ANCHOR CAPITAL

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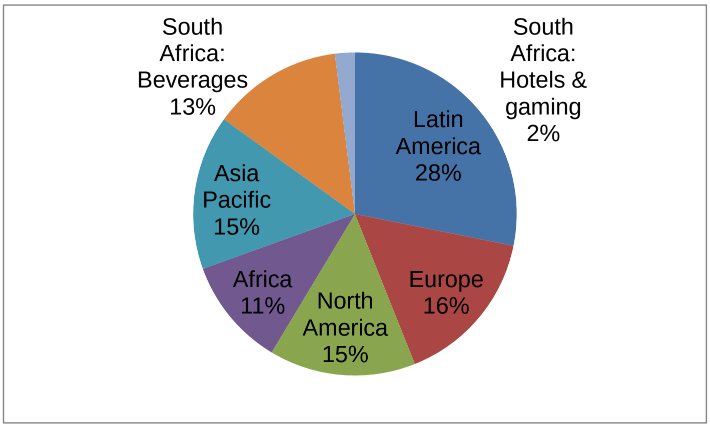
SABMiller plc – Too much froth

Potential for underperformance in an improving global economy

ZAc44164 **Company update; Sean Ashton**

- You have to love the company, but valuation is a massive issue, after moving up >60% in 2012. The share is close to its all-time peak rating.
- 75% emerging market (EM) exposure is attractive, but this is NOT a China play.
- SAB is more of a macro than bottom-up call; it is in a basket of companies that are trading at high multiples as they provide certainty and yield in an uncertain world. As the world normalises, so the more cyclical (and MUCH cheaper) parts of the market should outperform.
- We think the company can grow earnings at 10% p.a., but if the rating normalises, performance could be poor in the next 6-12 months. We are very happy to tuck it away longer term.

Figure 1: SABMiller EBITA (1H13) split by geography



Source: SABMiller

Note: Bulk of Asia Pac = Australia (Fosters acquisition)

Company stats

- **Share price: ZAc44164**
- **Market cap: R737.1bn**
- **Avg trade per month: R13.2bn**
- **12-month high: ZAc45085**
- **12-month low: ZAc30175**
- **Sales from EM: 69%**
- **Biggest shareholder has 11.3%**

Investment view

SABMiller grew its earnings by 14% in dollar terms in 1H13, and the consensus (*Bloomberg*) expectation is that it will earn $2.40 (+12%) for the year ending March 2013. This places the stock at **12-month forward P/E multiple of 18.7x** – well ahead of the group's average trading history (see Figure 4), but still broadly in line with its valuation relative to peers.

Global consumer staples have performed well given the rush to defensive, quality stocks in a low-growth (low-yield) world and this has buoyed SAB's share price performance (+60% since the beginning of 2012). We think the stock is likely to continue delivering a solid (~10% p.a.) earnings performance and we are comfortable to hold it in longer-term portfolios, but we are concerned that investors could well suffer a period of relative underperformance in an improving global macro environment should sentiment shift in favour of more cyclical (and cheaper) stocks.

Background information

SABMiller is the world's second-largest brewer, with operations in over thirty countries. The group's operations are heavily focussed in EM, which account for ~75% of group volume:

Key earnings drivers:

SABMiller is a very large, widely diversified global consumer goods business and as such we view it as a play on global GDP/consumer spend – but with a bent toward the EM

Figure 2: Forecasts

SABMiller plc				
March y/e	2012	2013F	2014F	2015F
EPS ($)	2.15	2.41	2.71	3.00
% growth		12%	13%	11%
DPS	0.91	1.01	1.14	1.28
P/E	23.3x	20.8x	18.4x	16.7x
DY		1.7%	1.9%	2.1%
Share Price	$50.00			
12M Fwd P/E	18.7x			

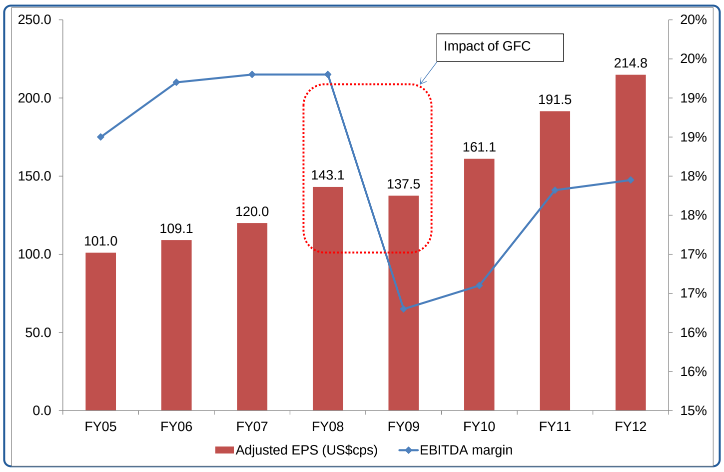
Source: Bloomberg, Anchor Capital

Analysis continued...

consumer. As a result, turnover growth potential is a function of each market's underlying beer consumption growth rates and the ability to put through price increases.

At a group level, we estimate the trend organic growth rate potential at 3-4% for volumes and 3-4% for pricing power, resulting in 6-8% organic turnover growth before currency fluctuations. In addition to this, we believe the group has the potential to continue concluding regional, bolt-on acquisitions where it can bring its scale to bear on the business in improving efficiencies and removing duplicate costs. As a result, the group should have the ability to achieve moderate margin expansion each year – although it's long-term track record in this regard was set-back by the global financial crisis in FY09.

Figure 3: SABMiller – 11% CAGR adjusted EPS growth

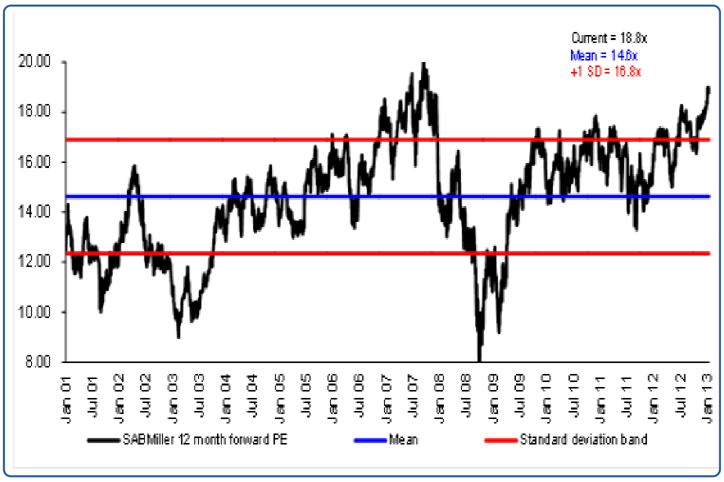


***Source:* Bloomberg IBES estimates & Anchor Capital calculations**

China provides longer term optionality, but unlikely a key earnings driver near-term

SABMiller's CR Snow associate in China accounts for approximately 20% of the group's lager volumes, but less than 2% of profit. The reason for this is that pricing is very poor in China – the beer market in that country has historically been very fragmented. While volumes continue to grow strongly (4%+ p.a.), we believe the bigger opportunity longer term is further consolidation in the Chinese market which should allow for better pricing power, and hence EBITA margins. This is, however, likely to take many years.

Figure 4: SABMiller consensus forward P/E multiple – 27% more expensive than its historical average



Source: *Factset, Macquarie Research*

Figure 5: SABMiller valuation relative to peers

Name	Price (reporting ccy)	Fwd EPS 1	Fwd EPS 2	12m fwd EPS	12m fwd PE
SABMILLER PLC	**50.00**	**2.4**	**2.7**	**2.7**	**18.7**
ANHEUSER-BUSCH INBEV NV	65.70	4.7	5.0	4.7	14.0
CIA DE BEBIDAS DAS AME-PREF	92.50	3.3	3.7	3.3	27.7
CARLSBERG AS-B	588.50	35.9	42.5	36.8	16.0
ASAHI GROUP HOLDINGS LTD	2008.00	146.3	155.3	147.5	13.6
C&C GROUP PLC	4.95	0.3	0.3	0.3	15.5
KIRIN HOLDINGS CO LTD	1224.00	55.9	65.2	57.1	21.4
TSINGTAO BREWERY CO LTD-A	35.01	1.3	1.5	1.4	25.6
GRUPO MODELO S.A.B.-SER C	108.00	4.1	4.4	4.1	26.1
BOSTON BEER COMPANY INC-A	142.82	4.4	4.9	4.5	31.9
SAPPORO HOLDINGS LTD	309.00	14.5	15.7	14.7	21.1
EAST AFRICAN BREWERIES LTD	312.00	11.7	14.9	13.7	22.8
HEINEKEN HOLDING NV	46.06	3.4	4.0	3.5	13.3
ANADOLU EFES BIRACILIK VE	26.00	1.1	1.3	1.2	22.6
				Average	**20.7**

Source: *Bloomberg IBES consensus estimates*

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