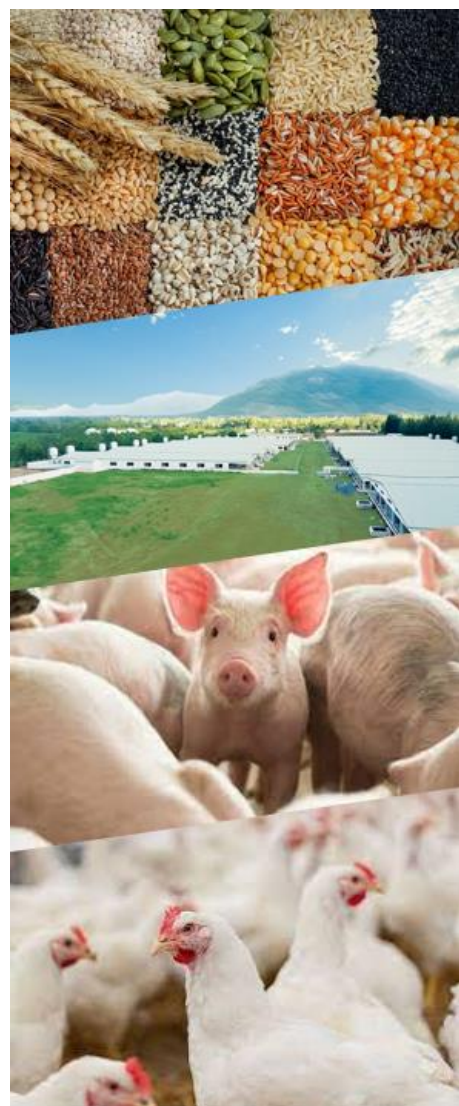


## Sector note

31 May 2022



## Meat production sector

### When it rains it pours

- Feed costs have been accelerating following the Russia–Ukraine conflict, weighing on local meat producers.
- In 1Q22, live hog price improved 18.6% qoq but decreased by 30.7% yoy.
- We maintain our Neutral rating on the sector.

### Meat producers struggled in 1Q22

Based on our estimate, aggregated revenue of listed meat production companies plunged 39.7% yoy in 1Q22 and net profit also declined 37.4% yoy. Top companies to record strongest drop in 1Q22 gross margin include DBC (-16.3% pts) and MML (-8.3% pts). We believe weak results were due to the spike of feed ingredients price and 30.7% yoy decline of live hog price in 1Q22. In our view, live hog prices cannot increase sharply following input material prices as meat consumption demand has not fully recovered compared to pre-Covid-19 levels. Meanwhile, the pork supply remains stable and is on the way to recovering after the ASF epidemic.

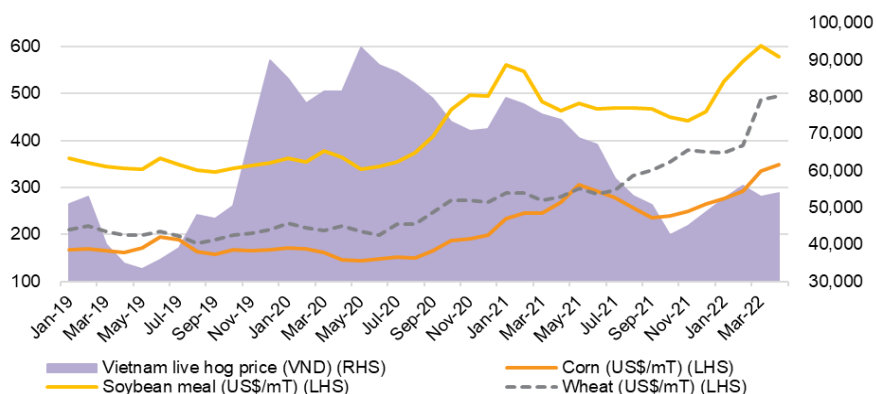
### 2-way pressure cast shadow on 2022F outlook

According to World Banks, wheat, corn, and soybean meal price are forecasted to rise 42.7%/19.4%/9.7% yoy in 2022F, thus rising input material cost for animal feed production. Meanwhile, we expect domestic live hog price to decline 5.8% yoy in 2022F mainly due to high base in 1H21 and slow recovery of meat consumption demand after the Covid-19. Therefore, we believe 2022 will still be challenge year for meat producers. We expect DBC's net profit to plunge 29.6% yoy while MML's net profit is projected to decline significantly by 66.2% yoy. In our view, meat producers' business plans are quite positive (10.0% yoy NP growth) in the context of raw material prices is uncertain due to conflicts while hog prices are unlikely to rise sharply in 2022F.

### Recommend HOLD for MML and DBC

Meat producers (including DBC, MML, VSN) are currently trading at P/E fluctuate between 15-18x. We recommend Hold for both DBC and MML as we believe that NP growth prospects have been price in, and these companies are expected to record negative NP growth in FY22F. In our view, investors should exercise caution in investment decisions regarding meat stocks during this period. Upside catalysts include 1) lower-than-expect global grain price, 2) higher-than-expect live hog price, and 3) stronger-than-expect meat consumption demand. Downside risks include 1) higher-than-expect input material price for animal feed and 2) lower-than-expect live hog price.

Figure 1: Grain price increased 12.8% yoy in 1Q22 while live hog price declined 30.7% yoy



Source: VNDIRECT RESEARCH, MUNDI INDEX

### Analyst(s):



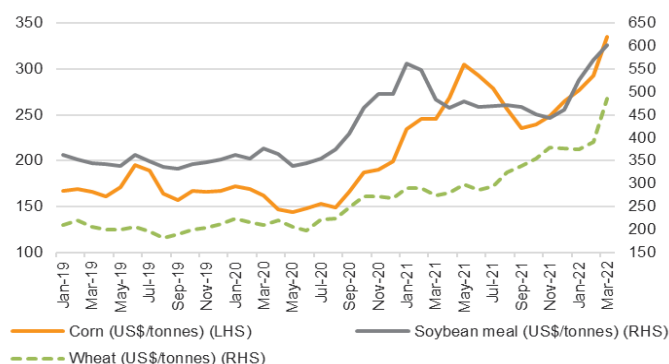
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## MEAT PRODUCTION SECTOR SNAPSHOT

### Raw material prices increased significantly in 1Q22

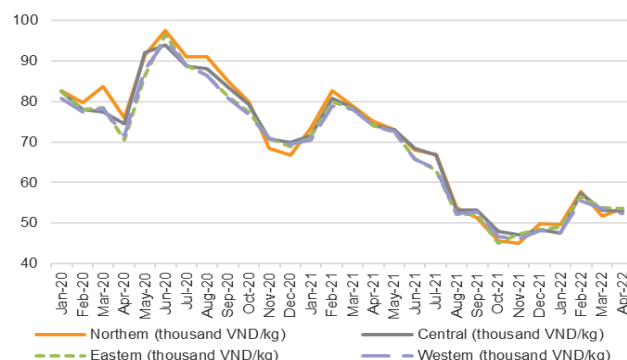
We observe that global grain prices have continued to rise sharply in Feb – Apr 2022 amid concerns over supply disruption owing to the ongoing Russia-Ukraine conflict since 24 Feb 2022. Specifically, wheat prices increased by 32.3%/1.8%/76.3% gains YTD/mom/yoy in Apr. This was followed by corn and soybean meal, which recorded price increases of 25.9%/3.8%/29.8% and 10.1%/-3.7%/24.8% over the same periods, respectively.



Source: VNDIRECT RESEARCH, INDEX MUNDI

### ... while domestic live hog prices stay nearly flat

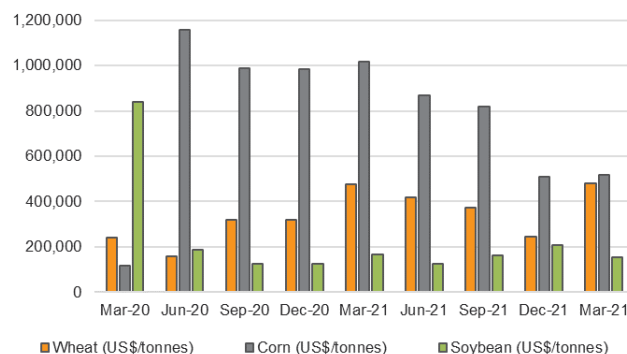
The average domestic live hog price in April across all regions increased slightly. In which, the North recorded the highest average price of VND54,400/kg while the Central region recorded the lowest of VND53,722/kg.



Source: VNDIRECT RESEARCH, ANOVA FEED

### Import volume of animal feed ingredients decreased

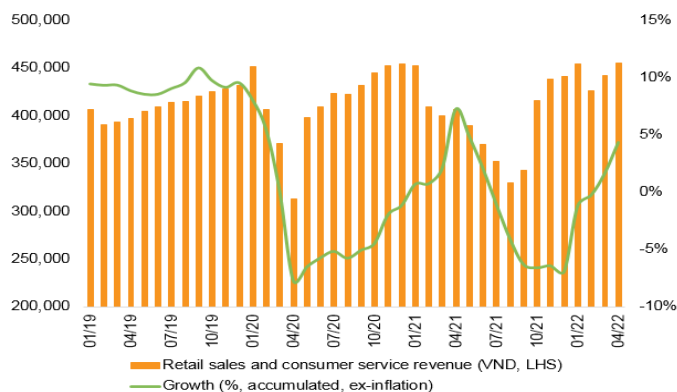
According to the General Department of Customs, Vietnam imported total volume more than 1,147m tonnes (-30.8% yoy) of wheat, corn, and soybean in Mar 2022. Total imported volume plunged mainly due to 49.3% yoy and 9.5% yoy decrease in corn and soybean imports volume. In our view, commodity price rising has forced companies to adjust their inventory stock, which lower volume than before with shorter contract time.



Source: GSO, VNDIRECT RESEARCH

### Service sector to speed up recovery

Vietnam's service sector kicked off the 2Q22 strongly with gross retail sales of consumer goods and services in April reaching VND445.494bn, up 3.1% mom and up 12.1% yoy, according to General Statistics Office (GSO). This was the highest monthly growth recorded since May 2021. We believe catering service improved in Apr 2022 has push live hog price increase slightly by 1.9% mom. Revenue of accommodation and catering service rose 6.9% mom to VND45.5tr (+14.8% yoy) in April 2022. In our view, increasing demand for on-site dining will continue to drive a recovery in meat consumption, which support live hog prices in the coming months.



Source: GSO, VNDIRECT RESEARCH

## WHEN IT RAINS IT POURS

### Meat producers recorded mix performance in 1Q22

Based on our estimate, aggregated revenue of listed meat production companies plunged 39.7% yoy in 1Q22 and net profit also declined 37.4% yoy. Top companies to record strongest 1Q22 negative earnings growth include DBC (-97.6% yoy) and BAF (-7.8% yoy). In our view, aggregated revenue declined mainly due to a sharp 30.7% drop in live hog prices in 1Q22. Besides, BAF actively cut revenue from agricultural trading segment and MML no longer recorded revenue from animal feed segment also contributed to the decline of aggregated revenue. Meanwhile total gross margin of meat producers declined significantly by 13.2% pts yoy in 1Q22 due to higher input material price for animal feed and lower output price. Based on our estimate, wheat, corn and soybean meal increased strongly by 46.9%/24.8%/6.5% yoy in 1Q22.

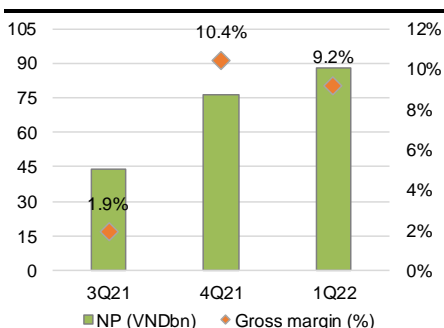
Figure 2: 1Q22 earnings recap of meat production companies (unit: VNDbn)

Ticker	Meat producers	1Q21 revenue	1Q22 revenue	Change (yoy)	1Q21 gross margin	1Q22 gross margin	Change (yoy)	1Q21 NP	1Q22 NP	Change (yoy)
DBC	Dabaco Group	2,474	2,806	13.4%	25.4%	9.1%	-16.3% pts	365	9	-97.6%
BAF	BAF Viet Nam Agriculture JSC	2,508	1,582	-36.9%	5.3%	8.7%	3.4% pts	95	88	-7.8%
VLC	Vietnam Livestock Corporation JSC	622	676	8.7%	28.1%	29.7%	1.6% pts	54	60	11.7%
MML	Masan MeatLife Corporation	4,704	931	-80.2%	14.3%	6.0%	-8.3% pts	146	244	67.2%
VSN	Vissan JSC	1,200	944	-21.3%	20.7%	24.9%	4.2% pts	38	36	-3.8%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

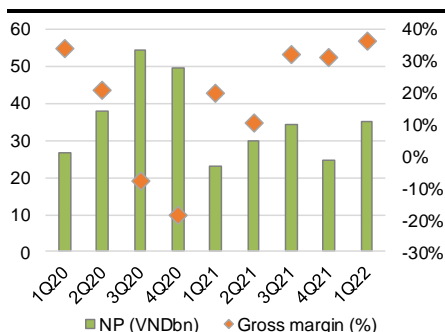
In 1Q22, BAF Vietnam Agricultural JSC (BAF VN, HOSE) recorded negative revenue growth by 36.9% yoy as the company actively lowered sale volume of agricultural products to focus resources on 3F business. However, the company recorded GM expanded by 3.8% pts yoy in 1Q22. In which, GM of Farm & food segment improved by 2.3% pts yoy in 1Q22. In our opinion, BAF has an advantage in input materials compared to its competitors. In which, raw materials for BAF's animal feed production are imported from Tan Long Group at a price 10-15% lower than peers. Hoang Anh Gia Lai JSC (HAG VN, HOSE) also recorded 16.4% pts increase in GM, in which pork segment rose 9.0% pts mainly thanks to lower material cost than other competitors. According to the management, the company has taken advantage of the waste bananas from the fruit business as input materials for animal feed production. Therefore, the company was not affected by higher global agricultural prices in 1Q22.

Figure 3: BAF's GM and NP in 3Q21-1Q22



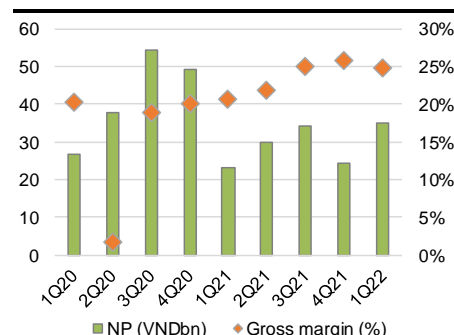
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 4: HAG's GM and NP in 1Q20-1Q22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 5: VSN's GM and NP in 1Q20-1Q22

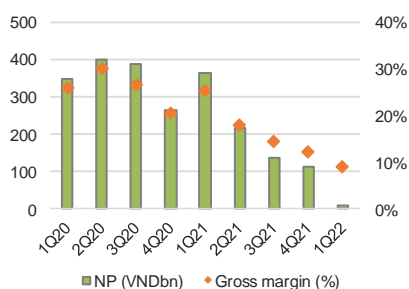


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Due to higher price of raw materials for animal feed production, Dabaco Group (DBC VN, HOSE) recorded a sharp drop in core business GM of 16.5% pts. As a result, DBC net profit fell 97.6%, much lower than our projection. Masan MeatLife (MML VN, HOSE) also recorded a drop in GM of 8.3% pts, mainly due

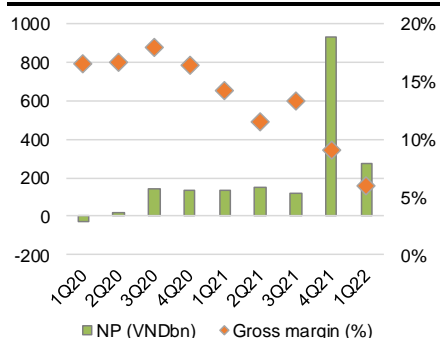
to the deconsolidation of gross profit from the feed segment and a 30.7% yoy drop in live hog prices in 1Q22. We estimate the gross margin of the pork segment to drop significantly from 18.1% in 1Q21 to 12.1% in 1Q22 while the branded chicken business brought in negative gross margin of 1.8% in 1Q22, up 8.7 % pts against the negative 10.5% of 1Q21.

**Figure 6: DBC's GM and NP in 1Q20-1Q22**



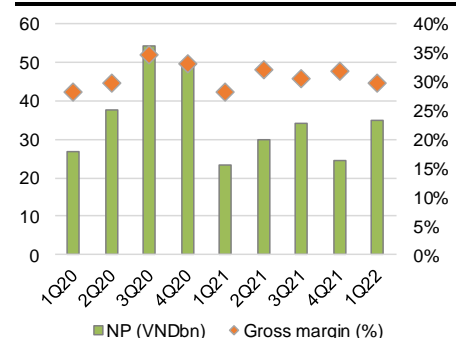
Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 7: MML's GM and NP in 1Q20-1Q22**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 8: VLC's GM and NP in 1Q20-1Q22**



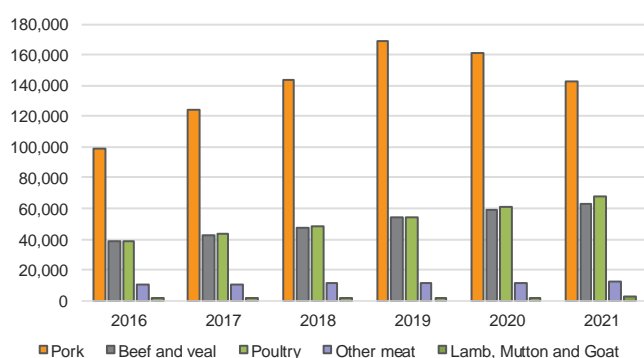
Source: VNDIRECT RESEARCH, COMPANY REPORTS

## FY22F outlook: Challenges lie ahead

### Competition is heating up

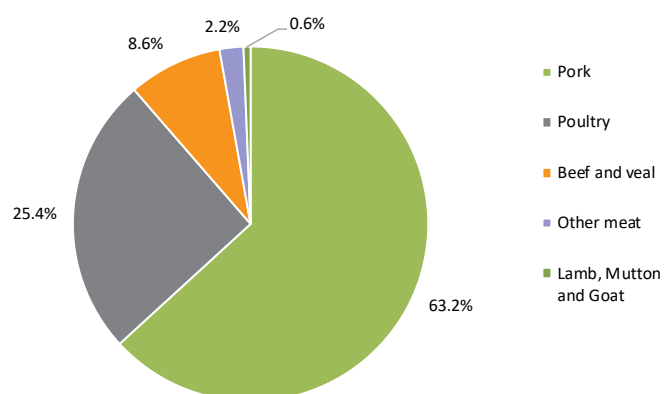
According to Euromonitor, the meat value is estimated at US\$12.5bn in 2021. In which, pork market accounted for 49.7%, following by poultry market (23.4%) and beef market (21.7%). Pork could be considered as the most potential segment as pork accounts for 60-65% in the "food basket". According to the Organization for Economic Co-operation and Development (OECD), Vietnam will rise to No.2 in Asia in term of pork consumption in 2022F, reaching 3.4m tonnes with CAGR of 3.1% in 2022-2030F.

**Figure 9: Retail sales value of meat by category in 2016-2021 (unit: VNDbn)**



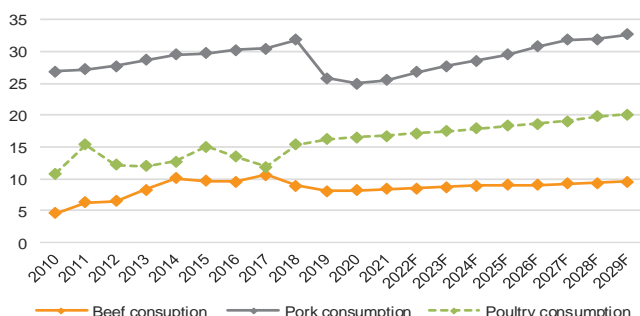
Source: VNDIRECT RESEARCH, EUROMONITOR

**Figure 10: Total sales volume of meat by category in 2021**

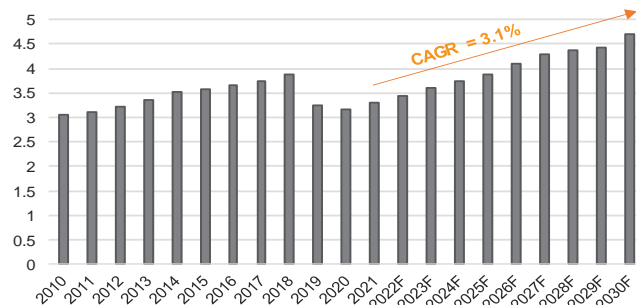


Source: VNDIRECT RESEARCH, EUROMONITOR



**Figure 11: Vietnam's meat consumption per capita in 2010-29F (unit: kg/capita)**


Source: VNDIRECT RESEARCH, OECD

**Figure 12: Vietnam's pork consumption is forecast to reach CAGR of 3.1% in 2021-2030F (unit: mT)**


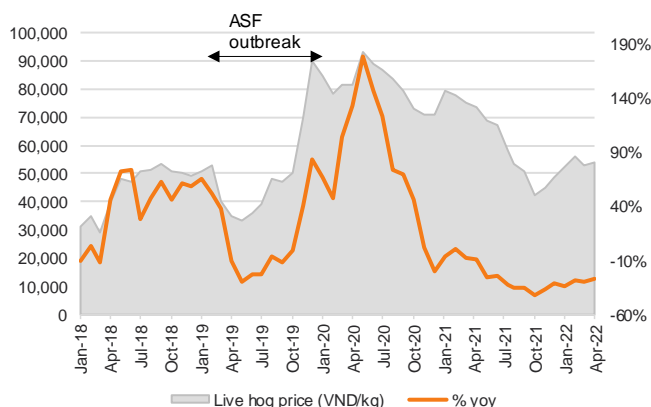
Source: VNDIRECT RESEARCH, OECD

Vissan JSC (pork and beef) was the biggest processors of meat, following by CP JSC and San Ha Co Ltd. We believe that the playing field in the pork market is currently quite cramped with many familiar names such as CP Food, Vissan, Dabaco, Green Feed, Masan MeatLife and the new player BAF.

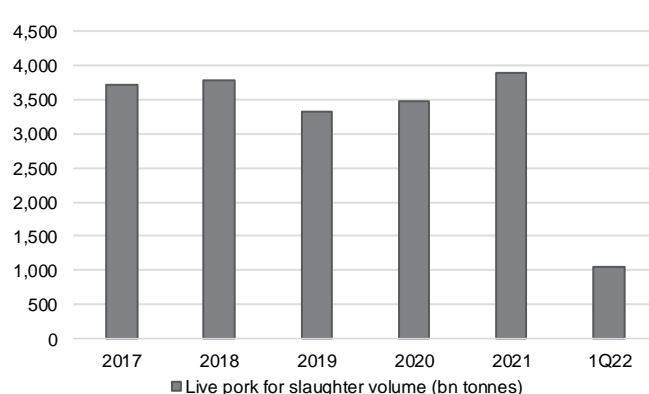
### Domestic meat prices record mix performance in 2022F

In 1Q22, hog price improved by 18.6% compared to 4Q21 mainly thanks to an increase in meat consumption demand of about 10% yoy during the Lunar New Year holiday in late January – early February. However, hog price tends to decrease gradually and went sideways at the end of February due to a slow recovery in demand while supply continued to recover after the ASF.

Besides, we observe that live pork supply remained stable in 1Q22. According to the Ministry of Agriculture and Rural Development, the total number of pigs increases by about 4.2%yoy in 1Q22. Output of live pork for slaughter in 1Q22 is estimated at 1.1m tonnes, up 4.3% yoy and reaching 24% of the 2022 plan. By the end of April, the total pig herd increased by 5.5 % yoy. We believe that the demand for meat in 2Q22 cannot spike as schools enter the summer vacation while restaurants and industrial kitchens still consume at an equivalent rate to 1Q22. Besides, the Covid-19 has also changed the habits of consumers, making them cautious about on-site dining activities. Thus, we expect the average live hog price to decrease by 5.8% yoy in 2022F compared to VND61,600/kg recorded in 2021 mainly due to a high base of VND73,800/kg in 6M21.

**Figure 13: Live hog price increased 18.6% qoq in 1Q22**


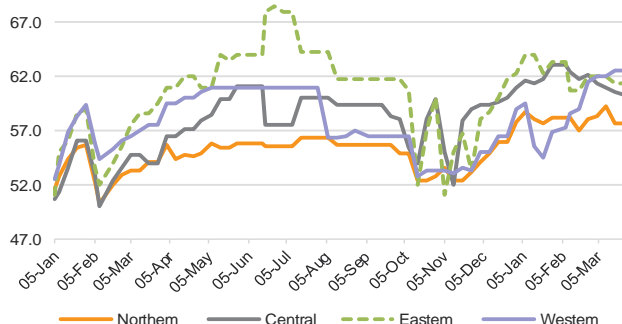
Source: VNDIRECT RESEARCH, ANOVA FEED

**Figure 14: Live pork supply remain stable in 1Q22**


Source: VNDIRECT RESEARCH, GSO

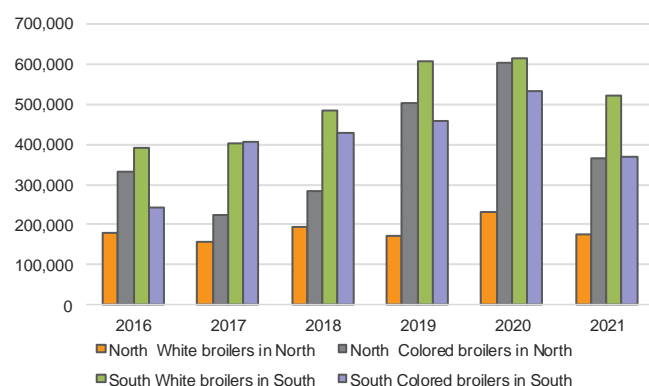
On the other hand, poultry price increased by 10.2% yoy and 7.2% qoq in 1Q22. In our view, poultry prices increase due to lack of supply while consumption demand recovers after the Covid-19. According to AgroMonitor, Vietnam's white broiler production in 2021 is estimated at nearly 700,000 tonnes, decreasing 18% yoy compared to 2020 due to the selling price falling below production costs from Jul-Oct 2021. Animal feed price accelerated, causing a large number of seed eggs to be sold commercially instead of incubating. In which, white broiler production in the South decreased by 15% yoy and the North decreased by 23% yoy in 2021. In addition, breeders and broilers are almost unable to enter Vietnam in 1Q22 due to China's "Zero covid" policy, causing poultry prices to increase continuously recently. For 2022F, we expect poultry price to increase 6.0% yoy due to supply shortage as farmers abandoned chicken flocks in 2021 while demand will continue to recover until the end of 2022F.

**Figure 15: Poultry price increased 10.2% yoy in 1Q22 (unit: thousand VND)**



Source: VNDIRECT RESEARCH, ANOVA FEED

**Figure 16: Broiler volume decreased in 2021 (unit: tonnes)**

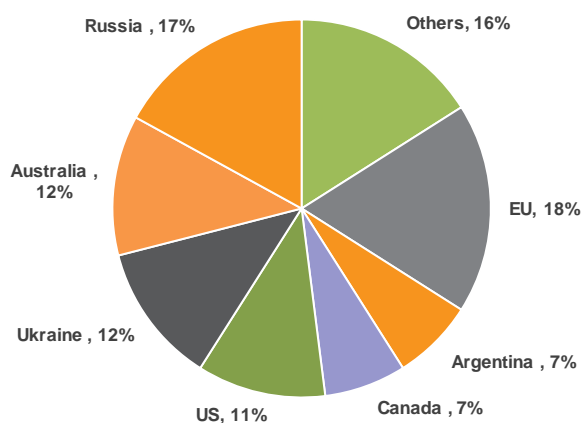


Source: VNDIRECT RESEARCH, EUROMONITOR

### Global grain prices are forecasted to stay high which will weigh on feed costs

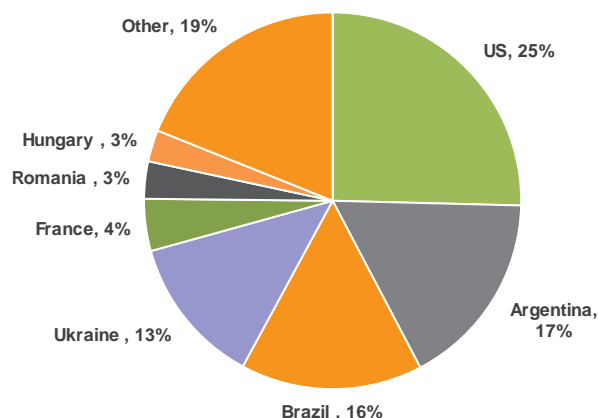
Global grain prices have continued to rise sharply in Feb – Mar 2022 amid concerns over supply disruption owing to the ongoing Russia-Ukraine conflict since 24 Feb 2022. We believe the spike in global grain price was mainly due to 1) concern about this year's harvest in Ukraine as the war rages on during the sowing season and 2) Ukrainian ports have been blocked by a Russian blockade, leading to supply chain disruption in Ukraine.

**Figure 17: World's wheat exporters in 2021**



Source: VNDIRECT RESEARCH, USDA

**Figure 18: World's corn exporters in 2021**



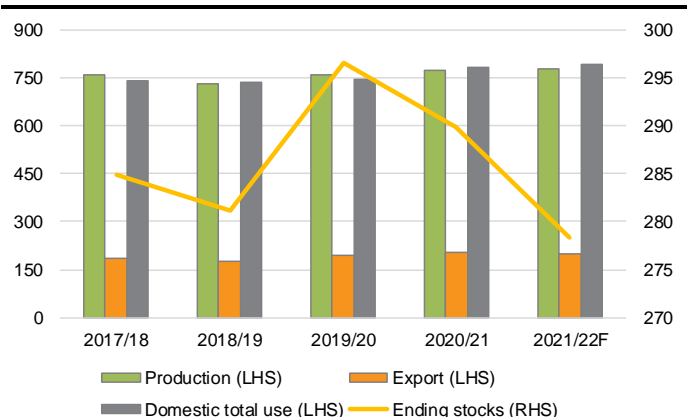
Source: VNDIRECT RESEARCH, OEC

**Figure 19: Global wheat price spiked in Feb – Mar 2022 due to Ukraine conflict (unit: US\$/bu)**



Source: VNDIRECT RESEARCH, BLOOMBERG

**Figure 20: The world's wheat supply and demand (unit: million mT)**

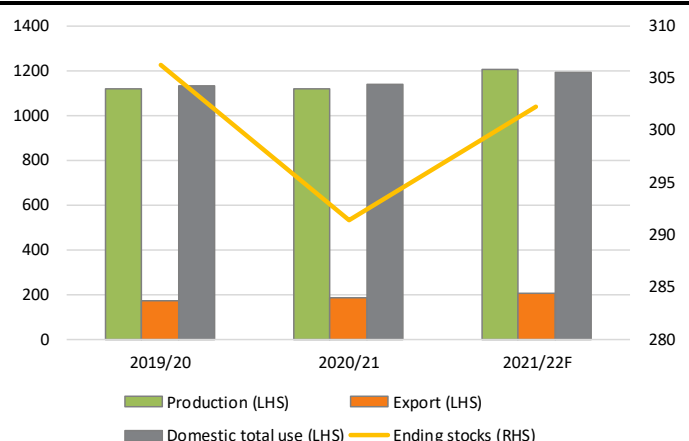


Source: VNDIRECT RESEARCH, USDA

According to the United States Department of Agriculture (USDA), the world's wheat ending stock is forecasted to decline 3.9% yoy in 2021/22 due to higher demand globally as well as trade disruption from the Russian - Ukraine conflict, which are the two major exporters of wheat. In addition, on May 13, India announced a temporary ban on wheat exports to ensure domestic food supply. India is currently the world's second-largest wheat producer. We believe the ban will push global food prices to new highs. Besides, this also heats up the trend of food protection since the Russia-Ukraine conflict began. Thus, we expect global wheat price to stay high in 2022F. According to World Banks, wheat price is forecast to rise 42.7% yoy in 2022F and fall back 16% in 2023F.

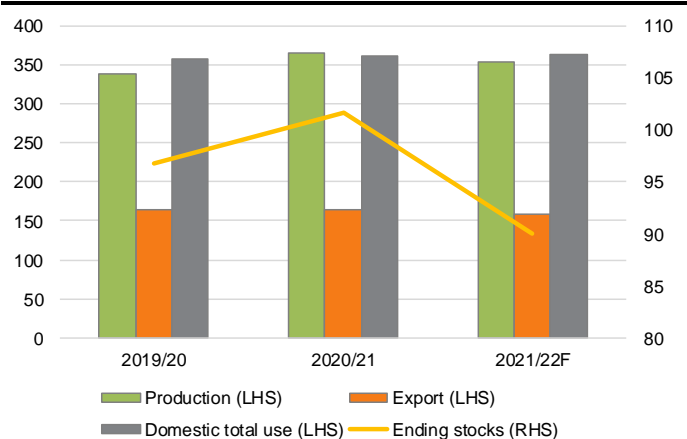
In addition, we believe the conflict is likely to disrupt agricultural production in Ukraine in the upcoming season. As Ukraine is a key exporter of wheat, pig iron, maize, and barley we project corn price to keep increasing in 2022F amid concern that the shrinking corn supply in Ukraine will affect worldwide corn production. World Banks forecast Corn and soybean meal price to be 19.4%/22.7% higher in this year and decline 9.7%/6.8% in 2023F.

**Figure 21: Global corn stock (unit: million mT)**



Source: VNDIRECT RESEARCH, USDA

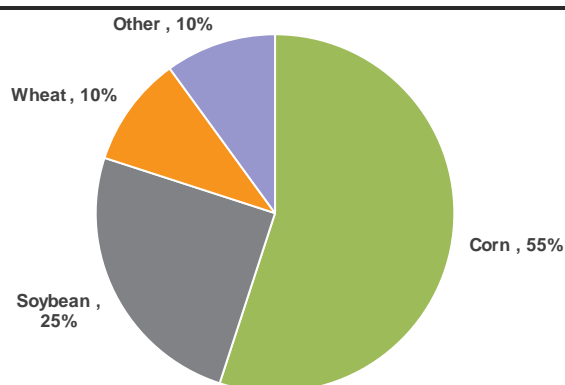
**Figure 22: Global soybean stock (unit: million mT)**



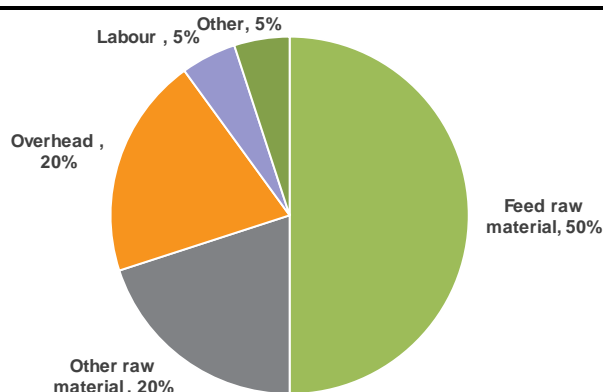
Source: VNDIRECT RESEARCH, USDA

The raw materials cost for animal feed production accounts for 80-85% of the animal feed cost. Meanwhile, animal feed costs currently account for 65-70% of production costs in livestock. We believe that increasing global grain prices will have a negative impact on meat producers' production costs, increasing by

15-20% (based on our estimate). Thus, meat producers' GM is likely to be under pressure in 2022F. We expect DBC to record 3.8% pts yoy plunge in blended gross margin, in which pork's GM decline 9.3% pts yoy in 2022F. Meanwhile, MML's pork GM stay flat at 18.5% thanks to a 22.5% yoy increase in sales volume offsetting a 5.0% yoy decrease in average selling price.

**Figure 23: Feed mix for livestock feed**


Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 24: Meat producers' cost breakdown (% of COGS)**


Source: VNDIRECT RESEARCH, COMPANY REPORTS

### Stock picks: DBC and MML will be on the watchlist

**We see meat producers' 2022 guidelines are quite positive compared to our forecast**

**Figure 25: Meat producers' FY22F guidance**

Ticker	Meat producers	FY22F revenue plan (VNDbn)	% with FY21 revenue	FY22F NPAT plan (VNDbn)	% with FY21 NPAT
DBC	Dabaco Group	22,558	12.8%	918	10.7%
MML	BAF Viet Nam Agriculture JSC	5,000-6,500	(-7.5%)-(-65.6%)	500-670	(-62.4%)-(-49.6%)
BAF	Vietnam Livestock Corporation JSC	5,950	-43.0%	402	25.0%
VLC	Masan MeatLife Corporation	3,247	10.9%	242	-25.2%
VSN	Vissan JSC	5,000	15.6%	186	9.4%
HAG	Hoang Anh Gia Lai JSC	4,820	120.4%	1,120	781.9%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

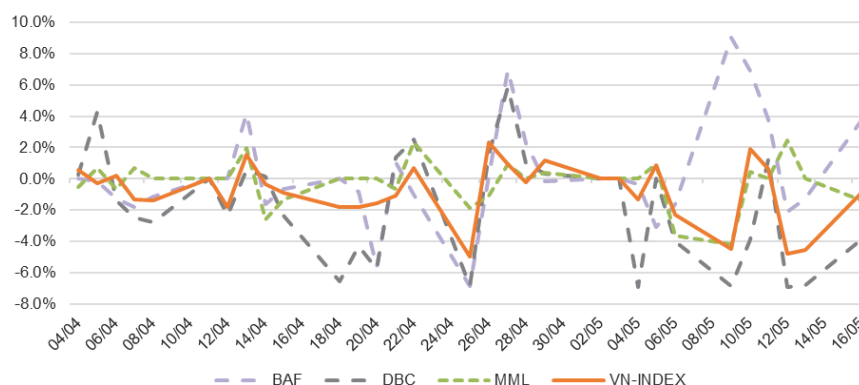
In our view, 2022F will still be difficult for meat producers as feed prices are expected to keep soaring while average live hog prices decrease 5.8% yoy. For FY22F, we estimate DBC's meat sales to grow by 9.8% while GM is forecast to decrease by 6.6% pts yoy due to the impact of higher feed prices. Thus, DBC's net profit is forecasted to plunge 29.6% yoy in FY22F. Meanwhile, MML's net profit is expected to decline significantly by 66.2% yoy since MML will not record profit from the feed segment and the unusual profit from the deconsolidation of animal feed.

DBC and MML set its NPAT to reach VND918bn and VND500-670bn, equivalent to 156%/147% of our forecast. In our view, meat producers' business plans are quite positive (10.0% yoy NP growth) in the context of raw material prices is uncertain due to conflicts while hog prices are unlikely to rise sharply in 2022F.



For meat producers, we expect DBC to record 7.0% yoy growth in FY22F revenue thanks to 6.0% yoy increase in animal feed revenue and 11.0% yoy increase in Farm & Food revenue. In which, revenue from pork rise 10.3% yoy mainly thanks to 17.2% yoy increase in sale volume while average selling price (ASP) decline 5.8% yoy. In addition, we project MML's revenue from pork to reach VND3,490bn (+16.4% yoy) in FY22F thanks to 22.5% increase in sale volume while its ASP plunge 5.0% yoy. In FY22F, Masan Meatlife has set revenue plan of VND5,000-6,500bn, equivalent to 105.6% of our forecast.

**Figure 26: The movement of meat producer's stocks price compared to VN-INDEX from 01 Apr to 16 May, 2022**



Source: Bloomberg, VNDIRECT RESEARCH

Meat production stocks declined by 13.3% from Apr 01 to May 16, lower than VN-Index of -22.7%. The best performing stock was BAF (+7.1%) while DBC decreased the most by 43.7%. We believe DBC's recently price weakness mainly due to investor's concern about rising global cereal prices affecting the company's business as well as weak performance in 1Q22 business results.

We recommend Hold for both DBC and MML as we believe that NP growth prospects have been price in, and these companies are expected to record negative NP growth in FY22F.

### Investment risks

The conflict in Ukraine has been a major shock to commodity markets, coming on top of pandemic-related supply chain disruptions as well as production shortfalls. The war has led to significant disruptions to the production and trade of commodities for which Russia and Ukraine are key exporters. According to World Banks, a continuation of the war beyond this year could reverse the expected easing of food commodity prices in 2023F.

Input materials price for animal feed production has increased by 14-30% ytd due to the impact of the Russian-Ukraine conflict in Feb 2022. Currently, the cost of animal feed accounts for about 65-70% of the production cost of pork. While the price of raw materials for animal feed production accounts for 80-85% of the production cost for animal feed. Therefore, the high cost of raw will lead to higher livestock costs in 2022F. Meanwhile, hog price is forecasted materials to decrease by 5.8% yoy due to high base in 1H21, which will cause the GM of meat producers to decline in 2022F.

Besides, the risk of ASF disease could affect meat supply in 2022F. According to the Departments of Agriculture and Rural Development in An Giang, Tra Vinh, Soc Trang, Tien Giang... the number of pigs infected and suspect of ASF in 1Q22 is up to several thousand heads per locality. However, we believe that most of meat producers currently operate under the 3F (Feed - Farm - Food)

model, which helps to avoid the risk of disease better than farmers. In addition, there are currently three companies that are independently conducting research on ASF vaccines and producing positive results. We think that by 4Q22F-1Q23F the vaccine could be commercially produced and the ASF outbreak could be under control by the end of 2023F.

**Figure 27: Peer comparison**

Company	Ticker	Recom.	Target price	Price	Mkt cap	P/E (x)		3-year EPS	P/B (x)		ROA (%)		ROE (%)	
			LC\$	LC\$		US\$m	TTM	FY22F	CAGR (%)	TTM	FY22F	TTM	FY22F	TTM
Local listed meat producers														
Masan MeatLife Corp	MML VN	HOLD	73,400	71,800	973	15.0	50.8	170.3	3.8	3.7	9.3	4.1	19.4	7.9
DABACO Vietnam Group JSC	DBC VN	HOLD	25,000	26,200	260	12.8	10.6	99.3	1.3	1.1	4.5	5.3	10.1	11.1
HAGL JSC	HAG VN	N/a	N/a	9,360	374	17.7	N/a	N/a	1.9	N/a	2.7	N/a	10.1	N/a
BAF Viet Nam Agriculture JSC	BAF VN	N/a	N/a	37,750	234	16.8	13.3	N/a	3.6	2.2	6.0	7.4	31.9	24.5
Vissan JSC	VSN VN	N/a	N/a	28,900	101	16.0	N/a	3.4	1.9	N/a	7.0	N/a	12.3	N/a
Vietnam Livestock Corp JSC	VLC VN	N/a	N/a	30,500	227	40.6	N/a	9.0	1.6	N/a	3.6	N/a	4.0	N/a
Average					389	19.8	24.9	91.0	2.4	2.3	5.5	5.6	14.6	14.5
Median					260	16.0	13.3	99.3	1.9	2.2	6.0	5.3	12.3	11.1

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 30 May 2022)

## DABACO GROUP (DBC) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND26,200	VND25,000	8.77%	Hold	CONSUMER GOODS

30 May 2022

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

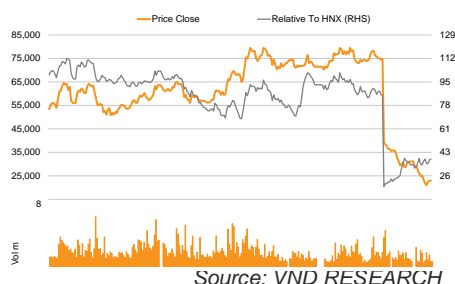
Consensus\*: Add:0 Hold:2 Reduce:0

Target price / Consensus: -32.4%

### Key changes in the report

- Lower TP by 32.4%

### Price performance



### Key statistics

52w high (VND)	79,500
52w low (VND)	21,000
3m Avg daily value (VNDmn)	85,676
Market cap (VND bn)	5,266
Free float (%)	62
TTM P/E (x)	12.8
Current P/B (x)	1.3

### Ownership

Nguyen Nhu So (Chairman)	18.3%
SSI Securities Company	11.0%
Fraser Investment Holding	8.7%
Others	62.00%

Source: VND RESEARCH

### Analyst(s):



Hien Ha Thu

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## Near-term headwinds

- DBC's net revenue increase 13.5% yoy, fulling 24.2% our full year forecast while its net profit tumbled 97.6% yoy.
- Reiterate Hold rating with lower TP of VND25,000.

### 1Q22 results: Material prices spike squeeze gross margin

DBC's 1Q22 core businesses revenue (including Animal feed and Farm & Food segment) rose 14.8% yoy to VND2,759bn. Meanwhile, other revenue from commercial activities and real estate decline 4.1% yoy to VND162bn as DBC's restaurants, hotels business activities were affected due to a sudden increase in the number of Covid-19 infections in Feb-Mar. GM kept decreasing to 8.7% in 1Q22 from 12.1% in 4Q21; much lower than 24.4% in 1Q21. Consequently, 1Q22 net revenue increase 13.5% yoy, fulling 24.2% our full year forecast while NP plunged 97.6% yoy.

### What is behind the sharp decline in DBC's share price?

DBC's share price has plunged 31.7% in the past month, higher than 12.7% plunge in the VNINDEX. We believe that the sharp decline in DBC's share price was mainly due to the stock market's week sentiment as well as investor's concern about rising global cereal prices affecting the company's business. Both corn, soybean meal and wheat prices increased by 24.8%/6.5%/46.9% yoy, respectively, in 1Q22, lifting animal feed prices up 15% yoy. Meanwhile, live hog prices and baby chicken prices decreased by 30.7% yoy and 27.5% yoy in 1Q22, respectively.

### We revise down FY22F forecasts on higher material cost

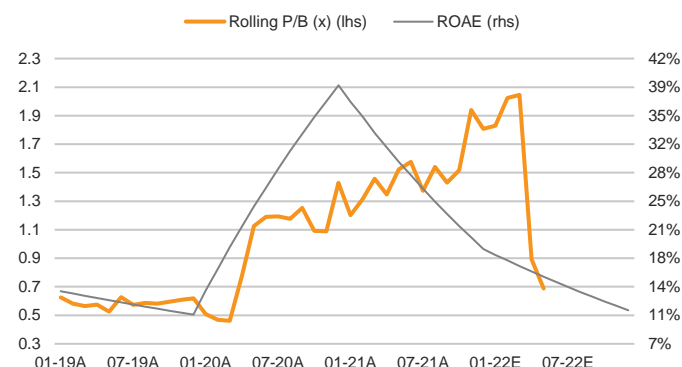
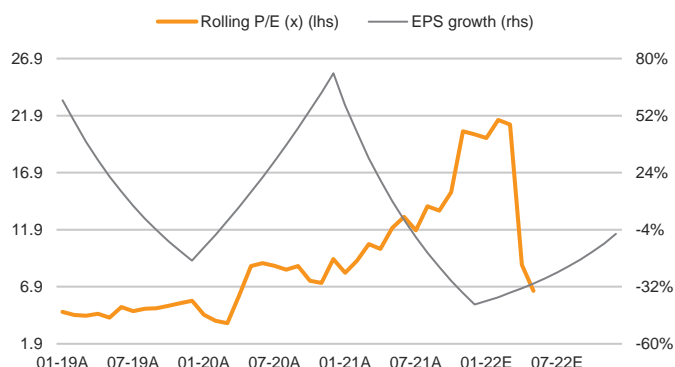
Due to Russian – Ukraine conflict, we expect global grain prices to stay high in 2Q22 and gradually decrease in 2H22F. Meanwhile we forecast the average live hog price to decrease by 5.8% yoy in FY22F due to slow demand recovery. Thus, we lower animal feed's GM by 4.0% pts due to higher-than-expect prices of input material. In addition, we revise down Farm & food revenue by 1.9% pts due to higher-than-expect animal feed cost. Therefore, DBC's NP is forecast to plunge 29.6% yoy in FY22F.

### Reiterate Hold with lower TP of VND25,000

We believe weak performance in 1Q22 business results has been reflected in the recent sharp decline in DBC's share prices. We expect the company to record negative growth in FY22F NP. Thus, we reiterate Hold rating with lower TP of VND25,000 (-32.4%). Re-rating catalysts include higher-than-expected pork prices. Downside risks include a faster-than-expected fall in pork prices and higher-than-expect prices of input material for animal feed.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	10,022	10,813	11,575	12,422
Revenue growth	39.4%	7.9%	7.0%	7.3%
Gross margin	25.5%	17.1%	13.4%	13.7%
EBITDA margin	23.2%	15.3%	11.1%	11.4%
Net profit (bn)	1,400	830	584	696
Net profit growth	358.9%	(40.8%)	(29.6%)	19.1%
Recurring profit growth				
Basic EPS	6,083	3,604	3,386	3,023
Adjusted EPS	6,011	3,240	3,183	2,842
BVPS	40,257	40,846	25,279	27,811
ROAE	38.7%	18.6%	11.1%	11.4%

Source: VND RESEARCH

**Valuation**

**Income statement**

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	10,813	11,575	12,422
Cost of sales	(8,960)	(10,026)	(10,715)
Gen & admin expenses	(405)	(434)	(465)
Selling expenses	(344)	(370)	(398)
<b>Operating profit</b>	<b>1,103</b>	<b>745</b>	<b>845</b>
Operating EBITDA	1,595	1,257	1,387
<b>Depreciation and amortisation</b>	<b>(492)</b>	<b>(512)</b>	<b>(542)</b>
<b>Operating EBIT</b>	<b>1,103</b>	<b>745</b>	<b>845</b>
Interest income	27	24	26
Financial expense	(199)	(131)	(110)
Net other income	46	10	11
Income from associates & JVs	3	1	1
<b>Pre-tax profit</b>	<b>980</b>	<b>649</b>	<b>772</b>
Tax expense	(150)	(64)	(76)
Minority interest	0	0	0
<b>Net profit</b>	<b>830</b>	<b>584</b>	<b>696</b>
Adj. net profit to ordinary	830	584	696
Ordinary dividends	(230)	(230)	(230)
<b>Retained earnings</b>	<b>599</b>	<b>354</b>	<b>466</b>

**Balance sheet**

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	200	307	358
Short term investments	577	618	663
Accounts receivables	547	639	686
Inventories	4,202	3,530	4,224
Other current assets	89	1,089	1,238
<b>Total current assets</b>	<b>5,615</b>	<b>6,184</b>	<b>7,169</b>
Fixed assets	5,051	4,900	4,736
Total investments	105	113	121
Other long-term assets	54	84	90
<b>Total assets</b>	<b>10,825</b>	<b>11,280</b>	<b>12,117</b>
Short-term debt	2,599	1,805	1,791
Accounts payable	1,392	1,491	1,600
Other current liabilities	1,132	1,143	1,227
<b>Total current liabilities</b>	<b>5,124</b>	<b>4,438</b>	<b>4,617</b>
Total long-term debt	687	579	621
Other liabilities	318	444	476
Share capital	1,152	2,305	2,305
Retained earnings reserve	606	925	1,349
<b>Shareholders' equity</b>	<b>4,696</b>	<b>5,820</b>	<b>6,403</b>
Minority interest			
<b>Total liabilities &amp; equity</b>	<b>10,825</b>	<b>11,280</b>	<b>12,117</b>

**Cash flow statement**

(VNDbn)	12-21A	12-22E	12-23E
<b>Pretax profit</b>	<b>980</b>	<b>649</b>	<b>772</b>
Depreciation & amortisation	492	512	542
Tax paid	(201)	(64)	(76)
Other adjustments	174	96	73
<b>Change in working capital</b>	<b>(802)</b>	<b>511</b>	<b>(614)</b>
<b>Cash flow from operations</b>	<b>643</b>	<b>1,704</b>	<b>696</b>
Capex	(319)	(386)	(386)
Proceeds from assets sales	4	0	0
Others	(54)	(48)	(54)
Other non-current assets changes	29	(30)	(4)
<b>Cash flow from investing activities</b>	<b>(340)</b>	<b>(463)</b>	<b>(443)</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	7	(903)	28
Other financing cash flow	(121)	0	0
Dividends paid	(220)	(230)	(230)
<b>Cash flow from financing activities</b>	<b>(335)</b>	<b>(1,134)</b>	<b>(202)</b>
Cash and equivalents at beginning of period	233	200	307
<b>Total cash generated</b>	<b>(32)</b>	<b>107</b>	<b>51</b>
Cash and equivalents at the end of period	200	307	358

**Key ratios**

	12-21A	12-22E	12-23E
<b>Dupont</b>			
Net profit margin	7.7%	5.0%	5.6%
Asset turnover	1.03	1.05	1.06
ROAA	7.9%	5.3%	5.9%
Avg assets/avg equity	2.35	2.10	1.91
ROAE	18.6%	11.1%	11.4%
<b>Efficiency</b>			
Days account receivable	9.5	9.5	9.5
Days inventory	171.2	128.5	143.9
Days creditor	56.7	54.3	54.5
Fixed asset turnover	2.10	2.33	2.58
ROIC	10.4%	7.1%	7.9%
<b>Liquidity</b>			
Current ratio	1.1	1.4	1.6
Quick ratio	0.3	0.6	0.6
Cash ratio	0.2	0.2	0.2
Cash cycle	124.0	83.8	98.9
<b>Growth rate (yoy)</b>			
Revenue growth	7.9%	7.0%	7.3%
Operating profit growth	(40.0%)	(32.5%)	13.5%
Net profit growth	(40.8%)	(29.6%)	19.1%
EPS growth	(40.8%)	(6.0%)	(10.7%)

Source: VND RESEARCH



## MASAN MEAT LIFE JSC (MML) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND71,800	VND73,400	0.0%	Hold	CONSUMER GOODS

20 May 2022

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

Consensus\*: Add: 0 Hold: 1 Reduce: 0  
Target price / Consensus: N/a

### Key changes in the report

- Lower TP by 10.9%
- 

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	96,500
52w low (VND)	57,000
3m Avg daily value (VNDmn)	994
Market cap (VND bn)	23,510
Free float (%)	6
TTM P/E (x)	15.0
Current P/B (x)	3.8

### Ownership

Masan Group	78.7%
VN Consumer Meat II Pte.Ltd	7.9%
Others	5.6%

Source: VND RESEARCH

### Analyst(s):



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## Extraordinary financial gain drove 1Q22 net profit

- In 1Q21, MML's revenue plunged 80.2% yoy while net profit (NP) jumped 77.5% yoy thanks to extraordinary financial gain.
- Net revenue and net profit are forecasted to decline 71.2% yoy and 67.3% yoy, respectively in FY22F.
- Reiterate Hold rating with lower TP of VND73,400.

### 1Q22 recap: Gross margin under pressure of higher input cost

MML recorded net revenue of VND931bn in 1Q22, decreasing 80.2% yoy mainly due to deconsolidation of animal feed segment in Nov 2021. In which, pork segment plunged 5.4% yoy as 1) branded pork's revenue decline 3.8% yoy due to lower selling price by 10% yoy (base on our estimate) while sale volume increased 7.8% yoy and 2) pig farm revenue decreased 57.1% yoy mainly due to 30.7% yoy plunge in live hog price. Meanwhile, revenue from branded chicken jumped 31.4% yoy thanks to 1) 16.5% yoy increase in sale volume and 2) 13.8% yoy increase in selling price. Besides, blended gross margin plunged 8.3% pts due to 1) deconsolidation of animal feed and 2) 7.9% pts decline in pork segment due to higher animal feed price.

### Extraordinary financial gain supported 1Q22 results

The company recorded financial revenue increased 14.3 times in 1Q22 compared to VND32.3bn in 1Q21 thanks to an extraordinary financial revenue of VND400bn. According to the management, this revenue related to the deal between MML and DeHeus. Thus, MML still recorded revenue growth of 77.5% in 1Q22 despite net revenue plunge 80.2% yoy.

### What MML has after selling feed business

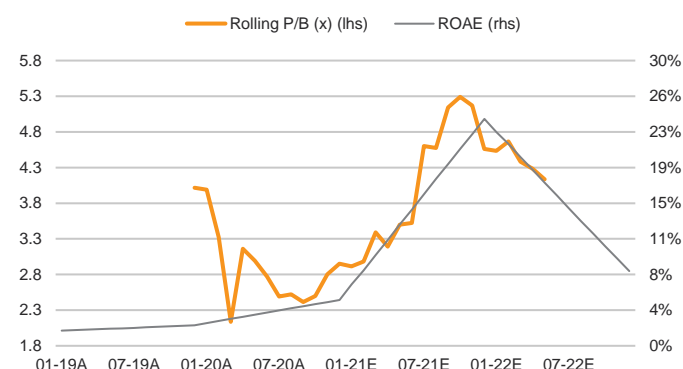
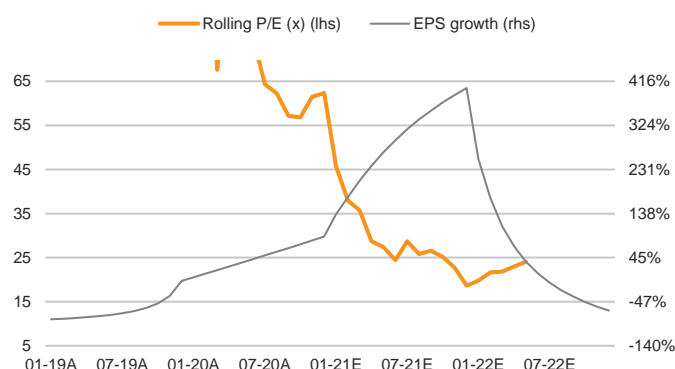
We expect revenue from pork to surge 16.4% yoy driven by 22.5% yoy increase in sale volume while average selling price decline 5.0% yoy. Meanwhile, revenue from poultry is forecasted to rise 30.4% yoy thanks to the wide product coverage through Winmart's system and softer effect from Covid-19 disruptions on 3F Viet's B2B sales channels. However, as MML deconsolidate animal feed, net revenue and net profit is forecast to decline 71.2% yoy and 66.2% yoy, respectively in FY22F.

### Reiterate Hold rating with lower TP of VND73,400

We believe current stock valuation has fully reflected the FY22-23F outlook and we haven't seen any dynamic push until now after its major restructure in late FY21. Thus, we reiterate Hold rating with MML and revise down our TP to VND73,400. A re-rating catalyst is the fast expansion of retail network. Downside risks include 1) another arising variant, and 2) higher-than expected live hog price.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	16,119	18,891	5,446	7,001
Revenue growth	16.8%	17.2%	(71.2%)	28.5%
Gross margin	16.9%	12.2%	11.8%	15.4%
EBITDA margin	11.2%	15.4%	14.0%	9.3%
Net profit (bn)	263	1,329	449	336
Net profit growth	128.3%	404.6%	(66.2%)	(25.0%)
Recurring profit growth	138.5%	405.4%	(67.7%)	(25.0%)
Basic EPS	809	4,066	1,373	1,029
Adjusted EPS	803	4,041	1,304	977
BVPS	17,183	16,884	18,088	18,966
ROAE	4.8%	23.9%	7.9%	5.6%

Source: VND RESEARCH

**Valuation**

**Income statement**

(VNDbn)	12-21E	12-22E	12-23E
Net revenue	18,891	5,446	7,001
Cost of sales	(16,588)	(4,801)	(5,922)
Gen & admin expenses	(753)	(202)	(259)
Selling expenses	(902)	(260)	(334)
<b>Operating profit</b>	<b>648</b>	<b>184</b>	<b>486</b>
Operating EBITDA	1,399	310	618
<b>Depreciation and amortisation</b>	<b>(751)</b>	<b>(126)</b>	<b>(133)</b>
<b>Operating EBIT</b>	<b>648</b>	<b>184</b>	<b>486</b>
Interest income	1,519	510	110
Financial expense	(545)	(234)	(264)
Net other income	75	27	5
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>1,697</b>	<b>486</b>	<b>337</b>
Tax expense	(445)	(88)	(51)
Minority interest	77	50	50
<b>Net profit</b>	<b>1,329</b>	<b>449</b>	<b>336</b>
Adj. net profit to ordinary	1,329	449	336
Ordinary dividends	(3,185)	(33)	(33)
<b>Retained earnings</b>	<b>(1,856)</b>	<b>416</b>	<b>304</b>

**Balance sheet**

(VNDbn)	12-21E	12-22E	12-23E
Cash and equivalents	215	754	901
Short term investments	256	74	95
Accounts receivables	3,061	670	862
Inventories	580	167	215
Other current assets	261	1,205	1,665
<b>Total current assets</b>	<b>4,373</b>	<b>2,870</b>	<b>3,737</b>
Fixed assets	4,652	4,921	5,132
Total investments	2,135	2,135	2,135
Other long-term assets	711	109	210
<b>Total assets</b>	<b>11,871</b>	<b>10,036</b>	<b>11,214</b>
Short-term debt	1,694	1,307	978
Accounts payable	550	436	560
Other current liabilities	278	387	568
<b>Total current liabilities</b>	<b>2,523</b>	<b>2,130</b>	<b>2,105</b>
Total long-term debt	3,242	1,688	2,575
Other liabilities	355	102	132
Share capital	3,270	3,270	3,270
Retained earnings reserve	132	526	813
<b>Shareholders' equity</b>	<b>5,521</b>	<b>5,915</b>	<b>6,202</b>
Minority interest	230	200	200
<b>Total liabilities &amp; equity</b>	<b>11,871</b>	<b>10,036</b>	<b>11,214</b>

**Cash flow statement**

(VNDbn)	12-21E	12-22E	12-23E
<b>Pretax profit</b>	<b>1,697</b>	<b>486</b>	<b>337</b>
Depreciation & amortisation	751	126	133
Tax paid	(180)	(88)	(51)
Other adjustments	(998)	303	(149)
<b>Change in working capital</b>	<b>(1,104)</b>	<b>2,798</b>	<b>66</b>
<b>Cash flow from operations</b>	<b>165</b>	<b>3,626</b>	<b>336</b>
Capex	(711)	(604)	(557)
Proceeds from assets sales	6	(1,164)	(37)
Others	(4,311)	182	(21)
Other non-current assets changes	205	473	(99)
<b>Cash flow from investing activities</b>	<b>(4,811)</b>	<b>(1,113)</b>	<b>(715)</b>
New share issuance	3	0	0
Shares buyback	0	0	0
Net borrowings	6,425	(1,941)	557
Other financing cash flow	(20)	0	0
Dividends paid	(3,185)	(33)	(33)
<b>Cash flow from financing activities</b>	<b>3,223</b>	<b>(1,973)</b>	<b>525</b>
Cash and equivalents at beginning of period	1,636	215	754
<b>Total cash generated</b>	<b>(1,423)</b>	<b>540</b>	<b>146</b>
Cash and equivalents at the end of period	213	754	901

**Key ratios**

	12-21E	12-22E	12-23E
<b>Dupont</b>			
Net profit margin	7.0%	8.2%	4.8%
Asset turnover	1.27	0.50	0.66
ROAA	8.9%	4.1%	3.2%
Avg assets/avg equity	2.68	1.92	1.75
ROAE	23.9%	7.9%	5.6%
<b>Efficiency</b>			
Days account receivable	4.8	4.8	4.8
Days inventory	12.8	12.7	13.2
Days creditor	12.1	33.1	34.5
Fixed asset turnover	2.86	1.14	1.39
ROIC	12.4%	4.9%	3.4%
<b>Liquidity</b>			
Current ratio	1.7	1.3	1.8
Quick ratio	1.5	1.3	1.7
Cash ratio	0.2	0.4	0.5
Cash cycle	5.4	(15.6)	(16.5)
<b>Growth rate (yoy)</b>			
Revenue growth	17.2%	(71.2%)	28.5%
Operating profit growth	(39.6%)	(71.6%)	164.3%
Net profit growth	404.6%	(66.2%)	(25.0%)
EPS growth	402.5%	(66.2%)	(25.0%)

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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