



STERLING CAPITAL LIMITED
Members of the Nairobi Stock Exchange

**TANZANIA BREWERIES
LIMITED**

OFFER NOTE

[November, 2011]

Introduction

Based on a one year valuation, we are of the view that TBL is full priced at TZs 2,060. Therefore, we take a **Neutral** position on the stock.

Tanzania Breweries Limited (TBL) is principally engaged in the production, distribution and sale of Malt beer and alcoholic fruit beverages in Tanzania. It operates breweries in Dar es Salaam, Arusha, Mbeya and Mwanza and thirteen depots throughout the country. It also produces malt at its malting plant in Moshi. The Company operates in two main segments: Clear beer and wines and spirits. The brands offered by the Company include Safari Lager, Kilimanjaro Premium Lager and Konyagi. Its subsidiaries include Tanzania Distilleries Limited, Mountainside Farms Limited and Kibo Breweries Limited. SABMiller Africa BV is the principal shareholder with a 52.83% stake followed by EABL with a 20% stake. The company is listed with a market cap of TZS 596 Bn. It controls slightly over 60% of the beer market in Tanzania. The firm depends mainly on domestic sales as exports accounts for only 1.2% of the revenues.

Offer Statistics

OFFER STATISTICS

Offer Price	TZS. 2,060
Number of Offer Shares	58,985,693 issued and fully paid ordinary shares, par value TZS. 100 each.

Source: TBL Prospectus

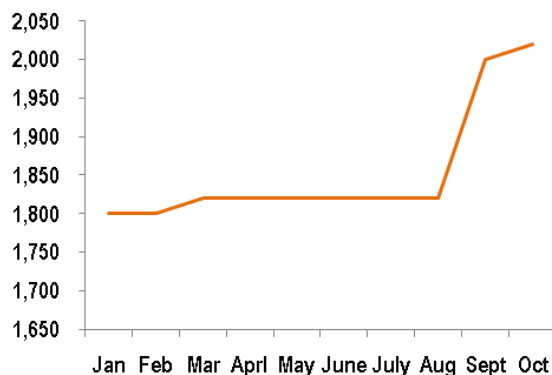
Timetable of principal events

TIMETABLE OF OFFER AND OFFER STATISTICS

Opening Date	04-Nov-11
Closing Date	25-Nov-11
Announcement of Offer results, no later than	06-Jan-12
Electronic crediting of Offer Shares to the CDS accounts, no later than	06-Jan-12
Dispatch of refund cheques and CDS receipts, no later than	20-Jan-12

Source: TBL Prospectus

Share Price Performance YTD



The sustained stability of the share has been backed by its illiquidity. The public holds only 6% stake in TBL thus the less volatility. It gained marginally between February and March prior to closure of its financial year and shot up in September after the announcement of the sale of EABL stake. Increased volatility is expected going forward, should the public buy more into the company. However, public uptake of the shares might be low as the offer is at a slight premium to the current market price.

Source: Sterling & NSE

Disclaimer

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Shareholding Structure

Resident Shareholders	No. of Shares	% Holding
Unit Trust of Tanzania	13,239,696	4.49%
United Republic of Tanzania	11,797,139	4.00%
National Social Security Fund	9,977,436	3.38%
Public Service Pension Fund	8,180,547	2.77%
Parastatal Pension Fund	7,902,720	2.68%
General Public	17,809,569	6.04%
Total Resident	68,907,107	23.36%
Non-Resident Shareholders		
SaBMiller Africa BV	155,799,698	52.83%
East African Breweries Ltd	58,985,693	20.00%
International Finance Corporation	11,235,965	3.81%
Total Non-Resident	226,021,356	76.64%
Total	294,928,463	100.00%

Source: TBL Prospectus

As indicated by the shareholding structure, Tanzania Breweries is foreign heavy. A key upside from this is the rich experience brought on board by the foreigners in managing the Company.

SABMiller's controlling interest will continue to support future growth and so is the presence of the International Finance Corporation.

However, it remains debatable whether the exit of EABL will increase liquidity of the stock and improve its trading activity in a thinly traded market.

Peer Analysis

Company	P/E	P/BV	EBIT Margin	Net Margin	ROE	ROA	Debt/Equity
TBL	5.22x	1.88	28.86%	19.14%	38.36%	23.20%	25.09%
EABL	16.67x	5.12	33.55%	23.28%	33.25%	23.00%	0.00%
Guinness Nigeria	22.56x	9.06	19.01%	12.56%	40.17%	28.77%	3.80%

- Relative to EABL and Guinness Nigeria, TBL has cheaper P/E and P/BV valuations.
- The company is highly geared as compared to the peers. This is expected to sustain pressure on operating margins.
- EABL has no debt while Guinness Nigeria is slightly geared at 3.8%.
- TBL has better earnings margins compared to Guinness Nigeria but slightly lower than EABL.

Upside

- Market leadership in a growing economy to support future growth
- Attractive return on Equity at 38%.
- Strong dividend payout - After significant expansion in 2010, the expected positive Cashflows going forward will support dividend payout. Has currently adopted a 70% dividend policy, which is quite attractive.

Downside

- Pressure on earnings due to the increasing finance costs driven by the rise in interest rates
- Importation of key raw materials continues to expose the company's performance to exchange rate risk.

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Value will be driven by.....,

- **Increased beer consumption** – Beer consumption has increased significantly in line with the growing per capita income. In 2010, sales volumes rose by 20% in line with a 6% economic expansion. Super performance by the wines and spirits segments is expected to boost the topline. The company controls over 60% of the beer market in Tanzania.
- **Improved product mix** – To counter competition as well as counterfeits, TBL launched several cheap brands such as Bismarck Rocks and Dodoma wines. The company launched Castle Lite and Redds in 375 ml bottles to complement the Ndovu special Malt brand. TBL also expanded its premium segment with the introduction of Castle Lite.
- **Improved Capacity** – TBL opened a new plant in Mbeya and a new packaging line. It has also rehabilitated a third packaging plant in Dar to provide additional capacity to serve the growing market. This will be significant in growing revenues due to increased volumes.
- **Prudent cost containment** – The launch of the Enterprise Development Initiative which is aimed at increasing the production and use of locally produced raw materials in brewing. Development of locally grown barley and increased use of sorghum will reduce cost pressure on earnings. This will result in improved efficiency and better margins.
- **Intensive marketing** - Will create awareness of the new brands especially those targeting the low end market segment.
- **Focus on exports market** - to generate additional revenues for the brewer and reduce depression of volumes due to intense competition. This will be necessary especially with the pull out of EABL.

The hurdles include;

- **Competition** – Pressure has been mounting from other brewers in the market especially EABL's subsidiary, Serengeti breweries. Competition is set to intensify after the acquisition of a controlling 51% stake in Serengeti breweries by EABL which capitalizes on economies of scale due to its strong capacity as well as strong regional presence.
- **High cost of raw materials due to weakening shilling** – The depreciation of the Tanzania shilling to the dollar has occasioned high costs of raw materials causing intense pressure on the margins.
- **Inflation and slowing economy** – Slowing economic growth coupled with high inflation are set to reduce consumption of beer as disposable income come under pressure.
- **EABL Pullout** – The Company will have to invest heavily in marketing especially to the regional markets, after ridding on EABL's good will for some years. Equally, competition from Serengeti is set to intensify after acquisition of Serengeti by EABL.

Investment Case

As the market leader in the brewing industry in Tanzania, TBL has sustained a four-year CAGR of 17% on the topline. However, indications point to increasing competition in view of the recent acquisition of Serengeti Breweries by East African Breweries; the leading regional brewers. Early signals to the future operating (economy and competitive) environment are evident from the 2012 conservative forecasts which show a flat earnings growth of 1% only compared to a 3-year CAGR of 22.73%. Compared to the peers; East African Breweries and Guinness Nigeria, Tanzania breweries has attractive valuation multiples. The trailing Price earnings multiple stands at 5.22x compared to EABL's at 16.67x and Guinness Nigeria at 22.56x. A forward multiple of 5.20x is only 0.48% cheaper than the trailing multiple of 5.22x while inflation stands at 16.8%. On this basis, we take a **NEUTRAL** position on the stock.

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