Research Report on China Mutton Sheep Industry

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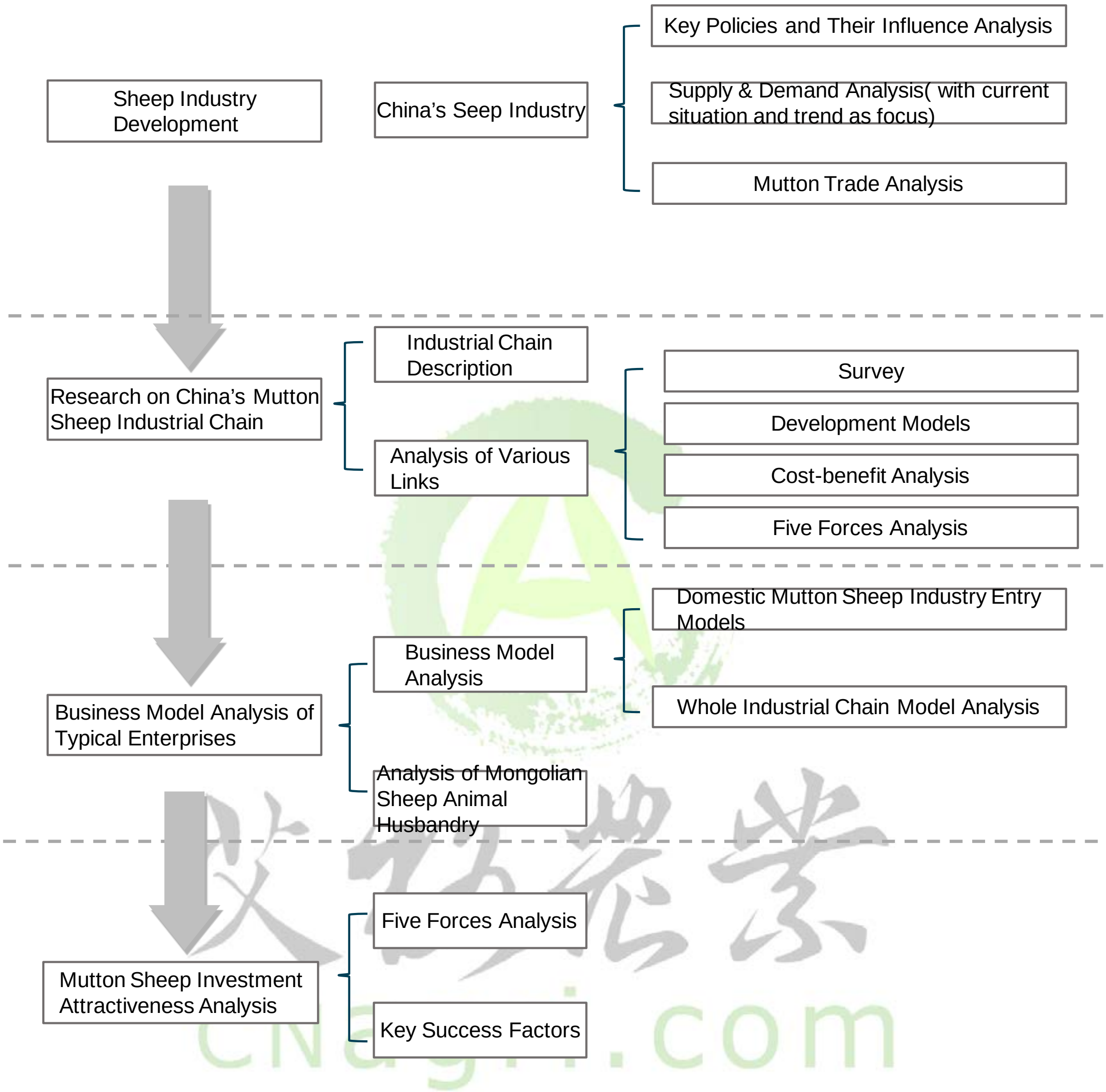
Logical frame of research



1 Report Summary

✧ Industry Policy

Since 2013, the state paid high attention to the development of mutton sheep and beef cattle industry, defined the policy that mutton and 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 mutton sheep industry.

✧ Mutton Supply

China's slaughter of mutton sheep was 293 million head in 2015, the slaughter of top five provinces including Inner Mongolia, Xinjiang, Shandong, Hebei and Henan accounted for 56.60% of national slaughter. Currently, sheep 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 100 head is defined as scale farm) reached 36% in 2015.

China's mutton output was 4.37 million tons, increasing by 2.2% year on year, realizing a compound growth rate of 1.96% from 2009 to 2015. It's estimated that mutton output will reach about 4.80 million tons in 2020, increasing by 436,000 tons from 2015, realizing a compound growth rate of 2.77%.

China's lamb output was 1.75 million tons and accounted for about 40% of mutton output, increasing by 16.8% year on year, realizing a compound growth rate of 20.0% from 2009 to 2015. It's estimated that lamb output will reach 2.31 million tons in 2020, and the compound growth rate will be 7.6% from 2016 to 2020.

✧ Mutton Demand

Mutton consumption was 4.59 million tons in domestic in 2015, and the compound growth rate was 2.55% from 2009 to 2015. Domestic mutton market size was 279.9 billion yuan in 2015, and the compound growth rate was 14% from 2009 to 2015.

In recent years, the market size of mutton expands rapidly, and price factor has a more obvious driving effect on the growth of mutton consumption market. From 2009 to 2015, the retail price of mutton realized a compound growth rate of 11%, while the growth of mutton consumption was flat and the compound growth rate was about 3% in the same period.

It's estimated that China's mutton market size will be about 359.6 billion yuan in 2020, the compound growth rate will be 5.24% from 2015 to 2020 and much lower than the 14% from 2009 to 2015.

As for consumption volume, domestic mutton demand still has upside potential, the consumption volume of mutton will reach 5.14 million tons in 2020 and the compound growth rate will be 2.25% from 2015 to 2020.

From the view of price, mutton price is much higher than that of chicken, pork and other meats, and the compound growth rate of mutton retail price reached 15% 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 mutton price facing increase bottleneck, consumers' will of paying premium further for mutton is likely to be limited, it's estimated that the retail price of mutton will be about 70 yuan/kg in 2020.

✧ Mutton Trade

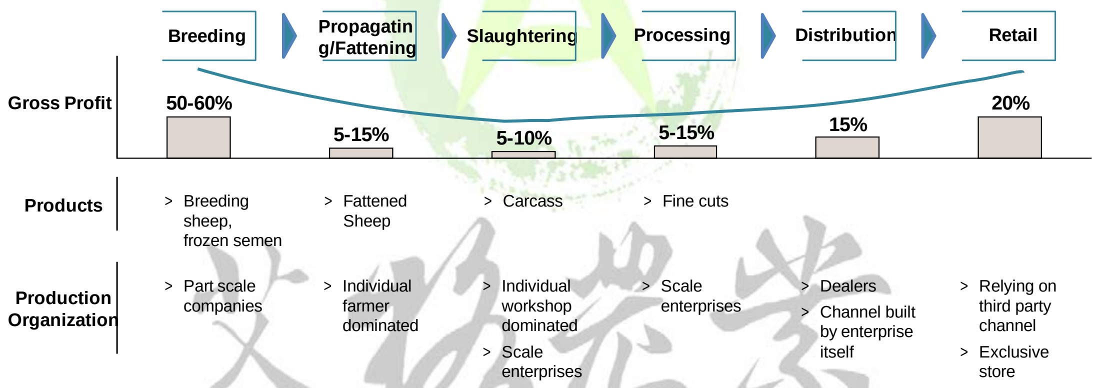
China imported 222,900 tons mutton in 2015, the compound growth rate of mutton import volume reached 31.46% from 2010 to 2015 mainly because that the growth of mutton consumption was faster than that of mutton output in domestic and the price difference between home and abroad stimulated the fast growth of mutton import volume.

China's output (supply) and consumption of mutton 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 mutton shows downward trend, it's predicted that import volume will increase further. China's import volume of mutton will be about 328,000 tons by 2020, accounting for 6.4% of the total consumption.

✧ Industrial Chain

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

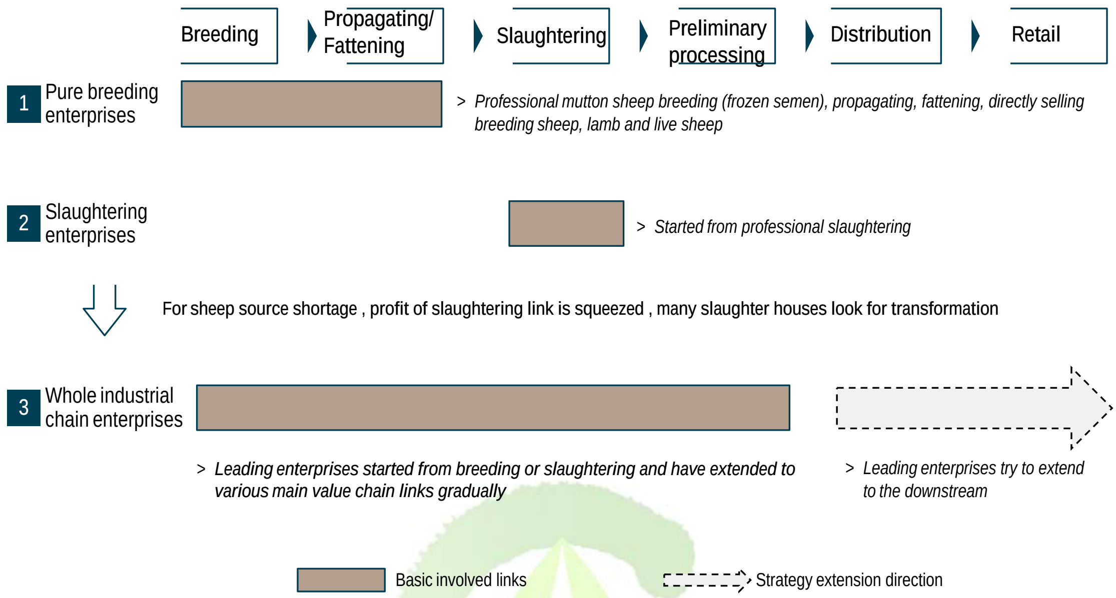
Figure 1 Profit Level of Various Links of Mutton Sheep Industrial Chain



✧ Typical Business Model

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

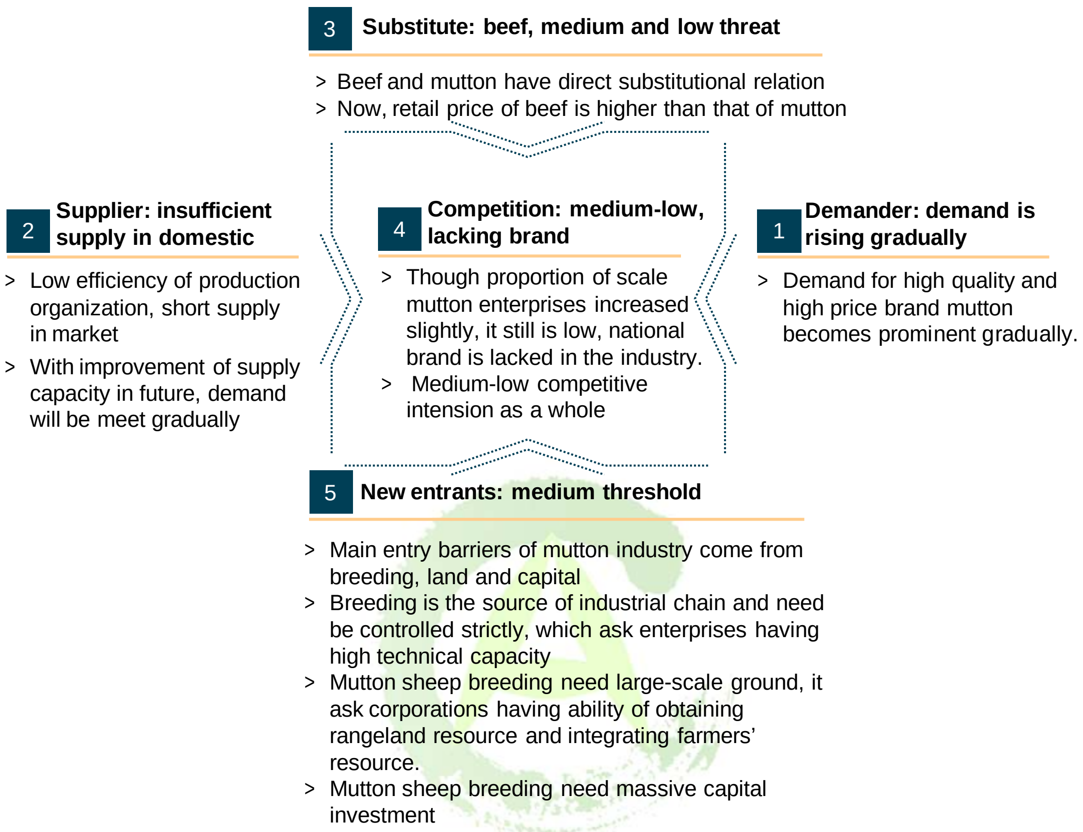
Figure 2 Domestic Mutton Sheep Industrial Chain Cut-in Model



✧ Mutton Sheep Industry Investment Analysis

Mutton demand will become prominent gradually and keep steady growth in domestic in the future, while domestic supply is backward relatively, the competition is decentralized relatively, the investment attractiveness of the industry is above average.

Figure 3 Domestic Mutton Sheep Industry Investment Attractiveness Analysis



Currently, the prominent problems in domestic mutton sheep industry include:

- Mutton sheep source is insufficient, and the quality of mutton sheep is uneven.
- Mutton marketing is dealer-dominate, can't form brand effect, and mostly adopts price competition.

So BOABC thinks that the key links of domestic mutton sheep industry are breeding sheep breeding/raising in upstream and circulation channel in downstream, and success factors include breeding in upstream, scale breeding, catering dealers network and retail channel.

Figure 4 Key Success Factors of Mutton Sheep Enterprises

Success factors	Description	Importance degree
1 Breeding	> Breed selection in upstream is the key of mutton sheep breeding business. > Domestic leading enterprises choose to control breeding link, strengthen cooperation with farmers/cooperatives and ensure supply of high quality sheep source.	★★★★
2 Scale breeding	> Production cost is subjected to breeding scale > Domestic leading enterprises mainly adopt "company + farmer" with self-sufficient mode as supplement to reduce capital investment and production cost.	★★★
3 Dealers network	> Now, catering consumption of mutton accounts for over 70% mutton 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 mutton and occupying market.	★★★
4 Retail channel	> Mutton retail market develops rapidly in recent years, consumers' demand for high quality and high price mutton is increasing. In the future, controlling retail channel is conductive to seizing market, meanwhile, it good for construction and promotion of brand and promotion of sales performance.	★★