

## SABECO JSC (SAB VN)

### Another frosty glass of guidance

## Not Rated

Current price: VND 244,200

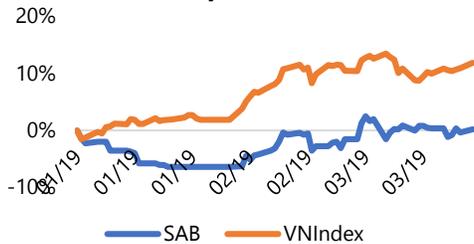
**Target price: N/A**

**Upside: N/A**

We attended SAB's annual general meeting on April 12. SAB mainly focuses on the domestic market, where sales are growing by only 5% per year. Given the limited top-line potential, SAB targets improved operational efficiencies as a driver of earnings expansion. The brewer's laudable efforts to improve its operating efficiencies through scaled costs may require time to ferment.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
193,800-267,500	USD 6.8bn	2.0%	36.7%	15%	USD 300K

#### Price performance



#### Key Takeaways

- SAB sees 2018 as a transition year with the new BOD and BOM only joining in 2Q18.
- FY19E guidance: 8% YoY topline growth, and 7% YoY earnings growth.

#### Risks

- Improving operating efficiencies at this former SOE might take a good deal of time.
- Extremely low trading liquidity may limit the appeal for investors.

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**Company profile:** SAB is Vietnam's largest brewer with roughly 40% market share and dominance in the middle-end product segment. Beer contributed 85% of total sales in 2018. After acquiring a 53.6% stake in late 2017, majority owner ThaiBev has reshuffled the BOD and BOM teams as part of its efforts to restructure this former state-owned enterprise.

#### SAB's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
<b>Total revenue</b>	<b>35,949</b>	<b>38,871</b>	<b>+8%</b>
Volume (mn litres)	1,796	1,908	+6%
<b>Profit after tax</b>	<b>4,403</b>	<b>4,717</b>	<b>+7%</b>
ROA	18.8%		
ROE	27.4%		
EPS growth	-11.3%		
P/E	41.1		
P/BV	10.7		

Source: SAB

**Management views 2018 as a transition year**, with the new BOD and BOM team joining in 2Q18. At the time, they projected a challenging 2018 and targeted a YoY NPAT decline of 19%. That turned out to be accurate, with results hit by (1) external factors including an increase in the special sales tax from 60% to 65%, fierce competition with foreign brands, and raw material cost increases; and (2) the internal destocking plan to improve inventory management. However, there was a silver lining to this dour guidance: SAB's full-year NPAT beat their 2018 guidance by 10%.

**FY19E targets: 8% sales growth and 7% NPAT growth.** The new management team plans to improve operational efficiencies by 1) optimizing production costs (i.e., reducing the use of aluminum and wrapping box paper), 2) generating cost synergies from combined purchasing with ThaiBev, 3) improving transportation efficiencies, and 4) shifting the focus of compensation from seniority to performance. However, management plans to maintain advertising expenses at 9% of total sales going forward to support and build the brand.

**Premium products are not on tap.** SAB states that premium beer is not attractive to them given that it only accounts for 4% of total Vietnam beer sales. SAB will continue to focus on mid-end and upper-mid-end beers.

**Our view:** We don't cover SAB and have no investment view on the stock. However, the poor 2018 results are understandable given the overall industry's operational headwinds and SAB's management transition. Also, top-line guidance for 2019 appears reasonable given the persistently fierce competition and the Vietnam market's tepid 5% annual growth. However, SAB's guidance for bottom-line growth (which was 1ppt lower than their sales growth guidance) leaves us scratching our heads given their plans for improved operational efficiencies. Management may be once again serving up frosty guidance to manage expectations down (as per 2018); but it's also possible that the implementation of operational efficiencies may take a while to ferment.

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<b>BUY</b>	Above 10%
<b>HOLD</b>	Between -10% to +10%
<b>SELL</b>	Below 10%

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