SAB squeezes every drop

By Sasha Planting

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SABMiller has always had a reputation for being a lean and efficient operator. But now the global beer giant has a plan to shave another US$300m/year off operating costs.

It plans to achieve this by running back-office systems such as finance and HR off a common IT platform, the establishment of a global procurement system and selective outsourcing.

“We have been looking for ways to take advantage of our global scale,” says SAB MD Norman Adami. “These are three levers [to do so].”

SABMiller expects to spend $370m on the programme this year, but says the costs will decline significantly thereafter.

The company's interim results reflect a solid operation that has managed to grow earnings and market share, despite declining volumes in many markets and “some of the toughest economic conditions for decades”, SABMiller CEO Graham Mackay said in a conference call.

Though beer volumes declined by 1% overall, this was the smallest drop of the world's four largest brewers, thanks largely to growth in China and Africa.

Revenue declined 6% to $13,3bn and earnings before interest tax and amortisation (ebita) by 2% to $1,9bn. However, the company said if the weakness of its major operating currencies against the US dollar is accounted for, revenue grew 3% and ebita by 11%.

“Until there is an international settlement currency, currencies will be an accounting problem for any global company,” says BoE analyst Barbara Price-Hughes. “More important is it's in the right markets — those with growth — with the right brands. SABMiller is there, though it lacks true global brands.”

What is pleasing, Price-Hughes says, is the evidence of improved profitability in China. “Volumes grew at double the market rate in a hugely fragmented industry.”

The company is doing well in other territories too. Ebita rose 7% in the US as the MillerCoors joint venture begins to deliver. A $200m saving has been realised of a possible $700m. “MillerCoors is now driving the dialogue in that market,” says Adami. “It has wrestled mind share from Anheuser-Busch InBev.”

In Africa ebita grew 15% (also on a constant currency basis) and in Asia it grew by 29% as volumes grew at double the market rate.

The SA unit had a more difficult time, showing 4% growth in ebita on volumes that declined 3%.

Adami, who has now been MD for a year (having returned from the US), says the company has stabilised its losses in market share to Heineken's Amstel.

Though SABMiller expects the second half to be equally tough, it says it will benefit from the weaker dollar as forward contracts, priced at higher-than current market prices for barley, aluminium and glass unwind. The products will then be able to be bought at market prices, reducing input costs.

Though it didn't comment on the possibility, reduced debt levels (from 54% to 47% of equity) leave it with plenty of room to negotiate for a share in Mexico's second-biggest brewer Femsa. SABMiller has been tipped as a likely suitor.

“This company is always looking to improve and grow,” says Price-Hughes.

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