

DABACO GROUP (DBC VN)

Company Visit: Industry consolidation is the silver lining of African Swine Fever

Not Rated

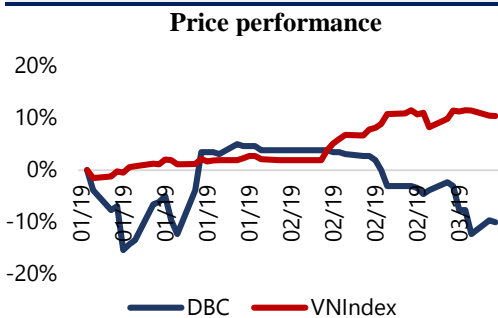
Current price: VND 23,000

Target price: N/A

Upside: N/A

We attended the March 11 FY18 analyst briefing of DBC, a group that has a large agribusiness component. Management expressed confidence regarding African Swine Fever (ASF), which it believes will lead to pork producer consolidation as smaller producers exit the market. DBC highlighted its plan to expand capacity in animal feed and pork production in FY19. The takeaways have positive longer-term implications for Masan Group (MSN VN, VND88.5k, BUY, Target price: VND 104.4k, 12-m TSR: 21.2%).

| | | | | | |
|---------------------------|-----------------------|----------------------|------------------------|------------|-------------|
| 52-week Price Range (VND) | Market Capitalization | FY18P Dividend Yield | Remaining Foreign Room | Free-float | ADTV-3month |
| 18,800-31,200 | USD83.3mn | 4.3% | 21.8% | 65% | USD29.9K |



- Key Takeaways**
- African Swine Fever is obviously a short term concern, but longer term it should lead to market consolidation.
 - DBC still expects pork to be its main growth driver in FY19E.
 - DBC plans to transfer its listing from the HNX to HSX in 3Q19.

- Risks**
- DBC's pork production could be affected in the short term if its currently ASF-free farms are hit by the outbreak.
 - Consumer fears over ASF could lead to reduced pork consumption and could last for a longer time that we currently believe is likely.

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Company profile: DBC mainly operates in the animal feed space (which contributes c. 45% of company-wide sales). Pig feed (55% of the animal feed sales) and poultry feed (32%) are the key products in this category. The company also has other businesses including animal (pig and chicken) breeding, meat production, supermarkets, real estate, and construction.

DBC's FY18 results and FY19 guidance

| VND Bn | FY2018 | FY2019 guidance | YoY growth |
|--------------------------|--------------|-----------------|--------------|
| Total revenue | 6,674 | 7,800 | 16.9% |
| Animal feed | 3,080 | 3,250 | 5.5% |
| Swine breed and meat | 1,740 | 2,262 | 30.0% |
| Chicken and egg | 589 | 725 | 23.1% |
| Other | 1,250 | 1,381 | 10.5% |
| Profit before tax | 393 | 405 | 3.0% |
| ROA | 4.7% | N/A | |
| ROE | 13.7% | N/A | |
| EPS Growth | +80% | N/A | |
| P/E | 6.0 | N/A | |
| P/BV | 0.8 | N/A | |

Source: DBC

Management expressed confidence that ASF would lead to industry consolidation under scaled producers. The disease appears to have taken just 1.5 months to spread into 13 of Vietnam's 63 provinces. However, management believes that only small farms will be hit by the virus, whereas its farms and other pork producers with large-scale, modern management, and strict disease-control system should be relatively immune. Thus, DBC believes that the epidemic should help the larger players to consolidate the market.

DBC still expects pork to be the main growth driver in FY19E. Despite admitting the reality of consumer fears regarding the ASF virus, management stated that because the virus is harmless for humans, consumers should remain comfortable with pork. Furthermore, reduced supply and stronger cross-border transfers of pork to China (both due to the disease) should result in increased domestic pork prices. The company plans to bring new farms into operation and to raise meat production by 32.5% YoY in FY19.

Positive view on animal feed segment. Although management sees headwinds in pig feed volumes given reduced production this year, they believe other animal feeds – notably, poultry and fishery – should offset the impact. The company also plans to bring a new animal feed factory with 70k tons of capacity (equivalent to 14% of DBC's 2018 production) into operation in June 2019.

Poultry segment: Premium branded eggs to drive growth and profitability. Management plans to raise the sales contribution of premium eggs sales from 14% in FY18 to 34% in FY19E.

DBC plans to transfer its listing to the Ho Chi Minh Stock Exchange in 3Q19 (it is currently listed on the Ha Noi Stock Exchange), which management expects to draw more investors.

Our view: We don't cover DBC and have no investment view on the stock. We are perhaps less optimistic than DBC on the short-term risks of ASF given uncertainties regarding the spread of the epidemic and – just as important – its impact on consumer sentiment regarding pork. These issues could hamper both the animal feed business and pork sales in the short term.

However, we agree that the outbreak could be a longer term positive for players with sufficient scale. Thus, consolidation under large producers could become the long-term silver lining on the short-term cloud that is Asian Swine Fever. If so, Masan Group could be a key beneficiary. This supports our positive longer-term view and Buy rating on MSN VN, although we acknowledge the short term sentiment risks facing its shareholders.

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| Ratings | Expected return within the next 12 months |
|-------------|---|
| BUY | Above 10% |
| HOLD | Between -10% to +10% |
| SELL | Below 10% |

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD-Outperform: In our view, the stock’s fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

HOLD-Underperform: In our view, the stock’s fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

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