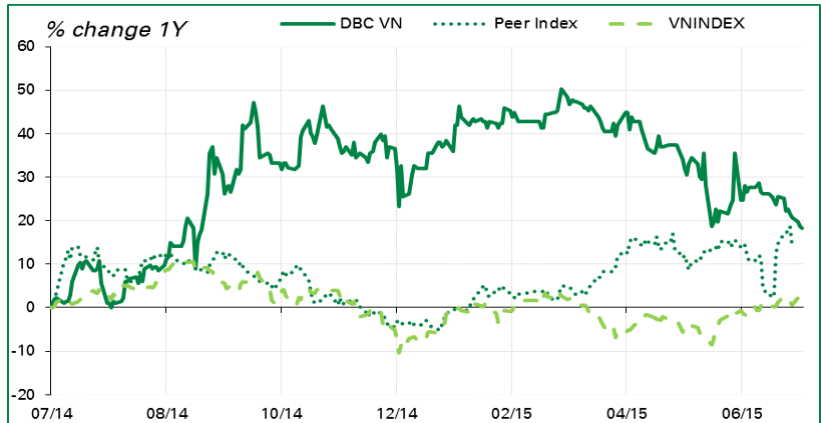


## INITIATING COVERAGE: **HOLD**



Current Price (6/30/2015):	VND	24,000
Target Price:	VND	25,400
Short Term Trading Recommendation		Hold
Resistance Level	VND	27,600
Support Level	VND	24,000
Bloomberg ticker: <b>DBC VN</b>	Exchange:	HNX
Industry:	Agriculture products	
Beta	0.84	
52w Low / High (VND)	17,800 – 30,500	
Outstanding Shares (mn)	62.7	
Market Cap (VND bn)	1,506	
Free Float (mn shares)	43.1	
LTM Avg Trading Vol	295,770	
Foreign-owned Ratio (%)	30.6%	



Year	Div. yield	EPS (VND)
2016F (*)	2.0%	3,047
2015F (*)	N/A	2,784
2014	5.9%	3,279
2013	4.7%	3,316

(\*) Adjusted EPS for Decree 200

	2011 – 15	2015F	2015 - 20F
	CAGR	(VND bn)	CAGR
Revenues	9.2%	5,566	9.7%
EBITDA	9.9%	520	10.1%
Net Income	1.1%	230	11.9%

Ratio	DBC	Peers	VNI
P/E	6.9	12.0	12.2
P/B	0.9	1.2	1.7
Debt/Equity	1.0	1.1	8.7
EV/EBITDA	6.4	10.0	1.1
ROE	5.9%	10.2%	9.8%

We initiate coverage on Dabaco Group (DBC) with a HOLD recommendation based on the following:

- ❖ **Renewed focus on core agriculture business:** Since 2012, DBC’s revenue from real estate has declined and the company has re-focused on its core businesses of feed production, contracted farming, and breeds sale. In 2014, net revenue increased nine percent while Q1/2015 revenue grew by three percent y-o-y.
- ❖ **Capacity expansion will drive continuing growth:** We forecast revenue growth of 8.7 percent in 2015, similar to recent years, with impetus from chicken breeds, pork, chicken, and eggs. For the next few years the revenue is expected to grow at a 10 percent CAGR due to increases in production capacity and growth potential of the farming market.
- ❖ **Falling gross profit margin:** Rising competition, a reversal of the trend of feed ingredients prices, and depreciation costs of new plants should gradually push DBC’s gross profit margin down from 11.3 percent in 2015 to 10.3 percent in 2020.
- ❖ **No catalyst for price appreciation in the short term:** Since the divestment by SCIC in November 2014, DBC stock does not seem to have any catalyst to fluctuate, and the stock’s movements have been flat.

Company Description:

DBC specializes in the production of livestock feed and breeds of poultry and cattle. The company was established in 1996 and listed in 2008. As of the end of Q1/2015, the total assets of DBC were VND4,160 billion (USD191 million) and total equity was VND1,793 billion (USD82.2 million).

Please see important disclosure information at the end of this report

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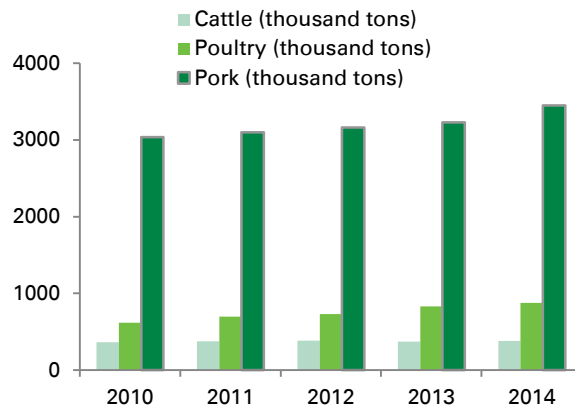
## VIETNAM LIVESTOCK FEED PRODUCTION

*Supply cannot meet demand for meat consumption.*

According to Agromonitor's data, with a growing population of more than 90.7 million people and average meat consumption in 2014 of 58.2 kg per capita, Vietnam consumed 5.28 million tons of meat in 2014, including pork, cattle, and poultry. Pork is the dominant meat consumed in Vietnam, and strong population growth and rising income will further stimulate the increase of domestic meat consumption.

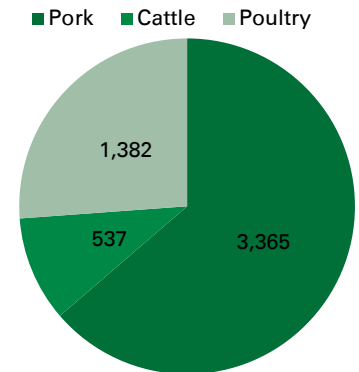
Meat production in Vietnam has been lower than consumption, at 4.7 million tons in 2014 with a compound annual growth rate (CAGR) of four percent from 2010 to 2014 according to the General Statistics Office of Vietnam (GSO)'s official data. During the last five years, only the output of poultry meat increased at an above-average rate, with a CAGR of nine percent, while the output of pork and cattle rose at much slower rates of one to three percent per year. Production of pork meat can currently cover domestic demand, but Vietnam still needs to import beef and poultry.

Vietnam meat production from 2010 to 2014



Source: GSO

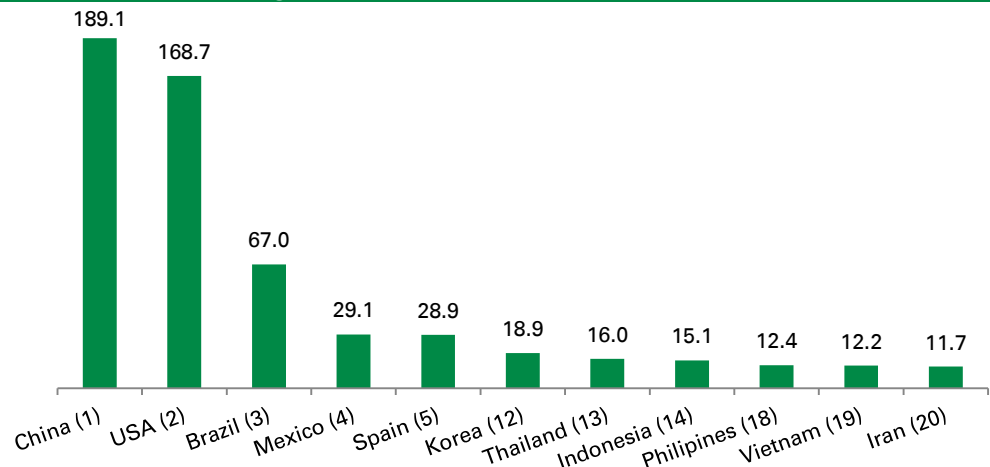
Vietnam meat consumption breakdown in 2014 (thousand tons)



Source: Agromonitor

Vietnam is in the top 20 countries for producing livestock feed. In 2014, Vietnam ranked in 19th position among countries that produce industrial livestock feed for pork, cattle, and poultry.

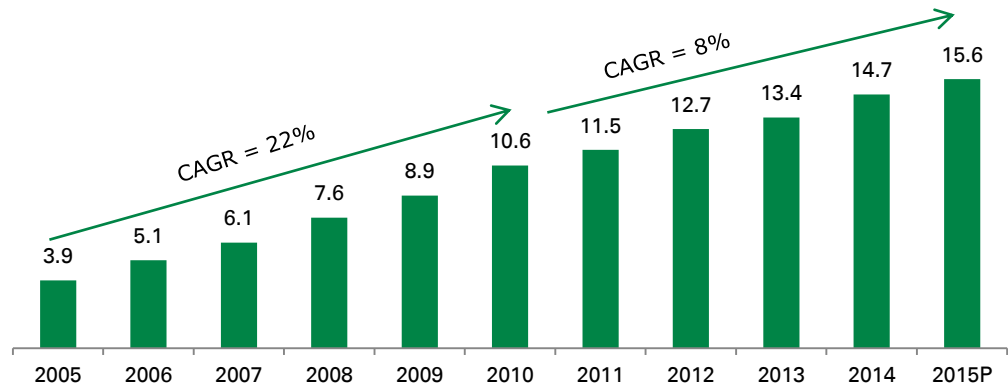
Top countries producing livestock feed (million tonnes)



Source: Allotech, Department of livestock production

Output growth is slowing. According to the Vietnam Livestock Association, revenue for this market is estimated to be USD6 billion. From 2005 to 2014, industrial livestock feed output (including seafood feed) recorded a CAGR of 16 percent. This high growth rate was contributed strongly by the boom period from 2005 to 2010, with double-digit growth rates (22 percent). The industrial output started to slow down (eight percent) in the subsequent years.

#### Vietnam's total industrial livestock feed output (million tonnes)



Source: Alltech, Department of livestock production

In addition to industrial livestock feed, a large proportion of feed is made by farmers, which is not reported officially. It is estimated that 57 percent of livestock feed came from domestic industrial production, and the remaining 43 percent came from self-made and imported feed. The proportions of industrial feed and self-made feed are subject to the volatility of input prices. When input prices fall, but industrial feed prices remain unchanged, farmers will make livestock feed themselves to reduce costs. The high percentage of self-made livestock feed implies significant opportunities for industrial production. Self-made feed cannot provide optimal nutrients to raise animals as they are spontaneous activities and do not follow optimal formulae for each type of animal.

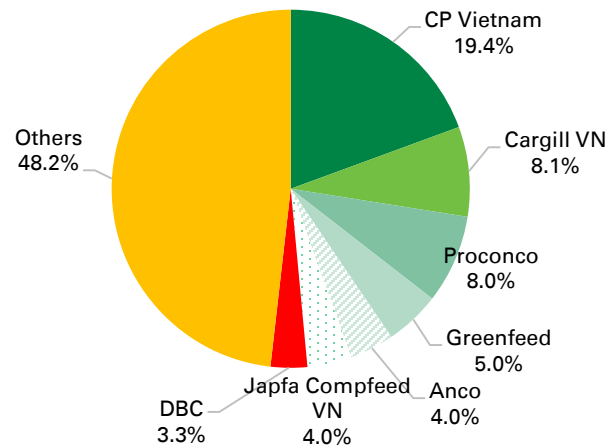
Vietnam has spent a large amount on importing raw materials and livestock feed – USD3.3 billion in 2014 (up 5.7 percent y-o-y). In the first four months of 2015, Vietnam imported a value of USD1.16 billion, soaring 27 percent compared to the same period last year. Vietnam imported raw materials that included high hydrate carbon materials (e.g., corn wheat), rich-protein materials (e.g., fish powder, soybean meal), and additional supplements (e.g., premix, minerals, amino acids).

The market is dominated by foreign producers. Vietnam currently has more than 239 feed mill companies, of which 59 are foreign-owned (joint venture and FDI companies). These foreign companies have large scale production and build extensive distribution networks, leading to a high competition threat to local companies with 70 percent control of market share. Foreign-owned companies have also set up full value chains from feed and breeds, to farms, processing plants, and distribution networks. Meanwhile, domestic companies with limited resources have only invested in one or two steps in the production chain. Recently, new domestic players entering this market such as Hoa Phat Group, Masan, and Hung Vuong have brought new momentum to the industry. The participation of domestic players and

the expansion of foreign investors can increase competitiveness in the market. However, as mentioned before, 43 percent of the feed output is self-made or imported, creating a potential market for industrial livestock feed production when farmers have to shift from spontaneous farming to large scale production in the long term. There is still room for companies to gain market share.

With output of 410,000 tonnes of feed in 2014, out of an estimated output for Vietnam of 12.2 million tonnes, we calculate that Dabaco accounted for approximately 3.3 percent of total market share.

#### Livestock feed market breakdown by producer



Source: VPBS collects

**Vietnam feed production depends heavily on import materials.** Input costs account for 70 to 75 percent of the feed production cost. As top companies outpace the rest of the market, they have the ability to shift input cost burdens to their customers. Raising animals also depends on imported breeds, medicines, vaccines, and machines for farms. As a result, animals raised domestically cost more than imported animals.

**Challenges if TPP goes into effect.** According to experts in the industry, Vietnam’s livestock feed production cost is 10 percent higher than prices in other regional countries. Farming animal costs in Vietnam are 10 to 15 percent higher than other countries. Current tax rates for meat imported into Vietnam are relatively high (5 to 30 percent depending on meat type), protecting the domestic industry. However, this shield will no longer exist should TPP be enacted. This will have a heavy impact on Vietnam’s animal raising industry as all import tax rates will be reduced to zero.

# DABACO GROUP

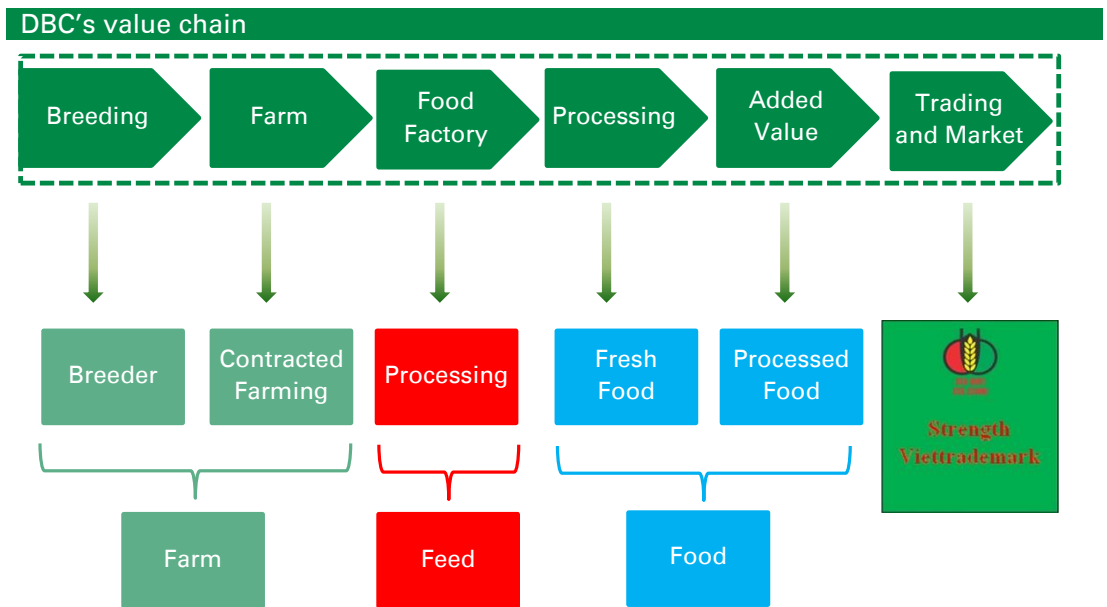
## Overview

*Dabaco produces agriculture-related products, and also has real estate and infrastructure projects.*

Dabaco Group (DBC) was established in 1996 under the name “Ha Bac Agri-related Production Company” in Bac Ninh province. DBC specializes in production of livestock feed, poultry, cattle. In 2005 DBC converted to a joint stock company, and officially listed its shares on the Hanoi Stock Exchange (HNX) on February 28, 2008, with 62.7 million shares currently outstanding. At the end of Q1/2015, DBC’s equity was VND1,793 billion (USD82.7 million).

## Strategy

DBC aims to develop as a strong group in the agriculture industry, using modern technology and a closed 3F value chain – farming (breeding and farms), feed (producing livestock feed) and food (meat processing) – in combination with Dabaco supermarkets and fresh food shops. DBC has one packaging factory for producing polyethylene plastic (PE) and polypropylene plastic (PP) plastic packages for internal use and sale. The company had operated strongly in real estate and construction in previous years, but this segment stopped contributing to DBC’s profit following the real estate market’s decline.



Source: DBC

## Ownership and operation structure

Currently DBC has 18 wholly-owned subsidiaries to support the company’s core business (see appendix 1).

The shareholder structure of DBC is relatively balanced, with 30.3 percent internally owned, 32 percent foreign owned, and approximately 38 percent free-floating in the market.

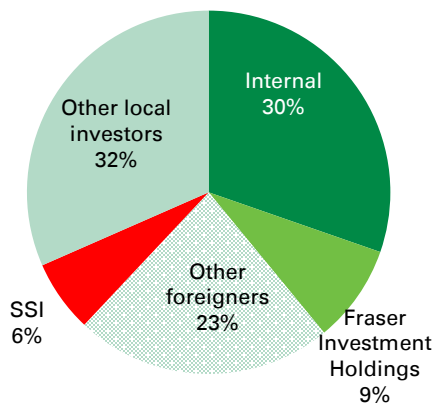
Mr. Nguyen Nhu So, Chairman of Dabaco, holds 18.27 percent of the company's shares. The Fraser Investment Holding Pte and Saigon Securities Incorporated are the two largest institutional holders of DBC with 8.7 percent and 6.4 percent respectively.

Recently the company made changes to the management board:

- ❖ Mr. Nguyen Nhu So – Chairman of Dabaco Group resigned the Chief Executive Officer position.
- ❖ Mr. Nguyen Khac Thao – Deputy Chairman was appointed as Chief Executive Officer.
- ❖ Mr. Nguyen The Tuong – board member was appointed as Deputy Chief Executive Officer.
- ❖ Ms. Nguyen Thi Thu Huong – board member, Chief Financial Officer, and Chief Accountant was appointed as Deputy Chief Executive Officer.

Board decisions took effect from May 18, 2015.

#### Ownership structure of DBC



#### Management structure

Name	Position	Year of birth	Stock ownership
<b>Board of Directors</b>			
Mr. Nguyen Nhu So	Chairman	1957	18.27%
Mr. Nguyen Khac Thao	Deputy Chairman	1957	1.12%
Mr. Nguyen Hoang Nguyen	Member	1973	0.11%
Ms. Nguyen Thi Thu Huong	Member	1964	1.70%
Mr. Nguyen The Tuong	Member	1970	1.06%
<b>Board of Management</b>			
Mr. Nguyen Khac Thao	CEO	1957	1.12%
Ms. Nguyen Thi Thu Huong	Deputy CEO	1964	1.70%
Mr. Nguyen The Tuong	Deputy CEO	1970	1.06%
Mr. Nguyen Van Manh	Deputy CEO	1954	0.04%
Mr. Pham Van Hoc	Deputy CEO	1978	0.00%
Mr. Nguyen Trong Kich	Deputy CEO	1954	0.00%

Source : DBC

### Historical performance

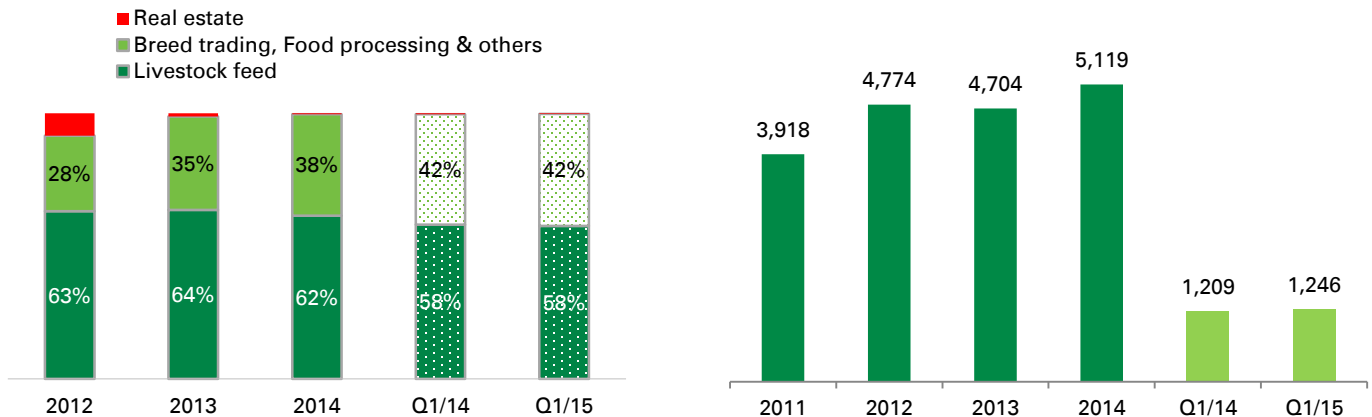
*Reducing revenue from real estate and focusing on the core business*

Dabaco is a group specializing in producing animal feed, breeding, and food processing. In addition, Dabaco also operates in trading activities (materials and supermarkets), real estate, and infrastructure.

From 2011 to 2014, DBC's net revenue grew at CAGR of nine percent, but growth has changed unpredictably. Revenue growth rate soared 22 percent in 2012 before plunging to negative one percent in 2013 and recovering to nine percent the following year. Revenue came from a mixture of several segments, leading to volatility when real estate played an important role in DBC in previous years. More recently, DBC has focused on agricultural products, suggesting that the revenue trend will become more stable.

## Revenue breakdown (%)

## Revenue (VNDbn)



Source: DBC

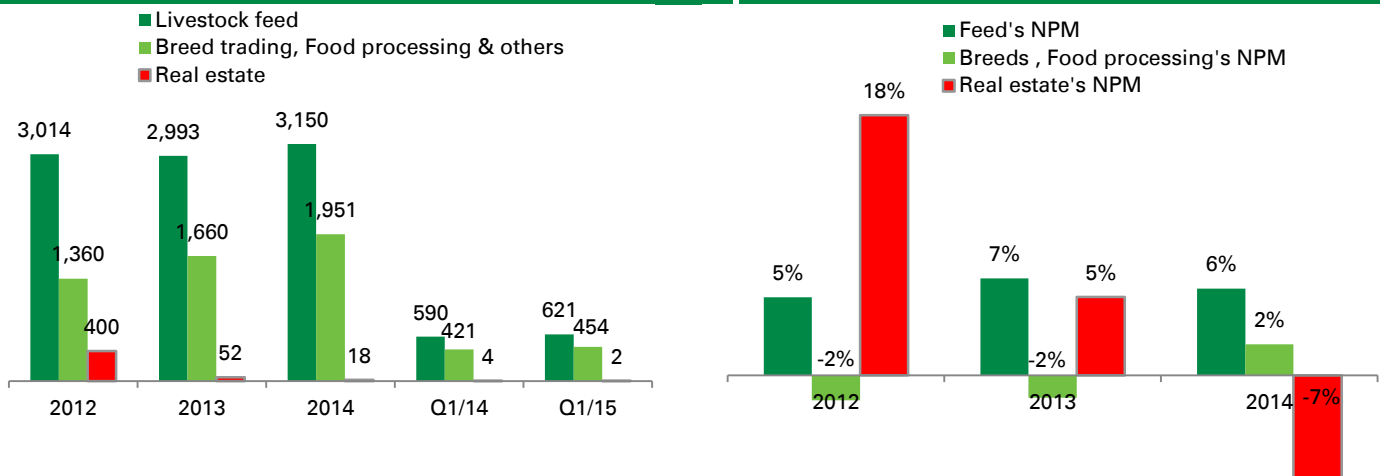
### Livestock feed production

DBC produces a wide range of feed products for cattle, poultry, and seafood under six brand names: Dabaco, Topfeeds, Khangtovina, Nasaco, Growthfeeds, and Kinh Bac, with a total of around 100 products, mainly in 25kg packs. DBC products are sold primarily in the Northern provinces, and recently penetrated the central area.

Revenue from livestock feed production accounts for the largest proportion of revenue, at 60 percent. This segment's growth has been quite stable with CAGR of two percent in the last three years. Gross profit margins of feed production have been 16 to 17 percent, with net profit margins of six to seven percent.

## Revenue of DBC's segments (VND bn)

## DBC's net profit margins by segment (%)



Source: DBC

### Customers

Current customers of DBC are contracted farmers and tier-one agents. DBC has around 1,000 tier-one agents located in southern and central provinces. In the last three years, the output of feed sold by DBC increased 8 to 10 percent, from 345,000 tonnes to 410,000 tonnes per year.



## Production capacity

We estimate that DBC can produce around 550,000 tons of livestock feed per year, of which 95 percent is feed for cattle and poultry, while the remaining five percent is feed for fish. In 2014, DBC sold 378,901 tons of feed, up 10 percent y-o-y. Given the current utilization rate of 70 percent and an annual growth rate of 10 percent per year, it is estimated that DBC can run at full capacity within the next four years.

Recently DBC has invested in building a livestock feed production plant at Hoa Mac industrial zone, Ha Nam province with a total investment value of VND300 billion (USD13.8 million) during 2015-2016. The plant will have a capacity of 300,000 tonnes per year, and will be under the control of DBC's newly established subsidiary Nasasco Ha Nam Company. This plant will produce feed for poultry, cattle, and seafood. DBC has also built up a pork breed raising center in Phu Tho province with a total investment of VND200 billion (USD9.2 million). Therefore the total investment for these two plants will be VND500 billion (USD23 million) for 2015-2016.

### DBC's livestock feed production capacity

Factory	Type	Start year	Capacity (tonnes/hour)	Maximum capacity (tonnes/year)
Dabaco I	Feed livestock	1997	5	30,030
Topfeeds	Feed livestock	2002	30	180,180
Kinh Bac factory	Fish livestock	2006	5	30,030
Dabaco II	Feed livestock	2009	25	150,150
Nutreco	Feed livestock	2011	22	132,132
Dabaco Hoan Son	Feed livestock	2012	5	30,030
<b>Total current capacity</b>				<b>552,552</b>
New factory @ Ha Nam	Feed livestock	2017		300,000
New factory @ Vinh Phuc- Phu Tho	Feed livestock	N/A		150,000
New factory @ Binh Dinh	Feed livestock			120,000 - 150,000
<b>Total new capacity</b>				<b>2,755,104 - 3,055,104</b>

Source: DBC, VPBS collect

DBC also has other investment expansion plans in the long term to enhance animal raising activity and finish real estate projects, as follows:

### DBC's other investment plans

Future Project	Location	Investment value (VND bn)	Estimated construction period
Super-egg chicken breed factory	Tien Du, Bac Ninh	125.4	2015-2016
Yen The chicken breed	Yen The, Bac Giang	90.7	N/A
Pork breed raising center	Phu Tho	150	2015- 2016
Food processing factory expansion plan	N/A	N/A	N/A
<b>Finish on-going project</b>			
Warehouse for feed production plants	Khac Niem, Bac Ninh	73.6	2014-2015
General port	Tien Du, Bac Ninh	55.8	2015-2016
Fish powder factory	Cat Ba- hai Phong	N/A	N/A
Hotel @ Nguyen Dang Dao Street	Bac Ninh		
Van Mieu Adjustment resevoir		Build- Transfer method	
Que Vo III industrial zone			

Source: DBC, VPBS collect

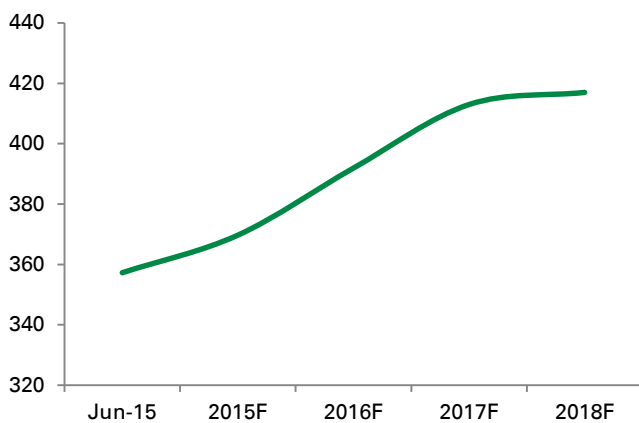
**Husbandry** is the second largest segment in DBC's net revenue with 20 percent CAGR from 2012 to 2014. This was the highest growth rate among segments but NPM was low (only one to two percent) and it did not earn profit in some periods.

- ❖ **Farming and Breeding:** the company provides farmers with various breed types of chicken and pork. DBC has become noted for selling breeds of “nine spurs chicken” (gà chín cựa) with a high quality of meat, bringing high value to farmers.
- ❖ **Food:** The main products of DBC are chicken eggs, fresh meat, and sausage, especially normal eggs and premium eggs with Omega 3. DBC has invested in a Holland technique egg processing line which automatically cleans, sterilizes, weighs, and classifies eggs. This allows DBC to control their eggs’ quality. Processed meat, sausage, and canned food seem to contribute only a small part of DBC’s revenue.

As input materials, livestock feed production, breeding, and farming are closely related steps in the whole-value chain, any changes in one step can affect the others. In the first half of 2014, low meat prices caused small farmers to scale down their farming, resulting in low demand for livestock feed. Another obstacle in the second half of 2014 was lack of animal breeds in the market, which led to the slow consumption of livestock feed.

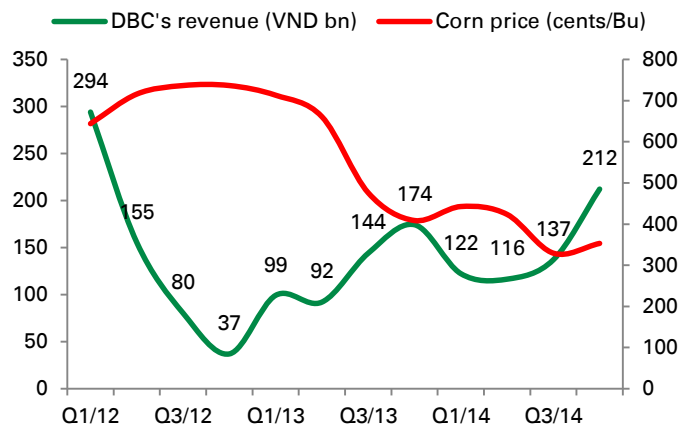
DBC has to import around 60 percent of raw materials. We note that 80 percent of DBC’s COGS costs are raw materials, meaning that recent trends in these materials could impact significantly on the company’s operations. According to Bloomberg, the trend in corn prices is upwards, but at a small CAGR of four percent. We believe that the increase in input prices can be shifted to customers via selling price adjustments.

Corn price futures (cents/bu.)



Source: Bloomberg

DBC’s quarterly revenue and corn price



Source: DBC

### Real estate

DBC has around 15 projects in real estate and infrastructure in Bac Ninh province, of which Que Vo III industrial zone is the largest project with 598 ha. Other projects are temporarily suspended. We do not have enough information on project development plans, investment costs, or status, therefore we do not incorporate the land bank value of DBC into the valuation model. However, it is noted that DBC can earn abnormal profits if the company sells one of their projects as they did with the Den Do project in 2012.

## List of DBC's work-in progress projects

Project	Area (ha)	Starting year	Work in progress value at the end of 2014 (VND bn)
Que Vo III industrial zone	598	2011	453
Van Mieu Adjustment reservoir	31	2011	106
Others	N/A		4
Total value			568

Source: DBC

## 2015 outlook

DBC set humble targets for revenue rise of six percent and net profit increase of seven percent, for a revenue of VND7,963 billion (USD367 million) and net profit of VND217 billion (US10 million). Target revenue includes 30 percent of internal trade revenue. If we eliminate this item, the target revenue of DBC would be VND5,504 billion (USD254 million), increasing eight percent y-o-y. Chicken breeds, pork, chicken, and eggs are the key drivers contributing to DBC's growth in 2015.

## DBC's 2015 plan

	Unit	2014	2015P	Growth
Feed production	tonne	378,901	410,000	8%
Cock	animal	6,317,507	15,776,548	150%
Weaner	animal	140,300	120,068	-14%
Feeder pig	animal	562,000	570,000	1%
Pork for slaughter	kg	15,804,252	22,709,100	44%
Poultry for slaughter	kg	3,191,832	5,402,800	69%
Eggs	egg	75,063,830	120,005,600	60%
Total revenue	VND bn	7,530	7,963	6%
Profit before tax	VND bn	249	258	3%
Net profit	VND bn	206	217	6%

Source: DBC

In Q1/2015, DBC recorded net revenue of VND1,246 billion (USD57.2 million; up three percent y-o-y). Sales from feed production accounted for largest portion at 60 percent, with the remainder from breeds, contracted farming, and food processing. Feed production rose slightly by six percent compared to the same period last year. Livestock feed output increased nine percent y-o-y. This implies that the average selling price (ASP) fell by around three percent, following the downtrend of input materials.

For breeding sales, profit margins were volatile due to the mix between trading cattle breeds and poultry breeds. In Q1/2015, the segment showed improvement with a positive net profit of VND40 billion (USD1.8 million) compared to a loss of VND9 billion (USD0.4 million) in Q1/2014. Similarly, stable meat prices helped contract farming and food processing revenue to rise by 33 percent, earning positive net profit of VND2.7 billion (USD100,000) compared to a loss of VND6.6 billion (USD300,000) in Q1/2014.

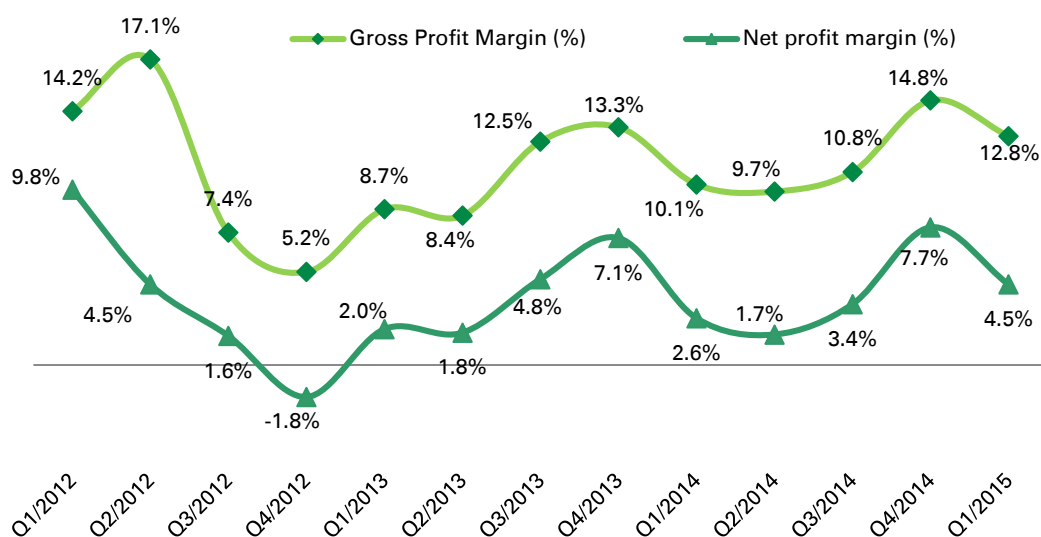
Given the Q1/2015 results, DBC has fulfilled around 24 percent of targeted revenue and 26 percent of targeted net profit.

**Inventories account for largest part of total assets.** At the end of Q1/2015, the value of DBC's inventories was VND2,063 billion (USD94.6 million), accounting for 50 percent of total assets. Work in progress in real estate and feed production was the dominant part of DBC's inventories breakdown (52 percent), followed by materials (31 percent).

**Bank loans are mainly short term.** DBC's bank loans to equity ratio was 99 percent as of March 31, 2015. Loans were mainly short term (89 percent) with an average bank loan rate of eight percent.

**Stable profit margins for the whole year, but margins volatile between quarters:** During the last four years, GPMs of DBC were smooth at 10.8 to 11.9 percent, despite volatility among revenue segments. In Q1/2015, DBC's GPM was 12.8 percent, increasing significantly from 10.1 percent in the same period in 2014. DBC's net profit margins (NPM) were in the range from 4.0 to 5.6 percent. In the first three months of 2015, DBC's NPM was 4.5 percent, also much higher than the NPM of Q1/2014 (2.6 percent).

#### DBC's profit margins



Source: DBC

## FORECAST

We forecast that the net revenue of DBC will increase at a CAGR of 10 percent in the next five years. We expect revenue growth to increase strongly from 2017 due to the new livestock feed production plant and pork breed raising center. Gross profit margins of DBC are forecast to be of 11.3 percent and reduce gradually thereafter to 10.3 percent by 2020, assuming an uptrend in inputs, high competitiveness, and amortizing the depreciation cost of new plants.

#### DBC's revenue

VND billion	2014	2015	2016	2017	2018	2019	2020
Feed production	3,150	3,402	3,674	4,042	4,446	4,890	5,379
Growth (%)		8%	8%	10%	10%	10%	10%
Farming, Food processing and others	1,951	2,146	2,361	2,597	2,856	3,142	3,456
Growth (%)		10%	10%	10%	10%	10%	10%
Total Net revenue	5,119	5,566	6,053	6,656	7,320	8,050	8,854
Growth (%)		9%	9%	10%	10%	10%	10%
Gross margin (%)		11.3%	11.2%	11.1%	10.6%	10.4%	10.3%

Source: VPBS forecast

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## Financial income

**Financial income:** Income from deposits is expected to be five percent of cash and cash equivalents.

**Financial expenses:** Average interest rate is assumed to be seven percent from 2015 to 2020.

## Tax rate

As we do not have details of a tax exemption scheme for DBC, we assume that the company does not enjoy tax preferred status and therefore normal corporate income tax rates apply.

## Net profit

We assume that average SG&A cost/revenue will be four percent from 2015 to 2020. Net margins of DBC are forecast to be five to six percent, increasing gradually year-on-year from 2015 to 2020. EPS of the company in 2015 is expected to be VND3,282 per share in 2015 (this EPS has been adjusted according to Decision 200 effective from this year).

## Dividend

Normally DBC pays cash dividends of 10 to 15 percent per year (VND1,000-1,500 per share). However, the 2015 AGM approved payment of a shares dividend at a ratio of 5:1. Charter capital of DBC would therefore increase from VND630 billion (USD29 million) in 2014 to VND750 billion (USD34.6 million) in 2015. In the next few years we estimate that DBC will still pay cash dividends, but at a lower rate, around five percent per year, to retain cash for reinvestment.

## Balance sheet

We make key assumptions to build DBC's balance sheet as follows:

- Receivables outstanding period: remains stable at 29 days compared to an average of 30 days in the previous three years.
- Inventories outstanding period: 168 days, increasing from 163 days.
- Payables outstanding period: 54 days, rising from 51 days in the previous two years.
- Current assets and current liabilities: remain stable as a percentage of related revenues and expenses.
- Capital expenditure: Given DBC's investment plan in the 2015 AGM meeting note, we estimate that DBC's capital expenditures per year will be around VND250 billion (USD11.5 million).

## VALUATION

Using the P/E and DCF methods, we calculate a target price for DBC of VND25,400 per share.

Method	Price	Weight	(VND/share)
P/E	27,924	50%	13,962
DCF	22,860	50%	11,430
<b>Target price</b>			<b>25,392</b>

Source: VPBS

## Peer comparison

Simply comparing P/E ratios may not give an accurate picture as peer companies are trading in different markets that have different risk-free rates and macroeconomic conditions. For a more accurate comparison, we look at relative P/E ratios to derive a value of VND27,924/share for the company.

### DBC's relative price

Company name	P/E	Market's P/E	P/E over market's P/E	ROE (%)	ROA (%)	EV/EBITDA
Thai Union Frozen Products PCL	17.24	20.1	0.9	13.4	5.2	15.2
Charoen Pokphand Foods Public	15.35	20.1	0.8	10.1	2.9	16.6
Huat Lai Resources Berhad	7.58	17.0	0.4	14.0	2.9	6.3
United Food Holdings Limited	8.83	15.1	0.6	2.2	2.1	3.0
NH Foods Ltd.	17.67	18.7	0.9	9.2	4.8	9.3
Korea Industrial Co., Ltd	7.16	17.4	0.4	12.7	5.9	7.2
Hanil Feed Co., Ltd	11.07	17.4	0.6	7.2	2.7	11.8
Sunjin Co., Ltd	11.45	17.4	0.7	12.6	5.5	12.8
<i>Average</i>	<i>12.0</i>	<i>17.9</i>	<i>0.7</i>	<i>10.2</i>	<i>4.0</i>	<i>10.3</i>
<b>Dabaco</b>	<b>6.97</b>	<b>12.9</b>		<b>13.2</b>	<b>5.8</b>	<b>6.4</b>
EPS 2014	3,280					
Price (VND per share)	<b>27,924</b>					

Source: Bloomberg, VPBS

## Discounted cash flow (DCF)

Applying DCF model, we derive DBC's value as below. Our forecast income statement and balance sheet are shown at the end of the report.

Cost of Equity		Cost of Debt	
Five-year government bond yield	6.1%	Long-term interest rate	8%
Beta	0.84	Effective Tax Rate	22%
Market required rate of return	14.5%	After Tax Cost of Debt	7%
Cost of Equity	13.2%	Current Share Price (VND)	26,000
		Number of shares (million)	62.7
		Market Capitalization (VND bn)	1,631
		Debts (VND bn)	1,389
		WACC	10.3%
		Terminal Growth Rate	6%
		<b>Valuation per share</b>	<b>22,860</b>

Source: Bloomberg, VPBS

## Technical analysis

DBC's technical chart entered a downtrend when the price of DBC broke through the mid-term support level of the MA50 at 29,300 on March 25, 2015. After failing to double-check the resistance level of the MA50 during last three months, DBC is now trading at its mid-term support level of 24,000, formed by the accumulation phase at the end of May.

Its trading volume also has increased recently and it rose today, indicating that demand is starting to absorb selling pressure at the support level. We expect that this could help slow DBC's downward momentum in the next few weeks.

We therefore give a HOLD recommendation for DBC as we wait to see the direction of the next trend.

As of July 1, 2015	(VND/share)
Horizon analytic	3 to 6 months
3-month highest price	29,700
3-month lowest price	24,000
Current MA50 days	25,900
Current MA100 days	27,600
Mid-term resistance level	27,600
Mid-term support level	24,000
<b>Recommendation</b>	<b>HOLD</b>



Source: VPBS

## Appendix 1: List of DBC's subsidiaries

Subsidiary	Charter capital (VNDbn)	Main business
Dabaco Nucleus Breeding Pig Co., Ltd	80	Raising and trading poultry
Dabaco Breeding Swine Co., Ltd	40	Raising and trading poultry
Lac Ve Breeding Pig Co., Ltd	26	Raising and trading poultry
Investment and Development Breed Processing Co., Ltd	25	Livestock raising and support farming activity
Dabaco Pig Raising Investment and Development Co., Ltd	30	Raising and trading poultry
Dabaco Breeding Chicken Co., Ltd	10	Raising and trading chicken breeds
Dabaco Foodstuffs Processing Co., Ltd	70	Poultry slaughter
Dabaco Tay Bac Co., Ltd	20	Raising and trading poultry
Dabaco High-Tech Agriculture Co., Ltd	20	Producing and trading vegetables applied high technology
Hiep Quang Trading Co., Ltd	30	Producing and trading plastic packaging products
Bac Ninh Trading Co., Ltd	17	Trading and import-export raw materials for poultry food, restaurants and hotels services
Dabaco Real Estate Co., Ltd	70	Real estate business
Dabaco Substructure Development and Building Investment Co., Ltd	20	Building construction and installation of electrical and water systems
Nutreco Co., Ltd	50	Raising and trading poultry
Dabaco Tan Chi Port Co., Ltd	10	Trading building materials
Kinh Duong Vuong 3 Roadway and Truong Chinh Roadway Construction Co., Ltd	25	Construction of civil works and housing
Van Mieu – Bac Ninh Lake air Construction Co., Ltd	100	Construction of civil works and housing
Roadway prolonged from Do Temple to Ring road III and TL295B Tu Son Construction Co., Ltd	200	Construction of civil works and housing



## Appendix 2: VPBS projection

Income Statement (VND bn)	2014A	2015E	2016	2017	2018	2019	2020
<b>Total Net Revenue</b>	<b>5,119</b>	<b>5,566</b>	<b>6,053</b>	<b>6,656</b>	<b>7,320</b>	<b>8,050</b>	<b>8,853</b>
<i>Growth rate</i>	9%	9%	9%	10%	10%	10%	10%
<b>Cost of Goods Sold</b>							
GCS (excluding depreciation)	4,399	4,787	5,204	5,724	6,332	6,979	7,685
<i>CGS % of segment revenue</i>	86%	86%	86%	86%	87%	87%	87%
Depreciation in CGS	131	153	173	194	214	235	255
Reported Cost of Goods Sold	4,531	4,939	5,376	5,918	6,546	7,214	7,940
Less: Depreciation included in CGS	131	153	173	194	214	235	255
<b>Cost of Goods Sold</b>	<b>4,399</b>	<b>4,787</b>	<b>5,204</b>	<b>5,724</b>	<b>6,332</b>	<b>6,979</b>	<b>7,685</b>
<b>Gross Profit</b>	<b>719</b>	<b>779</b>	<b>849</b>	<b>932</b>	<b>988</b>	<b>1,071</b>	<b>1,169</b>
<b>Total Selling Expenses</b>	<b>111</b>	<b>120</b>	<b>131</b>	<b>144</b>	<b>158</b>	<b>174</b>	<b>177</b>
<b>Total General &amp; Admin Expenses</b>	<b>133</b>	<b>139</b>	<b>146</b>	<b>154</b>	<b>161</b>	<b>169</b>	<b>178</b>
Income from Affiliated Companies	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>476</b>	<b>520</b>	<b>572</b>	<b>634</b>	<b>669</b>	<b>727</b>	<b>814</b>
<i>EBITDA Margin</i>	9%	9%	9%	10%	9%	9%	9%
Depreciation	131	131	153	173	194	214	235
<b>EBIT</b>	<b>345</b>	<b>388</b>	<b>419</b>	<b>461</b>	<b>475</b>	<b>513</b>	<b>579</b>
Financial income	18	18	12	12	16	23	24
Financial expenses							
Interest Expense	117	111	104	121	132	139	147
Foreign Exchange Losses (Gains)	-	-	-	-	-	-	-
Other Financial Expenses Losses (Gains)	6	-	-	-	-	-	-
<b>Net Financial Income (Expense)</b>	<b>(105)</b>	<b>(93)</b>	<b>(92)</b>	<b>(110)</b>	<b>(115)</b>	<b>(116)</b>	<b>(123)</b>
Other Income	10	-	-	-	-	-	-
<b>Pretax Income</b>	<b>249</b>	<b>295</b>	<b>327</b>	<b>351</b>	<b>360</b>	<b>397</b>	<b>456</b>
Income Tax Expense	43	65	72	72	72	79	91
<i>Effective Tax Rate</i>	17%	22%	22%	20%	20%	20%	20%
<b>Net Income</b>	<b>206</b>	<b>230</b>	<b>255</b>	<b>280</b>	<b>288</b>	<b>318</b>	<b>365</b>
Average Number of Shares (mn)	63	75	75	75	75	75	75
EPS (VND)	3,279	2,748	3,047	3,341	3,439	3,800	4,359

(\*) from 2015: EPS numbers are adjusted for Decree 200 with assumption that Bonus and Welfare funds account for 10% of net income.

<b>Balance Sheet (VND bn)</b>	<b>2014A</b>	<b>2015E</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Current Assets</b>							
Cash & Near Cash Items	281	63	122	221	352	420	210
Short Term Investments	88	109	109	109	109	109	109
Accounts & Notes Receivable	335	454	479	502	576	625	684
<i>A/R DOH</i>	24	30	29	28	29	28	28
Inventories	2,143	2,137	2,419	2,668	2,907	3,234	3,557
<i>Inv DOH</i>	178	163	170	170	168	169	169
Other Current Assets	130	148	147	142	146	145	144
<b>Total Current Assets</b>	<b>2,976</b>	<b>2,912</b>	<b>3,275</b>	<b>3,641</b>	<b>4,090</b>	<b>4,533</b>	<b>4,704</b>
<b>Long-Term Assets</b>							
Gross Fixed Assets	1,581	1,837	2,079	2,329	2,574	2,822	3,068
Accumulated Depreciation	522	653	806	978	1,172	1,386	1,620
Net Fixed Assets	1,059	1,184	1,274	1,350	1,402	1,436	1,448
Long Term Investments	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-
Other Long Term Assets	185	139	162	151	156	153	155
<b>Total Long-Term Assets</b>	<b>1,244</b>	<b>1,324</b>	<b>1,436</b>	<b>1,501</b>	<b>1,559</b>	<b>1,589</b>	<b>1,603</b>
<b>Total Assets</b>	<b>4,220</b>	<b>4,235</b>	<b>4,711</b>	<b>5,142</b>	<b>5,649</b>	<b>6,123</b>	<b>6,307</b>
<b>Current Liabilities</b>							
Accounts Payable	721	668	789	834	941	1,027	1,137
<i>A/P DOH</i>	60	51	55	53	54	54	54
Accrued Expenses	212	226	241	259	278	299	309
Short Term Borrowings	1,222	1,113	1,211	1,331	1,464	1,610	1,328
Other Short Term Liabilities	60	60	60	60	60	60	60
<b>Total Current Liabilities</b>	<b>2,215</b>	<b>2,068</b>	<b>2,302</b>	<b>2,484</b>	<b>2,744</b>	<b>2,997</b>	<b>2,834</b>
<b>Long Term Liabilities</b>							
Long Term Borrowings	168	194	181	187	184	126	145
Other Long Term Liabilities	7	7	7	7	7	7	7
<b>Total Long Term Liabilities</b>	<b>175</b>	<b>201</b>	<b>188</b>	<b>195</b>	<b>192</b>	<b>133</b>	<b>152</b>
<b>Total Liabilities</b>	<b>2,390</b>	<b>2,269</b>	<b>2,490</b>	<b>2,679</b>	<b>2,936</b>	<b>3,129</b>	<b>2,986</b>
<b>Equity</b>							
Share Capital & APIC	1,046	1,046	1,046	1,046	1,046	1,046	1,046
Retained Earnings	784	920	1,175	1,417	1,667	1,947	2,274
Other Equity	-	-	-	-	-	-	-
<b>Total Shareholders Equity</b>	<b>1,830</b>	<b>1,966</b>	<b>2,221</b>	<b>2,463</b>	<b>2,713</b>	<b>2,993</b>	<b>3,320</b>
Minority Interest	-	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>4,220</b>	<b>4,235</b>	<b>4,711</b>	<b>5,142</b>	<b>5,649</b>	<b>6,123</b>	<b>6,307</b>
Average Shares Outstanding (mn)	63	75	75	75	75	75	75
Book Value Per Share (VND)	29,167	26,109	29,495	32,707	36,028	39,751	44,094

<b>Cash Flows (VND bn)</b>	<b>2014A</b>	<b>2015E</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Net Income	249	230	255	280	288	318	365
Depreciation & Amortization	131	131	153	173	194	214	235
Changes in Working Capital	(48)	(185)	(184)	(223)	(209)	(290)	(271)
Other Non-Cash Adjustments	101	60	(8)	29	14	24	8
<b>Cash From Operation Activities</b>	<b>434</b>	<b>236</b>	<b>216</b>	<b>259</b>	<b>285</b>	<b>266</b>	<b>337</b>
Disposal of Fixed Assets	25	-	-	-	-	-	-
Capital Expenditures	(228)	(256)	(242)	(249)	(246)	(247)	(247)
Increase/Decrease in Investments	338	-	-	-	-	-	-
Other Investing Activities	-	(21)	-	-	-	-	-
<b>Cash From Investing Activities</b>	<b>135</b>	<b>(277)</b>	<b>(242)</b>	<b>(249)</b>	<b>(246)</b>	<b>(247)</b>	<b>(247)</b>
(Dividends Paid)	(88)	(94)	-	(38)	(38)	(38)	(38)
Proceeds from borrowings	4,060	(108)	97	121	133	146	(282)
Repayments of borrowing	(4,322)	26	(13)	7	(3)	(59)	20
Increase (Decrease) in Capital Stocks	-	-	-	-	-	-	-
Other Financing Activities	(76)	-	-	-	-	-	-
<b>Cash From Financing Activities</b>	<b>(426)</b>	<b>(176)</b>	<b>84</b>	<b>90</b>	<b>92</b>	<b>50</b>	<b>(300)</b>
Beginning Cash Balance	137	281	63	122	221	352	420
Net Changes in Cash	144	(217)	58	99	132	68	(210)
<b>Expected Ending Cash Balance</b>	<b>281</b>	<b>63</b>	<b>122</b>	<b>221</b>	<b>352</b>	<b>420</b>	<b>210</b>

<b>Ratio Analysis</b>	<b>2014A</b>	<b>2015E</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Profitability Ratios</b>							
Gross Margin (ex. Dep)	11.5%	11.3%	11.2%	11.1%	10.6%	10.4%	10.3%
EBITDA Margin	9.3%	9.3%	9.4%	9.5%	9.1%	9.0%	9.2%
Operating Margin	6.7%	7.0%	6.9%	6.9%	6.5%	6.4%	6.5%
Profit Margin	4.0%	4.1%	4.2%	4.2%	3.9%	3.9%	4.1%
Return on Avg. Assets	5.0%	5.4%	5.7%	5.7%	5.3%	5.4%	5.9%
Return on Avg. Equity	11.6%	12.1%	12.2%	11.9%	11.1%	11.1%	11.6%
<b>Leverage Ratios</b>							
Interest Coverage Ratio (EBIT/I)	2.9	3.5	4.0	3.8	3.6	3.7	3.9
EBITDA / (I + Cap Ex)	1.4	1.4	1.7	1.7	1.8	1.9	2.1
Tot Debt/Capital	43%	40%	39%	38%	38%	37%	31%
Tot Debt/Equity	76%	66%	63%	62%	61%	58%	44%
<b>Liquidity Ratios</b>							
Asset Turnover	1.2	1.3	1.3	1.3	1.3	1.3	1.4
Accounts Receivable Turnover	15.3	12.3	12.6	13.3	12.7	12.9	12.9
Accounts Payable Turnover	7.1	8.3	7.7	8.0	7.8	7.8	7.8
Inventory Turnover	2.4	2.6	2.5	2.5	2.5	2.5	2.5
Current Ratio	1.3	1.4	1.4	1.5	1.5	1.5	1.7
Quick Ratio	0.4	0.4	0.4	0.4	0.4	0.4	0.4

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**Hold:** Expected return, including dividends, over the next 12 months is from -10% to + 15%.

**Sell:** Expected return, including dividends, over the next 12 months is below -10%.

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