

LISTING REPORT

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CONSUMER - VIETNAM

Key Figures

Charter cap (USD mn)	3,206
Charter cap (VND bn)	70,541
Outstanding shares (mn)	641.3
Management ownership (%)	N.A
State ownership (%)	89.59%
Foreign ownership (%)	9.39%

Company Factsheet

	13A	14A	15A
Revenue (USD, mn)	1,092	1,119	1,234
Net profit (USD, mn)	99	128	164
Total equity (USD, mn)	456	526	594
Total assets (USD, mn)	882	990	981
Net debt (USD, mn)	-8	-246	-285
ROA (%)	11.7%	13.6%	16.6%
ROE (%)	21.1%	26.0%	29.2%

Source: SAB

EXECUTIVE SUMMARY

Company overview

Sabeco is the leading beer producer in Vietnam. The company represented an average of 46.3% of the market during the period 2010-2015.

Sabeco has 23 subsidiaries and 31 joint ventures. These subsidiaries and joint ventures are responsible for producing and distributing Sabeco's products

In terms of production, Sabeco has 23 beer factories across the country with a total annual capacity of 1,800 million liters. Utilization rate reached ~82% in 2015. In terms of distribution, Sabeco has 11 trading companies which are responsible for distributing the company's products across Vietnam. The company also exports to 27 countries but exports accounted for a minimal proportion of sales.

Historical Financial Performance

During the period 2010-2015, sales excluding Special Consumption Tax (SCT) increased at a CAGR of 9.4% and net profit increased at a CAGR of 5.4%.

Sales growth of beer business mainly stemmed from volume growth which reached a CAGR of 6.8% per annum while ASP increased at a slower rate of 3.5% per annum. Sabeco's market share increased from 2010 to 2012 thanks to a good set of strategies from production, distribution and marketing activities following its IPO on the stock exchange. However, in 2013, Sabeco's market share declined due to growing competition from new foreign companies.

Gross margin of beer business averaged 27% during the period 2010-2015 and was influenced by both product mix and barley malt price.

Net profit increased at a CAGR of 5.4% during the period 2010-2015. Net profit growth was slower than sales due to rising SG&A which increased 3.5 times during the same period. Net margin averaged 12.4% over the last five years.

Business Outlook

The industry is forecasted to grow at a positive rate...

According to the MoIT's development plan for the beverage industry in Vietnam, the country aims to produce 4,100 million liters of beer in 2020 implying a CAGR of 4%. Growing middle class, rising disposable income, increasing consumer confidence and rising tourist arrival will be the main drivers for Vietnam's beer market.

Other organizations are also optimistic about the beer industry in Vietnam. BMI, for instance, forecasts that the industry will grow at a CAGR of 6.7%. Euromonitor estimates that during the period 2015-2020, Vietnam's beer

volume will grow at a CAGR of 6% and beer sales will increase at a CAGR of 7.2%.

... with a focus on premium segment and younger consumers.

As the middle class expands and disposable income increases, consumers will shift from mainstream to premium segment. Vietnam's changing demographics also suggests that companies should focus on younger consumers. For beer companies, this is an opportunity to acquire loyal consumers at their early age and become their loyal brand for the rest of their lives.

Growth, however, might be hindered by policy risks.

Special Consumption Tax (SCT): The SCT rate for beer products was raised from 50% in 2015 to 55% in 2016 and will continue to be increased to 60% in 2017 and 65% in 2018. SCT would also be calculated based on the selling price to the market and would not be lower than the average monthly selling price by 7%. This would inflate SCT as the price used for calculation is higher.

No beer and alcohol after 10pm or 12am: The Ministry of Health (MoH) is preparing a proposal to Congress to prohibit beer and alcohol after 10pm or 12am. If approved, this would create a drastic change in the beer industry.

Investment view

Our estimates are based on the following assumptions:

- Beer selling volume might grow 8.2% YoY in 2016, 7% YoY in 2017 and 6% YoY starting 2018.
- Beer ASP after SCT might decline 1.3% YoY in 2016 and remain constant during the forecasting period.
- Beer gross margin might reach 30.6% in 2016 but gradually increase thanks to higher proportion of Saigon Special. We assume that malt price would be relatively stable for the forecast period.
- SG&A/sales ratio might reach 12.1% for the forecasting period.

Overall in 2016, net sales might reach VND 29,610 bn (+9.1% YoY) and net profit might reach VND 4,508 bn (+25.2% YoY)

In 2017, net sales might reach VND 32,213 bn (+8.8% YoY) and net profit might reach VND 4,989 bn (+10.7% YoY)

In 2018, net sales might reach VND 34,337 bn (+6.6% YoY) and net profit might reach VND 5,427 (+8.8% YoY).

Consequently, EPS might reach VND 6,278 in 2016, VND 6,948 in 2017 and 7,557 in 2018. At the listing price, Sabeco is being traded at 2016 P/E of 17.5x, 2017 P/E of 15.8x and 2018 P/E of 14.6x. We use Discounted Cash Flow (WACC: 12.46%, terminal growth 2%) and Relative Valuation (1Y P/E 21x) method to arrive at a target price of VND 133,400/share, 21.3% upside from listing price.

Risks

Upside risk: Stronger beer demand than expected;

Downside risk: More competition than expected, higher malt price than expected.

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1. Company overview

Listing information

Listing date: 06 December 2016

Listing price: VND 110,000/share

Charter capital: VND 6,412.8 bn equivalent to 641,281,186 outstanding shares

Shareholder structure

Shareholders	No. of shareholders	No. of shares	Ownership
Ministry of Industry and Trade	1	574,519,134	89.59%
Other domestic institutions	27	2,182,180	0.34%
Domestic individuals	1,085	4,357,783	0.68%
Foreign institutions	17	59,948,389	9.35%
Foreign individuals	97	276,700	0.04%
Total	1,227	641,281,186	100.00%

Source: Sabeco The media also reports that Heineken owns ~5% of Sabeco.

The Ministry of Industry and Trade holds 89.59% of Sabeco and is planning to divest in 2 occasions: 53.59% in 2016 and 36% in 2017 after the listing of Sabeco.

Brief History

Sabeco was originally Cho Lon Beer factory which belonged to French's B.G.I company before being handed over to the government of the Socialist Republic of Vietnam. Saigon Beer Factory was founded in 1977 and was renamed Saigon Beer Company in 1993. In 2003, Sabeco was founded by consolidating Saigon Beer Company, Binh Tay Liquor Company, Chuong Duong Beverage Company and Phu Tho Glass Factory. Sabeco started to operate in a parent company – subsidiary structure in 2004.

The company went IPO in 2007. Since then, Sabeco has not increased its charter capital.

Corporate Structure

Sabeco has 23 subsidiaries (3 of which are 100% owned by Sabeco) and 31 joint ventures. These subsidiaries and joint ventures are responsible for producing and distributing Sabeco's products.

No.	Subsidiaries & JV	Sabeco's ownership	Province
Production			
1	Saigon Beer Western JSC	51.00%	Can Tho
2	Chuong Duong Beverage JSC	62.06%	HCMC
3	Saigon Quang Ngai Beer JSC	66.56%	Quang Ngai
4	Binh Tay Liquor JSC	93.47%	Binh Duong
5	Saigon Dong Xuan Beer JSC	56.24%	Hanoi
6	Saigon Nghe Tinh Beer JSC	54.73%	Nghe An
7	Saigon Song Lam Beer JSC	68.78%	Nghe An
8	Saigon Hanoi Beer JSC	52.11%	Hanoi
9	Saigon Soc Trang Ltd.	51.00%	Soc Trang
10	Sabeco Ha Tinh Beer Ltd.	100.00%	Ha Tinh
Distribution			
1	Saigon Beer Trading Ltd.	100.00%	HCMC
2	Saigon Northern Trading JSC	94.72%	Hanoi
3	Saigon North Central Trading JSC	94.92%	Nghe An
4	Saigon Center Trading JSC	93.92%	HCMC
5	Saigon Central Trading JSC	91.04%	Da Nang
6	Saigon Highland Trading JSC	90.00%	Dak Lak
7	Saigon South Central Trading JSC	90.14%	Khanh Hoa
8	Sabeco Eastern Trading JSC	90.68%	Binh Duong
9	Sabeco Song Tien Trading JSC	90.00%	Vinh Long
10	Sabeco Song Hau Trading JSC	90.00%	Can Tho
11	Sabeco Eastern North Trading JSC	90.45%	Quang Ninh
Others			
1	Saigon Beer Packaging JSC	76.81%	Binh Duong
2	Sabeco Mechanical Ltd.	100.00%	HCMC

Source: Sabeco

Business overview

Sabeco produces beer, soft drink, liquor and alcohol. Beer is the main business segment which accounted for more than 87% of sales in 2014 and 2015. According to the company, Sabeco is the 17th largest beer producer in the world. Signature beer brands include 333 (can), Saigon Export or red Saigon (355ml bottle), Saigon Lager or green Saigon (330ml can, 450ml and 355ml bottle), Saigon Special (330ml can and 330ml bottle). Other signature products include Binh Tay Liquor, Dong Xuan Liquor and Chuong Duong soft drinks.

The raw materials used for beer production include water, malt, grain, houblon hop and yeast. Sabeco imports malt, houblon hop, and enzyme from Europe, Australia and America while purchasing packaging materials domestically. According to Sabeco, malt price was in a downward trend from 2012 to the beginning of 2014 before moving upward until April 2014 and moving downward until September 2014. From the beginning of 2015 until now, malt price was moving downward. Malt price seemed to improve in 2016, however, we reckon that price is still at a low level when compared to previous years. In December 2016, the International Grains Council's Barley sub-Index is 14% lower than in 2015. According to Market Check, an Australian advisory firm, for 2016/2017 season, world barley production is at a 6 year high while world demand for barley is estimated to decline due to falling demand from China who has shifted to consume domestically.



Source: Indxmundi

Sabeco has 23 beer factories across the country (5 in the North, 5 in the Central and 13 in the South) with a total annual capacity of 1,800 million liters. Given that production volume reached 1,472.3 million liters in 2015, the company is operating with a utilization rate of ~82%. It is essential to note that beer is heavy to transport, hence, Sabeco needs to have factories across the country to meet provincial demand. As such, while some factories can operate at a 100% utilization rate, others cannot reach this level due to slower demand at that area.

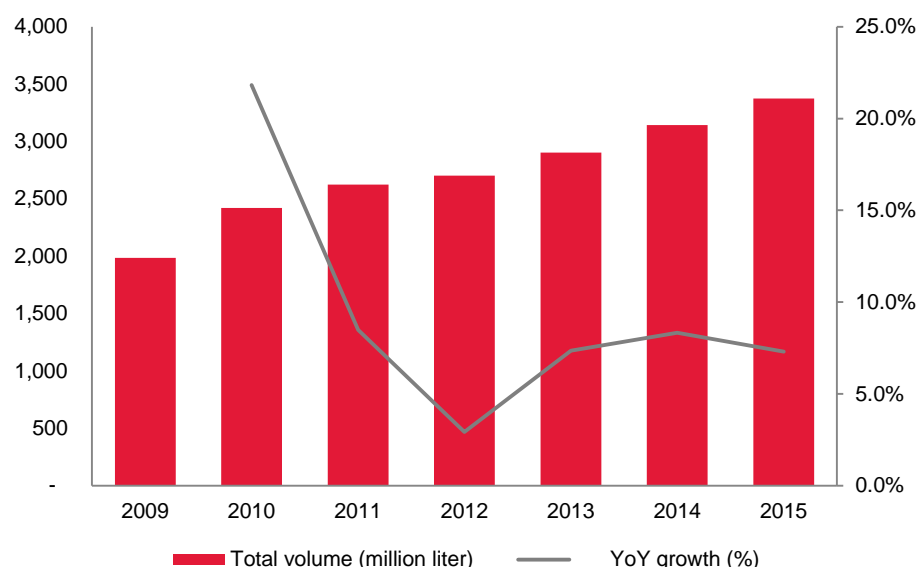
No.	Factory	Million liter/ year (*)	Location
1	Saigon Bac Lieu	50	South
2	Saigon Can Tho	50	South
3	Saigon Tay Do	50	South
4	Saigon Binh Duong		South
5	Saigon Hoang Quynh		South
6	Saigon Dak Lak		Central
7	Saigon Phu Yen		South
8	Saigon Quy Nhon		Central
9	Saigon Song Lam	100	Central
10	Saigon Nghe An		Central
11	Saigon Quang Ngai	100	South
12	Huong Sen		North
13	Saigon Phu Ly	50-100	North
14	Saigon Ha noi	90	North
15	Saigon Dong Xuan (Me Linh)	30	North
16	Saigon Phu Tho	35.5	North
17	Saigon Ha Tinh	50	Central
18	Saigon Ninh Thuan	50-100	South
19	Saigon Soc Trang 2	50	South
20	Saigon Vinh Long	100	South
21	Saigon Kien Giang	50-100	South
22	Saigon Cu Chi	270	South
23	Saigon Nguyen Chi Thanh		South

Source: Sabeco, SSIResearch, (*) estimated figures

In terms of distribution, Sabeco has 11 trading companies which are responsible for distributing the company's products in both on-premise and off-premise channel across Vietnam. The company also exports to 27 countries (under 333 Export and Saigon Export brand). Exports reached USD 1.62 million in 2014 and accounted for a minimal proportion of sales.

2. Vietnam beer industry

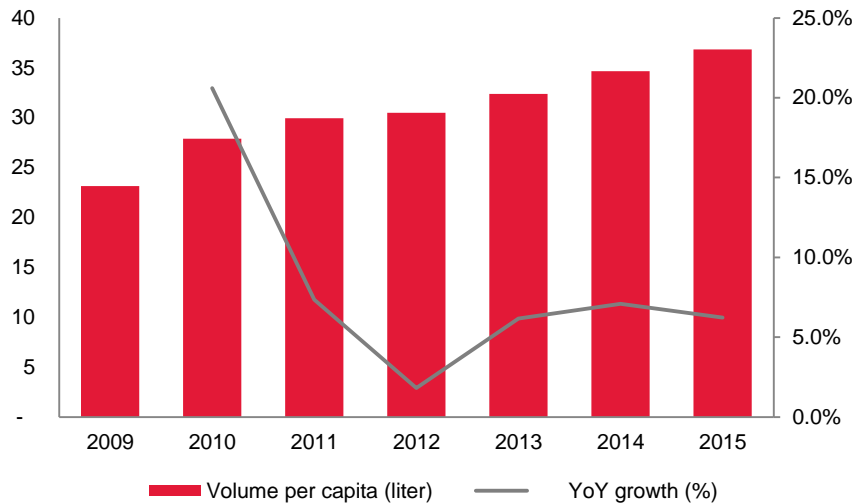
The country is a large beer producer and consumer



Source: MoIT

According to MoIT, Vietnam's beer production increased at a CAGR of 6.9% during the period 2010 – 2015 which is lower than 10.6% during the previous period 2006 – 2010. However, when compared to regional peers, Vietnam's production volume still managed to grow at a higher rate. In 2015, production volume reached 3,373.6 million liters, implying an increase of 7.3% YoY compared to a decline of 1.3% in Asia. A report by Kirin University suggests that Vietnam is in the top 10 largest beer producer in the world in 2015 compared to top 25 in 2005. Vietnam is also the 3rd largest beer producer in Asia, only after China and Japan.

According to VBA, Vietnam's production capacity reaches 4.96 billion liters per year. Vietnam has 129 beer establishments at the end of 1H16 which concentrated in large cities and provinces such as HCMC (34.69%), Hanoi (12.64%), Hue (6.8%), Binh Duong (7.58%), Nghe An (5.57%), and Quang Ngai (3.59%). Beer production capacity has increased thanks to several factories with large annual capacity of 200-400 million liters such as Sabeco's Cu Chi factory in 2008, Habeco's Me Linh factory in 2009 and Heinenken's Vietnam brewery in 1993, all of which has increased their annual capacity multiple times since commencing operations. MoIT's data on beer production volume suggests that utilization rate reaches 68% in 2015.

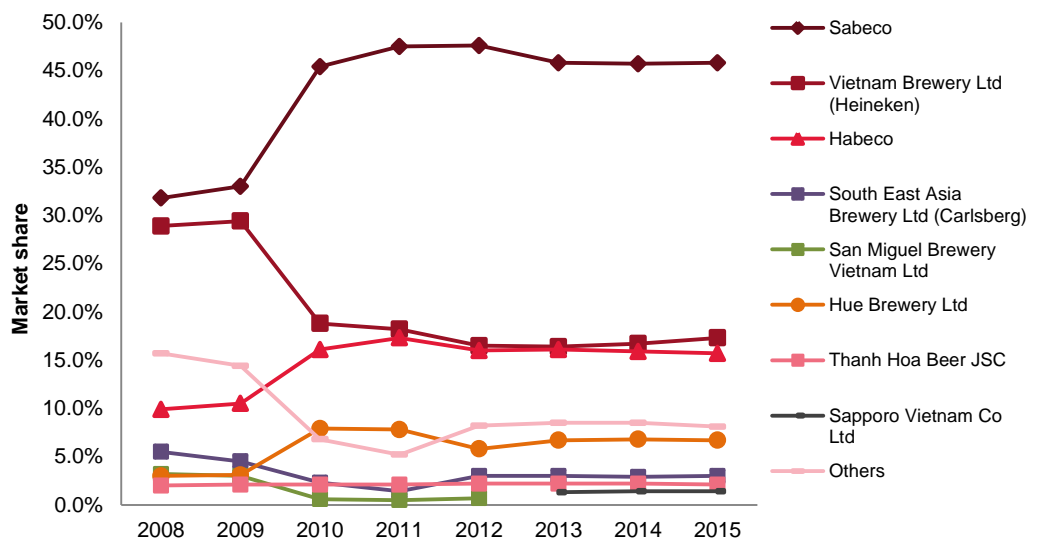


Source: MoIT, SSIResearch

During the period 2010 – 2015, volume per capita increased at a CAGR of 5.7% based on our estimate. According to VBA, Vietnam ranked 5th in Asia in terms of beer consumption per capita. On average, a Vietnamese consumes 31.7 liters of beer per year, behind Japan (44 liters), Korea (38.7 liters), Thailand (38.1 liters) and China (37.3 liters).

Beer consumption is usually high during the holiday season, particular Tet holiday, and during warm weather (hence consumption in the South is higher than in the North). However, according to Sabeco, sales do not differ much between quarters. We believe this is because selling volume is also affected by promotions and marketing activities.

Beer market is consolidated with few strong players



Source: Euromonitor

Prominent players such as Sabeco, Habeco, Heineken and Carlsberg accounted for more than 80% of beer volume in Vietnam. However, when compared to 2011, market share of leading companies such as Sabeco, Heineken and Habeco seemed to decline over the years due to the arrival of new foreign players such as Sapporo, Budweiser, etc.

According to Euromonitor, on-premise consumption represents 73% of Vietnam's beer volume while off-premise consumption represents the remaining 27%. When drinking on-premise, for example, customers tend to choose premium brands to impress business partners or friends (with the exception of street vendors and craft beer bistros where people drink cheap craft beer). When consumed off-premise, brand choice depends more on personal taste. On-premise coverage includes street vendors, craft beer bistros, karaoke and restaurants. Off-premise coverage includes mom and pop shops, convenience stores and supermarkets. Off-premise is easy because beer companies only have to deal with one party (e.g. a supermarket chain) and sell products in bulk. On-premise is more complex given the high number of PoS and the small volume at each PoS. Both Sabeco and Heineken seem to do well at on-premise channel.

Vietnam beer market is divided into Economy, Mainstream and Premium segment. Mainstream is the largest segment which represents ~60% of beer volume.

	Prominent brand	Company	330ml can price (VND) (*)
Economy	Bia Hoi Ha Noi	Habeco	
	Bia Hoi Sai Gon	Sabeco	
Mainstream	Halida	Carlsberg	8,500
	Larue	Heineken	8,800
	Huda	Hue Brewery	8,900
	Ha Noi Beer	Habeco	9,200
	Saigon Lager	Sabeco	9,200
	333	Sabeco	10,700
Premium	Tuborg	Carlsberg	12,500
	Saigon Special	Sabeco	13,100
	Tiger	Heineken	13,200
	Truc Bach	Habeco	15,000
	Heineken	Heineken	16,100
	Sapporo	Sapporo	16,500
	Budweiser	AB InBev	18,900

Source: SSI Research, (*) retail price at supermarkets

Sabeco has established brands in all three segments. In the Economy segment, Bia Hoi Sai Gon is dominant in the South while Bia Hoi Ha Noi has strong presence in the North. Bia Hoi (craft beer) is sold to vendors in kegs which are later poured in beer glasses for customers to consume within a day. Since the South is warm all year and the North has four seasons, Bia Hoi Sai Gon has a competitive advantage over Bia Hoi Ha Noi in terms of selling volume.

In the Mainstream segment, Sabeco is dominant with two brands namely Saigon Beer (Red/Green bottle) and 333, both of which prevail in the South. Saigon Beer is Sabeco's signature brand which was launched in 1992. 333, which was initially 33 Export, was one of the first beer produced in Vietnam in 1977. Both brands are reputable and widely recognized in the country. Ha Noi Beer and Halida are mainly

present in the North. However, while Sabeco has successfully distributed its products in the North via both on-premise and off-premise channel, Habeco's Ha Noi Beer is rather invisible in the South. This is the common case in Vietnam where beer drinkers tend to prefer their local brands, hence domestic companies are only strong in their provinces. Huda, which is produced by Hue Brewery is common in Hue. Larue, which is produced by VBL Da Nang and VBL Quang Nam is popular in Da Nang city.

In the Premium segment, Sabeco is second to Heineken who accounts for ~70% of the market share. Heineken's brands, Tiger and Heineken, are popular thanks to their long history and impressive advertisements. Sabeco's brand, Saigon Special, mainly competes with Heineken's brand, Tiger. Sapporo, Budweiser and Tuborg are new players in this segment. Sapporo is produced by Sapporo Vietnam Ltd., a joint venture between Sapporo Group and Vinataba. The brand aims for consumers who are likely to shift from mainstream to premium segment. Budweiser is one of AB InBev's most popular brands but only entered the Vietnamese market at the end of 2014. Tuborg is the number one beer brand by volume in Carlsberg Group portfolio but was only introduced in April 2016.

Competition is always intense

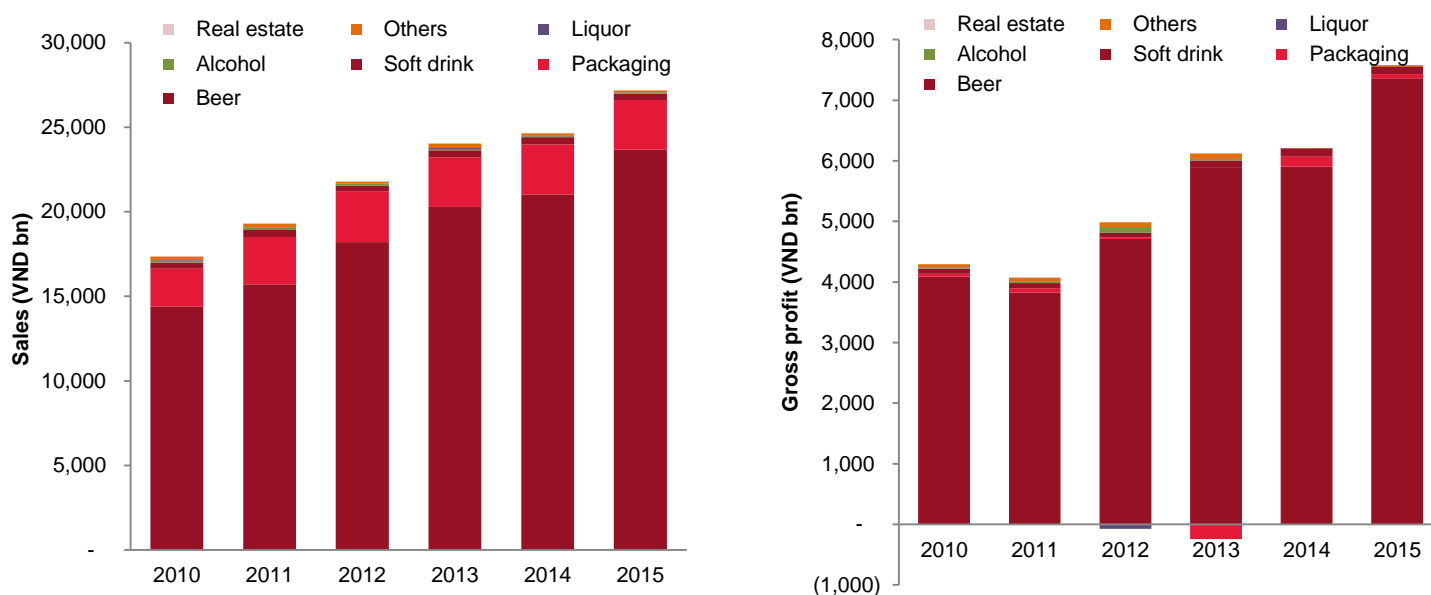
Brand loyalty is low in the beer industry. A Vietnamese typically consumes 2-3 brands. In addition, over the last few years, foreign beer companies have actively entered or/and expanded their production capacity in Vietnam. In 2015, for example, Sapporo Vietnam increased their annual capacity from 40 million liters to 100 million liters. The company plans to increase its capacity to 150 million liters per year in near future. Masan expanded their Hau Giang factory (annual capacity 150 million liters) and Phu Yen factory (annual capacity 50 million liters) to 200 million per annum amid a flourishing beer market. AB InBev also opened a 100 million liters factory in 2015. Meanwhile, Heineken is in the process to upgrade its Quang Nam factory from 25 million liters to 120 million liters per annum.

Given the increasing number of beer factories, the government has discouraged any new factory with an annual capacity of less than 50 million liters. In Sabeco's case, the company has invested in a number of new factories over the last few years such as Saigon – Kien Giang factory (capex VND 600 bn, annual capacity 50 million liters), Saigon – Ninh Thuan factory (capex VND 450 bn, annual capacity 50 million liters to increase to 100 million liters) and Saigon – Can Tho factory (capex VND 450 bn, annual capacity 50 million liters).

3. Historical financial performance

During the period 2010-2015, sales excluding Special Consumption Tax (SCT) increased at a CAGR of 9.4% and net profit increased at a CAGR of 5.4%.

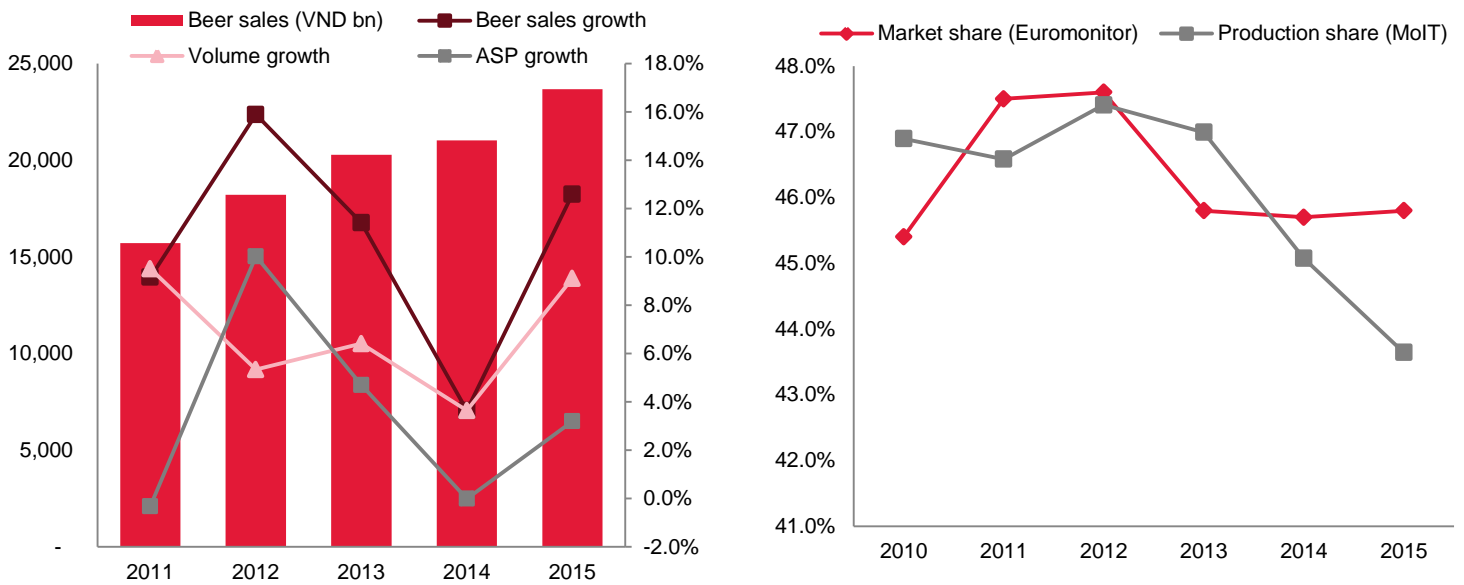
Beer is Sabeco's main revenue and gross profit generator. The business accounted for an average of 84% of sales and 96% of gross profit for the period 2010-2015. Packaging was the second largest business which represented 13% of sales but only 0.5% of gross profit on average. Sabeco purchased packaging materials in large amount and distributed to its subsidiaries in an effort to control the quality of its brand image. Hence, gross profit of this segment is minimal. Soft drink accounted for an average of 1.8% of sales and 1.9% of gross profit. The contribution of alcohol and liquor was minimal during the period.



Source: Sabeco, SSIResearch

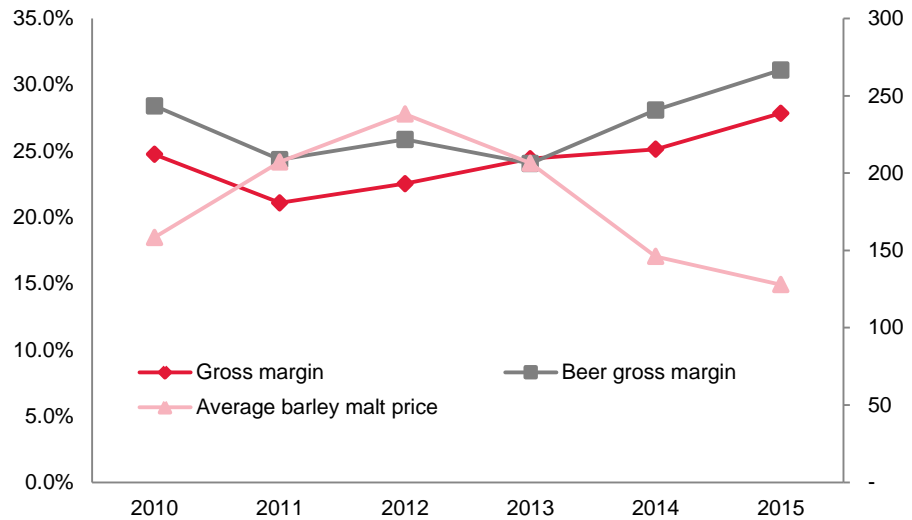
Sales growth of beer business mainly stemmed from volume growth which increased at a CAGR of 6.8% while ASP increased at a lower CAGR of 3.5%. According to Euromonitor, Sabeco is the leading beer company in Vietnam representing an average of 46.3% of the market during the period 2010-2015. According to Euromonitor, Sabeco's market share increased from 2010 to 2012 thanks to a good set of strategies from production, distribution and marketing activities following its IPO on the stock exchange. In terms of productions, the company had consistently increased its annual production to meet consumer demand. In terms of distribution, it has good relationships with distributors, retailers and foodservice operators. In terms of marketing activities, Sabeco implemented promotions and marketing campaigns to build brand awareness. Sabeco's products had increased its presence both in the South, Sabeco's traditional market, and in the North, Habeco's home market via the operation of its Ha Noi factory. However, in 2013, Sabeco's market share declined due to growing competition from new foreign companies.

During the period 2012-2015, Vietnam's beer production volume increased at a CAGR of 7.7% according to data from the MoIT. Sabeco and Habeco, however, obtained moderate CAGR of 4.7% and 4.6% respectively. This implies that volume from new FDI companies increased at a double digit CAGR of 14.1%. The outperformance of FDI companies can be traced back to a spike in premium beer consumption, especially among young and urban population. Meanwhile, the majority of Sabeco's volume stemmed from 333 and Saigon Lager (red) which were targeted at mainstream consumers.



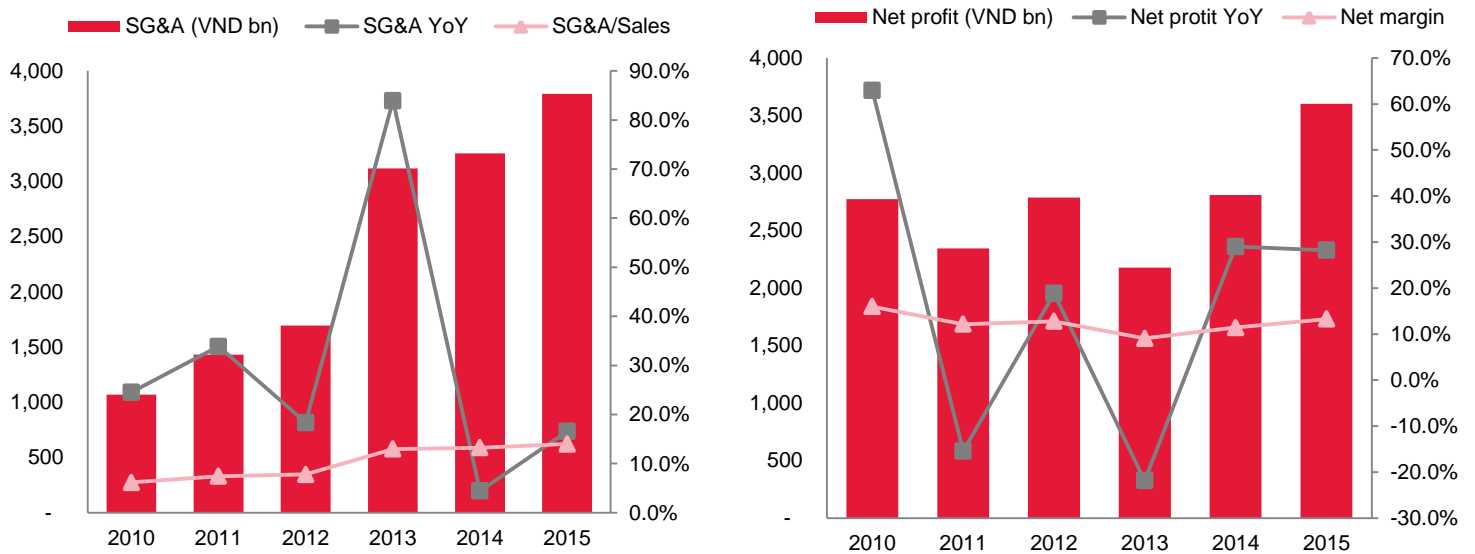
Source: Sabeco, SSIResearch

Sabeco's gross margin seemed to improve since 2011 as the proportion of beer sales in total sales increased. **Gross margin of beer business averaged 27% during the period 2010-2015 and was influenced by both product mix and barley malt price.** After losing market share to premium foreign companies in 2013, Sabeco placed more emphasis on accelerating sales of its premium brand Saigon Special (both can and bottle) in an effort to defend market share. Saigon Special has higher gross margin than 333 and Saigon Lager, hence higher volume of Saigon Special led to improved gross margin. During the period 2013-2015, gross margin was also supported by lower barley malt price amid downward trend in the commodity market.



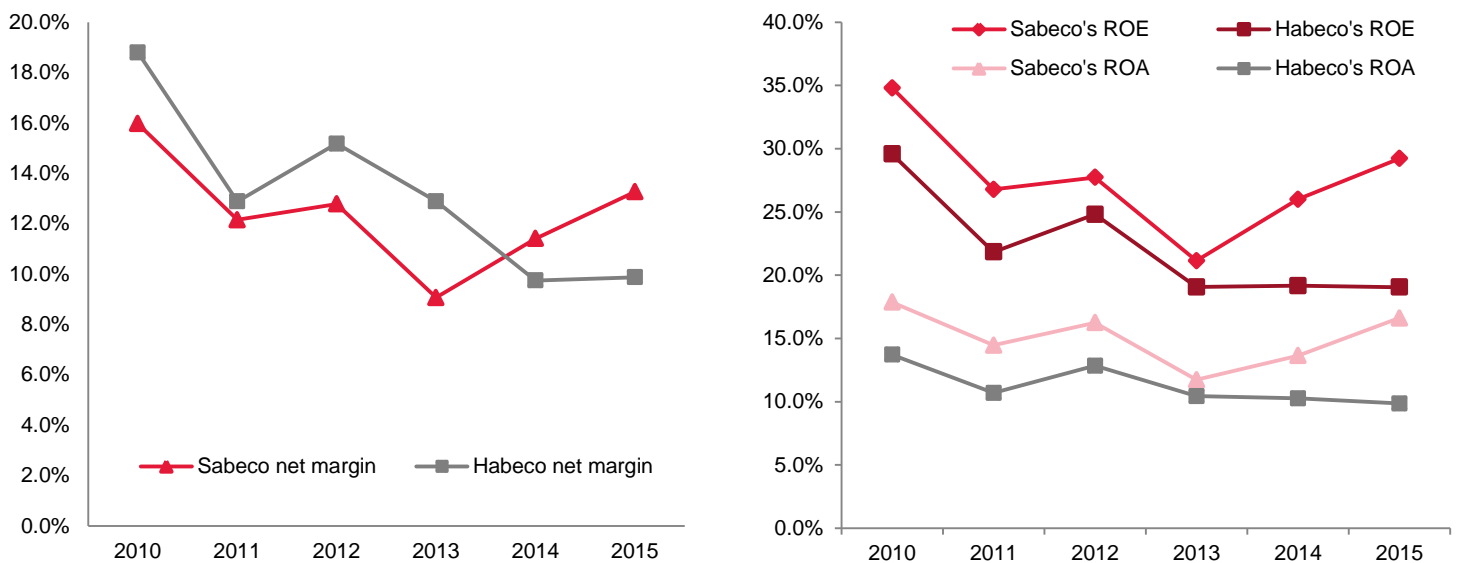
Source: Sabeco, IndexMundi, SSIResearch

During the period 2010-2015, net profit increased at a CAGR of 5.4%, slower than sales, due to rising SG&A which increased 3.5 times during the same period. Advertising and marketing, sales salary and packaging were the fastest growing expenses. Specifically, advertising and marketing expense increased 3 times during the period 2012-2015. Sales salary increased 2.6 times and packaging increased 4.6 times during the same period. This underlined the intense competition in the beer industry where companies constantly influence consumer choices by creating impressive marketing campaigns, offering attractive promotions and repackaging their products in eye-catching appearance. During the period 2010-2015, net margin averaged 12.4%.



Source: Sabeco, SSIResearch

During the period 2010-2015, Sabeco's net margin was lower than Habeco's. However, Sabeco's net margin surpassed Habeco's in 2014 and the gap widened in 2015. While Sabeco successfully distributed its products in the North and maintained its position in the South, Habeco struggled in its home market and its products were nearly invisible in the South. In addition, Sabeco accelerated sales of its premium brand Saigon Special which enhanced margin while Habeco is still lagging behind competitors in the premium segment. This could be the reason why Sabeco is more profitable despite the fact that the two companies operate with similar parent company-subsidary structure.



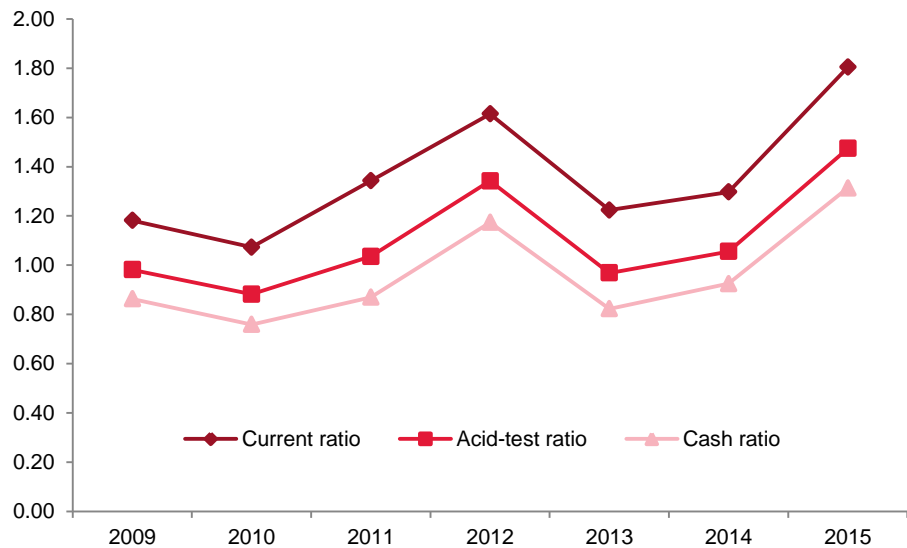
Source: Sabeco, Habeco, SSIResearch

Balance sheet: Sabeco has a cash rich balance sheet with attractive assets. Cash and cash equivalent accounted for 37% of total assets as at end 2015 and 41% as at the end of 2Q16. Sabeco's BVPS reached VND 20,857 and cash per share reached VND 16,835 at end 2Q16. D/E ratio was low at more than 10% at end 2015 compared to more than 20% in Habeco case.

At end 3Q16, Sabeco's assets include authorized use of 4 large pieces of land in Ho Chi Minh City namely 46 Ben Van Don (3,872.5 m²), 187 Nguyen Chi Thanh (17,406.1 m²), 474 Nguyen Chi Thanh (7.729 m²) and 18/3B Phan Huy Ich (2,216.3 m²). Theoretically, this land can only be used for core business operations and any non-core activities are discouraged by the government. On Sabeco's balance sheet, land use is valued in accordance to its IPO document.

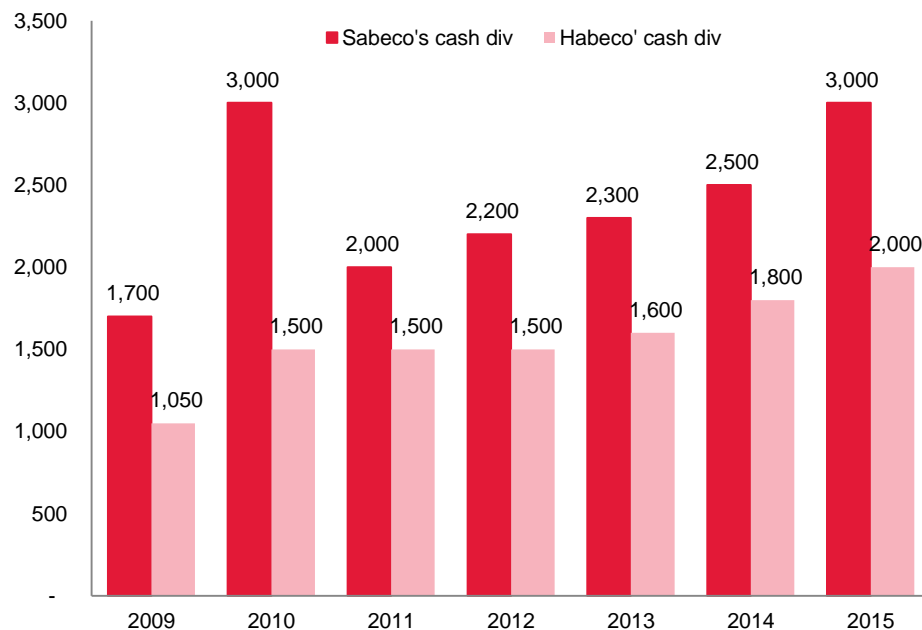
In 2015, Sabeco put 2-4-6 Hai Ba Trung land (6,080.2 m², book value VND 757 bn) and VND 92 bn in Sabeco Pearl Investment JSC, a joint venture Sabeco owns 26%. Sabeco Pearl has a charter capital of VND 566.7 bn and has 4 shareholders: Ha An Investment Trade and Service (25.5%), Me Linh Investment (25.5%), Attland (23%) and Sabeco (26%). In 3Q16, Sabeco divested all of its investment (26% or 14,733,342 shares) in Sabeco Pearl to Sabeco Pearl's existing shareholders. According to management, Sabeco initially planned to move its headquarter to 2-4-6 Hai Ba Trung. However, the area Sabeco needed for its headquarter was not large which meant that

the remaining area must be put up for renting/leasing. This non-core activity was discouraged by the government who emphasized that land should only be used for Sabeco's core business operations.



Source: Sabeco

Dividend: Historically, Sabeco has paid good cash dividend. For 2016, the company plans to pay 30% on par which translates into a dividend yield of 2.7% per annum based on the listing price and a dividend payout of ~53% based on company's 2016 target.



Source: Sabeco, Habeco

Special consumption tax dispute

In 2015 and 2016, the State Auditor requested Sabeco to additional SCT for the period 2010-2012 and 2013-2015. According to the State Auditor, the amount of special consumption tax paid by Sabeco was calculated based on the selling price of Sabeco to its subsidiary Sabeco Trading Company. However, this trading company continued to sell beers to other related affiliates at higher price before beer was sold to consumers. This meant that Sabeco had avoided special consumption tax which, as the State Auditor suggested, should have been calculated based on the selling price of the subsidiary that sold to market. Since there are many debates around this issue due to a discrepancy in special consumption tax calculation in Circular 05 from Ministry of Finance in 2012 which was later amended and became effective on 1 January 2016.

According to Sabeco, the company has paid a total of VND 679 bn for SCT. This amount included VND 215 bn for 2013, VND 257 bn for 2014 and VND 207 bn for 9M15. Sabeco's manufacturing subsidiaries have also paid a total of VND 707 bn for SCT including VND 194 bn for 2013, VND 242 bn for 2014 and VND 270 bn for 2015. In addition, Sabeco has also booked a provision for SCT in administration expense for the last 3 years. The company recorded VND 326 bn in 2013, VND 322 bn in 2014 and VND 345 bn in 2015.

Since Sabeco only received a notice regarding SCT for the period 2010-2012 recently, the company recorded VND 1,430 bn of provision in 9M16 balance sheet.

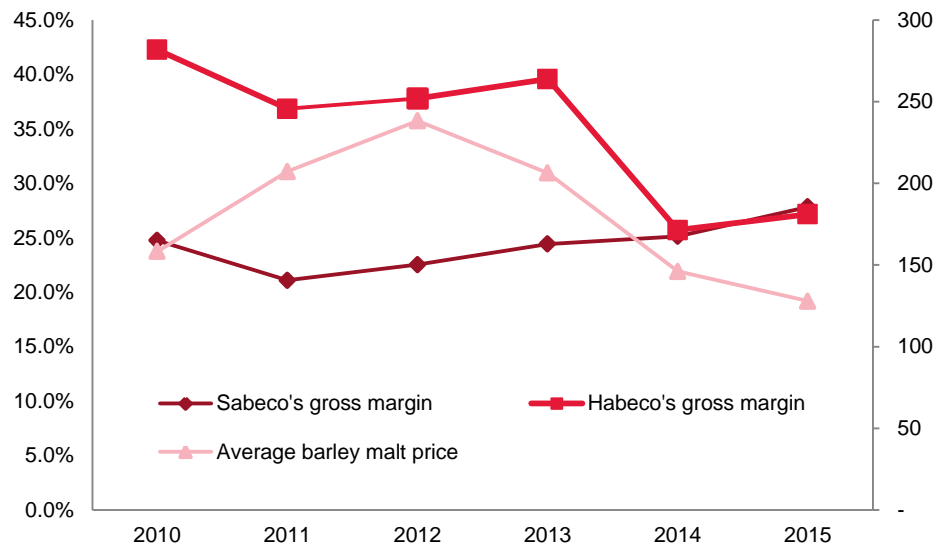
9M16 results

Sabeco posted 8.9% YoY growth in net sales and 24.5% YoY growth in net profit. Sales (exc. SCT) reached VND 21,808 bn and achieved 76.4% FY target. Net profit reached VND 3,658 bn and achieved 100% of FY target. The company completed its net profit target earlier than plan and intend to pay a cash dividend of 30% on par for 2016.

In 9M16, Sabeco's beer sales reached VND 18,821 bn (+6.8% YoY). According to the MoIT, Sabeco's production volume reached 1,203.7 million ton implying an increase of 8.2% YoY, lower than FDI companies (+12.4% YoY) but much higher than Habeco's volume growth (+0.3% YoY).

The fact that net profit increased at a higher rate than sales despite a lower gross margin (27.6% in 9M16 vs. 28.6% in 9M15) can be traced back to:

- Higher financial income which doubled YoY in 9M16.
- Lower SG&A/sales ratio: 10.4% in 9M16 vs. 12.3% in 9M15. This stemmed from the fact that in 2015, Sabeco booked a provision for SCT in administration expense which did not occur in 2016. Sabeco's half year financial report shows that this amount reached VND 262 bn in 1H15 while 9M financial report does not reveal the exact amount in 9M15. Excluding this amount, we estimate that net profit increased by ~10% YoY.



Source: Sabeco, Habeco, Indexmundi

4. Industry outlook

The industry is forecasted to grow at a positive rate...

According to the MoIT's development plan for the beverage industry in Vietnam, the country aims to produce 4,100 million liters of beer in 2020 (vs. 2015: 3,373.6 million liters) implying a CAGR of 4%. According to the General Statistics Office of Vietnam (GSO), the nation's population will grow at a CAGR of 1% during the period 2015-2020. This suggests that volume per capita will increase at a CAGR of 3% during the same period. Growing middle class, rising disposable income, increasing consumer confidence and rising tourist arrival will be the main drivers for Vietnam's beer market.

- Nielsen reports that in 2020, Vietnam's middle class will triple and reach 33 million people.
- Boston Consulting Group (BCG) estimates that Vietnam's average per capita income will also rise from USD 1,400 to USD 3,400 a year in 2020.
- A report by Nielsen also suggests that consumer confidence is consistently high which makes Vietnam the 7th most optimistic country in the world. This reflects Vietnamese consumers' hope in the future, specifically in the stability of the nation's economic outlook, which will prompt consumers to spend more.
- In 11M16, total foreign tourists reached more than 9 million, implying an increase of 25.4% YoY. The number of tourists will continue to experience upbeat growth in the long-term thanks to (1) Vietnam becoming more accessible when it enters into various FTAs; (2) efforts by the government to promote Vietnam to the world via applying attractive policies (visa exemption for certain countries, VAT refund for tourist, direct flight routes to big cities in other countries, etc.)

The MoIT is not the only organization that is optimistic about the beer industry in Vietnam. BMI, for instance, forecasts that the industry will grow at a CAGR of 6.7%. Euromonitor estimates that during the period 2015-2020, Vietnam's beer volume will grow at a CAGR of 6% and beer sales will increase at a CAGR of 7.2%. Regional and international industry players have also expressed their interest in the State's divestment of Sabeco and Habeco in hope of penetrating Vietnam's beer market.

... with a focus on premium segment and younger consumers.

As the middle class expands and disposable income increases, consumers will shift from mainstream to premium segment. This is the reason why over the last few years, the premium segment has witnessed many new players who try to exploit consumers' move to a higher spending level. According to BCG, Vietnam's middle class will spread out across the country rather than consolidate in Hanoi and Ho Chi Minh City. It is estimated that these two cities will account for only a third of the middle class by 2020. BCG suggests that companies will need to be present in nearly twice as many locations to achieve comparable coverage. Companies with a distribution network that spreads far and wide such as Sabeco will benefit from this trend.

Vietnam's changing demographics also suggests that companies should focus on younger consumers. According to Nielsen, Millennials represent 30% of Vietnam's population which translates into 27 million people. Millennials are having a major impact on the consumer and labor landscape in Vietnam. By understanding their core values and characteristics, companies will be able to influence and drive their thinking, spending, living and working habits throughout their lifetimes. For beer companies, this is an opportunity to acquire loyal consumers at their early age and become their loyal brand for the rest of their lives. Nielsen suggests that Millennials excel in fast-paced environment that requires active lifestyle and demand connectivity, convenience and options that allow them to be in control.

When taking into account these two trends, Heineken seemed to lead the market when the company successfully revamped its premium segment brand Tiger with a focus on Millennials. After obtaining the Tiger brand in 2012, Heineken has created a marketing campaign to reposition the brand to be a global, iconic Asian beer - the 'Truly International Asian Beer' - starting June 2013. Tiger aims for the masculine and confident male image to connect with its consumers. With Millennials as target customers in mind, the 'Tiger Uncage' campaign is based on the idea of encouraging young people to pursue their passion and releasing them from the limitations and inhibitions. In Asia, this resonates with Millennials who are ambitious individuals with vast opportunities but are caged by Asian conformity. Heineken also added Tiger Crystal (in addition to the traditional Tiger Lager) which has a more modern logo, image and packaging to target younger population. Tiger is currently the fastest growing brand in Heineken's portfolio in Vietnam.

Sabeco has followed Heineken's footsteps by shifting its marketing towards younger population and re-packaging its premium brand Saigon Special. In 2015, Sabeco chose Cong Phuong, a 5' 6" U19 soccer player, as its brand ambassador for Saigon Special and re-emphasized on its signature message 'Maybe you are not high, but others have to look up'. Sabeco was also active in sponsoring music events targeted at younger consumers such as Hypersonic Music Festival, Special Countdown Party and Lost in Space. In May 2016, Sabeco re-packaged Saigon Special in a more modern appearance which emphasized on a refreshing image and abundant energy. The move was part of Sabeco's long-term strategy to stay competitive in an increasing crowded beer market in Vietnam.

Growth, however, might be hindered by policy risks.

Special Consumption Tax (SCT): Beer, along with tobacco and alcohol, is subjected to SCT. According to Decree 108/2015/ND-CP and Circular 195/2015/TT-BTC, there were two changes regarding SCT of beer products in 2016, both of which would inflate the amount of SCT. Firstly, the SCT rate for beer products was raised from 50% in 2015 to 55% in 2016. The rate will continue to be increased to 60% in 2017 and 65% in 2018. This aims to limit heavy drinking as well as potential harm from such behavior.

Secondly, SCT would be calculated based on the selling price to the market and would not be lower than the average monthly selling price by 7%. This would inflate SCT as the price used for calculation is higher. Prior to 2015, key players such as Sabeco and Habeco calculated their SCT payment based on the selling price of the parent company to its trading subsidiary. However, since these companies have many layers of

distribution subsidiaries, this trading subsidiary continues to sell beers to other related affiliates at higher price before beer was sold to consumers. According to the State Auditor, this meant that Sabeco and Habeco had avoided special consumption tax which should have been calculated based on the selling price of the subsidiary that sold to market. Since there are many debates around this issue due to a discrepancy in SCT calculation in Circular 05 from Ministry of Finance in 2012, it was later decided that the selling price to the market would be used as the basis to calculate SCT starting 1 January 2016.

Higher SCT will tighten beer companies' margin unless they can transfer the cost to consumers. In 2016, it seems that key players such as Sabeco and Heineken have not increased their selling price in response to a higher SCT of 55% (vs. 2015: 50%). However, we believe that in 2017, these companies will have to increase their selling price to partially offset the cost. This might create an adverse impact on selling volume in future years.

No beer and alcohol after 10pm or 12am: The Ministry of Health (MoH) is preparing a proposal to Congress to prohibit beer and alcohol after 10pm or 12am. According to MoH, beer and alcohol consumption between 8pm and 12am is harmful to human neurosystem. In Vietnam, the number of traffic accidents is high during these hours. 77% of Vietnamese male consume beer and alcohol and 44% can be considered heavy drinking. Beer and alcohol is also one of the top 10 reasons for death in Vietnam. Most importantly, the age at which Vietnamese starts to drink is getting younger. It is estimated that the MoH will hand in the proposal to Congress in 2018 which, if approved, would create a drastic change in the beer industry in Vietnam.

5. Estimates and Valuation

Company's business plan

	2015A	2016P	2017P
Beer volume (million liter)	1,521	1,541	1,643
Saigon beer volume	1,466	1,490	1,592
Net sales (VND mn)	27,144,301	28,558,000	30,384,000
YoY		5.2%	6.4%
Net profit (VND mn)	3,600,096	3,659,000	3,956,000
YoY		1.6%	8.1%
Net margin	13.3%	12.8%	13.0%
Dividend	30%	30%	30%

Source: Sabeco

Estimates

Our estimates are based on the following assumptions:

- Beer selling volume might grow 8.2% YoY in 2016 (similar to 9M16), 7% YoY in 2017 (higher than Sabeco's target of 6.6% but lower than MolT's forecast of industry growth of 8.2%) and 6% YoY starting 2018 (similar to Euromonitor's forecast).
- Beer ASP after SCT might decline 1.3% YoY in 2016 (similar to 9M16) and remain constant during the forecasting period.
- Beer gross margin might reach 30.6% in 2016 (similar to 9M16) but gradually increase thanks to higher proportion of Saigon Special following the new branding and packaging in May 2016. We assume that malt price would be relatively stable for the forecast period.
- SG&A/sales ratio might reach 12.1% for the forecasting period.

Overall in 2016, net sales might reach VND 29,610 bn (+9.1% YoY) and net profit might reach VND 4,508 bn (+25.2% YoY)

In 2017, net sales might reach VND 32,213 bn (+8.8% YoY) and net profit might reach VND 4,989 bn (+10.7% YoY)

In 2018, net sales might reach VND 34,337 bn (+6.6% YoY) and net profit might reach VND 5,427 (+8.8% YoY).

Consequently, EPS might reach VND 6,278 in 2016, VND 6,948 in 2017 and 7,557 in 2018. At the listing price, Sabeco is being traded at 2016 P/E of 17.5x, 2017 P/E of 15.8x and 2018 P/E of 14.6x. We use Discounted Cash Flow and Relative Valuation method to arrive at a target price of VND 133,400/share, 21.3% upside from listing price.

DCF (WACC: 12.46%, terminal growth 2%)

(VND million)	2016F	2017F	2018F	2019F	2020F	Terminal
EBIT	5,716,067	6,323,741	6,876,621	7,646,455	8,657,714	9,776,476
Effective CIT rate (%)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Add: Depreciation	555,807	555,807	555,807	555,807	555,807	555,807
Less: CAPEX	0	0	0	0	0	0
Less: Change in WC	-2,888,589	1,108,729	-269,884	-362,455	-370,973	-420,650
Free cash flow to firm	8,017,250	4,506,070	6,326,988	7,035,426	7,852,951	
Terminal value					69,519,271	
Present value	7,937,665	3,966,905	4,952,646	4,896,854	4,858,547	
Terminal present value					43,010,916	
Total Firm Value	79,730,056					
Equity Value	78,322,073					
Target price (VND)	122,134					

RV (1Y P/E: 21x)

Company	P/E
ASAHI GROUP HOLDINGS LTD	39.237
SAN MIGUEL CORP	14.856
HEINEKEN MALAYSIA BHD	22.431
CARLSBERG BREWERY MALAYSIA B	18.234
THAI BEVERAGE PCL	23.509
MULTI BINTANG INDONESIA PT	29.537
TSINGTAO BREWERY CO LTD-H	20.292
JIANGSU YANGHE BREWERY -A	18.494
Median	21.3615

Target price after Date	2016F 31-Dec-16	1Y 30-Nov-17	2017F 31-Dec-17
EPS	6,278	6,891	6,948
BVPS	21,827	25,845	26,218
Target price (VND)	131,842	144,707	145,901
Return	19.86%	31.55%	32.64%

	Price (VND)	Weight
FCFF valuation	122,134	50.00%
P/E valuation	144,707	50.00%
Final target price (1Y)	133,420	

6. Investment Opinion

We believe that Sabeco is in a great position to capture the positive growth of Vietnam's beer industry given its established brands, solid distribution network and increasing focus on advertising and marketing activities. However, the industry as a whole might expand at a slower rate than previously due to high penetration and competition would become more extreme following the entrance of an increasing number of foreign companies. As such, we believe Sabeco is suitable for long-term investors who desire exposure to Vietnam's consumer sector. Given the sheer interest in Sabeco's listing and the low free float, stock price might rally in the short-term.

Positive

- Established brands, solid distribution network and increasing focus on advertising and marketing
- Cash rich balance sheet, prudent financial policy, stable cash dividend
- Attractive valuation: At the listing price of VND 110,000/share, 2017 P/E might reach 15.8x which is lower than other consumer stocks

Negative

- Beer industry is closely regulated
- Sabeco reacts to industry trends slower than competitors such as Heineken

Upside risk: Stronger beer demand than expected; Divestment of Government's stake.

Downside risk: More competition than expected, higher malt price than expected.

APPENDIX: HISTORICAL FINANCIAL STATEMENTS

VND Billion	2014	2015	2016F	2017F
Balance Sheet				
+ Cash	6,755	7,936	12,441	14,996
+ Short-term investments	782	943	943	943
+ Account receivables	1,065	1,085	1,129	1,228
+ Inventories	1,845	1,925	1,759	1,905
+ Other current assets	124	306	122	133
Total Current Assets	10,571	12,194	16,394	19,205
+ LT Receivables	40	34	41	45
+ Net Fixed Assets	7,570	5,936	5,387	4,838
+ Investment properties	36	46	39	31
+ LT Investments	2,264	2,220	2,220	2,220
+ Goodwill	0	0	0	0
+ Other LT Assets	1,288	1,142	1,046	1,136
Total Long-Term Assets	11,199	9,378	8,733	8,271
Total Assets	21,770	21,572	25,127	27,476
+ Current Liabilities	8,151	6,760	9,352	8,589
<i>In which: ST debt</i>	<i>437</i>	<i>1,052</i>	<i>931</i>	<i>1,009</i>
+ Non-current Liabilities	1,131	748	556	603
<i>In which: LT debt</i>	<i>912</i>	<i>610</i>	<i>410</i>	<i>444</i>
Total Liabilities	9,282	7,507	9,909	9,192
+ Contributed capital	6,413	6,413	6,413	6,413
+ Share premium	0	0	0	0
+ Retained earnings	4,110	5,558	6,486	9,302
+ Other capital/fund	1,050	1,098	1,098	1,098
Owners' Equity	11,572	13,069	13,997	16,813
NCI	915	996	1,221	1,471
Total Liabilities & Equity	21,770	21,572	25,127	27,476
Cash Flow				
CFO	2,899	2,158	6,750	4,366
CFI	-238	383	0	0
CFF	-980	-1,359	-2,245	-1,812
Net increase in cash	1,681	1,181	4,505	2,555
Beginning cash	5,074	6,755	7,936	12,441
Ending cash	6,755	7,936	12,441	14,996
Liquidity Ratios				
Current ratio	1.30	1.80	1.75	2.24
Acid-test ratio	1.06	1.47	1.55	2.00
Cash ratio	0.92	1.31	1.43	1.86
Net debt / EBITDA	-0.65	-1.13	-1.39	-1.79
Interest coverage	34.53	59.36	71.05	72.54
Days of receivables	8.14	7.89	6.98	6.04
Days of payables	36.12	31.22	24.80	22.21
Days of inventory	34.98	35.13	31.31	28.74
Capital Structure				
Equity/Total asset	0.53	0.61	0.56	0.61
Liabilities/Total Assets	0.43	0.35	0.39	0.33
Liabilities/Equity	0.80	0.57	0.71	0.55
Debt/Equity	0.12	0.13	0.10	0.09

VND Billion	2014	2015	2016F	2017F
Income Statement				
Net Sales	24,611	27,144	29,610	32,213
COGS	-18,426	-19,587	-21,469	-23,263
Gross Profit	6,184	7,558	8,141	8,950
Financial Income	367	419	701	778
Financial Expense	-89	-122	-85	-92
Selling Expense	-2,342	-2,683	-2,931	-3,189
Admin Expense	-912	-1,110	-651	-709
Income from business operation	3,208	4,061	5,175	5,738
Net Other Income	44	37	59	64
Income from associates	344	372	402	434
Profit Before Tax	3,595	4,470	5,636	6,237
Net Income	2,808	3,600	4,508	4,989
Minority interest	181	190	225	249
NI attributable to shareholders	2,627	3,410	4,283	4,740
Basic EPS (VND)				
Basic EPS (VND)	3,784	4,864	6,278	6,948
BVPS (VND)				
BVPS (VND)	18,045	20,380	21,827	26,218
Dividend (VND/share)				
Dividend (VND/share)	2,500	3,000	3,000	3,000
EBIT	3,703	4,547	5,716	6,324
EBITDA	4,286	5,182	6,272	6,880
Growth				
Sales	2.5%	10.3%	9.1%	8.8%
EBITDA	9.0%	20.9%	21.0%	9.7%
EBIT	8.6%	22.8%	25.7%	10.6%
NI	29.0%	28.2%	25.2%	10.7%
Equity	15.3%	12.9%	7.1%	20.1%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	12.2%	-0.9%	16.5%	9.3%
Valuation				
PER	0.0	0.0	17.5	15.8
PBR	0.0	0.0	5.0	4.2
P/Sales	#DIV/0!	#DIV/0!	2.4	2.2
Dividend yield	#DIV/0!	#DIV/0!	2.7%	2.7%
EV/EBITDA	-1.4	-1.4	9.7	8.9
EV/Sales	-0.3	-0.3	2.1	1.9
Profitability Ratios				
Gross Margin	25.1%	27.8%	27.5%	27.8%
Operating Margin	12.2%	13.8%	16.1%	15.7%
Net Margin	11.4%	13.3%	15.2%	15.5%
Selling exp./Net sales	9.5%	9.9%	9.9%	9.9%
Admin exp./Net sales	3.7%	4.1%	2.2%	2.2%
ROE	26.0%	29.2%	33.3%	32.4%
ROA	13.6%	16.6%	19.3%	19.0%
ROIC	23.5%	26.5%	30.4%	30.1%

Source: Company, SSI Research

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- ❖ **Underweight:** The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

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