

SAI GON BEER WESTERN J.S.C (UPCOM: WSB)

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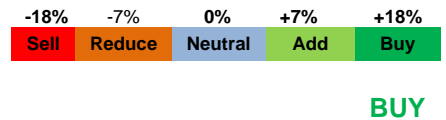
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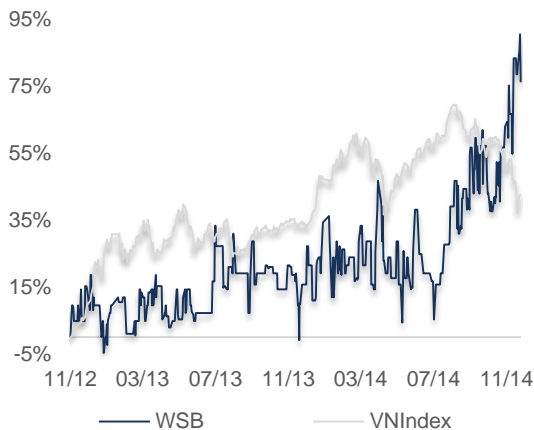
 Market price: **40.000**

 Target price: **54.500**

 +/-: **36,3%**

 Dividend yield (F) **7%**


Historical price volatility, 12/2012 – 12/2014



GROWTH AND PROFITABILITY

We conducted an initial report on Sai Gon Beer Western J.S.C. (UpCom: WSB) which is currently listed on UpCom. This is a small-scale beer manufacturer along with notable performance in 2014 and is expected to keep growing faster in 2015 due to an increase in production capacity.

By using FCFF method to derive the company's intrinsic value, we believe that its stock is undervalued. According to our valuation model, the 1Y-target is at **54,500 VND/share**. In the perspective of medium and long-term investor, we recommend a **BUY** as a **36.3%** upside is more than an acceptable margin of safety. There are some key business risks to mind that are increasing intensity of rivalry, government controlling policies on consumption of alcoholic drinks including plan to rise special consumption tax (SCT) from 50% to 65% by 2018 and strong dependence on Saigon Beer-Alcohol-Beverage JSC (Sabeco), the parent company in both input and output. Investor should also consider risk of the stock's low liquidity.

The result derived from relative valuation is **44,900 VND/share** and **53,800 VND/share** respectively by the end of 2014 and 2015, equivalent to P/E ratio of 8.0x.

2014: WSB to put Soc Trang 2 plant (50 million liters per year) in operation. With around 35 million litres of 333 canned beer sold this year, the firm is witnessing the significant growth. We expect 2014 net sales at VND 764.2bn (+136% yoy) and EAT at VND 81.7bn (+83.3% yoy), resulting in 2014 EPS of 5,632 VND/share.

2015: The main catalyst to look for is an upgrade of Can Tho plant from 25 to 50 million liters by the end of 2014, which could help accelerate sales of Saigon Export bottled beer and an increase in 333 beer production to fulfil the capacity of Soc Trang 2. 2015 net sales and EAT are expected at VND 1,009bn and VND 95.7bn, resulting in 2015 EPS of 6,603 VND/share.

In summary, WSB's advantages, potentials and risks are as follows:

- The market of the Southern Hau River includes An Giang, Kien Giang, Can Tho, Hau Giang, Soc Trang, Bac Lieu and Ca Mau. Its population totalled 9.3 million and 2012 per capita

Market profile Dec, 29th 2014

Current price	40,000
52-week high (VND/share)	40,000
52-week low (VND/share)	20,800
Listed shares	14.5
Outstanding shares	14.5
3M average volume	N/A
Chartered capital (VND bil)	145
Market cap. (VND bil)	580

Business Overview

Name	Sai Gon Beer Western Joint Stock Company
Address	Tra Noc Industrial park, Binh Thuy district, Can Tho city
Key product	Saigon Export, Saigon Lager (450, 355), 333
Key input	Malt, water, package, houblon
Key strength	Strong brand name and large regional market
Key risk	Commodity price, intensity of rivals,

Ownership structure (%)

Sabeco	51
Others	49

income was above VND 22mn. This is a very large potential market which has an apparent drinking culture and fixes with the mainstream segment.

- The long-established brand name of Sai Gon Beer (Sabeco's brand) with 139 years of history and wide product portfolio varying from the mainstream to the premium.
- The firm has the largest capacity among beer manufacturers in the region of more than 100 million litres per annum. It also can produce both bottled and canned beers to meet market demand, and is able to switch product portfolio into the premium segment.
- The firm is benefiting from its low effective CIT rate (2014F: 6.8%, 2015F: 8.4%, and three following years: 7-10%). Medium and long-term interest rate loan is also low at about 7-8.5% per annum, compared to popular rates currently offered by Vietnamese commercial banks.
- Both main raw material input and output are guaranteed by Sabeco. Thus WSB is exposed to long-term risk as the firm is relatively dependent on its parent company in business activities and performance.
- Short and medium-term risk is the plan to rise SCT tax to 65% by 2018, and the removal of import tariffs as committed in FTA agreements, especially the on-going TPP.

Financial statistics and forecast for 2013F – 2018F

Key figures	Unit	2013	2014E	2015F	2016F	2017F	2018F
SG Lager 450	bil	30.5	38.3	26.1	0.0	0.0	0.0
SG Lager 355	bil	0.0	6.7	28.4	0.0	0.0	0.0
SG Export 355	bil	522.1	521.3	723.9	601.7	625.8	650.8
333 canned beer	bil	0.0	659.2	868.7	939.2	1,035.4	1,141.4
Draught beer	bil	0.1	0.1	0.1	0.1	0.1	0.1
Gross revenue	bil	552.7	1,225.7	1,647.1	1,541.0	1,661.3	1,792.3
Net revenue	bil	323.8	764.2	1,008.7	945.7	990.5	1,041.2
Gross profit	bil	67.3	123.5	163.1	164.0	178.8	197.6
Net profit	bil	58.6	81.7	97.9	112.7	132.1	152.1
EPS	VND/sh	4,040	5,632	6,751	7,776	9,112	10,486
DPS	VND/sh	2,300	2,816	3,375	3,888	4,556	5,243
Net revenue growth	%	0.1%	136.0%	32.0%	-6.3%	4.7%	5.1%
Gross profit growth	%	-10.1%	83.3%	32.1%	0.6%	9.0%	10.5%
Net profit growth	%	-30.4%	39.4%	19.9%	15.2%	17.2%	15.1%
Gross margin	%	20.8%	16.2%	16.2%	17.3%	18.0%	19.0%
Net margin	%	10.6%	6.7%	5.9%	7.3%	8.0%	8.5%
ROE	%	16.3%	20.8%	22.4%	23.0%	23.9%	24.4%
ROA	%	8.4%	7.5%	7.5%	8.7%	10.3%	11.9%
P/E	x	9.9	7.10	5.9	5.1	4.4	3.8
P/B	x	1.6	1.4	1.3	1.1	1.0	0.9

Source: WSB; FPTS-E,F

VALUATION RESULT

Valuation using FCFF method

DCF assumption	Value	Valuation synthesis	Unit	Value
WACC 2014	11.8%	Forecasted duration	year	5
2014 Cost of Debt	7.6%	Total PV of cash flow	bil	1,174
2014 Cost of Equity	17.8%	(+) Cash & ST invesments	bil	99.3
Risk free rate*	7.0%	(-) Short & Long term debt	bil	522
Risk premium	5.0%	Enterprise value	bil	751
Beta 2014	1.31	Minority interest	bil	-
2014-2018 CAGR	29.3%	Financial investment	bil	-
Terminal growth rate	3.6%	Total equity value	bil	751
Marginal tax rate	20%	Outstanding shares	mil	14.5
* 10-y Government bond yield		12-M target price	VND/share	54,544

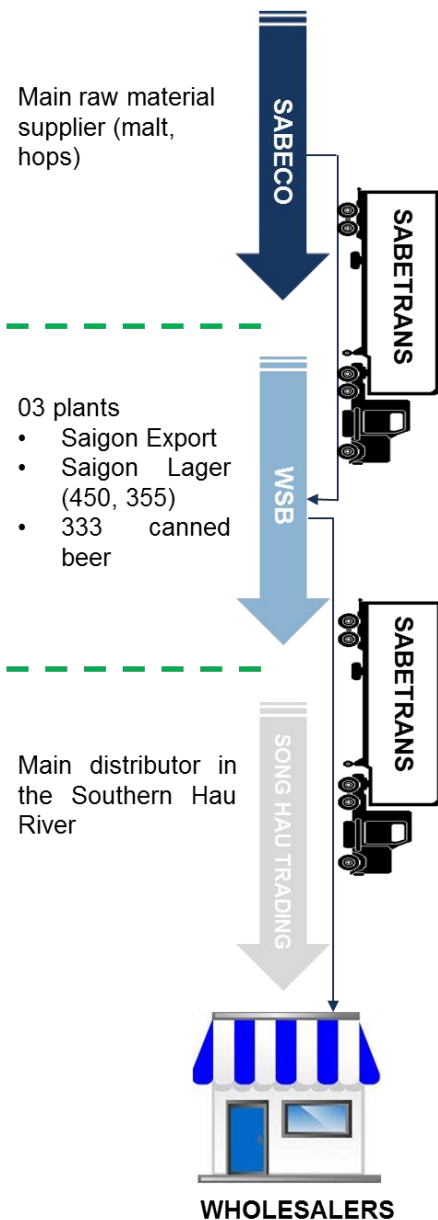
Considering our cautious valuation, we expect net revenue growth rate at 29.3% per annum for 2013-2018F, and the terminal growth rate at 3.6% per annum afterward. Based on our FCFF model, 2015 target price of WSB is **54,500 VND/share**, which is **36.3%** higher than its current market price. Therefore, we recommend a **BUY** for medium and long-term investment.

Relative valuation

Company	Code	Market Cap (VND bn)	2013 Revenue (VND bn)	ROE	12-M P/E	12-M P/B
Sai Gon Beer Western JSC	WSB VN	558.25	323.81	16.3%	7.4	1.50
Thanh Hoa Beer JSC	THB VN	337.02	402.36	15.2%	8.15	1.43
Hai Duong Beer JSC	HAD VN	180.00	202.76	22.7%	7.07	1.13
Sai Gon Beer Middle JSC	SMB VN	516.35	745.48	11.8%	8.72	1.38
Average					8.0	1.3
P/E comparables		7.6	7.8	8.0	8.2	8.4
2015 EPS (VND/share)	6,751	51,167	52,518	53,868	55,218	56,568

In comparison with peers listed in Vietnam stock market that have similar business activities, capitalization, revenue and business performance. The average P/E is about 8.0x. With 2015 EPS of 6,751 VND/share, the target price of WSB based on P/E method is expected at **53,800 VND/share**. According to P/E result, we emphasize that the market has not fully and fairly reflected the value of WSB, compared to other peers in the industry.

BUSINESS ANALYSIS



WSB at a glance

Saigon Beer Western Joint Stock Company (WSB) is a subsidiary of Sabeco. As 51% held by the parent company, WSB is currently operating three factories to produce beer under Sabeco's brand names, among which Sai Gon Beer is the most popular in the local market.

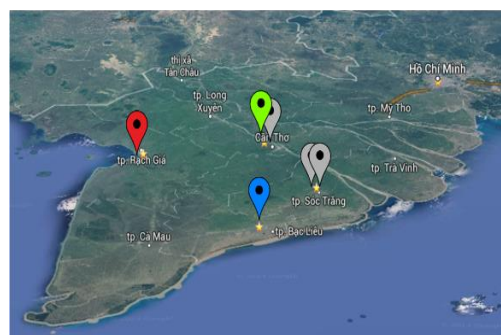
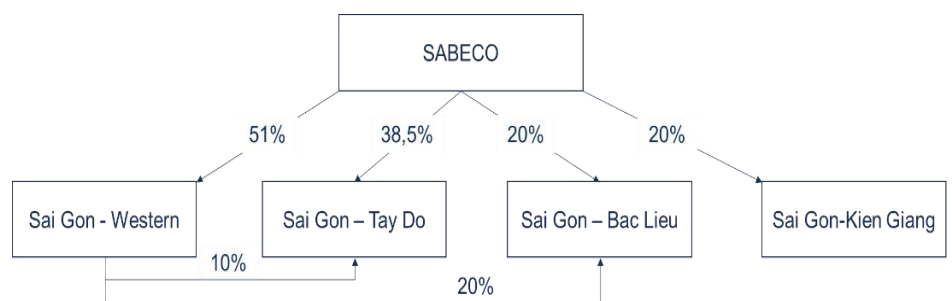
WSB is playing a middle role in the value chain of Sabeco as a brewer. Meanwhile, main raw material is provided directly from the parent company and other member of Sabeco distributes output, which is Song Hau Sabeco Trading JSC. Besides, Sabeco Transportation and Delivery JSC (Sabetrans) is responsible for transporting raw material to WSB, and finished products from WSB to the distribution system of Song Hau Sabeco Trading.

Geographical location

Apart from WSB's plant, there are also other Sabeco's factories in the Southern Hau River such as Sai Gon Beer Tay Do JSC, Sai Gon Beer Bac Lieu JSC and Sai Gon Beer Kien Giang JSC. All of them are members of Sabeco Group, and there is not any factory of other brands in this region.

As far as we know, product of these companies is mainly consumed in the Southern Hau River, leading to internal competition between them. Therefore, Sabeco and Song Hau Sabeco Trading have been playing big roles in directly affecting to business performance of WSB and other members in this region. Song Hau Sabeco Trading currently has 5 branches located in Soc Trang, Bac Lieu, Ca Mau, Kien Giang and An Giang, more than 80 distributors and 8 Sai Gon Beer restaurants.

Regional Sai Gon Beer manufacturers



- SG Western's plant
- SG Tay Do's plant
- SG Bac Lieu's plant
- SG Kien Giang's plant

Source: FPTS

Raw material input

- Main raw material: malt, hops, water, rice and ferment

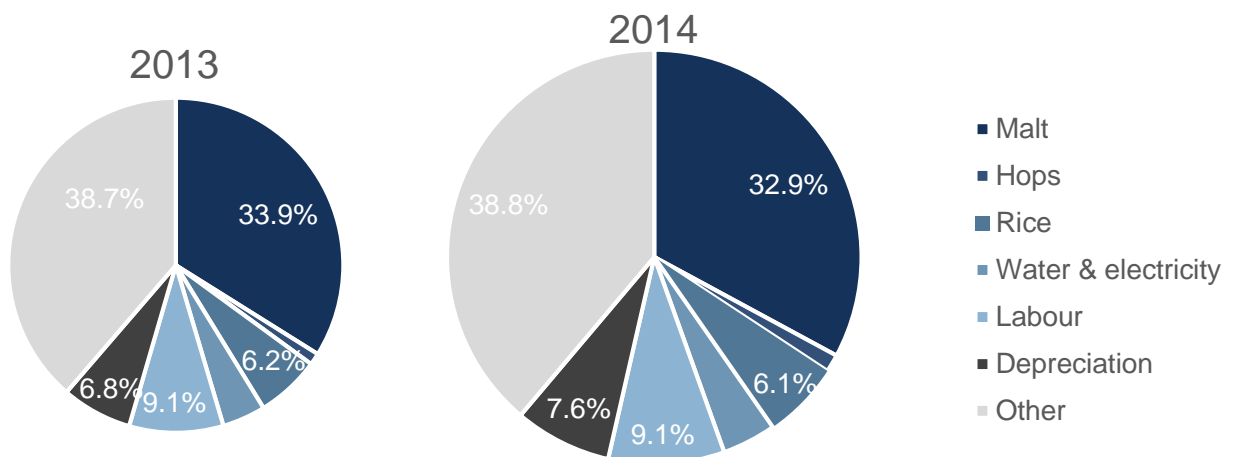
Currently, Sabeco is in charge of importing and purchasing main raw material (malt, hops) from planning, finding supplier, and signing contract to distributing to its subsidiaries and associates. As far as we know, Sabeco is only playing an intermediary role without getting any benefit from these activities.

In term of water treatment, WSB is using R-O technology as required from Sabeco to all of its brewers. Rice is purchased at its harvest time to benefit from cheap price.

It can be seen that the policy to manage main raw material input would help Sabeco to standardize its product quality at all of its plants.

- Packaging material: shell cans, lid cans, cartons, glass bottles, labels, bottle caps, plastic boxes. Since they are related to the Group's brand management policy, WSB has to purchase directly from Sabeco.

COGS breakdown, 2013-2014E



Source: WSB, FPTS-F, Bloomberg

Production capacity and Capex plan

WSB is currently operating three factories with total design capacity of 100 million liters per annum, as follows:

- Can Tho plant is being upgraded by early 2015 for doubling its production capacity from 25 to 50 million liters per annum. The total investment is VND 371bn, and the factory still has preferential tax rate of 7.5% for 2014 and 15% for 2015 and 2016.
- The 50 million-liter Soc Trang 2 plant, put into operation since early 2014 with total investment of VND 460bn, was a key factor to boost revenue this year. According to WSB, production of Soc Trang 2 would be able to expand from currently 50 million liters per annum to 70 million liters per annum theoretically. This factory will enjoy preferential tax rate of 10% per annum from 2014 to 2028, including the first four tax-free years and 50% tax exemption for the nine following years.

- Soc Trang 1 plant has design capacity of 25 million liters of bottled beer per annum, and would enjoy a preferential tax rate of 20% for 2015 and 2016. According to WSB, this factory will be shut down by the end of 2015.

Therefore, we estimate total design production capacity of WSB at 100 million liters per year in long-term horizon, focusing on Can Tho and Soc Trang 2.

Design capacity of existing factories in Southern Hau River

Company	Product	Current Capacity (mil. liters)	Estimated capacity (mil. liters)
WSB		100	100
- Can Tho	Sai Gon Export	25	50
- Soc Trang 1	Sai Gon Lager (355, 450)	25	0
- Soc Trang 2	333 canned beer	50	50
Sai Gon – Tay Do	333 canned beer	70	70
Sai Gon – Bac Lieu	Sai Gon Export	50	50
Sai Gon – Kien Giang*	N/A	0	50

*: est. to operate since 2015

Source: FPTSS

WSB's product portfolio



Sai Gon Export 355



Sai Gon Lager 450



Sai Gon Lager 355



333 canned beer

Source: WSB

Sai Gon Beer – a long-established brand name with strong reputation

With 139 years of establishment and development, Sabeco has positioned its product portfolio mainly in the mainstream segment and dominated 34% share of the local market in term of volume, indicating a big gap with its key competitors such as VBL (29.7%) or Habeco (19%) (*BMI, 3Q2014*).

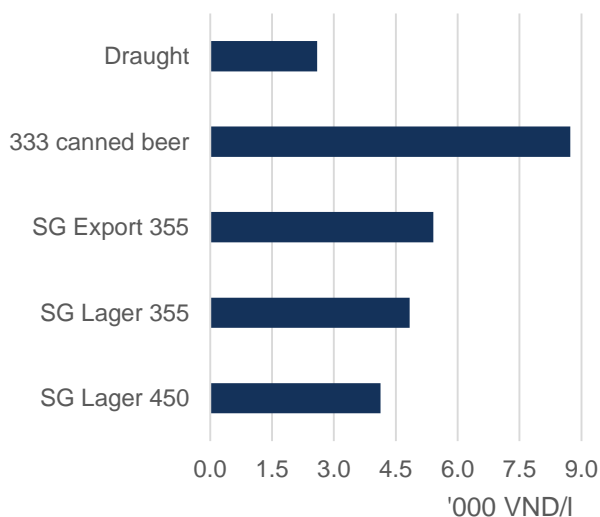
Characteristics of the mainstream are affordability, drinking easiness, localization and regionalization. While the Northern market prefers Ha Noi beer and Huda, Larue and Dung Quat are consumed strongly in the Central, Sai Gon beer is the leading brand dominating the Southern market due to its long-established history, strong distribution channel, reasonable product positioning strategy and stable product quality. We realize that this situation would remain unchanged, as it is not easy to change consumer loyalty for beer consumption in each region.

In the Southern Hau River, WSB and other manufacturing members of Sabeco generally have huge advantages compared to other competitors because of the strong brand name of Sai Gon Beer as well as there is no factories in the region but Sabeco's plants. So far as we know, shipping time from factory to consumer plays a big role as the shorter it is, the higher beer quality and flavor are.

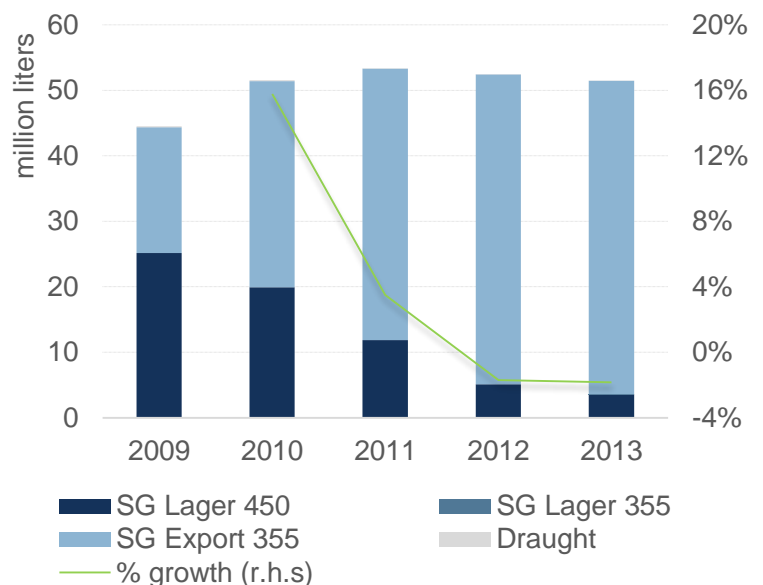
Considering the internal competition between Sabeco's plants in the region, WSB is superior to others thanks to its largest production capacity as well as most diversified product portfolio, including both bottled beer (450ml, 355ml) and canned beer (333). These factors allow flexibility in production to meet varying consumer demand.

Selling production – Demand to shift toward to the premium segment

Gap between price (including SCT) and production cost, by products 2014F



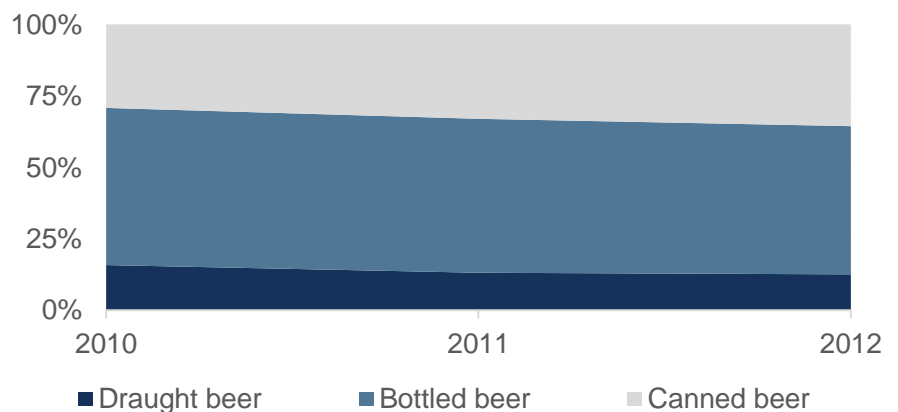
WSB's beer output, 2009-2013



Source: WSB

- During the period 2009-2013, although total consumption did not change significantly (+15.6%), we found a shift from Saigon Larger 450 to Saigon Export 355. Saigon Export 355 bottle has smaller volume than is easier to drink, and this is the popular volume of bottled beer in the local market. In addition, Saigon Export 355 also has higher profit margin due to its higher product segmentation compared to Saigon Larger 450.
- Only 2,000 liters of Saigon Larger 355 were produced in 2013 and the volume is estimated at 720,000 liters for 2014. Adding 355ml bottle to Larger beer line was to suit market demand. However, we believe that consumption of Saigon Larger 355 will be negligible because demand will be shifting to more premium products.
- 333 canned beer has been mass-produced since when Soc Trang 2 plant was put into operation by 2014. We estimate that WSB has sold approximately 34.8 million liters in 2014. The total capacity is currently at 50 million liters and it is able to rise to 70 million liters per annum theoretically. We believe that accelerating 333 canned beer is reasonable due to: (i) its higher profit compared to that of other bottled beers, (ii) in the local market, canned beer consumption is taking market share from bottled and draught beer.

Local market share by package, 2010-2012



Source: VBA

Properties of the regional market

i. Huge consumption market

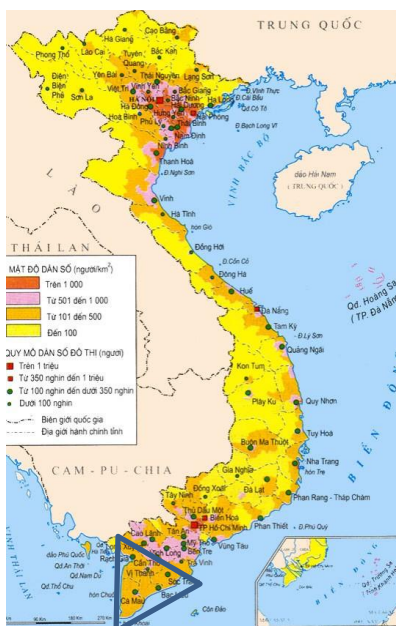
The Southern Hau River includes 07 provinces such as An Giang, Kien Giang, Can Tho, Hau Giang, Soc Trang, Bac Lieu and Ca Mau. Total population as of 2013 was 9.3 million, accounting for 10.4% of the national population (GSO). The proportions of male population, urban population and population of working age in the region are approximate to the national levels, and its population density is relatively high compared to the average (388 persons/km² compared to 271 persons/km²). Hence, demographic statistics shows that this is a huge market for alcoholic consumption.

ii. Favorable weather

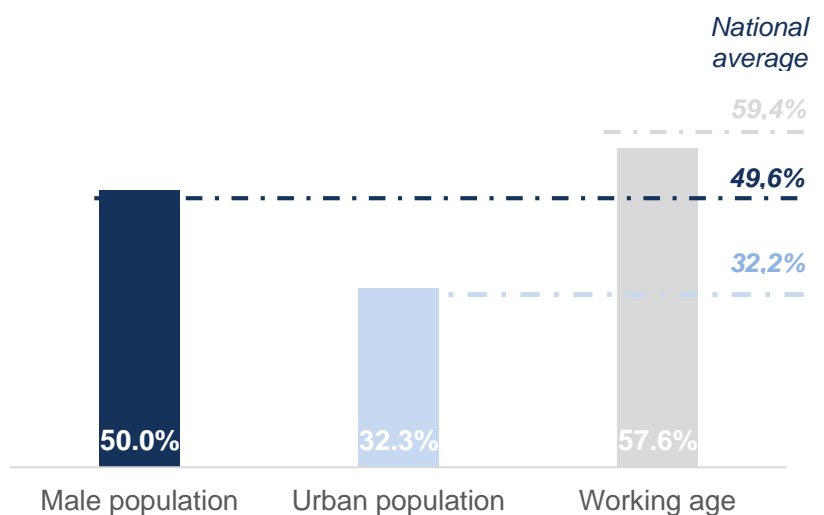
The regional climate is tropical and clearly equatorial (sunny and rainy). The annual average temperature ranges from 25-29°C and temperature difference between day and night, between months are relatively low. In addition, the weather is less turbulence and stormy. These features turn out to favor beer consumption.

The area has two seasons in which the rainy season is from May to October, and rainfall during this period accounts for 99% of total annual rainfall. The sunny season (from December to April) almost shows no rain. These factors cause seasonality in beer consumption between months of the year. However, we believe that the impact is immaterial.

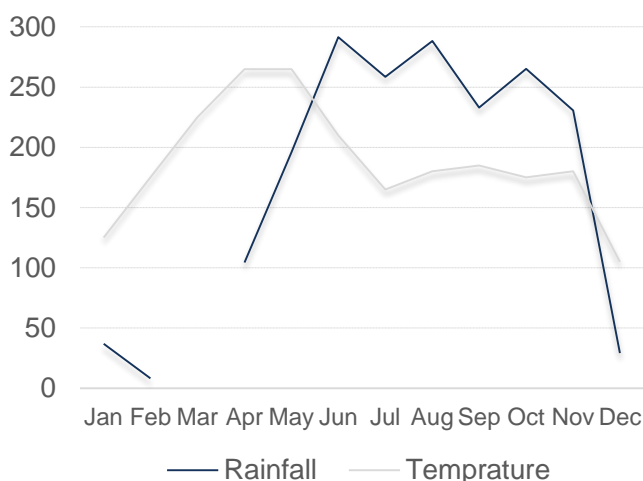
National population density



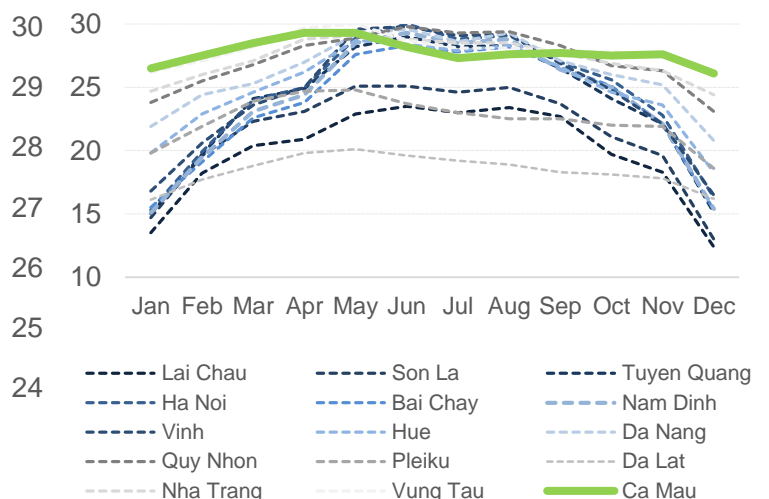
The proportion of male, urban and working age population in the Southern Hau River, 2013



Monthly Rainfall (mm) and temperature (°C) at Camau station during 2013



Monthly average temperature (°C) at Camau monitoring station is highest and least varied among 15 stations across the country



Source: GSO

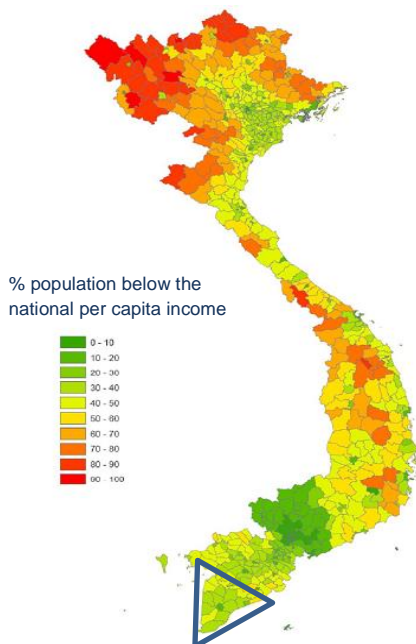
iii. The regional average income is lower than the country level - in accordance to the mainstream and potential market of the premium

Total demand in the Southern Hau River could reach more than 316 million liters if the national per capita beer consumption of 34 liters per annum (Canadian) was applied. Moreover, beer-drinking habit in this area is more frequent compared to the country level.

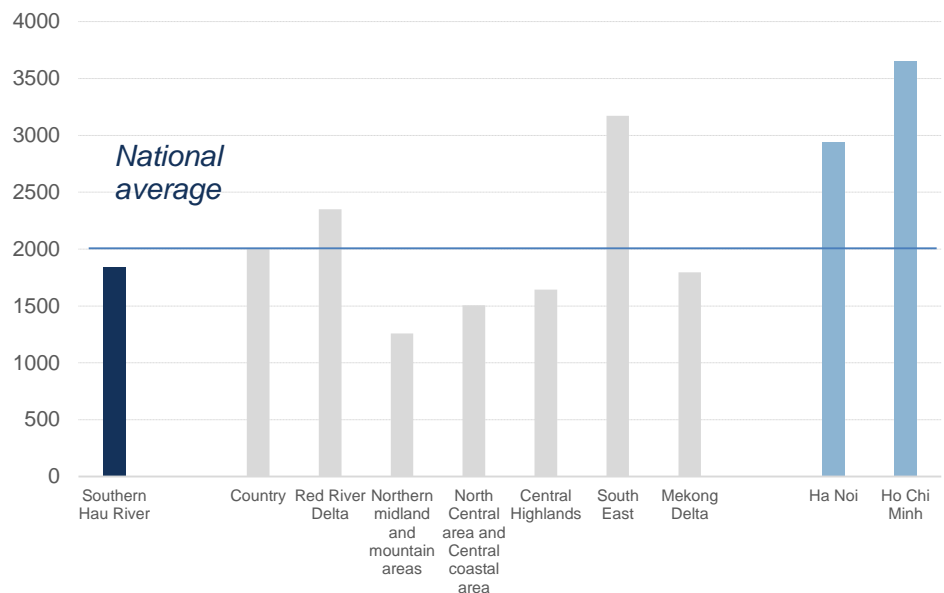
Meanwhile, Sabeco’s regional members could provide only 220 million liters per annum. Thus, we believe that potential growth for Sai Gon Beer is still available, unless penetration of international premium brands counts. Besides, other mainstream brands are supposed to show little to no threat to Sai Gon Beer due to localization of beer consumption in the region.

As of 2012, per capita income in seven provinces and cities in the Southern Hau River was about VND 22.1mn per annum, slightly lower than the national average of VND 24mn per annum (GSO). As can be seen from the chart of income distribution below, the Southern Hau river and Mekong Delta are potential markets for premium brands, apart from the two main markets, which are Red River Delta and Southeast respectively.

% population below the national per capita income, 2013



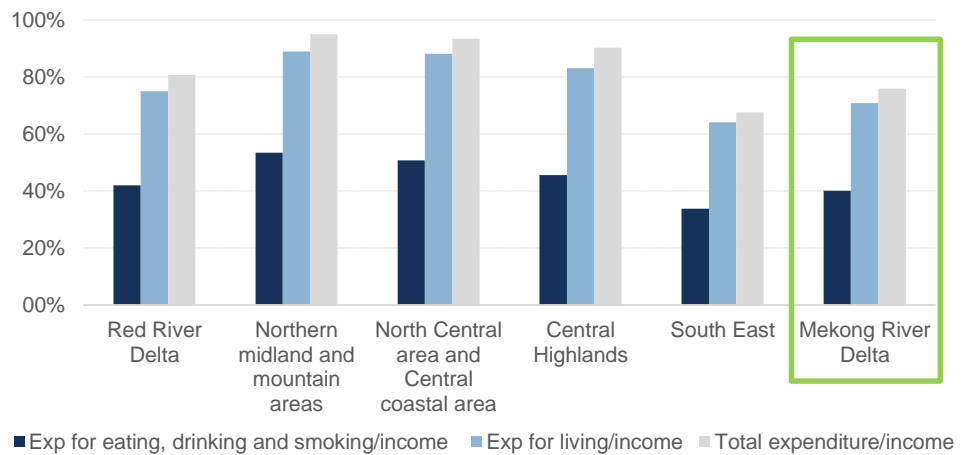
Regional per capita income (million VND/month), 2012



Source: FPTS, GSO

iv. Expenditure for eating, drinking and smoking in Mekong Delta is lower than the national average

We found that citizens in Mekong Delta have selected expenditure/income ratios lower than those of other areas across the country, except the Southeast. Especially, expenditure for eating, drinking, and smoking only accounted for about 40.1% of total monthly income, relatively lower than the national average of 42.1%. Therefore, we expect that this market still have high potential for food and beverage consumption

Regional selected expenditure/income ratios, 2012


Source: GSO

FINANCIAL ANALYSIS AND FORECAST, 2014F-2018F

Output boost thanks to the rise of production capacity...

In the 2009-2013 period, consumption was relatively stable in the range of 45-53 million liters per annum. However, building newly Soc Trang 2 plant and upgrading Can Tho plant since 2014 could help WSB to produce up to 114 million liters per annum to 2018, a 121% increase compared to the end of 2013.

Currently, Can Tho plant and Soc Trang 1 plant are mainly producing SG Export 355 bottled beer while SG Lager (450, 355) have negligible output. In early 2015, Can Tho capacity will be upgraded from 25 to 50 million liters, and then total capacity for bottled beer this year will jump to 75 million liters. However, because WSB has a plan to shut down Soc Trang 1, thus bottled beer capacity will remain at 50 million liters per annum in long term, focusing on Can Tho factories.

333 canned beer is manufactured at Soc Trang 2 plant, while consumption is about 34.8 out of 50 million liters of total capacity in 2014. WSB also said that this factory would be able to reach 70 million liters of canned beer per annum.

...and increasing average selling price (ASP)

ASP is estimated at 13,956 VND/liter and 14,197 VND/liter in 2014 and 2015 respectively, compared to 10,000-11,000 VND/liter in the three previous years, as sales have been shifting from bottled beer to 333 canned beer, which has a higher selling price. In long term, we estimate ASP to keep rising due to the government plan to rise SCT.

We suggest that SCT will be the risk in short and medium term for local beer firms and WSB in particular. SCT will be increased from 50% to 55% by July 2015, 60% by January 2017 and 65% by January 2018. It would appear to directly impact on retail price; hence, purchasing power could be weakened in the coming period.

...leading to revenue growth

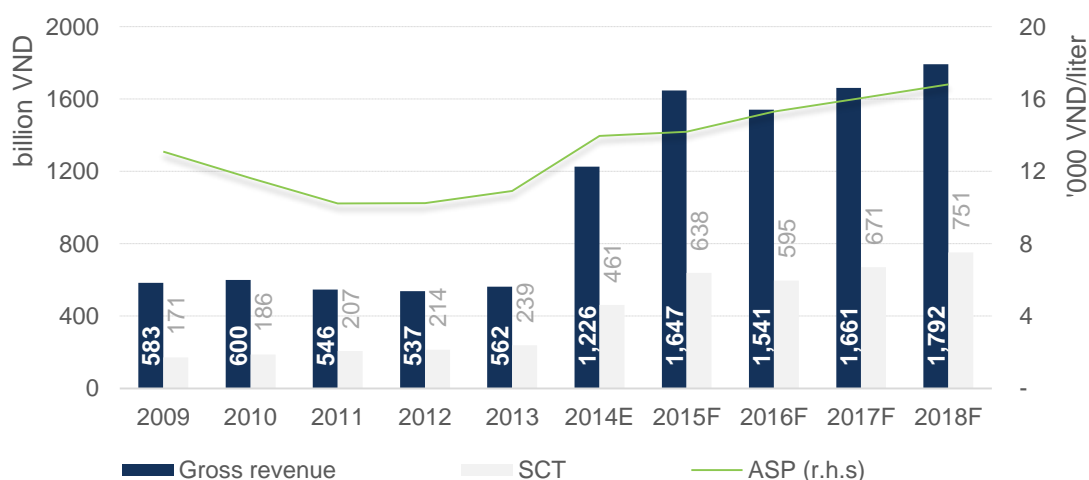
Total gross revenue is expected to grow at CAGR of 28.7% per annum over the period 2013-2018F. To be noticed that, we conservatively forecast WSB's top line based on its prevailing product portfolio (Saigon Export, Lager, 333). However, we believe that WSB will likely switch their product portfolio to more premium-oriented brands (such as Saigon Special, Saigon Lager, Saigon Gold canned beer) in the future when rising income helps shifting beer demand toward the premium.

From 2019 onwards, we forecast that revenue growth will reach 3.63% per annum, based on the development plan for Mekong Delta beer market to 2015 by the Ministry of Industry and Trade.

Forecasted volume and growth, 2013-2018F

Year	2013	2014E	2015F	2016F	2017F	2018F
Volume (thousand liters)	51,492	87,820	116,020	98,846	105,742	113,570
% growth rate	-1.8%	70.6%	32.1%	-14.8%	7.0%	7.4%
- SG Lager 450	3,620	4,500	3,000	-	-	-
- SG Lager 355	2	720	3,000	-	-	-
- SG Export 355	47,850	47,750	65,000	47,750	47,750	47,750
- 333 canned beer	-	34,830	45,000	51,076	57,972	65,800
- Draught beer	20	20	20	20	20	20

Total gross revenue, SCT and ASP, 2009-2018F

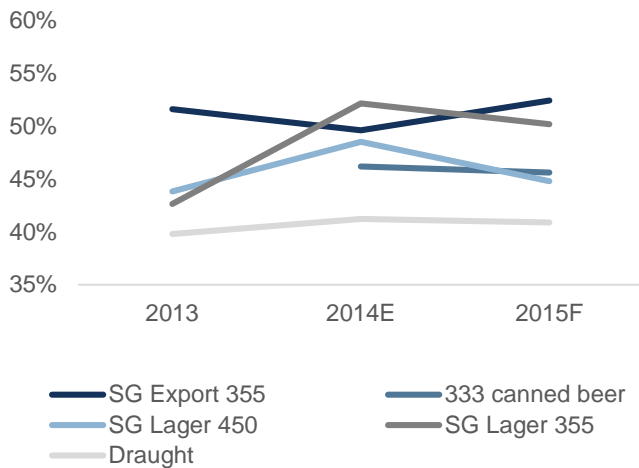


Source: WSB, FPTS-E,F

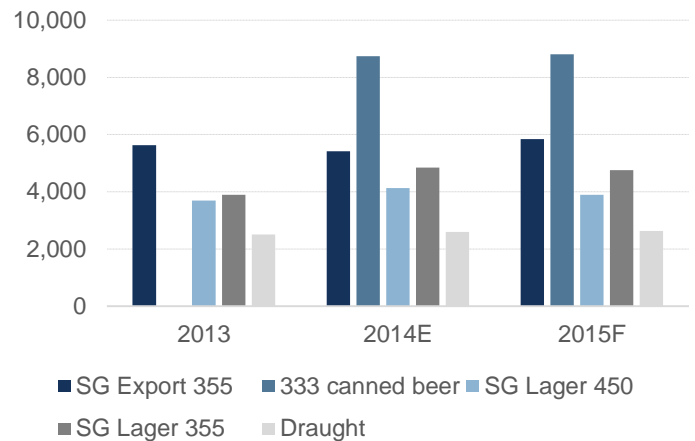
Gross profit margin to decline

Though the gross margin has remained stable at 21-23% during the recent years, we expect it to drop to 16-19% in the forecasted period 2014F-2018F, as 333 canned beer's margin is narrower than that of SG Export 355 bottle beer. However, the former is more profitable than the latter in absolute terms.

Gross margin* by product

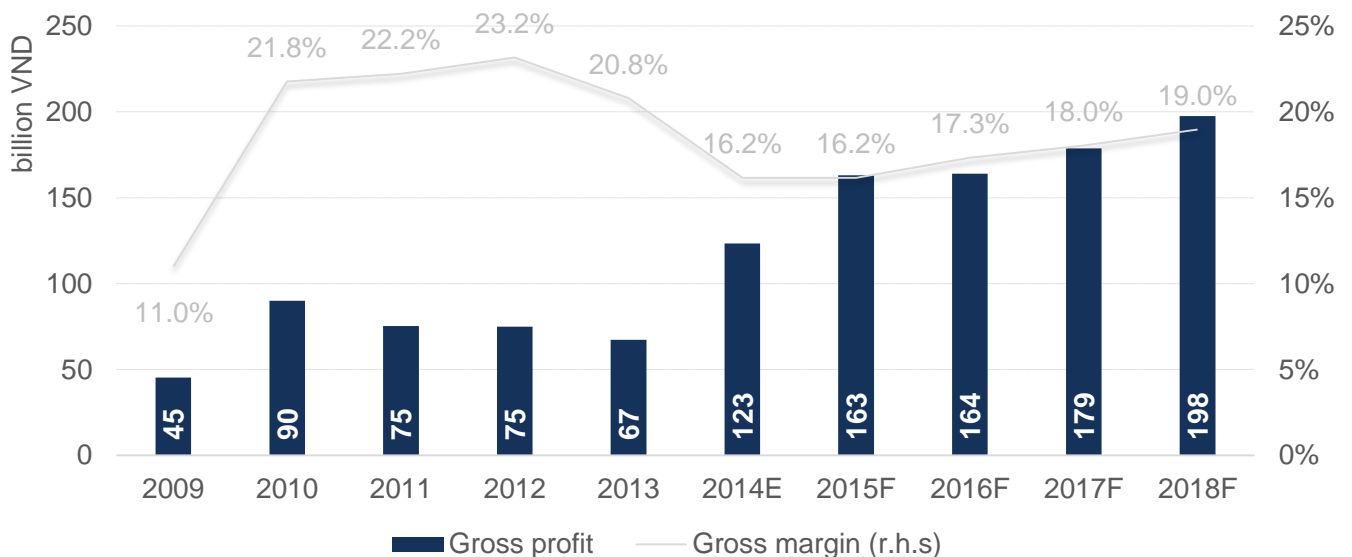


Gap between price* and production cost, by product



* including SCT

Gross profit and margin excluding SCT, 2009-2018F



Source: WSB, FPTS-E,F

SG&A expenses – branding expense to be charged since 2013

Since 2013, WSB has incurred an annual expense of about VND 7bn for branding cost every year. This was defined by Sabeco to its subsidiaries for sharing the Group's marketing expense, according to Notification No.66/2013/TB-HDQT on Mar 27th 2013.

As we expect the distribution method of WSB's product to remain unchanged and the firm would be still focusing on only one client (Song Hau Sabeco Trading), other selling expenses are expected to be negligible. Meanwhile, G&A expenses are expected to account for 3.1% of net revenue during the forecasted period, approximate to those in 2009-2013.

Financial expense - heavy interest burden due to investment in plants, low interest rate

From 2014 onwards, interest expense from the projects to build and upgrade plants have been being heavy financial burden to the firm. Medium and long-term rate for loans disbursed in 2013 is about 8-9% and 7% for 2014, while short-term rate is 6% per annum. We suggest that the firm will be benefiting from these low rates (compared to current market rates for medium and long-term loan) while the plants are appear to operate effectively thanks to strong market demand on Sabeco's beer.

Financial income and profit from associates

An inter-corporate investment in Sai Gon Beer Bac Lieu JSC at 20% interest, which has historical cost of VND 7bn, is now worth about VND 37bn. This company owns a 50 million-liter plant producing SG Export bottled beer, bringing about net income of VND 49bn and 20% cash dividend in 2013.

For other financial investments in WSB's portfolio (Sai Gon Beer Tay Do, SABECO and Vung Tau DIC), we expect these companies to maintain their dividend rate at 10-20% in the forecasted period.

Deposit income is forecasted based on annual cash and cash equivalent balance with 6 % estimated deposit rate.

Forecasted financial expenses, income and profit from associates

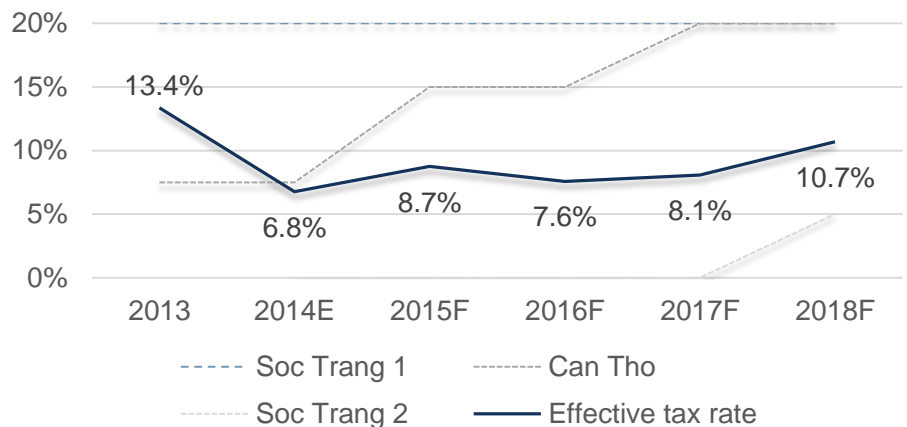
Year	2013	2014E	2015F	2016F	2017F	2018F
Long-term loan	263,194	487,500	409,639	331,779	253,918	176,057
+ Soc Trang 2 plant	263,194	228,500	193,806	159,112	124,418	89,724
<i>Interest rate</i>	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
+ Can Tho plan	-	259,000	215,833	172,667	129,500	86,333
<i>Interest rate</i>		7%	7%	7%	7%	7%
Short-term loan	-	34,694	77,861	77,861	77,861	77,861
<i>Interest rate</i>		6%	6%	6%	6%	6%
Total debt	263,194	522,194	487,500	409,639	331,779	253,918
Interest expense	13	25,147	39,239	33,268	27,297	21,327
Financial expenses	-1,187	24,747	39,239	33,268	27,297	21,327
Financial income	6,721	7,352	5,613	12,918	12,872	16,480
Profit from associates	9,819	10,310	10,825	11,366	11,935	12,532

Source: WSB; FPTSE,F

Corporate income tax - benefiting from production shift

We suggest that in the forecasted period, WSB would be benefiting from its very low effective CIT rate due to (i) shifting bottled beer production from Soc Trang 1 (expired tax holiday) to Can Tho plant (tax holiday to 2016); (ii) increasing 333 canned beer production at Soc Trang 2 (tax holiday to 2028).

Tax holiday of plants and WSB's CIT rate , 2013-2018F



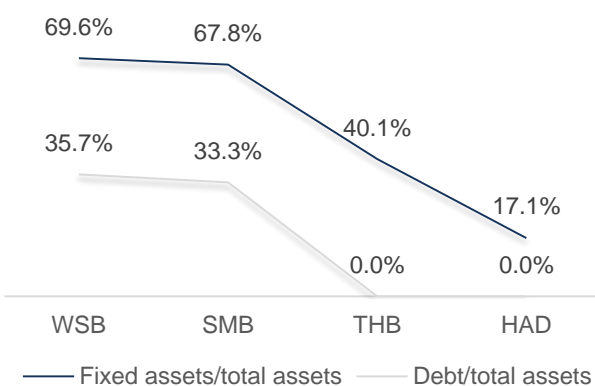
Source: WSB; FPTSE,F

Assets and Resources structure – increasing loan in the upcoming years

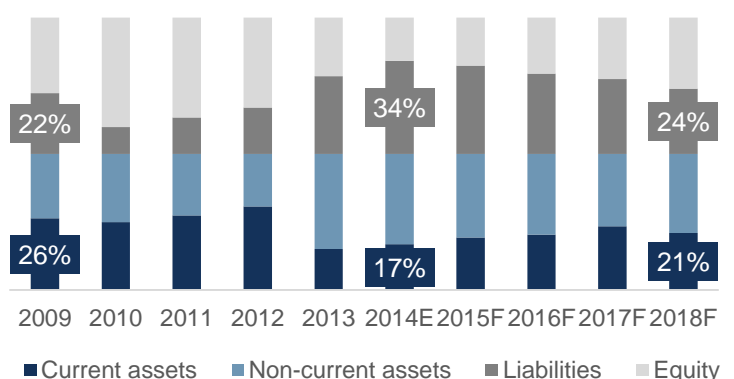
Using bank loans to invest largely in plant as mentioned above in recent years increased WSB fixed assets significantly, whereas making its financial leverage to increase greatly compared to other peers in the industry. This financial burden is expected to lessen in long term while WSB receives stable cash flow from these investments.

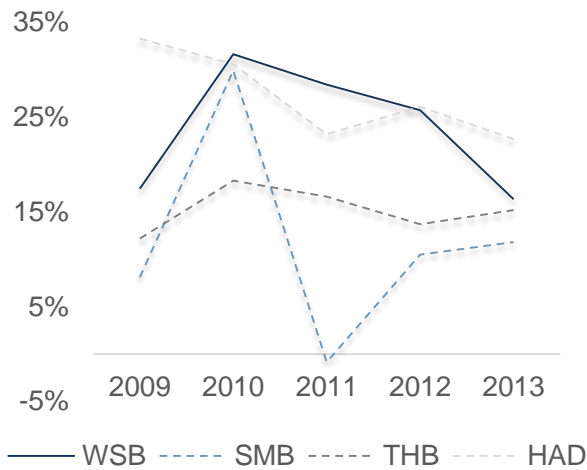
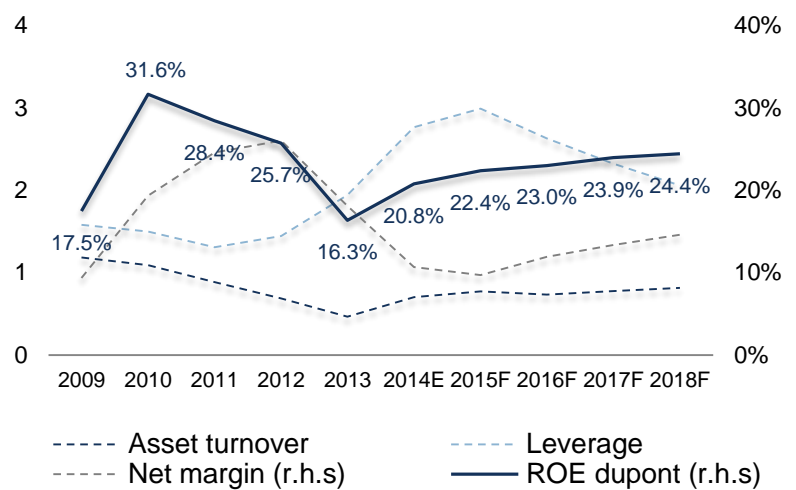
Equity gearing of Soc Trang 2 plant is approximately 47.8% of total investment of VND 460bn, and the rest is lent terminated by Oct 2021. The loan for Can Tho plant upgrade, terminated by May 2020 is disbursed up to VND 137bn by Nov 2014 compared to equity gearing of VND 112bn.

Fixed assets and debt to total assets ratio, by beer manufacturers



WSB's Assets and Resources structure, 2009-2018F



ROE of local beer manufacturers, 2009-2013

ROE Dupont of WSB, 2009-2018F


Source: WSB; FPTSE, F; company reports

INVESTMENT RISK

Consumption risk

Personal income increases, so does the beer demand gradually shift from the mainstream to the premium and super-premium segment, which currently has been dominated by international brands. However, as mentioned above, we believe in the possibility that the firm would produce more premium products than its current portfolio if required by its target market and clients in the future.

WSB is also exposed to risk on both input and output while relying on only one raw material supplier (Sabeco) and one client (Song Hau Sabeco Trading JSC). Any risk affecting Sabeco could also affect WSB.

Competition risk from imported beer

Tariff for imported malt beer (code: 2203), by FTAs

Type	%
Preferential import duty	35
Special preferential import duty	
• ASEAN (ATIGA)	5
• ASEAN - China (ACFTA)	10
• ASEAN - Japan (AJCEP)	65
• Vietnam - Japan (VJEPA)	65
• ASEAN - Australia – New Zealand (AANZFTA)	80
• ASEAN - India (AIFTA)	65

Source: compiled by FPTSE

Currently, imported beer is under 3 different taxes: import duty (from 5-80% depending on FTAs), value added tax (10%) and SCT (50%). A roadmap to cut import duty rate under FTAs will force the government to lower it below 45% for malt beer in the foreseeable future, and the local industry is more and more exposed to rivalry when TPP is approved. Cheaper price would make imported beer more affordable, consequently leading to decline in local beer consumption.

Specific business risk

Abuse of beer, wine and alcohol can harm public health, and is root of social issues such as crime and traffic accident. Therefore, beer manufacturers face significant risks from government control, for instant:

- Decision No. 244 / QD-TT on 02/12/2014 by the Prime Minister on national policy to prevent harmful effects of alcohol abuse to 2020
- A draft Decree on management of beer production and sales
- A roadmap to increase SCT on beer

Risk from counterfeit and smuggled beers

High demand of imported beer in the local market is the reason that lead to smuggled beer recent years. According to Decree 89/2006/ND-CP on 30/9/2006 about product label, imported beer is only required to stamp on external case, so it is very difficult to distinct quota-imported beer and smuggled beer. This risk indirectly influences to Sai Gon Beer consumption.

Besides, counterfeiting of well-know brands are complex. Although there are no specific statistics, but it also caused significant impact to the brand name of Sai Gon Beer.

APPENDIX 1: FORECASTED FINANCIAL FIGURES

Income statement	2013	2014F	2015F	2016F	Balance sheet	2013	2014F	2015F	2016F
Revenue	323,805	764,225	1,008,736	945,669	Assets				
- Cost of goods sold	256,467	640,765	845,636	781,667	+ Cash & equivalent	82,621	99,275	191,045	219,596
Gross profit	67,338	123,461	163,100	164,002	+ Short-term investments	0	0	0	0
- Sales & marketing	3,910	7,000	7,000	7,000	+ Accounts receivable	71,259	194,618	156,325	172,677
- General & admin	14,852	23,941	31,601	29,626	+ Inventories	84,467	140,078	156,261	117,662
Operating profit	48,576	92,519	124,498	127,377	+ Other current assets	22,881	4,387	4,387	4,387
- Financial gains/(losses)	7,921	7,752	8,352	13,858	Total current assets	261,228	438,359	508,018	514,322
- Net non-op gains	12,316	13,143	13,481	14,149	+ Gross fixed assets	236,273	706,591	973,591	973,591
EBIT	67,619	112,728	146,508	155,257	- Accum. depreciation	-152,074	-199,180	-264,086	-328,992
- Interest expense	13	25,147	39,239	33,268	+ Net fixed assets	84,199	507,411	709,505	644,599
EBT	67,606	87,581	107,270	121,989	+ Long-term investments	52,369	58,675	65,496	72,858
- Income tax expense	9,028	5,922	9,386	9,242	+ Other long-term assets	30,773	28,718	28,718	28,718
Profit after tax	58,578	81,659	97,884	112,747	Total long-term assets	608,687	864,614	806,441	748,808
- Minority interests	0	0	0	0	Total Assets	869,915	1,302,973	1,314,458	1,263,131
Net Income to common	58,578	81,659	97,884	112,747	Liabilities & Equity				
EPS (VND/share)	4,040	5,632	6,751	7,776	+ Accounts payable	234,725	367,186	364,423	334,582
EBITDA	80,344	159,922	211,503	220,252	+ Short-term borrowings	0	34,694	77,861	77,861
Depreciation	12,725	47,195	64,995	64,995	+ Bonus, welfare	-682	0	0	0
Revenue growth	0.1%	136.0%	32.0%	-6.3%	Current liabilities	234,043	401,880	442,283	412,443
Operating profit growth	-22.7%	90.5%	34.6%	2.3%	+ Long-term debt	263,194	487,500	409,639	331,779
EBIT growth	-28.3%	66.7%	30.0%	6.0%	+ Other LT liabilities	76	266	266	266
EPS growth	-30.4%	39.4%	19.9%	15.2%	Total LT liabilities	263,270	487,766	409,905	332,045
Profitability ratios	2013	2014F	2015F	2016F	Total Liabilities	497,313	889,646	852,189	744,487
Gross margin	20.8%	16.2%	16.2%	17.3%	+ Total preferred equity	0	0	0	0
Profit after tax margin	18.1%	10.7%	9.7%	11.9%	+ Add'l paid in capital	0	0	0	0
ROE DuPont	16.3%	20.8%	22.4%	23.0%	+ Share capital	145,000	145,000	145,000	145,000
ROA DuPont	8.4%	7.5%	7.5%	8.7%	+ Retained earnings	227,602	268,432	317,374	373,747
* EBIT Margin	20.9%	14.8%	14.5%	16.4%	+ Minority interest	0	0	0	0
* Tax burden	86.6%	93.2%	91.3%	92.4%	Total equity	372,602	413,432	462,374	518,747
* Interest burden	100.0%	77.7%	73.2%	78.6%	Liabilities & equity	869,915	1,302,973	1,314,458	1,263,131
* Asset turnover	0.47	0.70	0.77	0.73					
Leverage ratio	1.94	2.76	2.99	2.63					
ROIC	9.2%	11.2%	11.9%	13.0%					
Efficiency ratios	2013	2014F	2015F	2016F	Cash flow	2013	2014F	2015F	2016F
Days inventory on hand	74.4	63.5	63.5	63.5	Beginning cash	107,774	82,620	99,275	191,045
Days AR outstanding	96.8	64.0	64.0	64.0	Net Income	67,605	87,581	107,270	121,989
Days AP outstanding	89.6	89.6	89.6	89.6	+ Depreciation	18,463	47,195	64,995	64,995
Cash conversion cycle	81.6	37.9	37.9	37.9	+ Other non-cash adjust.	-17,662	25,147	39,239	33,268
Inventory turnover	3.8	5.7	5.7	5.7	+ Changes in non-cash	101,294	-3,734	-67,972	-34,916
Liquidity/Solvency	2013	2014F	2015F	2016F	Cash from Operations	169,700	156,188	143,531	185,336
Current ratio	1.12	1.09	1.15	1.25	+ Disposal fixed assets	729	0	0	0
Quick ratio	0.76	0.74	0.80	0.96	+ Capex	-392,715	-298,871	0	0
Cash ratio	0.35	0.25	0.43	0.53	+ Change in investments	13,175	0	0	0
Debt-to-assets	30.3%	40.1%	37.1%	32.4%	+ Other investments	0	-4,251	-6,821	-7,362
Debt-to-capital	41.4%	55.8%	51.3%	44.1%	Cash from Investing	-378,811	-303,122	-6,821	-7,362
Debt-to-equity	70.6%	126.3%	105.5%	79.0%	+ Dividends paid	-20,269	-40,830	-48,942	-56,374
Short-term debt to equity	0.0%	2.7%	5.9%	6.2%	+ Change in capital	0	-103	0	0
Long-term debt to equity	30.3%	37.4%	31.2%	26.3%	+ Change in ST debt	-27,400	34,694	43,167	0
Interest coverage ratio	5,201.46	4.48	3.73	4.67	+ Change in LT debt	231,626	224,306	-77,861	-77,861
Valuation ratios	2013	2014F	2015F	2016F	+ Other financing act.	0	190	0	0
Price-to-earnings (P/E)	9.9	7.1	5.9	5.1	Cash from Financing	183,957	218,257	-83,636	-134,234
Price-to-book value (P/B)	1.6	1.4	1.3	1.1	Net changes in cash	-25,154	71,324	53,074	43,739
EV / EBITDA	8.1	8.0	2.3	1.9	Ending cash	82,620	153,944	152,349	234,783
Book value per share	25,697	28,505	31,881	35,769	<i>Units in VND mn</i>				

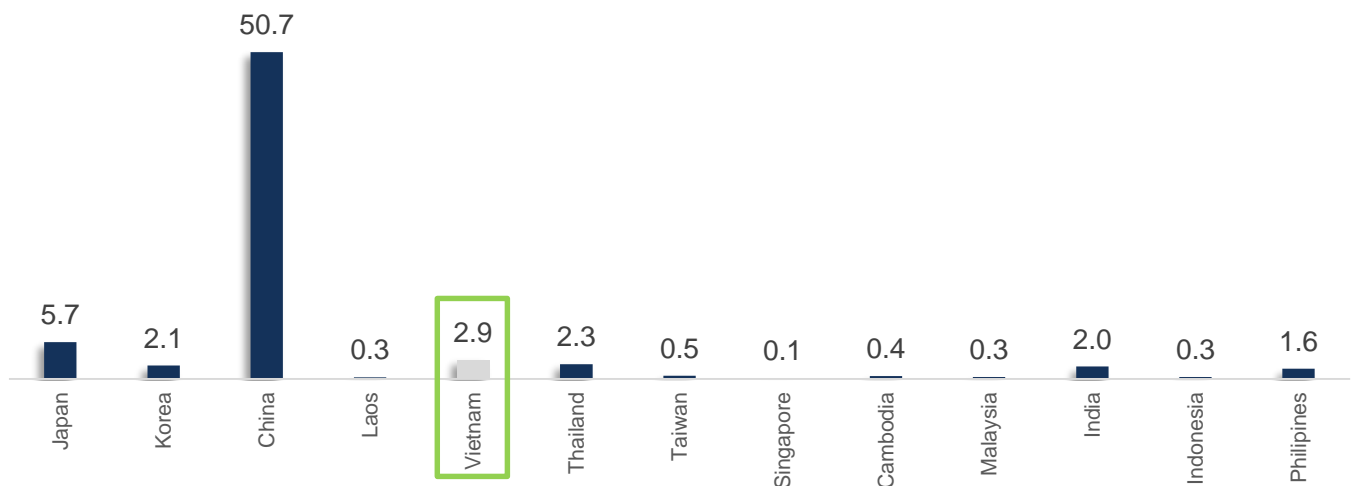
APPENDIX 2: THE LOCAL BEER MARKET

Large market size with strong growth in the past

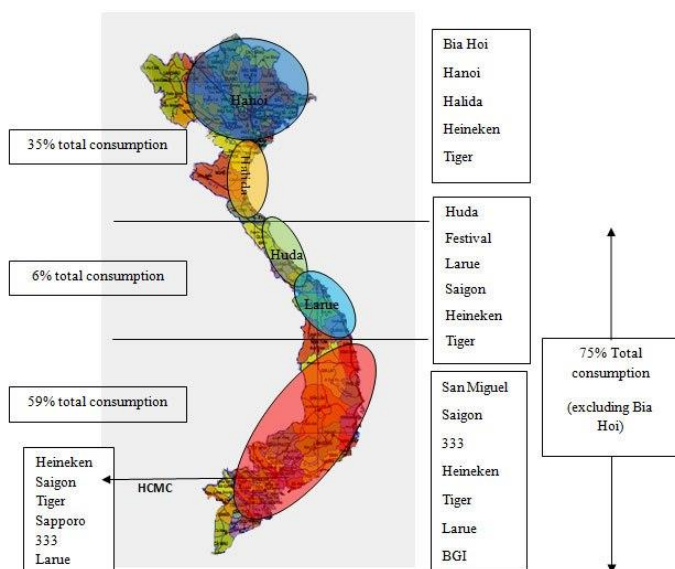
The local market volume was about 3.2 billion liters in 2013, ranked 3rd in Asian and 12th worldwide. In the period 2009-2013, CAGR of local demand was approximately 10% per annum (*Heineken*). Therefore most of the biggest international brewers have been increasing their presence in such a high potential market as Vietnam.

The local production output was about 3 billion liters in 2013, ranked only behind China (50.7 billion liters) and Japan (5.7 billion liters) in Asian, and accounted 1.5 -1.6 % for total worldwide production output (*ME.A*).

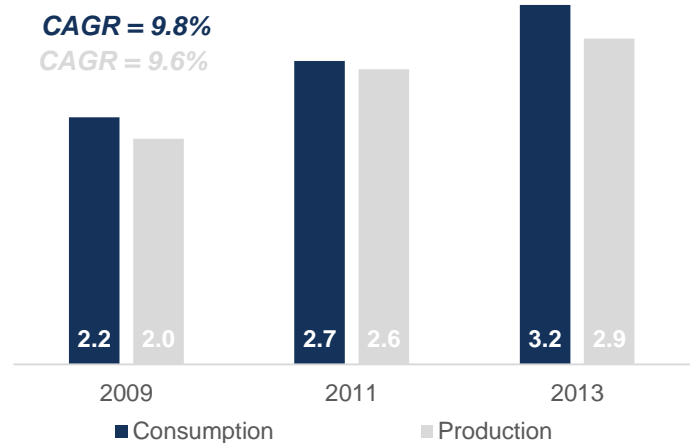
Beer production volume (billion liters) in 2013, by Asian country



Geographic market by brand, 2013



Local production and consumption volume (billion liters, 2009-2013)



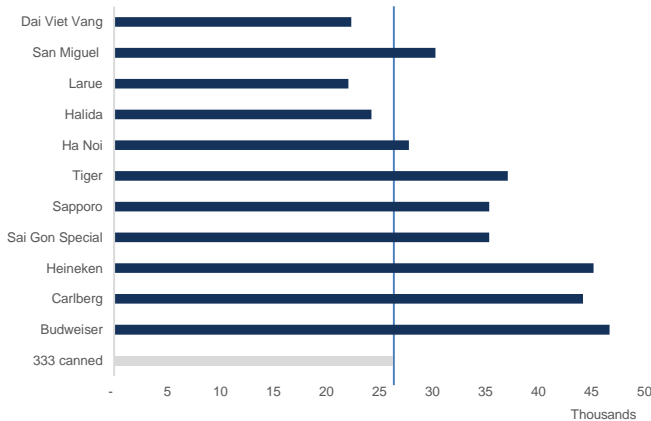
Source: Barth-Haas Group, InfoQ Research 2013, MOIT, Heineken, Canadean

Market segment - an on-going expansion of the premium segment

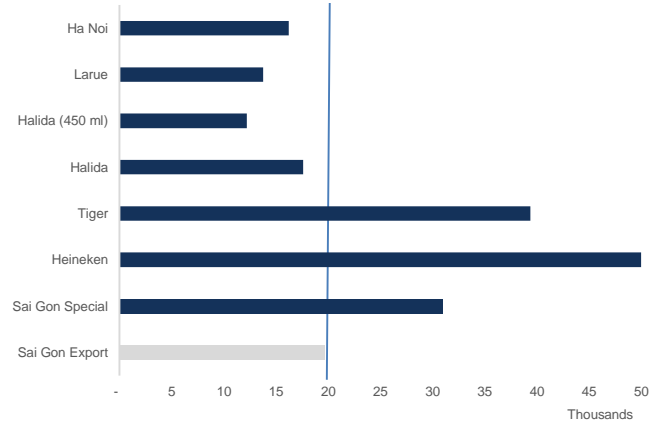
There are 150 beer manufacturers operating in the local market that can be divided into 3 different segments:

- Economy segment: non-brand draught beers, consumed strongly in the Northern market.
- Mainstream segment: mostly dominated by domestic manufacturers and a few international brands. In addition, regionalization and localization of beer consumption are clearly presented in this segment
- Premium and Super premium segment is a playground of international brands. In this segment, regionalization and localization are not clearly presented so market coverage is all over the country, especially brands such as Heineken and Tiger.

Retail price of canned beer, by brand ('000 VND/l)



Retail price of bottled beer, by brand ('000 VND/l)



Popular brands in the local market

Company	Sabeco	VBL	Carlsberg	SAB Miller	Sapporo	AB InBev	San Miguel	Habeco
Premium		 		 			 	
Mainstream	 	 	 					

Source: compiled by FPTS

According to Canadean, market share of international premium brands is about 15%. It also forecasts that premium segment will maintain high production growth of about 11% per annum in the period 2013-2018F (incremental 390 million liters). This rate is higher than that of Asian premium beer market in the same

period (about 8.7%). Especially, mainstream segment in Asian market is expected to growth slower at about 3.5% per annum.

When personal income increases, demand of premium beers will be higher, espically in such country that has apparent alcoholic culture as Vietnam. We believe that competition risk will be higher and pressure on local mainstream beer manufacturers will be greater in the near future.

Upward trend of the local beer ASP



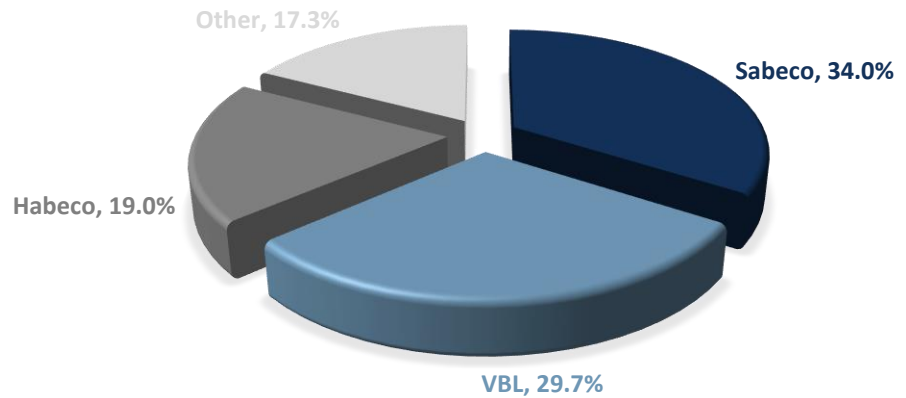
Source: EMI, J.P. Morgan

Beer ASP in Vietnam has been increasing slightly over years, and current price is about 35,000 VND/l. Compared to other countries in the region and all over the world, it is relatively low. We believe that the local ASP will keep increasing as a result of the expansion of the premium market and the roadmap to raise SCT.

Market leader is domestic producers, but the competition is getting fierce

The market is now witnessing competition between (i) the domestic producers (Sabeco, Habeco) with long-established tradition; and (ii) international brewers which have advantages of global brands, strong financial ability and strategy.

In general, the local beer market is concentrated on the top four manufacturers (Sabeco, VBL, Habeco and Huda) which have accounted for nearly 89% of market share. It is similar to other developed beer market such as South Korea, Japand, United States and India when their top four always make up to 85% of market. However, we believe that market fragment in Vietnam will be rising due to focusing invesment and development of other international beer brands apart from Heineken and Tiger.

Market share in term of volume, 2014


Source: BMI, FPTIS

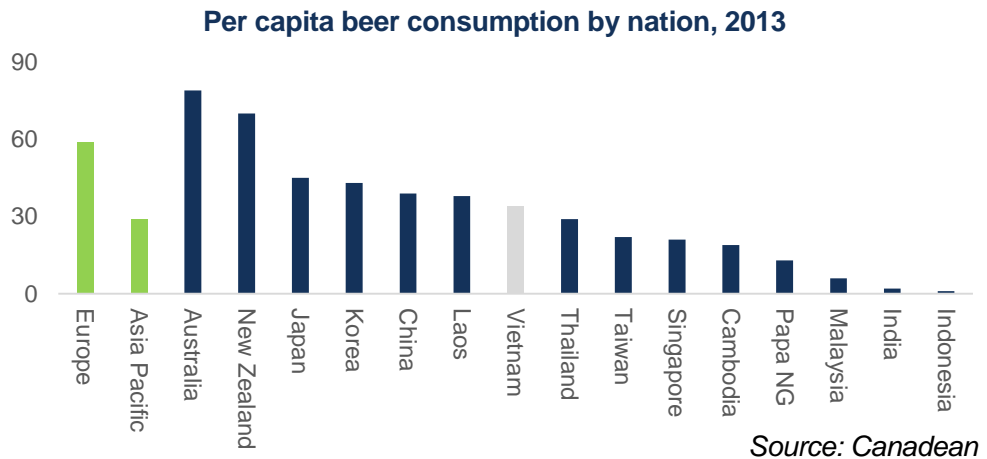
- Sabeco is the largest beer producer in Vietnam (about 34% of total production), and the 20th in the world. Total capacity of its 24 factories is about 1.8 billion liters, and 2013 consumption was about 1.31 billion liters. In recent years, Sabeco new products (such as Saigon Special, Saigon Lager, Saigon Gold) are mainly focusing on premium segment in order to directly compete with strong expansion of international brewers.
- Habeco is the leader in the Northern Market with 2013 consumption was about 650 million liters (of total capacity of 850 million liters), and accounts for 19% of the market. Furthermore, Carlsberg which is its strategic partner also help them to increase opportunities in the premium segment and expand to the Southern market which is more potential.
- VBL is a joint-venture between Heineken (60%) and Satra. VBL market share is currently about 29.7%, and its production capacity will increase to 1.4 billion liters by 2015. The premium brands such as Heineken and Tiger are not affected by localization and regionalization so their market is all over the nation, while its mainstream brand such as Larue is focusing on the Central market.
- Furthermore, other international brewers have been increasing their presence in Vietnam market, especially in the Southeast area. AB InBev (the owner of Budweiser) is investing in a factory with total capacity of about 100 million liters in Binh Duong. Sapporo (a Japanese brewer) is also planning to increase its capacity from 40 to 100 million liters per annum. Investing and producing directly at Vietnam helps international brewers to avoid import tariffs which is currently about 35 %.

We believe that competition will be fiercer in the near future because only these above large brewers can produce up to more than 4.2 billion liters for domestic consumption, while demand is only about 3.2 billion liters currently. Therefore, risk of supply surplus would appear to occur.

In addition, most of domestic brewers is mainly positioning in mainstream segment, which is suitable for low and middle-income people. However, when income rise, consumer will shift their demand to premium beers, so domestic

brewers will lost their market share if there is not any chance in their product portfolio. Furthermore, if international brewers decrease their retail price because import duty is removed, consumers will be willing to drink international beers due to their brand name and quality. It is entirely possible when TPP agreement is approved, and import tariff of beer will be cut to 0%.

Low per capita consumption shows room for growth

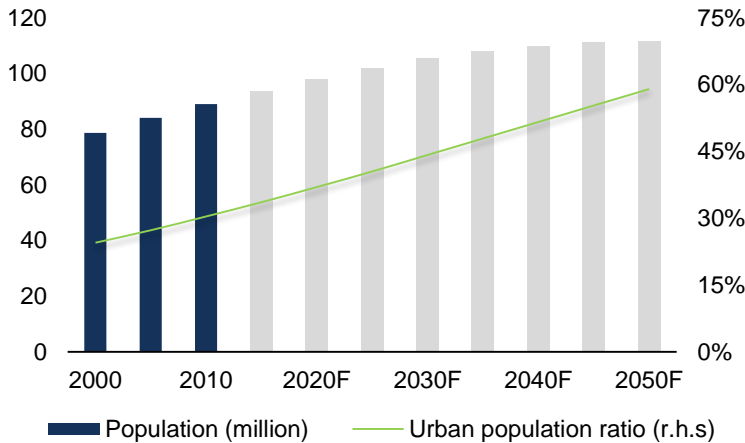
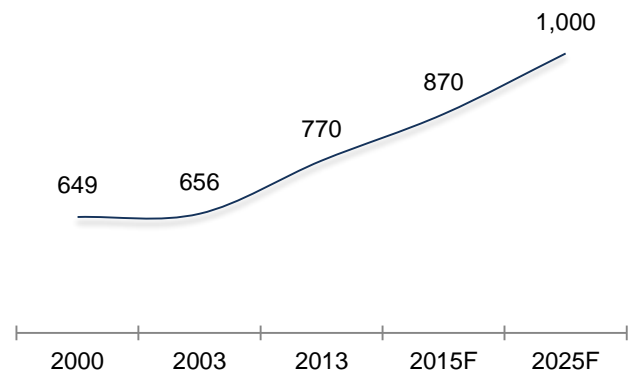


Although Vietnam has production output and consumption that are ranked 3th in Asia, consumption per captial are still lower than some other countries in the same area. This indicates that domestic still have surplus for growing.

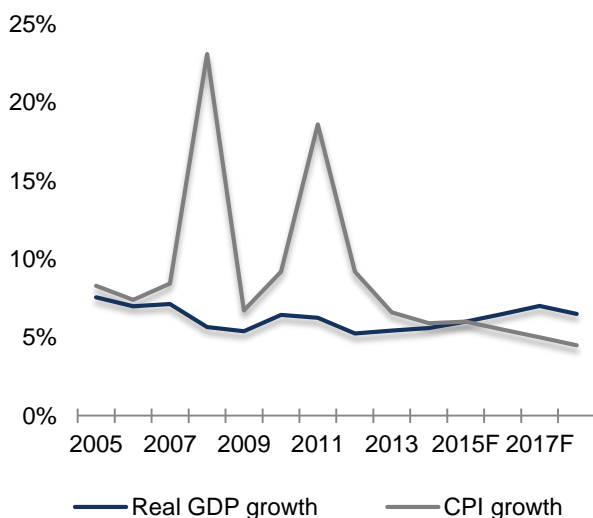
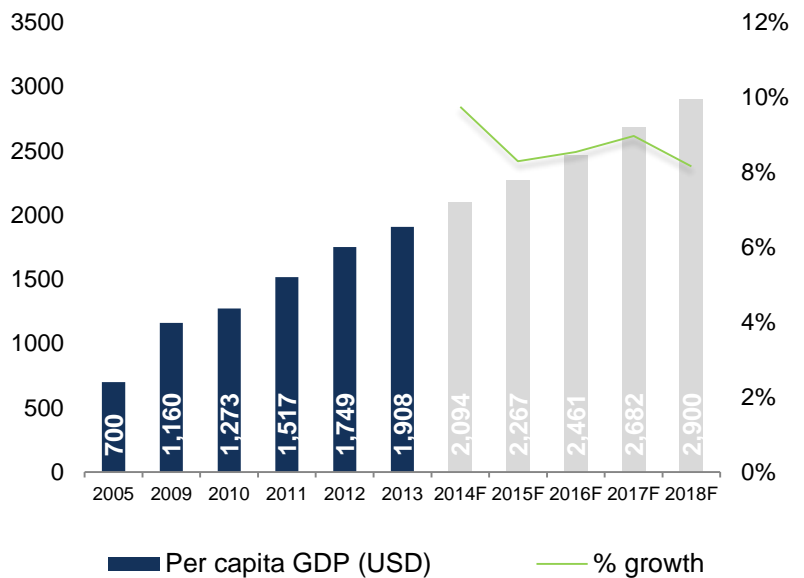
Positive growth prospect

- Total population is about 90 million and the growth rate is approximately 1.1% per annum. Therefore, we expect that population will be reached 102 million in 2025.
- Urban population accounts for 32.2% of total population, and expected to grow to 40.5% in 2025. Furthermore, the number of urban will increase to 1,000 (compared to 770 in 2013). According to Canadean, per capita beer consumption in urban area is double that of rural area.
- More than 66% of population is 15-59 yo, equivalent to about 61 million people. Dependency ratio is about 49%, which means that 2 persons in working age over one in dependent age (under than 16 and older than 59). This population structure is called “golden population”.
- About 36 million people are 20-40 yo and beer consumption, which has become a cultural characteristics of Vietnames social interactions, have created a large consumer market. Furthermore, influences from Western culture, along with increasing international tourists and expats also increase consumption of alcoholic beverages.
- GDP is expected to grow at about 6.1% per annum for the period 2013-2033F. In 2013, per capita GDP was 1.908 USD per annum, and expected to reach 2.900 USD per year in 2018.

Vietnam is a potential market for alcoholic beverages, especially beer. Although beer sector will be too difficult to maintain a growth rate of 10% per annum as before, we expect it at about 6% in the period 2014F-2018F. Total sales in this period are expected to grow at 11% per annum because consumer demand is believed to gradually shift towards the premium segment.

Vietnam total population and urban population ratio, forecasted to 2050F

Growth of urban in Vietnam, forecasted to 2025F


Source: World Urbanization Prospectives: The 2009 Revision Population Database; MoC

Real GDP growth and inflation, forecasted to 2017F

Per capita GDP* of Vietnam, forecasted to 2018


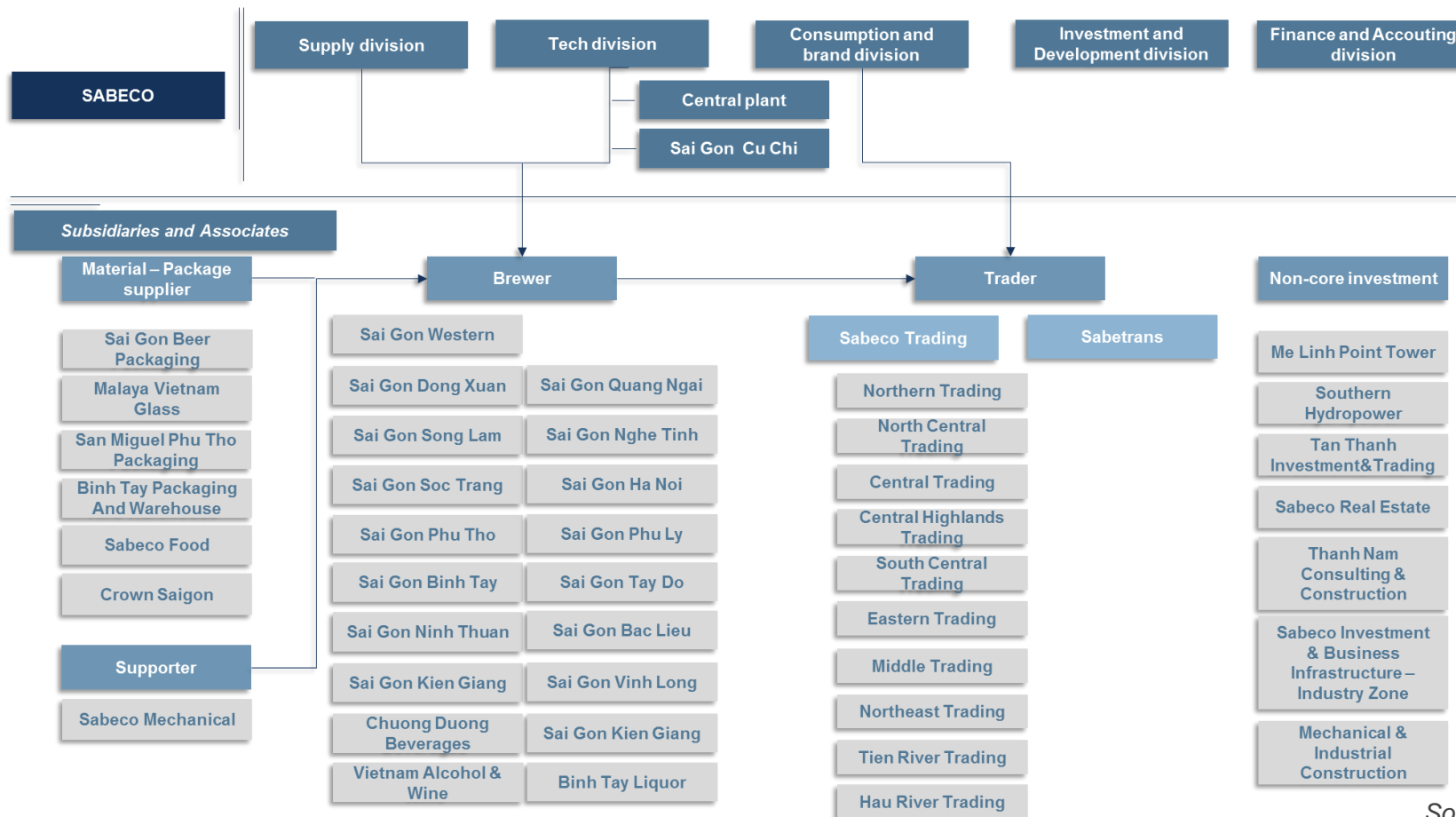
* Nominal GDP

Source: GSO; EY Rapid-Growth Markets Forecast July 2014

APPENDIX 3: SABECO AND ITS PRODUCTION CHAIN

Sabeco has total 23 subsidiaries and 21 associates, operating in the production chain as follows:

- Manufacture and supply raw material and package
- Provide services such as transportation, logistics, warehouse and other supporting activities
- Produce, trade and distribute beer, wine and beverages
- Non-core investment, mostly in construction and real estate



Source: Sabeco

RECOMMEND AND EXPLANATION

This recommendation based on the difference between targeted value and market value of each stocks in order to provide appropriate information for investors in 12-month investment period from recommend day.

The expected at 18% is estimated based on 12-month government bond rate in addition to market risk premium in Vietnam.

Recommendation	Explanation
12 months period	
Buy	If targeted price is higher than market price 18%
Add	If targeted price is higher than market price about 7%-18%
Monitor	If targeted price compared to market price is within -7%-7%
Reduce	If targeted price is lower than market price from -7% to -18%
Sell	If targeted price is lower than market price -18%

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FPT S may base on all information in this report or others to make decision for us, but not have any claim on legal of given information.

At making this analysis report time, FPT S and analyst do not hold any WSB stock.

All related information to others stocks or this stock can be seen on <http://ezsearch.fpts.com.vn> or provide when having acquirement.

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