

**Sabeco [SAB VN]**

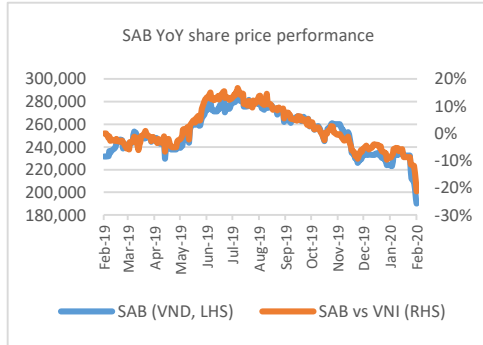
**7 February 2020**

**Not Rated**

**TP upside/(downside) N/A**

**Close 6 Jan 2020**

**Price VND 190,000**



<b>Market cap</b>	<b>US\$5.2 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$330 k</b>
<b>Free float</b>	<b>10%</b>
<b>FINI ownership</b>	<b>63%</b>
<b>FOL Room</b>	<b>NMF*</b>
<b>2019P Revenue growth</b>	<b>5.6%</b>
<b>2019P EPS growth</b>	<b>21%</b>
<b>2019 Gross margin</b>	<b>25%</b>
<b>2019 EBITDA margin</b>	<b>16.2%</b>
<b>2019 Net margin</b>	<b>13.3%</b>
<b>2019 ROA</b>	<b>21%</b>
<b>2019 ROE</b>	<b>29.9%</b>
<b>2020E P/E</b>	<b>22x</b>
<b>2020E P/B</b>	<b>6.2x</b>
<b>2020E Dividend yield</b>	<b>2.8%</b>

\*Note: SAB has no foreign ownership limit.

Source: Bloomberg (including consensus 2020 estimates).

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**Takeaways from the quarterly conference**

We attended SAB’s analyst meeting on 6 February. Management briefly discussed 4Q19 and 2019 results (released on Jan 21). More interesting to us was their strategic overview and outlook for 2020 amid an extremely tough environment.

**Key takeaways**

**Crackdown on drunk driving...** SAB in principle supports the national effort to reduce/eliminate driving under the influence (DUI) that rolled out in January. However, they expressed the hope that the zero-tolerance implementation, in which driving with any blood alcohol level above zero is forbidden, might be relaxed in line with international norms.

**... has been exacerbated by the coronavirus.** To their credit, management didn’t try to sugarcoat it—beer consumption has tanked further since the virus. SAB did not provide sales guidance for 1Q20 but are hopeful for a recovery later in the year (and so are we).

**A narrow silver lining amidst towering clouds.** The timing of the DUI crackdown in January may have helped avoid inventory spoilage because demand had already declined prior to the outbreak.

**Remaining focused on cost efficiencies.** Management expects raw material input prices to decline this year, and they plan to continue to drive production efficiencies at existing breweries despite the demand headwinds. SAB also discussed plans for three new 100%-owned breweries which should be completed in 1–2 years.

**Our view:** We don’t cover SAB given its low liquidity so we can’t provide a recommendation. **Generally, conditions for the beer industry are harsh, but probably won’t get worse** given that the effects of the coronavirus are likely temporary, in our view. However, the DUI crackdown may continue to pressure beer consumption after the epidemic, or at least the fear surrounding it, has passed.

**Is the party really over?** Based on our observations on the ground, the substantial reduction in HCMC nightlife in Jan has been followed by a further decline since the epidemic. To be fair, Vietnam’s urban centers are not really SAB’s core market so our view here is limited, but SAB acknowledges that operating conditions are tough nationwide. **Thus, management’s focus on improving cost efficiencies is prudent.**

**Valuations.** SAB’s share price rose 4% this morning after falling 17% YTD through Feb 6. The stock trades on 22x Bloomberg Consensus 2020E PER with a 2.8% expected dividend yield. However, consensus expectations for 8% revenue growth and 19% EPS growth in 2020 may be overly optimistic in light of the weak operating environment in 1Q20, which raises the possibility of negative forecast revisions.

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