Analysis and Forecast on China Livestock Industry (2016-2017)

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Background

Under the influence of continuous slowdown of economy and insufficient domestic demand, residents' demand for high-end beef and mutton decreases further, but low price animal protein like pork and poultry products is less influenced.

Hog, poultry and cattle &sheep industries have following development features in 2016.

1 Hog industry

In this year, China's hog industry realizes record high profit. During the two years before May, 2015, overcapacity and long-time loss of hog industry in China made a large number of medium and small size farmers exit the market, some large and medium size hog breeding enterprises also exited the market for capital difficulty; at the same time Regulations on Livestock and Poultry Scale Breeding Pollution Control and Environmental Protection Law come into force in this year, more than 20 provinces in domestic have implemented plans of designating areas of prohibiting breeding and limiting breeding, entry threshold of this industry rises up greatly, new added capacity goes into operation slowly, all these factors made domestic hog supply and demand imbalanced and breeding profit high.

At the industrial level:

(1) Hog breeding benefit rises up sharply. Purchasing prices of hog are about 18.54yuan/kg in 2016, increasing 21.45% year on year, the average profit of pigs propagated and bred by farms themselves is 708yuan/head, while the average profit of fattening piglets purchased is 327yuan/head.

(2) Inventory of reproductive sows continues to decline. Profitability of hog industry keeps high in 2016, but the inventory of reproductive sows doesn't rise and shows downward trend. Reproductive sow inventory declines slightly from January to March, keeps stable from April to June, declines month on month from July to October successively, and is predicted to be about 36.66 million head at the end of this year.

(3) Hog production decreases, scale breeding speeds up. It's predicted that annual production will be 651.00 million head, decreasing about 2.66% year on year. Scale level of hog breeding continues to rise, the proportion of scale breeding (sow inventory is over 50 head) reaches 53.7%, increasing 2.6% year on year.

(4) Pork import volume increases sharply. It's predicted that annual imports of pork will reach about 1.62 million tons in 2016, while in 2015 China's total import volume of fresh, chilled and frozen pork only was 777,500 tons.

At the enterprise level:

(1) The performance of listed hog breeding enterprises in domestic grows sharply. In the first three quarter of 2016, operating revenue of Wens Group increased 27.62% year on year, and its net profit rose by 124.94%; as for Truein Group and Muyuan Group, their operating revenue respectively increased 92.78% and 96.70% year on year, and their net profit respectively rose up 566.95% and 196.99%.

(2) Domestic livestock enterprises increase capacity rapidly, market concentration will rise in the future. In 2017, major hog breeding groups like Wens, Truein, Muyuan, etc., expand capacity one after another, at the same time, many large scale feed enterprises like New Hope, Zhengbang, Dabeinong, Wellhope extent their industrial chain to breeding end.

2 Broiler Industry

(1) Broiler Slaughter Increased Slightly. China's production of broilers was 9.985 billion birds in 2016, increasing 2.05% year on year. Among that, the slaughter of white broiler, yellow broiler and cross-bred broiler respectively was 4.285 billion birds, 3.90 billion birds, 890 million birds and 910 million birds, separately increasing 0.05%, 4.56% and 1.14%; and the production of eliminated layers was 910 million birds and kept stable.

(2) The level of scale poultry breeding continues to rise. With the increase of labor cost, rise of environmental requirement and changes of consumption way, the level of scale breeding grow further, it's predicted that scale breeding level (with production of more than 2000

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broilers) of broiler will reach 96.3%.

(3) White broiler breeding regains. Whole industrial chain of white broiler breeding from GP link booms comprehensively, the profits of parental chicks and commercial chicks respectively reach about 30yuan/set and 1.8yuan/bird in 2016, and the gross profit of raising white broiler is 0.25yuan/bird. Operating revenue and net profit of listed white broiler enterprises including Yisheng Livestock & Poultry Breeding Co., Ltd., Sunner Development, Minhe Biotechnology Co., Ltd. and Xiantian Group both increase year on year.

3 Egg Industry

(1) Layer inventory and egg production both rise up. Layer inventory and egg production respectively are 1.409 billion yuan and 25.35 million tons, separately increasing 0.92% and 6.85% year on year.

(2) Scale level of layer breeding raise. It's predicted that scale level of layer breeding (with inventory of more than 10,000 layers) will be 51.6% in 2016.

(3) Layer breeding continues to keep profitable. Though egg prices are relatively low in 2016, sharp decline of feed prices make layer breeding get a profit of 34.60yuan/bird which increases 49.91% year on year.

4 Cattle and sheep industry

(1) Beef cattle breeding profit falls down, beef production declines slightly. In a few years ago, sharp increase of beef prices led to great growth of imports. But, in 2016, beef prices fall down, the profit of fattening feeder cattle purchased is about 952yuan/head and decreases 177 yuan/head year on year; beef output drops to 5.39 million tons, decreasing 2.17% year on year; domestic inventory of reproductive cow is 23.97 million head, shortage of cattle source and forage grass make the industry lack motive force of development.

(2) Mutton output declines slightly, sheep breeding suffers losses continuously. Mutton output is 4.24 million tons in 2016, decreasing 3.11% year on year. As mutton prices decline, fattening sheep suffers a loss of about 97.80 yuan/head.

(3) Smuggled beef and mutton heavily impacts domestic market. Domestic demand for beef and mutton is increasing, but mutton and beef prices are higher than the prices of pork and chicken, imported beef and mutton at low prices and smuggled beef and mutton further impact domestic market and drive domestic beef and mutton prices down.

(4) Scatted and small farmers of cattle and sheep still are the main part of this industry. Whole industrial chain breeding mode of propagating and breeding cattle and sheep by farms themselves will mainly serve middle and high-end chilled fresh beef and mutton market.

In the future, China's demand for animal protein food will remain stable growth; China's animal husbandry industry is in the critical stage of transformation and upgrading, there are more opportunities for capital coming into the industry, merger and upstream and downstream integration are sped up further. Agricultural internet will develop to whole industrial chain service mode from traditional consumer end e-commerce mode, and service industry of animal husbandry industrial chain will become the development trend of industrial chain enterprises.

BOABC believes that this report will provide important decision-making base for domestic and foreign livestock products traders and manufacturers, feed producers and traders, vaccine and equipment manufacturers and agricultural investment organizations; meanwhile, it's an importance reference for industry association, research institution, etc.

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Part Two Analysis and Forecast of China's Hog Industry in 2016-2017

3 Analysis of China's Hog Market in 2016

3.1 Global Pork Output Declined Slightly in 2016

BOABC predicts that global pork output would be about 107 million tons in 2016, roughly decreasing 0.81% year on year. See table 3.1 for the outputs of main pork producing countries.

Global pork output slightly decreased in 2016, which is related with the decline of pork output in main producing regions like China and EU. Under the continuous influence of economic slowdown and environmental protection policy, China's farmers are not active in restocking, the inventories of reproductive sows and hogs both were at historically low level, and pork output decreased by 1.228 million tons. For relatively low prices of hogs, the production and inventory of hogs dropped in EU. The output decline in China and EU offset the increase in the US, Brazil and Russia.

Figure 3.1, Global Pork Output, 2010-2016

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Table 3.1, Output of Major Pork Production Countries in the World, 2015-2016

Unit: 1,000tons

	2015	2016	YOY
China	52,950	51,722	-2.32%
EU	23,000	22,580	-1.83%
America	11,158	11,307	1.34%
Brazil	3,451	3,650	5.77%
Russia	2,630	2,770	5.32%
Vietnam	2,450	2,525	3.06%
Canada	1,840	1,925	4.62%
Japan	1,270	1,275	0.39%
Philippine	1,370	1,440	5.11%
Mexico	1,335	1,385	3.75%
Korea	1,210	1,232	1.82%
Others	5,369	5,350	-0.35%
Total	**108,033**	**107,161**	**-0.81%**

3.2 China's Pork Supply in 2016

3.2.1 Inventory and Import Volume of Breeding Swine

(1) Reproductive sow inventory dropped to a historically low level

Hog breeding in domestic saw highest profits in 2016, but the phenomenon that domestic farmers greatly restock sows didn't appear for the high pressure of environmental protection policy and uncertain expectation on future hog prices, the capacity of reproductive sow was hard to recover and still showed slightly downward trend.

According to the MOA's monitoring data on reproductive sow inventory, China's inventory of reproductive sows showed downward trend in 2016 as a whole. By the end of December, 2016, China's inventory of reproductive sows had been 36.66 million head, decreasing 3.49% year on year.

In 2016, China's annual average inventory of reproductive sows was 37.37 million head, decreasing 5.66% year on year. So it can be judged that domestic hog supply will be tight relatively in 2017, hog prices are likely to keep at 17-18yuan/kg and stimulate farmers to restock sows. It's predicted that China's inventory of reproductive sows will roughly be 38.50

million head in 2017.

Figure 3.2, China's Reproductive Sow Inventory, 2010-2016

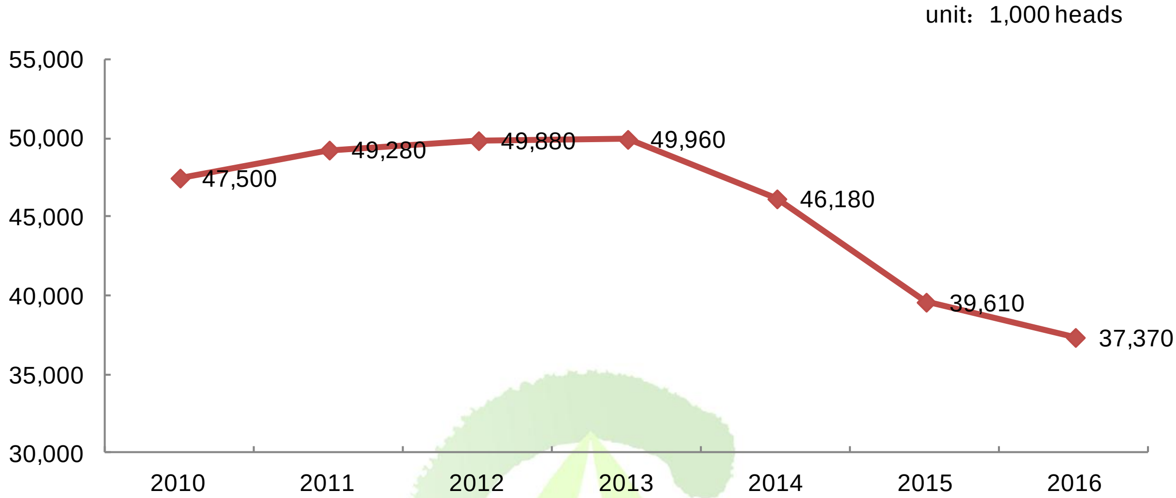
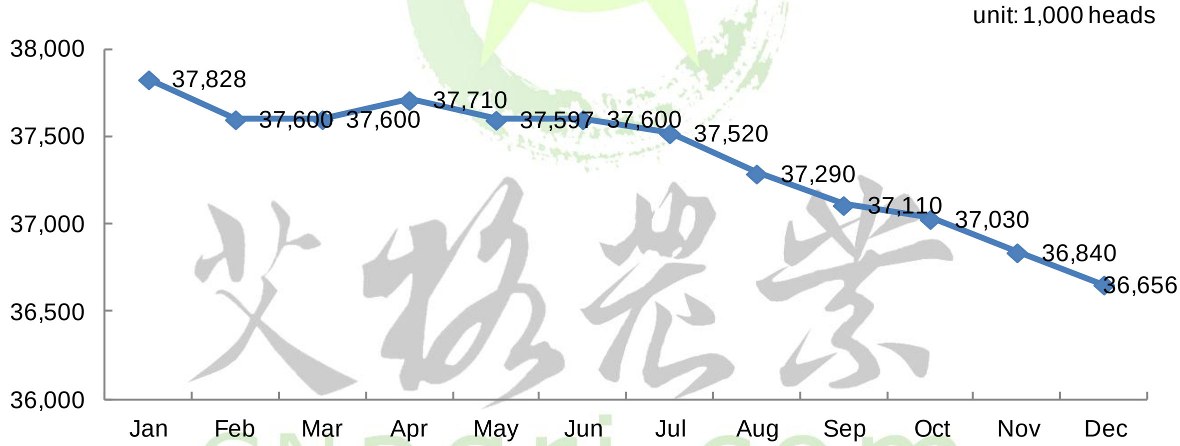


Figure 3.3, Monthly Changes of China's Reproductive Sow Inventory, 2016



(2) Breeding pig import

China's breeding pig industry has selected some qualified core breeding farms after a large batch of breeding pigs were introduced in past several years, so China's dependency on foreign breeding pig sources has decreased.

From the perspective of import data of breeding pigs in recent years, the import volume of breeding pigs in domestic peaked during the period from 2011 to 2013. For overcapacity of hogs in domestic in 2014 and 2015, hog industry was at a loss for a long term, which led to sharp decline of imports of breeding pigs. As domestic hog sources were in short and hog prices kept high for a long term in 2016, breeding pig farms increased introduction of foreign pigs and expanded production, and annual imports reached 5686 head, increasing 28.01% year on year.

The import price of breeding pig was USD1970/head in 2016, increasing 4.21% year on year.

Figure 3.4, China Import Volume of Breeding Pigs, 2010-2016

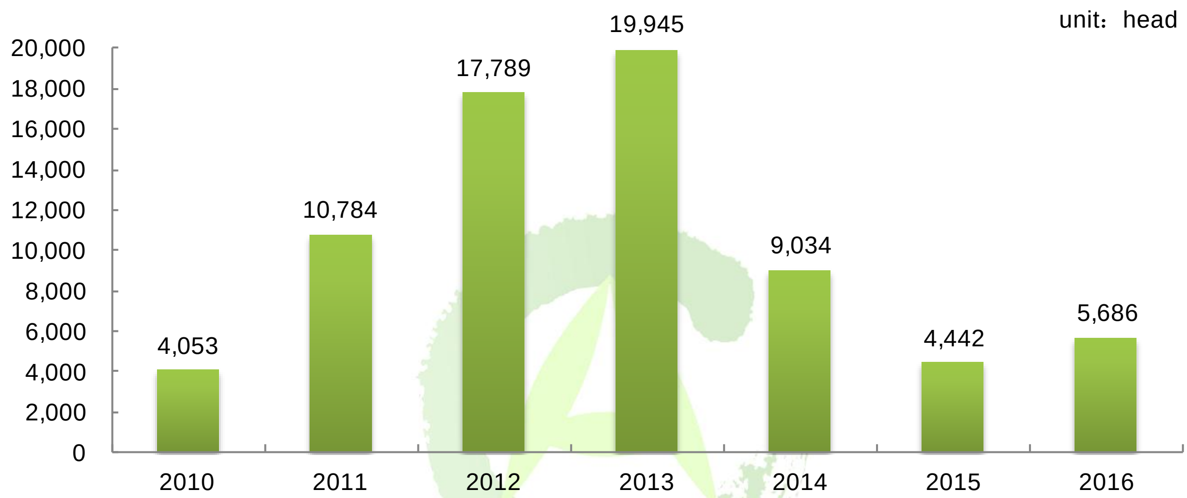
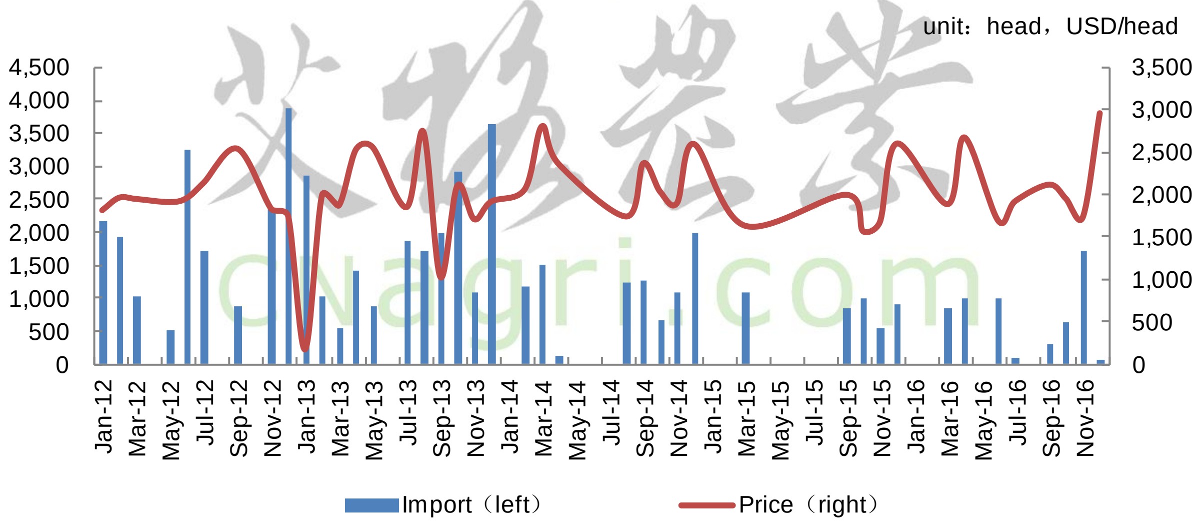


Figure 3.5, China Monthly Import of Swine and Importing Price, 2012-2016



In 2016, in terms of import volume of breeding pigs, the imports of Canadian breeding pigs ranked first in China market with a share of 65%, Denish breeding pigs and French breeding pigs shared a market share of 33%, and it's worth noting that the share of American breeding pigs was less than 2%.