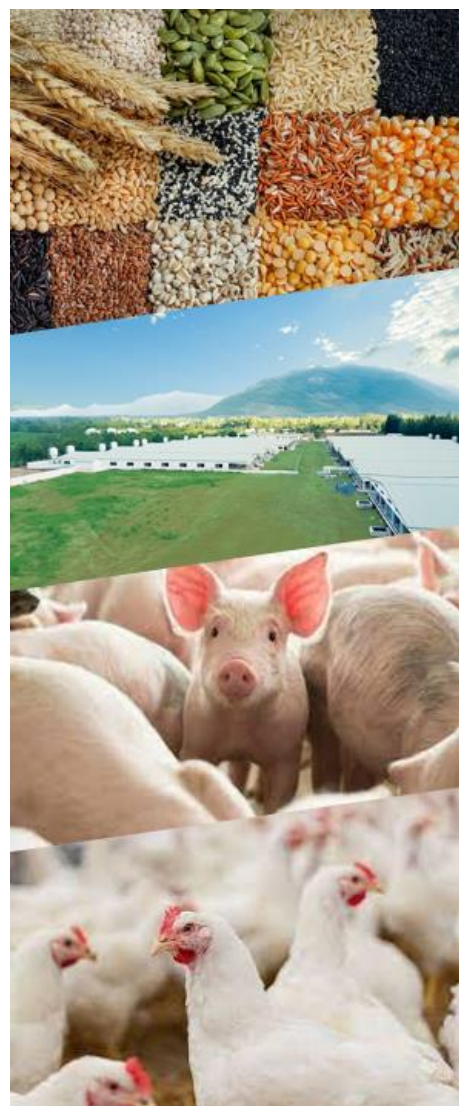


Sector note

28 July 2022



Meat production sector

Swine prices likely peak in 3Q22

- Average swine prices have accelerated since mid-Jun and is 45.4% higher than end-FY21, mainly driven by the rising Chinese hog prices.
- We expect swine prices to peak at VND80,000 in 3Q22F but then cool down in 4Q22F thanks to stable supply.
- We believe the current market prices of listed meat producers (DBC, BAF, and HAG) have already priced in the swine price upturn.

Swine prices accelerate since mid-Jun

As at 27 Jul, domestic swine prices jumped 19.9% mom and 38.6% ytd. The Northern region witnessed the strongest increase of 18.3% mom. We believe the recent price hike was due to 1) supply cuts in some provinces due to the ASF (African swine fever) outbreaks in 1Q22, 2) cost push from rising animal feed price, and 3) impact from the swine price increase in China. The domestic swine prices averaged at VND55,800 in 7M22 (-22.0% yoy).

We expect swine prices to peak at VND80,000/kg then cool down

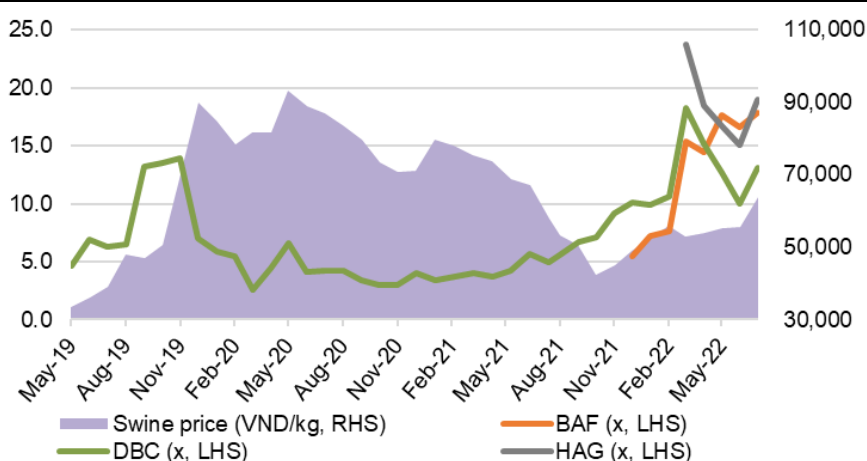
The government pays attention to the recent swine price movement amid inflation pressure. The swine prices contribute about 4% of Vietnam's CPI. To contain inflation well below 4% this year, the government might impose some administrative measures in case swine prices accelerate further, in our view. Besides we do not see any constraint in swine supply in 2H22, thus, the recent price hike might last only in short term. We expect swine prices to peak at VND80,000/kg then cool down in 4Q22F, averaging at VND65,500/kg (+31.8% yoy) in 2H22F and VND60,000/kg (-2.9% yoy) for 2022.

The swine price upturn has been fully priced in

Currently, meat producers' stocks are traded at 11.5-20.7 TTM PE, which is even higher than the valuation of DBC during the swine price uptrend in Jun 19 – Dec 19. Investors should be cautious about meat producer stocks as we believe the bright outlook has largely been priced in.

Upside catalysts include 1) lower-than-expected global grain price, 2) higher-than-expected live hog price and meat consumption demand. Downside risks include 1) higher-than-expected input material price for animal feed and 2) lower-than-expected live hog price.

Figure 1: The meat producer stocks' P/E vs. swine prices



Source: VNDIRECT RESEARCH, BLOOMBERG

*BAF was listed on HOSE in Dec 2021

*We estimate the valuation of HAG since early FY22 after the company restructured and recorded profit from meat segment.

Analyst(s):



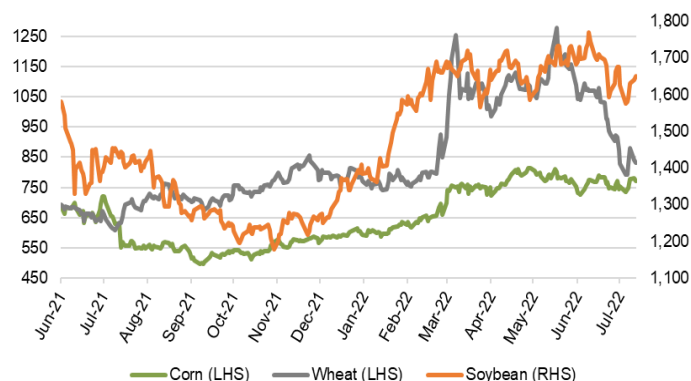
Hien Ha Thu

hien.hathu@vndirect.com.vn

MEAT PRODUCTION SECTOR SNAPSHOT

Global food prices tend to cool down

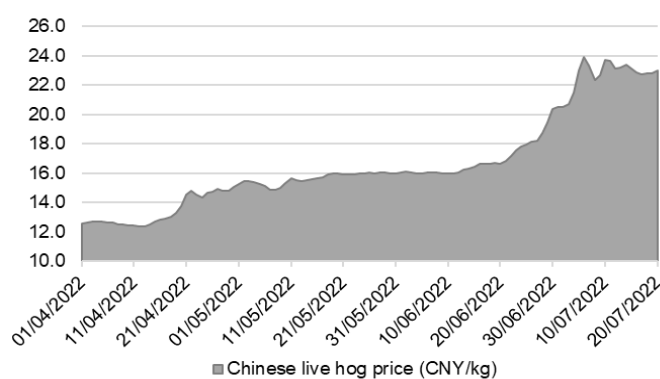
After reaching a five-year record level in May, average international wheat price fell by 11.6% mom in June, but still increase 51.7% yoy. According to FAO (Food and Agriculture Organization), the decline in June was driven by improving crop conditions in some major producers such as Canada, higher production prospects in Russia, and slower global import demand. Meanwhile, global corn price slightly declined by 3.0% mom in June as maize harvests progressed quickly in Argentina and Brazil and crop conditions improved in the US.



Source: VNDIRECT RESEARCH, INDEX MUNDI

China's average swine price increased sharply (unit: CNY/kg)

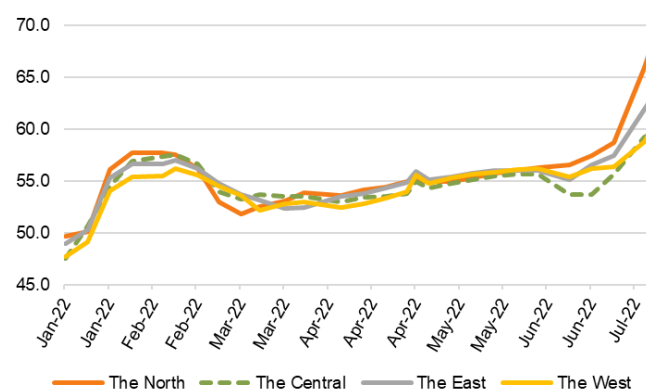
In 2Q22, China average swine price reached CNY14.9/kg, increasing 6% qoq but is still lower by 26% than the high base from last year. However, swine price has shown signs of recovery in Jun (+5.3% mom) and jumped to more than CNY22/kg in Jul amid market speculation, increasing demand after the government relaxed Covid-19 restrictions.



Source: VNDIRECT RESEARCH, ANOVA FEED

Vietnam's domestic swine prices rose dramatically since Jun-22, especially in the North (unit: VND/kg)

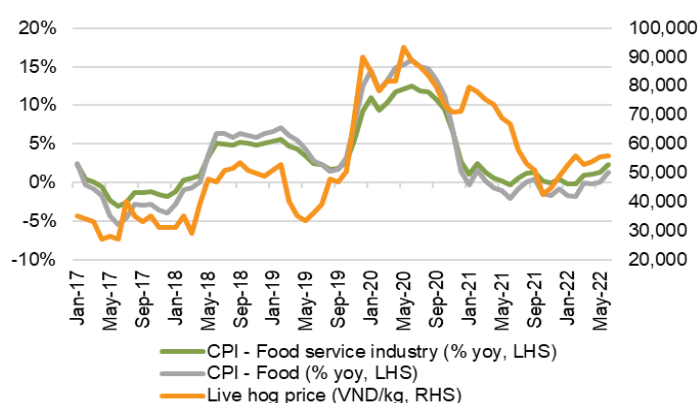
Average swine price slightly improved 0.9% mom and 6.3% ytd in June but is still lower by 16.6% compared to the same period last year. However, we observed swine price to increased rapidly by 23.3% mom on 19 July. In which, swine prices in the Northern region recorded the strongest increase of 28.5%. In some Northern provinces, swine price even reached VND75.000/kg, equivalent to the average price in Mar 2021. In our view, the increasing price of Chinese swine has affected domestic swine prices in the North as China is the main export market of Vietnam's pork through unofficial-quota trade.



Source: ANOVA FEED, VNDIRECT RESEARCH

Higher swine price may put pressure on CPI

Vietnam's headline inflation climbed to 3.4% yoy in June 2022 (vs 2.49% in May 2022). In which, the food and foodstuff price index increased by 2.3% yoy in June 2022, the highest increase since Feb 2021 as the pork prices recovered. Thus, we assert that inflation risks increase in 2H22F as food and foodstuff price index could accelerate due to higher prices of pork, chicken, and vegetables recently.



Source: GSO, VNDIRECT RESEARCH

SWINE PRICES LIKELY PEAK IN 3Q22

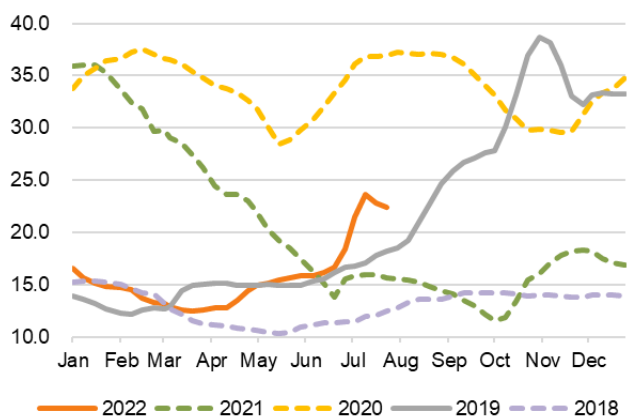
Swine prices accelerate since mid-Jun, led by Chia

China's average swine price increased sharply

2Q22 China average swine price reached CNY14.9/kg, increasing 6% qoq but is still lower by 26% than the high base from last year. However, swine price has shown signs of recovery in Jun (+5.3% mom) and jumped to more than CNY22/kg in Jul. We believe swine price increased sharply from June due to 1) increasing demand for meat consumption after Covid-19 restrictions ease up, 2) lower pork supply, and 3) pig farms stocking up in anticipation of rising price.

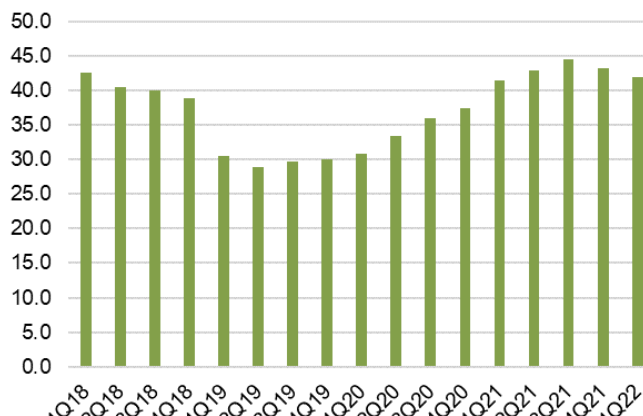
In 1Q22, China's breeding sow inventory has declined by 6% from its peak in 3Q21, which was pressured by the rising costs of animal feed ingredients, as well as slump in pork prices.

Figure 2: Chinese swine price (unit: CNY/kg)



Source: VNDIRECT RESEARCH, OECD

Figure 3: China's breeding sow inventory (unit: million head)



Source: VNDIRECT RESEARCH, OECD

Domestic swine prices accelerated since mid-Jun, especially in the Northern region

Vietnam's swine prices increased strongly to VND67,100 on 27 July, 2022 (increasing 19.9% mom) because 1) the ASF (African swine fever) re-emerged in 1Q22 affecting the prospect of pork supply in 2H22F, 2) cost is pushed by rising animal feed price, and 3) the increase in Chinese swine price has led to a significant increase in domestic price in the North. The swine price in the North ranges from VND66,000/kg to VND70,000/kg.

Domestic poultry prices recovered to an average of VND67,000 (+12.8% yoy, +11.3% qoq) in 2Q22, mainly due to recovering domestic consumption and rising feed cost.

Figure 4: Meat price update in Jul 22 and 2Q22

	Jul-22	Jun-22	%mom	2Q22	1Q22	% qoq
Vietnam (VND/kg)						
Live hog	64,000	55,700	14.9%	55,100	53,867	2.3%
The North	66,800	56,700	17.8%	55,300	54,100	2.2%
The Central	62,600	54,300	15.3%	54,400	54,100	0.6%
The East	64,200	55,900	14.8%	55,200	53,900	2.4%
The West	62,300	55,900	11.4%	54,900	53,300	3.0%
Poultry (Minh Du chicken)	68,000	72,300	-5.9%	67,000	60,200	11.3%
China (CNY/kg)						
Live hog	22.6	16.6	36.4%	15.2	14.0	8.4%

Source: VNDIRECT RESEARCH, BACH HOA XANH, ANOVA FEED

Better outlook for meat producers in 2H22F

Animal feed cost might cool down in 4Q22F

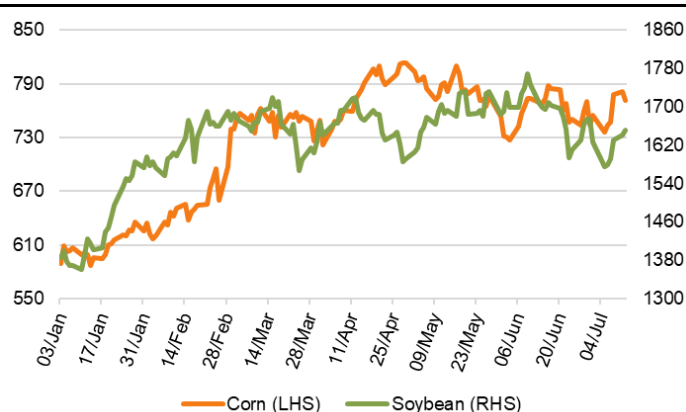
We observed that some commodity price tend to decrease gradually in June after increasing rapidly in Feb-Mar. Global wheat price fell by 11.6% mom in June, after reaching a five-year record level in May. Meanwhile, corn and soybean prices still fluctuated at high level in June 2022. However, the price's growth rate has slowed down compared to early 2Q22. Based on World Bank's full year global commodity price forecast, we expect commodity prices to decline slightly by around 6-10% in 2H22F compared to 1H22. In our view, domestic feed prices have increased more slowly than global agricultural prices. Thus, we believe that animal feed cost would remain high in 3Q22F and cool down gradually in 4Q22F.

Figure 5: Global wheat price has returned to the level before Russia – Ukraine conflict



Source: VNDIRECT RESEARCH, TRADING ECONOMICS

Figure 6: The price's growth rate of corn and soybean has slowed down compared to early 2Q22



Source: VNDIRECT RESEARCH, TRADING ECONOMICS

However global food commodity has increased rapidly in 6M22 such as wheat (+48.5% yoy), soybean (+12.8% yoy), and corn (+20.8% yoy). Thus, we expect average global commodity to stay at higher price for the whole year compared to 2021.

Figure 7: World bank's forecast of average global commodity prices

Commodity	2020	2021	2022F	2023F	2024F	yoy in 2022F price (%)	yoy in 2023F price (%)
Grains							
Barley (US\$/mT)	98	N/a	165	150	149	N/a	-9.1%
Corn (US\$/mT)	165	260	310	280	278	19.2%	-9.7%
Rice (US\$/mT)	497	458	425	415	423	-7.2%	-2.4%
Wheat (US\$/mT)	232	315	450	380	370	42.9%	-15.6%
Soybean (US\$/mT)	407	583	700	600	596	20.1%	-14.3%
Vegetable Oil							
Coconut oil (US\$/mT)	1,010	1,636	2,200	1,900	1,882	34.5%	-13.6%
Palm oil (US\$/mT)	752	1,131	1,650	1,400	1,372	45.9%	-15.2%
Soybean oil (US\$/mT)	407	583	700	600	596	20.1%	-14.3%
Sugar (US\$/kg)	0.28	0.39	0.39	0.38	0.38	0.0%	-2.6%

Source: VNDIRECT RESEARCH, WORLD BANK

We expect swine prices to peak at VND80,000/kg then cool down






In our view, the recent swine prices rally was mainly due to an increase in unofficial-quota trade amid rising Chinese swine prices. We observe that Chinese swine has cooled down by 9.5% on 27th Jul compared to its peak at CNY23.92/kg (equivalent to VND82,600/kg) on 6th Jul. We expect the increasing Chinese swine prices to cool down in short term due to 1) stable

supply (since the end of Jun, pork supply has increased by 8.4%), 2) China is entering a low consumption season, and 3) Chinese government will take the strongest measures to prevent pork prices from skyrocketing.

For Vietnam, firstly, we do not see any constraints in swine supply as the country's total pig herd increased by 3.8% yoy in 1H22 and pork production volume grew 5.7 % yoy in 1H22. Secondly, the swine prices contribute about 4% to Vietnam's CPI. With the aim to contain inflation well below 4% this year, the government pays attention to recent price hike and is likely to impose some administrative measures in case swine prices accelerated further, in our view. We expect swine prices to peak at VND80,000 then cool down in 4Q22F, averaging at VND60,000 (-2.9% yoy) for the whole year 2022.

Potential impact from higher swine prices and lower feed cost on meat producers

Figure 8: Potential impact of swine price hike on Vietnam meat producers

Ticker	Core business	Positive impact	Comment
DBC	Animal feed & meat business		DBC is among the top 10 animal feed companies in the country, owning nine animal feed factories. Being self-sufficient in animal feed will help the company reduce the pressure of rising input costs and benefit from higher live hog prices in 2H22F. We believe that 2Q22 gross margin will still be under pressure due to the impact of high input prices of animal feed and flat hog prices in 2Q22. However, we expect 3Q22F gross margin to recover significantly qoq thanks to cooling animal feed prices and higher hog prices in early 3Q22F.
MML	Meat business		We estimate 40% of MML's raw pork are imported from third parties, thus an increase in swine prices will lead to an increase in input costs. However, MML has pricing power that helps businesses pass on increased input costs to consumers and rise selling prices through a product mix strategy. Therefore, we believe MML's gross margin will improve slightly by 1-2% pts in 3Q22F as the increase in selling price will offset the increase in input hog prices.
BAF	Meat business		BAF has two animal feed factories for pig farming. Besides, the company also has advantages in input materials compared to competitors. In which, BAF's raw materials for animal feed production are imported from Tan Long Group at a price 10-15% lower than other companies in the same industry. We believe that BAF will be one of the businesses that will benefit the most from the increase in swine prices thanks to lower input costs compared to competitors and the initiative to source high quality breeding stock.
HAG	Meat business		HAG can take advantage of banana production that does not meet export standards from the fruit business to be used as input materials for animal feed production. Bananas that are dried into powder (providing protein for pigs) account for 40% of the input materials for animal feed production, meanwhile imported materials (corn, soybeans) account for 60%. As a result, HAG has COGS of VND38,000/kg, the lowest compared to competitors such as DBC, MML, and BAF. We expect HAG to enjoy markedly improvement in 3Q22F gross margins thanks to the lowest input costs among listed meat producers.
VSN	Meat business		VSN currently is not self-sufficient in animal feed, thus we believe that the increase in live hog prices will help the company offset the increase in animal feed input prices.

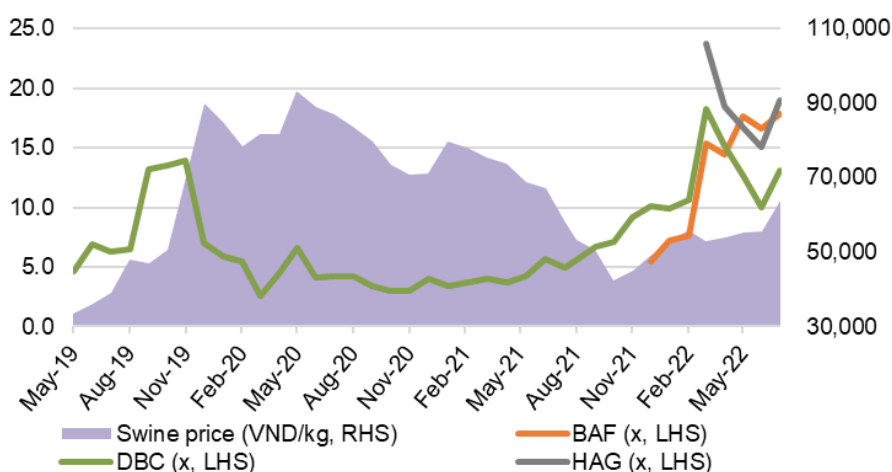
Source: VNDIRECT RESEARCH, COMPANY REPORTS

The swine price upturn has been fully priced in

Meat producer stock prices have accelerated since 22 Jun following the swine price upturn, including: DBC (+65.0%), HAG (+45.6%) and BAF (+22.2%). Currently, meat producers' stocks are traded at 11.5 – 20.7 TTM PE, which is even higher than the valuation of DBC during the swine price uptrend in Jun 19 – Dec 19. Investors should play carefully and selectively among meat producer stocks as we believe the bright outlook has largely priced in.

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 9: The meat producer stocks' P/E vs. swine prices



Source: VNDIRECT RESEARCH, BLOOMBERG

*BAF was listed on HOSE in Dec 2021

**We estimate the valuation of HAG since early FY22 after the company restructured and recorded profit from meat segment

Figure 10: 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	FY22F
Local listed meat producers														
Masan MeatLife Corp	MML VN	HOLD	73,400	62,200	870	13.8	50.8	170.3	3.5	3.7	9.3	4.1	19.4	7.9
DABACO Vietnam Group JSC	DBC VN	HOLD	25,000	26,400	273	13.5	10.6	99.3	1.4	1.1	4.5	5.3	10.1	11.1
HAGL JSC	HAG VN	N/a	N/a	11,300	448	20.7	N/a	N/a	2.2	N/a	2.7	N/a	10.1	N/a
BAF Viet Nam Agriculture JSC	BAF VN	N/a	N/a	33,750	207	11.5	13.3	N/a	2.4	2.2	5.3	7.4	24.6	24.5
Vissan JSC	VSN VN	N/a	N/a	24,900	86	13.7	N/a	3.4	1.6	N/a	7.0	N/a	12.3	N/a
Vietnam Livestock Corp JSC	VLC VN	N/a	N/a	19,800	146	28.2	N/a	9.0	1.1	N/a	3.6	N/a	4.0	N/a
Average					377	16.9	24.9	91.0	2.0	2.3	5.4	5.6	13.4	14.5
Median					273	13.7	13.3	99.3	2.2	2.2	5.3	5.3	12.3	11.1

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of 27 July 2022)

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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.

Hien Tran Khanh – Research Director

Email: hien.trankhanh@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>

