BRYAN, GARNIER & CO

INDEPENDENT RESEARCH UPDATE

24th September 2015

Food & Beverages

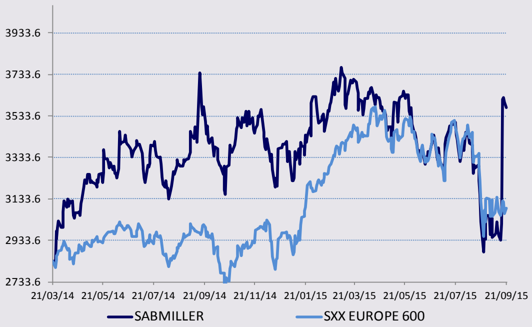
SABMiller

A very special snowflake

Fair Value 5000p vs. 4700p (price 3,469p) **BUY**

Bloomberg	SAB LN
Reuters	SAB.L
12-month High / Low (p)	3,768 / 2,878
Market capitalisation (GBPm)	56,139
Enterprise Value (BG estimates GBPm)	54,285
Avg. 6m daily volume ('000 shares)	2,603
Free Float	54.5%
3y EPS CAGR	1.9%
Gearing (03/15)	48%
Dividend yield (03/16e)	2.23%

YE March	03/15	03/16e	03/17e	03/18e
Revenue (USDm)	22,130	20,335	21,101	22,371
EBIT (USDm)	4,459	3,994	4,227	4,592
Basic EPS (USD)	2.04	1.97	2.13	2.35
Diluted EPS (USD)	2.37	2.12	2.28	2.51
EV/Sales	3.83x	4.10x	3.89x	3.58x
EV/EBITDA	14.9x	16.2x	15.2x	13.8x
EV/EBIT	19.0x	20.9x	19.4x	17.5x
P/E	22.5x	25.1x	23.4x	21.2x
ROCE	7.4	6.5	6.8	7.3



Following an update of our model which takes into account the lower developing market currencies, we derive a standalone fair value of 3,300p. Adding the 1,700p of potential cost savings value and the bid premium from AB InBev (based on USD2.2bn of synergies), brings our total fair value of the company to exactly 5,000p.

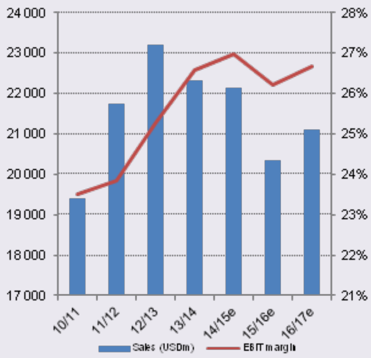
- SABMiller's presence in China is through its 49% stake in CR Snow, the largest Chinese brewer by volume (24% market share) and by value (20% share). Its 49% share in CR Snow represents 19% of the group's beer volumes but only 7% of the group's revenue and 4% of the group's EBITDA. The company's portfolio is mainly centred on the Snow brand which accounted for 87% of 2014 sales volumes. CR Snow's strategy is focused on gaining a 30% market share in the Chinese beer market and improving EBITDA margins from the current 13% to 20-25%.

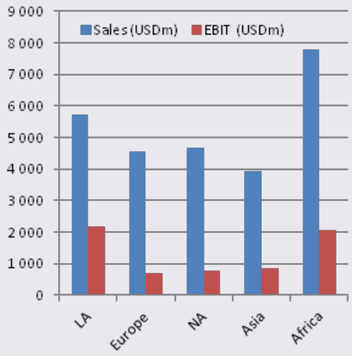
- CRE which holds 51% of CR Snow but also has interests in retail, food production and other beverages, is currently in the process of spinning off its non-beer business to CR Holding, which, after a HKD12.3 special dividend, will hold a 72% stake in CRE after the deal (and the free float will be 28%) as it will also make an offer for 44% of the current free float. As a result, CRE will be a new separately-listed brewer which holds a 51% stake in CR Snow.

- After updating our figures for the recent sell off in emerging market currencies, we are lowering our FY16 EPS by 7% to USD2.12 per share which is 10.5% lower than our FY15 EPS. For FY17, our EPS estimates come down by 9% to USD2.28, which is a 7.5% increase on the previous year. Three zones (Africa, LatAm and Asia) are being hit by depreciating currencies, which brings not only short-term lower margins (transactional impact) but also lowers the recorded forecasts for the years ahead (translational impact). However, SABMiller is using this opportunity to boost volumes as beer prices are not being increased to the same extent as accelerating inflation.

Analyst:
Nikolaas Faes
33(0) 1 56 68 75 72
nfaes@bryangarnier.com

Sector Analyst Team:
Loïc Morvan
Antoine Parison
Virginie Roumage
Cedric Rossi





Company description

SABMiller, based in London, is the second largest brewer in the world in terms of sales volumes (245mn hl of beer in FY13/14) and is a significant soft drink bottler and distributor (73m hl). Its brands include Castle (Africa), Miller (US), Peroni (Italy), Aquila (Colombia) and Snow (China). From a strong cash-generative South African base, the company expanded in the emerging markets of Africa, Asia and Central Europe before merging with Miller in 2002. SABMiller acquired Colombian brewer Bavaria in 2005, and signed a JV agreement with Molson Coors, in the US, in which it holds a 58% economic interest. More recently, SABMiller acquired the Foster's group in Australia. SABMiller also owns 24% of the Turkish group Anadolu Efes. The Altria Group owns some 27% of SABMiller and the Santo Domingo Group (BevCo) owns approximately 14%

Simplified Profit & Loss Account (USDm)	**31/03/13**	**31/03/14**	**31/03/15**	**31/03/16e**	**31/03/17e**	**31/03/18e**
Revenues	23,213	22,311	22,130	20,335	21,101	22,371
Change (%)	*6.7%*	*-3.9%*	*-0.8%*	*-8.1%*	*3.8%*	*6.0%*
Adjusted EBITDA	5,710	5,720	5,690	5,150	5,413	5,826
EBIT	4,393	4,439	4,459	3,994	4,227	4,592
Change (%)	*10.2%*	*1.0%*	*0.5%*	*-10.4%*	*5.8%*	*8.6%*
Financial results	(735)	(645)	(637)	(420)	(376)	(317)
Pre-Tax profits	3,658	3,794	3,822	3,574	3,851	4,275
Exceptionals	(200)	(197)	(75.0)	0.0	0.0	0.0
Tax	(1,201)	(1,173)	(1,273)	(1,242)	(1,339)	(1,477)
Profits from associates	1,213	1,226	1,083	1,112	1,201	1,297
Minority interests	(237)	(269)	(258)	(256)	(266)	(280)
Net profit	3,233	3,381	3,299	3,189	3,447	3,816
Restated net profit	3,772	3,865	3,835	3,433	3,692	4,061
Change (%)	*10.9%*	*2.5%*	*-0.8%*	*-10.5%*	*7.5%*	*10.0%*
Operating cash flows						
Change in working capital	(156)	93.0	132	(152)	64.7	107
Capex, net	(1,305)	(1,331)	(1,394)	(1,448)	(1,505)	(1,171)
Financial investments, net	(328)	(423)	646	0.0	0.0	0.0
Dividends	(1,648)	(1,834)	(1,878)	(1,985)	(2,183)	(2,401)
Other	(419)	(1,248)	(1,070)	(550)	(514)	(496)
Net debt	16,333	14,944	11,558	10,542	9,266	7,402
Free Cash flow	3,796	3,228	3,383	3,001	3,459	4,266
Tangible fixed assets						
Intangibles assets	29,497	27,029	21,624	21,225	20,826	20,427
Cash & equivalents	2,215	2,103	986	986	986	986
current assets	3,656	3,443	3,520	3,235	3,356	3,558
Other assets	11,866	12,111	10,820	10,820	10,820	10,820
Total assets	56,293	53,751	44,911	44,918	45,359	45,498
L & ST Debt	18,548	17,047	12,544	11,528	10,252	8,388
Others liabilities	11,373	10,386	9,195	9,013	9,466	10,055
Shareholders' funds	26,372	26,318	23,172	24,376	25,640	27,055
Total Liabilities	56,293	53,751	44,911	44,918	45,359	45,498
Capital employed	47,890	46,142	38,536	38,980	39,234	39,065
Operating margin						
Tax rate	25.71	24.32	25.95	26.50	26.50	26.50
Net margin	21.70	23.14	23.19	22.53	23.31	24.15
ROE (after tax)	14.30	14.69	16.55	14.09	14.40	15.01
ROCE (after tax)	7.32	7.30	7.39	6.51	6.81	7.33
Gearing	60.58	55.27	48.30	41.63	34.63	26.20
Pay out ratio	50.27	50.22	55.52	60.32	61.37	60.98
Number of shares, diluted	1,609	1,617	1,621	1,621	1,621	1,621
EPS						
Restated EPS	2.34	2.39	2.37	2.12	2.28	2.51
% change	*10.3%*	*2.0%*	*-1.0%*	*-10.5%*	*7.5%*	*10.0%*
EPS bef. GDW	2.34	2.39	2.37	2.12	2.28	2.51
BVPS	15.79	15.73	13.85	14.57	15.33	16.18
Operating cash flows	3.55	3.51	3.50	3.18	3.34	3.59
FCF	2.36	2.00	2.09	1.85	2.13	2.63
Net dividend	1.01	1.05	1.13	1.19	1.31	1.44

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

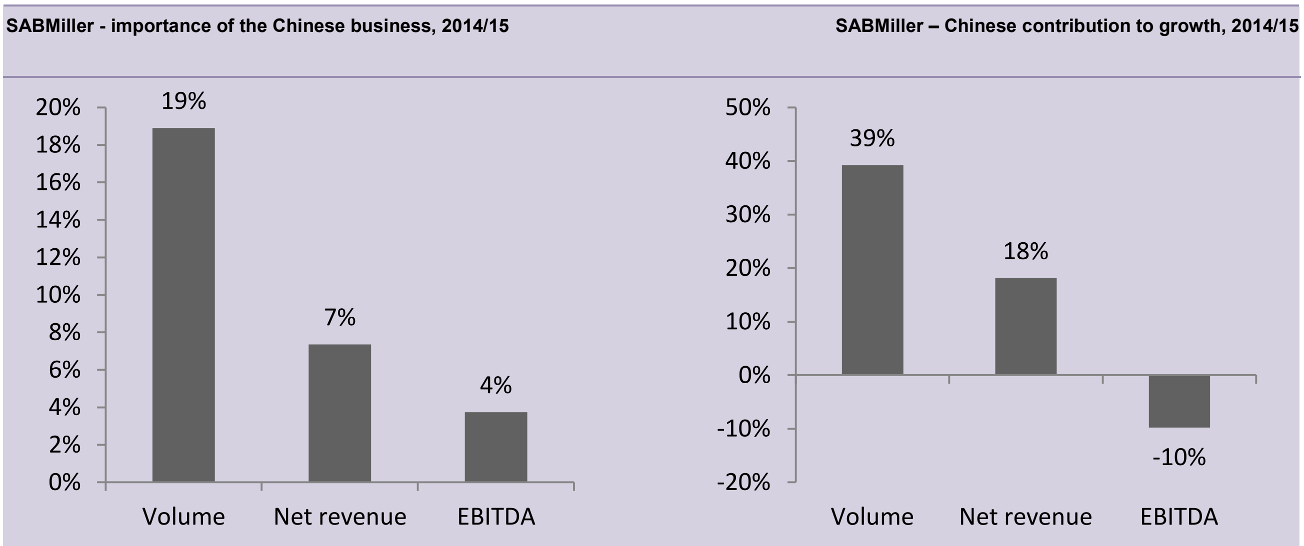
1. CR Snow is market leader

CR Snow has a 24% share of the market and it makes up 7% of SABMiller's revenues

SABMiller's presence in China is through its 49% stake in CR Snow, the largest Chinese brewer by volume (24% market share) and by value (20% share). Its 49% share of CR Snow represents 19% of the group's beer volumes but only 7% of the group's revenue and 4% of the group's EBITDA. This is not so different from where it was five years ago representing 22% in volumes, 5% in revenues and 4% in EBITDA. Last year (2014/15), China contributed 39% to volume growth of the company, 18% of revenue growth but dragged EBITDA growth 10% lower.

CR Snow operates 98 breweries with an annual production capacity of more than 200m hl. The company has strong positions in almost every region in China except North-Western China, Chongjing, Jangxi, Guangdong (hence the acquisition of Kingway) and Beijing.

Fig. 1: The weight of the Chinese business for SABMiller



Source: Company, Bryan, Garnier & Co

1.1. Brands

Snow is 87% of the company's beer brand sales by volume

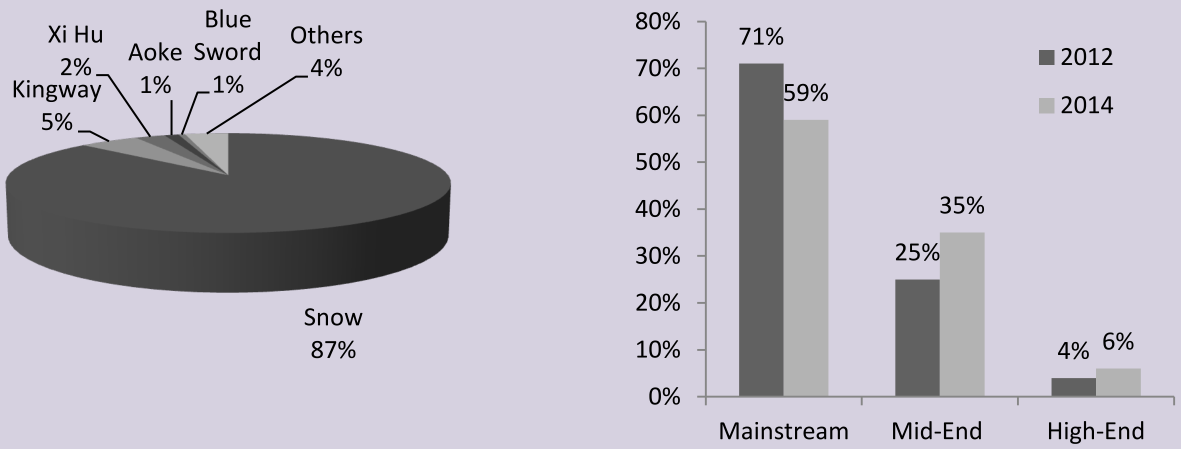
The company's portfolio is mainly centred on the Snow brand which according to the company accounted for 87% of 2014 sales volumes with the remaining 13% from 15-20 local brands which are mainly in the lower end and are gradually being faded out/replaced by Snow. However, the recently-acquired Kingway brand, which has a strong base in Guangdong, is likely to be kept for the foreseeable future.

No International premium brand in its portfolio

Back in 2012, CR Snow trial-launched MGD in the province of Zhejiang (in the major provincial cities of Hangzhou and Wenzhou), just south of Shanghai, to compete in China with other international brands like Budweiser, but has decided to keep for the moment its focus on driving its Snow brand across the different retail price points ranging from RMB 3 to RMB 5 per bottle to cater for a full spectrum of consumers (from mainstream to mid and high-end products). Indeed, very typical for the Chinese beer market, is that one beer brand can easily cover different segments. Within its full range of products, CR Snow's strategy is to drive the mid- to high-end products in recognition of the premiumisation trend in China and to appeal to aspirational consumers.

Fig. 2: CR Snow's brand portfolio

CR Snow Chinese beer brands | **CR Snow volume distribution by price segment***



Source: Canadean, Company, Bryan, Garnier & Co estimates

**Mid-End defined as products with a retail price over RMB 5 for 500ml.*

Fig. 3: Snow brand for different price segments

Source: Company

1.2. Strategy

Clear objective to increase market share to 30% from 24%

CR Snow's strategy is focused on gaining a 30% market share in the Chinese beer market and improving EBITDA margins from the current 13% to 20-25% in the long run (more like a decade as we understand it).

The way the company wants to achieve this is helped by M&A (more on that under the next heading). But it is a clear target for the company to strengthen its regional presence through organic growth and acquisitions as it wants to expand its leadership in currently only 10 provinces.

Keep penetrating the market with lower-priced brands

Organically, the company has been gaining 1% market share every 15 months, which means that as we expect organic volume growth for the market to be 1-2%, then CR Snow's growth in volumes should be around 2-3%.?. An element of organic volume growth is to capture volumes with the relatively lower pricing of the CR Snow portfolio (10% below Tsingtao and 40% below AB InBev). And with a below 60% capacity utilisation in 2014 management is likely to keep focused on driving market share.

But at the same time driving the more premium end of its portfolio where market growth is faster

One concrete way to do this is to increase its canned beer market share. Currently, cans are just under 10% of the company's sales volumes but growth in the past 2-3 years has been over 20% p.a. As that growth is expected to continue, the company is investing increasingly into new canning lines especially for its mainstream, mid- and high-end products. Another way of further improving its market share is to increase its presence in premium products, but organic growth in premium has been around 15% over the past five years compared to 7% for the mainstream segment. Currently, CR Snow's market share in both segments is similar, but the company is currently not present in super premium. Premium and Super premium brands also carry a higher margin which helps to get the company to its stated 20-25% EBITDA margin target.

Next to changing the mix in revenues, an important part of the growth in the margin comes from:

- Upgrading breweries and drive efficiency and productivity gains.
- The company is implementing an ERP management information system that integrates areas such as planning, purchasing, inventory, sales, marketing, finance, human resources, etc., and which should make it easier to for management to run the company more efficiently. The implementation started this year and completion is planned in nine months, although the benefits should be seen earlier. One of the direct consequences of a more modern ERP system is that the company needs less staff in monitoring the different layers of distributors and could eventually take out some of the layers (sometimes 2-3 layers of distributors instead of 1 which coordinates different distributors).
- Collaboration with SABMiller. Common buying with SABMiller increases negotiating power (e.g. lower barley costs). Leveraging on SABMiller's technology and know-how to improve production facilities, methods and expertise of management
- Integration of Kingway onto the platform with expectations to complete within the next three to four years which includes upgrading Kingway's breweries to CR Snow's best-in-class operating standards and integrating Kingway's distribution and channel strategy .

1.3. M&A – active consolidator

Kingway has been the latest addition

CR Snow has been an active participant in the consolidation of the Chinese beer industry which allowed it to increase its share in the market from 4% in 1999 to 11% in 2004, and 24% in 2014. One of the latest and largest acquisitions (in terms of production capacity – 15m hl and a production of 9m hl) in the Chinese beer industry has been the acquisition of the Kingway Brewery in 2013 for USD850m, allowing it to strengthening its foothold in southern China, which has reinforced its position in the market and led to an increase in market share, especially in the Guangdong Province.

More acquisitions likely to reinforce position in different provinces

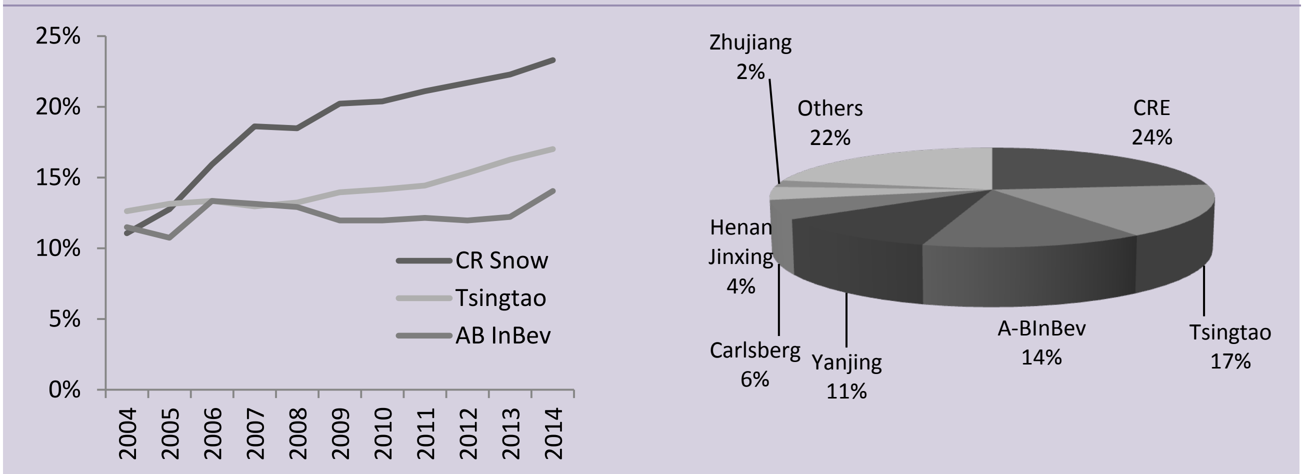
The company continues to drive consolidation in the industry and believes that it has to reinforce its position in different provinces. (Currently the company has leadership in only 10 out of the 24 provinces where it is active.) CR Snow claims to have market shares above 50% in seven provinces: Sichuan (75%), Liaoning (70%), Guizhou (65%), Anhui, Heilongjiang, Zhejiang (60%) and Jiangsu. CR Snow's management does not expect regulatory difficulties in expanding further, especially as the company is very much a Chinese company which has good relationships with the government.

CR Snow becomes a separately-listed company

However, the biggest M&A transaction is actually on CR Snow itself. CRE, which holds 51% of the company but also has interests in retail, food production and other beverages, is currently in the process of spinning off its non- beer business to CR Holding, which, after a HKD12.3 special dividend, will hold a 72% stake in CRE after the deal (and the free float will be 28%) as it will also make an offer for 44% of the current free float. As a result CRE will be a new separately-listed brewer which holds a 51% stake in CR Snow. But with the increased stake from CR Holding, we can see scenarios where CR Snow merges with another main Chinese player. After all, cleaning up the small breweries is only an initial part of further consolidation. The bigger move should come from a merger/acquisition amongst the main players.

Fig. 4: CR Snow's growing lead

CR Snow – growing market share (China, volume) | **Top 7 Chinese brewers (by volume, 2014)**



Source: Company, Bryan, Garnier & Co estimates

1.4. Profit outlook

Good momentum behind its Snow brand

In its first quarter of 2015, CRE's beer sales volume increased by 3% to 26.5m hl, while the beer market declined as a result of the slowdown in the domestic macro-economy. However, in the second quarter, sales volumes slid by 3% to 36mhl, leaving the first half down by 1%, which is still better than the estimated 6% decline in the market. CR Snow's momentum was maintained because the company could benefit from an increased production capacity, investments in marketing promotions, as well as the expansion and improvement of sales and distribution channels and the establishment of new points of sale. The market decline was driven mainly by bad weather, but also the government's anti-extravaganza measures started to bite as fewer business lunches are being consumed following recent government clamp-downs.

7% increase in the average selling price in H1 as premium products grow by 30%

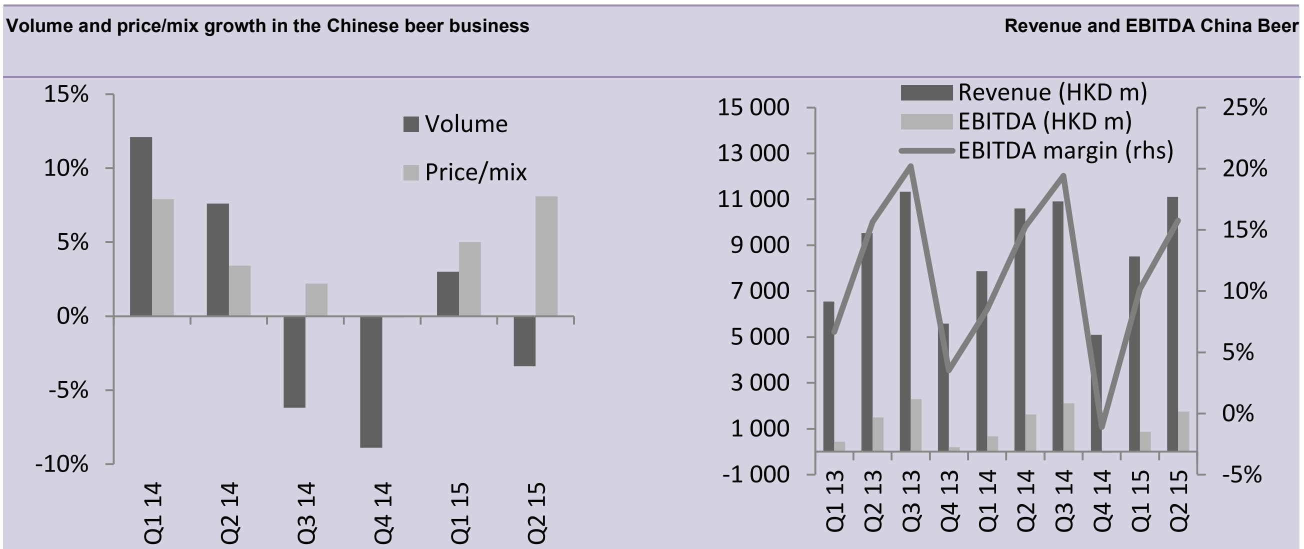
Despite the decline in sales volumes in the first half, revenues grew by 6%, delivering a 7% increase in the average selling price, which was mostly driven by the increased premiumisation. The sales volume of mid-end and high-end products increased by approximately 30% and the overall average selling price in the first quarter of 2015 increased by 5% as compared to the same period last year. As a result of the continuous product mix upgrade, economies of scale and better management of selling expenses, CR Snow's EBITDA increased by 14% to HKD2,615m in the first half.

The the premiumisation trend is likely to continue in the second half and because of the very bad weather in the central provinces in Q3 2014, the second half might be better than last year in terms of volumes (August has been more normal but still not as good as it could be and the bad weather seems to affect the whole of China this year).

Looking for volume growth slightly ahead of the market

For the medium term, we expect volume growth of 2-3% for CR Snow (ahead of the 1-2% of the market) and a continued up-trading in the mix. As highlighted before, CR Snow's average selling price is 10% lower than that of Tsingtao's and this must certainly offer some potential for the company.

Fig. 5: CR Snow's key financial metrics



Source: Company, Bryan, Garnier & Co estimates

2. Focus on SABMiller

2.1. Updating SABMiller's forecasts

Lowering expectations as emerging market currencies tumble

After updating our figures for the recent sell off in emerging market currencies, we are lowering our FY16 EPS by 7% to USD2.12 per share which is 10.5% lower than the FY15 EPS. For FY17, our EPS estimates come down by 9% to USD2.28 which is a 7.5% increase on the previous year. Indeed the three zones Africa, LatAm and Asia (80% of profits comes from Australia) are hit by the depreciating currencies, which brings not only short-term lower margins (transactional impact) but also lowers the recorded forecasts for the years ahead (translational impact).

Fair price of 5,000p derived from a standalone value of 3,300p to which we add 1,700p of bid premium

But, taking these lower currencies into account, we put a standalone DCF value of the company at 3,300p. Adding 1,700p for the potential cost savings value and bid premium from AB InBev (see our note from 17 September 2015), brings our total fair value of the company to exactly 5,000p.

Synergies could end up between USD2.2bn and USD3.3bn

Indeed, we believe that savings could range from 14% to 21% of the acquired revenue (excluding US, Russia or China), i.e. USD2.2bn to USD3.3bn. (For reference, at Modelo, AB InBev is getting synergies worth 22% of revenue which does not include the additional Corona sales.) Part of our argument is that SABMiller does not make enough money given the market share it has in some countries. Excluding China and the US, the average market share that SABMiller enjoys is 72% which could justify a 40% EBIT margin. Savings at 14% of revenue (USD2.2bn) would guide to a margin of 38% (up from 24%), which is in line with the 44% that AmBev enjoys in Brazil (and where it has a 68% market share). Valuing the USD2.2bn of synergies at a multiple of 20x would value the synergies at GBP17 per share.

African margins to contract this year before rebounding in FY17

Affordability strategy could well lead to organic revenue growth in Africa of over 10%, but currency devaluations put pressure on margins

In the first quarter, organic growth was strongest in Africa, where net revenue growth was 7%. In this continent, the company has switched to an affordability strategy, limiting net revenue (4%) growth per hl but boosting volume growth (4%). As the year progresses, this affordability strategy could well lead to organic growth above the medium-term guidance of 10% p.a. (mid single-digit volume and mid single-digit price), especially as comps are getting easier as the year progresses (since July the lapping of the excise duty increase in Tanzania and Zambia) supported by brewing capacity expansions in Nigeria, Ghana and Namibia. We estimate that organic revenue growth could well be 12% but, with a fall off of about 16% in the African currencies, we are looking for a reported revenue decline of 4%. Given the increased aluminium and PET prices, the limited net revenue per hl increase should weigh on margins this year. We estimate the negative impact on margins at around 200bps, but with cost efficiency programmes and a resumption of growth in the Tanzanian market (which is one of the most profitable in Africa), we look for margins to decline by only 70bps to 18.5% (from 19.2%). As a result, we expect African operating profit to be down by 6% on a reported basis. This should then prepare the base for easy comps for FY17 when we expect margins to rebound to 19.2%.

Fig. 6: Results outlook SABMiller by division

	FY2014	FY2015		FY2016e		FY2017e	
USDm	Published	Published	% Incr.	Forecast	% Incr.	Forecast	% Incr.
Revenues	16,704	16,534	-1.0%	15,241	-7.8%	15,840	3.9%
Europe	3,310	3,175	-4.1%	2,864	-9.8%	2,907	1.5%
Americas	5,884	5,907	0.4%	5,417	-8.3%	5,548	2.4%
Africa	5,460	5,519	1.1%	5,310	-3.8%	5,718	7.7%
Asia Pacific	2,050	1,933	-5.7%	1,650	-14.6%	1,667	1.0%
Operating profit	4,439	4,459	0.5%	3,994	-10.4%	4,227	5.8%
Europe	576	548	-4.9%	494	-9.8%	510	3.3%
Americas	2,078	2,124	2.2%	1,875	-11.7%	1,947	3.9%
Africa	1,478	1,471	-0.5%	1,378	-6.3%	1,524	10.6%
Asia Pacific	468	438	-6.4%	374	-14.6%	378	1.0%
Head office	-161	-122	-24.2%	-127	4.0%	-132	4.0%
Non recurring items	-197	-75		0		0	
Operating profit margin	26.6%	27.0%	0.4%	26.2%	-0.8%	26.7%	0.5%
Europe	17.4%	17.3%	-0.1%	17.3%	0.0%	17.6%	0.3%
Americas	35.3%	36.0%	0.6%	34.6%	-1.3%	35.1%	0.5%
Africa	27.1%	26.7%	-0.4%	26.0%	-0.7%	26.7%	0.7%
Asia Pacific	22.8%	22.7%	-0.2%	22.7%	0.0%	22.7%	0.0%
Net interest	-645	-637	-1.2%	-420	-34.1%	-376	-10.4%
PBT	3,597	3,747	4.2%	3,574	-4.6%	3,851	7.7%
Tax	-1,173	-1,273	8.5%	-1,242	-2.4%	-1,339	7.8%
JV's and associates	1,226	1,083	-11.7%	1,112	2.7%	1,201	8.0%
Minority interests	-269	-258	-4.1%	-256	-0.8%	-266	3.9%
Net profit	3,381	3,299	-2.4%	3,189	-3.3%	3,447	8.1%
Net profit - adjusted	3,865	3,835	-0.8%	3,433	-10.5%	3,692	7.5%
Number of fully diluted shares	1,617	1,621	0.2%	1,621	0.0%	1,621	0.0%
Diluted EPS - adjusted	2.39	2.37	-1.0%	2.12	-10.5%	2.28	7.5%
Net dividend (USD)	1.05	1.13	7.6%	1.19	5.0%	1.31	

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

Margin contractions in Latin American business but also here setting up easy comps

Also in Latin America, the affordability strategy and margin pressure from currency devaluations

The other region which delivered strong organic growth in Q1 was Latin America, driven by Colombia and Peru as both economies continue to grow despite weaker oil (Colombia) and metal (Peru) prices. Organic revenue growth in the region was 7% as limited price increases (1%) raised the affordability of beer, pushing up volumes (5%). The best performer was Colombia, were the group's net revenues grew by 10% with beverage volumes up 9%. Strong lager growth of 9%, cycling a soft comparative due to a significant number of dry days, benefited from strong market execution around sporting events and the success of the premium Aguila Light brand and the recently-launched alcohol-free Aguila Cero. We are expecting SABMiller to continue its policy of limited price increases, creating significant volume growth opportunities. So we are looking for organic revenue growth of around 10% for the full year. However with the Colombian peso being down nearly 30% (and Colombia being around half of LatAm's EBITDA), we are expecting revenues to be down by 9% on a reported basis. With additional margin pressure (130bps estimated to 35.3%) from cost inflation, we look for Latin American profits to be down by 11%. Just like in Africa, the lowered profit outlook for this year is creating an easy comp basis for FY17.

North American business to remain flat for a while

In North America, revenues were flat in Q1 with volume down 2%. Nevertheless, the company continues its strategy of pushing the above-premium beers (e.g. Blue Moon, Leinenkugel) at the expense of the below-premium beers (Keystone Light and Milwaukee's Best). However, both standard light lagers, Coors Light and Miller Lite, also declined (low single-digits) causing the market share loss and we expect this to continue for the remainder of the year. As investments in IT and marketing are expected to cancel out any efficiency improvements, we are expecting margins to be flat for the year. For the years ahead, MillerCoors has already warned that sales volumes are likely to continue to decline as Americans drop mainstream beers for craft brands. And, as a result, the company announced that it will close one of its eight US breweries (its North Caroline Brewery) by September 2016.

Flat Asian margins but 17% decline of the AUD (and Australia is 80% of Asian profits)

For Q1, the 15% increase in Indian volumes means that volumes in the region were flat as both Australian and China volumes continue to be weak. With Chinese beer consumption being impacted by the anti-extravaganza measures and (again) bad weather, and the Austrian economy slowing down, we don't expect the volume picture to change this year. The weakening of the Australian dollar is wiping out the price/mix improvement that is expected in Australia (less price competition and premiumisation). So overall we are expecting flat Australian and Chinese margins. But reported profits will be impacted by the 17% decline in AUD as Australia is 80% of the Asian profits.

Also the zloty and koruna are down

European net revenue was down by 4% in Q1 as volumes tumbled 6%. Indeed volumes suffered from bad weather this year compared to last year, the absence of the World Cup football and an earlier Easter this year, but the main culprit was the 15% decline in volumes and the 2% decline in revenue per hl in Poland, as the company was delisted from the convenience chain Żabka. Also the 8% decline in volumes in the Czech Republic and Slovakia was a touch more than expected. However, SABMiller is now back into Żabka but this is likely to benefit only the second half. In Q2, the weather in Europe has been very good, so this could come as some relief. For the full year, we are expecting volumes to be flat and revenues to be up by 2%. But with the zloty and the koruna down on average by 11% against the USD, we would see a lower net contribution, given flat margins.

2.2. More detail on potential synergies

Earlier we identified potential savings of between USD2.2bn and USD3.3bn using the range of 14% to 22% of acquired revenues that AB InBev has shown to be able to realise in previous transactions. Below we calculate synergies of USD2.35bn using a bottom-up approach.

Procurement savings of USD1.1bn: We believe that the first area of cost savings is procurement. At the time of the merger between Interbrew and AmBev, procurement and Technical Best Practices savings were estimated at 2% of the combined raw material cost base. The pure procurement savings were half of that. Less detail was given with the Anheuser-Busch InBev transaction, but we would expect that a similar level was achieved. Given the fact that the combination of AB InBev with SABMiller would be buying nearly 6x more materials than any other brewer, we would expect that the group would be able to shave 2% off all bought-in raw materials, consumables and services, which could add to a saving of USD0.6m. However, whereas AB InBev has already 100% of procurement in a global purchasing programme, the figure is currently 45% at SABMiller with a 2018 target of 80%

and an annual saving of USD500m. Adding these to the merger-specific savings leads to a target procurement saving of USD1.1bn.

Overlapping operations source for USD350m savings: The second area where we expect significant cost savings comes from those countries where both groups have operations. Overlaps in production, distribution and sales tend to be an important driver of cost synergies. This is an area where AB InBev's ZBB and VPO programmes could be fully deployed and we are looking for cost savings adding to 17% of the size of the smaller of the two operations. This is the case in countries like Italy and the Netherlands. Furthermore, in Ecuador and Peru, AmBev is currently losing money, according to our estimates, as it tries to penetrate these markets. A merger in these markets would not only save the current loss but also should improve pricing in these regions which could add an additional 5.8% of combined sales. This should add up to a total of USD350m savings, including the estimated USD150m corporate costs at SABMiller

Overall savings from benchmarking could add USD0.7bn: Another area of cost savings concerns the cost base that has to do with production. Process benchmarking encompasses comparing AB InBev's and SABMiller's productivity ratios of their breweries, equipment reliability, process loss ratios, the use of robots, efficiency of packaging lines and warehouse automation (e.g. introducing guided vehicles). However, we know that SABMiller is still in the process of establishing a business service organisation of which Bogota has already started but India and Europe still need to be established.

Potential for selling the Budweiser brand in Africa and some Asian markets is real

Revenue synergies of USD200m: In addition, to the cost synergies, there could be meaningful revenue opportunities through the expansion of Budweiser in the markets where SABMiller has a superior footprint and AB InBev has a limited presence. Indeed, in our view, SABMiller's existing international premium brands, Grolsch and Miller, do not seem to have the same international growth opportunities (and/or marketing support) as Budweiser. We identified seven markets with potential revenue synergies: South Africa, Colombia, Poland, Peru and Romania where SABMiller is stronger, and Italy and the Netherlands where the companies have overlapping market shares. In these seven countries it should be possible to gain some additional distribution and sales strength to help Budweiser's sales. Although we expect some shorter term potential for the brand in the African continent, that area together with India should constitute a long-term growth opportunity for the brand. We believe that they could be estimated at 8m hl (1.7% of the combined 449m hl of 2014 pro forma beer sales). At a value of USD25/hl (reference to the AmBev/Interbrew merger), the EBIT value from revenue synergies could be estimated at USD200m.

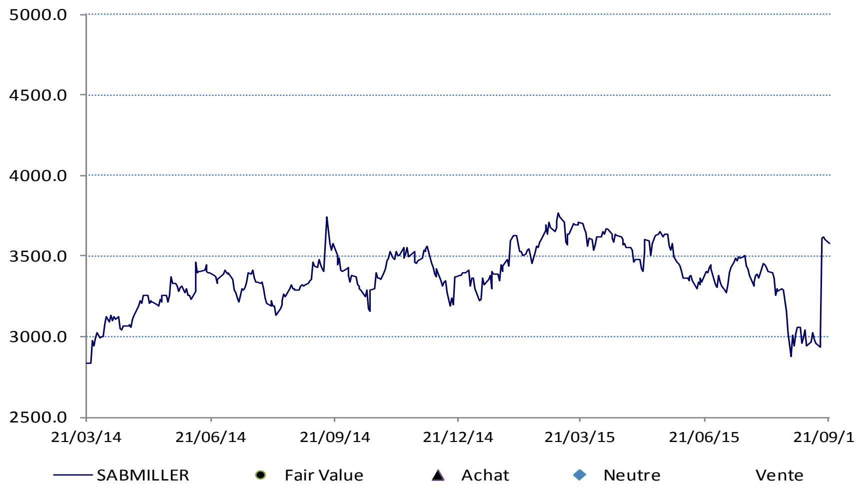
Estimating Budweiser's international premium potential

(EURm)	Population (m)	Bud/pop (l)	m hl	Market size (m hl)	Bud share (%)	Beer cons. /head (l)
South Africa	47.5	2.0	1.0	26.5	3.6	56
Colombia	48.2	2.0	1.0	19.5	4.9	40
Poland	38.5	3.0	1.2	36.3	3.2	94
Peru	29.3	2.0	0.6	11.4	5.1	39
Romania	21.4	3.0	0.6	20.7	3.1	97
India	1,152.0	0.0	0.0	13.7	0.0	1
Italy	57.5	1.0	0.6	17.5	3.3	30
Netherlands	16.5	3.0	0.5	12.6	3.9	76
Africa ex SA	1,000.0	0.2	2.0	64.0	3.1	6
Total IPS potential			7.4			

Source: Company data and Consumer Sector Strategies estimates.

Price Chart and Rating History

SABMiller



Ratings		
Date	**Ratings**	**Price**
17/09/15	BUY	3614p
05/05/15	NEUTRAL	3464p

Target Price	
Date	**Target price**
17/09/15	4700p
18/05/15	3940p
05/05/15	3776p

Bryan Garnier stock rating system

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

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 64.3% NEUTRAL ratings 31.3% SELL ratings 4.3%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

Summary of Investment Research Conflict Management Policy is available www.bryangarnier.com

BRYAN, GARNIER & CO

London	Paris	New York	Geneva	New Delhi
Heron Tower	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
110 Bishopsgate	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC2N 4AY	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by	Financial Conduct Authority (FCA)		Regulated by the	Fax +91 11 2621 9062
the Financial Conduct	and the Autorité de Contrôle		FINMA	
Authority (FCA)	prudential et de resolution (ACPR)			