

INDEPENDENT RESEARCH

# Brewers

25th November 2016

## Vietnam's brewers go up for sale

### Brewers

|                 |             |                          |
|-----------------|-------------|--------------------------|
| <b>AB INBEV</b> | <b>BUY</b>  | <b>FV EUR109 vs. 120</b> |
| Bloomberg       | ABI BB      | Reuters                  |
| Price           | EUR96,96    | High/Low                 |
| Market cap.     | EUR164,177m | Enterprise Val           |
| PE (2016e)      | 24.1x       | EV/EBIT (2016e)          |
|                 |             | 20.6x                    |

|                  |                         |                          |
|------------------|-------------------------|--------------------------|
| <b>CARLSBERG</b> | <b>NEUTRAL vs. SELL</b> | <b>FV DKK599 vs. 600</b> |
| Bloomberg        | CARLB DC                | Reuters                  |
| Price            | DKK587                  | High/Low                 |
| Market Cap.      | DKK89,736m              | Enterprise Val           |
| PE (2016e)       | 20.2x                   | EV/EBIT (2016e)          |
|                  |                         | 17.7x                    |

|                 |            |                        |
|-----------------|------------|------------------------|
| <b>HEINEKEN</b> | <b>BUY</b> | <b>FV EUR83 vs. 88</b> |
| Bloomberg       | HEIA NA    | Reuters                |
| Price           | EUR70,63   | High/Low               |
| Market Cap.     | EUR40,683m | Enterprise Val         |
| PE (2016e)      | 19.2x      | EV/EBIT (2016e)        |
|                 |            | 15.8x                  |

|                     |                        |                      |
|---------------------|------------------------|----------------------|
| <b>MOLSON COORS</b> | <b>NEUTRAL vs. BUY</b> | <b>\$107 vs. 112</b> |
| Bloomberg           | TAP US                 | Reuters              |
| Price               | USD98,89               | High/Low             |
| Market Cap.         | USD21,248m             | Enterprise Val       |
| PE (2016e)          | 33.0x                  | EV/EBIT (2016e)      |
|                     |                        | 45.8x                |

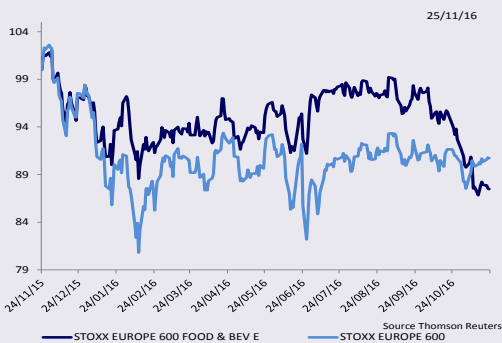
|                      |                |                  |
|----------------------|----------------|------------------|
| <b>ROYAL UNIBREW</b> | <b>NEUTRAL</b> | <b>FV DKK306</b> |
| Bloomberg            | RBREW DC       | Reuters          |
| Price                | DKK296,8       | High/Low         |
| Market Cap.          | DKK16,057m     | Enterprise Val   |
| PE (2016e)           | 20.6x          | EV/EBIT (2016e)  |
|                      |                | 16.5x            |


As the privatisation of the Vietnamese state-owned brewers gets going, Carlsberg seems to be in pole position to acquire Habeco while AB InBev might be keen to add Sabeco to its portfolio. Heineken already has a great position in the country given its focus on the premium segment with the Heineken and Tiger brands. Vietnam is 10% of the company's group operating profit.

■ While some of the world's largest emerging economies including Russia, Brazil and China are slowing down, Vietnam's economic growth of over 6% is making it one of the fastest-growing markets in the world. As a result, beer consumption has been growing by more than 11% p.a. over the past 10 years and has reached 42 litres per capita. The continued growth in the working-age population and urbanisation is likely to drive consumption further ahead.

■ The government is about to sell market leader Sabeco (38% market share) and the number three Habeco (17% market share). For Sabeco (price tag of USD4bn), all the main brewers have been putting forward their offer. Although we believe AB InBev will be very keen to get Sabeco, we would not underestimate the chances of Heineken. For Habeco (price tag USD1.1bn), the odds are in favour for Carlsberg, which has a 17% share in the company and a right of first refusal. Although not a game changer, a win from Carlsberg on Habeco could potentially increase earnings and fair value by 5-6%.

■ Given the increased likelihood of higher interest rates and tension on the foreign exchange markets, we have reset all brewer valuations using a beta of 1. As a result, our Fair Value for **AB InBev** comes down by 9% to **EUR109**, for **Heineken** by 6% to **EUR83** and for **Molson Coors** by 5% to **USD107**. For Carlsberg, the decline is limited (0%) as the appreciation in the rouble makes up for the increased beta. Yesterday, we already reviewed downwards by 6% our Fair Value for Royal Unibrew to DKK306. After the reset, Heineken (+17%) and AB InBev (+12%), have the highest upside and we keep them as Buy. We upgrade **Carlsberg** to **Neutral** from **Sell** and downgrade **Molson Coors** to **Neutral** from **Buy**.



|   |                        |                             |
|---|------------------------|-----------------------------|
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# 1. Executive Summary

The Vietnamese government is getting on with privatising the state-owned brewers Sabeco and Habeco. As we understand it, both companies could be sold off as early as December with the government preferring an IPO process, while at the same time attracting a strategic investor. A potential selling price for Sabeco of USD3.6-4bn and Habeco of USD1.0-1.1bn is more than double the initial government targets of USD1.8bn and USD0.4bn.

## 1.1.1. Vietnam is an extremely attractive beer market

A strong, rapidly expanding and profitable market

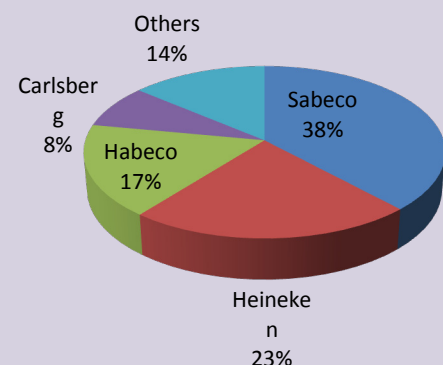
The Vietnamese beer market is extremely attractive. In volume terms, it has grown by 11% p.a. over the past 10 years with premium outperforming (17% p.a) and now accounting for 25% of the market. The country's beer operating margin is close to 20% as competition is not that fierce helped by regional segmentation, the grip of Heineken on the high-end segment and the professionalism of the government controlled entities. A young, growing population with increased spending power has been driving growth in beer and its premiumisation, with beer representing 94% of all alcohol consumption. These are trends which are likely to continue and we are looking at the current privatisation round as an opportunity for acquiring brewers.

**Fig. 1: Vietnamese like their beer**



Source: South China Morning Post

**Fig. 2: Vietnam volume market share, 2015**



Source: Canadean

## 1.1.2. Privatisation of Sabeco and Habeco

Sabeco is the country's largest brewer (38% share) and could be sold off for up to USD4bn, drawing interest from a series of international brewers

**Sabeco**, based in the south of the country is the market leader with a 38% share and in 2015, delivered an operating margin of 16.3%. Over the past 10 years, the company has grown its volumes by an average of 12% p.a. All the main brewers seem to have made offers including the Europeans AB InBev and Heineken, the Japanese brewers Kirin and Asahi, Thailand's brewers ThaiBev and Singha Beer. It is difficult to assess who could be the frontrunner but AB InBev has recently made a big commitment with a new brewery in the south that also exports to India, Thailand, Cambodia and Laos, something the government would like. Also AB InBev has deep pockets. However, we would not underestimate Heineken's chances, although the company is very good in downplaying. Heineken already has a 5% stake in the company (since 2008 and classified as non-strategic), but also owns the number two beer business in the country with a 23% volume share (together with the 38% of Sabeco this would result in a 61% share which is unlikely to pass the 50% regulatory hurdle). Nevertheless, Heineken has had an extremely good and mutually beneficial relationship with the Vietnamese government which has a 40% share in Heineken's Vietnamese business. A divestment of Sabeco's 333 brands might be an acceptable remedy.

Please see the section headed "Important information" on the back page of this report.

Carlsberg already has a 17% share in Habeco and has a right of first refusal for the 82% in the company held by the government

**Habeco**, is based in the north of the country and is the no. 3 with a 17% volume share. In 2015, its operating margin was 12.1% and over the past 10 years, it has grown volumes by 19% p.a. on average. Carlsberg is in the lead to acquire Habeco as it already has a 17% stake (since 2009) and has a right of first refusal on the government stake of 82%. This also means that the government has not been able to list its shares on the Ho Chi Minh City Stock Exchange (as was the case for Sabeco). Carlsberg does seem to have a firm grip on Habeco. Assuming that Carlsberg pays USD0.9bn for the government's 82% stake (PE of 25x 2016e earnings), it could enhance its earnings and valuation by about 5 to 6%. Today, **Carlsberg** already has an 8% share by volume in the Vietnamese beer market and that accounts for about 2% of group operating profit. Including Habeco, Vietnam could account for 8% of operating profit.

Heineken is the second largest brewer in the country (23% share) and nearly exclusively active in the premium segment. We estimate that Heineken has more than half of the country's beer profit pool.

At **Heineken**, Vietnam already accounts for 10% of operating profit. In Vietnam, Heineken is nearly exclusively present in the premium segment (over 80% of its volumes) and has been growing volumes by on average 17% p.a. over the past 10 years. Even with lower than expected growth for the entire beer market in years to come (i.e. 4% vs. 11%), we would still expect Heineken's Vietnamese business to generate double-digit volume growth. On our calculations Heineken already has over 50% of the Vietnamese beer profit pool and generates an operating profit margin of 30%. Indeed, Heineken has a more than 70% share in the fast growing, more profitable high-end beer segment with its two key brands Heineken and Tiger. The local Ho Chi Minh City government owns 40% of the Heineken Vietnam business and is likely to sell that over time

### 1.1.3. Valuation

Given the increased likelihood of higher interest rates and tension on foreign exchange markets, we have reset all brewer valuations using a beta of 1 (see appendix). As a result, we have reduced our Fair Value for AB InBev by 9% to EUR109 from 120, for Heineken by 6% to EUR83 and for Molson Coors by 5% to USD107. For Carlsberg, the decline is limited (0%) as the appreciation in the rouble makes up for the increased beta. Yesterday, we already reviewed downwards our Fair Value for Royal Unibrew to DKK306 from DKK325. As a result, the two most appealing stocks in terms of upside potential appear to be Heineken (+17%) and AB InBev (+12%), both rated as a Buy. Both stocks appear to be valued in line with their 5-year average P/E. We have upgraded Carlsberg from Sell to Neutral as the strengthening rouble and a potential Vietnam deal might drive the shares higher. We downgrade Molson Coors from Buy to Neutral as we find more upside in Heineken and AB InBev at the current prices.

AB InBev and Heineken have the highest upside

**Fig. 3: Brewer valuation table (1)**

| Brewers       | local c'cy | Share price | Market Cap (EURbn) | DCF Value (LC) | Var. to actual (%) | P/E (5 yr average) | P/E 2017 | Price at 5yr avg | Var. to actual |
|---------------|------------|-------------|--------------------|----------------|--------------------|--------------------|----------|------------------|----------------|
| AB InBev      | EUR        | 97.0        | 193.4              | 109.0          | 12%                | 18.6               | 19.2     | 94               | -3%            |
| Carlsberg     | DKK        | 584.5       | 12.0               | 599.2          | 3%                 | 15.1               | 17.2     | 513              | -12%           |
| Heineken      | EUR        | 71.0        | 40.7               | 82.8           | 17%                | 17.1               | 17.7     | 69               | -3%            |
| Molson Coors  | USD        | 98.9        | 20.3               | 107            | 8%                 | 15.1               | 18.2     | 82               | -17%           |
| Royal Unibrew | DKK        | 273.5       | 1.9                | 306            | 12%                | 14.2               | 17.8     | 218              | -20%           |

Source: Company Data; Bryan, Garnier & Co ests.

**Fig. 4: Brewer valuation table (2)**

|               | local c'cy | Share price | Market Cap<br>(EURbn) | P/E  |      | EV/EBIT |      | FCF<br>yield |      | Net<br>debt/EBITDA |      | Dividend<br>yield | 5yr EPS<br>CAGR | PEGD |
|---------------|------------|-------------|-----------------------|------|------|---------|------|--------------|------|--------------------|------|-------------------|-----------------|------|
|               |            |             |                       | 2017 | 2018 | 2017    | 2018 | 2017         | 2018 | 2017               | 2018 |                   |                 |      |
| AB InBev      | EUR        | 97.0        | 193.4                 | 19.2 | 17.4 | 17.0    | 15.4 | 6.5%         | 5.9% | 3.9                | 3.4  | 2.7%              | 8.4%            | 1.7  |
| Carlsberg     | DKK        | 584.5       | 12.0                  | 17.2 | 15.8 | 15.3    | 13.7 | 7.4%         | 6.8% | 1.6                | 1.2  | 1.2%              | 9.4%            | 1.6  |
| Heineken      | EUR        | 71.0        | 40.7                  | 17.7 | 16.3 | 14.2    | 12.9 | 5.5%         | 6.2% | 1.9                | 1.5  | 1.7%              | 8.9%            | 1.7  |
| Molson Coors  | USD        | 98.9        | 20.3                  | 18.2 | 16.6 | 16.4    | 14.6 | 6.5%         | 7.0% | 3.8                | 3.2  | 1.8%              | 7.6%            | 1.9  |
| Royal Unibrew | DKK        | 273.5       | 2.0                   | 17.8 | 16.6 | 14.6    | 13.6 | 6.1%         | 6.7% | 0.9                | 0.9  | 2.4%              | 7.4%            | 1.9  |

Source: Company Data; Bryan, Garnier & Co ests.

## 2. Setting the scene – the Vietnamese beer market

Vietnam is the third largest beer market in Asia

With a population of 92 million, Vietnam is Asia's third largest beer market (after China and Japan) consuming 38.3m hl in 2015. Some of the international brewers have already a stake in the market with Heineken holding 23% of the market (and a 5% stake in Sabeco) and Carlsberg 8% (and a 17% stake in Habeco with right of first refusal), but the majority of the market is still in the hands of the two large domestic operators Sabeco (Saigon Brewery) (38% market share) and Habeco (Hanoi Brewery) (17% market share).

The government which owns both domestic brewers is making plans to sell its 90% stake in Sabeco (Saigon Beer Alcohol Beverage Corp) and its 82% stake in Habeco (Hanoi Beer Alcohol and Beverage Joint Stock Corp). And we believe that both transactions could unfold in the coming months if not weeks. We believe that Sabeco could be valued at over USD3.5bn and Habeco and over USD1bn. For Sabeco several major international brewers are lining up but for Habeco the contest could be limited as Carlsberg is already the strategic partner owning 17% and has a right of first refusal if the government would like to sell the rest.

### 2.1.1. The Vietnamese beer market

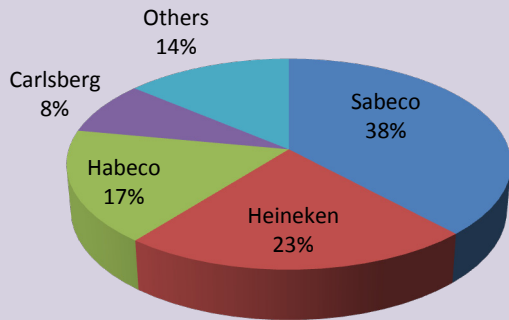
Volume growth of 11% over the past 10 years

The Vietnamese beer market has grown at an average compound annual rate of 11 percent over the past ten years, touching about 4 billion litres in 2016. Growth is slowing, however, and is anticipated to be around around 4 percent to 2021, according to data from research firm Canadean.

Sabeco is market leader (38%, followed by Heineken (23% and Habeco (17%)

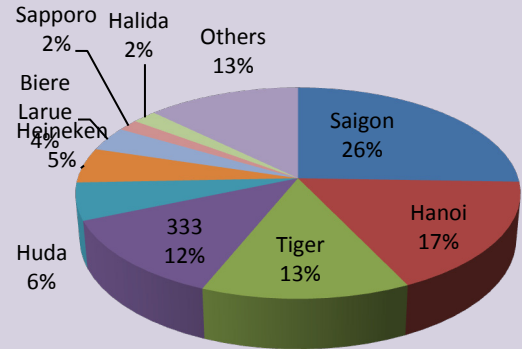
Sabeco is the market leader enjoying about 38% market share in 2015 (and a far larger proportion of sales in Southern Vietnam), followed by Heineken with 23%, Habeco with 17% and Carlsberg with 8%.

**Fig. 5: Market share Vietnam by brewer, volume 2015**



Source: Canadean

**Fig. 6: Market share Vietnam by brand, volume 2015**



Source: Canadean

### 2.1.2. Local brands still dominate

The two local brewers Sabeco and Habeco own the big mainstream brands

Despite the growing presence of international brewers (mainly Heineken), the local brewers Sabeco and Habeco continue to dominate the market in terms of volume. Their positioning is in the mainstream and discount market as neither brewer has ever been able to launch and support a successful premium brand.

Heineken has taken over 70% share in the premium segment with the Heineken and Tiger brands

Meanwhile Heineken has full control of the premium sector through the Heineken and Tiger brands which have a volume share of respectively 5% and 13% equivalent to 2.1m hl and 5.1m hl. Vietnam is by far its largest market for the Tiger brand and the fourth largest market for Heineken (after the US, France and the Netherlands).

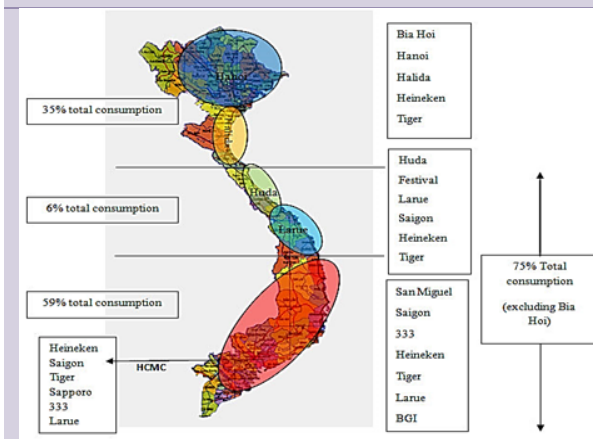
**Fig. 7: Vietnamese beer brands by brewer**

|            | Sabeco                         | Habeco                       | Heineken  | Carlsberg                     | San Miguel                                 | AB InBev/SABMiller | Sapporo |
|------------|--------------------------------|------------------------------|---|-------------------------------|--|--------------------|---------|
| Premium    |                                |                              | Heineken<br>Tiger<br>Tiger Crystal<br>Amber Stout | Carlsberg<br>Kronenbourg 1664 | San Miguel Pale Pilsen<br>San Miguel Light | Gambrinus          | Sapporo |
| Mainstream | 333                            | Truc Bach                    | Larue Superior/Export                             | Halida                        | Red Horse                                  | Zorok              |         |
|            | Saigon Special<br>Saigon Red   | Hanoi Premium<br>Hanoi Red   | Fosters<br>BGI<br>Flag<br>Song Han Larger         | Halong<br>Huda<br>Festival    |  |                    |         |
| Discount   | Saigon Green<br>Saigon bia hoi | Hanoi Green<br>Hanoi bia hoi | Anchor bia hoi<br>Bivina                          | Viet Ha bia hoi               | W1N bia hoi                                |                    |         |

Source: Company Data; Bryan, Garnier & Co ests.

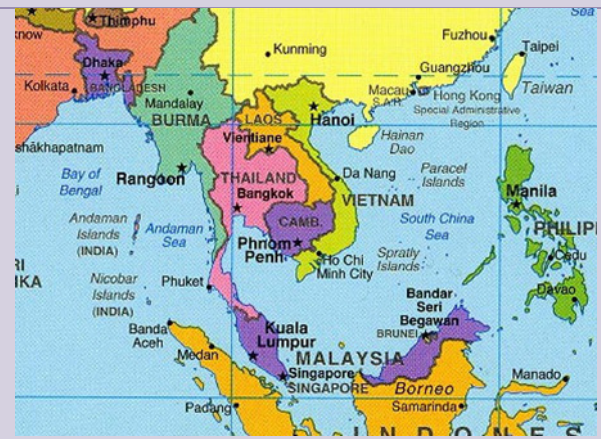
The Vietnamese beer market still tends to be a regional market, with further opportunities to develop a national brand.

**Fig. 8: Vietnam beer brands and distribution**



Source: Pomgranate

**Fig. 9: Vietnam in South East Asia**

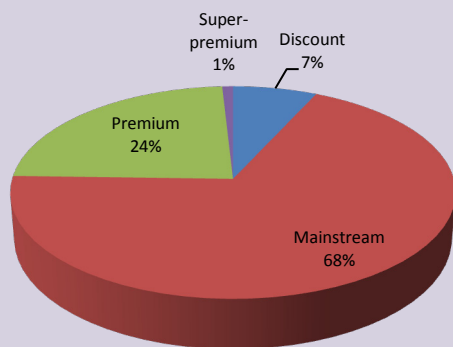


Source: Bryan, Garnier & Co ests

The premium segment has grown by 16% over the past 10 years and is now already 25% of the total market

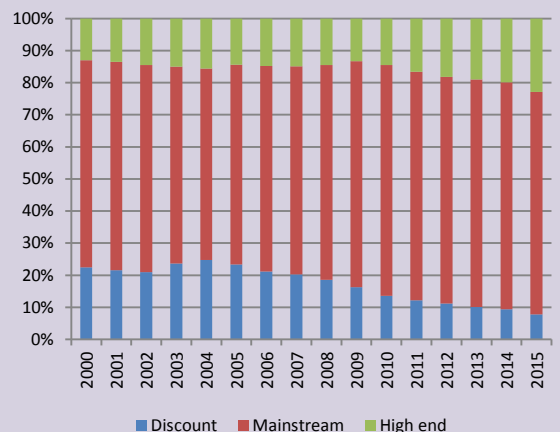
The success of the Heineken and Tiger brands over the past decade is mainly on the back on the consumer preference for premium brands. Indeed, the premium beer market has grown in the period 2005-2015 by 16% p.a. compared to 12% for the mainstream segment and -1% p.a. for the discount segment (the overall beer market grew by 11%). Looking forward industry observers expect the beer market to grow by 4% p.a. but we believe that would still imply double digit growth for the premium segment.

**Fig. 10: Already a quarter of the Vietnamese beer market is premium (2015, volume)**



Source: Canadean

**Fig. 11: In Vietnam, the share of high end beer has kept on growing (volume)**



Source: Canadean

Fig. 12: Saigon beer



Source: Google

Fig. 13: Hanoi beer



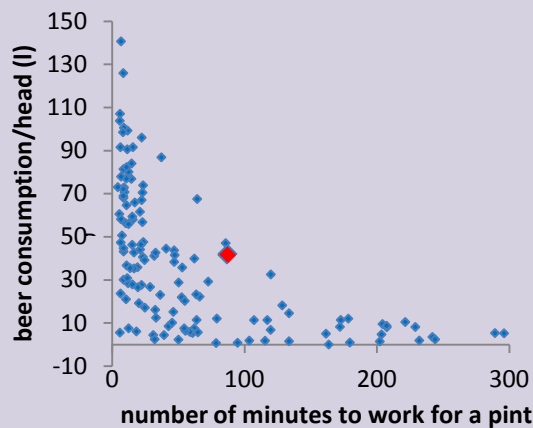
Source: Google

### 2.1.3. Drivers of consumption

High level of beer consumption (42l per head) although it takes near 1 1/2 hour to earn a pint of beer

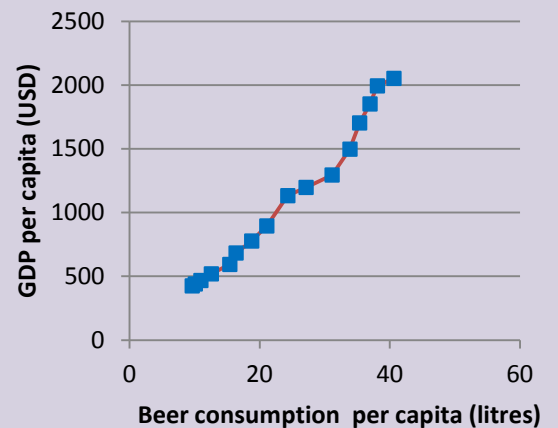
The growth in the Vietnamese beer market is driven by the growth in the wealth of its population and the growth in working-age population. Furthermore Vietnam is a strong beer market given the high level of consumption (42 litres per head) despite beer being not so affordable. Indeed, it takes an average worker 1 1/2 hour to earn a pint of beer, whereas it takes in France only 9 minutes and in China 11 minutes to earn a pint and their level of consumption are at respectively 30 and 37 litres per head. Also other countries in South East Asia are strong beer markets: in Cambodia it takes a worker over an hour to earn a pint and consumption per head is 40 litres and in Laos it takes 41 minutes and consumption per head is 45 litres.

Fig. 14: Affordability: comparing the time it take to earn a beer with level of beer consumption



Source: WorldBank, Canadean,

Fig. 15: Beer consumption in Vietnam moves up with GDP

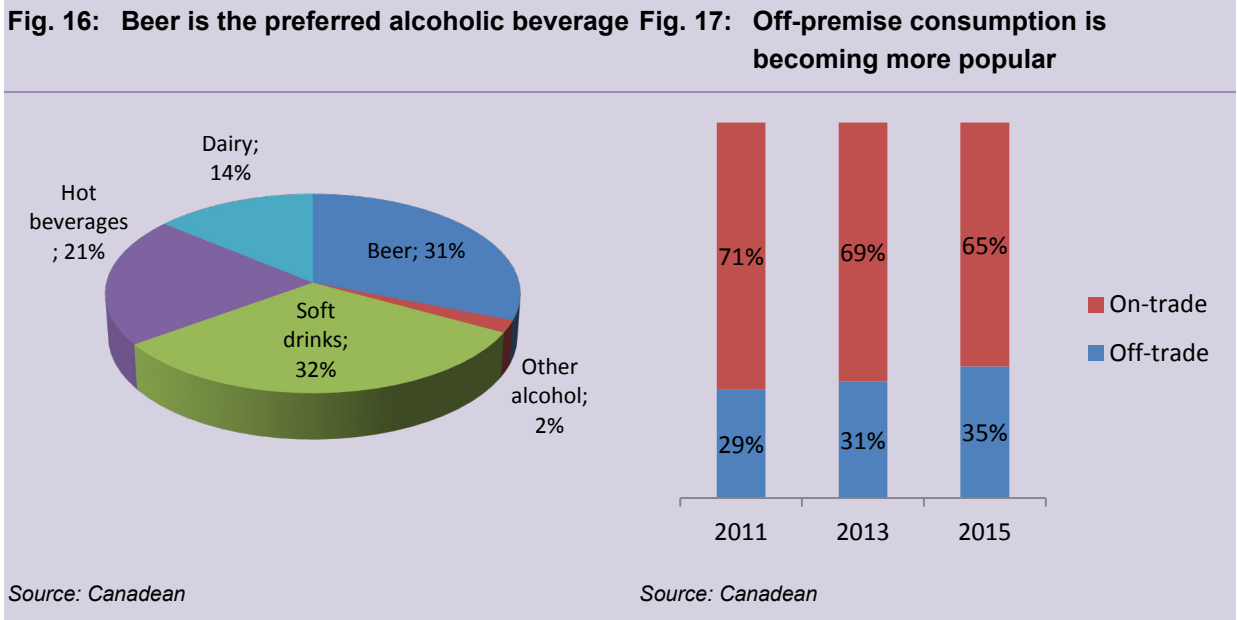


Source: WorldBank, Canadean



Beer is the preferred alcoholic drink

That the Vietnamese beer market is a strong beer market can also be illustrated that beer is 94% of the total alcohol consumption.

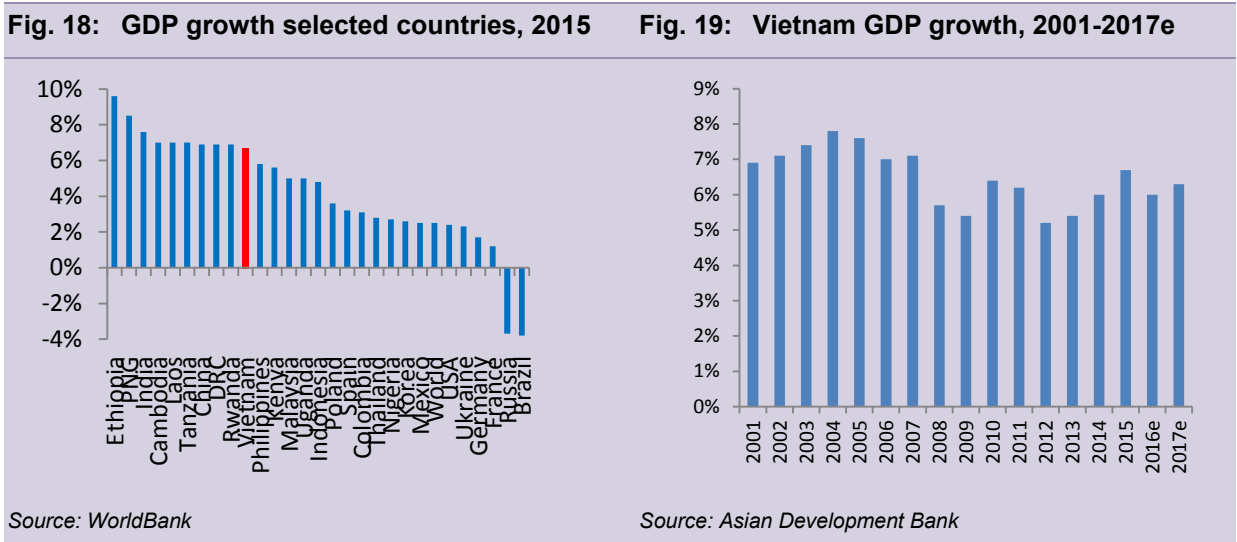


**One of the world's fastest GDP growth rates**

GDP is growing by 6 to 7% p.a.

Since 1990, Vietnam's GDP growth has been among the fastest in the world and has been averaging 6.1% a year over the past ten years. In 2016 that trend is continuing with an estimated GDP growth for the full year of 6.0% which is a slowdown on the 6.7% of 2015 as the agricultural production was affected by a severe drought. Growth forecast for 2017 of 6.3% is still below the country's target of 7% as inflation is expected to flare up to 4.5% from 2.5% in 2016 (source: Asian Development Bank) and exports risk being affected by the deceleration of the Chinese economy and the risk of a slowdown in the Eurozone, affected by the Brexit vote (China and Europe are 30% of exports). A more protectionist US (another 20% of exports) could add additional pressure.

The new five year plan shows the government aiming to lift gross domestic product per capita by over 50% to USD3,200 to USD3,500 by 2020 compared with the IMF's estimate of USD2,111 in 2015.



Please see the section headed "Important information" on the back page of this report.

### Powerful demographics

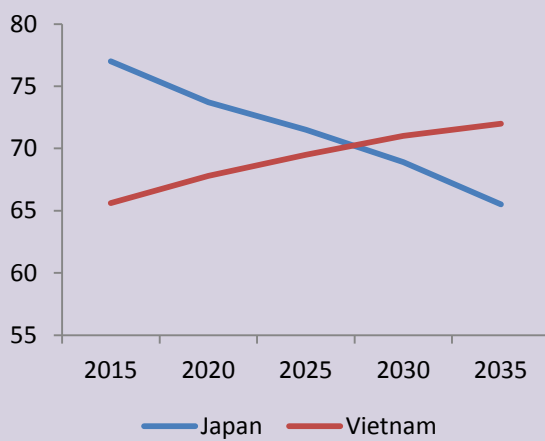
Young growing population

Vietnam's population has grown rapidly in the past few decades. In 1990, it was 66m and in 2016 it is expected to be 95m, making Vietnam the fourteenth most populous country in the world (third in the region after Indonesia and the Philippines). Population is expected to continue to expand to 100m in 2025. However the main driver for population growth is changing from high birth rates to increased life expectancy (from 73 to over 80 by 2050).

By 2030 more workers than Japan

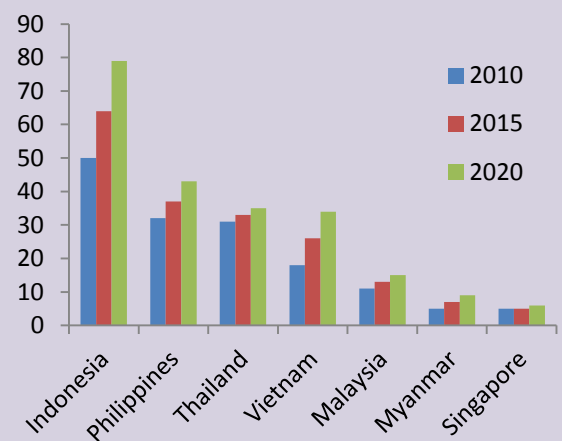
By 2030, Vietnam is likely to add about five million people between the ages of 15 and 64, giving it a bigger working-age population than Japan. Coupled with the rapidly growing GDP, Vietnam has the fastest-growing middle class in South East Asia – over 30% growth over the period 2015-2020 compared to a 20% growth for the entire Asian region, which will continue to drive premiumisation within beer.

**Fig. 20: Working age population Vietnam v Japan (in m)**



Source: US Census Bureau

**Fig. 21: Middle income population (m)**



Source: OECD

Nearly half of the population is below 30 years old

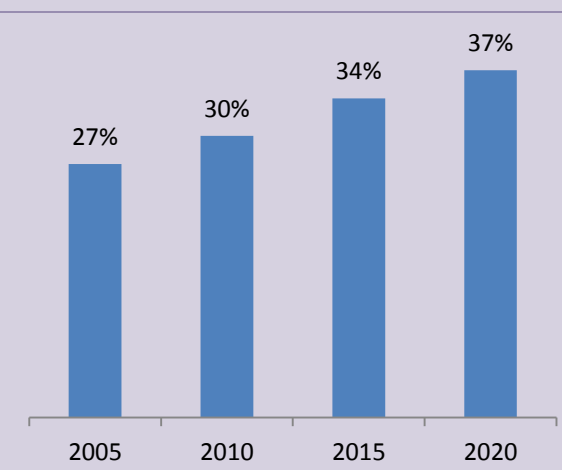
Furthermore in 2015 the population below 30 years old was 49% of total population, and a sizable group of legal drinking age. These young population do live increasingly in urban areas where beer consumption per capita is 1.6x the level of rural drinkers. By 2020, the urban population in Vietnam will grow by 4 million people.

**Fig. 22: Vietnam has a young population**



Source: WorldBank

**Fig. 23: Urbanisation in Vietnam (percent of people living in urban areas)**



Source: WorldBank

### 3. Privatising the domestic brewers

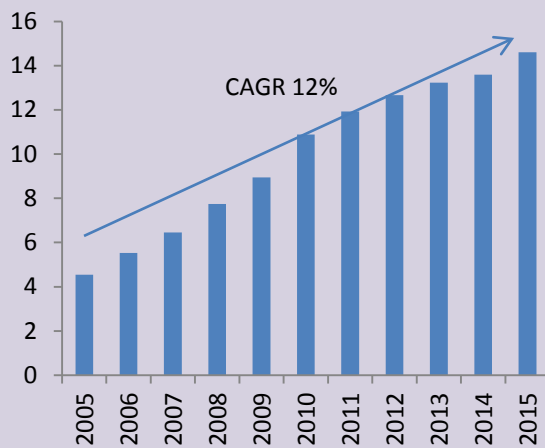
Sabeco is the market leader enjoying about 38% market share in 2015 (and a far larger proportion of sales in Southern Vietnam), followed by Heineken with 23%, Habeco with 17% and Carlsberg with 8%. Both Sabeco and Habeco have been earmarked to be privatised in 2016/17.

#### Sabeco - 38% volume market share

Market leader Sabeco already has an operating margin of 16.3%

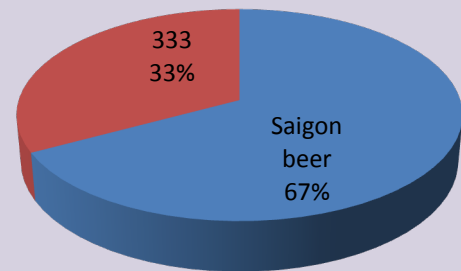
Sabeco based in Ho Chi Minh City, is Vietnam's leading brewer and is owned by Vietnam's Ministry of Trade and Industry. In 2015, the company sold 14.6m hl of beer having grown beer volumes by over 12% p.a. over the past 10 years. In 2015, the company realised an operating profit of USD199m on revenues of USD1,220m, which equates to an operating margin of 16.3%. For 2016, the company aims for revenues of USD1,285m and a net profit of USD165m. The company has two brands Bia Saigon and 333.

Fig. 24: The growth of Sabeco's, by volume (m hl)



Source: Canadean,

Fig. 25: Sabeco's main brands 2015 by volume



Source: Canadean

#### The privatisation process

The Vietnamese State's shareholding of 89.59% in Sabeco is being held by the Ministry of Industry and Trade ("MOIT") who is proposing to sell its stake in two tranches: 53.59% in 2016 and 36% in 2017. Heineken through its subsidiary holds about 5% of Sabeco and is currently the only foreign shareholder (it acquired that stake during the IPO in 2008). The remaining 5.41% is trading on the over-the-counter market.

The process at which is being worked is to list the shares in Sabeco at the Ho Chi Minh City Stock Exchange (HOSE). News reports provide that there will be a proportion of shares that will be sold by way of an auction process conducted by HOSE for retail investors. Next to that a substantial number of shares will be sold to a strategic shareholder.

Several international brewers that have shown interest in acquiring a strategic stake in the company: Heineken, AB InBev, the Japanese brewers Kirin and Asahi, Thailand's ThaiBev and Singha Beer.

Current market value of USD3.6bn

### *Financials and price*

As the shares of Sobeco are listed on HOSE, the selling price for Sabeco must be within a price fluctuation band of +/- 7% of the reference share price which is normally the previous day closing. The current price on the over-the-counter market for the Sabeco shares have been hovering around VND125,000 per share giving a market value of USD3.6bn for the 641m shares.

### *Restrictions*

In Vietnam there is a foreign ownership cap of 49% to certain business. However, there has never been a list published of these businesses but the assumption is that they would involve national defence and security, social order and security, social ethics, or public health. What concerns alcoholic and non-alcoholic drinks production and wholesaling, there are clearly no restrictions and foreign investors could own 100% of a brewer. However, Sabeco also owns a restaurant and hotel business, road and waterway transportation, logistics and warehouse services, construction, real estate services and mechanical installation services and according to some Vietnamese sources, these (transport and logistics) could cause a cap of 49% of the capital of Sabeco unless Sabeco removes these business lines (general meeting). But all that should be relatively easy pass through and hence we believe any foreign brewer could own 100% of Sabeco.

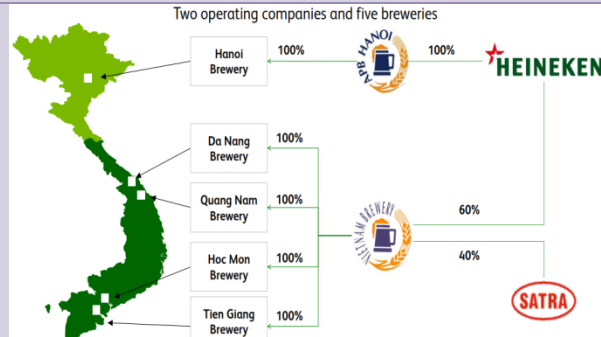
Other potential restrictions have to do with competition. Competition law clearance for the acquisition is required if a strategic shareholder acquires a controlling interest of Sabeco. Any economic concentration in which the participating enterprises have a combined market share in the relevant market of 30% to 50%, must notify the Vietnam Competition Authority (VCA) and because Sabeco has a 38% beer market share, that would need clearance. Furthermore economic concentrations leading to a combined market share exceeding 50% are prohibited, which should apply mainly to Heineken who already has a 23% market share. If Heineken wanted to acquire Sabeco, then it would need to propose a remedy for not exceeding the 50% combined market share, eg. selling the 333 brand which is about 1/3 of the Sabeco business. Of course, Heineken could always strive to a minority non-controlling stake (i.e. less than 50%).

### **Heineken - 23% volume market share**

Established in 1991, Heineken Vietnam Brewery Limited Company (Heineken Vietnam Brewery) is a joint venture between Singapore headquartered Heineken Asia Pacific Pte Ltd (HAP), and the Vietnamese holding Saigon Trading Group (SATRA). Heineken holds 60% of the equity and Satra 40%. Satra is a holding company owned by Ho Chi Minh City and the partnership between Heineken and Satra seems to have developed to their mutual benefit. But with Satra owned by Ho Chi Minh City, it can only be a matter of time before that company is privatised, sold off, broken up. Satra has already pledged to withdraw from non-trading businesses but nevertheless seem, at least for now, to hold on to its Heineken Vietnam stake. Next to the Vietnam Brewery, Heineken owns 100% of the Hanoi Brewery.

Heineken is the second largest brewer....

**Heineken Vietnam**



Source: Bryan, Garnier & Co ests,

**Distribution in Vietnam**

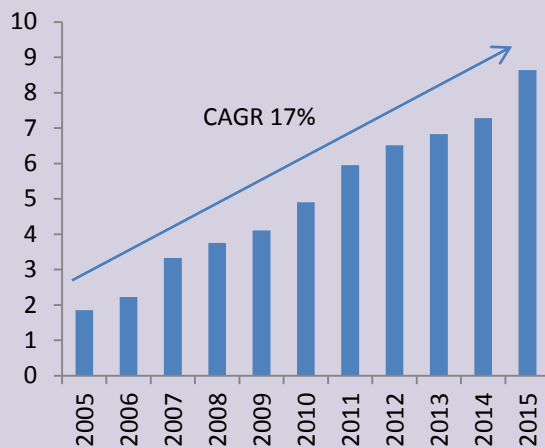


Source: Bryan, Garnier & Co ests

...and is nearly exclusively in the premium segment

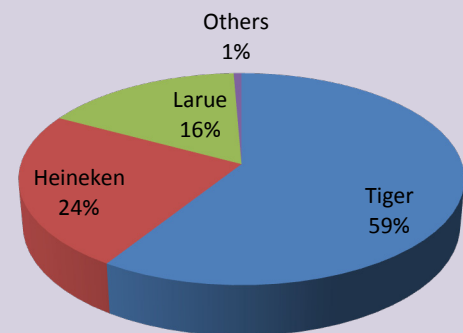
Heineken has in total 5 breweries and it serves the Vietnamese beer market with a portfolio of brands including Heineken, Tiger and Pierre Larue. Both the Heineken and the Tiger brand are in the premium segment (together 83% of its portfolio by volumes). Pierre Larue is positioned in the mainstream segment. Over the past ten years, Heineken has grown volumes on average by 17% p.a. to reach 8.6m hl in 2015.

**The growth of Heineken in Vietnam, by volume (m hl)**



Source: Canadean,

**Heineken's Vietnamese brand portfolio 2015 by volume**



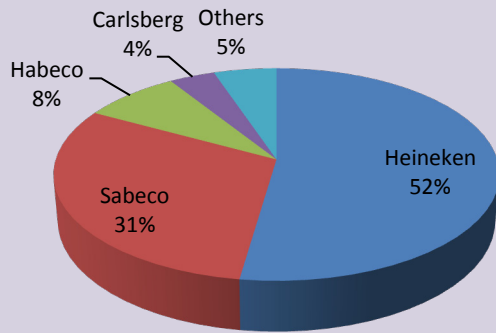
Source: Canadean

We estimate operating margins of 30% and calculate that Heineken has over half of the Vietnam beer profit pool

With this mainly premium portfolio of brands we estimate that Heineken's operating profit in Vietnam is an estimated USD340m on revenues of USD1.4bn (operating margin of 30%). We calculate that Heineken has over half of the profit in the Vietnamese beer market. And Vietnam is the second largest contributor of operating profits for the Heineken group.

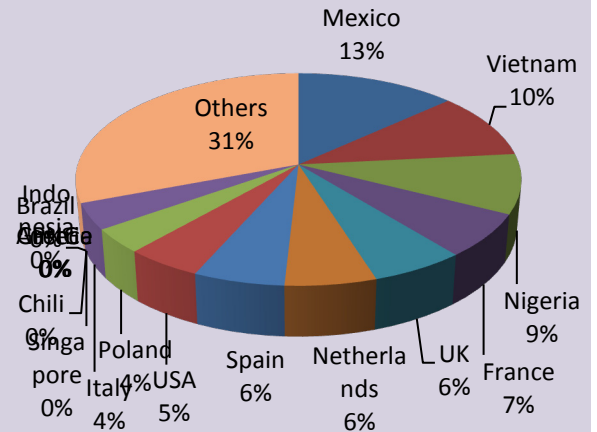
Please see the section headed "Important information" on the back page of this report.

Market shares Vietnam by operating profit, 2015e



Source: Bryan, Garnier & Co ests,

Operating profit Heineken by geography, 2015e



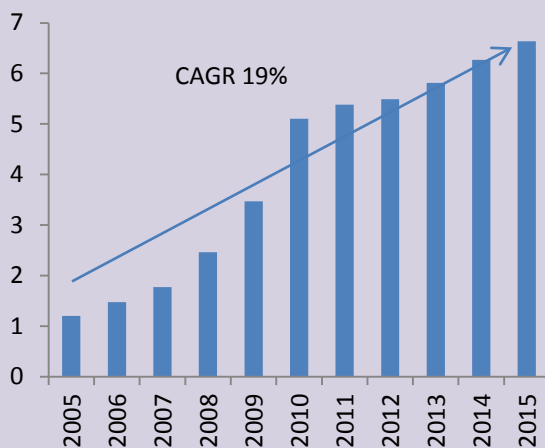
Source: Bryan, Garnier & Co ests

### Habeco – 17% volume market share

Habeco is the third largest brewer mainly active in the north of the country

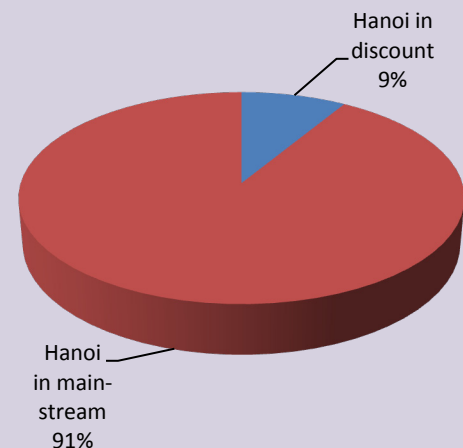
**Habeco** is the third largest brewer in Vietnam with a strong regional base in the north of the country. Formerly a small brewery founded by a Frenchman named Hommel in 1890 (and established on Elephant Mountain), it is the owner of the brands Hanoi beer. Habeco was acquired by MoIT in 2003.

The growth of Habeco by volume (m hl)



Source: Canadean,

Habeco's main brand 2015 by volume



Source: Canadean

Operating margin at Habeco is 12.1%

The company is owned by the Ministry of Industry and Trade, Vietnam and has a strategic partnership with Carlsberg which owns 17% in the company. In 2015, the company sold 5.1m hl of beer (having grown by 17% p.a. over the past 10 years) and realised an operating profit of USD53m on revenues of USD434m, making an operating margin of 12.1%.

Carlsberg has a right of first refusal

### *The process*

Following the listing of the Habeco shares on the UPCoM market, Carlsberg is negotiating with the Habeco over the purchase of an additional stake. Carlsberg has already been strategic shareholder of Habeco, holding of 17.08% since 2009 with the State still holding 81.79%, its employees 0.56%, other shareholders 0.88%.

Carlsberg has a right of first refusal on the sale of all shares Habeco, which not only include the sale to strategic shareholders but also on the listing of the shares. Hence, there is increasing speculation that a listing of (Habeco) has been delayed from December 2016 until the first quarter of 2017, indicating that Carlsberg, Habeco, the Ministry of Industry and Trade and the Prime Minister's working group, have not come yet to a final agreement.

### *Financials and price*

In 2015 Habeco's total revenue reached VND9.64 trillion (USD432 million) and after-tax profit VND951 billion (USD42.6 million). On October 28, the state listed the 231.8 million shares of Habeco on the Unlisted Public Company Market (UPCoM) with a reference price of VND39,000, which since has gone up to VND110,000, which puts a value of over USD1bn for the company

### *Restrictions*

The trading price will be used as a reference in the sale as the selling price must be within a price fluctuation band of +/- 7% of the previous days closing price.

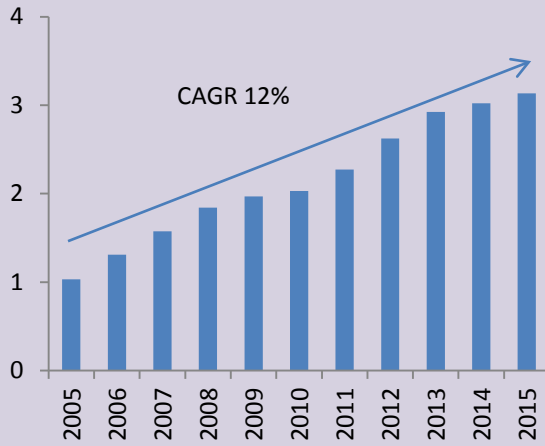
### **Carlsberg - 8% volume market share**

Carlsberg owns already two local mainstream brands Halida and Huda

Carlsberg entered Vietnam in 1993 through the joint venture South East Asia Brewery and currently owns 60 percent of this company together with Viet Ha Corporation of Hanoi. In 1994, Carlsberg acquired 50 percent of the Hue Brewery Limited (HBL), the market leader in Central Vietnam. Hue Brewery Limited became a wholly owned subsidiary of Carlsberg when the company acquired the remaining 50 percent in 2011.

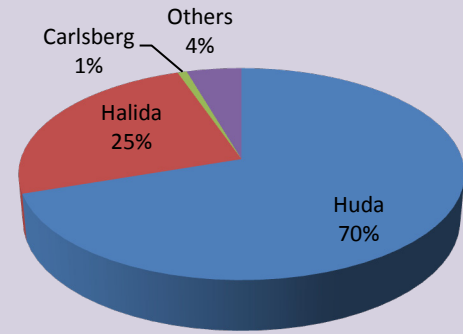
As a result Carlsberg Vietnam now owns 100% of Hue and 60% of Halida. Next to that the company became in 2009, a strategic investor in Habeco, acquiring a 17 percent stake. Carlsberg Vietnam has been growing volumes by just under 12% p.a. over the past 10 years to 3.1m hl in 2015 and made in 2015 an estimated operating profit of USD25m on USD280m of revenues (operating margin of 8.9%). The company is mainly active in the mainstream segment with the Huda (in Central Vietnam) and Halida (in North Vietnam) brands, and through its joint venture with Habeco distributes Hanoi and Carlsberg brands in South Vietnam. Early 2016 Carlsberg announced that it will launch Tuborg in Vietnam in the premium segment (investing USD20.2m).

The growth of Carlsberg in Vietnam, by volume (m hl)



Source: Canadean,

Carlsberg's Vietnamese brand portfolio 2015 by volume



Source: Canadean

**AB InBev – less than 1% market share**

Since the beginning of 2015, AB InBev has opened a new brewery in the Binh Duong province close to Ho Chi Minh City. The brewery has an initial capacity of 0.5m hl which will be double in a next phase. The brewery produces Budweiser and Beck's for the domestic Vietnamese market and for the exports markets of India, Laos, Cambodia and the Philippines.



## 4. Appendix: DCF valuation models

**Fig. 26: DCF Valuation AB InBev**

| USD m                                      | Dec-16e | Dec-17e    | Dec-18e | Dec-19e        | Dec-20e | Dec-21e |
|--|---------|------------|---------|----------------|---------|---------|
| Sales                                      | 42,637  | 57,957     | 60,632  | 63,403         | 66,340  | 69,455  |
| EBIT                                       | 12,793  | 19,113     | 20,842  | 22,615         | 23,907  | 25,301  |
| Taxes                                      | (2,815) | (4,205)    | (4,794) | (5,427)        | (5,738) | (6,072) |
| Operating profit after taxes               | 9,979   | 14,908     | 16,048  | 17,187         | 18,170  | 19,229  |
| + Depreciations                            | 3,078   | 3,955      | 4,079   | 4,202          | 4,330   | 4,462   |
| -Investments in fixed assets               | (4,038) | (5,333)    | (5,416) | (5,567)        | (5,725) | (5,891) |
| Total net investments in fixed assets      | (960)   | (1,378)    | (1,337) | (1,365)        | (1,395) | (1,429) |
| -Investments in working capital            | (623)   | 724        | 2,212   | 2,406          | 2,026   | 804     |
| =Operating cash flow                       | 8,396   | 14,255     | 16,924  | 18,228         | 18,801  | 18,604  |
| Discount factor                            | 1.00    | 0.94       | 0.88    | 0.80           | 0.72    | 0.66    |
| Present value of free cash flow            | 8,396   | 13,463     | 14,815  | 14,506         | 13,601  | 12,235  |
| Cumulative present value of free cash flow |         | 103,112    |         |                |         |         |
| +Present value of terminal value           |         | 242,457.85 |         |                |         |         |
| =Enterprise value                          |         | 345,570    |         |                |         |         |
| Adjusted net debt incl pension provisions  |         | (85,491)   |         | Risk free      |         | 1.6%    |
| Other liabilities and commitments          |         |            |         | Equity premium |         | 7.0%    |
| Revalued minority interests                |         | (30,569)   |         | Unlevered Beta |         | 1.00    |
| (Assoc. + revalued investments)            |         | 110        |         | RRE            |         | 8.6%    |
| =Fair value                                |         | 229,620    |         | LT Growth      |         | 3.7%    |
| Fair value fully diluted per share         |         | 115        |         | LT WACC        |         | 8.6%    |
| Fair value fully diluted per share (EUR)   |         | 109        |         |                |         |         |

Source: Company Data; Bryan, Garnier & Co ests.

**Fig. 27: DCF Valuation Carlsberg**

| DKK m                                      | Dec-16e | Dec-17e | Dec-18e | Dec-19e        | Dec-20e | Dec-21e |
|--|---------|---------|---------|----------------|---------|---------|
| Sales                                      | 63,522  | 66,316  | 67,968  | 69,671         | 71,489  | 73,433  |
| EBIT                                       | 7,873   | 8,712   | 9,326   | 9,753          | 10,209  | 10,698  |
| Taxes                                      | -2,598  | -2,526  | -2,705  | -2,828         | -2,961  | -3,102  |
| Operating profit after taxes               | 5,275   | 6,185   | 6,622   | 6,925          | 7,248   | 7,596   |
| + Depreciations                            | 4,674   | 4,575   | 4,496   | 4,490          | 4,493   | 4,505   |
| -Investments in fixed assets               | -3,430  | -3,581  | -4,418  | -4,529         | -4,647  | -4,773  |
| Total net investments in fixed assets      | -1,466  | 1,939   | 1,244   | 994            | 78      | -39     |
| -Investments in working capital            | -1,746  | 436     | 257     | 265            | 283     | 303     |
| =Operating cash flow                       | 4,773   | 7,615   | 6,957   | 7,151          | 7,378   | 7,631   |
| Discount factor                            |         | 0.94    | 0.87    | 0.80           | 0.74    | 0.68    |
| Present value of free cash flow            |         | 7,177   | 6,055   | 5,740          | 5,457   | 5,197   |
| Cumulative present value of free cash flow |         | 34,746  |         |                |         |         |
| +Present value of terminal value           |         | 103,664 |         | LT Growth 3.5% |         |         |
| =Enterprise value                          |         | 138,409 |         | LT WACC 8.6%   |         |         |
| Adjusted net debt incl. Pension            |         | -31,987 |         |                |         |         |
| Other liabilities and commitments          |         | -11,197 |         |                |         |         |
| Revalued minority interests                |         | -8,454  |         |                |         |         |
| (Assoc. + revalued investments)            |         | 4,676   |         |                |         |         |
| =Fair value                                |         | 91,447  |         |                |         |         |
| Fair value fully diluted per share         |         | 599     |         |                |         |         |

Source: Company Data; Bryan, Garnier & Co ests.

**Fig. 28: DCF Valuation Heineken**

| EUR m   | Dec-16e | Dec-17e | Dec-18e | Dec-19e        | Dec-20e | Dec-21e |
|---|---------|---------|---------|----------------|---------|---------|
| Sales   | 20,530  | 21,033  | 21,595  | 22,219         | 22,881  | 22,881  |
| EBIT  | 3,314   | 3,508   | 3,731   | 4,001          | 4,287   | 4,566   |
| Taxes   | -928    | -982    | -1,045  | -1,120         | -1,200  | -1,278  |
| Operating profit after taxes                              | 2,386   | 2,526   | 2,686   | 2,881          | 3,087   | 3,287   |
| + Depreciations   | 1,483   | 1,607   | 1,718   | 1,831          | 1,948   | 2,069   |
| -Investments in fixed assets                              | -2,000  | -1,788  | -1,836  | -1,889         | -1,945  | -1,999  |
| Total net investments in fixed assets                     | -517    | -181    | -118    | -57            | 4       | 70      |
| -Investments in working capital                           | 1       | 30      | 33      | 37             | 39      | 38      |
| =Operating cash flow                                      | 1,870   | 2,375   | 2,602   | 2,860          | 3,130   | 3,395   |
| Discount factor   |         | 0.94    | 0.87    | 0.80           | 0.74    | 0.68    |
| Present value of free cash flow                           |         | 2,237   | 2,262   | 2,293          | 2,312   | 2,309   |
| Cumulative present value of free cash flow                |         | 15,903  |         |                |         |         |
| +Present value of terminal value                          |         | 44,379  |         |                |         |         |
| =Enterprise value   |         | 60,282  |         | Risk free      |         | 1.6%    |
| Adjusted net debt incl pension provisions (restated cash) |         | -12,203 |         | Equity premium |         | 7.0%    |
| Other liabilities and commitments                         |         |         |         | Unlevered Beta |         | 1.00    |
| Revalued minority interests                               |         | -4,649  |         | RRE            |         | 8.6%    |
| (Assoc. + revalued investments)                           |         | 4,012   |         | LT Growth      |         | 3.5%    |
| =Fair value   |         | 47,442  |         | LT WACC        |         | 8.6%    |
| Fair value fully diluted per share                        |         | 83      |         |                |         |         |

Source: Company Data; Bryan, Garnier & Co ests.

**Fig. 29: DCF Valuation Molson Coors**

| USD m   | Dec-16e | Dec-17e | Dec-18e | Dec-19e        | Dec-20e | Dec-21e |
|---|---------|---------|---------|----------------|---------|---------|
| Sales   | 11,093  | 11,556  | 11,759  | 11,966         | 12,191  | 12,421  |
| EBIT  | 1,745   | 1,910   | 2,062   | 2,211          | 2,322   | 2,405   |
| Taxes   | (349)   | (132)   | (286)   | (347)          | (400)   | (423)   |
| Operating profit after taxes                              | 1,396   | 1,778   | 1,776   | 1,864          | 1,922   | 1,981   |
| + Depreciations   | 303     | 655     | 655     | 655            | 653     | 305     |
| -Investments in fixed assets                              | (220)   | (722)   | (728)   | (647)          | (653)   | (305)   |
| Total net investments in fixed assets                     | 83      | (67)    | (72)    | 8              | 0       | 0       |
| -Investments in working capital                           | 12      | 1,027   | 142     | 27             | 30      | 30      |
| =Operating cash flow                                      | 1,491   | 2,738   | 1,846   | 1,899          | 1,951   | 2,011   |
| Discount factor   |         | 0.95    | 0.88    | 0.81           | 0.74    | 0.69    |
| Present value of free cash flow                           |         | 2,589   | 1,620   | 1,535          | 1,452   | 1,378   |
| Cumulative present value of free cash flow                |         | 12,301  |         |                |         |         |
| +Present value of terminal value                          |         | 19,783  |         |                |         |         |
| =Enterprise value   |         | 32,083  |         |                |         |         |
| Adjusted net debt incl pension provisions (restated cash) |         | (8,640) |         | Risk free      |         | 1.6%    |
| Other liabilities and commitments                         |         | -470    |         | Equity premium |         | 7.0%    |
| Revalued minority interests                               |         | (20)    |         | Unlevered Beta |         | 1.00    |
| (Assoc. + revalued investments)                           |         | 0       |         | RRE            |         | 8.6%    |
| =Fair value   |         | 22,953  |         | LT Growth      |         | 2.5%    |
| Fair value fully diluted per share                        |         | 107     |         | LT WACC        |         | 8.6%    |

Please see the section headed "Important information" on the back page of this report.

**Fig. 30: DCF Valuation Royal Unibrew**

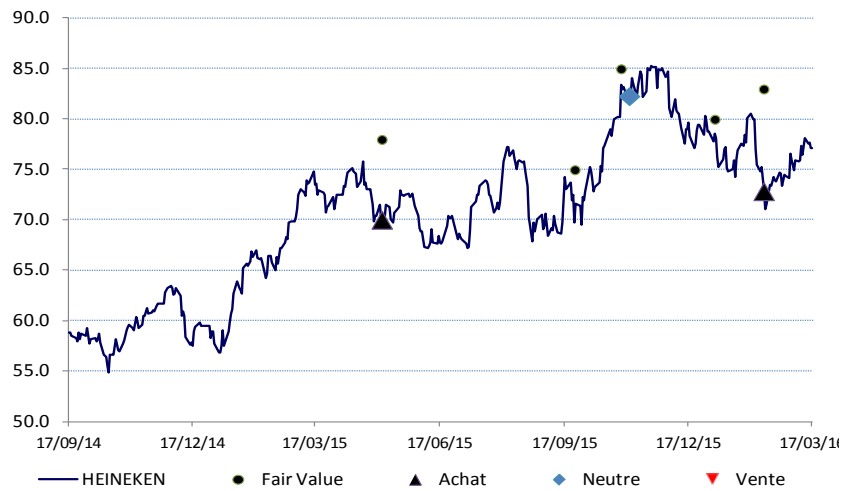
| DKK m  | Dec-16e | Dec-17e | Dec-18e | Dec-19e   | Dec-20e | Dec-21e |
|--|---------|---------|---------|-----------|---------|---------|
| Sales  | 6,386   | 6,395   | 6,508   | 6,627     | 6,750   | 6,880   |
| EBIT   | 975     | 1000    | 1038    | 1077      | 1118    | 1157    |
| Taxes  | -206    | -212    | -220    | -228      | -237    | -245    |
| Operating profit after taxes                                       | 768     | 789     | 818     | 849       | 881     | 912     |
| + Depreciations  | 310     | 311     | 316     | 322       | 328     | 334     |
| -Investments in fixed assets                                       | -48     | -48     | -49     | -49       | -50     | -51     |
| Total net investments in fixed assets                              | 263     | 263     | 268     | 273       | 278     | 283     |
| -Investments in working capital                                    | -88     | 1       | 16      | 17        | 18      | 18      |
| =Operating cash flow   | 943     | 1,053   | 1,102   | 1,139     | 1,177   | 1,214   |
| Discount factor  |         | 0.94    | 0.87    | 0.80      | 0.74    | 0.68    |
| Present value of free cash flow                                    |         | 991     | 958     | 913       | 871     | 830     |
| Cumulative present value of free cash flow                         |         | 7,405   |         |           |         |         |
| +Present value of terminal value                                   |         | 9,198   |         |           |         |         |
| =Enterprise value  |         | 16,603  |         | LT Growth | 2.5%    |         |
| Adjusted net debt (restated cash)                                  |         | -1,115  |         | LT WACC   | 8.6%    |         |
| Other liabilities and commitments<br>(Revalued minority interests) |         | -390    |         | Beta      | 1       |         |
| Assoc. + revalued investments                                      |         | 680     |         |           |         |         |
| =Theoretical market cap  |         | 15,779  |         |           |         |         |
| Theoretical share price fully diluted                              |         | 307     |         |           |         |         |

## Price Chart and Rating History AB InBev



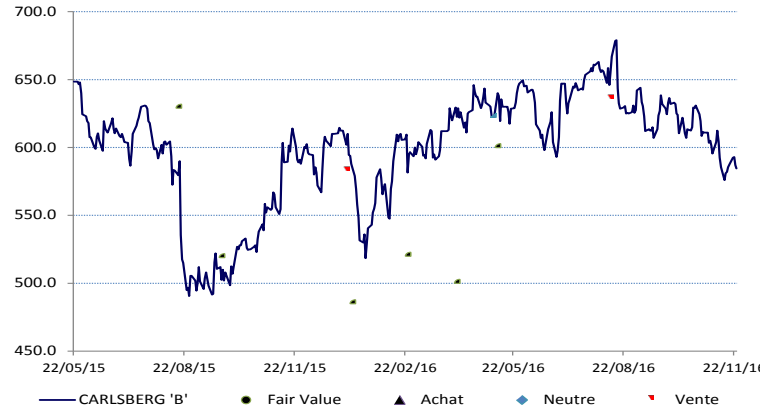
| Ratings  |         |          | Target Price |              |
|----------|---------|----------|--------------|--------------|
| Date     | Ratings | Price    | Date         | Target price |
| 11/10/16 | BUY     | EUR116.1 | 28/10/16     | EUR120       |
| 05/05/15 | NEUTRAL | EUR108.8 | 11/10/16     | EUR124       |
|          |         |          | 07/04/16     | EUR109       |
|          |         |          | 08/01/16     | EUR111       |
|          |         |          | 25/11/15     | EUR122       |
|          |         |          | 12/11/15     | EUR110       |
|          |         |          | 24/09/15     | EUR96        |
|          |         |          | 05/05/15     | EUR109       |

## Heineken



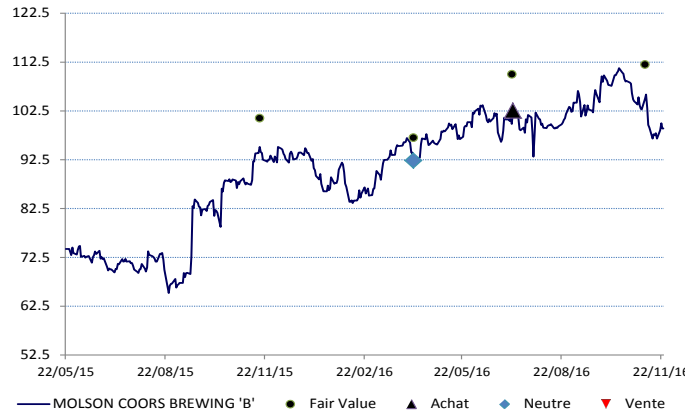
| Ratings  |         |          | Target Price |              |
|----------|---------|----------|--------------|--------------|
| Date     | Ratings | Price    | Date         | Target price |
| 10/02/16 | BUY     | EUR75.18 | 23/08/16     | EUR88        |
| 03/11/15 | NEUTRAL | EUR82.15 | 01/08/16     | EUR90        |
| 05/05/15 | BUY     | EUR69.85 | 21/04/16     | EUR83        |
|          |         |          | 07/04/16     | EUR79        |
|          |         |          | 10/02/16     | EUR83        |
|          |         |          | 05/01/16     | EUR80        |
|          |         |          | 28/10/15     | EUR85        |
|          |         |          | 24/09/15     | EUR75        |
|          |         |          | 05/05/15     | EUR78        |

## Price Chart and Rating History Carlsberg



| Ratings  |         |        | Target Price |              |
|----------|---------|--------|--------------|--------------|
| Date     | Ratings | Price  | Date         | Target price |
| 18/08/16 | SELL    | DKK679 | 11/05/16     | DKK600       |
| 11/05/16 | NEUTRAL | DKK638 | 07/04/16     | DKK500       |
| 11/01/16 | SELL    | DKK588 | 26/02/16     | DKK520       |
| 05/05/15 | NEUTRAL | DKK619 | 11/01/16     | DKK485       |
|          |         |        | 24/09/15     | DKK519       |
|          |         |        | 19/08/15     | DKK629       |
|          |         |        | 05/05/15     | DKK634       |

## Molson Coors



| Ratings  |         |          | Target Price |              |
|----------|---------|----------|--------------|--------------|
| Date     | Ratings | Price    | Date         | Target price |
| 08/07/16 | BUY     | USD99.85 | 07/11/16     | USD112       |
| 07/04/16 | NEUTRAL | USD93.99 | 07/07/16     | USD110       |
|          |         |          | 07/04/16     | USD97        |
|          |         |          | 17/11/15     | USD101       |

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## Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

### Stock rating

|         |   |
|---------|---|
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