

Sector Note

Meat production

Confident but cautious

- Domestic swine price increased 10.9% mom in May, reaching the highest level since the beginning of the year.
- We expect meat producers to record better results from FY23F regarding higher average swine price and lower input cost.
- We keep BAF and DBC in watch list follow strong recovery in swine price.

Domestic swine price increase significantly in May 2023

Domestic swine price increased 10.9% mom in May 2023, reaching the highest point since the beginning of the year as 1) the sell-off of pig production on the market as the herd affected by African swine fever (ASF) has decreased and 2) concerns about the lack of supply increased when the number of smallholder farmers has decreased 50% in Mar 2023 from 2021. We see that meat producers stock prices have increase significantly since 11 Apr following the swine price upturn (+16.8%) including DBC (+27.6%) and BAF (+16.0%).

We expect swine price to improve from 2Q23F

We attended the 2023 AGM of listed meat production companies, notably most of their managements have a more positive view of the swine price that 4Q22-1Q23 was the hardest time, but then outlook has gradually improved in 2Q23F and will turn better since 3Q23F. In our view, we expect pork prices to improve in 2Q23F (+9.7% qoq) and increase more clearly in 3Q23F-4Q23F (+11.6%/4.0% qoq) to VND62,000/kg – VND65,000/kg as demand recovery while supply from smallholder farmers still be limited to 3Q23F. For 2023F, we expect average swine price to rise 5% yoy to VND59,000/kg.

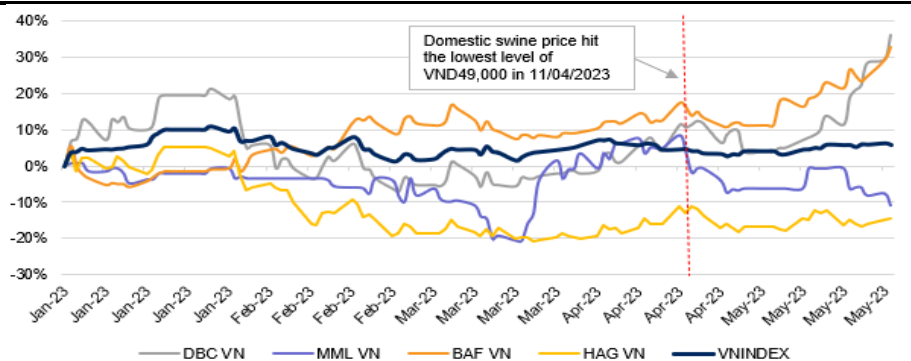
The toughest time passed but the best yet to come

We expect global agricultural products price to decline in 2023F average by 7-10% yoy which lead to the gradually decrease in domestic animal feed price by 5% yoy. Thus, we expect meat producers's gross margin (GM) to expand average by 1.0-1.5% pts in FY23F. However, we still see the risk of global grain prices increasing again due to the escalation of Ukraine - Russia tensions and unfavourable weather in main export countries, leading to a high level of domestic animal feed prices in 2023F. In fact, we see that most meat producers set prudent profit after tax (NPAT) plans in FY23F such as VSN (-2.0% yoy), HAG (+0.4% yoy), and BAF (+5.0% yoy).

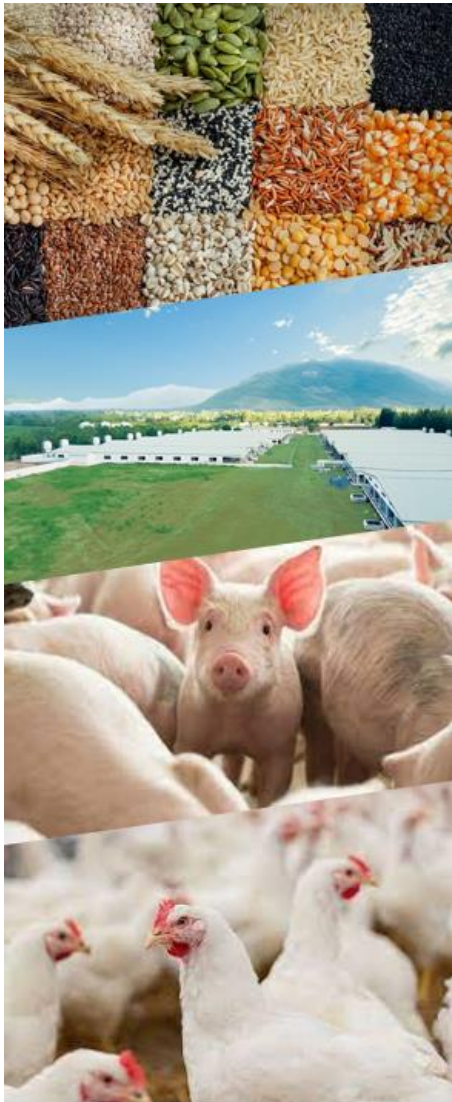
We keep BAF and DBC in our watch list

We believe that the positive growth outlook has been reflected in the recent increase in meat producers' stock prices. Therefore we keep BAF and DBC in our watch list. We expect BAF and DBC record GM improve by 1.5%/0.5% pts in FY23F regarding higher average swine price and lower input cost. As the results, these companies's net profit are forecasted to increase respectively by 6.0% yoy and 23.4 times in FY23F. 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: Meat producers' stock price movement from Jan to May 2023



Source: VNDIRECTS RESEARCH, BLOOMBERG



Analyst(s):



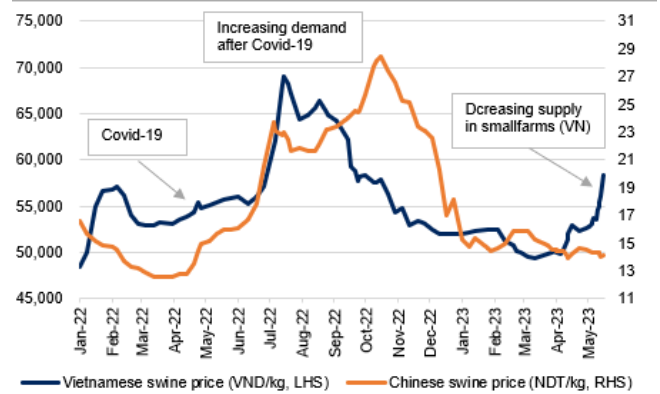
Hien Ha thu

hien.hathu@vndirect.com.vn

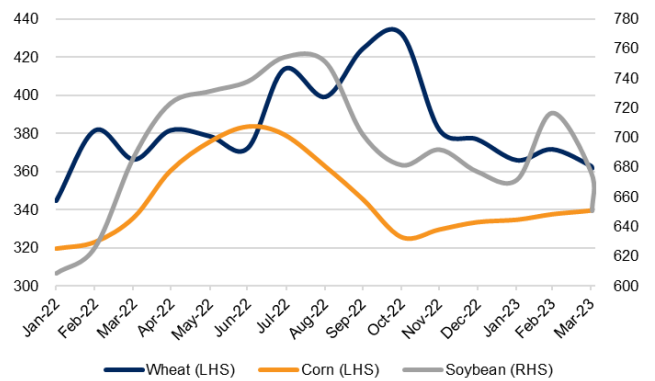
Meat production snapshot

Domestic swine price (VND/kg) increased significantly in May 2023 while Chinese swine price (CNY/kg) keep fluctuating at low level.

Domestic swine price increased 10.9% mom in May, reaching the highest point since the beginning of the year while swine prices in China remain at low level of CNY14.25/kg, declining 15.4% ytd but improving slightly 2.2% mom. We see a different price trend as the domestic market is concerned about the lack of live hog supply while in China the supply is still maintained stably.



Source: VNDIRECT RESEARCH, ANOVA FEED, ZHUWANG



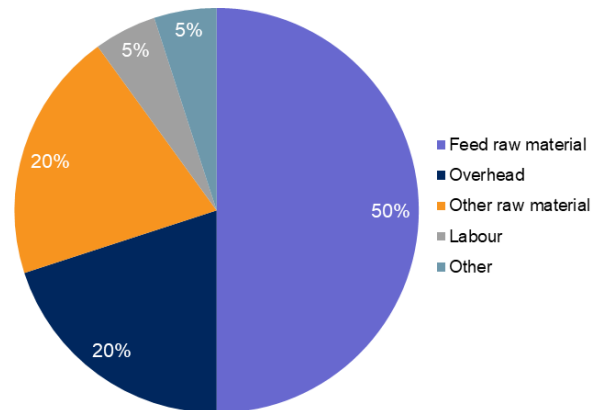
Source: VNDIRECT RESEARCH, FIINPRO

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

Global prices of wheat, soybean and corn (animal feed inputs) have declined 49.8%/19.7%/28.6% yoy, 11.4%/12.1%/17.6% mom and 20.3%/10.5%/16.8% ytd in May 2023. In domestic market, Wheat, soybean and corn import price decreased 5.2%/10%/5.4% yoy in line with global price.

Meat producers' cost breakdown (% of COGS)

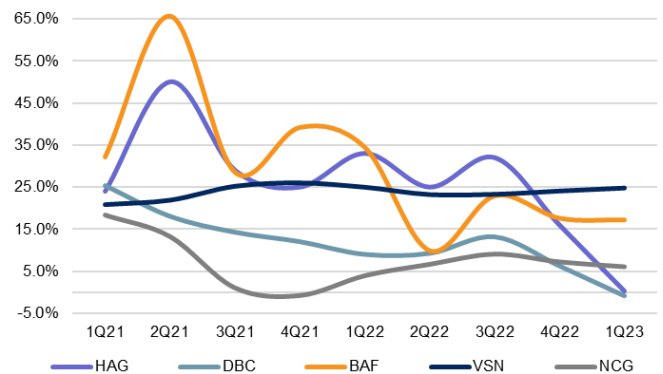
Based on our estimate, the raw materials (corn, soybean, and wheat) cost for animal feed production accounts for 80-85% of the animal feed cost. Meanwhile, animal feed costs currently account for 50% of production costs in livestock.



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Meat producers' gross margin in pork segment (unit: %)

The 3F companies still faced double headwinds in 1Q23 from 1) high animal feed price and 2) weak domestic demand which results in lower swine price of 5.2% yoy. Thus, meat producers recorded gross margin narrow by 4-12% pts yoy in 1Q23. We estimate the average production cost of meat producers is about VND50,000 to VND52,000 of live hog. Therefore, with current swine price meat producers begin to make profit, based on our estimate. We expect meat producers's GM to improve from 2Q23F and expand average by 1.0-1.5% pts in FY23F.



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Twin headwinds in 1Q23: Lower swine price and higher animal feed price

Based on our estimates, listed meat producers recorded mixed business results in 1Q23 with total revenue up 5.7% yoy while total net profit recorded a net loss of VND121bn. In detail, 1Q23 pork revenue of these companies increase 11.3% yoy despite lower average swine price of 5.2% compared to 1Q22.

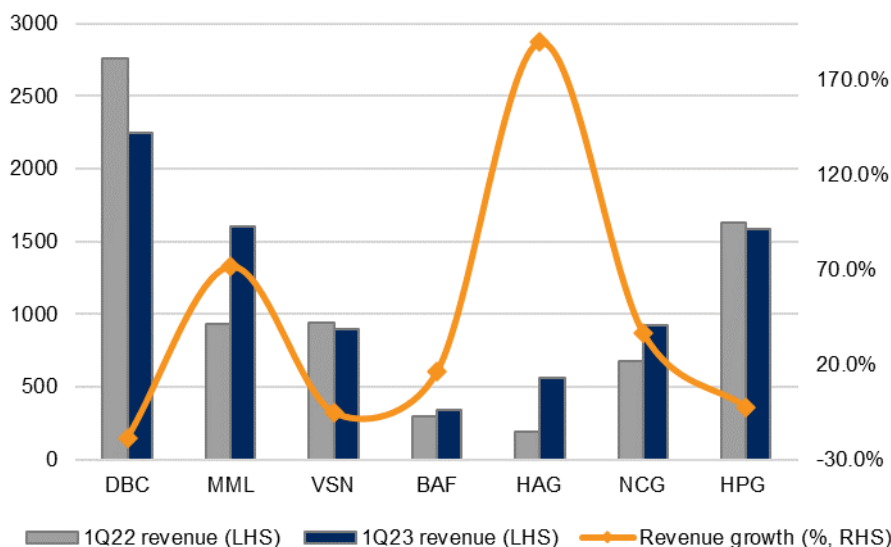
Figure 2: 1Q23 earnings recap of meat production companies (unit: VNDbn)

Ticker	Meat producers	1Q23 revenue	Change (yoy)	1Q23 gross margin	Change (yoy)	1Q23 NP	Change (yoy)	Comment
DBC	Dabaco Group	2,314	-17.5%	-3.0%	-12.1% pts	-321	From net profit to net loss	The two big players in the industry, DBC and HPG, recorded a decrease in meat sales by 18.5% yoy and 2.4% yoy respectively (based on our estimates) due to 1) weak demand and 2) 5.2% yoy decrease in swine price.
HPG*	Hoa Phat Agricultural JSC (HPG's agricultural segment)	1,589	-2.4%	-4.5%	-4.2% pts	-116	Net loss	
MML	Masan MeatLife Corporation	1,600	71.8%	11.7%	5.7% pts	-121	From net profit to net loss	MML's revenue increased by 71.9% yoy due to the recognition of processed meat segment – which was transferred from Masan Consumer (MCH). We estimate revenue from processed meat products to account for 40% of MML's revenue.
HAG	Hoang Anh Gia Lai JSC	1,697	111.4%	24.3%	-11.8% pts	291	16.4%	HAG's pork revenue increased 109% yoy in 1Q23 mainly due to lowbase in 1Q22. In 1Q23 the company began to penetrate deeper into the meat production industry by launching the product "Heo an chuoai" from 3Q22.
BAF	BAF Viet Nam Agriculture	817	-46.9%	7.8%	-1.4% pts	3	-96.4%	BAF's 3F revenue increased 16.2% yoy in 1Q23 mainly thanks to the capacity expansion in term of new farms and distribution system compared to 1Q22. BAF distributes meat with the brand name "BAF Meat" from Jul 2022 at all Siba food system.
NCG	Nova Consumer Group	1,111	15.9%	9.5%	-1.2% pts	-7	From net profit to net loss	NCG's pork revenue increased by 36.8% yoy in 1Q23 due to the recognition of revenue from the food segment (approximately VND113.7bn) after M&A with Sunrise Foods from 2Q22
VSN	Vissan JSC	895	-5.2%	24.7%	-0.2% pts	35	-3.7%	

*Based on our estimate

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Pork revenue of meat producers (unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Meat production company's guidance for 2023F

Figure 4: Meat producers' FY23F guidance

Ticker	FY23F revenue plan	FY23F NPAT plan	Comments
BAF	VND7,525bn (+6.2% yoy)	VND301bn (+5.0%)	<p>Investment idea:</p> <ul style="list-style-type: none"> 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. We expect BAF's net revenue to increase slightly 2.1% yoy in FY23F while net profit improves 6.0% yoy to VND305bn, in line with the company's guidance. <p>AGM's keynote:</p> <ul style="list-style-type: none"> Swine price outlook: the management expect domestic swine price to increase from 2Q23F due to lack of live hog supply. The swine price has hit the lowest price of VND49,000/kg in Arp. BAF's pigs were not affected by African swine fever in 1Q23. BAF will continue to build nine new farms, expected to be operational in 2024F, bringing the total pig herd to 90,000 sows and 2.2 million live hogs. The capex for each farm is about VND220bn. The management estimate production cost BAF is about VND45,000/kg of live hog. Meanwhile BAF's FY23F business plan is estimated based on swine price of VND55,000/kg.
DBC	NA	NA	<p>Investment idea:</p> <ul style="list-style-type: none"> For FY23F, we estimate DBC's GM to expand by 0.5% pts yoy thanks to lower animal feed cost. Thus, DBC's net profit is forecasted to rise 23.4 times compared to FY22. DBC set its NPAT to reach VND569bn in FY23F, equivalent to 378% 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. <p>AGM's keynote:</p> <ul style="list-style-type: none"> DBC expects to put the vaccine into commercial production in 4Q23F. The vaccine factory is still in the process of completion and will be put into trial operation in June 2023F. According to the management, swine prices may remain low in 2Q23F but it will increase in 3Q23F as the total herd no longer has an upward momentum. DBC estimate Vietnams total pig herds is about 23 million heads. The African swine fever is still present on some of DBC's farms. DBC imported 5,000 pedigrees at the beginning of 2023 and planned to import 6,600 pedigrees in 2H23F for re-herding activities. The management estimate production cost DBC is about VND55,000-56,000/kg of live hog.
MML	VND8,500-9,000bn (+76.3%)	VND(300bn)	<p>AGM's keynote:</p> <ul style="list-style-type: none"> After consolidating Masan Jinju (MSJ)-MCH's former processed meat subsidiary-in Nov 2022, MML's product mix included fresh pork (30%), fresh chicken (30%) and processed meat (40%). The company will continue to price its branded pork competitively to stimulate volume through the WIN membership program, which contributes 87% to MEATDeli's current sales.
HAG	VND5,120bn (+0.2%)	VND1,130bn (+0.4%)	<p>AGM's keynote:</p> <ul style="list-style-type: none"> The management has suspended the plan of issuing private shares. In FY23F, HALG has to pay a debt of VND1,000bn for BIDV, of which VND500bn comes from HNG and VND500bn from selling other non-profitable assets. HAG expect to sell pork to Cambodia market in Jul-Aug 2023F. The management estimate production cost HAG is about VND42,000/kg of live hog and plan to build "Bapi" to be a popular brand with consumers. The sale volume of pork is expected to be 200,000-300,000 heads in 2023F.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 5: Peer comparison (at 26/05/2023)

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)		P/B (x)		3 years	ROE (%)		ROA (%)	
		LC\$	LC\$			US\$m	TTM	FY23F	TTM	FY23F	CAGR (%)	TTM	FY23F	TTM
Vietnam listed meat producers														
BAF Viet Nam Agriculture JSC	BAF VN	23,700	27,200	HOLD	145	16.8	11.1	1.8	1.4	63.0	11.8	16.1	4.0	5.9
Masan MeatLife Corporation	MML VN	30,400	N/a	N/a	424	N/a	N/a	1.8	N/a	N/a	(2.7)	N/a	(1.2)	N/a
Dabaco Group	DBC VN	19,300	15,900	HOLD	199	N/a	12.8	1.1	N/a	78.8	(7.2)	9.8	(2.8)	N/a
Vietnam Livestock Corporation JSC	VLC VN	16,800	N/a	N/a	123	36.4	N/a	0.9	N/a	29.6	3.0	N/a	2.4	N/a
Hoang Anh Gia Lai JSC	HAG VN	7,770	N/a	N/a	307	6.2	N/a	1.4	N/a	N/a	24.0	N/a	5.9	N/a
<i>Average</i>						<i>19.8</i>	<i>12.0</i>	<i>1.4</i>	<i>1.4</i>	<i>57.1</i>	<i>5.8</i>	<i>13.0</i>	<i>1.7</i>	<i>5.9</i>
<i>Median</i>						<i>16.8</i>	<i>12.0</i>	<i>1.4</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, COMPANY REPORTS

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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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.

Bach Phan Nhu – Senior Analyst

Email: bach.phannhu@vndirect.com.vn

Hien Ha Thu – Analyst

Email: hien.hathu@vndirect.com.vn

VNDIRECT Securities Corporation

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

Tel: +84 2439724568

Email: research@vndirect.com.vn

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