

SABECO (SAB) – NON-RATED NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND267,500	N/a	1.3%	NOT RATED	CONSUMER GOODS

Outlook – Short term



Outlook – Long term



Valuation



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Key statistics

52w high (VND)	267,500
52w low (VND)	196,000
3m Avg daily volume (shares)	40,783
3m Avg daily value (VNDmn)	10,000
Market cap (VNDbn)	159,679
Outstanding shares (m)	641.3
Free float (%)	10.4
TTM P/E (x)	34.6
Current P/B (x)	9.6

Ownership

Vietnam Beverage Co.Ltd.	53.6%
Ministry of Industry and Trade	36.0%
Others	10.4%

Source: VNDIRECT

Sabeco is the largest beer brewer in Vietnam, commanding 45.7% market share by volume in 2017, according to Euromonitor market data and SAB's volume data. The company owns three of the top ten selling beer brands in the country including Saigon Export, 333' Export and Saigon Lager.

Sabeco 9M2018 sales grew 7.8% yoy, a slight deceleration from the 9.2% yoy in the same period last year. We think the slowdown in volume growth is driven by a combination of delayed capacity expansion and less promotional activities, as the management is reviewing SAB's brand portfolio and restructuring the company. However, a slight rise in ASP in 9M2018 partially helped to cushion the impact of sluggish volume growth.

Delay in capacity expansion is likely a result of Thaibev's integration and restructuring efforts after the takeover of SAB. In 2017, prior to Thaibev officially gaining control of SAB, the company announced plans to inaugurate 2 new plants in 2018, but only one plant was built. We believe SAB's business review and restructuring efforts, at ThaiBev's behest led to a postponement in the construction of the second plant.

SAB's 9M2018 margins declined due to unfavorable raw material price trends. 9M18 GPM contracted by 3.9% pts from 9M17 levels. Malting barley average monthly prices in 9M18 surged 36.1% versus 9M17 monthly average levels while aluminum monthly average prices rose by 12.2% over the same period. However, 9M18 net profit margin was cushioned by a 29.6% yoy cut in advertising expenses over the period (SG&A/revenue ratio fell 1.1% pts) as well as due to topline growth.

Management expect a rebound in 2019 performance, but we see challenges ahead. We notice that SAB released a new TV commercial for the Saigon Special brand and appeared on big events in 4Q2018 (i.e. AFF Cup, English Premier league), which should help eke out market share gains. However, modest capacity growth due to delay in planned projects will continue to drag on growth next year. Margins will continue to be under pressure as aluminum prices are expected to keep increasing according to Citibank's forecasts while malting barley prices will remain volatile due to erratic weather conditions (Bernstein Investment Bank).

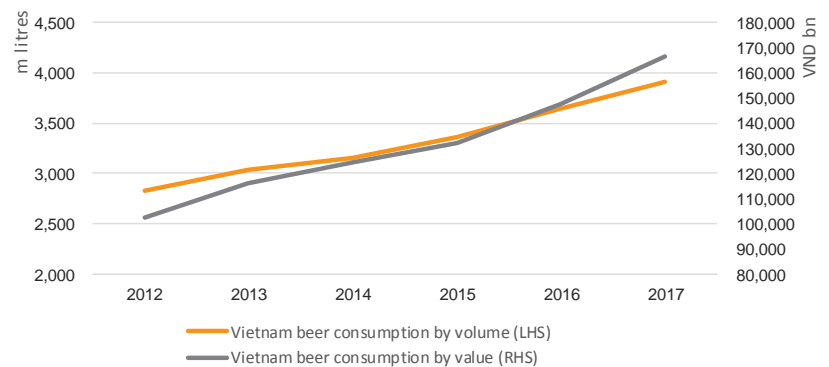
SAB is trading at a 29% premium to regional peers on a trailing P/E basis. SAB's trailing P/E of 34.6x compares with a 26.8x average trailing P/E for its peers and around 29.9x for domestic peer, Hanoi Beer (BHN, non-rated). The company also trades at a sizable premium to local dairy leader, Vinamilk's (VNM, non-rated) trailing P/E of 22.3x.

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	24,611	27,144	30,467	34,193
Revenue growth	2.5%	10.3%	12.2%	12.2%
Gross margin	25.1%	27.8%	26.8%	25.9%
EBITDA margin	15.0%	16.7%	19.1%	17.9%
Net profit (bn)	2,627	3,410	4,339	4,711
Net profit growth	22.2%	29.8%	27.2%	8.6%
Recurring profit growth	22.2%	30.4%	27.7%	8.8%
Basic EPS	4,097	5,318	6,766	7,347
Adjusted EPS	4,097	5,318	6,766	7,347
BVPS	19,473	21,932	19,174	22,487
ROAE	23.3%	25.7%	32.9%	35.3%

VIETNAM BEER MARKET – OPPORTUNITY LIES IN THE AFFORDABLE PREMIUM BEER SEGMENT

Fast-growing market with continued “mass premiumization”. Vietnam’s annual spend on beer grew at double digit rates over the last 5 years period (CAGR 2012-17 of 10.2%), reaching VND166 trillion (USD 7.1 bn) in 2017. Volume grew at a CAGR of 6.7% over the same period to touch 3.91 bn litres in 2017. Average price per litre rose at a CAGR of 3.3% over the same period to touch VND42,500/litre in 2017 according to Euromonitor.

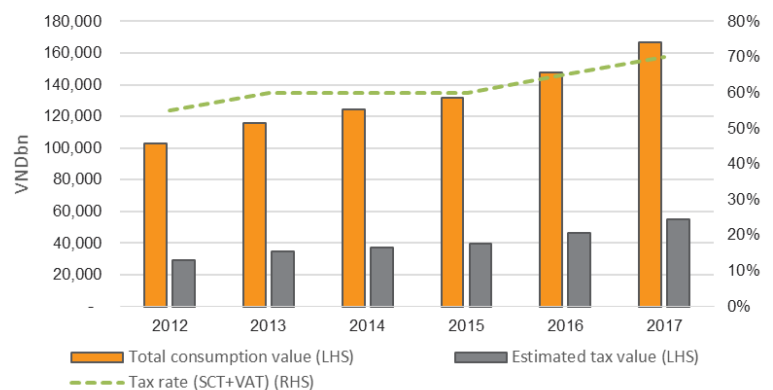
Figure 1: Vietnam beer consumption has grown quickly even as average unit prices have steadily increased



Source: Euromonitor

High special consumption tax (SCT) heavily impacting beer retail price. The SCT rate levied on beer has risen to 60% in 2017 from 40% in 2012, taking the total tax rate (SCT + VAT) from 50% to 70% in the same period. In 2018, the total tax rate increased further to 75% due to a SCT rate hike. Hence, the price growth adhered to above is also partially driven by rising tax rates implying that brewers do not benefit proportionately from retail price increases.

Figure 2: Vietnam beer consumption by value is heavily impacted by tax



Source: Euromonitor, VnDirect estimate

Note: SCT charges levied on producer’s selling price. Tax value is estimated base on assumption that margin of distributor comprises 20% of retail price.

Domestic brewers and “standard price segment” have dominated beer market thus far. In 2017, domestic brewers collectively held over 60% market share. The standard price segment (price range from VND25,000 to VND35,000 per litre as defined by Euromonitor) contributed 61.9% of total sales value. Domestic brewers mainly compete in the standard segment and economy segment (price below VND25,000 per litre as defined by Eurononitor) while the premium

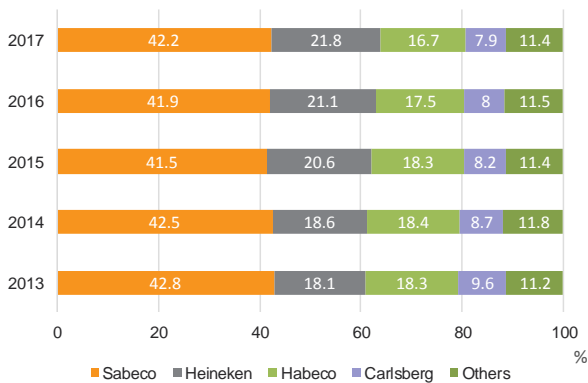
segment (price above VND35,000 per litre) is the playground of foreigner brewers such as Heineken, Carlsberg and Sapporo.

Figure 3: Notable brands by price tier (Defined by Euromonitor)

Beer category	Price range('000VND/litre)	Remarkable brands
Luxury premium	Above 45	Singha, Budweiser, Heineken, Truc bach, Saigon Gold, Sapporo premium
Affordable premium	35 ~ 45	Tuborg, Tiger, Sapporo bluecap, Saigon special
Standard	25 ~ 35	333' export, Saigon lager, Hanoi, Huda, Larue, Halida, White tiger
Economy	< 25	Saigon Export, Biahoi Hanoi

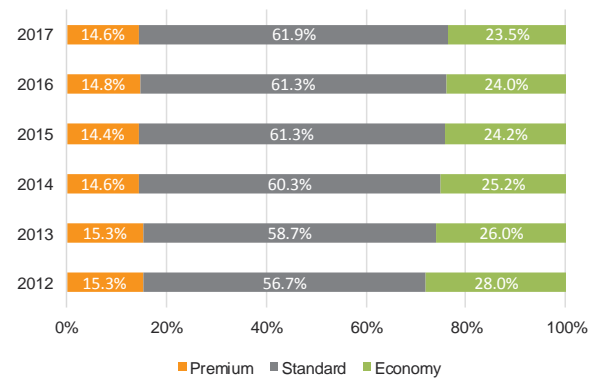
Source: Euromonitor, Vndirect

Figure 4: Market share of top brewers was quite stable in the last 5 years but Heineken has steadily gained share



Source: Euromonitor

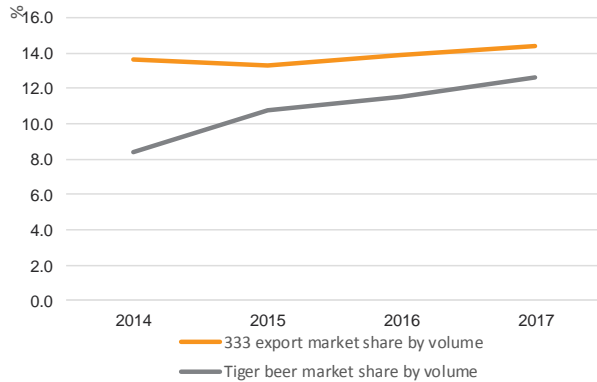
Figure 5: Standard price segment dominant and increasing at the cost of economy price segment



Source: Euromonitor

Affordable premium products are gaining market share. We see that the combined market share of beer brands that are priced at a slight premium within the standard price segment (eg. 333' Export) and those that are priced at a slight discount within the premium segment (eg. Tiger, Saigon Special, Tuborg) is rising. We believe this trend is driven by Vietnamese consumers trading up to more premium products on the back of rising disposable incomes. Given the strong economic fundamentals underpinning this rise in disposable incomes, we expect this trend to continue.

Figure 6: Market share of premium standard and affordable premium beers are increasing



Source: Euromonitor

Figure 7: Foreign brands dominate premium beer segment

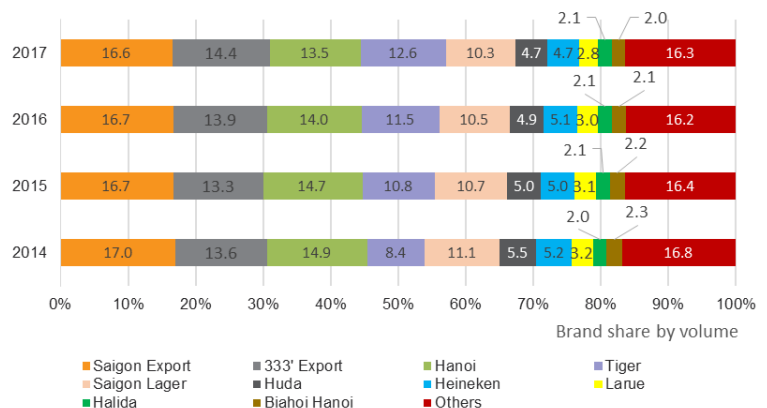
	Brands	Brewer	VND/litre
Premium	Singha	Singha	61,869
	Saigon Gold	Sabeco	60,000
	Budweiser	ABInbev	50,379
	Heineken	Heineken	49,874
	Trúc bạch	Habeco	48,485
Affordable premium	Sapporo premium	Sapporo	45,960
	Tuborg	Carlsberg	41,667
	Tiger	Heineken	40,657
	Chang	Thaibev	39,141
Standard	Sapporo blue cap	Sapporo	37,096
	Saigon Special	Sabeco	36,869
	333 export	Sabeco	33,030
	Saigon larger	Sabeco	31,187
	Hanoi	Habeco	30,303
	Huda	Carlsberg	29,533
	Larue	Heineken	29,040
	Dai Viet	Dabeco	27,273
	Halida	Carlsberg	27,222
	White tiger	Masan	25,253
Economy	Saigon Export	Sabeco	18,831
	Bia Hoi Hanoi	Habeco	13,636

Source: Internet, Price categories defined by Euromonitor
(Note: Brands in red font in Figure 8 are in top 10 best-selling brands by volume and with increasing market share)

SABECO – THE BIGGEST BREWER IN VIETNAM

SAB is the largest beer producer in Vietnam with 44.1% market share by domestic production volume (According to GSO and SAB) and about 45.7% market share in consumption volume (based on Euromonitor’s market data). The company has the largest beer brewing capacity in Vietnam with 23 factories and a total designed capacity of 1.9 bn litres per year in 2017. The company also has the largest distribution network comprising of 1,200 distributors nationwide and owns 3 of the top 10 beer brands in Vietnam including “333’ Export”, “Saigon Export” and “Saigon Lager”.

Figure 8: Sabeco owns 3 of the 10 best-selling beer brands in Vietnam

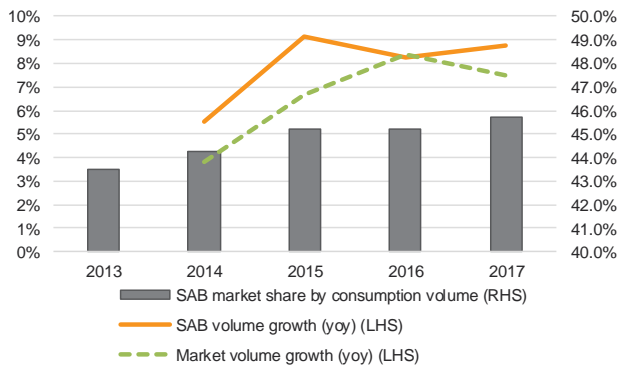


Source: Euromonitor

SAB increased its market share in recent years with volume growth outpacing that of the market but has lost momentum. SAB recorded a net sales CAGR of 11.6% over the period 2013-2017, backed by an impressive CAGR of 7.9% in sales volumes over the same period. Meanwhile, the market volume grew at a CAGR of 6.6% in the same period. SAB’s market share by volume increased from

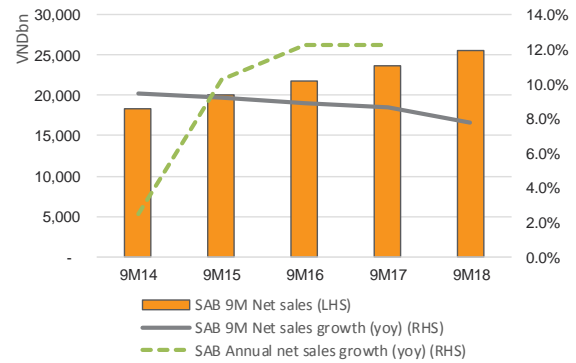
43.5% to 45.7% over the period. However, 9M18 net sales growth slowed down to 7.8% yoy. We believe the slowed down in 9M18 was the result of delay in capacity expansion and lower promotion spending as SAB's new management team (3 out of 7 Board of Management members are from Thaibev) is reviewing and restructuring efforts after gaining full control of the company since April 2018.

Figure 9: SAB increased its volume share from 2013 to 2017



Source: SAB, GSO

Figure 10: 9M net sales growth has decelerated to 7.8% yoy from a 2013-2017 CAGR of 9.0%



Source: SAB

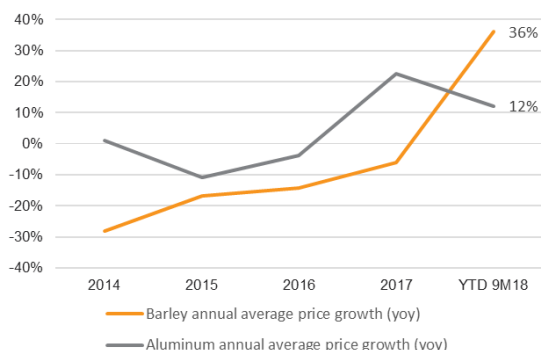
Gross margin was hit by soaring raw material prices in 2018. Price of both malting barley and aluminum increased this year (+36% yoy and 12% yoy, respectively in the first 9 months of 2018) due to shortages in supply caused by bad weather in Europe (biggest global malt exporter) and emission control regulations slapped on heavy manufactures in China which impacted aluminum smelters (China is the main global aluminum exporter). Thus, gross margin contracted by a 395 bps in 9M18

Figure 11: SAB YTD 9M18 Earnings revision

FYE (VNDbn)	9M17	9M18	Change Comments
Net revenue	23,698	25,543	7.8% Increased volume and ASP
Gross profit	6,409	5,900	-7.9% Malting barley and aluminum price soared (+36%yoy and +12% yoy respectively)
<i>Gross profit margin</i>	27.0%	23.1%	-395 bps
SG&A	2,488	2,398	-3.6% Advertising expense cut by 29.6% yoy
<i>SG&A as % revenue</i>	10.5%	9.4%	-111bps
EBIT	3,921	3,502	-10.7%
<i>EBIT margin</i>	16.5%	13.7%	-283 bps
EBT	4,524	4,254	-6.0%
Net profit	3,718	3,482	-6.4%
<i>Net margin</i>	15.7%	13.6%	-206 bps
EPS (VND)	5,799	5,429	-6.4%

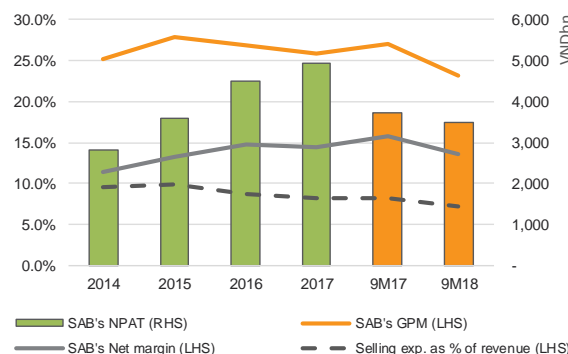
Source: VNDIRECT

Figure 12: Price of barley and aluminum soared in 2018...



Source: Indexmundi

Figure 13: ...resulting in GPM contraction but impact on Net Margin was cushioned by a moderation in selling expenses



Source: SAB

OUTLOOK FOR 2019: HEADWINDS DESPITE RENEWED MARKETING PUSH

SAB is showing some indication of renewed aggression. In last months of 2018, SAB released a new TV commercial for the Saigon Special brand along with lucky draws for Mercedes cars. Besides, SAB seized the most anticipated event in November and December – the Southeast Asian football cup (AFF cup) – and, according to cafe.vn, was among the top 5 advertisers (measured by broadcasting time) in the 2nd half of the final match on Dec 15, 2018. Furthermore, with the support of Thaibev, Sabeco's logo made its first appearance in English Premier League matches in 3Q2017 by becoming Leicester City FC's official jersey sponsor and, along with Thaibev's Chang brand, will become the football club's sponsor. These initiatives signal that management is focused on re-igniting volume growth and ramping up market share gains.

Figure 14: New TVC for Saigon Special brand



Source: Youtube

Figure 15: Sabeco logos on Leicester City FC's shirts



Source: Leicester City FC's website

Slow capacity expansion may cap volume growth potential.

SAB realized 94.2% capacity utilization across its factories in 2017 with total production of 1.79 billion litres. The company planned to get 2 new plants online to increase total capacity to 2.1 billion litres in 2018. However only 1 plant (Saigon – Bentre plant) came on stream, raising total capacity by 5.3% to 2.0 billion litres from Aug 2018. We believe that the delay in capacity expansion was a result of restructuring efforts following Thaibev's acquisition of a controlling stake in SAB, on 18th Dec 2017 (Thaibev has officially gained control of SAB since late April 2018 after the annual shareholder meeting).

In 2019 total capacity of the company may increase 5% yoy thanks to the prospect of Saigon – Long Thanh plant (SAB owns 24% of this

plant) being commissioned. With expected total capacity of 2.1 billion litres at year end 2019, we assume that SAB's plants can run at a 100% of designed capacity and that the new Saigon – Long Thanh beer plant can operate in the second half of the year, maximum production could reach 2.05 billion litres (+13.1% versus 2017's output). Based on this level of production, SAB can maintain maximum volume growth of CAGR 7.2% per year for 2017-2019. However, volume CAGR could be capped at 5.7% over the period if the new plant can't be completed in 2019 but this growth rate is in line with forecasted market volume growth of CAGR 5.9% in the same period (according to Euromonitor). Hence, we think SAB still have room to maintain its market share if capacity constraints come to bear.

Thaibev may push their beer brands through SAB's distribution network but Chang beer is not likely to be the brand of choice.

The delay in SAB's capacity expansion may just be transitory as Thaibev reviews and restructures SAB, but it also be a signal of Thaibev's intentions to push its own beer brands such as Chang, Archa or Federbräu through SAB's distribution network. Chang is the biggest brand of Thaibev but may not be a priority brand for Vietnam because Chang beer will directly compete with Tiger Beer – the bestselling brand of Heineken in Vietnam (See figure 6) – in the affordable premium segment with nearly the same price point; Tiger is a well-established brand in Vietnam already while Chang has very limited brand recall. Chang has been distributed in Vietnam officially since 2016 through 3 subsidiaries of ThaiBev which are MM Mega Market (formerly Metro of Cash and Carry), Phu Thai Corp and Thai Corp. Thaibev hasn't disclosed any information relating to whether they will distribute their own brands through SAB or not. We also note that SAB's Saigon Special brand also competes in the same segment as Chang and Tiger and is highly rated on taste while also being affordable. Thaibev might therefore be cautious with pushing its Chang brand in Vietnam through SAB's distribution network in order to avoid cannibalization.

Elevated raw material prices will keep pressuring SAB's margins in 2019. Packaging and malt together comprises about 35% of brewers' cost of goods sold and prices of both are expected to increase in 2019. Price of aluminum – the major material for canned beer packaging – is forecasted to rise by 10% next year by Citibank. Malt prices should remain at high levels due to a drought in Australia and bad weather in Europe. We believe the SAB gross margin will be under pressure due to the blended impact of elevated malt and aluminum prices.

VALUATION

SAB's stock is trading at a trailing P/E of 34.6x which is a 29% premium to its regional peer average and a 16% premium to its domestic peer, Hanoi Beer, thanks to its leading market position, well-known brand, high ROE and low leverage relative to that of peers.

Figure 16: Peer comparison (Data as 27 December 2018)

Peers	Market	Market cap (US\$ m)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM ROE (%)	D/E (x)	TTM P/E (x)	Current P/B (x)
Thaibev	Thailand	10,801	-34.4%	-34.4%	6.2%	14.8%	1.9x	18.9x	2.9x
Tsingtao Brewery Company	China	6,218	10.6%	10.5%	4.5%	8.2%	1.5x	31.5x	2.5x
Hanoi Beer	Vietnam	820	-16.2%	-15.7%	6.9%	12.1%	0.9x	29.9x	4.5x
Average		5,947	-13.3%	-13.2%	5.8%	11.7%	1.4x	26.8x	3.3x
SAB		6,866	-2.8%	-2.8%	21.0%	28.5%	0.3x	34.6x	9.6x

Source: Euromonitor, VNDIRECT

Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	27,144	30,467	34,193
Cost of sales	(19,587)	(22,300)	(25,328)
Gen & admin expenses	(1,110)	(781)	(936)
Selling expenses	(2,683)	(2,672)	(2,811)
Operating profit	3,764	4,714	5,118
Operating EBITDA	3,764	4,714	5,118
Depreciation and amortisation	0	0	0
Operating EBIT	3,764	4,714	5,118
Interest income	419	751	506
Financial expense	(122)	(69)	26
Net other income	37	25	15
Income from associates & JVs	372	306	412
Pre-tax profit	4,470	5,727	6,077
Tax expense	(870)	(1,210)	(1,128)
Minority interest	(190)	(179)	(237)
Net profit	3,410	4,339	4,711
Adj. net profit to ordinary	3,410	4,339	4,711
Ordinary dividends	(1,679)	(3,757)	(1,009)
Retained earnings	1,731	581	3,703

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	7,936	3,445	4,269
Short term investments	943	3,174	6,559
Accounts receivables	1,085	1,090	715
Inventories	1,925	2,134	2,004
Other current assets	306	878	140
Total current assets	12,194	10,722	13,686
Fixed assets	5,855	5,474	5,008
Total investments	2,192	1,939	2,131
Other long-term assets	1,330	1,060	1,188
Total assets	21,572	19,195	22,014
Short-term debt	1,052	1,042	723
Accounts payable	1,558	2,016	2,020
Other current liabilities	4,150	3,555	4,658
Total current liabilities	6,760	6,613	7,402
Total long-term debt	610	164	2
Other liabilities	137	121	190
Share capital	6,413	6,413	6,413
Retained earnings reserve	5,558	3,714	5,824
Shareholders' equity	13,069	11,248	13,383
Minority interest	996	1,048	1,037
Total liabilities & equity	21,572	19,195	22,014

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	4,470	5,727	6,077
Depreciation & amortisation	635	632	625
Tax paid	(1,212)	(984)	(295)
Other adjustments	(964)	(1,282)	(1,186)
Change in working capital	(772)	(3,374)	(153)
Cash flow from operations	2,158	719	5,068
Capex	(309)	(156)	(151)
Proceeds from assets sales	4	41	15
Others	687	(888)	(2,684)
Other non-current assets changes	0	0	0
Cash flow from investing activities	383	(1,003)	(2,821)
New share issuance	0	0	0
Shares buyback	7	0	0
Net borrowings	313	(455)	(482)
Other financing cash flow	0	6	67
Dividends paid	(1,679)	(3,757)	(1,009)
Cash flow from financing activities	(1,359)	(4,207)	(1,424)
Cash and equivalents at beginning of period	6,755	7,936	3,445
Total cash generated	1,181	(4,491)	824
Cash and equivalents at the end of period	7,936	3,445	4,269

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	12.6%	14.2%	13.8%
Asset turnover	1.25	1.49	1.66
ROAA	15.7%	21.3%	22.9%
Avg assets/avg equity	1.76	1.68	1.67
ROAE	27.7%	35.7%	38.3%
Efficiency			
Days account receivable	8.36	6.62	1.83
Days inventory	35.9	35.0	28.9
Days creditor	29.0	33.1	29.1
Fixed asset turnover	4.17	5.38	6.52
ROIC	21.7%	32.1%	31.1%
Liquidity			
Current ratio	1.80	1.62	1.85
Quick ratio	1.52	1.30	1.58
Cash ratio	1.31	1.00	1.46
Cash cycle	15.2	8.6	1.6
Growth rate (yoy)			
Revenue growth	10.3%	12.2%	12.2%
Operating profit growth	28.5%	25.2%	8.6%
Net profit growth	29.8%	27.2%	8.6%
EPS growth	29.8%	27.2%	8.6%
Share value			
Basic EPS (VND)	5,318	6,766	7,347
BVPS (VND)	20,380	17,540	20,870

Source: VNDIRECT

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