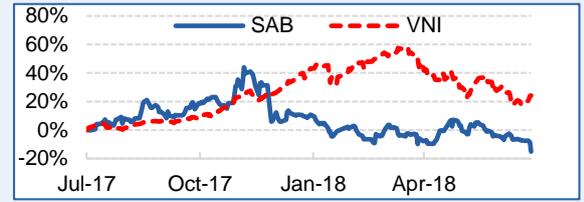


Industry:	Brewery		<u>2015</u>	<u>2016</u>	<u>2017</u>
Report Date:	July 23, 2018	Rev Growth	10.3%	12.6%	11.9%
Current Price:	VND200,000	EPS Growth	21.8%	37.3%	7.3%
		GPM	27.6%	27.0%	25.9%
		NPM	12.2%	14.6%	13.8%
		EV/EBITDA	28.1x	22.6x	21.0x
		P/Op CF	45.8x	85.3x	22.3x
		P/E	42.6x	31.0x	29.3x



Market Cap:	\$5.6bn		<u>SAB</u>	<u>VNI</u>
Foreign Room:	\$2.2bn	P/E (ttm)	29.4x	17.7x
ADTV30D:	\$0.8mn	P/B (curr)	8.9x	2.5x
State Ownership:	36.0%	Net D/E	-0.6x	N/A
Outstanding Shares:	641.3 mn	ROE	34.8%	14.5%
Fully Diluted Shares:	641.3 mn	ROA	23.8%	2.3%

Company overview

Sabeco is the largest brewer in Vietnam with over 40% market share. Sabeco has 25 breweries across Vietnam as of YE2017, boasting a total capacity of 2.0 billion liters.

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A year of transition toward a new growth phase

We attended SAB's AGM on July 21, 2018. The AGM was well organized and run in an efficient, professional manner. Despite muted guidance for 2018, management conveyed confidence that SAB will achieve sustainable profit growth in the long term while sharing some areas of emphasis that it is working on to get SAB there. We share management's optimism and believe that under the stewardship of the new management team, which possesses extensive experience in Asian beer markets, SAB boasts a bright long-term outlook. We look to initiate full coverage of SAB in the future.

Below are our key takeaways from the AGM:

Shareholders approved a new board of directors for 2018-2023. The new board, led by Chairman Koh Poh Tiong, is comprised of seven members, including three ThaiBev-related members, two independent members and two executive members.

Supervisory board will be replaced by a new audit committee to align with international corporate governance practices. This structure was also previously implemented by Vinamilk (HSX: VNM), which has Fraser & Neave as a big shareholder. Per its company charter, SAB's audit committee will consist of at least three members, of which no more than one is an executive member. The audit committee will be headed by an independent board member. We notice that Mr. Pramoad Phornprapha of Thailand, who is one of SAB's two independent board members, is also currently undertaking roles in audit committees and corporate governance committees of multiple other companies.

Shoring up SAB's presence in urban areas, especially HCMC, is a priority. Per management, SAB is by far the leader in rural areas, but its position in urban areas is not as strong. Management also said HCMC is SAB's cradle and so it is determined to make Saigon Beer the leading brand in this city.

Pricing could be improved as a brand portfolio review is underway. Management sees headroom to strengthen SAB's pricing, which is in turn subject to competition and the company's brand strength. SAB is conducting a brand portfolio review to crystallize segmentation and establish distinct positioning for each of its brands. Management also plans to launch new brands and products in the future.

Production, raw material procurement and logistics were listed as potential areas for cost optimization. Management will look to synergize the operations of its various subsidiaries (most of

them are breweries). On the other hand, raw material procurement and other activities, such as advertising, can be centralized into ThaiBev to yield lower purchasing prices.

2018 earnings to be hit by excise tax and raw material cost hikes. SAB guides for an NPAT before MI of VND4tn (USD174mn) in 2018, -19% vs 2017, against a total sales volume of 1.8 billion liters, +1% vs 2017. Per management, in 2018, profit margins will be weighed on by a 5-ppt excise tax hike from 60% to 65% and substantial increases in prices of raw materials such as malt, hops and cans. At the same time, since 2018 is a transitional year for SAB following ThaiBev's takeover, the impact of new operational initiatives will not be fully reflected yet in its financial results.

Per our discussion, management is hopeful that profit margins will rebound in 2019 as restructuring efforts bear fruit.

Cash dividend for FY2018 will be maintained at VND3,500/share, translating to a dividend yield of 1.75% based on the current share price.

Management looks to apply to lift SAB's FOL following the AGM. Related to this, even though it was not explicitly stated by SAB, we believe its amendments to the company charter regarding several non-essential business lines will pave the way for SAB to remove its FOL.

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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