Vietcap

Update

Sabeco (SAB)

BUY +31.8%

Industry	**Brewery**
Report Date	**February 22, 2024**
Current Price	VND58,000
Target Price	**VND73,000**
Last Target Price	VND78,000
Upside to TP	+26.1%
Dividend Yield	5.7%
TSR	**+31.8%**
Market Cap	USD3.0bn
Foreign Room	USD1.2bn
30D ADTV	USD2.4mn
State Ownership	36.0%
Outstanding Shares	1,282.6 mn
Fully Diluted O/S	1,282.6 mn

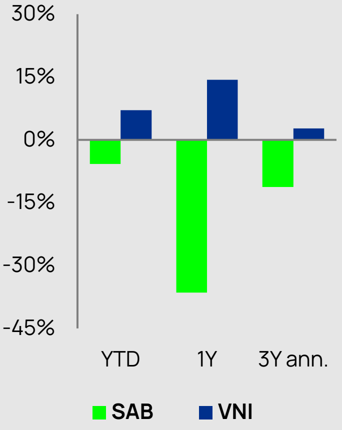
	SAB	Peers	VNI
P/E (ttm)*	18.4x	18.1x	15.9x
P/B (cur.)	3.1x	7.9x	1.8x
ROE	17.4%	57.2%	12.2%
ROA	12.4%	20.4%	1.9%

* Adjusted for bonus & welfare

Company overview

Sabeco is one of the largest brewers in Vietnam. It currently has 26 breweries across Vietnam, boasting a total capacity of more than two billion liters.

Share price performance



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(VND bn)	2023	2024F	2025F	2026F
Revenue	30,461	32,267	33,388	34,670
Revenue % YoY	-12.9%	5.9%	3.5%	3.8%
NPAT-MI	4,118	4,416	4,670	4,931
NPAT-MI % YoY	-21.2%	7.2%	5.8%	5.6%
EPS % YoY	-21.2%	7.2%	5.8%	5.6%
GPM	29.8%	30.4%	31.0%	31.2%
OPM	12.5%	13.5%	13.9%	14.2%
EBITDA margin	15.9%	16.3%	16.6%	16.8%
NPM	13.5%	13.7%	14.0%	14.2%
EV/EBITDA	10.6x	9.7x	9.3x	8.8x
P/E*	18.4x	17.2x	16.2x	15.4x
P/B	3.1x	3.1x	3.0x	3.0x
ROE	17.4%	18.2%	19.2%	20.1%
ROA	12.4%	13.6%	14.2%	14.7%

* Adjusted for bonus & welfare

Earnings to recover but slower medium-term growth outlook

- We lower our target price (TP) for SAB by 6% but maintain our BUY rating.
- Our lower TP is driven by our 9% cut in target P/E (from 23.9x to 21.7x), partially offset by our 3% higher 2024F EPS projection. Our lower target P/E is due to our cut in SAB's NPAT-MI 2023-28F CAGR from 8% to 6%. We cut our 2024-2028F aggregate NPAT-MI forecast by 4% (respective changes of 3%/0%/-2%/-8%/-10% in 2024/25/26/27/28F) as we lower our aggregate 2023-2028F beer sales volume assumption by 2%. We expect a slower beer consumption recovery caused by the current prolonged strict enforcement of drunk driving laws in Vietnam.
- We forecast earnings to recover by 7% YoY in 2024 from a low base in 2023, which is mainly driven by a 5% YoY beer sales volume recovery and the easing of input costs.
- We forecast a 2023-2028F EPS CAGR of 6% due to (1) a gradual rebound in beer consumption and (2) an improvement in profitability due to operational and commercial optimization.
- SAB is currently traded at a projected 2024F P/E of 17.2x vs its 10-year average of peer median P/E of 26.9x. Our TP puts SAB's 2024F/25F P/E at 21.7x/20.5x.
- **Downside risks:** Weaker beer consumption; market share loss; higher advertising & promotional (A&P) spending due to stiff competition; greater input cost volatility.

We forecast beer sales volume to increase by 5% YoY, while we expect no price hike in 2024F. The recovery of beer sales volume in 2024 from a low base in 2023 should be led by the rebounding economy. However, we also factor in (1) the strict enforcement of drunk driving laws, (2) tightened non-essential spending to continue in H1 2024, and (3) stiff competition, which should weigh on SAB's pace of recovery. Additionally, we maintain our expectation that SAB will not increase its selling prices in 2024F due to (1) high competition and (2) lowered input costs.

Gross profit margin (GPM) to improve in 2024F due to lower input costs. We expect that all high-cost malt, resulting from over-hedging from 2023, to be used up in 2024. Moreover, we expect 2024F GPM to be supported by the accumulation of cans (packaging) at a favorable price in late 2023. Going forward, we continue to expect GPM to continue to enhance due to cost optimization initiatives and product mix improvement.

More selective A&P spending to boost profitability. We forecast SAB to maintain its A&P spending percentage of beer revenue at 10%-11% during 2024-2028F. Together with the expected gradual enhancement of the GPM, we believe SAB's net profit margin will improve starting from 2024F.

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2023 Recap: Weak beer sales volume, high input costs dampen earnings

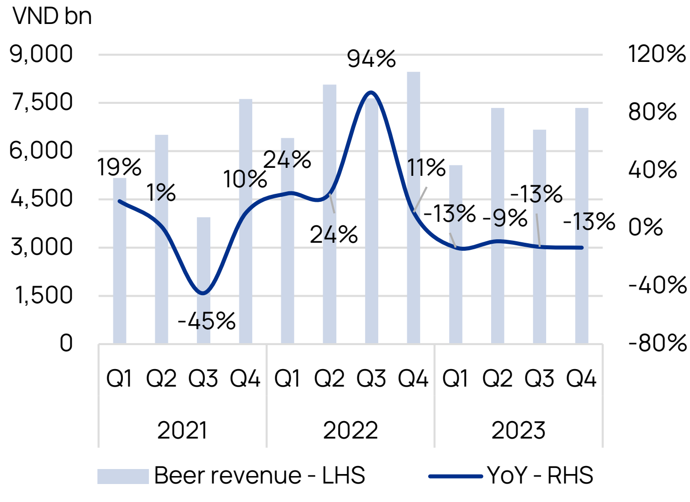
Figure 1: SAB's 2023 results

VND bn	2022	2023	YoY	Vietcap's comments
Total revenue	**34,979**	**30,461**	**-13%**	
Beer revenue	30,600	26,923	-12%	* Beer sales volume decreased ~14% YoY per our estimates, which mostly resulted from (1) prolonged weak consumer spending on non-essential goods amid the economic headwinds in Vietnam and (2) stricter enforcement of drunk driving laws that decreased beer demand, especially within the on-trade channel. * Beer average selling price (ASP) increased by single-digits YoY per our estimates, mainly caused by the full impact of price hikes in late 2022.
Others	4,379	3,538	-19%	* Mainly including sales of materials to associate breweries, in addition to soft drinks and spirits.
Total gross profit	**10,771**	**9,091**	**-16%**	
Beer GP	10,828	9,168	-15%	
Other GP & sales deduction	-57	-77	33%	
Selling expenses	-4,532	-4,479	-1%	* Mainly due to an 8% YoY decrease in A&P expenses partly offsetting a 13% increase in labor costs.
G&A expenses	-741	-801	8%	
EBIT	**5,498**	**3,811**	**-31%**	
Non-operating profit	1,315	1,559	19%	* Primarily a result of net financial income.
PBT	6,813	5,370	-21%	
NPAT-MI	**5,224**	**4,118**	**-21%**	
Margins				
Blended GPM	30.8%	29.8%		
Beer GPM	35.4%	34.1%		* Beer GPM edged down YoY due to high input cost inventories as 2023 beer sales volume is lower than the company's plan.
Blended EBIT margin	15.7%	12.5%		
EBIT/beer revenue	18.0%	14.2%		* Mainly driven by high A&P expenses relative to beer revenue amid weak beer sales volume.
Blended NPAT-MI margin	14.9%	13.5%		

Source: SAB, Vietcap

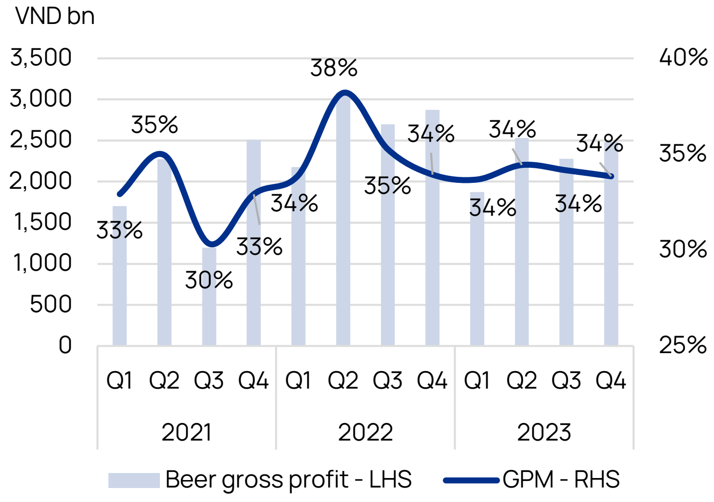
Quarterly data

Figure 2: Beer revenue, quarterly



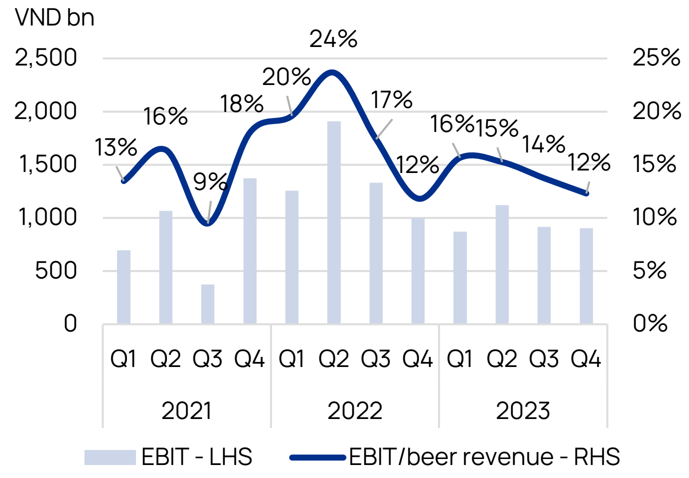
Source: SAB, Vietcap

Figure 3: Beer gross profit, quarterly



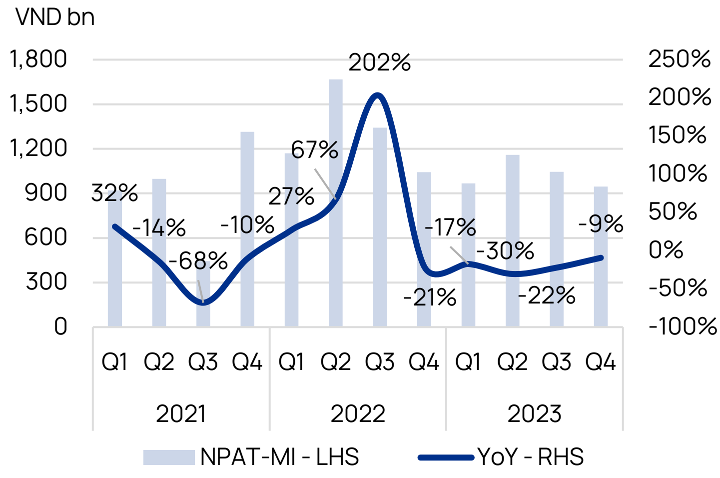
Source: SAB, Vietcap

Figure 4: EBIT, quarterly



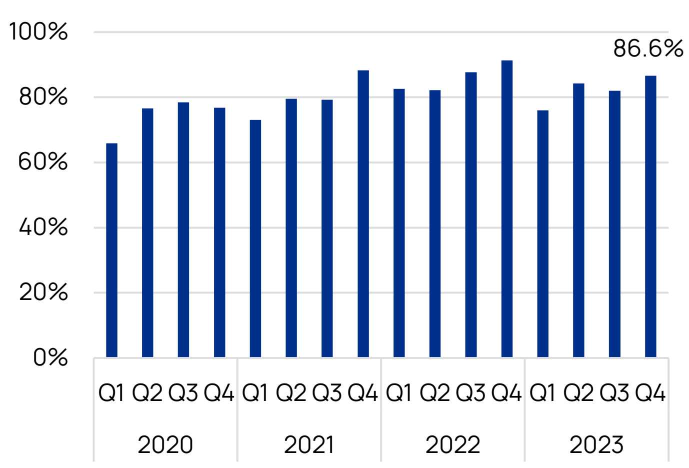
Source: SAB, Vietcap

Figure 5: NPAT-MI, quarterly



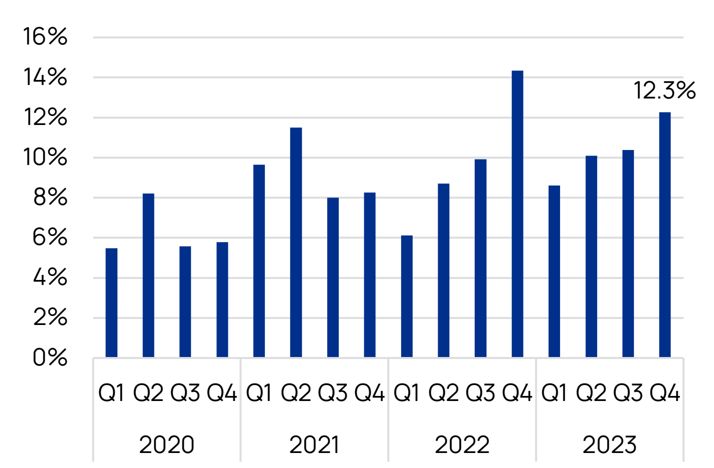
Source: SAB, Vietcap

Figure 6: Net cash to equity



Source: SAB, Vietcap

Figure 7: Advertising & promotion expenses to beer sales



Source: SAB, Vietcap

Vietcap

2024F Outlook: Clearer earnings recovery in H2 2024

Figure 8: Vietcap's 2024 forecast

VND bn	2023	New 2024F	Old 2024F	YoY	Vietcap's comments
Total revenue	**30,461**	**32,267**	**32,006**	**6%**	
Beer revenue	26,923	28,389	28,286	5%	* We expect beer sales volume in 2024F to increase by 5% YoY vs 3% YoY as previously. The recovery in 2024 from a low base in 2023 should be led by the rebounding economy. However, we also factor in (1) the strict enforcement of drunk driving laws, (2) tightened non-essential spending to continue in H1 2024, and (3) stiff competition, which should weigh on SAB's pace of recovery. * We maintain our expectation that SAB will not increase its selling prices in 2024F mainly due to heightening competition.
Others	3,538	3,878	3,721	10%	* Mainly including sales of materials to associate breweries in addition to soft drinks and spirits.
Total gross profit	**9,091**	**9,810**	**9,756**	**8%**	
Beer GP	9,168	9,884	9,809	8%	
Other GP & sales deduction	-77	-73	-52	-4%	
Selling expenses	-4,479	-4,632	-4,810	3%	* We forecast A&P expenses percentage of beer revenue to remain flat YoY, which is in line with management's comment stated in SAB's Q4 2023 analyst meeting.
G&A expenses	-801	-839	-815	5%	
EBIT	**3,811**	**4,340**	**4,132**	**14%**	
Non-operating profit	1,559	1,427	1,447	-8%	* Mainly driven by the normalization of interest rates.
PBT	5,370	5,767	5,579	7%	
NPAT-MI	**4,118**	**4,416**	**4,281**	**7%**	*** Mainly driven by higher beer sales volume YoY and realization of lower input costs inventories, which outweigh higher SG&A expenses YoY.**
Margins					
Blended GPM	29.8%	30.4%	30.5%		
Beer GPM	34.1%	34.8%	34.7%		* We primarily attribute the improvement to (1) the realization of lower input costs inventories expected in H2 2024 after using up over-hedged high-cost malt in 2023, (2) the accumulation of cans (packaging) at a favorable price in late 2023, and (3) further improvements in production efficiency.
Blended EBIT margin	12.5%	13.5%	12.9%		
EBIT/beer revenue	14.2%	15.3%	14.6%		
Blended NPAT-MI margin	13.5%	13.7%	13.4%		* We believe (1) improvements in operational and commercial efficiency and (2) more efficient A&P spending, in addition to an improved beer GPM, will support the blended NPAT-MI margin.

Source: SAB, Vietcap

Q4 2023 analyst meeting recap: Management is cautiously optimistic on 2024 prospects

Management's comments on 2024 outlook

*** Revenue:** Management is cautiously optimistic about the recovery of beer sales volume in 2024. This is driven by expectations for an acceleration in Vietnam's GDP growth in 2024. In addition, management believes SAB will continue to solidify its market position as the number one beer brand in Vietnam (in terms of volume).

*** Profitability:** Management expects all high-cost malt, resulting from over-hedging from 2023, to be used up in 2024. Moreover, 2024 GPM also is expected to be supported by the accumulation of cans (packaging) at a favorable price in late 2023. Additionally, SAB expects (1) improvements in operation and commercial efficiency and (2) more efficient A&P spending to further support the improvement of profit margins. Management does not plan to increase A&P spending (relative to revenue) in 2024 but focus on spending it wisely.

Management's comments on long-term outlook

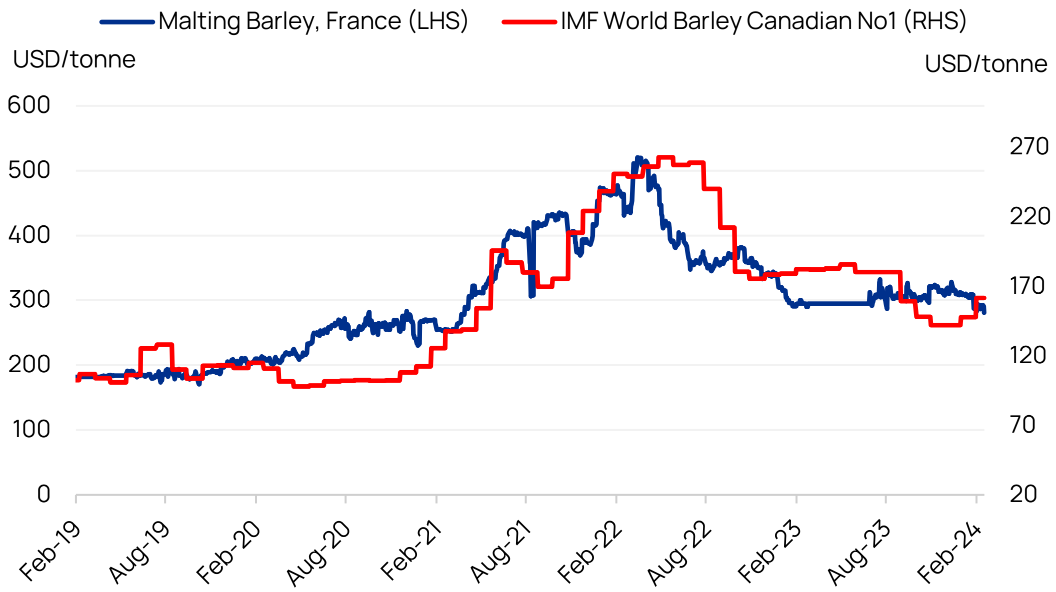
Although the enforcement of Decree 100 has negative impacts on beer sales volume, management does not expect that there is a structural change in term of beer consumption per capita in the medium and long-term. SAB expects a shift in the consumption channel from the on-trade channel to the off-trade while SAB is relatively stronger in the latter. Additionally, management expresses a positive view on its long-term outlook, which is due to a young and dynamic market in Vietnam, which is still dominated by beer consumption. SAB has not yet seen a meaningful shift in consumers' alcohol consumption behavior from beer to alternative products such as wine and non-alcoholic beer.

Raw material prices movement

Figure 9: Aluminum prices continued to decline, 2M 2024 average aluminum price decreased 12% YoY

Source: Vietcap compilation

Figure 10: Malting barley prices continued to decline, 2M 2024 average price of malting barley dropped 6% YoY



Source: Vietcap compilation

A&P activity

Figure 11: SAB continued trend of spending on musical events to tap into consumer demand during Christmas in 2023. SAB launched Tet packaging for its products for the 2024 Lunar New Year.

Source: SAB, Vietcap compilation

Valuation

In this Update Report, we maintain our target P/E valuation approach but lower our target P/E by 9% to 21.7x from 23.9x, while raising our 2024F EPS projection by 3%. Our lower target P/E is due to our cut in SAB's NPAT-MI 2023-28F CAGR from 8% to 6%. We cut our 2024-2028F aggregate NPAT-MI forecast by 4% (respective changes of 3%/0%/-2%/-8%/-10% in 2024/25/26/27/28F) as we lower our aggregate 2023-2028F beer sales volume assumption by 2%. We expect a slower recovery in beer consumption caused by the current prolonged strict enforcement of drunk driving laws in Vietnam.

SAB is currently traded at a projected 2024F P/E of 17.2x vs 10-year average of peer median P/E of 26.9x.

Our TP puts SAB's 2024F P/E at 21.7x, which is at 19% discount vs the ten-year average of our peer median P/E of 26.9x (excluding June 2020 – February 2022 due to COVID-19). We believe our lower target P/E is justified as our projected EPS CAGR for SAB at 6% for the 2023-2028F period is lower than 14% of the 2014-2019 period (pre-COVID).

Figure 12: Valuation summary

Valuation summary	
Target P/E (x)	21.7x
2024F EPS (VND)	3,367
Target price (VND)	**73,000**
2024F/25F P/E at target price (x)	21.7x/20.5x

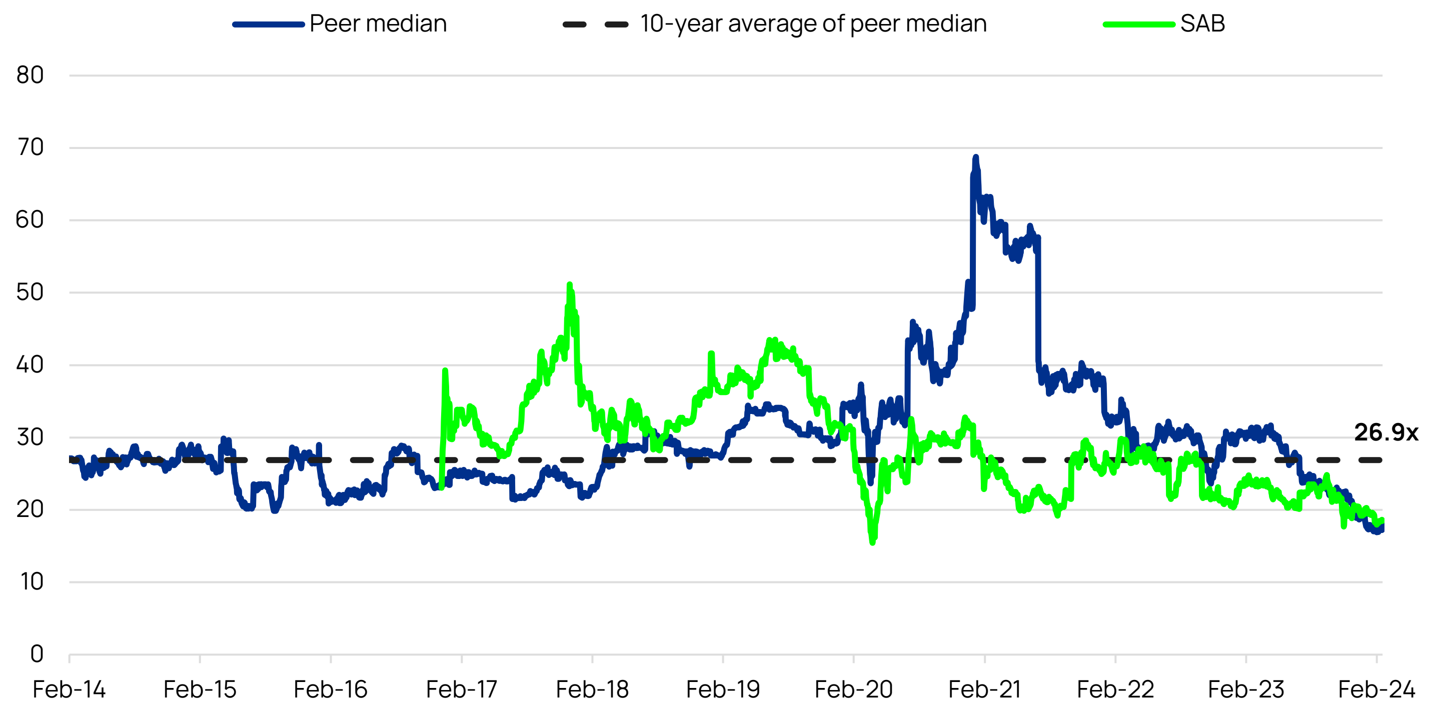
Source: Vietcap

Figure 13: Regional peers

Ticker	Country	Market cap (USD mn)	ROA (%)	ROE (%)	ROIC (%)	Net D/E (%)	OPM (%)	NPM (%)	TTM P/E (x)	TTM EV/EBITDA (x)	LQ P/B (x)
CHINA RESOURCES	China	12,030	7.8	17.9	13.9	-33.2	15.0	11.9	18.6	18.8	2.8
TSINGTAO BREW-A	China	11,675	8.8	16.0	14.4	-97.7	13.7	11.3	25.1	N/A	3.8
CARLSBERG BREWER	Malaysia	1,239	32.1	174.2	87.5	15.1	17.6	14.7	17.7	12.9	25.2
HEINEKEN MALAYSI	Malaysia	1,568	59.3	188.5	118.8	25.3	20.9	14.5	10.7	7.2	20.8
BUDWEISER APAC	Hong Kong	21,845	5.5	8.3	7.7	-20.1	19.7	12.4	27.6	16.2	2.1
MULTI BINTANG INDO	Indonesia	966	33.2	96.6	62.0	-37.4	40.4	29.7	14.9	11.2	12.1
Average		**8,220**	**24.4**	**83.6**	**50.7**	**-24.7**	**21.2**	**15.8**	**19.1**	**13.2**	**11.1**
Median		**6,622**	**20.4**	**57.2**	**38.2**	**-26.7**	**18.7**	**13.5**	**18.1**	**12.9**	**7.9**
SABECO	**Vietnam**	**3,063**	**12.6**	**17.0**	**15.6**	**-86.6**	**12.5**	**13.5**	**18.5**	**13.7**	**3.1**

Source: SAB, company disclosure, Vietcap compilation (Regional peers data as of February 16, 2024)

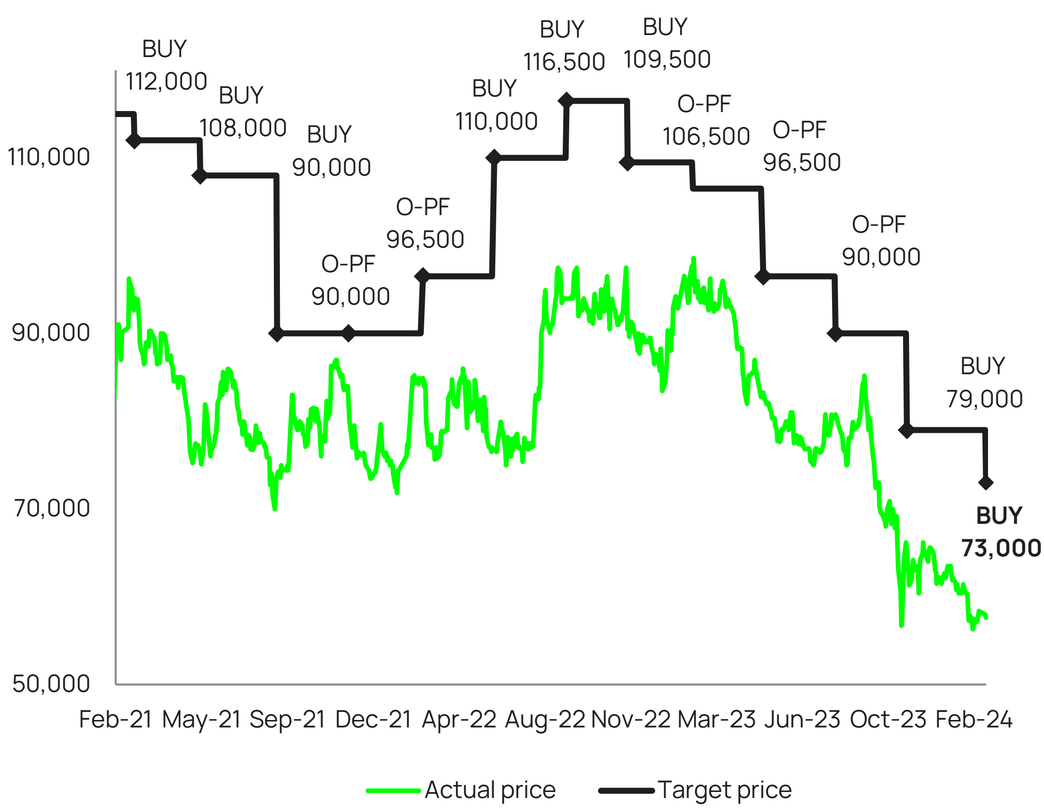
Figure 14: Historical Price-to-Earnings ratio (x) of SAB vs peers



Source: Company data, Vietcap compilation. Note: 10-year average of peer median excludes data during June 2020 – February 2022 due to COVID-19.

Recommendation History

Figure 15: Historical Vietcap target price vs share price (VND/share)



Source: Fiinpro, Vietcap (Historical target prices adjusted for changes in shares outstanding)

Vietcap

Financial Statements

P&L (VND bn)	2023	2024F	2025F	2026F
Revenue	**30,461**	**32,267**	**33,388**	**34,670**
COGS	-21,370	-22,457	-23,043	-23,841
Gross Profit	**9,091**	**9,810**	**10,345**	**10,830**
Sales & Marketing exp.	-4,479	-4,632	-4,847	-5,009
General & Admin exp.	-801	-839	-864	-890
Operating Profit	**3,811**	**4,340**	**4,634**	**4,931**
Financial Income	1,433	1,272	1,304	1,342
Financial Expenses	-73	-56	-56	-56
- o/w Interest Expense	-50	-39	-39	-39
Associates	232	245	253	263
Net Other Income/(Loss)	-32	-34	-35	-37
Profit Before Tax	**5,370**	**5,767**	**6,100**	**6,443**
Income Tax	-1,115	-1,118	-1,183	-1,251
NPAT Before MI	**4,255**	**4,649**	**4,917**	**5,192**
Minority Interest	-137	-233	-247	-260
NPAT Less MI, Reported	**4,118**	**4,416**	**4,670**	**4,931**
EBITDA	4,852	5,263	5,537	5,817
EPS Reported, VND	3,146	3,374	3,568	3,768
DPS Reported, VND	2,500	3,300	3,500	3,500
DPS/EPS Report (%)	79%	98%	98%	93%

RATIOS	2023	2024F	2025F	2026F
Growth YoY				
Revenue	-12.9%	5.9%	3.5%	3.8%
Op. Profit (EBIT)	-30.7%	13.9%	6.8%	6.4%
PBT	-21.2%	5.9%	3.5%	3.8%
EPS	-21.2%	7.2%	5.8%	5.6%
Profitability				
Gross Profit Margin	29.8%	30.4%	31.0%	31.2%
Op. Profit, (EBIT) Margin	12.5%	13.5%	13.9%	14.2%
EBITDA Margin	15.9%	16.3%	16.6%	16.8%
NPAT-MI Margin	13.5%	13.7%	14.0%	14.2%
ROE	17.4%	18.2%	19.2%	20.1%
ROA	12.4%	13.6%	14.2%	14.7%
Efficiency				
Days Inventory On Hand	39	39	40	41
Days Accts, Receivable	5	5	6	5
Days Accts, Payable	45	41	41	41
Cash Conversion Days	-1	3	4	5
Liquidity				
Current Ratio	3.2	3.3	3.3	3.4
Quick Ratio	2.8	2.9	2.9	3.0
Cash Ratio	2.8	2.8	2.8	2.9
Debt / Assets %	2.1%	2.0%	2.0%	2.0%
Debt / Capital %	2.7%	2.6%	2.6%	2.6%
Net Debt / Equity	-86.6%	-87.9%	-89.0%	-90.1%
Interest Coverage	75.9x	111.0x	118.6x	126.2x

B/S (VND bn)	2023	2024F	2025F	2026F
Cash & Equivalents	5,040	5,176	5,303	5,490
ST Investment	17,741	18,221	18,669	19,326
Accounts Receivables	467	495	512	532
Inventories	2,318	2,435	2,588	2,743
Other Current assets	988	1,046	1,082	1,124
Total Current Assets	**26,553**	**27,374**	**28,155**	**29,215**
Fixed Assets, Gross	13,232	13,345	13,463	13,585
- Depreciation	-8,839	-9,414	-9,995	-10,581
Fixed Assets, Net	4,393	3,931	3,468	3,004
LT investments	2,287	2,342	2,406	2,479
LT assets, other	823	872	902	937
Total LT Assets	**7,503**	**7,145**	**6,777**	**6,420**
Total Assets	**34,057**	**34,520**	**34,932**	**35,636**
Accounts Payable	2,476	2,601	2,672	2,765
ST Debt	530	530	530	530
Other ST Liabilities	5,218	5,218	5,218	5,218
Total Current Liabilities	**8,225**	**8,349**	**8,421**	**8,513**
LT Debt	171	171	171	171
Other LT liabilities	176	186	193	200
Total long-term liabilities	**347**	**357**	**364**	**371**
Total Liabilities	**8,571**	**8,706**	**8,784**	**8,884**
Paid in capital	12,826	12,826	12,826	12,826
Retained earnings	10,217	10,312	10,400	10,743
Other equity	1,169	1,169	1,169	1,169
Minority interest	1,273	1,506	1,753	2,013
Total equity	**25,485**	**25,813**	**26,148**	**26,752**
Liabilities & equity	**34,057**	**34,520**	**34,932**	**35,636**
Y/E shares out, mn	1,283	1,283	1,283	1,283

CASH FLOW (VND bn)	2023	2024F	2025F	2026F
Beginning Cash Balance	**4,070**	**5,040**	**5,176**	**5,303**
Net Income	4,118	4,416	4,670	4,931
Dep, & Amortization	570	575	581	586
∆ in Working Capital	-1,254	-80	-135	-124
Other Adjustments	-140	-138	-124	-128
Cash from Operations	**3,293**	**4,773**	**4,992**	**5,265**
Capital Expenditures, Net	-271	-114	-118	-122
Investments, Net	1,633	-291	-258	-467
Cash from Investments	**1,362**	**-404**	**-376**	**-590**
Dividends Paid	-3,354	-4,232	-4,489	-4,489
∆ in Share Capital	0	0	0	0
∆ in ST Debt	-128	0	0	0
∆ in LT Debt	-204	0	0	0
Other financing C/F	1	0	0	0
Cash from Financing	**-3,686**	**-4,232**	**-4,489**	**-4,489**
Net Change in Cash	**970**	**137**	**127**	**187**
Ending Cash Balance	**5,040**	**5,176**	**5,303**	**5,490**

Source: SAB, Vietcap forecast

Vietcap Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when Vietcap is acting in an advisory capacity in a merger or strategic transaction involving the company.
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

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