19TH MARCH 2008

# Hanoi Beer Alcohol & Beverage Corporation
# HABECO



| | |
|---|---|
| Office: | 183 Hoang Hoa Tham<br>Ba Dinh, Hanoi<br>Vietnam |
| Telephone: | +84-4-8453 843 |
| Fax: | +84-4-7223 784 |
| Website: | www.habeco.com.vn |

King Yoong Cheah, ACA, CFA
Head of Research
king.cheah@mekongsecurities.com

Bui Cam Van
Associate
van.c.bui@mekongsecurities.com

Nguyen Duy Manh
Associate
manh.d.nguyen@mekongsecurities.com

Opera Business Centre,
Floor 9A, 60 Ly Thai To,
Hoan Kiem District
Hanoi, Vietnam
Tel.: +84 4 936 1389
Fax: +84 4 936 1393

Saigon Finance Centre, Floor 9
9 Dinh Tien Hoang, District 1
Ho Chi Minh City, Vietnam
Tel.: +84 8 520 2050
Fax: +84 8 822 8014

## *Ready for another pint of beer???*

### Investment Highlights

*Third largest brewer and dominant player in the North region.* Hanoi Beer Alcohol and Beverage Corporation (Habeco) is the third largest brewer in Vietnam, just behind Sabeco and Vietnam Brewery Limited (VBL). The Group has captured around 20% market share and has established a dominant position in the Northern region. Habeco is the only large size production and service company in Vietnam that was awarded by Asia Pacific Qualitty Organization in 2006 for their continuous quality improvements in goods and services.

*Extensive distribution network.* The Group has successfully established their presence in the Northern and North Central regions via an extensive distribution network including 466 agents, mainly located in the north especially in Hanoi, Hatay and Hai Phong. Their presence in Southern Vietnam is relatively minimal and limited to large cities only.

*Aggressive plans to expand production capacity.* Habeco has been aggressively expanding their production capacity to meet higher demand and preparing for a stiffer competitive environment upon WTO accession. The Group has planned to boost their production capacity from the current 300mn litres to 900mn litres by 2010.

*Rising per capita income, low penetration, favorable demographic and cultural factors will continue to drive the sector.* Outlook of the domestic beer sector is very promising in view of the rising per capita income, relatively low market penetration coupled with favorable demographic. Interestingly, it is a typical Vietnamese culture to drink beer in social events and business gatherings.

*Intensified competition to increase medium to long term growth risk.* Nonetheless, we foresee that the Group's long term earnings growth may be adversely impacted by the intensified competition with the upcoming sector liberalization post WTO accession. The management's strategy to focus only on the Northern and North Central regions in the near term while other brewery giants such as Sabeco and SAB Miller have been expanding to these regions could restrict the Group's medium to long term growth potential, in our opinion. We also believe that Habeco's limited exposure to the premium segment could prevent the Group from capitalizing on the enormous growth potential offered by this lucrative market in view of the increased popularity of the premium brands driven by rising per capita income and higher standards of living.

*US$27.4mn net earnings estimated for 2008.* Due to the limited financial information available particularly with regards to its subsidiaries, we have derived our earnings estimates for 2008 based on the management guidance of 12% and 15% earnings growth respectively for parent company and subsidiaries. Besides that, we have estimated that minority shareholdings in the Group's subsidiaries to average 45%. Our forecast indicates that the Habeco's earnings will reach US$27.4mn in 2008, representing an EPS of US$0.12.

*Support from the strategic partner to ensure success of IPO.* According to management, the Danish brewery giant, Carlsberg A/S, is planning to buy all shares at VND50,000 each pending approval from the Government should Habeco's IPO come undersubscribed.

*Reasonably priced.* The minimum bidding price of VND50,000 (US$3.13) has effectively priced Habeco at an expected 2008 PER of 26.4x which is reasonable compared with other leading beer companies in the region. Nonetheless, we believe the upside potential of its share price may be limited in the near term given the poor market sentiments. We also anticipate that the lack of financial transparency coupled with the difficulties that Sabeco had with its IPO may deter investors from participating in the auction.

# Hanoi Beer Alcohol & Beverage Corporation
# HABECO



## IPO Highlights

Habeco is the second state-owned brewery giant to IPO in 2008. The Group has scheduled to dispose 15% of their total equity interest, i.e. 34.8mn shares out of 231.8mn to the public, and 10% or 23.2mn shares to their selected strategic partner, Carlsberg. The details of the IPO are highlighted as follows:

| Auction Details | | |
|---|---|---|
| Chartered capital | | VND2,318bn (US$1.5bn) |
| Number of auction shares | | 34,770,000 |
| Type of share | | Common share |
| Starting price | | VND50,000 (US$3.13) |
| IPO size (at starting price) | | VND1.7tn (US$108.7mn) |
| Market Cap | | VND11.6tn (US$0.7bn) |
| **Key Dates** | | |
| Deadline for registration at auction agent | | 3pm 20th of March 2008 |
| Deadline for submitting bid at the auction agent | | 4pm 25th of March 2008 |
| Bid at HASTC | | 8.30am 27th of March 2008 |
| Payment for successful auction | | 28th of March – 11th of April 2008 |
| Refund deposit on unsuccessful auction | | 31st of March – 7th of April 2008 |
| **Ownership Structure upon IPO** | | |
| *Shareholding* | *No. of shares* | *% Share* |
| State | 172,559,600 | 74.4% |
| Employees | 1,290,400 | 0.6% |
| Strategic Partner (Carlsberg) | 23,180,000 | 10.00% |
| Public Auction* | 34,770,000 | 15.00% |

Source: Company prospectus

## Earnings Outlook

*Expected double digit growth in revenue and earnings.* Management guided that Habeco is expected to continue enjoying double digit growth in terms of revenue and net earnings over the next few years mainly driven by strong sales of mainstream beers, increased production capacity, expanded distribution network and storage facilities coupled with employment of effective marketing and branding strategies. Besides that, Habeco is expected to benefit from the favorable underlying macroeconomic fundamentals such as rising per capita income, relatively low market penetration coupled with young population. The Group will continue to focus on the Northern and North Central regions. Management does not plan to expand aggressively to the Southern and overseas markets in the near term.

*Focus on market expansion in mainstream beer segments.* Habeco's traditional product, Hanoi Beer, is highly popular in the Northern and North Central regions of Vietnam due to their distinctive taste, reasonable pricing and established track record. This product accounts for around 80% of the Group's sales volume. The Group has also planned to expand their market reach by engaging in capacity expansion particularly for this product line and building new breweries in adjacent to targeted market areas.

*Strengthening foothold in the spirits market.* Besides that, the Group also has strong foothold in the spirits market via its 58.2% owned subsidiary, Hanoi Liquor Company (Halico), which is one the most successful spirits makers in Vietnam and has been the second largest revenue contributor to the Group over the past few years. Management plans to expand Halico's production capacity from the current 10mn litres to 30mn litres by 2010 to capture the increased popularity of spirits consumption. The recent forming of strategic alliance between Habeco, Halico and Diageo, the world leading beverage giant, is expected to assist Halico in both technologies and product enhancements.

*Intensified competition to increase medium to long term growth risk.* Nonetheless, we foresee that the Group's long term earnings growth may be adversely impacted by the intensified competition with the upcoming sector liberalization post WTO accession. The management's strategy to focus only on the Northern and North Central regions in the near term while other brewery giants such as Sabeco and SAB Miller have been expanding to these regions could restrict the Group's medium to long term growth potential, in our opinion. We also believe that Habeco's limited exposure to the premium segment could prevent the Group from capitalizing on the enormous growth potential offered by this lucrative market in view of the increased popularity of the premium brands driven by rising per capita income and higher standards of living.

*US$27.4mn net earnings estimated for 2008.* Due to the limited financial information available particularly with regards to its subsidiaries, we have derived our earnings estimates for 2008 based on the management guidance of 12% and 15% earnings growth respectively for parent company and subsidiaries. Besides, we have estimated that minority shareholdings in the Group's subsidiaries to average 45%. Our forecast indicates that the Group's earnings will reach US$27.4mn in 2008, which represents an EPS of US$0.12.

Financial Highlights 2003-2007 for parent company

| *(in US$ mn)* | 2003A | 2004A | 2005A | 2006A | 2007E |
|---|---|---|---|---|---|
| Gross Revenue | 45.3 | 56.7 | 71.3 | 91.0 | 129.6 |
| Net Revenue | 27.3 | 34.8 | 45.2 | 61.2 | 94.2 |
| Gross Profit | 13.8 | 16.8 | 20.6 | 24.2 | 26.7 |
| Operating Income | 12.2 | 12.6 | 16.4 | 22.6 | 20.1 |
| Pretax Income | 12.6 | 12.8 | 17.5 | 25.3 | 21.3 |
| Net Income | 8.6 | 9.2 | 15.1 | 19.3 | 15.9 |

**based on company prospectus & audited financial statements*

Group Results 2007-2008

| *(in US$ mn)* | 2007E | | 2008F | |
|---|---|---|---|---|
| | Group | Parent Co. | Group | Parent Co. |
| Gross Revenue | 288.1 | 129.6 | 350.9 | 160.7 |
| Net Revenue | 219.0 | 94.2 | 266.6 | 116.8 |
| Pretax Income | 35.9 | 21.3 | 41.3 | 23.9 |
| Net Income | 31.1 | 15.9 | 35.3 | 17.8 |
| *Minority Interest | 6.8 | - | 7.9 | - |
| Profit attributable to shareholders | 24.3 | 15.9 | 27.4 | 17.8 |

**assuming an average 45% stake of minority interest in the Group's subsidiaries.*

## Competitive Advantage

We believe that Habeco has the following competitive advantages compared to its domestic peers:

*Strong brand name.* Throughout the years, the Group has successfully built up a strong brand name in the North region. Its products are highly popular among domestic consumers in the North and North Central of Vietnam due to the distinctive taste, established network and reasonable pricing policy.

*Strong foothold in the domestic spirits market.* Habeco's subsidiary, Hanoi Liquor Company (Halico), is one of the leading domestic vodka producers with around 40% of the market share. We foresee enormous opportunities for Halico to further expand its share in the spirits market particularly if the company could leverage on the foreign expertise and technology of its new business partner, Diageo.

*Extensive distribution network.* We believe that the Group's strong track record, established market presence coupled with its extensive distribution network will continue to set the Group apart from other competitors. The recent establishment of new breweries by the Group in the North Central region is expected to enhance their distribution effectiveness and expand its market reach going forward.

## Investment Risks

*Intensified competition due to a more level playing field post WTO accession*. In accordance with WTO agreements, a uniform tax rate will be applied for both imported and domestically produced beer and alcoholic products from January 2010. Furthermore, the increased trade liberalization is poised to reduce the entry barriers which could intensify the competition of the sector. We also gather that other brewery giants such as Sabeco are planning to expand to the Central and North regions which could increase the competition further.

*Highly seasonal sales.* Habeco's breweries are mainly located the Northern region where sales volume is typically lower during winter season compared with the Central and Southern regions that experience hot and humid climate all year round.

*Struggle to penetrate into the premium segment.* Habeco has tried to venture into the premium market by launching its premium product known as 'Premium Hanoi Beer'. Nonetheless, the Group has not been able to successfully strengthen its foothold in the premium segment. So far, the Group's revenue contribution from premium product remains insignificant.

*Margin may be squeezed due to higher special consumption tax applied for draught beer in 2008.* With Draught beer accounts for over 10% of the Group's total sales volume in 2007, the Group's margin is expected to be squeezed when the special consumption tax rate for draught beer rises from 30% in 2007 to 40% in 2008. To mitigate this potential earnings shortfall, the Group has focused on the sales of canned beer in recent years. For instance, the sale volume of canned beer is estimated to register a growth of over 75% in 2007 compared to 2006.

*Susceptive to external price fluctuation of raw materials.* The Group has imported most of their input such as malt and hops and this has exposed the Group to the external volatility of these raw materials prices and potential supply shortage.

## Valuation

The minimum bidding price of VND50,000 (US$3.13) has effectively priced Habeco at an expected 2008 PER of 26.4x which is reasonable compared with other leading beer companies in the region as illustrated below. Nonetheless, we believe the share upside may be limited in the near term given the poor market sentiments. We also anticipate that the lack of financial transparency coupled with the difficulties that Sabeco had with its IPO may deter investors from participating in the auction.

| Beer Comparison | Country | Market Cap (US$ mn) | P/E 2007 | Estimated P/E 2008 | P/B 2007 | P/S 2007 |
|---|---|---|---|---|---|---|
| Tsingtao Brewery | China | 4,101 | 41.3 | 36.6 | 4.5 | 1.9 |
| Thai Beverage Pcl | Thailand | 4,636 | 14.0 | 13.1 | 2.6 | 1.4 |
| Beijing Yanjing Brewery | China | 2,687 | 47.8 | 46.7 | 3.5 | 2.9 |
| Chongqing Brewery | China | 1,626 | 72.1 | 56.0 | 12.5 | 6.7 |
| Hite Brewery | South Korea | 2,258 | 15.7 | 13.6 | 1.6 | 2.2 |
| Asia Pacific Breweries | Singapore | 2,505 | 25.5 | 23.1 | 3.5 | 1.8 |
| Guinness Anchor Bhd | Malaysia | 508 | 13.4 | 13.2 | 4.2 | 1.4 |
| Carlsberg Brewery-Malay | Malaysia | 392 | 15.7 | 15.8 | 2.6 | 1.4 |
| San Miguel Corp | Philippines | 3,086 | 13.0 | 13.6 | 0.9 | 0.5 |
| Foster's Group | Australia | 8,943 | 12.1 | 13.6 | 2.2 | 2.0 |
| *Average* | | | *27.1* | *24.5* | *3.8* | *2.2* |
| Habeco Group | Vietnam | 724 | 29.8 | 26.4 | 4.5 | 3.3 |

# Appendices

## 1. Corporate Profile

The Group has initially founded as Hanoi Beer Factory from the original Hommel Beer Factory since French colonial time in 1890. In 2003, Habeco was restructured and renamed as Hanoi Beer- Alcohol and Beverage Corporation. The Group is principally involved in the production and packaging of beer, beverage and spirits. In 2006, Habeco has eleven subsidiaries including six breweries and one spirits producer (Halico). The Group also has two affiliates making crown caps and focusing on carrying out R&D activities.

The parent company itself has enjoyed a robust CAGR of 23% in term of sales volume over the past three years. Total sales volume is expected to reach 184mn litres in 2007, representing 10% of the domestic market share driven by strong sales in its traditional products - Hanoi Beer. At present, Hanoi Beer accounts for almost 80% of the Group's total sales volume. This product has enjoyed great success in the domestic market due to it reasonable pricing, distinctive taste and strong brand name.

| Hanoi Premium Beer Since 2005 – premium | Hanoi Beer (Traditional) | Hanoi Lager Beer Since mid 2007 | Canned (1992) & Draught Beer |
|---|---|---|---|
|  |  |  |  |
| Sales volume for parent company in 2007 | | | |
| 1% (2mn litres) | Over 65% | Less than 1% | 11% & 22% respectively |

Source: Company's websites

The Group's export sales remain insignificant relative to its total revenue with current export market limited to the US, Japan, Taiwan and Korea. Nonetheless, strategic alliances with Diageo and Carlsberg have fueled expectation that export sales may increase significantly going forward.

Halico is the second largest revenue contributor for the Group with US$31.3mn turnover and sales volume of 14mn litres estimated for 2007. Halico's vodka has captured approximately 40% domestic market share followed by foreign Diageo and Dong Xuan Liquor.

**Key Projects**

| | Location | New Capacity (mn litres) | Commencement |
|---|---|---|---|
| Capacity expansion | | | |
| Hanoi - Quang Binh Beer | Quang Binh | 50 | End 2007 (25mn litres) |
| Thanh Hoa Beer (Draught Beer) | Thanh Hoa | 80 | End 2007 |
| Hanoi - Thai Binh Beer | Thai Binh | | n.a |
| Hanoi - Hai Phong Beer | Hai Phong | 50 | 2008 |
| Hanoi - Hai Duong Beer | Hai Duong | 50 | End 2007 (25mn litres) |
| Hanoi - Nam Dinh | Nam Dinh | 15 | n.a |

| | | | |
|---|---|---|---|
| New Projects | | | |
| Hanoi - Quang Tri Beer | Quang Tri | 50 | n.a |
| Hanoi - Vung Tau Beer | Vung Tau | 50 | n.a |
| Hanoi - Hong Ha | Hanoi | 30 | n.a |
| Hung Yen Beer | Hung Yen | 50 | n.a |
| Vinh Phuc Beer | Vinh Phuc | 200 | End 2008 (100 mn litres) Q2-2009 (full capacity) |
| Halico (Spirit) | Hanoi | 30 | n.a |

Management is planning to venture into real estate, finance and banking sectors in order to expand its income streams. Although management does not disclose further details, they emphasize not to invest more than 5% stake into these non core business apart from real estate.

## 2. Sector Overview

*Bright with total production capacity to breach 3.5bn litres by 2010.* Vietnam's annual beer production has enjoyed a compounding annual growth rate (CAGR) of 13.1% between 2000 to 2007 with total output of 1.9bn litres and per capita consumption rate of 18 litres in 2007. Total beer production capacity is expected to increase to 3.5bn litres in 2010, representing CAGR of 24% between 2007-2010.

*Market share remains heavily concentrated.* Although there are more than 300 breweries in the sector, the market is highly concentrated with the top three brewers, Saigon Beverage Company (Sabeco), Vietnam Brewery Limited (VBL) and Hanoi Beverage Company (Habeco) capturing more than 60% of the market share. Mainstream beer is the largest segment dominated by large domestic players, accounting for 45% of the volume and 50% of the sales for 2006. Meanwhile, premium beer accounts for 12% of the volume and 20% of the sales. The remaining significant portion is dominated by draught beer (Bia Hoi), which is an unpasteurized traditional beverage.

| Main regions | Brewers | Brands |
|---|---|---|
| North Vietnam | Habeco | Hanoi Beer & draught beer |
| | Southeast Asian Brewery and Viet Ha Brewery JV | Halida, Carlsberg |
| North central | Habeco | Hanoi Beer |
| Central | SanMiguel | SanMiguel |
| | Hue Brewery Limited | Huda, Festival |
| South | Sabeco | Saigon 333, Saigon Red, Saigon Green |
| | VBL | Heineken, Tiger, Ankor, Bivina, Foster, BGI |
| | Vinamilk & Samiller | Zorok |

Source: various news

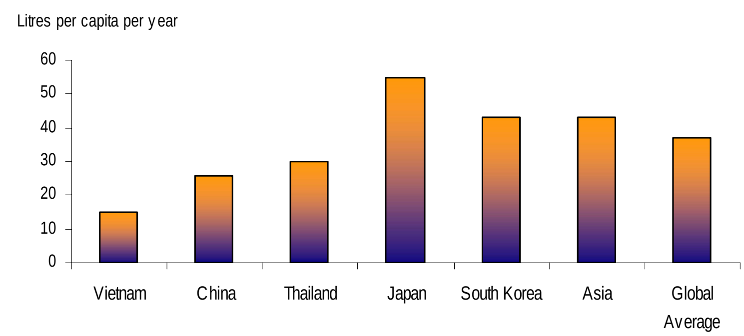
*Rising per capita income, low penetration, favorable demographic and cultural factors will continue to drive the sector*. Outlook of the domestic beer sector is very promising in view of the rising per capita income, relatively low market penetration coupled with favorable demographic in terms of tropical climate and young population (80% under 40 years of age). Interestingly, it is typical in Vietnamese culture to drink beer in social events and business gatherings. Besides that, there are also opportunities for new products such as low or non alcoholic beer, stout and dark beer, to enter the country.

*Wine and spirits market offer enormous growth potential.* The wine and spirits market is relatively small with a combined value of US$302mn recorded in 2006. The market is dominated by imported products particularly in the premium segments. Although some large local brewers like Halico and LamDong are fast gaining market share, their product range remains fairly limited. According to Euromonitor, the market is expected to grow around 4%, which is the fourth highest in the region with vodka taking the lead.

Higher living standards and the "Westernization life style" trends are the significant growth drivers.

*Sector may undergo a consolidation phase going forward.* Sector liberalization upon WTO accession, the push by Government to encourage the use of modern technologies, increased quality control and capacity to meet international standards are expected to intensify competition in the sector and induce brewers to enhance their efficiencies and product qualities. Furthermore, a more level playing field will be formed, reflected in a uniform tax rate for both local and imported beers in January 2010. In view of the high fragmentation of the sector and the absence of economies of scale for small domestic brewers to compete with the big players, we foresee that the sector may consolidate over the next few years.

Beer Consumption by Country, 2006 *Source: Canadean, Brau Beviale and Sabeco*




## Disclaimer