

+

Buy

Price : 14.430Tnd

Price track since January 2009



## Bold as brass

### Stock Recommendation

With its quasi-monopoly, the diversity of its product range, its assets that are substantially depreciated, SFBT has everything it needs to maintain its dominating market position. Even today, with the introduction of the new competitor "Heineken", the results of the brewery activity were not significantly altered, leaving us confident about the future of the group. On the valuation side, SFBT valuation ratios are in line with the market (P/E09e 16.8x versus 16.3x the market). Given these arguments, we believe that there is still an important upside potential for the company, we recommend **buying** the stock SFBT.

### Shareholders (June 09)

Castel group:	<b>49.1%</b>
BNA Bank :	<b>14.0%</b>
STAR :	<b>8.6%</b>
Free float:	<b>28.3%</b>

**Market Cap: 808mTnd**

**Enterprise Value: 845mTnd**

**+ High 2010: 15.1Tnd**

on 10/02/10

**+ Low 2010: 12.6Tnd**

on 04/01/10

### YTD performance:

(SFBT/ Tunindex)

**+16.8%/ +9.3%**

### Valuation ratios:

(SFBT/Market)

**P/E 2009e : 16.8x / 16.3x**

**P/B 2009e : 2.7x / 1.9x**

**Yield 2009e: 4.2%/ 2.4%**

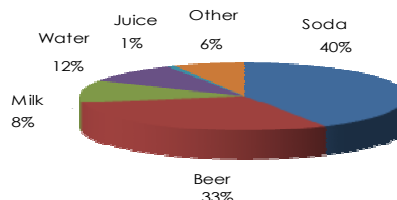
**ROE 09e : 17.4%**

### Analyst:

**Rym GARGOURI BEN HAMADOU**

### ■ Introduction to SFBT group:

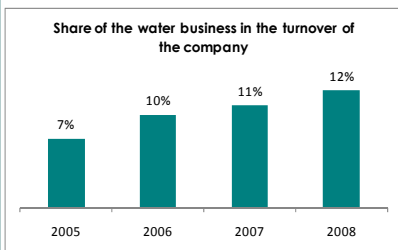
Founded in 1925 under the French protectorate, the SFBT group today ranks among the largest private Tunisian groups. The group initially operated in the brewery and the soft drinks businesses, it is only in recent years that it launched the water, juice and milk lines of products. There are currently twenty companies which turnover is broken down as follows:



■ **40% soft drinks** : the group holds 80% market share in this segment through the two most requested drinks in Tunisia, namely 'Boga' and 'Coca Cola'. The group's strategy throughout those years to consolidate its leading position in the local market has been fruitful. Even its competitors, Ben Yedder Group (with the Pepsi brand in 1990) and Group Meddeb (Virgin Cola in 2003), could **not** resist the low margins due to the importance of taxes.

In 2008, the group has entered the energy drinks market with the brand 'Burn', owned by Coca Cola. After the success achieved in Spain, Ukraine and Turkey, the brand is likely to enjoy the same fate in Tunisia.

■ **33% beer**: The group has a monopoly on this segment. It sells five brands, including two local (Celtia and Stella) and three foreign (the French "33" and the German Löwenbräu and Beck's). The brand Celtia represents the largest share of sales with a market share of around 95%.



*A lack in quarterly consolidated figures limits our analysis of SFBT SA*

*Good margin ratios*

*-Gross margin of 39.4%  
-Operating margin of 18.7%*

From 2006, the group launched the non-alcoholic beer, a new product which has good prospects and which enjoys the advantage of flexible legislation on communication.

■ **12% Water:** Since the 2000s, the group began to expand its product line. It started into the water business by buying Marwa (2000), SOSTEM (2003) that owns historical brands Safia (still water) and Ain Garci (sparkling water) and introducing Crystalline in 2005. The share of the 'water' business in the turnover has increased significantly in recent years given the high profitability as the industry emerges.

■ **8% Milk:** Although this activity pulls down the group's results, management has to develop it, focusing especially on products with higher margins. Management is confident about the potential of this niche.

■ **1% Juice:** This industry is still in its beginnings, the interest of SFBT in the development of this segment is to complement its product range and reach a bigger client base. Besides the six former brands marketed by the group (Hawaii, Miami, Rea, Tropic, Diva and Oh), a new global brand owned by Coca Cola was added last year 'Minute Maid'.

■ **6% Other:** This category includes all sales of concentrates, performs, caps, labels ...

#### ■ H1 2009 Highlights

Although an analysis of the 2009 semi-annual figures of SFBT does not reflect the reality of the group, as these individual accounts are not consolidated, we will give a short overview of what the mother company has achieved. The mother company produces beer, soft drinks and sells other products such as juice, milk and water.

In the first six months of fiscal year 2009, sales jumped significantly from 14% (to 83mTnd) thanks mainly to strong sales of the branch 'soft drinks' (+20% to 43mTnd). As for the 'beer' branch, although its sales rose in the first half (+2.6% to 32.4mTnd), but growth remains modest relative to the last two years (an average increase of 12%). The introduction of 'Heineken' market is probably behind the decline of the growth pace, but it should be noted that this effect is only considered temporary due to the recent launching of the brand. According to management, sales resumed in April, consumers are loyal to their beer 'Celtia'.

As for margins, despite higher operating expenses (+17%), the company still shows strong margins: Gross margin reaching 39% and an operating margin of 18.7%. It should be noted that the operating margins were slightly below the levels recorded in recent years. Indeed, with the launch of new products (Coke Zero, Burn, Minute Maid, Matinel ...), the SFBT group is becoming more aggressive in communication.

The effect of rising costs of communication was however partially offset by lower depreciation and provisions. It should be noted that one of the strengths of the Group is that its fixed assets are depreciated substantially (a net worth of 77mTnd, against a gross value of 189mTnd).

\* It is to be reminded that SFBT holds an investment portfolio of 107mTnd (valued at cost) that yields an annual dividend of 21mTnd.

*2009 estimates in line with last year's growth:  
Sales figures were up 11% to 501mTnd and a net profit of 48mTnd (+9%)*

*Competition will make SFBT group improve and diversify its lines of business*

*SFBT benefits from Celtia's notoriety on the Tunisian market*

*SFBT's key advantage relies on its competitiveness, its production unit being amortized*

The company has thus closed the first half of 2009 with an operating profit up 5.8% compared with the same period of the previous year at 16.9mTnd.

Net profit was also up (+6.5% at 36.5mTnd) on the back of **(1)** income on placements in excess of 22mTnd and **(2)** the sale of an asset generating 1mTnd of capital gains.

#### ■ Estimates 2009 and outlook:

In light of financial indicators published by SFBT as at 31/12/2009, we believe that the group's sales should be reporting the same growth as the previous year (+11% to 501mTnd). In terms of net profit, the growth should be slightly smaller than that of sales (+9% 48mTnd). This modest increase reflects the difficulties in the 'milk' activity. This activity has posted operating losses of 16mTnd, pulling down the group's results. This branch is currently being restructured, and the management said at the last shareholders meeting that the group's current strategy is to develop the products derived from milk because they generate more value added in the future.

Regarding the longer-term prospects for the group, the management seems confident about the outlook despite two basic factors that could be considered as risk factors:

- The new competitor Heineken on the Tunisian market
- The fact that the religious month of Ramadan comes during the summer season in the next four years.

#### The rise of Heineken in the Tunisian market

Without a doubt, the recent arrival of the new competitor Heineken in a market dominated by a single actor (SFBT), slowed the pace of the group sales, but we believe that thanks to the strong support of management, the group should be able to offset this gap in growth.

Indeed, the emergence of a competitor like Heineken on the Tunisian market encourages the group to expand its product line as was the case recently. While the Boujbel Group was preparing to launch the Heineken brand in the market, SFBT has created the surprise by launching a new brand (Beck's) in partnership with InBev (No. 1 global brewer) softening the impact of the launching of Heineken on the market.

Moreover, the SFBT group has two major advantages:

- The Tunisian consumer preference for the Celtia brand (95% market share). The introduction of the new Heineken brand should probably change those statistics but not significantly. Indeed, Heineken beer is for some affluent 'white collar' consumers which is not the target of SFBT and represents a small share of its turnover.

- The competitiveness of the group: with its production unit mostly amortized, the company can be very competitive facing new comers. In this industry where capex is a must and investments are very important, Heineken group will have to impose more expensive prices than SFBT in order to make return on investment.

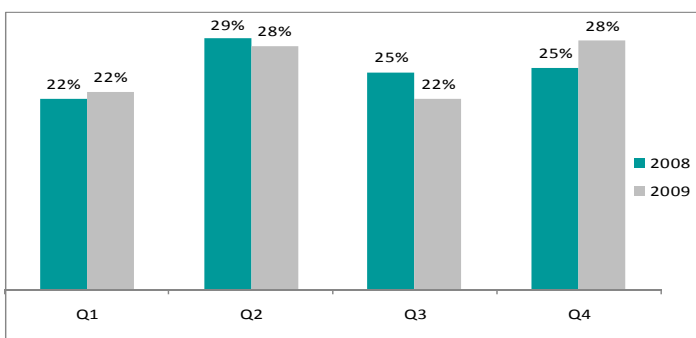
We hence believe that the new arrival of Heineken on the Tunisian market should not significantly impact the growth of the SFBT group, at least on the short/medium term. Relying on a good financial situation (gearing 2008 equal to 26%) and a good management quality, SFBT group should confirm its market leader position. Its cash flow generating capacity (CF08 equal to 90mTnd), allows the group to enter new markets and diversify its lines of business.

**The month of Ramadan will take place in the summer season during the coming six years**

The impact of the month of Ramadan coinciding with the summer season on the beer consumption will reach its peak in three/four years, but should not significantly impact the group's financials. We believe that there are two important arguments explaining this:

-The beer consumption in Tunisia is hardly limited to a specific season. Unlike soda consumption, beer is a product that is consumed all year long. The group is rather expecting a bigger impact of this phenomenon on its sodas/water branch.

**Beer sales quarterly breakdown**



*The beer consumption in Tunisia is hardly impacted by one certain season hence not impacting the group's financials*

*The government might free beer prices*

-The possibility (even if it is rather low) that in the meantime, with the entry of Heineken in the Tunisian market, the authorities will free the beer prices. This will be very profitable for SFBT since currently beer prices are regulated by the government.

In conclusion, we believe that these risk factors will not significantly impact the group's growth or its financial results. We remain confident that SFBT's management will be able to successfully face any new comers into the market.

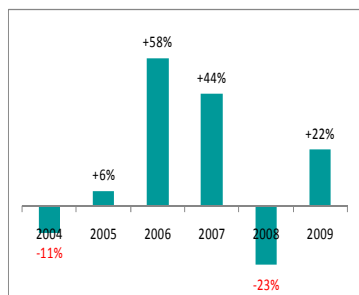
**■ Market performance and Tunisie Valeurs' opinion**

After being considered a blue chip stock during the years 2000, SFBT stock has now become less liquid. In fact SFBT attracted the interest of many foreign investors due to the high operating income of the group (ROCE\* bigger than 14%) as well as a low valuation level. Since its main shareholder, "Castel" which is a world known group specializing in all sorts of beverages, has reached the ownership threshold of 50%, no more foreign investors are allowed to buy the stock. Its market performance has thus been penalized and has since had a dull performance.

In 2009, SFBT' share price went up 22%, with the trend continuing this year gaining an additional 16.8%. We believe that this up trend should continue throughout this year due to the company's strong potential based on the following points: **(1)** a good profitability (ROE equal to 17%)resulting in a good remuneration of its shareholders (a payout of 69% and a dividend yield of 4.2%), **(2)** a strong cash generating

\* ROCE (operating income / net fixed assets + working capital needs), this ratio purely looks at the company's profitability and financial strength.

**SFBT' share price evolution over the past 6 years**



capacity (90mTnd) allowing the company to develop its milk production capacity, **(3)** an attractive valuation level compared to its Moroccan peer, Societe Brasserie du Maroc.

If we compare SFBT to other foreign brewers, its valuation is not far from those big names in the brewery business although they corrected sharply after the world financial crisis.

	Country	P/E	Relatif P/E	VE/CA	VE/EBITDA	VE/EBIT
<b>Carlsberg</b>	Denmark	13.7	0.85	1.6	7.6	10.6
<b>Heineken</b>	Netherlands	14.1	0.88	1.5	7.6	11
<b>SBM</b>	Morocco	23.1	1.16	4.2	13.8	16.1
<b>SAB Miller</b>	Great Britain	16.0	0.72	4.2	13.2	17.1
<b>Coca Cola</b>	USA	16.1	1.02	4.2	12.2	13.9
<b>Pepsi</b>	USA	15.4	0.97	2.4	10.6	12.5
<b>Median</b>		<b>15.7</b>	<b>0.9</b>	<b>3.3</b>	<b>11.4</b>	<b>13.2</b>
<b>SFBT</b>	Tunisia	16.8	1.0	1.7	6.7	10.3

Source S&P, Natixis, Integra Bourse

in KDt	2006	2007	2008	2009	2010	var 09/08	var 10/09
Sales (goods)	5 390						
Sales (services)	388 947	415 187	460 253	501 675	541 809	+9.0%	+8.0%
<b>Total Sales</b>	<b>394 337</b>	<b>415 187</b>	<b>460 253</b>	<b>501 675</b>	<b>541 809</b>	<b>+9.0%</b>	<b>+8.0%</b>
Other Income	14 837	11 450	7 659	8 500	9 006	+11.0%	+6.0%
<b>Total Operating Income</b>	<b>409 174</b>	<b>426 637</b>	<b>467 911</b>	<b>510 175</b>	<b>550 815</b>	<b>+9.0%</b>	<b>+8.0%</b>
Inventories		1 228	-8 143				
Purchases	4 717	1 196	2 089				
Procurements	224 768	222 169	258 313	275 921	297 995	+6.8%	+8.0%
<b>Gross Margin rate</b>	<b>41.8%</b>	<b>45.9%</b>	<b>45.2%</b>	<b>45.0%</b>	<b>45.0%</b>		
Payroll	34 833	37 722	39 081	41 425	43 497	+6.0%	+5.0%
Allowances to amortisations and provisions	35 797	35 797	41 210	44 919	48 063	+9.0%	+7.0%
Other Operating charges	43 609	53 561	58 806	64 214	69 352	+9.2%	+8.0%
<b>Total Operating charges</b>	<b>343 724</b>	<b>351 673</b>	<b>391 356</b>	<b>426 480</b>	<b>458 907</b>	<b>+9.0%</b>	<b>+7.6%</b>
<b>Operating charges /Total revenues</b>	<b>84%</b>	<b>82%</b>	<b>84%</b>	<b>84%</b>	<b>83%</b>		
<b>Operating Profit</b>	<b>65 450</b>	<b>74 964</b>	<b>76 556</b>	<b>83 695</b>	<b>91 909</b>	<b>+9.3%</b>	<b>+9.8%</b>
<b>Operating margin</b>	<b>16.6%</b>	<b>18.1%</b>	<b>16.6%</b>	<b>16.7%</b>	<b>17.0%</b>		
<b>EBITDA</b>	<b>101 247</b>	<b>110 761</b>	<b>117 765</b>	<b>128 614</b>	<b>139 972</b>	9.2%	8.8%
<b>EBITDA margin</b>	<b>25.68%</b>	<b>26.68%</b>	<b>25.59%</b>	<b>25.64%</b>	<b>25.83%</b>		
Financial charges	7 391	8 520	9 532	11 296	12 296	+18.5%	+8.9%
Income on placements	5 330	4 254	2 823	3 040	3 120	7.7%	2.6%
Other gains	3 308	1 250	1 616				
Other losses	1 306	729	763				
<b>Earnings before tax</b>	<b>65 391</b>	<b>71 219</b>	<b>70 699</b>	<b>75 439</b>	<b>82 733</b>	+6.7%	+9.7%
Corporate Tax	15 591	17 168	21 922	22 632	24 820		
<b>Earnings (Consolidated subsidiaries)</b>	<b>49 800</b>	<b>54 051</b>	<b>48 777</b>	<b>52 808</b>	<b>57 913</b>	8.3%	9.7%
Equivalence	266	244	263	528	579		
<b>Consolidated Net Profit</b>	<b>50 066</b>	<b>54 295</b>	<b>49 040</b>	<b>53 336</b>	<b>58 492</b>	8.8%	9.7%
<b>Share of the group</b>	<b>47 547</b>	<b>50 030</b>	<b>44 098</b>	<b>48 002</b>	<b>52 643</b>	<b>+8.9%</b>	<b>+9.7%</b>
Minority interest	4 890	4 265	4 942	5 334	5 849		
<b>Net Margin</b>	<b>12.6%</b>	<b>13.0%</b>	<b>10.6%</b>	<b>10.5%</b>	<b>10.7%</b>		

Source Tunisie Valeurs