

Food, Beverage & Tobacco **Carlsberg Breweries A/S**
Denmark
Update

Ratings

| | |
|------------------|------|
| Foreign Currency | |
| Long-Term IDR | BBB- |
| Short-Term IDR | F3 |
| Senior Unsecured | BBB- |

Outlook

Foreign-Currency Long-Term IDR Stable

Financial Data

| Carlsberg Breweries A/S | | |
|---|-------------|-------------|
| | 31 Dec 2009 | 31 Dec 2008 |
| Revenue (DKKm) | 59,382 | 59,944 |
| Operating EBITDAR (DKKm) | 13,432 | 11,051 |
| Op. EBITDAR/revenues (%) | 22.6 | 18.4 |
| Op. EBITDAR/net fixed charges (x) | 5.9 | 4.5 |
| Cash flow from operations (DKKm) | 13,470 | 8,068 |
| Free cash flow (DKKm) | 10,426 | 816 |
| FFO/interest expense net of interest income (x) | 5.71 | 3.66 |
| Total debt (DKKm) | 40,388 | 50,006 |
| Closing net debt | 37,694 | 47,277 |
| Total adjusted debt/op. EBITDAR (x) | 3.1 | 4.6 |
| Adjusted leverage/FFO (x) | 3.3 | 5.6 |

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Related Research

Applicable Criteria

- [Corporate Rating Methodology \(November 2009\)](#)

Other Research

- [Fitch: Strengthened European Brewers May Be Tempted To Pursue New M&A \(March 2010\)](#)
- [Fitch: European Brewers Shifting to Equity Funding for Acquisitions \(January 2010\)](#)

Rating Rationale

- The ratings reflect Carlsberg Breweries A/S's (CB) demonstrated resilience in 2009 despite consumption challenges in its core markets of Russia and Ukraine, as well as in northern and western Europe; the relatively stable nature of the brewing business and the duopolistic nature of several of the markets where CB operates; and management's commitment to operational efficiency and to reduce the higher leverage reached following the Scottish & Newcastle (S&N) acquisition of 2008.
- The ratings also reflect CB's significant exposure to the volatile Russian beer market (representing approximately 45% of 2009 group profits), as well as to the adverse effects of a currency mis-match from having approximately 70% of group debt in euros. While the company has demonstrated a significant ability to cut costs at its Russian operations, and the Russian rouble having appreciated since late-2009, these profits remain exposed to any future currency volatility. Furthermore, the increases in beer excise duty introduced in January 2010 in Russia are expected to cause a market contraction of around 10% to 12% – which will translate into weaker regional profit for 2010.
- CB delivered an impressive free cash flow (FCF) of DKK10.4bn in financial year 2009 (FY09, to December 2009), thanks to good pricing power despite the weakened economic environment; effective cuts in terms of general costs, working capital and capex; as well as lower raw material prices. This has already enabled the paydown of over one-third of the DKK24bn debt incurred for the S&N acquisition. Consequently, lease-adjusted net debt/operating EBITDAR declined to 2.9x at financial year-end 2009 (FYE09, versus 3.7x at FYE08).

What Could Trigger a Rating Action?

- The Outlook is Stable, reflecting the company's strongly improved headroom within its 'BBB-' rating and the expectation for continuing strong FCF.
- Further leverage reduction and maintenance of a strong FCF generation could lead to an upgrade. However, positive rating action is constrained by Fitch's expectation that CB may wish to use its enhanced rating headroom for further expansion through capex and M&A, particularly in Asia.
- Major uncertainty in the Russian economy – associated with continuing debt/cash flow mis-match between euros and roubles by CB – could lead to a downgrade.

Liquidity and Debt Structure

Of total FYE09 gross debt of DKK39.4bn, approximately DKK15bn is represented by bonds maturing between February 2011 and November 2016. Fitch also includes in CB's debt a DKK1.9bn shareholder loan from parent company Carlsberg A/S, as this is a senior unsecured obligation of CB, ranking pari passu with its external debt. The company has abundant undrawn committed lines (DKK13.1bn as of FYE09), with maturities between July 2010 and October 2012, as well as a EUR3bn EMTN Programme. Debt maturities for 2010 and 2011 are relatively light compared with the company's committed lines. However, major repayments of DKK19bn are concentrated in October 2012. Assuming average annual FCF generation of at least DKK4bn to DKK5bn (Fitch projection), this debt could require refinancing for up to half of its value to maintain some liquidity headroom.

Peer Group

| Issuer | Country |
|-------------|-----------------|
| NR | |
| AB InBev | Belgium |
| NR | |
| Heineken NV | The Netherlands |
| BBB+ | |
| SABMiller | United Kingdom |

Issuer Rating History

| Date | LT IDR (FC) | Outlook/ Watch |
|-----------|-------------|----------------|
| 17 May 10 | BBB- | Stable |
| 11 May 09 | BBB- | Stable |
| 25 Jan 08 | BBB- | Stable |
| 19 Jul 07 | BBB- | Stable |
| 7 Feb 06 | BBB- | Stable |
| 23 Jan 06 | BBB- | Stable |

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

| Rating Factor | Status ^a | Trend |
|-----------------|---------------------|-----------|
| Operations | Strong | Improving |
| Market Position | Strong | Improving |
| Finances | Average | Improving |
| Governance | Average | Neutral |
| Geography | Strong | Neutral |

^a Relative to Peer Group

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Given its relatively low price per litre, beer benefits from being the entry point to consumption of alcoholic beverages. While the majority of OECD countries are characterised by stable to declining consumption, high growth has been seen in Asia, Latin America and eastern Europe. Fragmented mature markets typically carry lower profitability due to intense competition. Governments' tendency to raise alcohol taxes as an incremental revenue source affects demand from time to time.

Financial Risks

Following a period of global consolidation and intensive capex – that caused a deterioration of their credit protection measures – major companies are now deleveraging. The industry's strong cash flow generation and maturity in OECD markets however encourages further bolt-on M&A activity in growth markets.

Peer Group Analysis

| | AB InBev NV NR | SABMiller 'BBB+' / Stable | Heineken NR | Carlsberg Breweries 'BBB-' / Stable |
|------------------------|-------------------|------------------------------|----------------|--|
| Net Revenue | USD36.7bn | USD18.7bn | EUR14.7bn | EUR8.0bn |
| Op. EBITDAR Margin (%) | 34.6 | 23.9 | 19.0 | 22.3 |
| Volumes (m hl) | 408 | 239 | 203 | 137 |
| Free cash flow | USD6.1bn | USD-0.2bn | EUR1.3bn | EUR1.4bn |

Source: Fitch, Companies

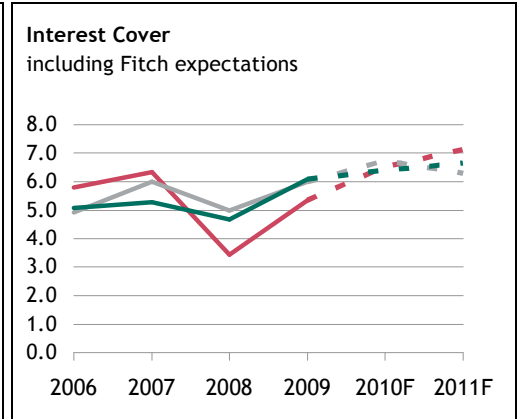
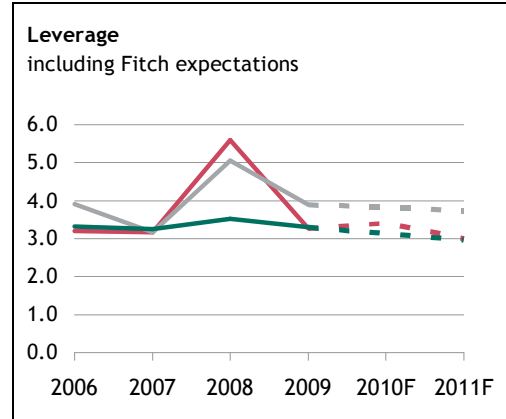
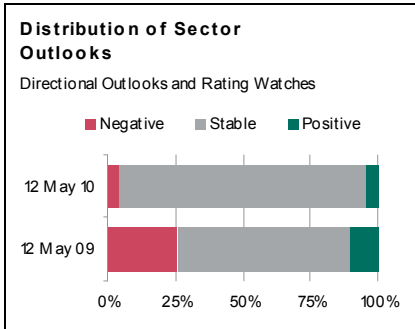
Key Credit Characteristics

The stronger players in the beer sector have broad geographical diversification, well-recognised local and import brands, healthy EBITDA margins, and cash flow generation. Companies with efficient and large-scale operations in duopolistic markets, as well as in high-growth markets characterised by a young population and growing disposable income, enjoy the best prospects.

Overview of Companies

- **AB InBev NV (ABI)** – ABI owns the international brands *Stella Artois*, *Becks*, *Budweiser*, and *BUD Light*. ABI is the largest brewer in the world, with leadership in the US, Canada and Brazil as well as several other markets. Following the acquisition of Anheuser Busch in 2008 for USD59bn, ABI's leverage is higher than the other global players. It benefits from a superior EBITDA margin and FCF.
- **SABMiller Plc (SAB, 'BBB+' / Stable)** – owns the international brands *Miller*, *Peroni*, *Pilsner Urquell* and *Grolsch*. Apart from its US operations and smaller Italian, UK and Dutch presence, it is substantially a developing & emerging market player, heavily focused on Africa, China, central and eastern Europe and Latin America. In the latest M&A wave of 2008, the group was more cautious on acquisition spending than its peers.
- **Heineken NV** – owns the international brand *Heineken*, which is the cornerstone of its proposition at the premium-price point. Largely a European player, Heineken has increased the relevance of its non-European presence through the acquisition of Mexican FEMSA Cerveza in early 2010.
- **Carlsberg ('BBB+' / Stable)** – owns the international brands *Carlsberg*, *Tuborg* and *Kronenbourg*. It is essentially a European player, but is also pushing its way into Asia. Following the DKK52bn joint acquisition of S&N along with Heineken in 2008, it has gained a formidable handle on the potentially growing Russian market.

Carlsberg Breweries A/S — Food, Beverage & Tobacco Median — Developed BBB- Median —
Source: Company data; Fitch.



Fitch's expectations are based on the agency's internally-produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- a mild contraction of group profitability in 2010 followed by an improvement thanks to the recovery of pricing power and further efficiency gains;
- projected cash flow excludes a repetition of 2009's DKK3.3bn working capital benefits;
- projections are stressed for the inclusion of some acquisition spending in 2010 and a resumption of dividend payments from 2011;
- all debt maturing is assumed to be refinanced at slightly more onerous conditions.

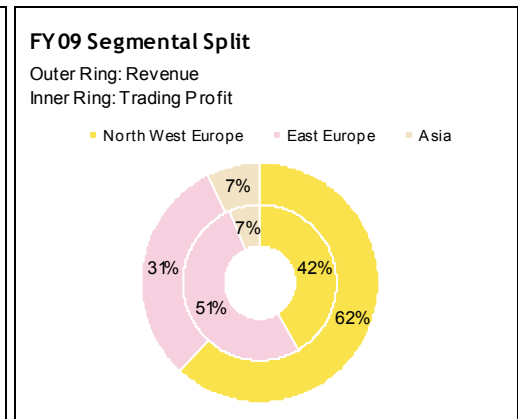
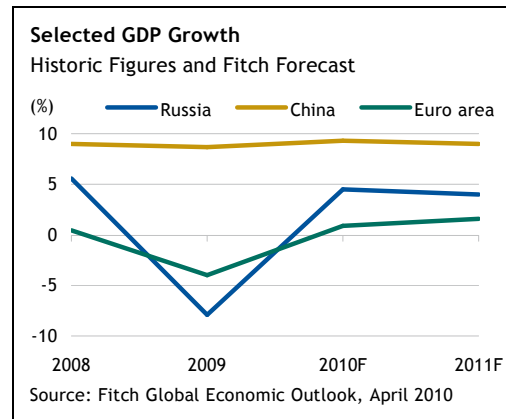
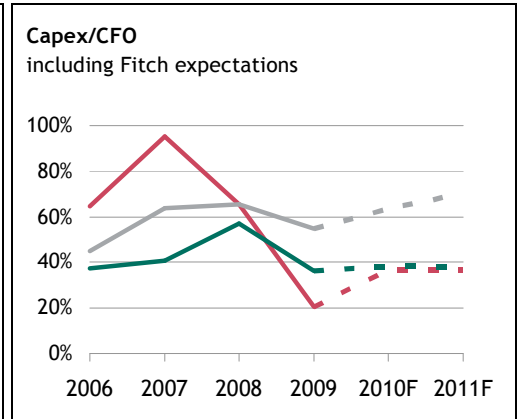
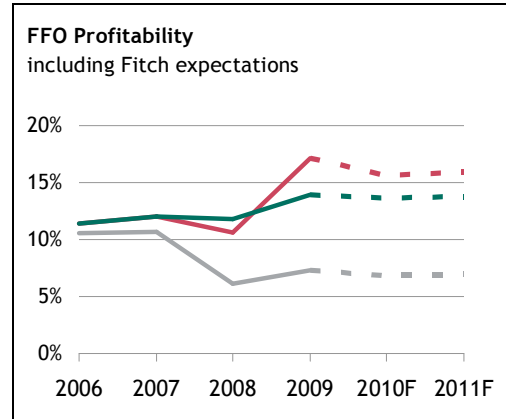
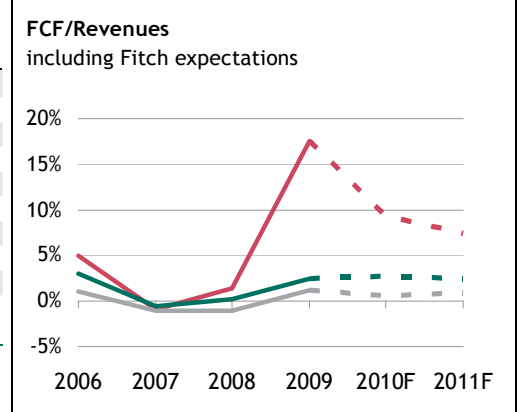
Definitions

- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- **Interest Cover:** FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- **FCF/Revenues:** FCF after dividends divided by revenues.
- **FFO Profitability:** FFO divided by revenues.

For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Credit Update Format" dated 25 November 2009 and available at www.fitchratings.com.

Debt Maturities and Liquidity at December 2009

| Debt maturities (DKKbn) | Value |
|---------------------------------------|-------|
| 2010 | 3.3 |
| 2011 | 4.6 |
| 2012 | 18.0 |
| 2013 | 1.6 |
| After 2014 | 11.8 |
| Cash and equivalents | 2.7 |
| Undrawn Committed Facilities (Expiry) | |
| Facilities due Oct 2012 - DKK17.4bn | 6.7 |
| Other Facilities - DKK12.3bn | 6.4 |



Carlsberg Breweries A/S

Financial Summary

| | 31 Dec 2009 DKKm Original | 31 Dec 2008 DKKm Original | 31 Dec 2007 DKKm Original | 31 Dec 2006 DKKm Original | 31 Dec 2005 DKKm Original |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| INCOME STATEMENT | | | | | |
| Revenues | 59,382 | 59,944 | 44,750 | 41,083 | 38,047 |
| Revenue Growth | 0.9 | 34.0 | n.a. | 8.0 | 5.7 |
| EBIT | 9,198 | 5,964 | 4,574 | 3,837 | 2,786 |
| Interest Expense Net of Interest Income | 2,160 | 2,387 | 854 | 831 | 828 |
| Net Income | 4,092 | 2,328 | 2,119 | 2,189 | 1,253 |
| BALANCE SHEET | | | | | |
| Cash and Equivalents | 2,694 | 2,729 | 2,026 | 2,267 | 2,120 |
| Total Assets | 121,886 | 130,335 | 49,830 | 45,820 | 50,206 |
| Short-term Debt | 5,073 | 9,165 | 3,711 | 6,217 | 6,749 |
| Senior Long-Term Debt | 35,315 | 40,841 | 16,162 | 11,865 | 14,671 |
| Subordinated Debt | 0 | 0 | 0 | n.a. | n.a. |
| Total Debt | 40,388 | 50,006 | 19,873 | 18,082 | 21,420 |
| Common Equity | 42,613 | 42,138 | 11,723 | 10,956 | 11,798 |
| Off-Balance Sheet Debt | 1,016 | 464 | 608 | 0 | 0 |
| Total Adjusted Capitalisation | 88,677 | 97,838 | 33,500 | 18,082 | 21,420 |
| Total Adjusted Debt | 41,404 | 50,470 | 20,481 | 18,082 | 21,420 |
| Preferred Stock + Minority Interests | 4,660 | 5,230 | 1,296 | 1,368 | 1,511 |
| CASH FLOW | | | | | |
| Operating EBITDAR (Op. EBITDAR) | 13,432 | 11,051 | 7,635 | 6,321 | 5,335 |
| Cash Interest Paid, Net of Interest Received | 1,554 | 2,727 | 1,095 | 930 | 967 |
| Cash Tax Paid | 1,360 | 1,524 | 1,037 | 929 | 664 |
| Associate Dividends | 50 | 31 | 82 | 65 | 78 |
| Other Changes before Funds From Operations** | (387) | (472) | (202) | 169 | 198 |
| FUNDS FROM OPERATIONS | 10,181 | 6,359 | 5,383 | 4,696 | 3,980 |
| Working Capital | 3,289 | 1,709 | (199) | 241 | 940 |
| CASH FLOW FROM OPERATIONS | 13,470 | 8,068 | 5,184 | 4,937 | 4,920 |
| Non-Operational Cash Flow* | 31 | (922) | (3) | 1,338 | 1,336 |
| Capital Expenditure | 2,763 | 5,292 | 4,929 | 3,188 | 3,009 |
| Dividends Paid | 312 | 1,038 | 672 | 1,048 | 952 |
| FREE CASH FLOW | 10,426 | 816 | (420) | 2,039 | 2,295 |
| Receipts from Asset Disposals | 316 | 374 | 339 | 305 | 490 |
| Business Acquisitions | 341 | 52,315 | 179 | 576 | 2,117 |
| Business Divestments | 88 | 300 | 0 | 1,946 | n.a. |
| Exceptional & Other Cash Flow Items | (507) | 113 | (143) | (200) | (1,655) |
| NET CASH IN/OUTFLOW | 9,982 | (50,712) | (403) | 3,514 | (987) |
| Equity Issuance/(Buyback) | 0 | 24,000 | 0 | n.a. | n.a. |
| FX movement | (554) | (30) | (82) | (77) | 50 |
| Other Items Affecting Cash Flow** | 155 | (2,688) | (1,547) | 48 | (892) |
| NET CASH FLOW AVAILABLE FOR FINANCING | 9,583 | (29,430) | (2,032) | 3,485 | (1,829) |
| CLOSING NET DEBT | 37,694 | 47,277 | 17,847 | 15,815 | 19,300 |
| PROFITABILITY | | | | | |
| Op. EBITDAR/Revenues (%) | 22.6 | 18.4 | 17.1 | 15.4 | 14.0 |
| EBIT/Revenues (%) | 15.5 | 10.0 | 10.2 | 9.3 | 7.3 |
| FFO Return on Adjusted Capital (%) | 14.3 | 9.2 | 19.3 | 18.7 | 14.2 |
| CREDIT RATIOS | | | | | |
| Funds From Operations/Gross Interest Expense (x) | 5.4 | 3.4 | 6.3 | 5.8 | 5.2 |
| FFO Fixed Charge Cover (x) | 5.1 | 3.4 | 6.0 | 5.8 | 5.2 |
| Op. EBITDAR/Net Fixed Charges (x) | 5.9 | 4.5 | 8.2 | 7.6 | 6.4 |
| Adjusted Leverage/FFO (x) | 3.3 | 5.6 | 3.2 | 3.2 | 4.4 |
| Total Adjusted Debt Net of Cash/Op. EBITDAR (x) | 2.9 | 4.3 | 2.4 | 2.5 | 3.6 |
| Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%) | 46.7 | 51.6 | 61.1 | 59.5 | 61.7 |

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

* Includes Analyst Estimate

** Balancing Item

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