

EQUITY FUNDAMENTALS

SABMILLER PLC

STOCK RELATIVE TO SECTOR

Outperform

SECTOR RELATIVE TO MARKET

Neutral

PRICE PERFORMANCE



Source: FactSet

COMPANY INFORMATION

Reuters	SAB.L
Bloomberg	SAB LN
Sedol No	0483548
Next Div XD	N/A
Next Div paid	August - final
Next Results	May - final

DDM RANK AND [Quintile]

FTSE Beverages	
UK	2 / 5 [2]
Global	13 / 43 [2]
MSCI Food Beverage & Tobacco	
UK	5 / 24 [2]
Global	42 / 178 [2]

David Liston
Equity Analyst

Please read important disclaimer at the end of this document

Buy

FTSE BEVERAGES

UK Equities

GRADE LAST CHANGED FROM: ACCUMULATE

Date: 06/07/2005

PRICE (p)	MKT CAP (£m)	52 WK RANGE (P)	FAIR VALUE (p)	PERFORMANCE REL FTSE 350 INDEX		
				-1m (%)	-3m (%)	-12m (%)
1164	17,482	910 - 1248	1260	-2.7	3.4	-7.8

YEAR END MARCH	TURNOVER* (£m)	PROFIT*† (£m)	EPS*† (p)	P/E RATIO (X)	NET DIV* (p)	NET YIELD (%)
2006A	8,572	1,382	61.1	19.0	24.6	2.1
2007E	9,691	1,528	61.8	18.8	25.6	2.2
2008E	10,000	1,682	69.0	16.9	27.7	2.4

*Forecast at: 13/02/2007

†Source: Barclays Wealth, IBES

Raising fair value – good buying opportunity

Investment conclusion

We maintain our Outperform recommendation on SABMiller where there is a good buying opportunity at present levels. We have modestly raised our fair value estimate to 1260p from 1240p previously following the group's third quarter trading statement, which indicated that beer volume growth accelerated. Moreover, we believe that the Latin American businesses will be a significant growth driver over the next few years, whilst the outlook for the US and South Africa is likely to improve. Currency volatility may have an impact on the share price from time to time, but earnings growth beyond the current year should reflect the strong underlying operating performance. The shares are attractively valued, ranking in the second quintile on our Dividend Discount Model and offer good upside potential.

Event

SABMiller issued a positive third-quarter trading statement indicating that organic beer volume growth had accelerated to 10%, following 9.5% growth in the first half of the year. This beat consensus expectations of 7% growth. SABMiller is now performing ahead of expectations in all of its businesses, except South Africa. The main volume growth is being seen in China, where volumes are up by more than 30%. In Europe volumes grew by 13% and in South America beer volume growth accelerated to 12%. Even in the US, growth was better than expected, but appears to have been at the expense of higher marketing costs and weak pricing. In South Africa, beer volumes grew by 1%, as expected, but there was some disruption caused by raw material availability and glass supplies. Overall, there was a modest upgrade to consensus full-year forecasts, mainly because of SABMiller's strong performances in Europe and South America.

Dividends and shareholder returns

SABMiller's dividend policy is to maintain dividend cover within a range between 2.2 and 2.5 times. In the year ended 31st March 2006, dividend cover was 2.5 times and we expect dividend growth to move in line with earnings over the next few years. SABMiller has built its global business on acquisitions, the most recent being Bavaria S.A., which was acquired in October 2005. As a result of further investment in the South American businesses and the further acquisition of the outstanding minority interests, free cash flow will largely be consumed by increased capital expenditure and dividend payments in the current year. With the net debt/EBITDA ratio falling below 1.5 times in 2008, the group could contemplate share buy backs, but is likely to look for acquisitions to strengthen positions in its favoured markets.

EQUITY FUNDAMENTALS

Analysis

SABMiller believes that there is a global opportunity in the beer industry. Recent trends across the world have shown that beer is taking an increasing share of the global beverage alcohol market and that, as economies mature, consumers tend to trade up to premium lagers. With its strong position in emerging markets, SABMiller is in an advantageous position to benefit from the increase in the above average GDP growth expected from these economies.

Latin America (25% of operating profits): SABMiller held an investor conference on its Latin American businesses in January, which was positive. This led to further increases to earnings forecasts over the next few years, as the group raised its guidance on revenue growth and margin improvement for this region. So far, the improvement to expectations has largely been due to better than expected economic performances from this region, but as SABMiller develops its strategy, there is good potential for further upgrades.

Europe (22% of operating profits): Europe has outperformed expectations in the current year, partly helped by good summer weather. However, supported by continued improvements in the economic background from EU accession countries, such as Poland, Czech Republic, Slovakia and Romania as well as Russia, Europe should continue to deliver mid to high single digit beer volume growth over the next few years.

Africa & Asia (8% of operating profits): Within this region, the fastest growth is being delivered by China, where volume growth exceeded 30% in the third quarter. However, because of continued investment, Chinese beer volume growth is unlikely to be reflected in a substantial profit uplift in the short term. Nevertheless, SABMiller is performing strongly in this area and is now the market leader, having developed a national beer brand in CR Snow. In Africa, improving economic performance and increasing wealth per capita is delivering beer volume growth of 7% in the current year and we see this continuing over the medium term.

South Africa (32% of operating profits): SABMiller's share of the South African beer market exceeds 95%. Whilst the economy is regarded as emerging, the beer market is mature, with long term beer volume growth likely to be in the range of 1% to 3%. In the current year, disruption caused by a lack of raw material availability and glass supplies is holding back growth and adverse weather conditions has also restricted beer volume growth to 1%. However, operating margins are benefiting from improved pricing in beer and soft drinks, whilst there is also a mix benefit from the faster growing premium beer category.

North America (13% of operating profits): The third quarter trading statement indicated some improvement in sales to wholesalers in the US, although profitability will be held back by higher marketing spending. Recently, the US market leader, Anheuser-Busch, has indicated that demand for domestic beers is improving and this should allow better pricing. As the competitive background eases, profits at Miller Brewing should pick up over the next year.

Emerging markets: SABMiller has significant exposure to emerging markets in Latin America, Asia and Africa as well as Central and Eastern Europe, which include the world's fastest growing beer markets.

Corporate activity: SABMiller has developed its global business largely through acquisition to become one of the world's four leading and most diversified beer businesses. The group is likely to focus on developing its Latin American businesses, where it is investing \$1.8bn over the next five years. Even allowing for this, the group's balance sheet is strong, with a net debt/EBITDA ratio below 2 times and net interest cover of over 7 times. This would allow the group to make further acquisitions, should opportunities arise.

P/E expansion: We do not expect any further multiple expansion, with SABMiller already rated at a premium to the FTSE Beverages sector, but we expect the valuation to be supported by growth comparisons with its peers, such as Heineken and Inbev.

Valuation: Our fair value estimate of 1260p is based on our analysis of the excess returns expected to be achieved on SABMiller's invested capital (ROIC) over its weighted average cost of capital (WACC)*. This is equivalent to a P/E of 18.5 times SABMiller's calendar 2007 forecasts and is on a par with its pan-European peers, such as Heineken and Inbev.

*We apply the following formula ((ROIC/WACC) x invested capital) – net debt divided by the number of shares in issue. The ROIC is based on our calculation of the normalised operating profits after tax and the WACC is sourced from the company.

Please read important disclaimer at the end of this document

EQUITY FUNDAMENTALS

Investment risks

SABMiller has grown largely through acquisition and is still likely to be interested in the consolidation of the global brewing industry. Today, SABMiller is one of the most global of brewing companies, with interests, or major distribution agreements, in 60 countries spread across five continents. Accordingly, currency movements have a significant translation impact on profits, particularly the South African rand, the US dollar, the Euro and now the Colombian peso. In 2006, weakness in the South African rand against the US dollar led to a sharp fall in the share price and there is a risk that currency volatility could impact the share price from time to time. Altria holds a 28.7% stake in SABMiller, following its disposal of Miller Brewing to SAB and is now free to sell this stake. Altria has recently announced its intentions to demerge part of its business, but for the time being, it is happy to remain a long term shareholder in SABMiller. Finally, there is some risk from countries in which SABMiller operates, where there has been economic and political volatility in the past.

Company description

SABMiller's principal activities are brewing beers and bottling soft drinks. The group's brands include Bahia, Golden Light, Henry Weinhard's, Icehouse, Imperial, Leinenkugel's, Mickey's Malt Liquor, Miller Genuine Draft, Miller Genuine Draft Light, Miller High Life, Miller Lite, Milwaukee's Best, Milwaukee's Best Ice, Milwaukee's Best Light, Olde English 800 Malt Liquor, Pilsener, Port Royal, Regia Extra, Salva Vida, Suprema, Arany Aszok, Ciucas, Debowe Mocne, Dog In The Fog, Dorada, Frisco, Gambrinus, Holsten, Kobanyai Sor, Ksiazecze Tyskie, Lech Nastro, Radegast, Raffo, Redd's, Saris, Smadny, Timisoreana, Tri, Tropicals, Tyskie, Ursus, Velkopopovicky, Wuhrer, Zolotaya Bochka, Zubr, Port Royal, Snowflake, Blue Sword, Knock Out, Castle Lager, Castle Milk Stout, 2M, Carling Black Label, Hansa, Sterling Light, and Appletiser. The Group has brewing interest or major distribution agreements in over 60 countries spread across five continents.

Investment process

This is a fundamental equity recommendation and is longer-term in nature. It has been derived through our Equity Research Investment process, using our quantitative screen and Dividend Discount evaluation models, combined with the sector analyst's qualitative interpretation of the company's business fundamentals relative to the market and its sector peers.

This document has been issued and approved by Barclays Bank PLC. Although information in this document has been obtained from sources believed to be reliable, we do not represent or warrant its accuracy, and such information may be incomplete or condensed. This document does not constitute a prospectus, offer, invitation or solicitation to buy or sell securities and is not intended to provide the sole basis for any evaluation of the securities or any other instrument, which may be discussed in it. All estimates and opinions included in this document constitute our judgement as of the date of the document and may be subject to change without notice. This document is not a personal recommendation and you should consider whether you can rely upon any opinion or statement contained in this document without seeking further advice tailored for your own circumstances. This document is confidential and is intended solely for the addressee(s). If you are not an addressee, or have received this document in error, please notify the sender immediately, delete it from your system and do not copy, disclose or otherwise act upon any part of this e-mail or its attachments. It may not be reproduced or disclosed (in whole or in part) to any other person without our prior written permission. Law or regulation in certain countries may restrict the manner of distribution of this document and persons who come into possession of this document are required to inform themselves of and observe such restrictions. We or our affiliates may have acted upon or have made use of material in this document prior to its publication. You should seek advice concerning any impact this investment may have on your personal tax position from your own tax adviser.

Barclays Wealth is the wealth management division of Barclays and operates through Barclays Bank PLC and its subsidiaries. Barclays Bank PLC is registered in England and authorised and regulated by the Financial Services Authority. Registered number is 1026167 and its registered office is 1 Churchill Place, London E14 5HP. © Barclays Bank PLC 2007. All rights reserved. Issued for companies including Barclays Bank PLC (Reg. No. 1026167), Barclays Stockbrokers Limited (Reg. No. 1986161), a member of the London Stock Exchange and PLUS, Barclays Sharedealing (Reg. No. 2092410), Barclays Bank Trust Company Limited (Reg. No. 920880) and Gerard Investment Management Limited (Reg. No. 2752982), a member of the London Stock Exchange. All of these companies are registered in England and have their registered office at: 1 Churchill Place, London E14 5HP. All of these firms are authorised and regulated by the Financial Services Authority.