

Rabobank Poultry Quarterly

Outlook for Global and Regional Markets

Rabobank International

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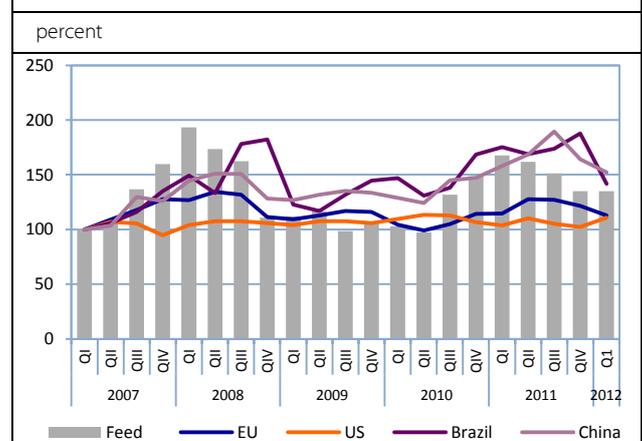
- Global poultry prices are to remain strong in the next two quarters due to strong poultry demand and price support from high beef prices. At the same time, input prices will tend to be higher due to poor weather in South America, which could pressure margins in the next few months. New crop contracts suggest lower prices upon harvest, but the risk remains to the upside. This fragile market situation requires an ongoing supply discipline.
- World meat trade is expected to have fallen in Q1 in line with seasonal trends, but will be compensated with higher volumes in the next few quarters, as total trade is expected to growth 4% over the year.
- A major swing factor in the next few quarters will be the return of Thailand as a raw poultry exporter. Rabobank expects this to lead to intensified competition in export markets, with the potential for price erosion and pressure on export volumes for existing exporters.
- A strong Brazilian real made Brazil less competitive in global trade in 2011, but the recent weakening of the currency may alleviate this challenge in 2012, although recent capital controls may limit the benefit.
- The US industry's margins are recovering after several quarters of supply and inventory reductions.
- The EU industry will further benefit from strong export demand and a relatively solid local market. Keeping market balance is key to acceptable margins. Recent placement figures indicate some industry discipline.
- A further change in local distribution (more retail and QSR) is leading to rapid changes in Chinese and Indian industries and is pushing the poultry industry to invest in large expansion projects.
- The current weak Chinese market conditions are expected to improve towards the end of the year due to solid domestic demand in combination with improvements in the market situation for pork due to stock liquidations.
- Ongoing consolidation is expected in the global meat industry, with companies from emerging markets expected to dominate the globalisation process, although at a slower speed as some of the Brazilian consolidators are financially challenged now.

- There are ongoing investments in greenfield projects in the Black Sea region to supply local demand growth (with limited imports) but WTO membership raises questions for its future position.

Global Overview

Rabobank expects the global poultry industry to benefit from an ongoing positive global market situation and the potential for declining feed costs. The industry should see continued strong global demand for poultry (world demand is expected to grow 2% in 2012) as well as strong prices of competing meats, such as beef and pork, in most global markets. Support will come from record high beef prices in particular, due to a very tight global beef market. Of key importance will be for the industry to keep supply growth in balance with market growth in the next quarter(s). The first signs are positive as US inventories are 13% below last year's levels, and Brazil is currently reducing supply to rebalance the market due to lower than expected export growth. Lower new crop feed prices are an additional potentially positive factor here. However, weather, as always, remains a risk in this continued "no margin for error" market environment. Poultry producers need to manage the risk of a cost spike as stocks-to-use ratios remain very low.

Figure 1: Rabobank global broiler-to-feed price index, 2007-2012



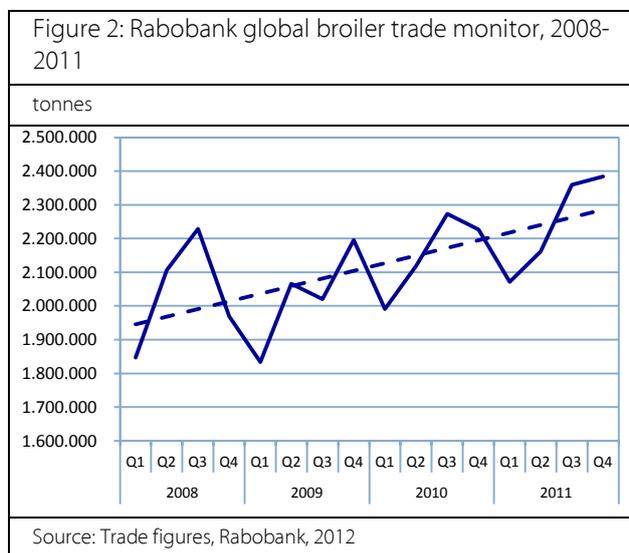
Source: Local statistics, Rabobank, 2012

These positive signs should translate into better margins in the next months, although cost remains an upward risk. Rabobank's global poultry market monitor gives an international perspective on poultry margins (see Figure

1). Especially the US industry has gone through very difficult market cycles since Q3 2010, with a long period of oversupply. The industry finally started to reduce supply in Q3 2011, which is reflected—against global market trends—in a price increase in Q1 2012.

The Chinese and Brazilian poultry industries performed relatively well in 2011, especially benefitting from relatively strong local market demand, and disease problems in Chinese pork. However, in Q4 2011 and Q1 2012, market conditions have worsened. The outlook remains positive, although Brazil is struggling with some disappointing export figures (only 3% growth over 2011), but the recent depreciation of the real will support export volumes in the next few quarters.

World poultry trade is growing 3% to 4% annually, with an annual seasonal drop in Q1 (see Figure 2). The industry has been able to fully replace lost sales to Russia, which has become largely self-sufficient, by opening and expanding trade in Asia, Africa and the Middle East, which are now the main growth markets for global poultry trade. Brazil and the US remain the dominant forces in world trade, but the EU and Thailand are regaining market share. Rabobank expects this trend to continue throughout 2012. To improve its position in international trade, similar to Brazil, the US industry needs to focus on tailor-made export products.



A major swing factor for the balance of 2012 will be the return of Thailand as a raw chicken exporter after being banned since 2003 due to avian influenza outbreaks. The EU recently approved chicken imports from Thailand, making it the first major importer to allow Thailand back into the fold. It is expected that Japan will follow in the near future. Rabobank believes that Thailand will regain its lost market share in the EU and Japan, which will lead to price erosion and pressure on Brazil's export volumes in these markets.

Globalisation of the industry continues. In recent months, we have seen an acceleration of consolidation in Europe with Plukon's acquisition of the third largest German poultry producer, Stolle. Boparan acquired Northern Foods, a leading UK convenience food and bakery company, making it one of Britain's leading suppliers of private label product to supermarkets.

In Latin America, Brasil Foods acquired the Argentine poultry producer AVEX and announced a swap with Marfrig. Marfrig will be taking over some of Brasil Food's further processing activities and Brasil Foods will handle some of Marfrig's Latin American beef activities. In May, JBS announced a 10 years leasing contract of Doux's Brazilian Frangosul assets

The US poultry industry became increasingly attractive to foreign investors over the last cycle. The newest foreign investors are now Bachoco from Mexico, who acquired OK Foods, and the Korean company, Halim, which acquired mid-sized US player, Allen Family Farms. One of Townsends' plants was already acquired by Avangard from Ukraine, while Keystone was acquired by Marfrig.

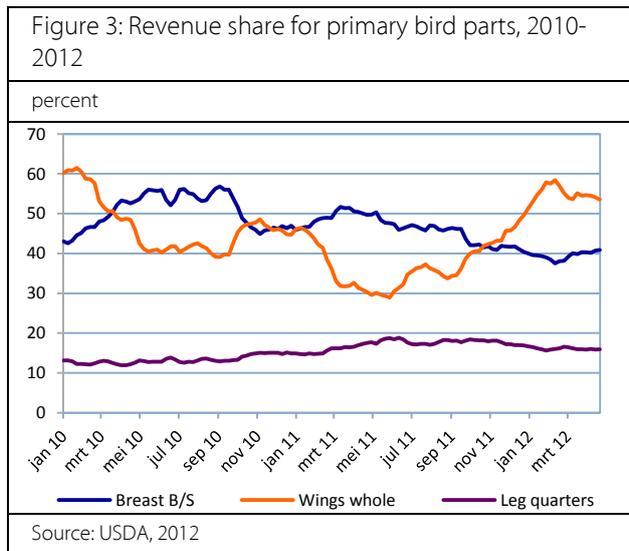
Asia is more prominently on global investors' radar of. Investing in Asia is becoming more attractive due to the combination of fast local market growth, a modernisation of supply chains—on the back of the growth of modern distribution—and the long term potential for exports to arbitrage different parts. Two major projects have recently been announced: Marfrig's Keystone is setting up two joint ventures (JV) in China in distribution and vertical integration. Brasil Foods has announced a JV with DCH from Hong Kong, a major trader of poultry meat to China.

The Black Sea region continues to focus on greenfield projects with some major vertically integrated projects in the pipeline. One of the newest developments has been an announced USD 500 million investment in a vertically integrated turkey company, which will be a breakthrough in this relatively new market segment in Russia. Companies like Cherkizovo (in southern Russia) and MHP in Ukraine, are building large new Greenfield projects.

Regional Updates

United States

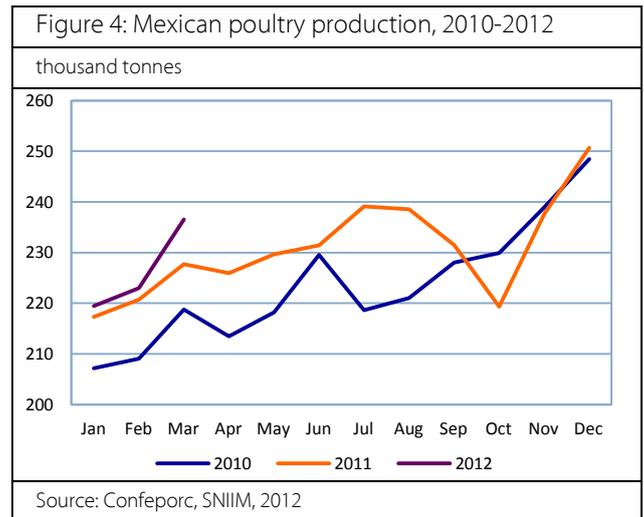
- Recent earnings releases showed sequential margin improvement for the publicly traded US chicken companies, with comments indicating margins have been turning positive since late last year. Leg quarter prices remain strong and wing prices have been hitting record levels (see Figure 3).



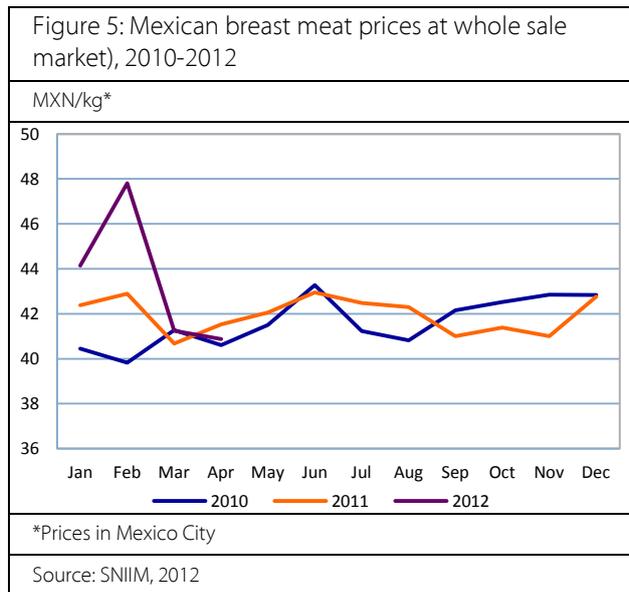
- March cold storage data offered an encouraging sign for future US chicken prices, and breast meat in particular. Broiler meat in cold storage declined both sequentially and year on year. Boneless, skinless breast meat in cold storage fell to 13% below year-ago levels. It had been running at 20% to 50% above year-ago levels for most of 2011. Breast meat prices remain weaker than most producers would hope.
- The US exported a record volume of broiler meat in 2011. Sales rose 17.8% in value to USD 4.5 billion. In general, reduced exports to Russia have been more than offset with exports to Asia, Africa and the Middle East. US costs of production are some of the lowest in the world, especially in a weak US dollar environment. Prospects for continued strength in exports remain good.
- US chicken companies have made significant progress in improving risk management. In 2011, the industry's losses were magnified by long term fixed price contracts that were not hedged. Many of these contracts have expired and have been replaced with deals that are linked to feed prices, allowing chicken companies to share risk with their customers. The USDA issued a scaled back final version of its Grain Inspection, Packers and Stockyards Administration (GIPSA) rule in December 2011. The original June 2010 version proposed highly controversial restrictions on marketing agreements between producers and processors.
- Overall, Rabobank is encouraged by cold storage data, strong exports and improved risk-sharing. 2012 should be a vastly improved year for the US industry, though we remain concerned by the weak demand at the foodservice level. Most encouraging is the continuation of low pullet placements. We are looking for a good but not great year for industry profitability.

Mexico

- Poultry production in Mexico closed 2011 at historically high levels after contracting in late summer of 2011 due to depressed pricing (see Figure 4). Behind the recent production growth was a rise in prices, 24 percent between August and December, while corn costs declined.



- In 2011, per capita consumption of poultry meat grew 2% in Mexico. To some extent, this growth is explained by a substitution effect from pork to poultry meat. The effect is the result of a change in consumers' diets and relative prices along the demand side.
- In 2012, we expect poultry meat demand to grow marginally. Compared to other countries, Mexico has a high level of consumption per capita, close to 30 kg/year.
- Despite production increasing 3.3% and reaching its maximum level in 2011, imports to Mexico grew 5.3% to fulfill domestic demand. However, this growth rate was slower than 2010, when imports grew 11.5%.
- In Q1 2012, Mexican poultry production increased 1.9% YOY. We expect that production will find some support in prices and in domestic demand. In 2012, we anticipate annual production to have a marginal growth rate of around 1%, reaching 2.8 million tonnes.
- In 2011, Mexican consumer prices stayed relatively flat, strengthening at the end of the year. During the first two months of 2012, consumer prices kept their upward trend, above year-ago levels. However, production increases and imports have slowed this trend. In 2012, we believe meat prices will grow around 4%.



- 2011 was a difficult year for the Mexican industry, although its position improved towards the end of the year. For the first half of 2011, producer prices were below 2010 levels (see Figure 5). When it looked like conditions might improve at mid-year, increased production combined with strong imports to pressure profits. The average poultry-to-corn price ratio fell 31.9% in 2011 compared with 2010.
- The Mexican government issued its preliminary determination regarding the dumping of leg quarters, concluding that dumping did take place. The government's decision to issue a preliminary finding reflects their desire for the discussions between the Mexican and US poultry producer representatives to lead to an agreement that would resolve the issue in a way satisfactory for both parties. The discussions are moving in the direction of voluntary management of US exports to Mexico.
- With production strong, and no relief in sight for grain prices due to the drought, Rabobank believes that the Mexican industry will enter the second quarter of the year in a precarious position. Much will depend on sufficient consumer demand to support pricing. However, for the time being, poultry continues to be an attractive option: at the consumer level, high beef prices and the recovery of pork prices have worked to underpin poultry prices.

Brazil

- Brazil poultry production was up 6% YOY to 13.08 million tonnes in 2011. While export performance was a bit disappointing (only +3% YOY), domestic consumption remained robust and grew 8% over the year before, absorbing 69.9% of the total output. In terms of margins, although the sector faced higher grain prices, most of the companies, notably those focused on processed products, were able to pass

on—at least partially—the higher costs to consumers in such a way that margins remained in the positive territory.

- During the first three months of 2012, the Brazilian poultry market was marked by a supply and demand imbalance, which led to a reduction in poultry prices to a much lower level than expected given its seasonal pattern. Between December 2011 and March 2012, prices for whole chicken (fresh) in Brazil dropped 6%, and are now 4% below year-ago levels. In fact, the slight increase in exports during Q1 (1% YOY), was not enough to compensate the growth in day old chick placements and the downward pressure that came from lower beef prices. Just to illustrate, the sum of the day old chick production between December 2011 and January 12 was 5% higher than the same period one year ago.
- On the cost side, input expenses remained relatively high due mainly to the rise in soymeal prices and the still strong corn values. Under this scenario, Brazilian companies whose sales are mostly exposed to fresh poultry probably had their profitability hurt during Q1 12.
- For Q2 and Q3 we foresee a more balanced market in Brazil, driven mainly by a supply adjustment as there have already been signs that the pace of production will slow down. Additionally, exports are set to accelerate (as already indicated by the increase in March sales compared to February sales). We expect an increase in the number of plants being authorised to export to China and a recovery in demand from other markets (notably from Middle East countries), although we recognise that competition with the US will remain fierce. In addition, the recent devaluation of the Brazilian real may also help international sales.
- On the domestic side, the projected lower beef values on the back of an anticipated increase in supply are likely to impose a price ceiling for poultry during Q2. Nonetheless, as we move into Q3 and beef production declines seasonally (drought period), the space for a rise in poultry prices should pick up again.

Argentina

- Argentina poultry production in 2011 was up 12% YOY, maintaining the positive growth trend of previous years (CAGR 9% in the last five years)
- Most of the growth in production was absorbed by the domestic market, with consumption increasing 10% YOY. The sharp increase in poultry consumption in Argentina is the result of a crisis in the beef industry with herd contraction, price increases and substitution of beef with chicken by domestic consumers.

- Despite offering more attractive prices than the domestic market, Argentine export volumes grew 4% YOY, substantially below the last five years' average of 16%.
- Profitability in the Argentine poultry industry remained positive, but with slightly tighter margins than in 2010 due to increasing domestic inflation
- Investments in the sector continued throughout 2011, especially as poultry companies were among the main beneficiaries of cheap financing from the Argentine government, through the 'Prestamos del Bicentenario'. Also, Brasil Foods entered the Argentine market through its acquisition of Avex in October 2011.
- For the coming year, we expect Argentine poultry consumption to continue at current high levels as economic growth slows down and beef prices remain high.
- Argentine poultry prices will see increases in 2012 as a result of the elimination of subsidies for the industry. Prices were previously capped by the government in exchange for subsidies, which could amount to between USD 10 million and USD 20 million per year for the largest companies.
- Argentine companies' profitability will thus depend on their ability to pass higher costs on to consumers. We believe that, given a context of high inflation and historically high beef prices, the poultry sector has enough room for price increases, but probably not at an international level.

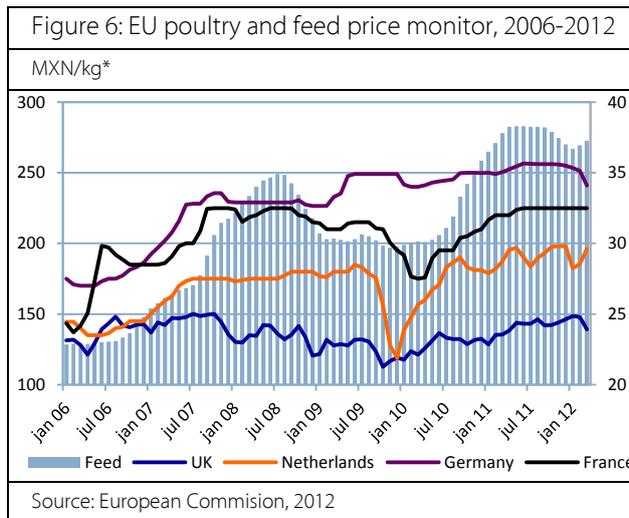
Chile

- According to preliminary data, Chile's total poultry production reached 657 thousand tonnes in 2011, indicating an almost 11% increase from the previous year. Roughly 80% of the production is sold in the domestic market. The main export markets in 2011 were Mexico and China followed by the US. Most poultry exports from Chile benefit from tariff-free import quotas pursuant to Free Trade Agreements.
- Chilean imports of frozen chicken quarters and boneless breasts from the US reached more than 20 thousand tonnes in 2011, a 75% increase from 2010. Frozen turkey breasts from Brazil underwent a 20 fold increase in 2011, though volumes are still low (less than 2,500 tonnes). Until 2008, Argentina was almost the sole poultry exporter to Chile, but in 2010 and principally in 2011, poultry meat from the US and Brazil made significant inroads into the Chilean market.

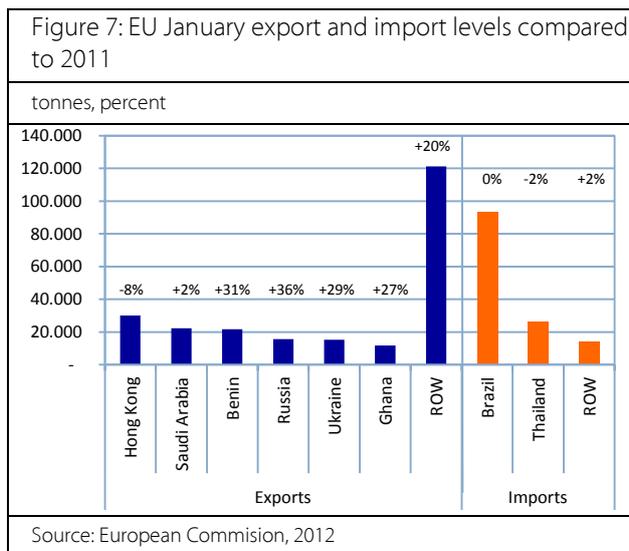
- The Chilean poultry industry has been accused of price fixing over the last decade by Chile's Public Prosecutor's Office. Those accused include the Chilean Poultry Producers' Association (APA) and the country's three main broiler companies (Agrosuper, Ariztia and Don Pollo).
- The Chilean poultry sector—84% broilers and 15% turkey—is highly concentrated; arguably the two largest companies, Agrosuper and Ariztia, control more than 85% of the domestic market and Don Pollos has an estimated 6.5% market share. The Public Prosecutor's Office seeks a USD 110 million fine (total) as well as the dissolution of the APA. The defense of the accused began in February by denying the charges. Industry sources expect that the legal process might take at least a couple of years.

European Union

- The EU poultry industry should be able to benefit from relatively strong market fundamentals throughout 2012. Beef prices are high, poultry demand is relatively strong and a modest downturn in feed costs appears possible (see Figure 6).
- Rabobank is positive about the 2012 outlook for poultry exports from the EU and expects the growth trend to continue with increases to Asia, Africa and the Middle East (see Figure 7). European exporters are benefitting from a more structured approach to open markets and from a more competitive position compared to Brazil due to the euro/real exchange rate.
- Recent figures indicate some expansion in the UK and Germany creating concern regarding the potential for excess supplies. We estimate near-term demand growth of roughly 1% through the balance of 2012. If the industry does not maintain adequate discipline, margins will come under pressure as they did in Q1 2011.
- Our biggest concern related to demand is the current economic situation in Europe (especially in southern and eastern Europe), though at this point it is hard to determine the potential impact. A weaker economy may lead consumers to trade down to chicken as the cheapest protein, or it may lead to reduced demand as consumers simply consume less protein.



- Differences between regions exist in the EU market. For instance, the UK poultry industry has not been able to maintain margins due to chronic oversupplies.

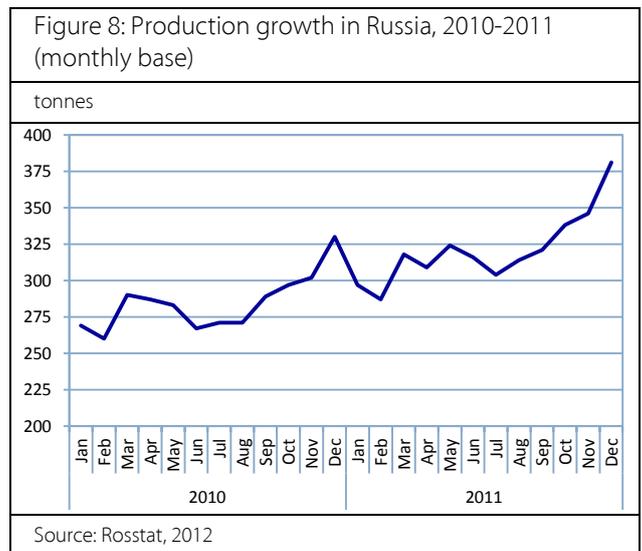


- The EU has approved Thailand's return as an exporter to the EU poultry market per Q3 2012. Thailand is expected to soon utilise its 92,000 tonne export quota to the EU. Rabobank is not concerned about the impact on local players as marketing standards should prohibit products from moving into the EU's fresh chicken market segment. However, competition with other suppliers in the EU for processed products, especially from Brazil, Argentina and Chile, will intensify.
- The recently negotiated new quotas for further processed chicken and duck are expected to slightly increase access to the EU market for Thailand and Brazil in the next few years. When these countries reach full utilisation, quotas will become more restrictive than the old regulations as out-of-quota tariffs have increased.

- Regional consolidation in the EU is expected to continue. Plukon's acquisition of Stolle is the latest addition to this process.

Russia

- Russian poultry production is expected to follow last year's growth path in the next quarters. Q4 2011 showed a 13% increase compared to Q3 and a 15% increase compared to Q4 2010 (see Figure 8). This growth is expected to continue into the next year, when some new projects come on line.



- Total new investments in Russia's chicken production expansion were valued at USD 1.57 billion in 2011. Most projects are located in the southern regions and benefit from support from both the local and national government.
- Russian market prices have been strong in recent months with good demand and support from high pork prices. Cherkizovo recently reported Q1 2012 pricing up 2% YOY.
- Russia recently reduced its poultry import quota from 350,000 tonnes to 330,000 tonnes, but Russia's entrance to the WTO might influence their trade policies if and as they move to a position of net exporter.
- Russia has a great ambition to increase exports. Recent figures show that volumes have started to grow (now around 65,000 tonnes) mainly to neighbouring countries. Rabobank believes that this growth will continue the given low cost and plentiful feed supplies.

China

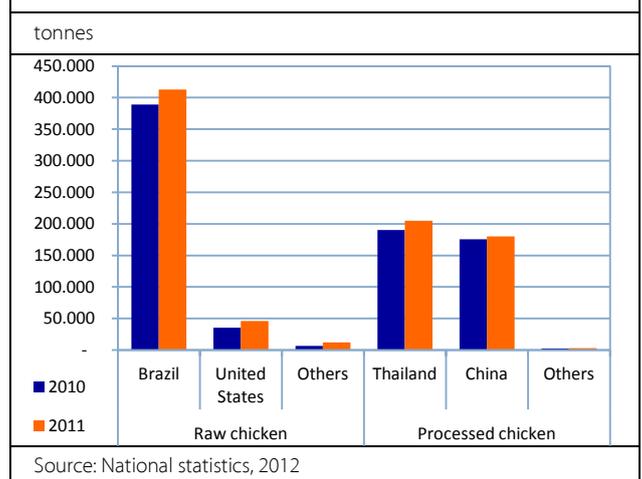
- China's poultry industry performed very well in 2011, with production increasing by an estimated 5% YOY. Profitability in both production and processing were above those of recent years. Soaring pork were the main contributor to strong poultry prices and profitability in 2011. However, profitability has been declining since Q4 2011, as pork prices have been falling.
- Chinese poultry prices hit record highs in October of 2011, reaching USD 2.97/kg in terms of dressed chicken retail market, up 20% YOY. Although prices declined into the end of the year along with pork prices, they soon stabilised after the Spring Festival in February 2012. Due to the current weak pork prices, there is room for poultry prices to fall, but the degree will be limited. High raw material cost, the expected tightness in pork supply and recurring diseases will support prices at historically high levels. Overall, poultry prices are expected to be 5% to 10% lower than in 2011, but still above previous years' levels.
- Profitability on the farming side will be impacted by the decline of farmgate prices and high raw material costs, while Chinese processors' performance will remain positive. Corn costs have been hitting record levels in 2012.
- Chinese poultry demand will remain strong in 2012. This is not only because pork supply has not fully recovered but also because of rapid growth in fast food and foodservice channels driving greater demand for poultry meat. As a result, the market of white feather birds is growing faster than that of yellow birds, as white birds are preferred by fast food chains. The challenge is that QSR only takes 20% of the bird, which leads to a need for suppliers to develop markets for the other 80% of the bird
- Driven by the strong demand for food safety and more uniformity in poultry products, Chinese poultry production continues its trend towards consolidation and vertical integration. Leading players have been behind this trend, with large investments in greenfield projects. Sunner, the top fully vertical integrator in China, located in Fujian Province, has announced plans to invest over USD 400 million to expanding its facilities within the province in 2012 and 2013. The new facilities will extend to great grandparent stock, illustrating the trend of further vertical integration along the supply chain. Meanwhile, Liuhe, CP and other leading regional players have ambitious plans to expand nationwide in the coming years. Foreign players from Western countries also have vertically integrated projects in the pipeline.

- Considering the consolidation level is still low in China, the market will continue to provide great potential for leading companies to further expand. Smaller players will continue to leave the market, driven by market consolidation and competition.
- Chinese poultry imports decreased slightly in 2011 compared with 2010, mainly attributed to the ban of US poultry meat according to government data. However, Rabobank believes that shipments from the grey channel play a large role that is not reflected in government figures.
- Driven by QSR development in China, chicken wing imports increased 19% YOY in 2011. We believe that the import of parts, such as wings and leg meat, will continue to grow in 2012.

Japan

- Current poultry inventories in Japan are at historically high levels, which indicates that Japan's buying activity will be somewhat lower in the first half of 2012, and more focused on price.
- In 2011, the Japanese market was impacted by the March earthquake and tsunami, which damaged local production capacity. Total production levels dropped 10% to 15% between February and July. However, the industry was back to old levels by the end of the year.

Figure 9: Japanese import of raw and processed chicken, 2010 vs. 2011



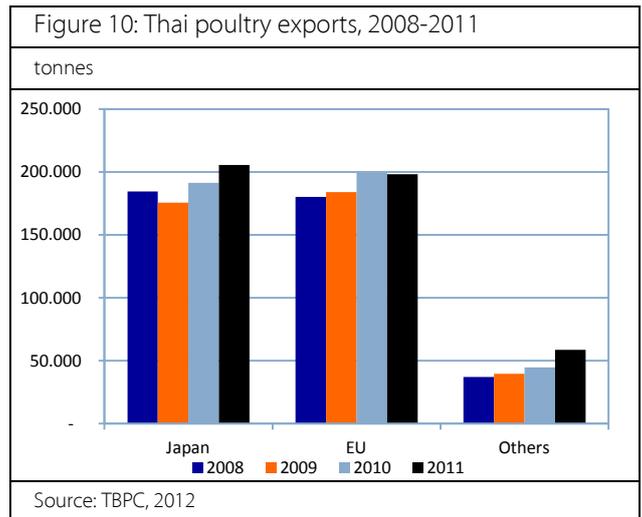
- Lower domestic supply in Japan has led to record high import levels of 470 tonnes of raw chicken and 380,000 tonnes of processed chicken, especially in Q2 and Q3 2011 (see Figure 9). The outlook for 2012 is for a slowdown in import volumes due to a rebound in domestic supply.

- Domestic market conditions are expected to remain solid. Rabobank expects the Japanese industry to recover from last year's drop in consumption, the first in decades, due to improved availability and a better price proposition for chicken relative to beef and pork. Increased consumption figures for Q1 2012 confirm this.
- The big swing factor for the rest of this year is whether Japan will allow Thailand to return as an exporter of raw chicken after their ban in 2003, imposed due to avian influenza outbreaks. If Thailand returns to the Japanese market, Rabobank expects it to take a significant share of the raw chicken market as Japanese traders have already been looking for alternative suppliers in the raw chicken segment. This was one of the reasons why the US and the EU have significantly increased their export volumes in the past years.

Thailand

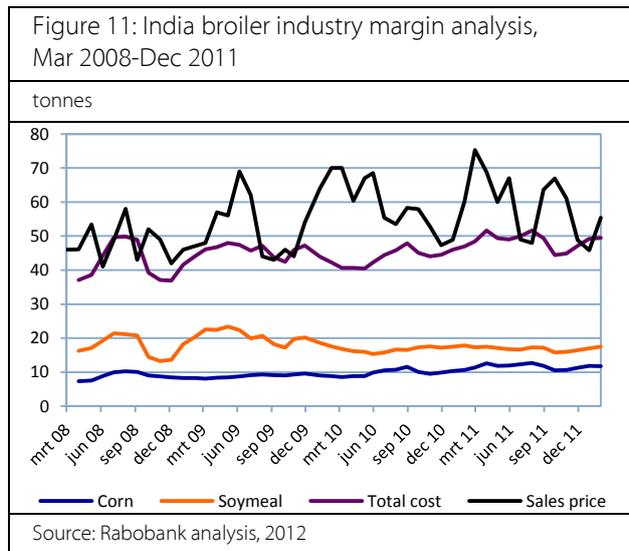
- The Thai poultry industry reached its 2003 pre-avian influenza production level of 1.3 million tonnes last year. Ongoing growth in domestic demand (2012 forecast is for 3% growth) and an acceleration of export demand should increase investment in expansion.
- The trend for Thai poultry exports is 5% growth per year (see Figure 10). Japan has again become Thailand's main export destination. The recent quota expansion in the EU and the upcoming return of Thailand as a raw chicken exporter to the EU, and probably Japan, will lead to a new growth outlet for the coming years. Rabobank expects the industry to maintain its pace of export growth near 5% per year.
- The big challenge regarding export growth potential for Thailand is keeping supply and demand in balance. The latest figures for Q1 2012 show that the industry is not able to pass on higher feed costs; domestic broiler prices have dropped to low levels, while feed costs have increased. As a net corn importer of increasing magnitude, the industry's biggest vulnerability is feed supplies.
- The drop in domestic prices does not necessarily impact export prices as international prices for Thai broiler products tend to be more stable since the distribution of quotas is regulated. However, integrated companies will feel some impact.

- Thailand's return to the raw chicken export market will urge the Thai industry to improve its risk profile. Optimal biosecurity argues for compartmentalisation as well as internationalisation to protect the industry from the impact of a potential new avian influenza outbreak. Risk of a new outbreak is always present in a region where H5N1 is endemic.



India

- Margins for India's poultry industry were near historically average levels in 2011, weaker than they were in 2010. Margins were positive throughout the year, except for July and August (see Figure 11).
- The primary reason for lower margins in the summer months was relatively high chicken supplies (+15%) in 2011 compared to 2010. Industry production growth is more suited to growth of 8%-10%, which would be more likely to ensure positive margins for poultry players. Higher production growth puts the industry as a whole under margin pressure due to oversupply.



- Even though there was an avian influenza outbreak in February 2012 in the eastern part of India, prices have subsequently increased because of high poultry mortality rates being reported in the same month, causing decline in the availability of poultry meat. Avian influenza outbreaks have become regular in India, with about as many as five outbreaks in last two years. However, none of these outbreaks have been severe enough to dent consumer sentiment or derail consumption.
- The US and Brazil are now pushing India into WTO on the long-standing prohibition of imports of US poultry meat. We will be closely watching for any developments here.
- Driven by demand from the QSR channel, the Indian processing industry grew in 2011. Yum! Brands indicated that its KFC division is now a bigger business than Pizza Hut in India. Many of the existing players are now expanding processing capacities. Godrej Tyson is expanding its processing capacity by 60%. Venky's also invested in a second processing plant.
- Suguna, the leading poultry company in India, announced plans to expand their branded retail format, Suguna Fresh, from 85 to 500 stores through franchisees.

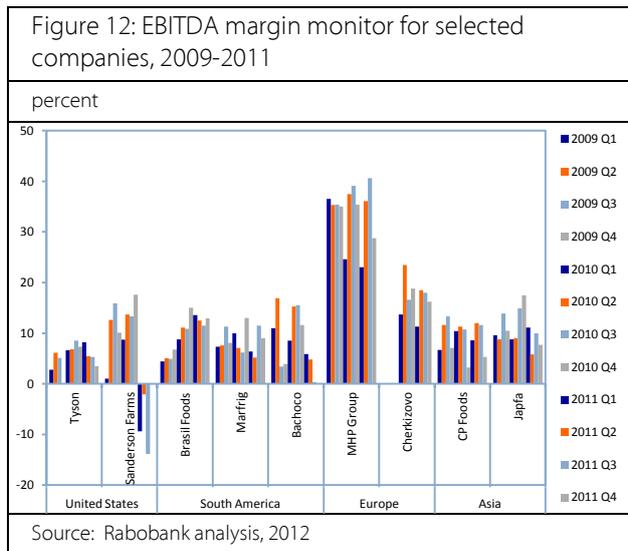
South Korea

- Korean poultry consumption keeps growing. Broiler meat benefitted as a close substitute for pork during the 2011 shortage caused by the pig foot-and-mouth disease outbreak.

- Additionally, foodservice continues to boost consumers' preference towards chicken meat in Korea. As a result, broiler consumption reached 755,000 tonnes in 2011, a 2% YOY increase.
- Broiler demand in 2012 is expected to reach between 770 million tonnes and 780 million tonnes, assuming the same growth as in 2011.
- Q1 2012 farm price is on average below 2010 and 2012 levels, with March 2012 at KRW 3,900/kg, likely due to high inventory in breeding (2011 level was 11% higher than 2010).
- Additional domestic supply should keep South Korean import volumes from increasing, and Q4 2011 import volumes already showed a weaker flow compared to 2010.
- Overall South Korean import volume totalled 108 thousand tonnes in 2011, up 10% from a new high level in 2010. Leg quarters still remain the main product, with 90% of the volume. US exports gained market share against Brazil as the US exports increased 36% by volume in 2011, while Brazil increased 32%.
- It is likely that import volume may stay below the 100 thousand tonnes level, likely closer to 85 thousand to 90 thousand tonnes.

Industry comments

The world poultry industry has consolidated its performance in Q4 2011 (see Figure 12). The Brazilian companies reported improved margins thanks to a relatively strong domestic market and some improvements in trade. US companies reported positive margins, although still low compared to historic averages. This underlines the fact that the first impact of supply reductions in the US is translating into better company margins. The companies from the Black Sea region saw some negative pressure on margins. Lower input costs as a consequence of declining grain and oilseed prices have not mitigated the tough market conditions created by lower prices and more supply coming into the market from expansion programmes and imports.



The outlook for the next several months looks positive for US companies, with further signs of improved market conditions (lower stock levels). This is also already incorporated into stock price developments (see Figure 14).

Recent price reductions in Brazil do not offer a very optimistic outlook for Brazilian companies' Q1 results, especially since international trade volumes are traditionally low in this period of the year and international prices tend to be lower. Positive is that the industry tends to show some discipline with recent supply reductions, which could be a sign for new balance in the market and improved margins for the next quarters. A lot depends on feed price developments, the real value development and the impact of Thailand as an exporter of raw chicken in Q3.

Asian market dynamics are improving with the Chinese industry benefiting from ongoing strong demand and stock liquidation in pork. Thailand will benefit from its return as a raw poultry exporter per Q3. Key here will be to keep supply in balance with demand as the current Thai market situation indicates oversupply.

The Black Sea region's poultry industry is currently struggling with increasing production costs (feed prices), while market power to increase prices is limited. Although margins are still at very high levels, this is having a slightly negative impact. A positive is that the market is still receiving support from high pork prices in Russia and a full capacity situation in Ukraine.

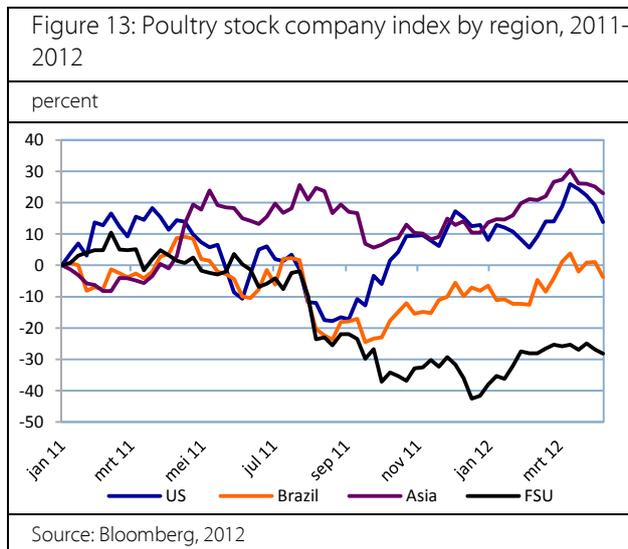


Figure 14: Poultry comps

	Ticker	Price	EPS			P/E		EV	EBITDA		EV/EBITDA		Net Debt	Net Debt/LTM EBITDA
			2011	2012e	2013e	2012e	2013e		2012e	2013e				
Tyson	TSN	17.92 USD	1.89	2.02	2.31	8.9	7.8	7,998	1,833	1,996	4.4	4.0	1,466	0.8
Pilgrims Pride	PPC	6.81 USD	-2.13	0.65	0.91	10.6	7.5	3,198	453	539	7.1	5.9	1,432	-8.6
Sanderson Farms	SAFM	51.08 USD	-5.47	2.96	4.91	17.3	10.4	1,432	170	235	8.4	6.1	274	-3.0
Brasil Foods	BRF	34.00 BRL	1.82	2.14	2.48	15.9	13.7	18,970	1,923	2,272	9.9	8.4	2,808	1.8
Marfrig	MRFG	11.23 BRL	-1.56	0.29	0.40	38.5	28.0	6,827	1,003	1,164	6.8	5.9	4,618	4.8
Charoen Pokphand	CPF	37.00 THB	2.38	2.75	3.16	13.5	11.7	10,868	1,045	1,210	10.4	9.0	1,462	2.3
DaChan Food	3999	1.45 HKD	0.19	N/A	N/A	N/A	N/A	231	N/A	N/A	N/A	N/A	-139	-0.5
LDC	LOUP	85.80 EUR	7.05	7.17	7.93	12.0	10.8	992	226	225	4.4	4.4	7	0.0
Cherkizovo Group	CHE	13.00 USD	3.44	2.95	3.12	4.4	4.2	1,499	319	351	4.7	4.3	718	3.0
MHP	MHP	13.50 USD	2.28	2.31	2.69	5.8	5.0	2,302	426	491	5.4	4.7	802	2.0

Source: Bloomberg, 2012

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