for The World Bank's investment and IFC. The remaining is raised through bank loans. Therefore, we forecast total debt to reach VND774bn/VND902bn in FY22/23F and D/E ratio to reach 0.14x in FY23F from 0.03x in FY21.

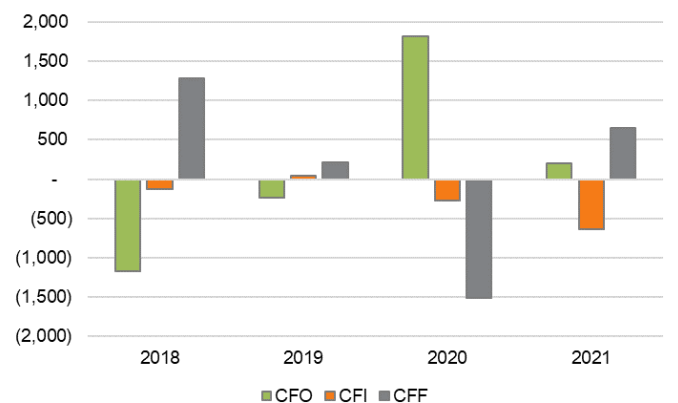
In Aug, BAF's Board of Directors approved a plan to issue VND600bn of private bonds to the International Finance Corporation (IFC) - a member of the World Bank. This is a convertible bond, without warrants, collateral and issued in the domestic market. The expected release time is 3Q-4Q22F. Due to the transition period starting from 2027 (according to management), we believe that there is no dilution risk of BAF's stock at the moment. Besides, BAF will also borrow VND300bn from IFC (we have not included this factor in the model yet due to insufficient information) through the preferential bonds. We believe that the company will not pay dividends in the next 3 years due to high capital demand to invest in expanding the farm system.

**Figure 35: BAF maintains financial leverage at a low rate in FY20-21**

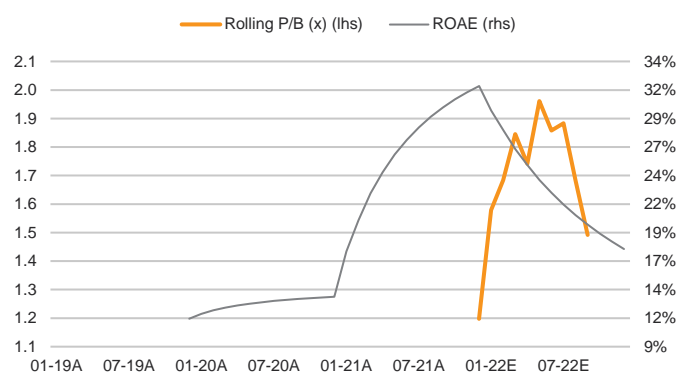
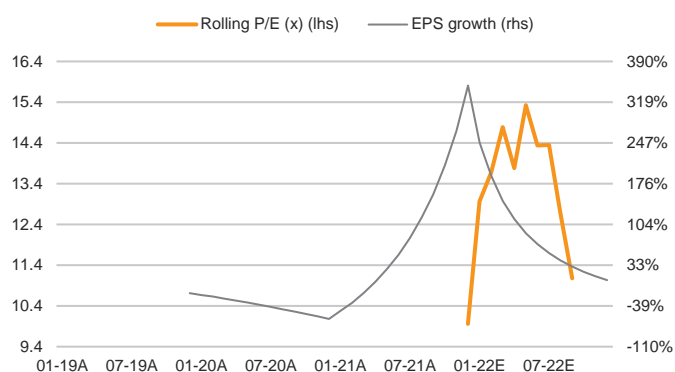


Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 36: BAF's cash flow in FY18-21 (Unit: VNDbn)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Valuation**

**Income statement**

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	10,434	5,788	6,828
Cost of sales	(9,947)	(5,239)	(6,129)
Gen & admin expenses	(54)	(52)	(71)
Selling expenses	(16)	(55)	(87)
<b>Operating profit</b>	<b>418</b>	<b>442</b>	<b>540</b>
Operating EBITDA	385	379	398
<b>Depreciation and amortisation</b>	<b>32</b>	<b>63</b>	<b>143</b>
<b>Operating EBIT</b>	<b>418</b>	<b>442</b>	<b>540</b>
Interest income	3	2	2
Financial expense	(32)	(33)	(39)
Net other income	3	0	0
Income from associates & JVs	(1)	0	0
<b>Pre-tax profit</b>	<b>390</b>	<b>411</b>	<b>503</b>
Tax expense	(69)	(68)	(84)
Minority interest	0	0	0
<b>Net profit</b>	<b>322</b>	<b>343</b>	<b>420</b>
Adj. net profit to ordinary	322	343	420
Ordinary dividends	0	0	0
<b>Retained earnings</b>	<b>322</b>	<b>343</b>	<b>420</b>

**Balance sheet**

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	291	301	334
Short term investments	57	58	68
Accounts receivables	2,863	1,237	1,459
Inventories	1,088	695	751
Other current assets	12	2,283	1,969
<b>Total current assets</b>	<b>4,311</b>	<b>4,573</b>	<b>4,581</b>
Fixed assets	789	1,268	1,952
Total investments	63	63	63
Other long-term assets	294	193	223
<b>Total assets</b>	<b>5,457</b>	<b>6,097</b>	<b>6,820</b>
Short-term debt	15	58	273
Accounts payable	3,774	2,778	2,731
Other current liabilities	62	210	247
<b>Total current liabilities</b>	<b>3,851</b>	<b>3,046</b>	<b>3,252</b>
Total long-term debt	149	600	697
Other liabilities	3	1	2
Share capital	780	1,435	1,435
Retained earnings reserve	387	730	1,150
<b>Shareholders' equity</b>	<b>1,455</b>	<b>2,449</b>	<b>2,870</b>
Minority interest	0	0	0
<b>Total liabilities &amp; equity</b>	<b>5,457</b>	<b>6,097</b>	<b>6,820</b>

**Cash flow statement**

(VNDbn)	12-21A	12-22E	12-23E
<b>Pretax profit</b>	<b>390</b>	<b>411</b>	<b>503</b>
Depreciation & amortisation	32	63	143
Tax paid	(63)	(68)	(84)
Other adjustments	5	0	0
<b>Change in working capital</b>	<b>(157)</b>	<b>(369)</b>	<b>(67)</b>
<b>Cash flow from operations</b>	<b>207</b>	<b>37</b>	<b>496</b>
Capex	(482)	(521)	(785)
Proceeds from assets sales	24	0	0
Others	(179)	(0)	11
Other non-current assets changes	4	0	0
<b>Cash flow from investing activities</b>	<b>(633)</b>	<b>(521)</b>	<b>(775)</b>
New share issuance	560	0	0
Shares buyback	0	0	0
Net borrowings	89	495	312
Other financing cash flow	0	0	0
Dividends paid	0	0	0
<b>Cash flow from financing activities</b>	<b>648</b>	<b>495</b>	<b>312</b>
Cash and equivalents at beginning of period	68	291	301
<b>Total cash generated</b>	<b>223</b>	<b>10</b>	<b>33</b>
Cash and equivalents at the end of period	291	301	334

**Key ratios**

	12-21A	12-22E	12-23E
<b>Dupont</b>			
Net profit margin	3.1%	5.9%	6.1%
Asset turnover	1.95	1.00	1.06
ROAA	6.0%	5.9%	6.5%
Avg assets/avg equity	5.30	2.96	2.43
ROAE	31.9%	17.6%	15.8%
<b>Efficiency</b>			
Days account receivable	95.0	73.0	73.0
Days inventory	39.9	48.4	44.7
Days creditor	138.5	193.6	162.6
Fixed asset turnover	18.62	5.63	4.24
ROIC	19.9%	11.0%	10.9%
<b>Liquidity</b>			
Current ratio	1.1	1.5	1.4
Quick ratio	0.8	1.3	1.2
Cash ratio	0.1	0.1	0.1
Cash cycle	(3.6)	(72.2)	(44.9)
<b>Growth rate (yoy)</b>			
Revenue growth	(18.8%)	(44.5%)	18.0%
Operating profit growth	133.7%	5.9%	22.2%
Net profit growth	602.3%	6.5%	22.4%
EPS growth	347.8%	6.5%	22.4%

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.

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