

# APU COMPANY

Absolute. Pure. Unique.

**BUY** Rating at a Target Price  
of MNT 821.83

July 30, 2019

## General

Ticker:	APU
Industry:	Beverages
Current Price:	MNT 568.99
Target Price:	MNT 821.83
Market Cap:	MNT 606 billion

## Key Statistics

52 Week Range:	271.68 - 906.8
% 52 Week High:	62.7%
Daily Range:	568.99-569.00
Shares Outstanding:	1,064,181,553

Figure 1. Stock Price History



## Introduction

APU Joint Stock Company (“APU” or the “Company”) is the largest brewer and beverage producer in Mongolia. APU is currently the top-ranked company on the Mongolian Stock Exchange (MSE) Top 20 Index, and has a dominant share of the domestic alcoholic beverage market. APU’s current operations include the manufacture of vodka, beer, soft drinks, and dairy products in Mongolia, as well as the local distribution of numerous foreign beverage brands.

## Investment Overview - Key Recent Developments

- **Heineken Merger:** In July 2017, APU announced that it had closed a merger transaction with Heineken’s business in Mongolia (Evergreen Investment LLC). The merger has resulted in APU becoming the clear leader of Mongolia’s alcoholic beverage market.
- **Wine Market Entrance:** APU has recently begun expanding into Mongolia’s growing wine market by adding brands such as “Castel” (largest French wine producer), and “Concha Y Toro” (largest Latin American wine producer) to its imported product portfolio.
- **Golomt Divestment:** From December 2018 to March 2019, Golomt Bank sold its 15.83% stake in APU to various parties including the Hungarian Steppe Beverage KFT which now owns 13.42% of APU. We believe that this divestment was motivated by regulation limiting commercial banks in Mongolia to a maximum of 10% ownership of any individual public company, and that selling pressure created by Golomt’s forced divestment may have depressed APU’s share price to below its true intrinsic value.
- **Operational Scale-Up:** APU has grown its revenues at an average CAGR of 25% from FY15-FY18. In addition, EBITDA and net profit margins have also generally increased steadily over the past 4 years.

Figure 2. Key Historical Financials

MNT million	2015A	2016A	2017A	2018A
<b>Income Statement</b>				
Revenue	210,111	208,055	234,606	512,928
EBITDA	29,598	15,578	43,444	107,575
Net profit	11,187	2,851	24,872	57,852
<b>Balance Sheet</b>				
Current assets	104,653	88,985	172,185	185,830
Total assets	337,424	307,662	632,914	530,447
Current liabilities	84,986	70,878	94,521	67,571
Total liabilities	205,867	161,545	125,989	86,269
Shareholder’s equity	131,557	146,117	506,925	444,178
<b>Ratio Analysis</b>				
Revenue growth	-	-1.0%	12.8%	118.6%
Gross margin	30.2%	31.7%	31.0%	31.0%
EBITDA margin	14.1%	7.5%	18.5%	20.9%
Current ratio	1.23	1.26	1.82	2.75

On July 19th 2019, APU released its Q2 2019 financial statements. However, this Q2 reporting represents results only from APU JSC’s parent company (excluding subsidiaries\*). Consolidated financial statements for Q2 2019 will be included in APU’s semi-annual report to be released on August 1st 2019.

\*APU’s subsidiaries: APU Trading LLC, SBB Trade LLC, MCS APB LLC, SBB LLC, Grand LLC and APU Dairy LLC.

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## Company Overview

Established in 1924, APU is one of the oldest and largest companies in Mongolia. The Company today is the largest alcoholic beverage producer in Mongolia over the years has been successful in establishing a strong brand-name and track record of operational excellence. APU’s current business can be divided into two main segments: (1) alcoholic products (vodka and beer), and (2) non-alcoholic products (pure water, soft drinks, dairy products). Between these two business lines, the Company offers a total of over 260 unique products. In addition, APU also currently operates three vodka production plants (including one in Russia), two breweries, one dairy production plant, and one general beverage production plant. The Company currently also has over 9000 distribution points across Mongolia and employs over 2000 workers.

Figure 3. APU Sales Revenue (by product type)

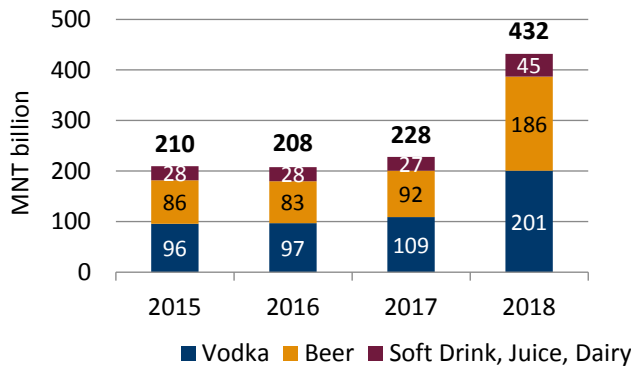
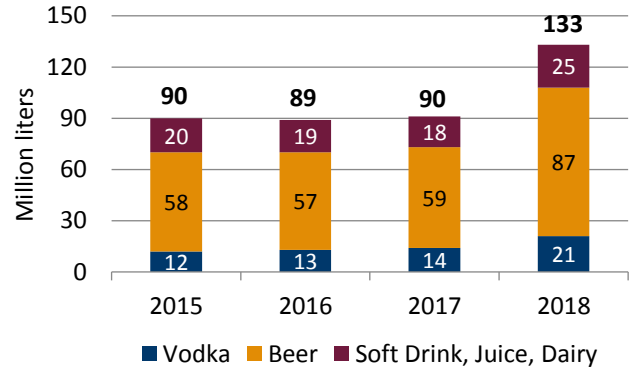
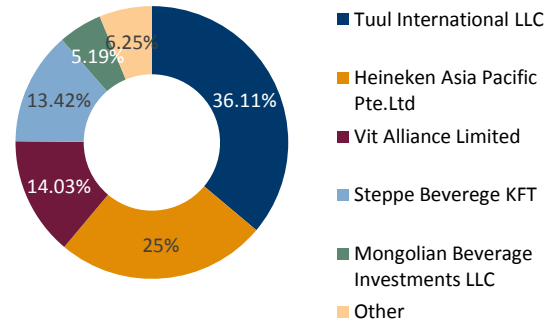


Figure 4. APU Sales Volume (by liters sold)



**Ownership Structure:** In 2018, Golomt Bank LLC sold a 13.42% stake in APU to the Hungarian Steppe Beverage KFT at an average price of MNT 720. We believe that this sale was motivated not by concerns with the Company’s underlying fundamental characteristics, but rather due to legal constraints faced by the seller as current Mongolian Banking Law prohibits commercial banks from owning over 10% of any individual company (*Banking Law of Mongolia, Chapter II*). Today, there are currently 5 major shareholders of APU that together own 93.75% of the Company.

Figure 5. APU Ownership Structure



**Export Market:** APU’s main export markets are located in China and Russia, due to especially high demand for the Company’s products in those regions. APU currently also exports to other countries including South Korea, Japan, and various European countries. Recently, APU’s leadership announced that the Company is aiming to achieve a significant increase in its export business, and is also exploring further potential expansion opportunities into American and European markets.

Figure 6. APU Export Market



Source: APU Annual Report, APU

## Management and Governance

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### Board of Directors

At a shareholders meeting on April 26th 2019, APU appointed a new Board of Directors that will serve for a 3-year term. The Board is currently made up of 9 members, including 3 independent members. The current Board is led Chairman P. Batsaikhan.

### Newly Appointed Members

**Kenneth Choo:** Mr. Kenneth Choo was appointed a board of director at APU in January 2019. He currently serves as a managing director at Heineken Asia Pacific. Prior to first joining Heineken as a business development director in 2003, he worked as a regional director at Royal Ahold company and as a senior auditor at PwC.

**Thomas Holland:** Mr. Thomas Holland was appointed a board of director at APU in April 2019. He is currently the chief investment officer and CEO of DFA (Development Finance Asia). He has previously held various managerial roles at firms such as Asia Debt Management, Cube Capital, and JP Morgan.

**Ya. Damdinsuren:** Mr. Damdinsuren was appointed a board of director at APU in April 2019. He was previously the chief strategic officer at APU in 2018, and a finance director at Mongolian Beverages Company from 2013 to 2018. His earlier experiences include managerial roles at private companies and a state budget executive position at the Ministry of Finance.

### Management

**P. Batsaikhan, Chairman:** Mr. Batsaikhan originally joined APU's Board in 2004, and prior to his appointment as Chairman, he also worked as a general manager at both Shunkhlai LLC from 1993-1996, and the Shunkhlai group from 1997-2008.

**Ts. Erdenebileg, CEO:** Mr. Erdenebileg was appointed as CEO of APU JSC in 2008, having previously served as deputy director of the Company from 2007-2008. Prior to joining APU, he also previously served as CEO of Erdenet Carpet JSC from 2000-2006, and also worked in a various engineering and management roles at Gobi JSC from 1995-2000. Mr. Erdenebileg holds a master's degree in Engineering from the Technical University of Kiev.

**G. Enkhbileg, CFO:** Mr. Enkhbileg joined APU JSC in 2003, having previously worked in a chief accountant role at a number of private companies in Mongolia. He is also currently a Director of the Mongolian CPA council and serves as a board member of the Mongolian Food Industry Association. Mr. Enkhbileg received an MBA from La Trobe University in Australia, and also holds an ACCA (Association of Chartered Certified Accountants) qualification.

**Product Portfolio - 2018**
**Vodka Brands**

**Beer Brands**

**Water, Juice, Dairy Product Brands**

**Imported Products**


## Market Overview

### Alcoholic Beverage Market – Moderate Growth Outlook

#### Overview

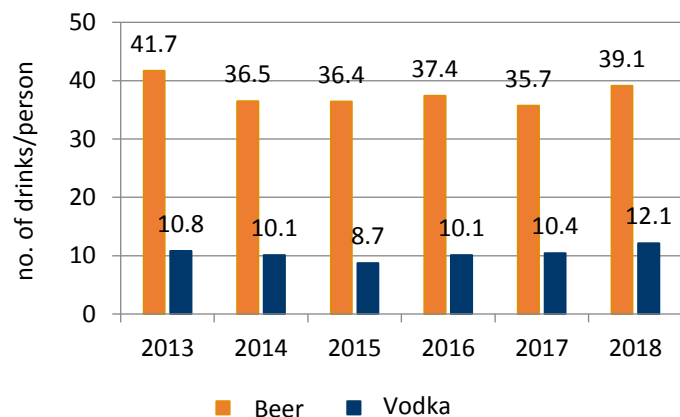
The state of Mongolia’s domestic and export markets for alcohol is somewhat mixed across segments, but on the whole appears to be promising with regards to the potential for future expansion of APU’s alcohol business. In recent years, overall sales in the domestic market have been relatively flat while the export market has shown strong growth. Within the domestic market, the liquor and wine segments have been growing at modest rates, while the beer segment has slightly declined. Meanwhile, in the export market, liquor exports have been lagging, but have been more than offset by rapidly rising beer export volumes.

APU has recently begun to aggressively pursue growth in its alcohol business through various initiatives such as its recent Heineken merger, its entry into the wine segment, and its recent increased emphasis on exports. Overall, there appears to be reason to be optimistic about the Company’s prospects in these growth initiatives, as the Company has a strong track record of successfully executing similar initiatives in the past having already captured a dominant share of Mongolia’s alcohol market.

#### Domestic Market

With approximately 80% market share for alcohol products in Mongolia, the prospects of APU’s alcohol business tend to be very closely tied with the overall direction of the domestic alcohol market. Historically, the two main segments of Mongolia’s alcohol market have been beer and vodka. Since 2013, per capita vodka consumption has increased at a CAGR of 2.3%. Meanwhile, over the same time period, per capita beer consumption has generally shown flat to negative growth, contracting at an average rate of 1.28% annually since 2013.

Figure 7. Domestic Alcohol Consumption

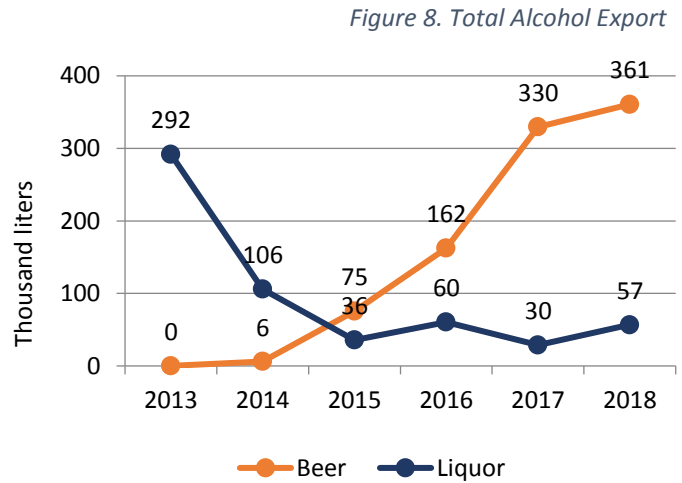


Source: National Statistics Office

In addition to the traditional beer and liquor segments of the alcohol market, it is noteworthy that Mongolia’s nascent wine market has also been growing. Historically, wine has been a made up a relatively insignificant portion of the Mongolia’s alcohol market, as Mongolia does not produce any wine domestically. However, in recent years, Mongolian consumers has begun to show increasing appetite for imported wine products with many seeing wine as a high-end alternative to some traditional beer and liquor offerings. Although wine is still a relatively small portion of Mongolia’s overall alcohol market, per capita wine consumption has been rising (*USDA GAIN, 2018*). APU’s management has expressed intentions to enter Mongolia’s wine market and has already begun to add various foreign wine brands to its portfolio. (*APU Annual Report*).

### Export Market

Currently, APU’s alcohol export business makes up a relatively smaller portion of the Company’s overall operations compared to the domestic alcohol business. However, in light of lagging growth in the domestic alcohol market, the Company has recently begun to place increasing emphasis on pursuing international alcohol export opportunities. Similar to the domestic market, Mongolia’s alcohol exports market has also shown mixed results across its different sub-sectors. While liquor exports have recently been relatively muted, beer exports have rapidly risen in the past several years. In aggregate, total alcohol export volume from Mongolia has risen fairly substantially in recent years.



Source: National Customs Office

In analyzing APU’s potential future prospects for international expansion, it is important to note that nearly all of Mongolia’s current alcohol export demand comes from China and recent figures indicate that China accounted for over 96% of Mongolia’s beer exports and a similar proportion of the country’s liquor exports (Tridge, 2017). APU does appear to be in a good position to compete in the China, as the Company has had previous success in gaining international traction. Perhaps most notably, the Company’s Chinggis Vodka has won numerous international awards including a gold medal at the San Francisco World Spirits Competition and has gained popularity among consumers across the globe (APU Company Website). If APU can continue to develop and leverage its product portfolio effectively, the Company should be in a good position to capture an increasing share of the Chinese and global alcohol market, and continue to grow its export business.

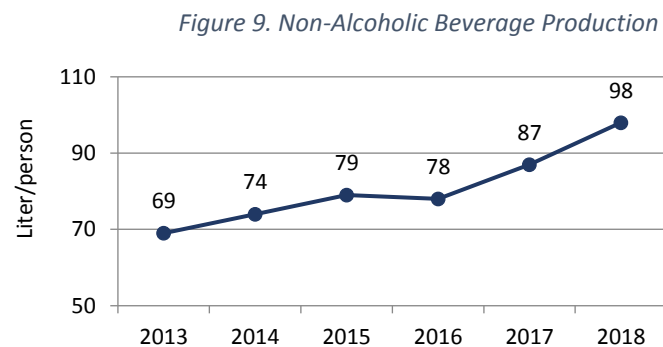
### Non-Alcoholic Beverage Market – High Growth Outlook

#### Overview

Soft drink production in Mongolia has increased dramatically over recent years from an average of 69 liter/pp in 2013 to 98 liter/pp in 2018. This increase has largely been driven by a combination of population growth and the liberalization of Mongolia’s economy. Due to these increases local demand, Mongolian beverage producers have significantly increased their production of non-alcoholic beverage products and the overall industry outlook appears promising.

#### Historical Trend & Drivers

The soft drink market in Mongolia has shown many important developments in recent years, which have been largely driven by the country’s current demographic structure. Today, roughly 64% of Mongolia’s total population is below the age of 35, and soft drinks tend to be especially popular among consumers in this segment. Per capita soft drink consumption rapidly increased in recent years,

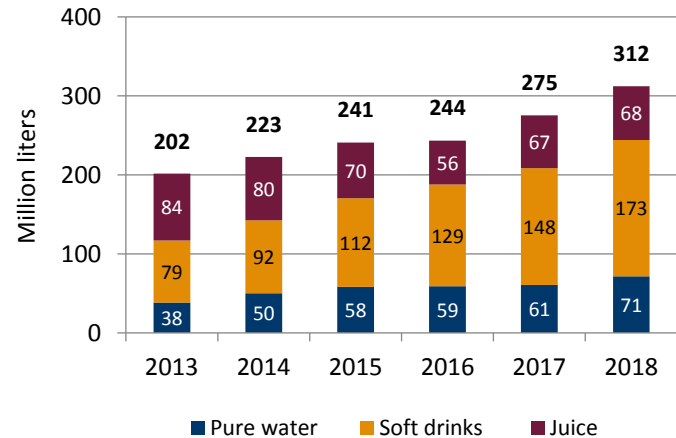


Source: National Statistics Office

driven by both rising popularity of the beverage itself, and successful marketing and expansion efforts from current players in the industry. The industry overall has had an average annual per capita production growth rate of 11% in recent years, which indicates that the non-alcoholic beverage market is quickly expanding that future opportunities in the market do exist for both incumbent producers and potential new entrants.

As shown in the following figure, soft drinks (or “carbonated drinks”) have historically been the dominant product within Mongolia’s non-alcoholic beverage segment. Today, over half of Mongolia’s non-alcoholic beverage segment is made up of soft drinks, and soft drinks’ share of the non-alcoholic segment has been steadily rising over the past years. Overall, total annual production of non-alcoholic beverages has increased by over 54% from 2013 to 2018.

Figure 10. Annual Non-Alcoholic Beverage Production



Source: National Statistics Office

## Valuation

From our valuation analysis, we have reached a 12-month price target for APU shares of **MNT 821.83**. We reached this target price through the application of a combination of DCF and comparables analysis. In our DCF analysis, we primarily used APU’s own internal production projections to derive our operating projections and the expected future cash flows of the Company. We then determined the NPV of these cash flows through the application of a discount rate we determined to be appropriate for APU through consideration of various metrics relating to both the Company itself and the markets it operates in.

Meanwhile, for our comparables analysis, we used a set of seven peer companies (three of which are partially owned by Heineken) to determine an appropriate EV/EBITDA multiple for APU, which we then used to derive an approximate equity valuation. In addition, it is noteworthy that because there was a lack of sufficiently similar companies to APU on the MSE, we used beverage producers from other developing countries (*announced by World Population Review*) to build our set of peer companies. In selecting these peer companies, we included both diversified and pure-play alcoholic beverage producers to best match the current product portfolio of APU.

**Discounted Cash Flow Method**

MNT Million	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
<b>Sales income</b>	<b>210,111</b>	<b>208,055</b>	<b>234,606</b>	<b>512,928</b>	<b>549,594</b>	<b>601,120</b>	<b>664,762</b>	<b>735,618</b>	<b>814,247</b>
<b>Gross profit</b>	<b>63,514</b>	<b>66,043</b>	<b>70,388</b>	<b>225,525</b>	<b>241,821</b>	<b>264,493</b>	<b>292,495</b>	<b>323,672</b>	<b>358,269</b>
margin, %	30.2%	31.7%	30.0%	44.0%	44.0%	44.0%	44.0%	44.0%	44.0%
<b>EBITDA</b>	<b>29,598</b>	<b>19,002</b>	<b>43,444</b>	<b>107,575</b>	<b>113,216</b>	<b>123,831</b>	<b>138,270</b>	<b>160,365</b>	<b>177,506</b>
margin, %	14.1%	9.1%	18.5%	21.0%	20.6%	20.6%	20.8%	21.8%	21.8%
<b>EBIT</b>	<b>25,555</b>	<b>16,759</b>	<b>39,632</b>	<b>80,250</b>	<b>83,678</b>	<b>95,101</b>	<b>110,274</b>	<b>133,034</b>	<b>150,779</b>
Tax	(7,609)	(874)	(9,232)	(19,232)	(20,469)	(23,325)	(27,118)	(32,808)	(37,245)
CAPEX	(19,230)	(4,486)	(4,438)	(9,905)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Net Working Capital	19,667	18,108	77,664	118,260	107,979	115,408	133,654	168,406	215,972
Changes in NWC		(1,560)	59,556	40,596	(10,281)	7,429	18,246	34,752	47,566
<b>Unlevered Free Cash Flow</b>	<b>2,760</b>	<b>12,082</b>	<b>89,330</b>	<b>119,035</b>	<b>62,466</b>	<b>87,935</b>	<b>109,398</b>	<b>142,308</b>	<b>167,827</b>
WACC					20.0%	20.0%	20.0%	20.0%	20.0%
Discount Period					1.0	2.0	3.0	4.0	5.0
Discount Factor					0.83	0.69	0.58	0.48	0.40
<b>NPV of Free Cash Flow</b>					<b>52,055</b>	<b>61,066</b>	<b>63,309</b>	<b>68,629</b>	<b>67,446</b>
Terminal Value									<b>951,020</b>
<b>NPV of Terminal Value</b>									<b>382,194</b>

<b>DCF Valuation (MNT million)</b>	
<b>Enterprise Value ("EV")</b>	<b>694,068</b>
Less: Total Debt	10,940
Plus: Cash and Cash Equivalents	61,123
<b>Equity Value</b>	<b>744,881</b>
Outstanding Shares	1,064,181,553
<b>Equity Value per Share (MNT)</b>	<b>699.96</b>

<b>DCF Sensitivity Analysis</b>		WACC				
		18%	19%	20%	21%	22%
Growth Rate	0.00%	739.69	696.43	657.70	622.85	591.35
	1.00%	766.27	719.43	677.72	640.37	606.75
	2.00%	796.18	745.13	699.96	659.73	623.70
	3.00%	830.07	774.04	724.81	681.24	642.44
	4.00%	868.81	806.81	752.77	705.29	663.25



### Comparable Companies Method

Comparable Companies	Ticker	Country	Ownership of Heineken	Price /Earnings	Price /Sales	Net Debt /EBITDA	EBITDA /EV
Nigerian Breweries Plc.	NB-NG	Nigeria	53.23%	35.18	1.45	0.41	10.51
Grupa Zywiec S.A.	GSMI-PH	Poland	65.16%	14.64	1.56	0.76	8.87
Namibia Breweries Ltd.	ZWC-PL	Namibia	29.90%	23.35	3.72	(0.04)	12.02
Guinness Ghana Breweries Ltd.	GGBL-GH	Ghana	20.00%*	33.33	1.01	0.55	7.28
Distilleries Company of Sri Lanka Plc	DIST.N0000-LK	Sri Lanka	-	12.60	2.56	0.43	7.45
G.M. Breweries Ltd.	507488-IN	India	-	14.58	1.90	(0.01)	9.85
PT Delta Djakarta Tbk	DLTA-ID	Indonesia	-	13.03	6.62	(2.34)	8.33
<b>Mean</b>				<b>20.96</b>	<b>2.69</b>	<b>-0.03</b>	<b>9.19</b>
<b>Median</b>				<b>14.64</b>	<b>1.90</b>	<b>0.41</b>	<b>8.87</b>

\*Previously held a 20% stake from 2005 to 2015

Source: Factset

EBITDA Multiple Valuation (MNT million)	
<b>APU 2018 EBITDA</b>	<b>107,575</b>
times: EBITDA Multiple	x 8.87
<b>Enterprise Value ("EV")</b>	<b>954,079</b>
Less: Total Debt	10,940
Plus: Cash and Cash Equivalents	61,123
<b>Equity Value</b>	<b>1,004,262</b>
Outstanding Shares	1,064,181,553
<b>Equity Value per Share (MNT)</b>	<b>943.69</b>

### Valuation Summary – Target Price

Valuation Approach	Weight	Price (MNT)
Discounted Cash Flow	50%	699.96
Comparable Companies	50%	943.69
<b>Target Price per Share</b>		<b>821.83</b>

## Financial Projection (MNT Million)

STATEMENT OF PROFIT OR LOSS	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
<b>Sales Revenue</b>	<b>210,111</b>	<b>208,055</b>	<b>234,606</b>	<b>512,928</b>	<b>549,594</b>	<b>601,120</b>	<b>664,762</b>	<b>735,618</b>	<b>814,247</b>
Cost of Sales	(146,598)	(142,013)	(164,218)	(287,404)	(307,773)	(336,627)	(372,266)	(411,946)	(455,979)
<b>Gross Profit</b>	<b>63,514</b>	<b>66,043</b>	<b>70,388</b>	<b>225,525</b>	<b>241,821</b>	<b>264,493</b>	<b>292,495</b>	<b>323,672</b>	<b>358,269</b>
<i>Gross profit margin</i>	30%	32%	30%	44%	44%	44%	44%	44%	44%
<b>EBITDA</b>	<b>29,598</b>	<b>19,002</b>	<b>43,444</b>	<b>107,575</b>	<b>113,216</b>	<b>123,831</b>	<b>138,270</b>	<b>160,365</b>	<b>177,506</b>
<i>EBITDA margin</i>	14%	9%	19%	21%	21%	21%	21%	22%	22%
<b>Operating profit/(Loss) before tax</b>	<b>18,796</b>	<b>10,680</b>	<b>34,104</b>	<b>77,083</b>	<b>83,678</b>	<b>95,101</b>	<b>110,274</b>	<b>133,034</b>	<b>150,779</b>
Income tax expense	(7,609)	(874)	(9,232)	(19,232)	(20,469)	(23,325)	(27,118)	(32,808)	(37,245)
<b>Net profit/(Loss)</b>	<b>11,187</b>	<b>9,807</b>	<b>24,872</b>	<b>57,852</b>	<b>63,208</b>	<b>71,776</b>	<b>83,155</b>	<b>100,225</b>	<b>113,535</b>
<i>Net profit margin</i>	5%	1%	11%	11%	12%	12%	13%	14%	14%

STATEMENT OF FINANCIAL POSITION	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
<b>ASSETS</b>									
Total current assets	104,653	88,985	172,185	185,830	184,030	195,721	219,230	259,842	313,911
Total non-current assets	232,771	218,677	460,730	344,616	347,263	339,760	333,279	327,635	322,781
<b>TOTAL ASSETS</b>	<b>337,424</b>	<b>307,662</b>	<b>632,914</b>	<b>530,447</b>	<b>531,292</b>	<b>535,480</b>	<b>552,509</b>	<b>587,477</b>	<b>636,692</b>
<b>EQUITY AND LIABILITIES</b>									
Total equity	131,557	146,117	506,925	444,178	447,513	446,714	457,585	485,696	527,303
Total current liabilities	84,986	70,878	94,521	67,571	76,051	80,313	85,576	91,436	97,939
Total non-current liabilities	120,881	90,667	31,468	18,698	7,729	8,453	9,348	10,345	11,450
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>337,424</b>	<b>307,663</b>	<b>632,915</b>	<b>530,447</b>	<b>531,292</b>	<b>535,480</b>	<b>552,509</b>	<b>587,477</b>	<b>636,692</b>

STATEMENT OF CASH FLOW	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Net cash flow from operating activities	17,591	40,324	41,779	88,166	113,391	85,994	94,911	98,244	101,588
Net cash flow from investing activities	(19,190)	(4,486)	(3,576)	(13,520)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Net cash flow from financing activities	(17,290)	(39,022)	(33,607)	(63,971)	(73,801)	(73,801)	(73,801)	(73,801)	(73,801)
<b>Net cash flow</b>	<b>(18,888)</b>	<b>(3,184)</b>	<b>4,596</b>	<b>10,674</b>	<b>19,591</b>	<b>(7,807)</b>	<b>1,110</b>	<b>4,444</b>	<b>7,787</b>
<b>Cash &amp; cash equivalents at the beginning</b>	<b>28,835</b>	<b>9,947</b>	<b>45,853</b>	<b>50,449</b>	<b>61,123</b>	<b>80,713</b>	<b>72,906</b>	<b>74,017</b>	<b>78,460</b>
<b>Cash &amp; cash equivalents at the end</b>	<b>9,947</b>	<b>6,763</b>	<b>50,449</b>	<b>61,123</b>	<b>80,713</b>	<b>72,906</b>	<b>74,017</b>	<b>78,460</b>	<b>86,247</b>

## Investment Risks

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### 1. Regulatory Risk

While APU's market-leader status in Mongolia provides it with many competitive advantages, it also opens it up to potential regulatory risks. In particular, we believe it is a distinct possibility that APU's near-monopoly status may in the future draw the attention of regulators, which could lead to the imposition of measures such as excise taxes and anti-monopoly cost controls that could detrimentally affect APU's operating performance. Thus far, APU has not come under any significant scrutiny in this regard, and there are no near-term indicators that anti-trust measures are forthcoming. In fact, APU has actually received much praise for being a domestic success story and champion of Mongolian industry, and there was no significant opposition to APU's recent merger with Heineken. However, we still believe that there exists the possibility that future shifts in political sentiment could lead to increased regulation of big businesses in Mongolia, which would almost certainly affect APU due to the Company's size and status. Overall, while we do not believe it to be a probability, we certainly believe that potential future antitrust measures are a possibility, and that APU will have to increasingly account for this risk and it continues to grow and expand its businesses.

### 2. Macroeconomic Risk

Despite its recent push to expand operations overseas, the majority of APU's current sales still come from the domestic market. As a result, we believe that APU has considerable risk related to the performance of the overall domestic economy. While Mongolia's economy has recently shown strong signs of growth, the small size and still-developing nature of the market increase the possibility of a potential future macroeconomic instability. Overall, while we believe that a potential economic downturn would affect APU's business, we also believe the Company possesses numerous characteristics that will insulate it from many of the negative impacts of an economic recession in Mongolia. Most importantly, we believe that the fact that a large portion of APU's business comes from the consumer-staples category will allow the Company to continue to maintain relatively strong operating performance even under poor economic conditions due to the low historical correlation between the consumer-staples segment and overall market performance. In addition, we also believe that APU's expansion into international markets may allow it to continue to achieve growth even during an economic downturn.

### 3. Foreign Exchange Risk

A final risk we believe to be worth considering is APU's potential exposure to foreign exchange fluctuations as the Company expands its international operations. The majority of the Company's export business is directed towards the Chinese market where we believe significant foreign exchange risk exists. In particular, given China's current trade conflict with the United States, we believe that the RMB could potentially undergo significant depreciation which could be detrimental to the performance of APU's export business. Overall however, we believe this is a relatively smaller risk, mainly due to the fact that the majority of APU's current sales still come from the domestic market, and that even with the Company's current international expansion efforts, we still expect that it will be several years before international sales make up a very significant portion of APU's overall business.

## Conclusion

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APU has been a long-standing leader of the Mongolian beverage industry and currently accounts for approximately a quarter of the total market value of the Mongolian Stock Exchange (MSE). Based on the company's historical track record and our analysis of the company's current market position, we expect APU to remain the dominant player in the Mongolian beverage space for years to come. In addition, and we also anticipate that that the Company's expansion initiatives into new geographic and product lines will add significant value to not only APU but also the Mongolian economy as a whole. The Company does face potential risks going forwards, perhaps most importantly the risk of increased regulatory pressure as it potentially approaches near-monopoly status in the Mongolian market, but we believe these risks are outweighed by the Company's near and long-term growth prospects.

In terms of the Company's current share price, we believe that APU is currently undervalued and we currently have a **BUY** rating on the Company at a target share price of **MNT 821.83**. We believe that the disparity between the current share price and the Company's intrinsic value is driven by numerous factors, including but not limited to the recent forced sale of APU shares by Golomt due to Mongolian banking regulations. In addition, we also believe it to be noteworthy that APU has consistently demonstrated a credible commitment towards enhancing shareholder value, evidenced by its improving operating performance and consistent distribution of dividends over the years. Thus, we believe that the Company's current share price will converge upon its true intrinsic value in the coming years, and that there is exists significant upside potential in APU's shares at their current price.

**ABOUT MICC**

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Mongolia International Capital Corporation (MICC) was established in 2005 as the first investment banking firm in Mongolia. Mongolia's rapid economic development and favorable financial environment present unique prospects for investment opportunities and growth potential for companies. In order to enable our clients and investors to take full advantage of these opportunities, MICC offers investment banking, asset management, securities underwriting and brokerage services. In addition, we conduct periodic macroeconomic research, develop analyses of domestic industries and review equities listed on the Mongolian Stock Exchange.

MICC continues to make history in the Mongolian financial sector. We serve leading companies in the mining, manufacturing, financial, retail trade, airline and construction sectors, and prize our close and long-standing working relationships with our clients. Our goal is to assist both local and international companies realize their strategic goals by offering innovative and efficient financing solutions.

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**DISCLOSURE**

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