

Food sector - ICB 3570
March, 29th, 2014

CORPORATION ANALYSIS REPORT

Dabaco Group Joint Stock Company(DBC)



TRADING GRAPH



Đồ thị vẽ theo giá điều chỉnh

đv KLg: 10,000cp

RECOMMENDATION

Investment view	Strong buy
Target price	30,400
Current price (March, 29 th 2014)	30,500
Prospect in 3 month	Increase
Prospect in 6 month	Increase
Prospect in 12 month	sideway

TRADING INFORMATION

Outstanding shares(million shares)	62.74
Market Cap (billion)	1,549
Total book value (billion)	1,723
Foreign ownership (%)	41.61%
Current price (dong/share) March, 4 th 2014	24,400
Average trading volume in 10 days (share)	339,671
Lowest price 52 wks (dong)	16,500
Highest price 52wks (dong)	26,600
+/- 7 days	-5.77%
+/- 1 month	-0.87%

Assistant analysis

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INVESTMENT HIGHLIGHT

DBC is the first domestic animal feed company owns a closed business model from breedings, animal feed, contracted farming to food processing and selling. This model not only utilizes the advantages of the existing business of the DBC but also towards Vietnam food markets having high growth rate and competes with foreign brands in context of economic integration under WTO and upcoming TPP, Vietnam-EU FTA commitments. However, TPP will bring many challenges for the company; DBC has enhanced its capacity by investing its farms, machinery technology of USA such as breeder farms, hatchery station, animal feed warehouse, etc.

DBC is one of the ten biggest company proceduring animal feeds in Vietnam. Revenues from animal feeds got highest proportion in DBC's revenue structure (62.27%). The company accounted for 20% of market share in the North and Center. DBC has 4 manufacturing plants with total capacity of 520.000 tons per year and many trusted brands such as Dabaco, Topfeeds, Nasaco, Khangti Vina and Kinh Bac. In 2014, the company plans to sell 398.000 tons, up 15.27% compared to 2013, contribute about 60% to its revenues.

In 2014, input material prices are expected to fall: Price of corn, wheat and soybeans are expected to remain low or decline in 2014 due to oversupply. USDA forecasts that the world production of corn, wheat and soybeans 2014 will increase by 12%; 9.5% and 7.2%, respectively, while demand wil increase by only 9.5%; 3.6% and 4.2%, respectively. DBC stored enough corn for production till November 2014.

DBC's expected performance in 2014: The company targets its revenue of VND8,256 billion (there are approximately 30% of internal sales and it does not include real estate sales), profit before tax and profit after tax of VND266 billion and VND210 billion, respectively. In more cautious view, we forecast that in 2014 DBC's revenue will reach VND5,039 billion, an increase of 7.11% compared to 2013, net profit will reach VND219 billion (equivalent to EPS of VND3,500).

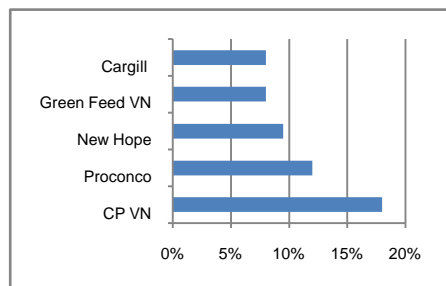
Investment points: DBC is the largest animal feed firm listed on the exchange. Its comparative valuation ratios are quite attractive: P/B is smaller than 1 and P/E stands at 7.5 times. Business performance in 2014 is expected positive due to the decrease in raw material prices and lower interest costs. We strongly recommend buying DBC with expected price in 12 months is VND30,400.

Financial information	2009	2010	2011	2012	2013
Net revenue (Bil.VND)	1,715	2,518	3,918	4,774	4,704
% y-o-y		46.85%	55.61%	21.86%	-1.47%
Total assets (Bil.VND)	2,15	2,15	3,202	3,551	4,014
Equity (Bil.VND)	764	764	1,231	1,376	1,723
Capital charter (Bil. VND)	254	254	436	484	627
Outstanding shares (Mil.)	25.45	25.45	43.61	43.61	62.74
Profit after tax (Bil.VND)	82	176	220	250	191
% y-o-y		115.80%	25.03%	13.30%	-23.46%
EPS (dongs/share)	3,210	6,928	5,332	5,221	3,136
Book value (dongs/share)	30,005	30,005	28,23	31,559	27,456
Gross profit margin	11.27%	13.74%	11.47%	11.87%	10.83%
ROS	4.76%	7.00%	5.63%	5.23%	4.06%
ROE		23.09%	22.10%	19.16%	12.34%
ROA		8.20%	8.24%	7.40%	5.05%

Sources: DBC

INDUSTRY OVERVIEW

Market share of the first class animal feed companies



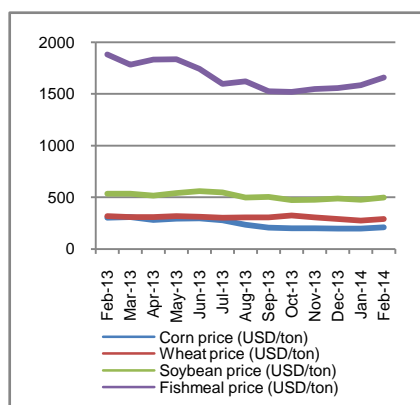
(Sources: Agromonitor)

Capacity of some big animal feed companies

Firm	Capacity (tons/year)
CP VN	3800
Proconco	1200
Cargill	1000
Japfa	520
Comfeed	520
Dabaco	520
Viet Thang	350

(Sources: Green Feed)

The movement of spot global animal feed material prices (USD per ton)



(Sources: WB, Indexmudi)

The growth rate of animal feed production in Vietnam 2014 is forecasted to decrease: According to Agromonitor, the production of animal feeds in 2013 reached 13.4 million tons, up 1.2% compared to 2012, the lowest increase since 2011. In 2014, animal husbandry and poultry sector has no signs of recovery due to low domestic purchasing power and the pressure from raw beef imports (in 2013, raw beef imports increased 4 times compared to 2012). Besides, the rate of home-cooked feeds use increased (because animal feed materials decrease while feed prices does not fell) also push the decrease in Vietnam animal feed consumption.

Foreign enterprises dominate Vietnam feed market: due to its advantages of input costs, production capacity and distribution. There are 233 animal feed enterprises in Vietnam, in which there are about 15 FDI and joint venture businesses which own 44 manufacturing plants, produce 7.15 million tons per year and account for 60% of consumption in Vietnam.

The level of competition is forecasted to rise: The barriers to entry is low. The market-leading businesses such as CP Vietnam, Japfa, Comfeed and New Hope announced to build new factories in Vietnam. In addition, the market opening under WTO, and upcoming TPP, Vietnam-EU FTA commitments could increase animal feed imports and production in Vietnam.

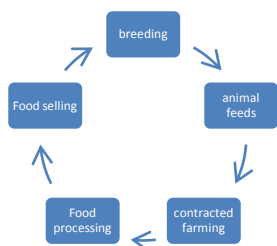
Heavily dependent on imported raw materials: In 2013, the total animal feeds consumption was 13.4 million tons, in which, there were 9 million tons of imported feed ingredients because of low yields, low productivity and high losses during storage (about 30%). Imports of protein materials and energertic materials amounted of 5 million tons and 3 million tons, respectively. The total value of imports of animal feed and materials in 2013 was USD3 billion, an increase of 25.4% compared with 2012. In the first 2 months of 2014, Vietnam imported USD439 million, up 22.9% over the same period in 2013.

In 2014, the price of animal feeds and materials are expected to decrease: In 2013, global animal feed material prices fell. Up to February 2014, the price of corn, wheat, soybeans and fishmeal downed 30.8%; 8.36%; 7.38% and 11.91%, respectively, compared to 2013. However, Vietnam feed prices increased 2.5% over the same period because Vietnam market is dominated by foreign firms. In 2014, animal feed prices are forecasted to decrease because of high supply while low demand (China, the largest country consuming feeds in the world stop importing soybeans from USA). Domestic prices of animal feeds and materials are expected to reduce because the global price reduces and imported inventories last year can meet the domestic consumption.

If TPP is achieved, domestic animal feed companies will get trouble: Under TPP commitments, Vietnam will open market for the countries participating in the TPP with import tariffs reducing to 0%. TPP commitment may lead to higher supply of animal feeds while lower demand due to increase in food imports. Foreign companies will also take advantages of importing raw materials to compete in price with local businesses.

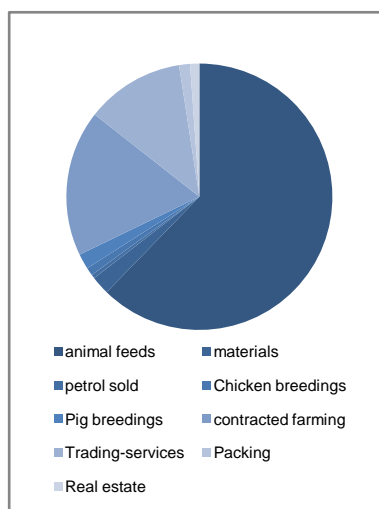
COMPANY OVERVIEW

Closed business model



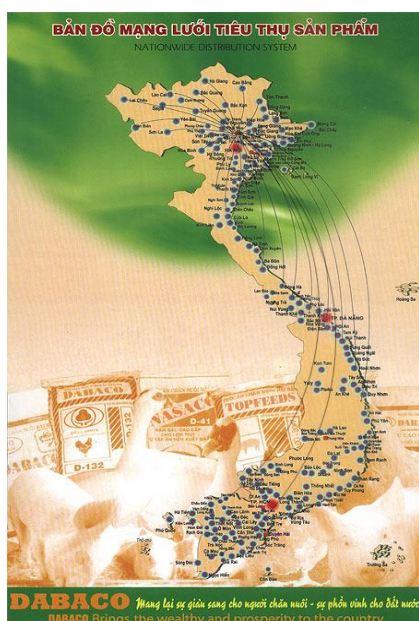
(Sources: DBC)

Revenue breakdown 2013



(Sources: DBC)

Distribution network



(Sources: DBC)

Similar to CP Vietnam, **DBC is the first domestic company which procedures animal feed owns a closed business model** from breedings, animal feeds, contracted farming to food processing and selling. This model not only utilizes the advantages of the DBC's existing business but also towards Vietnam food markets having high growth rate and competes with foreign brands in context of economic integration under WTO and upcoming TPP, Vietnam-EU FTA commitments. However, TPP will bring many challenges for the company; DBC has enhanced its capacity by investing its entire farms, machinery technology of USA such as breeder farms, hatchery station, animal feed warehouse, etc.

DBC is one of the ten biggest company proceduring animal feeds in Vietnam. Revenues from animal feeds got highest proportion in DBC's revenue structure (62.27%). The company accounted for 20% of market share in the North and Center. DBC has 4 manufacturing plants with total capacity of 520.000 tons per year and many trusted brands such as Dabaco, Topfeeds, Nasaco, Khangti Vina and Kinh Bac. In 2014, the company plans to sell 398.000 tons, up 15.27% compared to 2013, contribute about 60% to its revenues.

Contracted farming and food processing accounted for 17.76% of revenues, reached VND859 billion in 2013, up 38.71% compared to 2012. However, the prices of porks, chickens, especially of white chickens had been low for a long time. There is sometime when DBC's foods must be sold below their cost. As a result, two companies outsourcing for DBC lost. In 2014, we expect that contracted farming will gain more efficiency due to the successful application of FCR in calculating animals' weights which correspond to timing. (In 2013, the company successfully tested FCR for pig and plan to test for white chickens).

Sales of real estate and construction plummeted by 94.65% compared to 2012, to 54 billion in 2013. The real estate could be hardly traded. Gross profit margin of this segment also fell sharply, downed from 71.73% in 2012 to 17.95% in 2013. In 2014, the company will halt new investment in real estates and construction, focus on marketing, strive to sell available real estate projects and choose partners to transfer some projects. In which:

Den Do real estate project: This project was made internal purchases and accounted profit. Leadership committed shareholders to buy 50% of this project in Q2 and another 50% in Q3 and Q4. The prices will not be lower than it internal cost accounting.

Que Vo Industrial Zone 3 project: DBC has completed clearance of 200 hectares. They have also paid compensation to landowners since 2010 at about VND69 million per "sao". In 2014, the company plans to build electronic-water system to attract investors. DBC also considers to transfer this project to partners (VISP leadership has proposed buying DBC's projects for 4 times) at the price not less than the current compensation (at the end of 2013, the compensation of a sewage plant to landowners in this area was about VND158 million per "sao"). Thus, if DBC transfer its entire project at the current market price, it can record a revenue surge of nearly VND500 billion.

Gross profit margin

Gross profit margin	2012	2013
Animal feeds	16.47%	18.79%
Materials	34.35%	10.69%
Petrol	2.80%	2.89%
Chicken breedings	18.49%	7.22%
Pig breedings	30.04%	20.43%
Contracted farming, food processing	-3.17%	-0.18%
Trading, services	6.14%	6.25%
Packing	34.00%	29.50%
Real estate, construction	71.73%	17.95%
Total	24.03%	13.71%

(Sources: DBC)

Animal feed ingredient prices are expected to fall: DBC's input is corn, wheat and soybeans, etc. The prices of these products are expected to decline or remain low in 2014 due to oversupply. USDA forecasted that the global production of corn, wheat and soybeans in 2014 would increase by 12%; 9.5% and 7.2% while demand would increase by only 9.5%; 3.6% and 4.2%, respectively. The company stored enough corn for production to November, 2014.

DBC's performance 2013:

In 2013, real estate did not contribute significantly to DBC's revenues. Its revenues decreased slightly (-1.47%), gross profit margin fell from 23.03% in 2012 to 13.71% in 2013. Excluding the real estate sales, its revenues increased by 5.7%, gross profit margin went up slightly from 13.35% to 13.66%.

Net profit after tax fell by 23.46% to 191 billion (equivalent to EPS of VND 3,136) because revenues downed, gross margins reduced and financial revenue decreased by 46.18% to 31 billion.

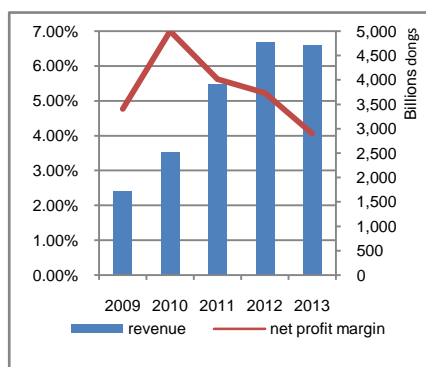
Risk analysis:

- ❖ **Competitive risk:** Animal feed consumption in 2014 is forecasted to decrease while supply is estimated to increase, particularly after TPP and Vietnam-EU FTA commitments is achieved. These will create more intensive competition for DBC in price, quality and product categories.
- ❖ **Risk of fluctuations in raw materials price and exchange rate:** The cost of raw materials accounts for over 90% of the cost of DBC. The company imported about 60% of materials. However, in 2014, the price of feed ingredients is forecasted to fall that brings the advantages of costs for DBC.
- ❖ **Interest rate risk:** The Company has a large debt (1,534 billion dong), of which, mostly are short-term debt. In 2014, interest rate is estimated to decline by 1% or 2% that reduce about VND 15-30 billion of interest expenses for DBC.
- ❖ **Risk of inventories:** Large inventories (VND1,885 billion) create risk of inventory selling, especially risk of real estate selling.
- ❖ **Risk of accounts receivable:** because the company has large accounts receivable of 506 billion dong.
- ❖ **Risks of weather and disease:** The revenues from contracted farming and from animal feeds depend on weather and on disease in cattle and poultry.

	Real 2013	Plan 2014
Animal feeds (tons)	345,269	398,000
Chicken breedings (units)	4,293,299	7,208,288
boar spermatozoa (units)		208,471
Weaned pigs (units)	100,625	112,518
Post weaned pigs (kg)	442,502	510,595
Pork (kg)	13,170,000	17,575,650
Broiler chicken (kg)	5,296,000	6,697,600
Eggs (units)		116,490,240
Revenues (million dong)	4,704,280	5,779,341
EBTmillion dong)	240,568	265,755
Net income (million dong)	191,150	209,545

FINANCIAL ANALYSIS

Revenue and net profit margin



(Sources: DBC)

• Growth analysis:

The revenue 2013 reduced slightly: downed 1.47% compared to 2012 mainly due to deep decrease in real estate and construction revenues (-94.65%). Excluding this sector, its revenue rose 5.7%. In addition, its key business also downed slightly (-2.14%) because of low demand. In contrary, chicken breedings and contracted farming & food processing went up 51.20% and 38.71%, respectively.

• Capital and asset structures:

DBC's debt downed: compared with 2012, the debt decreased slightly by 3.23% to VND 1,533.6 billion, in which most are short-term debt (accounted for about 92% of total debt).

DBC's equity rose by 25.16% and reached VND 1,723 billion in 2013 because the company transferred successfully from bond to equity.

Large inventories: accounted for about 62.48% of current assets and for 46.95% of total assets. In which, cost of work in progress accounted for the largest proportion (47% of the inventory). In 2013, its inventories increased by 16.76% to VND 1.885 billion.

Large accounts receivables: accounted for 14.06% of current assets. However, accounts receivables decreased slightly by 3.62% to VND 424 billion.

Long-term assets increased by 23.30%, reaching VND 977 billion due to the recognition of research center of 9 ergot chickens and a part of Dabaco's research and development center of poultry breedings, improving and updating equipment for hencoops, etc.

• **Liquidity ratios:** Its current ratio rose to 1.4 times while and its quick ratio downed to 0.52 times because of large inventories.

• **Operational capacity:** Its accounts receivable days and days in inventory went up from 24 days and 135 days in 2012 to 33 days and 150 days in 2013, respectively. Its accounts payable also increased from 46 days to 63 days.

• **Profitability:** Compared to DBC's rival, VTF, its gross profit margin and its net profit margin are better. However, these reduced compared to last year. In which:
Gross profit margin decreased from 24.03% in 2012 to 13.71% in 2013 because the gross margin of real estate and construction fell sharply from 71.73% in 2012 to 17.95% in 2013.

Net profit margin reduced from 5.23% to 4.06% in 2013 because of the decrease in gross margin, in financial revenues while slight rise in selling expense.

However, interest expense fell by 14.92% compared to 2012 due to lower interest rate and decrease in debt.

Fundermantal ratios	DBC			VTF
	2011	2012	2013	
Capital sructure				
Debt to equity	1.26	1.15	0.89	0.65
Total asset to total equity	2.60	2.58	2.33	1.77
Asset structure				
Long-term asset to total assets	0.23	0.23	0.25	0.15
Short- term asset to total assets	0.77	0.77	0.75	0.85
Liquidity ratios				
Quick ratios	0.62	0.56	0.52	1.50
Current ratios	1.68	1.35	1.40	1.96
Operational capacity (number of days)				
Accounts receivable days	19.98	24.18	33.06	33.97
Days in inventory	114.66	135.01	150.13	33.43
Accounts payable days	35.61	46.18	63.16	14.76
Profitable ability				
Gross profit margin	11.47%	11.87%	10.83%	5.19%
ROS	5.63%	5.23%	4.06%	3.16%
ROE	22.10%	19.16%	12.34%	16.53%
ROA	8.24%	7.40%	5.05%	8.72%

(Sources: BSC' collection)

INVESTMENT VIEWS

2014 plans: The company targets its revenues of VND 8,256 billion (in which, there are 30% of internal revenues and these revenues do not include revenues of real estates and construction), its earnings before tax of VND 266 billion and its earnings after tax of VND 210 billion. In more cautious view, we estimate that its revenue will reach VND 5,039 billion, up 7.11% compared to 2013, its earnings after tax was VND 219 billion (equivalent to EPS of VND 3,500)

This report use P/E and P/B to evaluate the market value of DBC.

We select listed animal feed company (VTF) and listed agro-fishery companies in which revenues in trailing 12 months are greater than 2.000 billion dong (because the growth of this industry is close to the growth of animal feed industry).

1. Multiple valuation method- P/E:

- The industry P/E is 9.01
- EPS 2014 is expected at VND 3,500.
- The estimated price of DBC under this method is VND 31,500.**

2. Multiple valuation method -P/B:

- The industry P/B is 1.07
- DBC's book value is VND 27,456.
- The estimated price of DBC under this method is VND 29,378.**

Valuation result

	Price	Proportion
P/E	31,500	50%
P/B	29,378	50%
Price	30,400	

Investment points: DBC is the largest listed animal feed company. Its comparative valuation ratios are quite attractive: P/B is smaller than 1 and P/E stands at 7.5



times. Business performance in 2014 is expected positive due to the decrease in raw material prices and lower interest costs. We strongly recommend buying DBC with expected price in 12 months is VND 30,400.

Stocks	Market value (million dong)	Revenue (TTM)	Gross profit margin	ROA (%)	ROE (%)	P/E	P/B
DBC	1,549,730	4,704,280,117,248	10.83	5.05	12.34	7.65	0.89
MPC	1,921,533	11,111,950,188,544	10.41	3.88	18.67	7.08	1.2
HVG	3,276,000	9,863,718,764,544	14.12	3.61	12.21	11.22	1.4
VHC	1,595,463	5,105,143,709,696	11.81	6.13	11.47	9.26	1.09
VTF	794,443	3,999,059,083,264	5.19	8.72	16.53	5.57	0.86
AGF	541,754	3,172,289,019,904	12.49	2.14	5.21	9.01	0.39
ANV	610,129	2,500,326,555,648	12.96	1.79	2.39	13.41	0.44
FMC	223,674	2,187,409,326,080	6.57	3.44	3.71	6.08	1.07
Median						9.01	1.07

(Sources: Bloomberg, BSC's collection)

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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