SABMiller/Foster's deal will benefit both: Moody's

Global ratings firm Moody's believes that a successful SABMiller's (SAB) acquisition bid of Australian brewer Foster's would benefit both companies.

Last week UK-based global brewing company SABMiller (Baa1 stable) said it had made a non-binding and conditional proposal to the board of Foster's (Baa2 stable) to acquire all of its shares for A$4.90 per share, for an enterprise value of about A$11.2 billion.

Foster's board however, rejected the offer. Commenting on the proposed deal in *Moody's Weekly Credit Outlook*, Yasmina Serghini-Douvin, AVP-Analyst at Moody's noted that SABMiller was keen on pursuing the discussions, which could pave the way to an agreement between the companies. "If the acquisition proceeds, it would be credit positive for both companies with expected benefits in terms of diversification, scale and cost savings," Serghini-Douvin said.

Moody's argued that SABMiller, the world's second-largest beer company by sales, would gain a solid market share of the Australian beer market and a valuable portfolio of brands as well as access to profitable, cash-flow-generating assets in a mature beer market, hence re-balancing its earnings base away from developing and emerging markets.

Boost for credit profile

"Foster's credit profile would also gain from being part of a materially larger group with extensive global reach. Foster's, with annual beer sales of around US$2.3 billion would represent only around 10% of post-acquisition group revenue. We think Foster's would therefore derive benefit from SABMiller's global scale, innovative know-how in the beer market and possible synergies following a merger of the two companies," Moody's said.

If a deal were to proceed, SABMiller would nevertheless need to address certain commercial challenges in the Australian market, according to Serghini-Douvin.

"For example, while Foster's 50% market share makes it the market leader, some of its mainstay brands' sales have declined. Per-capita beer consumption has declined over the past two years and Foster's has been losing market share over the past five years as drinkers migrate from Foster's best-selling mainstream brands such as Victoria Bitter to higher quality, individualised offerings provided by niche players such as Pacific Beverages (a joint venture between SABMiller and Coca-Cola Amatil) and Coopers Brewery, as well as own label brands from Woolworths and Coles supermarkets positioned in the value end of the market.

More flexibility

Moody's pointed out that SABMiller had gained more flexibility to pursue growth opportunities in the fiscal year ending March with better leverage and cash flow coverage ratios. It would pay for any acquisition with cash from existing resources and new debt. As a result, and absent an equity injection, a deal would add substantial debt to SABMiller's balance sheet at the outset and weaken its financial profile.

The ratings firm added that Foster's credit would benefit from ownership by the one-notch-higher-rated SABMiller, assuming that there would not be any major shift in Foster's financial metrics and profile as a result of the acquisition, such as a re-leveraging of Foster's balance sheet.

"SABMiller has historically been an acquisitive company with a good track record at integrating purchased assets. Past acquisitions expanded its presence internationally and enhanced its portfolio of brands. If it proceeds, the acquisition of Foster's would be the latest in a series of large transactions in the consolidating beer industry, which included tie-ups between Heineken (not rated), Femsa in 2010 and Anheuser-Busch-InBev (Baa1 stable) in 2008," Moody's said.