

Sector: Consumer & Retail

Dabaco Vietnam Group JSC - (HSX:DBC) Post Peak Period

Recommendation **NEUTRAL**

Current price:	62,900	Date	15/09/2021	Shareholder Structure	
Previous target price	71,280	Outstanding Shares (Million)	115.239	Nguyen Nhu So & family	33.73%
New target price:	69,600	Market Cap (VND billion)	6,589	SSI Securities JSC	4.99%
Dividend yield	3.2%	Avg. 6M Trading vol	3,351,600	Vietnam Equity Holding	4.84%
Upside	11%	% Foreign float	45.29%	Fraser Investment Holding Pte.Ltd	4.78%

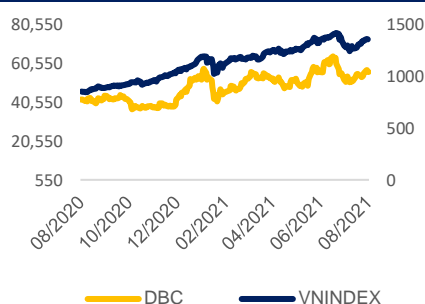
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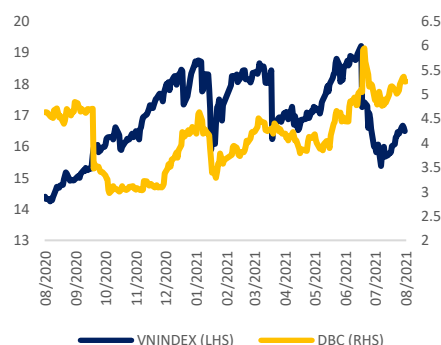
Technical Analyst :

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Target price: 75,000 VND
Stop-loss price : 60,000 VND

Price comparison between DBC and VNINDEX



P/E comparison between DBC and VN index



VALUATION

We recommend **NEUTRAL** for **DBC** with target price of **VND 69,600/share**, 11% upside compared to the price on September 15, 2021 with DCF and P/E methods, with a weight of 40% - 60%.

FORECAST OF BUSINESS RESULTS

BSC forecasts revenue and NPAT in 2021 is expected to reach VND 10,750 billion (+7.3% YoY) and VND 1,127 billion (-19.5% YoY), equivalent to EPS fw of VND 9,683, PE fw of 6.5x, PB fw is 1.5x.

INVESTMENT THESIS

- **Take advantage of scale and control the value chain in the 3F segment:** proactively supply internal feed from 80-90% of DBC livestock demand, optimize gross profit margin compared to small businesses and livestock farmers. feed.
- **Long-term growth potential, thanks to (1) Livestock segment:** capacity expansion of 3 project complexes in the pork segment in the period 2022-2023 **(2) Vegetable oil segment:** Expected oil press plant Phase 2 is expected to come into operation in Q4/2022 **(3) Real estate segment:** Promote investment in projects in Bac Ninh.

CATALYST

The potential comes from investment cooperation with large enterprises (Masan, CP, ...)

RISKS

- Raw material price fluctuations affect profit margin.
- Animal and poultry diseases.
- Live hog price fluctuations.

COMPANY UPDATE

Net revenue and EAT in 1H/2021 is estimated at VND 5,070 billion (+10% YoY) and VND 580 billion (-23% YoY). In which, **(1) Revenue from 3F segment (+8% YoY)** but GPM decreased by 7.9 ppt YoY due to the 10%-15% YoY increase in feed price could only partially offset the 60% YoY increase in raw materials. and a decrease of more than 12% YoY in hog and chicken prices. **(2) Revenue from commercial activities and real estate business** decreased by 30% YoY and 76% respectively due to the Covid-19 epidemic causing hotels to close and delaying the handover of Lotus Center real estate project.

	2020	2021E	2022F	Peer
P/E (x)	4.6	6.5	5.5	17.4
P/B (x)	1.5	1.5	1.2	1.7
ROS (%)	0.7	0.6	0.5	0.7
ROA (%)	14%	10%	10%	5%
ROE (%)	35%	25%	25%	11%

	2019	2020	2021	2022
Net Sales	7,187	10,022	10,750	12,121
Gross Profit	1,167	2,558	2,258	2,618
NPAT	304	1,399	1,127	1,332
EPS	2,420	12,273	9,683	11,439
GPM	16.2%	25.5%	21.0%	21.6%

BUSINESS UPDATE

(I) Profit in 6M/2021 grew negatively due to a sharp drop in live hog prices and high raw material prices under the negative impact of the Covid-19 epidemic. Accumulated 6M/2021, revenue and net profit will reach VND 5,070 billion (+10% YoY) and VND 580 billion (-23%YoY), respectively. Thereby, DBC completed 41% of the revenue plan and 67% of the NPAT target, respectively. Particularly in Q2/2020, revenue and net profit reached VND 2,596 billion (+17% YoY) and VND 215 billion (-46%YoY).

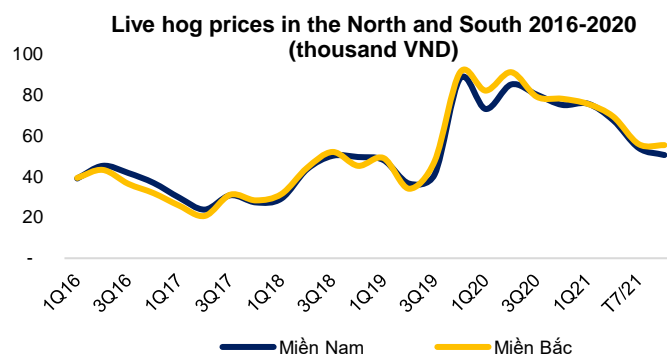
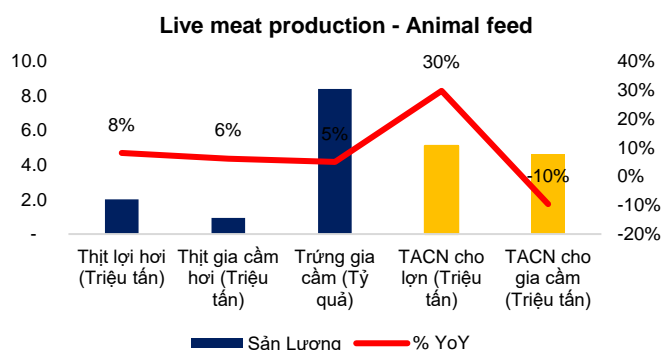
	Q2/2021	Q2/2020	%YoY	1H/2021	1H/2020	%YoY
Revenue of finished product	2,434	1,659	47%	4,739	4,046	17%
GPM	17.6%	17.7%		21.6%	30.4%	
Revenue of commercial, supermarket, hotel	130	201	-35%	295	420	-30%
GPM	18.7%	11.6%		19.1%	13.2%	
Real estate revenue	32	15	114%	37	151	-76%
GPM	52.2%	66.3%		57.2%	9.8%	
Net revenue	2,596	2,218	17%	5,070	4,605	10%
Gross profit	470	670	-30%	1,099	1,290	-15%
GPM	18.1%	30%	-12%	21.7%	28.0%	-6.3%
Selling expenses	(92)	(87)	5%	(188)	(173)	8%
G&A expenses	(100)	(74)	35%	(184)	(156)	18%
SG&A/Rev	7.4%	7.3%	0%	7%	7%	0%
EBIT	278	508	-45%	727	960	-24%
EBIT margin	10.7%	22.9%	-12%	14%	21%	-7%
Financial income	8	10	-21%	14	15	-6%
Financial expenses	(52)	(91)	-43%	(102)	(176)	-42%
Net other income	5	2	182%	9	4	123%
PBT	239	428	-44%	647	803	-19%
NPAT	215	401	-46%	580	750	-23%
NPM	8.3%	18.1%	-54.3%	11%	16%	-30%
NPATMI	215	401	-46%	580	750	-23%

Source: BSC Research

The main revenue growth driver comes from the 3F business segment (Animal feed - Livestock - Processing)

(i) 3F business segment (Animal feed - Livestock - Processing): Revenue reached VND 4,739 billion (+17%YoY), accounting for 93% of total revenue. In which:

(1) The animal feed segment reached VND 1,792 billion (+24%YoY) thanks to (1.1) positive sales volume mainly due to the total pig herd recovering after African swine fever (ASF) (+11.6 %YoY) and (1.2) the average selling price of animal feed increased by 10%-15% YoY under the impact of reducing the supply of feed materials due to the complicated situation of the epidemic and China's increased hoarding of agricultural products causing higher shipping costs. Besides, gross profit margin is estimated to decrease slightly by 23 basis points, coming from the increase in selling price which can largely offset the increase in input prices (16%-46%) due to the lag in the inventory of feed materials which varies from 1-1.5 months.

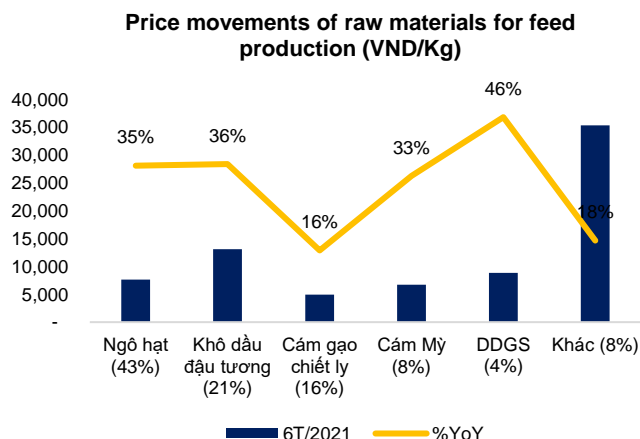


Source: GSO, Agromonitor

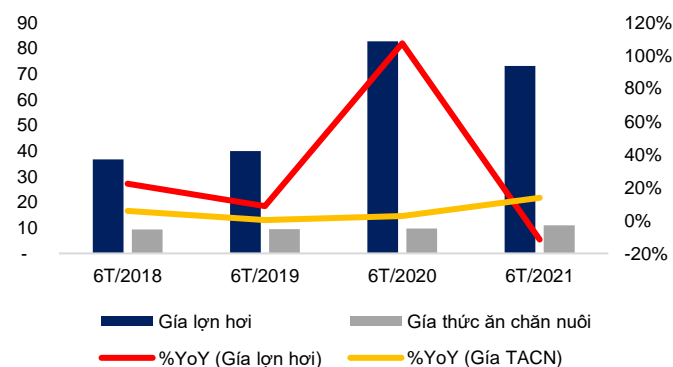
(2) The livestock and processing segment reached VND 2,946 billion (+12% YoY) thanks to the continued increase in the demand for breeding stock due to the promotion of re-herding activities after African swine fever (ASF) and the positive price of live pigs in the past year. Q1/2021. However, the Covid 19 epidemic re-emerged from May 2021, reducing the demand for domestic meat consumption, and increasing transportation costs; while the supply was abundant (local pork production +8%YoY and imported pork volume +154.8% YoY - accounted for ~4% of domestic pork sales volume), leading to downward pressure on average hog prices -12%YoY for 6 months 2021.

In addition, the increase in input material costs from 10% to 15% over the same period and the price of live pigs decreased by 12%YoY, putting pressure on the gross profit margin of the livestock segment (-13% YoY).) and a decrease of ~6.3% in profit margin of the whole company (because the gross profit of the livestock and processing segment accounted for ~50% of the total gross profit).

We assess that DBC's gross profit is adjusted down in 1H/2021 over the same period is inevitable in the context that hog prices have increased sharply by 107% YoY in 2020 due to the ASF epidemic.



Average price movement in the first 6 months of live pig - Feed (thousand VND/kg)



Source: GSO, Department of Livestock Production

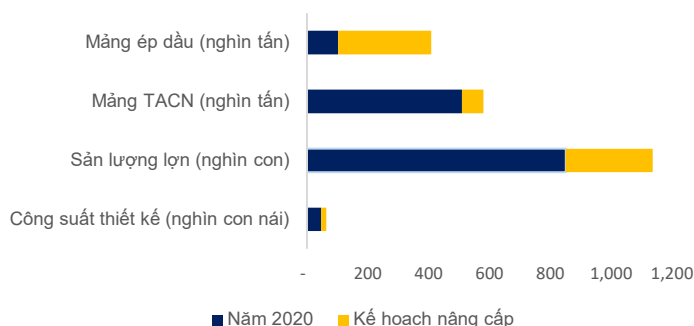
(ii) The real estate business, commerce and other services posted negative growth due to the Covid-19 epidemic. Specifically, (1) The other commercial services segment (-30%YoY) mainly comes from the closure of a series of hotels and restaurants in accordance with local epidemic prevention regulations. (2) Real estate business (-76%YoY) because the time to record profit from Lotus center project in May 2021 (according to plan 2021) was delayed due to complicated developments of the epidemic.

(II) Construction investment activities in 1H/2021 (-62%YoY), the progress of projects is slow due to the epidemic but basically still stick to the plan:

As of June 31, 2021, DBC has put into operation Nutreco Hoan Son Aquatic Feed Factory in Q2/2021 and started to invest in construction of livestock projects such as Thach Thanh project, Thanh Hoa from the beginning of 2021.



Implementation plan of projects in 2021



Source: DBC

Projects to be implemented in 2021	Number of parent pigs	GDV (billion VND)	Progress	Going on operation	Quantity
1. Tam Nong Town, Phu Tho (44ha)	4,400	612	Completion of site clearance, leveling in progress. Commencement of construction in Q2/2021	Q1/2023: 120,000 seed/year	Meat pig
2. Dong Phu Town, Binh Phuoc (42ha)	1,200	228	Completion of site clearance, leveling in progress. Commencement March 2021	Q3/2022: 10,000 gilts and 24,500 weaners/year	Gilts breeder
3. Thach Thanh Town, Thanh Hoa (48ha)	5,300	672	Has document approved by the local People's Committee. Completed compensation, clearance	Q4/2022: 153.00 breeders/year, 100,000 meat pigs/year	Weaning breeder
4. Boi Kim Town, Hoa Binh (52ha)	5,600	655	Has document approved by the local People's Committee. Completed compensation, clearance	Q3/2022: 79,000 breeders/year, 186,000 meat pigs/year	
5. Nutreco Hoan Son Aquatic Feed Factory		220	Starting from Q3/2020, in trial running	Q2/2021	
6. Oil Press Factory Phase 2 (2.4ha)		700	N/A	Q4/2022	Dried beans, bean pods Crude soybean oil Refined soybean oil, bottled
	Revenue	Total Investment	Project scale	Progress	Hand-over time
7. Lotus Center project	845	545	288+19 Shophouses & Apartments	Finishing Stage	Q3/2021
8. Huyen Quang Project	802	533	458 apartments	Raw construction on the 24th floor	Q2/2022

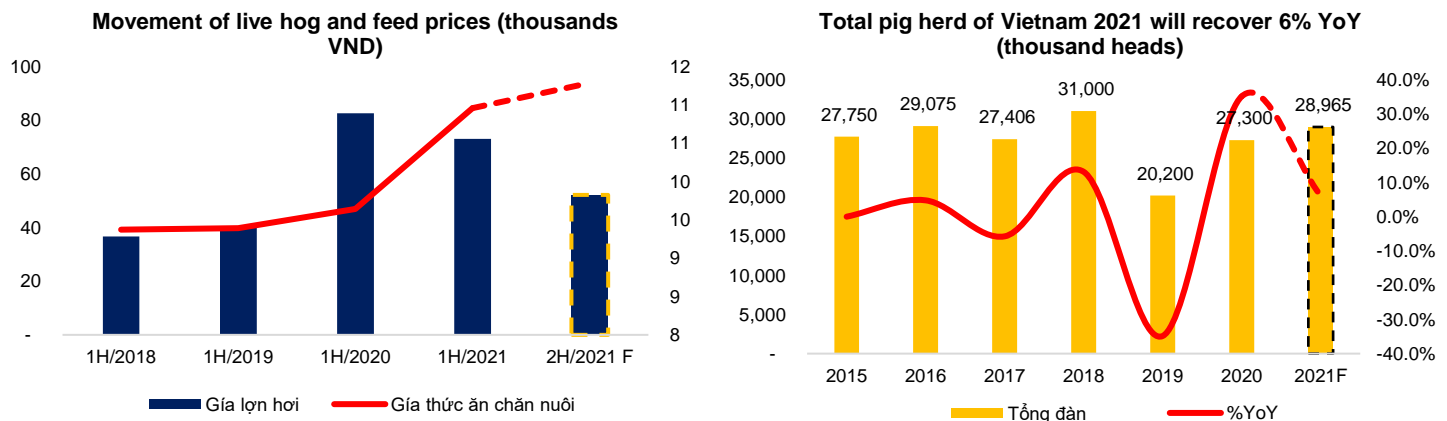
Source: DBC, BSC compilation

OUTLOOK FOR 2H2021

We believe that the opposite movement of animal feed and hog prices will continue in 2H/2021, causing 2H/2021 gross profit margin to remain at the same level as 1H/2021. Specifically, the price of live hog in Q3/2021 is expected to continue to decrease by more than 20% QoQ, due to social distancing measures causing an imbalance of supply and demand and high price of imported pork. Besides, gross profit margin was also under pressure from high raw material prices in Q2/2021.

However, we think that Q4/2021 gross profit margin will recover slightly thanks to (1) measures to ease the gap in Q4/2021 thanks to the control of the epidemic and (2) the downtrend in raw material prices of feed due to favorable weather situation and reduced speculation in agricultural products.

In addition, the real estate business is expected to improve thanks to the recognition of revenue from the Lotus Center real estate project in August 2021, which will partly relieve DBC's revenue pressure.



Source: GSO, Department of Livestock Production

FORECAST OF 2021 BUSINESS RESULTS

BSC revised down our forecast for 2021 with the revenue and NPAT in 2021 expected to reach VND 10,750 billion (+7.3% YoY) and VND 1,127 billion (-19.5% YoY), equivalent to EPS fw of VND 9,683 and PE fw is 6.5x, PB fw is 1.5x. Based on these assumptions:

(1) Net sales continued to grow +7%YoY thanks to (1) Net sales continued to grow +7%YoY thanks to (1) Animal feed segment (+24% YoY) in both price and volume thanks to good growth in breed size and re-herd rate nationwide after ASF is controlled (+6%YoY) (2) Livestock-processing segment is expected to continue to grow by 10% YoY thanks to (2.1) the demand for breeding pigs continues to grow due to the measures restricting the import of live pigs from Thailand from June 30, 2021 to support re-herding activities across the country and (2.2) ASF is controlled by promoting vaccination, ensuring the quality of breeding stock supply to the market.

(2) Gross profit margin declined from 26% to 21% mainly due to the mixed movements of raw material prices and live hog prices. Specifically, the 15% increase in feed price is not enough to offset the increase in the price of raw materials and the decrease in hog prices in 2021 (-19%YoY).

We think that the revenue and NPAT in 2022 is expected to reach VND 12,121 billion (+12.7% YoY) and VND 1,332 billion (+18.5% YoY), equivalent to EPS fw of VND 11,439, PE fw of 5.5x, PB fw of 1.2 x. Based on these assumptions:

(1) Exploiting new farms by the end of 2022, increasing consumption of livestock segment (+12%YoY) and vegetable oil segment (+50%YoY).

(2) Live hog price is expected to increase by 3%YoY, due to (2.1) the COVID-19 epidemic is controlled, local supply chain bottlenecks are solved and demand recovers (2.2) Total pig herd in the second half 2021 is expected to recover more slowly than expected (+1%YoY) - 6.5% lower than pre-ASF levels in 2018 due to high feed prices and transportation costs

while hog prices plummeted compared to the previous year, making it difficult for livestock farmers (accounting for 80% of the supply) to promote re-herd activities.

(3) Input material prices tend to decrease from the end of 2021, positively supporting gross profit margin in 2022.

	2019A	2020A	2021E	2022F
Total revenue	7,300	10,189	10,930	12,323
Livestock Revenue	1,827	4,562	5,011	5,684
%YoY	-25%	150%	10%	13%
Feed Revenue	3,042	3,338	4,139	4,207
%YoY	-8%	10%	24%	2%
Oil pressing revenue	265	778	829	1,243
%YoY	-21%	194%	6%	50%
Other revenue	892	1,511	951	1,189
%YoY	-2%	69%	-37%	25%
Net revenue	7,187	10,022	10,750	12,121
Gross profit	1,167	2,558	2,258	2,618
GPM	16%	26%	21.0%	21.6%
Selling expenses	(268)	(380)	(412)	(477)
G&A expenses	(294)	(339)	(390)	(440)
SG&A/Rev	7.8%	7.2%	7.5%	7.6%
EBIT	605	1,838	1,456	1,701
Financial income	27.5	29.9	34.8	49.7
Financial expenses	(295)	(320)	(238)	(270)
Net other income	6.1	4.6	4.9	5.6
PBT	344	1,553	1,258	1,486
NPAT	304	1,399	1,127	1,332
NPM	4%	14%	10%	11%
NPATMI	304	1,399	1,127	1,332
Diluted EPS	2,420	12,273	9,683	11,439

Source: BSC Research

VALUATION

BSC adjusts our recommendation from **BUY** to **NEUTRAL** for **DBC** with target price **VND 69,600/share**, 11% upside compared to the price on September 15, 2021 with the DCF and P/E method, with a weight of 40% - 60%, due to complex fluctuations in raw material prices and live hog prices greatly influence the forecast results using the DCF method.

We revise down 2% from the previous target price in August 2020 and reduce the weight of the P/E method from 100% to 60%. Based on factors (1) DBC stock price has increased positively ~50% compared to the forecast time on August 6, 2020 (2) complicated developments of the COVID-19 epidemic in 1H/2021, causing a decrease in consumption demand, affecting hog prices (-12%YoY), along with higher raw material prices than in the previous period.

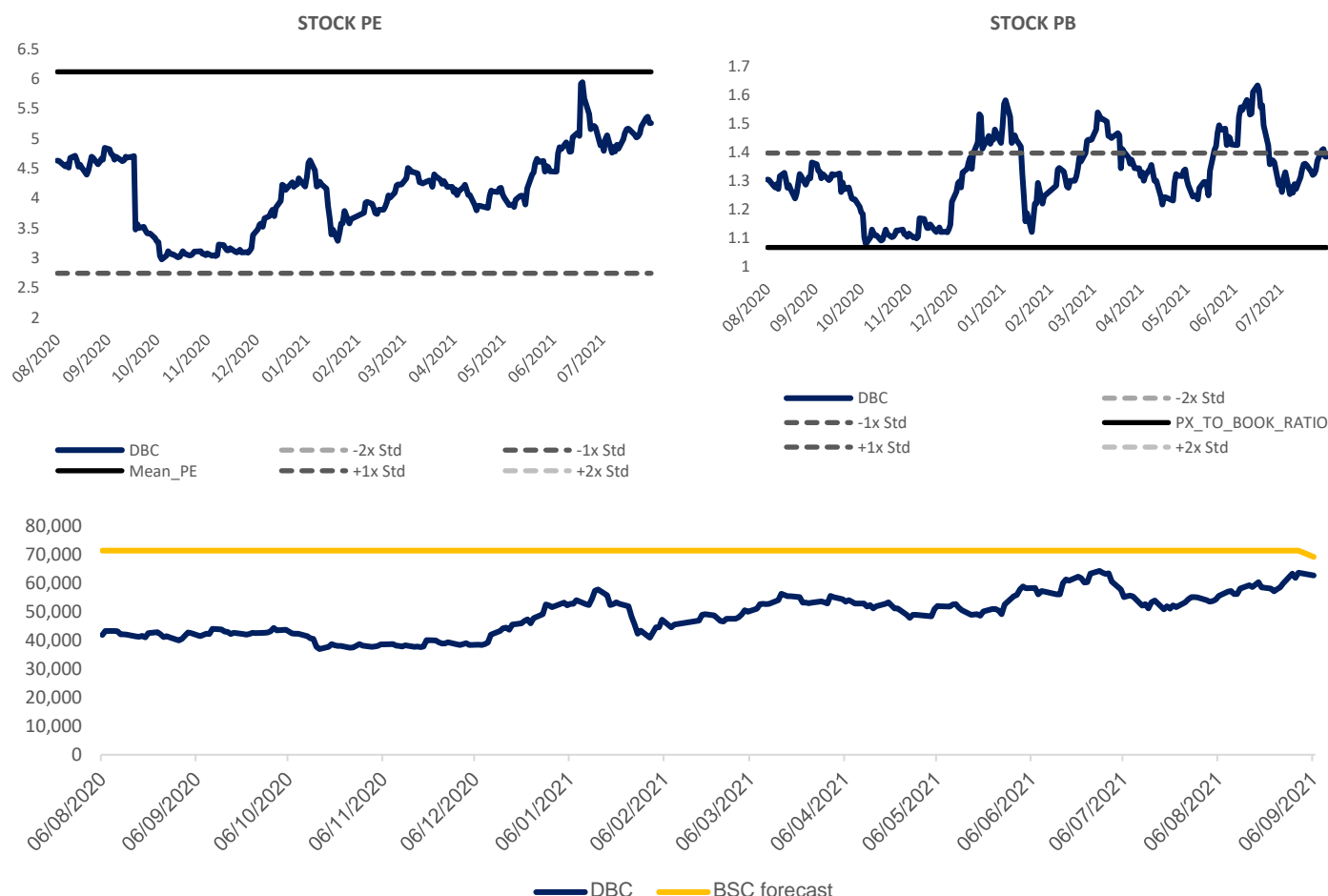
DCF method	2021	2022	2023	2024	2025
Free cash flow to firm (FCFF)	983	814	916	1,047	1,068
Total value of 5 year free cash flow discount	929	745	750	767	700
Final value	9,993				
Final value discount	6,191				
Total discount value	9,944				
(-) Debt	-3,035				
(+) Cash	887				
Total company value	7,795				
Number of shares outstanding (million)	105				
Fair value	74,400				
P/E method					
Diluted EPS	10,917				
Target P/E - 3 year average	6.1 x				
Fair value	66,406				
Method	Price	Weight	Average price	Cost of capital	
DCF	74,400	40%	29,760	Rf	3.5%
P/E	66,406	60%	39,844	Beta	1.3
Target price			69,600	Ke	14.3%
Current price			62,900	Kd	7.7%
Upside			11%	E/A	66%
Recommendation			NEUTRAL	D/A	34%
Dividend yield			3.18%	Tax rate	10%
5-year P/E			6.8	WACC	11.8%
Industry average P/E (Trailing)			17.4	g	1%

Source: BSC Research

Summary of companies in the same business line

Stock code	P/E	P/B	P/S	ROA	ROE	EV/EBITDA T12M
CPIN IJ Equity	20.96	4.03	#N/A N/A	21%	15%	13.47
TFG TB Equity	10.62	2.18	0.77	22%	8%	7.51
QLG MK Equity	44.21	5.67	2.89	13%	7%	22.51
603609 CH Equity	9.54	1.19	0.30	19%	11%	#N/A N/A
000876 CH Equity	#N/A N/A	1.57	0.41	-5%	-1%	#N/A N/A
002234 CH Equity	#N/A N/A	1.51	2.34	2%	2%	#N/A N/A
002157 CH Equity	10.15	1.42	0.40	12%	3%	#N/A N/A
300313 CH Equity	2145.29	22.00	35.78	5%	1%	#N/A N/A
300498 CH Equity	106.95	1.98	1.22	2%	1%	#N/A N/A
LHIB MK Equity	13.77	1.32	0.36	10%	3%	8.17
MMML VN Equity	95.31	4.49	1.56	5%	2%	13.85
VLC VN Equity	12.22	1.74	0.67	15%	10%	5.32
VSN VN Equity	26.57	2.13	0.47	8%	8%	7.45
PSL VN Equity	3.00	1.37	1.39	55%	52%	2.39
MLS VN Equity	1.64	1.64	0.39	199%	79%	1.67
AFX VN Equity	24.68	1.23	0.62	5%	4%	15.63
Median	17.36	1.69	0.67	11%	5%	7.84
DBC VN Equity	5.96	1.57	0.70	29.34	11.89	4.57

Source: Finnpro, Bloomberg



Source: BSC Research

APPENDIX

IS (VND billion)	2019	2020	2021	2022
Net revenue	7,187	10,022	10,750	12,121
COGS	(6,020)	(7,464)	(8,492)	(9,503)
Gross profit	1,167	2,558	2,258	2,618
Selling expenses	(268)	(380)	(412)	(477)
G&A expenses	(294)	(339)	(390)	(440)
Operating income	605	1,838	1,456	1,701
Financial income	27	30	35	50
Financial expenses	(295)	(320)	(238)	(270)
Interest expenses	282	310	(248)	(280)
Gain/loss from affiliates	-	-	-	-
Other gain/loss	6	5	5	6
Profit before tax	344	1,553	1,258	1,486
Corporate tax payment	(40)	(154)	(131)	(154)
Profit after tax	304	1,399	1,127	1,332
Minority interest	(0)	0	(0)	0
NPATMI	304	1,399	1,127	1,332
EBITDA	917	2,186	1,785	2,071
EPS	2,420	12,273	9,683	11,439

BS (VND billion)	2019	2020	2021	2022
Cash & cash equivalent	165	233	349	942
Short term investment	485	537	537	537
Account receivables	411	451	484	545
Inventory	3,128	3,349	3,742	4,422
Other current assets	751	-	-	-
Total current assets	4,941	4,570	5,112	6,446
Tangible assets	4,561	4,455	4,983	5,291
Depreciation	-	-	-	-
Long term incomplete assets	500	779	779	779
Long term investment	86	102	102	102
Other non-current assets	53	97	97	97
Total non-current assets	5,214	5,448	5,976	6,283
Total Assets	10,155	10,018	11,089	12,730
Account payables	911	1,012	1,152	1,263
Short-term debt	3,238	2,158	1,891	1,812
Other short-term debt	627	1,062	1,184	1,353
Current liabilities	4,820	4,367	5,083	5,309
Long-term debt	1,415	1,244	1,144	1,598
Other long-term debt	331	396	396	396
Non-current liabilities	1,746	1,640	1,540	1,994
Total Liabilities	6,566	6,007	6,624	7,303
Paid-in capital	911	1,048	1,048	1,048
Capital surplus	911	1,048	1,048	1,048
Retained earnings	418	418	418	418
Other equity	1,348	1,498	-	-
Minority interest	-	-	-	-
Shareholder's equity	3,589	4,011	4,465	5,427
Total Resources	10,155	10,018	11,089	12,730
Number of shares outstanding (million)	91	105	105	105

CF (VND billion)	2019	2020	2021	2022
Profit after tax	344	1,553	1,258	1,486
Depreciation	312	466	329	370
Change in NWC	14	278	(165)	(461)
Other adjustments	(55)	(52)	(131)	(154)
CF from operating activities	493	2,138	1,224	1,158
Fixed assets investment	(859)	(569)	(531)	(678)
Other investment	26	31	-	-
CF from investing activities	(874)	(584)	(531)	(678)
Dividend paid	-	(203)	(210)	(262)
Cash from net borrowing	7,130	6,356	-	-
Other revenue	-	-	(366)	375
CF from financing activities	395	(1,518)	(576)	113
Beginning cash balance	150	165	233	349
Cash in year	14	36	117	592
Ending cash balance	164	202	349	942

Ratios (%)	2019	2020	2021	2022
Liquidity ratios				
Current ratio	1.03	1.05	1.01	1.21
Quick ratio	0.22	0.28	0.27	0.38

Solvency ratios				
Debt/ Total assets	0.5	0.3	0.3	0.3
Debt/ Equity	1.3	0.8	0.7	0.6

Efficiency ratios				
Days of inventories	156.4	120.0	125.0	131.0
Days of receivables	20.5	16.2	16.2	16.2
Days of payables	55.3	49.5	49.5	48.5
CCC	121.7	86.6	91.6	98.6

Profitability ratios				
Gross profit margin	16.2%	25.5%	21.0%	21.6%
PBT margin	4.2%	14.0%	10.5%	11.0%
ROE	8.5%	34.9%	25.2%	24.5%
ROA	3.0%	14.0%	10.2%	10.5%

Valuation				
PE	6.3	4.6	6.5	5.5
PB	0.5	1.5	1.5	1.2

Growth				
Net revenue growth	8%	39%	7%	13%
EBIT growth	12%	204%	-21%	17%
PBT growth	-13%	352%	-19%	18%
EPS growth	-34%	407%	-21%	18%

Source: BSC Research.

Disclosure

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