

DABACO JSC (DBC – HNX)

Benefit from a decline in material prices

Particulars (VND bn)	1QFY14	4QFY13	% (qoq)	1QFY13	% (yoy)
Net Revenues	1,209.5	1,313.6	-8	1,138.7	6
EBIT	31.6	92.9	-66	22.9	38
PAT	74.0	138.6	-47	61.9	20
EBIT margin (%)	6.1	10.6	-444bps	5.4	68bps

Sources: PXS, RongViet Securities

- Integrated livestock production system shows improvements
- Food processing may bring positive long-term growth
- Short-term benefit from feed ingredient price decline
- Husbandry still troubled but set to recover slightly, improving in animal feed industry growth in 2014
- Unsold real estate continue to process in 2014

Outlook and Valuation:

DBC is an animal feed company with an integrated livestock production system (breeds, feed, husbandry, slaughter and food processing) along with a chain of supermarkets and food stores. Separately, food processing is forecasted to bring positive mid and long-term growth if the system can offer a high degree of integration and corresponding development in each link. Given a relatively high revenue growth pace (average of 31%) in period between 2010 and 2013, core business concentration is DBC's primary focus in upcoming years aside from dealing with unsold real estates.

Besides, recent positives in the animal feed industry such as the decline in ingredient prices, husbandry industry recovery and preferential interest rates for the Agriculture sector would likely favor DBC in 2014. Based on those arguments, we recommend DBC as a *long-term BUY* with the target price of **VND28,000** per share.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	4,774.4	4,704.3	5,014.9	5,365.9
% chg	21.9%	-1.5%	6.6%	7.0%
PAT	249.7	191.1	219.1	242.0
% chg	13.3%	-23.5%	14.6%	10.5%
EBIT margin (%)	5.2%	4.1%	4.4%	4.5%
ROA (%)	7.4%	5.1%	5.4%	5.8%
ROE (%)	19.2%	12.3%	12.3%	12.8%
EPS (VND)	5,731	3,142	3,492	3,858
Adjusted EPS (VND)	5,221	3,142	3,492	3,858
Book value (VND)	28,431	27,456	29,137	31,260
Cash dividend (VND)	1,500	1,400	1,500	1,500
P/E (x)	3.6	6.1	5.8	5.2
P/BV (x)	0.7	0.7	0.7	0.6

Sources: DBC, RongViet Securities, stock price as of 05/30/2014

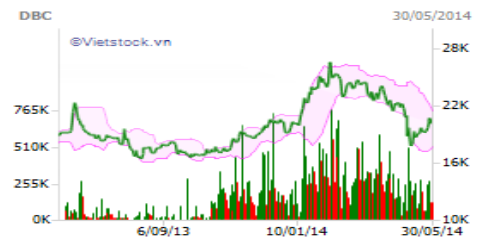
BUY

CMP (VND)	20,200
Target Price (VND)	28,000

Investment Period Long-term

Stock Info

Sector	Food & Beverage
Market Cap (VND bn)	1,267
Current Shares O/S	62,741,923
Beta	1.27
Free float (%)	65.54
52 weeks High	27,713
52 weeks Low	15,099
Avg. Daily Volume (in 20 sessions)	178,190



Performance (%)

	3M	1Y	3Y
DBC	-19	6	58
F&B	32	40	N/A
HNX30	-8	22	N/A
HNX Index	-9	16	9

Major Shareholders (%)

Red River Holdings	11.72
SCIC	9.56
Fraser Investment Holdings	8.2
SSI	4.98
Foreigner Investor Room (%)	39.66

Tam Bui

(084) 08- 6299 2006 – Ext 348

tam.bt@vpsc.com.vn

Exhibit 1: 1QFY2014 and YTD Results

Particulars (VND bn)	1QFY14	4QFY13	% chg (qoq)	1QFY13	% chg (yoy)
Net Revenues	1,209.5	1,313.6	-7.9	1,138.7	6.2
Gross profits	122.4	174.4	-29.8	99.2	23.3
SG&AC	56.6	45.3	25.0	47.3	19.8
Operating Income	65.8	129.1	-49.1	52.0	26.6
EBITDA	23.5	192.4	-87.8	85.2	-72.4
EBIT	74.0	138.6	-46.6	61.9	19.5
Financial expenses	31.5	30.2	4.2	33.7	-6.6
- Interest Expenses	31.0	26.1	18.4	31.9	-3.0
Dep. and amortization	50.4	-53.8	-193.8	-23.3	-316.4
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	43.0	112.5	-61.8	30.0	43.5
PAT	31.6	92.9	-66.0	22.9	38.3
(*) Adjusted PAT	31.6	92.9	-66.0	22.9	38.3

Sources: DBC, RongViet Securities

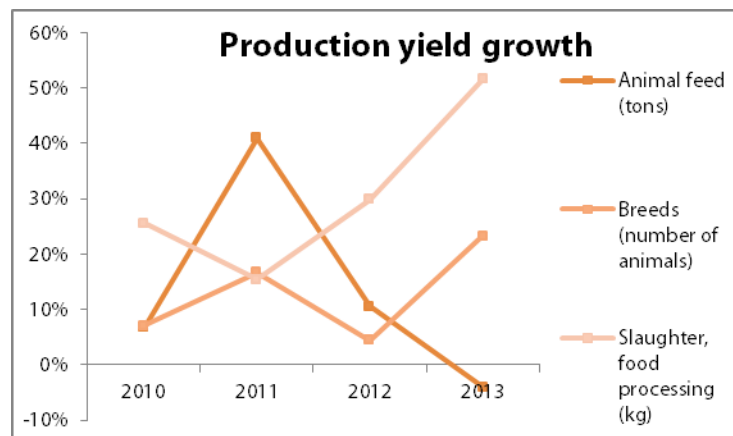
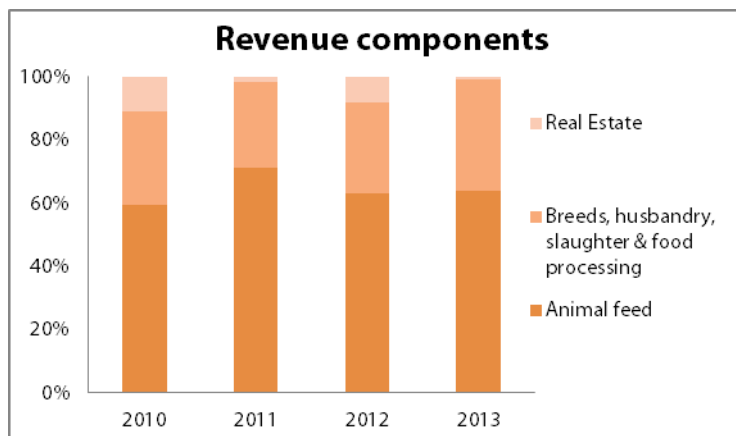
Exhibit 2: 1QFY2014 performance analysis

Particulars	1QFY14	4QFY13	% Chg. (qoq)	1QFY13	% Chg.(yoy)
Profitability Ratios (%)					
Gross Margin	10.1%	13.3%	-316bps	8.7%	140bps
EBITDA Margin	1.9%	14.6%	-1270bps	7.5%	-554bps
EBIT Margin	6.1%	10.6%	-444bps	5.4%	68bps
Net Margin	2.6%	7.1%	-446bps	2.0%	61bps
Adjusted Net Margin	2.6%	7.1%	-446bps	2.0%	61bps
Turnover *(x)					
-Inventories	2.4	2.7	-0.3	2.5	-0.1
-Receivables	9.1	9.8	-0.8	8.3	0.7
-Payables	42.8	36.9	5.9	37.7	5.1
Leverage (%)					
Total Debt/ Equity	1.2	1.3	-0.2	1.3	-0.1

Sources: RongViet Securities (*) Annualized turnover

Integrated livestock production system shows improvements

The set-up of the poultry slaughter line and the inauguration of Dabaco supermarket in 2010 completed DBC's closed-end production line, which comprise 6 different stages starting at breeding farms and ending at food stores. The feed business is currently the main revenue driver, accounting for an average of 60-70% of total revenue. However, the proportionate shares of other segments such as breeding, husbandry, slaughter and food processing in both production volumes and revenues are accelerating quickly.



Source: Rong Viet Securities

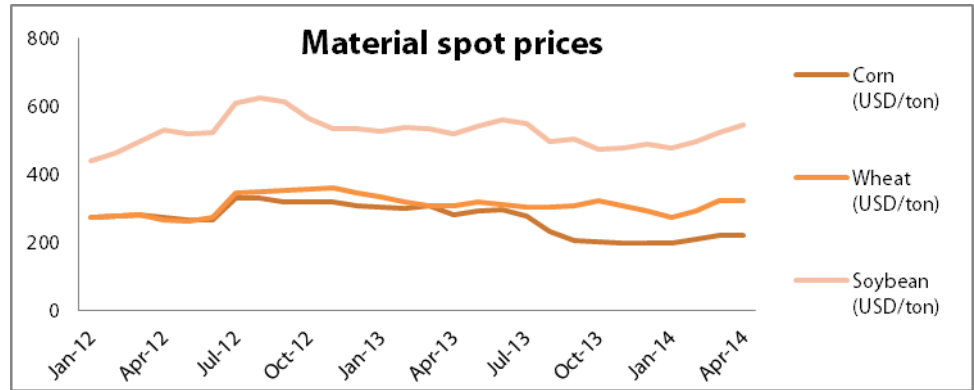
This suggests that apart from feeding business, its core segment, the Company is pushing the development of other business lines. In fact, even under the grim circumstance of feed industry in 2013, internal revenue constituted 36% of the feed segment revenue (+5% over the one-year period). This signaled an elevated degree of integration among the processes in production line. Higher integration also means significantly less risks of feed and livestock price fluctuations.

Food processing may bring positive long-term growth

Established since 2010, the food processing business of DBC has faced challenges due to lower competitive position against well-known brand names in food industry. At the present, Vissan, as a long-established brand name, still dominates both the northern and southern food processing markets. As a result, DBC posted showed negative gross profit results in past two years, ~VND20 billion and ~VND2 billion, respectively. However, the Company still accelerated productions, stuffing its goods into its distribution system of three supermarkets and food stores aiming to increase market shares. Production was about 1,000 tons in 2013 and is projected to reach approximately 1.860 tons (+85%) in 2014. As our estimate, even when the food processing segment may not bring considerable earnings in the short term, it has positive outlook in long term for: (1) Better integration has been established among processes in the production systems, (2) the quality of DBC livestock foddors and breeds is valued highly by the market; therefore final product quality may as well to be efficiently controlled, (3) Self-run food stores and supermarket chains improves the rate at which the Company's products distributed to consumers.

Short-term benefit from feed ingredient price decline

One typical features of Viet Nam feed industry is the dependence on imported ingredients and a high proportion material cost in total production costs (about 80-90%). According to Vietnam Animal Feed Association (VAFA), about 12.5 million tons of animal feed were consumed in 2013 but the quantity of imported raw materials reached up to 9 million tons, equivalent to 72% of material volumes. Therefore, production costs and therefore profit margins of industry players are closely linked to fluctuations in global ingredient prices. According to Indexmundi, primary ingredients' prices in animal feed dropped significantly in 2013, 13.9%, 0.3%, 3.8% for corn, wheat, soybean respectively.



Sources: *Indexamundi*

Consequently, DBC's profit margin in the animal feed business in 2013 rose considerably up to 18.12% from an average of 16-17%. In 1Q2014, ingredients' prices continued to plummet, marked by a decline of 18% in corn price due to surplus supply, which brought DBC's animal feed profit margin in during the period to over 19%. For 2014 whole-year, materials' prices may likely remain in the downtrend due to excessive supply in the market. By the USDA's estimates, yields in global corn, wheat, and soybean might increase of 13%, 1% and 6% this year. DBC has recently revealed that the Company had imported a large amount of cheap materials in 2013, which, in our estimate, is sufficient to support continued production until November. As a result, inventories of purchased goods in transit and materials rose up to 10 times though the first quarter. Therefore, we see cheap material inventories as an advantage that would likely improve DBC's animal feed profit margin in 2014.

Notably, another typical feature in Viet Nam feed animal industry is the dominance of foreign companies in market shares (up to 65-70%) with prominent brand names such as CP, Proconco, Cagrill. Obviously feed prices are ruled by these well-known foreign companies; as a result, the prices remain stable and even did not decrease in line with a decline in materials' prices. According to Commercial Department, global materials' prices in 2013 showed an average drop of at least 3% but feed prices still increased about 2.5%. Thus, along with stable prices controlled by foreign companies, DBC might receive benefits in condition of downward trend in materials' prices. As our recent research, animal feed dealers said that feed price of 25kg package for pork was around VND12,000-12,500 per kg and stabilized to the end of 2013.

Husbandry still troubled but set to recover slightly, improving in animal feed industry growth in 2014

The concentration of animal feed market share into large companies has helped maintain profit margins stable. However, revenue growth in feed business is dependent on the husbandry industry.

In the past two years, diseases and high feed prices were two of the main factors that caused difficulties in the husbandry industry. Revenue and production volumes of DBC dropped to 2% and 4% respectively in 2013. Speaking on the husbandry business in the first four months of 2014, the Ministry of Agriculture and Rural Development said that pork husbandry had been quiet stabilized thanks to the controlled blue-ear disease and the one-percent increase in swine heard size from 2013. However, the size of the collective poultry flock decreased about 1.5% due to shrinking demand and falling prices. In recent reports, Business Monitor International (BMI) forecasted that Vietnam husbandry industry might show improvements but still faced challenges in general wherein pork was estimated to grow 1.8% and poultry 7.2% in 2014.

On this outlook, we estimate the animal feed production volumes in 2014 may be around 383,000 tons, up by 11% from last year, which is slightly lower than DBC's plan. Total estimated revenue and earnings

in 2014 may reach VND5,014 billion (+6.6% yoy) and VND219 billion (+14.6% yoy). However, we would like to note that the anticipation of Vietnam's TPP membership may intensify competitions within industry as meat imports increases remarkably.

Unsold real estate continue to process in 2014

Since 2010, along with successfully attaining projects of the Bac Ninh Province People's Committee, DBC's lands accelerated with the total areas of 850 ha. A proportion of real estate revenue started to constitute considerably among core feed business. Aligned with oriented real estate investment, over VND436 billion from share issues and convertible bonds were used to fund many projects such as Den Do, Que Vo III, Van Mieu Lake in Bac Ninh province... However, under the adverse circumstance of Real Estate, almost ten projects have not been sold amid huge capital requirements for completions. Particularly, Que Vo 3 industrial park, which is worth VND2,200 billion, has successfully invested of about VND431 billion. Moreover, some projects although finished, only sold about 50% of total values such as Den Do project.

The amount of inventories after the year 2010 increased dramatically in which Real Estate continued to take up 50% of total values. Excluding Real Estate, inventory growth pace was much more stable, average rate of 29% instead of 51% in the case when Real Estate is included. The rate of 29% was quietly in line with typical rate in the animal feed industry as the Company must reserve material sources for manufacturing. Especially, DBC stated that as the global materials' prices in 2013 had plummeted, the Company imported a large amount of corn for production until November.

Exhibit 1: Real Estate worth in Inventory

<i>(Unit: VND Million)</i>	2010	2011	2012	2013
Inventory worth	667,400	1,542,082	1,614,069	1,884,557
%yoy		131%	5%	17%
Real Estate worth (including finished and work-in-progress projects)	156,789	840,059	778,812	790,669
Incremental Real Estate investment		726,887	225,142	56,351
Inventory worth excluding Real Estate	510,611	702,023	835,257	1,093,888
%yoy		37%	19%	31%

Sources: Rong Viet Securities compiled and estimated on DBC's financial statements

Moreover, since 2009, inventory ratios have gradually declined as the Company maintained the increase in work in process of Real Estate projects. When excluding this record, we recognized that the inventory ratios remain stable. Thus, Real Estate inventories should be solved in order to normalize the operation ratios of DBC.

In recent annual general meeting, DBC said that 2014 strategy should focus on dealing with unsold real estate and transferring inefficient projects. Thus, in the adversity of real estate, DBC might concentrates on core business instead of multi-segments in the past. The current strategy, according to our estimates, was relatively suitable as core business shows stable and moderate growth. Moreover, ~50% of the remaining value of Den Do project planned to sold this year and thus would generate about VND485 billion. However, by prudence, we did not include this revenue stream in our forecast in 2014.

Outlook and valuation

DBC is an animal feed company with an integrated livestock production system (breeds, feed, husbandry, slaughter and food processing) along with a chain of supermarkets and food stores. Separately, food processing is forecasted to bring positive mid and long-term growth if the system can offer a high degree of integration and corresponding development in each link. Given a relatively high revenue growth pace (average of 31%) in period between 2010 and 2013, core business concentration is DBC's primary focus in upcoming years aside from dealing with unsold real estates.

Besides, recent positives in the animal feed industry such as the decline in ingredient prices, husbandry industry recovery and preferential interest rates for the Agriculture sector would likely favor DBC in 2014. Based on those arguments, we recommend DBC as a *long-term BUY* with the target price of **VND28,000** per share.

Exhibit 2: 2QFY2014 Forecast

Particulars (VND bn)	2QFY14	%chg (qoq)	%chg (yoy)
Net Revenues	1,149	-5	4
Gross profits	121	-1	31
EBIT	71	-4	-43
PAT	31	-2	53

Sources: RongViet Securities

Exhibit 3: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2014E	FY2015E	FY2014E	FY2015E
Revenue growth (%)	N/a	N/a	7	7
Gross margin (%)	N/a	N/a	11	11
EBIT margin (%)	N/a	N/a	8	8

Sources: RongViet Securities

	VND Billion			
INCOME STATEMENT	2012A	2013A	2014E	2015F
Revenue	4,774.4	4,704.3	5,014.9	5,365.9
COGS	4,207.7	4,194.7	4,445.4	4,754.2
Gross profit	566.6	509.6	569.5	611.7
Selling Expense	80.9	92.0	100.3	107.9
G&A Expense	112.3	107.7	120.4	131.5
Finance Income	57.2	30.8	33.9	37.3
Finance Expense	141.7	126.1	122.0	120.1
Other profits	16.7	25.9	15.0	15.0
PBT	305.6	240.6	275.7	304.6
Prov. of Tax	55.9	49.4	56.6	62.6
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	249.7	191.1	219.1	242.0
EBIT	443.9	358.2	389.2	416.3
EBITDA	528.7	463.8	509.1	536.8

	%			
FINANCIAL RATIO	2012A	2013A	2014E	2015F
Growth				
Revenue	21.9	-1.5	6.6	7.0
Operating Income	28.3	-17.0	12.5	6.8
EBITDA	24.8	-12.3	9.8	5.4
EBIT	23.8	-19.3	8.6	7.0
PAT	13.3	-23.5	14.6	10.5
Total Assets	10.9	13.0	1.8	4.8
Equity	11.8	25.2	6.1	7.3
Internal growth rate	13.6	6.7	7.0	7.8
Profitability				
Gross profit/Revenue	11.9	10.8	11.4	11.4
Operating profit/ Revenue	7.8	6.6	7.0	6.9
EBITDA/ Revenue	11.1	9.9	10.2	10.0
EBITDA/ Revenue	9.3	7.6	7.8	7.8
Net margin	5.2	4.1	4.4	4.5
ROAA	7.4	5.1	5.4	5.8
ROIC or RONA	26.8	20.8	20.3	20.7
ROAE	19.2	12.3	12.3	12.8
Efficiency				
Receivable Turnover	10.5	8.9	9.2	9.2
Inventory Turnover	2.7	2.4	2.3	2.4
Payable Turnover	8.8	6.6	6.4	6.9
Liquidity				
Current	1.4	1.4	1.4	1.5
Quick	0.6	0.5	0.5	0.6
Solvency				
Total Debt/Equity	155.7	130.9	123.4	118.1
Current Debt/Equity	104.6	81.7	79.6	76.6
Long-term Debt/ Equity	10.5	7.3	6.5	5.8

	VND Billion			
BALANCE SHEET	2012A	2013A	2014E	2015F
Cash and equivalents	552	137	451	639
Short-term investment	0	406	0	0
Receivables	540	517	577	590
Inventories	1,614	1,885	1,956	1,997
Other current assets	35	71	78	86
Total Current Asset	2,742	3,016	3,063	3,312
Tangible Fixed Assets	706	852	830	779
Intangible Fixed Assets	2	0	0	0
Construction in Progress	81	74	70	67
Long-term Investment	3	0	0	0
Other long-term assets	9	64	121	120
Goodwill	8	7	7	7
Long-term Asset	809	997	1,021	966
Total Asset	3,551	4,014	4,084	4,278
Payables	358	514	489	499
Other current liabilities	196	202	191	199
Current Debt	1,440	1,408	1,454	1,502
Long-term Debt	145	126	120	114
Other long-term liabilities	4	5	3	3
Total Liability	2,143	2,254	2,256	2,317
Owner's Equity	1,376	1,723	1,828	1,961
Capital	484	627	627	627
Retained Earnings	191	190	162	155
Funds & Reverses	327	487	621	761
Others	0	0	0	0
Total Equity	1,376	1,723	1,828	1,961
Minority's Interest	0	0	0	0
TOTAL RESOURCES	3,520	3,977	4,084	4,278
CASH FLOW STATEMENT	2012A	2013A	2014E	2015F
Profit before tax	305.6	240.6	275.7	304.6
-Depreciation	84.8	105.6	119.9	120.5
-Adjustments	111.3	73.5	-10.2	-10.2
+/- Working capital	-266.5	-316.4	-269.3	-110.7
Net Operating CFs	235.2	103.3	116.2	304.2
+/- Fixed Asset	-163.3	-256.6	-148.8	-62.7
+/- Deposit, equity investment	0.0	0.0	0.0	0.0
Interest, dividend, cash profit	39.1	-383.4	9.0	9.0
Net Investing CFs	-124.2	-640.0	-139.8	-53.7
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	96.2	136.0	71.8	64.5
Dividend paid	-145.8	-14.1	266.2	-127.7
Net Financing CFs	-49.5	121.9	338.0	-63.2
+/- cash & equivalents	61.5	-414.8	314.3	187.3
Beginning cash & equivalents	490.3	552.0	137.2	451.5
Impact of exchange rate	0.2	0.0	0.0	0.0
Ending cash & equivalents	552.0	137.2	451.5	638.8

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

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Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006 Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District
– Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

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