Deutsche Bank
Markets Research

Industry
Beer

Date
4 February 2015

Sub-Saharan Africa

Consumer Staples
Beverage

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F.I.T.T. for investors

The rising star of Africa

Driving the next decade of beer growth

Over the next decade, Africa should account for 40% of global volume and profit growth. In our view, population dynamics will drive structural growth; realistic pricing will accelerate per capita growth, taking share from illicit alcohol in a continent where only 15% can currently afford a beer. Structurally protective "moats" and strong positions for established players help ensure sustainable profits. Any corporate activity would likely be limited to the last independent brewer, Castel, and consolidation in ancillary businesses including soft drinks. Heineken (Buy) and SABMiller (Hold) appear best positioned to capture the growth.

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Africa to lead the growth in beer

The next decade will see disproportionate growth in beer driven by Africa, with volume rising 8% per annum, on our estimates. Unlike the previous decade where most of the volume growth was driven by China, the gains in Africa should mean profitable growth as high revenues and margins look to be sustainable by established players with high barriers to entry. We expect the profit pool in Africa to expand US$5billion in EBIT by 2025.

Favorable population dynamics, especially with the key beer-drinking 20-35 year-old cohort expanding almost 3% per year, should drive half the growth. Realistic pricing at or below inflation should raise per capita consumption, taking share from illicit alcohol, which accounts for 80% of all alcohol on the continent. Growth will not be smooth; it never is in Africa. However, the swings in commodities such as oil in Nigeria have a nuanced impact on the robustness of beer growth.

Castel, Coke, Guinness

Family-owned Castel, accounting for $2bn of EBITDA in Africa, is often seen as a potential target for future M&A on the continent – but a deal would be more complicated for a company with no need to sell. More activity is likely in ancillary beverages to leverage the brewing platforms of established players. Further consolidation of the Coca Cola bottlers, led by SABMiller, should lead activity in the short term. Despite its advantaged position, if Diageo's underperformance in beer continues, we see the company possibly exiting the operational elements in Africa, but not beer per se.

Heineken and SABMiller best positioned

Twenty companies have significant exposure to beer in Africa, 17 of which are listed in frontier markets or have low liquidity. Of the major players, Heineken has the best exposure, potentially grabbing a third of the growth in Africa over the next decade. This, coupled with the best growth profile in beer and strong brand-building capabilities on a reduced cost base, leads us to reiterate our Buy. SABMiller could capture over a quarter of the growth and has proven, superior management capability to realize its potential. However, headwinds in core markets, and the costs – financial and managerial – associated with centralization programs offset its prospects; we maintain our Hold.

Valuations and risks

We value our companies using DCF models. We separately outline the assumptions and risks for each company DCF analysis in this report.

Companies Featured

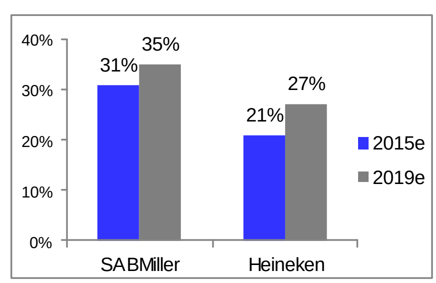
Heineken (HEIN.AS),EUR66.15			Buy
	2013A	2014E	2015E
DB EPS (EUR)	2.75	3.06	3.29
P/E (x)	19.2	21.6	20.1
EV/EBITA (x)	14.5	16.0	14.8

Diageo (DGE.L),GBP1,926.00			Buy
	2014A	2015E	2016E
DB EPS (GBP)	100.07	91.80	100.14
P/E (x)	19.3	21.0	19.2
EV/EBITA (x)	17.6	18.4	16.0

SABMiller (SABJ.J),ZAR620.78			Hold
	2014A	2015E	2016E
DB EPS (USD)	2.39	2.43	2.56
P/E (x)	20.8	22.2	21.0
EV/EBITA (x)	15.4	16.1	15.5

Source: Deutsche Bank

Share of EBIT from Africa



Source: Deutsche Bank estimates, Company reports

Table Of Contents

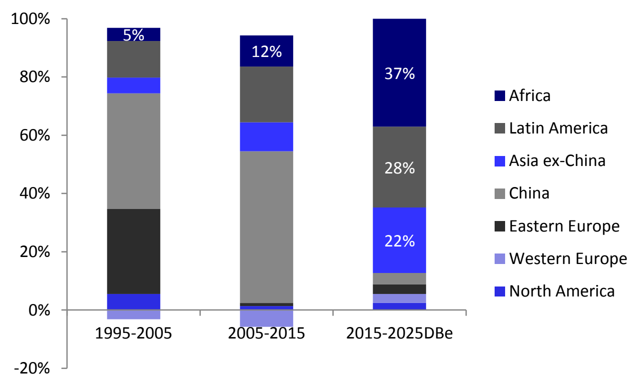
Executive summary

Key points and charts

Africa to lead the global volume <u>and</u> profit growth of beer

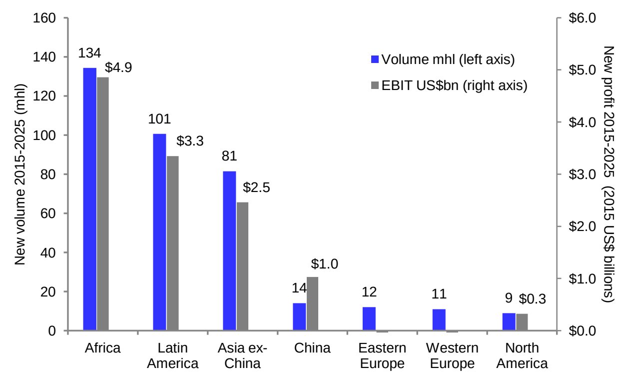
- Africa should drive profitable growth over the next decade, accounting for 37% of global beer volume and 42% of profit growth;
- Unlike China in the last 20 years, Africa's volume growth is profitable. Protected dominant positions sustain high revenues and margins;
- We expect the US$36bn global beer profit pool to expand US$11.5bn in constant currency terms by 2025; Africa accounts for US$5bn of this.

Figure 1: Africa to lead volume growth…



Source: Deutsche Bank estimates, Plato Logic, World Bank

Figure 2: …and profitable growth (est to 2025)

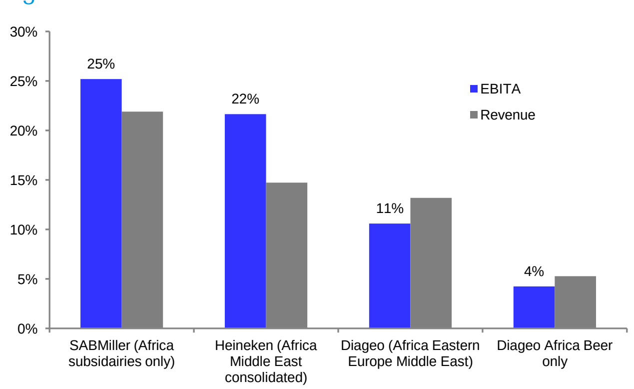


Source: Deutsche Bank estimates, company reports, Plato Logic

Heineken and SABMiller best positioned

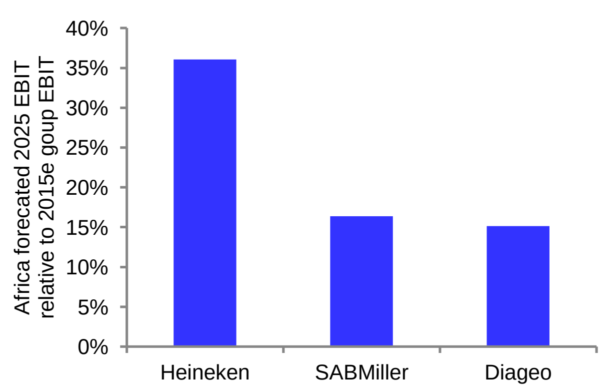
- Heineken and SABMiller have the strongest direct positions in Africa, with a quarter of their profits derived from the continent. SABMiller further benefits from its minority stake in Castel;
- Relative to their current size, the expansion of the profit pool is most relevant to Heineken. We estimate Africa will add over 35% to current group profitability.

Figure 3: Africa divisions share 2015DBe



Source: Deutsche Bank estimates, company reports based on 2015DBe full year.

Figure 4: Africa growth most relevant to Heineken

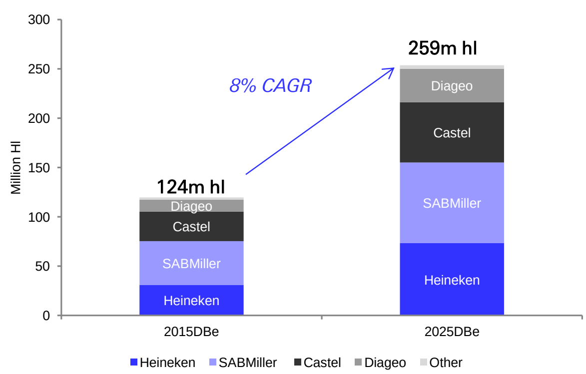


Source: Deutsche Bank estimates, company reports

Africa to grow 8% volume per annum

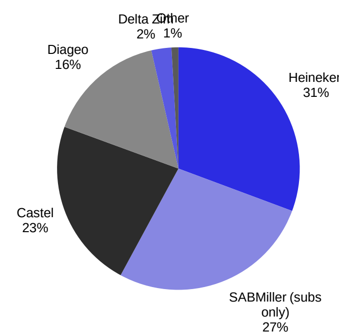
- We forecast the market in Africa to grow volumes at 8% per annum to 2025, slightly higher than the 6% seen in the previous decade to 2015;
- Heineken should grow volume 9% per annum with its positions in Nigeria, Ethiopia and DR Congo capturing a third of the growth;
- SABMiller should grow volume 6% per annum, 12% ex-South Africa dominating South and East Africa helped by the recent entry in Nigeria;
- Privately owned Castel is strong in Francophone Africa and Angola where we expect volume growth to moderate to 6% per annum of a higher base;
- On paper, Diageo has great potential to grow 11% per annum in beer. Historically the company has failed to deliver and we see a possible exit from operating in beer (though we believe it would likely keep the Guinness brand).

Figure 5: Africa beer volumes should grow 8% p.a.…



Source: Deutsche Bank

Figure 6: …with Heineken and SAB capturing the majority

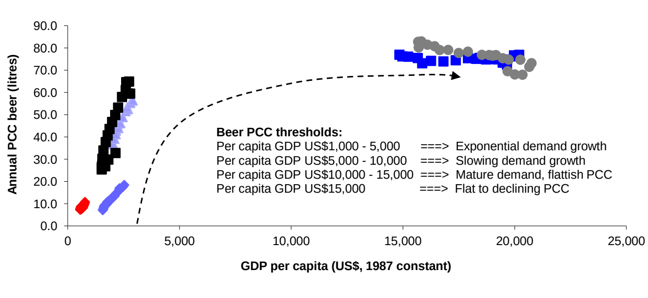


Source: Deutsche Bank

Africa is structurally advantaged for growth

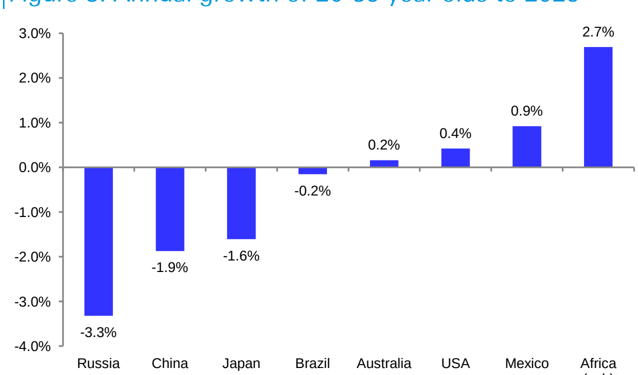
- Structurally, Africa is well positioned to grow, and GDP per capita is closely correlated to beer growth, with a 2x multiplier as income expands from US$1000 to an estimated US$5000 per capita;
- Population growth in the right age group grows baseline volume. In Africa, the key beer-drinking 20-35 year olds should grow almost 3% per annum.

Figure 7: Per capita consumption and GDP 1991-2013



Source: Deutsche Bank estimates, Plato Logic, World Bank

Figure 8: Annual growth of 20-35 year olds to 2025

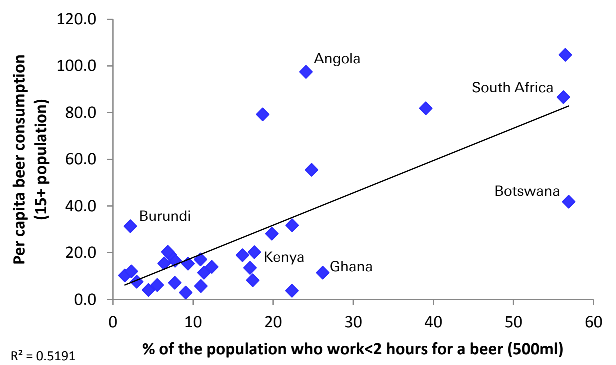


Source: Deutsche Bank, World Bank.

Beer is expensive; pricing is key to unlocking growth

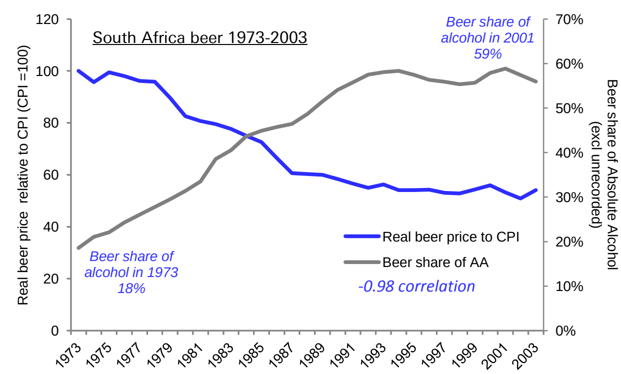
- Only ~15% of consumers in Africa can currently afford a beer; the crucial tipping point for growth is the need to work only 2 hours or less for a beer;
- Per capita consumption is correlated to affordability and the opportunity to convert drinkers from cheaper, home-made and illicit alcohol, which accounts for 80% of all alcohol consumption according to the WHO and company reports;
- Below-inflationary pricing accelerates growth in both EM and DM as has been the case in South Africa, Uganda, Zambia and the United States;
- The capital intensity of beer and the leverage of volume protect and enhance margins, even when pricing is at or below inflation.

Figure 9: Only 15% of African consumers can afford beer



Source: Deutsche Bank estimates, PovCal, Company reports, Plato Logic, World Bank

Figure 10: Below-inflationary pricing drives volumes

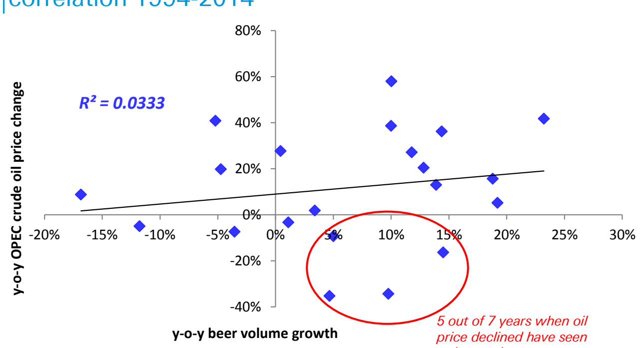


Source: Deutsche Bank estimates, company reports, AC Nielsen

Commodity downturn concerns for beer nuanced

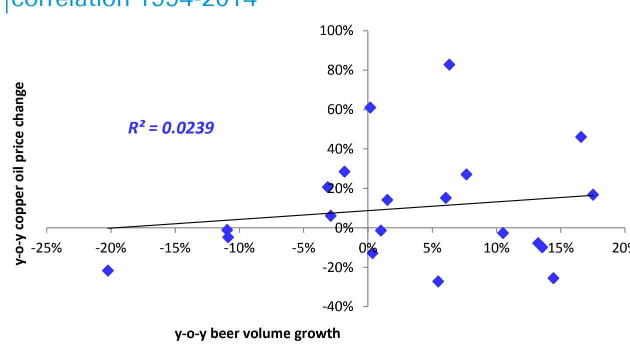
- Commodity downturns are a concern, but we are sanguine on their impact. One-off factors such as elections, excise and agricultural harvests have a more significant effect on beer volume volatility. Oil price declines can work in favor of consumers, where >50% of spend is on food & beverages;
- Over the last 20 years, the correlation between oil price movements in Nigeria and beer volumes is limited, both immediately and with a 1-yr lag;
- Similarly, correlation between copper price movements in Zambia and beer volumes is limited, both immediately and on a 1-yr lag.

Figure 11: Nigeria beer and oil price movement correlation 1994-2014



Source: Deutsche Bank, Plato Logic, Datastream

Figure 12: Zambia beer and copper price movement correlation 1994-2014

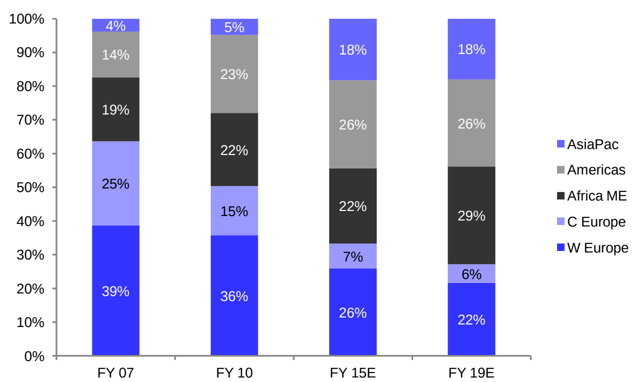


Source: Deutsche Bank, Plato Logic, Datastream

Heineken - the best platform for growth (Buy, TP €70)

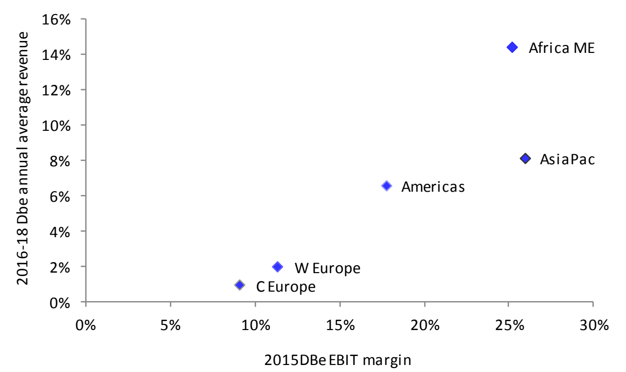
- We favour Heineken given its balanced and superior growth profile, trading at a discount to both beverages and the consumer staples sector;
- Heineken's geographical profile has shifted away from Europe to the right emerging markets, including Africa, Asia ex-China, and Mexico. Its current footprint gives the company a 4% embedded volume growth profile;
- The fastest-growing regions for Heineken also have the highest margins, and this should account for 20bps of the annual 40bps margin target;
- Patience and capability in brand building have extended beyond the Heineken brand and are being applied to fuller portfolios and innovation.

Figure 13: Transformed balanced footprint for Heineken



Source: Deutsche Bank estimates, company reports

Figure 14: …with the fastest growth in high-margin areas

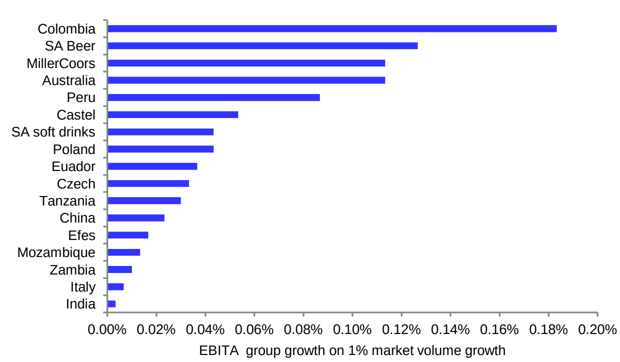


Source: Deutsche Bank estimates, company reports

SABMiller good potential, short-term concerns (Hold, TP £35)

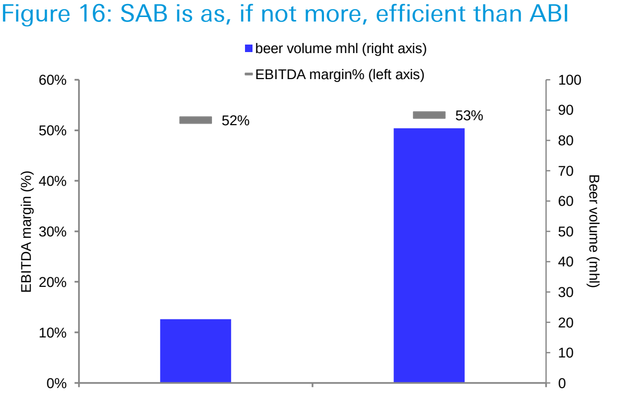
- SABMiller has one of the strongest profiles in beer with the capability to deliver on growth, driven by Africa and the Andean regions. Optionality on Castel also exists, though we are doubtful it will materialize anytime soon.
- Short-term concerns centre on headwinds in key non-African markets for SABMiller, including Australia and LatAm in FY16;
- The SABMiller centralization programmes are needed, but we see them as a cost to do business and a risk to growth, not savings programs;
- The chances that ABI will buy SAB (a prospect widely discussed in the press) are minimal, in our opinion. Despite the limitations of the smaller markets, we consider SAB as efficient as ABI and see limited potential for synergies, financially or culturally.

Figure 15: 1% volume regional growth impact on EBIT



Source: Deutsche Bank estimates, company reports. Annual, based on 2015DBe

Figure 16: SAB is as, if not more, efficient than ABI



Source: Deutsche Bank estimates, company reports

Africa Beer

Africa should lead global growth in beer over the next decade, with almost half of the volume and profit coming from the continent. Population growth in the right age cohort and per capita consumption driven by taking share from illicit alcohol should fuel the growth. We believe Heineken and SABMiller are best positioned to take advantage of the growth. Any corporate activity on the continent would likely involve the remaining family brewer Castel, ancillary beverages such as soft drinks which leverage the brewing platform, and a potential exit by Diageo from beer.

The global beer growth engine

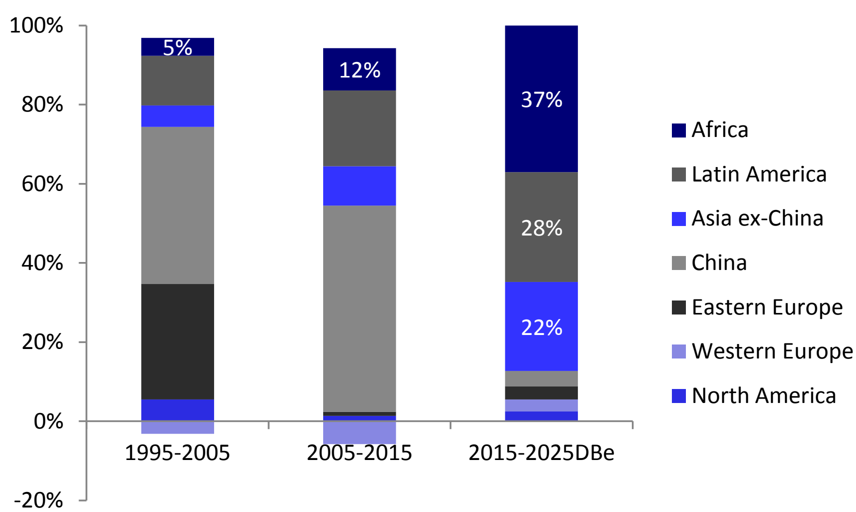
Driver of global beer growth

Africa should be the leading continent for growth in the next decade.

Volume growth drives consumer staples growth, with pricing illusionary and more reflective of inflation than of pricing power. Population growth and per capita consumption fuel volume growth in consumer staples. This is particularly true in beer, and Africa should be the strongest driver of that growth.

Over the next decade, our analysis indicates that sub-Saharan Africa will account for 37% of the global volume growth.

Figure 17: Global beer volume growth contribution by region



Source: Deutsche Bank estimates, Plato Logic, World Bank, company reports

China accounted for the majority of volume growth in the previous two decades, but this growth has lacked immediate profitability

In the decade from 1995 to 2005, volume growth in the global beer industry came from two sources. The post-Communist era opened up Eastern Europe, accounting for 31% of the growth. Per capita consumption of beer doubled, compounding at 8% annually at the expense of vodka. Asia, led by China, accounted for 48% of the growth as beer became the primary accompaniment to meals, replacing water, as had been the case in Europe two centuries before. Africa at that time accounted for only 5% of global volume growth.

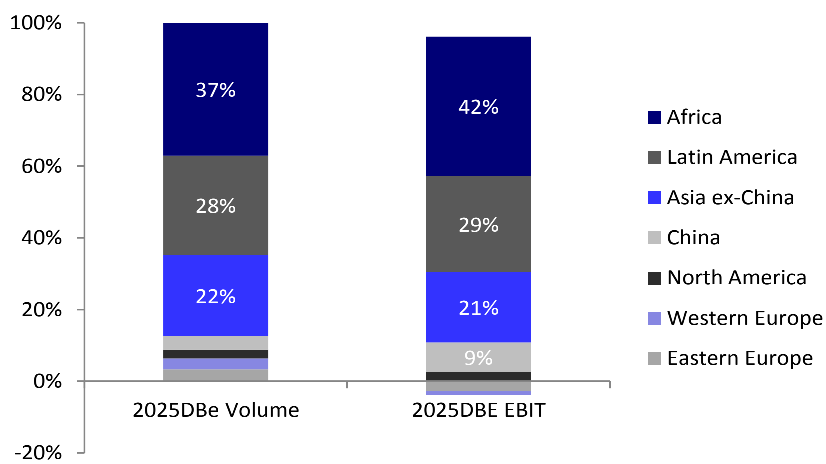
The decade from 2005 to 2015 has been dominated by China, moderating in the last several years as per capita consumption hits Asian norms. 70% of the volume in the last ten years has been due to Asia. However, this has not been profitable growth, with both revenues and margins 1/3 of the global average. During the same decade, Africa's contribution more than doubled as Africa accounted for 12% of growth and a higher proportion of profit growth.

Sustainable margins drive a larger share of the profit

The volume growth in Africa is profitable growth.

Unlike China, volume growth in Africa should equate to profitable growth

Figure 18: Africa profit (EBIT) contribution 2015-2025 (2015 US$)

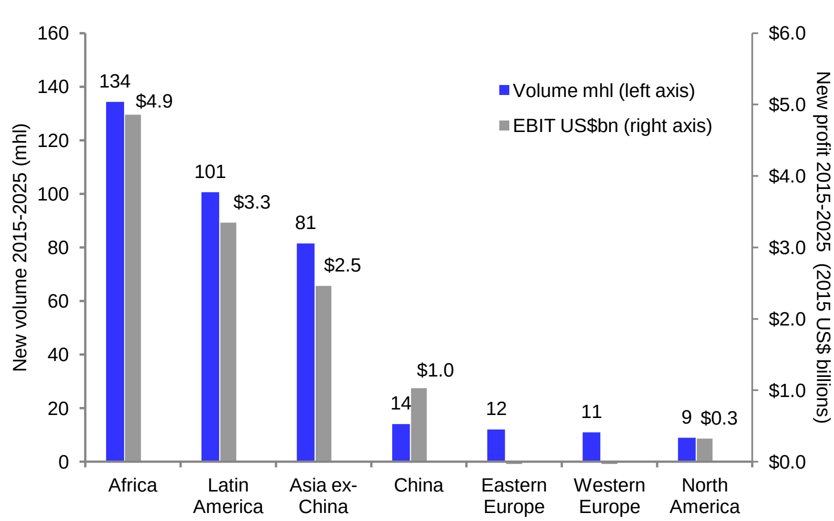


Source: Deutsche Bank estimates, Plato Logic, company reports

In constant currency, we see the global profit pool expanding US$11.5 billion by 2025. With dominant market shares and strong moats around current operations, the average 25% EBIT margin US$105 per hl of revenue in the continent should be sustainable and should equate to Africa accounting for almost US$5 billion, or 42%, of the additional profit pool over the next decade.

Africa should add US$5bn of the expected US$11.5bn additional profit pool in beer by 2025

Figure 19: Regional volume and profit pool growth contribution to 2025



Source: Deutsche Bank estimates, Plato Logic, company reports

We also see Latin America accounting for a significant proportion of the profit growth in the next decade, with a shift to the Andean region and Mexico, away from the historical growth delivered by Brazil. Asian growth ex-China continues to be profitable, with average revenue per hl of US$85 and margin of 25% on average. Markets such as Vietnam and Myanmar should drive the growth.

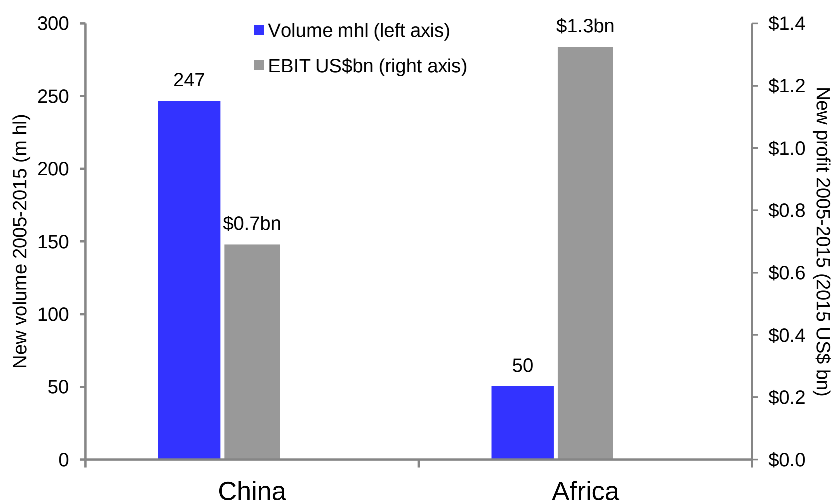
In the previous decade, Africa added double the profit of China, despite 1/5th the volume

We don't see China contributing more than 9% of the incremental profit. Despite being over 25% of global volume, today its contribution to global profit we estimate at only 4%. We are skeptical on the ability of China to grow its low revenue per hl (US$35/hl) significantly above inflation. We liberally assume that margins in China will expand 500bps of its low base of c. 7%. If we double that figure, Chinese contribution would still be only 16% of the global profit pool expansion.

It is worth noting that Africa's top-line growth to the profit pool had significantly outperformed China already in the past. Not until 2006 did SABMiller's China business surpass the contribution of Swaziland.

While China added 250 million hl in the last decade, it expanded the global profit pool just shy of US$700 million. Africa in the same decade expanded its volumes only 1/5th of China, or an additional 50 million hl. Yet it added US$1.3 billion of profit.

Figure 20: Africa and China volume & profit growth 2005-2015



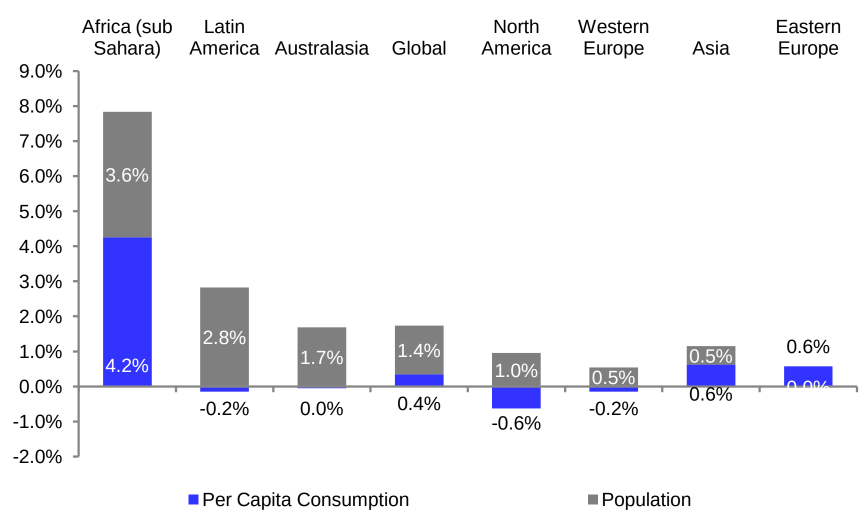
Source: Deutsche Bank estimates, Plato Logic, company reports

Parsing the growth in Africa

The 8% volume growth in Africa should be driven almost equally by both population growth and per capita consumption.

The forecasted annual 8% growth in Africa should be driven by population growth and per capita expansion

Figure 21: Drivers of volume growth to 2025

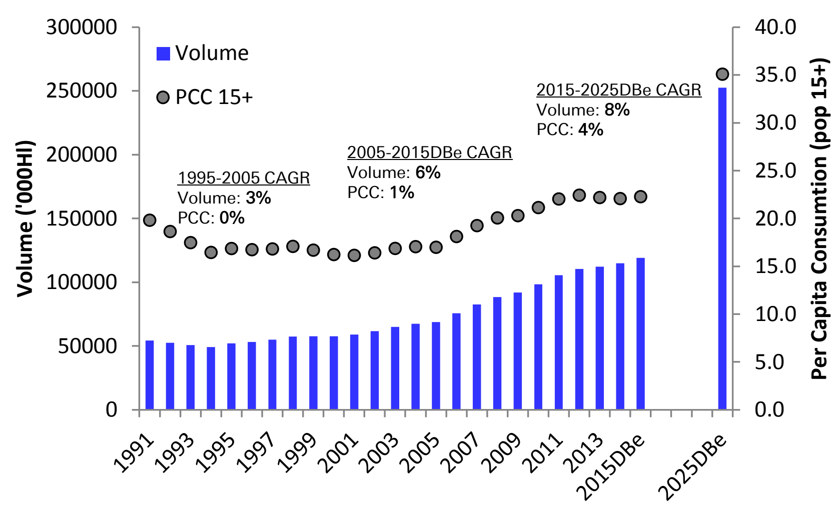


Source: Deutsche Bank estimates, Plato Logic, World Bank

Whereas per capita consumption increases are unlikely in most of the rest of the world and growth should be primarily led by population expansion, Africa has the benefit of both.

In the past two decades, most of the growth in Africa can be attributed to population growth, with per capita consumption hovering around 20 liters. From 2005 to 2015, 5% of annual volume growth came from population expansion, but only 1% from per capita consumption increases.

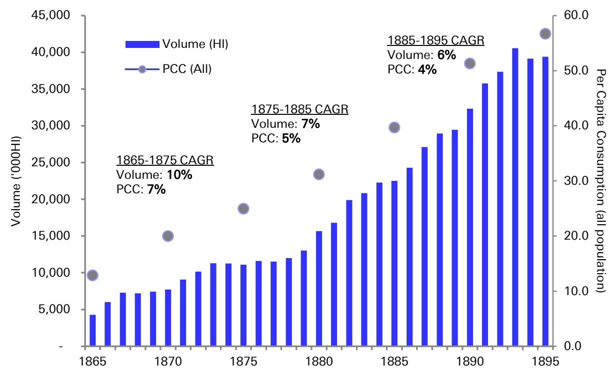
Figure 22: Africa volume growth 1991-2025



Source: Deutsche Bank, Plato Logic, World Bank

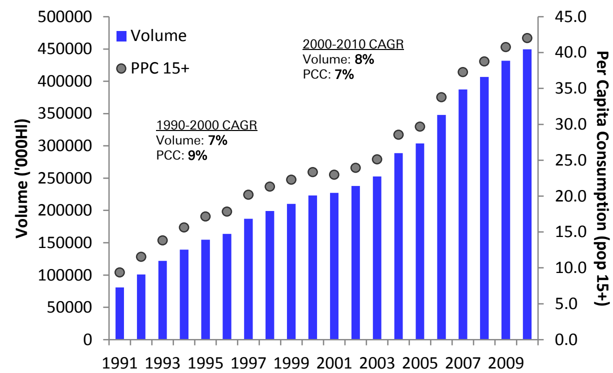
Historical precedence shows strong growth acceleration when per capita consumption works in conjunction with population-driven expansion. In the United States, the decade after the Civil War from 1865 to 1875 saw volume rise 10% annually, 70% of which was driven by per capita consumption.

Figure 23: US volume and PCC 1865-1895



Source: Deutsche Bank, Beer Institute

Figure 24: China volume and PCC 1990-2010



Source: Deutsche Bank, Plato Logic, World Bank

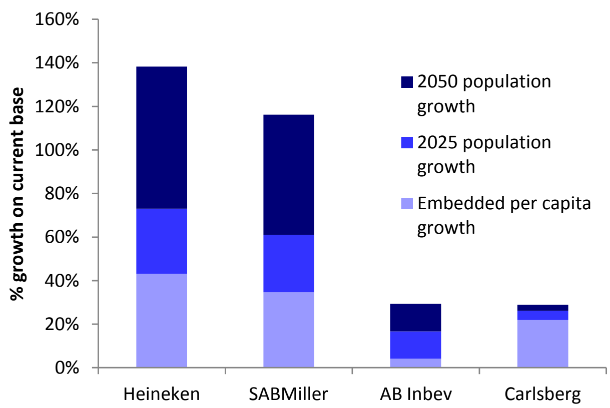
In Africa, the most obvious examples are South Africa and Angola. South Africa from 1960 to 1980 saw 10% volume expansion with per capita consumption expanding 7% per annum. Similarly in China, the conversion of water with meals to beer (which in our experience is frankly quite close to water in China), per capita consumption drove the volume growth over the decade. We project the per capita consumption to be close to its potential peak.

HEIN and SAB best positioned to capture growth

Globally embedded growth makes beer a company call

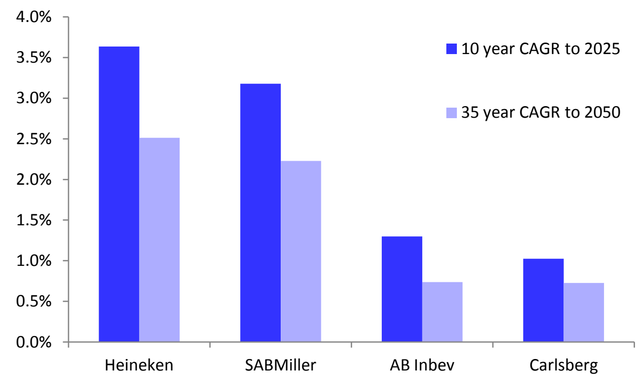
As we outlined in our report on July 29th 2014, Beer: Tapping into Growth, being in the right geographies with the right population dynamics and per capita potential makes beer a company call rather than a sector call. As such, we estimate Heineken and SABMiller have the best embedded volume growth profile in beer over the next decade and beyond (Figure 25 and Figure 26)

Figure 25: Brewers growth profile on base



Source: Deutsche Bank estimates, Plato Logic, World Bank, company reports

Figure 26: Brewers CAGR volume growth



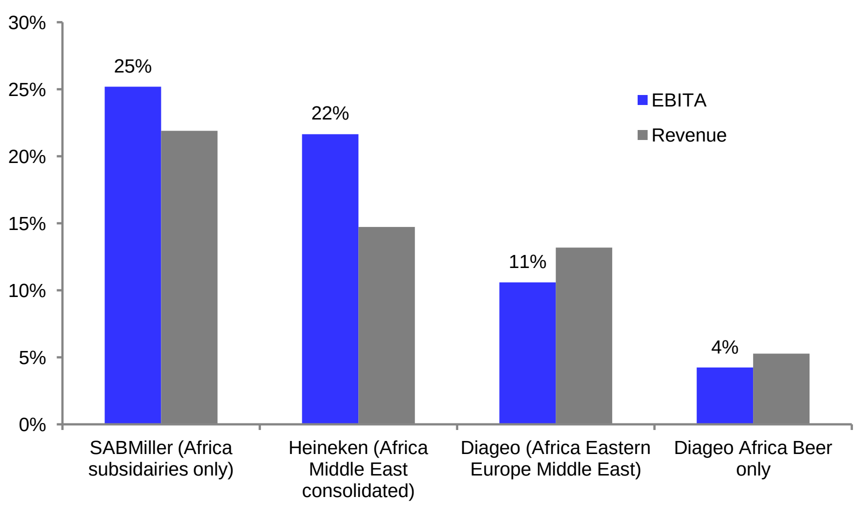
Source: Deutsche Bank estimates, Plato Logic, World Bank, company reports

Africa most relevant to Heineken and SABMiller

Beer in Africa is most relevant to SABMiller and Heineken

For both SABMiller and Heineken, we see Africa as a core driver of volume growth in the next decade. Currently, their Africa divisions account for over 20% of their profits. Castel's beer business is 100% Africa-based.

Figure 27: Relevance of Africa to 2015 DBe group revenue and EBIT



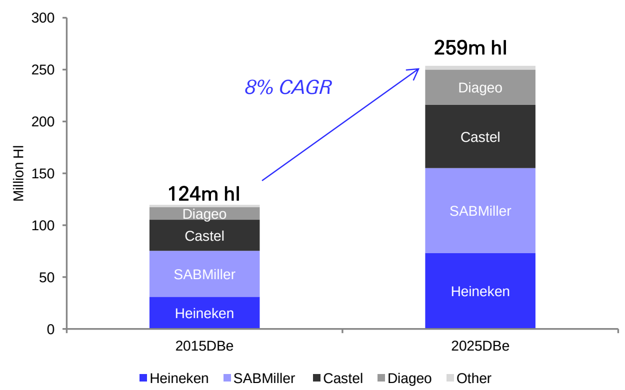
Source: Deutsche Bank 2015 estimates, company reports

Diageo's Africa, Eastern Europe & Middle East division accounts for 11% of group profit. We estimate that Africa beer (excluding spirits) accounts for only 4% of group profit.

Who is best positioned to capture the growth in Africa?

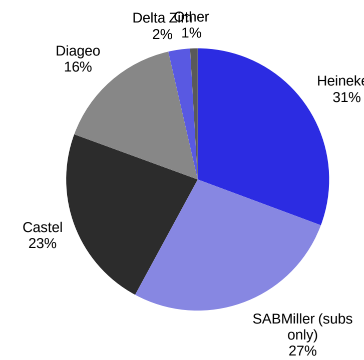
We expect Africa's volumes to grow 8% per annum over the next decade and see Heineken as best positioned, with potential to capture over 30% of the growth.

Figure 28: Proportional volume growth in Africa



Source: Deutsche Bank estimates, Plato Logic, company reports

Figure 29: Share of the growth in Africa



Source: Deutsche Bank estimates, Plato Logic company reports

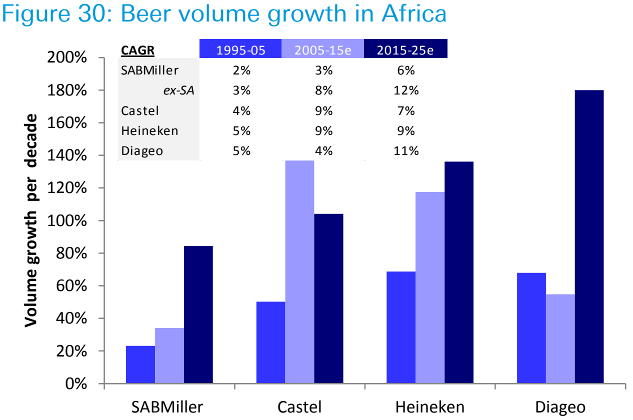
SABMiller should capture over a quarter of the growth and its associate, family brewer Castel, is well positioned to benefit on the back of its platform in West Africa.

Relevance to group growth

Beer growth in Africa should be of the greatest relevance to Heineken

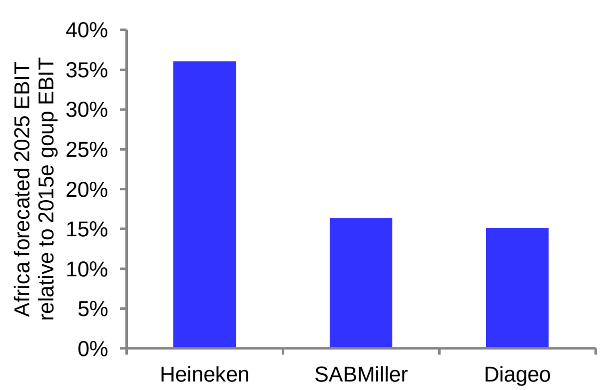
On their current beer bases, Heineken and SABMiller should be able to continue to deliver in Africa with 9% and 8% volume growth, respectively, ex-South Africa – this continues the trend seen in the past decade. For Heineken, the growth in Africa represents greater upside for the group overall and should add 25% to current EBIT

Figure 30: Beer volume growth in Africa



Source: Deutsche Bank estimates, Plato Logic

Figure 31: Additional Africa EBIT to group EBIT by 2025



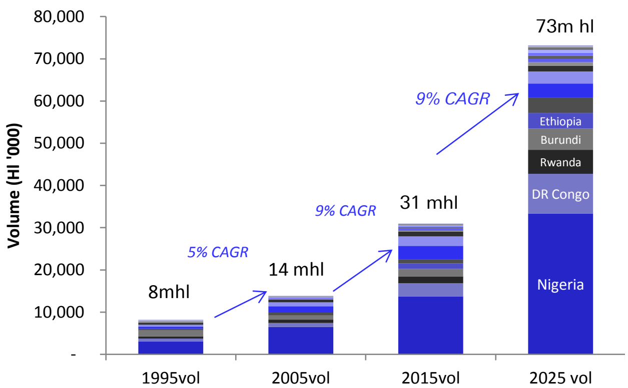
Source: Deutsche Bank estimates, company reports

On its current beer base, Diageo could potentially grow 11% per annum. However, it has had the same potential over the last two decades, and not converted thereon.

Favoring Heineken to deliver on its potential

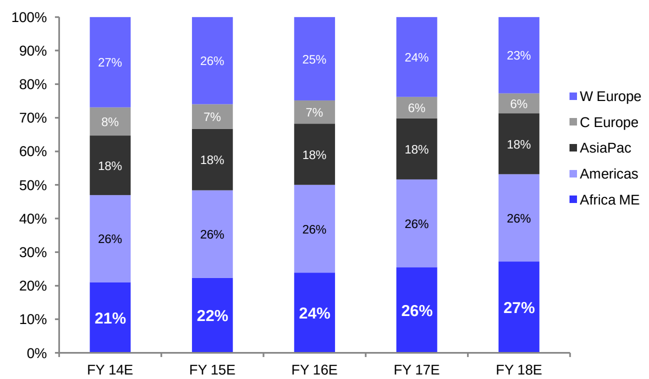
Heineken delivered 9% CAGR volume growth in sub-Saharan Africa over the last decade. Some of this is inorganic, but we expect the same trend to continue organically in the next decade. In addition to its leadership position in Nigeria, the DRC, Ethiopia, Rwanda and Burundi should be sizable contributors.

Figure 32: Heineken Africa volume growth



Sub Saharan Africa only
Source: Deutsche Bank estimates, Plato Logic

Figure 33: Heineken FY14-FY18 EBIT split



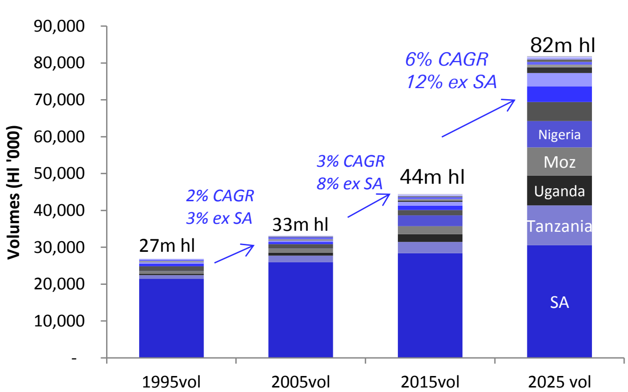
Africa and Middle East as per company description
Source: Deutsche Bank estimates, company reports

Currently, the Heineken Africa Middle East division represents 22% of profit. We model the African division to surpass the contribution of Western Europe by FY17 and exceed combined Europe by FY19.

SABMiller building on a strong base

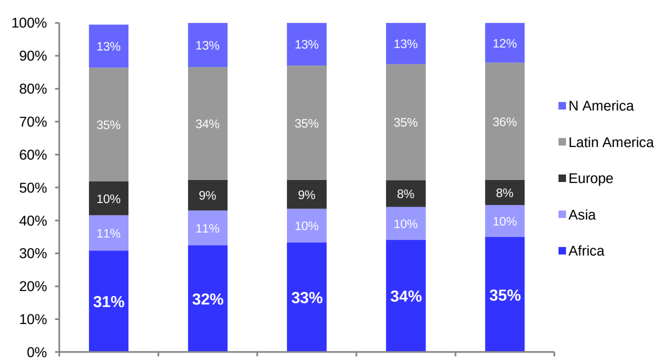
In Africa, SABMiller should be able to deliver 6% volume growth annually - 12% excluding the relatively mature market of South Africa.

Figure 34: SABMiller Africa progression



Source: Deutsche Bank estimates, Plato Logic

Figure 35: SABMiller FY15-FY19 EBIT split



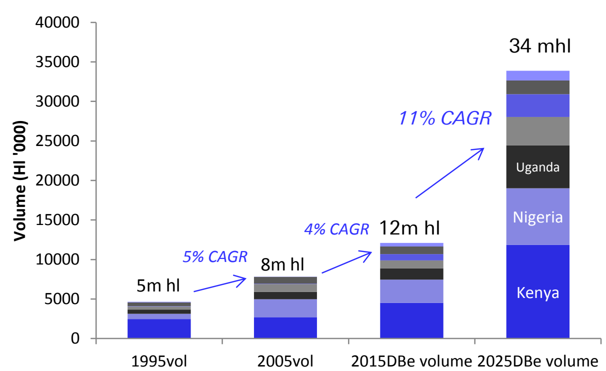
Source: Deutsche Bank estimates, company reports

The newly combined Africa division now accounts for almost a third of group profit. We expect that the amalgamation of the South Africa and Africa divisions last year will be beneficial for growth in the continent as more experienced resources are deployed north of the Limpopo River.

Diageo – the risk to beer growth in Africa

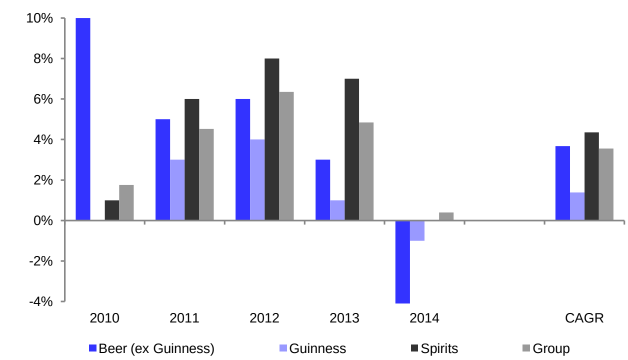
On paper, Diageo should grow its produced beer volumes 11% per year over the next decade. History, however, suggests otherwise – and we believe the company presents the biggest potential to underperform in terms of beer growth in Africa. Despite being in high-growth Nigeria and Kenya, the company has only managed to produce 4% beer growth as it deployed its focus on spirits rather than beer. Over that time, Diageo has been a share donor in Uganda and Ghana, losing approximately 1000bps and 2500bps of beer share in each market, respectively.

Figure 36: Diageo beer volume growth by decade



Source: Deutsche Bank estimates, Plato Logic

Figure 37: Diageo organic growth by category



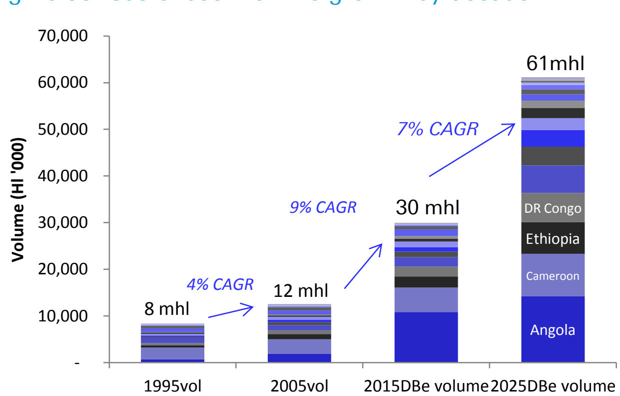
Source: Deutsche Bank estimates, company reports

To unlock the potential of beer, we believe Diageo would benefit from a review of its operating model in Africa, including potentially selling its beer operations as we discuss on page 28.

Castel - an efficient and independent business

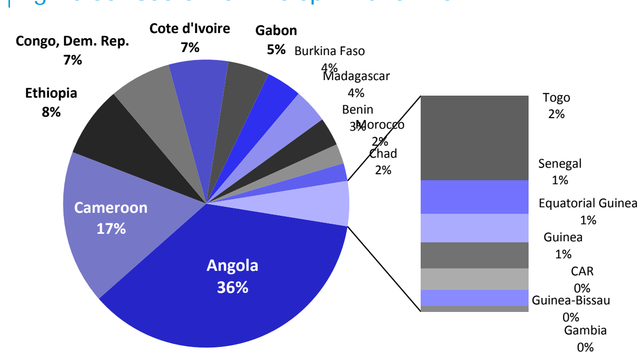
Below-inflationary pricing and an efficient cost structure have seen independent family group Castel accelerate growth in markets such as Angola and Cameroon over the last decade. We believe the company is well positioned to possibly double its volume over the next decade, led by its leading position in Ethiopia.

Figure 38: Castel beer volume growth by decade



Source: Deutsche Bank estimates, Plato Logic

Figure 39: Castel volume split 2015DBe



Source: Deutsche Bank estimates, company reports

Realistic pricing unlocks and protects growth

Few can afford a beer

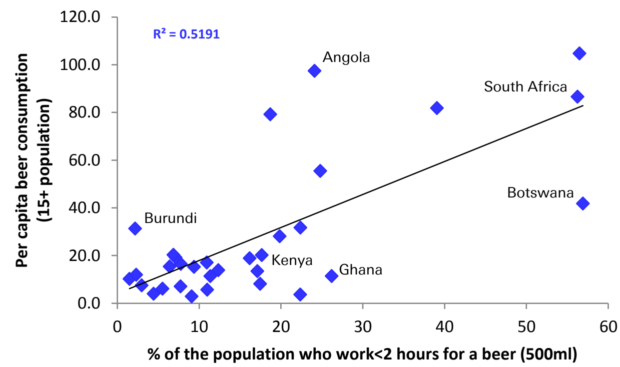
We estimate that only 15% of consumers in Africa can afford a beer. As discussed in our note [Beer - Tapping into Growth] and replicated in Figure 171, the inflection for beer affordability is ~2 hours of work. Not surprisingly, the share of adults who can afford a beer on that measure is strongly correlated to the per capita consumption in a market (Figure 41)

Consumers can afford a beer when having to work less than 2 hours for it

Figure 40: Share of adults who can afford a beer in Africa

Source: Deutsche Bank estimates, PovCal

Figure 41: PCC and share of adults who can afford a beer



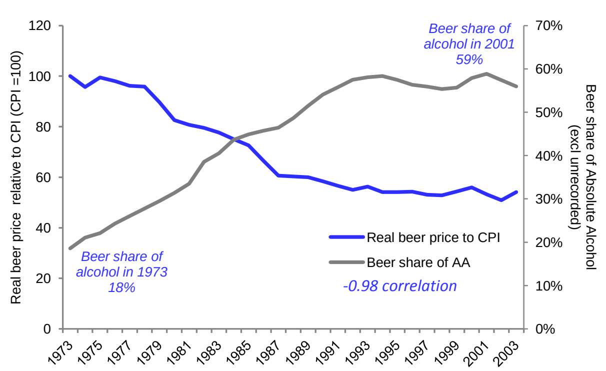
Source: Deutsche Bank estimates, PovCal, Plato Logic, World Bank

Affordability is driven by two factors: One, the macro environment, which stimulates GDP growth. This rising tide has helped all brewers in Africa and should do so for the foreseeable future. Besides ensuring a presence in the right zip code, the brewers cannot do much to influence this factor. Two, the discipline to price consistently below inflation to get consumers into the category through increased affordability. When applied, growth accelerates. It is in the brewers' power to do so, but clearly with some reluctance.

Pricing below inflation drives growth, adds new drinkers, drives consumption

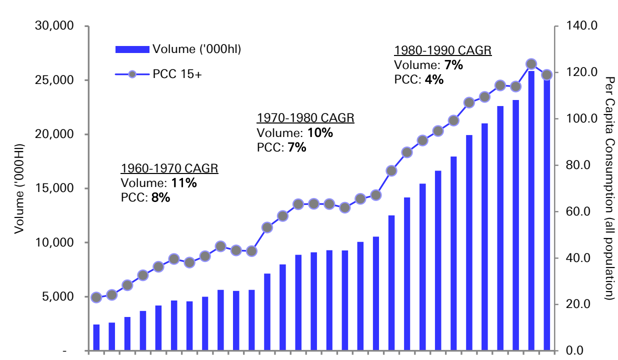
Pricing below inflation in South Africa over a 20-year period halved the price of beer in real terms and quintupled per capita consumption. Because of the high capital intensity of brewing, the operational leverage driven by the resultant volume growth doubled margins despite pricing below inflation.

Figure 42: South Africa real pricing and alcohol share



Source: Deutsche Bank, SAWIS, SACBA, SAB< ACNielsen

Figure 43: South Africa per capita growth 1961-2001

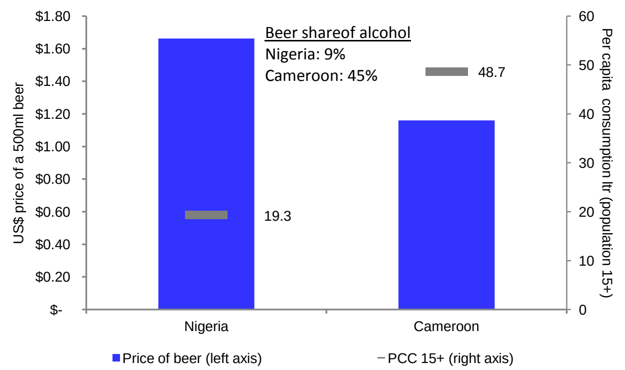


Source: Deutsche Bank estimates, company reports, ACNielsen

In West Africa, when contrasting Nigeria and Cameroon we see two markets with similar profiles, both also including a large share of Muslims in the population, which presumably limits alcohol consumption. Per capita consumption in Cameroon, however, is 2.5x Nigeria's. For years, the duopoly of Heineken and Diageo has priced at or above inflation. Their high prices have been masked by the high inflation environment. In contrast, in Cameroon pricing is more difficult. The CFA currency is pegged to the euro, with inflation in line with European norms. Reasonable pricing by Castel's Brasseries du Cameroun over the last 20 years has resulted in a price point 30% below that in neighboring Nigeria, stimulating growth.

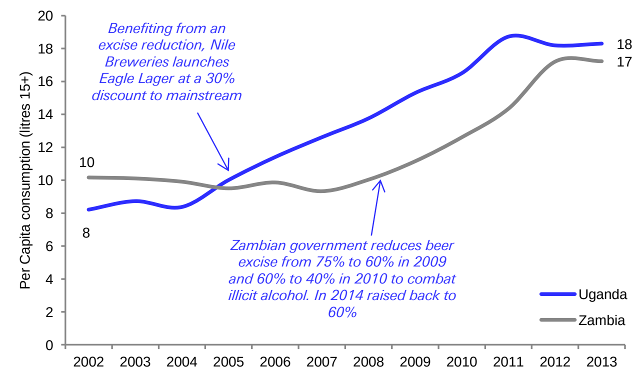
Beer is 30% cheaper in Cameroon than in Nigeria. Per capita consumption is 2.5x higher as result

Figure 44: Nigeria and Cameroon pricing and PPC



Source: Deutsche Bank estimates, Plato Logic, Euromonitor, World Bank

Figure 45: Uganda and Zambia per capita consumption



Source: Deutsche Bank, Plato Logic, World Bank

Both Uganda and Zambia have experienced similar price reductions in the last decade, driven by initiatives reducing the excise component of beer. The brewers tend to report revenue, net of excise. Yet excise is a real cost of beer borne by the consumer, which can be managed as seen in those two markets.

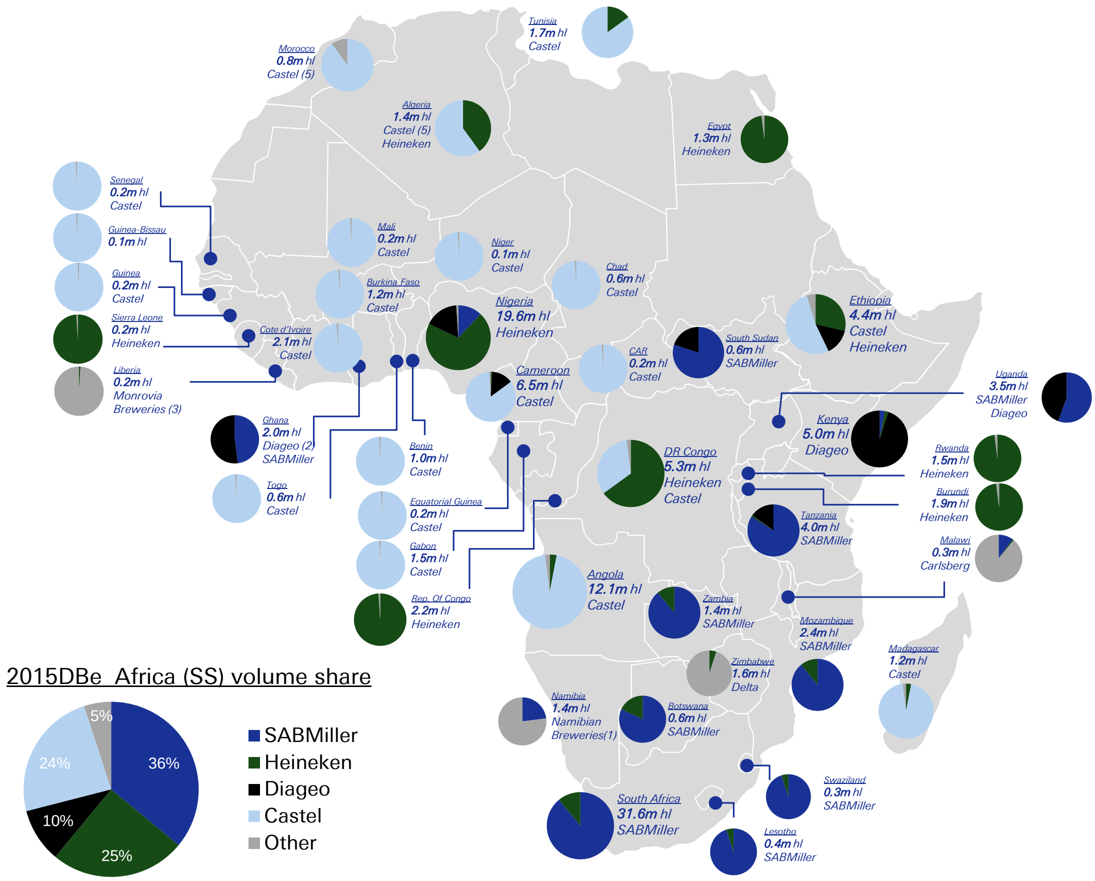
In Uganda, the introduction of Eagle lager by SABMiller's Nile Breweries, a beer made primarily with local sorghum instead of barley, received an excise reduction from 60% to 20%, effectively reducing the consumer price 30%. The reduction in excise has been sustainable as the company developed over 12,000 farmers to supply the brewery and ensured and guaranteed the government a set excise amount. Per capita consumption in Uganda has more than doubled as result in the last decade. Diageo attempted a similar initiative in Kenya with its Senator brand. However, the government received 0% excise and no direct financial benefit. It was thus not difficult for the Kenyan government to reverse its decision, which it did in 2013.

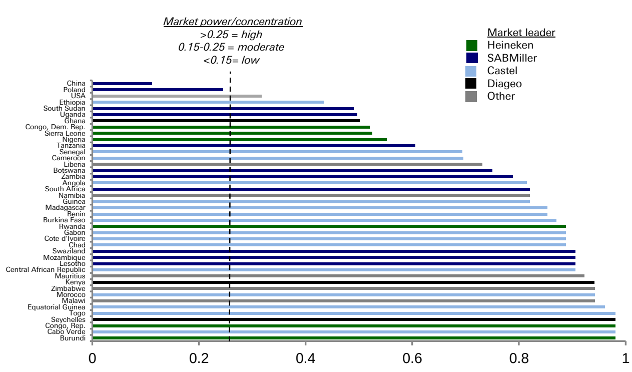
"We aim to halvethe price of beer in Africa."
CEO SABMiller Africa
February 2011

In Zambia, SABMiller's Zambian Breweries argued for an excise reduction from 75% to 60% as a means to combat illicit alcohol. The effective reduction led to a consumer discount of 30%, increasing per capita consumption to 17 litres. In 2014, the government partially reversed its decision. We wait to see the long-term impact or whether the company is able to convince the new government post the February elections of its view.

SABMiller has an active program to halve the price of beer, through pricing, transactional packs, new products or with help from the governments as above. By halving the price of beer, the share of adults in Africa who can afford a beer moves from 15% to 40%, on our estimate.

Figure 46: Dominant market shares and Herfindahl index in Africa





Significant cross holdings

- SABMiller has a share in Castel operations of 20%, with the exception of Algeria and Morroco (40% share) and Angola (27.5%)

- SABMiller has a 40% share of Delta Beverages in ZImbabwe

- Castel has a share of SABMiller Africa of 38&, with the exception of South Africa (none). Nigeieria (49.9%) and South Sudan (20%)

- Heineken in South Africa joint venture and has 42.25% with Diageo (42.5%) and Namibiian breweries (15.5%)

- Diageo has a joint venure in Ghana (50% share) with Heineken (20% share)

3Source: Deutsche Bank estimates, Plato Logic, Company reports

First-mover advantage has created a moat to protect profit growth…

Most markets in Africa are dominated by a single brewer

As can be seen in Figure 46, the brewers in Africa have strong, quasi-monopolistic positions. When using the Herfindhal index of market power concentration, all the markets would be considered highly concentrated, entrenching profitability. The high capital intensity of brewing, the required infrastructure investments in the full value chain, the product intrinsics of beer and the emotional nature of beer are all difficult for a new entrant to replicate.

…but don't get too greedy

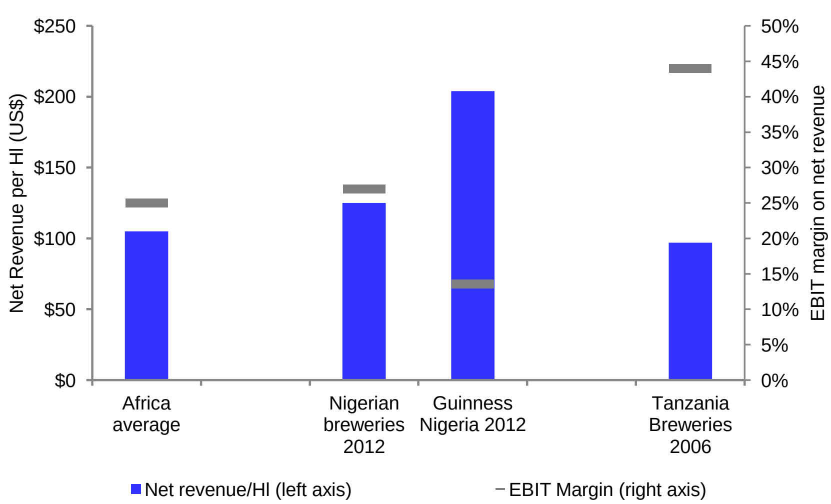
The strong market positions, however, have also led to brewers mistakenly interpreting these positions as providing them with strong pricing power. This is not the case – and creates an opportunity for competitors to enter.

Excessive pricing and margin expansion create an umbrella for others to enter

Following the exchange of crossholdings in 2002 with Diageo's EABL, Tanzania Breweries (TBL) effectively had 95% market share. Over the next decade, the company reduced marketing spend, cut investment in sales, simplified the portfolio, and raised pricing at or above inflation annually, lifting EBIT margins to almost 45%. They created a margin 'umbrella' that allowed a competitor to enter – namely Serengeti Breweries, launched in 2004, which quickly gained 20% share.

Its success caused EABL/Diageo to reassess the strategic alliance and crossholdings, and purchase Serengeti in 2010, (re)gaining an attractive foothold in what should have been a protected market.

Figure 47: Nigeria and Tanzania rev and margin at point of competitive entry



Source: Deutsche Bank estimates, company reports

Similarly in Nigeria, pricing above inflation and excessive margins by Diageo and Heineken led to a comfortable pricing umbrella for SABMiller to enter the market in 2011 at a lower price. Though the price is lower in Nigeria, on an African and global level, the "value brands" are in line and the market as a result is back in accelerated growth driven by below-premium.

Population and GDP drive structural growth

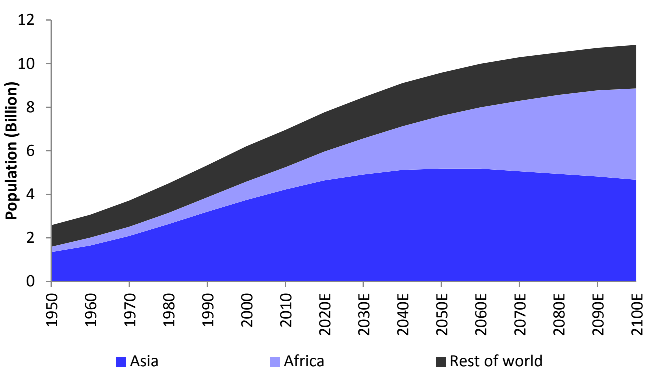
Population growth and leading GDP growth rates help make Africa the right place for consumer staples now. It is particularly attractive for beer, as the population boom is occurring in the right age cohort, and the phase of GDP growth positively impacts beer disproportionally,

20-35 year olds (demographic that tends to drink the most beer) are expanding 2.7% per annum in Africa

Population dynamics to drive half the growth

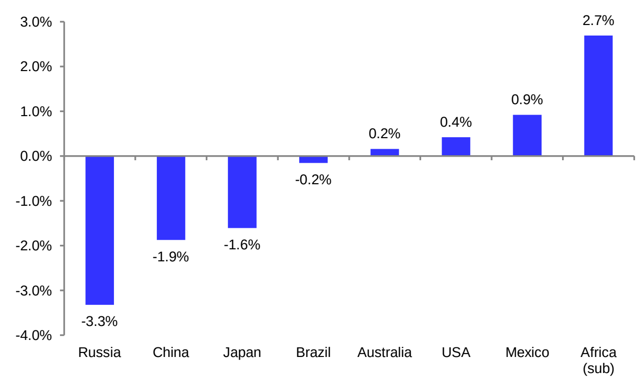
Africa should lead the globe in population growth and by 2025 is expected to have added 383 million new consumers, accounting for 39% of global growth.

Figure 48: Africa to lead global population growth



Source: Deutsche Bank, World Bank

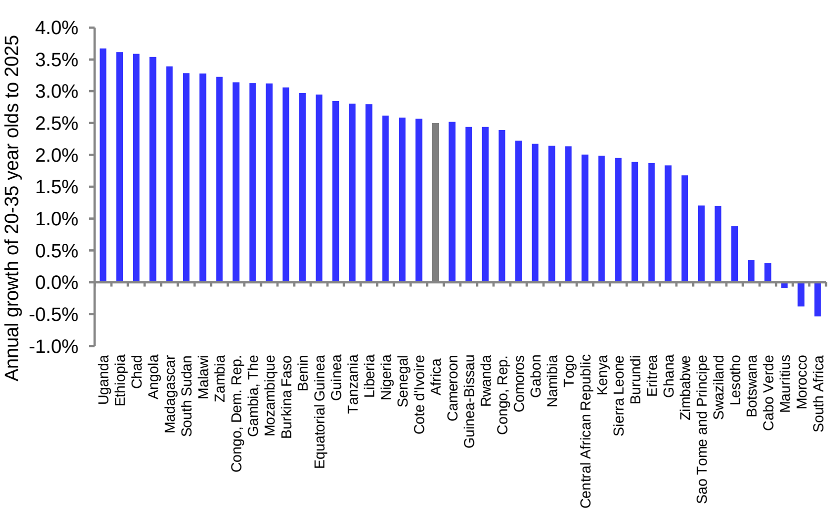
Figure 49: CAGR growth of 20-35 year olds to 2025



Source: Deutsche Bank, World Bank

More relevant for beer is the 20-35 year-old cohort, the age group that represents the time when people establish the habit of drinking beer, entrench their brand choices, and usually drink ¾ of their lifetime beer consumption.

Figure 50: Growth of 20-35 year olds in Africa



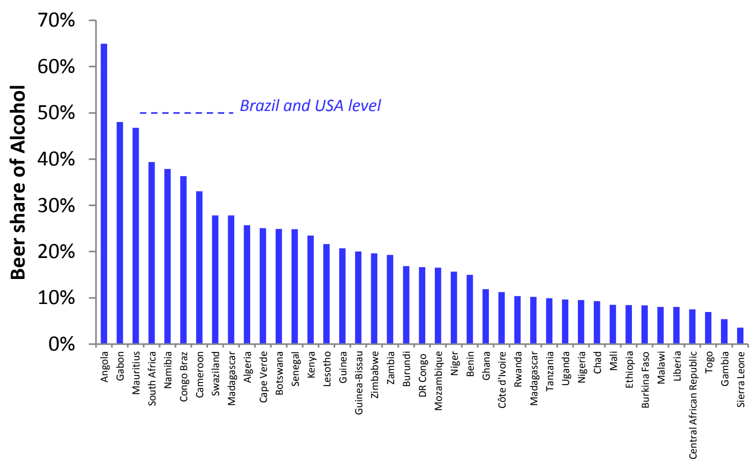
Source: Deutsche Bank, World Bank

In Africa, this key age key cohort should grow on average 2.7%, or 6 million new consumers per year, with Uganda, Ethiopia and the Democratic Republic of Congo enjoying an even greater population dividend. That is the equivalent of adding another Germany of beer drinkers in the right age group *every* year.

Plenty of per capita consumption in alcohol, just not beer

In most developed markets, beer accounts for 50-60% of alcohol consumption, with other alcohols, such as spirits and wine, priced above beer. Thus, beer is generally the cheapest such beverage that people drink. But in most African markets, beer accounts for 10-30% of alcohol, with other alcohols such as millet beer, palm wine, and gin making up the rest and sold at half the price or less. Here, beer is often the most expensive beverage that people drink.

Figure 52: Beer share of alcohol in Africa



Source: Deutsche Bank estimates, WHO

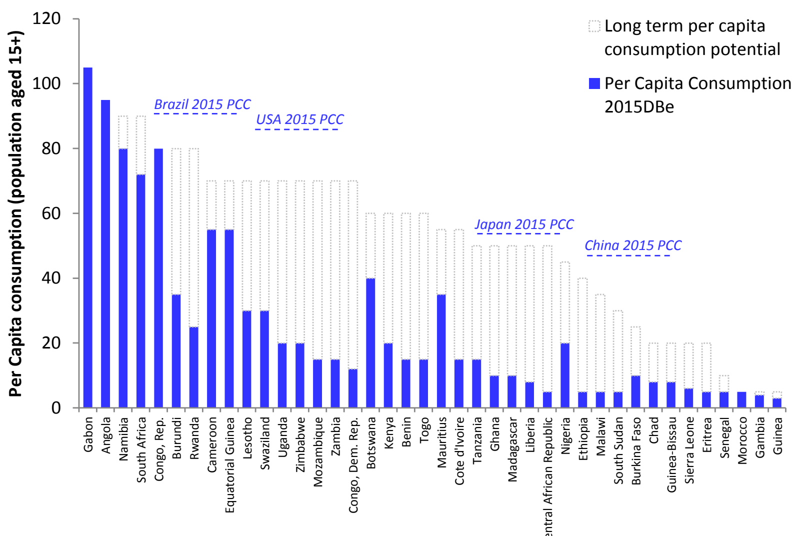
Figure 51: Beer's real competition is African home-made millet beer

Source: Deutsche Bank, personal collection

Pricing, rather than a desire to consume, is the key barrier, as discussed earlier. Africa has reached less than 30% of its potential per capita beer consumption. There is plenty of growth opportunity left to increase per capita consumption as beer takes share from illicit alcohol. Our growth estimates (which we consider conservative) incorporate cultural, religious and physical limitations.

Africa has reached less than 30% of its potential per capita consumption

Figure 53: African markets' per capita consumption versus potential



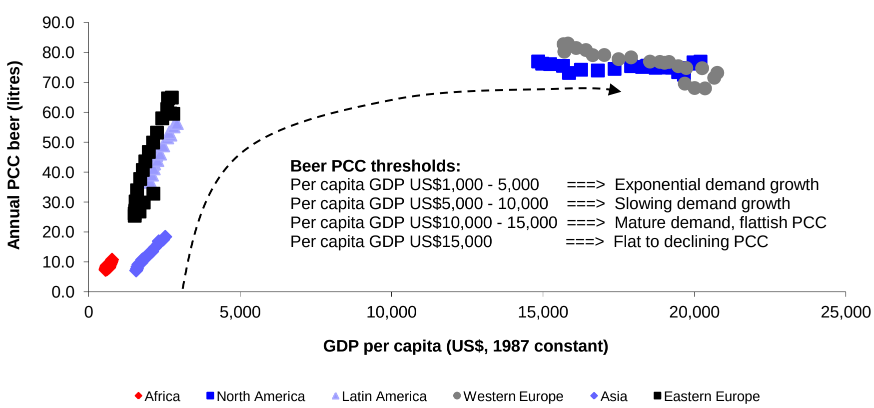
Source: Deutsche Bank estimates, Plato Logic, World Bank

Relevant GDP growth as a driver

Much has been written on the correlation of GDP growth to beer, which is a bit like observing that wings help birds fly. The key nuance for beer consumption is the phase of GDP growth. Africa is at the cusp of a phase, where beer growth generally accelerates.

The correlation between GDP and beer growth is most relevant between $1000 and $5000

Figure 54: Region per capita beer consumption and GDP 1991-2013



Source: Deutsche Bank estimates, Plato Logic, World Bank

GDP breaking above the US$1000 barrier tends to be the point of acceleration, with a multiplier effect on beer of almost twice the growth of GDP. When looking at the beer markets since 1991, we find that the phase of growth between US$1000 and US$5000 has been most beneficial to beer.

Figure 55: GDP multiplier on beer volume 1991-2013

	Coefficient	R-square
Africa	1.7	0.63
Latin America	1.1	0.31
Eastern Europe	0.8	0.52
Asia	0.4	0.05
Asia ex-China	0.6	0.30
China	2.1	0.54
Western Europe	0.3	0.22
North America	0.3	0.17

Source: Deutsche Bank estimates, Plato Logic, World Bank

Beer's impressive ability to manage the headwinds

The diversification of zone CNN

We have had the pleasure of visiting and working in 37 of the 54 African markets. As Nestle's CEO once put it, with such diversity, it is almost inevitable that a CNN crew is ever-present. In Africa, each generalization has a multitude of exceptions. In a basket of 54 markets, oil price, commodity cycles and currency movements have different and often independent rather than interdependent impacts. Core commonalities, however, are appearing – creating a more robust continent. Albeit of a low base, better governance, transparency, infrastructure and agricultural self-sufficiency are becoming the norm.

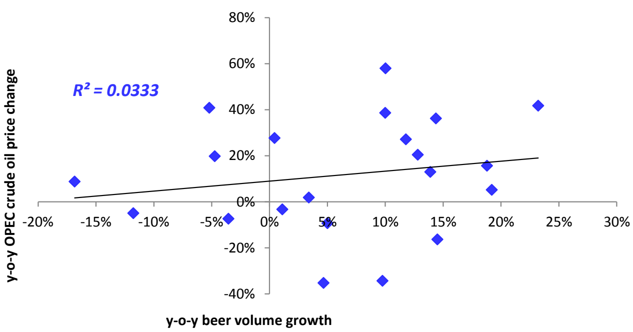
"AOA, Asia Oceania and Africa- we call it sometimes, with a little twinkle in the eye- zone CNN. There is always something in the news."

CEO Nestle
October 2013

The impact of commodities

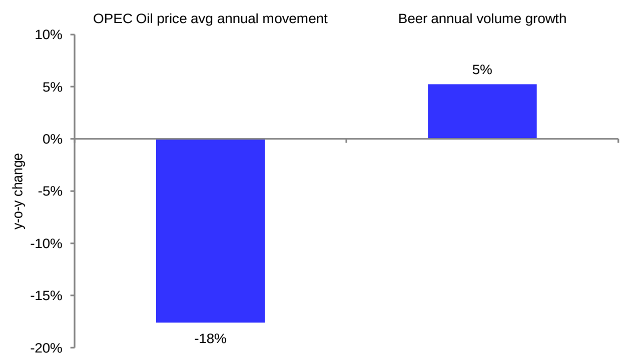
The commodity cycle impacts beer and lower oil prices, but we are sanguine about any potential negative effects. Though rising commodity prices undoubtedly have helped some African markets in the past decade, it is worth noting that those countries without significant commodities have also performed well. The correlation between the commodity cycle and beer growth is also hard to parse. In Nigeria, as a heavily dependent oil-exporting country, we see no correlation.

Figure 56: Nigeria beer and oil price movement correlation 1994-2014



Source: Deutsche Bank , Datastream, Plato Logic

Figure 57: Nigeria beer performance in declining oil prices

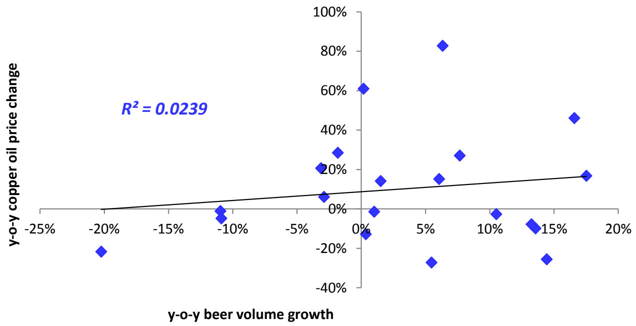


Six years between 1994-2014- 1997, 1998, 2001, 2009, 2013, 2014 DBe
Source: Deutsche Bank, Datastream, Plato Logic

In the six years that oil was down, the average decline for oil was 17%, while the beer market grew on average. In 2009, when the oil price declined 35%, beer grew 5%, rising double digits on both sides of that year. It can be argued that the benefits of a high oil price in Nigeria tended to focus on those consumers who had bank accounts in Switzerland. On the way down, those same consumers will be hurt, which most likely has a disproportionate impact on Johnny Walker Black, rather than mainstream Star beer.

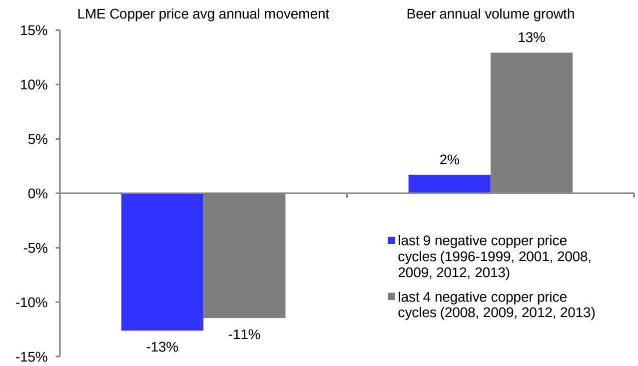
Zambia's economy is dependent on copper. Yet over the last 20 years, fluctuations in the copper price seem to have had no direct correlation with beer growth. In the nine years that copper was down on average 13%, beer volumes were a mediocre 2%. In the last four copper price declines, however, beer grew 13% annually. The government adjusting excise rates, weather-dependent agricultural outputs as well as SABMiller's capital investment after many years of under-investment had bigger effects than any copper price decline.

Figure 58: Zambia beer and copper price Pearson correlation 1994-2014



Source: Deutsche Bank, Plato Logic, Datastream

Figure 59: Zambia beer performance in declining copper prices



Nine years between 1994-2014: 1996-1999, 2001, 2008, 2009, 2012, 2013
Source: Deutsche Bank, Plato Logic, Datastream

We are not saying that commodity cycle factors will have no short-term impact on beer sales in Africa, but we are aware that the usual other factors, such as excise, producer pricing, and a good harvest, are always in play and probably have a bigger impact.

There are also parts of Africa for which the commodity cycle has been less relevant. Ethiopia and Rwanda have posted 11% and 8% CAGR in GDP over the last decade, respectively. The only real commodity in their stable is coffee. There, growth is more a product of good governance and a stable political environment.

Beer is a more hardy good than other products

When consumers enter the cash economy, beer often becomes one of the first beneficiaries, ahead of other HPC and packaged food products. Commercially produced lager replaces unhygienic and illicit alcohol. Perhaps not surprisingly, this seems to have a higher priority for a consumer with a US$1 in his pocket than buying Maggi cubes over salt, or Ritz crackers over homemade (and often tastier) plantain chips.

Beer is also one of the last items that people tend to drop. It is hard to go back to the homemade stuff. It is also difficult socially to revert to the back of the tavern with the flies and the unhygienic products that the bar owner keeps there.

African M&A

Africa brewing is no short-term game. SABMiller's leading presence in Africa is as a result of developing markets for more than 35 years in Southern Africa and 20 years in East Africa. Heineken started in the Congo in 1923 and has been invested in Nigeria since 1957. Guinness established its first brewery outside Ireland and Great Britain in Lagos, Nigeria, in 1962. Castel started its first brewery in Gabon in 1967. Given the high barriers to entry coming from first-mover advantage, Africa offers only a few potential M&A opportunities of material impact.

We see three potential routes of corporate activity in Africa involving the brewers: the Castel family holding, further consolidation in ancillary drinks to leverage the brewing platform, and Diageo exiting the operational aspects of selling beer.

Castel, perhaps one day, just not the way you might think

For the sake of completeness, in Figure 219 based on the lower end of recent transactions in brewing, we conservatively value the Castel Africa beer and soft drinks business at US$30 billion on a 12x FY16E multiple should any party buy the business outright. With SABMiller holding a 20% stake along with various rights to purchase at an agreed formula, much ink has been spilled on possible timelines (often linked to the specter of the Castel chairman retiring, as the SABMiller CFO recently said) and structures of a potential deal. Questions have also been asked about what might happen to the rights to purchase Castel should SABMiller itself be an acquisition target as extensively covered in newspaper reports (an event that we consider unlikely, discussed more extensively on page 59). Over time, the company has given numerous responses to that question. Moreover, it is not the relevant question, in our opinion. We see three considerations that we view as more relevant:

"It is unlikely a deal will happen under Pierre Castel, but it is possibly more doable with the next generation. It is more a question of 'when' than an 'if'."

CFO SABMiller
June 2014.

1. Its strategic alliance with SABMiller benefits Castel more than SABMiller

Families tend to exit the beer business when they are under competitive threat (e.g. Bavaria in Latin America), there is lack of control (e.g. Anheuser Busch) or there is generational discord. Heineken's independence can be partially attributed to the fact that none of those factors apply. The same is true for Castel.

The core focus for the Castel family (which extends quite widely in the business beyond the chairman) has been to protect its profit pools in Africa. Their businesses enjoy unrivaled leadership positions. When there is a threat, the companies have been co-opted (Castel has brand license agreements with the four main brewers), or in the case of SABMiller, alliances have been agreed. From Castel's perspective, it seems the purpose of the original alliance agreement with SABMiller was to prevent the company from entering Francophone Africa. The alliance was based on competitive threats as SABMiller had purchased a piece of land in Cote d'Ivoire directly across the street from the Castel brewery. An agreement was soon reached to prevent any further encroachment.

2. It is fiercely independent

The renewal of the strategic alliance with SABMiller in 2012 quadrupled the profit pool in Angola for Castel and gave SABMiller an encouraging hand in Nigeria. It also strengthened the pre-emption rights for SABMiller as well as recognizing the outperformance of Castel over SABMiller Africa in the previous decade. However, we don't necessarily see the urgency of an all-or-nothing deal with the "next generation".

Rather, Castel is seeking to strengthen its independence, which was recently apparent in the Coca Cola Beverages Africa joint venture formation as both companies confirmed discussions had taken place. We understand SABMiller would have been keen (and likely still is) for Castel to fold its Coca Cola operations into the new joint venture. However, with the involvement of three parties already (SABMiller, the Gutsche family, and Coca Cola), Castel may be one party too many. Key for SABMiller, in our opinion, would be to prove to Castel that the CCBA venture is workable and profitable.

We believe it would be difficult to convince Castel to join as it would probably have to sell its own B- brands, which form a significant part of the portfolio, symbolize its independence and strengthen its position when negotiating agreements with Coca Cola. It can be argued that with the exception of the Cola franchise, markets in Africa favor local brands in soft drinks. Outside the Coca Cola framework it also recently acquired a significant stake in Sumol + Compal, a leader in Portuguese non-alcoholic beverages with a large presence in Africa, especially Angola. Whereas SABMiller was willing to give up its own soft drinks, such as Appletizer and Club minerals, to play in the Coca Cola sandbox, we see Castel as unlikely to do so.

Castel is also more dependent on soft drinks than is SABMiller due to some of its exposure in North Africa. Given the evolution of religious fundamentalism in some of their markets, depending only on beer would be a strategic mistake. Castel is looking for smart business moves that reinforce its independence, not for somebody to retire.

3. SABMiller might seem the 'natural choice' and has strong rights, but others could disrupt the party

Heineken has a relationship with Castel that predates SABMiller, on both business and personal levels. It currently also owns 9% of Castel's Brasseries du Cameroon (SABC) and licenses its brands to the company. We estimate that 20% of the current portfolio at SABC consists of Heineken brands including Amstel, Mutzig and the Heineken brand. Similar to the situation in South Africa in 2007 with the Amstel brand, should SABMiller buy Castel, Heineken could exercise its change of control clauses and immediately gain strong positions in key African markets. The relationship has become more aggressive recently with Heineken's entry into Castel territories such as Algeria and Ethiopia.

Similarly, ABInBev has been interested in finding a way to enter Africa and has renewed its licensed agreements on Becks and Stella Artois in Algeria. And the pragmatism of Castel is very closely aligned to the Brazilian culture. Though we don't believe that Africa is necessarily waiting for Budweiser, it would not surprise us that as part of their asset-light strategy, further agreements with ABInBev are possible.

In both cases, the companies could leverage their relationship and raise the possibility of buying Castel, or (perhaps inadvertently) raise the purchase price. Though SABMiller has pre-emption rights as well as last right of refusal, a bona fide party could enter the fray to top the offer, or for that matter, provide a structure that SABMiller cannot match. In 2010, Heineken trumped SABMiller on the FEMSA deal by involving its holding structure and board seats. Heineken might want to create a similar structure once again to do a deal with Castel if the opportunity presents itself – one SAB could find hard to match.

We would assume the Castel family is not necessarily looking for money, but rather seeking to secure a legacy for future generations. SABMiller seems the natural candidate to do so. However, having a significant stake in a professionally managed family company such as Heineken, or a culturally similar company like ABInBev, might be as appealing as continuing the strong relationship with SABMiller. It keeps everybody on their toes.

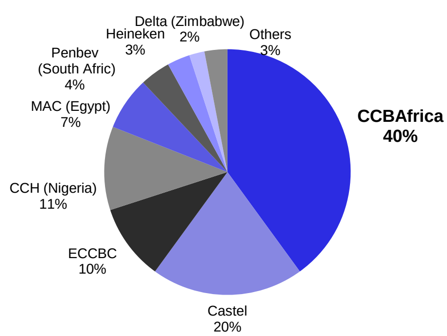
Ancillary beverages businesses bring scale in small markets

In the immediate future, we see the brewers leveraging their brewing platforms by entering and consolidating ancillary beverages. The most obvious candidate, in our view, is soft drinks.

In December 2014, SABMiller announced plans to merge its existing Coke bottling businesses with those of SABCO, to create a south/eastern African business operating across 12 countries. This makes SABMiller the 10th largest Coca Cola bottler worldwide and doubles down on Africa. We believe this is a good deal and likely to mark the first step in a bigger phase of deals between beer and soft drinks businesses, where we see considerable opportunities.

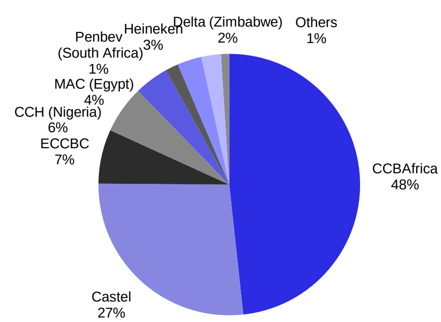
As we discussed in our note on December 2nd, SABMiller- Bottling the growth, we think SABMiller will probably seek to include Coca Cola operations from Castel, as above, as well other businesses, such the Nigerian operations of Coca Cola Hellenic or the attractive bits of ECCBC in West Africa.

Figure 60: Africa TCCC bottler volume share



Source: Deutsche Bank estimates, company reports, Euromonitor

Figure 61: Estimated bottler profit split



Source: Deutsche Bank estimates, company reports, Euromonitor

Though we see limited benefits in combining beer and spirits, we do see further opportunity in mainstream, small packs, which tend to have high volume and a low value similar in price to beer (as opposed to the high-value, low-volume model of international premium spirits, which are priced at 5 times the level of beer). Similar to Cachaca in Brazil and Moutai in China, the entry-level spirit market in Africa appears ripe for consolidation. However, the biggest barrier is illegal production which escapes the excise net.

Where effective legislation is in force, such as in Tanzania, a more formalized market can be developed. In that country, Tanzania Distillers - a 65%/35% joint venture between SABMiller subsidiary TBL and South Africa based Distell - have 90% market share in the spirits market built on gin-based liquors (mostly Konyagi) in small packs (sachets and 200ml bottles) and effective legislation (tax stamps on bottles effectively enforced). We see potential for more activity in spirits, with the brewers as major players, as has been seen recently in Ethiopia where SABMiller set up a new liquor company.

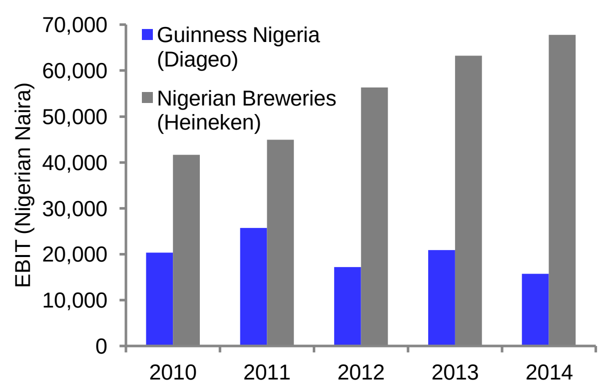
Diageo likely to exit beer, but not Guinness

We do not believe Diageo intends to sell Guinness. Besides the emotional heritage (which is vast, though not necessarily respected in the current set-up), both the operational model and the financial benefits effectively preclude a sale.

Guinness is unique within beer, as it separates the wort production from the final product brewed in situ. Like the average home-brewing kit and the Coca Cola concentrate model, the 'essence' of Guinness is brewed separately. In the case of Diageo, it is brewed in Ireland and shipped to over 60 countries around the globe. Upon arrival, it is diluted 50x with a local lager stream.

The financial advantage of the model is twofold. One, like the KO concentrate model, Diageo can charge whatever the market/local brewer can bear for its concentrate and is not beholden to transfer-pricing regulations (which limit a mark-up of 12% on procured goods within companies). In the case of Africa, this obviously puts minority shareholders in listed subsidiaries such as Guinness Nigeria and East African Breweries in Kenya at a distinct disadvantage as they don't benefit at the same rate of Guinness growth as Diageo would. Second, the Irish domicile of concentrate essence production gives a distinct tax advantage in the single digits to our estimate. The original tax inversion at play.

Figure 62: Nigeria EBIT performance of leading brewers



Source: Deutsche Bank, company reports. Calendarized data

However, we do believe Diageo is likely to eventually exit local operational aspects of brewing and license its brands more profitably. With the above model in mind, it already licenses production to third parties of Guinness in the majority of its markets, including Africa. Despite its distinct geographical advantage in Africa, the inheritance of one of the strongest brands in the world (the largest globally until 1940; and until the turn of the century, the largest beer brand in Africa), it has apparently mismanaged the African beer business. SABMiller and Heineken have delivered EBIT growth annually in the high teens in local currency in Africa, whereas Diageo's performance has been flat.

We notionally value the African beer business of Diageo at $5.3 billion on a sum-of-the-parts valuation detailed in Figure 215, excluding the right to Guinness. The beer business would likely be an attractive addition to both Heineken and Castel's portfolio, or could even be an entry point for ABInBev into Africa. Perhaps a more creative solution would be an asset swap that, for example, expands Diageo's exposure to spirits in Africa in exchange for its beer business, where we would see SABMiller as a more likely candidate. SABMiller could potentially swap its interests in spirits businesses and license Guinness in all its operations in exchange for the Diageo beer assets in Nigeria and Kenya. SABMiller's historical 30% ownership of Distell, the biggest spirits business in South Africa, as well as leading positions in spirits in Tanzania and Mozambique, would probably be an interesting asset for Diageo to further expand its ambitions in spirits.

The investable universe in Africa

Africa has 20 stocks with significant beer exposure to Africa, most fairly illiquid. In our coverage, we favor and rate both Heineken and SABMiller for their exposure to Africa brewing. We see Heineken as able to deliver in Africa, complemented by its broader EM exposure and strong brand-building capability. SABMiller has unrivaled capability in Africa, but other parts of the business will likely be a drag on results in the short term. We are concerned about Diageo's ability to deliver in Africa, and our Buy rating on the company is *despite* its beer capability on the continent.

For the other 17 smaller-capitalized stocks, we have provided descriptions for completeness on pages 141 to 182, with key financials and graphs for the listed African brewers. Investing in the locally listed African subsidiaries is a double-edged sword. Though all of them provide immediate access to the growth of the African consumer, the lack of liquidity, questionable minority rights and inability to effectively reinvest earnings locally increase the risk.

Heineken (Buy, TP €70)

Heineken is the best-exposed brewer to growth in Africa, positioned to capture a third of the growth in the next decade. Though in the short term, we are concerned about the current situation in Nigeria, the recent amalgamation of its breweries in that market and its focus on making beer more accessible to the broader population should mitigate those concerns. Exposure to the great potential of the DRC and Ethiopia further enhances the company's footprint, as does being the only brewer on the continent with a real international brand.

Outside of Africa, we believe Heineken has the best exposure in the right emerging markets, with Mexico and Asia ex-China driving growth. In its developed markets, it has a patient and proven model of investing behind its brands and in innovation for the future and has set up its production model to deal with the required complexity that this entails. Heineken remains our top pick in the sector and in consumer staples.

SABMiller (Hold, TP £35; ZAR630)

We estimate that SABMiller is positioned to capture 27% of the growth in Africa over the next decade. Its recent collaboration agreement to create Coca Cola Beverages Africa has potential to be transformative. With unrivaled managerial competence in the continent, it appears poised to capture more than its fair share of the growth.

However, historically, when growth has stalled in Africa, it is due to lack of investment. With the current competitive pressure in Australia, the potential commodity headwinds in Latin America, and the capital and managerial intensity required for the company's global centralization initiatives, we are concerned that the region will not be allocated the capital required to stimulate growth.

Though we are believers in the long-term growth of SABMiller, with mid-single-digit EPS growth forecast for the immediate future and what we see as minimal likelihood of being acquired by ABInBev, we believe the stock is fairly valued and we maintain our Hold.

Figure 63: Brewers of Africa

SABMiller	**SAB.L**
Tanzania Breweries	TBL.TZ
Zambia Breweries	ZABR.LZ
National Breweries	NATB.LZ
International Breweries	IB.LG
Delta	DLTA.ZI
Sechaba Brewery	SECH.BT
Diageo	**DGE.L**
East African Breweries	EABL.NR
Guinness Nigeria	GB.LG
Heineken	**HEIN.AS**
Nigerian Breweries	NB.LG
Bralirwa	BLR.RW
Champion Breweries	CB.LG
Bras.Cameroun Par	BRCP.PA
Soboa Par	BROA.PA
Brasseries Du Maroc	SBM.CS
Brass De Tunis	SFBT.TN
Namibia Breweries	NBS.NM
Phoenix Beverages	PBL.MZ

Source: Deutsche Bank

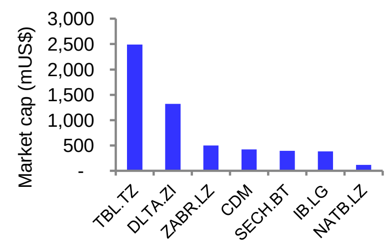
Diageo (Buy, £20)

Theoretically, Diageo has some of the best exposure to beer in Africa and the strongest brand as well. However, historically, the company has been unable to tap into that attractive potential as it focuses on spirits rather than beer. We don't rate Diageo as a beer player. As detailed in our note of December 5th, Much aDo about Must Do's, we believe that Diageo should either fix its beer business or get out. Our Buy case is *not* based on beer, but rather its broader, strong position in spirits. The company looks well positioned to take advantage of consumer recovery in the US, accounting for 44% of EBIT, where we believe that spirits will benefit more than beer. Additionally, in the next 12 months, it will be cycling the destocking of its brands in Latin America and SE Asia.

Listed entities of SABMiller (pages 144to 156)

SABMiller has six listed subsidiaries and one associate, Delta beverages. The prime purpose of the listed subsidiaries is to enhance the license to trade and ensure good local corporate citizenship. The main shareholders in each are the local pension funds and quasi-government bodies. The average return in US$ in 2014 was 11.6% with an average dividend yield of 4%. Its largest subsidiary is Tanzania Breweries, which has had a somewhat technical share price run. Following the announcement in November that the Tanzanian market will open to international investors, the TBL share price spiked, returning 88% in local currency, 61% in US$. The share rerated upwards from18X LTM PE to 54X LTM PE as a result.

Figure 64: Market capitalization of SAB listed Africa entities

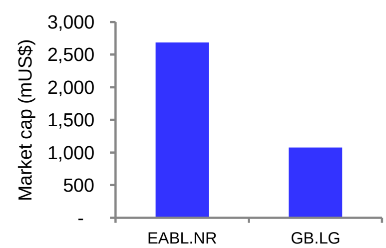


Source: Deutsche Bank

Listed subs of Diageo (pages 158 to 162)

Diageo has three listed subsidiaries in Africa, with Guinness Nigeria and East African Breweries Limited being among the most liquid stocks in Africa, north of Johannesburg. However, as detailed earlier, we are concerned about minority rights within those entities. The benefit of growth of the Guinness brand accrues primarily to Diageo, not to local shareholders. Additionally, local shareholders do not benefit from international spirit growth in Nigeria and Kenya. We would argue that they are indeed punished for it. While Diageo owns 50.1% and 54% of EABL and Guinness Nigeria, respectively, it owns 100% of the spirits businesses, which sit on top of those listed entities. It pays a nominal fee to use the sales force, distribution platform, and expatriate management to drive the spirits portfolio. However, doing so hurts the high-volume, low-value beer business as they focus on high-value, low-volume premium spirits. The two don't mix well.

Figure 65: Market capitalization of Diageo listed African subsidiaries

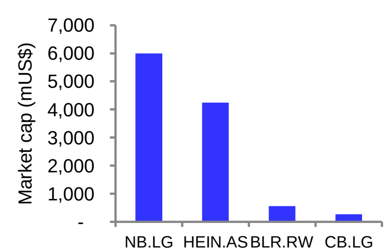


Source: Deutsche Bank

Listed entities of Heineken (pages 164 to 170)

The most liquid stock on the continent north of Johannesburg is Nigerian Breweries. Heineken's other listed subsidiary, Bralirwa, basically created the Rwandan stock exchange. It became the first listed entity when the stock exchange opened in January 2011 and is up 284% in local currency, 231% in US$ since that time - a CAGR TSR of 35%. The average return in US$ in 2014 was -55% with an average dividend yield of 2.2%.

Figure 66: Market capitalization of Heineken listed African subsidiaries



Source: Deutsche Bank

Rating
Buy

Europe
Netherlands

Consumer Staples
Beverage

Company
Heineken

Reuters	Bloomberg Finance LP
HEIN.AS	HEIA NA

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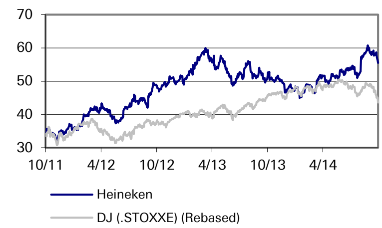
Price at 03 Feb 2015 (EUR)	66.93
Price Target (EUR)	70.00
52-week range (EUR)	60.75 - 44.96

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-8.7	1.2	6.8
DJ (.STOXXE)	-10.6	-10.8	-5.0

Source: Deutsche Bank

Stock & option liquidity data

Market cap (EUR)(m)	31,680.1
Shares outstanding (m)	577
Free float (%)	51
Option volume (und. shrs., 1M avg.)	119,932

Source: Deutsche Bank

An African Star

Best-positioned growth company in beer in Africa

We consider Heineken the best brewer with exposure to growth in Africa, well placed to capture a third of the growth in the next decade. Heineken delivered 9% CAGR volume growth in sub-Saharan Africa over the last decade, and we expect the same trend to continue organically in the next decade. For Heineken, growth in Africa represents greater potential upside for the group overall than for any other company in our coverage, potentially adding an additional third to its current EBIT.

Nigeria and more

Though in the short term, we are concerned about the current situation in Nigeria, the recent amalgamation of Heineken's breweries in that market and its focus on making beer more accessible to the broader population should mitigate those concerns. Further exposure to the attractive potential of the DRC and Ethiopia also enhances the footprint, as does being the only brewer on the continent with a real international brand.

A balanced global growth profile in EM and DM

Outside of Africa, Heineken has the best exposure in what we believe are the right emerging markets, with Mexico and Asia ex-China driving growth. In its developed markets, it has a patient and proven model of investing behind its brands and in innovation for the future and has set up its production model and cost base to deal with the required complexity that this entails.

Top pick in 2015, TP €70

On January 12th, we updated our TP from €65 to €70. We base our price target on a DCF-model, the core assumptions behind which are a WACC of 7.83% and a terminal growth rate of 2.0%. Our downside risks include consumer sentiment in developed markets, emerging market volatility in Asia and Africa, currency risk, and competitive dynamics in Mexico and Europe.

Forecasts and ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
EBITDA (EURm)	3,784	4,193	4,328	4,498	4,850
EBITA (EURm)	2,666	2,941	3,092	3,309	3,586
PBT DB (EURm)	2,178	2,341	2,585	2,864	3,195
DB EPS (EUR)	2.88	2.75	3.07	3.34	3.73
DB EPS growth (%)	6.7	-4.6	11.5	8.9	11.5
P/E (DB EPS) (x)	14.9	19.2	17.9	16.5	14.8
EV/EBITA (x)	14.3	14.4	13.8	12.6	11.3
DPS (EUR)	0.89	0.89	0.99	1.08	1.20
Yield (%)	2.1	1.7	1.8	2.0	2.2

Source: Deutsche Bank estimates, company data

Model updated:12 January 2015

Running the numbers

Europe

Netherlands

Beverage

Heineken

Reuters: HEIN.AS Bloomberg: HEIA NA

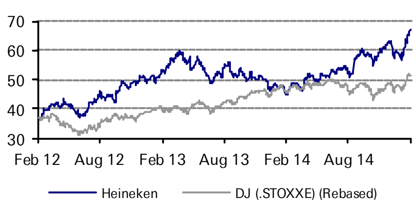
Buy

Price (3 Feb 15)	EUR 66.93
Target Price	EUR 70.00
52 Week range	EUR 45.19 - 66.93
Market Cap (m)	EURm 38,552
	USDm 43,727

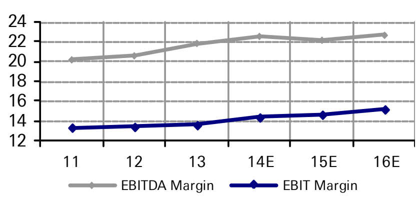
Company Profile

Heineken is a leading international brewer, with significant positions in Western and C&E Europe, Mexico, Africa and Asia. We estimate that emerging markets now account for approaching 60% of Heineken's earnings, with the remainder coming largely from Western Europe and the US. The company's key brand asset is Heineken itself, the most global beer brand, supported by Sol, Tiger, Desperados, Amstel, Strongbow cider, and a range of regional and local brands.

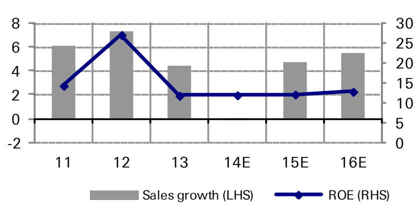
Price Performance



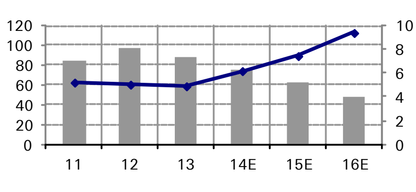
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (EUR)	2.70	2.88	2.75	3.06	3.29	3.67
Reported EPS (EUR)	2.44	5.06	2.37	2.45	2.69	3.07
DPS (EUR)	0.83	0.89	0.89	0.99	1.07	1.19
BVPS (EUR)	17.0	20.4	19.8	21.4	23.0	25.0
Weighted average shares (m)	585	575	575	576	576	576
Average market cap (EURm)	21,854	24,666	30,368	38,552	38,552	38,552
Enterprise value (EURm)	28,218	38,182	42,512	49,759	48,715	47,478
Valuation Metrics						
P/E (DB) (x)	13.8	14.9	19.2	21.9	20.3	18.2
P/E (Reported) (x)	15.3	8.5	22.3	27.3	24.9	21.8
P/BV (x)	2.11	2.48	2.48	3.13	2.91	2.68
FCF Yield (%)	9.1	5.6	4.4	3.9	4.4	5.0
Dividend Yield (%)	2.2	2.1	1.7	1.5	1.6	1.8
EV/Sales (x)	1.6	2.1	2.2	2.6	2.4	2.2
EV/EBITDA (x)	8.2	10.1	10.1	11.5	11.0	9.9
EV/EBIT (x)	12.3	15.5	16.3	18.0	16.6	14.8
Income Statement (EURm)						
Sales revenue	17,123	18,383	19,203	19,173	20,070	21,166
Gross profit	6,924	7,269	7,881	8,146	8,514	9,080
EBITDA	3,455	3,784	4,193	4,323	4,447	4,796
Depreciation	936	1,062	1,089	1,176	1,101	1,161
Amortisation	232	254	492	389	403	417
EBIT	2,287	2,468	2,612	2,758	2,943	3,217
Net interest income(expense)	-438	-489	-532	-446	-395	-342
Associates/affiliates	240	213	146	159	170	187
Exceptionals/extraordinaries	-58	1,229	-58	-150	-150	-150
Other pre-tax income/(expense)	-6	168	-61	-61	-50	-50
Profit before tax	1,785	3,376	1,961	2,101	2,348	2,675
Income tax expense	465	515	520	621	719	817
Minorities	130	160	223	227	249	276
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,430	2,914	1,364	1,413	1,550	1,769
DB adjustments (including dilution)	154	-1,253	221	352	350	350
DB Net profit	1,584	1,661	1,585	1,764	1,900	2,119
Cash Flow (EURm)						
Cash flow from operations	2,751	2,492	2,627	3,037	3,122	3,438
Net Capex	-755	-1,117	-1,294	-1,528	-1,436	-1,516
Free cash flow	1,996	1,375	1,333	1,509	1,685	1,921
Equity raised/(bought back)	-649	3	-22	0	0	0
Dividends paid	-483	-494	-525	-512	-591	-635
Net inc/(dec) in borrowings	195	3,909	-811	-997	-1,094	-1,287
Other investing/financing cash flows	-931	-4,553	291	0	0	0
Net cash flow	128	240	266	0	0	0
Change in working capital	*251*	*101*	*51*	*13*	*25*	*41*
Balance Sheet (EURm)						
Cash and other liquid assets	813	1,037	1,290	1,290	1,290	1,290
Tangible fixed assets	7,860	8,844	8,454	8,726	8,978	9,246
Goodwill/intangible assets	10,835	17,688	15,934	15,625	15,305	14,974
Associates/investments	3,363	3,728	3,212	3,210	3,207	3,205
Other assets	4,256	4,683	4,447	4,592	4,787	5,047
Total assets	27,127	35,980	33,337	33,443	33,568	33,763
Interest bearing debt	9,387	13,491	12,226	11,229	10,135	8,848
Other liabilities	7,648	9,684	8,755	8,900	9,098	9,376
Total liabilities	17,035	23,175	20,981	20,129	19,233	18,224
Shareholders' equity	9,774	11,734	11,402	12,303	13,262	14,396
Minorities	318	1,071	954	1,011	1,073	1,142
Total shareholders' equity	10,092	12,805	12,356	13,313	14,335	15,538
Net debt	*8,574*	*12,454*	*10,936*	*9,939*	*8,845*	*7,558*
Key Company Metrics						
Sales growth (%)	6.1	7.4	4.5	-0.2	4.7	5.5
DB EPS growth (%)	4.5	6.7	-4.6	11.1	7.7	11.5
EBITDA Margin (%)	20.2	20.6	21.8	22.5	22.2	22.7
EBIT Margin (%)	13.4	13.4	13.6	14.4	14.7	15.2
Payout ratio (%)	34.0	17.6	37.5	40.4	39.8	38.7
ROE (%)	14.3	27.1	11.8	11.9	12.1	12.8
Capex/sales (%)	5.0	6.8	7.5	8.2	7.4	7.4
Capex/depreciation (x)	0.9	1.1	1.2	1.3	1.3	1.3
Net debt/equity (%)	85.0	97.3	88.5	74.7	61.7	48.6
Net interest cover (x)	5.2	5.0	4.9	6.2	7.5	9.4

Source: Company data, Deutsche Bank estimates

Heineken

We believe Heineken is the best brewer with exposure to growth in Africa, well positioned to capture a third of the growth in the next decade. Though in the short term, we are concerned about the current situation in Nigeria, the recent amalgamation of its breweries in that market and its focus on making beer more accessible to the broader population should mitigate those concerns. Further exposure to the attractive potential of the DRC and Ethiopia also enhances Heineken's footprint, as does being the only brewer on the continent with a real international brand.

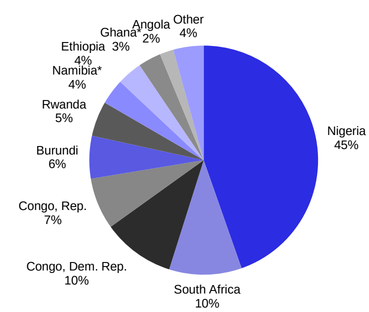
Outside of Africa, Heineken has the best exposure in what we consider the right emerging markets, with Mexico and Asia ex-China driving growth. In its developed markets, it has a patient and proven model of investing behind its brands and in innovation for the future and has set up its production model to deal with the required complexity that this entails. Heineken remains our top pick in the sector and in consumer staples.

An African Star

Areas of growth, African markets

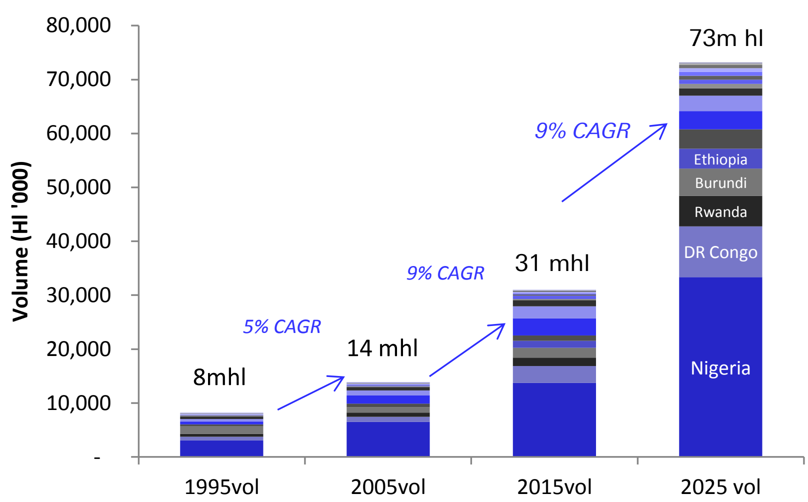
Heineken delivered 9% CAGR volume growth in sub-Saharan Africa over the last decade. Some of this is inorganic, but we expect the same trend to continue organically in the next decade. In addition to its leadership position in Nigeria, the DR Congo, Ethiopia, Rwanda and Burundi should be sizable contributors.

Figure 67: Heineken 2015DBe Africa volume split (sub Sahara)



Source: Deutsche Bank estimates, Plato logic, company reports

Figure 68: Heineken Africa growth

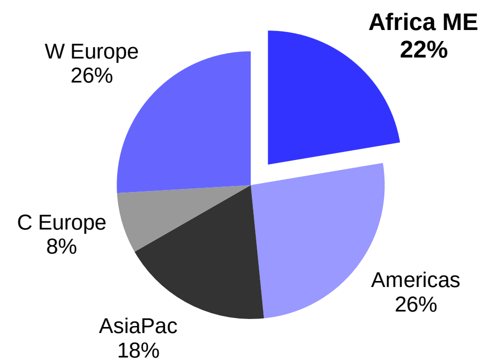


Source: Deutsche Bank estimates, Plato Logic, company reports

Relevance to group growth

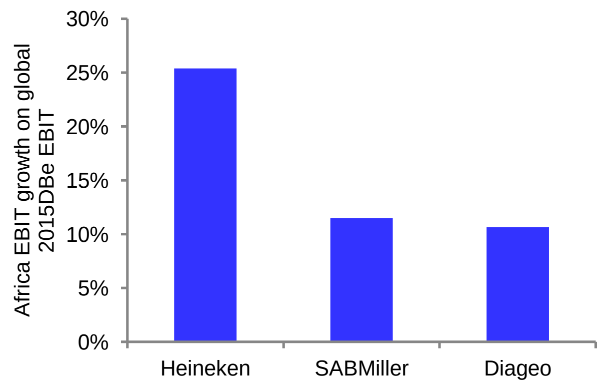
For Heineken, growth in Africa represents greater upside potential for the group overall than for any other company in our coverage and should add 25% to its current EBIT.

Figure 69: Africa share of African EBIT



Source: Deutsche Bank, company reports

Figure 70: Additional Africa EBIT to group EBIT by 2025



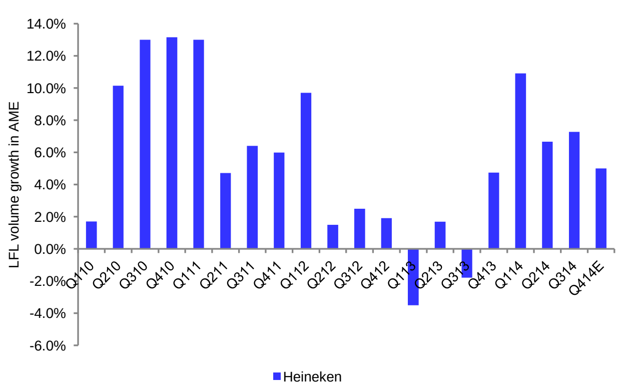
Source: Deutsche Bank estimates, company reports

The region currently comprises 22% of group EBIT. By FY17, we expect its contribution to exceed that of Western Europe and by FY19 that of all of Europe.

Track record of growth in Africa

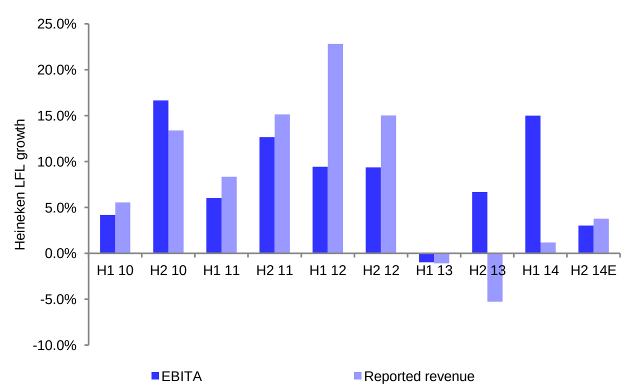
The Africa / Middle East region has consistently delivered results for Heineken. Only two of the last 20 quarters have not seen volume growth. Average like-for-like EBIT growth in Euros has been 9% over the same period.

Figure 71: Heineken AME quarterly volume growth



Source: Deutsche Bank, company reports

Figure 72: Heineken AME LFL reported revenue & EBIT

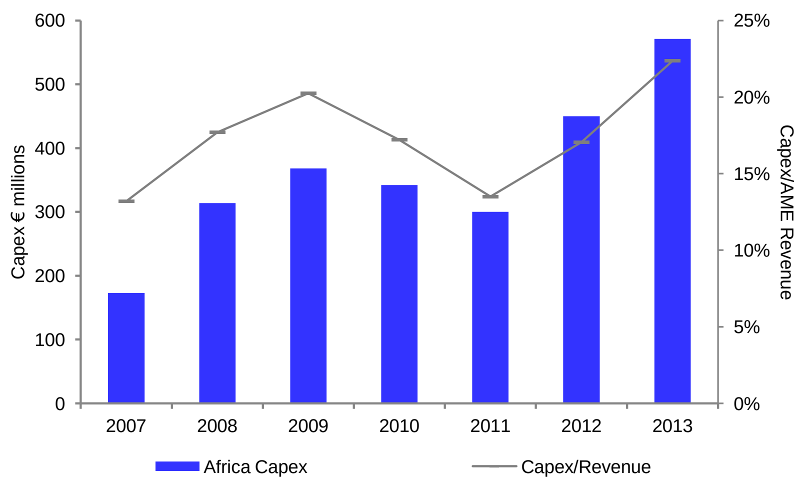


Source: Deutsche Bank, company reports

And a track record of investment

To support its growth, the company has invested ahead of demand, with almost €2.5bn in capital investment over the past five years.

Figure 73: Heineken Capex investment into Africa



Source: Deutsche Bank, company reports

In the past five years, it has also played catch-up on the M&A front, at times perhaps being seen as overpaying for some assets. Before the current CEO, conservatism held sway at Heineken, including an avoidance of Africa. During this period, the company divested its minority stakes in Angola (the Nocal and EKA brewery) to Castel. Over the following decade, Angola became the fastest-growing market in Africa. Not a good move.

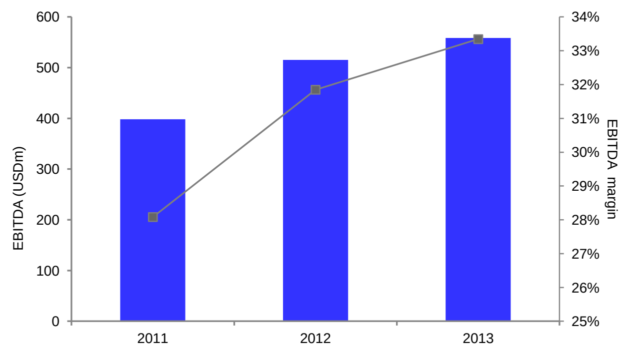
To make amends, some overinvestment has been undertaken. In 2011, the company acquired five breweries from the Sona Brewery group in Nigeria, adding 3.7mhl to its footprint with a broader value portfolio of brands – partially to block SABMiller from having an entry point. Similarly, the company outbid its competitors in attaining the Harar and Bedele Breweries in Ethiopia.

Expanding and stimulating growth in Nigeria

Recently, approval has been granted in Nigeria to merge Heineken's majority-owned subsidiaries, Nigerian Breweries and Consolidated Breweries. With the latter more focused on value brands such as 33 Export, which has national brand awareness, we see this as an opportunity to stimulate growth in a market in which it holds 70% market share.

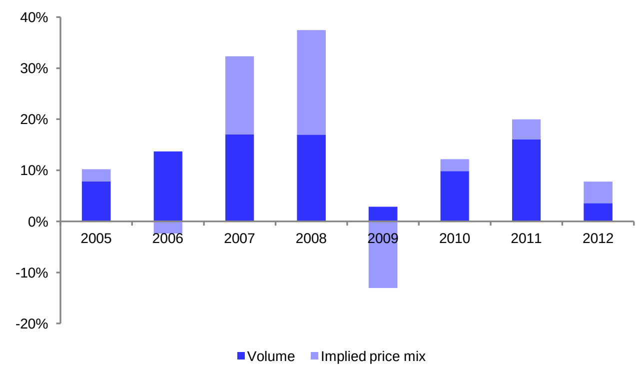
Pricing has been historically high in Nigeria, almost 40% higher than in neighboring Cameroon and above inflation over the last decade. Overall, we see both Heineken and SABMiller winning long term in a market that has yet to reach its potential.

Figure 74: Nigerian Breweries EBITDA in US$



Source: Deutsche Bank, company reports

Figure 75: Nigerian breweries price mix in US$

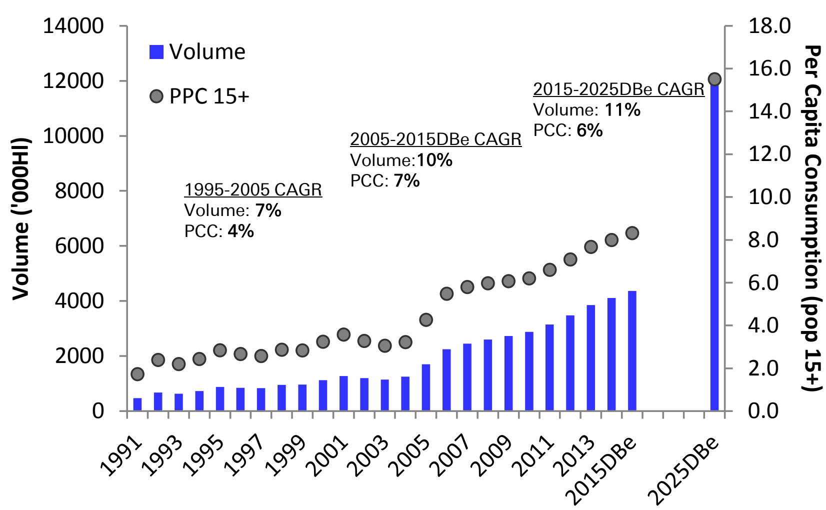


Source: Deutsche Bank estimates, Plato Logic, company reports

Ethiopia potentially the fastest-growing beer market over the next decade

In 2011, Heineken acquired Harar and Bedele Breweries Ethiopia in a competitive auction, beating both SABMiller and Diageo. A new brewery in Kilinto, Addis Ababa, opened Jan 2015 and will produce 1.5 million hl. The €110mln new brewery is part of a total €310mln investment in the country by Heineken since 2011. We are excited about this market and project it to grow 11% per annum over the next decade – in line with the previous one.

Figure 76: Ethiopia volume and PPC growth



Source: Deutsche Bank estimates, Plato Logic, World Bank

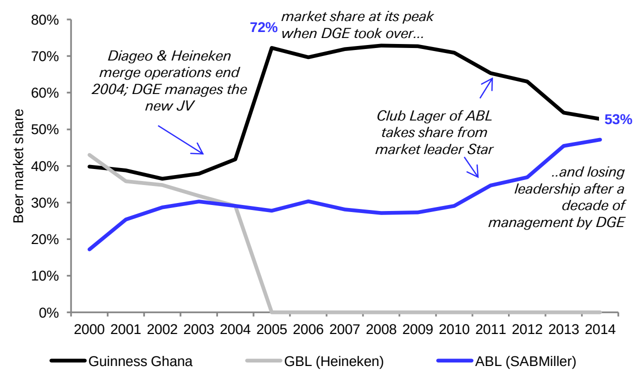
Will the partnerships with Diageo continue?

For Africa, Ghana is historically unusual as it is one of the few markets with European-style competition. Like Eastern Europe today, three well-funded players in the form of Diageo, Heineken, and SABMiller are dilutive for profitability in the market.

In 2004, Diageo and Heineken created a joint venture, with Diageo taking control, owning 52.4%, and Heineken owning 20%. Heineken left the country and Diageo was left with the venture, which ended up with a 72% market share. Again, not a good move on Heineken's part.

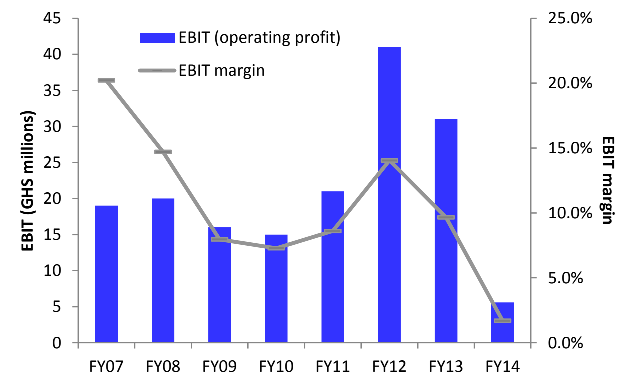
The operational performance is reflected in the share trends. SABMiller, from a very weak position at 28% market share, today has almost equalized and caught up. The biggest share donor has been Star – the Heineken brand that has now been eclipsed by Club lager as the largest brand in the market.

Figure 77: Ghana market share progression



Source: Deutsche Bank estimates, Plato Logic, company reports

Figure 78: Ghana joint venture profitability



Source: Deutsche Bank, company reports

The financial performance in Ghana has followed the market share trend. EBIT margin peaked on the back of synergies in 2007 at 20%. In the past year, it hit 2%. It appears some one-offs are at play (mostly due to the devaluation of the Ghanaian Cedis increasing input costs), but this margin has hovered around 10%. In real US$ terms, for a business that made US$21m in 2007, we would say that seeing no growth cannot be acceptable. However, we believe that for SABMiller, Ghana is now becoming a significant contributor.

A similar situation may unfold in South Africa. In March 2008, the Brandhouse JV in South Africa incorporated Diageo, Heineken and Namibia Breweries (in which Heineken has 14.5% interest). The Brandhouse JV is 50% Diageo (spirits): 50% DHN Drinks (beer). DHN Drinks is 42.25% Diageo, 42.25% Heineken and 15.5% Namibia Breweries. It is a profit share JV. To complicate matters, the Sedibeng brewery constructed outside Johannesburg for R3.5bn is owned 75% by Heineken and 25% Diageo.

Figure 79: Brandhouse South Africa structure

Brands

Diageo Heineken NBL	42.25% 42.25% 15.50%	DHN Drinks (Pty) Ltd Distribution profit JV Beer, RTD, cider
Diageo	100%	Diageo SA (Pty) Ltd Distribution profits Spirits

Supply

Diageo Heineken	25% 75%	Supply Company Local production JV Beer, RTD, cider
Diageo	100%	Diageo SA (Pty) Ltd RTD, cider Local production
Heineken	100%	Heineken Amstel, Heineken Production for import
NBL	100%	Namibia Breweries Ltd NBL brands, Heineken Production for import

Distribution

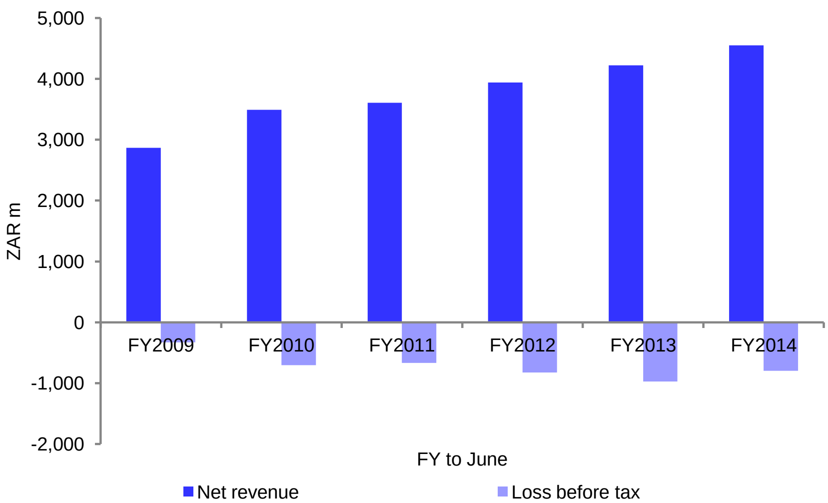
Diageo DHN Drinks	50% 50%	Brandhouse (Pty) Ltd Cost sharing Distribution JV

Source: Deutsche Bank, company reports

In South Africa Diageo's strategy is to build higher-margin spirits business on beer. Furthermore, the shared investment in the Sedibeng brewery has allowed for capacity to also invest more in RTM development.

A key decision point in future will be once critical mass in volumes has been achieved for each of the JV partners. DHN Drinks continues to report financial losses. In the 12 months to June 2014, DHN Drinks reported a loss before tax of ZAR798m on revenues of ZAR4,552m. On formation of the JV in May 2008, Brandhouse projected economic breakeven in year three (FY2012), which did not materialize.

Figure 80: DHN Drinks South Africa still unprofitable



Source: Deutsche Bank, company reports

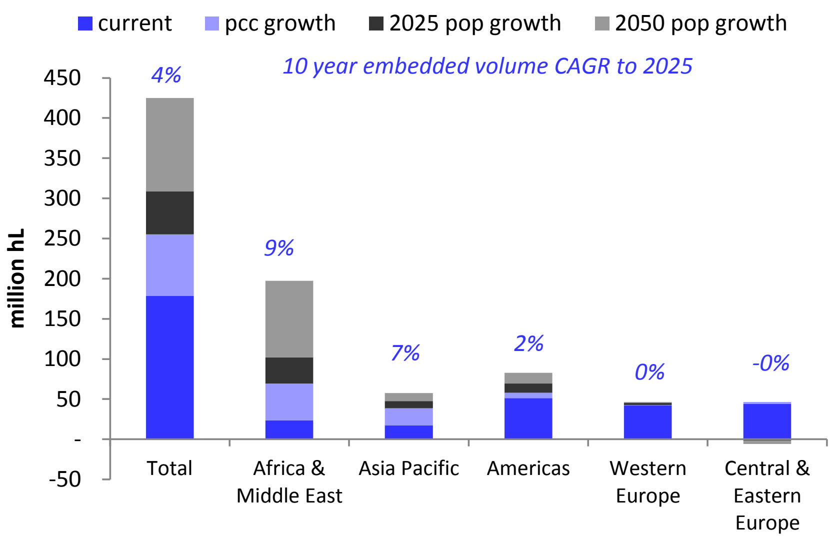
Both Windhoek of Namibian Breweries and Heineken are now >1mhl brands, and Amstel continues to recover. Diageo believes that DHN Drinks can do more with both the Guinness and Heineken brands, but the investment required to achieve this will have to be carried by all three partners, not just the two brand owners. This situation may contribute to the JV agreement not being renewed in 2017.

The strongest growth platform in beer

Strong inherent growth

Heineken has one of the strongest and most balanced embedded volume growth profiles in beer. Based on population growth in the right age cohort and per capita potential, we estimate a 10-year volume CAGR of 4%

Figure 81: Heineken long-term embedded volume growth potential

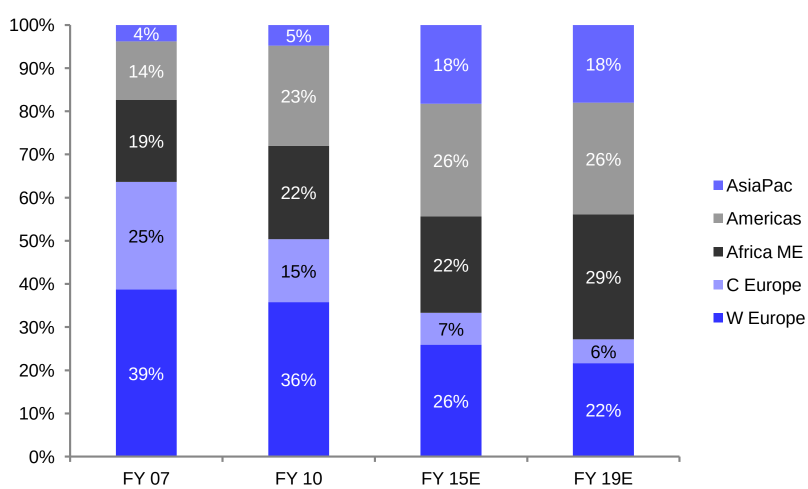


10 Year CAGR assumes adjusted state per capita consumption growth to potential on 2015DBe volume.
35 year CAGR assumes full per capita consumption potential on 2014DBe volume.
Source: Deutsche Bank estimates, World Bank Plato Logic, company reports

A changed platform demonstrating stronger growth

Over the past 7 years, Heineken has significantly adjusted its profile. In 2007, 2/3rds of its EBIT (beia) came from Europe. For FY15, we expect this to be under 40% of EBIT (beia) and to be less in years ahead as Africa, Mexico and Asia drive growth.

Figure 82: Heineken divisional EBIT (beia) contribution



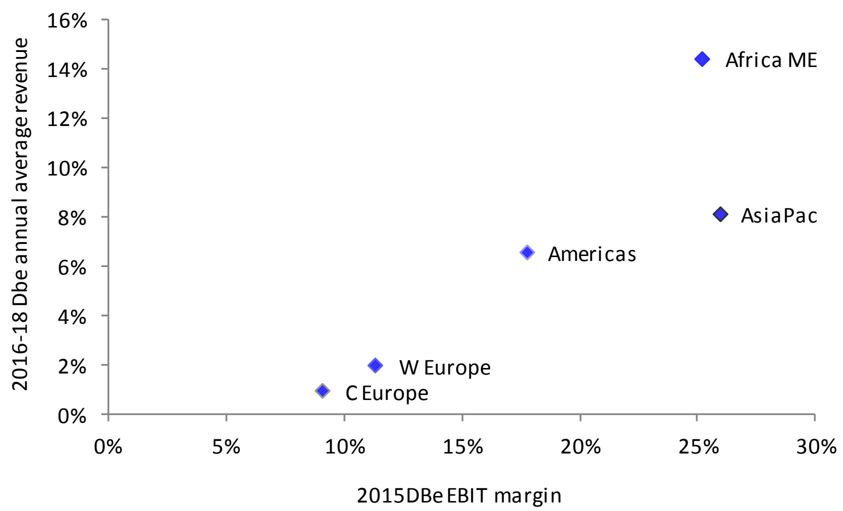
Source: Deutsche Bank estimates, company reports

With the European markets inherently ex-growth, stabilized performance in the region will likely drive investor sentiment to focus on what we believe is a superior growth profile.

Fastest-growing regions drive positive margin mix

For Heineken, its fastest-growing markets are also the most margin-enhancing.

Figure 83: 2015-2017DBe revenue growth rates on 2015 DBe base year



Source: Deutsche Bank estimate, company reports

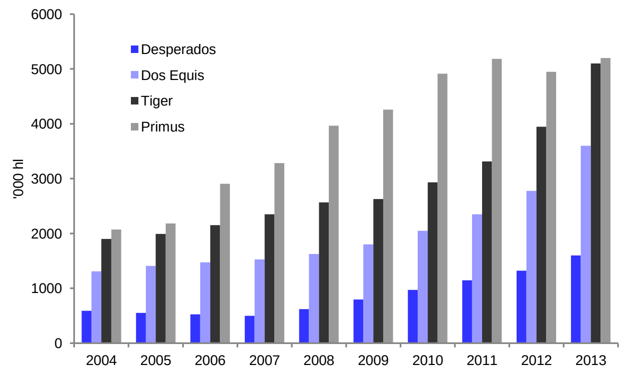
In the short term, we do not expect great margin expansion in Africa and Asia Pacific as the company – rightfully, in our view – focuses on a broader portfolio with Tiger and local brands in Asia and 33 Export and Goldberg in Nigeria.

The patience to invest behind growth brands

Historically, the mainstream portfolio has acted as a strategic underpinning to enhance the long-term ambitions of the Heineken brand. The Heineken brand has succeeded in outpacing organic beer growth in every set of half-year results since 2004. Conversely, it could be said that the local portfolios underperformed, leading to overall mediocre performance for the company.

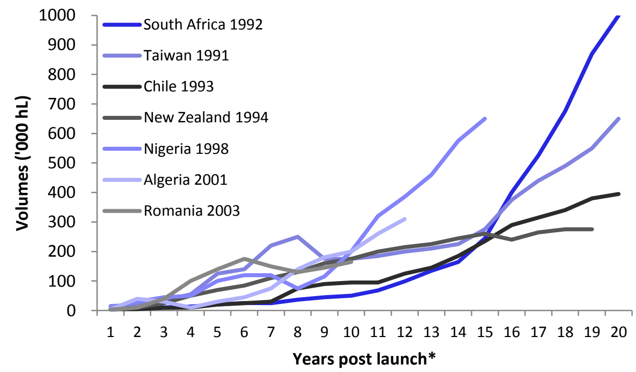
Since being appointed in 2010, the Heineken CMO and now head of Western Europe has significantly shifted the focus and extended the BWP (Building Winning Portfolios) initiative, shifting the mindset of the company. Like an oil tanker, the company has slowly come around. Its global brand-building skills have been more visibly applied to a broader global premium portfolio and regional premium brands.

Figure 84: Heineken regional brand growth



Source: Deutsche Bank estimates, company reports, Plato Logic

Figure 85: Long-term pull: Heineken brand-building



Source: Deutsche Bank, company reports, Euromonitor, Plato Logic

Each region has established a broader premium portfolio. Originally established in 1932 in Singapore as a compromise with Fraser & Neave (to prevent their partner to compromise the Heineken brand), Tiger Beer is now fully managed by Heineken and complementing its Asian growth as a pan-regional brand. With a 33% CAGR over the last three years, part of the growth focus is to ensure that the gap between Heineken and mainstream remains, especially in markets such as Vietnam.

Heineken has extended its brand-building skills to a broader premium portfolio

Dos Equis and Tecata in North America have maintained and even improved their momentum since entering the Heineken portfolio, with Dos Equis generating the most interesting growth of 12% CAGR since 2010.

Desperados and Affligem drive pan-regional growth in Europe, and Primus and Star in Africa complement the drive for Heineken. In the global portfolio, Strongbow has the opportunity to be the world leader in the fast-growing cider category. Sol has recently been re-launched with healthy brand equity scores, and Amstel continues to be an accessible premium category developer.

The broader focus on driving more scalable, premium portfolios should help Heineken better leverage its operational and marketing capabilities.

Valuation and key graphs

Valuation gap not reflective of embedded growth

Considering its embedded growth profile, we also believe that the discount implied by the relative valuation to SABMiller and ABInBev is excessive. Currently Heineken trades at 6.1% and 12.4% discounts to the two brewers, respectively, and at a 7.7% discount to our broader consumer staples universe. With an EV/EBITDA ratio additionally significantly below those of ABI and SABMiller, we believe shrinkage to the discount is warranted.

We base our €70 price target on a discounted cash flow model.

For all our brewers and spirits companies, we have assumed a risk free rate of 4.0% and an equity premium of 4.3%. For Heineken, the resultant WACC is 7.83%, which incorporates a levered beta of 1.18, and net debt / EV ratio of 20%. Our medium-term cash flow models growth of 5% a year, and a post year-10 terminal growth rate of 2.0%. We view our terminal growth rate of 2% as conservative, below the embedded volume growth rate.

Figure 86: TP sensitivity for terminal growth and WACC changes

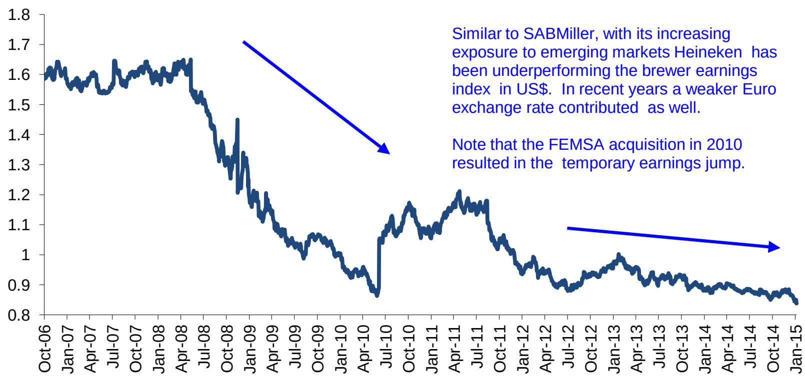
TP per Share (€)							WACC
Terminal Growth Rate	7.07%	7.32%	7.57%	7.82%	8.07%	8.32%	8.57%
2.75%	96.98	90.79	85.29	80.37	75.95	71.96	68.34
2.50%	92.09	86.45	81.42	76.89	72.80	69.10	65.73
2.25%	87.67	82.51	77.87	73.69	69.89	66.44	63.30
2.00%	83.65	78.90	74.61	**70.73**	67.20	63.97	61.02
1.75%	79.97	75.58	71.60	67.99	64.68	61.66	58.89
1.50%	76.60	72.52	68.82	65.43	62.34	59.50	56.88
1.25%	73.48	69.69	66.22	63.05	60.14	57.47	55.00

Source: Deutsche Bank

Risks to our valuation

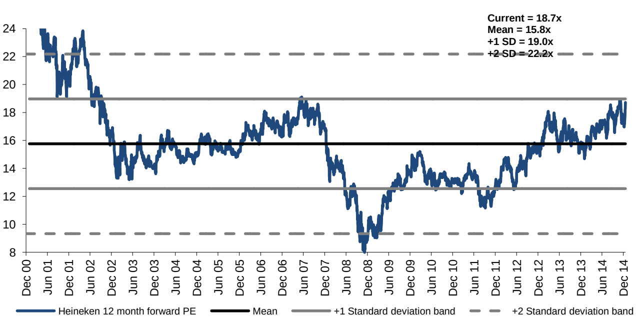
Key downside risks include the economic environment in Europe, competitor activity in key markets (Europe plus the Americas, Africa and Asia), and volatility in input costs and currency. Additional potential risk factors include overpayment for an acquisition target and the fact that institutional shareholders remain in a minority position.

Figure 87: Heineken earnings index relative to Brewers index (US$)



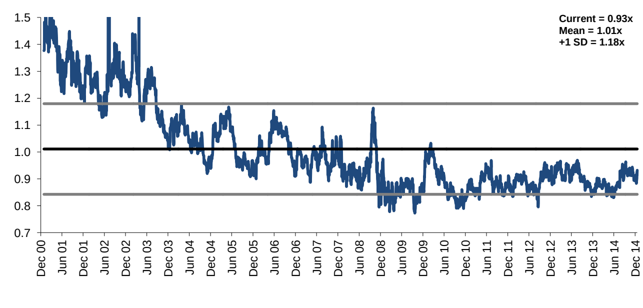
Brewer peer group, market capitalisation weighted: ABI, SABMiller, Carlsberg, Molson Coors and Anadolu Efes
Source: Deutsche Bank, Datastream

Figure 88: Heineken NTM rolling PE



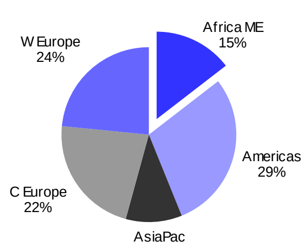
Source: Deutsche Bank, Datastream

Figure 89: Heineken NTM PE relative to global peer group



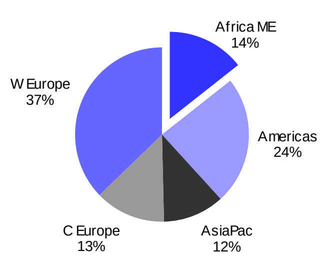
Peer group, market capitalisation weighted: ABI, SABMiller, Carlsberg, Molson Coors and Anadolu Efes
Source: Deutsche Bank, Datastream

Figure 90: Volume 2015E



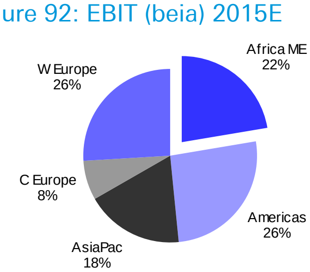
Source: Deutsche Bank estimates

Figure 91: Revenue 2015E



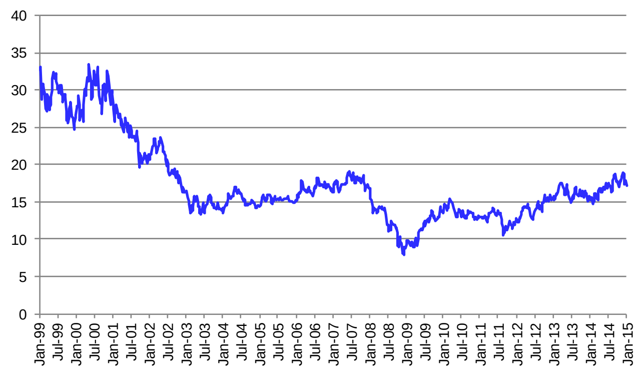
Source: Deutsche Bank estimates

Figure 92: EBIT (beia) 2015E



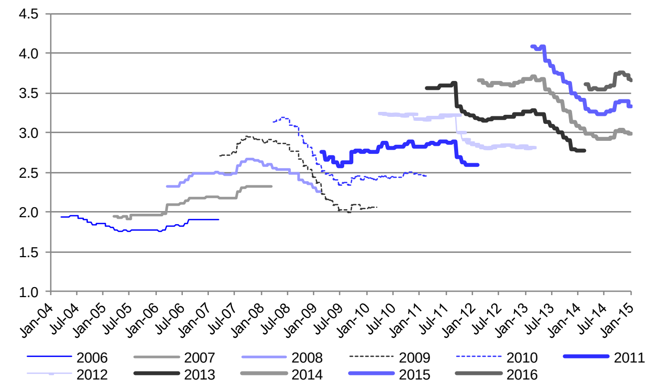
Source: Deutsche Bank estimates

Figure 93: Heineken 1yr fwd P/E



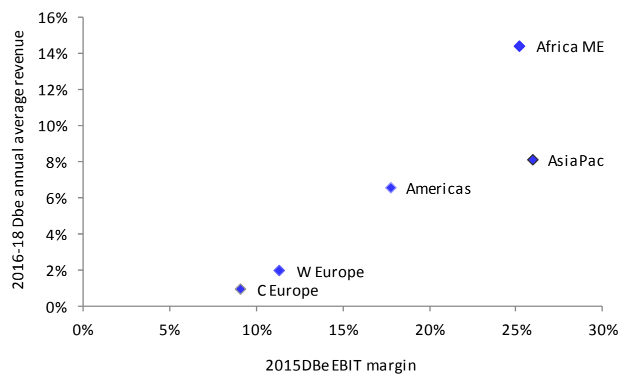
Source: Deutsche Bank, Datastream

Figure 94: Heineken consensus EPS revision



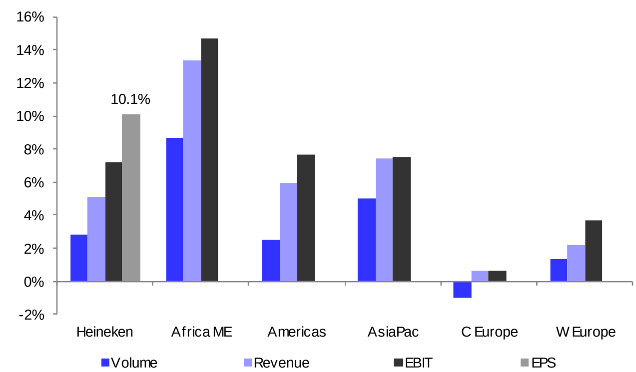
Source: Deutsche Bank, Datastream

Figure 95: Heineken revenue growth vs EBIT margin



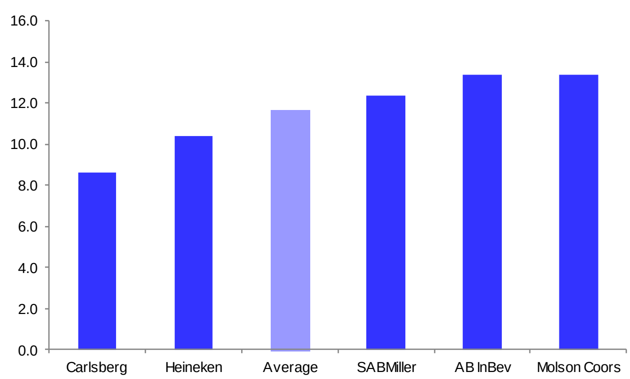
Source: Deutsche Bank estimates

Figure 96: Organic growth by division 2015-17 CAGR



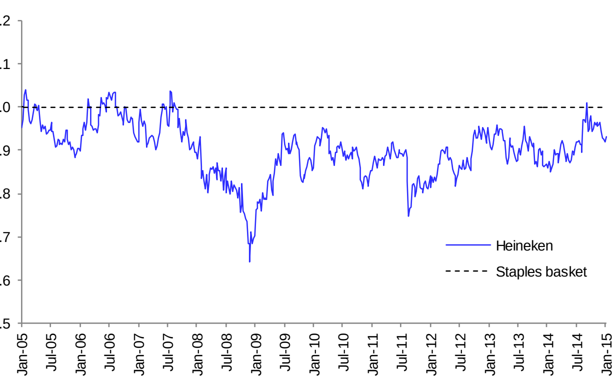
Source: Deutsche Bank estimates

Figure 97: Brewer 2015DBe EV/EBITDA



Source: Deutsche Bank, Bloomberg Finance LP estimate for Molson Coors

Figure 98: Heineken forward P/E relation to staples



Consumer staples index based on a weighted average of 34 companies
Source: Deutsche Bank, Datastream

4 February 2015
Beverage
Beer

Rating
Hold

Europe
United Kingdom

Consumer Staples
Beverage

Company
SABMiller

Reuters	Bloomberg Finance LP
SABJ.J	SAB SJ

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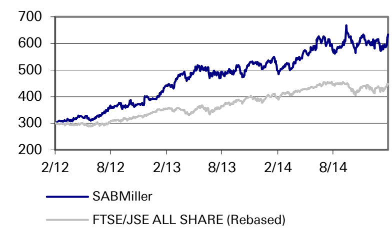
Price at 2 Feb 2015 (ZAR)	626.00
Price Target (ZAR)	630.00
52-week range (ZAR)	668.91 - 484.00

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.5	0.8	25.5
FTSE/JSE ALL SHARE	3.8	3.4	13.9

Source: Deutsche Bank

Stock data

Market cap (ZAR)(m)	998,876.5
Shares outstanding (m)	1,618
Free float (%)	59
FTSE/JSE ALL SHARE	51,394.6

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	13.0
ROA (%)	6.8
Net debt/equity (%)	36.4
Book value/share (USD)	18.6
Price/book (x)	2.9
Net interest cover (x)	7.1
EBIT margin (%)	26.5

Source: Deutsche Bank

An African Eagle

An African Eagle ready to soar

SABMiller has one of Africa's strongest platforms in beer, with superior management competence to fulfill its potential. The recent integration of the Africa & South Africa businesses should bring further benefits as strong resources are deployed to growth areas. The recent Coca Cola Beverages joint venture provides an additional platform for growth. The company has more optionality on Coca Cola M&A on the continent and long term could do more deals with family group Castel. We also see some potential bright sparks in South Africa, and a reinvigorated innovation pipeline could bring unexpected upside in the market

The other 2/3rds a concern

The other markets that matter – Australia and Colombia – are facing significant slowdowns and continue to be a material drag on group performance. Further investments in centralization take both time and financial resources, potentially inhibiting growth.

The unnecessary put option

Having been widely perceived as an acquisition target since the 1990's, we see the put option that is part of the SABMiller share price as unnecessary. We do not see ABInBev buying SABMiller and believe it has better options.

Fairly valued; maintain TP of £35/ZAR630 and Hold

We base our 12-month £35.00/ZAR630.00 target price on DCF valuation (including WACC 7.89%, LTR 2.0%). Risks include EM FX developments, consumer sentiment in Latin America and Africa, government taxation, centralization of the organization and M&A.

Forecasts and ratios

Year End Mar 31	2013A	2014A	2015E	2016E	2017E
EBITDA (USDm)	5,709	5,720	5,711	5,828	6,269
EBITA (USDm)	4,786	4,800	4,763	4,852	5,264
PBT DB (USDm)	4,057	4,035	4,140	4,450	4,937
DB EPS (USD)	2.34	2.39	2.43	2.56	2.78
DB EPS growth (%)	10.3	2.0	1.6	5.5	8.3
P/E (DB EPS) (x)	18.8	20.8	22.4	21.2	19.6
EV/EBITA (x)	14.3	15.4	16.3	15.7	14.2
DPS (USD)	1.01	1.05	1.07	1.13	1.22
Yield (%)	2.3	2.1	2.0	2.1	2.2

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated: 12 January 2015

Running the Numbers

S. Africa

South Africa

Beverages

SABMiller

Reuters: SABJ.J Bloomberg: SAB SJ

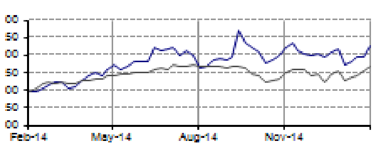
Hold

Price (2 Feb 15)	ZAR 626.00
Target price	ZAR 630.00
52-week Range	ZAR 484.00 – 668.91
Market Cap	ZAR 998,877m
	US$ 86,618m

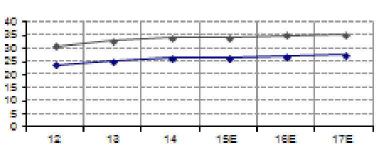
Company Profile

South African Breweries plc is an international beer company, which also operates within the consumer markets of South Africa. The Group manufactures and distributes beer through over 75 breweries in some 21 countries. They also own hotels throughout Africa, offer gaming services across South Africa, and bottle and distribute a number of soft drinks, including Coca-Cola and Schweppes.

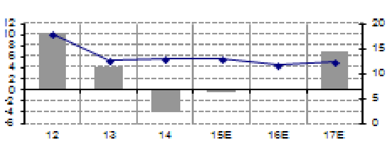
1yr Price Performance



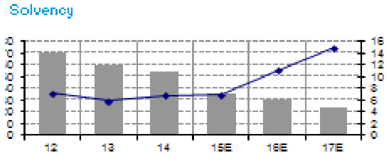
Margin Trends



Growth & Profitability



Solvency



Wynand van Zyl
27 11 775 7185 wynand.van-zyl@db.com

Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS ($)	2.13	2.34	2.39	2.43	2.56	2.78
Reported EPS ($)	2.64	2.02	2.09	2.24	2.20	2.51
DPS ($)	0.91	1.01	1.05	1.07	1.13	1.22
BVPS ($)	15.80	16.56	16.50	18.57	19.76	21.20
Weighted average shares (m)	1,583	1,590	1,597	1,596	1,598	1,600
Average market cap (US$m)	57,461	70,153	79,545	86,618	86,726	86,835
Enterprise value (US$m)	60,793	68,303	74,052	77,410	76,239	74,701
Valuation Metrics						
P/E (DB) (x)	17.1	18.8	20.8	22.4	21.2	19.6
P/E (Reported) (x)	13.8	21.8	23.8	24.2	24.6	21.7
P/BV (x)	2.53	3.19	3.03	2.92	2.75	2.56
FCF Yield (%)	5.8	5.0	3.7	3.8	3.7	4.3
Dividend Yield (%)	2.5	2.3	2.1	2.0	2.1	2.2
EV/Sales (x)	3.64	3.93	4.43	4.66	4.58	4.20
EV/EBITDA (x)	11.8	12.0	12.9	13.6	13.1	11.9
EV/EBIT (x)	15.2	15.6	16.7	17.6	17.0	15.2
Income Statement (US$m)						
Sales revenue	16,713	17,385	16,704	16,620	16,629	17,770
Gross profit	10,088	10,657	10,424	10,556	10,410	11,285
EBITDA	5,169	5,709	5,720	5,711	5,828	6,269
Depreciation	909	867	854	880	906	933
Amortisation	273	450	427	429	431	433
EBIT	3,987	4,392	4,439	4,402	4,491	4,903
Net interest income(expense)	-540	-738	-645	-623	-403	-327
Associates/affiliates	1,152	1,213	1,226	1,169	1,211	1,317
Exceptionals/extraordinaries	1,004	-188	-197	185	-203	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	4,451	3,466	3,597	3,964	3,886	4,576
Income tax expense	1,126	1,192	1,173	1,242	1,254	1,531
Minorities	256	237	269	267	272	297
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,221	3,250	3,381	3,625	3,571	4,064
DB adjustments (including dilution)	-821	522	484	304	579	436
DB Net profit	3,400	3,772	3,865	3,929	4,150	4,500
Cash Flow (US$m)						
Cash flow from operations	4,844	4,969	4,364	5,039	5,031	5,564
Net Capex	-1,523	-1,445	-1,415	-1,788	-1,793	-1,847
Free cash flow	3,321	3,524	2,949	3,251	3,239	3,716
Equity raised/(bought back)	124	85	24	0	0	0
Dividends paid	-1,324	-1,517	-1,640	-421	-1,756	-1,867
Net inc/(dec) in borrowings	8,861	-460	-1,244	-3,716	-1,279	-1,646
Other investing/financing cash flows	-11,189	-279	-180	886	-203	-203
Net cash flow	-207	1,353	-91	0	0	0
Change in working capital	*304*	*-39*	*168*	*-15*	*-9*	*-11*
Balance Sheet (US$m)						
Cash and other liquid assets	745	2,171	2,081	2,081	2,081	2,081
Tangible fixed assets	9,299	9,059	9,065	9,669	10,241	10,829
Goodwill/intangible assets	30,029	29,497	27,029	26,688	26,350	26,014
Associates/investments	10,600	11,119	11,531	10,820	11,205	11,606
Other assets	4,978	4,448	4,045	4,207	4,411	4,635
Total assets	55,651	56,294	53,751	53,466	54,287	55,164
Interest bearing debt	19,226	18,548	17,047	13,331	12,052	10,406
Other liabilities	10,412	10,286	9,222	9,217	9,260	9,321
Total liabilities	29,638	28,834	26,269	22,548	21,312	19,727
Shareholders' equity	25,073	26,372	26,319	29,648	31,597	33,940
Minorities	940	1,088	1,163	1,270	1,379	1,497
Total shareholders' equity	26,013	27,460	27,482	30,917	32,976	35,437
Net debt	*18,481*	*16,377*	*14,966*	*11,250*	*9,971*	*8,325*
Key Company Metrics						
Sales growth (%)	10.4	4.0	-3.9	-0.5	0.1	6.9
DB EPS growth (%)	11.7	10.3	2.0	1.6	5.5	8.3
EBITDA Margin (%)	30.9	32.8	34.2	34.4	35.0	35.3
EBIT Margin (%)	23.9	25.3	26.6	26.5	27.0	27.6
Payout ratio (%)	34.1	49.4	49.6	47.1	50.6	48.0
ROE (%)	17.9	12.6	12.8	13.0	11.7	12.4
Capex/sales (%)	9.8	8.5	8.9	10.8	10.8	10.4
Capex/depreciation (x)	1.7	1.6	1.6	1.9	1.8	1.8
Net debt/equity (%)	71.0	59.6	54.5	36.4	30.2	23.5
Net interest cover (x)	7.4	6.0	6.9	7.1	11.2	15.0

Source: Company data, Deutsche Bank estimates

SABMiller

We believe SABMiller is positioned to capture directly a quarter of the growth in Africa over the next decade and another quarter through its associate Castel. The recent collaboration agreement to create Coca Cola Beverages Africa holds potential to be transformative. With unrivaled managerial competence on the continent, it appears poised to capture more than its fair share of the growth.

However, historically, when growth has stalled in Africa, it is due to lack of investment. With the competitive current pressure in Australia, the potential commodity headwinds in Latin America, and the capital and managerial intensity required for its global centralization initiatives, we are concerned that the region will not be allocated the capital required to stimulate growth.

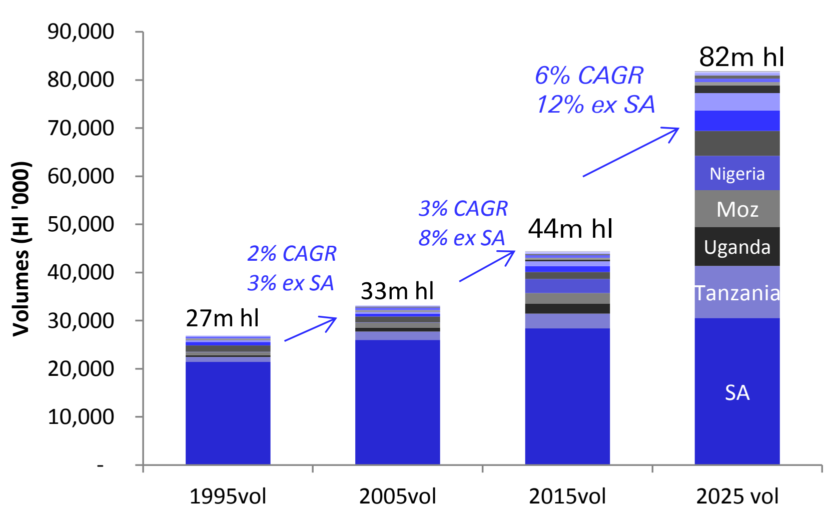
Though we are believers in the long-term growth of SABMiller, with a mid-single-digit EPS growth profile in the immediate future and no apparent likelihood of an ABInBev bid (we see an essentially negligible chance), we believe the stock is fairly valued and we maintain our Hold.

An African Eagle

An African Eagle

SABMiller was born and bred in Africa, with its expansion north of the Limpopo River accelerating after the end of Apartheid. Its strong platform of fully managed subsidiaries appears positioned to capture 27% of the anticipated growth in Africa over the next decade.

Figure 99: SABMiller Africa lager growth



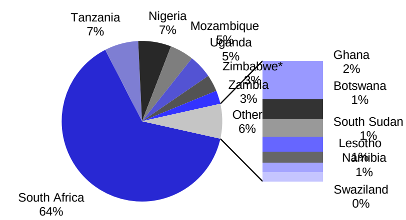
Source: Deutsche Bank estimates, Plato Logic, World Bank

Including its South African business, the newly formed Africa division should grow volumes 6% per annum. Excluding the relatively mature South Africa business, which currently makes up 64% of the volume, the rest of Africa should grow 12% and be almost 2x the size of South Africa by 2025.

Portfolio effect in Africa bringing consistent growth

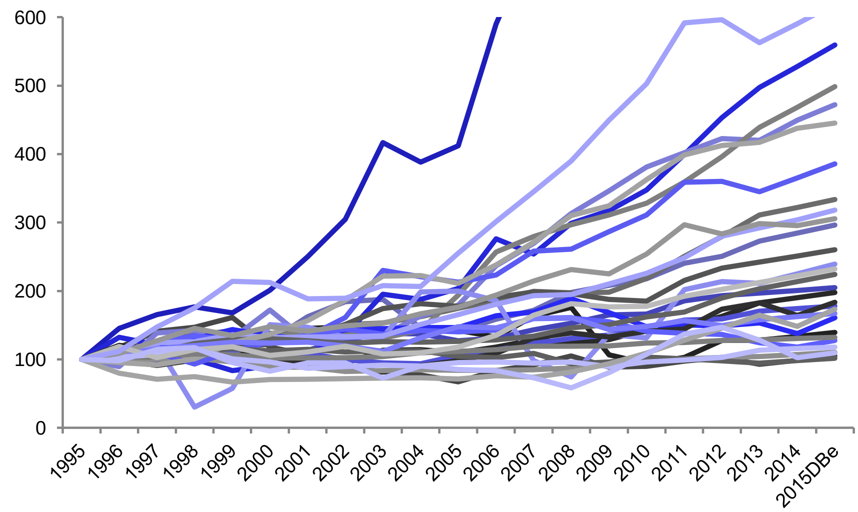
The key advantage SABMiller has in Africa is the portfolio effect of multiple countries. The diversification offered by operating in a total of 39 countries (14 country subsidiaries, 25 for associates including those of Castel) offers a relatively smooth ride in terms of performance at the group level. Over the past decades, all markets have had positive CAGR growth and an unweighted average volume growth rate of 6% since 1995.

Figure 100: SABMiller subsidiary volume split



Source: Deutsche Bank estimates, company reports

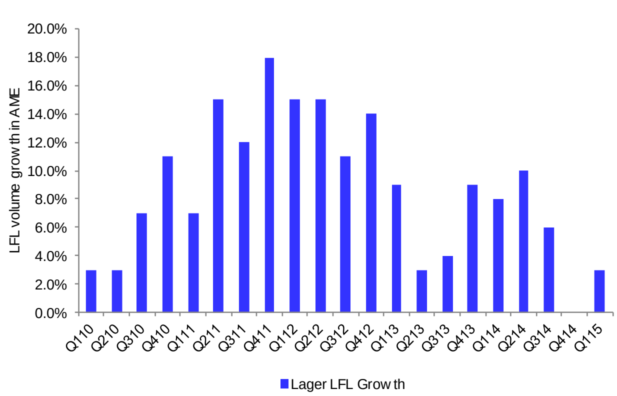
Figure 101: Volume growth in SAB Africa markets (1995 = index 100)



Note: Angola, Uganda and South. Sudan exceed 600% volume growth.
Source: Deutsche Bank estimates, Plato logic

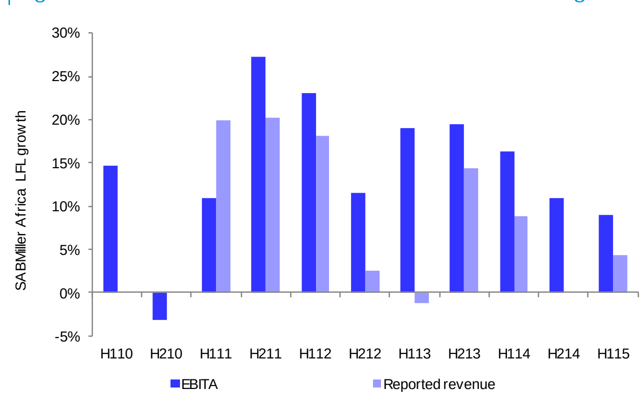
The portfolio effect has been seen in action over the last five years. Every quarter bar one has seen positive volume growth. Every quarter has an issue – Mozambican floods, excise tax increases in Tanzania, port delays in Angola, or something else. Yet the diversification of markets allows the impact to be smoothed.

Figure 102: Africa SABMiller LFL volume growth



Source: Deutsche Bank, company reports. Excludes South Africa

Figure 103: Africa SABMiller LFL revenue & EBIT growth



Source: Deutsche Bank, Company data. Excludes South Africa

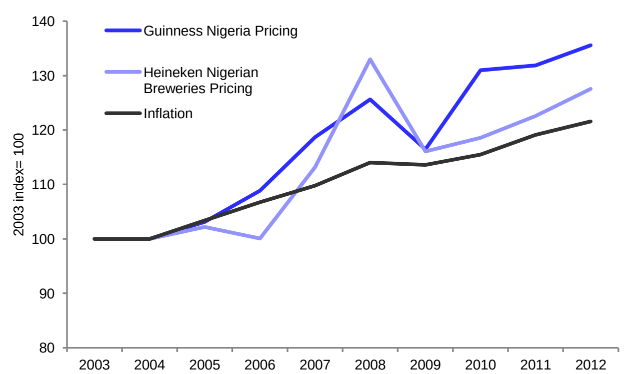
Nigerian entry to stimulate market growth

SABMiller's entry into Nigeria in 2008 capped a 15-year process of finding an entry point. The country has 79 registered breweries, many of them built before 1990, and fewer than 20 operational. After losing to Heineken in attempting to acquire Sono Breweries, SABMiller took the plunge by purchasing Pabod Brewery in Port Hartcourt. Not a place for the faint hearted, but for many SABMiller expats who previously were stationed in Angola, everything is relative.

With the Pabod brewery barely holding together, SABMiller subsequently built a new plant in Onitsha and added the listed International Breweries to its portfolio as part of the renewal of the Castel strategic alliance.

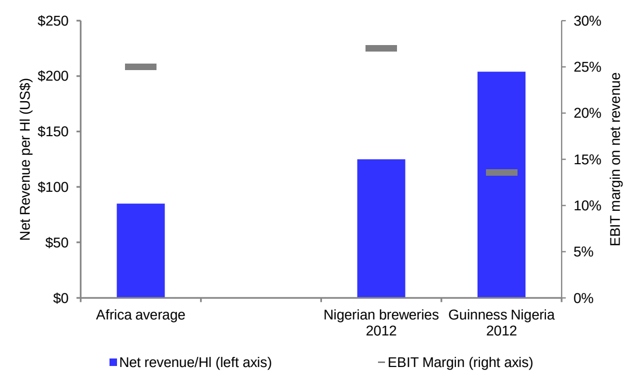
Given the established presence of the two international brewers SABMiller's entry strategy in 2008 was centered around mainstream and economy brands and in regions outside of the major beer markets. Though notionally priced 30% below the mainstream Star, on a relative Africa basis, beer is expensive in Nigeria. With Heineken holding almost 70% share and Guinness at almost 20%, the duopoly has used its position to establish a pricing umbrella that provided SABMiller an opportunity to enter. Over the last decade, pricing has been above inflation (Figure 104), which has resulted in a price to consumer roughly 40% above the African norm and Cameroon next door (Figure 105).

Figure 104: Nigeria pricing relative to inflation 2003-2012



Pricing and inflations equalized on US$ basis
Source: Deutsche Bank estimates, companies reports, Plato Logic

Figure 105: Nigeria pricing and margins



Source: Deutsche Bank estimates, company reports

The success of this entry strategy, where its market share (SABMiller plus that of Castel) has since increased from around 3% to c.10% is testament to the opportunity presented by this white space. It helps that Diageo's Harp Lager has been the primary share donor.

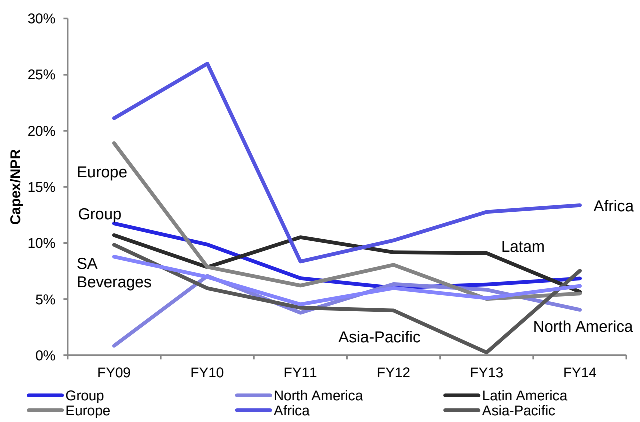
We don't see SABMiller's entry into Nigeria as destroying value. Rather, we believe it is the impetus required to stimulate growth. The recent amalgamation of Heineken's breweries (Nigeria and Consolidated) has also put Heineken in the right position to stimulate the value portfolio, in our opinion. Its value brand 33 Export has strong positive national brand awareness and distribution. Overall, we see both Heineken and SABMiller winning long term in a market that has yet to reach its potential.

Assuming investment continues to be prioritized

Africa has been SABMiller's top strategic priority in terms of investing for growth. Capex expressed as a percentage of sales (subsidiaries only) over the last six years has averaged 25% vs. the group at 12%. This investment rate is also at a multiple to those of Latin America (9%) and South Africa (7%).

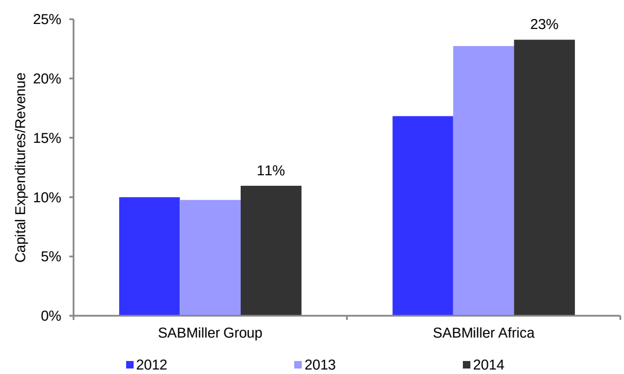
Averaging 20-25% of group total annual capex, investors must be aware that this investment drive is dilutive to SABMiller's near-term investment returns. We project that from FY14 to FY18 the brewer's ROIC will increase only marginally from a relatively mediocre10.3% to 10.6% and FCFROI from a paltry 3.1% to 3.7%.

Figure 106: Investing for growth in Africa – SABMiller regional capex/net revenues (acquisitions excluded)



Source: Deutsche Bank, Company reports, SABMiller Africa excludes South Africa

Figure 107: Capex as a share of revenue



Source: Deutsche Bank, Company reports, SABMiller Africa excludes South Africa

When growth has stalled in Africa for SABMiller, it is due to lack of investment, or a delay in timing. Until 2009, investment was slacking, which caused a backlog and full capacity utilization. An occasional conservative streak also caused SABMiller to miss opportunities in Ethiopia and Nigeria; instead, it invested in Australia. With the current pressures elsewhere in the group, and given the capital and managerial intensity required for its global centralization initiatives, we are concerned that the region will not be allocated the capital required to stimulate growth.

While the merger of the South African and rest of Africa businesses introduces strategic and marketing alignment, we also see longer-term investment and cost synergies being captured. This is essential as the investment cycle for the long-term growth opportunity in Africa still has many years to play out.

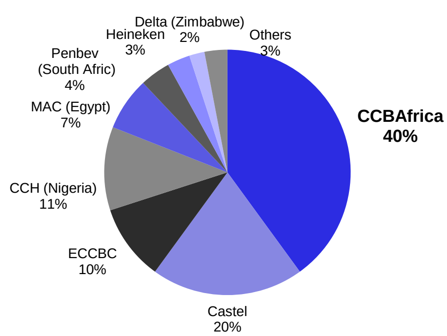
Coca Cola Beverage Africa to drive further growth

In December 2014, SABMiller announced plans to merge its existing Coke bottling businesses with those of SABCO, to create a south/eastern African business operating across 12 countries. This makes SABMiller the 10th largest Coca Cola bottler worldwide and doubles down on Africa. We believe this is a good deal and more likely to mark the first step in a bigger phase of deals between beer and soft drinks businesses, where we see considerable opportunities.

Creating a separate business unit, the transaction combines African soft drink operations of SABMiller, SABCO and The Coca Cola Company (TCCC). The respective shareholdings are based on respective profit contribution but with a small control premium paid to Gutsche Family Investments (GFI), which owns SABCO.

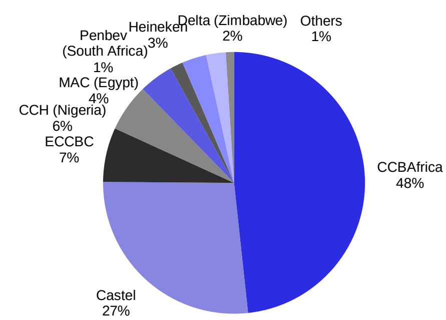
The size of the TCCC bottler market in Africa closely resembles that of beer and exceeds just over 100 million hl. With average revenue of €70/hl and EBITA margins ranging from 6% to 10%, we estimate the profit pool for the bottlers now exceeds $1 billion. The deal effectively gives SABMiller 40% of the volume and almost 50% of the profit pool for Coca Cola in Africa.

Figure 108: Africa TCCC bottler volume share



Source: Deutsche Bank estimates, company reports, Euromonitor

Figure 109: Estimated bottler profit split



Source: Deutsche Bank estimates, company reports, Euromonitor

As discussed in our note on December 2nd, SABMiller- Bottling the growth, we believe SABMiller will likely seek to include Coca Cola operations from Castel. This may be more difficult as Castel has very profitable non-Coca Cola portfolios and is rightfully wary of getting too close to TCCC as we discuss in more detail on page 112.

The rest of Africa, however, also provides further opportunity for consolidation under one African mega bottler, including the Nigerian operations of Coca Cola Hellenic, attractive bits of ECCBC in West Africa including Ghana, or further consolidation of the market in Kenya.

Next 18 months should see acceleration in Africa

FY15 started tough with SABMiller's African subsidiaries facing political disruptions (Mozambique, South Sudan) and major excise increases (Tanzania, Zambia) in its core markets. We estimate that were it not for the Nigeria subsidiary, beer volumes would have been flat in 1HFY15. However, the next 18 months have some significant tailwinds, as already seen in the latest Q3 update.

Following the political accord and successful elections in October 2014 in Mozambique, consumer confidence is returning and distribution is now much less disrupted. This is resulting in the country returning to expected run rate. Expats have also returned to South Sudan, which is now gradually ramping up capacity from maintenance levels.

Zambia is still cycling the major impact of the +50% excise increase in January 2014. Although this is now mainly a Chibuku market, the country operating margin has seen some deterioration. The situation is similar for Tanzania following a +20% excise increase in July last year.

Nigeria continuous to see very good volume growth at around 20-30%, which will be supported by the additional capacity at the Onitsha brewery that came on stream at the close of 2014. Commissioning of new capacities in 2015 remains on track for Ghana (Accra brewery), Uganda, and Zambia (Chibuku brewery in Lusaka).

Castel also likely to see a better FY16

Castel is the large brewer that has really been impacted by the Ebola crisis. On a market level, the Ebola epidemic has only impacted in Guinea (West Africa), but we estimate that the market makes up <3% of EBIT. More significant have been the infrastructure disruptions in Francophone Africa impacting import. Normally, ships are routed past Ebola-impacted markets such as Liberia and Sierra Leone. Those that were re-routed, however, were denied porting in other markets, including the critical ones for Angola and Cameroon, which impacted supplies and sales in the H1.

Ramadan, interestingly, has also been a factor (it fell in July last year, earlier than before). It typically results in beer orders rapidly slowing in the three weeks earlier. Ramadan has different impacts per region – in Nigeria it results in higher consumption of soft drinks (at expense of beer) whereas in Morocco and Tanzania both beer and soft drinks are lower.

We expect volumes to accelerate again, though soft drinks may face some pressure. As a €-dominated business, US$ inputs on concentrate pricing will have an impact. We also see increasing competition from low-priced b-brands, though the company recently complemented its (non-Coca Cola) portfolio with a recent new stake in Sumol + Compal, a leader in soft drinks and juices in Portugal.

South Africa may yet surprise

The integration of the South Africa operations into the new Africa division is primarily about leveraging SAB's strong capabilities and platform into Africa. However, we also see it as an opportunity to infuse some of Africa's entrepreneurial spirit and innovations into South Africa. We see no near-term impact from cost synergies and rather improving top-line performance.

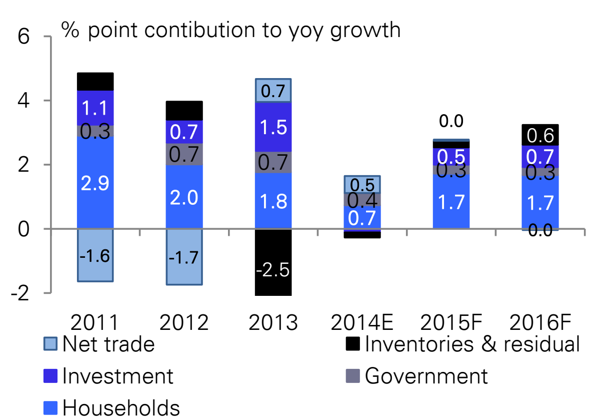
We are also seeing an acceleration of the innovation pipeline in both product and sku range. Recent innovations include Castle Milk Stout Extra Smooth (in cans) and Chocolate-infused Castle Milk Stout as well as the test launch of Ndlamhu in Kwazulu Natal, a sorghum-based lager that generally appeals to lower-income consumers. This product could transform the beer market, adding another engine of growth. Over Christmas, we also had a (hopeful) glimpse of the relaunched Lion Lager, a brand terminated in 1999 but historically strongly associated with Rugby. Perhaps a launch in time for the Rugby World Cup?

Signs that the South African consumer may start to recover in 2015

The macro environment in South Africa remains challenging for consumer spending, in particular affecting the core brands of SAB that sell into middle- to lower-income markets. In what appears to be a two-speed economy, higher-income earners are maintaining healthy spending levels. So, premiumisation (mix gains) is a key performance feature at present, as is evident from Castle Lite's strong performance.

However, in our January 18, 2015 note South Africa: Consumers will be smiling, DB raised its forecast for South Africa's GDP growth rate to 2.8% in 2015 (from 2.6%). This would represent a meaningful uptick from 1.4% in 2014, albeit from a low base. Consumer demand growth should improve to 2.8% from 1.2% last year, thanks to general improvement in purchasing power.

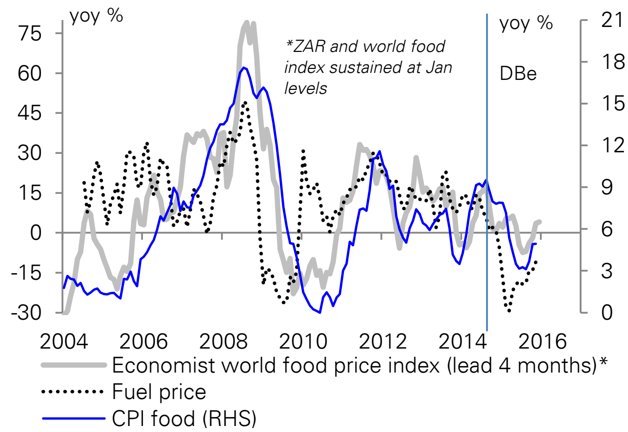
Figure 110: Breakdown of GDP growth points to SA consumer revival



Source: SARB, Deutsche Bank, SARB

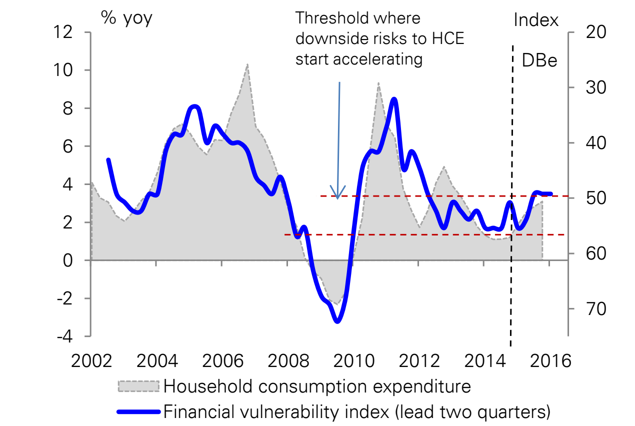
Factors driving this improving outlook include lower fuel prices, lower inflation outlook (benefiting real income) and improving consumer balance sheets. In this report our economist also changed her view on interest rates, now expecting flat rates in 2015 versus the prevailing view of a 50-75bps increase.

Figure 111: Largest moderation in food inflation since 2010



Source: Deutsche Bank, StatsSA, I-Net Bridge

Figure 112: Households' financial vulnerability* to diminish for the first time in three years



* This financial vulnerability index is a diffusion index of key indicators that affect balance sheet health of consumers. Above 50 denotes rising financial vulnerability, and below 50 shows improved financial health.
Source: Deutsche Bank, SARB

We have taken the conservative approach and our projections for SABMiller's South African business do not incorporate this change in economic outlook yet. This offers upside risk to our FY16 outlook

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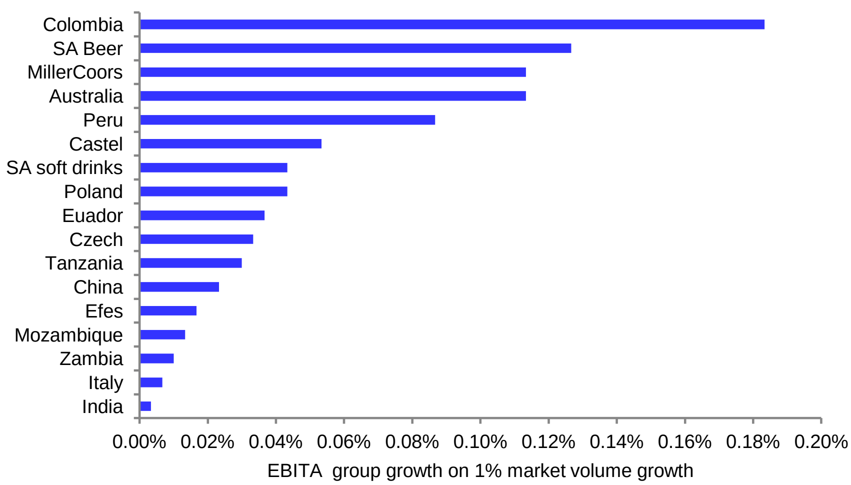
The other 2/3rds clipping the wings

Key markets under pressure

The portfolio effect that smoothes earnings for Africa should as well be applicable for the broader SABMiller group. However, a few big chunks are swing factors. Those chunks are not doing well, and in the short term offset the potential and growth of Africa.

Key markets such as Colombia, South Africa and Australia have a disproportionate impact (Figure 113). The challenges in these markets due to both consumer sentiment and the currency impact on reported earnings are currently inhibiting growth for the group as a whole.

Figure 113: Key markets 1% volume growth impact on group EBITA



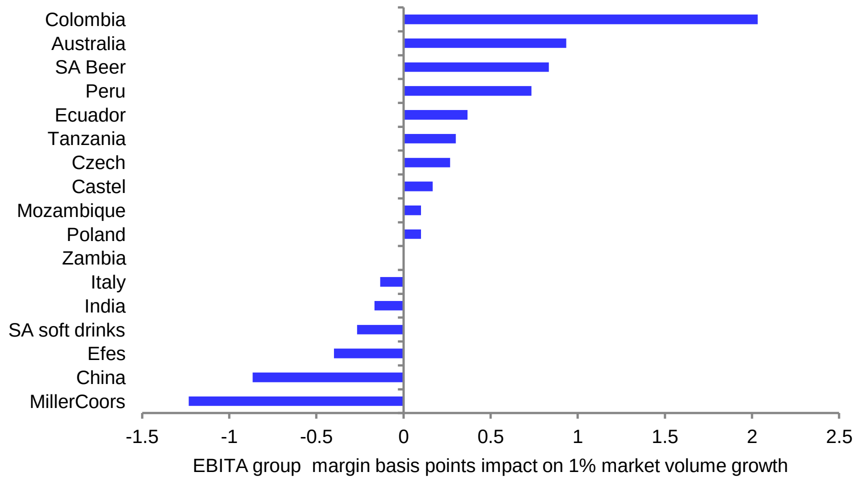
Source: Deutsche Bank estimates, company reports

The disappearing margin target

Guiding margin on a group level for a complex organization such as SABMiller is an ambitious endeavor. Management exercises limited control, if any, on 1/3rd of its EBIT. The Castel, Efes, CRE associates and MillerCoors joint ventures are independently run, with the latter getting disproportionately more attention from MolsonCoors than from SABMiller. The recent involvement of European management in Efes is encouraging, but Russia's challenges are bigger.

Additionally, geographical mix will challenge future margin expansion. The slowdown in growth in China and Efes should actually help margin expansion, but as Figure 114 shows, if Colombia and Australia sneeze, the whole group gets a cold. They are sneezing.

Figure 114: Key markets 1% volume growth impact on group margins



Source: Deutsche Bank estimates, company reports

A major consequence in a world with low inflation (not to talk about deflation) and low demand growth is lower static pricing power by consumer companies. In our view, a key decision that SABMiller will have to make is choosing between volume growth and margin growth as the driver of profits. We also believe SABMiller may have to consider a more optimum volume-based growth strategy in high-margin Latin America, and Colombia in particular.

Australia - negative swing factor to group results

Due to its high margins and size, Australia is a key swing factor for SABMiller group. However, there appears to be no let-up in the decline of Aussie beer volumes, which are down 2.0-2.5% on an MAT basis, with a structural rate of decline of ~1% p.a. Within beer categories there are major divergences, with a higher rate of decline in full-strength beer (-10% p.a.), light (-13%) and domestic premium (-6%), whereas there is growth in mid-strength (+4%), imported international premium (+8%) and crafts (up double digits). Beer share of LAE continues to track marginally down. RTD is losing share to cider, but here the growth is with brands other than CUB/Lion that both continue to lose share.

Feedback from the company and trade indicates that a major part for the decline in CUB's NPR/hl in H1 was due to a new agreement with Coles, which came at a major cost to margins, as is now evident. We see this resulting in significant downward pressure on pricing overall, as CUB's attempts to regain share at the key national accounts is likely to lead to weak pricing into FY16 if not longer term.

The overall implication is that the pricing and margin reset of CUB in 1HFY15 is expected to remain into the 2H as well as FY16. We believe the company will face an ongoing strategic decision between protecting margins and going for growth. First signs suggest that management is opting for growth. However, in light of the expectations for growth, we also believe the company needs to consider an impairment charge, as current profitability levels are unlikely to justify the original purchase price.

Centralization programs a point of parity, not savings

Highly centralized management structures work in no-growth areas. That is why the alphabet soup of programs – TCM at Heineken, BSP at Carlsberg, BCP at SABMiller – finds such rich pickings in Europe. However, when growth hits the African rates of double digits, the slow decision-making processes of a multinational cannot keep up. Putting together risk-based matrices by McKinsey consultants in London does not help one compete and invest ahead of demand in Accra or Nairobi.

Rather surprisingly and contrary to previous policy, at the results in May SABMiller announced another cost-saving program and gave it a number – US$500m by FY18 – 15% of which is to drop to the bottom line in FY15. We are being conservative and choosing not to apply the cost-saving target to our model. Historically, savings programs such as TCM at Heineken are hard to find being dropped down to the P&L. As we see it, the programs are necessary to get some basics in place when the brewers are lagging the rest of their staples peers. Additionally, they provide an opportunity to allocate costs to non-recurring/exceptional items, which benefits adjusted EPS (also instrumental in management compensation schemes).

We favor the approach taken by ABInBev and Unilever, which see cost-cutting as analogous to cutting your fingernails and ERP/SAP programs as a regular cost to business. Routine maintenance must be done on a regular basis, and investing in iPads should not be treated as an exceptional cost – so why should belated savings programs and bigger, fancier PCs warrant special status?

The unnecessary put option

ABInBev/SABMiller unlikely to happen

As has long and widely been discussed in the press (a quick Google search brings up 3300 results for the phrase ABInBev SABMiller acquisition – most recently Business Day on January 25), the market's belief seems very strong that one day, sooner or later, ABInBev will revert to what it knows best – acquiring brewing companies following its vision to Dream Big and create Megabrew. And that SABMiller is next in line.

This potential tie-up has been mooted since the mid-1990's, when an acquisition of SABMiller was first suggested by the likes of Anheuser Busch and the discussions with Interbrew in 2002. We have lost count of the number of times that a normally solid source (e.g. the Wall Street Journal) has reported that a deal may be imminent. The recent conjecture reminded us of similar scenarios in 2004 and 2008 (sources at the time: FT and WSJ). We assume that most of the time, ABInBev is probably preoccupied with other thoughts, like running its current business. When management does review its M&A agenda, we see only the slightest probability of ABInBev acquiring SABMiller anytime soon, given that ABInBev excels in managing and turning around large-scale operations that are inefficient whilst SABMiller is a collection of small-scale operations that are as, if not more, efficient than ABInBev.

Limited scale opportunity in an efficient business

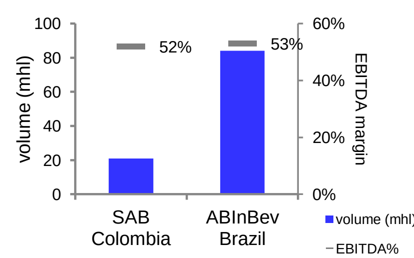
Anheuser Busch, Mexico, Brazil, China are big chunks. These are problems that require sharp focus. Smaller problems are relegated, such as European operations like StarBev. The company operates – and has thrived on – the 80/20 principle. The problem with SABMiller is that it doesn't have big problems. It has many small problems. The fragmentation of its business is its biggest weakness, and also one that requires a multitude of solutions.

The big chunks that ABInBev has tackled in the past were also profoundly inefficient and ripe for its Zero Based Budgeting (ZBB) programs. When entering the old Anheuser Busch, private jets, zoos, and corporate hideaways were easy pickings. Manufacturing and supply-chain optimization programs further enhanced the margins of the traditional family business.

SABMiller is not a family business, and it has developed or adopted many of the same business practices (including ZBB in Latin America). Considering its disadvantaged scale in the many smaller markets, margins at SABMiller are comparable if not better. ABInBev's Brazilian business has 4x the beer volumes of Colombia, yet the margins are the same. Perhaps ABInBev could benefit from SABMiller's efficiency skill set more than the other way around.

Any deal would also limit any benefits from further scale. With the exception of China, it is unlikely that any market overlap would be allowed. Benefits from procurement services would probably be too small to notice at that level (would Coke necessarily get a better deal on sugar if it bought Pepsi?). Like any well-entrenched FTSE-20 company, the headquarters in Woking, UK, has the usual corporate excess (and expanding rapidly), but not enough to make a deal sensible, in our opinion. Admittedly, SABMiller has a private jet. But that actually *IS* needed to get around Africa.

Figure 115: Colombia & Brazil



Source: 2015 Deutsche Bank estimates, company reports

Buying the growth would likely result in leakage

If ABInBev does not buy SABMiller as an opportunity for cost savings, its interest – so the argument goes – would be to buy the growth. We believe that has some merit. ABInBev is indeed disadvantaged in its current growth profile. The US should benefit from a consumer recovery, but we favor spirits over beer in that scenario. The cost savings in Mexico should be achieved, and growth should be good – but not exciting. And Brazil is hitting the maturity scale in beer with per capita consumption and share of alcohol hitting US levels.

SABMiller has the growth, especially in Africa. However, there are risks. Part of its growth is tied up in a web of relationships. There is no guarantee that the option to buy Castel would remain intact, and we assume that Castel would get the better result and possibly activate its options to buy part of SABMiller Africa. Coca Cola bottling contracts all have change-of-control clauses. The new CCBA set-up makes it more likely that the other partner, the Gutsche family, would take control. Expatriate management share options would actualize – many would be comfortable, and we are not sure how many Brazilians would want to work in Onitsha, Nigeria.

If you dream, you may as well Dream Big and have a Coke

"It takes the same amount of energy to dream big as to dream small. So dream big but stay humble"
ABInBev CEO
November 2013

More attractive opportunities exist for ABInBev. A strong dividend yield after years of investment and a desire to drive an international portfolio containing Corona, Budweiser, and Stella keep management occupied.

If you are going to dream, however, you may as well – to quote the ABInBev CEO – Dream Big. ABInBev aspires to be one of the leading consumer staples companies in the world. As we have discussed in previous notes, we see the next phase in mega-M&A as likely to be about integrating beverages. SABMiller has already started the process on the bottling side with CCBA, but we believe that ABInBev is in a position to reassess the whole system.

Ultimately, the archaic nature of the brand owner/bottling system needs to be revisited. Separating the brand owner (Coca Cola) and the bottlers is a system that harkens back to the 19th century, when bottling soft drinks was seen as an unhygienic and dangerous process. The same was true for beer at the time: in the 19th century, bottling was outsourced as the brewers focused on kegged beer in the immediate radius of the brewery in the same manner that Coca Cola focused on fountain sales in the greater Atlanta metropolis. With the advent of refrigerated railway cars (which stimulated the growth Anheuser Busch and of beer following the Civil War in the US) and better pasteurization techniques (which prompted the early days of exports for Heineken), the brewers decided to take the bottling in-house.

Coca Cola over the last century has taken a somewhat mixed approach, mostly outsourcing the bottling – and the intimacy with the customer and consumer that this implies. The result is an inefficient and slow system that stifles growth. A re-organization is underway in the Coca Cola system, and ABInBev terms such as Zero Based Budgeting used to satisfy the market. But why copy a system when the originators of that skill set can do a better job? Sounds a lot more attractive than going after the complexity that SABMiller entails if you are Dreaming Big.

Valuation and key charts

Valuation

We base our £35/ZAR630 price target on a DCF-model, the core assumptions behind which are a WACC of 7.89% (incorporating a levered beta of 1.18, net debt / EV ratio of 20%, risk-free rate of 4.00% and 4.30% cost of debt), medium-term cash flow growth of 5% a year, and a post year-10 terminal growth rate of 2.0% . We view our terminal growth rate of 2% as conservative number, below the embedded volume growth rate of 2.5%.

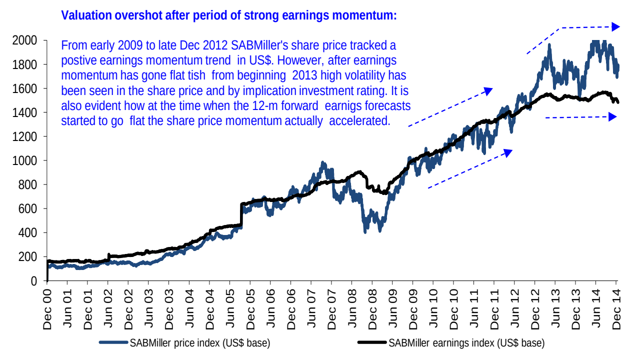
Figure 116: SABMiller target price sensitivities

TP per Share (£pence)							WACC
Terminal Growth Rate	7.18%	7.43%	7.68%	7.93%	8.18%	8.43%	8.68%
2.75%	4,659	4,398	4,166	3,958	3,770	3,600	3,445
2.50%	4,452	4,214	4,001	3,809	3,635	3,477	3,333
2.25%	4,264	4,046	3,850	3,672	3,511	3,364	3,229
2.00%	4,093	3,892	3,711	**3,546**	3,395	3,258	3,131
1.75%	3,937	3,751	3,582	3,428	3,288	3,159	3,040
1.50%	3,793	3,620	3,463	3,319	3,187	3,066	2,954
1.25%	3,660	3,499	3,352	3,217	3,093	2,978	2,873

Source: Deutsche Bank estimates

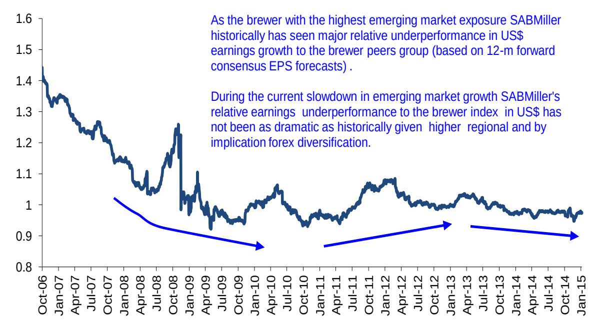
Our upside/downside risks include government taxation, consumer sentiment in Latin America and Africa, developed markets competitive pressures and M&A, real and perceived.

Figure 117: SAB price index vs. consensus forecast NTM earnings (US$)



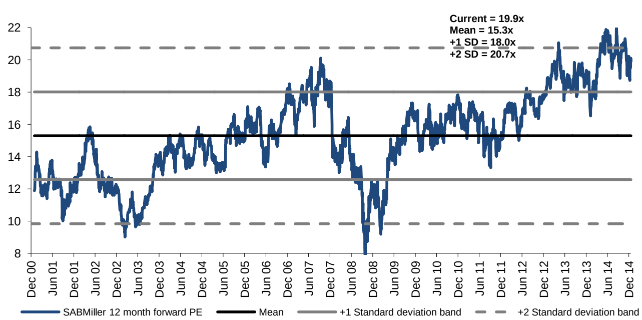
Source: Deutsche Bank, Datastream

Figure 118: SAB earnings index relative to Brewers index (US$)



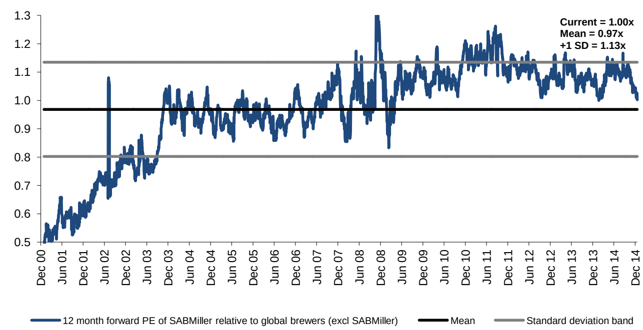
Source: Deutsche Bank, Datastream

Figure 119: SAB NTM rolling PE



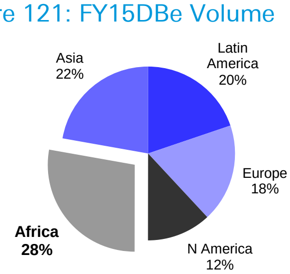
Source: Deutsche Ban, Datastream

Figure 120: SAB NTM PE relative to global peer group



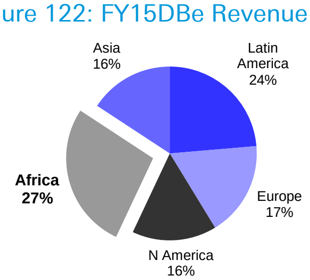
Peer group, market capitalisation weighted: ABI, Heineken, Carlsberg, Molson Coors and Anadolu Efes
Source: Deutsche Bank, Datastream

Figure 121: FY15DBe Volume



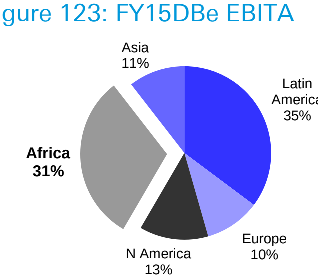
Source: Deutsche Bank estimates

Figure 122: FY15DBe Revenue



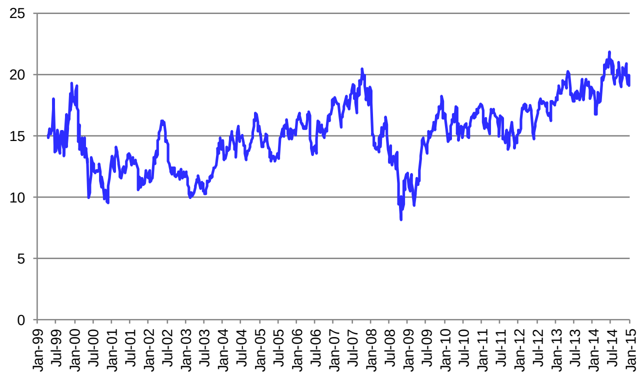
Source: Deutsche Bank estimates

Figure 123: FY15DBe EBITA



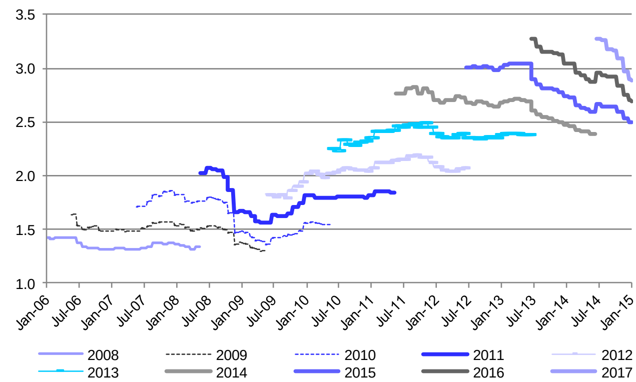
Source: Deutsche Bankestimates

Figure 124: SABMiller 1yr fwd P/E



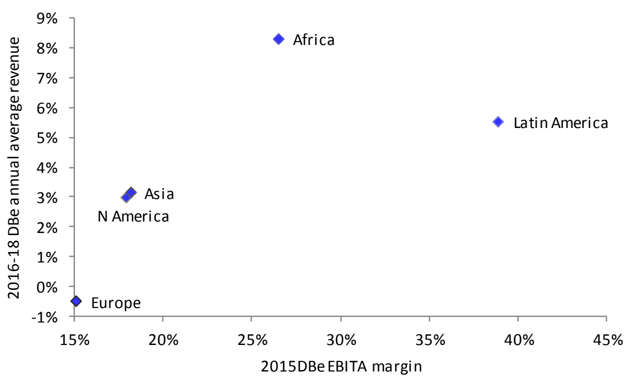
Source: Deutsche Bank, Datastream

Figure 125: SABMiller consensus EPS revision



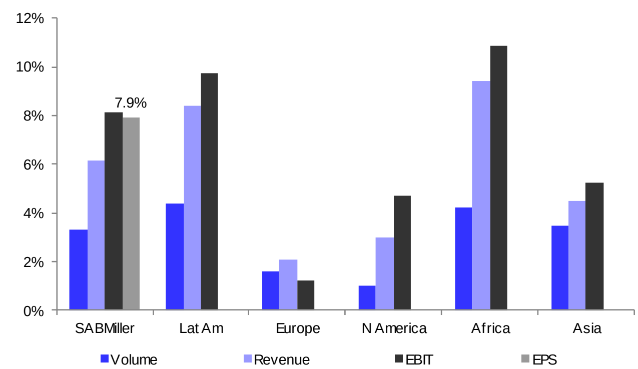
Source: Deutsche Bank, Datastream

Figure 126: SABMiller revenue growth vs EBIT margin



Source: Deutsche Bank estimates

Figure 127: Organic growth by division 2015-17 CAGR



Source: Deutsche Bank estimates, Company data

Africa leading the growth

The global beer growth engine

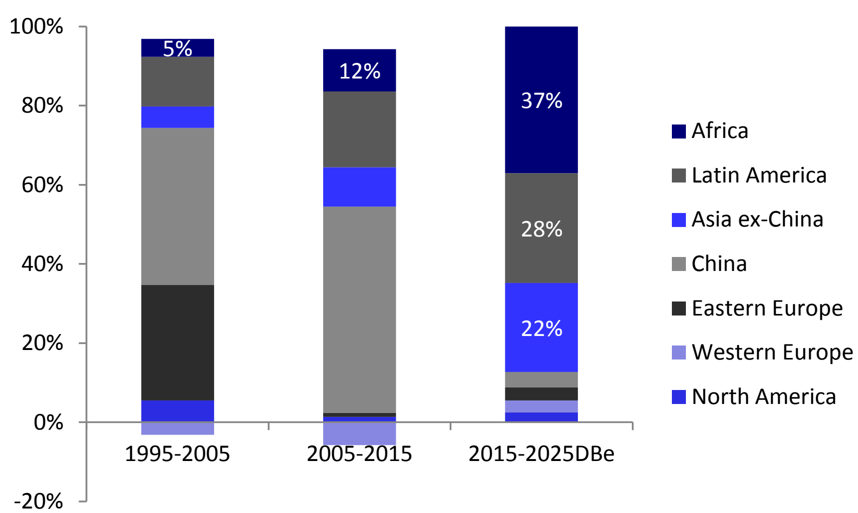
Driver of global beer volume growth

In our note of the 29th of July, Beer: Tapping into Growth, we analyzed the potential of a 194 beer markets. We reviewed the factors that should drive growth in beer:

- The right population dynamics, in the right age cohort,
- Sustainable GDP growth, and assessing the inflection points where per capita consumption accelerates and decelerates,
- Cultural and religious influences,
- The ability to take share from other forms of alcohol, in the case of illicit alcohol, or the danger of losing to more refined, branded spirits.

Our findings pointed to the vast potential of Africa as the core engine of volume growth, contributing a forecast 40% of global growth in the next decade.

Figure 128: Global beer volume growth by region and decade



Source: Deutsche Bank estimates, Plato Logic, World Bank

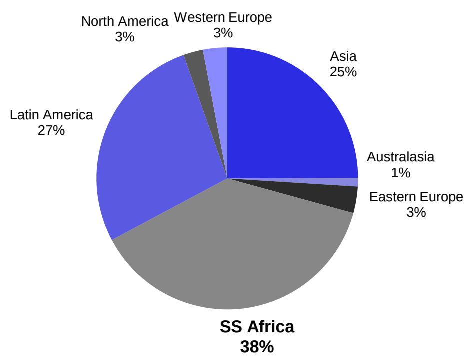
In the decade from 1995 to 2005, volume growth in the global beer industry came from two sources. The post-Communist era opened up Eastern Europe, accounting for 31% of the growth. Per capita consumption of beer doubled, compounding at 8% annually at the expense of vodka. Asia, led by China, accounted for 48% of the growth, as beer became the primary accompaniment to meals, replacing water as had been the case in Europe two centuries before. Africa at that time accounted for only 5% of global volume growth.

The decade from 2005 to 2015 has been dominated by China, moderating in the last several years as per capita consumption hits Asian norms. 70% of the volume in the last ten years has been due to Asia. Africa's contribution more than doubled as Africa accounted for 12% of the growth.

The next decade belongs to Africa

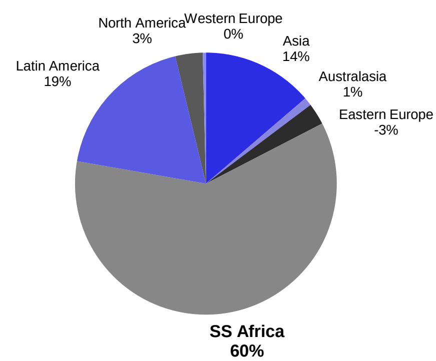
Our analysis indicates that the next decade of growth should belong to Africa, with 40% of the projected volumes to come from the sub-Saharan region. For those with longer time horizons, Africa should account for over 60% of volume growth driven by favorable population dynamics

Figure 129: Volume growth contribution 2015-2025DBe



Source: Deutsche Bank estimates, Plato Logic

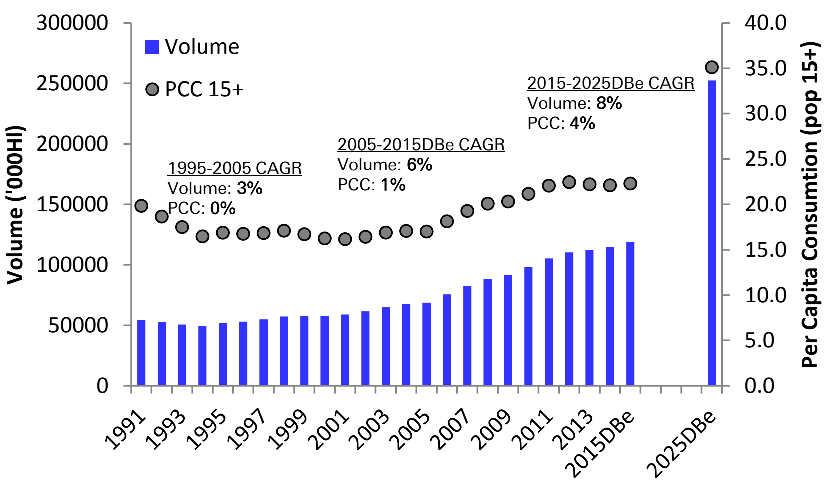
Figure 130: Volume growth contribution 2025-2050DBe



Source: Deutsche Bank, Plato Logic

We forecast 8% annual volume growth over the next decade, a slight acceleration over the previous ten years.

Figure 131: Africa growth



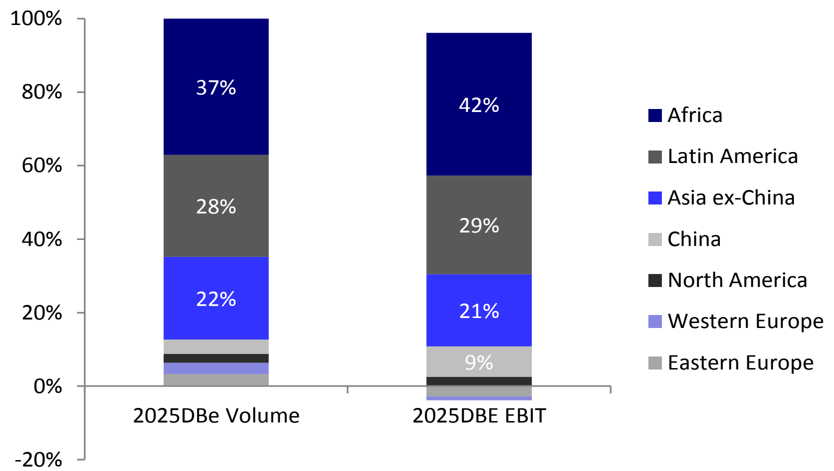
Source: Deutsche Bank estimates, Plato Logic, World Bank

Value and profit pool growth> volume growth

Due to the concentration of few players and dominant market shares, Africa also enjoys relatively high revenue per hl and profit margins. Thus, the value and profit pool growth in Africa over the next decade should exceed its volume contribution. The volume growth in Africa is profitable growth.

Unlike China, volume growth in Africa should be profitable growth

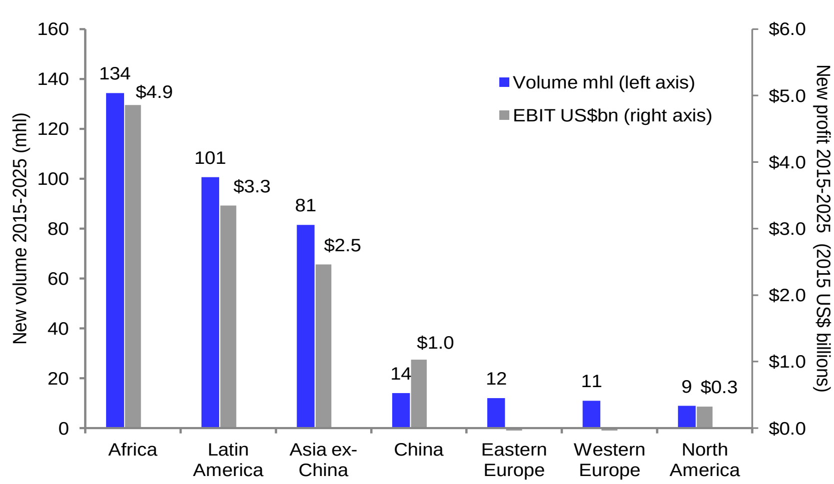
Figure 132: Africa profit (EBIT) contribution 2015-2025 (2015 US$)



Source: Deutsche Bank estimates, Plato Logic, company reports

In constant currency, we see the global profit pool expanding US$11.5 billion by 2025. With dominant market shares and strong moats around current operations, the average 25% EBIT margin US$105 per hl of revenue in the continent should be sustainable, with Africa accounting for almost US$5 billion, or 42%, of the additional profit pool over the next decade.

Figure 133: Regional volume and profit pool growth contribution to 2025



Source: Deutsche Bank estimates, Plato Logic, company reports

We also see Latin America accounting for a significant proportion of the profit growth in the next decade, with a shift to the Andean region and Mexico, away from historical growth delivered by Brazil. Asian growth ex-China continues to be profitable with average revenue per hl of US$85 and margin of 25% on average. Markets such as Vietnam and Myanmar should drive the growth.

Figure 134: 2015 and 2025 global beer profit pool (constant currency)

	2015 volume (mhl)	2015e rev/hl	2015e EBIT margin	2015e EBIT	2025e new volume (mhl)	10yr margin growth	2025e new EBIT (US$ bn)	2025e EBIT (US$bn)
Africa	119	$105	25%	$3.1	134	5%	$4.9	$8.0
Asia ex-China	204	$85	25%	$4.3	81	3%	$2.5	$6.8
China	551	$35	8%	$1.5	14	5%	$1.0	$2.6
Eastern Europe	217	$70	15%	$2.3	12	-3%	-$0.4	$1.9
Latin America	333	$95	35%	$11.1	101	0%	$3.3	$14.4
North America	270	$120	30%	$9.7	9	0%	$0.3	$10.0
Western Europe	279	$100	15%	$4.2	11	-1%	-$0.1	$4.1
Total	***1,972***			***$36.2***	***363***		***$11.5***	***$47.8***

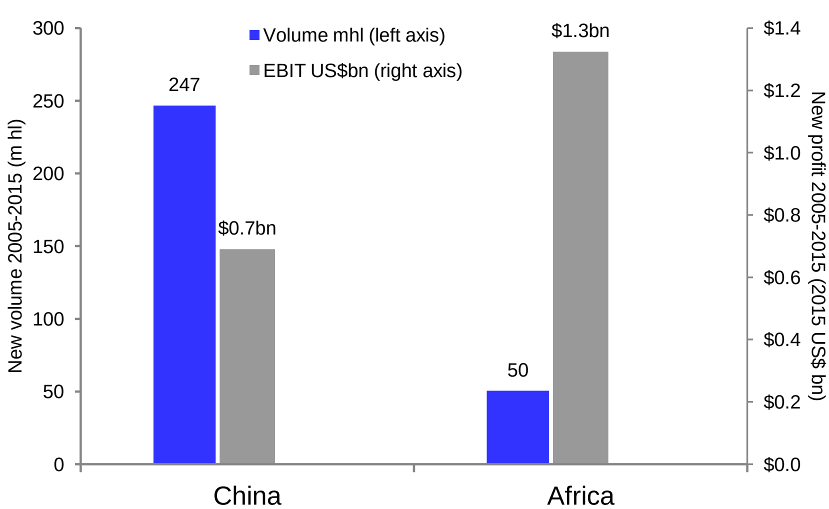
Source: Deutsche Bank estimates, Plato Logic, company reports

We don't see China contributing more than 9% of additional profit. Despite being over 25% of global volume, today its contribution to global profit is only 4%, on our estimates. We are skeptical of China's ability to grow its low revenue per hl (US$35/hl) significantly above inflation. We liberally assume that margins in China will expand 500bps of its low base of c. 7%. If we double that figure, Chinese contribution would still be only 16% of the global profit pool expansion.

It is worth noting that Africa's top-line growth to the profit pool has significantly outperformed China already in the past. Not until 2006 did SABMiller's China business surpass the contribution of Swaziland.

While China added 250 million hl in the last decade, it expanded the global profit pool just shy of US$700 million. Africa in the same decade expanded its volumes only 1/5th of China, or an additional 50 million hl. Yet it added US$1.3 billion of profit.

Figure 135: Africa and China volume & profit growth 2005-2015



Source: Deutsche Bank estimates, Plato Logic, company reports

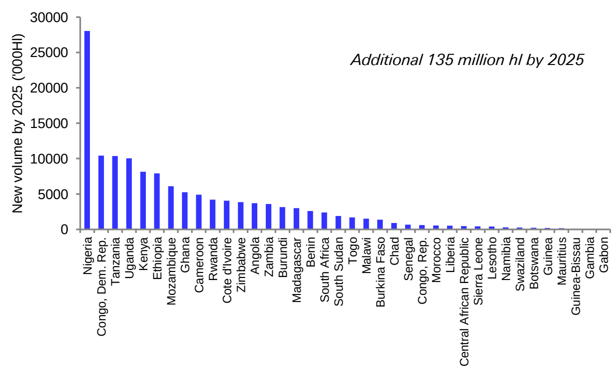
Key markets for growth

Top markets for growth

As recently discussed in our staples sector 2015 outlook note on 12 January 2015, Here we go again, 2/3rds of EM consumer staples growth is from smaller, less developed countries outside the usual BRICS and CIVETS. And such it is with beer.

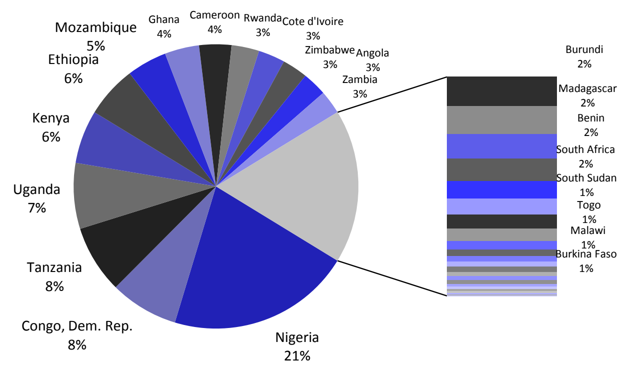
We expect Nigeria to be the largest contributor to volume growth in Africa, but the next six markets from Mozambique to the Democratic Republic of Congo should contribute between 5% and 8%

Figure 136: Beer volume contribution by 2025



Source: Deutsche Bank estimates, Plato Logic, company reports

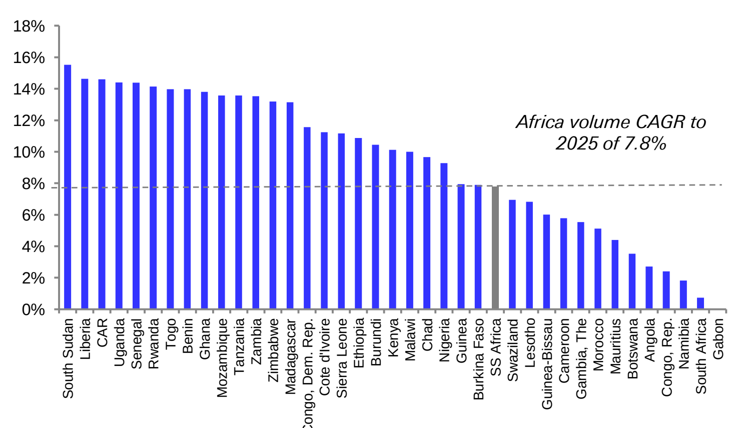
Figure 137: Share of the volume growth in Africa by 2025



Source: Deutsche Bank, Plato Logic, company reports

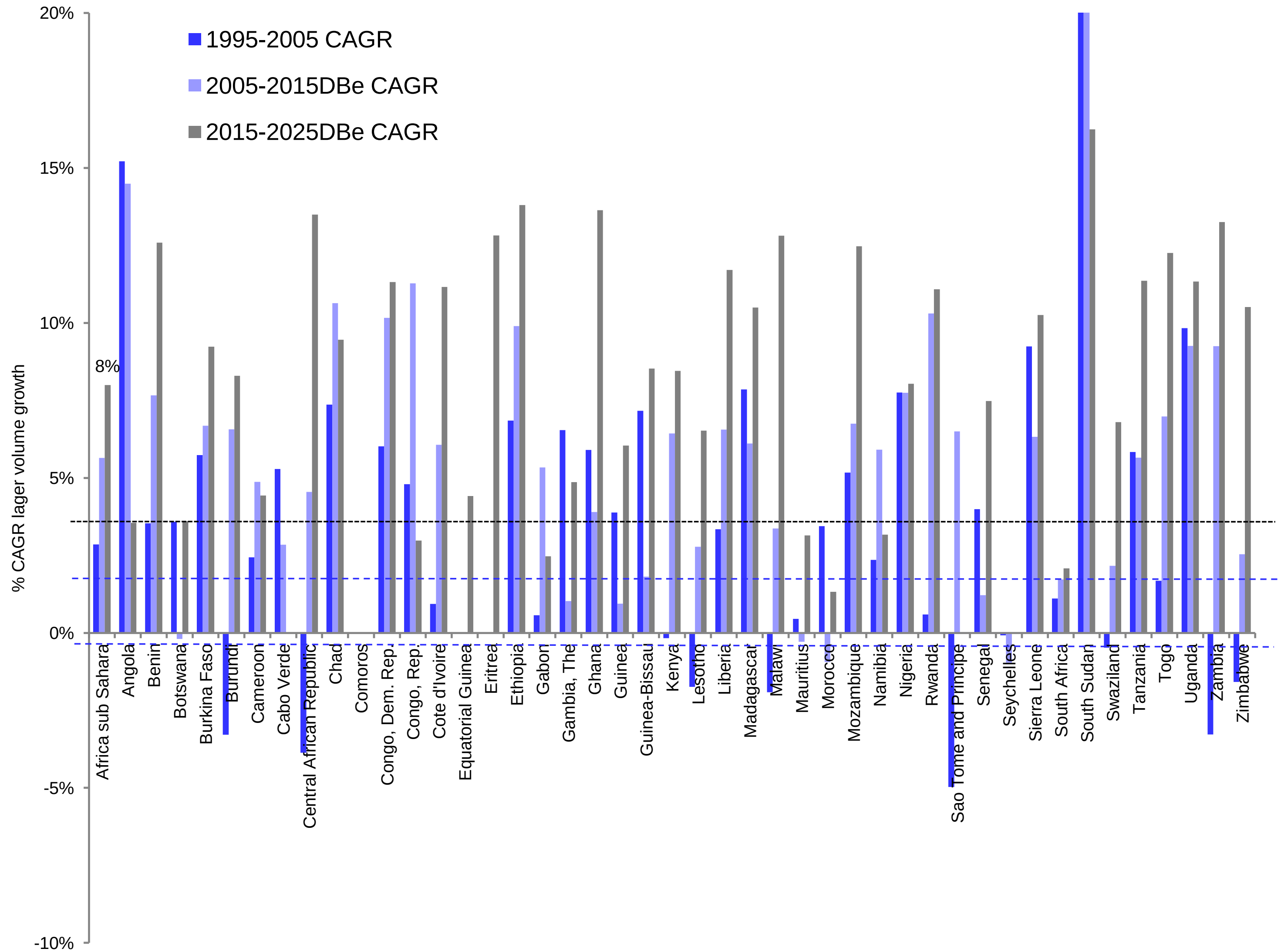
The fastest-growing markets tend to be those with a low base, but with the right dynamics in place. Like Angola a decade ago, we expect countries such as South Sudan, Uganda and Ethiopia to lead the growth as population dynamics, share gains from alcohol, and the establishment of broader brewing footprints by the leading players stimulate growth.

Figure 138: Forecasted fastest-growing markets in Africa to 2025



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 139: 10 year CAGR volume growth by African market over three decades

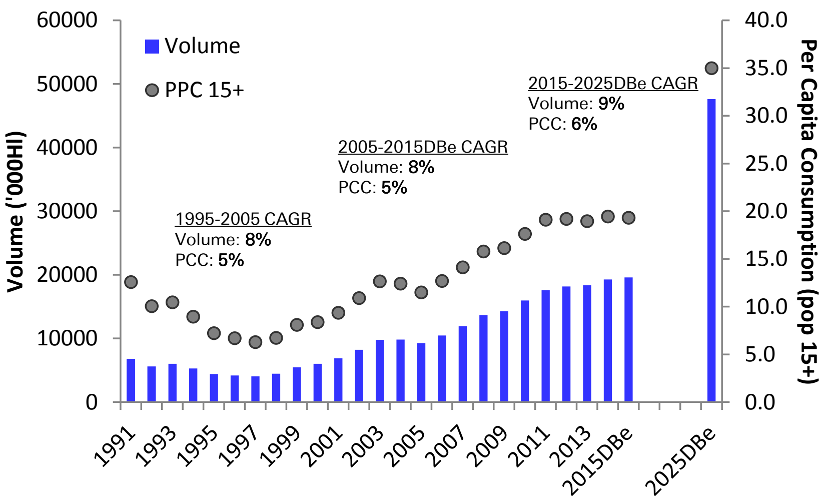


Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Nigeria

Nigeria is Africa's biggest long-term opportunity in beer. Based on our projections, the size of the beer market in volume is likely to overtake that of South Africa by 2030. What makes this such an attractive market is that it is Africa's most populated country (172m), per capita income in the coastal regions is now breaking above the US$1,000 level where demand growth for formal packaged goods tends to rise sharply, it has a tradition of good-quality beers and a rising level of competitive brewer activity is stimulating consumption growth.

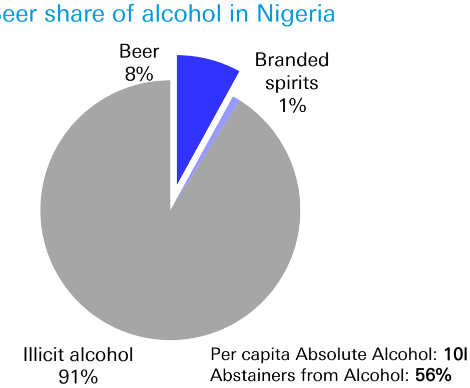
Figure 140: Nigeria PCC and volume growth projection



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

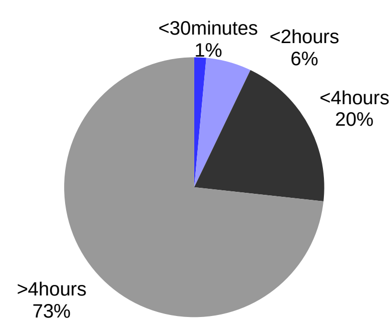
Affordability in Nigeria, as across Africa, remains a challenge for beer. However, the development of quality beers in the mainstream and economy segments will not only increase affordability but through route-to-market developments increase accessibility as well.

Figure 141: Beer share of alcohol in Nigeria



Source: Deutsche Bank estimates, WHO

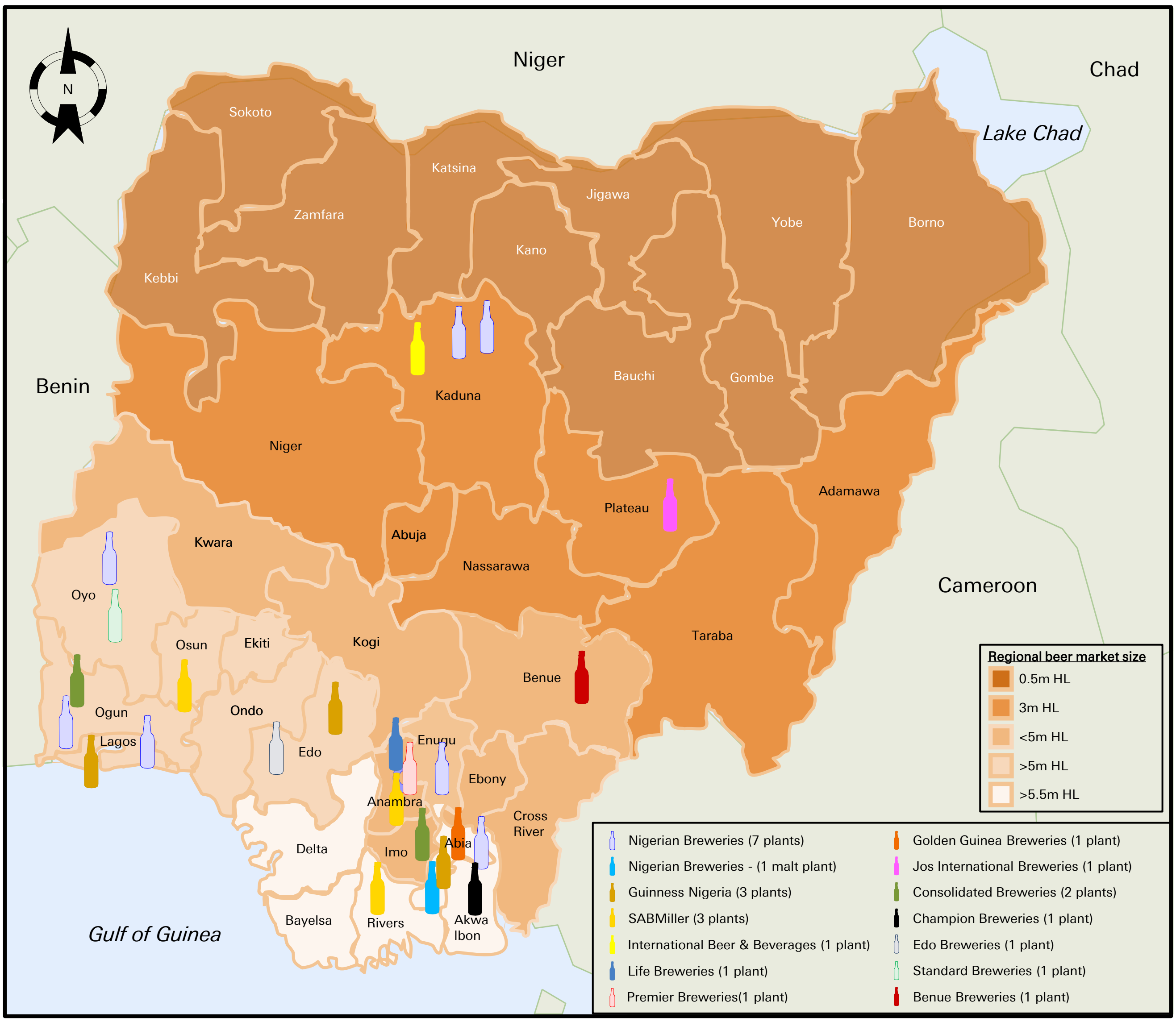
Figure 142: Time worked to afford a beer in Nigeria



Source: Deutsche Bank estimates, PovCal, company reports

The Nigerian beer market has traditionally been a near duopoly, with Nigerian Breweries (Heineken 54% interest) having an estimated market share c. 70% and Guinness Nigeria (Diageo 54% interest as well) at c. 20%. The new kid on the block, namely SABMiller, has since entry in 2008 developed organically to a market share of c. 10% by focusing on mainstream/economy brands and relatively uncontested regions. Its market entry catalyzed major industry consolidation, and few if any suitable acquisition opportunities remain.

Figure 143: Nigerian breweries and regional market sizes

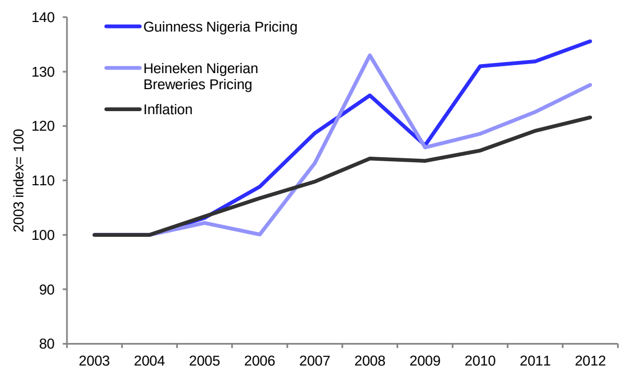


Source: Deutsche Bank, company reports

Beer is expensive in Nigeria, for now

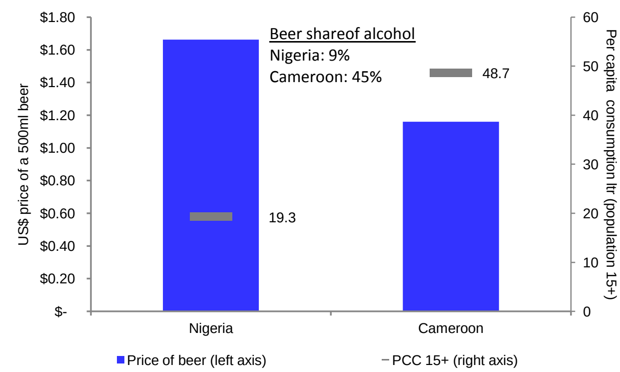
The duopoly has used its position to establish a pricing umbrella, which gave SABMiller room to enter. Over the last decade, pricing has been above inflation (Figure 144), which has resulted in a price to consumer circa 40% above the African norm and Cameroon next door.

Figure 144: Nigeria pricing relative to inflation 2003-2012



Pricing and inflations equalized on US$ basis
Source: Deutsche Bank estimates, companies reports, Plato Logic

Figure 145: Nigeria pricing vs Cameroon



Source: Deutsche Bank estimates, Plato Logic, Company reports, World Bank

SABMiller's entry stimulating growth

SABMiller entry into Nigeria in 2008 capped a 15-year process of finding an entry point. The country has 79 registered breweries, many of them built before 1990, and fewer than 20 operational. After losing to Heineken in attempting to acquire Sono Breweries, SABMiller took the plunge by purchasing Pabod Brewery in Port Hartcourt. Not a place for the faint hearted, but for many SABMiller expats who previously were stationed in Angola, everything is relative.

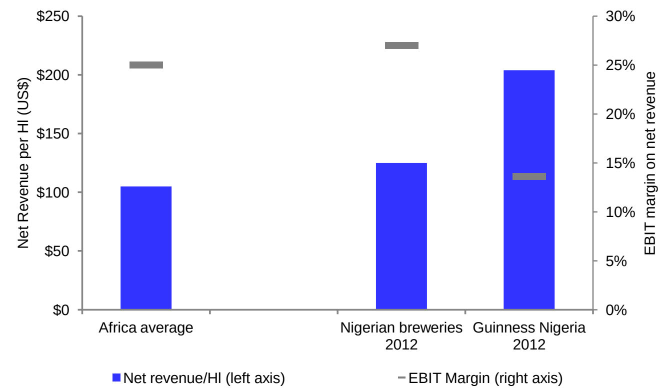
With the Pabod brewery barely being held together, SABMiller subsequently built a new plant in Onitsha and added the listed International Breweries to its portfolio as part of the renewal of the Castel strategic alliance.

Given the established presence of the two international brewers, SABMiller's entry strategy in 2008 was centered around mainstream and economy brands and in regions outside of the major beer markets. Though its Hero Lager brand is notionally priced 30% below the mainstream Star, on a relative Africa basis, beer is expensive in Nigeria.

The success of this entry strategy where its market share (SABMiller plus that of Castel) has since increased from around 3% to c. 10% is testimony of the opportunity presented by this white space. It helps that Diageo's Harp Lager has been the primary share donor.

We don't see SABMiller's entry into Nigeria as destroying value. Rather, we believe it is the impetus required to stimulate growth. The recent amalgamation of Heineken's breweries (Nigeria and Consolidated) has also put Heineken in the right position to stimulate the value portfolio. Its value brand 33 Export has strong positive national brand awareness and distribution.

Figure 146: Figure 147: Nigeria pricing relative to Africa



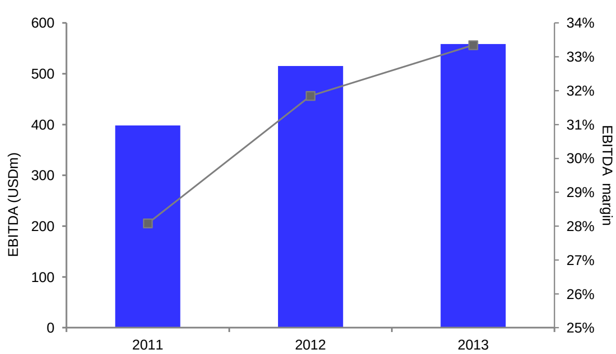
Source: Deutsche Bankestimates, Plato Logic, Company reports

Heineken well positioned with expanded control

Recently, approval has been granted in Nigeria to merge Heineken's majority owned subsidiaries, Nigerian Breweries and Consolidated breweries. With the latter more focused on value brands such as 33 Export, which has national brand awareness, we see this as an opportunity to stimulate growth in the market in which it holds 70% market share.

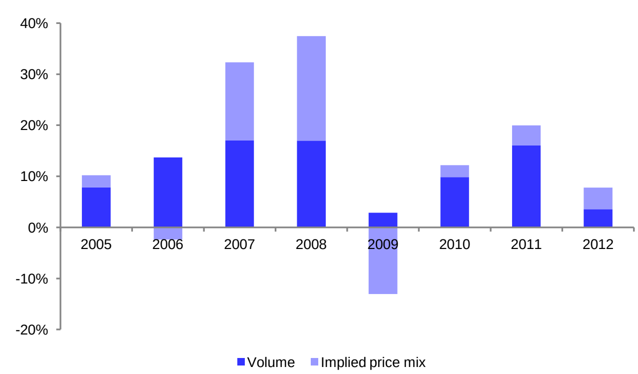
Pricing has been historically high in Nigeria – almost 40% higher than in neighboring Cameroon and with above-inflation price increases over the last decade. Overall, we see both Heineken and SABMiller winning long term in a market that has yet to reach its potential.

Figure 148: Nigerian Breweries EBITDA in US$



Source: Deutsche Bank, company reports

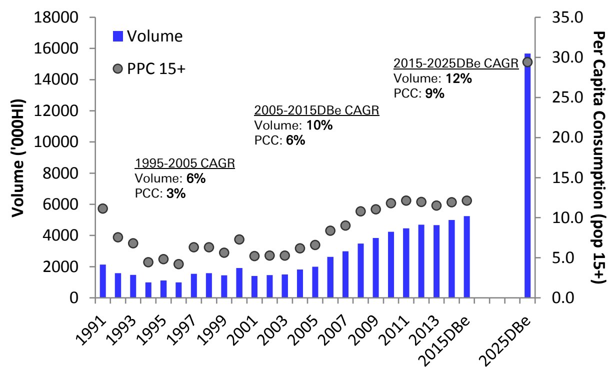
Figure 149: Nigerian breweries price mix in US$



Source: Deutsche Bank estimates, Plato Logic, company reports

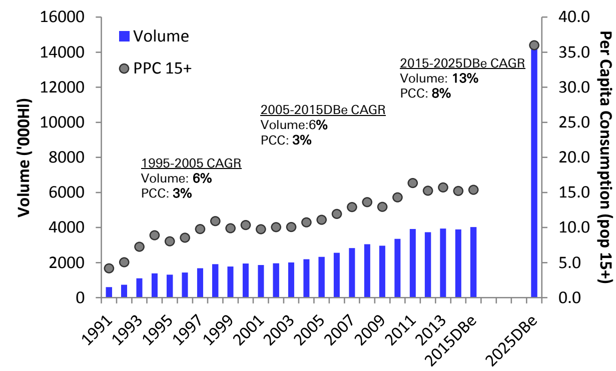
Key market growth projections

Figure 150: Democratic Republic of Congo



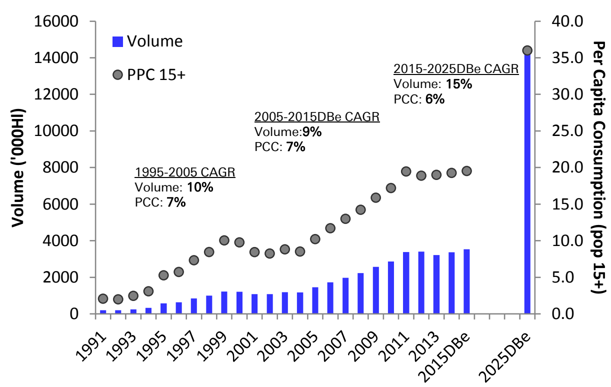
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 151: Tanzania



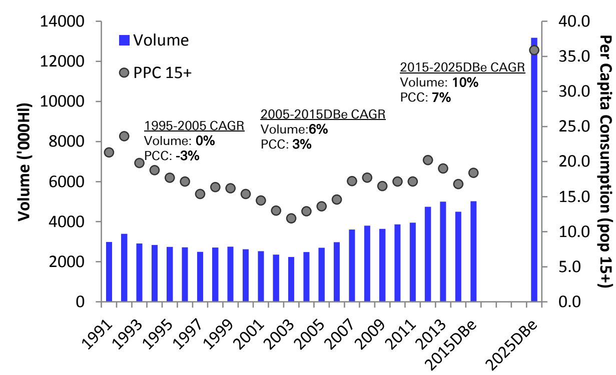
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 152: Uganda



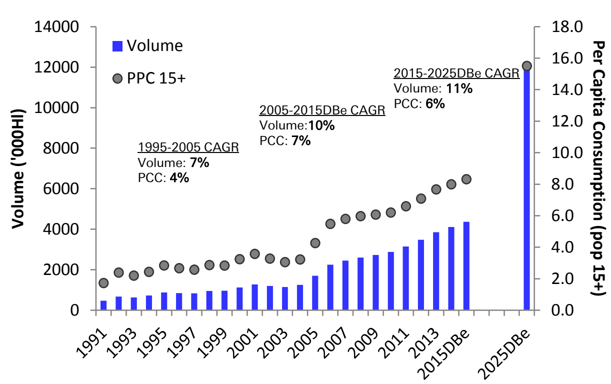
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 153: Kenya



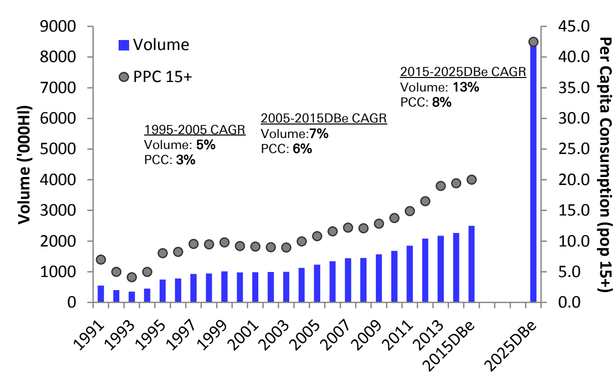
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 154: Ethiopia



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 155: Mozambique



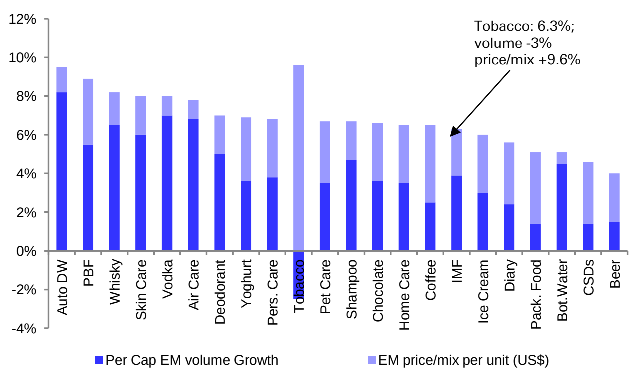
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Population drives staples growth, and African beer

Global beer growth low compared to staples

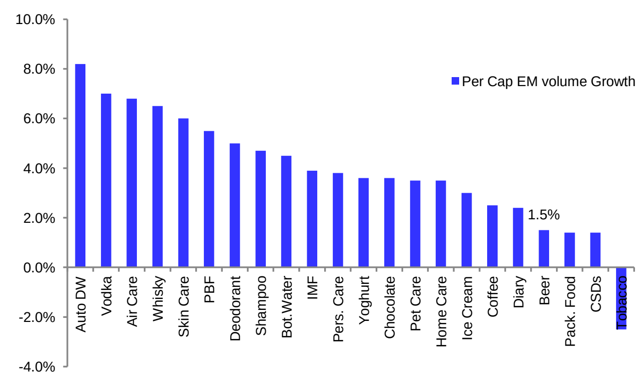
In beer, using our bottom-up approach looking at 194 markets, we have projected a global volume growth rate of 1.7% per annum over the next decade. This is fairly anemic compared the rest of our consumer staples universe. In our note Emerging Exposure (24 March 2014), we analyzed 22 categories top down, with beer demonstrating only 1.5% volume growth in selected EM.[1] Unlike shampoo and Coca Cola, with population being a core driver of growth, beer will not benefit from the vast growth that is expected in the Islamic markets of Bangladesh, Pakistan, and Indonesia. Beer has also fully fulfilled its potential in the EM of Eastern Europe.

Figure 156: Medium-term staples growth



Source: Deutsche Bank estimates, Euromonitor

Figure 157: Staples per cap EM volume growth

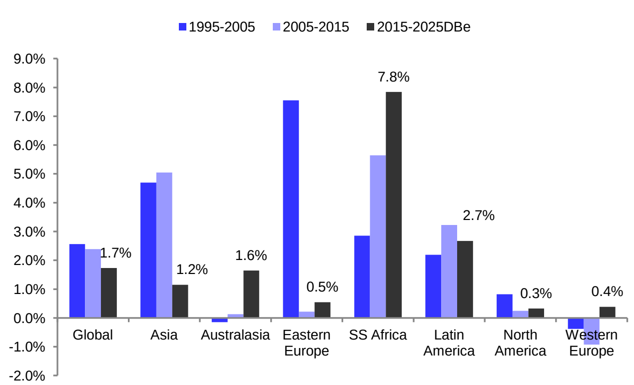


Source: Deutsche Bank estimates, Euromonitor

Africa, however, works favorably for beer

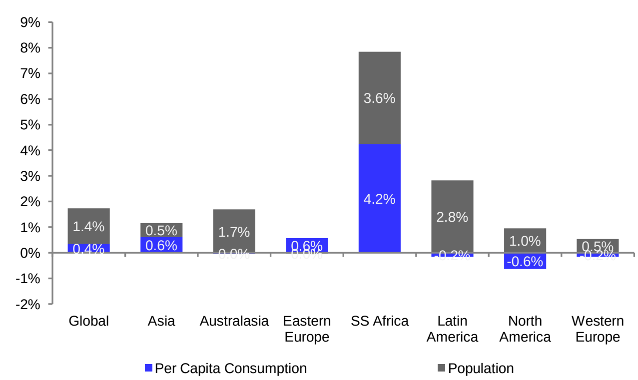
Africa, however, should benefit. We expect Africa volume growth of 8% per annum. Being Africa, this will likely not be a smooth line.

Figure 158: Beer volume CAGR by decade



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 159: Drivers of beer volume growth to 2025



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

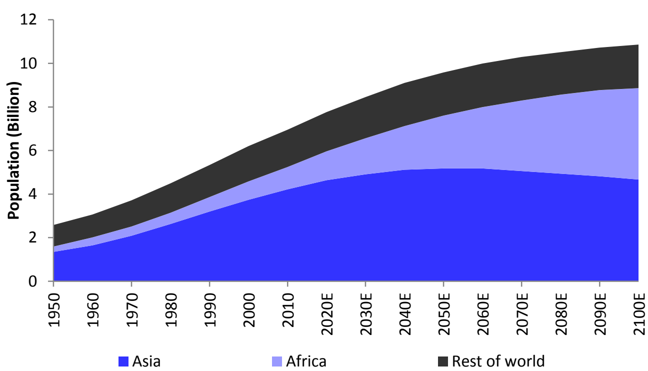
[1] In our note Emerging Exposure published on 25 March 2014, we analysed 22 categories across 21 Emerging Markets ranging from shampoo to pet care top down

Over half the growth in Africa should be driven by population growth, the remainder by per capita consumption growth.

A population boom in the right cohort

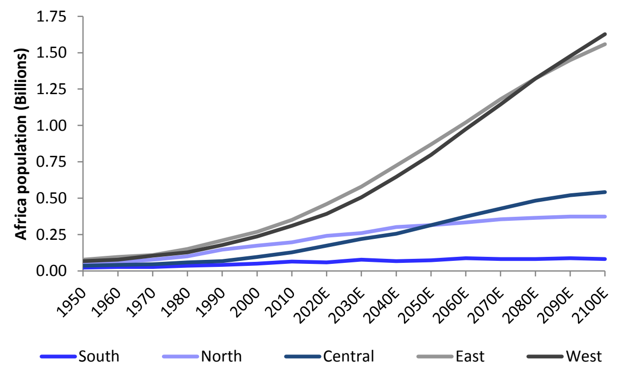
Population growth and leading GDP growth rates put Africa in the right zip code for consumer staples. It is particularly attractive for beer, as the population boom is occurring in the right age cohort and the phase of GDP growth positively impacts beer disproportionally

Figure 160: Africa to lead global population growth…



Source: Deutsche Bank, World Bank

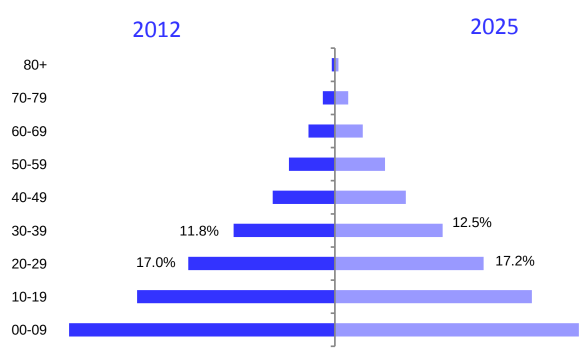
Figure 161: Africa regional population growth



Source: Deutsche Bank, World Bank

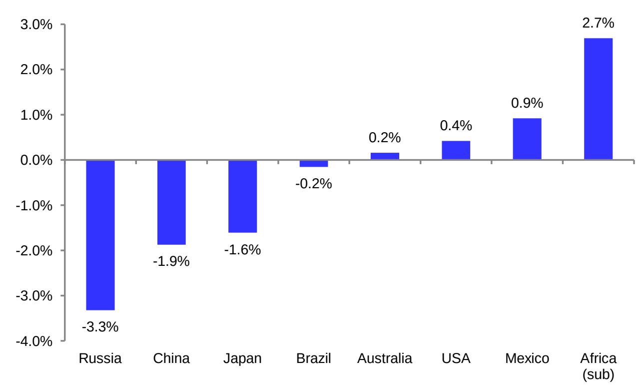
More relevant for beer is the 20-35 year-old cohort, the age group when people generally establish the habit of drinking beer, entrench brand choices, and drink ¾ of their lifetime beer consumption.

Figure 162: Africa population age pyramid



Source: Deutsche Bank, World Bank. Sub Saharan Africa

Figure 163: Population age profile 2012 and 2025

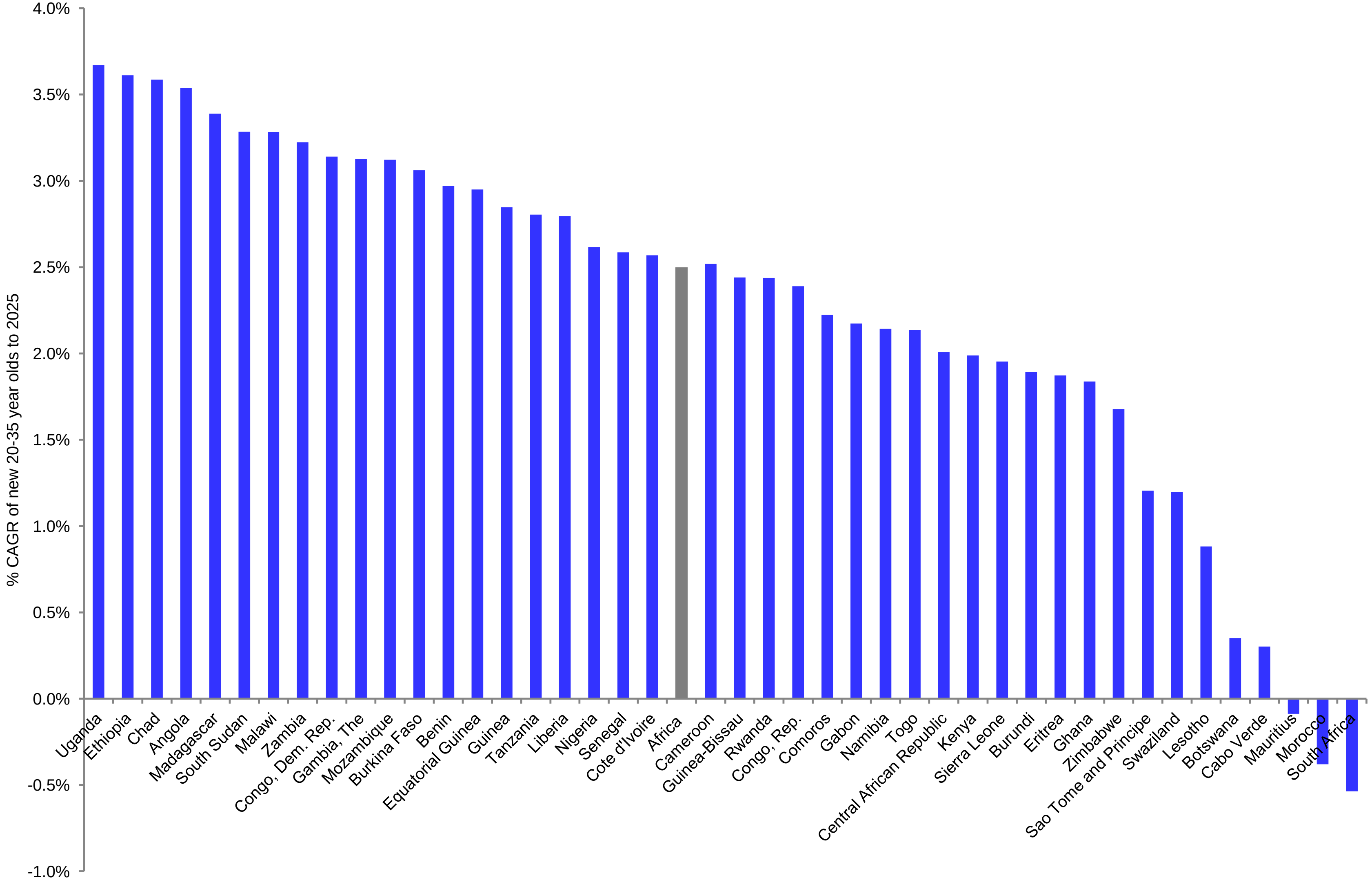


Source: Deutsche Bank, World Bank

In Africa, this key age key cohort should grow on average 2.5%, or 6 million new consumers per year, with Uganda, Ethiopia and the Democratic Republic of Congo enjoy an even greater population dividend. That is the equivalent of adding another Germany of beer drinkers in the right age group *every* year.

This age group should remain a stable set of the population. In contrast to Russia, which should see the 20-30 age group decline from 17% to 10% of the population over the next decade, Africa should maintain its share at 17%.

Figure 164: Annual growth of 20-35 year olds in sub Sahara Africa to 2025



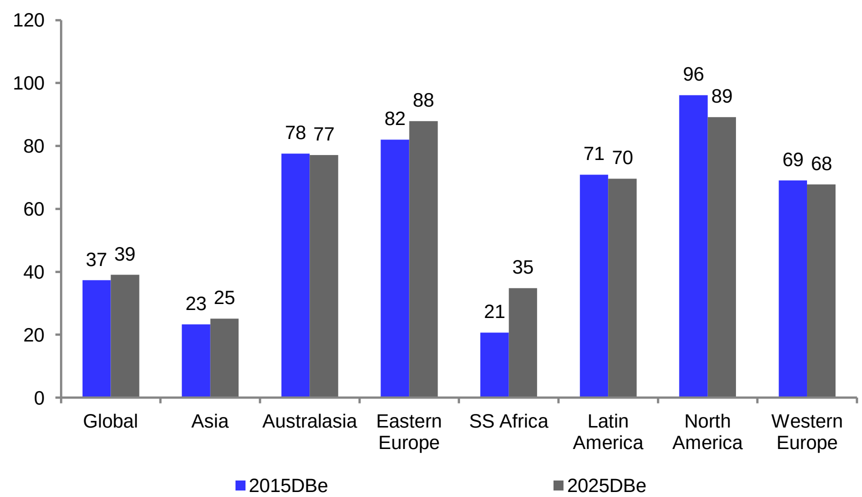
Source: Deutsche Bank, World Bank

Plenty of room in per caps

Globally, not much growth left

On a global level, per capita consumption of beer is hitting its peak, with most developed markets hitting decline as health concerns grow and other alcohol categories become more appealing. In our forecasts, we estimate per capita consumption to globally increase 2 liters per person over the next 10 years.

Figure 165: Per capita beer consumption (in liters for population 15+)



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 166: Per capita beer consumption

	2015DBe	2025DBe	CAGR
Global	37	39	0.4%
Asia	23	25	0.6%
Australasia	78	77	0.0%
Eastern Europe	82	88	0.6%
SS Africa	21	35	4.4%
Latin America	71	70	-0.2%
North America	96	89	-0.6%
Western Europe	69	68	-0.2%

Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

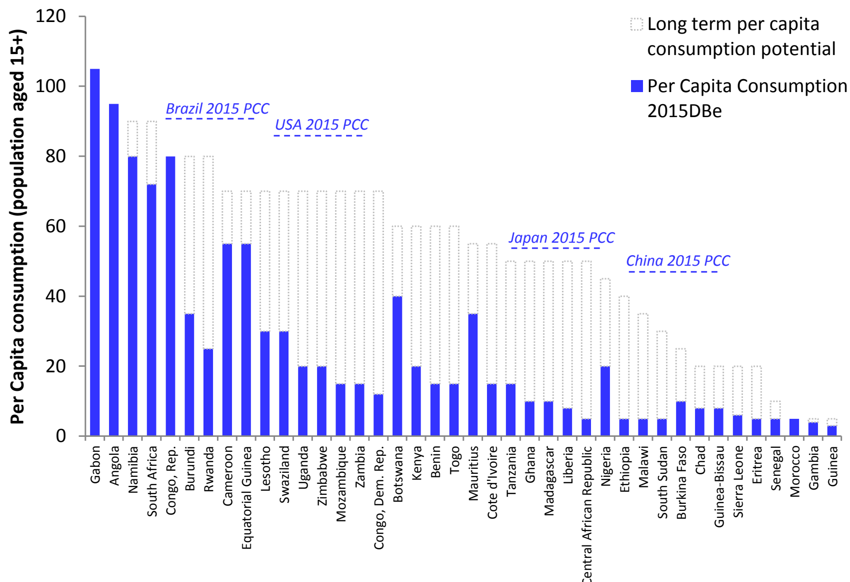
Most developed markets have seen declines in per capita consumption since their peak year. Belgium peaked in 1974, the UK and USA in 1981. Western Europe and the Nordic regions have seen on average a total decline of 20% in per capita consumption over the past two decades. Certain places in Central Europe have an entrenched beer culture, so per capita consumption has matched and often exceeded developed markets.

Chinese beer consumption has grown strongly (per caps compounding at 23% pa) over 15 years off an extremely low base. Per caps of around 45 liters are hitting the normalized rates of developed Asiatic markets such as Japan at 55 liters.

Africa the last bastion of per capita growth

There is plenty of growth left to increase per capita consumption as beer takes share from illicit alcohol, and we have making conservative estimates of the potential based on cultural, religious and physical limitations in our growth model.

Figure 167: African markets per capita consumption versus potential



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

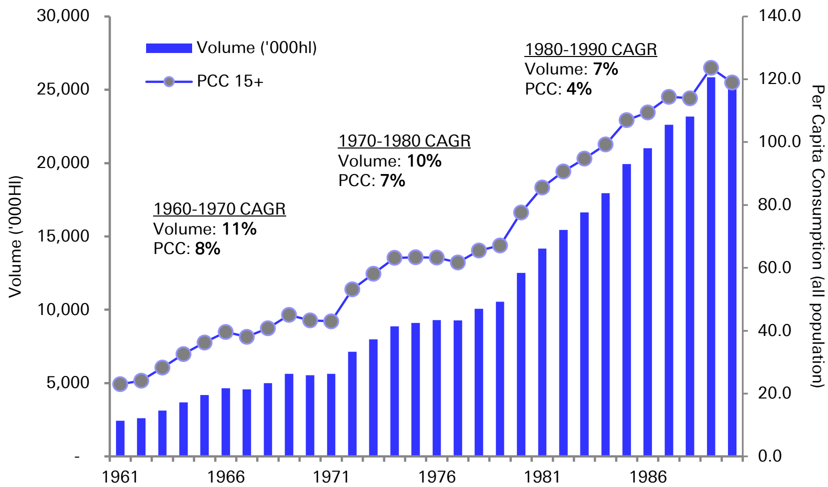
Depending on the market, we see potential per capita consumption ranging from above 90 liters in markets such as South Africa and Burundi to lower estimates of 45 liters in Nigeria – all below the current consumption experienced in Brazil and the US.

The role of Islam in Africa will also be a limiting factor, but not to the same extent as with the more stringent practices in the Middle East. Nigeria is expected to add more than 70 million people by 2025; half the population of Nigeria is Muslim, which officially rejects the consumption of alcohol – though interpretations do vary by consumers on the ground.

Similar jump in consumption… in the last century (or two)

South Africa saw a sharp jump in per capita consumption from 1960 to 1990. Pricing below inflation, the removal of Apartheid legislation prohibiting beer consumption by the black population in 1961, and the urbanization and concentration of mining compounds stimulated growth.

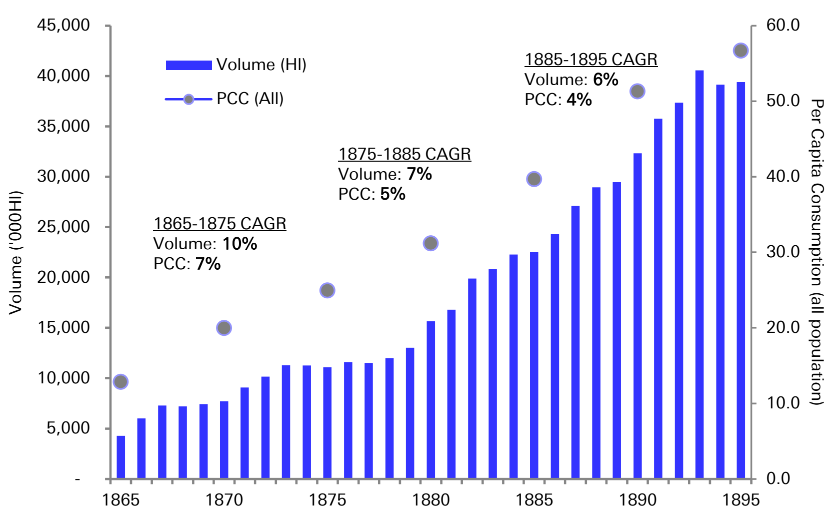
Figure 168: South Africa volume and per capita growth 1960-1990



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Reaching further back, the United States saw strong expansion of the beer markets following the Civil War. Two innovations stimulated the acceleration of beer consumption. In 1872, Anheuser Busch started shipping pasteurized beer. In 1879, refrigerated rail cars allowed for beer to leave the confines of St. Louis.

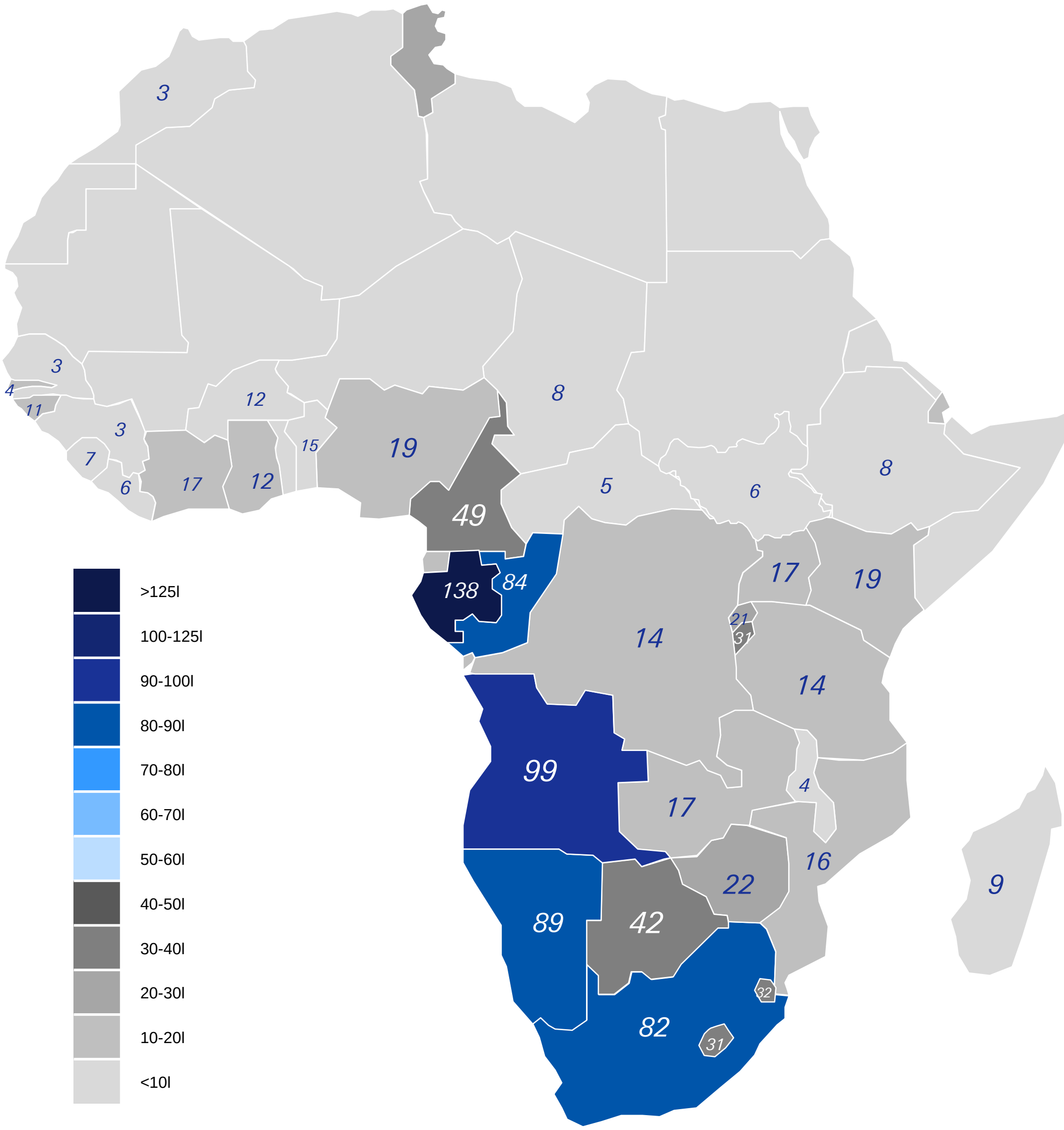
Figure 169: US volume growth and per capita consumption 1865-1895



Source: Deutsche Bank estimates, Beer Institute

From 1865 to 1895, growth was driven by both population growth and per capita consumption increases. With the hindsight of prohibition, the irony is that the temperance movement favored beer over other types of illicit alcohol.

Figure 170: Per capita consumption in Africa, population 15+ in liters



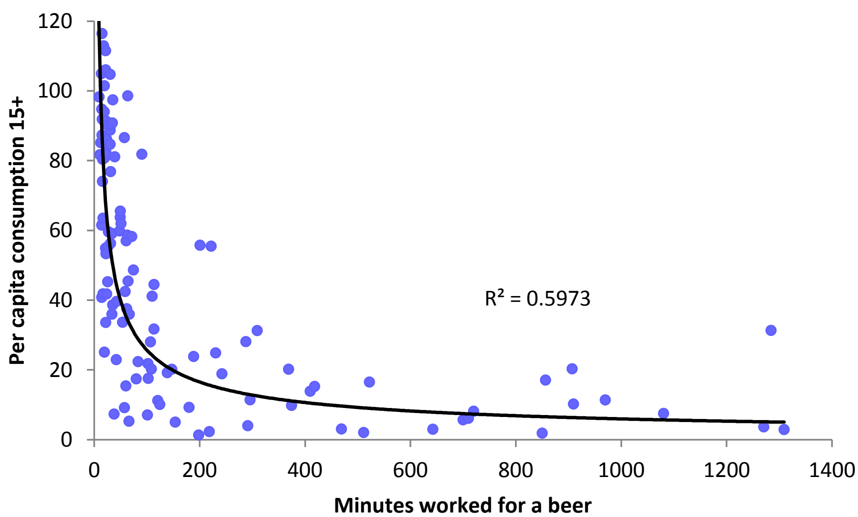
Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Affordability remains key

How much do you have to work for your beer?

As we have stated previously, blocking the entry into the beer category is affordability. It is a question of how long one has to work for a beer. The amount of work required for a beer is strongly correlated to the per capita consumption in a market.

Figure 171: Minutes worked for a 50cl beer in 134 markets

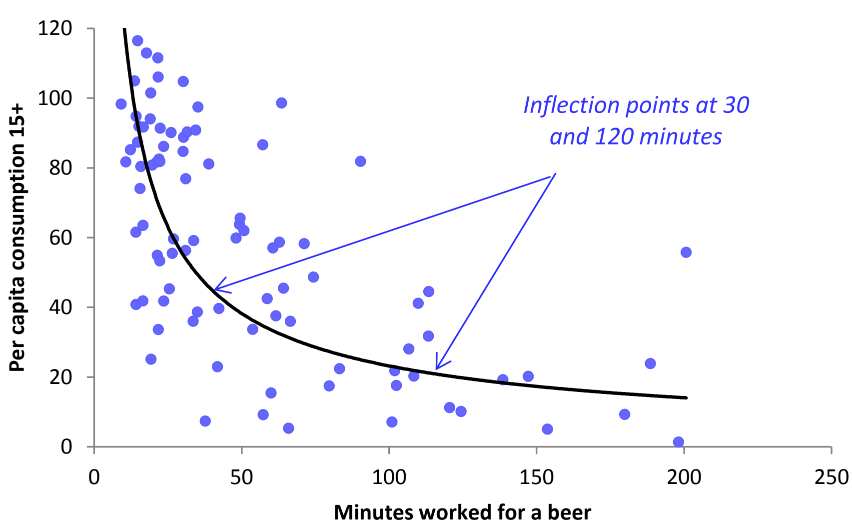


Adjusted to exclude Islamic nations. Based on national income and ILO standards for working hours.
Source: Deutsche Bank, World Bank, Euromonitor, Plato Logic,, ILO

120 and 30 minutes of work for a beer are key inflection points for per capita beer growth

As per Figure 172, at around 120 minutes, beer consumption in market hits an inflection point. Consumption accelerates as more consumers within a market enter the category and more occasions become relevant to beer moments.

Figure 172: Minutes worked for a 50cl beer - inflection points



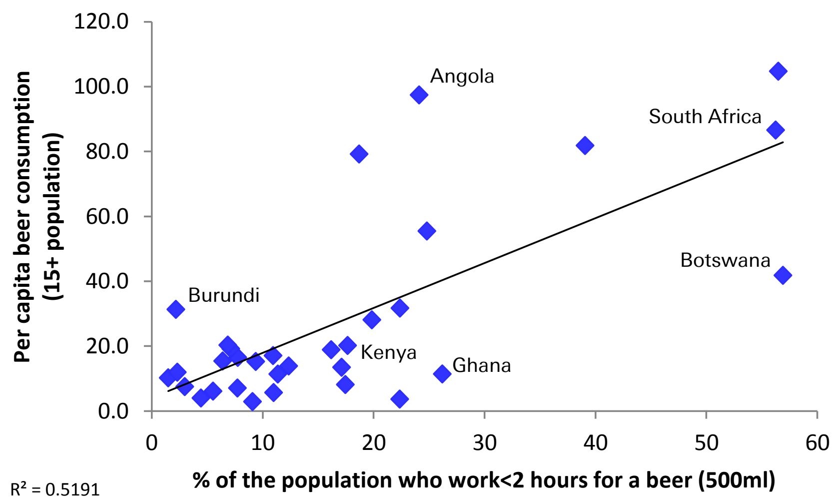
Adjusted to exclude Islamic nations. Based on national income and ILO standards for working hours.
Source: Deutsche Bank estimates, World Bank, Euromonitor, Plato Logic, World Bank , ILO

At 30 minutes, we see another inflection point of acceleration as habits are entrenched and wider portfolio choices become an option, including premium beers.

Share of population that can afford a beer within a market

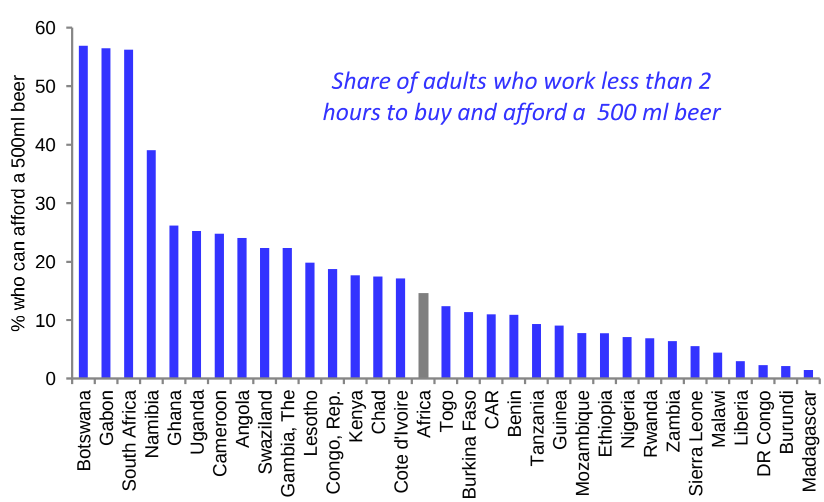
When looking within Africa, the share of the population that can afford a beer (e.g. work less than 2 hours for a beer) correlates strongly to per capita consumption.

Figure 173: Proportion of population within a market that can afford a beer



Source: Deutsche Bank estimates PovCal. 32 sub-Saharan African markets

Figure 174: Share of adults who can afford a beer in Africa



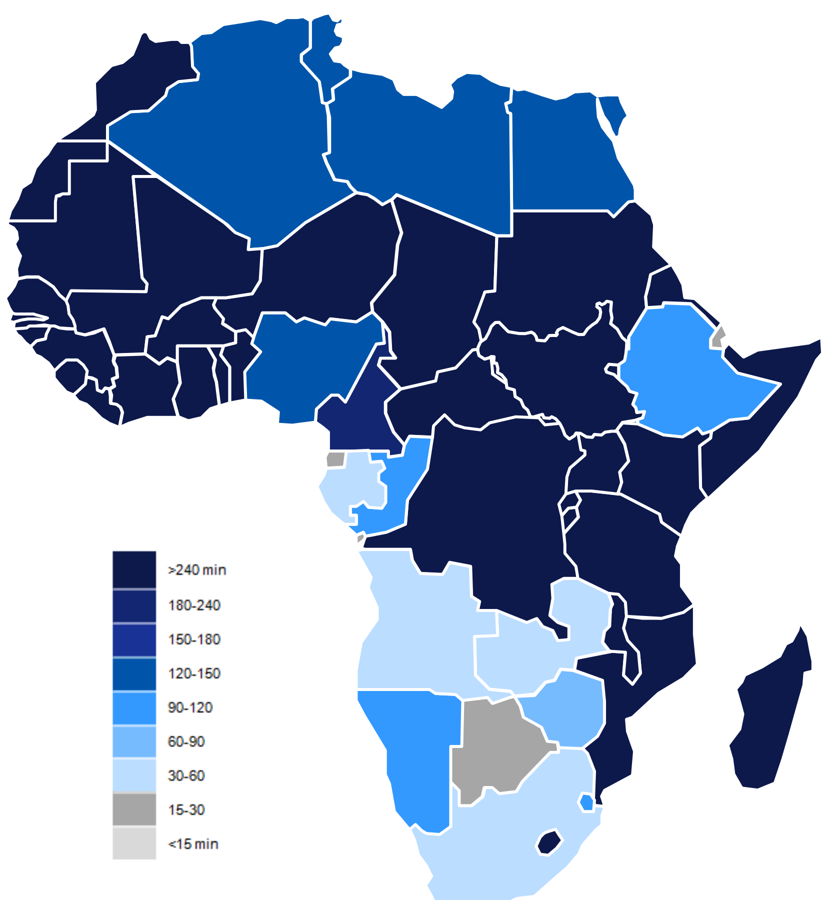
Source: Deutsche Bank estimates, PovCal

Figure 175: How long do you have to work for a beer, %of people in market

	<30minutes	<2hours	<4hours	>4hours
Nigeria	1.5%	5.6%	19.6%	73.3%
DRC	0.5%	1.9%	7.3%	90.4%
Tanzania	2.0%	7.1%	29.3%	61.7%
Uganda	4.0%	12.1%	31.6%	52.2%
Kenya	4.6%	13.0%	30.7%	51.7%
Ethiopia	1.3%	6.4%	34.3%	58.0%
Mozambique	1.6%	6.1%	22.8%	69.5%

Source: Deutsche Bank estimates, PovCal

Figure 176: How long do you have to work for a beer, country average

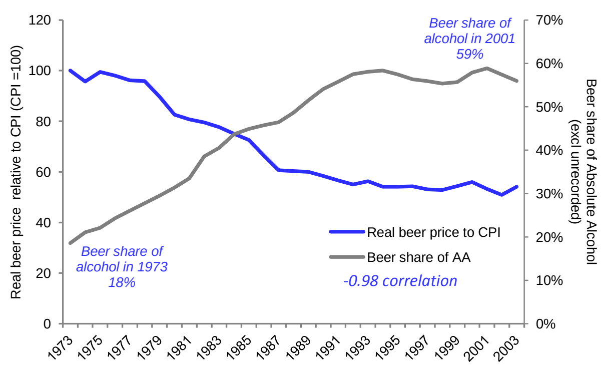


Source: Deutsche Bank estimates, World Bank, Euromonitor, Plato Logic, World Bank , ILO

Pricing below inflation drives growth, adds new drinkers, fuels consumption

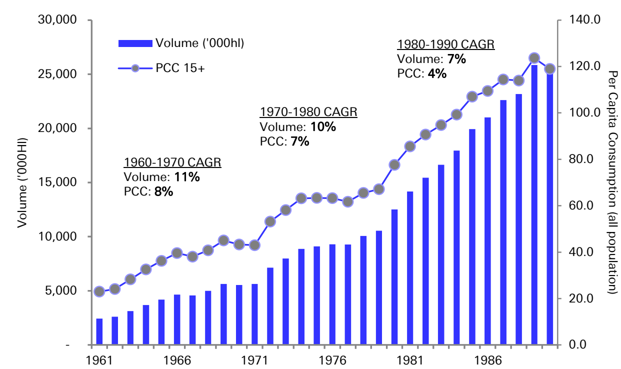
As already discussed, pricing below inflation in South Africa over a 20-year period halved the price of beer in real terms and quintupled per capita consumption. Because of the high capital intensity of brewing, the operational leverage driven by the resultant volume growth doubled margins despite pricing below inflation.

Figure 177: South Africa real pricing and alcohol share



Source: Deutsche Bank estimates, company reports, ACNielsen

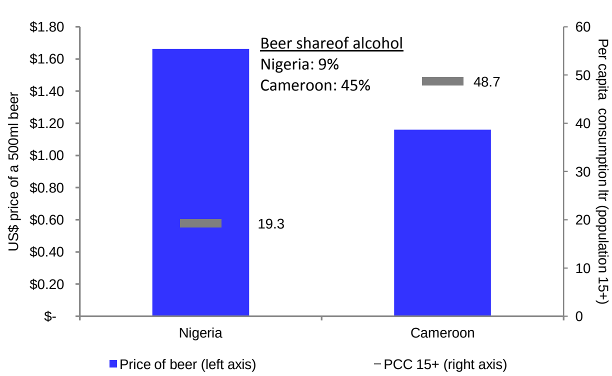
Figure 178: South Africa per capita growth 1961-2001



Source: Deutsche Bank estimates, company reports, AC Nielsen

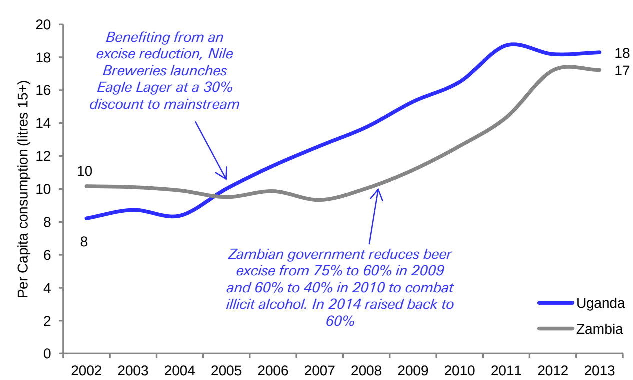
In West Africa, when contrasting Nigeria and Cameroon we see two markets with similar profiles, both also including a large share of Muslims within the population, who presumably limit alcohol consumption. Per capita consumption in Cameroon, however, is 2.5x that in Nigeria. For years, the duopoly of Heineken and Diageo has priced at or above inflation – with prices masked by the inflation environment. In contrast, in Cameroon pricing is more difficult. The CFA currency is pegged to the Europe, with inflation in line with European norms. Sensible pricing by Castel's Brasseries du Cameroun over the last 20 years has resulted in a price point 30% below that in neighboring Nigeria, stimulating growth.

Figure 179: Nigeria and Cameroon pricing and PCC



Source: Deutsche Bank estimates, Plato Logic, company reports, World Bank

Figure 180: Uganda and Zambia per capita consumption



Source: Deutsche Bank, Plato Logic, World Bank

Both Uganda and Zambia have experienced similar price reductions in the last decade, driven by initiatives lowering the excise component of beer. The Brewers tend to report revenue, net of excise. Yet excise is a real cost of beer borne by the consumer, which can be managed as seen in those two markets.

In Uganda, the introduction of Eagle lager by SABMiller's Nile Breweries, a beer primarily made with local sorghum instead of barley, received an excise reduction from 60% to 20%, effectively reducing the consumer price 30%. The reduction in excise has been sustainable as the company developed over 12,000 farmers to supply the brewery and ensured and guaranteed the government a set excise amount. Per capita consumption in Uganda has more than doubled in the last decade as a result. Diageo attempted a similar initiative in Kenya with the Senator brand. However, as Kenya received 0% excise and no direct financial benefit, it was not difficult for the government to reverse its decision, which it did in 2013.

"We aim to halve the price of beer in Africa."
CEO SABMiller Africa
February 2011

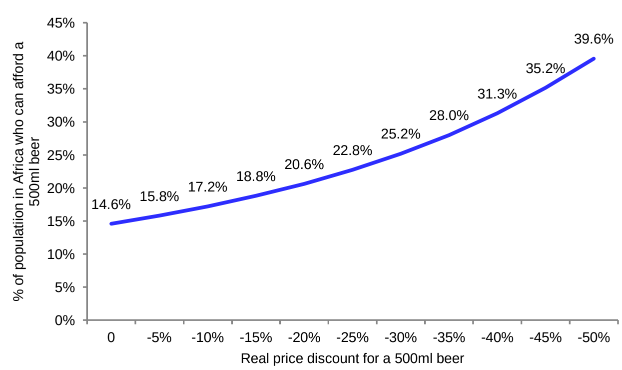
In Zambia, SABMiller's Zambian Breweries argued for an excise reduction from 75% to 60% as a means to combat illicit alcohol. The effective reduction led to a consumer discount of 30%, increasing per capita consumption to 17litres per capita. In 2014, the government partially reversed its decision. We wait to see the long-term impact or whether the company is able to convince the new government post the February elections of its view.

SABMiller has an active program to halve the price of beer, through pricing, transactional packs, new products or with help from the governments, as above. By halving the price of beer, on our estimates, the share of adults in Africa who can afford a beer moves from 15% to 40%.

Pricing below inflation results in more consumers who can afford a beer

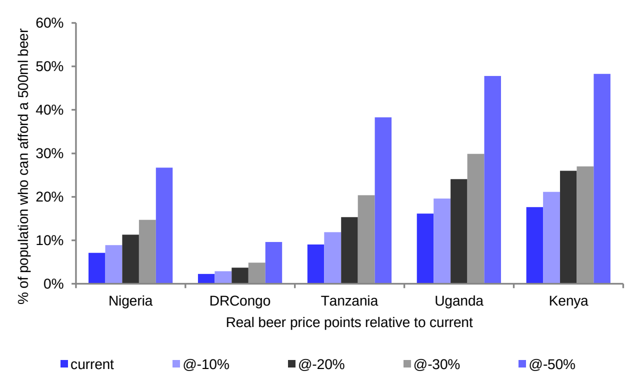
With only 15% of the African population able to afford a decent beer, in Figure 181 and Figure 182 we estimate the impact on price reduction.,

Figure 181: Cheaper beer, more people can afford



Source: Deutsche Bank estimates, PovCal

Figure 182: Consumers entering beer at different price discounts



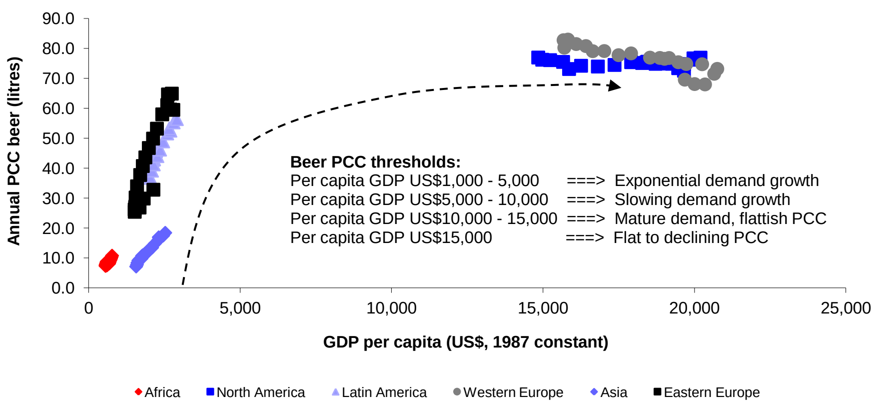
Source: Deutsche Bank estimates, PovCal

Halving the price of beer, as South Africa did over a period of two decades, would enable 40% of African consumers to enter the beer category on a regular basis.

Impact of GDP growth on per capita growth

The long-term correlation between real growth in GDP per capita and beer PCC growth implies four income levels where behavioral patterns in relation to beer typically change. It should be noted that there are regional differences in terms of the correlation, which are attributable to factors such as culture, urbanization, logistics, taxation and level of market development.

Figure 183: Region per capita beer consumption and GDP 1991-2013



Source: Deutsche Bank estimates, Plato Logic, World Bank

Given its emerging status, two income thresholds are of particular relevance to Africa:

- GDP per capita breaking above US$1,000

  From around this income level consumers typically start to adopt formal packaged goods. They also switch rapidly from traditional alcohol beverages, such as sorghum beer, to clear beer (i.e. bottled beer). Beer volume growth typically accelerates to double-digit YoY growth percentages, but these growth rates may be volatile. The bulk of African countries, i.e. we estimate 41, fall into this category.

- GDP per capita breaking above US$5,000

  From around this income level, branding and product differentiation become key drivers for brewer revenue growth relative to consumption (volume) growth. Spirits then also start to take share from beer. Furthermore, PCC is impacted by increased consumer health awareness and unfavorable demographics. The rate of beer PCC growth starts to rapidly slow to levels of around low- to mid-single-digit percent YoY. Although 12 countries from Africa presently fall into this category, they are typically small countries except for South Africa and Congo Brazzaville.

The real (vs. nominal) GDP multiplier to beer PCC for Africa has been 1.7x in the 1991-2013 period. Following from the abovementioned, as economic growth takes off the multiplier reduces, as does the strength of correlation (R-square).

In spirits developed markets volume growth is at best holding up with real GDP growth. In emerging markets spirits volume growth also typically benefits from a multiplier effect on GDP growth. We estimate for Diageo that a 1% change in real GDP growth typically drives 3% volume change in Scotch. This makes Diageo's growth performance in emerging markets slightly more cyclical.

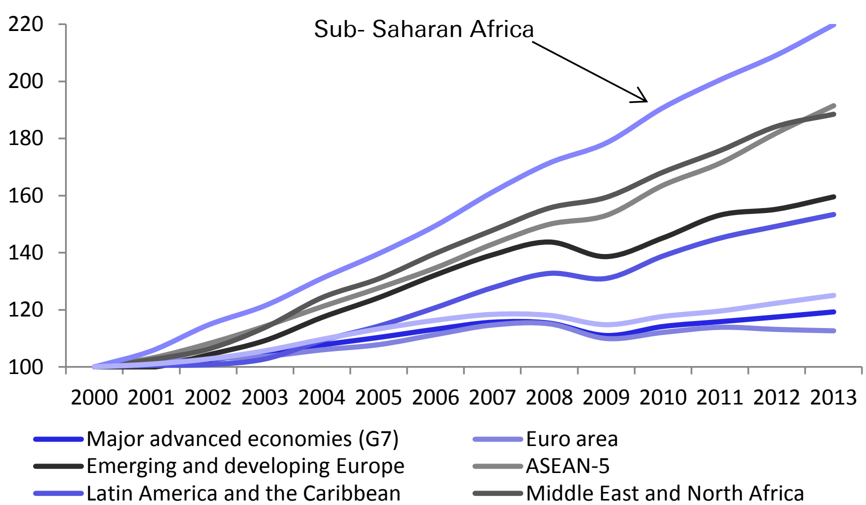
Figure 184: Multiplier effect of GDP and beer volume growth 1991-2013

	Coefficient	R-square
Africa	1.7	0.63
Latin America	1.1	0.31
Eastern Europe	0.8	0.52
Asia	0.4	0.05
Asia ex-China	0.6	0.30
China	2.1	0.54
Western Europe	0.3	0.22
North America	0.3	0.17

Source: Deutsche Bank estimates, Plato Logic, World Bank

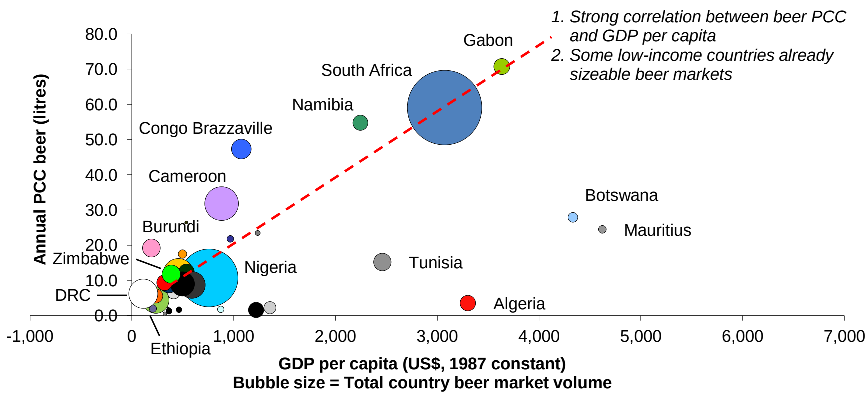
Given that Africa, albeit from a lower base, has been the fastest-growing region in the world, this makes it also the fastest-growing beer region.

Figure 185: Sub-Saharan Africa leading GDP growth since 2000



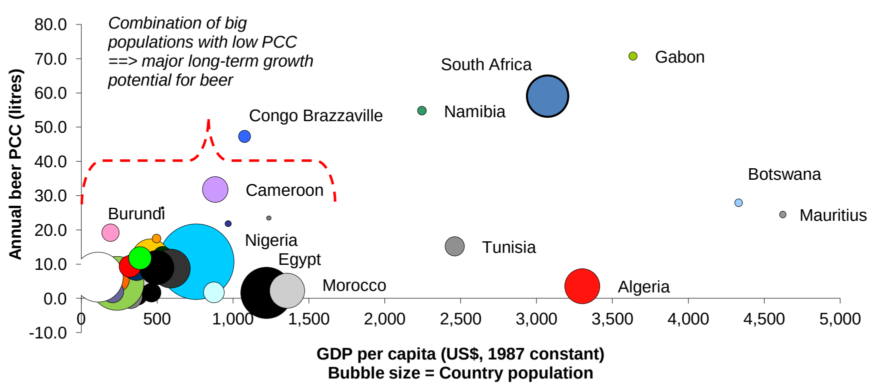
Source: Deutsche Bank, IMF World Economic Outlook 2014

Figure 186: Strong correlation between GDP per capita and beer PCC in Africa



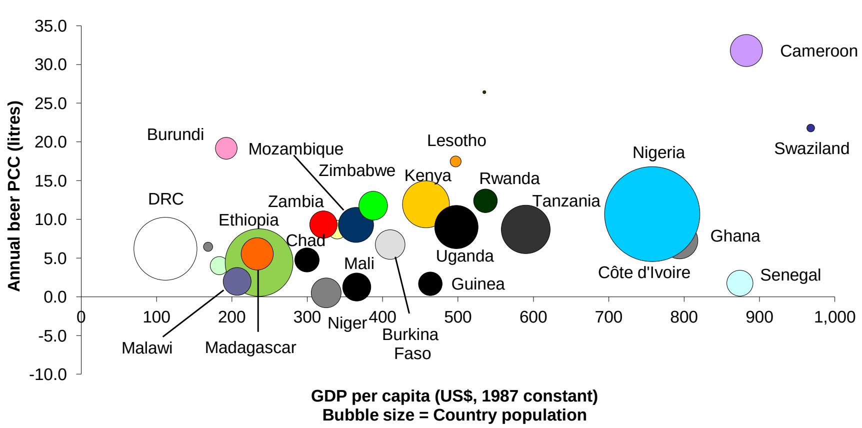
Source: Deutsche Bank estimates, Plato Logic, World Bank

Figure 187: Big population, low income countries offer the best long-term growth potential…



Source: Deutsche Bank estimates, Plato Logic, World Bank

Figure 188: …lower-end scale of above graph expanded



Source: Deutsche Bank estimates, Plato Logic, World Bank

Taking share from the bottom of the pyramid

To the vast majority of the world's consumers, beer is a luxury product and an entry point to commercially branded goods. Unlike most staples, beer serves an already established need provided by alcohol and offers a safer and more hygienic choice vs. illicit alcohol. The barrier for consumers to enter the category is a factor of price and income.

Beer is expensive relative to alternatives

Beer is expensive, especially compared to alternatives in the illicit alcohol area. Those alcohol types that do tend to be commercially priced below beer often do not pay the full complement of taxes or follow regulations to the letter. As indicated in Figure 189, the pricing ladder in alcohol is logarithmic. Unfortunately, for most consumers, their income growth is not.

Figure 189: Tanzania pricing ladder (mainstream beer =100)

Price index to absolute alcohol equivalent		Tanzania example
5000	Premium scotch	Johnny Walker Blue
2000	Standard scotch	Johnny Walker Black
500	Entry level international scotch	Johnny Walker Red
300	Local entry level international spirit	Jameson's
250	Imported international premium	Heineken
160	Locally brewed international premium	Peroni
140	Taxed local spirits	Konyagi
130	Regional premium beer	Castle Lager
120	Local premium beer	Ndovu/Tusker
110	Mainstream beer in premium pack	Kilimanjaro one way
100	**Mainstream beer**	Safari Lager
80	Economy barley beer	Kibo lager
70	Local adjunct clear beer	Eagle Extra
60	Non-tax paid local spirits	IMFL sachets
50	Commercial sorghum beer	Chibuku
30	illicit sorghum beer	Busaa
20	illicit fruit wine	Urwaga
10	illicit distilled alcohol	Chang'aa

Source: Deutsche Bank estimates, company report, market visits

The movement between alcohol categories requires a multiple of one's income. The gap between illicit spirits and mainstream beer has a multiple of two to three times.

A world of non-commercial alcohol

Almost every market has a form of non-commercial alcohol produced locally. Often, these are rooted in local traditions and norms and very much priced below beer.

Local, often illicit alcohol tends to be priced significantly below beer

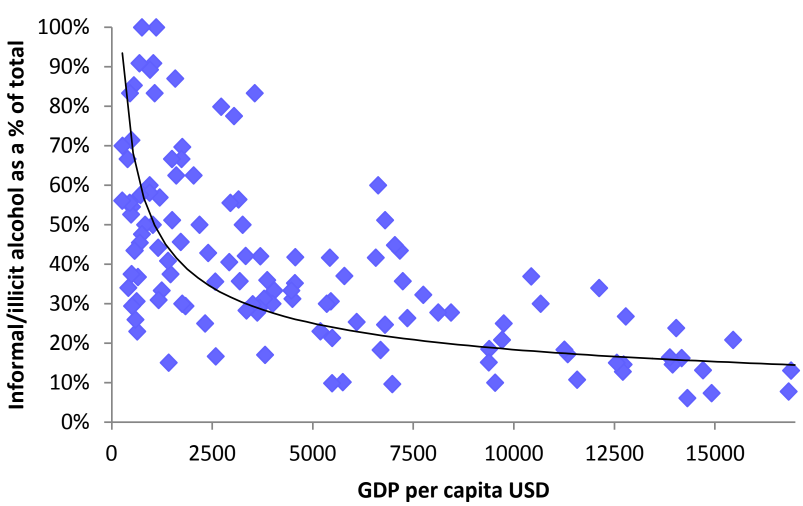
North America has had Rye Whiskey and Gin historically in the Appalachians; Latin America is known for its distilled spirits made from sugarcane such Aquardiente or Cachacha. Russia is known for its Samogon Vodka. Eastern and Southern Europe have their various fruit brandies such as Palinkas; India has palm wine in the form of Arrack and its own form of neutral spirit from molasses collectively known as Indian Made Foreign Liquor; and Africa has a multitude of concoctions from fruit wines to local millet, as seen in Figure 190.

Figure 190: Home-made beer in Africa

Source: Deutsche Bank, personal collection.

The size of the illicit alcohol market is a function of national income. In Figure 191, we reviewed 156 markets and found illicit unrecorded alcohol most prevalent in countries with low GDP per capita. The outliers with high illicit alcohol compared to their relatively high income such as Iraq, Turkmenistan and Botswana tend to have restrictions on commercial alcohol products - perhaps an unintended consequence of public policy.

Figure 191: Unrecorded/illicit alcohol as a function of income

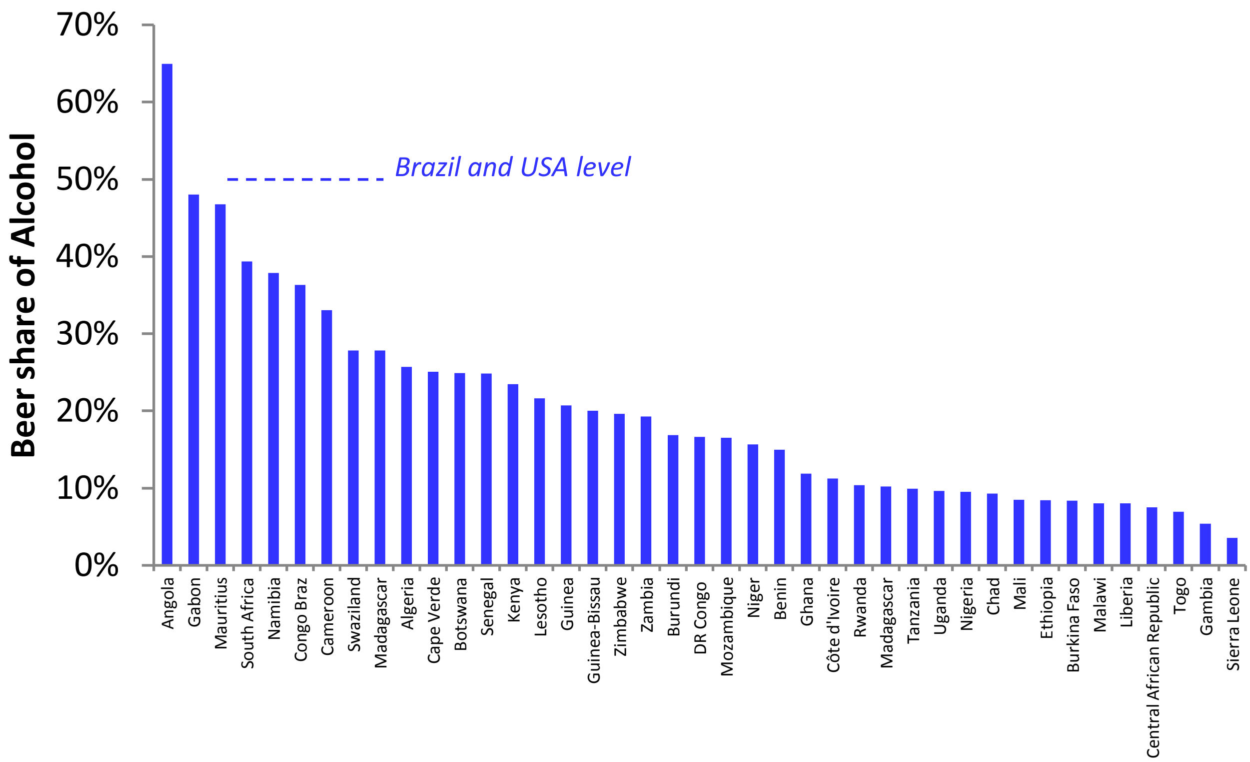


Source: Deutsche Bank estimates, WHO, World Bank

Africa has the largest addressable market for alcohol

The biggest market for illicit and non-commercial alcohol is sub-Saharan Africa. The alcohol drunk in most of these markets is long alcohol drinks with alcohol content similar to lager beer of 3% to 6%. On average, beer is less than 25% of alcohol consumption. The remainder is illicit alcohol priced below beer.

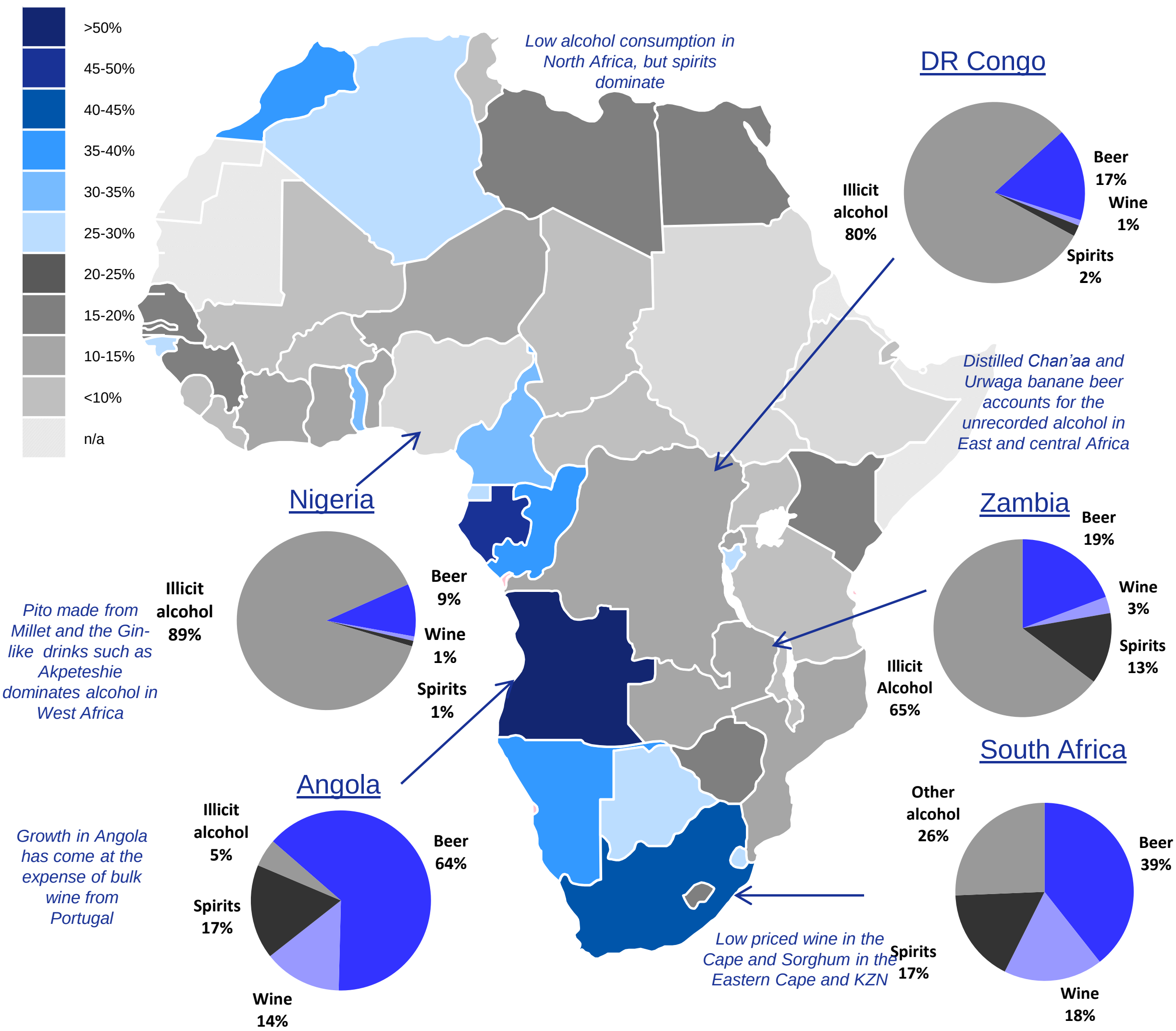
Figure 192: Beer share of alcohol in African markets



Source: Deutsche Bank estimates, WHO, World Bank, Plato Logic

Recent gains for beer can be seen in Angola, where it now accounts for 65% of alcohol. Until recently, Angola was mostly a wine market - concentrated wine was primarily imported from Portugal, diluted to 12% and often mixed with Coca Cola to hide the flavor and make a local concoction named Catemba. In the last decade, the shift to beer has made Angola one of the highest per capita markets in Africa. However, in most markets from Zambia to Nigeria, illicit alcohol is more than 60% of the segment, giving beer a large addressable market.

Figure 193: Beer share of total alcohol in Africa



Share of Absolute Alcohol assuming a beer equivalency of 5% alcohol by volume
Source: Deutsche Bank estimates, WHO, Euromonitor, Plato Logic

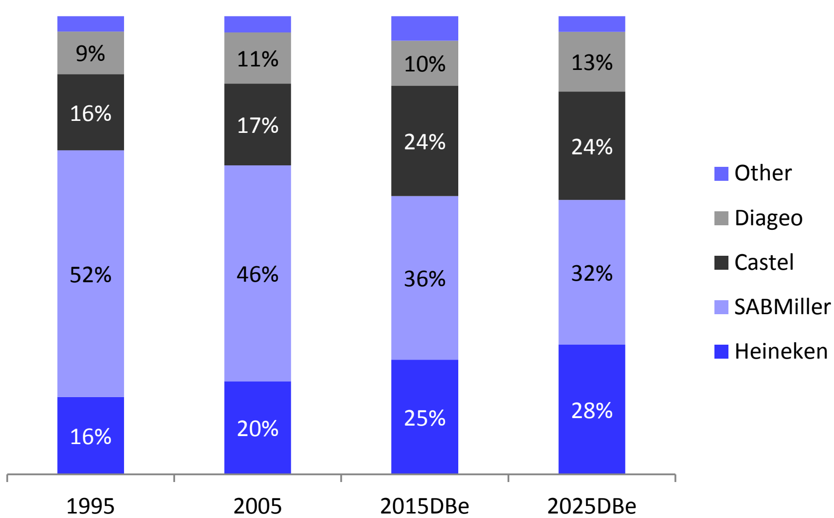
The evolving brewing landscape

Africa brewing is no short-term game. SABMiller was established in South Africa during the Gold Rush in 1895, expanding into southern Africa not long thereafter. The fall of Apartheid saw the company expand further into Africa, and today it holds the dominant share on the continent. Heineken teamed up with Unilever in 1949, entering Nigeria in 1957. Guinness established its first brewery outside Ireland and Great Britain in Lagos, Nigeria, in 1962. Castel started its first brewery in Gabon in 1967. The results are the high barriers to entry emanating from first-mover advantage. Africa offers only a few potential M&A opportunities of material impact. Currently the only real prospective routes of corporate activity in Africa involving the brewers -the Castel family exiting and Diageo exiting the operational aspects of selling beer- would probably involve the two established brewers rather than any new entrants.

SABMiller the biggest, but Heineken catching up

Africa is SABMiller's backyard, and post-Apartheid, the company established a dominant position, particularly in east and southern Africa. Since 2001, Heineken and Castel have both gained significant volume share relative to SABMiller in Africa, inclusive of South Africa.

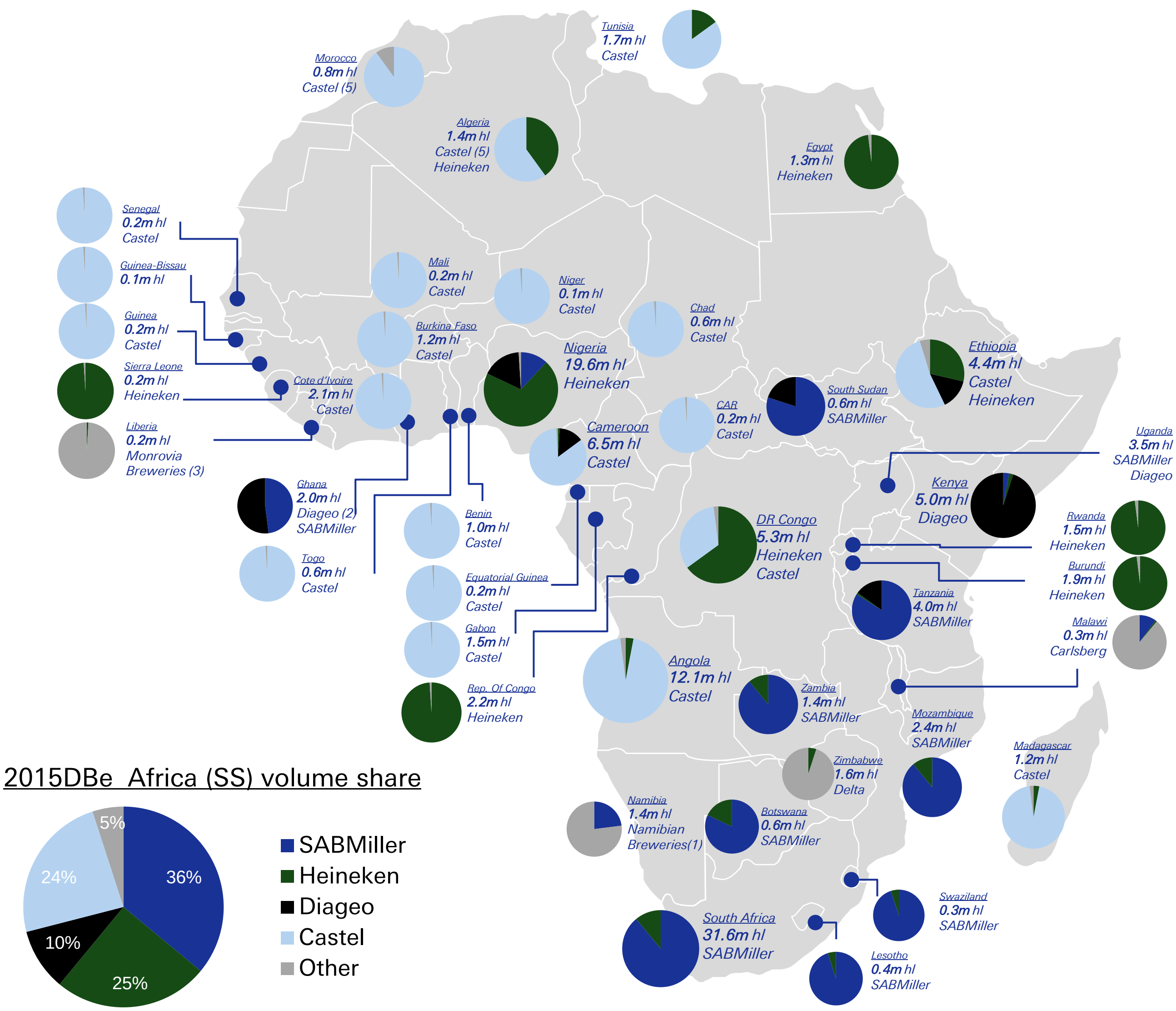
Figure 194: Africa volume market share



Source: Deutsche Bank estimates, Plato Logic, Company reports. Sub Saharan markets only

The changes are partially driven by M&A: Heineken has become more aggressive in outbidding SABMiller for assets, including the Sono group in Nigeria, and the Harar and Bedele breweries in Ethiopia. Castel has benefitted from the consolidation and double-digit growth in Angola; the market has doubled its volume contribution to Africa to account for an estimated 10% of volumes in 2015.

Figure 195: Map of Africa



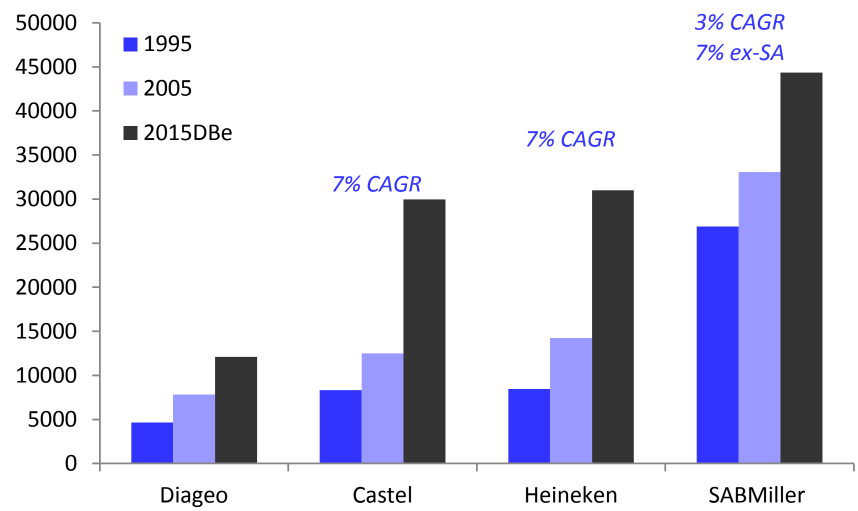
Significant cross holdings

- SABMiller has a share in Castel operations of 20%, with the exception of Algeria and Morroco (40% share) and Angola (27.5%)
- SABMiller has a 40% share of Delta Beverages in ZImbabwe
- Castel has a share of SABMiller Africa of 38&, with the exception of South Africa (none). Nigeieria (49.9%) and South Sudan (20%)
- Heineken in South Africa joint venture and has 42.25% with Diageo (42.5%) and Namibiian breweries (15.5%)
- Diageo has a joint venure in Ghana (50% share) with Heineken (20% share)

Source: Deutsche Bank estimates, company reports, Plato Logic

SABMiller's 3% beer volume growth rate in Africa over the last 20 years is dragged down by South Africa. Excluding this market, SABMiller achieved 7% growth per annum.

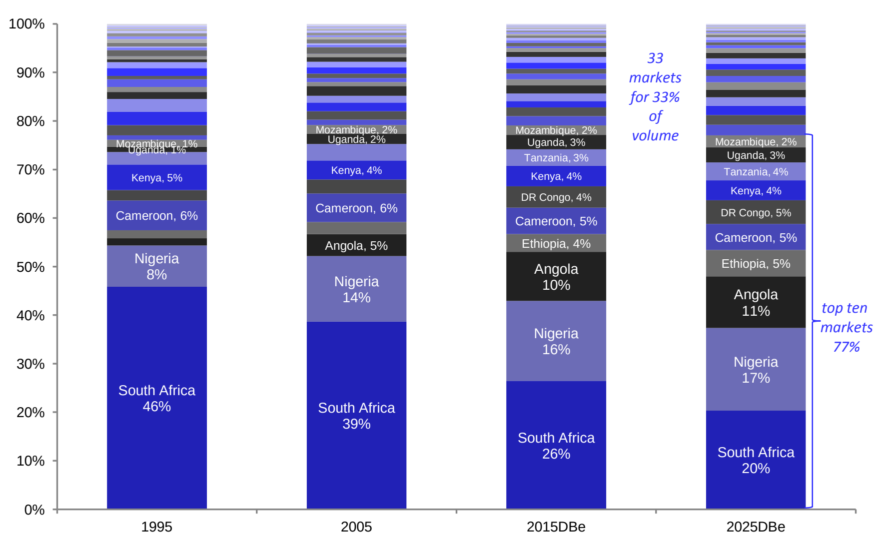
Figure 196: Historical Africa growth rates



Source: Deutsche Bank estimates, Plato Logic, Company reports. Sub Saharan markets only

The relevance of South Africa can be seen in Figure 197: its contribution to African volume has almost halved. We expect Nigeria to catch up and surpass South Africa by 2030.

Figure 197: Volume by market in sub Saharan Africa



Source: Deutsche Bank estimates, company reports, Plato Logic

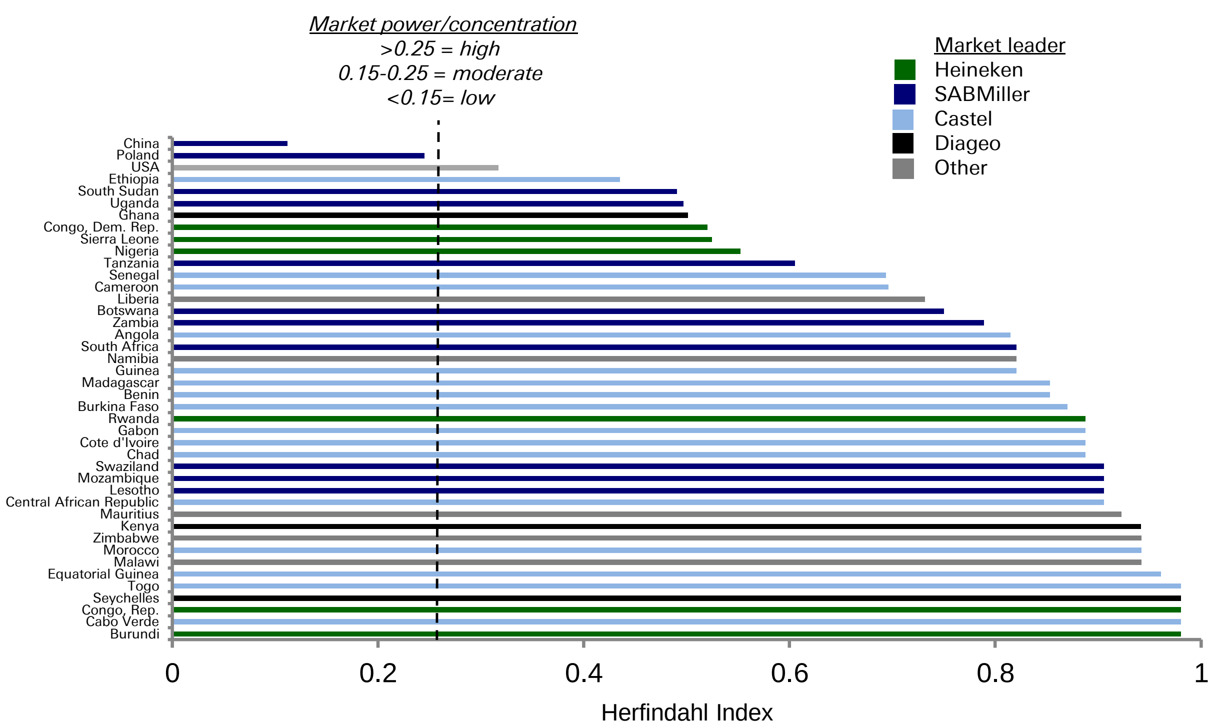
A moat to protect dominant positions

As per Figure 198, the brewers in Africa have strong, quasi-monopolistic positions. When using the Herfindhal index of market power concentration, all of the markets would be considered highly concentrated, entrenching profitability.

For beer, the moat around profitability is deep – and even deeper in Africa. The high capital intensity of brewing and the product intrinsics of beer are difficult for a new entrant to replicate. Additionally, the emotional nature of beer creates stronger brands.

For Africa, these factors hold even truer than in developed markets. Besides the brewing paraphernalia, brewers need to develop the full supporting infrastructure from utilities to route-to-market. Water quality and reliability of power cannot be taken for granted. A new entrant cannot rely on tapping into a protected three-tier system for its distribution, such as in the US. And health concerns, too, play a role: the willingness (and high likelihood) of expatriates to contract malaria limits the talent pool that can be deployed.

Figure 198: Herfindhal index of market power in Africa



Source: Deutsche Bank estimates, Plato Logic

We would also argue that brand loyalty is higher in Africa than elsewhere. With over 50% of personal expenditure on food and beverages (as opposed to 10% in the Netherlands, for example), the choice of beer is an expensive decision. The poverty paradox is the cost of failure. Should the beer brand choice fail in delivering against your expectations, it is unlikely you can afford another one. As result, brand loyalty is high, especially for proven, local brands with a history of delivering quality (in many categories in Africa, the latter is quite rare).

…but don't get too greedy

There have been only three instances where a competitor has successfully entered an African market.

In 2007 in South Africa, Heineken terminated the Amstel license agreement and Heineken brand JV with SABMiller on the back of a court ruling that SABMiller's purchase of Bavaria in Latin America constituted a change of control. SABMiller had built the Amstel brand as the premier premium brand, accounting for 8% market share. However, due to the paltry royalty arrangements, Heineken did not participate equitably in the growth of Amstel. Bringing this strong brand in-house allowed the company to build an immediate presence in South Africa. We see a similar potential situation in other African markets if SABMiller were to purchase Castel (as discussed on page 110

The other two cases of market entry can be attributed to the established players taking excessive pricing.

Following the exchange of crossholdings in 2002 with EABL, Tanzania Breweries (TBL) effectively had 90% market share. Over the next several years, the company reduced marketing, cut fixed-cost investments in sales and marketing, simplified the portfolio, and raised pricing above inflation. This created a pricing and margin umbrella for a competitor to enter. Serengeti Breweries launched in 2004, and quickly gained 20% share as TBL underinvested. We note that Serengeti did not always follow the full corporate governance guidelines, including its reluctance to fully declare the required excise payments.

Its success caused EABL/Diageo to reassess the strategic alliance and crossholding, and purchase Serengeti in 2010. Unwinding some of the corporate governance issues has caused Diageo some headaches, but it nevertheless gained an attractive foothold in the market. The reversal of strategy by TBL, including upweighted investment in sales and marketing, has subsequently accelerated growth in the market.

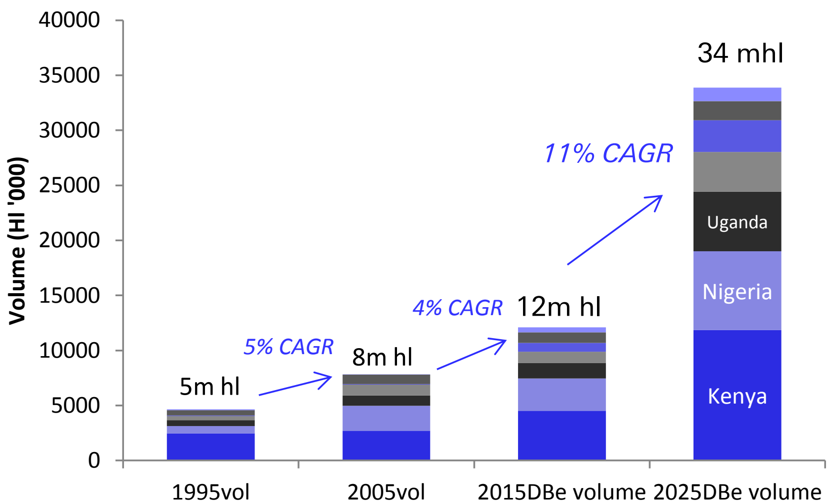
Similarly in Nigeria, Heineken and Diageo's desire to raise pricing above inflation created a margin and pricing umbrella for SABMiller to enter in 2011 with a nominal-value portfolio of brands. Though priced at 20% below the market average in Nigeria, pricing is in line with the African average.

The two markets that we see as most likely to experience similar disruption for the same reasons are Angola and Kenya.

Diageo - beer's secondary role to spirits

On paper, Diageo has some of the best exposure to beer, with Kenya and Nigeria potentially driving 11% annual growth over the next decade. This has also been true over the last two decades. However, unlike its peers, Diageo has not delivered. Despite its potential, we are also wary of Diageo's ability to deliver going forward based on historical evidence. We believe its beer portfolio would likely be in better hands elsewhere.

Figure 199: Diageo Africa beer growth



Source: Deutsche Bank estimates, Plato Logic, World Bank

Beer's secondary role to spirits

Whereas in Latam high-margin Scotch was used to build Diageo's lower-margin spirits business, in Africa the strategy is essentially the other way 'round. Given the early stage of market development, beer is important in Diageo's strategy to develop a spirits market. Beer opens the doors of taverns and pubs, after which Diageo educates the owners on the profit opportunity from spirits. The economic rationale of spirits vs. beer is compelling in Africa as well. One drop (i.e. tot) with mix of a mainstream spirits brands is typically priced at same price point as mainstream beer.

Spirits benefit when sold with beer (i.e. it sells more) but there is no convincing market evidence that more beer will be sold on a spirits platform. The evidence thus far points the other way. The reason is that spirits benefit from the migration of consumers from beer to spirits. Furthermore, in newly emerging markets, spirits benefit from beer effectively funding the development of Route-to-Consumer (RTC), as well as beer opening the doors at taverns selling beer only.

For Diageo profitability in spirits is at least equal to if not higher than that in beer. Because Diageo owns only part of the beer businesses in Nigeria and Kenya, but 100% of the international premium brand spirits businesses that sit on the beer cost base, the situation works in the company's favor. Spirits do win in that scenario. Beer, however, has been the loser, with particular damage to the local shareholders who do not share in the benefit.

Beer suffers structurally under spirit management

Beer and spirits do not work as a combination

Though there is some opportunity to leverage corporate skills and platforms, especially in emerging markets, a combination of beer and spirits on the same platform has proven difficult and tends to have limited benefits. Beer is a low-value, high-volume item that requires deep penetration into the trade. Premium spirits are high-value, low-volume items that require a wide top-end focus. The lack of synergies is apparent through the value chain:

- Procurement needs differ, especially in packaging and quality of grains;
- Production needs and infrastructure differ, particularly in packaging;
- Warehouse management and distribution most visibly demonstrate the difference between high- and low-value items. Efficiencies are impacted by the low-volume throughput.
- Working capital management differs: stock management for beer is counted in days, with best practice focusing on low- to mid-single digits. Brown spirits can stay in situ for months, if not years.
- Sales model is inherently different: spirits are about opening a one-way bottle at a time, versus pushing and moving multiple crates and returnable beer container formats.

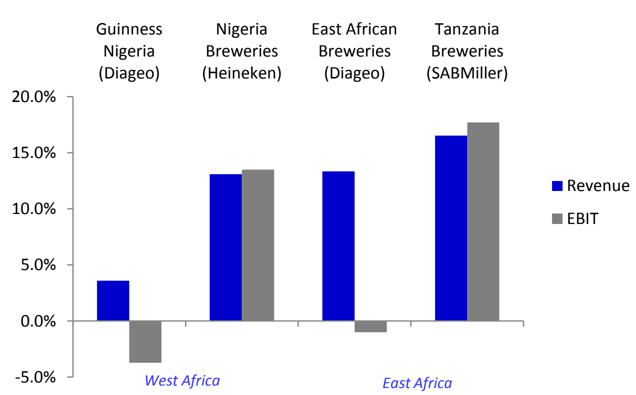
For spirits, the focus is weighted towards effectiveness. Beer is much more geared towards a volume business, which requires speed and depth from production to outlet. The focus is weighted towards efficiency.

A mediocre track record in beer

Diageo's beer businesses in Africa have strongly underperformed

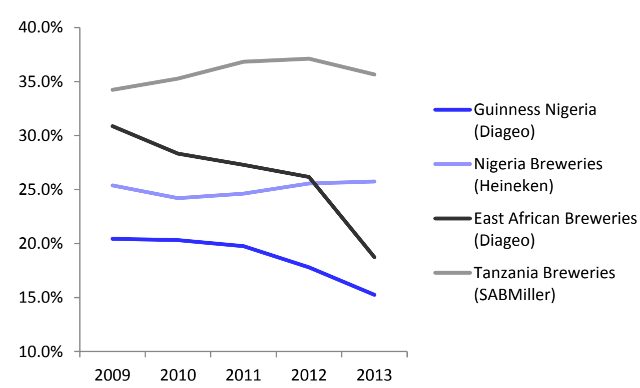
Reviewing the beer operations in Africa in Figure 200 and Figure 201, Diageo has strongly underperformed. In Nigeria, Diageo's 54%-owned Guinness Nigeria has seen negative profit performance in the last five years. Heineken has delivered double-digit growth in the same market. For Diageo, margins have declined 500bps over the period.

Figure 200: 5-year CAGR Africa performance (local)



Companies calendarized to full year 2013. Results in Local currency. Guinness Nigeria and Nigerian Breweries in Nigerian Naira. East African Breweries in Kenyan Shillings. Tanzanian Breweries in Tanzanian Shillings.
Source: Deutsche Bank, Bloomberg Finance LP, Datastream, Company reports.

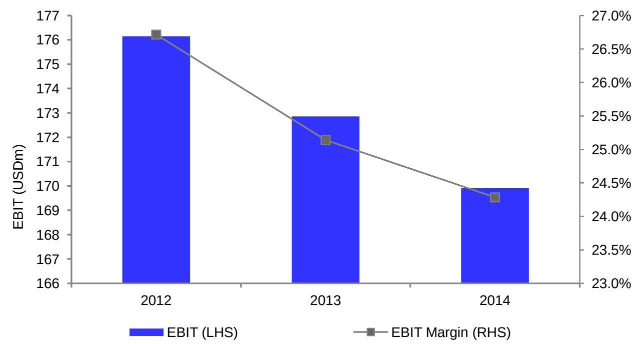
Figure 201: Africa subsidiaries' margin performance



Companies calendarized to full year 2013. Results in Local currency. Guinness Nigeria and Nigerian Breweries in Nigerian Naira. East African Breweries in Kenyan Shillings. Tanzanian Breweries in Tanzanian Shillings.
Source: Deutsche Bank, Bloomberg Finance LP, Datastream, Company reports.

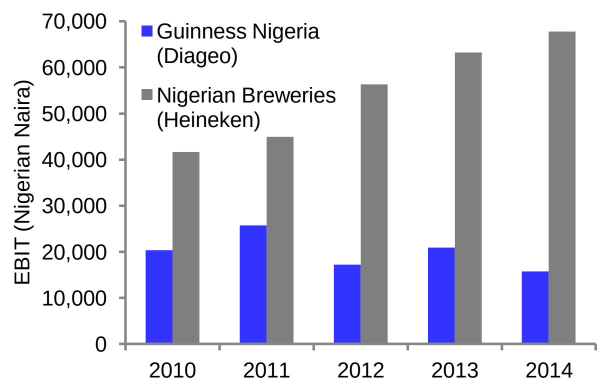
In East Africa, the 50.03%-Diageo owned East African Breweries (EABL) has also delivered a negative EBIT CAGR, while Tanzania Breweries has delivered results in the mid-teens. Guinness Ghana has seen a similar weak performance, with margins in 2013 hitting a paltry 6.6%. The company has also managed to lose almost 25% market share in the past three years. The spirits business is doing well. Beer is not.

Figure 202: EABL performance (East Africa)



Source: Deutsche Bank, company reports. US$ performance

Figure 203: Nigerian relative performance

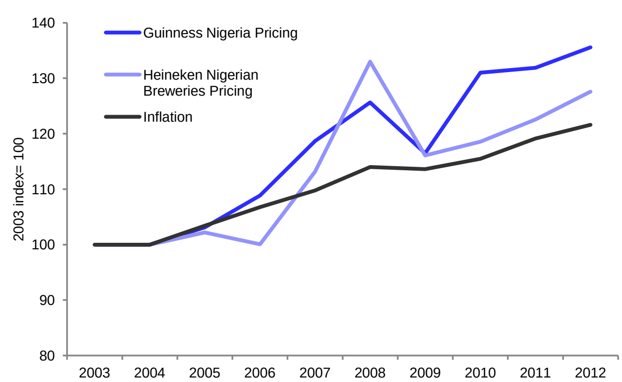


Source: Deutsche Bank, company reports. Local currency.

Brands cannot carry the price in Nigeria

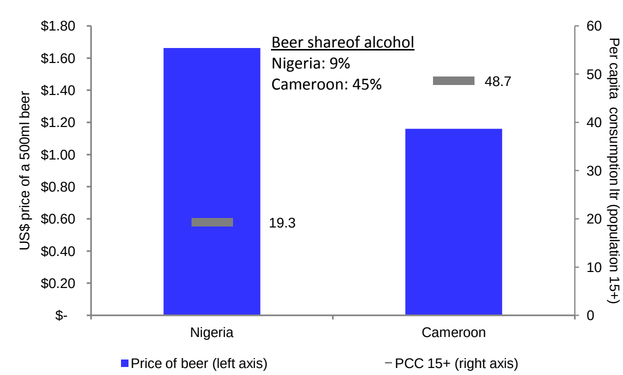
Discussions in the market and taking our personal beer marketing experience into account, we believe that the brand equity of Guinness in Nigeria has weakened relative to other beer in Nigeria and as result can no longer carry the premium over lager. Guinness FES sells its 330ml bottle at a 10% premium to a Star in 600ml. On a liquid basis, this is a 100% premium. For those consumers who look at the alcohol impact when consuming a beer (and many do), Guinness FES delivers 7.5% ABV versus Star at 5% ABV. On that basis, Guinness is sold at a 50% premium.

Figure 204: Nigeria pricing and inflation



Source: Deutsche Bank estimates, Plato Logic, Company reports. Using US$ as base currency

Figure 205: Guinness price premium versus Star



Source: Deutsche Bank, Plato Logic, Company reports

Pricing for the Guinness brand in Nigeria has been above inflation in the few years leading up to 2013, whilst the brand equity has weakened. Over the last 10 years, pricing has exceeded inflation by c. 30%.

Historically, this premium could be justified. Relative to the local lager, Guinness quality was superior. Stouts can hide many sins, including the off flavors that potentially accompany the difficult production environment in Nigeria. Until recently, the quality of lagers varied, with many carry distinct diacetyl off flavors. However, as both Heineken and SABMiller have invested behind new plants and quality control, a decent lager can be found just about anywhere in the market.

Guinness marketing has also lost relevance with its target audience – a common theme for the brand globally. The African Michael Powers campaign in the early 2000's was based on deep local insights and appealed to the masculinity of the core Nigerian consumer. However, female consumers in the last decade have become more relevant, accounting for almost 35% of beer consumption. A pure masculine proposition becomes dated as result. Additionally, with marketing more centralized at Diageo, local insights seem to apply less.

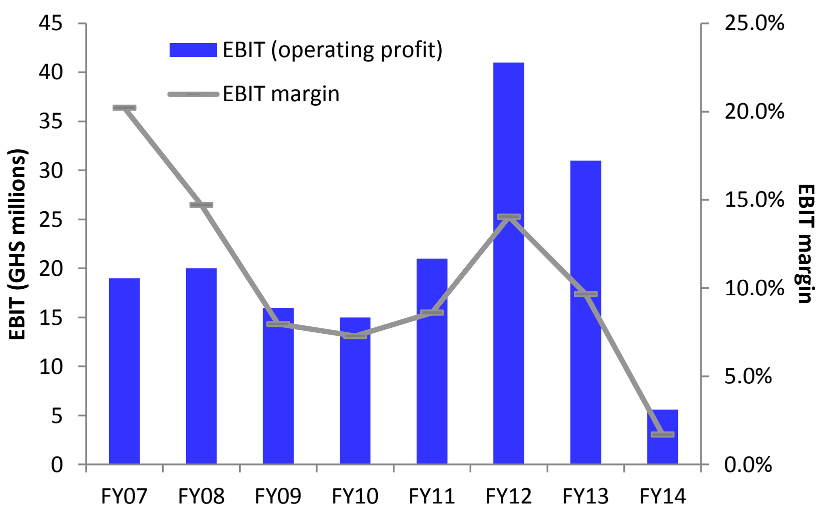
The major problem, however, sits with mainstream brand Harp, that is ~50% of Guinness Nigeria volumes. This started when management increased prices by ~8% in Oct 2013 but with Heineken not following. In a series of poor judgments by management, prices on Harp were then cut, increased (again) and cut (again). The end result was that Harp not only lost major volumes (and share) to Heineken, but management's relationship with distributors was severely damaged. The brewer lost ~300bps market share, as well as ~270bps in operating margin. Brewing capacity utilization is only ~60%, which must be addressed, most likely with the rapidly growing value brand, Dubic, which takes a more realistic approach to pricing.

Ghana joint venture failing

For Africa, Ghana is historically unusual as it is one of the few markets with European-style competition. Like Eastern Europe today, three well-funded players in the form of Diageo, Heineken, and SABMiller are dilutive for profitability in the market.

In 2004, Diageo and Heineken created a joint venture, with Diageo taking control, owning 52.4% of the venture and Heineken owning 20%. Heineken management left, and the venture was put into Diageo's hands. As a result, the company ended up with 72% market share. The venture has not been successful financially.

Figure 206: Guinness Ghana profitability

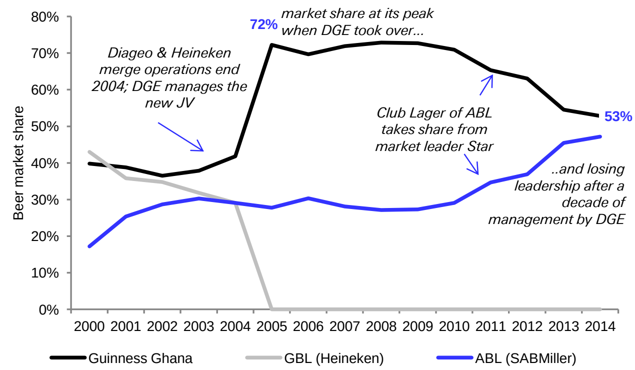


Source: Deutsche Bank, company reports

The financial performance in Ghana has followed the market share trend. EBIT margin peaked on the back of synergies in 2007 at 20%. In the past year, they hit 2%. It appears some one-offs are at play (mostly due to the devaluation of the Ghanaian Cedi increasing input costs), but this margin has hovered around 10%. In real US$ terms, for a business that made US$21m in 2007, seeing no growth cannot be acceptable. We believe that for SABMiller, Ghana is now becoming a significant contributor.

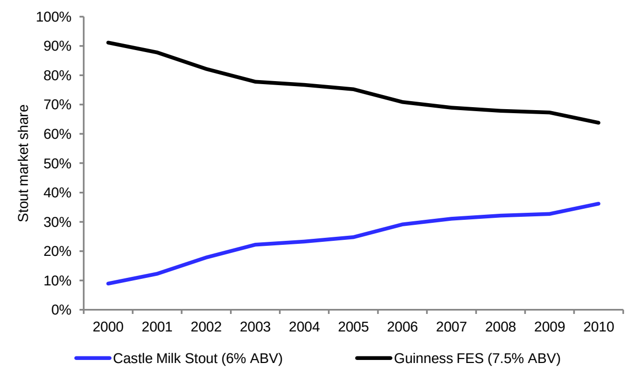
The operational performance is reflected in share trends. SABMiller, from a very weak position at 28% market share, today has almost equalized and caught up, as per Figure 207: Ghana market share trends. This has been on the back of two phases.

Figure 207: Ghana market share trends



Source: Deutsche Bank estimates, Plato Logic

Figure 208: Losing the stout market



Source: Deutsche Bank estimates, Plato Logic

Castle Milk Stout was able to penetrate the stout market, which Guinness used to dominate. Despite being one of the few global markets where stout was growing, the growth was not captured by Diageo. Secondly, Club Lager took the leadership position from Star Lager. We are concerned that Heineken allowed one of its core brands to lapse in the hands of Diageo.

Brandhouse South Africa not likely to exist post 2017

Brandhouse was originally established on 1 July 2004 by Diageo as a three-way cost-sharing JV where the trading profit rests with the brand owner. In March 2008 Diageo extended its Brandhouse JV to incorporate Heineken and Namibia Breweries (in which Heineken has 14.5% interest). The Brandhouse JV is 50% Diageo (spirits): 50% DHN Drinks (beer). DHN Drinks is 42.25% Diageo, 42.25% Heineken and 15.5% Namibia Breweries. It is a profit share JV. To complicate matters, the Sedibeng brewery constructed outside Johannesburg for R3.5bn is owned 75% by Heineken and 25% Diageo.

Figure 209: Brandhouse South Africa structure

Brands

Diageo Heineken NBL	42.25% 42.25% 15.50%	DHN Drinks (Pty) Ltd Distribution profit JV Beer, RTD, cider
Diageo	100%	Diageo SA (Pty) Ltd Distribution profits Spirits

Supply

Diageo Heineken	25% 75%	Supply Company Local production JV Beer, RTD, cider
Diageo	100%	Diageo SA (Pty) Ltd RTD, cider Local production
Heineken	100%	Heineken Amstel, Heineken Production for import
NBL	100%	Namibia Breweries Ltd NBL brands, Heineken Production for import

Distribution

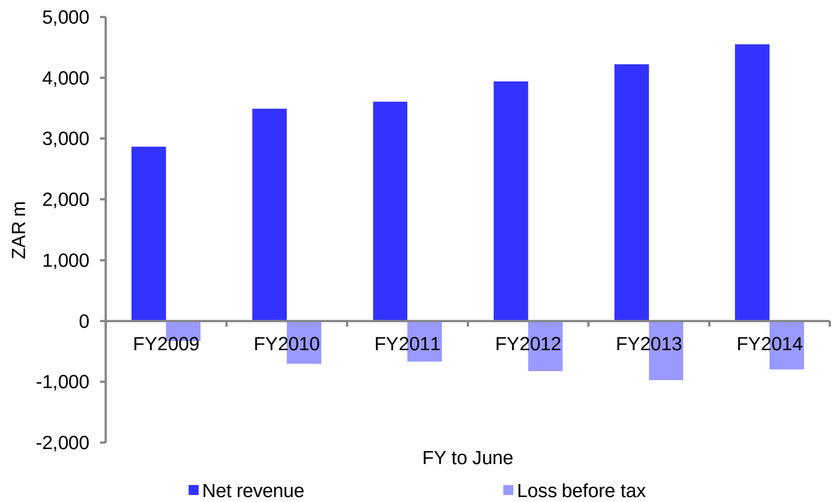
Diageo DHN Drinks	50% 50%	Brandhouse (Pty) Ltd Cost sharing Distribution JV

Source: Deutsche Bank

In South Africa Diageo's strategy is to build higher-margin spirits business on beer. Furthermore, the shared investment in the Sedibeng brewery has allowed for capacity to also be invested more into RTM development.

A key decision point in future will be once critical mass in volumes has been achieved for each of the JV partners. DHN Drinks continues to report financial losses due to limited brewery capacity utilization and market development expenses. In the 12 months to June 2014 DHN Drinks reported a loss before tax of ZAR798m on revenues of ZAR4,552m. On formation of the JV in May 2008 Brandhouse projected economic breakeven in year three (FY2012), which did not materialize. However, as per the shareholding structure, Diageo, Heineken and Namibia Breweries may capture additional revenue and profit pools in South Africa. The JV agreement is up for renewal in 2017, and we see increasing likelihood of this arrangement coming to an end.

Figure 210: DHN Drinks South Africa still unprofitable



Source: Deutsche Bank, company reports

Both Windhoek of Namibian Breweries and Heineken are now >1mhl brands, and Amstel continues to recover. Diageo believes that DHN Drinks can do more with both the Guinness and Heineken brands, but investment required to achieve this will have to be carried by all three partners, not just the two brand owners. This situation may contribute to the JV agreement not renewed in 2017.

The recent launch of Amstel Lite is a major development. While DHN Drinks total beer sales are ~3.2mhl p.a., SAB's Castle Lite alone is at 4mhl (total country sales ~30mhl). This represents a significant volume opportunity. Brandhouse has switched ~80% of Amstel's marketing budget into Amstel Lite.

The Sedibeng brewery design has been scaled for 6mhl ultimately. Installed capacity is ~4mhl. There is thus adequate capacity to grow Amstel Lite. Breakeven for this brewery is ~3mhl, and presently the throughput is 3.5mhl. Therefore, if Amstel Lite takes off, it could have a very positive impact on Sedibeng's profitability.

Diageo believes the economic rationale for tavern owners to start selling more spirits is compelling: The price to consumers for a glass of Smirnoff with Coca Cola is ~R11.50 vs. a beer quart RGB at R12.50. Profit to the tavern owner per bottle of Smirnoff is ~R100 (vs R1.00-1.30 per quart RGB), and per same value spend by customers (1 bottle Smirnoff vs. 20 beer quarts) the tavern owner can make R100 profit from Smirnoff vs. R25 from beer. The conflict with beer partners appears inevitable.

Diageo could exit beer in Africa

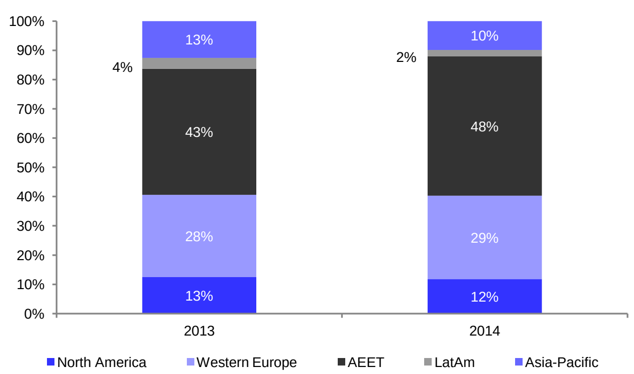
We do not believe Diageo intends to sell Guinness. Besides the emotional heritage (which is vast, though not necessarily respected in the current set up), both the operational model and the financial benefits effectively preclude a sale.

Guinness is unique with in beer, as it separates the wort production from the final product brewed in situ. Like the average home brewing kit and the Coca Cola concentrate model, the 'essence' of Guinness is brewed separately. In the case of Diageo, it is brewed in Ireland and shipped to over 60countries around the globe. Upon arrival, it is diluted 50x with a local lager stream.

The financial advantage of the model is twofold. One, like the KO concentrate model, Diageo can charge whatever the market/local brewer can bear for its concentrate and is not beholden to transfer pricing regulations (which limit a mark-up of 12% on procured goods within companies). In the case of Africa, this obviously puts minority shareholders in listed subsidiaries such as Guinness Nigeria and East African Breweries in Kenya at a distinct disadvantage as they don't benefit at the same rate of Guinness growth as Diageo would. Second, the Irish domicile of concentrate essence production provides a distinct tax advantage in the single digits, by our estimate. The original tax inversion at play.

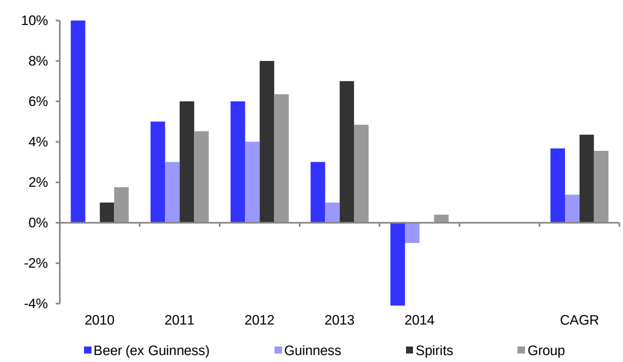
Nevertheless, Diageo's performance in beer has been lacking. In the last five years, beer has underperformed all other categories within Diageo, with Guinness faring even worse.

Figure 211: Diageo beer sales split by region



Source: Deutsche Bank

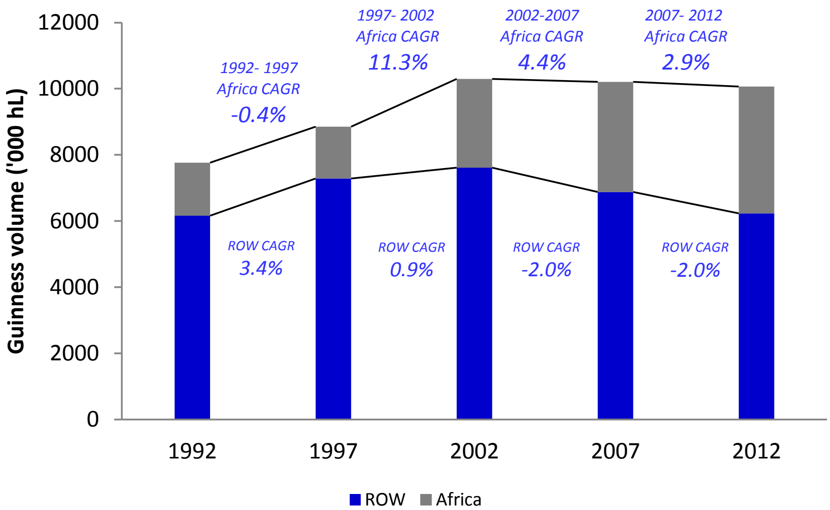
Figure 212: Diageo organic growth by category



Source: Deutsche Bank estimates (beer ex Guinness); Diageo

The Guinness brand has woefully underperformed not just globally, but also in Africa, with a paltry 3% CAGR since 2007.

Figure 213: Guinness brand global growth



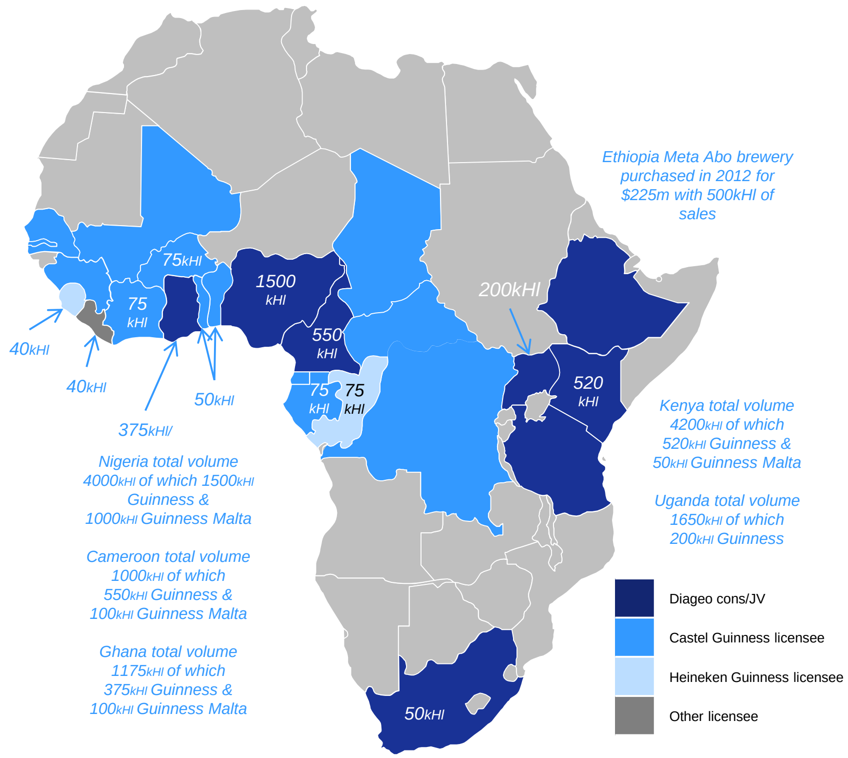
Source: Deutsche Bank estimates, Euromonitor, Plato Logic

The Guinness brand has strongly underperformed globally and in Africa

For the Guinness brand, 13 Diageo subsidiaries account for 75% of its volume, with the UK, Ireland, Nigeria, Ireland, and Cameroon its biggest markets. Fourteen breweries are located in Africa`

Since South African Breweries in 1964 was granted the first license to brew Guinness outside Ireland, there are now 66 active licensees .This group includes 15 instances of Heineken managing the brand and ten by the Castel group, the latter of which all in Africa. While a sale of the brand seems unlikely, we do believe that Diageo would be better served by offloading its production assets while maintaining the very profitable license business.

Figure 214: Diageo Africa beer footprint



Source: Deutsche Bank estimates, company reports, Euromonitor, Plato Logic

US$5.3bn for Diageo's Africa beer business

Excluding the Guinness brand, we value the Africa beer business of Diageo to be worth $5.3bn

We would view the production assets of Diageo as an attractive investment for any of the four brewers, both as a means of consolidating their position and as an entry point into Africa. The Guinness brand itself would likely have a sizeable premium, and we assume Diageo would not part with it. It already has a very profitable licensing model with the extract being supplied inclusive of sizable tax benefits from Ireland

We estimate a potential sum of the parts value in Figure 215. Based on the EV of the listed entities in Nigeria, Ghana, and Kenya, the purchase price of Ambo in Ethiopia and our estimates in Cameroon, we value the consolidated beer operational footprint of Diageo at around US$5.3 billion. Based on historical deals in beer, we assume that any acquirer would pay a 30% premium on enterprise value of the admittedly high local market capitalization.

Figure 215: Sum of the parts valuation of the Diageo Africa beer assets.

		local currency (million)	US$ (million)	
East African Breweries (Kenya, Uganda, Tanzania)				*KSH/US$ 0.0116*
Revenue		60,287	$699	*2013 calendarized*
EBIT		15,268	$177	
D&A		3,126	$36	
EBITDA		18,245	$212	
MV		242,768	$2,816	
EV		245,894	$2,852	
Diageo share of operations	54.3%	133,520	$1,549	
Valuation at premium of	30%	173,576	$2,013	
Guinness Nigeria				*N/US$ 0.0062792*
Revenue		109,532	$688	*2013 calendarized*
EBIT		17,497	$110	
D&A		30,839	$194	
EBITDA		27,695	$174	
MV		301,178	$1,891	
EV		328,873	$2,085	
Diageo share of operations	54.0%	177,690	$1,126	
Valuation at premium of	30%	230,997	$1,464	
Guinness Ghana				*GHc/US$ 0.4863*
Revenue		319.8	$156	*FY to June 2013*
EBIT		25.2	$12	
D&A		31.7	$15	
EBITDA		56.9	$28	
MV		1,003.9	$488	
EV		1,060.8	$516	
Diageo share of operations	52.42%	556.1	$270	
Valuation at premium of	30%	722.9	$352	
Ambo Ethiopia				*US$*
Purchase price 2012			$225	*Purchase price*
Diageo share of operations	100%		$225	
Value at premium of	50%		$338	
Guinness Cameroon				*US$*
Beer volume lager (hL)		950,000		*Estimate*
Revenue (est) @ $175/hl (=Nigeria)			$166	
EBITDA @25% margin (=Nigeria)		25%	$42	
Share	100%		$42	
Valuation at EBITDAx of	18		$748	
Total EV Diageo beer assets				**$5,252**

Source: Deutsche Bank estimates, company reports, Market values as of July 10, 2014.

Valuation and risks for Diageo

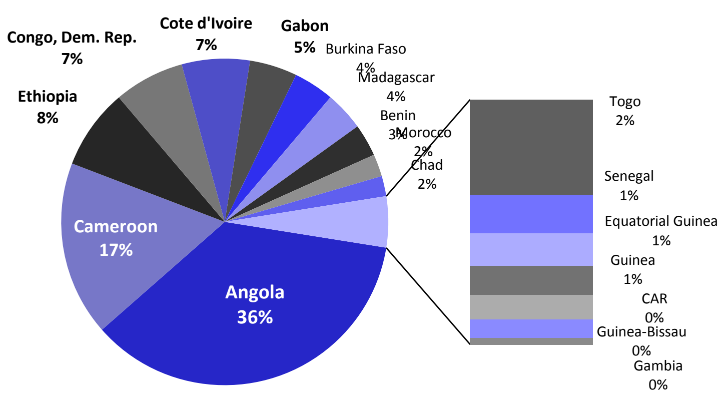
We value Diageo via a DCF using a WACC of 7.4%, years 6-10 cash flow growth of 4.7% and perpetuity of +1.5% as with other spirits companies. Risks include global growth, competitor activity and M&A.

Castel - acting like owners, because they are

The Castel Group was established in 1949 in Bordeaux, France, by nine brothers and sisters. Under the leadership of Pierre Castel, now 87, it has become France's largest wine producer and fourth-largest globally. Its beer and soft drinks business started in 1967 when it purchased a brewery in Gabon. In 1990 it purchased Societe des Brasseries et Glacieres Internationales (BGI), which entrenched Castel's leading position in the Francophone African beer and soft drinks market.

Castel's beer business model was developed in Africa, literally from the ground up, evolving over the last 40 years into one very well suited for this market. It operates a fairly decentralized beer business model, with country operations characterized by fairly autonomous management and strong local partners. Aiming for synergies, it operates integrated beer and water production/packaging facilities, with distribution outsourced to independent entities. Its breweries and bottling plants are very cost-efficient operations with a strong cash flow objective. In some African countries Castel is vertically integrated, also owning and operating sugar and flour businesses, for example.

Figure 216: Castel 2015DBe volume split



Source: Deutsche Bank estimates, Plato Logic, company reports

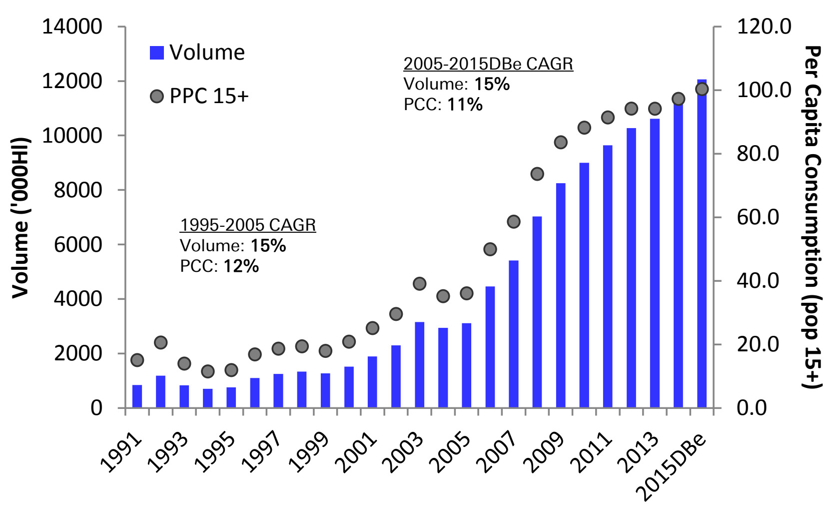
On 1 April 2001, SABMiller and the Castel Group established a pan-African beverage alliance, excluding South Africa. Based on a nil premium share exchange on the relative profit base, SABMiller acquired a 20% stake in the Beer Division of Castel, which in turn acquired a 38% stake in SABMiller's African operations. This strategic alliance effectively combined the largest brewer in English-speaking Africa (SABMiller) with the largest brewer in Francophone Africa (Castel), with mostly complementary market positions across Africa.

A decade later in January 2012, the alliance was adjusted with cognizance of the outperformance of Castel over SABMiller's Africa operations as realigning some M&A that had occurred over the years. The companies started competing in Angola, which diluted profits, and Castel ended up with a brewery in Ilesha, Nigeria as a result of its purchase of the Warsteiner interests in Africa. With the reorganization SABMiller took management control in Nigeria (including Castel's 0.6mhl brewery in Ilesha) with a 50% profit split, while Castel took management control of the combined Angolan beer and soft drink operations with profit share of an estimated 27.5%.

Angola driving historically strong growth

Angola is Castel's core African market, and over the last decade it has also been one of Africa's fastest growth beer markets. The country's 13% CAGR in beer volume growth from 2003 to 2013 contributed materially to Castel's higher growth rate than that for SABMiller Africa during this period. The reorganization allowed Castel to drive significant synergies (Angola's expatriate costs are deemed to be some of the highest in the world). Despite pricing below inflation, operating leverage from the large volume growth has driven some of the strongest margins in Africa.

Figure 217: Angola beer market performance



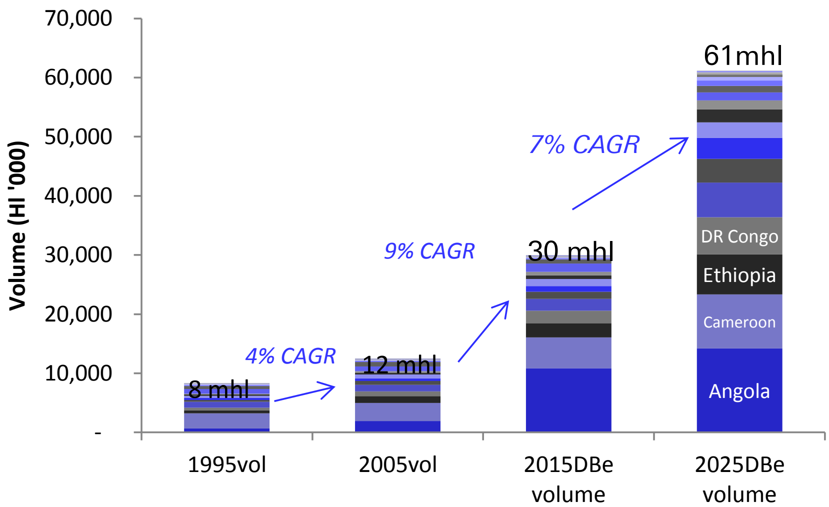
Source: Deutsche Bank estimates, Plato Logic, World Bank

Recently, Angola is seeing increased competition in its core market. Unicer -an associate of Carlsberg- presently exports ~2mhl from Portugal. It has had plans to establish a brewery for the last 20 years. Heineken has recently signed a JV deal with Isabel dos Santos (wealthiest woman in Africa, daughter of the Angolan President), with the brewer taking 40% equity in the production company and 60% in the distribution company. This is a bigger threat for Castel as it is more likely to happen in the near future.

Strong potential, with an ability to execute

Castel has a favorable profile for beer growth, and we expect a 7% CAGR in the next decade. The core growth drivers are Ethiopia, where it is the leading brewer, as well as the Democratic Republic of Congo. The recent acquisition in Madagascar of Three Horses Brewery should also be a strong financial opportunity and ripe for adopting the best operating practices that Castel brings to its operations.

Figure 218: Castel Africa beer growth south of the Sahara



Source: Deutsche Bank estimates, Plato Logic, World Bank

Castel, perhaps one day, just not the way you think

For the sake of completeness, in Figure 219 based on the lower end of recent transactions in brewing, we value the Castel Africa beer and soft drinks business at $30 billion on a 12x FY16E multiple should any party buy the business outright. With SABMiller holding a 20% stake, along with various rights to purchase at an agreed formula, much ink has been spilled on the potential timelines (often linked to the specter of the Castel chairman retiring, as the SABMiller CFO recently said) and structures of a deal. Questions have also been asked about what happens to the rights to purchase Castel should SABMiller itself be an acquisition target. The company has given varying responses to that question. Moreover, we believe it is not the relevant question. We see three considerations as being more relevant:

"It is unlikely a deal will happen under Pierre Castel, but it is possibly more doable with the next generation. It is more a question of 'when' than an 'if'."

CFO SABMiller
June 2014.

1. Its strategic alliance with SABMiller benefits Castel more than SABMiller

Families tend to exit the beer business when they are under competitive threat (e.g. Bavaria in Latin America), there is lack of control (e.g. Anheuser Busch) or there is generational discord. Heineken's independence can be partially attributed to the fact that none of those factors apply. The same is true for Castel.

The core focus for the Castel family (which extends quite widely in the business beyond the chairman) has been to protect its profit pools in Africa. Their businesses enjoy unrivaled leadership positions. When there is a threat, the companies have been co-opted (Castel has brand license agreements with the four main brewers), or in the case of SABMiller, alliances have been agreed. From Castel's perspective, it seems the purpose of the original alliance agreement with SABMiller was to prevent the company from entering Francophone Africa. The alliance was based on competitive threats as SABMiller had purchased a piece of land in Cote d'Ivoire directly across the street from the Castel brewery. An agreement was soon reached to prevent any further encroachment.

2. It is fiercely independent

The renewal of the strategic alliance with SABMiller in 2012 quadrupled the profit pool in Angola for Castel and gave SABMiller an encouraging hand in Nigeria. It also strengthened the pre-emption rights for SABMiller as well as recognizing the outperformance of Castel over SABMiller Africa in the previous decade. However, we don't necessarily see the urgency of an all-or-nothing deal with the "next generation".

Rather, Castel is seeking to strengthen its independence, which was recently apparent in the Coca Cola Beverages Africa joint venture formation. We believe SABMiller would have been keen (and likely still is) for Castel to fold its Coca Cola operations into the new joint venture. However, with the involvement of three parties already (SABMiller, the Gutsche family, and Coca Cola), Castel may be one party too many. Key for SABMiller, in our opinion, would be to prove to Castel that the CCBA venture is workable and profitable.

We believe it would be difficult to convince Castel to join as it would probably have to sell its own B- brands, which form a significant part of the portfolio, symbolize its independence and strengthen its position when negotiating agreements with Coca Cola. It can be argued that with the exception of the Cola franchise, markets in Africa favor local brands in soft drinks. Outside the Coca Cola framework it also recently acquired a significant stake in Sumol + Compal, a leader in Portuguese non-alcoholic beverages with a large presence in Africa, especially Angola. Whereas SABMiller was willing to give up its own soft drinks, such as Appletizer and Club minerals, to play in the Coca Cola sandbox, we see Castel as unlikely to do so.

Castel is also more dependent on soft drinks than is SABMiller due to some of its exposure in North Africa. Given the evolution of religious fundamentalism in some of their markets, depending only on beer would be a strategic mistake. Castel is looking for smart business moves that reinforce its independence, not for somebody to retire.

3. SABMiller is the natural choice and has strong rights, but others can disrupt the party

Heineken has a relationship with Castel that predates SABMiller, on both business and personal levels. It currently also owns 9% of Castel's Brasseries du Cameroon (SABC) and licenses its brands to the company. We estimate that 20% of the current portfolio at SABC consists of Heineken brands including Amstel, Mutzig and the Heineken brand. Similar to the situation in South Africa in 2007 with the Amstel brand, should SABMiller buy Castel, Heineken could exercise its change of control clauses and immediately gain strong positions in key African markets. The relationship has become more aggressive recently with Heineken's entry into Castel territories such as Algeria and Ethiopia.

Similarly, ABInBev has been interested in finding a way to enter Africa and has renewed its licensed agreements on Becks and Stella Artois in Algeria. And the pragmatism of Castel is very closely aligned to the Brazilian culture. Though we don't believe that Africa is necessarily waiting for Budweiser, it would not surprise us that as part of their asset-light strategy, further agreements with ABInBev are possible.

In both cases, the companies could leverage their relationship and raise the possibility of buying Castel, or (perhaps inadvertently) raise the purchase price. Though SABMiller has pre-emption rights as well as last right of refusal, a bona fide party could enter the fray to top the offer, or for that matter, provide a structure that SABMiller cannot match. In 2010, Heineken trumped SABMiller on the FEMSA deal by involving its holding structure and board seats. Heineken might want to create a similar structure once again to do a deal with Castel if the opportunity presents itself – one SAB could find hard to match.

We would assume the Castel family is not necessarily looking for money, but rather seeking to secure a legacy for future generations. SABMiller seems the natural candidate to do so. However, having a significant stake in a professionally managed family company such as Heineken, or a culturally similar company like ABInBev, might be as appealing as continuing the strong relationship with SABMiller. It keeps everybody on their toes.

Figure 219: Castel summary valuation

Castel EBITDA (US$m)	FY14	FY15DBe	FY16DBe
SABMiller EBITA Africa associates	398	414	455
Depreciation	107	106	110
EBITDA	505	520	565
-Delta Corporation EBITDA (40%)	-66	-69	-76
SABMiller 20%	439	451	490
Castel 100% EBITDA*	**2,194**	**2,255**	**2,449**
Valuation at EBITDA multiple (US$m)		FY15DBe	FY16DBe
12x		27,058	29,388
14x		31,567	34,287
16x		36,077	39,185

Source: Deutsche Bank estimates

The KO opportunity

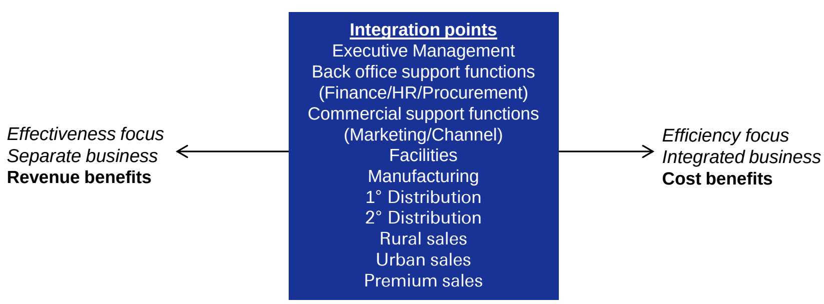
Leveraging ancillary beverages adds scale to the highly capital- and expatriate-management-intensive brewing operations, particularly in the smaller markets that make up Africa. Similar to the high-volume, low-value nature of beer, soft drinks are an attractive addition to the brewers - combining them creates favorable margin synergies. Recent activity has seen the formation of Coca Cola Beverages Africa, the mega bottler led by SABMiller that will most likely further consolidate the African Coca Cola market.

Beer & Coke works

How much synergy will be driven between beer and soft drinks?

The combination of beer and soft drinks brings benefits and enables additional value through integration. With a common platform of low-value, high-volume products, both categories benefit on the cost component and mostly benefit through efficiency and leverage measures.

Figure 220: Beer/soft drinks integration points



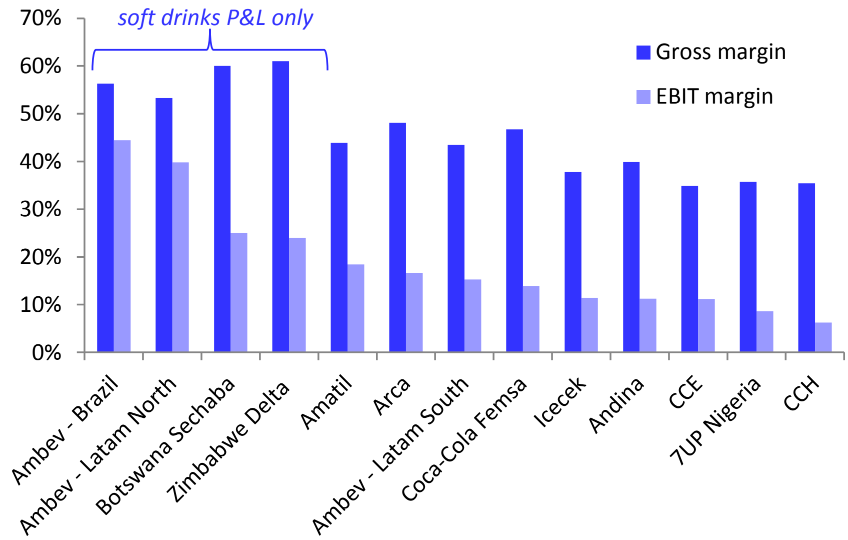
Source: Deutsche Bank

The debate focuses on the effectiveness, rather than the efficiency, of the combination. Franchise owners like The Coca Cola Company (TCCC) are particularly concerned that the lack of focus will damage the soft drinks portfolio in the same way that the focus on spirits damages beer.

A proven model in emerging market businesses

Combining beer and soft drinks has been common in emerging markets, especially in smaller markets where the infrastructure leverage is most tangible.

Figure 221: Soft drink P&L only EBITA and gross margins



Source: Deutsche Bank estimates, company reports

Combining beer and soft drinks in emerging markets has significantly enhanced margins

As seen in Figure 221, operations that have combined have a record of better margin delivery. In the soft drinks P&L, Ambev's operations in Latin America with Pepsico and its own soft drinks deliver EBIT margins around 40%.

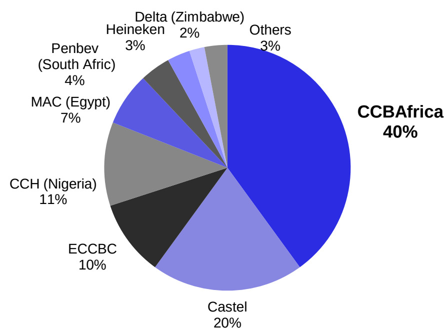
In Africa, SABMiller's listed subsidiaries in Africa report margins in the 20% range (despite Coca Cola taking broader share of the profit pool than PepsiCo would). In contrast, before delisting in 2011, Coca Cola Hellenic's EBIT margins in Nigeria peaked at 6%. Similarly, but not burdened by the concentrate pricing dynamics, the listed 7-UP bottling company in 2013 reported margins of 8.6%.

The KO African landscape

A billion-dollar profit pool and growing…

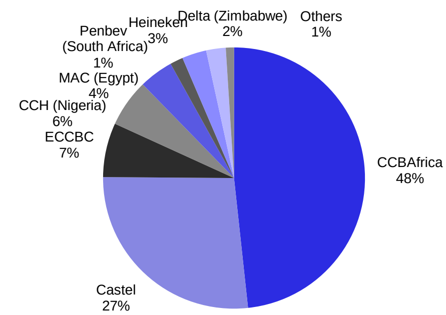
The size of the TCCC bottler market in Africa closely resembles that of beer and exceeds just over 100 million hl according to our estimates, company reports and Euromonitor.

Figure 222: Africa TCCC bottler volume share



Source: Deutsche Bank estimates, company reports, Euromonitor

Figure 223: Estimated bottler profit split



Source: Deutsche Bank estimates, company reports, Euromonitor

With average revenue of €70/hl and EBITA margins ranging from 6% to 10%, we estimate the profit pool for the bottlers now exceeds $1 billion.

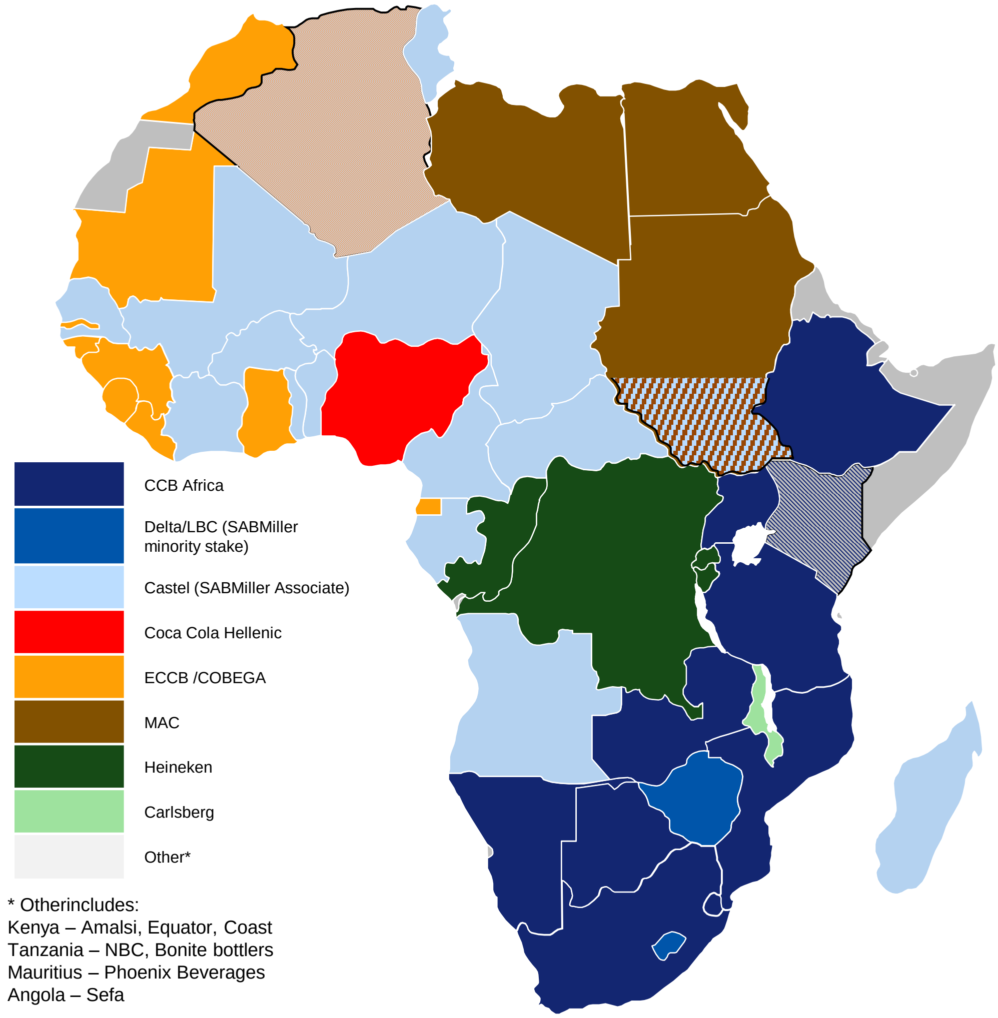
…but so is the competition…

A notable development in the Africa soft drinks market, and by implication for the established TCCC bottlers, has been the significant increase in competition. Up to six years ago competition in most African soft drink markets was weak on both product quality and branding. Low price was their only competitive edge. Today these b-brands are offering good-quality product and benefitting from product innovation and better marketing. Low barriers to entry remain, as are the low prices of b-brands.

We estimate that setting up a PET soft drink plant costs less than US$5m including a PET facility. This inexpensive packaging is highly disruptive to established markets that are traditionally based on returnable glass bottles. These new entrants are mainly from the Middle East. New regional bottlers of b-brands include Harris International and Sai beverages in Uganda, Bahresa group in Tanzania and Crystal Beverages in Rwanda. Harris International also exports its soft drinks to South Sudan and Rwanda.

Then there is Pepsi. PepsiCo bottler Moha Soft Drinks SC already produces more than half the market volumes in Ethiopia, a key growth market for both soft drinks and beer. In Zambia PepsiCo brands have been developing very aggressively, with its branding occupying disproportionate share of public space. This has seen the brand acquiring market share of above 30%, in part at the expense of SABMiller, and what for it is the biggest African TCCC soft drink market. In contrast to South Africa, PepsiCo is growing share very rapidly in sub-Saharan Africa. This level of competition for TCCC bottlers is on branding, not price.

Figure 224: Africa TCCC bottlers



Source: Deutsche Bank, company reports and interviews

…and high bottler margins are under pressure

This competition has recently started to affect the margins of TCCC bottlers. Given the impact of price competition from b-brands, TCCC bottlers can only price in line with CPI at best. This has seen pricing on the second-liners Fanta and Sparletta in many African markets being cut, but to limited market-share effect. The Coca-Cola brand continues to earn a premium price point on its consistent product quality proposition. Nevertheless, the price mix for TCCC bottlers in Africa is under pressure.

Another challenge for TCCC bottlers is input-cost inflation. We estimate that concentrate pricing is ~32% of COGS and increasing at around the USA CPI per annum. However, the total US$ exposure in COGS of TCCC bottlers is ~70% given the impact of US$-priced commodities (sugar etc.) and packaging (aluminum cans etc.). Following recent depreciation of local currencies against a resurgent US$, the TCCC bottlers now face major input cost inflation, and at a time when price mix is weak.

Beer/Soft drink bottlers in Africa

In the face of increased pressure, the best means to protect bottler margins is to drive scale in the operations. Combining operations with beer allows that. Despite the historical reticence of Coca Cola to allow combined operations, today in Africa the majority of markets have or will have combined operations.

Figure 225: Combined brewer bottler in Africa

Source: Deutsche Bank estimates, company reports

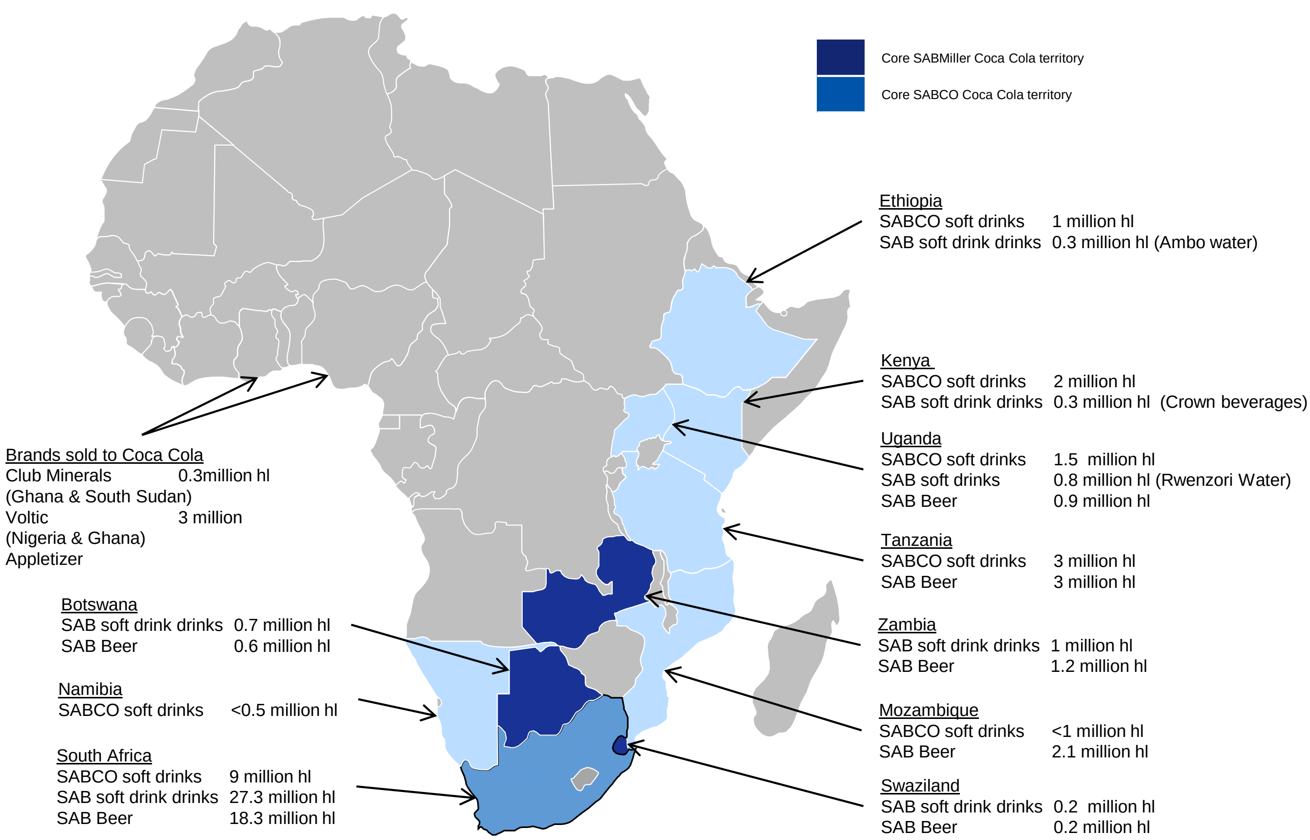
The Coca Cola Beverages Africa deal

In December, SABMiller announced plans to merge its existing Coke bottling businesses with those of SABCO, to create a south/eastern African business operating across 12 countries. This makes SABMiller the 10th-largest TCCC bottler worldwide and doubles down on Africa, which we view as the driver of growth over the next decade in both beer and soft drinks. We think this deal is more likely to mark the first step in a bigger phase of deals between beer and soft drinks businesses, where we see considerable opportunities.

12 African markets to create Coca Cola Beverage Africa

Creating a separate business unit, the transaction combines African soft drink operations of SABMiller, SABCO and The Coca Cola Company (TCCC). The respective shareholdings are based on respective profit contribution but with a small control premium paid to Gutsche Family Investments (GFI) which owns SABCO.

Figure 226: Coca Cola Beverages Africa new footprint



Source: Deutsche Bank estimates, company reports, Plato Logic, Europmonitor

- SABMiller's soft drink operations, including the Coca Cola bottlers South Africa (ABI), Zambia, Botswana, Swaziland and the Indian Ocean Islands. Additionally, the non-Coca Cola businesses in Uganda, Kenya, Ethiopia, Appletiser will be included. SABMiller will own 57% of the business.
- The African interests in the family bottler SABCO in South Africa, Namibia, Mozambique, Tanzania, Kenya, Ethiopia, and Uganda. The family holding company behind SABCO, Gutsche Family Investments, will hold 32%.

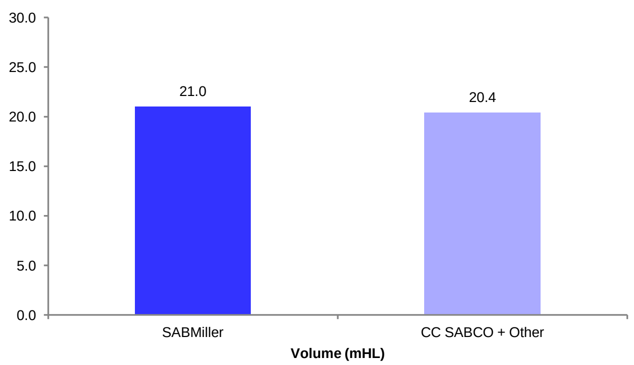
- TCCC will contribute its equity share in SABCO (estimated at 20%), as well as Coca Cola Canners, Valpre and Shanduka bottler in South Africa. TCCC will hold 11%.

The transaction will be completed in two phases. The SABCO and TCCC components are expected to be completed at the beginning of SABMiller's F15. The second phase incorporating Swaziland, Zambia, and Botswana will not be completed until the end of F16.

Plenty of opportunity for growth…

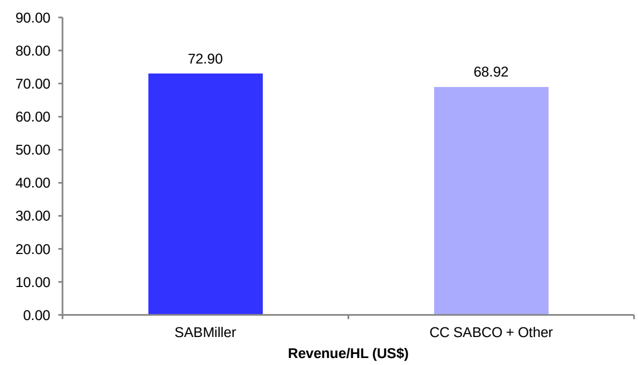
Though the businesses are of similar size in volume, SABMiller has been able to drive higher profit growth.

Figure 227: The businesses have similar volume scale….



Source: Deutsche Bank, company reports

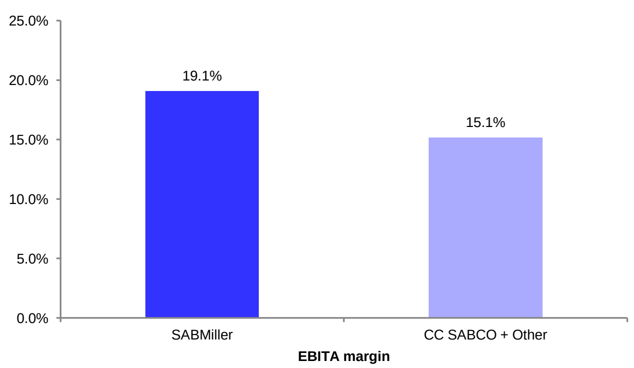
Figure 228: but SABMiller generates higher revenue/HL



Source: Deutsche Bank, company reports

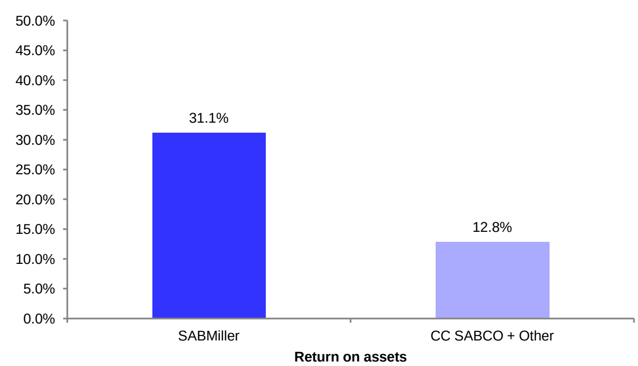
The deal also enables a clear opportunity for the combined entity to substantially lift margins on the SABCO business, as well as capture scale synergies on SABMiller's side.

Figure 229: EBITA margin difference



Source: Deutsche Bank, company reports

Figure 230: Return on Assets (phase I only)



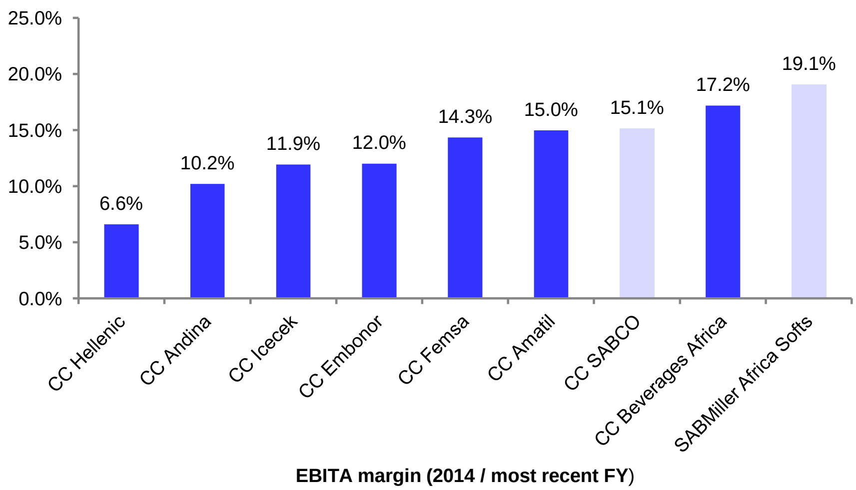
Source: Deutsche Bank, company reports

There is further potential to lift financial productivity on SABCO's assets as well.

…in one of the best-run Coca Cola bottlers

SABMiller already delivers the highest EBITA margin as a Coca Cola bottler. Part of this is operational discipline and its ability to negotiate favorable terms with TCCC. It also demonstrates the potential cost synergies between soft drinks and beer. The question is whether the new CCBA will be allowed to capture synergies between the legal entities. Or, more worryingly, will TCCC insist on an arm's-length structure (like CC Icecek) that would imply limited operational and distribution integration?

Figure 231: Listed bottlers EBITA margins

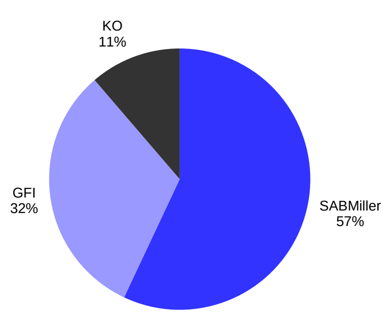


Source: Deutsche Bank, company reports

Coca Cola equity should ensure a closer relationship….

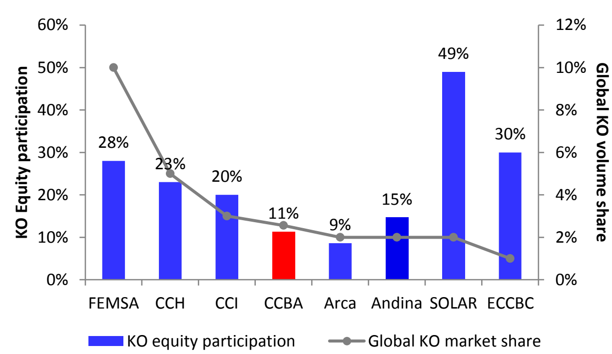
A core driver for the transaction is to develop a closer relationship with TCCC. At times this relationship has been constructive but tense, which one can argue, has led to outperformance of SABMiller's soft drinks relative to its peers. The final terms will see TCCC take a 11.4% stake, a normal occurrence in the larger bottlers in the system.

Figure 232: Coca Cola Beverages Africa shareholding



Source: Deutsche Bank, company reports. Final economic shareholding post phase II.

Figure 233: KO equity participation in selected bottlers



Source: Deutsche Bank, company reports and interviews

…but there is a price to play in the Coke sandbox

Perhaps the biggest surprise of the deal is that the enlarged bottling business has been unable to negotiate a concentrate deal across all of its markets, but will still have to deal with TCCC on a market-by-market basis. On this cost component, which accounts for 20-25% of revenue by market, TCCC has shown a willingness to increase concentrate pricing at will, as recently experienced by Coca Cola Hellenic. There seems to be no agreement that prevents this.

The deal itself will also see SAB sell a number of its soft drinks brands to TCCC (The Coca Cola Company), 19 in total valued at $260m. The key brand in this stable is Appletiser due to its global distribution and relative premium positioning with soft drinks, but we estimate its profit contribution to be minimal to SABMiller. A bigger impact to the company will be the loss of cash-generative brands outside the agreed footprint such as Voltic in Nigeria and Ghana and Club Minerals in Ghana and South Sudan. This will bring useful benefits to some of the other Coke bottlers in certain markets, notably CCH in Nigeria and ECCBC in Ghana and South Sudan.

EVA deal should be positive from day one

The deal is Economic Value Added (EVA) positive from day one, on our numbers – and our conservative assumptions imply even more upside potential to create shareholder value. We arrive at this conclusion by incorporating into our calculations the following assumptions:

- Given the lack of information (in this case on current operating liabilities to derive net assets), we use the gross assets as proxy for invested capital. This assumption conservatively understates the ROIC value.
- For the steady-state (i.e. excluding the deal impact) we project that the individual businesses grow sales by 5% per annum.
- Amortisation/sales ratio of 0.5%, which is typical for TCCC bottlers.
- We assume deal synergies in 2015 equivalent to 1.0% of sales, increasing to 3.5% by 2018. This implies total synergies over the four-year period equivalent to 4.3% of combined sales in 2014. We think this is a conservative assumption.
- We use EBIT in calculating NOPAT, as the return is for total capital and not only equity capital (which would have required interest expense).
- Tax rate of 30%.
- Given the lack of information on SABCO, we have not employed a blended WACC. We employ the blended WACC for SABMiller Africa and South Africa as the deal WACC, which we estimate at 9.1% (vs. group 7.9%).

Figure 234: We estimate the deal to be EVA positive from day one

Steady state					
US$ m	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Additional investment	0	0	111	0	0
Invested capital	**2,387**	**2,387**	**2,499**	**2,499**	**2,499**
Sales	2,776	2,915	3,238	3,400	3,570
YoY growth		5.0%	5.0%	5.0%	5.0%
EBITA	463	486	557	585	614
EBITA margin	16.7%	16.7%	17.2%	17.2%	17.2%
Amortisation	14	15	16	17	18
of sales	0.5%	0.5%	0.5%	0.5%	0.5%
EBIT	449	472	541	568	596
EBIT margin	**16.2%**	**16.2%**	**16.7%**	**16.7%**	**16.7%**
Synergies					
Sales	-	15	49	68	89
% of sales		0.5%	1.5%	2.0%	2.5%
Costs and Efficiencies	-	15	32	34	36
% of sales		0.5%	1.0%	1.0%	1.0%
Total EBIT synergies added	**-**	**29**	**81**	**102**	**125**
Post synergy EBIT	449	501	622	670	721
EBIT margin	16.2%	17.2%	19.2%	19.7%	20.2%
EBITA margin	**16.7%**	**17.7%**	**19.7%**	**20.2%**	**20.7%**
Deal EVA					
Tax rate	30%	30%	30%	30%	30%
NOPAT	314	351	435	469	505
ROIC (based on gross assets)	13.2%	14.7%	17.4%	18.8%	20.2%
Deal WACC	9.1%	9.1%	9.1%	9.1%	9.1%
Delta EVA (100%)	**96**	**133**	**207**	**241**	**277**

====> Deal is EVA positive from beginning, with substantial upside from deal synergies
We assume conservatively synergies equivalent to 4.3% of combined 2014 sales

SABMiller will also receive US$260m for selling selected soft brands to TCCC

Source: Deutsche Bank, Company data

Management indicated that the deal will become earnings enhancing only from year three.

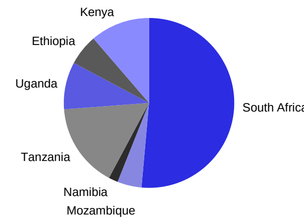
SABCO: an additional 18 million hl in 7 markets

The South Africa Bottling Company (SABCO) has owned the franchise rights to Coca Cola in the South African regions of the Eastern Cape since 1940, with expansion in the 1970's adding parts of Free State and Kwazulu-Natal.

The company ventured into Africa in 1994 expanding into Mozambique. Named an anchor bottler a year later, SABCO attained further rights in Namibia, Kenya, Tanzania, and Uganda, followed by majority ownership in Ethiopia in 2001.

Notably, the current assets in Asia are excluded from the deal. Expansion into Asia for SABCO has proven to be more difficult. Though still involved in Nepal and Sri Lanka, other assets in the so-called 'hospital ward' of Coke bottlers such as Vietnam have been returned to TCCC.

Figure 235: SABCO volume split



Source: Deutsche Bank estimates, Euromonitor, company reports

Figure 236: SABCO African footprint

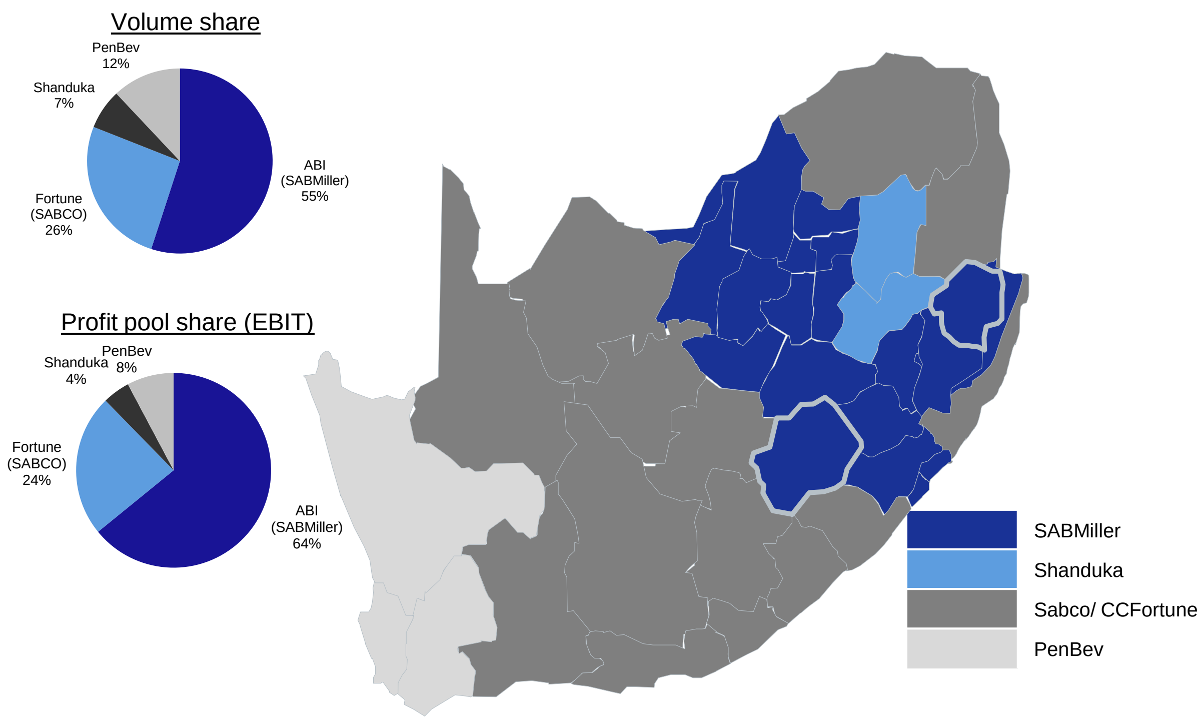
Market	Established	volume (million hl)	Plants #	Location	
South Africa	1940	9	5	Port Elizabeth	Led consolidation from the 70's, expanding its original franchise territory beyond Port Elizabeth (Eastern Cape). Culminated in 2002 merger with Fortune beverages in 2002.
				Port Shepstone	
				Bloemfontein	Currently accounts for 26% of the Coca Cola market in South Africa.
				Nelspruit	
				Polokwane	
Mozambique	1994	<1	3	Maputo	Greenfield entry for Coca Cola. Currently $140m being invested for plant build in Matola Gare, outside Maputo
				Chimoio	
				Nampula	
Namibia	1995	<0.5	2	Windhoek	71% ownership by acquiring Paradise beverages in 1995, partnership with Namibian Development Corporation
				Oshakati	
Tanzania	1995	3	3	Dar es Salaam	Acquired Tanzania Bottlers from Aris Cassolis.
				Zanzibar	Renamed Coca Cola Kwanzaa
				Mbeya	
Uganda	1995	1.5	2	Kampala	Acquired Century Bottling Company
				Mbarara	
Ethiopia	1995	1	2	Addis Abiba	Shareholding since 1995, majority (61%) since 2001.
				Dira Dawa	Building third plant in Bahir Dar
Kenya	1995	2	1	Nairobi	Acquired Nairobi Bottlers which combined with Flamingo bottlers (1997) and East Kenya Bottling (2000).
					48% of the Coca Cola market in Kenya.

Source: Deutsche Bank estimates, Euromonitor, company reports

Consolidating South Africa the initial opportunity

The big initial price is the opportunity to consolidate South Africa. The combination will lead to SABMiller managing 93% of the volume and on our estimate 94% of the profit pool in South Africa. SABCO contributes a quarter of the market and Shanduka the remaining 4%.

Figure 237: South Africa Coca Cola franchise territories



Source: Deutsche Bank estimates, company reports and interviews

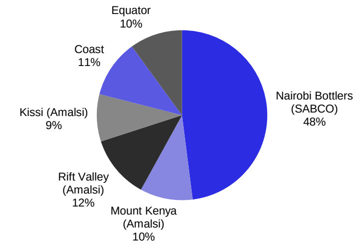
The only exception will be PenBev, which will remain independent and retains the rights to Coca Cola in the Western and Northern Cape.

More opportunity in Kenya?

Though SABMiller will initially keep the soft drink operations separate, this will nevertheless provide an opportunity for SABMiller to eventually re-enter the Kenyan beer market. The incumbent brewer EABL is owned 51% by Diageo. Despite its 98% market share, EABL performance has been sub-optimal, especially relative to the SABMiller operations next door in Tanzania.

Like South Africa, there is also further opportunity to consolidate the Kenyan Coca Cola market as SABCO holds only 48% Coke market share. The main shareholder Centum's rival, Amalsi, also has a 27% stake in the Kenya SABCO operations, which should make any deal easier to consummate.

Figure 238: Kenya Coke bottlers share



Source: Based on volumes. Deutsche Bank estimates, company reports, Euromonitor

CCBA integration will be on a case-by-case basis, but benefits will accrue

Mindful of Coca Cola concerns, the SABMiller CEO was keen to ensure that the management of the soft drink business will focus on the effectiveness side of the equation, i.e. optimizing growth for scalability. The current operation in South Africa shares a common platform in its back-office functions, such as human resources, and also benefits from the global procurement operations. Smaller markets such as Mozambique and Tanzania will most likely integrate a small step further up the value chain to include high-cost items such as utilities and expatriate management.

The phase II markets (Swaziland, Botswana, Zambia) will have to take a more nuanced approach. These operations are further integrated, often sharing manufacturing facilities and distribution, and even to an extent trade capital investment. The danger is the potential for dissynergies.

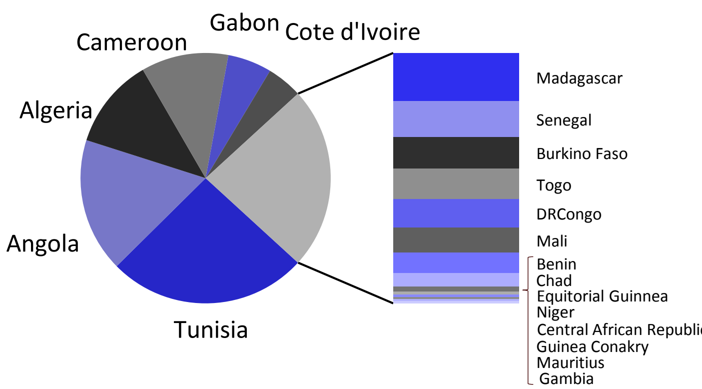
The other big bottlers in Africa

Castel 20m Hl of soft drinks in 20 markets an attractive next step

We were somewhat surprised that SABMiller's West African JV partner Castel was not announced as a participant in the deal, but understand from both parties that the company was involved in the discussions. Perhaps one family group too many in a threesome?

As a reminder, SABMiller Africa has a 20% share in the group (with exception of Algeria and Morocco, in which it has 40% and Angola in which it has 27.5%). The French private Castel group bottles for TCCC in 20 African markets, producing around 20 million hl of soft drinks. The largest component of its soft drinks portfolio is Coca Cola brands, though it maintains a sizeable proportion of its own brands and water, which sits outside the confines of the KO agreement.

Figure 239: Castel soft drinks volume split – 20 markets for 20m Hl



Source: Deutsche Bank estimates, company reports, Euromonitor

Tunisia, Angola, Algeria, Cameroon and Gabon account for over two-thirds of the soft drinks volume (Figure 239). The composure of the volume differs markedly by country. Water accounts for the vast volume in Algeria and Tunisia. The sparkling Coca Cola portfolio dominates Angola and Cameroon. We also estimate that the latter two account for the profitability in soft drinks.

As part the asset swap with SABMiller in 2011, Castel took full control of the Angolan Coca Cola business, which was established in 1997. The combination of beer and soft drinks led to margin enhancement from single digits to mid-thirties, making Angola disproportionately profitable for Castel.

With increased pressure in the markets from b-brands and 'wildcat' Pepsico bottlers, we eventually expect Castel to come to a creative arrangement with the new CCBA.

Castel is vertically integrated to a large extent in soft drinks, and for example supplies sugar to TCCC bottlers in some markets. Castel's own soft drink portfolio is growing faster than its TCCC portfolio, and in many cases has higher margins as it excludes the concentrate expense. Excluding South Africa, we estimate around two-thirds of SABMiller's Africa soft drink exposure sits with Castel. Prior to the formation of CCBA, Castel was actually a bigger contributor for TCCC than SABMiller. Combining these businesses eventually does offer major potential synergies.

Equatorial Coca Cola Bottling Company (ECCBC) 10 m hl in 13 markets

The Barcelona-based group operates in 13 markets in Africa with 15 plants, and, like most bottlers in Africa, infused with former SABMiller personnel. ECCBC is owned 60.37% by COBEGA, the Iberian bottler led by the Daurella family. TCCC share in the enterprise is estimated at 30-35%.

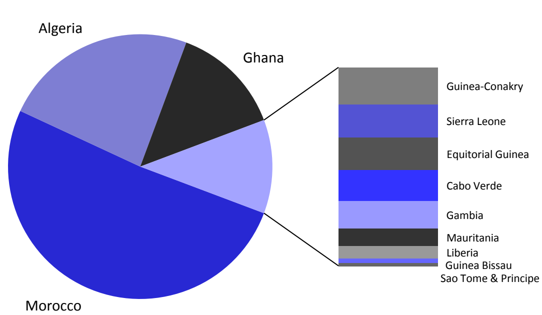
Figure 240: ECCBC Africa footprint

Market	2013e mHl volume	Plants	Subsidiary
Algeria	2.5	1	Fruital
Cabo Verde	0.2	3	Industria de Bibidas de Cabo Verde
Gambia	0.2	1	Gambega
Ghana	1.4	2	The Coca Cola Bottling Company of Ghana
Equitorial Guinea	0.2	0	Guinebega
Guinea Bissau	0.0	0	Bissabega
Guinea-Conakry	0.2	1	Bonagui
Liberia	0.1	1	Liberia Coca Cola Company
Morocco	5.4	4	North African Bottling Company
Mauritania	0.1	1	SOBOMA Societe des Boissons Gazeuses
Sao Tome & Principe	0.0	0	Saotobega
Sierra Leone	0.2	1	Sierra Leone Bottling Company
South Sudan	new	new	United Beverage Company with Mac (50%)
Total	***10.5m Hl***	***15***	

Source: Deutsche Bank estimates, company reports, IESC

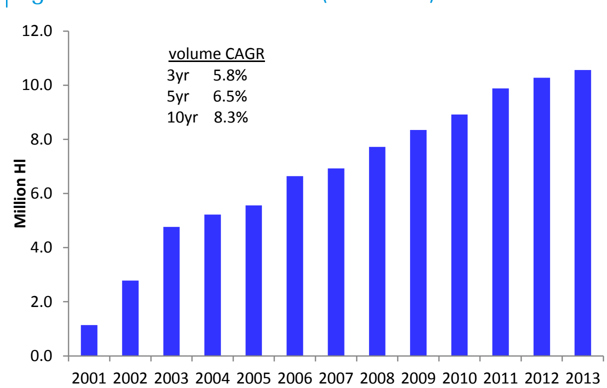
Morocco and Algeria account for the majority of the volume, both markets partial franchises. The Morocco concession came about when Coca Cola pulled the rights from the Castel group in 2003, when the latter purchased Brasseries du Maroc, demonstrating a willingness by Coca Cola to change partners when it suits the circumstances.

Figure 241: ECCBC 2013 country volume split



Source: Deutsche Bank estimates, company reports

Figure 242: ECCBC volume (million hl)

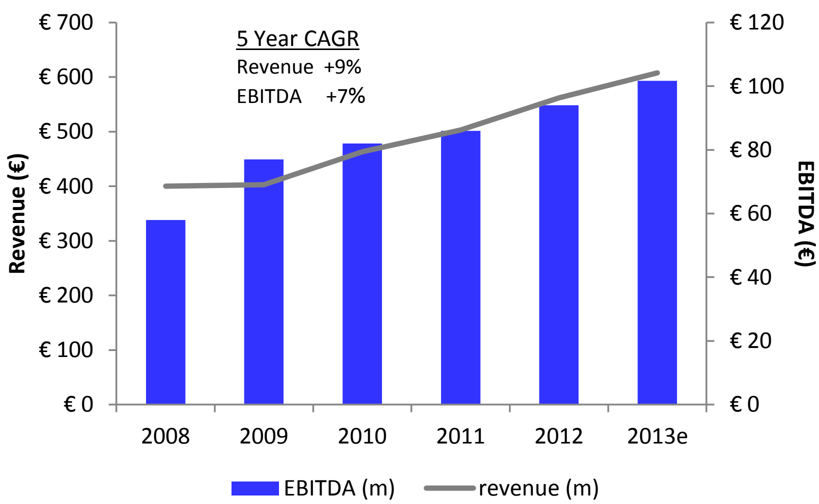


Source: Deutsche Bank estimates, company reports, IESC

More interesting to the brewers is the remaining portfolio led by Ghana, which will now have an opportunity to license the SABMiller brands Voltic and Club minerals. Additionally, to the dismay of SABMiller, which developed the first manufacturing facility in the market, ECCBC in 2012 was awarded the Coca Cola franchise in South Sudan in a joint venture with MAC, the Middle Eastern bottling group. It now has an opportunity to take over a soft drink portfolio developed by SABMiller since the birth of that nation.

Over the past five years, revenue and EBITDA have grown in the high single digits with 2013 revenues at €608 million and EBITDA circa €100 million giving margins of 17%.

Figure 243: ECCBC financial performance 2008-2013



Source: Deutsche Bank estimates, company reports and interviews, IESC

Coca Cola Hellenic's jewel in Nigeria - 12 million hl in one market

Within the 28 markets that constitute Coca Cola Hellenic (CCH.L), the only non-European market that stands out is Nigeria. The so-called Nigerian Bottling Company (NBC) has since 1951 been the cornerstone of the Tarr-Kess group, which remains majority shareholder in CCH. Originally listed on the Nigerian Stock Exchange as part of the indigenization program in the 1970's, the subsidiary delisted in 2011 amid some local controversy.

Today, we estimate that Nigeria accounts for 9% of CCH revenues but a larger 14% of EBIT (2014DBe €60m). In its last public accounts in 2011, EBITA margins were around 7%. Though the company has gone through a restructuring and SAP implementation program, the margins are in the high single digits, lagging SABMiller and SABCO.

Beyond Nigeria, Coca Cola Hellenic remains an attractive proposition for brewers. For Heineken, Carlsberg and SABMiller, there is a strong overlap of operations. We view both Carlsberg, which already has Coke/beer operations in Scandinavia, and SABMiller as realistic candidates for potential further engagement with CCH.

The markets of Poland, Italy and Greece are of particular interest to the brewers to help reduce the cost base. As Coca Cola has higher pulling power as a "must" stock brand, Russia also provides a platform for better modern trade management, which continues to be the fastest-growing channel in that market for both categories.

The usual headwinds

We have had the pleasure of visiting and working in 37 of the 54 African markets. As Nestle's CEO once put it, with such diversity, it is almost inevitable that a CNN crew is ever-present. In Africa, each generalization has a multitude of exceptions. In a basket of 54 markets, oil price, commodity cycles and currency movements have different and often independent rather than interdependent impacts. Core commonalities, however, are appearing – creating a more robust continent. Albeit of a low base, better governance, transparency, infrastructure and agricultural self-sufficiency are becoming the norm.

"AOA, Asia Oceania and Africa- we call it sometimes, with a little twinkle in the eye, zone CNN. There is always something in the news."

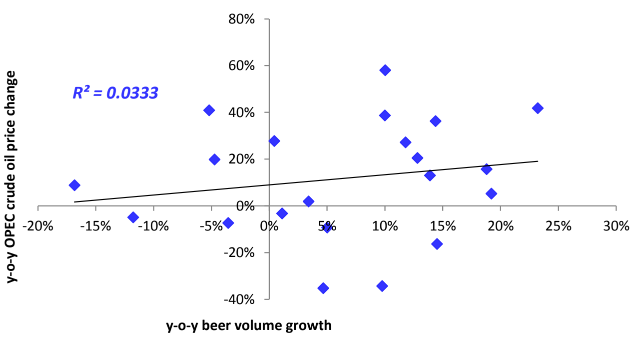
CEO Nestle
October 2013

The (little) impact of negative commodity cycle

The ability of beer to withstand commodity headwinds

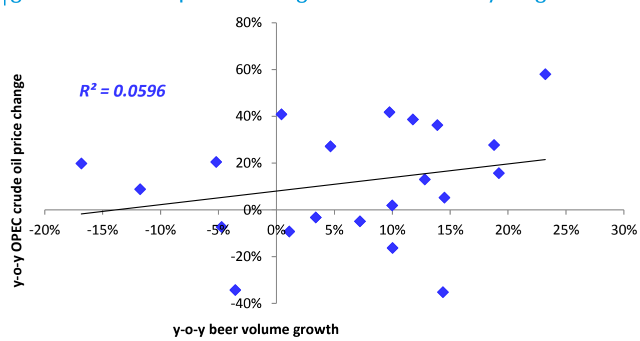
The commodity cycle will impact beer and lower oil prices, but we are sanguine about any potential negative effects. The correlation between the commodity cycle and beer growth is hard to parse. In Nigeria as a heavily dependent oil-exporting country, we see no correlation. If we lag the volume number one year (i.e. the beer volume growth the year after an oil price increase/decline), still no correlation

Figure 244: Nigeria correlation between beer volume growth and oil price change 1994-2014 yoy



Source: Deutsche Bank, Plato Logic, Datastream

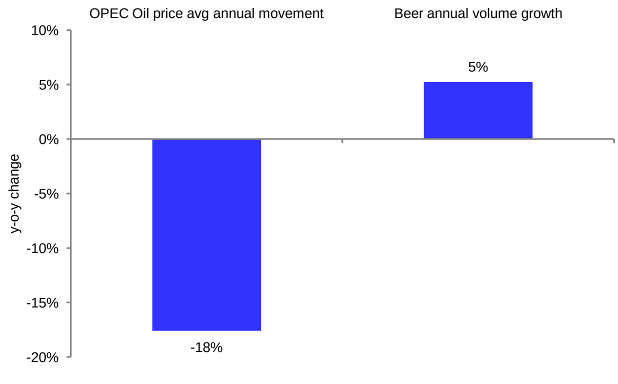
Figure 245: Nigeria correlation between beer volume growth and oil price change 1994-2014- 1 yr lag



Source: Deutsche Bank, Plato Logic, Datastream

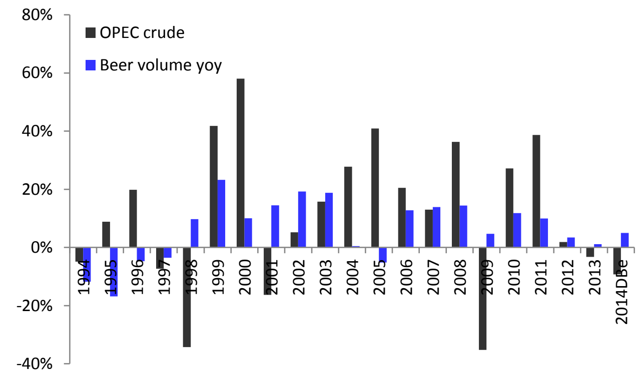
In the six years that oil was down, the average decline for oil was 17%, while the beer market grew on average. In 2009, when the oil price declined 35%, beer grew 5%, rising double digits on both sides of that year. It can be argued that the benefits of a high oil price in Nigeria tended to focus on those consumers who had bank accounts in Switzerland. On the way down, those same consumers will be hurt, which most likely has a disproportionate impact on Johnny Walker Black, rather than mainstream Star beer.

Figure 246: Nigeria beer performance in declining oil prices



x years between 1994-2014- 1997, 1998, 2001, 2009, 2013, 2014 DBe
Source: Deutsche Bakn, estimates , Datastream, Plato Logic

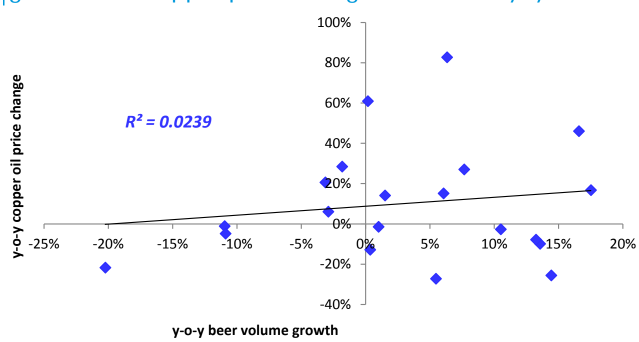
Figure 247: year on year changes Nigerian beer market and oil price



Source: Deutsche Bank, Plato Logic, Datastream

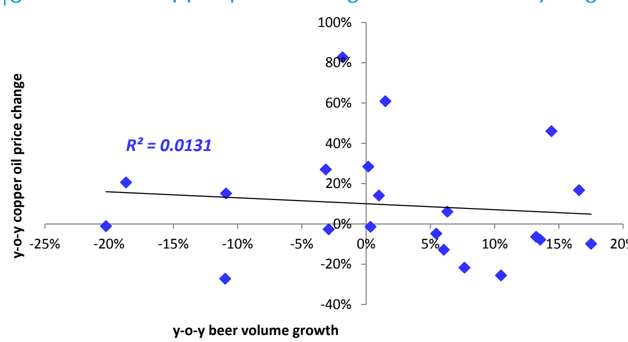
Zambia's economy is dependent on copper. Yet over the last 20 years, fluctuations in the copper price seem to have had no direct correlation with beer growth. If we lag the volume number one year (i.e. the beer volume growth the year after a copper price increase/decline), still no correlation.

Figure 248: Zambia correlation between beer volume growth and copper price change 1994-2014 yoy



Source: Deutsche Bank, Plato Logic, Datastream

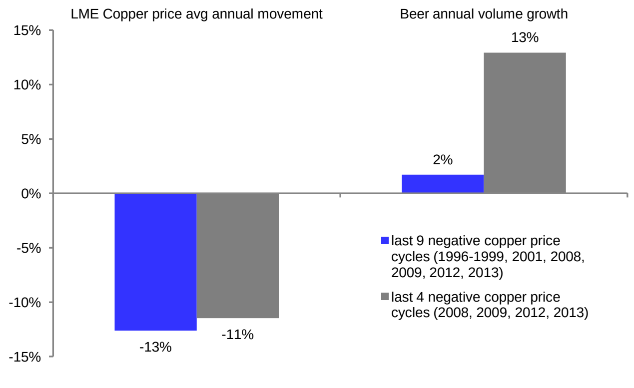
Figure 249: Zambia correlation between beer volume growth and copper price change 1994-2014- 1 yr lag



Source: Deutsche Bank, Plato Logic, Datastream

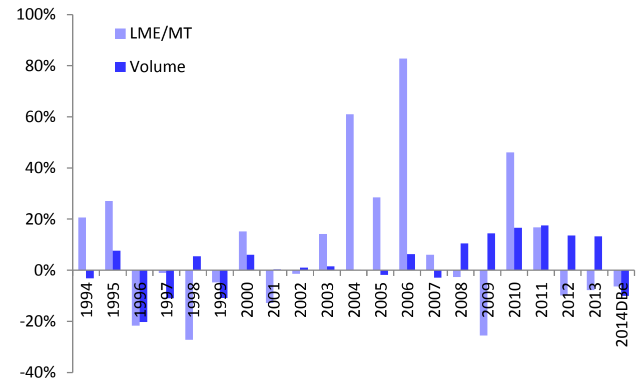
In the nine years that copper was down on average 13%, beer volumes were a mediocre 2%. In the last four copper price declines, however, beer grew 13% annually. The government adjusting excise rates, weather-dependent agricultural outputs as well as SABMiller's capital investment after many years of under-investment had bigger effects than any copper price decline.

Figure 250: Zambia beer and copper price Pearson correlation 1994-2014



Nine years between 1994-2014: 1996-1999, 2001, 2008, 2009, 2012, 2013
Sourcee: Deutsche Bank, Plato Logic, Datastream

Figure 251: year on year changes Zambian beer market and copper price

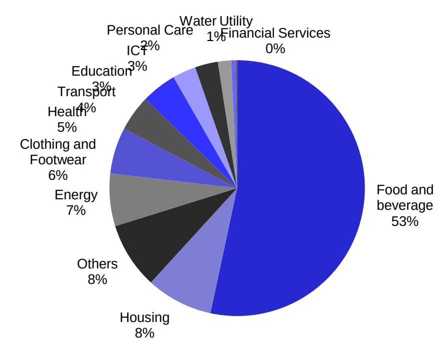


Source: Deutsche Bank, Plato Logic, Datastream

African consumers find beer hard to give up

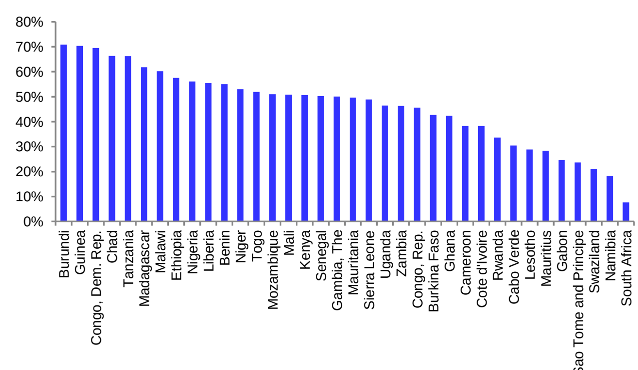
Food and beverages make up over 50% of consumer spending in Emerging Markets. Within Africa, this reaches up to 70% in the low-income group, a key target for beer.

Figure 252: Income spend for EM low income consumers



Source: Deutsche Bank, World bank

Figure 253: Share of income on food & beverage



Source: Deutsche Bank, World Bank

As consumers enter the cash economy, beer often becomes the first beneficiary, ahead of other HPC and packaged food products. Commercially produced lager replaces the unhygienic and illicit alcohol. Not surprisingly, this seems to have a higher priority for a consumer with a US$1 in his pocket than buying Maggi cubes over salt, or Ritz crackers over homemade (and frankly tastier) plantain chips.

Beer is also one of the last goods that are dropped. It is hard to go back to the homemade stuff. It is also hard socially to revert to the back of the tavern with the flies and the unhygienic products kept there.

Africa GDP remains robust despite commodity headwinds

Real GDP growth in Sub-Saharan Africa (SSA) has been gradually accelerating from 2012, and is estimated by the World Bank to have delivered 4.5% in 2014. Excluding South Africa, the estimated growth rate was 5.6%. The economic growth rate of SSA remains steadily above that of both developed (1.8% in 2014) and developing economies (4.4%). Excluding South Africa, SSA's economic growth rate was similar to that of the other 'high-flying' region of South Asia (5.6%) but lower than China's (7.4%).

Incorporating the impact of rapidly lower prices for mining minerals and oil, the World Bank on Wednesday 14th January 2015 forecast that SSA is likely to again deliver marginally higher economic growth in 2015 of 4.9%. Recognizing the risks associated with this forecast emanating from the material decline in both mining mineral and oil prices and a surging US$ exchange rate, the sustainability of SSA's economic growth rate is remarkable. As per the projections of major countries detailed below, the region's high growth performance also remains well spread, except for South Africa (structural challenges), Sudan (political) and Zimbabwe (political).

Figure 254: Sub-Saharan Africa economic growth to remain very robust in spite of weaker commodity cycle and FX headwinds

Sub-Saharan Africa	2000-2010	2011	2012	2013	2014E	2015F	2016F	2017F
Real GDP growth % YoY								
Sub-Saharan Africa	5.7	4.3	4.0	4.2	4.5	4.6	4.9	5.1
SSA excl. South Africa	6.6	4.6	4.6	5.1	5.6	5.4	5.7	5.9
Oil exporters	7.7	3.5	3.8	4.8	5.8	5.5	5.6	5.9
Angola	11.3	3.9	8.4	6.8	4.4	5.3	5.0	5.2
Cameroon	3.3	4.1	4.6	5.5	5.1	5.1	4.9	5.1
DRC	4.7	6.9	7.2	8.5	8.0	7.6	7.5	7.3
Ethiopia	8.6	11.2	8.7	10.4	6.7	6.9	6.6	6.7
Ghana	5.8	15.0	8.8	7.1	4.7	4.5	5.5	6.0
Ivory Coast	1.1	-4.7	9.5	8.7	9.1	8.5	8.2	8.0
Kenya	4.4	6.1	4.5	5.7	5.4	6.0	6.6	6.5
Mozambique	7.8	7.3	7.2	7.1	7.2	8.0	8.1	8.2
Nigeria	8.9	4.9	4.3	5.4	6.3	5.5	5.8	6.2
Rwanda	7.9	7.5	7.3	4.6	6.0	6.5	7.0	7.1
South Africa	3.5	3.6	2.5	1.9	1.4	2.2	2.5	2.7
Sudan	6.3	-3.3	-10.1	-6.0	2.6	2.5	2.8	3.0
Tanzania	7.0	6.4	6.9	7.0	7.0	7.2	6.8	7.0
Uganda	7.5	5.0	4.6	5.9	6.3	6.6	6.9	7.0
Zambia	5.6	6.8	7.3	6.4	6.4	6.3	6.5	6.7
Zimbabwe	-4.7	11.9	10.6	4.5	3.1	3.2	3.7	3.4
GDP growth components at market prices % YoY								
Private consumption	5.6	3.6	2.2	12.1	4.4	4.4	4.5	4.7
Public consumption	7.2	7.9	5.2	3.7	3.9	4.4	4.4	4.4
Fixed investment	9.2	-0.6	7.1	4.1	5.1	6.0	6.1	6.2
Consumer prices (annual average)	8.6	10.1	11.3	8.2	8.7			

Rest of world	2012	2013	2014E	2015F	2016F	2017F
Real GDP growth % YoY						
World	2.4	2.5	2.6	3.0	3.3	3.2
Developed countries	1.4	1.4	1.8	2.2	2.4	2.2
Developing countries	4.8	4.9	4.4	4.8	5.3	5.4

Source: World Bank, Deutsche Bank

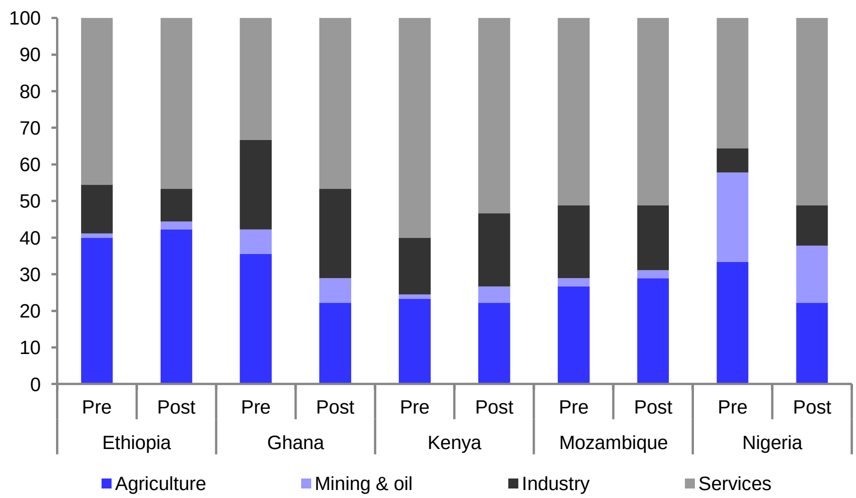
Drivers supporting Africa's growth momentum

We see four drivers supporting Sub-Saharan Africa's strong economic growth momentum:

Economies are diversifying

African economies are more diversified than what official government statistics have suggested until recently. Rebasing of national accounts has seen, for example, the inclusion of a much larger economic share of services and lower share for mining and oil. For the highlighted countries in Figure 255, services dominate economic activity at around 50% share, followed by agriculture at around 25%. Against common expectations, mining and oil contribute only around 16% (revised down from 24%) of Nigeria's economic activity.

Figure 255: Sector drivers of real GDP before and after rebasing

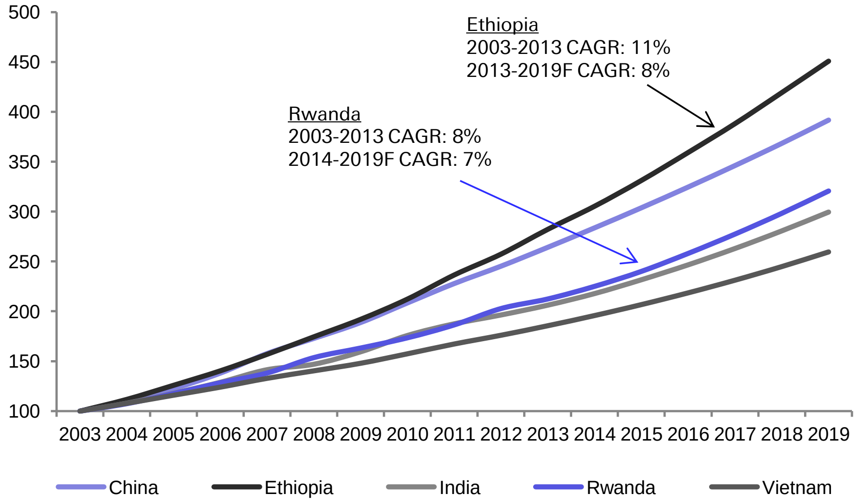


Source: IMF, Deutsche Bank. Average of 2010-2013.

The economic diversification can be seen in Zambia as a record maize harvest in 2014 more than offset the economic impact of a decline in copper production. In Nigeria a buoyant services sector should limit the decline (on lower oil revenues) of Nigeria's real GDP growth from 6.3% in 2014 to 5.5% in 2015.

There are also parts of Africa for which the commodity cycle has no relevance. Ethiopia and Rwanda GDP growth have outperformed their more known Asian counterparts, with 11% and 8% CAGR over the last decade, as per Figure 254. The only real commodity in their stable is coffee. Their growth is more a product of good governance and a stable political environment.

Figure 256: GDP growth in non-commodity/oil markets

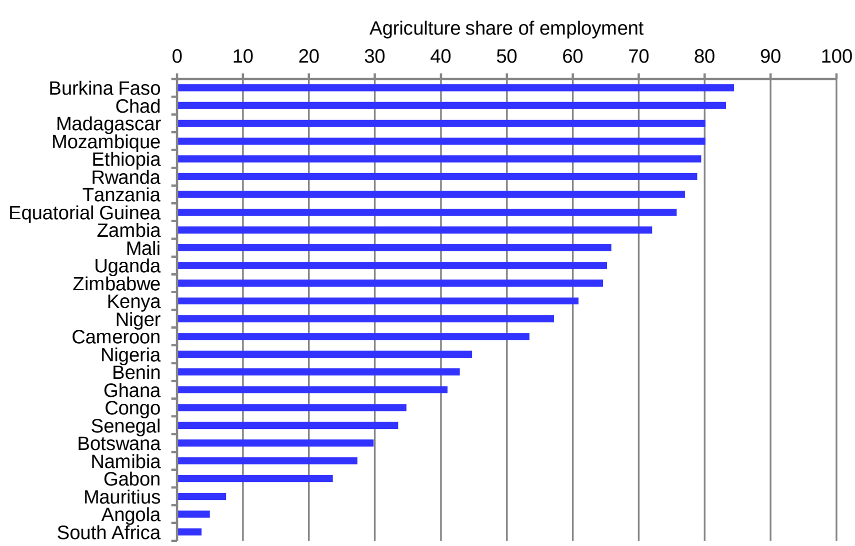


Source: Deutsche Bank, IMF World Economic Outlook

Employment still largely exposed to the agricultural sector

The average 25% share of agriculture of economic activity under-represents the sector's share of employment. In other than a handful of relatively developed countries in Africa, the agricultural sector represents more than 40% of total country employment.

Figure 257: Agricultural share of employment in Africa



Source: Deutsche Bank, World Bank

This has two implications. The first is that lower commodity prices, if they result in retrenchment, should have only a marginal impact on total employment and by implication consumption. This supports the World Bank's projection that real growth in private consumption will remain stable at 4.4% in 2015.

The second implication is that higher production and productivity in agriculture are increasingly generating surplus income, moving consumers beyond subsistence farming and into the cash economy. Beer is a prime beneficiary - years with good agricultural yields increase beer sales.

Ongoing fixed investment

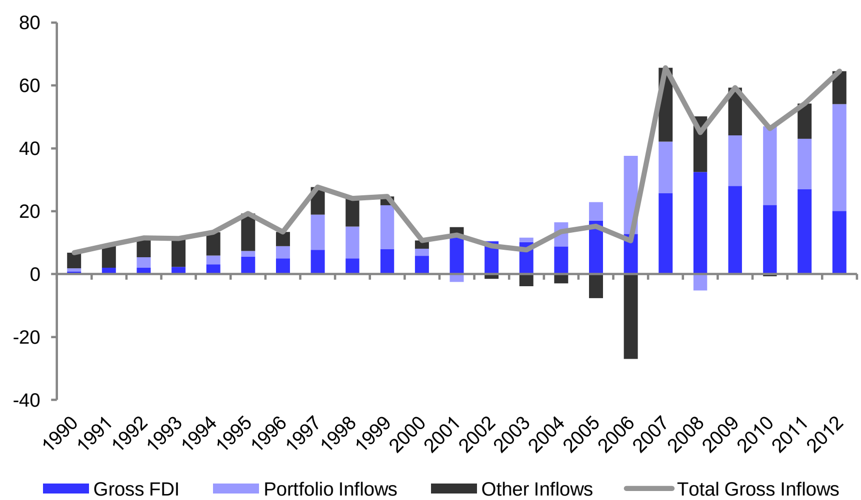
Investors are buying into the exceptional long-term growth opportunity that Africa offers, and which extends far beyond mineral extraction. The beer market is a good example. Despite weaker commodity prices, the World Bank also projects that real growth in fixed investment into SSA will actually accelerate from an estimated 5.1% in 2014 to 6.0% in 2015.

This investment drive reflects the increasing diversification of African economies. Public infrastructural investment into transportation, electrification, and ports is unlikely to be materially affected by a slowing mining capex cycle.

Remittances from abroad remaining strong

Remittances to Africa over the last decades averaged US$22bn per annum, with World Bank estimates that remittances accounted for almost 6% of GDP in low-income countries in 2013 - significantly more than fixed domestic investment. Across developing countries more broadly, remittances have amounted to 60% of FDI flows since 2000. Given that remittances are more sustainable than all other external flows, they help smooth consumption.

Figure 258: Private capital inflows into Sub-Saharan Africa



Source: Deutsche Bank, IMF

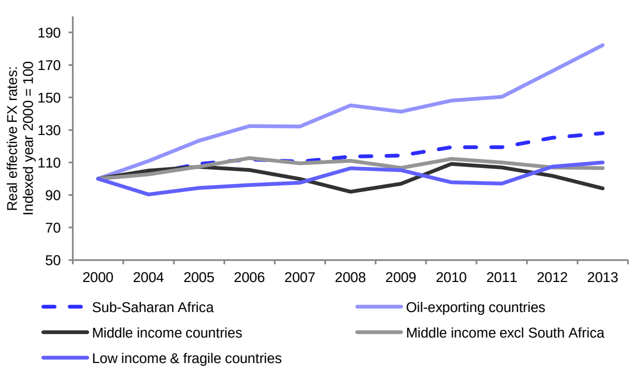
Risks to growth

Although we have highlighted four key drivers for the sustainability of Sub-Saharan Africa's economic growth, the challenges facing the region remain substantial.

Exchange rate risk and by implication inflation

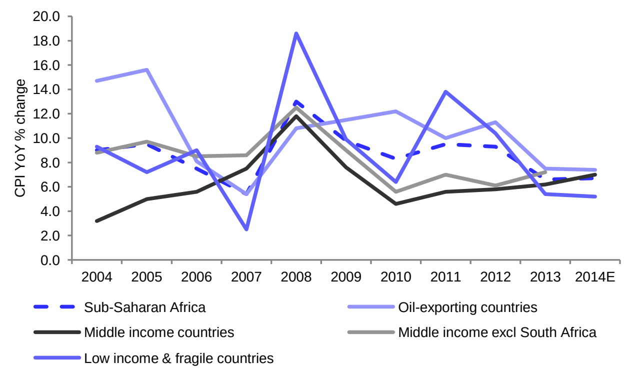
Between 2000 and 2013 the market-weighted exchange rates of Sub-Saharan Africa has appreciated in real terms by 28%. This has essentially been driven by the exchange rates of SSA's oil-producing countries, which saw real appreciation of 82% during this period. Excluding South Africa, which has seen depreciation in real terms, SSA's middle-income countries have seen their exchange rates appreciate in real terms by a more reasonable 7%, and the low-income and fragile countries by 10%. While the region's well diversified strong growth should support ongoing gradual exchange rate appreciation in real terms, those of the oil-producing countries are clearly at high risk.

Figure 259: Real effective exchange rates in SSA (annual average, index year 2000 at 100)



Source: World Bank, Deutsche Bank

Figure 260: Consumer prices in SSA (annual average, YoY percentage change)



Source: World Bank, Deutsche Bank

As is evident from the period during the global financial crisis in 2008, rapid exchange rate depreciation in risk-off trades can have a major inflationary impact. Balancing this is now lower imported inflation and fuel costs. Overall we believe SSA's sustainable inflation rate remains well entrenched below the 10% level. This should limit the risk of any restrictive monetary policies, although in some instances for country-specific reasons monetary policies can become restrictive, such as Ghana.

Further material weakness in commodity prices

Based on the share of mining metals and oils being above 20% of net exports, we identify eight African countries that offer high risk on lower commodity prices. These countries are Equatorial New Guinea (85% share), Congo Brazzaville (61%), Libya (53%), Angola (50%), Gabon (42%), Mauritania (27%), Chad (27%) and Algeria (23%). Other countries with high risk exposure are Zambia (18%), Nigeria (16%), Liberia (14%), Ivory Coast (14%), DRC (13%) and Ghana (12%).

These 14 countries combined contributed 38% (44.7mhl) of African beer consumption in 2013, and excluding South Africa 52%.

Figure 261: The negative commodity cycle: highest-risk markets to beer

	Main sources of net exports as % of GDP…					…implying where lower commodity prices can impact consumption most				
						Beer consumption (2013)				
	Agriculture	Food	Metals	Energy	Total	Volumes '000 HL	% share of Africa	Risk	% share Africa excl. SA	Risk
Equatorial Guinea	0.8	-3.4	-0.2	87.4	84.6	177	0.2%		0.2%	
Congo	1.6	-6.3	3.0	62.2	60.5	2,129	1.8%		2.5%	
Libya	-0.3	-6.2	-0.7	60.0	52.7	91	0.1%		0.1%	
Angola	-0.1	-3.3	0.0	53.7	50.2	10,611	9.1%		12.3%	
Gabon	4.7	-3.0	2.9	37.6	42.3	1,425	1.2%	**High risk**	1.6%	**High risk**
Mauritania	-0.4	-2.5	36.7	-7.0	26.8	n/a	n/a		n/a	
Chad	1.1	-2.1	0.0	27.8	26.7	537	0.5%	38.2%	0.6%	51.7%
Algeria	-0.4	-4.5	-0.3	28.5	23.3	1,323	1.1%	of Africa	1.5%	of Africa
Zambia	0.6	1.6	19.1	-3.5	17.8	1,337	1.1%	volumes	1.5%	excl. SA
Nigeria	0.1	-1.3	-0.1	17.2	15.9	18,375	15.7%		21.3%	volumes
Liberia	6.6	-0.9	10.3	-2.0	14.0	198	0.2%		0.2%	
Côte d'Ivoire	3.6	8.1	-0.3	2.1	13.5	1,971	1.7%		2.3%	
Dem. Rep. of the Congo	0.2	-3.7	15.2	1.4	13.1	4,668	4.0%		5.4%	
Ghana	0.4	3.6	0.8	7.1	12.0	1,846	1.6%		2.1%	
Guinea-Bissau	0.1	12.9	-0.7	-3.8	8.5	102	0.1%		0.1%	
Guinea	0.2	-3.9	9.7	1.2	7.1	177	0.2%	**Medium**	0.2%	**Medium**
Sierra Leone	-2.4	9.2	12.7	-14.6	4.9	254	0.2%	**risk**	0.3%	**risk**
Cameroon	1.6	-1.6	-0.1	3.9	3.7	6,276	5.4%		7.3%	
Niger	-0.5	-5.8	3.4	6.4	3.5	84	0.1%	6.3%	0.1%	8.6%
Sudan	0.1	-2.4	-0.2	6.0	3.4	451	0.4%	of volumes	0.5%	
Seychelles	-1.4	20.9	-0.1	-16.9	2.5	57	0.0%		0.1%	
Benin	3.6	-1.3	1.3	-1.6	2.0	889	0.8%		1.0%	
Zimbabwe	2.1	-4.1	2.8	0.7	1.5	1,842	1.6%		2.1%	
Swaziland	6.7	1.6	0.3	-7.4	1.2	247	0.2%		0.3%	
Namibia	0.0	2.4	3.9	-5.7	0.7	1,262	1.1%		1.5%	
Rwanda	-0.3	-1.9	4.1	-1.4	0.6	1,319	1.1%		1.5%	
South Africa	0.1	-0.1	6.0	-5.5	0.6	30,625	26.2%		n/a	
Burkina Faso	5.7	-1.1	0.2	-5.6	-0.8	1,126	1.0%		1.3%	
Madagascar	-0.1	-0.2	4.7	-5.5	-1.1	1,103	0.9%		1.3%	
Uganda	0.1	3.3	-0.3	-4.5	-1.4	3,211	2.7%		3.7%	
Mali	6.1	-3.2	0.1	-4.9	-1.8	190	0.2%		0.2%	
Ethiopia	0.3	1.3	-0.1	-3.5	-2.0	3,849	3.3%		4.5%	
Egypt	-0.4	-2.2	-0.5	0.1	-3.1	1,271	1.1%		1.5%	
Malawi	0.7	1.9	0.4	-6.5	-3.5	295	0.3%		0.3%	
Mozambique	1.1	-4.5	6.6	-7.4	-4.2	2,176	1.9%		2.5%	
Kenya	0.9	1.2	-0.1	-7.0	-5.0	5,002	4.3%		5.8%	
Central African Republic	4.0	-1.8	1.6	-8.8	-5.0	140	0.1%		0.2%	
Eritrea	-0.1	-3.2	-0.1	-2.3	-5.6	n/a	n/a		n/a	
Botswana	-0.2	-3.2	4.4	-7.6	-6.6	528	0.5%		0.6%	
Tunisia	-0.8	-1.8	-1.2	-3.7	-7.5	1,678	1.4%		1.9%	
Tanzania	0.6	1.7	1.7	-11.7	-7.7	3,939	3.4%		4.6%	
Burundi	-0.2	-2.6	0.1	-5.1	-7.8	1,749	1.5%		2.0%	
Gambia	2.9	-11.0	0.8	-2.7	-10.0	36	0.0%		0.0%	
Morocco	-0.6	-0.9	0.3	-10.1	-11.3	813	0.7%		0.9%	
Djibouti	-0.3	-10.3	-0.1	-0.7	-11.4	n/a	n/a		n/a	
Mauritius	-0.8	-1.6	-0.4	-9.8	-12.6	317	0.3%		0.4%	
Senegal	-0.4	-3.3	0.3	-10.2	-13.6	227	0.2%		0.3%	
Togo	1.5	0.2	4.4	-20.8	-14.6	574	0.5%		0.7%	
Comoros	-0.4	-13.9	-0.1	-1.2	-15.7	n/a	n/a		n/a	
Cabo Verde	-0.3	-6.9	-0.1	-10.4	-17.6	134	0.1%		0.2%	
Sao Tome and Principe	-0.4	-7.3	-0.5	-12.8	-21.0	405	0.3%		0.5%	
Lesotho	-0.3	-21.1	-0.5	-12.0	-34.0	n/a	n/a		n/a	
						117,037	100.0%		100.0%	

Legend: Red > 10% GDP
Green < -10% GDP

Source: IMF, Deutsche Bank

Elections

Elections can be a boost and a risk to the brewers. Pre-election, promises are made, civil servants are paid on time if not before, and election rallies tend to include beer. Short term, brewers benefit. Elections have also become normal events, often with less skullduggery as recently seen in developed markets.

The biggest event will be Nigeria in February, where North/South tensions and the Christian/Muslim divide are resurfacing. The biggest risk for the brewers would be potential disruption in the Rivers Delta, which history suggests might occur should the opposition win. This would impact SABMiller with its brewery in Port Hartcourt disproportionally. Presidential elections in Cote d'Ivoire could impact Castel as was the case in the previous round in 2011. Tanzania elections in October may affect the subsequent choice of Finance Minister - in the last cycle the new minister unexpectedly raised excise rates.

Net, net – we are nuanced about the current headwinds

The configuration of Africa's economic growth drivers is rapidly changing towards a more diversified basis. Africa's growth platform is now more robust than a decade ago, contrary to the perception of most international observers. This by no means implies that the risk level for the region should be underestimated for both external and internal developments. Indeed, headwinds to growth in Africa are common.

Leading international consumer companies, which include the brewers, therefore approach the African market place on a portfolio basis. This offers good risk diversification.

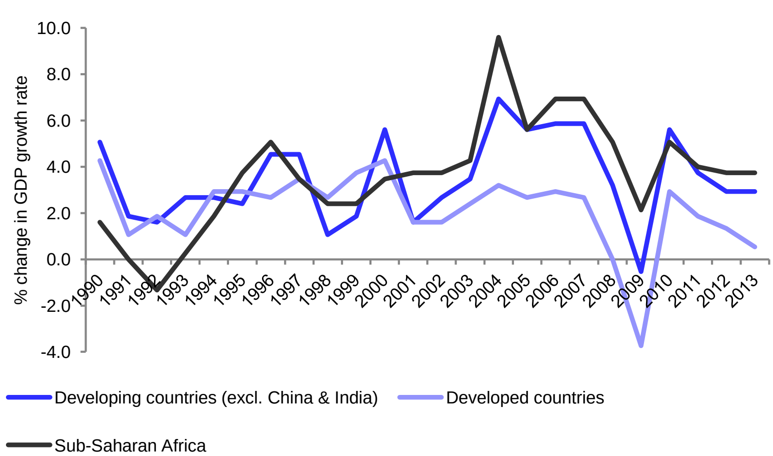
Our key takeaway is illustrated in Figure 263, namely that Sub-Saharan Africa has evolved from a perennial underperformer to not only one of the highest growth regions in the world but also being more resilient during economic shocks. This performance was evident during the global financial crisis of 2008. We think the region will negotiate the slowdown in the commodity cycle in good shape and so support an ongoing attractive beer opportunity.

Figure 262: Africa elections 2015

Country	Timing
Burkina Faso	November
Burundi	May/June
Chad	TBD
Cote d'Ivoire	October
Ethiopia	May
Guinea	TBD
Mauritius	May
Niger	TBD
Nigeria	February
South Sudan	July
Sudan	April
Tanzania	October
Togo	March
Zambia	January

Source: Deutsche Bank

Figure 263: Africa in a global GDP growth context



Source: World Bank, Deutsche Bank

African exposure

Africa has 20 stocks with significant beer exposure to Africa, most fairly illiquid. In our coverage, of the large caps that we cover we favor and rate both Heineken and SABMiller for the exposure to Africa brewing.

In this section, we have listed the other 17 small capitalized stocks that have direct exposure to Africa.

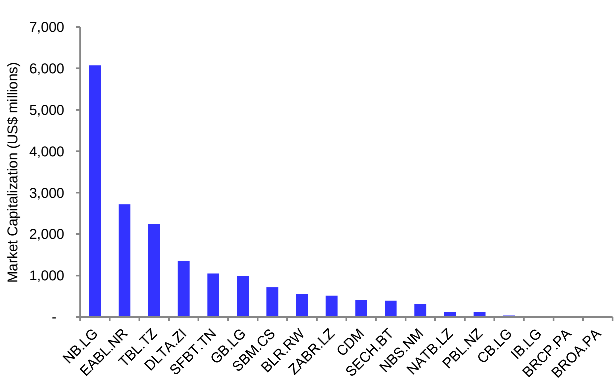
The investable universe in Africa

Direct exposure, but with risks

Investing in the locally listed African subsidiaries is a double-edged sword. Though all provide immediate access to African consumer growth, the lack of liquidity, questionable minority rights and an inability to effectively reinvest earnings locally increases the risk. Though most are related to global brewing groups, there is limited appetite to service the investment community beyond local shareholders. Frontier funds are often frustrated at the lack of access and information.

For the bigger brewing groups, there is limited upside to communicating with the market as long as local stakeholders are informed. Expatriate management time is expensive and it is of greater interest for them to devote their time to operations than an aggressive fund knocking on their door. The focus is instead on the local pension funds that hold a stake - they are key to ensuring that the community benefits from what is often perceived as a controversial product (alcohol). In addition, it also enhances the license to trade. With government pension funds often being the largest shareholders, it is of little interest to see excise increases and the resultant returns diminish.

Figure 265: Local African brewers market capitalization



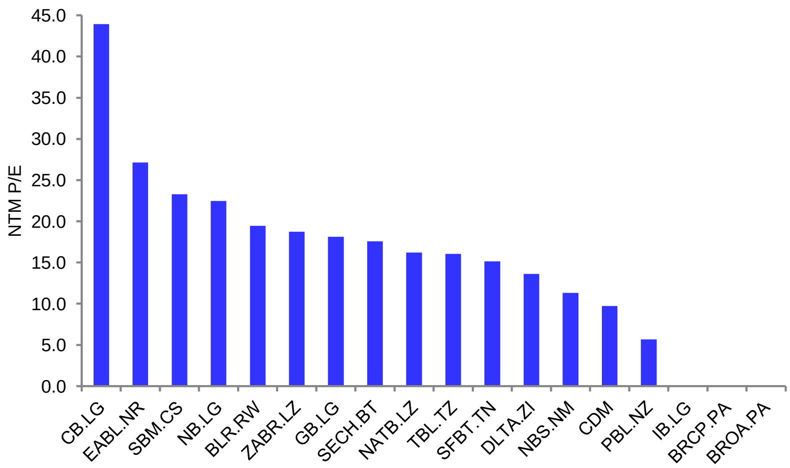
Source: Deutsche Bank, Datastream

Figure 264: Brewers of Africa

SABMiller	**SAB.L**
Tanzania Breweries	TBL.TZ
Zambia Breweries	ZABR.LZ
National Breweries	NATB.LZ
International Breweries	IB.LG
Delta	DLTA.ZI
Sechaba Brewery	SECH.BT
Diageo	**DGE.L**
East African Breweries	EABL.NR
Guinness Nigeria	GB.LG
Heineken	**HEIN.AS**
Nigerian Breweries	NB.LG
Bralirwa	BLR.RW
Champion Breweries	CB.LG
Bras.Cameroun Par	BRCP.PA
Soboa Par	BROA.PA
Brasseries Du Maroc	SBM.CS
Brass De Tunis	SFBT.TN
Namibia Breweries	NBS.NM
Phoenix Beverages	PBL.MZ

Source: Deutsche Bank

Figure 266: Next 12 months PE of local African brewers



Source: Deutsche Bank, Datastream

Figure 267: Share performance in US$ as of Dec 31 2014

	USD share price change			
	12 m	6m	3m	1m
SABMiller	2.0%	-10.4%	-4.4%	-2.5%
Tanzania Breweries	61.3%	36.0%	-20.9%	1.4%
Zambia Breweries	24.7%	2.1%	2.3%	-0.5%
National Breweries	2.4%	-2.1%	-2.0%	-0.5%
International Breweries	-27.8%	-23.5%	-27.8%	-18.8%
Delta	-27.1%	-21.5%	-20.9%	-9.7%
Sechaba Brewery Holdings	36.4%	12.1%	1.4%	-2.3%
Diageo	-13.0%	-11.6%	1.1%	-6.8%
East African Breweries	1.2%	3.0%	8.6%	-0.6%
Guinness Nigeria	-37.8%	-24.6%	-29.8%	9.5%
Heineken	5.5%	-2.4%	-3.2%	-9.0%
Nigerian Breweries	-14.3%	-15.1%	-16.7%	-5.3%
Bralirwa	-55.6%	-17.9%	-14.1%	0.0%
Champion Breweries	-63.6%	-33.3%	-33.3%	-33.3%
Bras.Cameroun Par	-39.8%	-34.4%	-26.5%	-19.2%
Soboa Par	-24.1%	-17.4%	-16.0%	-4.3%
Brasseries Du Maroc	-10.3%	-7.8%	-5.2%	-4.1%
Sc.Frigor Brass De Tunis	67.8%	35.1%	32.9%	1.9%
Namibia Breweries	3.2%	4.6%	9.6%	-1.2%
Phoenix Beverages	14.5%	12.0%	7.2%	6.9%

Source: Deutsche Bank, Datastream

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SABMiller listed entities

Listed entities of SABMiller

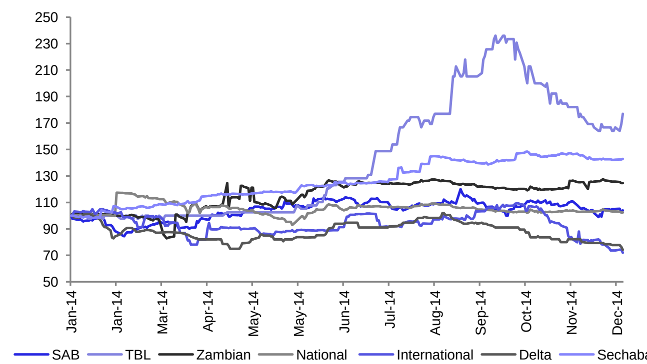
SABMiller has six listed subsidiaries and one associate, Delta beverages. The prime purpose of the listed subsidiaries is to enhance the license to trade and ensure good local corporate citizenship. The main shareholders in each are the local pension funds and quasi-government bodies.

Figure 268: SABMiller listed African entities

- Tanzania Breweries Limited (TBL.TZ)
- International Breweries (IB.LG)
- Zambian Breweries (ZABR.LZ)
- National Breweries (NATB.LZ)
- Cervejas de Mozambique (CDM)
- Sechaba (SECH.BT)
- Delta Corporation (40% associate)

Source: Deutsche Bank

Figure 269: 2014 US$ return of SABMiller listed entities



Source: Deutsche Bank, Datastream

The average return in US$ in 2014 was 11.6% with an average dividend yield of 4%. Notable was Tanzania Breweries, which is somewhat artificial. The announcement in November of the Tanzanian market to open to international investors caused the TBL share price to spike up and return 88% in local currency, 61% in US$. The share rerated upwardsfrom18X LTM PE to 54X LTM PE as a result.

Figure 270: SABMiller Africa subsidiaries valuations

	SAB.L UK	DLTA.ZI Zimbabwe	TBL.TZ Tanzania	ZABR.LZ Zambia	SECH.BT Zambia	NATB.LZ Zambia	CDM Mozambique	IB.LG Nigeria
Market Cap (Local)	54,207	1,318	4,276,463	3,276	3,739	756	13,833	69,785
Market Cap US$	82,038	1,318	2,491	497	393	115	420	383
Free Float (%)	59%	60%	42%	30%	50%	26%	3%	22%
EV (US$)	96,811	1,298	2,525	548	392	111	482	425
Absolute return (US$) 1 month	-2.47%	-9.73%	1.37%	-0.47%	-2.3%	-0.47%	-6.43%	-18.75%
Absolute return (US$) 3 month	-4.38%	-20.93%	-20.91%	2.31%	1.4%	-1.96%	-8.68%	-27.78%
Absolute return (US$) 12 month	2.04%	-27.14%	61.31%	24.67%	36.4%	2.43%	-11.91%	-27.78%
P/E LTM	13.61	13.09	20.06	31.58	18.62	23.08	9.08	20.92
P/E NTM	19.31	13.00	16.98	18.75	17.45	16.22	9.71	37.95
EV/EBITDA NTM	11.41	8.91	5.43	NA	7.78	NA	NA	
EV/EBITDA LTM	9.46	8.52	13.37	7.99	NA	8.60	5.65	
Dividend Yield	2.10	3.01	10.37	0.00	5.53	0.00	7.01	1.32
Net Debt/EBITDA	2.62	-0.04	0.13	0.83	NA	-0.30	0.70	
EBITDA Margin (%)	34.24	30.49	46.21	29.08	NA	21.58	28.36	
EBIT Margin (%)	26.57	24.75	40.14	22.85	23.68	18.56	23.13	27.02
EV/HL								
Sales growth (%)	-3.92	-0.66	4.54	13.75	6.58	16.64	-18.61	
EPS growth (%)	1.96	-0.70	21.77	68.42	-1.37	42.31	-6.47	
EBITDA Margin (%) Estimate	34.36	25.66	36.48	NA	28.57	NA	NA	28.41
EBIT Margin (%) Estimate	26.49	19.25	31.12	NA	26.19	NA	NA	23.72
Payout ratio (%)	49.60	0.47	66.35	0.00	70.14	0.00	68.38	50.00
ROE (%)	12.83	27.75	38.21	20.50	95.18	55.79	26.56	20.39
Capex/sales (%)	8.89	12.21	-13.75	18.16	NA	16.20	14.58	
Capex/depreciation (x)	1.61	2.13	-2.26	2.92	NA	5.36	2.78	

Source: Deutsche Bank, company reports, Datastream, Reuters, Bloomberg Finance LP, DB estimates for SABMiller

Running the Numbers

Africa

Tanzania

Beverage

Tanzania Breweries

Reuters: TBL.TZ | Bloomberg: TBL TZ

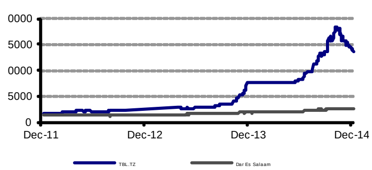
NC

Price (12 Dec 14)	TZS 14500
52-week Range	TZS 8000.00 – 19000.00
Market Cap	TZS 4276.4 bn
	US$ 2.52 bn

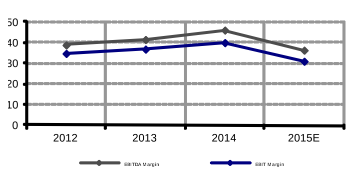
Company Profile

Tanzania Breweries (TBL) is a subsidiary of SABMiller with a c.80% beer market share. In 2011, EABL terminated its strategic alliance with TBL when it purchased Serengeti Breweries ending the effective monopoly in the market. Its key focus is beer, with leading brands Safari and Kilimanjaro in mainstream, and Castle Lager, Ndovu, and Castle Lite in premium. It has also installed the capability to produce international brands from the SABMiller portfolio, including Peroni. Additionally, it owns 65% of Tanzania Distillers, a joint venture with Distell with the leading brand Konyagi Gin.

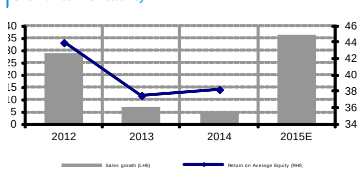
3yr Price Performance



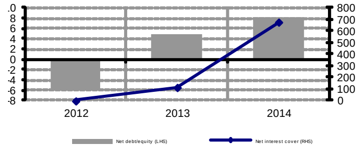
Margin Trends



Growth & Profitability



Solvency



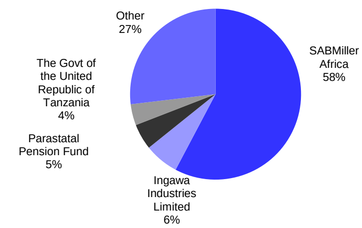
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS (TZS)				
Reported EPS (TZS)	543	557	678	744
DPS (TZS)	200	300	450	438
BVPS (TZS)	1385	1687	1890	
Weighted average shares ('000)	292	289	292	292
Average market cap (TZSm)	772,713	902,481	2,312,239	3,842,373
Enterprise value (TZSm)	755,139	937,321	2,367,686	3,930,807
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	2.9	4.0	6.4	17.7
P/BV (x)	1.15	1.33	2.30	
FCF Yield (%)	9.5	17.5	9.5	
Dividend Yield (%)	12.6	13.4	10.4	
EV/Sales (x)	1.1	1.3	3.2	3.9
EV/EBITDA (x)	2.9	3.2	6.9	10.7
EV/EBIT (x)	3.3	3.6	8.0	12.5
Income Statement (TZSm)				
Gross revenue	800,948	892,017	932,132	1,339,220
Excise duties as a % of Gross revenue	16.9%	20.4%	20.4%	24.5%
Net revenue	665,274	709,727	741,977	1,011,379
EBITDA	259,462	295,593	342,858	369,001
Depreciation & Amortisation	27,210	32,995	45,064	54,292
EBIT	232,252	262,598	297,794	314,709
Net interest income(expense)	-79	2,258	438	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	-1,060	-9,379	-5,075	
Other pre-tax income/(expense)	7,115	-1,664	-438	
Profit before tax	238,228	253,813	292,719	
Income tax expense	-71,813	-76,685	-89,012	
Minorities	-7,693	-9,784	-7,339	
Other post-tax income/(expense)	0	0	2,389	
Net profit	158,722	167,344	198,757	208,631
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (TZSm)				
Cash flow from operations	144,056	215,744	221,926	
Net Capex	99,887	102,727	-101,997	-938,035
Free cash flow	44,169	113,017	119,929	131,575
Equity raised/(bought back)	-12,209	9	0	
Dividends paid	-831	-145,566	-133,685	
Net inc/(dec) in borrowings	-10,244	-10,343	-52,850	
Other investing/financing cash flows	-78,846	-118,194	-110,714	
Net cash flow	41,926	-58,350	-75,323	
Change in working capital	-125,761	-83,648	221,926	
Balance Sheet (TZSm)				
Cash and other liquid assets	100,509	49,442	11,090	
Tangible fixed assets	363,298	425,680	474,670	
Goodwill/intangible assets	40,943	49,343	48,981	
Associates/investments	88	88	88	
Other assets	183,982	213,787	242,180	
Total assets	688,820	738,340	777,009	
Interest bearing debt	76,865	73,599	56,892	
Other liabilities	206,845	177,139	167,514	
Total liabilities	283,710	250,738	224,406	
Shareholders' equity	399,040	476,919	542,958	
Minorities	6,070	10,683	9,645	
Total shareholders' equity	405,110	487,602	552,603	
Net debt	*-23,644*	*24,157*	*45,802*	
Key Company Metrics				
Sales growth (%)	28.9	6.7	4.5	36.3
EPS growth (%)	45.6	2.5	21.8	9.7
EBITDA Margin (%)	39.0	41.6	46.2	36.5
EBIT Margin (%)	34.9	37.0	40.1	31.1
Payout ratio (%)	36.8	53.9	66.3	58.9
Return on Average Equity (%)	43.9	37.5	38.2	
Return on Average Assets (%)	26.2	23.5		
Capex/sales (%)	15.0	14.5	-13.7	-92.7
Net debt/equity (%)	-5.8	5.0	8.3	
Net interest cover (x)	NA	116.3	679.9	

Source: Company data, Datastream, Reuters, Bloomberg

Tanzania Breweries Limited

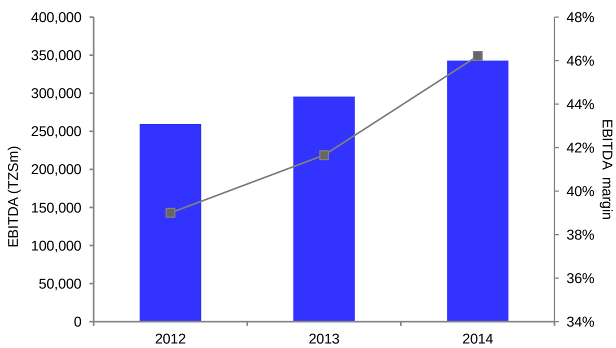
Tanzania Breweries (TBL) is a subsidiary of SABMiller with c.80% beer market share. In 2011, EABL terminated its strategic alliance with TBL, when it purchased Serengeti Breweries, ending the effective monopoly in the market. Its key focus is beer, with leading brands Safari and Kilimanjaro in mainstream, and Castle Lager, Ndovu, and Castle Lite in premium. It also has the ability to produce international brands from the SABMiller portfolio, including Peroni. Additionally, it owns 65% of Tanzania Distillers, a joint venture with Distell with the leading brand Konyagi Gin. It recently purchased DarBrew - a sorghum beer producer it had originally sold in 1998. This will give the company an opportunity to expand into the sorghum beer market.

Figure 271: TBL shareholders



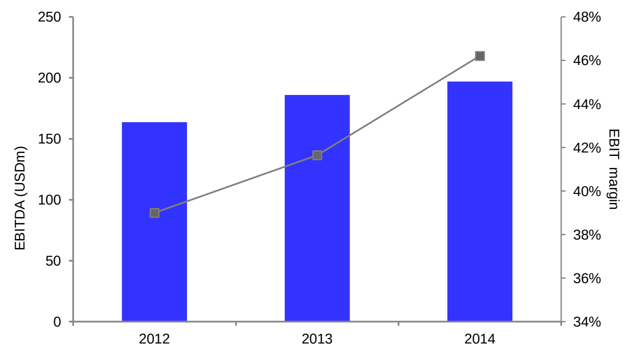
Source: Deutsche Bank, company reports

Figure 272: TBL.TZ EBITDA in local currency



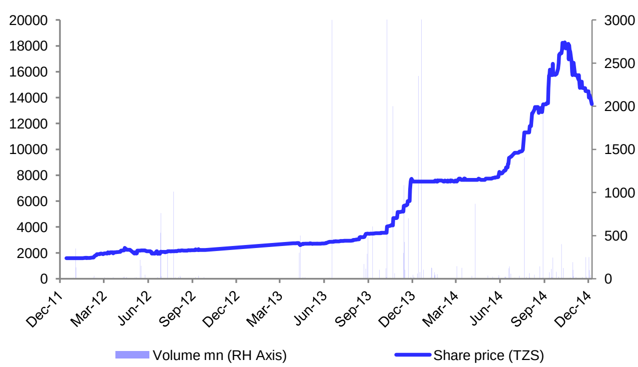
Source: Deutsche Bank, company reports

Figure 273: EBITDA in US$



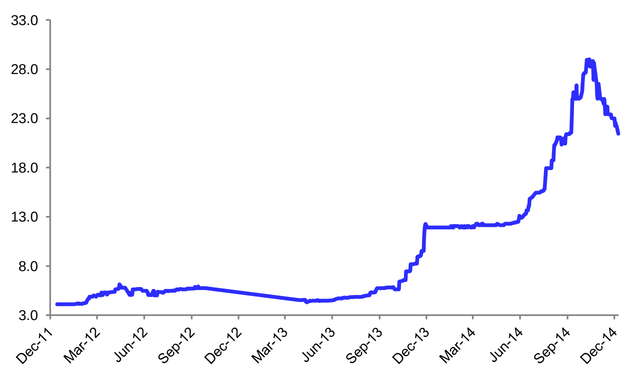
Source: Deutsche Bank

Figure 274: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 275: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 276: Share performance in US$

	12 m	6m	3m	1m
Tanzania Breweries	51.4%	41.2%	-21.7%	-15.9%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Zambia

Beverage

Zambian Breweries

Reuters: ZABR.LZ Bloomberg: ZABR ZL

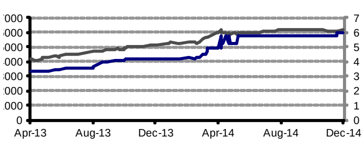
NC

Price (12 Dec 14)	ZMK 6.00
52-week Range	ZMB 4.20 – 6.00
Market Cap	ZMK 3,276m
	US$ 497m

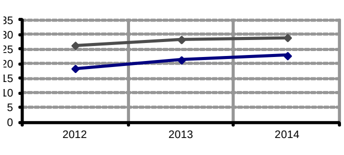
Company Profile

Owned 87% by SABMiller, Zambian breweries has c. 85% market share in the clear beer sector, with leading brands Mosi and Castle Lager. The company benefitted from the excise reductions in 2009 and 2010 from 75% to 60% and 40% respectively. However, in 2014 the government partially reversed its stance and raised excise back to 60% The company also produces the full portfolio of Coca Cola Brands, though these operations are slated to be folded into the newly formed Coca Cola Beverages Africa JV.

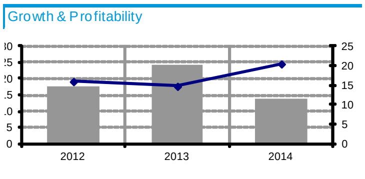
3yr Price Performance



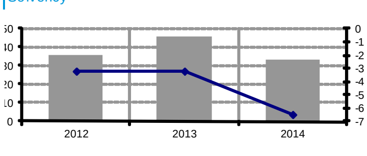
Margin Trends



Growth & Profitability



Solvency



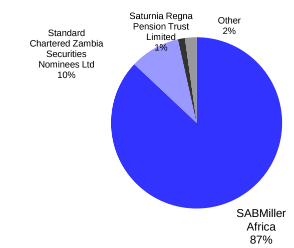
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS (ZMK)				
Reported EPS (ZMK)	0.2	0.2	0.3	
DPS (ZMK)				
BVPS (ZMK)	15	14	17	
Weighted average shares (m)	444	546	546	
Average market cap (ZMKm)	1,447	1,813	2,703	
Enterprise value (ZMKm)	1,685	2,165	3,016	
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	15.5	14.7	12.3	
P/BV (x)	1.7	2.0	2.3	
FCF Yield (%)	-9.0	0.3	2.7	
Dividend Yield (%)				
EV/Sales (x)	1.8	1.9	2.3	
EV/EBITDA (x)	6.9	6.7	8.0	
EV/EBIT (x)	9.9	8.9	10.2	
Income Statement (ZMKm)				
Gross revenue	1,179	1,444	1,646	
Excise duties as a % of Gross revenue	22.1%	21.0%	21.1%	
Net revenue	919	1,141	1,298	
EBITDA	243	324	377	
Depreciation & Amortisation	73	80	81	
EBIT	170	244	297	
Net interest income(expense)	-53	-77	-46	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	-1	10	0	
Other pre-tax income/(expense)	6	-21	0	
Profit before tax	121	157	251	
Income tax expense	-49	-52	-76	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	72	105	175	
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (ZMKm)				
Cash flow from operations	225	269	293	
Net Capex	324	265	236	
Free cash flow	-99	4	58	
Equity raised/(bought back)	351	0	0	
Dividends paid	0	0	0	
Net inc/(dec) in borrowings	-44	-62	-80	
Other investing/financing cash flows	-362	-320	-256	
Net cash flow	170	-113	-43	
Change in working capital	-2	-6	-8	
Balance Sheet (ZMKm)				
Cash and other liquid assets	142	40	43	
Tangible fixed assets	924	1,080	1,223	
Goodwill/intangible assets	72	79	77	
Associates/investments	0	0	0	
Other assets	281	381	455	
Total assets	1,419	1,580	1,798	
Interest bearing debt	380	392	356	
Other liabilities	379	423	495	
Total liabilities	759	815	851	
Shareholders' equity	660	765	947	
Minorities	0	0	0	
Total shareholders' equity	660	765	947	
Net debt	*239*	*352*	*313*	
Key Company Metrics				
Sales growth (%)	17.6	24.1	13.7	
EPS growth (%)	45.5	18.8	68.4	
EBITDA Margin (%)	26.4	28.4	29.1	
EBIT Margin (%)	18.5	21.4	22.9	
Payout ratio (%)	0.0	0.0	0.0	
Return on Average Equity (%)	16.0	14.8	20.5	
Return on Average Assets (%)	5.9	7.0	10.4	
Capex/sales (%)	35.2	23.2	18.2	
Net debt/equity (%)	36.2	46.0	33.1	
Net interest cover (x)	-3.2	-3.2	-6.5	

Source: Company data, Datastream, Reuters, Bloomberg

Zambian Breweries

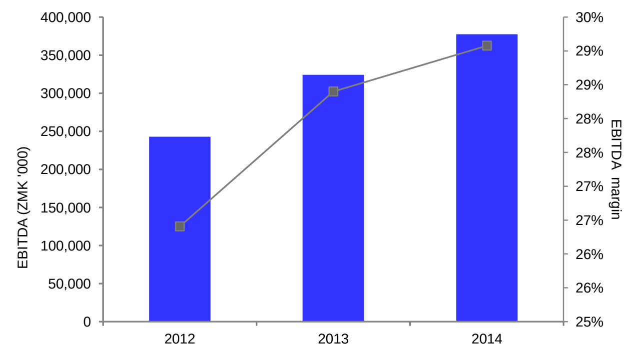
Owned 87% by SABMiller, Zambian breweries has c. 85% market share in the clear beer sector, with leading brands Mosi and Castle Lager. The company benefitted from the excise reductions in 2009 and 2010 from 75% to 60% and 40%, respectively. However, in 2014 the government partially reversed its stance and raised the excise back to 60% In 2012, it fully refurbished the Ndola plant, increasing its capacity from 1ml hl to 1.75ml hl. The company also produces the full portfolio of Coca Cola brands, though these operations are slated to be folded into the newly formed Coca Cola Beverages Africa JV.

Figure 277: ZBL shareholders



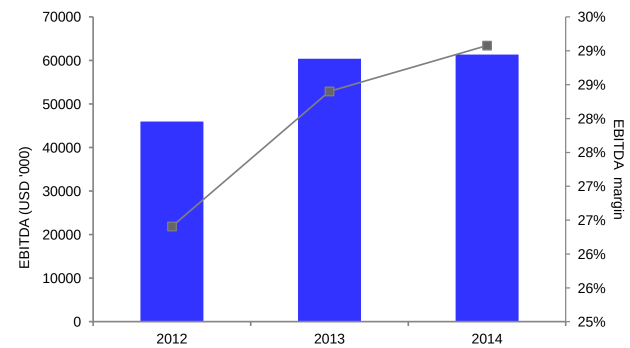
Source: Deutsche Bank, company reports

Figure 278: EBITDA in local currency



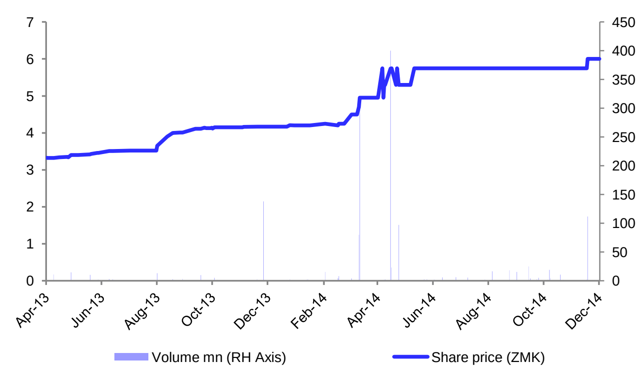
Source: Deutsche Bank, company reports

Figure 279: EBITDA in US$



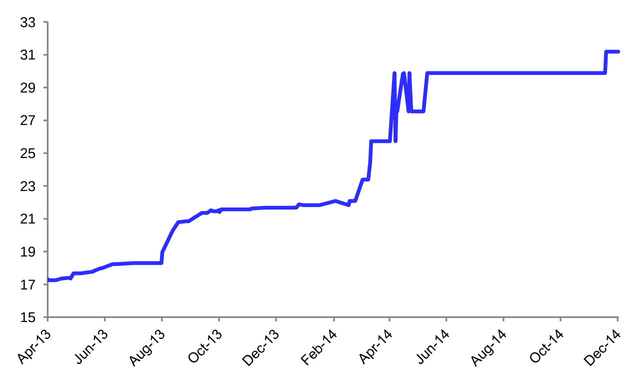
Source: Deutsche Bank

Figure 280: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 281: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 282: Share performance in US$

	12 m	6m	3m	1m
Zambia Breweries	26.3%	3.4%	2.1%	5.2%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Zambia

Beverage

National Breweries

Reuters: NATB.LZ Bloomberg: NABR ZL

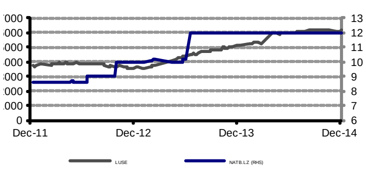
NC

Price (12 Dec 14)	ZMK 12.00
52-week Range	ZMK 10.16 – 12.00
Market Cap	ZMK 756m
	US$ 115m

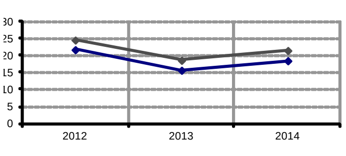
Company Profile

National Breweries in Zambia is effectively owned 70% by SABMiller and is the leading producer of opaque sorghum beer, accounting for c 50% of the market. Its leading brand is Chibuku, and recent innovations include Super Chibuku, the first opaque beer in clear PET bottles. It has recently benefitted from a ban on spirits sold in sachet format. Annual performance is highly correlated to the clear beer price as well as annual agricultural output.

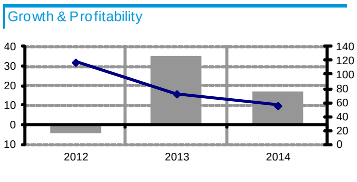
3yr Price Performance



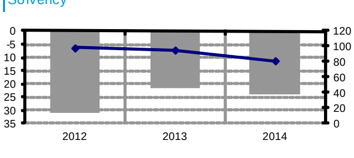
Margin Trends



Growth & Profitability



Solvency



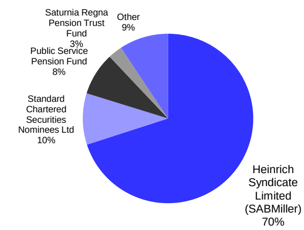
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS (ZMK)				
Reported EPS (ZMK)	0.6	0.5	0.7	
DPS (ZMK)	0.3			
BVPS (ZMK)	0.5	0.9	17	
Weighted average shares (m)	63	63	63	
Average market cap (ZMKm)	504	520	625	
Enterprise value (ZMKm)	495	0	730	
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	12.9	15.9	13.4	
P/BV (x)	15.37	8.69	5.86	
FCF Yield (%)	8.5	0.5	16	
Dividend Yield (%)	3.9			
EV/Sales (x)	2.0	0.0	19	
EV/EBITDA (x)	8.0	0.0	8.6	
EV/EBIT (x)	9.1	0.0	10.0	
Income Statement (ZMKm)				
Gross revenue	276	374	429	
Excise duties as a % of Gross revenue	9.7%	9.8%	8.3%	
Net revenue	249	337	394	
EBITDA	61	63	85	
Depreciation & Amortisation	7	10	12	
EBIT	54	53	73	
Net interest income(expense)	1	1	1	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	1	0	4	
Other pre-tax income/(expense)	-1	-1	-4	
Profit before tax	55	52	74	
Income tax expense	-19	-20	-27	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	35	32	46	
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (ZMKm)				
Cash flow from operations	57	43	74	
Net Capex	17	40	64	
Free cash flow	39	3	10	
Equity raised/(bought back)	0	0	0	
Dividends paid	-23	-1	0	
Net inc/(dec) in borrowings	0	0	0	
Other investing/financing cash flows	-17	-38	-61	
Net cash flow	16	4	13	
Change in working capital	-5	-20	-8	
Balance Sheet (ZMKm)				
Cash and other liquid assets	9	13	26	
Tangible fixed assets	46	73	122	
Goodwill/intangible assets	0	1	2	
Associates/investments	0	0	0	
Other assets	25	48	77	
Total assets	80	135	227	
Interest bearing debt	0	0	0	
Other liabilities	50	75	121	
Total liabilities	50	75	121	
Shareholders' equity	30	60	107	
Minorities	0	0	0	
Total shareholders' equity	30	60	107	
Net debt	-9	-13	-26	
Key Company Metrics				
Sales growth (%)	-4.4	35.3	16.6	
EPS growth (%)	-5.1	-7.1	42.3	
EBITDA Margin (%)	24.7	18.7	21.6	
EBIT Margin (%)	21.8	15.7	18.6	
Payout ratio (%)	50.0	0.0	0.0	
Return on Average Equity (%)	118.0	72.7	55.8	
Return on Average Assets (%)	43.8	30.3	25.7	
Capex/sales (%)	6.8	11.9	16.2	
Net debt/equity (%)	-31.0	-21.7	-24.1	
Net interest cover (x)	98.4	95.7	81.9	

Source: Company data, Datastream, Reuters, Bloomberg

National Breweries Zambia

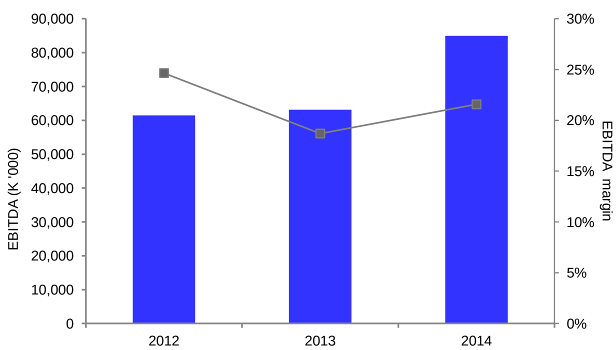
National Breweries in Zambia is effectively owned 70% by SABMiller and is the leading producer of opaque sorghum beer, accounting for c 50% of the market. Its leading brand is Chibuku, and recent innovations include Super Chibuku, the first opaque beer in clear PET bottles. It has recently benefitted from a ban on spirits sold in sachet format. Annual performance is highly correlated to the clear beer price as well as annual agricultural output.

Figure 283: NBL shareholders



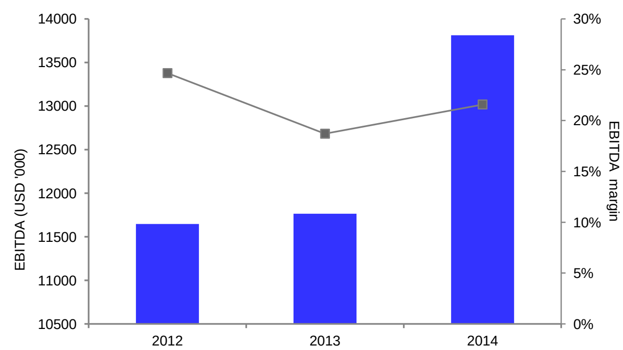
Source: Deutsche Bank, company reports

Figure 284: EBITDA in local currency



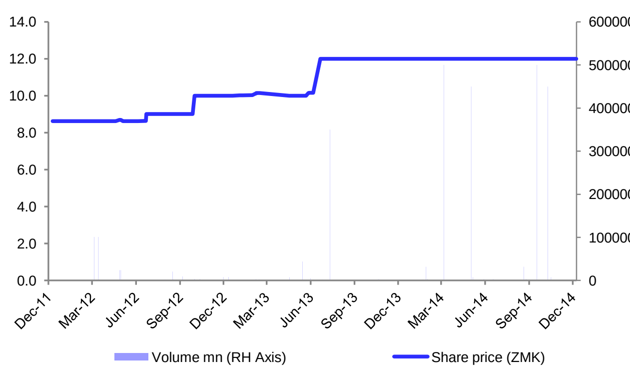
Source: Deutsche Bank, company reports

Figure 285: EBITDA in US$



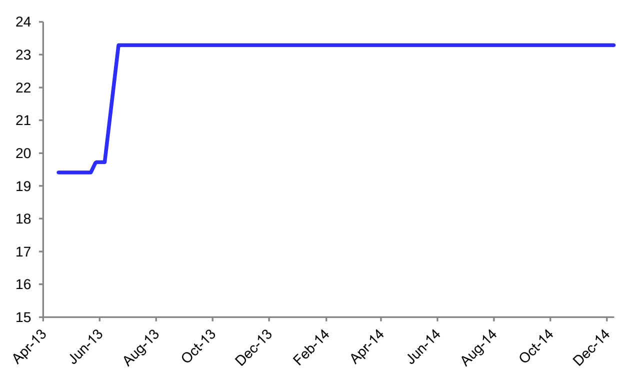
Source: Deutsche Bank

Figure 286: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 287: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 288: Share performance in US$

	12 m	6m	3m	1m
National Breweries	3.8%	-1.0%	-2.1%	0.8%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Mozambique

Beverage

Cervejas de Mozambique

Reuters: CDM | Bloomberg: CDM.MZ

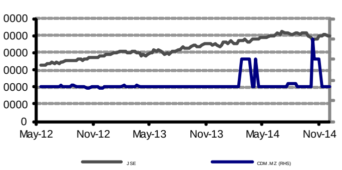
NC

Price (12 Dec 14)	MZN 113.60
52-week Range	MT 113.60 – 125.00
Market Cap	MT 13,833m
	US$ 420m

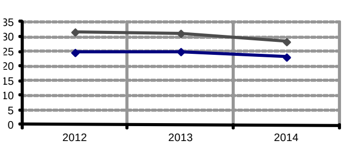
Company Profile

CDM (the pink brewery, because it ran out of paint) is owned 79% by SABMiller and has c. 90% market share of clear beer, with leading brands 2M, Laurentina Preta and Manica. After completion of the Nampula brewery, it launched Impala, the first cassava beer tapping into the value segment. The share has the liquidity of the Sahara. It recently added a spirits portfolio to its operations and should benefit from the integration with the recently formed Coca Cola Beverages Africa.

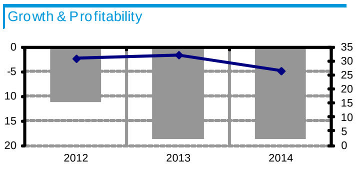
2yr Price Performance



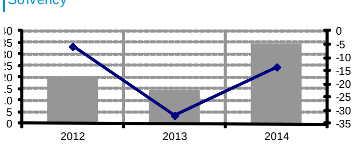
Margin Trends



Growth & Profitability



Solvency



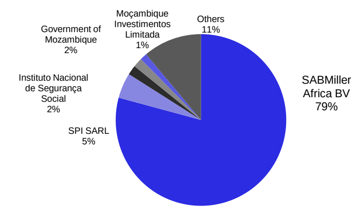
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS (MZN)				
Reported EPS (MZN)	10	13	12	
DPS (MZN)	5.72	8	8	
BVPS (MZN)	37.9	42.2	45.9	
Weighted average shares (m)	114	122	122	
Average market cap (MZNm)	NA	13,833	13,833	
Enterprise value (MZNm)	NA	14,595	15,781	
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	0.0	9.1	9.8	
P/BV (x)	0.00	2.69	2.49	
FCF Yield (%)	NA	5.7	2.8	
Dividend Yield (%)		7.0	7.0	
EV/Sales (x)	NA			
EV/EBITDA (x)	NA	5.2	5.6	
EV/EBIT (x)	NA	6.4	6.9	
Income Statement (MZNm)				
Gross revenue	7,807	9,062	9,852	
Excise duties as a % of Gross revenue				
Net revenue				
EBITDA	2,473	2,829	2,794	
Depreciation & Amortisation	545	564	516	
EBIT	1,928	2,265	2,278	
Net interest income(expense)	-336	-71	-169	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	-1	1	
Other pre-tax income/(expense)	-79	-43	-16	
Profit before tax	1,512	2,150	2,094	
Income tax expense	-429	-626	-669	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	1,083	1,524	1,425	
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (MZNm)				
Cash flow from operations	1,661	1,815	1,825	
Net Capex	787	1,032	1,437	
Free cash flow	874	783	388	
Equity raised/(bought back)	1,090	0	0	
Dividends paid	-864	-697	-974	
Net inc/(dec) in borrowings	-1,783	0	0	
Other investing/financing cash flows	25	2	-599	
Net cash flow	-658	88	-1,186	
Change in working capital	2	-488	-68	
Balance Sheet (MZNm)				
Cash and other liquid assets	65	102	227	
Tangible fixed assets	4,724	5,103	6,337	
Goodwill/intangible assets	286	286	481	
Associates/investments	0	0	0	
Other assets	1,261	2,263	2,258	
Total assets	6,337	7,754	9,304	
Interest bearing debt	915	864	2,175	
Other liabilities	1,109	1,751	1,538	
Total liabilities	2,024	2,614	3,713	
Shareholders' equity	4,313	5,140	5,591	
Minorities	0	0	0	
Total shareholders' equity	4,313	5,140	5,591	
Net debt	*850*	*762*	*1,947*	
Key Company Metrics				
Sales growth (%)	-11.2	-18.7	-18.6	
EPS growth (%)	25.1	31.3	-6.5	
EBITDA Margin (%)	31.7	31.2	28.4	
EBIT Margin (%)	24.7	25.0	23.1	
Payout ratio (%)	60.0	63.9	68.4	
Return on Average Equity (%)	31.0	32.2	26.6	
Return on Average Assets (%)	17.5	21.6	16.7	
Capex/sales (%)	10.1	11.4	14.6	
Net debt/equity (%)	19.7	14.8	34.8	
Net interest cover (x)	-5.7	-31.8	-13.5	

Source: Company data, Datastream, Reuters, Bloomberg

Cervejas de Mozambique

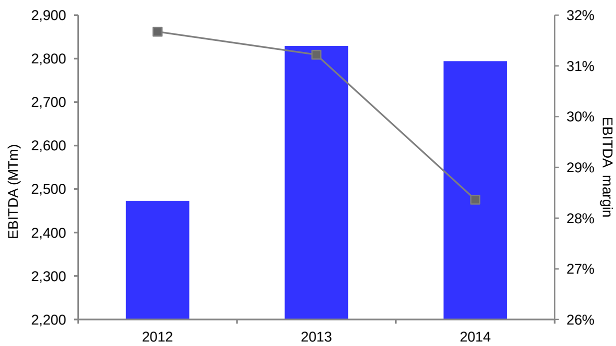
CDM (the pink brewery, because it ran out of paint) is owned 79% by SABMiller and has c. 90% market share of clear beer, with leading brands 2M, Laurentina Preta and Manica. After completion of the Nampula brewery, it launched Impala, the first cassava beer tapping into the value segment. The share has the liquidity of the Sahara. It recently added a spirits portfolio to its operations and should benefit from the integration with the recently formed Coca Cola Beverages Africa. The company also produces the full portfolio of Coca Cola Brands, though these operations are to be folded into the newly formed Coca Cola Beverages Africa JV.

Figure 289: NBL shareholders



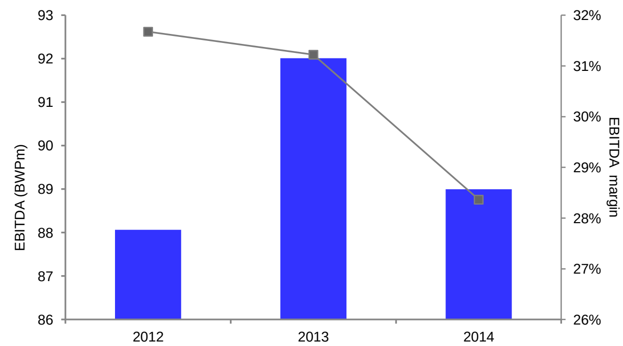
Source: Deutsche Bank, company reports

Figure 290: EBITDA in local currency



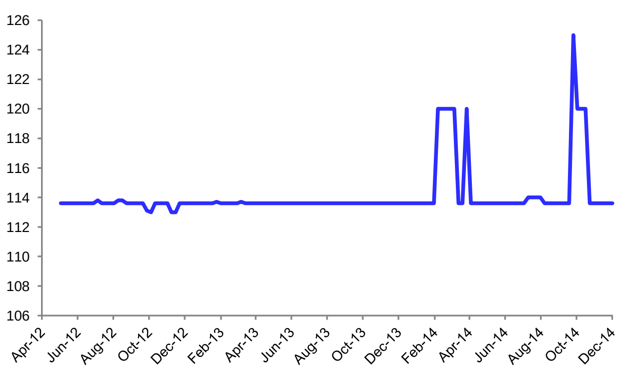
Source: Deutsche Bank, company reports

Figure 291: EBITDA in US$



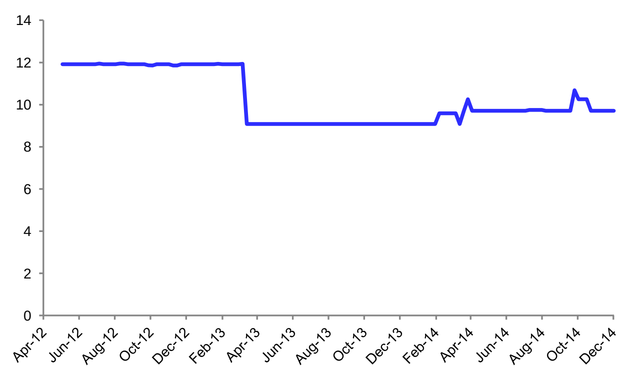
Source: Deutsche Bank

Figure 292: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 293: LTM P/E multiple



Source: Deutsche Bank, datastream

Running the Numbers

Africa

Botswana

Beverage

Sechaba Breweries

Reuters: SECH.BT Bloomberg: SCHB BG

NC

Price (12 Dec 14) BWp 2811.00

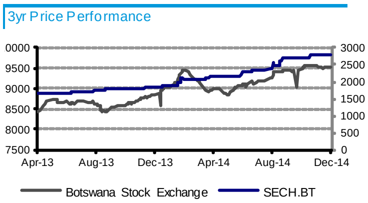
52-week Range BWp 1903.00 – 2811.00

Market Cap BWP 3,739m
US$ 393m

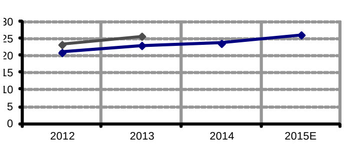
Company Profile

SABMiller owns 50% of Sechaba breweries, which is the leading producer of clear beer, opaque sorghum beer and Coca Cola Beverages. In beer it has 80% market share, with leading brand St. Louis, Carling Black Label and Castle Lager. The governments introduced an alcohol levy in 2008, which has subsequently been increased to 45% causing a shift to higher alcohol beers. The opaque sorghum beer market is led by Chibuku, though zoning legislation and the restrictions in selling outlets has resulted in reduced sales

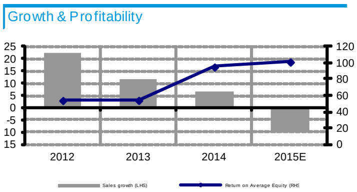
3yr Price Performance



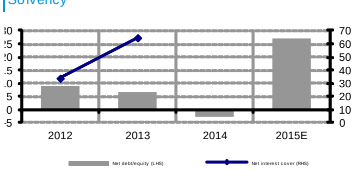
Margin Trends



Growth & Profitability



Solvency



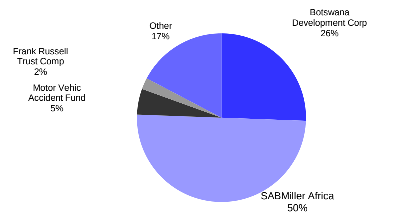
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS (BWP)				
Reported EPS (BWP)	12	15	14	15
DPS (BWP)	0.7	10	10	13
BVPS (BWP)	1.7	2.1	2.6	2.8
Weighted average shares (m)	133	133	133	133
Average market cap (BWPm)	1,611	2,184	2,864	3,738
Enterprise value (BWPm)	1,610	2,156	2,856	3,735
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	9.7	10.0	12.7	18.7
P/BV (x)	6.90	6.89	7.16	10.07
FCF Yield (%)	-1.0	-0.9	-0.5	
Dividend Yield (%)	5.6	7.0	5.5	4.7
EV/Sales (x)				
EV/EBITDA (x)	4.4	4.8	NA	7.8
EV/EBIT (x)	4.9	5.4	6.5	8.5
Income Statement (BWPm)				
Gross revenue	1,565	1,747	1,862	1,680
Excise duties as a % of Gross revenue				
Net revenue				
EBITDA	365	451	0	480
Depreciation & Amortisation	37	48	-441	40
EBIT	329	403	441	440
Net interest income(expense)	10	6	0	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	0	0	
Other pre-tax income/(expense)	-3	-10	-5	
Profit before tax	335	399	436	430
Income tax expense	-54	-76	-85	
Minorities	-119	-136	-159	
Other post-tax income/(expense)	0	7	159	
Net profit	162	194	351	360
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (BWPm)				
Cash flow from operations	305	330	-12	
Net Capex	85	79	n/a	
Free cash flow	-16	-17	-12	
Equity raised/(bought back)	0	0	0	
Dividends paid	-136	-129	-128	
Net inc/(dec) in borrowings	78	-19	0	
Other investing/financing cash flows	-155	-201	121	
Net cash flow	92	-18	-20	
Change in working capital	-16	-17	-12	
Balance Sheet (BWPm)				
Cash and other liquid assets	57	66	8	
Tangible fixed assets	398	422	0	
Goodwill/intangible assets	0	0	0	
Associates/investments	0	0	0	
Other assets	360	391	371	
Total assets	815	880	379	
Interest bearing debt	85	94	0	
Other liabilities	413	389	40	
Total liabilities	498	482	40	
Shareholders' equity	228	283	340	
Minorities	89	114	0	
Total shareholders' equity	317	397	340	371
Net debt	*28*	*28*	*-8*	*100*
Key Company Metrics				
Sales growth (%)	22.6	11.6	6.6	-9.8
EPS growth (%)		20.1	-14	4.2
EBITDA Margin (%)	23.3	25.8		28.6
EBIT Margin (%)	21.0	23.1	23.7	26.2
Payout ratio (%)	54.3	69.9	70.1	88.0
Return on Average Equity (%)	54.1	54.2	95.2	101.3
Return on Average Assets (%)	21.8	22.8	55.7	
Capex/sales (%)	5.5	4.5		
Net debt/equity (%)	8.9	6.9	-2.4	26.9
Net interest cover (x)	34.2	65.0		

Source: Company data, Datastream, Reuters, Bloomberg

Sechaba Breweries Botswana

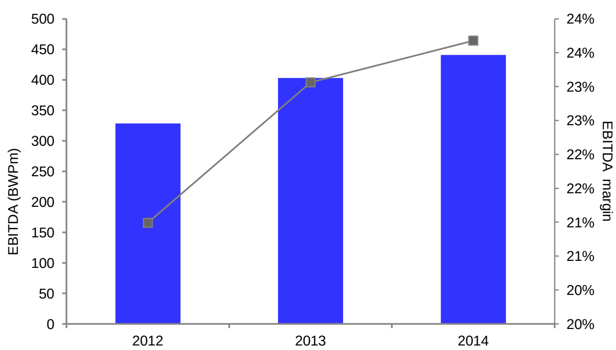
SABMiller owns 50% of Sechaba breweries, the leading producer of clear beer, opaque sorghum beer and Coca Cola Beverages. In beer it has 80% market share, with leading brand St. Louis (developed in 1984 after the Managing Director at the time visited Anheuser Busch), Carling Black Label and Castle Lager. The government introduced an alcohol levy in 2008, which has subsequently been increased to 45%, causing a shift to higher alcohol beers. The opaque sorghum beer market is led by Chibuku, though zoning legislation and the restrictions on selling outlets have resulted in reduced sales.

Figure 294: Sechaba shareholders



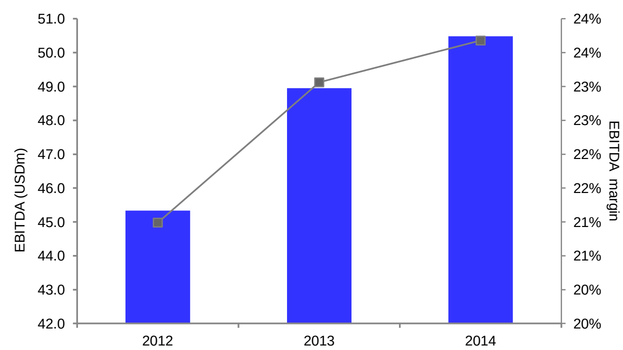
Source: Deutsche Bank, company reports

Figure 295: EBIT in local currency



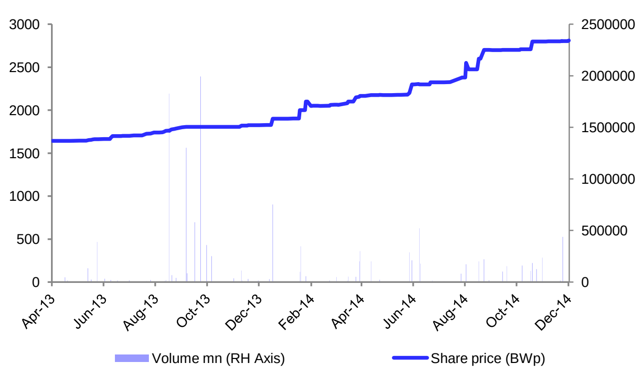
Source: Deutsche Bank, company reports

Figure 296: EBIT in US$



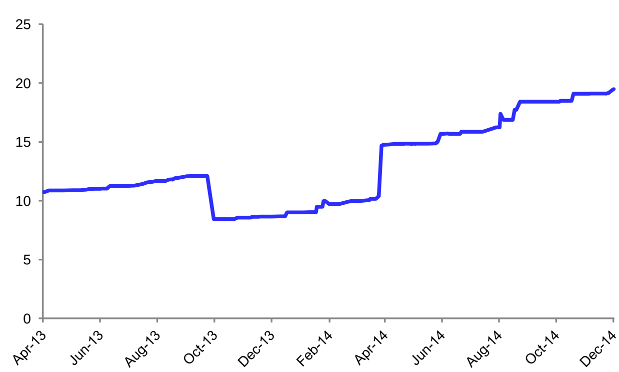
Source: Deutsche Bank

Figure 297: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 298: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 299: Share performance in US$

	12 m	6m	3m	1m
Sechaba Brewery Holdings	39.8%	13.9%	-0.7%	-2.6%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Zimbabwe

Beverage

Delta Corporation

Reuters: DLTA.ZI Bloomberg: DLTA ZH

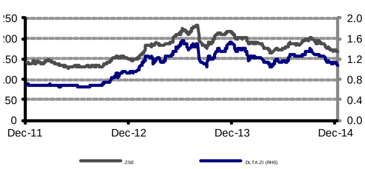
NC

Price (12 Dec 14)	USD 1.06
52-week Range	USD 1.02 – 1.42
Market Cap	US$ 1,318m

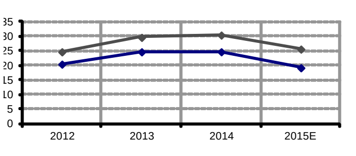
Company Profile

Delta Beverages can be considered an independent brewer, although SABMiller has a 40% share and the Managing Director of Delta sits on the SABMiller board. The company has c. 98% market share in beer, with Castle Lager and Lion Lager the leading brands. Following the dollarization of the Zimbabwe economy, the company has recovered volumes from previous highs in 1999 and has benefitted from additional capacity investment. It is also the bottler of Coca Cola products and in 2009 acquired a controlling stake in Schweppes. Additionally, it produces opaque sorghum beer, with Chibuku the leading brand and PET-based Super Chibuku recently launched.

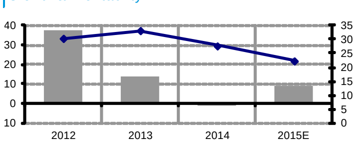
3yr Price Performance



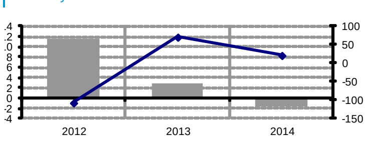
Margin Trends



Growth & Profitability



Solvency



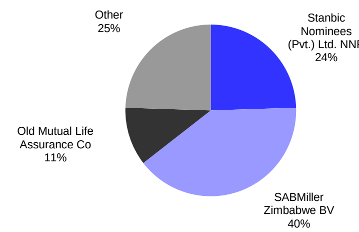
Fiscal year end 31-Mar	2012	2013	2014	2015E
Financial Summary				
DB EPS ($)				
Reported EPS ($)	6.22	8.55	8.49	
DPS ($)	0.02	0.03	0.04	0.03
BVPS ($)	0.22	0.28	0.33	0.37
Weighted average shares (m)	1,192	1,227	1,231	1,231
Average market cap (US$m)	811	1,411	1,416	1,342
Enterprise value (US$m)	842	1,422	1,409	1,348
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	0.1	0.1	0.2	
P/BV (x)	3.35	3.11	4.02	2.99
FCF Yield (%)	1.9	4.8	3.8	
Dividend Yield (%)	2.7	3.5	3.0	3.1
EV/Sales (x)	1.8	2.6	2.6	2.3
EV/EBITDA (x)	7.1	8.8	8.5	8.9
EV/EBIT (x)	8.6	10.5	10.5	11.9
Income Statement (US$m)				
Gross revenue	555	631	626	
Excise duties as a % of Gross revenue	13.5%	13.5%	13.3%	
Net revenue	480	546	542	590
EBITDA	119	162	165	151
Depreciation & Amortisation	20	27	31	38
EBIT	98	135	134	114
Net interest income(expense)	-1	2	6	
Associates/affiliates	2	2	2	
Exceptionals/extraordinaries	-2	-3	0	
Other pre-tax income/(expense)	2	0	-2	
Profit before tax	99	137	140	125
Income tax expense	-24	-33	-33	
Minorities	-1	-2	-2	
Other post-tax income/(expense)	-1	0	0	
Net profit	73	102	106	97
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (US$m)				
Cash flow from operations	90	134	129	
Net Capex	74	84	66	46
Free cash flow	16	50	63	70
Equity raised/(bought back)	2	0	-4	
Dividends paid	-22	-29	-43	
Net inc/(dec) in borrowings	57	-3	-7	
Other investing/financing cash flows	-77	-83	-63	
Net cash flow	50	20	11	
Change in working capital	-35	-42	-39	
Balance Sheet (US$m)				
Cash and other liquid assets	56	75	86	
Tangible fixed assets	268	319	353	
Goodwill/intangible assets	0	0	0	
Associates/investments	28	31	35	
Other assets	115	137	145	
Total assets	467	562	620	
Interest bearing debt	81	79	71	
Other liabilities	117	136	134	
Total liabilities	198	215	206	
Shareholders' equity	264	341	406	
Minorities	5	7	8	
Total shareholders' equity	269	347	414	449
Net debt	*31*	*10*	*-7*	
Key Company Metrics				
Sales growth (%)	37.4	13.7	-0.7	8.8
EPS growth (%)	38.2	37.5	-0.7	
EBITDA Margin (%)	24.7	29.7	30.5	25.7
EBIT Margin (%)	20.5	24.7	24.7	19.2
Payout ratio (%)	0.3	0.4	0.5	
Return on Average Equity (%)	30.5	33.2	27.7	22.3
Return on Average Assets (%)	18.0	19.9	17.9	
Capex/sales (%)	15.4	15.3	12.2	7.8
Net debt/equity (%)	11.5	3.0	-1.7	
Net interest cover (x)	-106.3	71.7	22.2	

Source: Company data, Datastream, Reuters, Bloomberg

Delta Beverages Zimbabwe

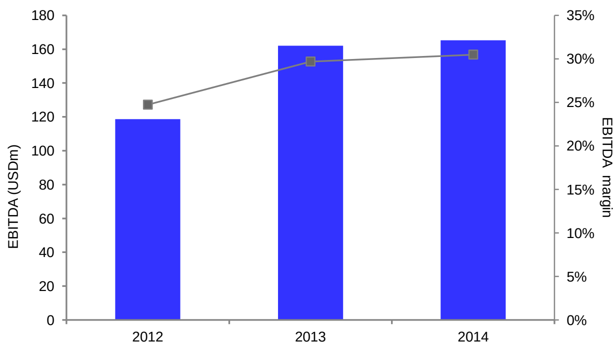
Delta Beverages can be considered an independent brewer, although SABMiller has a 40% share and the Managing Director of Delta sits on the SABMiller board. The company has c. 98% market share in beer, with Castle Lager and Lion Lager the leading brands. Following the dollarization of the Zimbabwe economy, the company has recovered volumes from previous highs in 1999 and has benefitted from additional capacity investment. It is also the bottler of Coca Cola products and in 2009 acquired a controlling stake in Schweppes. Additionally, it produces opaque sorghum beer, with Chibuku the leading brand and PET-based Super Chibuku recently launched.

Figure 300: Delta shareholders



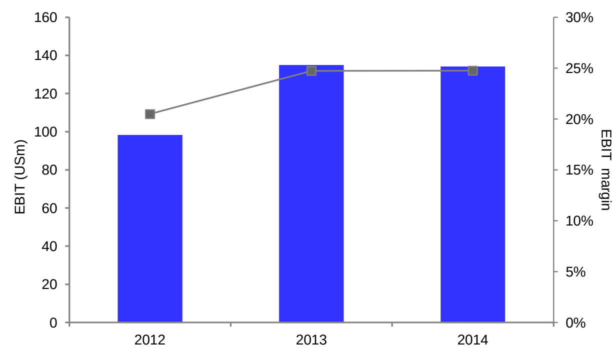
Source: Deutsche Bank, company reports

Figure 301: EBITDA in US$



Source: Deutsche Bank, company reports

Figure 302: EBIT in US$

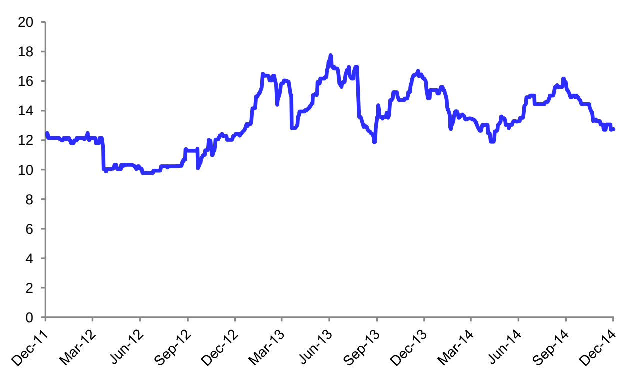


Source: Deutsche Bank

Figure 303: Price and volume in local currency

Source: Deutsche Bank, datastream

Figure 304: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 305: Share performance in US$

	12 m	6m	3m	1m
Delta	-22.1%	-6.8%	-16.8%	-3.5%

Source: Deutsche Bank, Datastream

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Diageo listed subsidiaries

Listed subs of Diageo

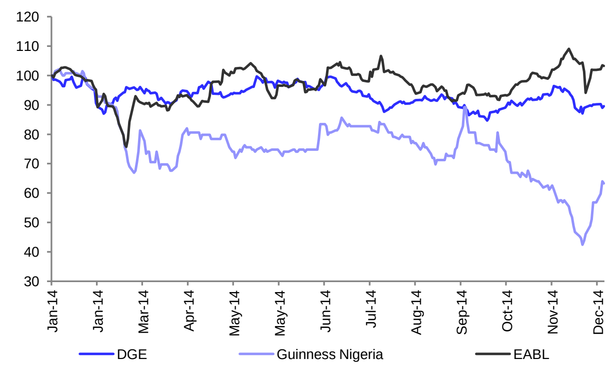
Diageo has three listed subsidiaries in Africa, though Guinness Ghana is barely liquid. Guinness Nigeria and East African Breweries Limited are some of the most liquid stocks in Africa north of Johannesburg.

Figure 306: Diageo listed African entities

- Guinness Ghana (GGBL. GH)
- Guinness Breweries (GB.LG)
- East African Breweries Limited (EABL.NR)

Source: Deutsche Bank

Figure 307: 2014 US$ return of Diageo listed entities



Source: Deutsche Bank, Datastream

The average return in US$ in 2014 was -18.3% with an average dividend yield of 1.7%.

Figure 308: Valuations key figures of Diageo Africa subsidiaries

	DGE.L	EABL.NR	GB.LG
	UK	Kenya	Nigeria
Market Cap (Local)	46,743	245,140	195,765
Market Cap US$	70,722	2,686	1,075
Free Float (%)	100%	50%	46%
EV (US$)	86,727	3,092	1,290
Absolute return (US$) 1 month	-6.79%	-0.58%	9.52%
Absolute return (US$) 3 month	1.05%	8.63%	-29.77%
Absolute return (US$) 12 month	-13.01%	1.19%	-37.84%
P/E LTM	19.32	31.02	19.67
P/E NTM	18.45	25.20	16.89
EV/EBITDA NTM	13.80	13.32	9.80
EV/EBITDA LTM	15.11	13.24	13.65
Dividend Yield	2.70	1.89	1.44
Net Debt/EBITDA	2.28	1.96	1.26
EBITDA Margin (%)	36.68	29.57	24.12
EBIT Margin (%)	30.55	24.28	14.40
EV/HL			
Sales growth (%)	-9.25	3.78	-10.83
EPS growth (%)	-2.26	-7.03	-19.92
EBITDA Margin (%) Estimate	35.94	31.20	24.18
EBIT Margin (%) Estimate	29.99	25.45	16.26
Payout ratio (%)	57.63	67.07	50.39
ROE (%)	32.82	74.13	21.02
Capex/sales (%)	6.26	11.32	12.79
Capex/depreciation (x)	1.02	2.14	1.32

Source: Deutsche Bank,Company Reports, Datastream, Reuters, Bloomberg Finance LP, DB estimates for Diageo

Running the Numbers

Africa

Kenya

Beverage

East African Breweries

Reuters: EABL.NR Bloomberg: EABL.KN

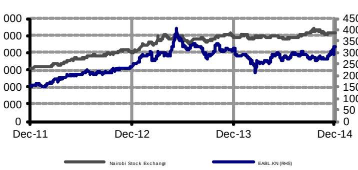
NC

Price (12 Dec 14)	KES 306.00
52-week Range	KES 208.00 – 329.00
Market Cap	KES 245,140 m
	US$ 2,686 m

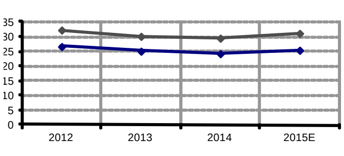
Company Profile

Diageo owns 50.2% of East African Breweries in Kenya, and includes operations in Uganda, Tanzania, and exports to South Sudan, Burundi and Rwanda. In Kenya, the company has c. 95% market share with leading brand Tusker. Recent excise changes have markedly reduced the volumes of Senator Lager. In Uganda, the company has c. 45% market share, led by Bell Lager. In Tanzania, it has c. 20% share, gained from the purchase of Serengeti Breweries in 2009. It also distributes and produces spirits brands in the region.

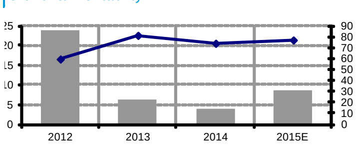
3yr Price Performance



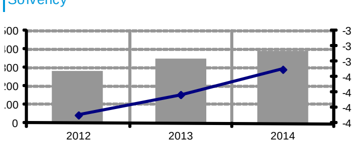
Margin Trends



Growth & Profitability



Solvency



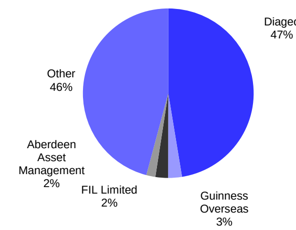
Fiscal year end 30-Jun	2012	2013	2014	2015E
Financial Summary				
DB EPS				
Reported EPS (KES)	13	9	8	11
DPS (KES)	8.8	8.9	5.5	7.1
BVPS (KES)	8.3	8.7	11.4	16.6
Weighted average shares (m)	791	791	792	792
Average market cap (m)	180,297	268,863	227,743	246,166
Enterprise value (m)	207,504	299,268	263,322	281,509
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	12.6	30.1	35.5	29.6
P/BV (x)	20.55	30.51	25.51	18.77
FCF Yield (%)	0.1	0.8	-0.3	
Dividend Yield (%)	5.1	3.4	1.9	2.3
EV/Sales (x)	3.7	5.1	4.3	4.2
EV/EBITDA (x)	11.6	16.8	14.5	13.6
EV/EBIT (x)	14.0	20.2	17.7	16.6
Income Statement (KESm)				
Gross revenue	89,847			
Excise duties as a % of Gross revenue	38.2%			
Net revenue	55,522	59,062	61,292	66,568
EBITDA	17,957	17,825	18,121	20,772
Depreciation & Amortisation	3,125	2,977	3,237	3,829
EBIT	14,832	14,848	14,884	16,943
Net interest income(expense)	-3,628	-3,885	-4,259	
Associates/affiliates	0	0	0	0
Exceptionals/extraordinaries	-3,960	0	0	
Other pre-tax income/(expense)	8,010	151	-218	
Profit before tax	15,253	11,115	10,407	13,520
Income tax expense	-4,067	-4,593	-3,548	
Minorities	-543	241	-360	
Other post-tax income/(expense)	0	215	0	
Net profit	10,644	6,979	6,499	8,569
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (KESm)				
Cash flow from operations	6,835	8,303	6,193	
Net Capex	6,696	6,693	6,941	5,478
Free cash flow	138	1,610	-747	944
Equity raised/(bought back)	0	0	0	
Dividends paid	-6,649	-6,026	-4,267	
Net inc/(dec) in borrowings	21,150	-9	10,029	
Other investing/financing cash flows	-15,512	-267	-785	
Net cash flow	-872	-4,693	4,230	
Change in working capital	*-10,713*	*8,303*	*6,193*	
Balance Sheet (KESm)				
Cash and other liquid assets	998	1,406	1,101	
Tangible fixed assets	31,247	33,715	37,255	
Goodwill/intangible assets	4,401	4,564	4,575	
Associates/investments	10	10	10	
Other assets	17,928	18,860	19,925	
Total assets	54,584	58,556	62,866	
Interest bearing debt	26,031	31,086	36,598	
Other liabilities	19,837	19,036	17,167	
Total liabilities	45,868	50,122	53,765	
Shareholders' equity	6,541	6,874	9,019	
Minorities	2,175	724	82	
Total shareholders' equity	8,716	8,434	9,101	
Net debt	*25,033*	*29,680*	*35,497*	*30,537*
Key Company Metrics				
Sales growth (%)	23.7	6.4	3.8	8.6
EPS growth (%)	44.7	-34.5	-7.0	28.0
EBITDA Margin (%)	32.3	30.2	29.6	31.2
EBIT Margin (%)	26.7	25.1	24.3	25.5
Payout ratio (%)	65.0	100.9	67.1	67.3
Return on Average Equity (%)	59.8	81.4	74.1	77.1
Return on Average Assets (%)	20.4	12.3	10.7	
Capex/sales (%)	12.1	11.3	11.3	8.2
Net debt/equity (%)	287.2	351.9	390.0	
Net interest cover (x)	-4.1	-3.8	-3.5	

Source: Company data, Datastream, Reuters, Bloomberg

East African Breweries Limited

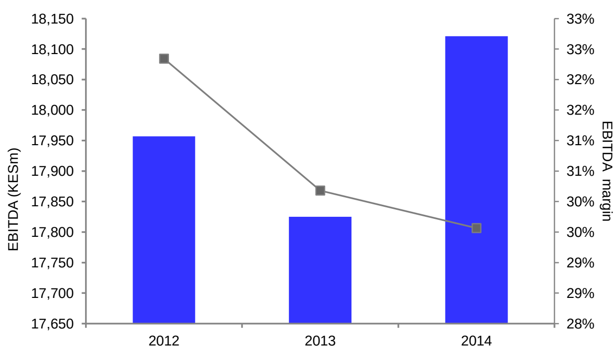
Diageo owns 50.2% of East African Breweries in Kenya, and includes operations in Uganda, Tanzania, and exports to South Sudan, Burundi and Rwanda. In Kenya, the company has c. 95% market share with leading brand Tusker. Recent excise changes have markedly reduced the volumes of Senator Lager. In Uganda, the company has c. 45% market share, led by Bell Lager. In Tanzania, it has c. 20% share, gained from the purchase of Serengeti Breweries in 2009. It also distributes and produces spirits brands in the region.

Figure 309: EABL shareholders



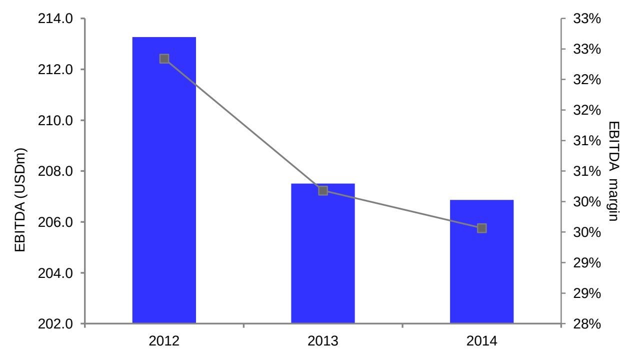
Source: Deutsche Bank, company reports

Figure 310: EBITDA in local currency



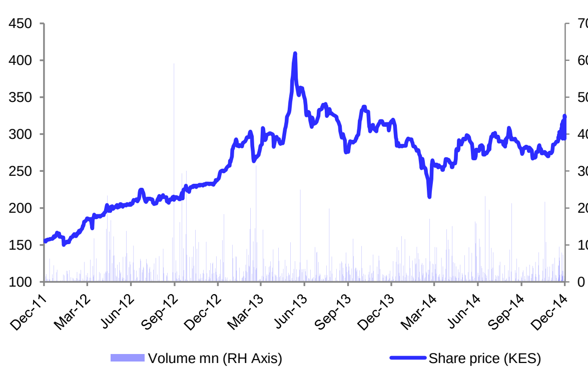
Source: Deutsche Bank, company reports

Figure 311: EBITDA in US$



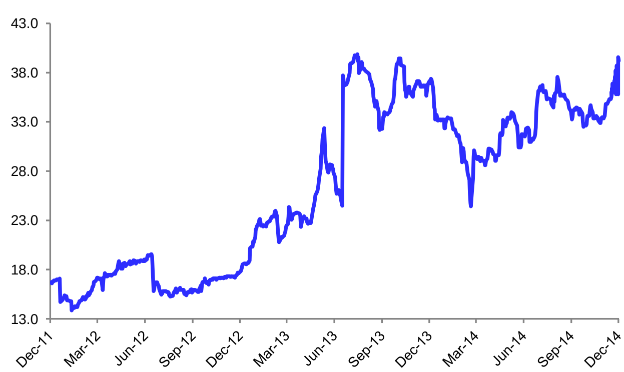
Source: Deutsche Bank

Figure 312: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 313: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 314: Share performance in US$

	12 m	6m	3m	1m
East African Breweries	0.6%	4.6%	7.9%	3.0%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Nigeria

Beverage

Guinness Nigeria (Diageo)

Reuters: GUINNES.LG Bloomberg: GUINNESS NL

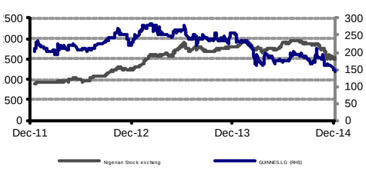
NC

Price (12 Dec 14)	NGN 130.00
52-week Range	NGN 115.00 – 239.00
Market Cap	NGN 195,765m
	US$ 1,075m

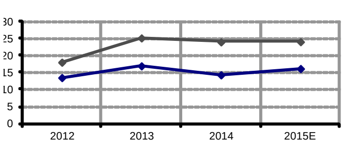
Company Profile

Diageo own 54% of Guinness Nigeria, which has c. 20% market share in beer. The Guinness FES brand has c. 60% of the Stout market which accounts for c. 20 of beer; Harp Lager has c. 10% of the lager market, which accounts for c. 60% of beer; and Guinness Malta dominates the non-alcoholic beer market. In 2011, the company underwent an expandsion program and now should have c. 8mhl of capcity available. The company also manufactures and distributes a portfolio of spirits, including the recently launched local bitter Orijin. Nigeria is the No. 1 market for Guinness by sales value in the world for Diageo.

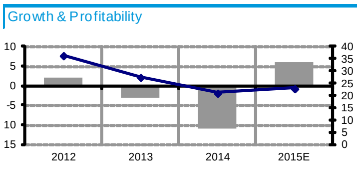
3yr Price Performance



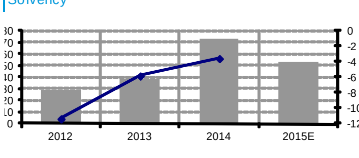
Margin Trends



Growth & Profitability



Solvency



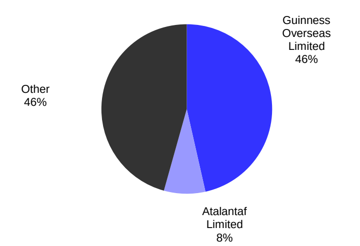
Fiscal year end 30-Jun	2012	2013	2014	2015E
Financial Summary				
DB EPS (NGN)				
Reported EPS (NGN)	9.6	7.9	6.4	6.9
DPS (NGN)	8.0	7.0	3.2	4.8
BVPS (NGN)	27.4	30.6	29.9	33.5
Weighted average shares (m)	1,475	1,506	1,506	1,506
Average market cap (NGNm)	336,283	378,083	301,178	184,637
Enterprise value (NGNm)	348,225	395,995	334,257	211,352
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	23.3	33.1	34.9	17.7
P/BV (x)	8.21	8.60	7.41	3.66
FCF Yield (%)	2.3	2.5	0.4	
Dividend Yield (%)	3.6	2.7	1.4	3.9
EV/Sales (x)	2.8	3.2	3.1	1.8
EV/EBITDA (x)	15.2	12.8	12.7	7.6
EV/EBIT (x)	20.3	19.0	21.3	11.2
Income Statement (NGNm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	126,288	122,464	109,202	115,701
EBITDA	22,907	30,981	26,343	27,981
Depreciation & Amortisation	5,746	10,098	10,620	9,168
EBIT	17,161	20,883	15,723	18,813
Net interest income(expense)	-1,513	-3,605	-4,442	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	-126	-24	0	
Other pre-tax income/(expense)	4,861	-245	400	
Profit before tax	20,383	17,009	11,682	14,208
Income tax expense	-6,169	-5,145	-2,108	
Minorities	0	0	0	
Other post-tax income/(expense)	456	0	0	
Net profit	14,671	11,864	9,573	10,924
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (NGNm)				
Cash flow from operations	21,224	24,298	15,069	
Net Capex	13,530	14,330	13,967	9,134
Free cash flow	7,694	9,968	1,226	
Equity raised/(bought back)	0	0	0	
Dividends paid	-14,071	-4,275	-10,849	
Net inc/(dec) in borrowings	-1,153	-2,537	11,901	
Other investing/financing cash flows	-14,237	-17,889	-13,952	
Net cash flow	-8,237	-402	2,169	
Change in working capital	-7,257	-8,115	19,157	
Balance Sheet (NGNm)				
Cash and other liquid assets	4,772	3,189	6,291	
Tangible fixed assets	76,294	88,113	90,683	
Goodwill/intangible assets	680	579	608	
Associates/investments	0	0	0	
Other assets	20,788	32,244	38,023	
Total assets	102,534	124,125	135,605	
Interest bearing debt	16,714	21,101	39,370	
Other liabilities	45,467	56,985	51,173	
Total liabilities	62,181	78,086	90,543	
Shareholders' equity	40,353	46,039	45,062	
Minorities	0	0	0	
Total shareholders' equity	40,353	46,039	45,062	50,492
Net debt	*11,942*	*17,912*	*33,079*	*27,093*
Key Company Metrics				
Sales growth (%)	2.1	-3.0	-10.8	6.0
EPS growth (%)	-20.7	-17.7	-19.9	9.1
EBITDA Margin (%)	18.1	25.3	24.1	24.2
EBIT Margin (%)	13.6	17.1	14.4	16.3
Payout ratio (%)	83.0	88.3	50.4	69.3
Return on Average Equity (%)	36.4	27.5	21.0	22.9
Return on Average Assets (%)	15.1	10.5	7.4	
Capex/sales (%)	10.7	11.7	12.8	7.9
Net debt/equity (%)	29.6	38.9	73.4	53.7
Net interest cover (x)	-11.3	-5.8	-3.5	

Source: Company data, Datastream, Reuters, Bloomberg

Guinness Nigeria

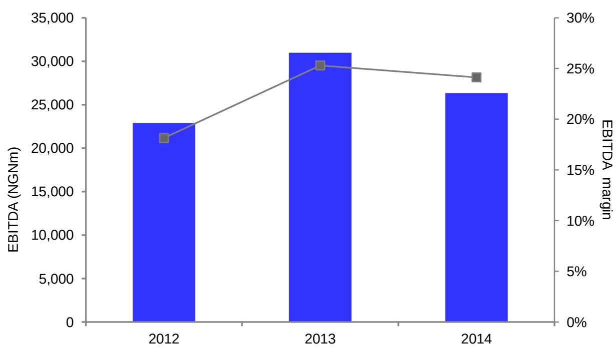
Diageo owns 54% of Guinness Nigeria, which was established in 1963 and has c. 20% market share in beer. The Guinness FES brand has c. 60% of the Stout market, which accounts for c. 20% share of beer; Harp Lager has c. 10% of the lager market, which accounts for c. 60% of beer; and Guinness Malta dominates the non-alcoholic beer market. In 2011, the company underwent an expansion program and now should have c. 8mhl of capacity available. The company also manufactures and distributes a portfolio of spirits, including the recently launched local bitter Orijin. Nigeria is the No. 1 market for Guinness by sales value in the world for Diageo.

Figure 315: GN shareholders



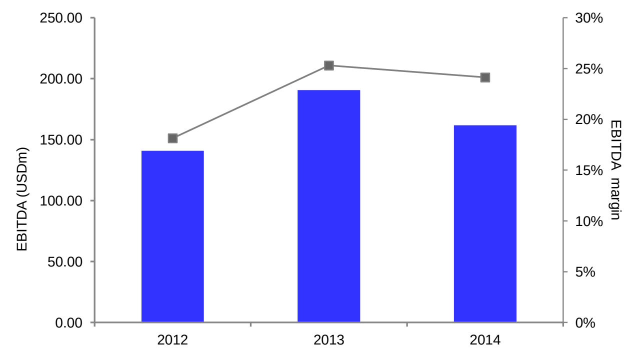
Source: Deutsche Bank, company reports

Figure 316: EBITDA in local currency



Source: Deutsche Bank, company reports

Figure 317: EBITDA in US$

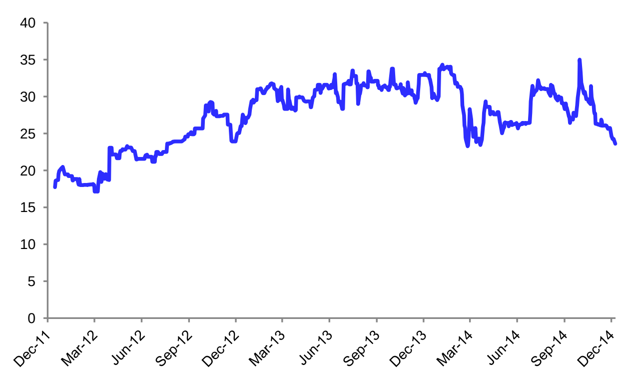


Source: Deutsche Bank

Figure 318: Price and volume in local currency

Source: Deutsche Bank, datastream

Figure 319: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 320: Share performance in US$

	12 m	6m	3m	1m
Guinness Nigeria	-59.6%	-40.9%	-38.7%	-30.9%

Source: Deutsche Bank, Datastream

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Heineken listed subsidiaries

Listed entities of Heineken

The most liquid brewing stock on the continent north of Johannesburg in Africa is Nigerian Breweries. Recently, approval has been granted in Nigeria to merge Heineken's majority-owned subsidiaries, Nigerian Breweries and Consolidated breweries.

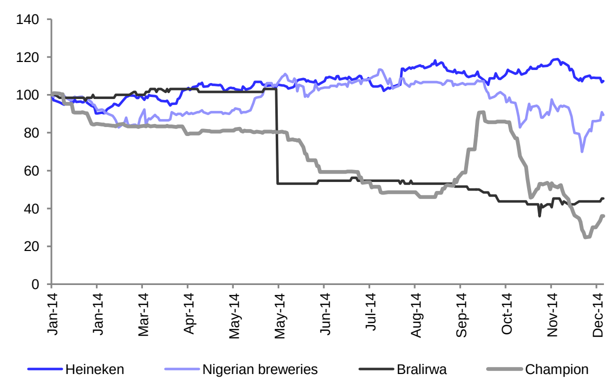
Heineken's other listed subsidiary, Bralirwa, basically created the Rwandan stock exchange. It became the first listed entity when the stock exchange opened in January 2011 and is up 284% in local currency, 231% in US$ since that time - a CAGR in TSR of 35%.

Figure 321: Heineken listed African entities

- Nigerian Breweries (NB.LG)
- Champion Breweries (CB.LG)
- Bralirwa (BLR.RW)

Source: Deutsche Bank

Figure 322: 2014 US$ return of Heineken listed entities



Source: Deutsche Bank, Datastream

The average return in US$ in 2014 was -55% with an average dividend yield of 2.2%.

Figure 323: Valuations key figures of Heineken Africa subsidiaries

	HEIN.AS	NB.LG	BLR.RW	CB.LG
Market Cap (Local)	34,059	1,092,055	390,857	49,464
Market Cap US$	4,249	5,997	558	272
Free Float (%)	50%	46%		43%
EV (US$)	56,525	6,185	575	270
Absolute return (US$) 1 month	-8.98%	-5.26%	0.00%	-33.33%
Absolute return (US$) 3 month	-3.19%	-16.67%	-14.06%	-33.33%
Absolute return (US$) 12 month	5.47%	-14.29%	-55.65%	-63.64%
P/E LTM	19.57	22.56	23.60	49.42
P/E NTM	17.58	19.26	19.99	43.93
EV/EBITDA NTM	9.69	7.98	9.62	NA
EV/EBITDA LTM	9.45	14.38	8.19	96.99
Dividend Yield	1.69	2.84	1.85	-44.26
Net Debt/EBITDA	2.61	-0.01	0.44	-0.77
EBITDA Margin (%)	21.84	33.34	34.49	6.97
EBIT Margin (%)	13.60	25.25	27.91	-24.35
EV/HL				
Sales growth (%)	4.46	6.31	1.98	25.09
EPS growth (%)	-4.58	10.68	-18.76	-12.08
EBITDA Margin (%) Estimate	22.55	32.56	48.87	NA
EBIT Margin (%) Estimate	14.38	24.73	30.03	NA
Payout ratio (%)	37.52	78.95	24.95	390.87
ROE (%)	11.79	41.86	47.42	29.31
Capex/sales (%)	7.53	12.33	-24.71	-41.42
Capex/depreciation (x)	1.15	1.52	-3.76	-1.32

Source: Deutsche Bank, Company Reports, Datastream, Reuters, Bloomberg Finance LP, DB estimates for Heineken

Running the Numbers
Africa
Nigeria
Beverage

Nigerian Breweries

Reuters: NB.LG Bloomberg: NB NL

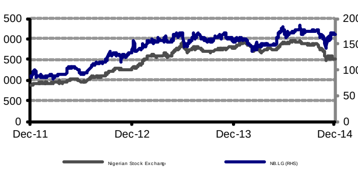
NC

Price (12 Dec 14)	NGN 144.40
52-week Range	NGN 128.50 – 189.00
Market Cap	NGN 1,092.0 bn
	US$ 6.0 bn

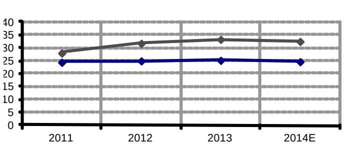
Company Profile

Owned 54% by Heineken, Nigerian Breweries was established in 1946 and is the largest brewery in Nigeria. It acquired Sona breweries in 2011 and in 2014 announced its intent to merge with Consolidated Breweries. The company will have c. 70% market share in beer following the amalgamation. Its leading brands are Star and Gulder in mainstream, Legend in Stout, 33 Export in the value segment, and Maltina in the non-alcoholic malt segment.

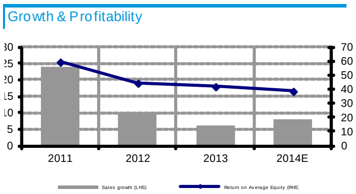
3yr Price Performance



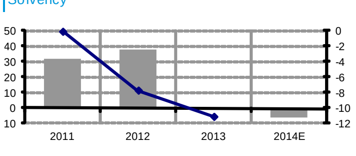
Margin Trends



Growth & Profitability



Solvency



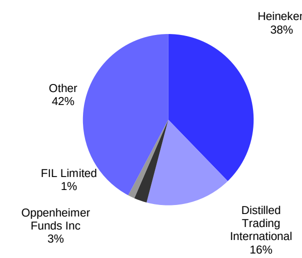
Fiscal year end 31-Dec	2011	2012	2013	2014E
Financial Summary				
DB EPS (N)				
Reported EPS (N)	5.0	5.2	5.7	5.7
DPS (N)	3.0	3.0	4.5	5.2
BVPS (N)	10.2	12.2	14.7	16.3
Weighted average shares (m)	7,653	7,653	7,653	7,653
Average market cap (Nm)	714,057	1,111,718	1,269,778	1,098,163
Enterprise value (Nm)	739,304	1,147,203	1,269,249	1,116,032
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	15.8	21.0	27.8	25.0
P/BV (x)	7.70	8.86	10.80	8.80
FCF Yield (%)	6.1	2.2	5.1	
Dividend Yield (%)	3.8	2.8	2.8	
EV/Sales (x)	3.2	4.5	4.7	3.9
EV/EBITDA (x)	11.4	14.3	14.2	11.8
EV/EBIT (x)	13.1	18.1	18.7	15.6
Income Statement (Nm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	230,123	252,674	268,614	289,767
EBITDA	64,624	80,469	89,568	94,358
Depreciation & Amortisation	8,261	17,227	21,741	22,707
EBIT	56,363	63,242	67,827	71,651
Net interest income(expense)	1	-8,308	-6,157	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	0	-774	
Other pre-tax income/(expense)	34	690	1,344	
Profit before tax	56,398	55,624	62,240	67,318
Income tax expense	-18,347	-17,582	-19,160	
Minorities	-2	0	0	
Other post-tax income/(expense)	-25	0	0	
Net profit	38,023	38,043	43,080	45,749
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (Nm)				
Cash flow from operations	54,329	55,889	95,168	
Net Capex	9,230	37,897	33,125	28,184
Free cash flow	36,698	17,992	62,043	51,314
Equity raised/(bought back)	0	0	0	
Dividends paid	-9,904	-21,665	-21,756	
Net inc/(dec) in borrowings	47,000	-2,000	-36,000	
Other investing/financing cash flows	-82,168	-44,478	-37,397	
Net cash flow	-9,256	-12,254	15	
Change in working capital	-17,490	-26,272	4,019	
Balance Sheet (Nm)				
Cash and other liquid assets	21,876	9,514	9,529	
Tangible fixed assets	123,180	142,348	153,366	
Goodwill/intangible assets	54,367	53,988	53,563	
Associates/investments	150	150	150	
Other assets	16,798	47,634	39,340	
Total assets	216,372	253,634	255,948	
Interest bearing debt	47,108	45,000	9,000	
Other liabilities	91,213	115,186	134,589	
Total liabilities	138,321	160,186	143,589	
Shareholders' equity	78,035	93,448	112,359	
Minorities	16	0	0	
Total shareholders' equity	78,051	93,448	112,359	124,816
Net debt	*25,232*	*35,486*	*-529*	*-7,927*
Key Company Metrics				
Sales growth (%)	23.8	9.8	6.3	7.9
EPS growth (%)	25.4	3.6	10.7	0.7
EBITDA Margin (%)	28.1	31.8	33.3	32.6
EBIT Margin (%)	24.5	25.0	25.3	24.7
Payout ratio (%)	60.4	58.3	78.9	90.2
Return on Average Equity (%)	59.3	44.4	41.9	38.6
Return on Average Assets (%)	23.0	16.2	16.9	
Capex/sales (%)	4.0	15.0	12.3	9.7
Net debt/equity (%)	32.3	38.0	-0.5	-6.4
Net interest cover (x)	NA	-7.6	-11.0	

Source: Company data, Datastream, Reuters, Bloomberg

Nigerian Breweries

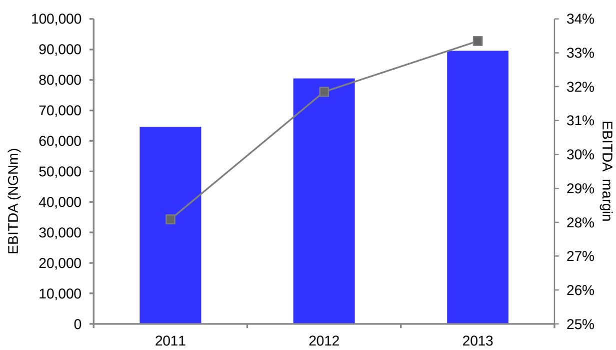
Owned 54% by Heineken, Nigerian Breweries was established in 1946 and is the largest brewery in Nigeria. It acquired Sona breweries in 2011 and in 2014 announced its intent to merge with Consolidated Breweries. The company will have c. 70% market share in beer following the amalgamation. Its leading brands are Star and Gulder in mainstream, Legend in Stout, 33 Export in the value segment, and Maltina in the non-alcoholic malt segment.

Figure 324: NB shareholders



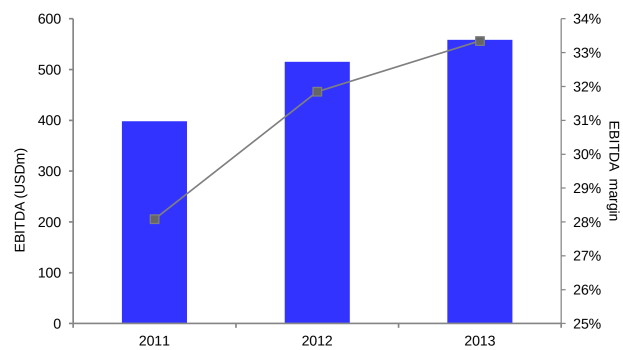
Source: Deutsche Bank, company reports

Figure 325: EBITDA in local currency



Source: Deutsche Bank, company reports

Figure 326: EBITDA in US$

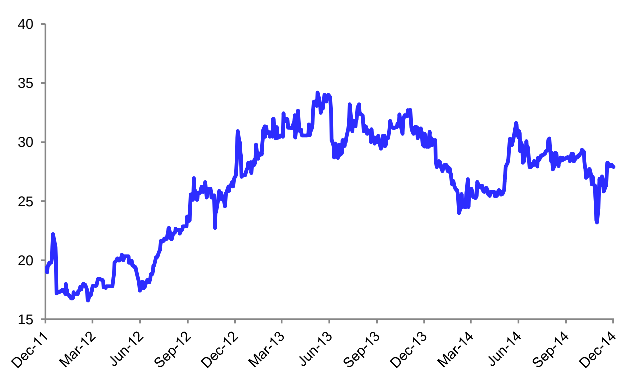


Source: Deutsche Bank

Figure 327: Price and volume in local currency

Source: Deutsche Bank, datastream

Figure 328: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 329: Share performance in US$

	12 m	6m	3m	1m
Nigerian Breweries	-20.8%	-25.2%	-25.9%	-15.8%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Rwanda

Beverage

Bralirwa

Reuters: BLR.RW | Bloomberg: BLR.RW

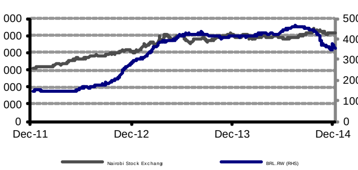
NC

Price (12 Dec 14)	RWF 380.00
52-week Range	RWF 350.00 – 465.00
Market Cap	RWF 390, 857m
	US$ 558m

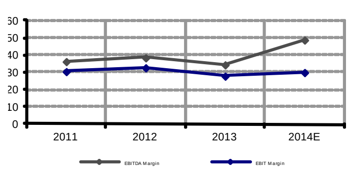
Company Profile

Founded in1957, Heineken owns 75% of Bralirwa, listed as the first stock on the Rwanda Stock Exchange in 2009. It is the leading beverage company in Rwanda with c. 95% market share in beer. Its top brands include Primus, Mutzig and Amstel, and it licenses Guinness for production from Diageo. Additionally, it is the sole bottler of the Coca Cola portfolio with c. 99% share in sparkling beverages.

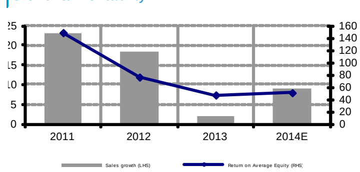
3yr Price Performance



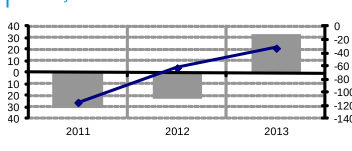
Margin Trends



Growth & Profitability



Solvency



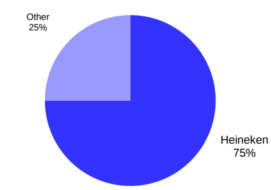
Fiscal year end 31-Dec	2011	2012	2013	2014E
Financial Summary				
DB EPS (RWF)				
Reported EPS (RWF)	29	37	30	17
DPS (RWF)	24.2	20	7.5	8.07
BVPS (RWF)	38.3	58.4	68.4	32.3
Weighted average shares (m)	514	514	514	1,029
Average market cap (RWFm)	85,628	162,000	215,743	370,304
Enterprise value (RWFm)	82,596	158,639	221,672	392,429
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	4.3	5.4	13.5	21.2
P/BV (x)	3.18	3.40	5.91	11.16
FCF Yield (%)	19.3	9.1	-3.9	
Dividend Yield (%)	19.9	10.1	1.9	2.2
EV/Sales (x)	1.3	2.1	2.8	4.6
EV/EBITDA (x)	3.5	5.3	8.2	9.4
EV/EBIT (x)	4.2	6.3	10.1	15.3
Income Statement (RWFm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	64,958	76,979	78,503	85,469
EBITDA	23,621	29,690	27,077	41,767
Depreciation & Amortisation	3,761	4,468	5,165	16,097
EBIT	19,860	25,222	21,912	25,670
Net interest income(expense)	-173	-404	-674	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	318	43	83	
Other pre-tax income/(expense)	0	0	0	
Profit before tax	20,005	24,861	21,320	24,215
Income tax expense	-5,347	-5,834	-5,862	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	14,658	19,027	15,459	17,466
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (RWFm)				
Cash flow from operations	19,491	32,160	11,324	
Net Capex	-7,408	-22,853	-19,401	-16,946
Free cash flow	12,083	9,307	-8,077	13,751
Equity raised/(bought back)	0	0	0	
Dividends paid	-11,085	-8,692	-10,286	
Net inc/(dec) in borrowings	-23	3,000	2,364	
Other investing/financing cash flows	306	43	-217	
Net cash flow	1,281	3,658	-16,216	
Change in working capital	-4,104	2,684	-15,573	
Balance Sheet (RWFm)				
Cash and other liquid assets	6,064	9,722	2,558	
Tangible fixed assets	21,980	40,452	54,688	
Goodwill/intangible assets	87	0	0	
Associates/investments	60	9	9	
Other assets	21,699	24,343	34,281	
Total assets	49,890	74,527	91,537	
Interest bearing debt	0	3,000	14,416	
Other liabilities	30,212	41,514	41,935	
Total liabilities	30,212	44,514	56,350	
Shareholders' equity	19,678	30,013	35,186	
Minorities	0	0	0	
Total shareholders' equity	19,678	30,013	35,186	
Net debt	*-6,064*	*-6,722*	*11,858*	*15,023*
Key Company Metrics				
Sales growth (%)	23.0	18.5	2.0	8.9
EPS growth (%)	41.9	29.8	-18.8	-43.5
EBITDA Margin (%)	36.4	38.6	34.5	48.9
EBIT Margin (%)	30.6	32.8	27.9	30.0
Payout ratio (%)	84.9	54.1	25.0	47.5
Return on Average Equity (%)	149.0	76.6	47.4	51.1
Return on Average Assets (%)	58.8	30.6	18.6	
Capex/sales (%)	-11.4	-29.7	-24.7	-19.8
Net debt/equity (%)	-30.8	-22.4	33.7	
Net interest cover (x)	-114.8	-62.4	-32.5	

Source: Company data, Datastream, Reuters, Bloomberg

Bralirwa Breweries Rwanda

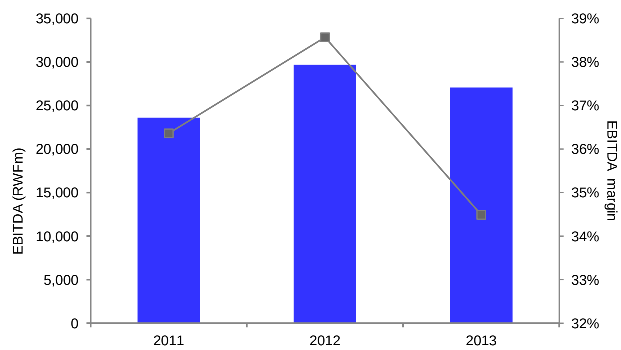
Founded in1957, Heineken owns 75% of Bralirwa, listed as the first stock on the Rwanda Stock Exchange in 2009. It is the leading beverage company in Rwanda with c. 95% market share in beer. Its top brands include Primus, Mutzig and Amstel, and it licenses Guinness for production from Diageo. Additionally, it is the sole bottler of the Coca Cola portfolio with c. 99% share in sparkling beverages.

Figure 330: Bralirwa shareholders



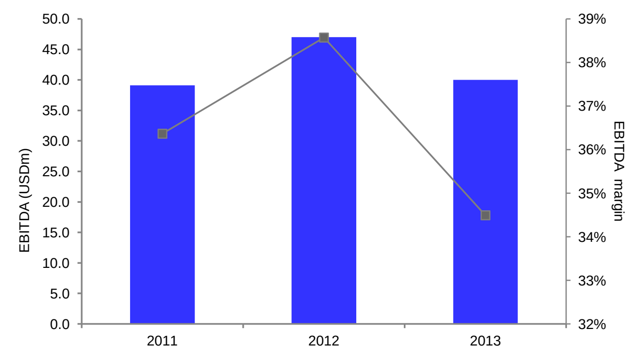
Source: Deutsche Bank, company reports

Figure 331: EBITDA in local currency



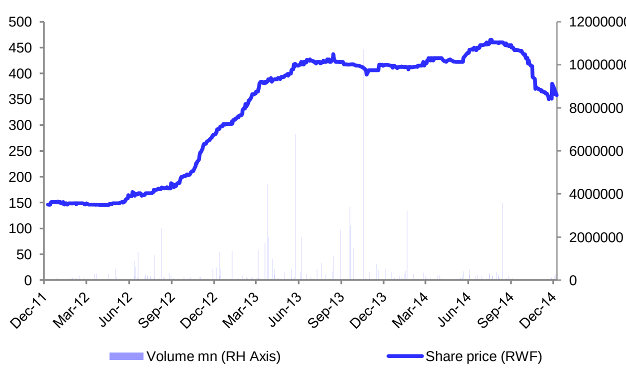
Source: Deutsche Bank, company reports

Figure 332: EBITDA in US$



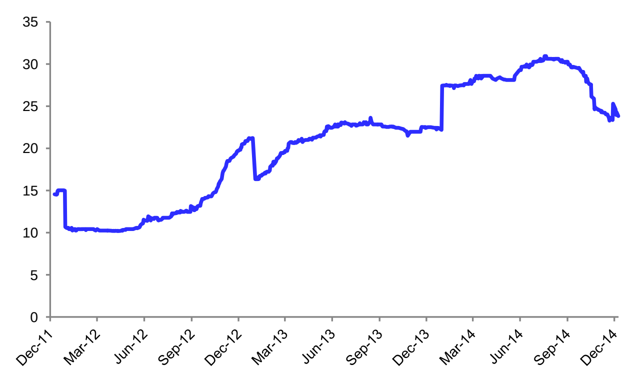
Source: Deutsche Bank

Figure 333: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 334: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 335: Share performance in US$

	12 m	6m	3m	1m
Bralirwa	-57.9%	-19.7%	-17.2%	1.9%

Source: Deutsche Bank, Datastream

Running the Numbers
Africa
Nigeria
Beverage

Champion Breweries

Reuters: CHAMPIO.LG Bloomberg: CHAMPION.NL

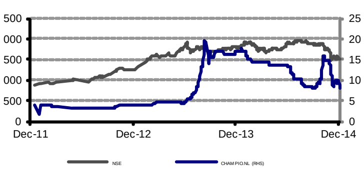
NC

Price (12 Dec 14)	NGN 6.87
52-week Range	NGN 2.71 – 16.51
Market Cap	NGN 49,464m
	US$ 272m

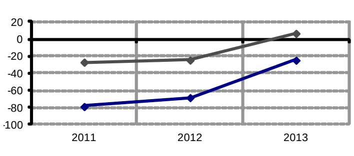
Company Profile

Founded in 1997, Heineken, though Ryasun, owns 57%, having bought the shares from the Sona group in 2011. The company serves the Akwa Ibom State near the Cameroonian border. Its leading brand is Champion Lager beer.

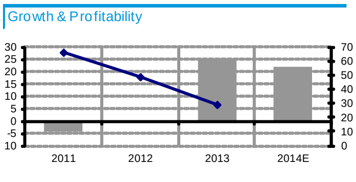
3yr Price Performance



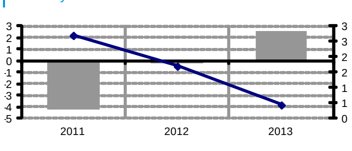
Margin Trends



Growth & Profitability



Solvency



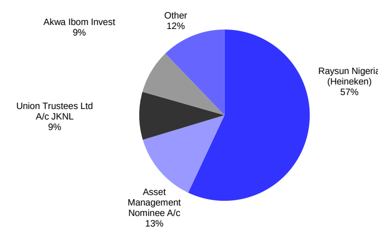
Fiscal year end 31-Dec	2011	2012	2013	2014E
Financial Summary				
DB EPS (NGN)				
Reported EPS (NGN)	-2	-1	-1	0
DPS (NGN)	-2.3	-3.8	-5.1	-5.0
BVPS (NGN)	3.97	3.58	11.57	0
Weighted average shares (m)	900	900	900	907
Average market cap (NGNm)	3,627	3,735	15,219	5,975
Enterprise value (NGNm)	3,711	3,741	15,100	5,582
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	-2.0	-2.4	-8.8	43.9
P/BV (x)	100	100	100	
FCF Yield (%)	-14	2.2	13	
Dividend Yield (%)	-56.8	-106.5	-44.3	-75.4
EV/Sales (x)	2.1	2.1	6.8	2.0
EV/EBITDA (x)	-7.8	-8.7	97.0	
EV/EBIT (x)	-2.6	-3.1	-27.8	
Income Statement (NGNm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	1,791	1,785	2,233	2,725
EBITDA	-477	-431	156	
Depreciation & Amortisation	927	782	700	
EBIT	-1,404	-1,213	-544	
Net interest income(expense)	-517	-707	-1,187	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	-9	0	
Other pre-tax income/(expense)	0	0	0	
Profit before tax	-1921	-1929	-1730	
Income tax expense	95	592	552	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	-1,826	-1,337	-1,178	136
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (NGNm)				
Cash flow from operations	174	157	1,058	
Net Capex	-226	-85	-925	
Free cash flow	-51	72	133	
Equity raised/(bought back)	0	0	0	
Dividends paid	0	0	0	
Net inc/(dec) in borrowings	0	0	0	
Other investing/financing cash flows	0	0	0	
Net cash flow	-16	72	125	
Change in working capital	761	663	824	
Balance Sheet (NGNm)				
Cash and other liquid assets	31	27	119	
Tangible fixed assets	5,163	5,657	7,240	
Goodwill/intangible assets	1,172	0	12	
Associates/investments	0	0	0	
Other assets	706	1,115	1,767	
Total assets	7,071	6,799	9,138	
Interest bearing debt	115	32	0	
Other liabilities	8,986	10,197	13,746	
Total liabilities	9,101	10,229	13,746	
Shareholders' equity	-2,030	-3,430	-4,608	
Minorities	0	0	0	
Total shareholders' equity	-2,030	-3,430	-4,608	
Net debt	*84*	*6*	*-119*	
Key Company Metrics				
Sales growth (%)	-4.4	-0.3	25.1	22.0
EPS growth (%)	48.2	-26.6	-12.1	-111.5
EBITDA Margin (%)	-26.6	-24.1	7.0	
EBIT Margin (%)	-78.4	-68.0	-24.4	
Payout ratio (%)	111.1	255.8	390.9	
Return on Average Equity (%)	66.3	49.0	29.3	
Return on Average Assets (%)	-37.0	-19.3	-14.8	
Capex/sales (%)	-12.6	-4.8	-41.4	
Net debt/equity (%)	-4.2	-0.2	2.6	
Net interest cover (x)	2.7	1.7	0.5	

Source: Company data, Datastream, Reuters, Bloomberg

Champion Breweries Nigeria

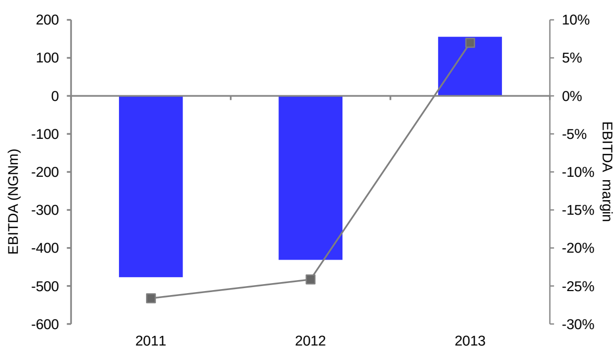
Founded in 1997, Heineken, though Ryasun, owns 57%, having bought the shares from the Sona group in 2011. The company serves the Akwa Ibom State near the Cameroonian border. Its leading brand is Champion Lager beer (which looks like Carling Black Label in South Africa). It has a technical services agreement with Nigerian Breweries.

Figure 336: Champion shareholders



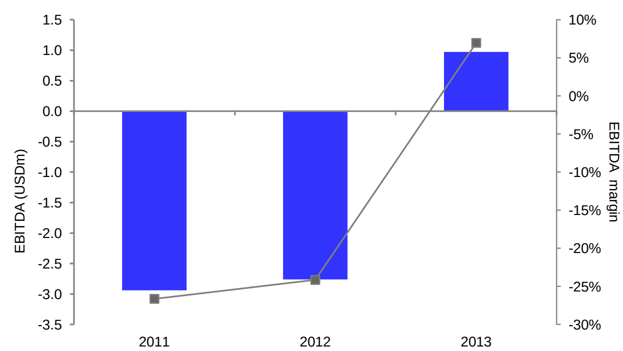
Source: Deutsche Bank, company reports

Figure 337: EBITDA in local currency



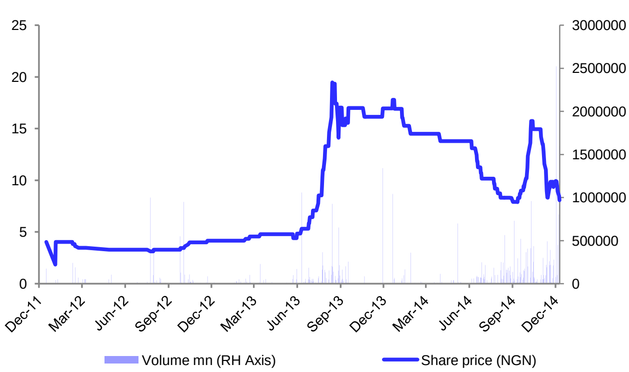
Source: Deutsche Bank, company reports

Figure 338: EBITDA in US$



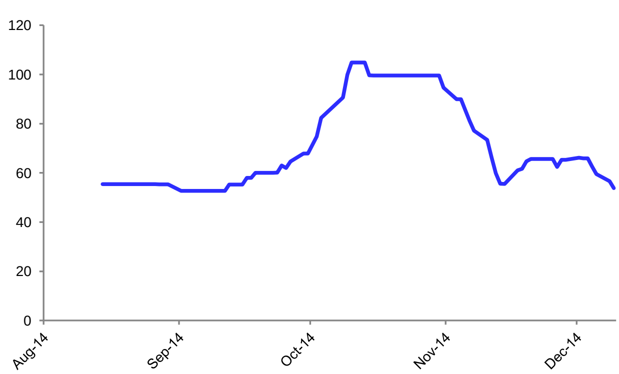
Source: Deutsche Bank

Figure 339: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 340: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 341: Share performance in US$

	12 m	6m	3m	1m
Champion Breweries	-63.6%	-50.0%	-20.0%	-20.0%

Source: Deutsche Bank, Datastream

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Castel listed subsidiaries

Castel linked

- SA Brasseries du Cameroun (BRCP.PA)
- Brasseries Quest Afrique (BROA.PA)
- Societe Frigorifique & Brasserie de Tunis (SFBT.TN)
- Societe Nouvelle des Brasseries du Maroc (SBM.CS)

Figure 342: Valuations key figures of Castel subsidiaries

	BRCP.PA	BROA.PA	SBM.CS	SFBT.TN
Market Cap (Local)	511	51	5,848	2,192
Market Cap US$	605	60	633	1,159
Free Float (%)				
EV (US$)			627	1,167
Absolute return (US$) 1 month	-19.18%	-4.32%	-4.13%	1.95%
Absolute return (US$) 3 month	-26.54%	-15.96%	-5.21%	32.86%
Absolute return (US$) 12 month	-39.80%	-24.14%	-10.35%	67.83%
P/E LTM			24.87	19.42
P/E NTM			21.25	16.30
EV/EBITDA NTM			11.46	11.02
EV/EBITDA LTM			12.15	6.87
Dividend Yield			0.00	4.98
Net Debt/EBITDA			-0.23	-0.29
EBITDA Margin (%)			24.09	23.58
EBIT Margin (%)			17.58	18.51
EV/HL				
Sales growth (%)			-3.17	9.13
EPS growth (%)			-13.53	11.61
EBITDA Margin (%) Estimate			21.74	25.17
EBIT Margin (%) Estimate			15.49	18.65
Payout ratio (%)			0.00	46.40
ROE (%)			18.42	21.01
Capex/sales (%)			6.72	11.86
Capex/depreciation (x)			1.03	2.34

Source: Deutsche Bank, Datastream, All estimates from Reuters, Bloomberg Finance LP,

Running the Numbers

Africa

Morocco

Beverage

Societe Nouvelle des Brassaries du Maroc

Reuters: SBM.CS | Bloomberg: SBM.MC

NC

Price (12 Dec 14) MAD 2070.00

52-week Range MAD 1960.00 – 2381.00

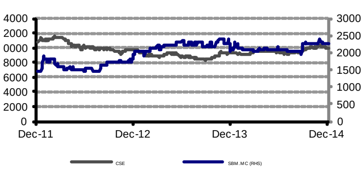
Market Cap MAD 5,848m

US$ 633m

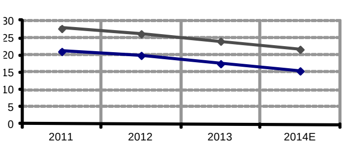
Company Profile

Family group Castel owns 66% of Brasseries du Maroc in Morocco, with a market share of c97%. Leading brands are Flag, Heineken (which has a 2% share) and Casablanca. The company also produces and distributes bottled water and distributes the Castel portfolio of wines. It is highly dependent on the timing of Ramadan for its sales (which should work favorably until 2017) and the strength of European tourism.

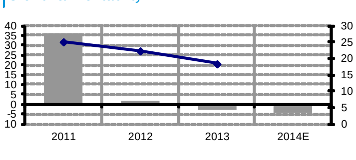
3yr Price Performance



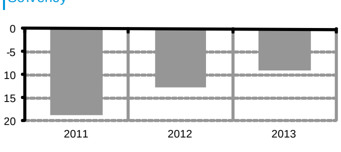
Margin Trends



Growth & Profitability



Solvency



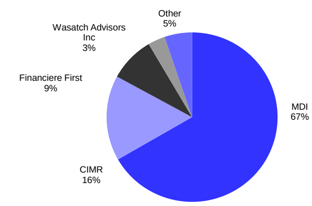
Fiscal year end 31-Dec	2011	2012	2013	2014E
Financial Summary				
DB EPS (MAD)				
Reported EPS (MAD)	124	117	101	100
DPS (MAD)	110	0	0	
BVPS (MAD)	495.1	502	484	
Weighted average shares (m)	3	3	3	3
Average market cap (MADm)	5,924	6,300	6,243	6,300
Enterprise value (MADm)	5,739	6,191	6,190	6,304
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	13.7	14.2	21.8	22.6
P/BV (x)	3.4	3.3	4.6	
FCF Yield (%)	4.0	4.4	3.6	
Dividend Yield (%)	6.5			
EV/Sales (x)	2.4	2.6	2.7	2.9
EV/EBITDA (x)	8.8	9.9	11.1	13.1
EV/EBIT (x)	11.6	12.9	15.2	18.4
Income Statement (MADm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	2,346	2,394	2,318	2,208
EBITDA	652	628	558	480
Depreciation & Amortisation	156	150	151	138
EBIT	496	478	408	342
Net interest income(expense)	0	0	0	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	0	0	
Other pre-tax income/(expense)	20	9	-12	
Profit before tax	516	488	395	
Income tax expense	-158	-155	-124	
Minorities	-8	-2	-3	
Other post-tax income/(expense)	0	0	0	
Net profit	351	331	269	232
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (MADm)				
Cash flow from operations	306	325	378	
Net Capex	114	119	156	
Free cash flow	192	206	222	
Equity raised/(bought back)	0	0	0	
Dividends paid	-283	-311	-319	
Net inc/(dec) in borrowings	0	0	-7	
Other investing/financing cash flows	14	6	35	
Net cash flow	-76	-99	-69	
Change in working capital	-167	-140	-9	
Balance Sheet (MADm)				
Cash and other liquid assets	316	223	159	
Tangible fixed assets	757	749	752	
Goodwill/intangible assets	212	255	240	
Associates/investments	0	0	0	
Other assets	943	970	1,027	
Total assets	2,228	2,197	2,178	
Interest bearing debt	40	38	28	
Other liabilities	711	677	716	
Total liabilities	751	715	744	
Shareholders' equity	1,386	1,406	1,355	
Minorities	90	76	78	
Total shareholders' equity	1,477	1,482	1,434	
Net debt	-276	-185	-131	
Key Company Metrics				
Sales growth (%)	35.8	2.0	-3.2	-4.7
EPS growth (%)	10.2	-5.7	-13.5	-1.5
EBITDA Margin (%)	27.8	26.2	24.1	21.7
EBIT Margin (%)	21.1	20.0	17.6	15.5
Payout ratio (%)	88.6	0.0	0.0	
Return on Average Equity (%)	25.1	22.3	18.4	
Return on Average Assets (%)	17.2	14.9	12.3	
Capex/sales (%)	4.9	5.0	6.7	
Net debt/equity (%)	-18.7	-12.5	-9.1	
Net interest cover (x)				

Source: Company data, Datastream, Reuters, Bloomberg

SN des Brasseries du Maroc

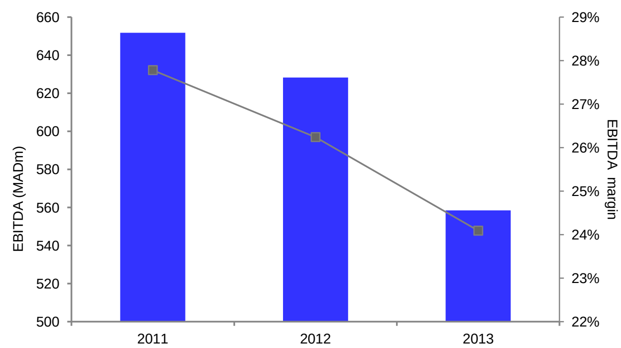
Family group Castel owns 66% of Brasseries du Maroc in Morocco, with a market share of c97%. Leading brands are Flag, Heineken (which has a 2% share) and Casablanca. The company also produces and distributes bottled water and distributes the Castel portfolio of wines. It is highly dependent on the timing of Ramadan for its sales (which should work favorably until 2017) and the strength of European tourism.

Figure 343: SNBM shareholders



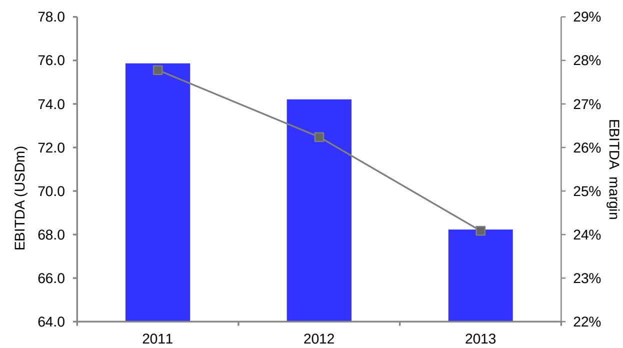
Source: Deutsche Bank, company reports

Figure 344: EBITDA in local currency



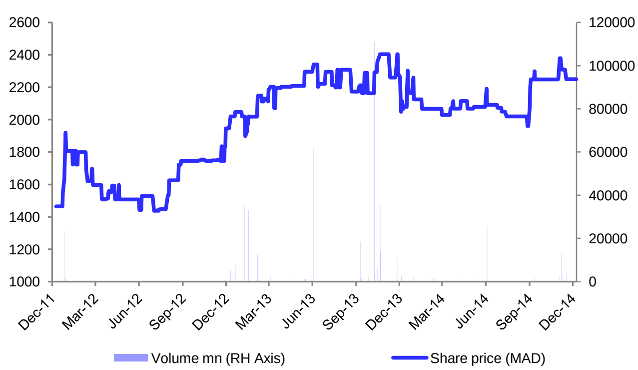
Source: Deutsche Bank, company reports

Figure 345: EBITDA in US$



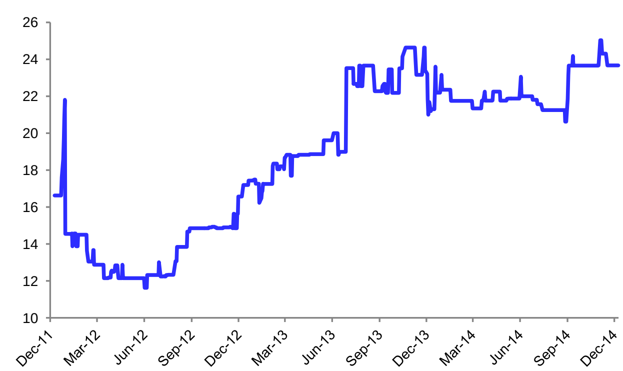
Source: Deutsche Bank

Figure 346: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 347: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 348: Share performance in US$

	12 m	6m	3m	1m
Brasseries Du Maroc	-3.6%	-3.4%	-2.9%	-2.8%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Tunisia

Beverage

Societe Frigorifique & Brasserie de Tunis SA

Reuters: SFBT.TN Bloomberg: SFBT TU

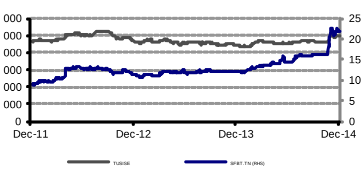
NC

Price (12 Dec 14)	TND 24.35
52-week Range	TND 12.25 – 24.38
Market Cap	TND 2,192m
	US$ 1,159m

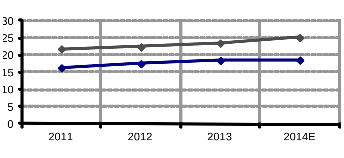
Company Profile

Societe Frigorifique de Tunis is the leading brewer in Tunisia and 49% owned by the family group Castel. Its brand portfolio includes Celtia, 33 Export, and it produces Becks and Lowenbrau under license from ABInBev. The company had a monopoly in the beer market until Heineken entered in 2007. It also is a Coca Cola bottler.

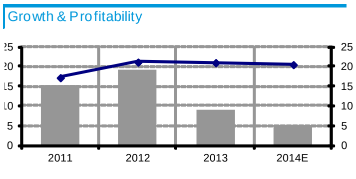
3yr Price Performance



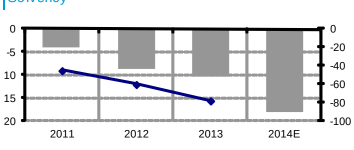
Margin Trends



Growth & Profitability



Solvency



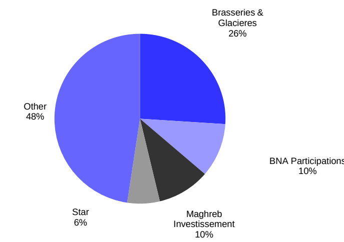
Fiscal year end 31-Dec	2011	2012	2013	2014E
Financial Summary				
DB EPS (TND)				
Reported EPS (TND)	1	1	1	1
DPS (TND)	0.44	0.55	0.58	0.65
BVPS (TND)	5.0	5.6	6.2	6.2
Weighted average shares (m)	90	90	90	90
Average market cap (TNDm)	858	965	1,061	1,939
Enterprise value (TNDm)	887	970	1,054	1,952
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	9.4	10.0	9.3	16.9
P/BV (x)	16	2.0	19	3.5
FCF Yield (%)	7.5	7.1	6.4	
Dividend Yield (%)	5.7	4.9	5.0	3.0
EV/Sales (x)	14	13	13	2.2
EV/EBITDA (x)	6.3	5.7	5.4	8.9
EV/EBIT (x)	8.5	7.2	6.8	12.0
Income Statement (TNDm)				
Gross revenue				
Excise duties as a % of Gross revenue				
Net revenue	640	763	833	874
EBITDA	140	171	196	220
Depreciation & Amortisation	35	37	42	57
EBIT	105	134	154	163
Net interest income(expense)	-2	-2	-2	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	-1	-1	0	
Other pre-tax income/(expense)	-2	2	0	
Profit before tax	100	133	152	158
Income tax expense	-21	-25	-33	
Minorities	-5	-8	-8	
Other post-tax income/(expense)	0	0	0	
Net profit	74	101	112	115
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (TNDm)				
Cash flow from operations	124	163	166	
Net Capex	72	91	99	94
Free cash flow	52	72	67	
Equity raised/(bought back)	0	0	6	
Dividends paid	-39	-42	-52	
Net inc/(dec) in borrowings	-12	-13	-12	
Other investing/financing cash flows	0	0	0	
Net cash flow	-4	6	4	
Change in working capital	2	10	-13	
Balance Sheet (TNDm)				
Cash and other liquid assets	101	105	119	
Tangible fixed assets	309	349	383	
Goodwill/intangible assets	14	13	14	
Associates/investments	1	1	1	
Other assets	300	311	351	
Total assets	726	779	868	
Interest bearing debt	83	60	61	
Other liabilities	196	213	245	
Total liabilities	279	273	306	
Shareholders' equity	399	456	511	
Minorities	48	49	51	
Total shareholders' equity	447	506	562	559
Net debt	-18	-45	-58	-101
Key Company Metrics				
Sales growth (%)	15.4	19.2	9.1	4.9
EPS growth (%)	3.8	36.6	11.6	2.1
EBITDA Margin (%)	21.9	22.5	23.6	25.2
EBIT Margin (%)	16.4	17.6	18.5	18.6
Payout ratio (%)	53.7	49.1	46.4	50.9
Return on Average Equity (%)	17.2	21.1	21.0	20.5
Return on Average Assets (%)	10.5	13.4	13.6	
Capex/sales (%)	11.3	12.0	11.9	10.7
Net debt/equity (%)	-4.1	-8.8	-10.3	-18.1
Net interest cover (x)	-44.9	-59.9	-77.6	

Source: Company data, Datastream, Reuters, Bloomberg

SFB de Tunis

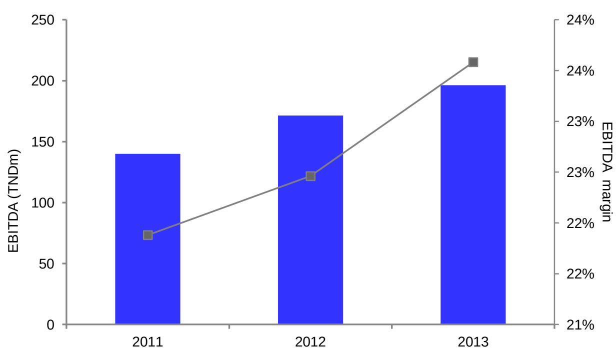
Societe Frigorifique de Tunis is the leading brewer in Tunisia and 49% owned by the family group Castel. Its brand portfolio includes Celtia, 33 Export, and it produces Becks and Lowenbrau under license from ABInBev. The company had a monopoly in the beer market until Heineken entered in 2007. It also is a Coca Cola bottler.

Figure 349: SFBT shareholders



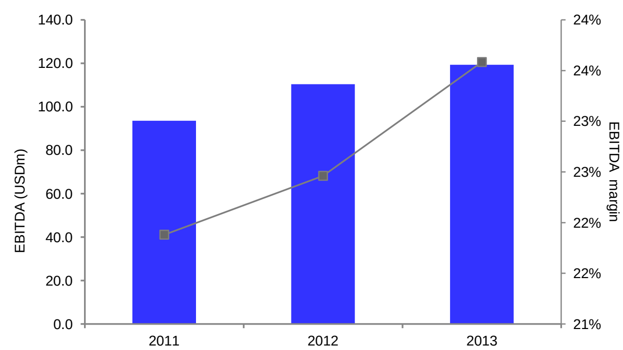
Source: Deutsche Bank, company reports

Figure 350: EBITDA in local currency



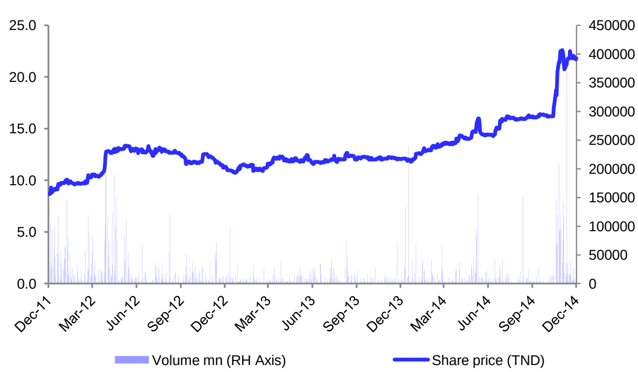
Source: Deutsche Bank, company reports

Figure 351: EBITDA in US$



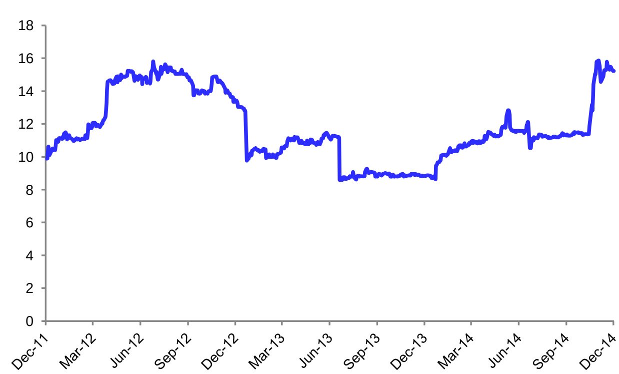
Source: Deutsche Bank

Figure 352: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 353: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 354: Share performance in US$

	12 m	6m	3m	1m
SFB De Tunis	60.8%	34.3%	27.9%	3.0%

Source: Deutsche Bank, Datastream

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Independent African listed brewers

Independent

- Phoenix Breweries (PBL.MZ))
- Namibia Breweries (NBS.NM)

Figure 355: Valuations key figures of independent African listed brewers

	NBS.NM	PBL.NZ
Market Cap (Local)	3,823	4,190
Market Cap US$	333	130
Free Float (%)	100%	100%
EV (US$)	338	130
Absolute return (US$) 1 month	-1.23%	6.90%
Absolute return (US$) 3 month	9.59%	7.22%
Absolute return (US$) 12 month	3.23%	14.47%
P/E LTM	11.83	38.72
P/E NTM	11.63	5.67
EV/EBITDA NTM	NA	6.36
EV/EBITDA LTM	6.09	9.00
Dividend Yield	0.04	4.34
Net Debt/EBITDA	0.10	NA
EBITDA Margin (%)	24.30	NA
EBIT Margin (%)	19.48	NA
EV/HL		
Sales growth (%)	-2.77	NA
EPS growth (%)	-6.54	583.19
EBITDA Margin (%) Estimate	NA	16.51
EBIT Margin (%) Estimate	19.12	10.52
Payout ratio (%)	65.00	21.09
ROE (%)	22.87	NA
Capex/sales (%)	7.95	NA
Capex/depreciation (x)	1.65	NA

Source: Deutsche Bank, Datastream, All estimates from Reuters and Bloomberg Finance LP

Running the Numbers

Africa

Namibia

Beverage

Namibia Breweries

Reuters: NBS.NM Bloomberg: NBS.NW

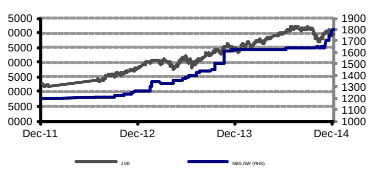
NC

Price (12 Dec 14)	NAD 1851.00
52-week Range	NAD 1622.00 – 1851.00
Market Cap	NAD 3,823m
	US$ 333m

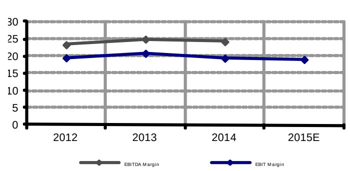
Company Profile

Founded in 1920, Namibia Breweries is an independent company with c. 80% share of the Namibian market. The company secured its national market share in Nambia by influencing the government to ban empty glass exports. However, SABMiller opened a new brewery in Okahandja, posing a threat to its dominant position. Together with its partners Heineken and Diageo, the Brandhouse joint venture in South Africa holds c. 10% of the beer market and c.50% of the premium beer market. Its leading brands are Tafel Lager,Windhoek Lager, and Windhoek Light.

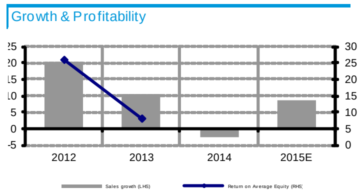
3yr Price Performance



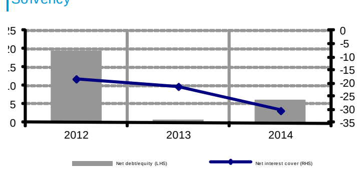
Margin Trends



Growth & Profitability



Solvency



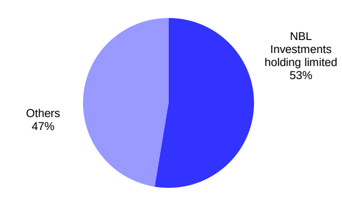
Fiscal year end 30-Jun	2012	2013	2014	2015E
Financial Summary				
DB EPS (NAD)				
Reported EPS (NAD)	1	1	1	1
DPS (NAD)	0.54	0.62	0.65	0.68
BVPS (NAD)	4.4	4.2	4.5	
Weighted average shares (m)	207	207	207	207
Average market cap (NADm)	2,511	2,894	3,373	3,723
Enterprise value (NADm)	2,690	2,901	3,431	3,431
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	10	11	15	12
P/BV (x)	2.4	2.8	3.3	
FCF Yield (%)	0.0	0.2	0.1	
Dividend Yield (%)	0.1	0.1	0.0	
EV/Sales (x)	12	12	15	14
EV/EBITDA (x)	5.3	4.9	6.1	
EV/EBIT (x)	6.4	5.8	7.6	7.1
Income Statement (NADm)				
Net revenue	2,160	2,383	2,317	2,516
EBITDA	505	596	563	
Depreciation & Amortisation	82	98	112	
EBIT	423	498	451	481
Net interest income(expense)	-23	-24	-15	
Associates/affiliates	0	0	0	
Exceptionals/extraordinaries	0	0	0	
Other pre-tax income/(expense)	-64	-275	-108	
Profit before tax	336	200	328	
Income tax expense	-114	-127	-123	
Minorities	0	0	0	
Other post-tax income/(expense)	0	0	0	
Net profit	222	73	205	301
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (NADm)				
Cash flow from operations	277	610	398	
Net Capex	179	140	184	
Free cash flow	102	473	213	
Equity raised/(bought back)	0	0	0	
Dividends paid	-106	-120	-134	
Net inc/(dec) in borrowings	81	6	-204	
Other investing/financing cash flows	-76	-183	-87	
Net cash flow	0	176	-212	
Change in working capital	-142	110	0	
Balance Sheet (NADm)				
Cash and other liquid assets	92	268	56	
Tangible fixed assets	800	828	875	
Goodwill/intangible assets	6	12	11	
Associates/investments	118	14	0	
Other assets	657	593	599	
Total assets	1,673	1,714	1,541	
Interest bearing debt	270	275	115	
Other liabilities	495	578	495	
Total liabilities	765	854	610	
Shareholders' equity	907	861	932	
Minorities	0	0	0	
Total shareholders' equity	907	861	932	
Net debt	*178*	*8*	*59*	
Key Company Metrics				
Sales growth (%)	20.2	10.3	-2.8	8.6
EPS growth (%)	2.9	0.9	-6.5	46.0
EBITDA Margin (%)	23.4	25.0	24.3	
EBIT Margin (%)	19.6	20.9	19.5	19.1
Payout ratio (%)	50.9	57.9	65.0	46.6
Return on Average Equity (%)	26.1	8.2	22.9	
Return on Average Assets (%)	14.4	4.3	12.6	
Capex/sales (%)	8.3	5.9	8.0	
Net debt/equity (%)	19.7	0.9	6.3	
Net interest cover (x)	-18.2	-21.1	-30.3	

Source: Company data, Datastream, Reuters, Bloomberg

Namibia Breweries

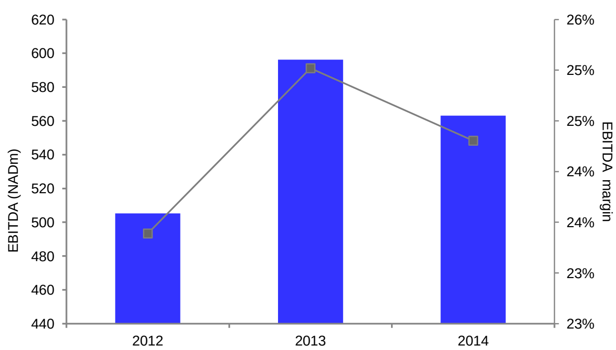
Founded in 1920, Namibia Breweries is an independent company with c. 80% share of the Namibian market. The company secured its national market share in Nambia by influencing the government to ban empty glass exports. However, SABMiller opened a new brewery in Okahandja, posing a threat to its dominant position. Together with its partners Heineken and Diageo, the Brandhouse joint venture in South Africa holds c. 10% of the beer market and c.50% of the premium beer market. Its leading brands are Tafel Lager, Windhoek Lager, and Windhoek Light.

Figure 356: Namibia BL shareholders



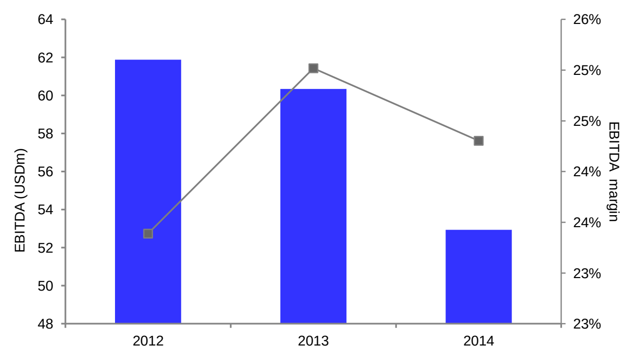
Source: Deutsche Bank, company reports

Figure 357: EBITDA in local currency



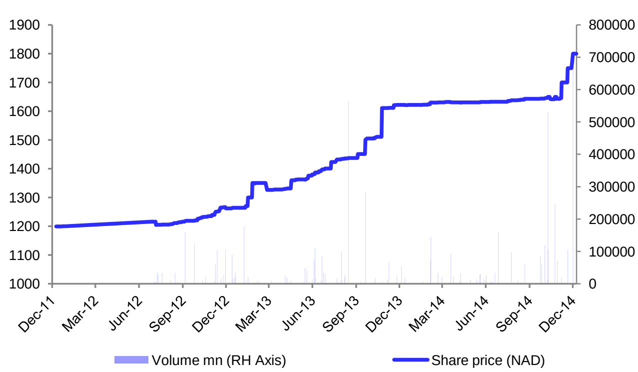
Source: Deutsche Bank, company reports

Figure 358: EBITDA in US$



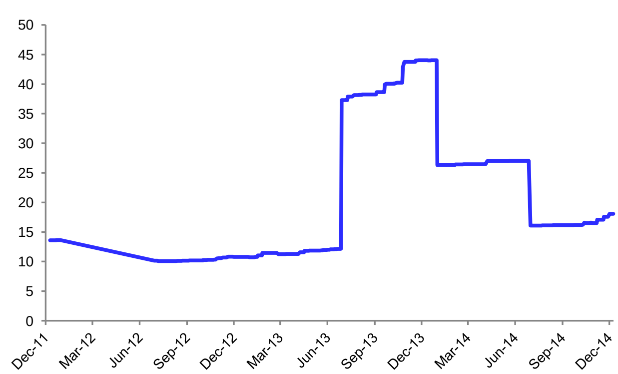
Source: Deutsche Bank

Figure 359: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 360: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 361: Share performance in US$

	12 m	6m	3m	1m
Namibia Breweries	-1.9%	1.3%	3.4%	0.7%

Source: Deutsche Bank, Datastream

Running the Numbers

Africa

Mauritius

Beverage

Phoenix Breweries

Reuters: PBL.MZ | Bloomberg: PBL MP

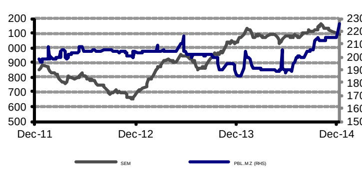
NC

Price (12 Dec 14)	MUR 254.75
52-week Range	MUR 187.0 – 254.75
Market Cap	MUR 4,190m
	US$ 130m

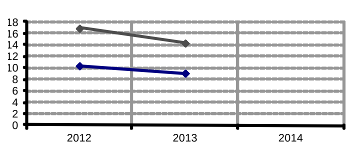
Company Profile

An independent company listed in 1993, Phoenix Beverages is Mauritius' leading beverage company with leading brands Phoenix Lager and Blue Marlin. It also licenses the Diageo portfolio, including Guinness FES and Malta and has a wine and distribution business. Additionally, the company is the sole bottler of Coca Cola, a relationship under its predecessor since 1931.

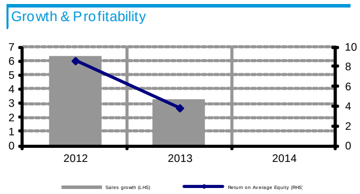
3yr Price Performance



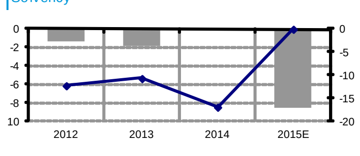
Margin Trends



Growth & Profitability



Solvency



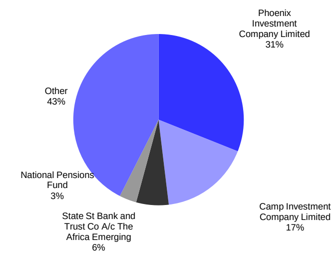
Fiscal year end 30-Jun	2012	2013	2014	2015E
Financial Summary				
DB EPS (MUR)				
Reported EPS (MUR)	12	6	40	17
DPS (MUR)	7.5	8	8.4	9.24
BVPS (MUR)	138.0	165.1	183.2	193.0
Weighted average shares (m)	16	16	16	18
Average market cap (MURm)	3,372	3,331	3,207	4,084
Enterprise value (MURm)	3,342	3,283	3,207	3,714
Valuation Metrics				
P/E (DB) (x)				
P/E (Reported) (x)	17.1	35.0	4.9	13.1
P/BV (x)	145	124	106	117
FCF Yield (%)	2.3	5.0	16.7	
Dividend Yield (%)	3.7	3.9	4.3	4.1
EV/Sales (x)	11	11		
EV/EBITDA (x)	6.5	7.3	9.0	6.4
EV/EBIT (x)	10.6	11.5	9.0	10.0
Income Statement (MURm)				
Gross revenue	4,228	4,501	4,820	
Excise duties as a % of Gross revenue	28.6%	30.7%		
Net revenue	3,019	3,119		
EBITDA	512	448	356	584
Depreciation & Amortisation	197	164	0	212
EBIT	314	285	356	372
Net interest income(expense)	-26	-27	-21	
Associates/affiliates	-50	-130	0	
Exceptionals/extraordinaries	0	0	377	
Other pre-tax income/(expense)	0	0	0	
Profit before tax	239	128	712	367
Income tax expense	-48	-32	-58	
Minorities	0	0	-1	
Other post-tax income/(expense)	1	0	-74	
Net profit	192	96	579	312
DB adjustments (including dilution)				
DB Net profit				
Cash Flow (MURm)				
Cash flow from operations	293	377	533	
Net Capex	-218	-208		-251
Free cash flow	74	169	533	
Equity raised/(bought back)	0	0	0	
Dividends paid	-123	-132	0	
Net inc/(dec) in borrowings	37	-58	0	
Other investing/financing cash flows	-209	-212	-34	
Net cash flow	-3	-25	499	
Change in working capital	293	377	533	
Balance Sheet (MURm)				
Cash and other liquid assets	79	70		
Tangible fixed assets	2,057	2,687	2,662	
Goodwill/intangible assets	10	8		
Associates/investments	8	7		
Other assets	1,095	1,045	1,325	
Total assets	3,250	3,817	3,987	
Interest bearing debt	48	22		
Other liabilities	1,070	1,080	974	
Total liabilities	1,118	1,102	974	
Shareholders' equity	2,269	2,714	3,014	
Minorities	1	1		
Total shareholders' equity	2,270	2,715	3,014	3,491
Net debt	*-31*	*-48*		*-298*
Key Company Metrics				
Sales growth (%)	6.3	3.3		
EPS growth (%)	16.6	-50.0	583.2	-56.7
EBITDA Margin (%)	17.0	14.4		16.5
EBIT Margin (%)	10.4	9.1		10.5
Payout ratio (%)	64.3	137.2	21.1	53.6
Return on Average Equity (%)	8.6	3.8		
Return on Average Assets (%)	6.0	2.7		
Capex/sales (%)	0.0	0.0		
Net debt/equity (%)	-14	-18		-8.5
Net interest cover (x)	-12.2	-10.6	-16.8	

Source: Company data, Datastream, Reuters, Bloomberg

Phoenix Breweries

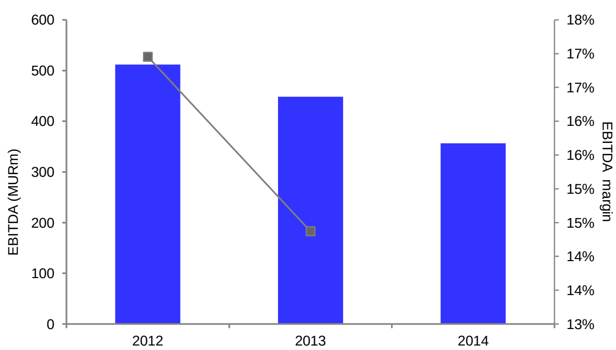
An independent company listed in 1993, Phoenix Beverages is Mauritius' leading beverage company with leading brands Phoenix Lager and Blue Marlin. It also licenses the Diageo portfolio, including Guinness FES and Malta and has a wine and distribution business. Additionally, the company is the sole bottler of Coca Cola, a relationship under its predecessor since 1931

Figure 362: Phoenix shareholders



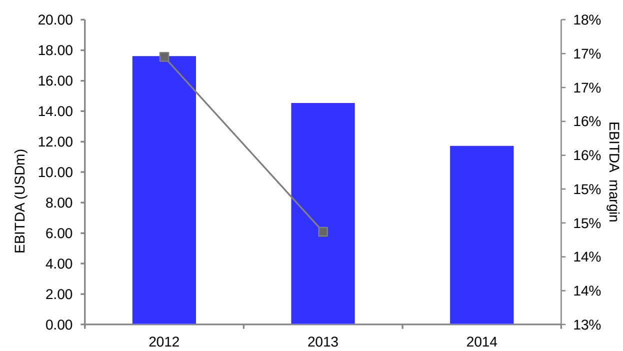
Source: Deutsche Bank, company reports

Figure 363: EBITDA in local currency



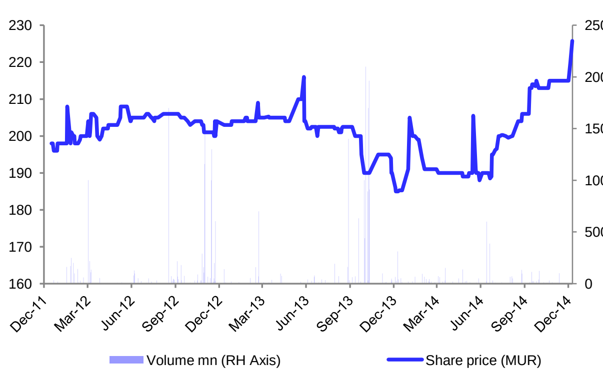
Source: Deutsche Bank, company reports

Figure 364: EBITDA in US$



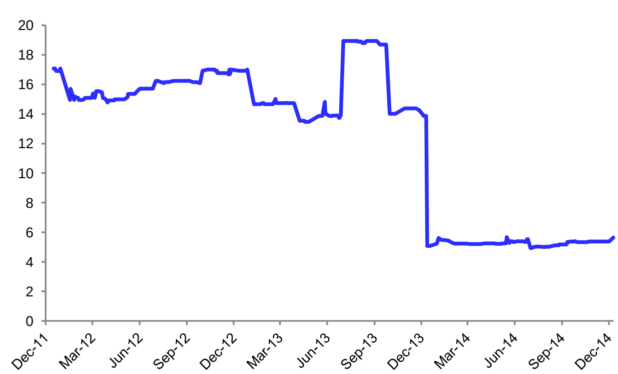
Source: Deutsche Bank

Figure 365: Price and volume in local currency



Source: Deutsche Bank, datastream

Figure 366: LTM P/E multiple



Source: Deutsche Bank, datastream

Figure 367: Share performance in US$

	12 m	6m	3m	1m
Phoenix Beverages	16.8%	14.2%	5.1%	5.8%

Source: Deutsche Bank, Datastream

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Addendum

Getting a Harvard MBA in Africa

The greatest training ground

Heineken's CEO, Jean-Francois van Boxmeer, has often been quoted as believing that his tenure in Africa was worth a Harvard MBA threefold. We would, perhaps somewhat predictably, agree wholeheartedly.

Notably, van Boxmeer has stood by his word. Any talented manager in the Heineken group, particularly at the board -1 level, seems to have spent some time on the continent, including the General Manager leading the US business (previously Commercial Director in the DRC at a time when they took market leadership from Castel), the General Manager leading the Mexican business (previously GM Burundi), and the Director of Innovation (previously GM Republic of Congo). In the later case, if innovation requires an entrepreneurial spirit, no place is better than Africa to gain those skills.

We would also argue that for beer companies in particular, Africa presents one of its greatest talent pools. In African markets such as Tanzania and Nigeria, one can find good talent at every level that wants to work for a beer company. The conundrum that beer companies face in developed markets in Europe and North America is the lack of managerial talent that aspires to a career in beer. Often the best and brightest graduates seek opportunities in technology and the latest Silicon Valley venture, or even consulting and finance. If the traditional corporate ladder is chosen, the consumer goods industry is not very high up on the list.

Thus, the often-controversial alcohol industry can have particular difficulty attracting talent. If candidates do opt for careers in this industry, beer companies compete with the premium lifestyle promised by the spirits companies. Within beer, probably only Heineken has the caché for a young graduate as a cool brand that transcends borders. What has not helped the beer companies are their relatively unglamorous locations. It is not surprising that ABInBev has recently taken a more pragmatic approach, moving its global and US commercial headquarters to New York. Still, this might not be enough to prompt the next class of Ivy MBA grads to forsake other options.

Contrast this to Africa. Although the talent pool may be smaller, those with talent – often with educational stints abroad – *are* attracted to careers in the beer industry. In most markets, the subsidiaries of SABMiller, Heineken, Diageo, and Castel are seen as the most attractive employers and as those that provide the greatest opportunity for advancement. The challenge is to harness the talent, develop it, and give it the opportunities to thrive.

In the late 1970's, SABMiller pioneered management programs for its local employees – a controversial policy at the time. Some rose high in the ranks of management, and the development of that talent continues to this day. This effort has borne fruit, as many of those who have been given the opportunity in the past are today leading figures in JSE 40 companies. As an example, it is perhaps remarkable how many former Castle Lager Assistant Brand Managers today are Marketing Directors, CMO's and CEO's in leading South African

"The years when I worked in Africa, I often say it's my Harvard business school… As a manager and businessman, I learnt a lot and what you learn is to act quickly and not always relying on a lot of readily information and take risks. There are always calculated risks- but you have to take the risks and stand for the consequence.

What I learnt of Africa and the enormous power of its people is that when they put their belief, effort and passion behind something it can happen- that is often not understood in other parts of the world. I learnt that you have an enormous force when it is mobilised even in adversity. It was a fantastic experience and it changed my life."

CEO Heineken

May 2014

companies. The SABMiller Africa division also runs the African Talent program – a careful and nurtured focus on the top 100 managers in African businesses. Talented managers from Africa are rotated throughout the division, with an occasional assignment to the regional or global headquarters.

Heineken has taken it a step further by not limiting the geographical footprint/division of its talent. Its international graduate trainee programme is truly international, taking in a flight of young graduates from Africa every year. They spend 18 months in three different markets learning local operations before being formally deployed to their first assignment. The company also takes talent from Africa into its broader global operations. We have seen managers from Africa operate in Latin America and Europe, often bringing a wealth of experience back home, ready to take on international competition, as is the case in Nigeria.

Africa gives more than it takes – one would think more than just the ubiquitous Harvard MBA perhaps.

The authors of this report wish to acknowledge the contribution made by Archit Agarwal, Shwetha Ramachandran and Meera Mohan, employees of CRISIL Global Research & Analytics, a division of CRISIL Limited, a third-party provider of offshore research support services to Deutsche Bank.

Appendix 1

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Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Heineken	HEIN.AS	66.15 (EUR) 3 Feb 15	14,15
Diageo	DGE.L	1,931.21 (GBp) 3 Feb 15	7,14,15,17
SABMiller	SABJ.J	620.78 () 3 Feb 15	4,7,14,15,SD11

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Data is sourced from Deutsche Bank and subject companies.

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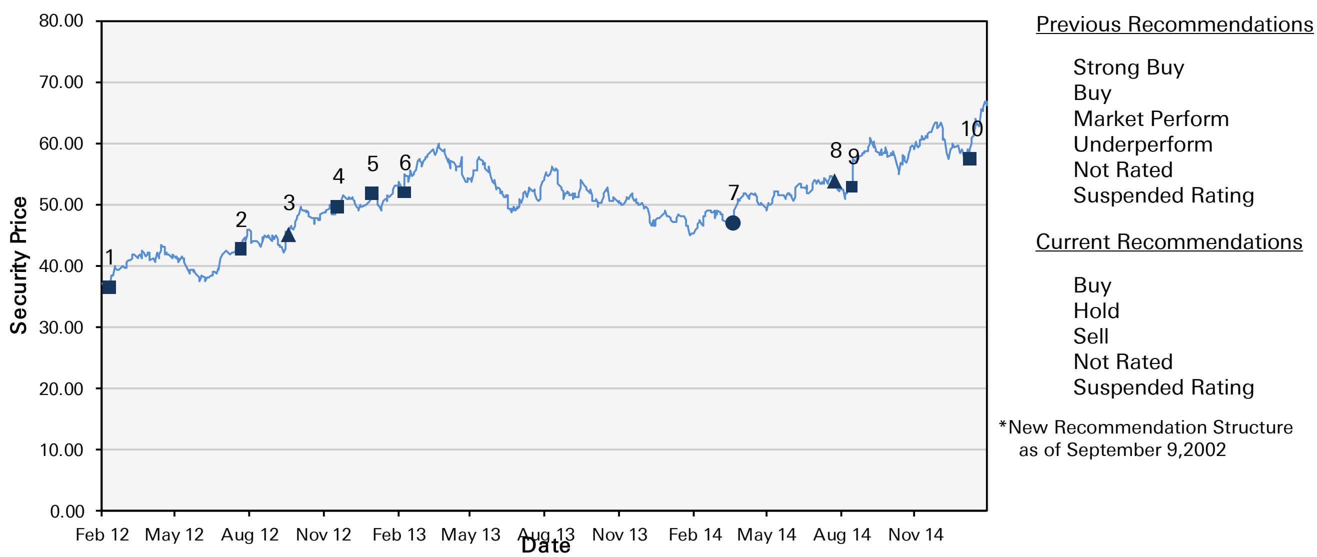
Historical recommendations and target price: Heineken (HEIN.AS)

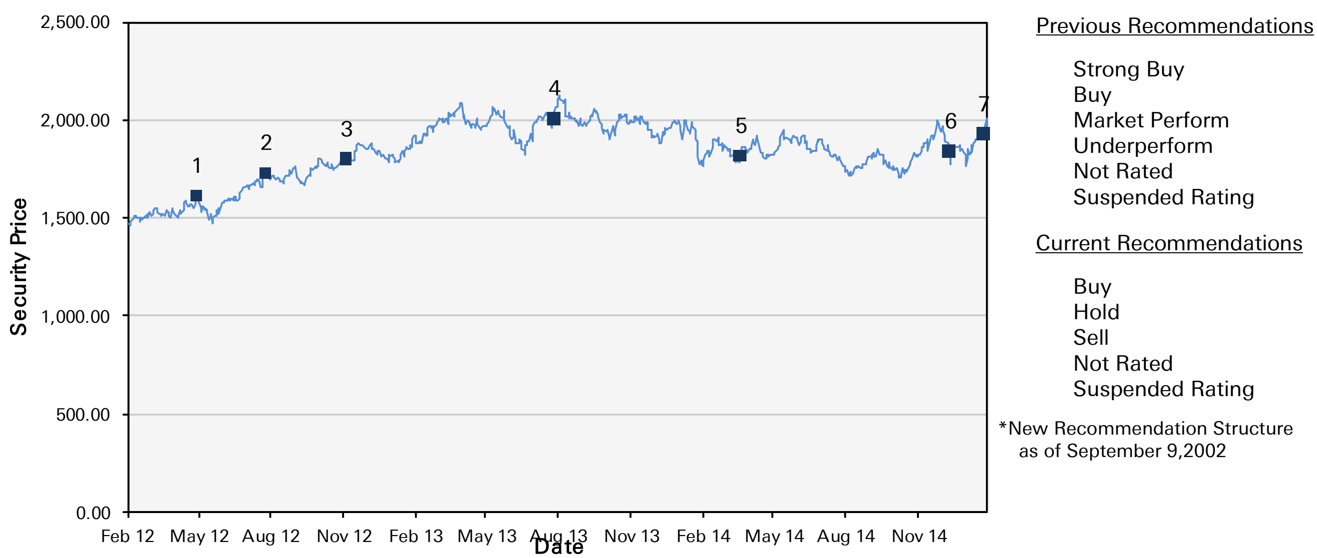
(as of 2/3/2015)



1.	15/02/2012:	Hold, Target Price Change EUR40.00	6.	13/02/2013:	Buy, Target Price Change EUR60.00
2.	26/07/2012:	Hold, Target Price Change EUR44.00	7.	25/03/2014:	Downgrade to Hold, Target Price Change EUR50.00
3.	23/09/2012:	Upgrade to Buy, Target Price Change EUR52.00	8.	29/07/2014:	Upgrade to Buy, Target Price Change EUR60.00
4.	23/11/2012:	Buy, Target Price Change EUR53.00	9.	20/08/2014:	Buy, Target Price Change EUR65.00
5.	04/01/2013:	Buy, Target Price Change EUR55.00	10.	12/01/2015:	Buy, Target Price Change EUR70.00

Historical recommendations and target price: Diageo (DGE.L)

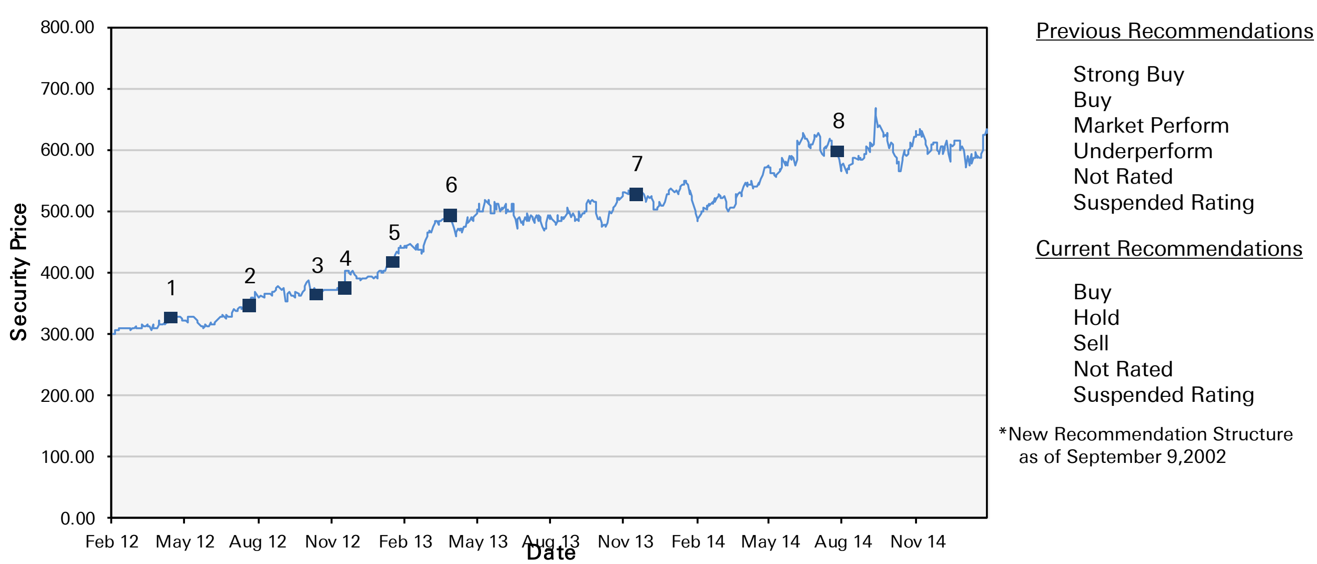
(as of 2/3/2015)



1.	03/05/2012:	Buy, Target Price Change GBP1,750.00	5.	25/03/2014:	Buy, Target Price Change GBP2,050.00
2.	30/07/2012:	Buy, Target Price Change GBP1,900.00	6.	16/12/2014:	Buy, Target Price Change GBP2,000.00
3.	09/11/2012:	Buy, Target Price Change GBP2,000.00	7.	29/01/2015:	Buy, Target Price Change GBP2,150.00
4.	31/07/2013:	Buy, Target Price Change GBP2,200.00			

Historical recommendations and target price: SABMiller (SABJ.J)

(as of 2/3/2015)



1.	19/04/2012:	Hold, Target Price Change ZAR315.00	5.	22/01/2013:	Hold, Target Price Change ZAR400.00
2.	26/07/2012:	Hold, Target Price Change ZAR330.00	6.	03/04/2013:	Hold, Target Price Change ZAR470.00
3.	18/10/2012:	Hold, Target Price Change ZAR350.00	7.	21/11/2013:	Hold, Target Price Change ZAR500.00
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Notes:

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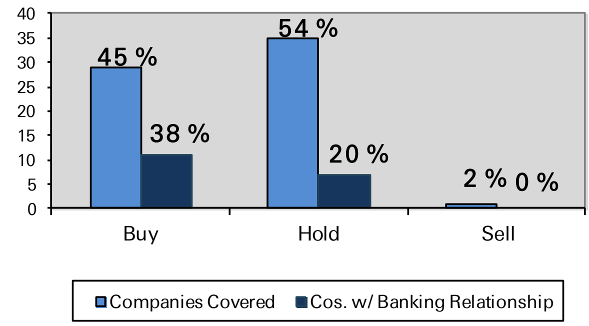
Equity rating dispersion and banking relationships



GEMs South African Universe

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