

Dabaco Group (DBC)

Expecting a mid-term trough for earnings

July 6, 2023

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DBC's 1Q23 NPAT was -VND320 billion on revenue of VND2,402 billion

Dabaco Group (DBC) posted 1Q23 revenue of VND2,402 billion (-17.7% YoY), achieved 9.7% of the 2023 target. Lower revenue YoY was due to diminishing feed consumption, unfavorable pig prices, and slow economic recovery, adversely impacting supermarkets and hospitality. Accordingly, NPAT dropped to -VND320 billion, the lowest in the past 15 years.

Hog prices rose sharply from the bottom to VND62,000/kg in June

Better consumption demand amid shrinking supply due to the African swine fever (ASF) outbreak and low re-herd rates helped hog prices recover to VND61,000-62,000/kg. Pork prices should continue their current uptrend and hover around VND65,000-68,000/kg in the second half of the year.

Input material prices tend to decrease during the El Nino period, helping improve profit margins

Input materials like corn, soybean tended to fall during the El Nino period thanks to improved precipitation and produce supply in major agricultural exporting countries such as the US, Brazil, etc. Argentina. DBC's input costs are expected to continue to decline in line with the world's general trend

The profit of VND150 billion from the Parkview project may support DBC's 1H23 business performance

Regarding the Parkview project, DBC met all requirements per regulations on fire safety in June 2023. The profit of VND150 billion is expected to help DBC avoid negative results in 1H23.

We recommend BUY for DBC with a target price VND27,400/share

Based on the business outlook and possible risks, we recommend BUY for DBC with a target price of VND27,400/share, 17.85% higher than the closing price on July 5, 2023.

Buy update

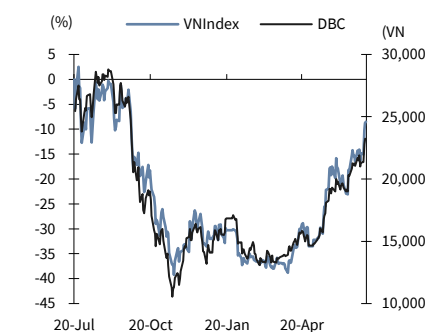
Target price	VND 27,400
Upside	17.85%
Current price (Jul 5, 2023)	VND 23,250
Consensus target price	VND 17,790
Market cap (VNDbn/USDmn)	5,626.54 /244.6

Trading data	
Free float	70
3M avg trading value (VNDbn/USDmn)	114/4.8
Foreign ownership	7.15
Major shareholder	Nguyen Nhu So (28.49%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	21	49	39	-14
Relative	18	42	36	-8

Forecast earnings & valuation

FY-end	2020A	2021A	2022A	2023F
Net revenue	10,022	10,813	11,558	12,524
EBIT (VNDbn)	1,864	1,162	259	419
NPAT-MI (VNDbn)	1,400	830	5	82
EPS (VND)	13,366	7,199	21	340
EPS growth (%)		-46%	-100%	1517%
P/E (x)	1,8	4,8	671,4	80,4
EV/EBITDA	3,57	6,34	14,18	20,61
P/B (x)	1,4	1,8	0,7	1,4
ROE (%)		19%	0%	2%



Source: Bloomberg, KB Securities Vietnam

Business performance

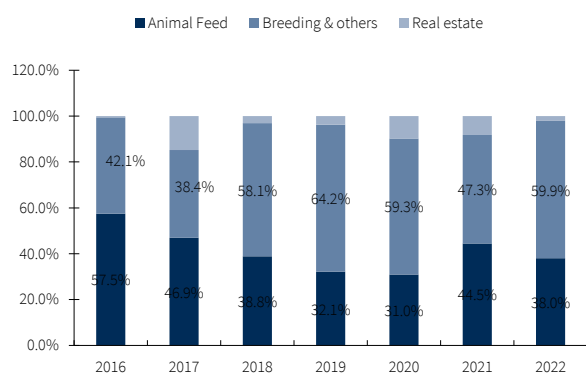
Table 1. DBC – 1Q22–1Q23 business results

(VNDbn)	1Q2022	1Q2023	%YoY	Comments
Net revenue	2.920,85	2.402,07	-17,76%	Completed 22% of the 2023 guided plan
- Animal feed	1.066,21	1.013,21	-5,0%	Animal feed sales decreased due to low live pig prices which caused farming households to experience huge losses and resulting low re-herd rates.
- Breeding & others	1.683,49	1.300,49	-22,8%	Live pig and chicken prices in the first quarter of 2023 narrowed by 7% and 9% respectively. DBC has not recorded revenue from the Parkview project due to breaching regulations on fire safety.
- Real estate	56,12	-	-100,0%	The Parkview BDS project has not been recorded due to problems with fire prevention regulations.
Gross profit	254,26	(70,47)	-127,7%	
Gross profit margin	8,70%	-3%	-117ppts	Animal feed costs remained high amid the complicated developments of ASF, causing the cost of goods sold to surge and the gross profit margin to narrow substantially.
Financial income	6,55	8,02	23%	
Financial expense	(52,10)	(69,64)	34%	As short-term loans increased by 28,6% YoY.
SG&A	(185,77)	(180,08)	-3%	
Shared profit from associates	-	-	0%	
Profit before tax	25,27	(310,90)	-1330%	
NPAT	8,61	(320,73)	-3826%	

Source:

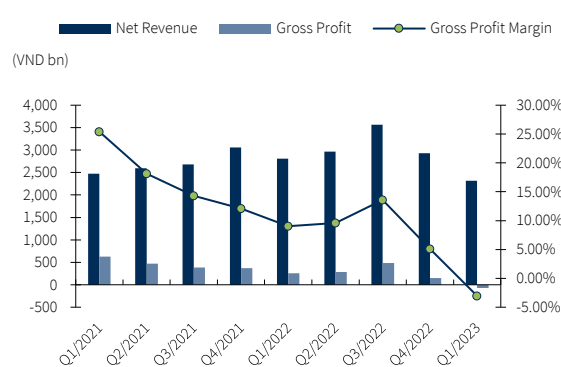
2022 is considered a tough year for livestock enterprises in general and DBC in particular against the backdrop of surging animal feed cost (up 18% YoY) as prices of the main inputs like corn and soybean climbed 33% and 25% YTD respectively. Entering 1Q23, while live pig prices in the North market stayed around VND55,000–56,000/kg, pork prices dropped to VND47,000–49,000/kg at times, severely dampening DBC's business results. This led to tight supply due to low restock rates following huge losses of breeders, lowering animal feed sales.

Fig 1. DBC – Revenue breakdown in 2016–2022



Source: Dabaco, KB Securities Vietnam

Fig 2. DBC – Business results

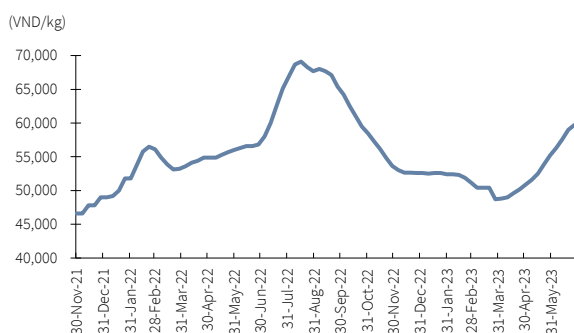


Source: Dabaco, KB Securities Vietnam

Hog prices rose sharply from the bottom of VND48,800/kg thanks to low re-herd rates and tight supply

The General Statistics Office reported that the cumulative live pig production in 1H23 is about 2,325 thousand tons, up 6.5% YoY. Growing consumption demand amid dwindling supply due to ASF helped pork prices increase further, up 10.7% MoM and up 5.11% YoY VND61,000–62,000/kg. On the contrary, chicken prices plunged 32.2% against 2022 to VND24,400/kg despite positive signs related to consumption volume. We expect pork prices will continue to recover and fluctuate around VND65,000–68,000/kg (+7.7% YoY) in the second half of 2023 thanks to pork being lifted out of the list of price-stabilizing goods and the continued decline of supply since the start of the year.

Fig 3. Vietnam – Average hog prices by month (VND/kg)



Source: Vietnam Livestock Association

Fig 4. Vietnam – Average chicken prices by month (VND/kg)

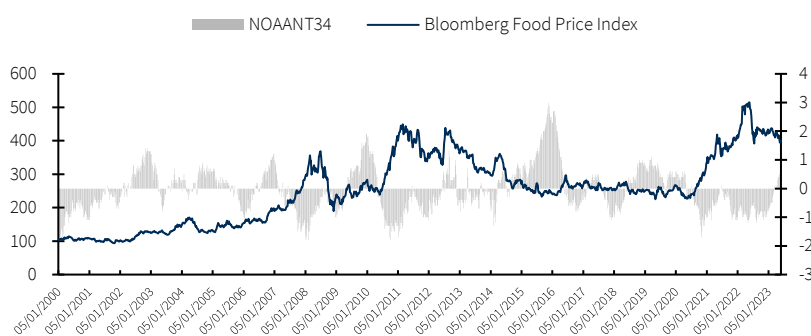


Source: Vietnam Livestock Association

Prices of inputs such as corn and soybean will continue their downtrend in the medium term due to El Nino

On June 15, the National Oceanic and Atmospheric Administration (NOAA) announced that the expected El Nino emerged. Historical data going back to 2000 suggest that prices of commodities like corn, soybean, etc. tend to fall throughout El Nino events thanks to rising precipitation as well as produce supply in major agricultural exporters, namely the US, Brazil, and Argentina (Figure 5). As shared by DBC, the company has to import almost 80% of inputs for animal feed production. That explains why DBC’s input costs are highly correlated with fluctuations in global produce prices.

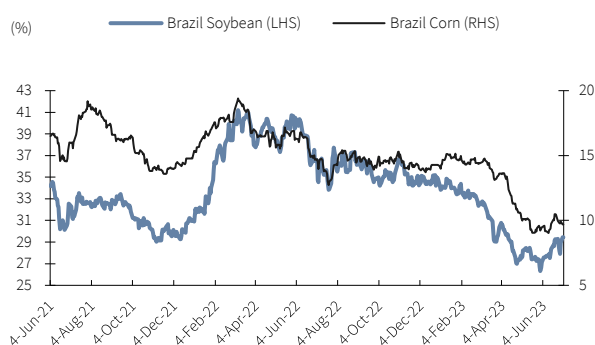
Fig 5. Global – NOAAANT34, Bloomberg Food Price Index



Source: Bloomberg, KB Securities Vietnam

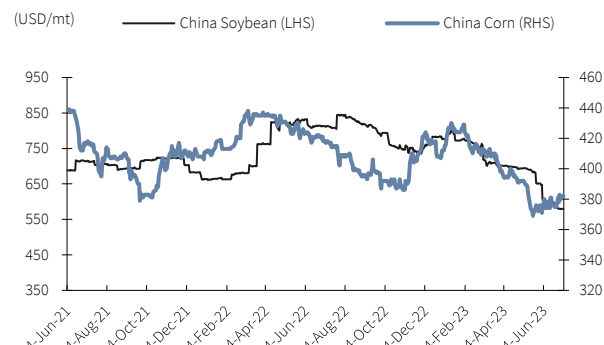
*Shading area above axis 0 is El Nino, below axis 0 is La Nina

Fig 3. Brazil – Corn & soybean export prices (USD/60 kg)



Source: Bloomberg

Fig 4. China – Corn & soybean export prices (USD/ton)



Source: Bloomberg

The Parkview project is expected to contribute about VND700 billion in revenue and VND150 billion in profit for DBC

By the end of 2022, DBC recorded nearly VND700 billion in prepayment for the Parkview project. Management shared that DBC had met all requirements per regulations on fire safety in June 2023. Accordingly, DBC can expect a profit of VND150 billion right in the second quarter of 2023, helping the company avoid recording negative business results in 1H23.

Financial structure of DBC

DBC's liabilities in 1Q23 surged by 21.5% YoY as it boosted borrowing to pay bond interest and expand production, build a vaccine factory and food processing and breeding areas. Notably, short-term loans climbed 30.2% YoY to a decade-high of VND3,704 billion. Liabilities account for 60% of total assets, putting enormous pressure on the cash flow and interest payment in the coming time.

Downside risks that can derail our valuation

Two main downside risk factors that can impact our valuation results as well as stock price performance include:

- (1) The delay in revenue recognition from the Parkview project will increase the risk of recognizing a loss in NPAT in the semi-annual review report.
- (2) The development of ASF can be more complicated than expected, negatively affecting DBC's pig herd size. A marked decrease in gilt herd size will slow down revenue growth in the short term and send the cost of goods sold surging.

Forecast & Valuation

Table 2. DBC – 2022A–2023F business results

(VNDbn)	2022A	2023F	+/-%YoY	Comments
Net revenue	11,558	12,524	8%	Completed 51% of the 2023 guided target
- Animal feed	4,662.24	4,701.00	1%	The recovery of pig prices will encourage breeders to regrow, thereby boosting animal feed consumption demand.
- Breeding & food processing	7,361.43	7,123.32	-3%	Live pig prices should fluctuate around VND65,000–68000/kg due to limited supply while sales volume remains stable thanks to recovering demand in the second half of the year.
- Real estate	245.38	700.00	185%	Recognized revenue from the Parkview real estate project
Gross profit	959.54	1,269.45	32%	
Gross profit margin	8%	10%	+ 2 ppt	Gross profit margin improved thanks to good control of ASF. Besides, the prices of inputs such as corn and soybean continued to decline due to El Nino.
Financial income	28.80	42.92	49%	
Financial expense	(200.73)	(338.75)	69%	DBC increased short-term debts to invest in projects and pay bond interest.
SG&A	(746.69)	(763.98)	2%	
Shared profit from associates	-	-	0%	
Profit before tax	78.98	292.12	270%	
NPAT	5.19	248.30	4680%	Completed 43.64% of the 2023 guided target

Source: Dabaco, KB Securities Vietnam

We recommend BUY for DBC with a target price VND27,400/share

Based on market supply and demand, possible risks, and prospects, we forecast DBC's revenue in 2023 to reach VND12,524 billion (+8.3% YoY). The recovery in selling prices combined with the continued cooling of input costs in the second half of the year should help the gross profit margin improve by 2 percentage points compared to 8% in 2022.

Combing the two valuation methods, discounted cash flow (DCF) and P/B, we value DBC at VND27,400/share, equivalent to a total return of 17.85% compared to the closing price on July 5, 2023.

Table 3. DBC – Model assumptions

Model assumptions	Value
Required rate of return	13.9%
Risk-free rate	5.1%
Market risk premium	8.1%
Beta	1.67

Source: KB Securities Vietnam

Table 4. DBC – Valuation result

	Weight
DCF (VND)	50%
P/B (VND)	50%
Target price	27,400
Current price (VND)	23,250
Total shareholder return	17.85%

Source: KB Securities Vietnam

DBC – 2020A–2023F financials

Income statement					Balance sheet				
(VND billion)	2020	2021	2022	2023F	(VND billion)	2020	2021	2022	2023F
Net revenue	10,022	10,813	11,558	12,524	TOTAL ASSET	10,101	10,863	12,974	13,846
COGS	-	-8,960	-	-11,255	CURRENT ASSETS	4,653	5,637	7,065	8,051
Gross profit	2,558	1,853	960	1,269	Cash and cash equivalents	233	200	627	840
Financial income	30	25	29	43	Accounts receivable	451	584	566	638
Financial expense	-320	-199	-201	-339	Inventory	3,349	4,203	5,207	5,673
- Interest expense	-310	-182	-180	-323	Other current assets	83	73	160	211
Selling expenses	-380	-405	-403	-401	NON-CURRENT ASSETS	5,448	5,225	5,909	5,796
General & admin expenses	-339	-344	-344	-363	Fixed assets	4,455	4,582	4,302	4,012
Operating profits	1,548	929	41	210	Investment properties	0	0	0	0
Other income	6	47	44	48	Long-term incomplete assets	779	468	1,398	1,563
Other expense	-1	-2	-6	-7	Long-term investments	102	105	114	124
Other profit/loss	5	46	38	41	Other long-term assets	97	54	72	72
Profit before tax	1,554	980	79	292	LIABILITIES	5,894	6,177	8,333	8,957
Income tax	-154	-150	-74	-44	CURRENT LIABILITIES	4,255	5,172	7,213	8,054
Net profit after tax	1,400	830	5	248	Trade accounts payable	1,012	1,392	2,129	2,261
Minority interest	0	0	0	0	Advances from customers	552	588	887	962
Attributable to parent company	1,400	830	5	248	Short-term borrowings	2,158	2,599	3,705	4,249
EPS	13,366	7,199	21	1,026	Other short-term liabilities	1,640	1,005	1,120	903
Cash flow statement					NON-CURRENT LIABILITIES	0	0	0	0
(VND billion)	2020	2021	2022	2023F	Long-term trade payables	1,244	687	886	655
Profit before tax	1,554	980	79	292	Other long-term payables	396	318	234	248
Depreciation and amortization	366	400	435	476	OWNER'S EQUITY	4,207	4,686	4,641	4,890
Gains from sales of goods	0	0	0	0	Paid-in capital	1,048	1,152	2,420	2,420
Changes in working capital	-127	-1,019	-427	-665	Share premium	418	418	418	418
Other changes	-3	-2	-1	0	Treasury shares	0	0	0	0
Net cash inflows/(outflows) from operating activities	2,169	586	312	284	Undistributed earnings	1,243	595	8	256
Purchases of fixed assets and other long-term assets	-569	-296	-1,189	-1,051	Budget and other funds	0	0	0	0
Proceeds from disposal of fixed assets	0	0	0	0	MINORITY INTERESTS	0	0	0	0
Gains from other assets	0	0	0	0	OWNER'S EQUITY & LIABILITIES	10,101	10,863	12,974	13,846
Other changes	-22	-12	99	-4	Main ratios				
Net cash inflows/(outflows) from investing activities	-584	-272	-818	-1,037	(x, %, VND)	2020	2021	2022	2023F
Proceeds from borrowings	6,356	6,854	9,599	9,648	Valuation				
Repayment of borrowings	-	-6,865	-8,464	-8,482	P/E	1.8	4.8	671.4	26.8
Other investing payment	0	0	0	0	P/B	1.4	1.8	0.7	1.4
Dividends paid	-203	-227	0	0	P/S	0.6	0.8	0.3	0.5
Net cash inflows/(outflows) from financing activities	-3	-2	-1	0	EV/EBITDA	3.6	6.3	14.2	16.2
Net increase in cash and cash equivalents	-	-347	933	966	EPS	13,366.0	7,199.0	21.0	1,026.0
Cash and cash equivalents at the beginning of period	67	-33	427	213	Profitability				
Cash and cash equivalents at the end of period	165	233	200	627	ROE		19%	0%	5%
Operating ratios					ROA		8%	0%	2%
(%)	2020	2021	2022	2023F	ROCE		20%	4%	11%
Revenue growth	0.0%	7.9%	6.9%	8.4%	Financial health				
EBITDA growth	0.0%	-	-	25.6%	Liabilities/Owner's Equity	1.4	1.3	1.8	1.8
Attributable to parent company growth	0.0%	-	-	4680.0%	Current ratio	1.1	1.1	1.0	1.0
Gross profit margin	8.3%	10.1%	8.3%	10.1%	Operating ratio				
EBITDA margin	23.2%	15.3%	6.5%	7.6%	Asset turnover ratio	1.0	1.0	1.0	0.9
PBT margin	15.5%	9.1%	0.7%	2.3%	Receivable turnover ratio	23.3	20.9	20.1	20.8
Attributable to parent company margin	14.0%	7.7%	0.0%	2.0%	Inventory turnover ratio	2.3	2.4	2.3	2.1

Source:

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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