

SABECO (SAB) – MEETING NOTE

Market Price VND233,000	Target Price N/A	Dividend Yield 1.5%	Rating NOT RATED	Sector CONSUMER GOODS
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Outlook – Short term



Outlook – Long term



Valuation



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We attended SAB's analyst meeting on 31st Jan 2019 and below are some key takeaways:

4Q18 net revenue declined 0.6% yoy due to lower sale volume. NPAT declined by 30.6% yoy due to the following: (1) a 3.4% pts contraction in gross margin on higher malting barley and aluminum input costs; (2) SG&A as percentage of revenue inclined by 1.3% pts because of higher marketing expense and costs relating to damage and breakage; and (3) lower income from joint ventures (-29% yoy).

For FY2018, net revenue inched up by 5.1% yoy but pre-tax profit declined by 11.4% yoy, still coming in 9.8% higher than 2018 pre-tax profit guidance.

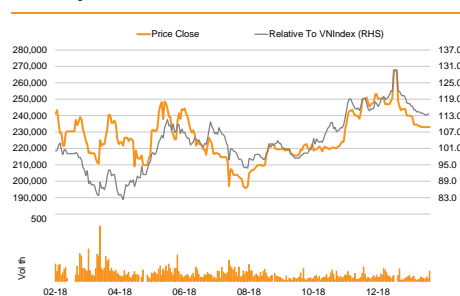
According to management, SAB's market share expanded by 2% pts as of end-4Q18 from end-2Q18. The company did not disclose the actual market share data for FY2018 (SAB's market share at end of 2017 was 42.2% according to Euromonitor). Management mentioned that the total beer market grew by 5% yoy in terms of volume in 2018 according to Vietnam Beer Association, driven by the semi-premium segment.

Management laid out three key strategic priorities for 2019, as following:

- 1) to grow market share by outpacing market growth.
- 2) to skew the product mix more in favor of premium products in order to increase blended ASP.
- 3) to cut operating costs in order to boost margins.

Management mentioned that they were not considering any plan to sell Saigon Beer in Thailand in the near-term due to "market entry barriers" which were not further elaborated upon. We believe this might reflect strategic shareholder ThaiBev's concerns around cannibalization of its own brand sales in its home market.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	267,500
52w low (VND)	196,025
3m Avg daily volume (shares)	37,647
3m Avg daily value (VNDm)	8,920
Market cap (VNDbn)	149,419
Outstanding shares (m)	641
Free float (%)	15.0
TTM P/E (x)	35.8
Current P/B (x)	9.9

Ownership

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

Source: VNDIRECT

Financial summary (USD)	12-15A	12-16A	12-17A	12-18A
Net revenue (bn)	27,144	30,467	34,193	35,949
Revenue growth		12.2%	12.2%	5.1%
Gross margin	27.8%	26.8%	25.9%	22.5%
EBITDA margin	14.6%	16.9%	15.9%	13.3%
Net profit (bn)	3,410	4,339	4,712	4,175
Net profit growth		27.2%	8.6%	(11.4%)
FD EPS	5,318	6,766	7,347	6,510
BVPS	20,380	17,540	20,870	23,459
ROAE		35.7%	38.3%	29.4%

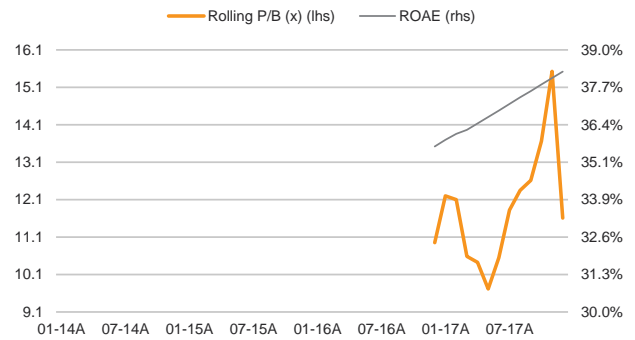
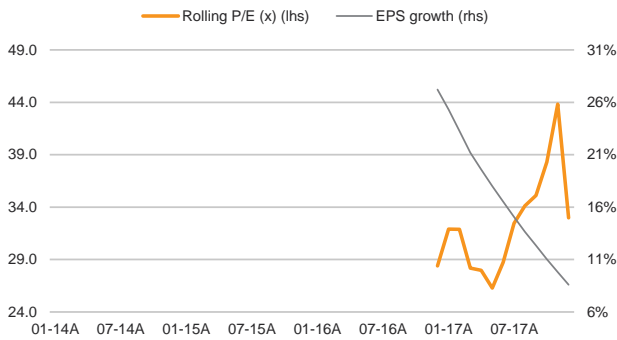
Source: VNDIRECT

Figure 1: Comparison of financial results

FYE (VNDbn)	4Q18	yoy	FY18	yoy	Comments for 4Q18
		chg		chg	
Net revenue	10,406	-0.6%	35,949	5.1%	Lower sale volume
Gross profit	2,184	-14.3%	8,084	-8.8%	Cost of material rose (malt price +36% yoy and aluminum price +12% yoy) and special consumption tax rose by 5% points yoy
<i>GPM</i>	<i>21.0%</i>	<i>-3.4% pts</i>	<i>22%</i>	<i>-3.4% pts</i>	
Selling expenses	(934)	10.3%	(2,768)	-1.5%	In 4Q18, both advertisement expense (+42% yoy) and cost of damaged product (+46% yoy) increased. For full year, selling expense decreased due to a 9.6% yoy decline in advertisement expense.
G&A expenses	(350)	14.2%	(914)	-2.4%	
<i>SG&A as % of revenue</i>	<i>12.3%</i>	<i>+1.3% pts</i>	<i>-10.2%</i>	<i>+0.7% pts</i>	
EBIT	900	-35.6%	4,402	-14.0%	
<i>EBIT margin</i>	<i>8.6%</i>	<i>-4.7% pts</i>	<i>12.2%</i>	<i>-2.7% pts</i>	
Pre-tax profit	1,133	-33.2%	5,387	-11.4%	Lower net profit due to higher selling expense (+10.3% yoy) and lower profit from joint ventures (-29.0% yoy)
Net profit	974	-30.6%	4,175	-11.4%	
<i>Net margin</i>	<i>9.4%</i>	<i>-3.8% pts</i>	<i>11.6%</i>	<i>-2.2% pts</i>	

Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18A
Net revenue	30,467	34,193	35,949
Cost of sales	(22,300)	(25,328)	(27,864)
Gen & admin expenses	(781)	(936)	(914)
Selling expenses	(2,672)	(2,811)	(2,768)
Operating profit	4,714	5,118	4,402
Operating EBITDA	4,082	4,493	3,767
Depreciation and amortisation	632	625	635
Operating EBIT	4,714	5,118	4,402
Interest income	751	506	630
Financial expense	(69)	26	(39)
Net other income	25	15	39
Income from associates & JVs	306	412	355
Pre-tax profit	5,727	6,077	5,387
Tax expense	(1,210)	(1,128)	(987)
Minority interest	(179)	(237)	(225)
Net profit	4,339	4,712	4,175
Adj. net profit to ordinary	4,339	4,712	4,175
Retained earnings	4,339	4,712	4,175

Balance sheet

(VNDbn)	12-16A	12-17A	12-18A
Cash and equivalents	3,445	4,269	4,467
Short term investments	3,174	6,559	7,544
Accounts receivables	1,090	715	766
Inventories	2,134	2,004	1,814
Other current assets	896	160	105
Total current assets	10,740	13,706	14,696
Fixed assets	5,551	5,120	4,711
Total investments	1,960	2,152	2,154
Other long-term assets	945	1,035	817
Total assets	19,195	22,014	22,379
Short-term debt	1,042	723	594
Accounts payable	2,016	2,020	2,065
Other current liabilities	3,555	4,658	3,282
Total current liabilities	6,613	7,402	5,941
Total long-term debt	164	2	15
Other liabilities	121	190	314
Share capital	6,413	6,413	6,413
Retained earnings reserve	3,714	5,824	7,471
Shareholders' equity	11,248	13,383	15,044
Minority interest	1,048	1,037	1,066
Total liabilities & equity	19,195	22,014	22,379

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18A
Pretax profit	5,727	6,077	5,387
Depreciation & amortisation	632	625	635
Tax paid	(984)	(295)	(1,141)
Other adjustments	(978)	(797)	(758)
Change in working capital	(3,678)	(543)	421
Cash flow from operations	719	5,068	4,544
Capex	(156)	(151)	(260)
Proceeds from assets sales	41	15	2
Others	(1,671)	(3,362)	(985)
Other non-current assets changes	784	678	905
Cash flow from investing activities	(1,003)	(2,821)	(339)
New share issuance	6	67	0
Shares buyback	0	0	0
Net borrowings	(455)	(482)	(116)
Other financing cash flow	0	0	0
Dividends paid	(3,757)	(1,009)	(3,889)
Cash flow from financing activities	(4,207)	(1,424)	(4,005)
Cash and equivalents at beginning of period	7,936	3,445	4,269
Total cash generated	(4,491)	824	200
Cash and equivalents at the end of period	3,445	4,269	4,469

Key ratios

	12-16A	12-17A	12-18A
Dupont			
Net profit margin	14.2%	13.8%	11.6%
Asset turnover	1.49	1.66	1.62
ROAA	21.3%	22.9%	18.8%
Avg assets/avg equity	1.68	1.67	1.56
ROAE	35.7%	38.3%	29.4%
Efficiency			
Days account receivable	6.62	1.83	2.48
Days inventory	35.0	28.9	23.8
Days creditor	33.1	29.1	27.0
Fixed asset turnover	5.30	6.41	7.31
ROIC	32.1%	31.1%	25.0%
Liquidity			
Current ratio	1.62	1.85	2.47
Quick ratio	1.30	1.58	2.17
Cash ratio	1.00	1.46	2.02
Cash cycle	8.56	1.59	(0.81)
Growth rate (yoy)			
Revenue growth	12.2%	12.2%	5.1%
Operating profit growth	25.2%	8.6%	-14.0%
Net profit growth	27.2%	8.6%	-11.4%
EPS growth	27.2%	8.6%	-11.4%
Share value			
FD EPS (VND)	6,766	7,347	6,510
BVPS (VND)	17,540	20,870	23,459

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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