

Vietnam

NON RATED


Current price:	VND22,200
Consensus Tgt Price:	N/A
Up/downside:	N/A
Reuters:	DBC.HM
Bloomberg:	DBC VN
Market cap:	US\$80.68m
	VND1,838,570m
Average daily turnover:	US\$0.05m
	VND1,185m
Current shares o/s:	82.82m
Free float:	44.5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.2	-14.6	-24
Relative (%)	12.7	-3.6	-57.8

Major shareholders	% held
Nguyen Nhu So (Chairman)	18.3
SSI	10.5
Fraser Investment Holding Pte. Ltd	8.7

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DABACO Group

Signs of hog price recovery

- Rising hog prices boosted the gross margin of DBC's husbandry segment in 1Q18.
- DBC may benefit from the hog price recovery in Vietnam more than its listed local peers because of the higher contribution of hog-related segments to its net revenue.
- Possible impact of China's low hog price environment on Vietnam's hog market is unclear.
- 2018F management guidance does not factor in potential profits from its real estate and construction segment.

Higher hog prices boosted DBC's husbandry gross margin in 1Q18

The Vietnam hog price recovery began at end-2017 and accelerated in Apr-May 2018. Current hog price (~VND48,000/kg) in Vietnam has more than doubled since Apr 2017 (when prices were at a cyclical low), which we attribute to the decline in supply, and higher than DBC's current production cost of VND36,000-37,000/kg. Gross margins of its livestock-related segments registered improvements in 1Q18. Given the rising Vietnam hog prices YTD, DBC's management expects the positive effects to manifest gradually in the later months of 2018F and into 2019F, as demand and supply conditions stabilise.

DBC offers higher exposure to hog price recovery than listed peers

There are only a few players in the livestock sector that are currently listed on Vietnam's stock exchanges. DBC may have higher exposure to rising hog prices than its listed local peers, as 72% of its FY17 net revenue came from livestock-related segments. The pig-farming and animal feed production segments only contributed a small share of FY17 net profit for other listed livestock players, including Hoa Phat Group and Masan Group. Pure hog-farming player Mitracco plans to delist from the Hanoi Stock Exchange soon due to high net losses incurred in FY17.

Impact of China's low hog price environment is unclear

Vietnam's and China's live hog prices have moved in opposite directions since the beginning of 2018. China's live hog price is currently ~VND10,000/kg lower than Vietnam's. This has raised concerns about China's excess supply flowing into Vietnam. We note that it is difficult to project the possible impact of the low hog price in China on Vietnam's hog supply, as border trade data are not readily available and the price divergence is a recent phenomenon.

2018F guidance excludes profit from real estate & construction

DBC has a few real estate projects in the pipeline for which it has obtained planning permits but not begun development. DBC's 2018F total revenue (including intra-company sales) guidance of VND9,296bn (+6% yoy) and net profit of VND246bn excludes potential profit from the transfer of any real estate projects. DBC stated it could report abnormal profits if it successfully transfers any of these projects in 2018F, as it did in 2012 and 2017.

Weak 1Q2018 performance, TTM P/E 9.3x

DBC is currently trading at a trailing 12-month P/E of 9.3x, which is much lower than its regional peer's average CY18F P/E of 15.0x. Historically, management often sets cautious targets and its 2018 guidance is based on an average hog price of slightly above VND40,000/kg. DBC's 1Q18 net profit comprised only 4.1% of its 2018 target but the company's management expects the earnings performance of its husbandry segments to pick up from 2Q18 onwards. In 1Q18, total gross profit of DBC's livestock-related segments fell by 12% yoy, while gross profit of its non-livestock segments increased 35% yoy due to higher profit from the real estate segment.

Financial Summary	Dec-13A	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Revenue (VNDb)	4,704	5,119	5,791	6,256	5,855
Operating EBITDA (VNDb)	415	476	559	635	469
Net Profit (VNDb)	191	206	253	451	200
Core EPS (VND)	2,381	2,485	3,054	3,900	(719)
Core EPS Growth		4.4%	22.9%	27.7%	
FD Core P/E (x)	9.3	8.9	7.3	5.7	
DPS (VND)	175	1,061	1,516	441	14
Dividend Yield	0.8%	4.8%	6.8%	2.0%	0.1%
EV/EBITDA (x)	6.7	6.0	5.7	5.5	9.6
Net Gearing	57.5%	55.8%	68.8%	71.2%	106.6%
P/BV (x)	1.0	1.0	0.9	0.8	0.7
ROE	12.3%	11.6%	13.4%	21.1%	8.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

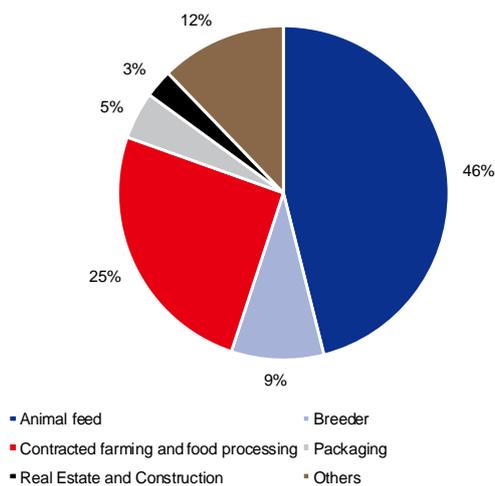
Signs of hog price recovery

Livestock-related business segments

Rising hog prices could aid earnings recovery in DBC's husbandry segments ➤

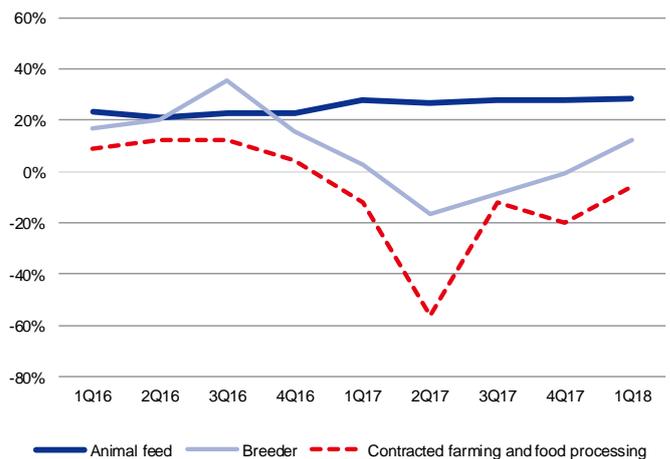
Around 70-80% of DBC's revenue comes from animal husbandry via the following three segments that are highly exposed to pig prices: animal feed, breeders, and contract farming. DBC's FY17 net revenue dropped by 6% yoy, mainly due to lower feed sales volume and the sharp decline in margins for the breeder and farming segments. The impact of the surprisingly low hog prices seen in 2017 on DBC could be summarised as follows: (1) losses in the hog-raising segment, (2) lower demand for breeders, as unattractive prices discouraged farmers to expand/maintain their herd sizes and (3) lower demand for commercial-level feed amid contracting herd sizes and farmers reverting to producing their own feed to cut rearing costs.

Figure 1: 1Q18 revenue breakdown by business segment



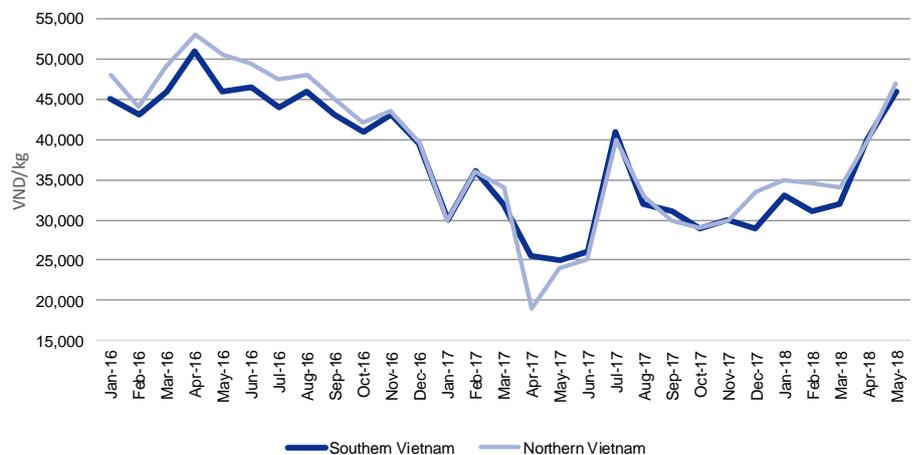
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: DBC's breeding and farming gross margins declined sharply in 2Q17, following a sharp downturn in Vietnam hog prices



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Live hog prices in Vietnam by region



SOURCES: CGS-CIMB RESEARCH, AGROMONITOR

A recovery in hog prices boosted the gross margins of DBC's breeder and contract farming segments in 1Q18 (see Figure 2) but the company still recorded net loss in the contract farming segment. Hog prices in Vietnam were in the range of VND30,000-35,000/kg during the quarter, which were lower than the company's breakeven point of VND36,000-37,000/kg.

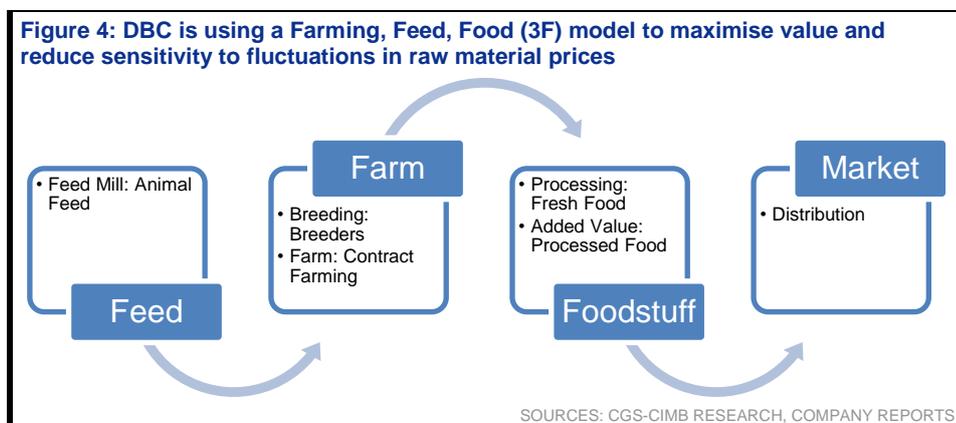
Hog price in Vietnam has surged since the beginning of 2Q18 (up more than 40% from early-Mar 2018) due to a tightening supply. According to Vietnam's Department of Livestock Production, the surge in prices could be attributed to the previously-implemented supporting policies, which targeted reducing the sow herd size, encouraging domestic consumption and reducing pork imports. It generally took one year for the result from sow herd size contraction to take effect, leading to the current increases in hog prices. Data from the General Statistics Office (GSO) showed that the total number of finished hogs as at May 2018 declined by 5.4% yoy.

Current high hog prices could be more sustainable compared to Jul 2017, when the live hog price rose to VND40,000/kg but declined rapidly after. Hog price in Jul 2017 increased due to higher demand from Chinese traders and a temporary shortage of finished pigs. The rate of finishing was high in previous period while the next litter produced had not reached the slaughtering stage, creating a temporary shortage of finished pigs. Given that there was generally sufficient pig supply in Vietnam and demand from China was short-lived, the subsequent correction in hog price appears inevitable. According to DBC's management, the current uptrend in hog price is driven mainly by domestic demand, indicating it may be more sustainable than the spike in Jul 2017. Furthermore, hog supply has been on the decline since May 2017. However, we note that demand for pork over the next few months may be negatively affected by seasonality (Vietnamese tend to consume less pork during the summer months). As such, hog prices in Jun-Jul 2018 may not replicate the strong peaks in Apr-May 2018.

We note that it takes 4-5 months to raise a finished pig (ready for slaughter). DBC's management expects the effects of higher hog prices to manifest gradually in the later months of 2018F and into 2019F, as demand and supply conditions stabilize.

DBC may offer higher exposure to hog price recovery than its local peers ➤

DBC operates large-scale production and a fully-integrated value chain in the livestock sector. The company is involved in the entire production chain from inputs to distribution to end-users, including feed production, breeding, contract farming, food processing and retail through its own supermarkets and fresh food shops.



Given its large scale, DBC has a more competitive cost structure than small-scale pig farms (<50 heads per farm). Small-scale pig farms comprised around 97% of total pig farms in Vietnam (source: GSO, 2016) and were the most affected by the hog price decline in 2016-17. In 2016-17, many small, household-level farms had to scale back their sow herd size or even exit the industry due to limited capital. In contrast, DBC consciously kept a stable sow herd size and only reduced the size of finished pig herd. Hence, DBC had the available sow stock to expand its finished pig herd size once hog prices

recovered, more easily than other smaller farms which had depopulated or gone out of business previously, according to management.

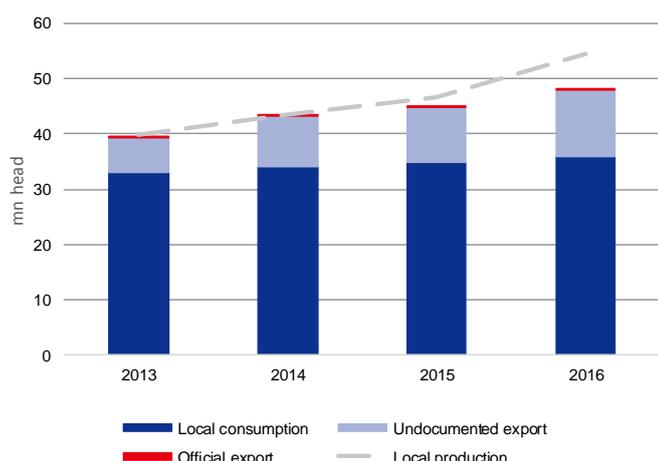
DBC may have higher exposure to rising hog prices than its listed local peers, as the majority of its FY17 revenue came from the livestock-related segments (72%). There are other notable listed names in Vietnam that are involved in pig raising and/or producing animal feed but they are highly-diversified conglomerates, as follows:

- Hoa Phat Group (HPG VN, Add, TP: VND77,300) entered the feed producing and pig-farming business in 2015; this segment contributed just a small percentage of HPG's total revenue (6.3%) and net profit (0.6%) in FY17.
- Masan Group (MSN VN, Not Rated) built a meat value chain through its subsidiary Masan Nutri-Science (MNS, Not Rated), which accounted for 60% of the group's net revenue and ~14.7% of net profit in FY17. However, most of its FY17 net profit came from the feed segment, as MNS's high-tech pig-rearing farm only recently began operations. MNS forecasts that Vietnam's pig feed market would require 6-9 months to fully recover if current hog prices sustain.
- Mitraco (MLS VN, Not Rated) also has high exposure to the rising hog price in Vietnam, as the company is involved purely in hog-raising activities. However, MLS has very low trading liquidity and the company recently announced that it intends to delist from the Hanoi Stock Exchange this month due to net losses of VND45bn incurred in 2017, which exceeds the company's charter capital of VND40bn.
- Vilico (VLC VN, Not Rated) received 5.4% of its FY17 net revenue from animal husbandry, and the company is in the process of downsizing its livestock business.

The impact of prevailing low hog prices in China remains unclear ➤

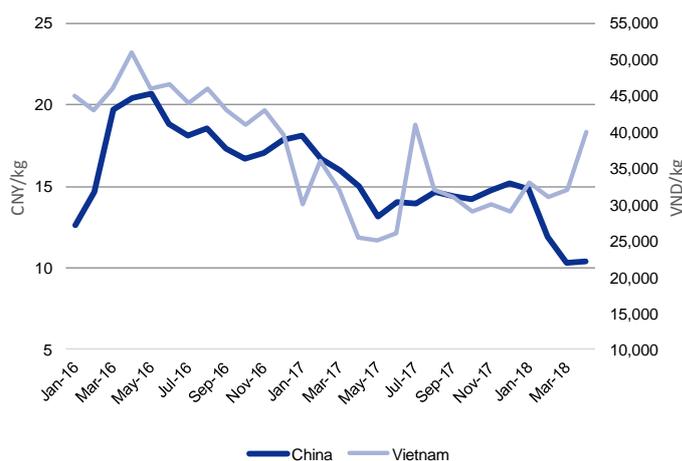
In the past, changes in import demand from China significantly affected hog price fluctuations in Vietnam. In 2016-17, the disruption of Vietnamese pork exports to China due to stricter border regulations and local oversupply in China was one of the main reasons for the excess supply in Vietnam during the period.

Figure 5: Vietnam's supply and demand of live hogs



SOURCES: CGS-CIMB RESEARCH, IPSOS BUSINESS CONSULTING

Figure 6: Prices of live hogs in Vietnam and China



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, AGROMONITOR

There are now concerns about a possible influx of low-priced Chinese pigs into Vietnam as the current live pig price in China is around CNY10.15/kg (VND36,300/kg), which is lower than the Vietnam price of VND48,000/kg, creating arbitrage opportunity. DBC's management claims that it is difficult for Chinese pigs/pork to enter Vietnam now due to the previous closure of land borders between China and Vietnam. Data on border trade is not readily available, and it is difficult to gauge the possible effects of the opposite price movements in the two countries, as the price divergence is fairly recent.

In addition, recent news on the easing US-China trade tensions invalidates the expectation that the additional tariff on US pork imports would support the hog price in China, at least in the near term.

2018F management guidance does not factor in potential profit from real estate and construction segment

DBC has several real estate projects in the pipeline, most of which have received planning permits from the provincial authorities. The projects are scattered across Bac Ninh province, with the majority located in Bac Ninh city and the remainder in more remote areas.

According to information from DBC's 2018 annual general meeting, the project most likely to be executed in 2018F is Dabaco Van An, a residential and commercial complex with an area of 36ha. We note that Dabaco Van An and Dabaco Khuc Xuyen are the reciprocal projects received from the H2 build-transfer (BT) contract with total investment value of VND663bn, indicating that DBC would incur high capex to complete both the BT and real estate projects. DBC has high debt and working capital needs currently, given its numerous projects in progress; its construction-in-progress value stayed at VND1,166bn (accounting for 30.1% of DBC's non-current assets) and the debt-to-equity ratio was 1.4x at the end of Mar 2018.

DBC targets FY18F revenue (including intra-company revenue) of VND9,296bn (+6% yoy) and net profit of VND246bn (+23% yoy). Its FY18F net profit guidance does not include potential profit from new real estate activities. According to the company, DBC could report abnormal profits if it successfully transfers one or more of its real estate projects this year, as it did in 2012 and 2017.

Figure 7: DBC's key projects

Name	Types	Total area	Expected time	Location
Dabaco Van An	Residential, shophouse, office for lease	36ha	2018	Van An Ward, Bac Ninh City
Huyen Quang complex	Residential, commercial center	N/A	N/A	Vo Cuong Ward, Bac Ninh City
Ly Thai To complex	Premium residential	N/A	N/A	Ninh Xa Ward, Bac Ninh City
Khac Niem Ward complex	Low-end residential	N/A	N/A	Khac Niem Ward, Bac Ninh City
Dabaco Khuc Xuyen	Handicraft village and housing complex	10ha	N/A	Vo Cuong Ward, Bac Ninh City
Dai Phuc Commercial Center	Commercial center	3.7ha	N/A	Dai Phuc Ward, Bac Ninh City
Nhan Thang complex	Residential	25ha	N/A	Gia Binh District
Ho town complex	Urban area	35ha	N/A	Ho town, Thuan Thanh District
Dabaco Lac Ve	Residential	6.3ha	N/A	Tien Du District

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Bac Ninh map

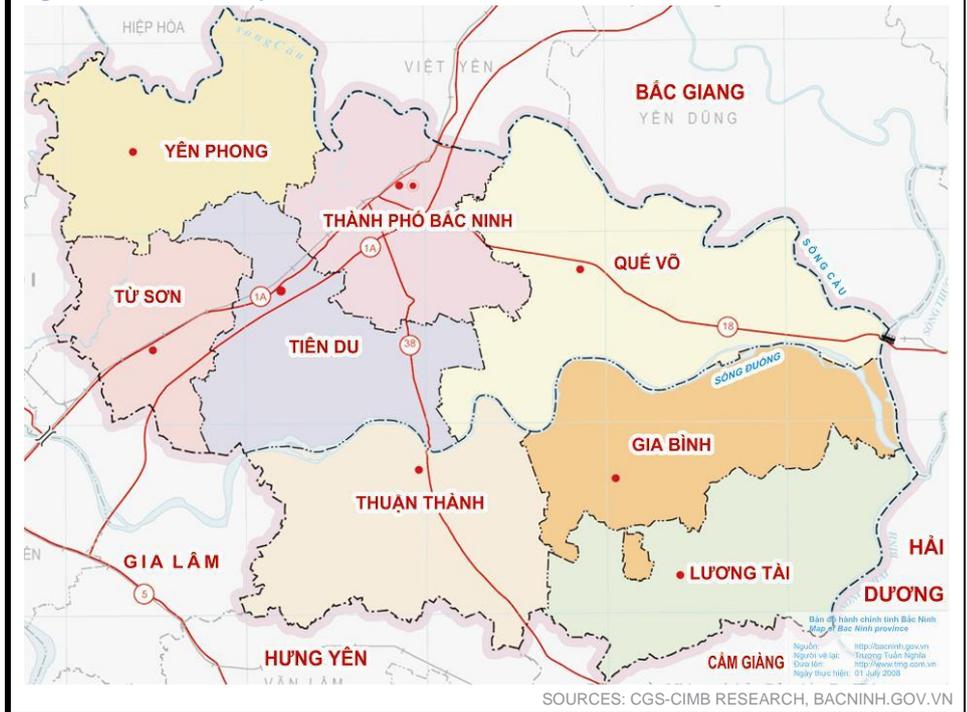


Figure 9: Sector comparison

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	Recom.				CY16A	CY17A	CY16A	CY17A	CY16A	CY17A	CY16A	CY17A	CY16A	CY17A
Dabaco	DBC VN	NR	22,200.0	N/A	80.6	4.1	9.2	0.8	0.7	15.1%	-2.5%	5.5	9.6	2.0%	0.1%
Charoen Pokphand Foods	CPF TB	ADD	25.0	27.3	6,714.3	13.4	28.8	1.3	1.2	4.6%	4.4%	18.0	16.4	0.0%	0.0%
Charoen Pokphand Indonesia	CPIN IJ	REDUCE	3,680.0	3,400.0	4,342.6	24.2	19.2	3.9	3.4	16.8%	18.8%	14.3	11.4	1.5%	1.7%
Japfa Ltd	JAP SP	REDUCE	0.6	0.6	758.5	13.1	7.8	1.1	0.9	8.5%	12.8%	6.3	5.1	0.0%	0.0%
Malindo Feedmill	MAIN IJ	HOLD	715.0	1,420.0	115.2	5.3	4.3	0.8	0.7	15.4%	16.8%	3.7	3.2	4.7%	5.8%
Average sector ex-Dabaco					2,982.6	14.0	15.0	1.7	1.6	11.3%	13.2%	10.6	9.1	1.6%	1.9%

NOTE: AS OF 01 JUN 2018
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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1275 companies under coverage for quarter ended on 31 March 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.1%	5.5%
Hold	29.7%	2.0%
Reduce	8.9%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add The stock's total return is expected to exceed 10% over the next 12 months.
- Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce The stock's total return is expected to fall below 0% or more 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.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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