



GENERAL INFORMATION

Listing price	110,000
Listing date	06/12/16
No shares	640.92 mil
Freefloat	10.07%
Target price	168,653
12M Prospect	Increase

SHAREHOLDER STRUCTURE

	No Shareholders	Ownership (%)
Domestic	1,113	90.61%
<i>Institution</i>	28	89.93%
<i>Individual</i>	1,085	0.68%
Foreigner	114	9.39%
<i>Institution</i>	17	9.35%
<i>Individual</i>	97	0.04%
Total	1,227	100%

Source : Sabeco, 06/10/2016

Year	Div rate
2011	20%
2012	22%
2013	23%
2014	25%
2015	30%
2016 (expected)	30%

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BEAUTIFUL SAIGON

We recommend **STRONG BUY** for SAB with a target price of VND 168,653 (upside 53.32% compared to the listed price at VND 110,000). SAB will become important in Vietnam's Top 5 bluechips and have an impact on the whole listed Beer sector (BHN, WSB, BSP ...).

Vietnam is a prospective market of world beer industry. Production output of Vietnam in 2015 reached 4.67 trillion liters of beer, up 20.1% yoy, well ahead of country with 2nd high growth rates which is Belgium with 8.8% yoy growth. BSC believes that Vietnam will continue to be an attractive market due to (1) beer consumption per capita is moderate; (2) Vietnam population age is still in golden era and (3) The middle and the wealthy class continue to grow rapidly.

Sabeco is a leading enterprise in beer sector, owning manufacturing chain along the country. Accounting for 40.59% of market share of beer consumption in Vietnam, Sabeco is now the only brewery that owns 24 factories and distribution systems across from North to South, thus, it can optimize transportation and has the advantage of expanding nationwide. Along with that, the management of input materials as well as product consumption creates strong competitive advantage and stable quality.

Sound financial health, liquidity is high. In general, the financial situation of SAB is relatively healthy with high financial liquidity (current ratio and quick ratio of in 9M2016 of 1.8 and 1.5, respectively), the amount of cash and deposits (approximately VND 10.1 trillion) accounted for 70% of short-term assets and 45% of total assets. Good operating performance with improved gross margin each year, up from 21.09% in 2011 to a 27.56% in 9M2016.

BSC notes some of SAB main risks: (1) The policy of the State; (2) The trade agreement; (3) The ratio of golden population will be declining after 10 – 11 years; (4) The marketing policy is not competitive compared to foreign enterprises and (5) The risk of being acquired by the big enterprises when the State starts divesting

	2012	2013	2014	2015	9M2016
Rev (bil đ)	21,789	24,016	24,611	27,144	21,809
% yoy	12.94%	10.22%	2.48%	10.29%	8.88%
Total Asset	17,725	19,399	21,770	21,572	22,703
Total Equity	11,358	10,783	12,488	14,065	14,403
Gross profit (bil đ)	4,911	5,866	6,184	7,558	6,011
Profit after tax	2,786	2,177	2,808	3,600	3,658
Gross margin	22.54%	24.42%	25.13%	27.84%	27.56%
ROE	24.53%	20.19%	22.49%	25.60%	25.40%
ROA	15.72%	11.22%	12.90%	16.69%	16.11%

INVESTMENT THESIS

We recommend **STRONG BUY** for SAB with a target price at VND 168,653 (upside 53.32% compared to the listed price starting at VND 110,000). BSC highly values investment opportunities on SAB due to following main arguments (the arguments will be analyzed in the next sections):

- | | | |
|---------------------------|---|--|
| Sector analysis | { | <p>(1) Vietnam will continue to be a bright spot on the World's beer consumption map, thanks to <i>(i)</i> beer consumption per capita is moderate; <i>(ii)</i> Vietnam population is still in golden era and <i>(iii)</i> The middle and the wealthy class continue to grow rapidly.</p> <p>(2) Sabeco - representing Vietnam Beer Industry: Sabeco is largest firm, accounting for 40.59% of market share of beer consumption in Vietnam, will benefit directly from the growth trend and development of the sector.</p> |
| Operation Analysis | { | <p>(3) Improved performance trend in the future, thanks to <i>(i)</i> Potential to develop superior product line: this is the general trend of the industry, the further development will help gain market share and increase business efficiency; <i>(ii)</i> Gross margin increased to near industry average and is strongly improved: gross margin of SAB is currently 27.56%, much lower than the industry average (34.8%), while operating margin is 13.3%, which is relatively good. BSC notes that in just 5 years, the current gross margin has increased significantly compared to 21.09% in 2011.</p> <p>(4) The closed operating model, covered across the country to create a solid competitive advantage: Sabeco is now the only brewery that <i>(i)</i> owns factory chain and distribution system across the country from North to South; and <i>(ii)</i> holds the management of input materials as well as product consumption of 24 factories. Thus, it can reduce transportation costs, maintain quality and acquire consumption areas.</p> |
| Financial Analysis | { | <p>(5) Sound financial situation, liquidity is high: sound capital structure with cash and deposits (approximately VND 10.1 trillion) accounted for 70% of short-term assets and 45% of total assets. Debts of more than VND 1.4 trillion (mainly from the member companies to finance working capital), Interest income on deposits is over 5 times higher than interest expense.</p> |
| Risk Analysis | { | <p>(6) BSC notes some of SAB main risks: (1) the policy of the State; (2) The trade agreement; (3) The ratio of golden population will be declining after 10-11 years; (4) The marketing policy is not competitive compared to foreign enterprises and (5) The risk of being acquired by the big enterprises when the State starts divesting</p> |

Stock valuation:

We use two valuation methods which are FCFF and PE. Sabeco is now representing Vietnam Beer industry – the highest growth beer market in the world, so we are inclined to PE method with 75% weight, and FCFF with 25% weight because plans of company may be changed and some value can be "unlocked" after the state divestment.

Name	Mkt Cap (Mil USD)	A/R Turnover 2015	Inv Turnover 2015	A/P Turnover 2015	GM 2015	OPMargin 2015	PM 2015	ROA 2015	ROE 2015	P/E	P/B
Median	2,132	12.9	7.2	7.7	34.8	14.1	9.2	6.1	14.8	27.4	3.4
SABECO	3,100	27.9	10.4	11.7	27.8	15.2	13.3	16.7	25.6	17.4	4.9

Source: Bloomberg, appendix 01, 02

VIETNAM BEER SECTOR – A RISING STAR

Investors can refer to the report Prospects of Vietnam Beer sector of BSC (28th Oct 2016)

Vietnam is a brewer of highest capacity growth around the World. In 2015, the total Global beer production reached 188.64 billion liters (-1.1% yoy), and Asia still maintained its leading position at 63.81 billion liters (-1.3% yoy), accounting for 33.8 % of Global market share during the past 7 years. While the worldwide brewing witnessed a decline and almost no growth in most countries, Vietnam was brightening when its production reached 4.67 billion liters, rising sharply by 20.1% yoy (as opposed to only 9% yoy in 2014), far and away the No.2 producer, Belgium, at 8.8% yoy.

Considering the period of 10 years, from 2005 to 2015, Vietnam was also a brewer having the most remarkable growth of production in the world at 238.8% (compared to the Global average rise only by 17.3%), from 1.38 billion liters (2005) to 4.67 billion liters (2015), showing a significant soar from No.24 to No. 8 worldwide.

Top 10 countries of producing beer 2015					
Nation	2015 Ranking	2014 Ranking	2015 production (bil liters)	+yoy	Market share
China	1	1	42.99	-4.30%	22.79%
USA	2	2	22.29	-1.40%	11.81%
Brazil	3	3	13.86	-2.00%	7.35%
Germany	4	4	9.56	0.40%	5.07%
Mexico	5	5	7.45	-4.50%	3.95%
Russia	6	6	7.30	-4.70%	3.87%
Japan	7	7	5.46	-0.10%	2.90%
Vietnam	8	10	4.67	20.10%	2.48%
UK	9	8	4.40	-0.70%	2.33%
Poland	10	9	3.98	0.70%	2.11%

Source: Kirin Beer University Report, BSC

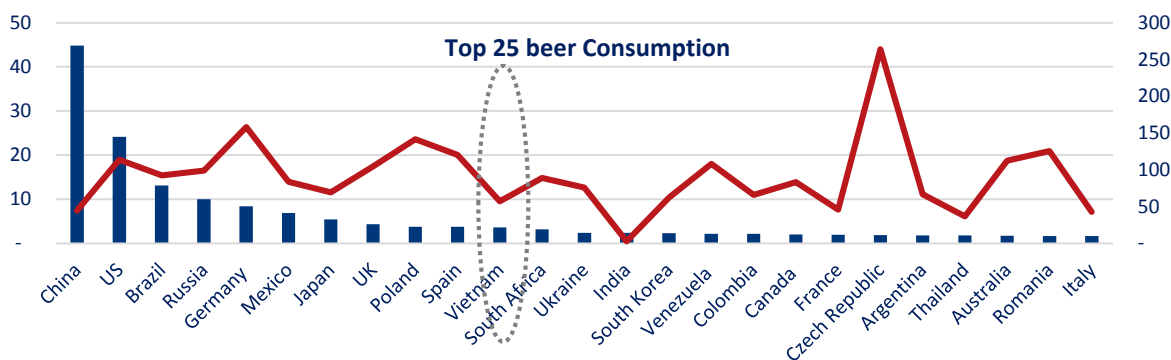
We find out the indicator of Beer consumption per capita that is wildly available in many reports may be unreasonable because they divide the total amount of beer consumed by population (including children under 15 and adults over 65). Therefore, in order to be more rational logic, BSC calculates the Beer consumption per capita indicator according to population in the age group of 15-64 for the horizontal comparison between Vietnam and other countries.

However, the increasing of beer consumption in Vietnam has not yet met that of production. Sales volume was 3.80 billion liters in 2015 (according to Heineken - beerworkers.org). It is a relatively low rate in comparison to the manufacturing output growth, which proves that Vietnam beer market witnesses a considerable improvement in the level of competitiveness. According to McKinsey report about beer market, the sales volume tends to decrease more popularly around the world, and the brewers will be under a stronger competitive pressure in the high-class and super high-ranking segment due to enjoying a great profit margin instead of competing each other in quantity as before.

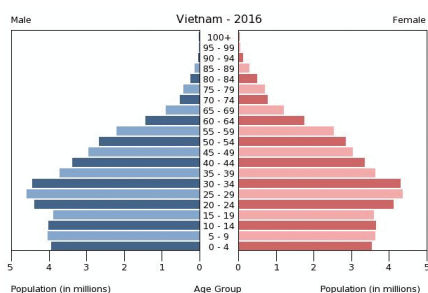
Vietnam will continue to be a highlight of the World's beer consumption. According to the latest available data of beer consumption in each country (Global Beer Consumption by Country in 2014 - Kirin Beer University Report), Vietnamese sales volume was ranked 11th in the world and Asia's Top 3 just after China and Japan. We expect that Vietnam beer market will remain to be an attractive piece of cake for the following reasons:

- (1) **Beer sales volume per capita in Vietnam is at a moderate level.** In 2014, although Vietnam, which consumed 57.09 liters of beer per

capita, stayed ranked Top 3 in Asia, after Japan and South Korea (69.31 and 62.26 respectively), this country was still much lower than the Top 25 biggest beer consumers in the world in the average of 92.07 liters (this group made up over 83% of global consumption).



Source: Kirin Beer University Report, World bank data, BSC,
Left axis (bar) 2014 Consumption (bil liters); right axis (line) consumption per capita (liter)



Source: Indexmundi, CIA World
Factbook

(2) Vietnam are still in Golden era of population. Even though Vietnamese population is considered to be aging by the World Bank, having a slight decline in the percentage of people aged 15-64 yearly, the overall population structure is still concentrated in this age group (61.91%), which helps catch many brewes' eyes.

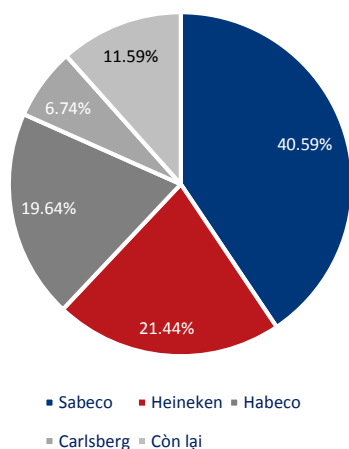
(3) Forecasts that the middle and wealthy class of Vietnam will double by 2020. According to the Boston Consulting Group's Center for Consumer and Customer Insight, "the middle class and wealth "of Vietnam will double to 33 million people, or approximately 1/3 of this country's population by 2020, which is likely the fastest growth rate in Southeast Asia. During the period of 2010-2015, Vietnam GDP per capita grew at a relatively high CAGR of 9.61%.

	2010	2011	2012	2013	2014	2015
Vietnam						
% population from 15 - 64	69.78	70.09	70.26	7.31	70.27	70.17
Consumption per capita	40.14	45.47	48.88	54.19	57.09	59.05
GDP per capita	1,334	1,543	1,755	1,908	2,052	2,111
China						
% population from 15 - 64	74.34	74.35	74.22	73.96	73.61	73.22
Consumption per capita	44.50	44.76	44.09	46.13	44.66	54.78
GDP per capita	4,515	5,574	6,265	6,992	7,587	7,925
Japan						
% population from 15 - 64	63.77	63.19	62.58	61.96	61.36	60.80
Consumption per capita	71.18	69.37	69.48	69.57	69.32	-
GDP per capita	42,935	46,230	46,701	38,550	3,153	32,477
South Korea						
% population from 15 - 64	72.67	72.77	72.92	73.02	73.01	72.88
Consumption per capita	56.26	56.31	56.77	55.96	62.26	-
GDP per capita	22,151	24,156	24,454	25,998	27,989	27,222

Source: Kirin Report, BSC

SABECO – THE GIANT OF VIETNAM BEER

Vietnam Beer Market share 2015



Source: Association of Beer, Liquor and Beverage, BSC Research

Sabeco is the leading beer brewery in Vietnam. The consumption amount in 2015 was 1.38 Bil liters (+9% yoy), 40% market share. Consumption amount is targeted at 1.54 Bil liters in 2016.

Sabeco – largest beer producer in Vietnam. From a small beer factory founded in 1875 in Saigon, now Sabeco (SAB) has accumulated a history of 140 years in active business. Its 24 factories spread nationwide with a total design capacity of over 1.8 billion liters/year (represented 39% national production capacity – while that of Habeco only reached 800 million liters/year). According to the statistics from Vietnam Beer Alcohol Beverage Association, by the end of 2015, SAB has accounted for 40.59% Vietnamese beer market.

Strategically the company is focusing on the middle price segment of the market which is also the largest segment that accounted for 59% of total industry consumption. Premium segment accounted for 10% while the rest 31% belongs to economy segment

Sabeco's consumption breakdown

In million liters	2014	2015	2016 KH	9T2016
Saigon Beer	1,356.11	1,466.35	1,490.00	1,152.30
Beverages	35.01	30.00	37.75	23.33
Liquor	1.39	1.34	1.27	0.73
Alcohol	2.09	1.85	1.62	1.19

Source: SAB Prospectus

Nationwide factories coverage. Sabeco system contains 20 manufacturing companies with different holding percentages. Materials that directly influence beer quality and brand image such as malt, hops, yeast, cans, bottles, labels, and stopples are provided by Sabeco, remaining ingredients (rice, additives) left to each plant's purchasing.

Net sales: Sabeco represents Vietnamese beer industry with revenue growth of approximately 9.36% in the period 2010-2015, which is close to the growth rate of middle price segment (9.22%) during the same period.

Vietnam Beer Consumption

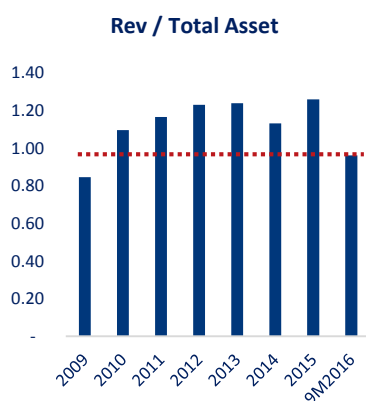
Million Liters	2010	2011	2012	2013	2014	2015	CAGR
Beer	2,336.00	2,635.80	2,897.70	3,214.00	3,409.80	3,627.20	9.20%
High-priced beer	237.80	267.90	295.60	332.20	353.90	378.10	9.72%
- Domestic	223.80	249.10	273.70	306.20	325.30	344.90	
- Imported	1400	18.80	21.90	26.00	28.60	33.20	
Middle price beer	1,368.40	1,551.10	1,694.70	1,873.20	1,992.90	2,126.40	9.22%
- Domestic	1,368.40	1,551.10	1,694.70	1,873.20	1,992.90	2,126.40	
- Imported							
Low-priced Beer	729.80	816.80	907.40	1,008.60	1,063.00	1,122.70	9.00%
- Domestic	729.80	816.80	907.40	1,008.60	1,063.00	1,122.70	

Source: Sabeco prospectus, BSC Research

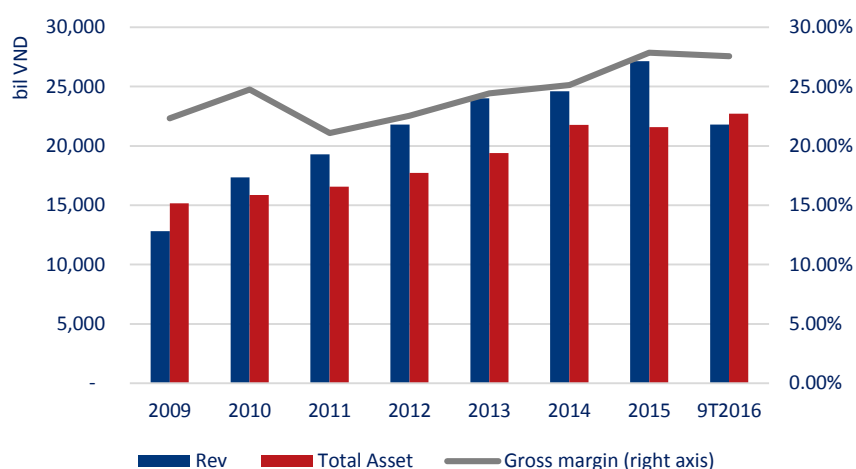
BUSINESS ACTIVITIES

(1) Efficient Operation Improvement Prospects

In order to evaluate SAB's operational competency, BSC has selected some of the established beer breweries in Japan (Asian country with higher beer consumption per capita and belongs to the top 10 of world's largest beer manufacturing countries) and others globally. BSC considers SAB's work in the 5-year period from 2011 to 2015 as relatively effective. Net sales increased from VND 19,293 billion (2011) to VND 27,144 billion (2015), CAGR equals 8.91%. Judging against the compared peers, Sabeco achieved highest sales growth while the others only reach an average of 2.18%. Operating margin is equivalent to that of Heineken and higher than of the remaining businesses (with the exception of AB InBev).



Source: BSC Research



Source: SAB FS, BSC Research

Beer Brand	Net sales CAGR 2011 - 2015	Operating margin (%)				
		2011	2012	2013	2014	2015
AB Inbev	2.80%	32.29%	31.53%	32.54%	32.53%	31.58%
Heineken N.V	4.62%	12.94%	20.08%	13.30%	14.44%	14.99%
Carlsberg	0.70%	15.50%	14.70%	15.30%	14.50%	13.20%
Asahi	1.36%	10.96%	12.29%	12.28%	12.41%	12.27%
Sapporo	0.51%	3.47%	1.02%	3.60%	3.63%	3.17%
Tsingtao	4.52%	10.60%	9.64%	9.43%	9.24%	8.23%
Kirin	0.75%	Na	Na	Na	Na	Na
Sabeco	8.91%	14.89%	15.91%	12.73%	13.30%	15.24%

Source: FS, BSC Research

Prospective improvement in operational efficiency comes from (i) potentials to develop superior product lines to gain market share and improve business competence; **(ii)** gross margin growing to industry average (34.8%) while profit margin reaching 13.3%, a relatively good level.

(2) Operating factories all over the country



Sai Gon – Cu Chi Factory

With brewing raw materials, to effectively manage quality, Sabeco Corporation directly purchases and resale to its members for non-profit.

Raw materials gross margin

2011	0.48%
2012	0.02%
2013	0.47%
2014	0.00%
2015	0.04%
1H2016	1.31%

Source: SAB separate financial statement

Unlike competitors such as Heineken (5 factories from Da Nang to Tien Giang), Carlsberg (2 factories in Hanoi & Hue), Habeco (centralizing in Northern Vietnam) or Sapporo, AB InBev and Singha – Masan Brewery (focusing in Southern Vietnam), Sabeco is the only enterprise that has a brewery factory system spreading from North to South.

Sabeco has 22 factories as its subsidiaries/associated companies and 2 dependent accounting units (to the parent companies of Sabeco Nguyen Chi Thanh and Sabeco Cu Chi). As far as we know, design capacity of Sabeco Nguyen Chi Thanh is 125 million liters/year and Sabeco Cu Chi is 286.5 million liters/year (which will be raised to 300 million liters/year). These are two key factories of Sabeco, accounting for 24% of total annual production. Each factory signs a quantity production contract with Sabeco at the beginning of the year, the numbers subjected to adjustment by 10%.

Production inputs and ingredients are controlled by Sabeco Corporation.

To ensure the quality of finished products, important ingredients such as malt, hops, bottles, labels and yeast are provided by Sabeco Corporation. The prices selling to Sabeco's members are the estimated prices (allowing for exchange rate fluctuations) which will be adjusted at the end of the accounting year. Secondary raw materials such as rice and additives are purchased by each factory.

Since most finished products are sold domestic, SAB is subjected to foreign exchange risk. According to SAB's financial statements, exchange rate profit and loss over the years are insignificant in total revenue and finance expenses.

Production following Sabeco Corporation's production norms. Sabeco has prescribed manufacturing norms to manage product quality, which can be adjusted depending on market situations. Each factory has a different gross margin due to the impacts of depreciation, management practices and materials' prices. Beer cans have cost of goods sold twice as that of beer bottles, while profit margin is also better. Factories producing beer bottles need to invest in bottle cleansing, bottle collecting and related working capitals, therefore beer bottles manufacture is less effective than beer cans manufacture.

- Beer cans' COGS are double that of beer bottles since the can itself takes up to 52-53% of total COGS, followed by malt (16%) and hops (2%).
- Beer bottles have malt as the largest proportion in COGS (around 30%), hops accounts for 2%. The glass bottles are provided by Sabeco with costs typically allocated within 36 months, but the actual bottle can be reused in 6 years if not chipped.

(3) Focusing on selling products

When it comes to produced volume, subsidiaries will register volume to be manufactured yearly to Sabeco, being subject to be changed within range of 10%. Depending on the situation of consumption in the year, the unit can consult in consent to change production output. All procedures are based on the geographical area and consumption characteristics to allocate. Certainly, all procedures will depend on geographical area and consumption characteristics to allocate.

Distribution channel

Previously all products will be bought and sold out by Saigon Beer Trading Ltd. But from 01/01/2016, the Corporation (the parent company) buys all Saigon beer products from its members and then sells them to Saigon Beer Trading Ltd for distribution to 10 area trading companies, so revenue in separate financial statement is nearly equal the revenue in the consolidated financial statement from 2016.

Internal price is calculated according to production cost + Excise tax (calculated on the basis of the selling price of the manufacturer but not less than 7% compared to the monthly average price of the same product sold by area Saigon beer trading companies) + profit margin. About transportation, Saigon Beer Transportation Jsc (SAB holds 16.72%) will be operate shipping finished products nationwide.

Marketing system still have room for growth.

For an objective assessment of Sabeco, BSC studied more about beer consumption systems and consumer tastes. Beer is trading in 2 channels which are On channel – go directly to customers through restaurants, pubs, clubs and Off channel – through the convenient stores and supermarkets. Typically the volume of the first one is larger.

When it comes to On channel in Saigon central, Tiger, Heineken and Budweiser enjoy a large proportion (over 70%) due to better brand recognition and attractive funding levels. Saigon Beer has lower consumption, which mainly Special Saigon beer consumed in pubs and beer club, Green and Red Saigon label is consumed mainly by foreign tourists who prefer cheap local beer brands.

Regarding the current overall situation, customers go to pubs often choose Heineken and Tiger thanks to better brand identity, besides pubs are also encouraging customers to use more premium beer to enhance the image as well as increase food prices together. In areas outside the city center and the provinces, Saigon Beer consumption is relatively well due to reasonable prices. One other important factor determining the consumption of beer is advertising through PG. However PG of Saigon beer is not a good review as PG of other competitors.

By focusing on production across the country, Sabeco will reduce transportation cost, maintain uniform quality as well as taking market share. Sabeco's products is beginning to be consumed widely in both the North and the South.

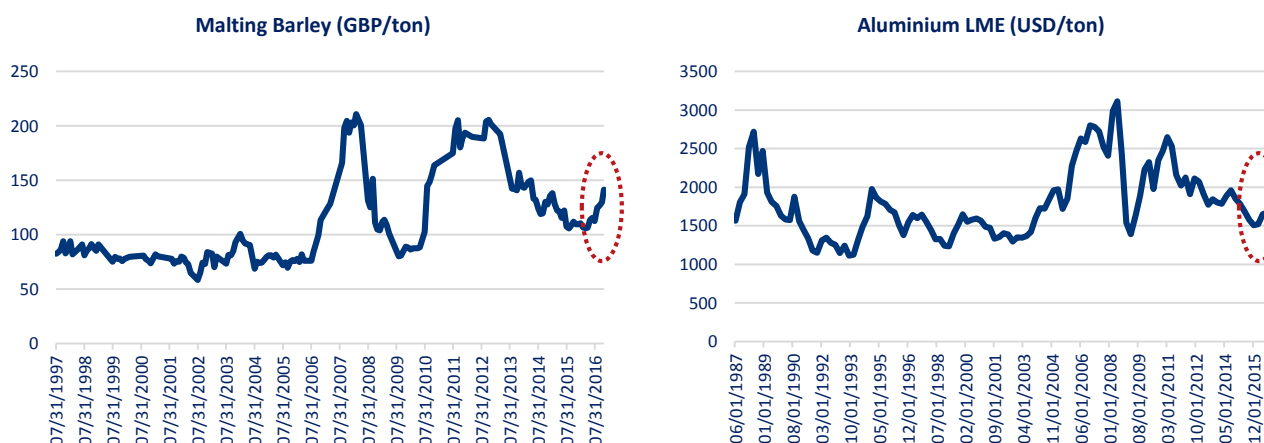
Prevalence of 1 sponsorship is about VND 120 mil/ year if sold 6 cases of beer in a day. Can be signed many contracts in a year if sold in large number. Usually, a small sized stores might sell about 15-20 cases per day.

The average of hiring PG is about VND 4-5 mil/ month. PG plays an important role to persuade customers to use firm's products. KPI for a PG is 3 cases per month. The excess volume will be used for commission calculation.

RISK ASSESSMENT

(1) Input material risks

BSC notes that the Malt and aluminum accounted for a large share in total cost structure. They are trending upward due to: (1) Malt: heavy rain affect harvesting area in France and German and malt's quality, resulting higher price for malt which suitable for beer production. (2) Aluminum: positive indicator in USA and China push metal price. Hence, these might put pressure on Beer manufacturers' gross margin in the context of high competition.



Source: Bloomberg, BSC Research

(2) The domestic market continued fierce competition

We believe that the Vietnam beer market in the coming years will gradually follow the trend of increasing global competition, due to: (1) the brewery segment focuses on high-end products with a high profit margin and (2) By 2019, after the FTA taking effect, import duty of beer made from Malt will decrease from 35% to 0% in the course of 10 years.

However the level of competition is higher when people's incomes are increasing. It is forecasted the middle class and wealthy would double up to 33 million people, or about one third of Vietnam's population by 2020. This is both an opportunity and a challenge for Sabeco, as the company has not found luxury brands for his own. With the Sabeco listing and divestments, we believe that the dynamics of the business will be improved, and the company may occupy more market share, increasing operational efficiency through better governance competitiveness.

(3) Excise tax - burden now

Additional collection and payment of Excise Tax. The reason is that taxable price was calculated based on price sold to Saigon Beer Trading Company Ltd, while it must be calculated based on price selling to the area trading companies (the last units before selling to outside Sabeco system).

Excise tax rates are increasing every year (55% in 2016, 60% in 2017 and 65% in 2018).

The handling of the Excise tax in previous years is not due to violations of law but misunderstanding of policy. In 2015 the State Auditor and Inspector issued clarification and arrears decision. In 2015, SAB has adjusted financial statements and records of excise provision for 2015 and 2014 under the enterprise management expenses of VND 614.64 billion and 564.56 billion respectively. Provision balance for short term payables (separate financial statements) on 31st Dec 2015 was VND 1,699 billion, fulfilling additional appropriation for the period from 2013- 2014 -2015.

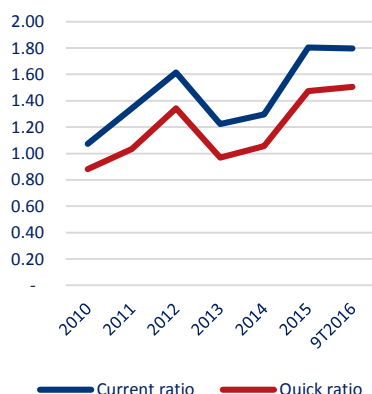
However, on 30th Sep 2016, SAB received notice to submit additional excise taxes in 2010-2012 corresponding amount of VND 1,430.69 billion. SAB has recorded decrease in Retained Earning Sep 30th 2016.

Besides, SAB will also have to pay additional excise tax from 2007 to 2009 as directed in writing 16168 /BTC-TCT. SAB will fulfil this duty in 2016. The firm has not decided final amount and will be updated in the next period financial statement.

Adjustment taxable price range causes large impact. Following to the instructions of Circular 130/2016/TT-BTC, production facilities shall calculate, declare and pay excise tax based on selling price of the production facilities, but not less than 7% compared with the monthly average selling price of the same products sold by regional trading companies. The old regulation was 10%.

CORPORATE FINANCE

Financial liquidity



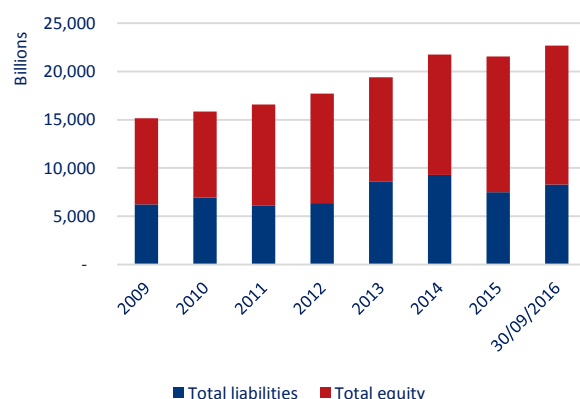
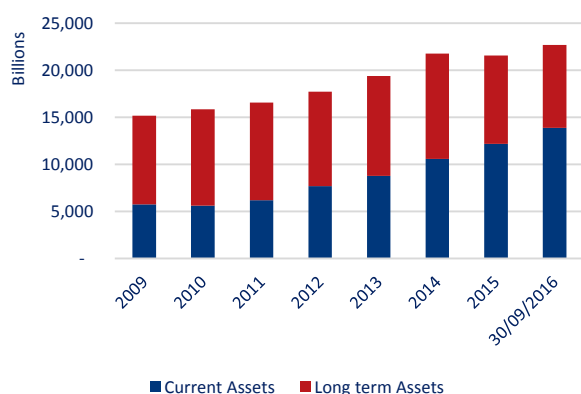
Source: SAB financial statements

In general, the financial situation of SAB is relatively good with abundant financial liquidity, safe capital structure and operation is relatively good compared with the industry average in the world.

Abundant financial liquidity. From 2010 – 9M2016, current ratio had increased from 1.07 to 1.80, the average over this period was 1.45; quick ratio had also improved from 0.88 to 1.5, the average over this period was 1.18. BSC assesses liquidity of SAB is very good and plentiful when compared with the industry average, current ratio and quick ratio is respectively 1.17 and 0.52.

Asset structure favors Cash and Deposits with term. In the period of 2010 – 9M2016, financial structure of SAB had moved from long-term assets to current-assets, the proportion of current-assets increased from 35.35% (2010) to 61.20% (9M2016), in which cash and short-term financial investments (deposits with term from 3 months to less than 1 year and bonds) accounted averagely for 70% of the current assets structure. This is the abundant financial resources to serve the investment process to expand the business later.

Interest income on deposits is enough to cover full of interest expenses. Regarding the liabilities structure, total liabilities accounts for just over 36% of total assets, in which Provision for short term payables (excise tax) accounts for 29.2% of total liabilities at 30/09/2016, loans and bank debt accounts for only about 17% of total liabilities, corresponding to about 6.2% total assets. Due to the amount of cash and deposits is relatively large - more than VND 10 trillion (mostly belonging to the parent company - Sabeco), while borrowing belongs purely to member corporations - more than VND 1.4 trillion (mainly to finance working capital) so the consolidated financial statements represented Interest income was approximately more than 5 times the Interest expenses (FS 2015 and 9M2016).

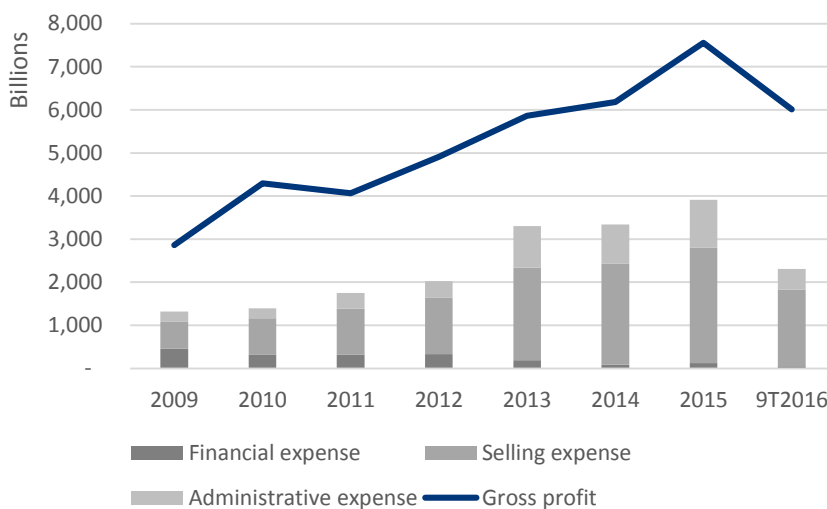


Nguồn: BCTC SAB

Operating performance was better than the industry average. Over the globe, BSC think that SAB's operation was relatively effective, in 2015 gross

margin reached 27.84%, operating margin reached 15.24% and net profit was margin 13.26%. This was relatively good compared with the industry average with respectively 34.8%, 14.1% and 9.2%.

It is noted that administration expenses was adjusted retroactively to increase sharply because of the impact of excise tax arrears (analyzed above), this factor is not often, and it will not affect the long term operation of the business.



Source: SAB Financial report

Regarding the operating capacity ratios, from 2010 - 2015, days inventory outstanding increased from 24 to 35 and days sale outstanding increased from 9 to 13 (negative), but days payable outstanding also increased from 25 to 31 (positive). Overall, Cash conversion cycle increased from 8 to 17, shows the cash flow of corporation is somewhat slower, but still at a good level compared to the industry in the world (average 31 days).

FINANCIAL RESULTS FORECAST

According to forecasted data of Euromonitor, the growth rate of the average-price beer segment will increase at a CAGR of about 7.14% from 2015 - 2020. In addition, in 9M2016, net revenue increased 8.88% compared with the same period in 2015. Therefore, prudent to forecast, we applied growth of 7.14% for consolidated net revenue of SAB from 2016 to 2017 – 2018, the revenue growth of 5% for 2019 – 2020. In 2021, comparing with sales growth of large beer corporations in the world and Japan, we find that the growth rate of 3.5% is reasonable for SAB.

Vietnam Beer Consumption

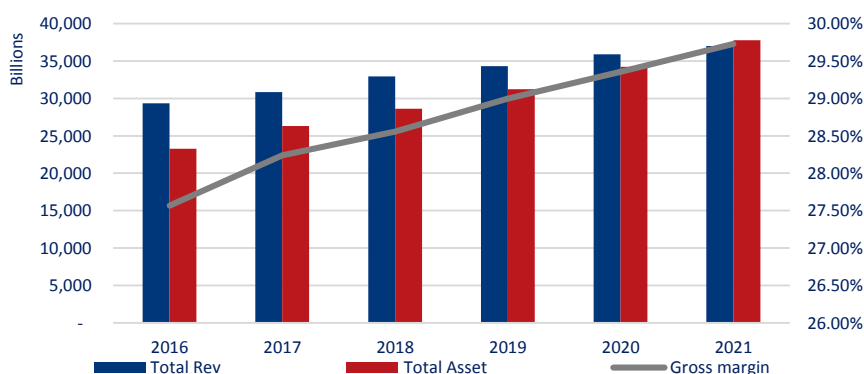
Mil liters	2015	2016	2017	2018	2019	2020	CAGR
Beer	3,627.20	3,821.60	4,037.80	4,280.50	4,549.10	4,842.90	5.95%
High-priced beer	378.10	400.30	423.30	447.20	471.50	492.80	5.44%
- Domestic	344.90	364.60	384.70	405.20	425.60	445.90	
- Imported	33.20	35.70	38.60	42.00	45.90	46.90	
Middle price beer	2,126.40	2,262.60	2,415.90	2,590.60	2,785.40	3,002.50	7.14%
- Domestic	2,126.40	2,262.60	2,415.90	2,590.60	2,785.40	3,002.50	
- Imported							
Low-priced Beer	1,122.70	1,158.70	1,198.60	1,242.70	1,292.20	1,347.60	3.72%
- Domestic	1,122.70	1,158.70	1,198.60	1,242.70	1,292.20	1,347.60	

Source: Euromonitor, BSC Research

Regarding the gross margin of beer segment, gross profit margin of beer segment for 2016 is editor of gross margin in the first 9 months. From 2017 – 2021, assuming business operation is more effective after equalization, we apply an ascending gross profit margin from 30.9% in 2017 to 32.16% in 2021. We believe that this gross margin is reasonable and can be reached when the average industry gross margin is 34.8%.

Regarding administration expenses: we note that SAB deducted arrear of SCT in costs admin expenses in 2013 - 2015. However, in 2016, SAB did not record an increase in admin expenses and adjusted retained earnings (owner's equity), so to forecast admin expenses, we imposed the level of 2.24% for net revenue in the years 2016-2021.

Thereby, consolidated gross margin of Sabeco will be 27.57% in 2016 and increase to 29.73% in 2021.



Source: BSC Research

VALUATION

Combining the two valuation methods with the rate of 25% and 75% for FCFF and PE respectively, it is expected that each share of SAB will be reasonably priced at VND 168,653.

I, FCFF method

Beta estimation:

According to the report of SAB's business peers by Bloomberg, we estimate the beta of 5 years, ratio D/E and the average tax rate of that group. To calculate SAB's beta, we use both unleverage and leverage method.

5-year beta = 0.81

Average D/E = 0.51

Effective Tax rate = 0.26

Unlevered Beta = Levered Beta / $(1 + ((1 - \text{Tax Rate}) \times (\text{Debt}/\text{Equity}))) = 0.59$

Levered Beta = Unlevered Beta $\times (1 + ((1 - \text{Tax Rate}) \times (\text{Debt}/\text{Equity}))) = 0.86$

Total Equity Risk Premium estimation:

1, Market risk premium (based on S&P500; consulting Damodaran calculation) = 6.25%

2, Country risk premium of Vietnam (determined by the CDS method, consulting Damodaran calculation) = CDS Spread (with USA) * Standard deviation of equity/ Standard deviation of bond = 4.38%

→ Total Equity Risk Premium = 6.25% + 4.38% = 10.63%

Calculated kd and ke :

$K_e = r_f + \text{beta} \times \text{Total Equity Risk Premium} = 15.21\%$

$K_d = 5.00\%$

Under this method, the fair value of SAB is VND 123,327 per share.

II, PE method

Sector PE= 27.36 (details in Appendix 01)

EPS 2016 = 6,716 (after deducting 6% of bonus and welfare fund)

Under this method, SAB's reasonable price is VND 183,762 per share.

WACC	
Total Equity Risk Premium	10.63%
Rf	6.10%
beta	0.86
ke	15.21%
kd	5.00%
E/A	63.44%
D/A	35.56%
Tax rate	20%
WACC	11.11%
g	2.00%

Source: BSC Research

Appendix 01: List of Publicly Traded Brewing Companies

Name	Mkt Cap (Mil USD)	Rev 2015 (Mil USD)	Cash Conver sion Cycle	GM: 2015	OPM: 2015	PM: 2015	ROA: 2015	ROE: 2015	P/E	P/B
Median	2,088	736	31.1	34.8	14.1	9.2	6.1	14.8	27.3	3.3
SABECO	3,100	1,194	17.0	27.8	15.2	13.3	16.7	25.6	17.4	4.9
ANHEUSER-BUSCH INBEV SA/NV	205,182	43,604	(151.4)	60.7	31.9	19.0	6.0	18.0	53.2	
HEINEKEN NV	42,054	22,767			15.0	9.2	5.2	14.6	29.3	3.2
MOLSON COORS BREWING CO -B	21,090	3,568	(20.8)	39.4	14.6	10.1	2.7	4.8	29.9	2.1
HEINEKEN HOLDING NV	19,710	22,767			15.0	4.7	2.6	14.9	27.4	3.0
ASAHI GROUP HOLDINGS LTD	15,662	15,349	69.6	40.8	7.3	4.1	4.0	8.7	39.0	2.1
THAI BEVERAGE PCL	15,292	5,030	97.5	29.2	14.2	15.4	15.0	24.4	23.3	4.5
KIRIN HOLDINGS CO LTD	14,901	18,155	91.1	44.1	5.7	(2.2)	(1.7)	(5.4)		2.8
CARLSBERG AS-B	12,783	9,726	(41.5)	39.9	(0.9)	(4.5)	(2.2)	(6.1)		2.0
TSINGTAO BREWERY CO LTD-A	5,768	4,075	(3.2)	32.9	4.3	6.7	6.2	10.8	23.4	2.5
SAN MIGUEL CORP	4,040	14,812	40.4	20.9	11.7	1.8	1.0	2.6	15.0	0.7
NIGERIAN BREWERIES PLC	3,597	1,488	(46.8)	48.5	21.1	12.9	10.8	22.1	35.3	6.9
UNITED BREWERIES LTD	3,346	767			8.8	5.5	6.7	14.8	77.5	10.8
MURREE BREWERY CO LTD	3,303	59	79.6	35.5	22.9	16.5	12.4	14.3		2.6
BEIJING YANJING BREWERY CO-A	3,116	1,792	146.0	33.1	5.4	5.2	3.2	4.7	61.5	1.6
BOSTON BEER COMPANY INC-A	2,173	960	26.5	52.3	16.3	10.3	15.7	21.9	27.4	4.8
ROYAL UNIBREW	2,119	898	(39.8)	52.6	15.2	11.8	10.3	24.7	19.4	5.1
SAPPORO HOLDINGS LTD	2,057	4,411	63.7	33.9	2.6	1.1	1.0	3.9	24.6	1.5
EAST AFRICAN BREWERIES LTD	1,902	706	102.6	49.7	25.7	13.9	14.0	78.8	27.0	17.2
TANZANIA BREWERIES LTD	1,813	628	76.0	49.2	29.7	19.3	25.1	36.3	17.4	6.1
MOLSON COORS CANADA INC -A	1,808									
GUANGZHOU ZHUJIANG BREWERY-A	1,269	506	44.4	34.8	1.3	2.6	1.3	2.5	74.6	2.5
CHONGQING BREWERY CO-A	1,220	486	150.9	31.3	(3.7)	(2.2)	(1.7)	(5.4)	335	6.4
HANOI BEER	1,118	440		27.2	10.9	9.2			30.0	4.9
HEINEKEN MALAYSIA BHD	1,074	507	57.2	35.5	16.8	12.2	30.7	58.4	22.5	16.6
CARLSBERG BREWERY MALAYSIA	952	427	16.4	36.6	17.7	13.0	32.6	66.7	18.2	14.9
FUJIAN YANJINGHUIQUAN BREW	560	108	103.3	27.3	1.5	3.4	1.9	2.1		3.5
NAMIBIA BREWERIES LTD	410	213			20.7	10.6	15.8	26.2	22.2	5.5
CRAFT BREW ALLIANCE INC	293	204	36.5	30.5	2.1	1.1	1.2	1.9	350	2.5
LION BREWERY CEYLON PLC	263	247	46.8	25.1	10.0	4.1	5.3	17.9		4.1
SAI GON - MIEN TRUNG BEER JS	66	35	62.4	24.3	15.0	10.5	10.9	15.2	24.8	3.7
SAIGON BEER WESTERN JSC	55	38	6.8	18.0	14.1	11.6	8.2	21.8	13.0	2.7
HANOI BEER TRADING JSC	8	24	(1.7)	16.4	5.8	5.3	18.9	27.6	4.7	2.8

Source: Bloomberg, BSC Research

Appendix 02

Valuing SAB by FCFF method

Sensitivity analysis	g	WACC						
		9.61%	10.11%	10.61%	11.11%	11.61%	12.11%	12.61%
Price	-0.5%	120,262	114,774	109,788	105,238	101,071	97,241	93,709
	0.0%	124,425	118,475	113,094	108,205	103,743	99,657	95,901
	0.5%	129,045	122,562	116,728	111,451	106,656	102,281	98,273
	1.0%	134,202	127,097	120,739	115,018	109,843	105,141	100,849
	1.5%	139,994	132,158	125,191	118,956	113,345	108,270	103,658
	2.0%	146,548	137,844	130,160	123,327	117,212	111,709	106,731
	2.5%	154,023	144,277	135,741	128,205	121,503	115,506	110,108
	3.0%	162,629	151,614	142,056	133,685	126,293	119,719	113,836
	3.5%	172,643	160,062	149,259	139,884	131,673	124,422	117,974
	4.0%	184,443	169,892	157,552	146,956	137,760	129,705	122,592
	4.5%	198,551	181,474	167,202	155,097	144,703	135,682	127,780

Source: BSC forecast

Appendix 03

Balance Sheet

Unit: bil dong	30/09/2016	2016	2017	2018	2019	2020	2021
A. CURRENT ASSETS	13,894	14,743	18,066	20,624	22,876	25,084	28,610
I. Cash and cash equivalents	6,814	7,872	10,188	11,258	11,202	11,347	12,892
II. Current financial Investments	3,293	3,293	4,116	5,351	7,491	9,364	11,705
III. Accounts receivable	1,530	1,246	1,309	1,396	1,454	1,520	1,566
IV. Inventories	2,121	2,114	2,223	2,374	2,473	2,586	2,171
V. Other current asset	137	219	230	245	256	267	276
B. LONG-TERM ASSETS	8,810	8,546	8,226	8,016	8,368	9,132	9,190
I. Long-term receivable	35	37	38	37	37	37	37
II. Fixed assets	5,480	5,361	4,923	4,529	4,184	4,779	5,115
III. Investment real estate	67	42	32	31	29	28	26
IV. Construction in progress	100	86	44	32	500	500	32
V. Long-term investments	1,819	1,825	2,016	2,207	2,404	2,598	2,790
VI. Other long-term assets	1,310	1,195	1,172	1,180	1,214	1,190	1,189
TOTAL ASSETS	22,703	23,289	26,292	28,640	31,243	34,216	37,800
C. LIABILITIES	8,300	7,811	8,045	8,495	8,908	9,359	10,146
I. Current liability	7,733	7,330	7,633	8,139	8,499	8,903	9,754
II. Long-term liability	567	481	412	356	409	456	392
D. EQUITY	14,403	15,478	18,247	20,145	22,335	24,857	27,654
I. Capital and funds	14,403	15,478	18,247	20,145	22,335	24,857	27,654
II. State budget sources and other							
TOTAL CAPITAL	22,703	23,289	26,292	28,640	31,243	34,216	37,800

Source: BSC forecast

Appendix 04

Income Statement

Unit: billion VND	9M2016	2016	2017	2018	2019	2020	2021
Total Revenue	21,822	29,366	30,879	32,971	34,354	35,922	37,029
Revenue deductions	13	18	19	20	21	23	23
Net revenue	21,809	29,348	30,860	32,951	34,333	35,900	37,006
COGS	15,797	21,258	22,145	23,542	24,377	25,361	26,005
Gross profit	6,011	8,090	8,715	9,409	9,955	10,539	11,001
Financial Income	658	779	428	464	446	455	451
Financial expenses	54	86	92	89	97	105	99
Interest expense	109	83	75	71	80	87	81
Gain/loss from associates	135	341	349	360	370	382	393
Selling expenses	1,770	2,609	2,744	2,930	3,052	3,192	3,290
Administration expenses	488	656	690	737	768	803	827
Net operating profit	4,493	5,858	5,966	6,478	6,854	7,277	7,628
Other profit	105	171	180	192	200	209	216
Other expenses	88	126	133	142	147	154	159
Net other incomes	17	45	47	50	53	55	57
Profit before tax	4,510	5,903	6,013	6,528	6,907	7,332	7,685
Current business income tax charge	838	1,181	1,203	1,306	1,381	1,466	1,537
Property tax deferred	13						
Net profit after tax	3,658	4,722	4,811	5,222	5,526	5,865	6,148
Profit of parent company	3,548	4,579	4,665	5,064	5,358	5,688	5,962
Minority Interest	111	143	146	158	167	177	186
EPS	5,532	6,716					

Source: BSC forecast

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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