

Sector Note

Meat production

Swine price shows positive signals

- Domestic swine price recovered 5.3% mom in Arp after decreasing 6th month in a row.
- We expect meat producers to record better results from FY23F regarding higher average swine price and lower input cost.
- Our stock pick is BAF while DBC will be on our watchlist.

Domestic swine price recovers in Arp 2023

After a sharp decline in 1Q23, domestic swine price showed positive signals when starting to increase slightly from the beginning of Apr 2023 (+5.3% mom/+0.1% ytd) but still 3.5% lower than the same period last year. We see some reason for the recovery in swine recently as 1) the sell-off of pig production on the market as the herd affected by African swine fever (ASF) has decreased gradually and 2) concerns of oversupply have cooled down due to farmers suspending re-herd and meat producers hesitate to expand production scale.

We expect swine price to improve from 2Q23F

We do not see any constraints in swine supply, thus we expect pork prices to increase slightly in 2Q23 and improve more clearly in 3Q23 when domestic demand recovers. In base case, we expect swine prices to rise 5% yoy to VND59,000/kg in 2023F, thanks to the recovery of China pork price when its economy re-opens, which can partly affect domestic price and lower supply from farming households.

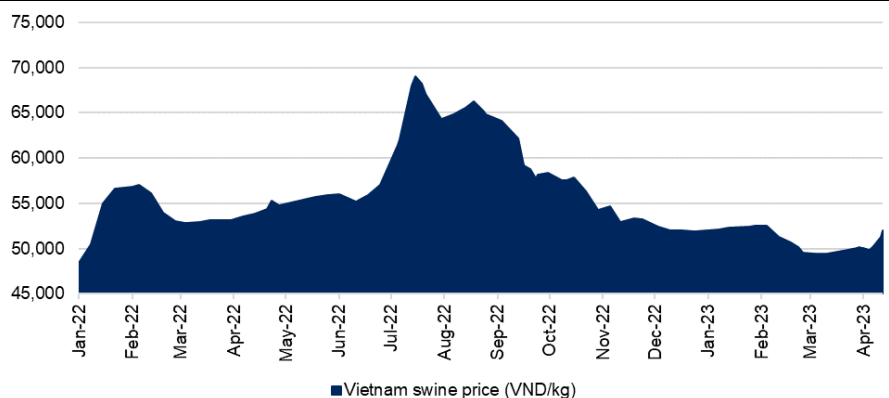
...meanwhile commodities price be more favorable for meat prodcers

We expect global agricultural products price to remain downward trend in 2023F as 1) supplies of most food commodities increase due to improved yields, 2) the ongoing Ukraine supply return to the global markets and 3) weakening demand response to the slowdown in the global economy. As actual material import price is 3-6 months lagged compared with the global price movements, we expect animal feed costs would cool down gradually from 2Q23F. Therefore, we expect meat producers' GM to improve average by 2% pts yoy in FY23F.

Our stock pick is BAF while DBC will be on our watchlist.

BAF has long term growth potential thanks to expanding the herd capacity with new farms and distribution system through Siba Food supermarkets and Meat shops. The company will raise capital for its expansion plan through issuing VND600bn of private bonds to the International Finance Corporation (IFC) in 1Q23. Meanwhile, DBC will be on our watch list. Downside risks include 1) higher-than-expect key material price for animal feed production, 2) weaker-than-expect meat demand, 3) lower-than-expect swine price.

Figure 1: Domestic swine price from Jan 2022 to Arp 2023



Analyst(s):



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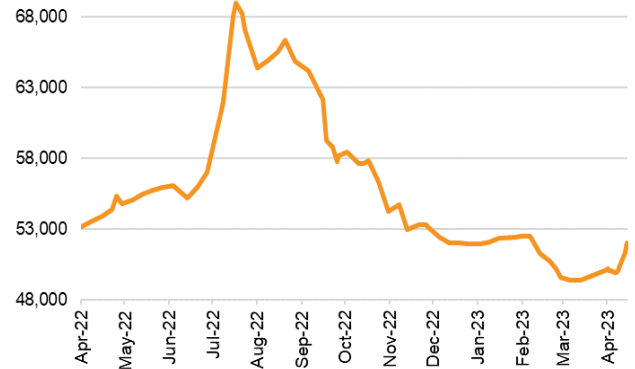
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Source: VNDIRECTS RESEARCH

Meat production snapshot

Domestic swine price (VND/kg) recovers after decreasing 6th month in a row

We see some reason for the recovery in swine recently as 1) the sell-off of pork on the market as the pig herd affected by African swine fever (ASF) has decreased gradually and 2) concerns of oversupply have cooled down due to farmers suspend in re-herding activity and meat producers hesitate to expand production scale.



Source: VNDIRECT RESEARCH, ANOVA FEED

Chinese swine price keeps decreasing in Apr 2023

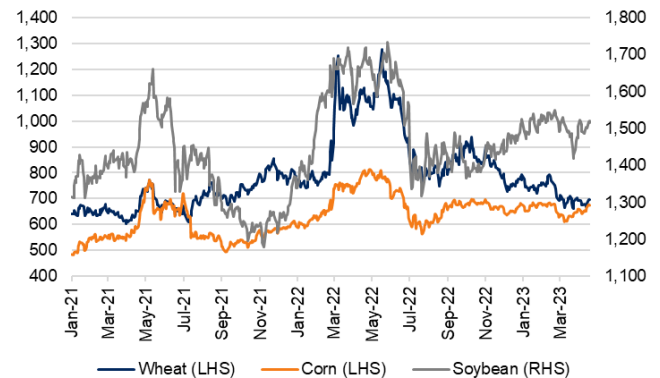
Live hog prices in China remain at low level of CNY13.9/kg in Apr 2023 (-16.9% ytd and -9.5% mom) as 1) demand has not fully recovered after the Covid-19 epidemic and 2) over-supply due to farmers and meat producers re-herding strongly in 4Q22 when the swine price increased sharply.



Source: VNDIRECT RESEARCH, ZHUWANG

Global agricultural products price (US\$/Bu) see significant correction from 2-year peak

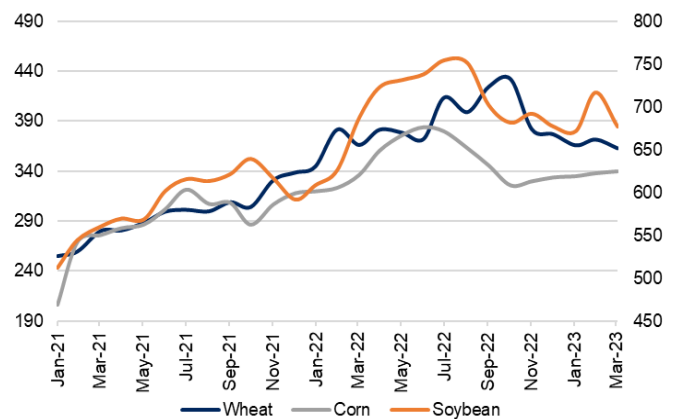
Global prices of wheat, corn and soybeans (animal feed inputs) have declined 45.6%/17.0%/12.5% from 2-year peak and 37.3%/15.6%/10.4% yoy, respectively as 1) the logistic disruption due to Covid-19 has cooled down, 2) concerns about supply shortages caused by Russia - Ukraine conflict has subsided, and 3) with global tightening policies, food demand from consumer and raw material for demand production started to lose momentum.



Source: VNDIRECT RESEARCH, TRADING ECONOMICS

Key material import price (US\$/T) of animal feed in Vietnam

In line with global prices, imported wheat, corn and soybean prices started to decrease. Besides, domestic importers sign forward/future contracts, thus actual import price will be 3-6 months lagged compared with the global price movements.



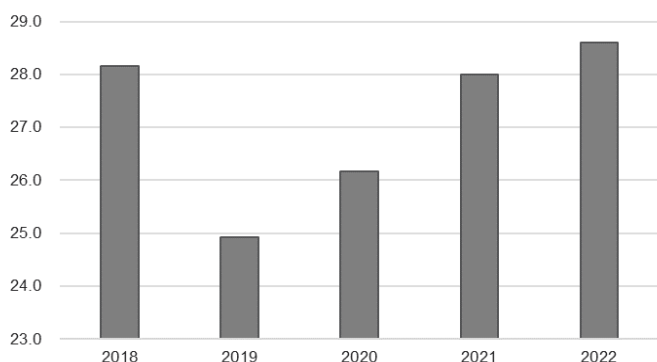
Source: VNDIRECT RESEARCH, FIINPRO

We expect meat producers to record better results from FY23F

Swine price are expected to improve from 2Q23F

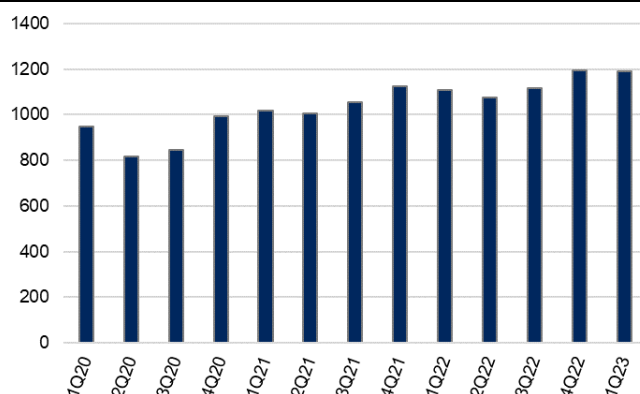
We see that the recent swine price increase is mainly due to the sell-off of pork on the market decrease leading to the cooling down of oversupply's concern. We do not see any constraints in swine supply as the country's total pig herd increased 6.2% yoy which equal with the pre-ASF levels and pork production volume grew 7.5 % yoy in 1Q23. Therefore, we expect pork prices to increase slightly in 2Q23 and improve more clearly in 3Q23 when domestic demand recovers.

Figure 2: The Vietnam total pig herd has returned to pre-ASF levels (unit: million heads)



Source: VNDIRECT RESEARCH, GSO

Figure 3: Pork production volume remain stable in 1Q23 (unit: thousand tonnes)



Source: VNDIRECT RESEARCH, GSO

In base case, we expect swine prices to rise 5% yoy to VND59,000/kg in 2023F, thanks to the recovery of China pork price when its economy re-opens, which can partly affect domestic price and lower supply from farming households due to the decrease in 1Q23 swine prices. The average production cost of farmers is about VND55,000 to VND60,000/kg of live hog, thus we don't expect a massive re-herding of farmers in short-term, with current swine price level. According to the Vietnam Livestock Association, about 45-50% of large-scale farms leave the barn empty, 70-75% of farms and livestock households have temporarily stopped re-herding. The reason is the increase in input costs, while the selling price is low. As a result, we expect listed meat producers' revenue to increase average by 3.6% yoy in FY23F.

Commodities price will be more favorable for meat producers

We expect global agricultural products price to remain downward trend in 2023F thanks to 1) supplies of most food commodities increase due to improved yields, 2) the ongoing Ukraine supply return to the global markets, 3) weakening demand response to the slowdown in the global economy and 4) the transportation cost will decrease significantly when the global shipping supply has fully recovered from 2021/22 disruption. In which, corn and soybean meal are forecasted to decline 7.9%/1.8% yoy in 2023F. As domestic feed prices have increased more slowly than global agricultural prices, we expect animal feed costs would cool down gradually from 2Q23F. Therefore, we expect meat producers' GM to improve on average by 2%pts yoy in FY23F.

Besides, we believe that lower animal feed prices will have a positive impact on both meat producers and farmers. In the long term, we believe that farmers will be cautious in re-herding in order to monitor the swine price movement in the

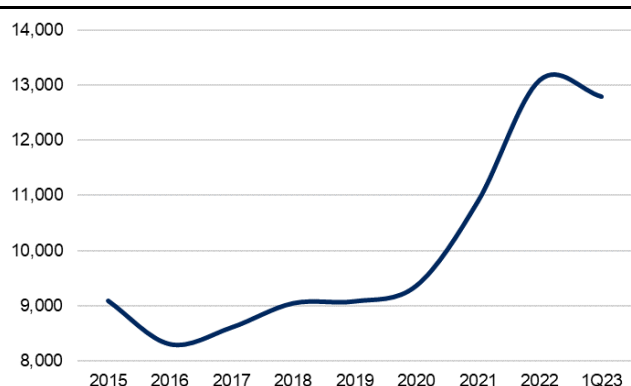
market. In addition, they also do not have enough capital to re-herd on a large scale after two years of losses due to low swine prices. Therefore, we believe the supply will not be affected significantly in the upcoming year.

Figure 4: World bank forecast global agricultural products price to fall in 2023F before stabilizing in 2024F (unit: US\$/T)

| | 2020 | 2021 | 2022 | 2023F | 2024F |
|---------------------|------|-------|-------|-------|-------|
| Corn | 165 | 260 | 315 | 290 | 287 |
| % yoy | | 57.6% | 21.2% | -7.9% | -1.0% |
| Soybean meal | 394 | 481 | 550 | 540 | 539 |
| % yoy | | 22.1% | 14.3% | -1.8% | -0.2% |
| Wheat | 232 | 315 | 430 | 410 | 405 |
| % yoy | | 35.8% | 36.5% | -4.7% | -1.2% |
| Rice | 497 | 458 | 435 | 435 | 436 |
| % yoy | | -7.8% | -5.0% | 0.0% | 0.2% |
| Soybeans | 407 | 583 | 680 | 650 | 641 |
| % yoy | | 43.2% | 16.6% | -4.4% | -1.4% |

Source: VNDIRECTS RESEARCH, WORLD BANK

Figure 5: Pig feed price from 2015 to 1Q23 (VND/kg)



Source: VNDIRECT RESEARCH, CHAN NUOI THU Y

Stock pick: We like BAF and add DBC in the watchlist

Most meat producers are not confident in fleet expansion

We found that two big players in the meat industry such as DBC and MML have not yet given specific expansion plans in 2023F. Most businesses believe that the meat industry will face difficulties in 1H23F due to weak demand. We believe this also is the reason why 3F company are hesitant to expand production plan, except for new players who want to penetrate deeper into the meat industry such as BAF and HAG.

In 2023F, BAF plans to build three new farms including a farm in Binh Phuoc (with a capacity of 6,250 piglets and 30,000 porkers) while the other two farms in Nghe An with a total capacity of 5,000 piglets and 90,000 porkers. In addition, the company also aim to expand distribution network through Siba supermarket and Meat shop system. Meanwhile, another new player – HAG also planned to build their own distribution system in 2022-23. However, in the recent shareholder meeting, HAG announced that they will increase the proportion of franchise stores to 80% instead of building their own stores due to insufficient capital.

Figure 6: Meat producers' FY23F guidance

| Ticker | Meat producers | FY23F net revenue | | | |
|--------|-----------------------------|-------------------|-------------------------|------------------------|------------------|
| | | plan (VNDbn) | % with FY22 net revenue | FY23F NPAT plan(VNDbn) | % with FY22 NPAT |
| DBC | Dabaco Group | 24,562 | 11% | 569 | 113 times |
| MML | Masan Meatlife Corporation | 8,500-9,000 | 76.3% | (300) | N/a |
| HAG | Hoang Anh Gia Lai JSC | 5,120 | 0.2% | 1,130 | 0.4% |
| VSN | Vissan JSC | 4,100 | 5.8% | 170 | -2.0% |
| BAF | BAF Vietnam Agriculture JSC | 7,600 | 7.3% | 301 | 5.0% |

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Recommend ADD for BAF while keeping DBC in the watch list

We like BAF for:

- BAF has long-term growth potential thanks to expanding the herd capacity with new farms and distribution system through Siba Food supermarkets and Meat shops. We expect GM to improve 1.5% pts in FY23F as 3F business segment keep increasing its contribution to BAF's gross profit with GM much higher than agricultural trading segment.
- The company is able to raise capital for its expansion plan through issuing VND600bn of private bonds to the International Finance Corporation (IFC). Besides, BAF still maintain healthy balance sheet with low leverage of 0.6x in FY23F, which allows the company to downplay the risks of high interest rates in FY23F.
- We expect BAF's net revenue increase slightly 2.1% yoy in FY23F while net profit improves 6.0% yoy to VND305bn, in line with the company's guidance.

Meanwhile, DBC will be on our watch list. For FY23F, we estimate DBC's meat sales to grow by 8.5% yoy while GM is forecast to expand by 5.0% pts yoy thanks to lower animal feed cost. Thus, DBC's net profit is forecasted to rise 76.3 times compared to FY22. We believe DBC will recognize the profit from the handover of Park View City - Huyen Quang real estate project in FY23F, contributing 37% to the company's total net profit. DBC set its NPAT to reach VND569bn in FY23F, equivalent to 146% of our forecast. In our view, the company business plans is quite positive in the context of weak demand in 1H23 and swine price is unlikely to rise sharply in 2023F.

Figure 7: Peer comparison (at 19/04/2023)

| Company | Ticker | Target price | | Recom. | Mkt cap | P/E (x) | | P/B (x) | | 3 years EPS | | ROE (%) | | ROA (%) | |
|--------------------------------------|--------|--------------|--------|--------|---------|--------------|------------|------------|------------|-------------|------------|-------------|------------|------------|-------|
| | | Price | price | | | US\$m | TTM | FY23F | TTM | FY23F | CAGR (%) | TTM | FY23F | TTM | FY23F |
| Vietnam listed meat producers | | | | | | | | | | | | | | | |
| BAF Viet Nam Agriculture JSC | BAF VN | 20,900 | 27,200 | ADD | 128 | 8.1 | 9.3 | 1.3 | 1.4 | 63.0 | 18.0 | 16.1 | 5.6 | 5.9 | |
| Masan MeatLife Corporation | MML VN | 35,600 | N/a | N/a | 496 | N/a | N/a | 2.2 | N/a | N/a | (2.7) | N/a | (1.2) | N/a | |
| Dabaco Group | DBC VN | 15,700 | 15,900 | HOLD | 162 | 716.6 | 7.0 | 0.8 | N/a | 78.8 | 0.1 | 9.8 | 0.0 | N/a | |
| Vietnam Livestock Corporation JSC | VLC VN | 14,900 | N/a | N/a | 109 | 32.3 | N/a | 0.8 | N/a | 29.6 | 3.0 | N/a | 2.4 | N/a | |
| Hoang Anh Gia Lai JSC | HAG VN | 8,150 | N/a | N/a | 322 | 6.7 | N/a | 1.5 | N/a | N/a | 23.8 | N/a | 5.9 | N/a | |
| <i>Average</i> | | | | | | <i>190.9</i> | <i>8.2</i> | <i>1.3</i> | <i>1.4</i> | <i>57.1</i> | <i>8.5</i> | <i>13.0</i> | <i>2.6</i> | <i>5.9</i> | |
| <i>Median</i> | | | | | | <i>20.2</i> | <i>8.2</i> | <i>1.3</i> | <i>1.4</i> | <i>63.0</i> | <i>3.0</i> | <i>13.0</i> | <i>2.4</i> | <i>5.9</i> | |

Source: VNDIRECT RESEARCH, BLOOMBERG

Sector risks include:

- Prolonged tensions between Russia and Ukraine affecting the shipping in the Black Sea may put upward pressure on global grain prices.
- The African Swine Fever outbreak could affect meat supply in 2023F.
- Consumers tighten up their purse strings will lead to weaker-than-expect meat demand.

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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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