Research Report on China Beef Cattle Industry

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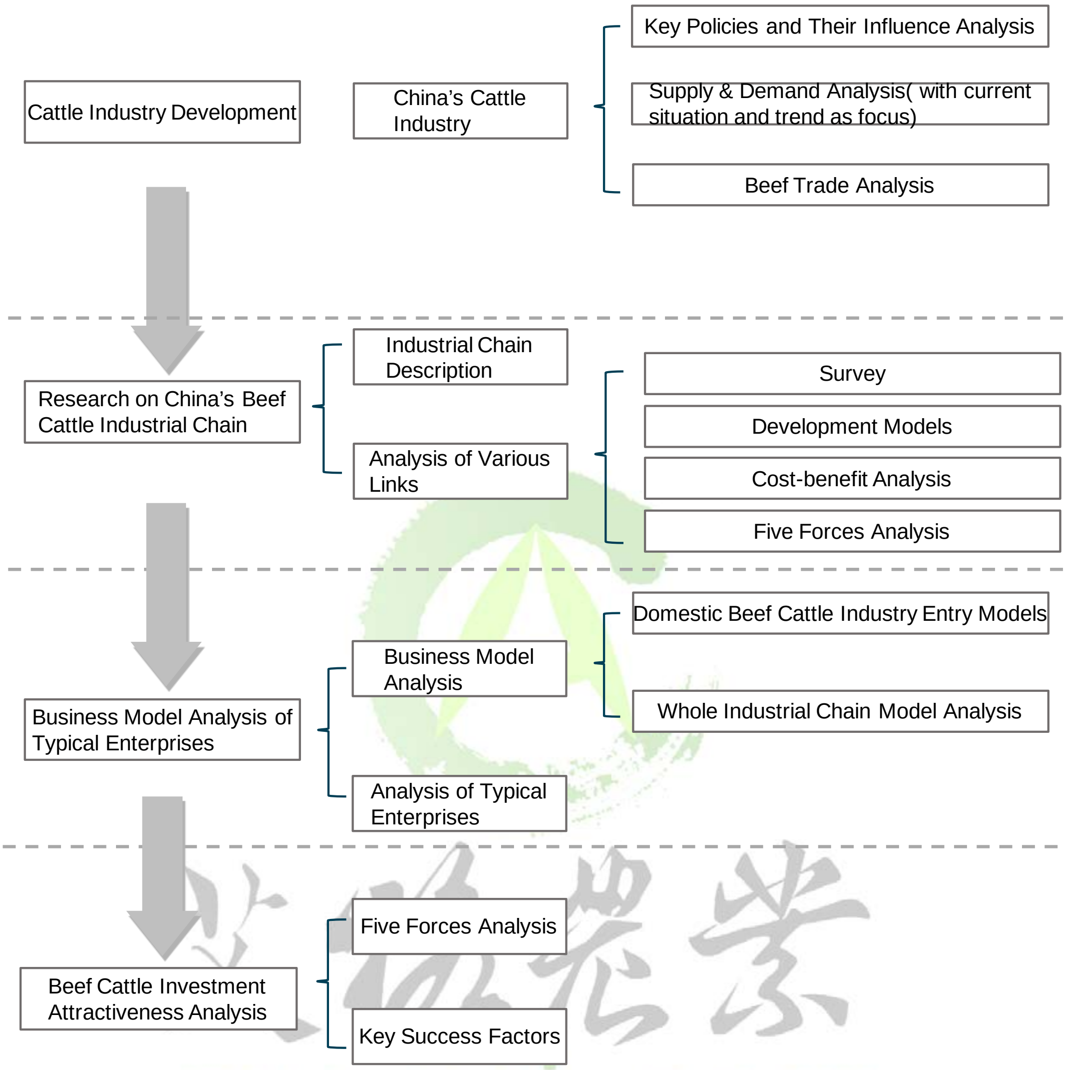
Logical frame of research



1 Report Summary

✧ Industry Policy

Since 2013, the state paid high attention to the development of beef cattle industry, defined the policy that beef production should base on domestic and basically realize self-sufficiency and insisted in the general requirement of stabilizing and developing pastoral area. The state introduced multiple policies in stock breeding, standardized scale breeding, improved breed farm building and other aspects to support the development of domestic beef cattle industry.

In 2015 the state continuously increased support to the development of beef cattle industry and issued document within the year, namely "MOA's Opinions on Completing 2015 Agricultural and Rural Economic Work Well" which points out that the state would vigorously develop herbivorous livestock industry, increase support to standardized scale beef cattle farm (breeding area) and implement projects of expanding group and increasing quantity of basic cows mainly in Hebei, Shandong and Henan.

✧ Beef Supply

China's slaughter of beef cattle was 24.7 million head in 2015, the slaughter of top five provinces including Inner Mongolia, Henan, Shandong, Hebei and Jilin accounted for 48% of national slaughter. Currently, beef cattle breeding is individual breeding dominated, but the ratio of scale breeding is raising year by year, the proportion of scale breeding (farm with annual slaughter of 50 head is defined as scale farm) reached 31% in 2015.

China's beef output was 5.46 million tons, down by 2% year on year, realizing a compound growth rate of -1.44% from 2009 to 2015. It's estimated that beef output will reach about 6.00 million tons in 2020, increasing by 546,000 tons from 2015, realizing a compound growth rate of 1.92%.

✧ Beef Demand

Beef consumption(exclude smuggling of meat) was 5.93 million tons in domestic in

2015, and the compound growth rate was -0.11% from 2009 to 2015. Domestic beef market size was 373.7 billion yuan in 2015, and the compound growth rate was 11.26% from 2009 to 2015.

In recent years, the market size of beef expands rapidly, and price factor has a more obvious driving effect on the growth of beef consumption market. From 2009 to 2015, the retail price of beef realized a compound growth rate of 11.39%, while the beef consumption did not change in the same period.

It's estimated that China's beef market size will be about 490 billion yuan in 2020, the compound growth rate will be 5.57% from 2015 to 2020 and much lower than the 11% from 2009 to 2015.

As for consumption volume, domestic beef demand still has upside potential, the consumption volume of beef(exclude smuggling of meat) will reach 7 million tons in 2020 and the compound growth rate will be 3.38% from 2015 to 2020.

From the view of price, beef price is much higher than that of chicken, pork and other meats, and the compound growth rate of beef retail price reached 14% in domestic from 2009 to 2014, while the compound growth rate of per capita disposable income was 12% in domestic during the same period. BOABC thinks that price growth which is higher than that of disposable income may make beef price facing increase bottleneck, consumers' will of paying premium further for beef is likely to be limited, it's estimated that the retail price of beef will be about 70 yuan/kg in 2020.

✧ **Beef Trade**

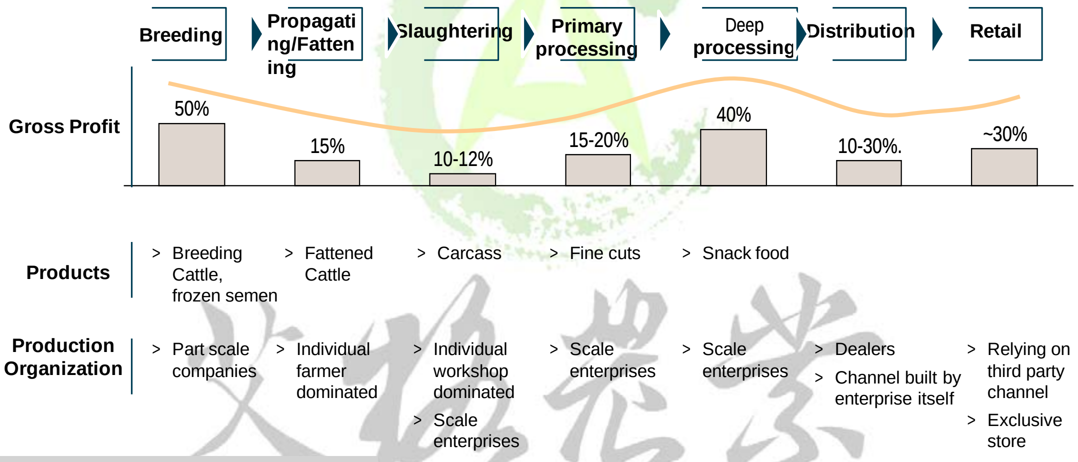
China imported 473,800 tons beef in 2015, the compound growth rate of beef import volume reached 82.04% from 2010 to 2015 mainly because that the growth of beef consumption was faster than that of beef output in domestic and the price difference between home and abroad stimulated the fast growth of beef import volume.

China's output (supply) and consumption of beef both will increase in the future, but the growth rate of output will be lower than that of consumption, the degree of self-sufficiency of beef shows downward trend, it's predicted that import volume will increase further. China's import volume of beef will be about 1,000,000 tons by 2020, accounting for 14.3% of the total consumption.

✧ Industrial Chain

For the differences of competitive situation and voice, the income level of various links of China's beef industrial chain is different. From the perspective of industrial chain, deep processing link of beef still is lacked now, high profit links include breeding cattle breeding in upstream and preliminary processing and beef sales in downstream.

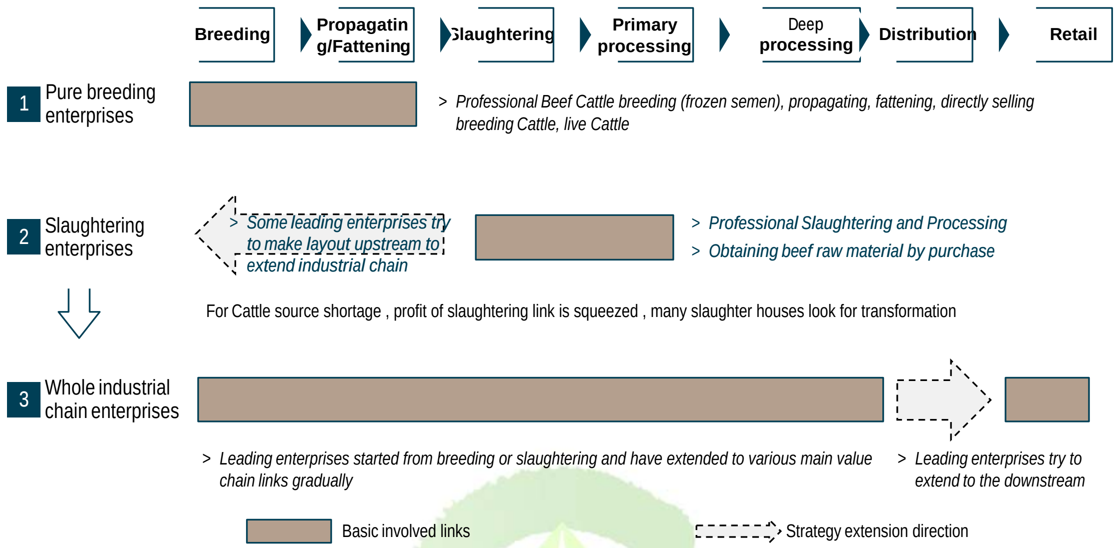
Figure 1 Profit Level of Various Links of Beef Cattle Industrial Chain



✧ Typical Business Model

As for the entry points of the industrial chain, beef cattle industry has three kinds of enterprises, of which, the enterprises adopting whole industrial chain model is the most competitive.

Figure 2 Domestic beef cattle Industrial Chain Cut-in Model



✧ Beef Cattle Industry Investment Analysis

Domestic beef demand is increasing gradually in the future, while supply end is backward relatively, the concentration ratio of large scale enterprises is lower and their operation situation is general, market gap is likely to be enlarged further. Overall, China's beef cattle industry is an emerging industry, but it has relatively high actual operative difficulty and lacks good business model, problems including large capital, import impact, cattle source shortage, channel building, etc. are hard to be solved.

So BOABC thinks the investment attractiveness of domestic beef cattle industry is medium.

Figure 3 Domestic Beef Cattle Industry Investment Attractiveness Analysis

3 Substitute: mutton is direct substitute, medium threat

> Beef and mutton have direct substitutional relation
> As non-essentials, it has broad substitutional relation with other meats

2 Supplier: domestic supply is backward

> Market supply is backward, and falls short of demand.
> Domestic supply capacity of beef will increase limitedly and import market will become powerful supplement in the future.

4 Competition: medium, frozen beef market is impacted by foreign beef

> Domestic scale breeding increases in recent years, but the proportion of scale beef enterprises still is lower, national brand is lacked, competition of whole market is medium-low.
> The impact of imported and smuggled beef on frozen beef market should be noted.

1 Demander: demand is rising gradually

> Market demand is great continuously, price is rising.
> Larger growth space exists in market in the future, and price-driven turns to consumption-driven gradually

5 New entrants: higher threshold

> Entry barriers mainly come from upstream breeding technique, capital and channel threshold, of which, capital demand is the highest of meats, entry threshold is higher.

From the perspective of industrial investment, BOABC thinks that the key success factors of domestic beef cattle industry include breeding in upstream, increasing cattle source, dealer internet, deep processing technology and retail channel.

Figure 4 Key Success Factors of Beef Cattle Enterprises

Success factors	Description	Importance degree
1 Breeding	> Cattle breeds control is key for ensuring downstream beef quality and breeding efficiency > Domestic leading enterprises choose to control breeding link, strengthen cooperation with farmers/cooperatives and ensure supply of high quality cattle source	★★★★
2 Increasing cattle source	> Production cost and company profit are subjected to breeding scale > Domestic cattle sources adopt scale breeding mode with "company + farmer" as main way and self-owned base as supplement > Expanding foreign beef source	★★★★
3 Dealers network	> Now, catering consumption of beef accounts for over 65% beef consumption and is the most important consumption channel in domestic. > Scattered catering channels mainly are covered by dealers, steady and wide dealer network is the key for selling beef and occupying market.	★★★
4 Retail channel	> Sales proportion of retail channel is rising gradually > Beef enterprises' control on retail terminal customers, especially KA modern channel, will decide brand build and sales effects of their products	★★★
5 Deep processing technology	> Deep processing technology is the key of value chain extension > Products innovation capacity and proprietary technology are the basis of market superiority of highly processed products, and prepared food and relevant leisure food are the main direction in the future	★★