

Thai Beverage

A US\$5bn acquisition is in sight



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SINGAPORE | CONSUMER | UPDATE

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- Tapping into Vietnam's US\$6.5bn beer market via acquisition of over 25% of Sabeco
- Sole bidder with advantage via Vietnamese-incorporated associate
- 25% stakes in Sabeco costs at least THB36bn, an implied trailing PER of 47.5x
- Maintain Buy with SOTP-derived TP of S\$1.18

What is the news?

- 53.6% of Sabeco's stake sales worth at least US\$5bn will be auctioned in 18 Dec-17. Minimum bidding price will be at VND320,000/share.
- Currently, ThaiBev is the only bidder who has registered their interest for at least 25% of Sabeco.
- Foreign companies such as Heineken, Anheuser-Busch InBev, Kirin Holdings, Asahi Group Holdings and Singha Asia Holding are also potential suitors.

What do we think?

- **A direct access into the high growth potential beer market in Vietnam**
Vietnam is Asia's third largest beer consumer by volume after China and Japan. The Vietnam beer market is expected to grow 4-5% per annum to 4.1bn litres by 2020. Sabeco is Vietnam's largest brewer, with nearly 41% beer market share, followed by Heineken (21.6%) and Habeco (19.8%).
- **Advantage to bid via Vietnam-incorporated company**
ThaiBev has recently acquired a 49% shareholding interest in Vietnam F&B Alliance Investment JSC. It will act as a the vehicle for ThaiBev to bid for Sabeco as a domestic player, giving it an advantage over international rivals.

Foreign ownership is capped at 49%. Given that 10% is already in the hands of foreigners (including Heineken's 5%), **foreign ownership is now limited to 39%. This also implies that at least 15% on offer will strictly be for domestic companies.** ThaiBev could compete for this 15% stake via its Vietnamese associate.
- **May not be accretive but could be long-term positive**
Sabeco reported a strong earnings growth of 31.3% YoY to VND4.48tn in 2016. However, 9M17 earnings dipped by -4.4% YoY.
25% stakes in Sabeco will costs over THB36.15bn (VND1,000 = THB1.44) and translates into associate contributions of THB0.8mn to ThaiBev (based on trailing-12M earnings). The minimum price bid implies a trailing-12M PER of 47.5x, which is higher than ThaiBev's 16.7x and the regional peer's market cap average of 41.3x.
Habeco is also trading at a high valuation of 40.7x as investors priced in the long term positive drivers for Vietnamese beer market. Vietnamese government is also looking to divest stakes in Habeco, but no details have been released yet.

Maintain Buy with SOTP-derived TP of S\$1.18

Our TP took included our estimated potential earnings from newly acquired Myanmar's Spirits business, as well as our assumptions of THB 36bn new loans to fund its acquisition spree. ThaiBev free cash flows over THB20bn p.a. can support the Group's growth and expansion plans.

Any acquisition navigating the Group closer towards realizing Vision 2020 in becoming a stable and sustainable ASEAN leader in beverage could act as a catalyst for re-rating.

Buy (Maintained)

LAST CLOSE PRICE	SGD 0.96
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.18
TOTAL RETURN	26.6%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN):	25,110
MARKET CAP (USD mn / SGD mn):	17742 / 23980
52 - WK HI/LO (SGD):	0.99 / 0.83
3M Average Daily T/O (mn):	15.46

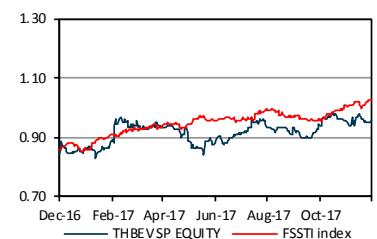
MAJOR SHAREHOLDERS (%)

SIRIWANA COMPANY LIMITED	45.27%
MAXTOP MANAGEMENT CORP	17.23%
THE CAPITAL GROUP COMPANIES INC	5.04%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.5)	16	13.6
STIRETURN	124	7.40	20.95

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	9M 16	FY 17	FY 18e	FY 19e
Revenue (THB bn)	139.2	190.0	203.4	209.9
EBITDA (THB bn)	23.5	32.7	36.8	39.1
NPAT, adj. (THB bn)	18.9	26.0	29.4	29.7
EPS, adj. (THB)	0.75	1.37	1.17	1.18
EPS, adj. (SCents)	2.87	4.12	4.68	4.72
PER, adj. (x)	33.6	22.9	20.4	20.2
P/BV, (x)	5.1	4.5	4.2	3.8
DPS (THB)	2.87	4.12	4.68	4.72
DPS (SCents)	2.36	2.73	2.89	2.92
Div Yield (%)	2.5%	2.9%	3.0%	3.1%
ROE (%)	16.0%	20.9%	21.9%	20.3%

Source: Company Data, PSR est.

Valuation Method

Sum-of-parts

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A Look into Sabeco

- Largest brewery in Vietnam with a high and stable market position of over 40% share in domestic beer market.
- Strong position in the mid and low-end segment and penetrating into the high-end segment. Signature beer brands include 333 (economy), Saigon Export or red Saigon (economy), Saigon Lager or green Saigon (mainstream), Saigon Special (premium).
- One of the brands in Vietnam that has minimal control by major international brewers. Heineken owns 5% of Sabeco; Carlsberg owns 17% of Habeco.
- As of end-2016, it has 23 beer factories across the country with a total annual capacity of 1,800mn litres. This compared to Habeco and Heniken's 800 million litres and 750 million litres each.
- It has 11 trading companies for domestic distribution via both on-premise and off-premise channels. The company also exports to 27 countries (under 333 Export and Saigon Export brand).

Vietnam beer market

- **Favourable macro drivers for beer market.** Vietnam has over 90mn population consuming 3.8bn litres of beer in 2016. With young population, rising affluence, coupled with high beer consumption per capita, Vietnam is considered as one of the most attractive markets. The changing demographics also imply a shift from mainstream to premium segment.
- **High Special Consumption Tax.** Raised from 50% in 2015 to 55% in 2016, and expected to increased to 60% in 2017 and 65% in 2018.
- Despite the tax burden, Ministry of Industry and Trade in Vietnam expects beer production to reach 3.988bn by end-2017, up 10% YoY. The Ministry also forecasted production to reach 4.1bn litres and 5.5bn litres in 2020 and 2035, respectively.

Figure 1: Peers Valuations

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E P/E	P/E FY1	P/E FY2	Net D/E	ROE (%)	P/B	Price To Tangible Assets	
Saigon Beer Alcohol Beverage	SAB VN	11,945	11,475	28.9	28.1	25.8	45.5	43.8	40.1	Net Cash	20.3	31.7	13.5	
Global Distillers														
Anheuser-Busch Inbev NV	ABI BB	302,156	467,635	17.7	15.6	14.4	56.3	25.9	21.7	133.2	1.7	7.2	2.9	
Diageo PLC	DGE LN	118,663	135,648	18.4	17.6	16.5	24.4	22.8	20.9	64.6	9.3	28.3	7.1	
Heineken NV	HEIA NA	78,538	100,372	13.3	11.6	10.8	26.7	22.1	20.1	76.4	4.6	14.2	3.8	
Asahi Group Hldgs Ltd	2502 JP	33,197	49,221	12.9	15.5	13.2	20.4	22.4	18.9	64.3	5.2	13.8	2.5	
Thai Beverage PCL	THBEV SP	23,980	25,399	18.2	17.3	16.1	16.7	20.1	18.8	23.5	18.1	27.7	4.5	
Tsingtao Brewery Co Ltd	168 HK	8,311	6,147	12.2	11.9	11.6	33.9	27.1	25.1	Net Cash	3.5	6.6	2.2	
Carlsberg Brewery (Malaysia) Bhd	CAB MK	1,538	1,524	12.9	13.1	12.4	21.1	19.7	18.1	Net Cash	34.5	81.4	18.4	
Beijing Yanjing Brewery Co	000729 CH	3,350	3,179	#N/A	N/A	12.4	11.2	54.0	37.3	30.6	Net Cash	1.6	2.3	1.2
Sapporo Hldgs Ltd	2501 JP	3,374	6,151	10.3	11.0	10.6	29.1	22.7	20.8	162.7	1.6	6.1	1.7	
Hanoi Beer Alcohol & Beverage	BHN VN	1,815	1,699	17.5	19.5	19.0	40.7	43.2	42.4	Net Cash	8.0	13.8	5.4	
Market Cap Weighted Average (ex. Sabeco)				16.7	15.5	14.3	41.3	24.4	21.2	99.4	4.7	13.9	4.0	
Vietnam Dairy Products JSC	VNM VN	16,798	16,206	16.1	20.0	17.6	30.3	28.3	25.0	Net Cash	35.0	41.9	11.8	

Source: Bloomberg

Financials

Income Statement

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
Revenue	172,049	139,153	189,997	203,362	209,920
Gross profit	50,219	41,562	58,099	63,110	65,435
EBITDA	29,070	23,516	32,675	36,780	39,140
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(4,587)	(4,718)
Associates & JVs	3,926	3,375	4,073	4,271	4,408
Other items	3,720	(143)	8,311	449	(1,659)
EBIT	24,670	20,223	28,367	32,194	34,422
Net Finance Inc/(Exp)	(1,344)	(776)	(939)	(1,284)	(1,207)
Profit Before Tax	30,972	22,679	39,812	35,629	35,965
Taxation	(4,508)	(3,643)	(5,132)	(6,057)	(6,114)
Profit After Tax	26,464	19,036	34,681	29,572	29,851
- Non-controlling interest	0	117	171	148	149
Net profit, reported	26,463	18,920	34,510	29,425	29,701
Net profit, adj.	26,463	18,920	26,013	29,425	29,701

Per share data (THB)

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	1.05	0.75	1.37	1.17	1.18
EPS, adj.	0.85	0.73	1.01	1.14	1.15
DPS	0.61	0.60	0.67	0.70	0.71
BVPS	4.62	4.78	5.13	5.60	6.07

Per share data (SGD Cents)*

Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
EPS, reported	4.15	2.97	5.60	4.81	4.86
EPS, adj.	3.36	2.87	4.12	4.68	4.72
DPS	2.40	2.36	2.73	2.89	2.92
BVPS	18.16	18.84	20.89	23.00	24.94

*Exchange rate (THB/SGD)

Cash Flow

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
CFO					
EBIT	24,670	20,223	28,367	32,194	34,422
Depreciation & Amortisation	(4,400)	(3,293)	(4,308)	(4,587)	(4,718)
WC changes	(1,236)	(743)	99	(2,729)	(977)
Tax paid	(5,003)	(4,314)	(3,635)	(6,057)	(6,114)
Others	(348)	29	434	449	(1,659)
Cashflow from ops	22,484	18,488	29,573	28,444	30,391
CFI					
CAPEX, net	(3,999)	(2,877)	(5,399)	(5,145)	(5,311)
Others	(348)	29	434	449	(1,659)
Cashflow from investments	(118)	(446)	(3,053)	(40,711)	(5,240)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(5,106)	1,067	(6,407)	27,131	(6,518)
Dividends	(15,378)	(16,670)	(15,162)	(17,655)	(17,821)
Others	(348)	29	434	449	(1,659)
Cashflow from financing	(20,484)	(15,603)	(21,568)	9,477	(24,339)
Net change in cash	1,882	2,439	4,952	(2,790)	813
Effects of exchange rates	(622)	(870)	(82)	0	0
CCE, end	3,490	5,059	9,929	7,139	7,952

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sep, THB mn	FY15	9M16	FY17	FY18e	FY19e
ASSETS					
PPE	46,921	47,871	48,532	84,948	85,541
Intangibles	7,228	7,237	7,157	6,964	6,964
Investments in Assoc/JV	75,737	78,463	78,373	82,643	87,052
Others	4,003	3,978	4,258	4,258	4,258
Total non-current assets	133,889	137,549	138,319	178,813	183,814
Accounts receivables	4,501	3,309	3,248	3,963	4,071
Cash	3,490	5,059	9,929	7,139	7,952
Inventories	35,204	38,145	37,761	40,346	41,564
Others	4,933	3,590	4,983	4,983	4,983
Total current assets	48,128	50,104	55,921	56,432	58,570
Total Assets	182,017	187,653	194,240	235,245	242,384
LIABILITIES					
Accounts payables	9,854	9,831	11,265	11,837	12,186
Short term loans	18,678	19,330	31,058	23,573	18,334
Others	4,558	3,658	5,347	5,347	5,347
Total current liabilities	33,090	32,819	47,671	40,758	35,867
Long term loans	25,883	27,089	10,000	46,000	46,000
Others	3,778	4,033	4,056	4,056	4,056
Total non-current liabilities	29,661	31,122	14,057	50,057	50,057
Total Liabilities	62,751	63,941	61,727	90,814	85,924
EQUITY					
Non-controlling interests	3,380	3,642	3,733	3,881	4,030
Shareholder Equity	115,885	120,070	128,780	140,550	152,430

Valuation Ratios

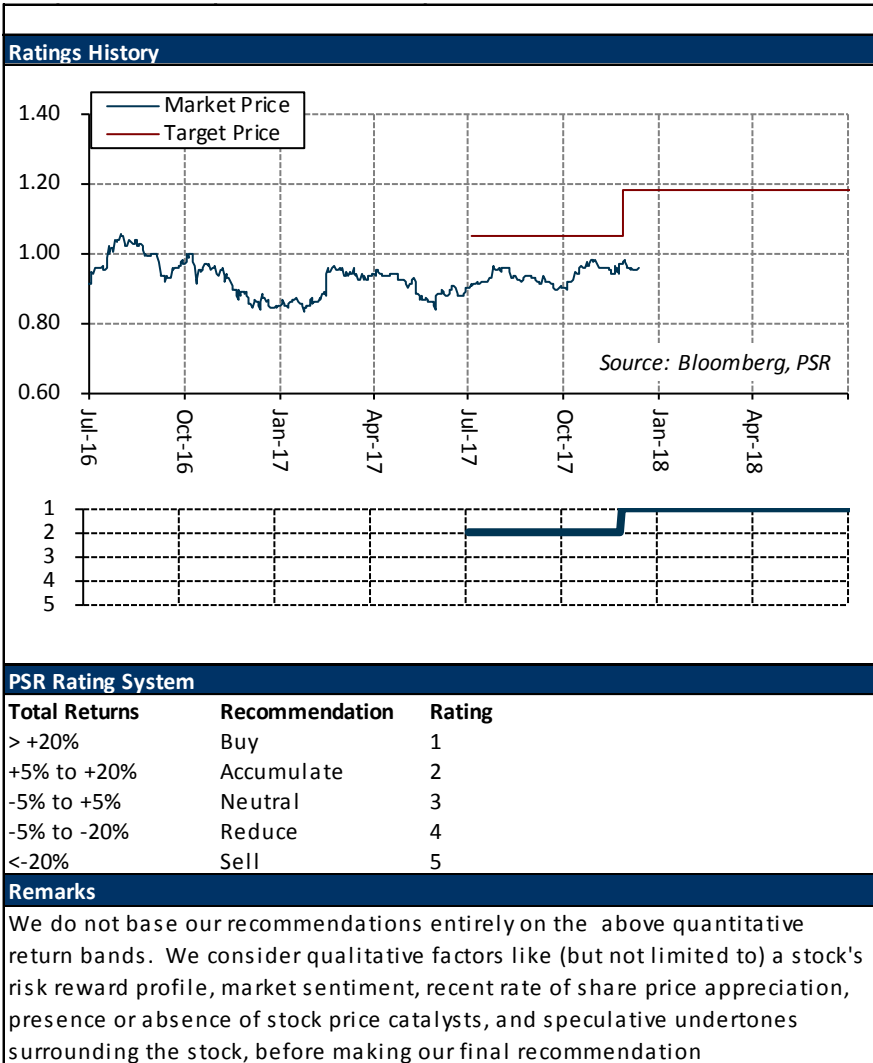
Y/E Sep	FY15	9M16	FY17	FY18e	FY19e
P/E (X), adj.	20.3	33.6	22.9	20.4	20.2
P/B (X)	3.8	5.1	4.5	4.2	3.8
EV/EBITDA (X), adj.	16.5	28.1	18.9	17.7	16.5
Dividend Yield (%)	2.5%	2.5%	2.9%	3.0%	3.1%

Growth & Margins (%)

	FY15	9M16	FY17	FY18e	FY19e
Growth					
Revenue	6.2%	-19.1%	36.5%	7.0%	3.2%
EBITDA	2.8%	-19.1%	38.9%	12.6%	6.4%
EBIT	1.6%	-18.0%	40.3%	13.5%	6.9%
Net profit, adj.	22.0%	-28.5%	37.5%	13.1%	0.9%
Margins					
Gross margin	29.2%	29.9%	30.6%	31.0%	31.2%
EBITDA margin	16.9%	16.9%	17.2%	18.1%	18.6%
EBIT margin	14.3%	14.5%	14.9%	15.8%	16.4%
Net profit margin	15.4%	13.6%	13.7%	14.5%	14.1%

Key Ratios

	FY15	9M16	FY17	FY18e	FY19e
ROE (%)	24.4%	16.0%	20.9%	21.9%	20.3%
ROA (%)	15.0%	10.2%	13.6%	13.7%	12.4%
Net Debt/(Cash)	41,071	41,361	31,129	62,434	56,382
Net Gearing (X)	34.4%	33.4%	23.5%	43.2%	36.0%



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