

Ngành : Consumer

Recommendation **BUY**

Dabaco Vietnam Group Joint Stock Company - (HSX:DBC) EXPECTATIONS FROM THE BOTTOM GO UP

Current Price	25,500	Date of writing:	3/8/2022	Shareholder structure	
Previous target price	26,000	Outstanding shares (mil)	242	Nguyen Nhu So and family	33.73%
New target price	31,800	Capitalization (bil)	6,123	SSI JSC	4.99%
Dividend yeild	n/a	Average liquidity 6 months	3,351,600	Vietnam Equity Holding	4.84%
Bullish potential	25%	Remaining foreign ownership	45.29%	Fraser Investment Holding Pte.Ltd	4.78%

Equity Research Department:

Pham Thi Minh Chau
Chauptm@bsc.com.vn
Industry: Consumer, Retail

Technical Analyst:

Vu Viet Anh
Anhv@bsc.com.vn
Recommendation price: VND
Stop loss price: VND

PRICING PERSPECTIVES

We recommend BUY for DBC with a target price of VND 31,800/ SHARE for 2023, upside 25% compared to the price on 03/08/2022 with P/E method with a target P/E of 7.5 times.

BUSINESS RESULT FORECAST

BSC expects DBC's net revenue and NI from the core contract in 2022 to reach VND 13,159 billion (+22%YoY) and VND 557 billion (-28%YoY), respectively, lower than 39% of DBC's early 2022 profit on the basis of (1) adjusting business results to decrease -96%YoY of 1H.2022 (2) adjusting TB pig prices to VND 61,300 equivalent to the average pig price of 2021, respectively, but gross profit margin still suffered a decline from 17.1% to 13.8% due to a sharp increase in the cost of hogs and input materials of feed prices;

In 2023, we expect DBC's net revenue and NI from the core contract to reach VND 15,854 billion (+21%YoY) and VND 1,346 billion (+142%YoY), equivalent to EPS FW= VND 5,256, P/e FW= 4.9x due to (1) gross profit margin increasing from 14% to 18% due to an 8% increase in hog prices but a decrease of -4%YoY in hog prices;

INVESTMENT THESIS

- **Profit margins recovered from a bottom** of 14% (2022E) to 18% (2023F) due to an increase in hog prices of +8% YoY and a cooling of -4% YoY in feed prices.
- **Taking advantage of scale and mastering the value chain in the 3F segment**, optimizing livestock costs from 8-11% compared to small-scale household enterprises
- **Owning a potential large land bank**, catching up with the trend of tightening livestock land planning and reducing the size of small livestock households due to environmental regulations and

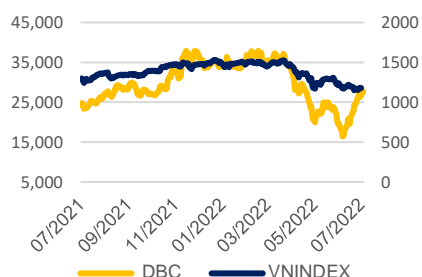
Catalyst

- Hog prices continue to rise or anchor at high levels according to Chinese pig prices and cooling grain prices.
- Recognition of one-time revenue from real estate projects that have been implemented
- The potential comes from investment cooperation with large enterprises.

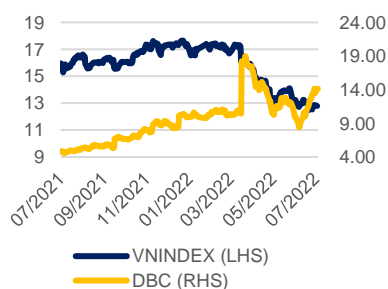
RISK

- Fluctuations in raw material prices affect profit margins; Hog price fluctuations
- Legal problems in projects that are and will be implemented
- Diseases of cattle and poultry;

Comparison between DBC and VN



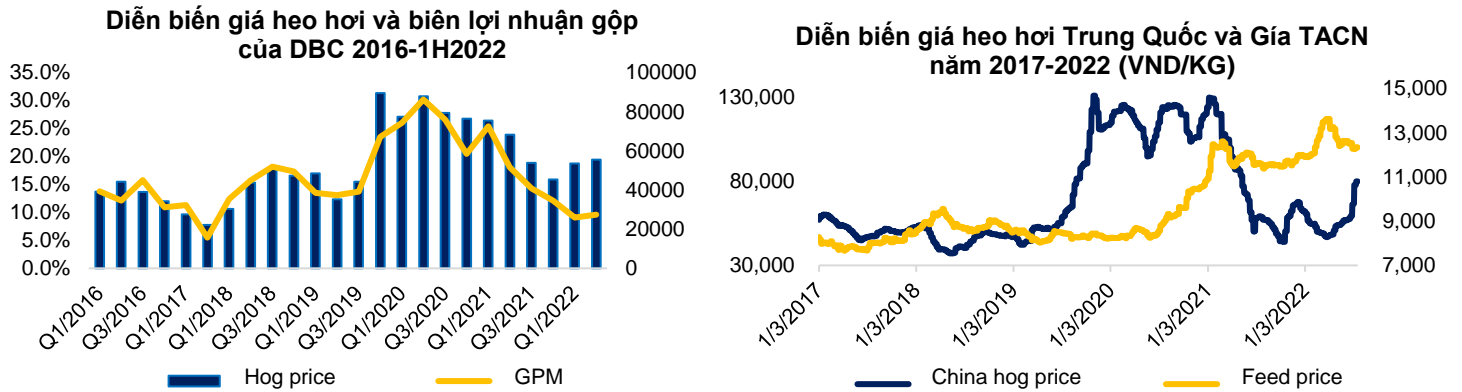
Comparison between PE ad VNI



	2021	2022F	2023F	Peer		2020	2021	2022F	2023F
P/E (x)	8.4	11.7	4.9	17.4	Revenue	10,022	10,813	13,159	15,854
P/B (x)	1.0	0.6	0.5	1.7	Gross profit	2,558	1,853	1,815	2,885
ROS (%)	0.3	0.5	0.4	0.7	NI	1,399	778	557	1,346
ROA (%)	6%	3%	7%	5%	EPS	5,579	3,036	2,176	5,256
ROE (%)	13%	6%	13%	11%	Gross profit margin	483%	-46%	-28%	142%

How bad was 1H/2022 business result?

1H/2022 – Expectations are the bottom of business result: DBC recorded net revenue and NI reaching VND 5,772 billion (14% yoy) and VND 22.9 billion (-96% yoy), respectively, due to a decrease in gross profit margin from 22% (1H/2021) to 9% (1H/2022): (1) The deep decline of average hog prices decreased by 21% YoY due to abundant supply and unrecovered demand after COVID, and (2) feed material prices increased from 9% to 47%YoY.



Source: DBC, Bloomberg, BSC

(1) The average hog price nationwide recorded a decrease in Q1.2022 and Q2.2022 of -31%YoY/ respectively.

-13%YoY- Cumulative 1H/2022, down -21.4%YoY due to (1.1) according to Ipsos, the demand for pork/person in 2022 is expected to reach 23.5kg/person, still not recovering compared to the pre-Covid and African swine fever levels of 31.4kg/person (2018) and (1.2) Abundant supply in livestock households (accounting for more than 70% of total supply) due to the high re-herd rate in 2021 and the supply of pigs is not large enough (<100kg) due to the complicated development of the epidemic in 2022.

(2) Animal feed prices in Q1/Q2.2022 increased by +29%/+40%YoY- 1H/2022 increased by 29%-38% YoY, only partially offsetting the increase in the price of raw materials including wheat, soybeans, and corn,... increased from +9%YoY to +47%YoY as (2.1) Russian and Ukrainian hostilities led to concerns about supply disruptions (2) Complicated weather developments in major exporting countries such as India and Canada,.. (3) transportation costs remain high as China continues to implement "Zero COVID" policy

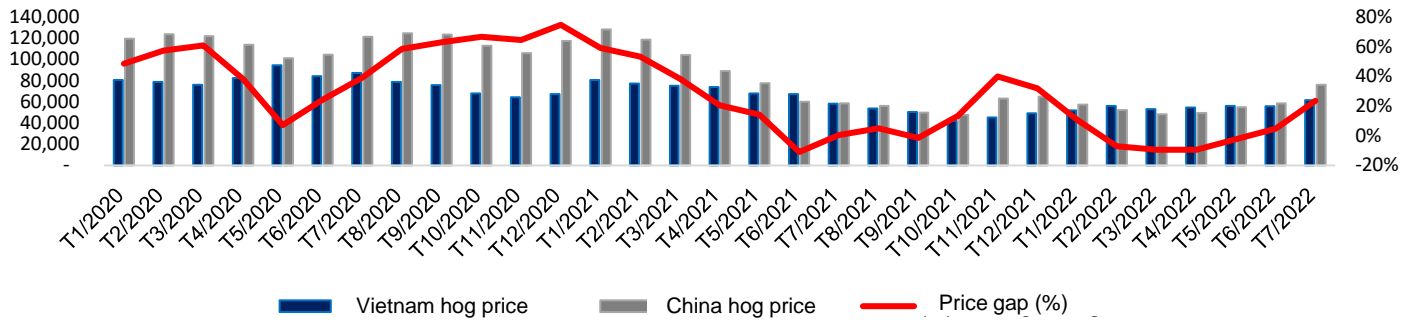
Are there any new changes in 2H/2022 and 2023? Does DBC benefit at all?

With the current data, DBC's KDKD will record a positive recovery from the bottom of 1H/2022 and is expected to last until 2023, thanks to:

Short-term: **The gap between domestic and Chinese hog prices has gradually widened from 5% (05/2022) to 23% (06/2022), leading to some producers not wanting to sell pigs that are old enough to export due to insufficient compensation for rising input costs and rising domestic selling prices, causing the price of hogs nationwide in July 2022 to increase by an average of 10%-20% compared to 06/2022.**

The main reason comes from the prospect of reopening the economy, causing demand to increase again to support China's hog prices recovering from the bottom, and this event helps solve the problem of high transportation costs starting from 2020.

Fluctuations in phase of hog prices in China and Vietnam and the price gap is gradually narrowing



Source: BBG, Agromonitor, BSC

Medium term: Pig prices continue to be supported around 65,000 VND - 70,000 VND for 2023, due to the expected supply decline due to low herd re-herd activity

(2.1) Small livestock households (accounting for ~70% of the total supply of steam pigs in the country) are under pressure from 15%-20% higher input costs (including feed costs, high mortality rate in pigs due to epidemics, raw materials increase according to oil prices...).

Although, animal feed prices are also tending to cool down due to raw materials such as barley and corn,... there were signs of decline at the beginning of Q3/2022 thanks to (1) the prospect of favorable weather and (2) negotiations on allowing Ukraine to re-export grain, actively supporting supply, but **the reduction in feed sales to smallholder farmers will have a certain delay of about 2-3 months due to high price inventories at dealers at all levels, Along with that, the re-herding activities of small livestock households need 4-5 months.** Therefore, we expect that the supply of hogs will not have many positive changes until 2H/2023.

(2.1) For professional livestock farms (especially foreign enterprises) facing difficulties in expanding farm scale due to the procedures for applying for planning permits, building new farms due to differences in determining allocated land use indicators and land use indicators in each locality (according to [Decision 326/QD-TTg](#)) on the allocation of national land use planning targets in the period of 2021 – 2030) and environmental regulations.

Therefore, we evaluate DBC as one of the leading listed enterprises that can make good use of opportunities from the livestock industry from within the enterprise.

- (1) **The listed enterprise owns the largest total pig herd of nearly 1 million heads / 28 million heads** (nationwide) with more than 25 years of breeding experience. At the same time, DBC is also 1 of 3 pioneering enterprises researching African swine fever (ASF) vaccines that meet safety standards and protective efficacy of over 80% in laboratory pigs, help reduce capital prices (reduce mortality and vaccine costs)
- (2) **Owning a livestock land fund that is implementing nearly 100ha** from (2.1) Thach Thanh, Thanh Hoa projects (completing 60% of the project progress and putting into other waterfalls by 2023*); (2.2) Tam Nong, Phu Tho project (completing land procedures*), it is expected that the two projects will contribute more than 22% of DBC's current sow population

What is DBC's expected business result in 2022-2023

BSC expects DBC's net revenue and NI from the core contract in 2022 to reach VND 13,159 billion (+22%YoY) and VND 557 billion (-28%YoY) -Lower than 39% of DBC's early 2022 profit on the basis of (1) adjusting business results to decrease by -96%YoY of 1H.2022 (2) adjusting average pig price to VND 61,300 equivalent to the average pig price of 2021, but gross profit margin still suffered a decline from 17.1% to 13.8% due to a sharp increase in the cost of hogs and input materials of feed prices;

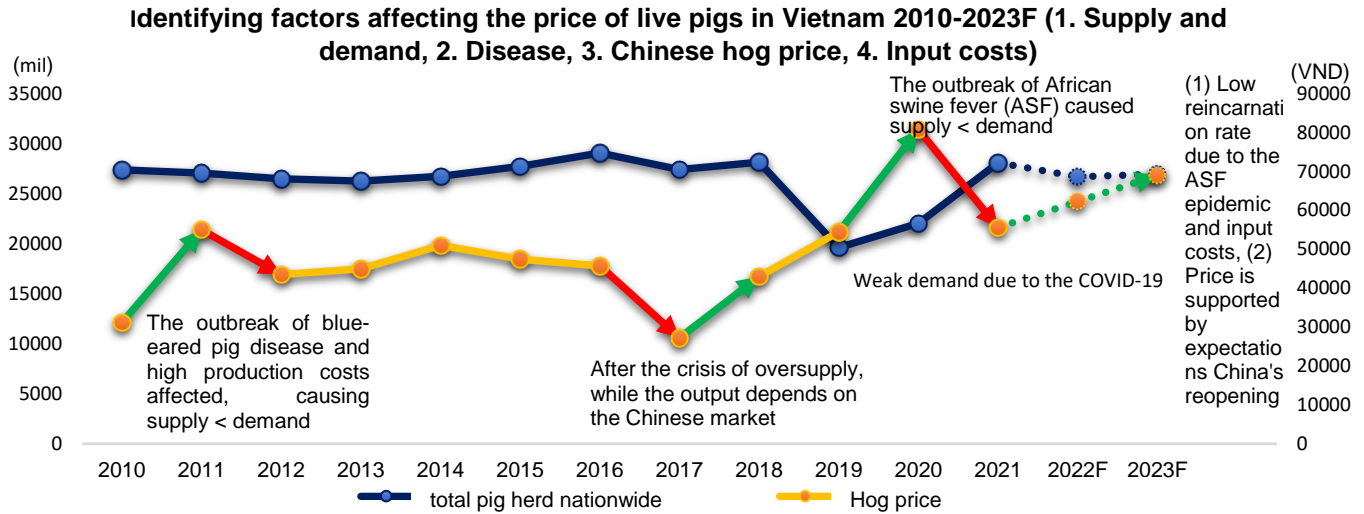
In 2023, we expect DBC's net revenue and NI from the core contract of VND 15,854 billion (+21%YoY) and VND 1,346 billion (+142%YoY), equivalent to EPS FW= 5,256 VND, P/E FW= 4.9x due to (1) gross profit margin increased sharply from 14% to 18% due to an increase in hog prices by 8.4% but the cost of hogs decreased by -4%YoY (2) commercial pig production increased by +28%YoY thanks to injections. ASF vaccine in the total herd reduces mortality in pigs and puts into operation the pig farm project in Thanh Hoa in 2022-2023;

In addition, our estimates do not take into account the recognition of (1) real estate projects due to lack of information and (2) Revenue from the commercial operation of African swine fever vaccine also takes a long time to complete the plant construction and official licensing.

	2019A	2020A	2021E	2022F	2023F
Total revenue	7,300	10,189	10,962	13,379	16,119
Livestock revenue	1,865	4,674	4,483	5,155	6,886
%YoY	-23%	151%	-4%	15%	34%
Feed revenue	3,042	3,338	5,156	6,777	7,148
%YoY	-8%	10%	54%	31%	5%
Oil pressing revenue	265	778	829	994	1,143
%YoY	-21%	194%	6%	20%	15%
Other revenue	892	1,399	881	925	1,510
%YoY	-2%	57%	-37%	5%	63%
Net sales	7,187	10,022	10,813	13,159	15,854
Gross profit	1,167	2,558	1,853	1,815	2,885
GPM	16%	26%	17.1%	13.8%	18.2%
Cost of sales	(268)	(380)	(404)	(501)	(588)
SG&A	(294)	(339)	(382)	(464)	(575)
SG&A/Rev	7.8%	7.2%	7.3%	7.3%	7.3%
EBIT	605	1,838	1,068	849	1,721
Financial income	27.5	29.9	24.8	34.9	45.7
Financial cost	(295)	(320)	(247)	(289)	(298)
Other income, net	6.1	4.6	22.8	27.7	33.4
Income before tax	344	1,553	868	623	1,502
Income after tax	304	1,399	778	558	1,346
Net profit margin	4%	14%	7%	4.2%	8.5%
NPATMI	304	1,399	778	558	1,346
Diluted EPS	956	5,579	3,036	2,181	5,256

Source: BSC research, DBC

What will DBC's pricing be?

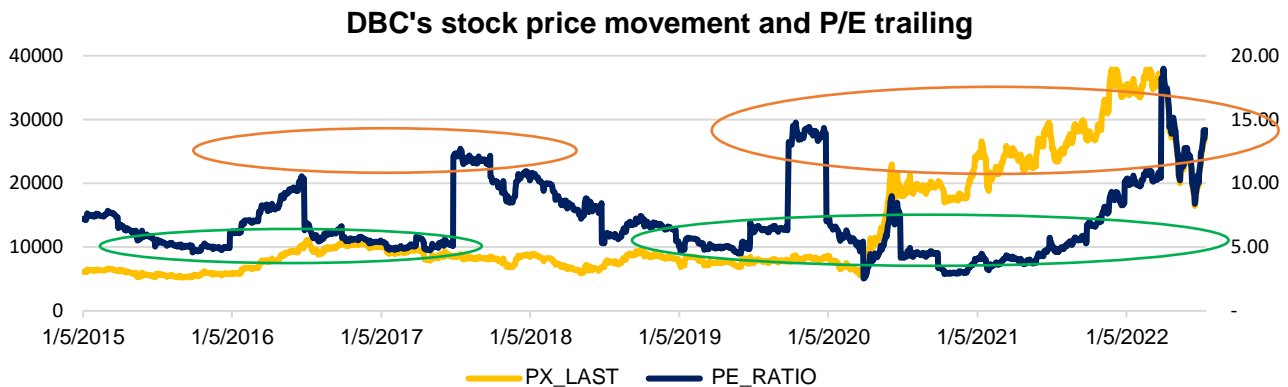


Source: GSO, Agromonitor, BSC forecast

First of all, BSC considers **DBC to be a cyclical stock because the company's KQKD depends heavily on fluctuations in (1) hog prices and (2) feed prices (3) Chinese hog prices and (4) epidemics**. Based on the above assumptions, we build 3 pig price scenarios for 2022-2023.

In particular, the valuation method used is P / E, with the target P / E for 2022/2023 is 13 times / 7-8 times respectively – higher than the 5-year average P/E of 7 times (STD = 2 times), because:

- (1) Business results fluctuate rapidly and strongly over the same period, so we use the historical top and bottom P/E fluctuations according to the time of KQKD announcement, as a measure of target P/E selection.
- (2) In addition, we also found that after 2019-2021 (the supply and demand of the industry is affected by epidemic factors: Covid-19 and ASF) leading to a big change in the situation of livestock industries, when the scale of small business households shrinks from 90% to 70% of domestic supply. Therefore, DBC's P/E is also paid higher than the previous period.



Source: BBG

Based on the basic scenario of pig price for 2023 at an average of 66,500 VND, we recommend **BUY** with DBC stock code with a target price of **31,800 VND – Upside 25% compared to the closing price on 3/8/2022**, according to the P/E method with a target P/E for 2023 of 7.5 times and the price is discounted to the present time with $r = 12%$ - as opportunity costs invest in equities.

	2022			2023		
	Negative	Basic	Positive	Negative	Basic	Positive
Hog price	57,300	61,300	65,500	61,000	66,500	72,500
Hog revenue	3,654	3,909	4,177	5,012	5,464	5,957
GPM hogs	-1%	6%	12%	9%	17%	24%
Total revenue	13,124	13,379	13,646	15,667	16,119	16,612
Net revenue	12,908	13,159	13,422	15,409	15,854	16,339
%YoY	19.4%	21.7%	24.1%	17.1%	20.5%	24.2%
Gross profit margin	1,560	1,815	2,083	2,433	2,885	3,378
GPM	12%	14%	16%	16%	18%	21%
Profit before tax	368	623	891	1,050	1,502	1,995
NPAT	330	558	798	941	1,346	1,788
%YoY	-58%	-28%	3%	69%	141%	220%
Diluted EPS	1,227	2,077	2,969	3,500	5,006	6,649
Target P/E	13	13	13	8	8	8
Target price	15,900	27,000	38,600	26,200	37,500	49,900
Cost of capital				22,200	31,800	42,300
Current price	25,500					
Upside	-38%	6%	51%	-13%	25%	66%

Source: BBG, BSC

Analysis of the volatility sensitivity of hog prices and feed prices (TB) in terms of EPS and target prices.

EPS 2023

Hog price (VND/KG)

		55,700	58,300	61,000	63,500	66,500	69,500	72,500	75,800	79,200
Cost of feed	17,500	291	991	1,718	2,391	3,499	4,007	4,815	5,704	6,620
	15,900	1,797	2,497	3,224	3,897	5,005	5,513	6,321	7,210	8,126
	14,300	3,303	4,003	4,730	5,403	6,511	7,019	7,827	8,716	9,632

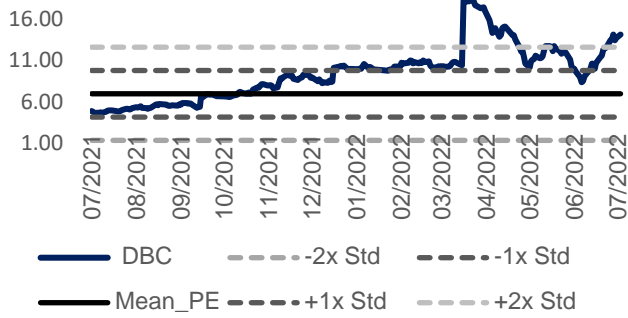
Target P/E
2023 = 7.5 t

Hog price (VND/KG)

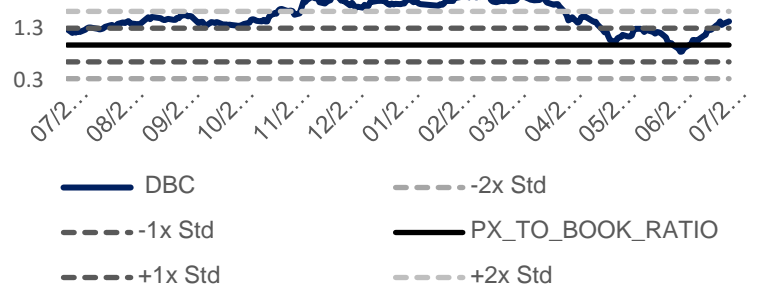
		55,700	58,300	61,000	63,500	66,500	69,500	72,500	75,800	79,200
Cost of feed	17,500	1,900	6,300	10,900	15,200	22,200	25,500	30,600	36,300	42,100
	15,900	11,500	15,900	20,500	24,800	31,800	35,000	40,200	45,900	51,700
	14,300	21,000	25,500	30,100	34,400	41,400	44,600	49,800	55,500	61,300

Source: BBG, BSC

STOCK PE



STOCK PB



APPENDIX

Business result (VND bil)	2020	2021	2022	2023
Net revenue	10,022	10,813	13,159	15,854
COGS	(7,464)	(8,960)	(11,344)	(12,969)
Gross profit	2,558	1,853	1,815	2,885
Cost of sales	(380)	(404)	(501)	(588)
SG&A	(339)	(382)	(464)	(575)
EBIT	1,838	1,068	849	1,721
Financial income	30	25	35	46
Financial cost	(320)	(247)	(289)	(298)
Interest expense	(310)	(257)	(299)	(308)
Profit from joint venture	-	-	-	-
Other P/L	5	23	28	33
Profit before tax	1,553	868	623	1,502
Corporate income tax	(154)	(90)	(65)	(156)
Profit after tax	1,399	778	558	1,346
Non-controlling interest	0	(0)	(0)	0
NPATMI	1,399	778	558	1,346
EBITDA	2,304	1,559	1,396	2,382
EPS	5,579	3,036	2,181	5,256

ĐCKT (Tỷ đồng)	2020	2021	2022	2023
Cash and cash equivalents	233	200	827	877
Short-term investments	537	577	577	577
Short-term receivables	451	584	519	625
Inventory	3,349	4,203	4,617	5,563
Other short-term asset	1,131	1,226	4,019	4,239
Short-term asset	5,701	6,790	10,559	11,881
Tangible asset	4,455	4,582	4,694	4,746
Depreciation	-	-	-	-
Long-term unfinished asset	779	468	1,138	1,601
Long-term phone	102	105	105	105
Other long-term asset	97	54	54	54
Long-term asset	5,448	5,225	6,007	6,522
Total asset	11,149	12,015	16,565	18,403
Liabilities	1,012	1,392	1,694	1,865
Short-term loans	2,158	2,599	2,445	2,380
Other short-term liabilities	1,062	1,090	1,425	1,718
Total Current Debt	4,255	5,172	5,699	6,207
Long-term loans	1,244	687	1,141	1,118
Other long-term debt	396	318	318	318
Total Long-Term Debt	1,640	1,005	1,459	1,436
Total debt	5,894	6,177	7,157	7,643
Capital contribution	1,048	1,152	2,420	2,420
Equity surplus	1,048	1,152	2,420	2,420
Retain earning	418	418	418	418
Other equity	1,498	2,520	1,795	1,795
Minority shareholders	-	-	-	-
Total Equity	5,255	5,838	9,408	10,760
Total capital	11,149	12,015	16,565	18,403
Number of shares outstanding	105	115	242	242

Source: BSC

Cash flow (VND Bil)	2020	2021	2022	2023
(Loss) Profit after tax	1,553	868	623	1,502
D&A	466	491	546	661
Working capital changes	278	(593)	287	(588)
Other adjustment	(52)	(202)	(65)	(156)
CFO	2,138	450	1,309	1,326
FCI	(569)	(296)	(1,017)	(1,177)
Other investments	31	28	-	-
CFI	(584)	(272)	(1,017)	(1,177)
Dividend payouts	(203)	(227)	-	-
Money from net borrowing	(1,192)	(11)	(11)	(11)
Other receipts	(124)	(108)	346	(88)
CFF	(1,518)	(347)	335	(99)
Beginning cash flow	165	233	200	827
Cash in the period	36	(169)	627	50
Ending cash flow	202	63	827	877

Raito (%)	2020	2021	2022	2023
Solvency				
Current raito	1.34	1.31	1.85	1.91
Quick raito	0.29	0.26	0.34	0.33

Capital structure	2020	2021	2022	2023
Debt/Total asset	0.3	0.3	0.2	0.2
Debt/Equity	0.6	0.6	0.4	0.3

Operating capacity	2020	2021	2022	2023
Number of inventory days	120.0	128.0	126.0	126.0
Days receivable	16.2	16.2	14.2	14.2
Days payable	49.5	52.5	54.5	52.5
Ccc	86.6	91.6	85.6	87.6

Profit margin	2020	2021	2022	2023
Gross profit	25.5%	17.1%	13.8%	18.2%
Net Profit	14.0%	7.2%	4.2%	8.5%
ROE	26.6%	13.3%	5.9%	12.5%
ROA	12.6%	6.5%	3.4%	7.3%

Pricing	2020	2021	2022	2023
PE	10.2	8.4	11.7	4.9
PB	1.1	1.0	0.6	0.5

Growth	2020	2021	2022	2023
Net revenue growth	39%	8%	22%	20%
EBIT growth	204%	-42%	-20%	103%
EBT growth	352%	-44%	-28%	141%
EPS growth	483%	-46%	-28%	141%

Disclosure

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BSC Head Office

8 & 9th Floor Thai Holdings Building
210 Tran Quang Khai
Tel: +84439352722
Fax: +84422200669

BSC Ho Chi Minh Branch

9th Floor, 146 Nguyen Cong Tru Building
District 1, Ho Chi Minh City
Tel: +84838218885
Fax: +84838218510

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