

SABMiller

Price 4,124p

Strong volume growth in Q3**Fair Value 4400p (+7%)****BUY-Top Picks**

Bloomberg	SAB LN
Reuters	SAB.L
12-month High / Low (p)	4,138 / 2,878
Market Cap (GBPm)	66,811
Ev (BG Estimates) (GBPm)	64,806
Avg. 6m daily volume (000)	3,032
3y EPS CAGR	1.9%

SABMiller reported strong Q3 figures with organic volume growth of 4% and organic revenue growth of 7%. However, the strength of the USD drags its reported figure down by 8% and the company is warning on the impact of the strength of the USD on its results. We believe there is a significant read through for AB InBev results which will suffer from the Brazilian real weakness. Other read through is on the positive impact that the mild weather had on its European business, which is good news for both Heineken and Carlsberg.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.9%	4.2%	18.0%	1.3%
Food & Bev.	-6.8%	-4.0%	-8.2%	-7.4%
DJ Stoxx 600	-10.8%	-11.1%	-20.8%	-11.9%

YEnd Mar. (USDm)	03/15	03/16e	03/17e	03/18e
Sales	22,130	20,335	21,101	22,371
% change		-8.1%	3.8%	6.0%
EBITDA	5,690	5,150	5,413	5,826
EBIT	4,459	3,994	4,227	4,592
% change		-10.4%	5.8%	8.6%
Net income	3,835	3,433	3,692	4,061
% change		-10.5%	7.5%	10.0%

	03/15	03/16e	03/17e	03/18e
Operating margin	27.0	26.2	26.7	27.3
Net margin	23.2	22.5	23.3	24.1
ROE	16.6	14.1	14.4	15.0
ROCE	7.4	6.5	6.8	7.3
Gearing	48.3	41.6	34.6	26.2

(USD)	03/15	03/16e	03/17e	03/18e
EPS	2.37	2.12	2.28	2.51
% change	-	-10.5%	7.5%	10.0%
P/E	24.7x	27.6x	25.7x	23.4x
FCF yield (%)	3.6%	3.2%	3.6%	4.5%
Dividends (USD)	1.13	1.19	1.31	1.44
Div yield (%)	1.9%	2.0%	2.2%	2.5%
EV/Sales	4.2x	4.5x	4.3x	4.0x
EV/EBITDA	16.4x	17.9x	16.7x	15.2x
EV/EBIT	21.0x	23.0x	21.4x	19.3x

SABMiller issued this morning a trading update for the 3 months ending 31 December (its' Q3) in which it delivered strong volume of 4% (2% after 9 months) and organic revenue growth of 7% (5% after 9 months). However on a reported basis (i.e. translating into USD), group revenue declined by 8% for the quarter and by 9% for the year to date due to the adverse translational impact on the results of continued depreciation of our key operating currencies against the US dollar. Alan Clark, CEO, warns that "Our reported results are materially impacted by the significant depreciation of our key operating currencies against the US dollar....". To be continued.

ANALYSIS

- Africa performed well across the board, with organic revenue growth in South Africa of 16% (volume growth of 10%) on the back of particular warm weather. In the other African subsidiaries organic revenue growth was 18% (volume growth of 12%) with standout performances in Mozambique (+ 23%), Zambia (+32%) and Nigeria (+28% on the back of enhanced market share and increased capacity). It's associate Castel feared less well with declining beverages volume growth of 8% principally driven by significant economic and trading challenges in Angola.
- In Latin America net revenue growth of 8% was led by Colombia where revenues grew organic by 10% on the back of strong lager volume growth of 13% driven by the company's affordability strategy and the continued momentum of the above mainstream brands, particularly Aguila Light and the alcohol-free Aguila Cero.
- The Asia Pacific region benefited from volume and NPR growth in Australia. In Asia Pacific, the group organic revenue growth was 5% with revenue per hectolitre growth of 5% reflecting continued premiumisation in Australia and China, together with an increase in one-way packaging volumes in China. Beverage volumes were level with the prior year, as growth in Australia and India was offset by a 1% decline in volumes in China.
- Europe had a stronger quarter, with growth in all of its subsidiaries. The European subsidiaries delivered revenue growth and beverage volume growth of 8% in the quarter assisted by unseasonably mild weather. However at its associate Anadolu Efes operations continue to be adversely impacted by economic and political instability in their key markets (Turkey and Russia).
- Group NPR in North America declined by 1% with beverage volumes down 2% driven by the performance of MillerCoors. While domestic sales to wholesalers (STWs) were down 3% in the quarter, MillerCoors group NPR per hl grew 1%, reflecting positive sales mix together with favourable net pricing. US domestic sales to retailers (STRs) were down 2% in the quarter.

VALUATION

- AB InBev offer price of GBP44 per share

NEXT CATALYSTS

- The payment of the offer price is the only catalyst, results don't matter

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