



**First Citizens**  
Research & Analytics

**Acquisition of Banks Holdings by SLU Beverages**

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**The Transaction**

On Tuesday September 23<sup>rd</sup> a share trade occurred on the Barbados Stock Exchange where approximately thirteen million (13,170,728) shares of Banks Holdings Limited (BHL) were acquired by SLU Beverages Limited (SLU) from Massy Holdings Limited. The amount of shares that crossed the floor represented approximately a 20% ownership in BHL. When combined with SLU's previous ownership in the target company, the transaction resulted in SLU increasing its shareholding to 40% of BHL. As a result of the above share trade, the Barbados Companies (Take-over Bid) Regulations, 2002, must now be considered.

**The Players**

*Indirect Involvement:*

- **Anheuser-Busch InBev- (AB InBev):**
  - Anheuser-Busch InBev, a publicly traded company, based in Leuven, Belgium, is the largest beer brewing company in the world. The company boasts a global portfolio of brands such as Budweiser®, Corona®, Stella Artois®, Bud Light® and Michelob Ultra®. Through AB InBev's four subsidiaries (Anheuser-Busch, AmBev, InBev and Grupo Modelo) the company is able to serve over 100 countries across the globe and possess the rights to 6 out of the world's top ten most valuable beer brands. The company employs over 155,000 people and had 2014 sales in excess of USD 47 Billion.
  
- **Companhia de Bebidas Das Américas- (AmBev SA):**
  - AmBev SA, a Brazilian beer brewing and soft drink manufacturing company is the largest of its kind in Latin America and boasts of being the fifth largest in the

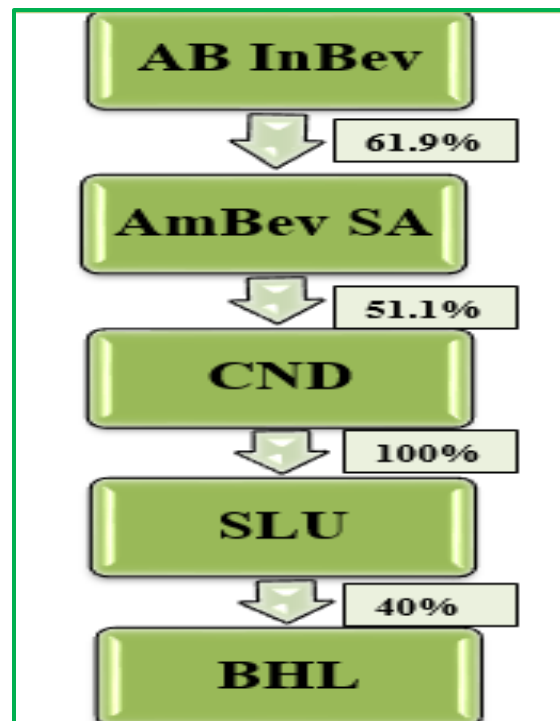
world. AmBev currently operates in 18 countries and are leaders in seven of the countries in which they operate (Brazil, Argentina, Canada, Uruguay, Bolivia, Paraguay and the Dominican Republic). The company's portfolio includes beers like Antarctica, Brahma, Bohemia, Skol, and Stella Artois. AmBev SA is a *subsidiary of AB InBev*.

- Cerveceria Nacional Dominica SA- (**CND**):
  - Cerveceria Nacional Dominicana (Dominican National Brewery) (CND), is the primary beer producer in the Dominican Republic and *is controlled by AmBev*. In 2012, Dominican National Brewery joined AmBev to shape a strategic partnership and in the process make CND the leading beverage company in the Caribbean. The operational synergies enjoyed by CND as a result of the merger resulted in expansion into new markets and an enriched brand portfolio with international premium labels such as: Buccaneer, Leffe, Stella Artois, Budweiser, Corona and Hoegaarden.

*Direct Involvement:*

- SLU Beverages Limited- (**SLU**):
  - SLU, ultimately a *holding company for CND*, is incorporated in St Lucia and represents the “English Speaking Caribbean” arm of AmBev SA.
  
- Banks Holdings Limited- (**BHL**):
  - Banks Holdings Limited (BHL), established in 1991, is Barbados' largest beverage conglomerate. The company comprises four subsidiaries: Banks (Barbados) Breweries Ltd., Barbados Bottling Co. Ltd. and Barbados Dairy Industries Ltd., the island's only Dairy, as well as Banks Distribution Ltd. BHL beverages include leading international brands produced under license such as Coca-Cola, Sprite and Guinness. Local products produced are Frutee, Tiger Malt, Pine Hill juices and milks; and the company's signature product Banks Beer, which is renowned as Barbados' most loved lager.

*Ownership Structure:*



**BHL... A warranted takeover target?**

*By the numbers:*

*BHL's Key Stats as a Takeover Target (Exhibit 1)*

Statistic	2010	2011	2012	2013	2014	Estimation at 2015 acquisition
Share Price (BBD)	\$ 4.13	\$ 3.82	\$ 3.00	\$ 2.90	\$ 2.95	\$ 4.00
EPS (BBD)	\$ 0.14	\$ 0.13	\$ 0.10	\$ 0.09	\$ 0.19	\$ 0.27
Book Value	\$ 4.75	\$ 4.58	\$ 4.53	\$ 4.42	\$ 4.54	\$ 4.80
Price/Book	\$ 0.87	\$ 0.83	\$ 0.66	\$ 0.66	\$ 0.65	\$ 0.83
Enterprise Value (EV) (BBD)	\$ 287,159,652	\$ 273,764,174	\$ 224,412,584	\$ 211,870,269	\$ 210,341,565	\$ 281,568,654
Enterprise Value (EV) (USD)	\$ 143,579,826	\$ 136,882,087	\$ 112,206,292	\$ 105,935,135	\$ 105,170,783	\$ 140,784,327
EV/EBITDA	\$ 15.15	\$ 23.03	\$ 13.89	\$ 10.51	\$ 9.13	\$ 12.67
Net Cash from Operating Activities (NCO) (USD)	\$ 11,496,431	\$ 10,250,665	\$ 3,420,397	\$ 7,778,713	\$ 10,832,583	\$ 8,101,333
EV/NCO	\$ 24.98	\$ 26.71	\$ 65.61	\$ 27.24	\$ 19.42	\$ 34.76
Div per Share (BBD)	\$ 0.12	\$ 0.09	\$ 0.07	\$ 0.07	\$ 0.10	\$ 0.10
Div Yield (%)	2.91%	2.36%	2.33%	2.41%	3.39%	2.50%

*BHL's Partial, Common Sized Income Statement (Exhibit 2)*

Statistic	2010	2011	2012	2013	2014	Projected 2015
Revenue (USD)	\$ 92,022,409	\$ 88,662,632	\$ 88,312,207	\$ 89,500,505	\$ 91,817,488	\$ 95,162,000
Revenue (%)	100%	100%	100%	100%	100%	100%
COGS (USD)	\$ 65,717,080	\$ 65,790,930	\$ 65,037,924	\$ 64,034,643	\$ 63,117,884	\$ 33,930,789
COGS (%)	71%	74%	74%	72%	69%	71%
SG&A (USD)	\$ 24,782,821	\$ 24,566,130	\$ 25,091,310	\$ 24,642,257	\$ 25,726,135	\$ 13,316,957
SG&A (%)	27%	28%	28%	28%	28%	28%
Net Income (USD)	\$ 3,727,878	\$ 2,705,597	\$ 2,781,484	\$ 2,440,966	\$ 6,209,039	\$ 9,807,778
Net Income (%)	4%	3%	3%	3%	7%	10%

*AmBev SA's Partial, Common Sized Income Statement (Exhibit 3)*

Statistic	2010	2011	2012	2013	2014
Revenue (USD)	\$ 13,941,049,724	\$ 14,262,197,687	\$ 15,377,982,955	\$ 14,341,414,554	\$ 13,897,737,226
Revenue (%)	100%	100%	100%	100%	100%
COGS (USD)	\$ 4,796,795,580	\$ 4,731,072,555	\$ 5,022,632,576	\$ 4,731,193,786	\$ 4,676,861,314
COGS (%)	34%	33%	33%	33%	34%
SG&A (USD)	4,001,546,961	3,938,696,109	4,257,623,106	4,009,893,704	4,006,861,314
SG&A (%)	29%	28%	28%	28%	29%
Net Income (USD)	\$ 4,121,657,459	\$ 4,457,833,859	\$ 4,952,225,379	\$ 4,660,425,184	\$ 4,511,678,832
Net Income (%)	30%	31%	32%	32%	32%

*The numbers add up...*

**The numbers would lead us to believe that BHL was indeed a warranted takeover target.**

## **Key Points**

- BHL's Price/Book (P/B) ratio has consistently measured below one, which indicates that the company is undervalued. The 5-Year averages of BHL's P/B ratio stands around 0.75 which essentially means that an acquiring company could buy BHL on the market, then liquidate all assets and make a 33% profit on the deal. At acquisition, the profit margin that SLU could theoretically enjoy was around 20%.
- BHL's enterprise value (EV) gives a better estimate of the entire economic value of the company. More specifically, it is a measure of the theoretical takeover price that an investor would have to pay in order to acquire the firm. As at September 23<sup>rd</sup> 2015, BHL's EV stood around USD140 Million, 9% above the company's market capitalization of USD 129 Million. As a result, BHL's enterprise value multiple (EV/EBITDA) estimate, on acquisition stood around 13x which means that if acquired, it would take roughly 13 years for BHL's earnings (assuming EBITDA does not change) to pay off the acquisition costs. It may be the belief of SLU that if successful, the Dominican brewery and by extension AmBev SA could significantly grow EBITDA through operational synergies and reduce the payback period of the investment.
- A comparison between the common size income statements of BHL and AmBev SA show clearly where BHL may benefit from this merger/acquisition. The cost of goods sold as a percentage of Revenues are starkly different between the companies, thus it leads us to believe that BHL would benefit from the advanced procurement and logistic capabilities/ management of a global company such as AmBev SA.

## **Considerations**

- Would other institutional investors of BHL sell their holdings? SLU would need roughly 50% ownership to gain a controlling majority in BHL and have influence on the appointment of the Board of Directors and management. As at September 23<sup>rd</sup> 2015, the shareholding of BHL was as follows: SLU: 40%, BWPL: 11.8%, Sagicor Financial Group: 6.7%, Banks DIH Limited: 6.7% and roughly 35% in market free float. It would be difficult to foresee Sagicor Financial Group and the other institutional investors relinquishing their holdings and as such SLU would need the retail investors to take up their offer.
- BHL makes up 50% of the beverage industry in Barbados and is viewed as an important component throughout the Barbadian society. As such this acquisition offers BHL the opportunity to benefit from the expertise of a global leader in the beverage industry and grow its business/product, impacting a large section of the Barbados community. We do

not believe however that this transaction is a result of a change in the opinion of the economic outlook for Barbados. Expected GDP growth continues to be weak with an analyst average of 1% for 2015 and 2% for 2016. The country's credit rating, according to S&P is B with a negative outlook. As such we view this acquisition in the context of SLU/AmBev SA noticing the shortfalls in BHL's processes and the belief that with the right changes a more profitable company could emerge.

- This acquisition is also viewed in the context of CND's stated ambition of becoming the largest beverage company in the Caribbean. This deal offers CND a new market and products which may serve as a platform for future expansion.

### **What's next for Shareholders investors?**

#### *Sell or not to sell?*

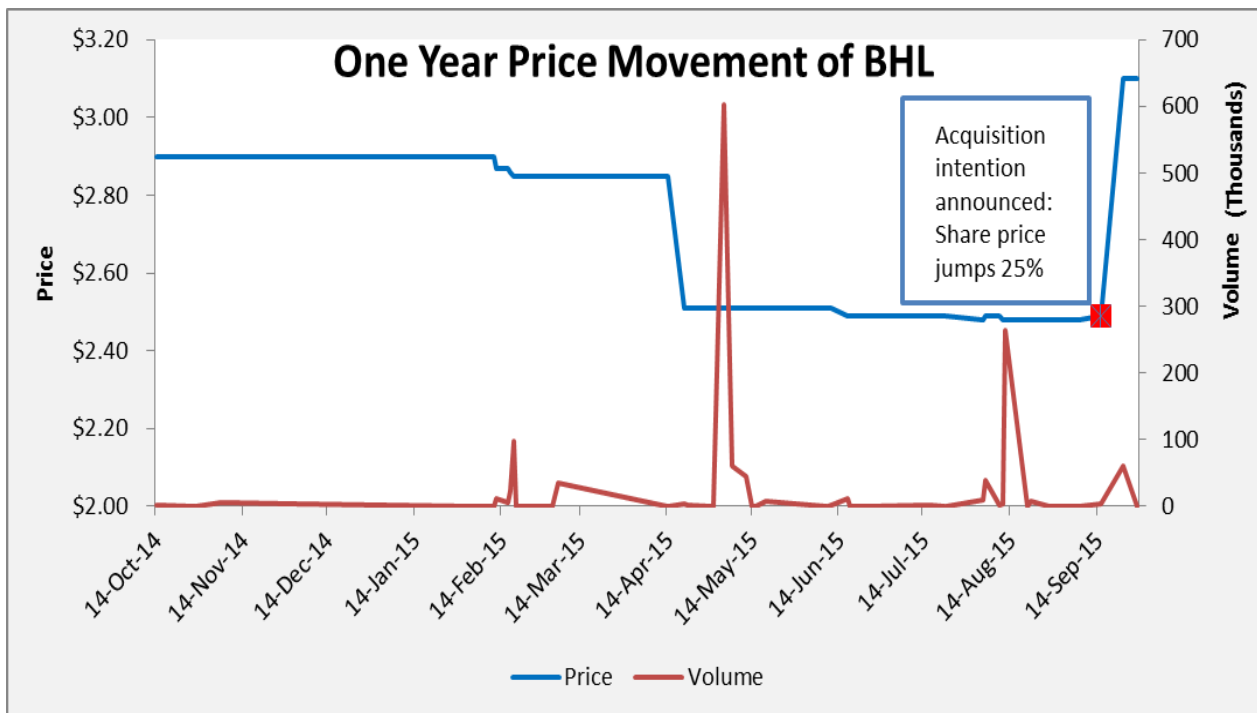
- Unfortunately it depends. The answer to the question that most retail investors are asking is contingent on the following questions:
  - Would other institutional investors sell their holding and give SLU majority ownership without them having to come to the market? We do not believe that these institutions would and as such retail investors would need to sell 6.5 million shares (a current market value of BBD 26 Million) for SLU to become the major shareholder. The success of this would depend on Barbadian investors view on keeping BHL a Barbados owned company, thereby limiting its growth prospects.
  - At what price is SLU willing to offer for the remaining shares that are on the market? The current book value per share is BBD4.80 well below the current share price as at October 1<sup>st</sup> 2015 (BBD 3.10)

#### *The Offer*

- Pursuant to Barbados Companies (Take-over Bid) Regulations, 2002 on October 1<sup>st</sup> 2015, SLU made an offer to all shareholders of BHL:
  - "Acquire any and all of the remaining issued common shares, referred to by SLU as ordinary shares, in the Company at a cash price of BBD4.00." The offer price is 30% above the current trading price of BBD 3.10 but below the book value of BBD4.80.

### The Response

- BHL’s Board of Directors has issued a response in which they have advised, all current minority shareholders, that “The Board has engaged the services of an independent professional financial advisor to undertake a valuation of the Company’s shares and to issue a Fairness Opinion.”
- Investors may be well advised to hold off on completing any share transaction until they receive the Board’s Circular to shareholders in which the Fairness Opinion and valuation would be stated. The Circular shall be issued and mailed not later than October 19th, 2015 being seven (7) days before the Offer terminates. The Offer terminates on October 26, 2015 at 3.00 p.m. (Barbados time) unless withdrawn or extended by SLU



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