

STOCK PITCH REPORT

Buy

September 1, 2021

Target price VND68,300

| | |
|------------------------------|--------|
| Upside/Downside | 16.8% |
| Current price (May 14, 2021) | 58,500 |
| Market cap (VNDbn) | 897 |

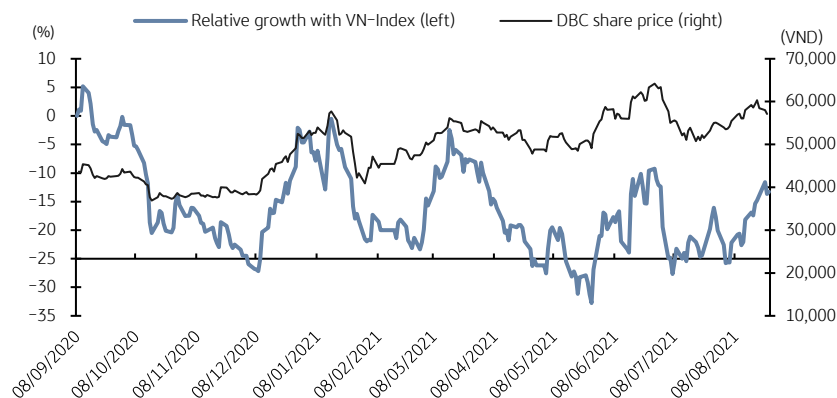
Trading data

| | |
|------------------------------------|---------------------|
| Free float | 49.8% |
| 3M avg trading value (VNDbn/USDmn) | 5.4/0.2 |
| Foreign ownership left | 34.6% |
| Major shareholder | Ha Thi Hue (28.73%) |

Forecast earnings & valuation

| FY-end | 2018A | 2019A | 2020A | 2021F |
|---------------------------------------|-------|-------|--------|--------|
| Net sales (VNDbn) | 6,674 | 7,187 | 10,022 | 10,129 |
| Earnings/loss (VNDbn) | 387 | 339 | 1,549 | 1,150 |
| Profit attributable to parent (VNDbn) | 360 | 305 | 1,400 | 1,022 |
| EPS (VND) | 4,350 | 3,349 | 13,366 | 8,867 |
| EPS growth (%) | 80 | -23 | 299 | -34 |
| P/E (x) | 13.45 | 17.47 | 4.38 | 6.60 |
| P/B (x) | 1.76 | 1.76 | 1.46 | 1.29 |
| ROE (%) | 13 | 10 | 33 | 20 |
| Dividend yield (%) | | | | |

Fig 1. DBC – Share price performance



Source: Bloomberg, KB Securities Vietnam

Dabaco Group (DBC)

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INVESTMENT VIEWPOINT

We recommend BUYING Dabaco (DBC) shares with a target price of VND68,700/share, assuming improved business prospects, expanded business scale and profit from real estate projects.

INVESTMENT CATALYSTS

Business prospects showed signs of improvement with higher hog prices and lower feed costs in the near future thanks to effective 3F (Feed-Farm-Food) closed loop production processes. Recovering hog prices since mid-August and the slow re-herding of smallholders will boost market share of large businesses using 3F processes like DBC. Besides, lower raw material prices and support policies will help reduce feed costs.

The expansion of many projects in both size and market share fosters long-term growth potential. DBC plans to continue to expand the size of the pig herds to gain more domestic market share with four main projects. DBC will raise additional 285,000 pigs (40% increase compared to the plan for 2021), 20,200 gilts and 247,000 weaners. Besides, DBC go on to invest in phase 2 oil press factory with double capacity.

Lotus Central real estate project should be handed over from the end of 3Q21 after being delayed in 2Q21 due to the outbreak of the pandemic in Bac Ninh Province. The delivery of Lotus Central project in August 2021 may greatly contribute to business performance of DBC in 2H21. In addition, DBC executed the construction of the Dabaco Park View City project in Huyen Quang Street with a total investment of VND533 billion which is expected to be handed over in 4Q21.

RISKS

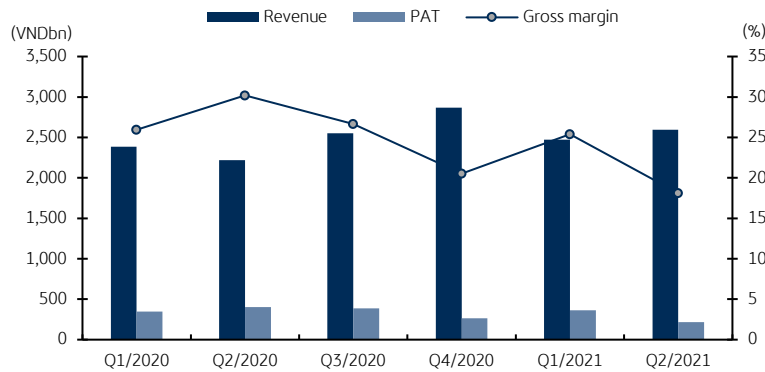
- Risk of fluctuations in raw material prices
- Risk of outbreaks of livestock diseases
- Risk of massive swings in Chinese pork and hog prices

BUSINESS PERFORMANCE

DBC encountered many hardships in 2Q21, causing profit to plunge

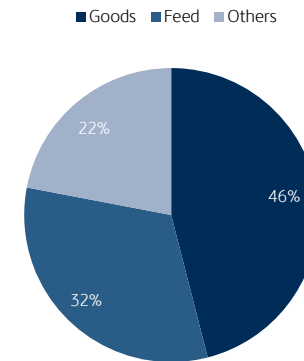
In 2Q21, DBC announced business results with a profit of VND214.9 billion (-46.5% YoY) and a revenue of VND2,596 billion (+17.1 YoY), fueled by lower gross profit margin due to falling hog prices amid increasing input material costs, the outbreak of the pandemic in Bac Ninh and slow handover of Lotus Central project which should have been in May 2021. Accordingly, 6M21 profit was VND579.9 billion (-22.7% YoY) and revenue was VND5,070 billion (+10.1 YoY).

Fig 2. DBC – Business performance (VNDbn, %)



Source: Dabaco

Fig 3. DBC – Reveue structure in 2020 (%)



Source: Dabaco

INVESTMENT CATALYSTS

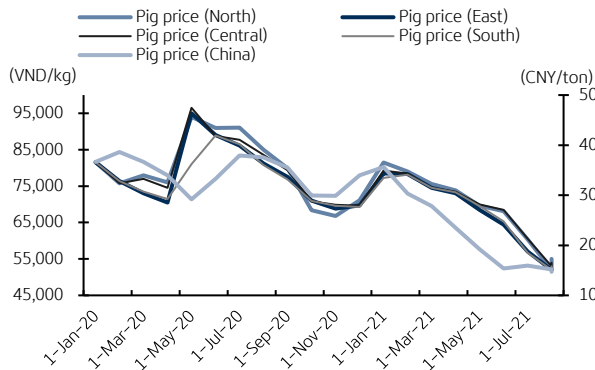
DBC is one of the leading enterprises in the field of agriculture – food processing with a sustainable 3F chain value going hand in hand with developing a retail system in the model of supermarkets and clean food stores.

1. Business prospects showed signs of improvement with higher hog prices and lower feed costs in the near future thanks to effective 3F (Feed-Farm-Food) closed loop production processes

Although domestic hog prices slid to VND50,000–55,000/kg amid rising prices of production materials such as wheat, corn and soybean, there are many signs that those difficulties will be only in the short term and the situation will get better soon, thereby improving business performance of DBC.

– The 3F (Feed-Farm-Food) model continues to be effective. The development of DBC is associated with sustainable 3F chain value: (1) Processing animal feed and aquafeed (Feed); (2) Farming and providing cattle and poultry (Farm); (3) Slaughtering and processing food, producing vegetable adopting high technology (Food). This also goes hand in hand with developing a retail system in the form of supermarkets and clean food stores, which helps the business capitalize on available resources and be more proactive in stages of production, thereby reducing risks and improving profit margin dramatically.

Fig 4. Vietnam, China – Pork prices (VND/kg)



Source: KB Securities Vietnam

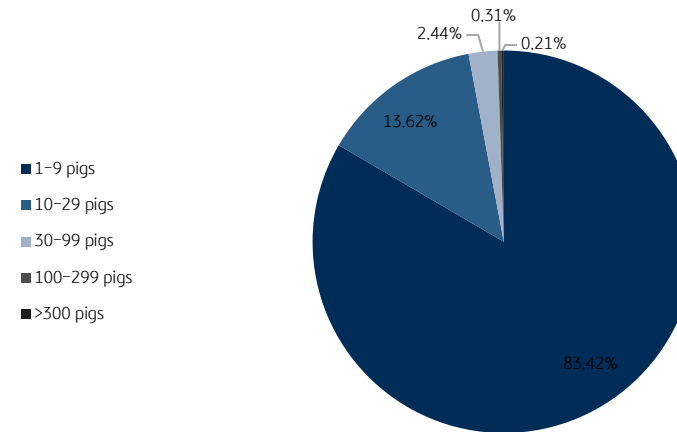
— **The uptrend of pork prices since mid-August 2021 will continue in the coming time.** Liveweight hog prices plummeted in 2Q21 and early 3Q21 due to movement restrictions across the country to contain the spread of the COVID-19 pandemic that affected pork consumption and forced slaughterhouses to temporarily shut down or reduce capacity. Moreover, domestic pork supply at home and in many countries has recovered and reached pre-ASF (African swine fever) levels since the end of 2020 while China, the largest pork importer in the world last year, was struggling against pork crisis (pork production increased by 35.9% YoY). According to the General Statistics Office, the total number of pigs in Vietnam as of the end of July rose by 6.1% YoY. Consequently, the inevitable oversupply, which was even made aggravated by recovering importation, against the backdrop of high feed costs prompted many smallholders to sell at a loss. However, hog prices in many places have inched up VND1,000-4,000/kg since mid-August. We believe this uptrend will continue, spurred by the following reasons: (1) Pressure on selling off pigs will ease gradually until the time of slaughter in the context of surging feed costs and decreasing demand worsened by the pandemic; (2) Easing of movement restrictions will facilitate buying pork of enterprises amid dwindling supply; (3) There are many risks coming from new outbreaks of ASF in many countries such as Germany, Dominica, China and some provinces in Vietnam; and (4) Re-herding may slow due to lower hog prices amid escalating feed costs and that breeders were struggling with a huge loss.

In the pork market report for 3Q21 by Rabobank, it was said that liveweight hog prices in Asian countries would rebound, and pork importation would decline too after the sudden oversupply caused by unstable Chinese pork prices which affected the global market in recent months. Rabobank explained that slow re-herding was because breeders suffered from a big loss of money, at the same time, the sow liquidation in 1H21 would make slaughtering in 3Q slow down, helping hog prices to bounce back.

— **The slow re-herding of small-scale pork producers will help large enterprises with closed loop production processes like DBC to gain more market share.** We believe that the negative impacts of COVID-19, low pork prices amid high feed costs (accounting for about 75% of the production costs) and the risk of ASF outbreaks can make slow re-herding of small home-based producers less affect the pork supply in the last months of 2021 and early 2022. Production costs of small business households is normally 20-30% higher than those of large enterprises. Therefore, assuming that the pork is sold at VND50,000/kg, large enterprises still realize profits while small households have to accept to sell at a loss.

The scale of hog farms in Vietnam is mainly small family business, only 0.21% are enterprises with a scale of 300 pigs or more.

Fig 5. Vietnam – Scale of hog farms in early 2021 (%)

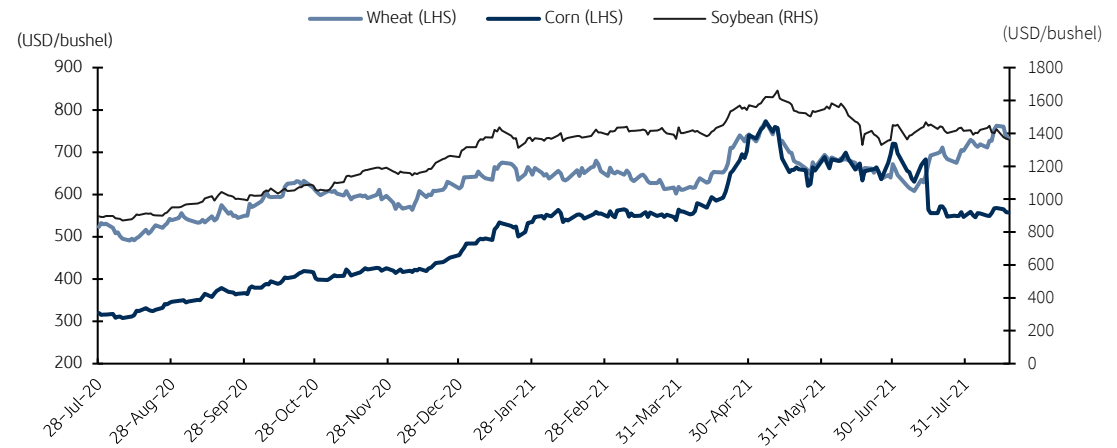


Source: General Statistics Office

— **The Ministry of Finance has submitted the proposal to the Government to reduce the MFN (most-favored-nation) tariffs on wheat and corn imports in order to lower input material prices for animal feed industry.** Given rising feed costs (+30–40% YoY) which account for more than 75% of the production costs and depend mainly on importation, the Ministry of Finance has submitted the proposal to the Government to lower the MFN tariffs on imported wheat from 3% to 0% and corn from 5% to 3% and place these items in the price stabilization schemes so that producers can be proactive in production stages and making plans for output, thereby contributing to reducing potential risks for breeders amid their hesitation to expand herd sizes.

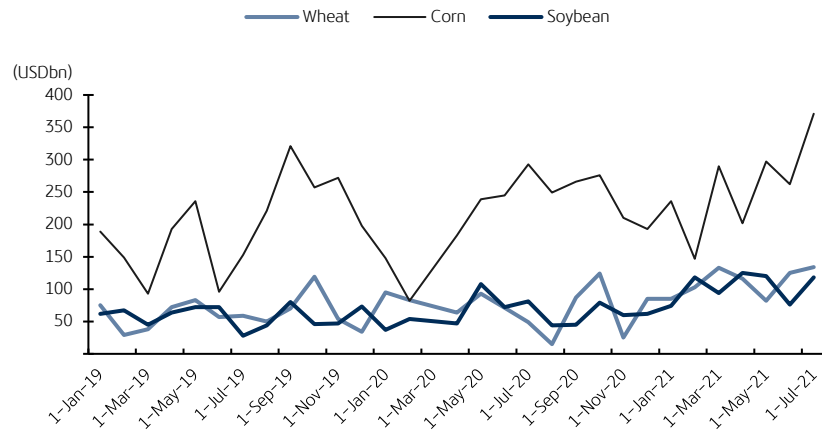
The prices of raw materials for animal feed production showed signs of decreasing. Since July, the prices of raw materials such as wheat, corn, and soybean have gradually dropped after a sudden spike due to growing demand, unfavorable weather and high transportation costs. Although it is difficult for production material to be sold at low prices as before, we believe that they will tend to decrease gradually in the last months of the year since the output of the 2021–2022 crop is forecast to improve and the re-herding in many countries is expected to slow down. According to USDA, global production of wheat, corn and soybean for the 2021–2022 season is 777 million tons (+0.14% YoY), 1.186 million tons (+6.3% YoY) and 383.6 million tons (+5.6%). Besides, better control of the pandemic worldwide thanks to accelerated vaccination programs will also help container freight rates to cool down.

Fig 6. World – Prices of raw materials for animal feed production (USD/bushel)



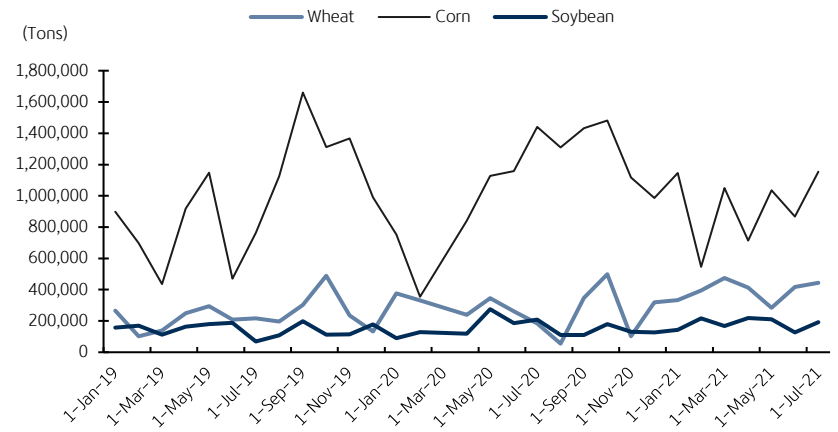
Source: Bloomberg

Fig 7. Vietnam – Import turnover of wheat, corn, soybean (USDmn)



Source: Customs Statistics

Fig 8. Vietnam – Imports of wheat, corn, soybean (tons)



Source: Customs Statistics

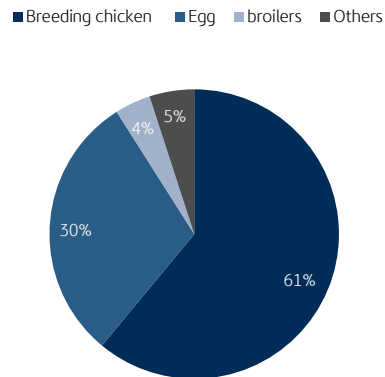
Table 1. World – Production of soybean, corn, wheat

| | Area (Million hectares) | | | Yield (Metric tons per hectare) | | | Production (Million metric tons) | | |
|----------------|-------------------------|---------|---------|---------------------------------|---------|---------|----------------------------------|---------|---------|
| | 2019/20 | 2020/21 | 2021/22 | 2019/20 | 2020/21 | 2021/22 | 2019/20 | 2020/21 | 2021/22 |
| Soybean | 122.69 | 127.81 | 132.52 | 2.77 | 2.84 | 2.89 | 339.7 | 363.26 | 383.63 |
| Corn | 194.18 | 197.31 | 199.93 | 5.76 | 5.65 | 5.93 | 1118.56 | 1115.41 | 1186.12 |
| Wheat | 216.18 | 221.82 | 224.66 | 3.53 | 3.5 | 3.46 | 763.6 | 775.84 | 776.91 |

Source: United States Department of Agriculture

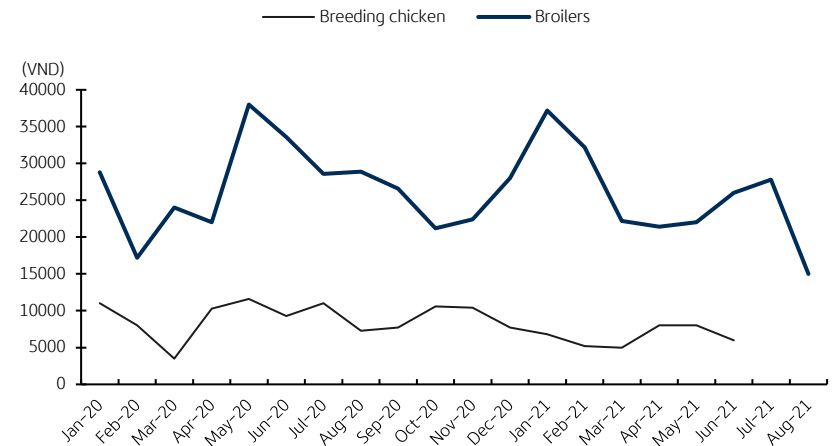
Social distancing in many provinces and cities nationwide has boosted the demand for chicken eggs. Each year, DBC distributed about 145 million eggs, mainly to small businesses and supermarkets. Besides, income from broiler chickens make up only 4% of the revenue structure of chicken farming, so the drop in broiler prices has little impact on the business.

Fig 9. DBC – Revenue structure of poultry farming (%)



Source: Dabaco

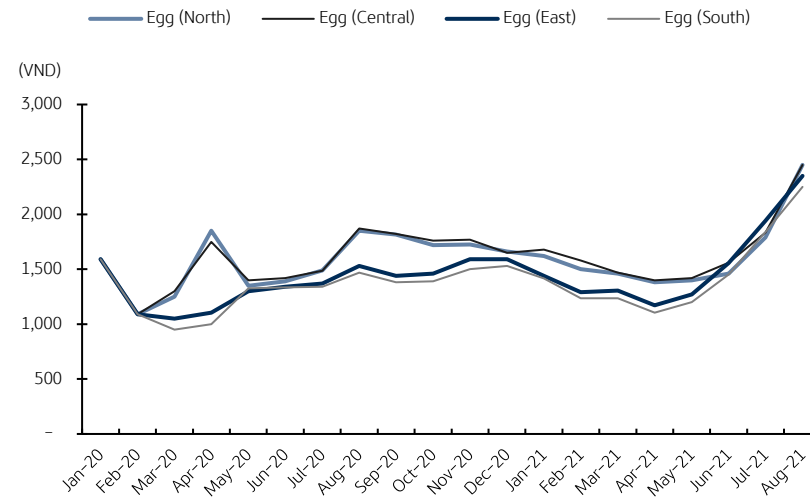
Fig 10. DBC – Prices of breeding chicken and broilers in the North (VND/kg)



Source: Dabaco

The prices of chicken eggs have sharply increased since the fourth wave of COVID-19 which forced many provinces and cities to implement social distancing.

Fig 11. Vietnam – Prices of chicken eggs (VND)



Source: KB Securities Vietnam

2. Long-term growth potential with many projects expanded in both size and market share

Aiming towards the goal of becoming one of the leading agricultural groups, DBC plans to continue expanding pig herd sizes to increase its brand appearance in the domestic market with four main projects including piglets and commercial swine breeding complex in Binh Phuoc with 5,300 parents; breeding project in Thanh Hoa with 5,600 parents; breeding complex in Hoa Binh with 4,400 parents and project in Phu Tho with 1,200 parents. These projects are expected to start in 2H22 and early 2023. Accordingly, upon completion, DBC's pig scale will increase by 285,000 head (40% higher than 2021 plan), 20,200 more gilts and 247,000 more weaners. In addition, DBC invested in an oil mill in phase 2 with double capacity with investment costs of only 60% those of phase 1 thanks to taking advantage of available facilities.

Table 2. DBC – Expanded projects

| Project | Location | Scale (ha) | Investment (VNDbn) | Number of parents | Capacity | Launch |
|-----------------------------------|------------------------|------------|--------------------|-------------------|--|--------|
| Pig raising project in Hoa Binh | Kim Boi, Hoa Binh | 44 | 612 | 4400 | 120,000 breeds/year | 1Q23 |
| Pig raising project in Phu Tho | Tam Nong, Phu Tho | 44 | 228 | 1200 | 10,000 gilts and 24,500 weaners/year | 3Q22 |
| Pig raising project in Binh Phuoc | Dong Phu, Binh Phuoc | 48 | 672 | 5300 | 153,000 breeds/year and 100,000 pigs/year | 4Q22 |
| Pig raising project in Thanh Hoa | Thach Thanh, Thanh Hoa | 52 | 655 | 5600 | 79,000 breeds/year and 186,000 pigs/year | |
| NUTRECO Aquafeed factory | Hoan Son, Bac Ninh | | 220 | | 70,000 tons/year | 3Q21 |
| Oil mill in phase 2 | | 2.4 | 700 | | 31,000 tons of crude soybean, 15,500 tons of bottled refined soybean oil | 4Q22 |

Source: Dabaco

3. Lotus Central real estate project should be handed over from the end of 3Q21 after being delayed in 2Q21 due to the outbreak of the pandemic in Bac Ninh Province

The delivery of Lotus Central project in Ly Thai To Street was scheduled in May 2021, but postponed due to the strong resurgence of COVID-19 in Bac Ninh Province. However, in our view, the project can start the handover from August 2021, which can make a positive contribution to the business results of DBC in 2H21. The project has a total investment of VND545 billion with profit before tax and revenue expected at VND200 billion and VND850 billion respectively. In addition, DBC also executed the construction of the Dabaco Park View City project in Huyen Quang Street with a total investment of VND533 billion, expected to be delivered in 2Q22.

Table 3. DBC – Ongoing real estate projects

| Project | Location | Scale | Investment (VNDbn) | Estimated revenue (VNDbn) | Estimated delivery |
|----------------|---------------------------------------|---------------------------------|--------------------|---------------------------|--------------------|
| Lotus Central | Ly Thai To Street, Bac Ninh Province | 288 apartments and 19 Shophouse | 533 | 845 | August 2021 |
| Park View City | Huyen Quang Street, Bac Ninh Province | 458 apartments | 546 | 802 | 2Q22 |

Source: Dabaco

Fig 12. China – Pork prices (CNY/ton)



Source: Bloomberg

RISKS

- **Risk of fluctuations in raw material prices.** Production material costs which mainly depend on importation accounts for 75% of production costs of the business. Therefore, unstable raw material prices will affect the business results of DBC. Since the beginning of 2021, production material prices have surged, even higher than the uptrend of the animal feed costs. The world crop production for 2021-2022 is forecast to be positive. Material prices have shown signs of decreasing but may still fluctuate due to uncertain and hard-to-control factors.
- **Risk of outbreaks of livestock diseases.** The husbandry industry in general is strongly affected by diseases such as ASF, FMD (foot-and-mouth disease) in pigs and bird flu, which can have negative impacts on the production and consumption of DBC's products.
- **Risk of massive swings in Chinese pork and hog prices.** China is the world's No. 1 pig importer, so unstable pork prices in this country will greatly affect the world as well as Vietnam's pork prices. Hog prices have fallen back in China recently as new ASF outbreaks have led to the sell-off of more pig herds in affected areas, thereby causing a temporary increase in supply; monthly output of large-scale slaughterhouses has climbed more than 35% in the first five months of 2021; and the oversized hogs dumped were 40% heavier than usual. However, the forecast of some organizations still leans towards the scenario that the pork prices will recover from the end of 3Q21, coming from: (1) reduced pressure on oversupply; (2) lower weight of finishing pigs because oversized pigs will be unprofitable; (3) slower re-herding; and (4) potential outbreaks of livestock diseases in the last months of the 2021 and early 2022 caused by severe floods in July. Those factors should be closely watched and will be updated in the next reports.

VALUATION

FORECAST 2021 BUSINESS RESULTS

We forecast DBC's business results with a profit of VND441.9 billion (+32% YoY) and revenue of VND5,058.1 billion (-6.6% YoY) for 2H21. DBC have been through a tough year with many advantages and disadvantages intertwined. In 3Q21, the domestic hog prices plunged due to the COVID-19 pandemic together with the abundant supply, chicken also witnessed a sharp fall in prices, affecting the expansion of chicken flocks in the near future as well as revenue of DBC. However, the delivery of the Lotus Central project in 2H21 after the delay in 2Q21 caused by the resurgence of COVID-19 in Bac Ninh Province, and higher feed prices due to surging production material costs will make a big contribution to the revenue of DBC.

Even so, the company's profit will still be affected, especially in 3Q21. We expect a profit of VND1021.8 billion (-27% YoY) and revenue of VND10,128.7 billion (+1.1% YoY) for DBC in 2021 on the assumption that the situation will change for the better in 4Q21 and 2022.

VALUATION

Based on P/E valuation method, we recommend BUYING DBC shares with a target price of VND68,300/share, 16.8% higher than the closing price on August 26, 2021. After considering the business outlook as well as potential risks, we give DBC a target FY21 P/E of 7.7x, with the expectation that hog prices will recover from the end of 3Q21, raw material prices will gradually lower, the animal feed costs will stabilize after the approval of MFN tariff cuts for wheat, corn and some other changes, and the real estate project Lotus Central will bring in positive profit from the end of 3Q21. DBC shares are currently traded at an FY21 P/E of 6.6x.

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Investment ratings & definitions

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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