Shinhan Securities



Saigon Beer - Alcohol - Beverage Corporation

[Vietnam / Food and beverages]

Bloomberg Code (SAB VN) | Reuters Code (SAB.HM)

BUY

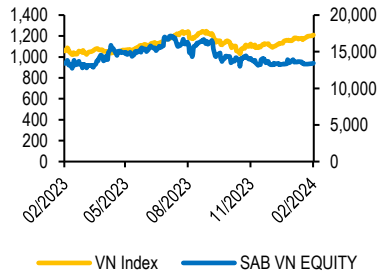
Update Report

Target price (12 months)	**73,900 VND**
Current price (22/02/2024)	58,000 VND
Return (%)	27%

VNINDEX	1,223
Market P/E (x)	11.0
Market Cap (bn VND)	74,389
Outstanding shares (1mn)	1,283
Free float (1mn)	134
52-week high/low (VND)	98,000/54,900
90-day avg. trading volume (1mn)	0.67
90-day avg.turnover (bn VND)	42
Foreign ownership (%)	n.a

Major shareholders (%)	Vietnam Beverage Company Limited	54
	Ministry of Industry and Trade	36

Performance	3M	6M	12M
Abs (%)	-8.7	-22.7	-38.0
Rel to VN-Index (%)	-18.8	-26.3	-51.0



Source: Bloomberg

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Dawn after the night

Update recommendation BUY, target price at VND 73,900

Saigon Beer-Alcohol-Beverage Corporation (HOSE: SAB) is the second largest beer producer in Vietnam with a market share of 34%. SAB leads in the number of breweries (26 breweries) with a capacity of 2.4 billion liters/year, providing products from mid-priced to premium. We expect (1) beer consumption to improve in 2024 thanks to the return of major football tournaments (Asian Cup, Euro 2024, Copa America) and adaptation and conversion of consumption habits from on-trade to off-trade as Decree 100/2019/NĐ-CP on fines for alcohol concentration violations continues to be enforced more strictly, (2) with strong financial position, SBT continues to maintain a stable dividend. Based on the FCFF and PE methods, we update the target price of SAB at VND 73,900. We adjust the target price down due to the company's 1:1 stock dividend on September 14, 2023, and decreasing NPAT estimates due to caution in forecasting beer consumption after the tightening of regulations on drinking and driving.

Update SAB's business result in Q4/2023

In the fourth quarter of 2023, SAB recorded net revenue of VND 8,520 billion (-15% YoY) and net profit after tax (NPAT) of VND 967 billion (-10.1% YoY). For the whole year of 2023, the company recorded net revenue of VND 30,461 billion (-12.9% YoY) and NPAT of VND 4,255 billion (-22.6% YoY). Overall, the revenue and profit results for the whole year reached 95% and 86% of our forecast, respectively.

The poor business results were mainly due to (1) the decrease in consumer spending on non-essential items in the context of a difficult economic environment, (2) the decrease in consumption due to the tightening of Decree 100/2019/NĐ-CP, (3) the increase in selling expenses/revenue ratio to increase brand awareness and market share protection, and (4) the use of high-priced imported materials that were locked in from 2022. The company's gross profit margin was only 29.8% compared to 30.8% in 2022.

Outlook for 2024

We forecast net revenue for 2024 to reach VND 32,392 billion (+6.3% YoY). We also note that the shift in consumption habits from on-trade to off-trade may take longer than we estimate.

Gross profit margin is expected to improve to 34.6% from 33.4% thanks to the decline in input material prices. Of which, aluminum prices (used for beer cans) continue to decline from the 2022 peak due to weak construction demand in China and economic downturn in Europe and the US. Barley malt prices also cooled down, down 14% from the beginning of 2023. We expect the company to increase selling expenses/revenue by 0.5% to 15.2% from the high base of 2023 . Therefore, we forecast NPAT for 2024 to reach VND 4,375 billion (+2.8% YoY).

Risks: (1) Policy risk; (2) Raw material price risk, (3) Weak demand risk, (4) Special consumption tax risk.

Year to Dec.	2022	2023	2024F	2025F	2026F
Revenue (bn VND)	**34,979**	**30,461**	**32,392**	**32,852**	**36,323**
OP (bn VND)	5,498	3,811	4,068	4,067	4,386
NP (bn VND)	**5,500**	**4,256**	**4,375**	**4,324**	**4,657**
EPS (VND)	7,980	3,132	3,170	3,155	3,395
BPS (VND)	36,083	18,877	19,986	21,070	22,213
OPM	15.7	12.5	12.6	12.4	12.1
NPM	15.7	14.0	13.5	13.2	12.8
ROE	22.4	16.7	16.2	15.1	15.4
PER (x)	19.5	21.5	21.3	21.4	19.9
PBR (x)	4.3	3.6	3.4	3.2	3.0
EV/EBITDA (x)	14.2	13.7	13.8	13.9	12.9

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommended BUY with target price VND 73,900

We apply a combination of P/E and Discounted Cash Flow (DCF) valuation methods with the weights of 50% and 50%, respectively to value SAB. We update our recommendation to BUY for Saigon Beer-Alcohol-Beverage Corporation (SAB) with a target price of VND 73,900 per share equivalent to a return of 27%. Our target price has changed due to the company's 1:1 stock dividend on September 14, 2023, and NPAT estimates for future years due to caution in forecasting beer consumption after the tightening of regulations on drinking and driving.

Valuation method

Based on the P/E method, we collect data from businesses in the same industry with SAB operating in the country and in the Asia-Pacific region. The average P/E of businesses in the statistics (except SAB) is at 24.8x. Combined with our forward EPS of VND 3,170 we expect a 12-month SAB price target of VND 78,616.

Peer valuation

Ticker	PE	Mkt Cap (USD mil)	EPS Growth (%)	ROA (%)	ROE (%)
000858 CH Equity	24.2	72,461	14.16	20.62	25.74
000568 CH Equity	23.4	1,584	31.40	24.25	36.07
002304 CH Equity	25.3	523	24.15	16.72	21.18
291 HK Equity	27.4	12,567	(4.96)	7.77	17.88
TWE AU Equity	28.6	6,224	(3.29)	3.07	5.40
2503 JP Equity	22.2	13,072	3.02	4.16	10.67
Mean	24.8				
EPS forward	3,170				
Target price	**78,616**				

Source: Bloomberg, Shinhan Securities Company

For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield at 2.5% as the risk-free rate. Beta is calculated based on the last 5 years' historical data of SAB and VNINDEX. Based on those assumptions, SAB's FCFF target price is valued at VND 69,209.

Weighted Average Cost of Capital (WACC)

WACC (%)	**10.0**
Risk-free rate (%)	2.5
Equity risk premium (%)	9.0
Beta	0.85
Debt cost (%)	5.0
The cost of equity(%)	10.2
Debt-to-equity ratio	0.01
Total debt (Billion VND)	701

Source: Company data, Shinhan Securities Company

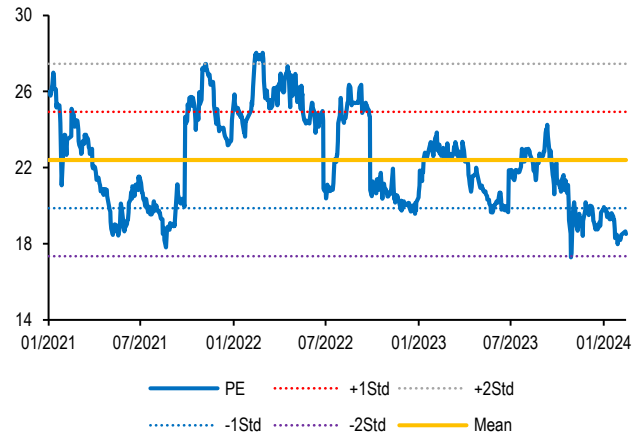
FCF valuation

Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit	4,375	4,324	4,657	4,715	5,200
Plus: After-tax interest expense	45	38	41	42	45
Plus: Depreciation & Amortization	555	565	579	590	604
Minus: Change in working capital	(736)	(102)	(272)	(117)	(467)
Minus: CapEx	448	312	307	337	321
Free Cash Flow (FCF)	**5,263**	**4,717**	**5,242**	**5,127**	**5,995**
PV of FCF	21,830				
Growth rate	1%				
Present value of long-term value	45,951				
Enterprise value	67,781				
Debt	701				
Cash and cash equivalents	22,781				
Minority interest	1,273				
Number of shares outstanding (billion units)	1.28 (*)				
Target price (VND)	**69,209**				

Source: Company data, Shinhan Securities Company

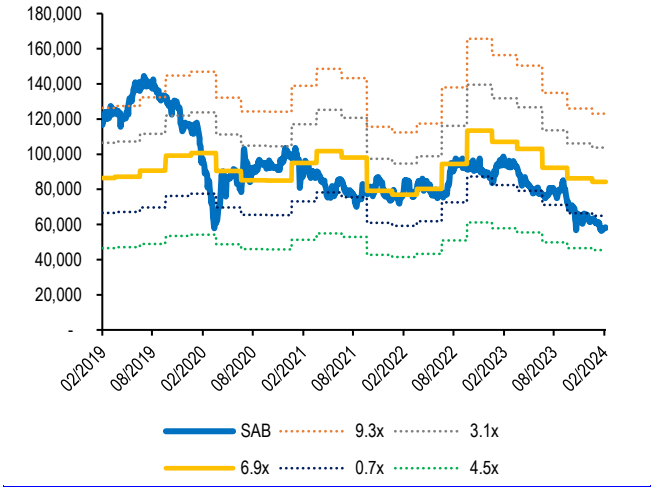
(*) 1:1 stock dividend on September 14, 2023

PER of SAB from 2021



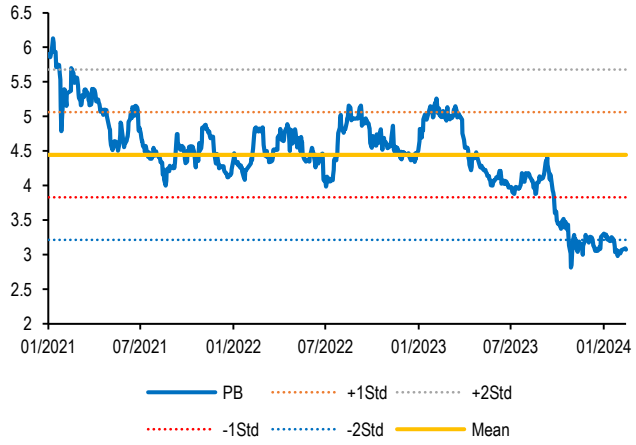
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER chart of SAB



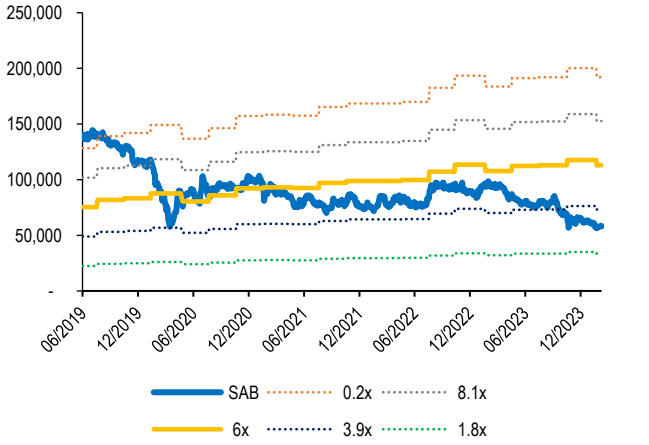
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of SAB from 2021



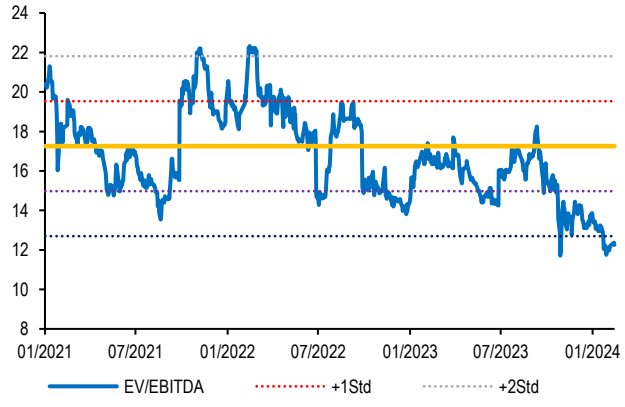
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR chart of SAB



Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of SAB from 2021



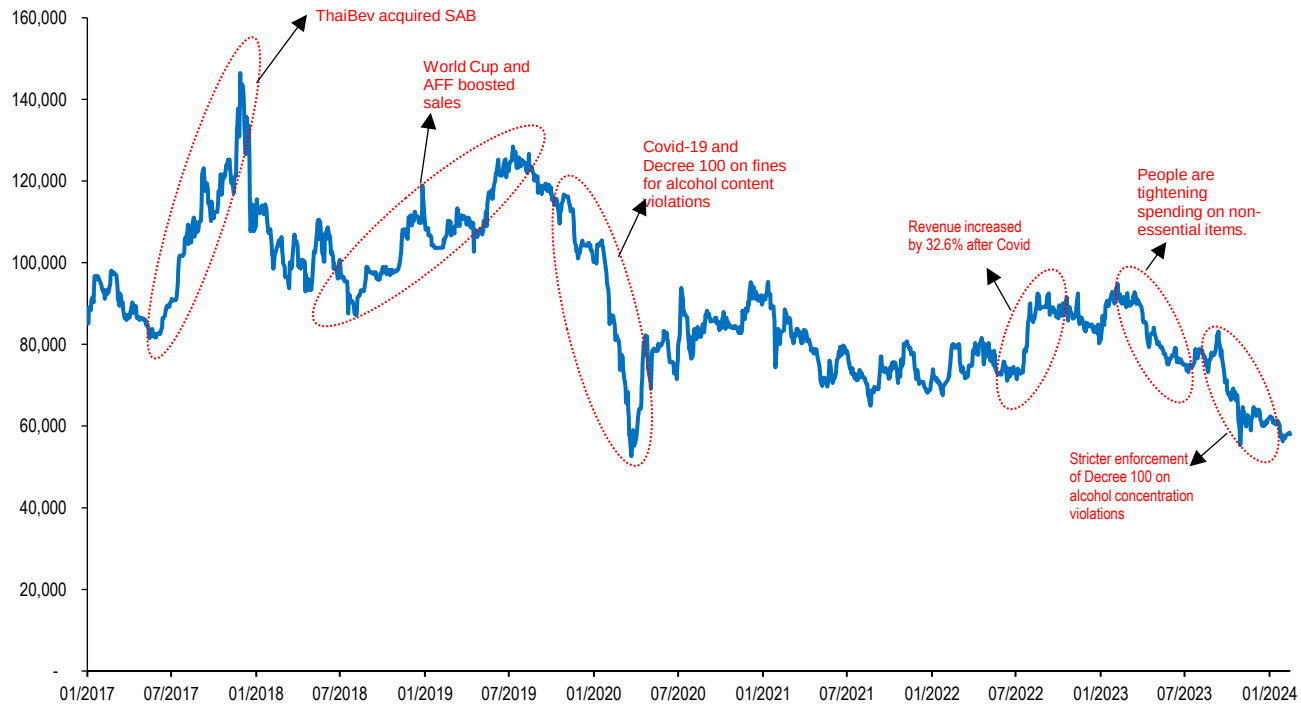
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Price and ROE of SAB



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events chart of SAB



Source: Bloomberg, Company data, Shinhan Securities Vietnam

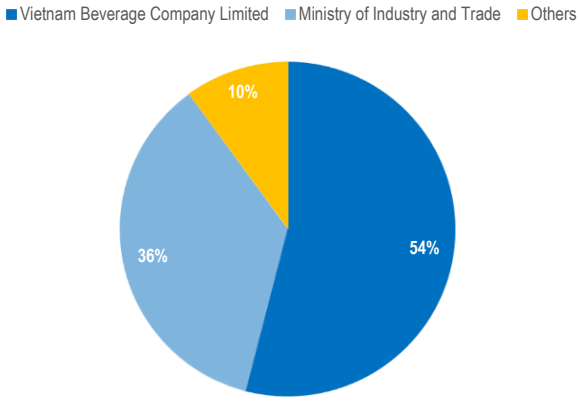
Company background

1. History of development

Saigon Beer - Alcohol - Beverage Corporation (HOSE: SAB) was originally a small brewery founded by the French in Saigon in 1875. By 2016, SAB was officially listed on HOSE. Over 145 years of history, Sabeco has brought Vietnamese beer to 38 countries and territories.

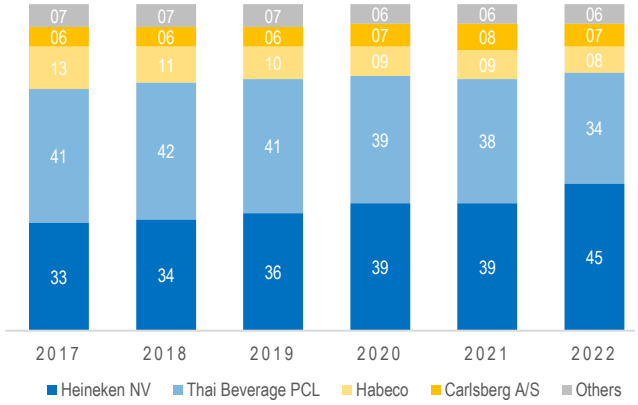
2017 marked a historic milestone for SAB when ThaiBev successfully acquired SAB with a value of up to USD 4.8 billion through Vietnam Beverage. This was the record deal of the Asian beer industry made up to that time. After the acquisition, SAB continued to grow and achieved revenue of up to VND 37,999 billion in 2019, before being affected by the Covid-19 pandemic and Decree 100/2019/ND-CP on penalties for alcohol content violations.

SAB's ownership structure at 20/02/2024



Source: Company data, Shinhan Securities Vietnam

Market share of beer in Vietnam



Source: Euromonitor, Shinhan Securities Vietnam

SAB is one of the two leading enterprises in the beer industry in Vietnam. SAB's market share began to shrink from 2019 due to the expansion of Heniken Brewery. Heniken continuously launches new products such as Heniken Silver, Heniken zero-alcohol. Compared to competitors dominating the leading market share, SAB has the advantage of Vietnamese brands. Specifically, SAB is widely recognized through its product from mid-priced to premium with Vietnamese flavors such as 333 beer, Saigon Chill beer. Researching and launching high-end product lines helps businesses maintain their position and expand their market share.

2. Segments and products

The beer industry is divided into 4 segments: economy, standard, premium, and super-premium based on taste, quality, and price.

- Economy segment: Customers are mainly low-middle-class people with prices of less than 30,000 VND/liter (equivalent to 10,000 - 12,000 VND/can). Two prominent brands in this segment include Huda and Larue. There is also "bia hơi", which is produced mainly at home and distributed at restaurants and small eateries in rural and near-urban areas.

- Standard segment: Mainly middle-income workers with prices from 30,000 VND - 40,000 VND/liter. Major players in this segment include Habeco, Sabeco, Heineken, and Carlsberg. Products in the popular segment are widely distributed from urban to rural areas through on-trade and off-trade channels.

- Premium and super-premium segments: customers are mainly high-middle-income consumers with the selling price of about 40,000 VND/liter. The number of companies dominating the market share in this segment is not much, of which Heniken with Heineken and Tiger has a market share of about 68% and followed by Sabeco with Saigon Chill and Saigon Gold. Products in this segment are distributed mainly through on-trade channels at restaurants and hotels. However, with effective brand recognition and over a long period, high-end products of Heniken and Sabeco in this segment have reached consumers in both rural areas and in pubs.

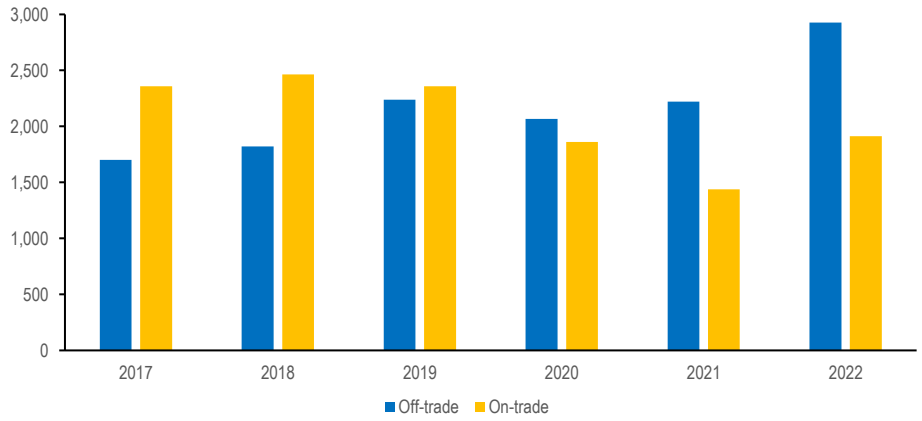
No.	Company	Target market	Main segments	Price (VND/can)	Products
1	Sabeco (SAB)	Southern Vietnam	Standard and premium	12,000 - 22,000	Saigon Export, Saigon Chill, Saigon Special Sleek, Saigon Gold
2	Habeco (BHN)	Northern Vietnam	Economy and standard	11,500 - 15,000	Hanoi Bold, Hanoi Light, bia hoi Hanoi, Hanoi Premium
3	Heniken	Central and Southern Vietnam	Standard and premium	15,000 - 22,000	Heniken Silver, Heniken Zero, Tiger Platinum
4	Carlsberg	Central Vietnam	Standard and premium	20,000 -21,000	Carlsberg Danish Pilsner

Source: Company data, Shinhan Securities Vietnam

In general, according to the increase in income, consumers tend to move from the affordable segment to the standard segment and from the standard segment to the premium segment. According to Euromonitor, premium beer is forecasted to grow at a compound rate of 12.7% in the period 2021-2026, higher than the growth of beer industry, at only 4%.

3. Distribution channels

Volume of beer by sales channels (million liters)



Source: Euromonitor, Shinhan Securities Vietnam

Regarding distribution channels, beer is consumed through two channels: on-trade consumption at pubs, restaurants, and hotels; and off-trade distribution channels at supermarkets, convenience stores and agents. Due to the collective culture, Vietnamese people prefer to consume beer at pubs. Therefore, before 2019, on-site consumption is the main beer distribution channel. However, with the development of e-commerce, the outbreak of the Covid-19 epidemic and Decree 100 on penalties for alcohol content violations, many businesses such as SAB and Heniken have launched online sales from 2021 to compensate partially the decrease in revenue at pubs and restaurants. Since then, the off-trade channel has surpassed the on-trade channel to become the main sales channel.

We expect the on-trade channel to be revived from 2024 thanks to the recovery in consumption, and at the same time, the off-trade channel will continue to grow as the decree on alcohol violations causes some consumers to switch to consume more at home.

Regarding the distribution system, Sabeco currently owns 26 breweries with a capacity of 2.4 billion liters/year and 11 trading companies nationwide, outperforming Heniken with only 6 breweries and 8 sales offices. The extensive distribution network from North to South is Sabeco's strength, helping to access pubs and restaurants on the on-trade channel. With the off-trade channel, Sabeco is currently present at convenience stores and many e-commerce sites from Tiki to Bach Hoa Xanh.

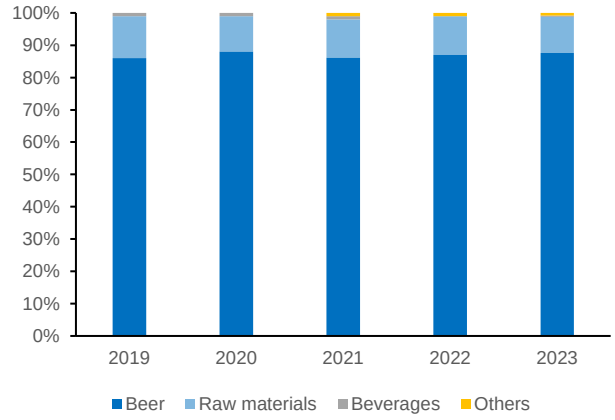
4. Structure of revenue, gross profit and operating expenses

Beer is SAB's main product, accounting for nearly 90% of revenue and 98% of gross profit. Sabeco mainly produces beer in two segments: standard and premium. The gross profit margin of the beer segment has improved over the years.

The packaging and materials segment is the packaging and input materials for beer, which are mainly traded with related parties. Therefore, although accounting for more than 10% of revenue, the gross profit margin for this segment is very low, only about 1%.

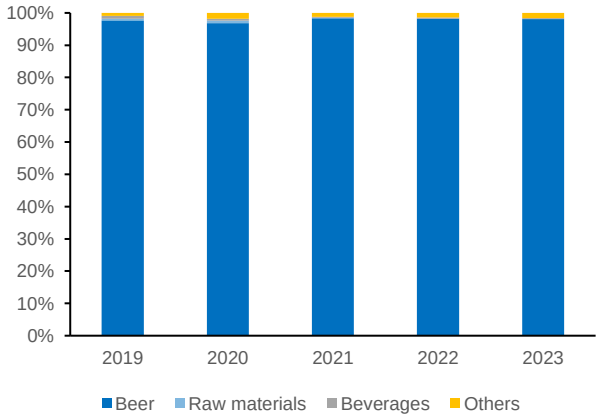
Beverages include carbonated water products and purified water. Although the average gross profit margin is at 25%, this segment's revenue only contributes a very small proportion (1% of total revenue).

SAB's revenue structure



Source: Company data, Shinhan Securities Vietnam

SAB's gross margin structure

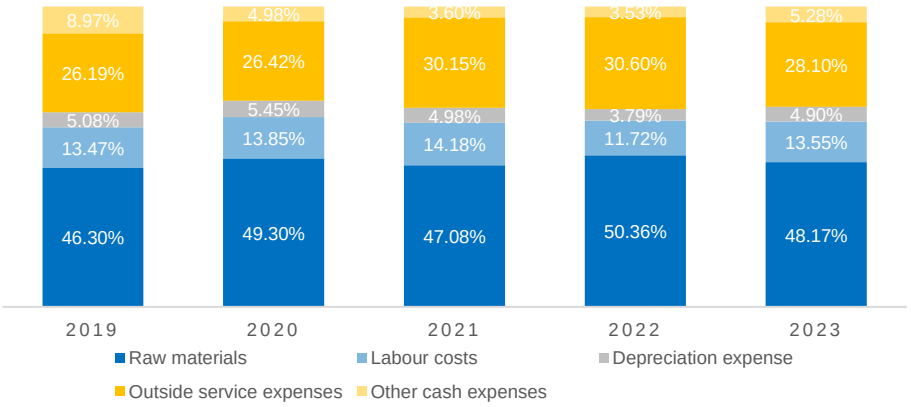


Source: Company data, Shinhan Securities Vietnam

In the operating cost structure, the cost of raw materials has the highest proportion, with about 46-50% of the total operating costs of the enterprise. In which, input materials including barley, hops and aluminum determine 38% of the cost of good sold and are imported by enterprises. Depending on the type, normally, enterprises make pre-clamation of raw materials from 6-9 months. Macro fluctuations such as the Russia-Ukraine war pushed raw material prices up in 2022. However, the pre-ordering of raw materials from 2021 contributed to improving the 2022 gross profit margin of the beer segment to 35%, the highest in the past 10 years.

External expenses are mainly composed of selling expenses. Selling expenses in food and beverage businesses often account for a high proportion because of the increasingly fierce competition in this field. Therefore, brand recognition is one of the important factors to maintain revenue and market share. At Sabeco, selling expenses at SAB remained around 12% of revenue.

SAB's operating costs structure



Source: Company data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Total assets	**34,465**	**34,056**	**35,483**	**37,150**	**39,451**
Current assets	26,860	26,553	28,269	30,174	32,680
Cash & equivalents	4,069	5,040	6,217	8,352	8,401
Short-term financial asset	19,411	17,741	19,134	18,821	21,027
Accounts receivable	898	1,229	696	748	791
Inventories	1,447	1,668	2,194	2,318	1,998
Others	1,035	875	28	-65	463
Non-current assets	7,605	7,503	7,214	6,976	6,771
Net fixed assets	4,455	3,970	3,737	3,491	3,132
Investment assets	134	144	271	266	355
Other long-term assets	3,150	3,533	3,477	3,485	3,639
Total liabilities	**9,874**	**8,571**	**8,398**	**8,516**	**9,169**
Current liabilities	9,214	8,225	8,113	8,277	8,977
Accounts payable	2,766	2,476	2,663	2,602	2,880
Short-term borrowings	659	530	634	636	694
Others	5,789	5,219	4,816	5,039	5,403
Non-current liabilities	660	347	285	239	192
Long-term borrowings	374	171	109	63	16
Other financial liabilities	286	176	176	176	176
Total shareholders' equity	**24,591**	**25,485**	**27,087**	**28,636**	**30,284**
Capital stock	6,413	12,826	12,826	12,826	12,826
Capital surplus	0	0	0	0	0
Other capital	2,613	2,442	2,622	2,781	2,963
Retained earnings	15,565	10,217	11,639	13,029	14,495
Non-controlling interest equity	1,275	1,373	1,451	1,273	1,453
*Total debt	1,033	701	743	699	710
*Net debt (cash)	(22,447)	(22,080)	(24,608)	(26,474)	(28,718)

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Revenue	**34,979**	**30,461**	**32,392**	**32,852**	**36,323**
Growth (%)	32.6	-12.9	6.3	1.4	10.6
COGS	**(24,208)**	**(21,370)**	**(22,577)**	**(22,763)**	**(25,036)**
Gross profit	**10,771**	**9,091**	**9,815**	**10,089**	**11,287**
GPM (%)	30.8	29.8	30.3	30.7	31.1
SG&A	**(5,273)**	**(5,280)**	**(5,747)**	**(6,022)**	**(6,901)**
Operating profit	**5,498**	**3,811**	**4,068**	**4,067**	**4,386**
Growth (%)	56.6	(30.7)	6.7	0.0	7.8
OPM (%)	15.7	12.5	12.6	12.4	12.1
Non-operating profit	**1,316**	**1,560**	**1,382**	**1,333**	**1,445**
Financial income	1,091	1,433	1,126	1,059	1,195
Financial expense	(82)	(73)	38	37	30
In which: interest expenses	(46)	(50)	56	47	51
Net other non-operating profit	307	200	218	237	220
Pre-tax profit	**6,814**	**5,371**	**5,450**	**5,400**	**5,831**
Income tax	(1,314)	(1,115)	(1,075)	(1,076)	(1,174)
Net profit	**5,500**	**4,256**	**4,375**	**4,324**	**4,657**
Growth (%)	40.0	(22.6)	2.8	(1.2)	7.7
NPM (%)	15.7	14.0	13.5	13.2	12.8
Controlling interest	5,224	4,118	4,195	4,165	4,475
Non-controlling interest	276	138	180	159	182
EBIT	**6,859**	**5,420**	**5,394**	**5,353**	**5,780**
Growth (%)	39.8	(21.0)	(0.5)	(0.8)	8.0
EBIT Margin (%)	19.6	17.8	16.7	16.3	15.9
EBITDA	**7,420**	**5,990**	**5,949**	**5,918**	**6,359**
Growth (%)	35.8	(19.3)	(0.7)	(0.5)	7.5
EBITDA margin (%)	21.2	19.7	18.4	18.0	17.5

Statement of cash flow

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Cash flow from operations	**4,377**	**1,930**	**4,645**	**3,873**	**4,360**
Net profit	6,813	5,370	5,450	5,400	5,831
Depreciation expense	561	570	555	565	579
(Gain) from investing activities	(1,031)	(1,626)	(957)	(941)	(1,051)
Change in working capital	(199)	(1,106)	736	102	272
Others	(1,767)	(1,278)	(1,139)	(1,253)	(1,271)
Cash flow from investments	**(1,867)**	**2,727**	**(884)**	**942**	**(1,462)**
Change in fixed assets	(529)	(271)	(448)	(312)	(307)
Change in investment assets	(2,352)	1,634	(1,393)	313	(2,206)
Others	1,014	1,364	957	941	1,051
Cash flow from financing	**(2,048)**	**(3,684)**	**(2,588)**	**(2,680)**	**(2,849)**
Change in equity	-	-	-	-	-
Net borrowing	371	(330)	42	(44)	11
Dividends	(2,419)	(3,354)	(2,630)	(2,636)	(2,860)
Change in total cash	**462**	**973**	**1,173**	**2,135**	**49**
Beginning cash	3,609	4,069	5,040	6,217	8,352
Change in FX rates	(2)	(2)	4	-	-
Ending cash	4,069	5,040	6,217	8,352	8,401

Source: Company data, Shinhan Securities Vietnam

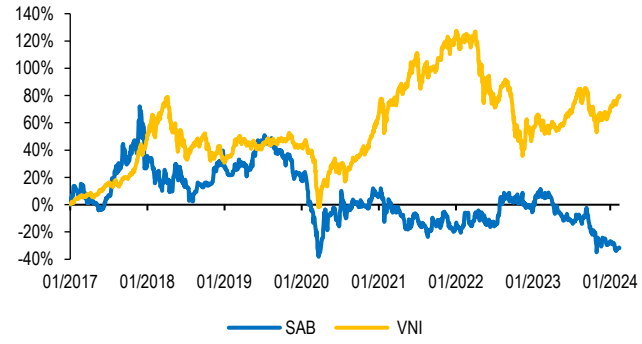
Key ratios

Năm	2022	2023	2024F	2025F	2026F
EPS (VND)	7,980	3,132	3,170	3,155	3,395
BPS (VND)	36,083	18,877	19,986	21,070	22,213
DPS (VND)	1,890	2,620	2,055	2,059	2,234
PER (x)	19.5	21.5	21.3	21.4	19.9
PBR (x)	4.3	3.6	3.4	3.2	3.0
EV/EBITDA (x)	14.2	13.7	13.8	13.9	12.9
Dividend payout ratio (%)	61.4	78.8	60.1	61.0	61.4
Dividend yield (%)	1.5	2.1	1.7	1.7	1.8
Profitability					
EBITDA margin (%)	21.2	19.7	18.4	18.0	17.5
OPM (%)	15.7	12.5	12.6	12.4	12.1
NPM (%)	15.7	14.0	13.5	13.2	12.8
ROA (%)	16.0	12.5	12.3	11.6	11.8
ROE (%)	22.4	16.7	16.15	15.1	15.4
Stability					
Debt to equity ratio (%)	4.2	2.8	2.7	2.4	2.3
Net debt ratio (%)	(302.5)	(368.6)	(413.6)	(447.3)	(451.6)
Cash ratio (%)	254.8	277.0	312.5	328.3	327.8
Interest coverage ratio (x)	149.1	108.4	(96.3)	(113.9)	(113.3)
Activity (%)					
Working capital turnover (days)	38.1	44.5	42.1	42.2	39.6
Inventory turnover (days)	30.4	39.8	36.2	33.6	32.1
Receivable turnover (days)	2.3	4.8	3.8	2.4	2.3

Source: Company data, Shinhan Securities Vietnam

SAB Corp. (SAB VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%)	
			Average	Max/Min
18/08/2023 (Initation)	BUY	182,700	-0.2	-12.4/13.2
22/02/2024 (Update)	BUY	73,900	1.2	-25.6/25.1

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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