CONCORDE CAPITAL

Ukraine / Beverages

Sun InBev & Slavutych

Time to Binge on Beer

October 17, 2007

12M targets			
	SUNI:	USD 0.19	BUY
	SLAV:	USD 1.36	BUY
		diluted USD 0.88	

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9M07 production numbers indicate that Sun InBev regained leadership in beer output, and Slavutych's production share exceeded 14% one year earlier than we expected. 1H07 financials reveal a significant rise in Sun InBev's EBITDA margin to 33% vs. 24% in 1H06. We upgrade our targets to USD 0.19 for SUNI (27% upside) and USD 1.36 for SLAV (undiluted, 36% upside), and confirm BUY recommendations on both stocks.

SUNI

MARKET INFORMATION

Market price, USD	0.15
Bloomberg	SUNI UZ
52Wk H/L, USD	0.15/0.089
Chg YTD	52%
Avg Mo Tr Vol 9M, USD mln	0.79
Market Cap, USD mln	1,426.6
No of shares, mln	9,510.7
Free float	4%
Free Float, USD	57.1
Corp. Governance Rating	A

STOCK OWNERSHIP

Interbrew International B.V	68.4%
Interbrew DSN Holding B.V.	13.5%
Other (InBev related)	14.1%
Other	4.0%

SLAV

MARKET INFORMATION

Market price, USD	1.0
52Wk H/L, USD	1.3/0.67
Chg YTD	34%
Avg Mo Tr Vol 9M, USD mln	0.22
Market Cap, USD mln	495.7
No of shares, mln	495.7
No of shares new, mln*	840.7
Free float	6.5%
Free Float, USD	32.2
Corp. Governance Rating	AA

STOCK OWNERSHIP

BBH	92.0%
Management	1.5%
Other	6.5%

** Increase in charter fund is on the agenda of Slavutych's EGM on Nov. 23*

Production forecast lifted on reported 9M figures

The combined output of Ukraine's five largest beer producers, which together account for 95% of total beer production, grew by 18.8% yoy in 9M07. The inspiring end to peak consumption season led us to revise our projections for beer output growth in 2007 from 12% yoy to 16% yoy (30.1 mln hl).

Leadership of production regained by Sun InBev

With output growth of 19% yoy in 9M07 to 8.8 mln hl, Sun InBev Ukraine (formerly Sun Interbrew Ukraine) retook leadership of domestic production, where it had been supplanted by Obolon at the beginning of 2007. Sun InBev is on track to meet our projection of 34.7% of Ukrainian beer in 2007: it produced 34.5% of the total in 9M07.

Slavutych outpaces our expectations

Based on 9M07 results, Slavutych's share of overall production exceeded 14%, and came close to where we expected the company to be at the end of 2008. We revise our projections upward for Slavutych's production share to 14.5% in 2007 and 15.5% in 2008 (compared to 13.5% and 14.5% before).

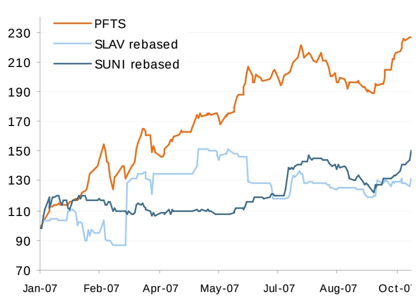
Sun InBev achieves cost savings

A 14% decrease in SG&A expenditures was apparently behind InBev's EBITDA margin growth to 33% in 1H07 vs. 24% in 1H06. We believe this improvement is due to cost savings after the consolidation of InBev's assets in 1Q06. At the same time, Sun InBev is keeping up with its aggressive marketing strategy with the largest share of TV advertising market of any Ukrainian brewer (2.8% according to GFK Ukraine, compared to the 1.5% of peers Obolon and BBH).

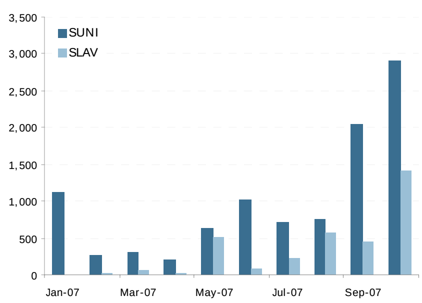
Slavutych: Improvement in profitability on economies of scale

Slavutych's EBITDA margin improvement was more modest – to 22% in 1H07 compared to 20% a year before, and was also triggered by a decrease in SG&A expenditures. We believe this improvement is due to economies of scale, and will continue in subsequent years, as Slavutych plans to keep on pursuing an aggressive growth strategy.

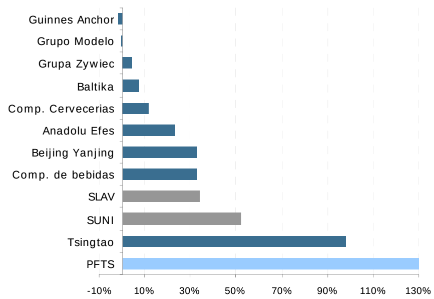
SUNI & SLAV vs. PFTS



PFTS Trading volume, USD ths



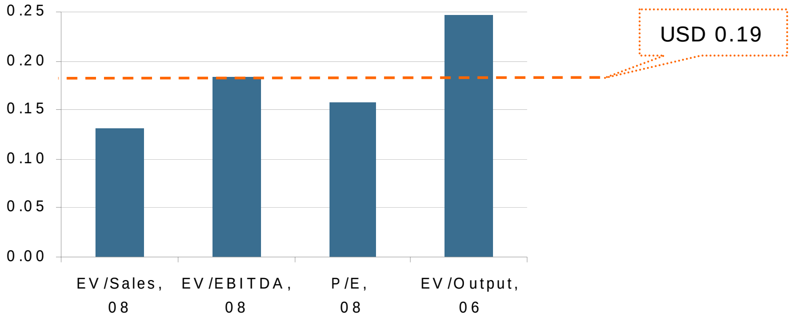
Performance YTD



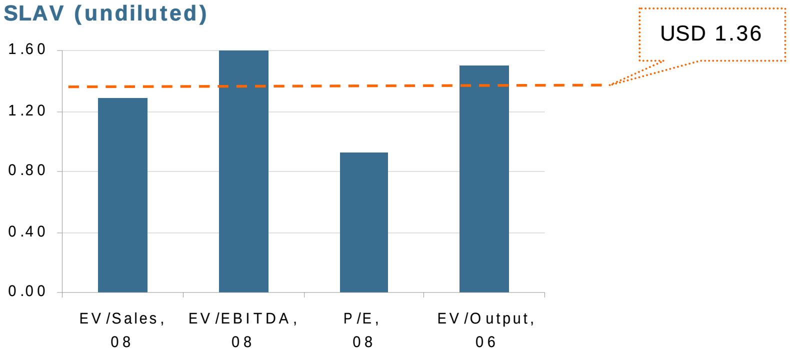
Valuation summary

In setting target prices, we continue to favor the EV/Output multiple, as we expect higher growth in beer prices in Ukraine compared to neighboring countries due to a low base effect.

SUNI



SLAV (undiluted)



At their EGM on November 23, Slavutych shareholders will consider increasing the company's charter fund by 70% to USD 166.5 mln. The company plans to issue 345 mln new shares at USD 0.20 par. If the share issue is approved, our target of USD 1.36 would dilute to USD 0.88, leaving a 32% upside potential for those that subscribe.

Production share forecast revisions

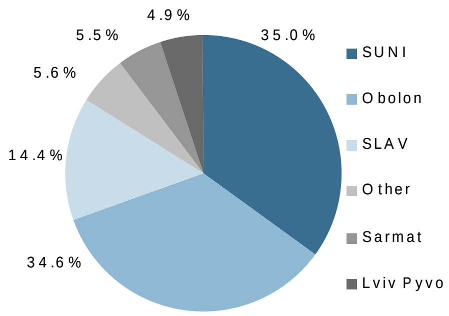
In 9M07, Sun InBev posted 19% production growth to 8.8 mln hl, and reached a share of 34.5% in Ukrainian beer production. We confirm our expectations for Sun InBev's production share in 2007 at 34.7%.

For Slavutych's production share, we revise our projections upward to 14.5% in 2007 and 15.5% in 2008 (compared to 13.5% and 14.5% before). Growth will be supported by the recently announced 45% capacity increase to 795 ths hl per month by the beginning of the 2008 beer season. The company demonstrated dramatic 42% output growth in 9M07 to 1.2 mln hl.

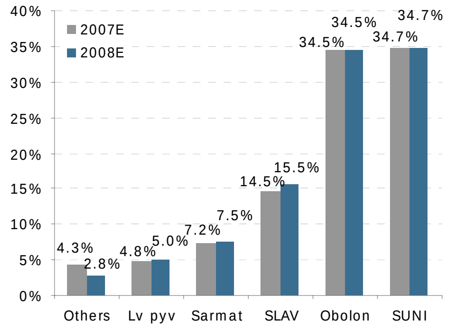
	2007E		2008E	
Production share	Old	**New**	Old	**New**
SUNI	34.7%	34.7%	34.7%	34.7%
SLAV	13.5%	14.5%	14.5%	15.5%

Source: Concorde Capital estimates

Production share, 9M07



Production share dynamics



Source: Ukrpyvo, Company data, Concorde Capital estimates

Interim financials

Sun InBev

The increase in Sun InBev's 1H07 reported sales of 26% yoy is in line with our full year forecast of USD 509 mln.

Sun InBev reported financials

	1H06	1H07	1H07/1H06
Net Revenues	172.2	217.5	26%
EBITDA	41.5	72.3	74%
margin, %	*24.1%*	*33.2%*	
Net Income	24.1	47.7	98%
margin, %	*14.0%*	*21.9%*	

Source: Company data

That said, we point out that Sun InBev's 1H07 and 1H06 financials are not entirely comparable due to the consolidation of the parent company and three production sites in 1H06. In the absence of guidance from the company we believe Sun InBev's semi-annual financials were consolidated starting from March 2006 when the decision was taken to consolidate the assets. Given traditionally meagre beer sales at the beginning of the year, we think that organic sales growth accounted for the lion's share of the 1H07 sales increase.

On the other hand, the dramatic rise in Sun InBev's margins in 1H07 exceeded our expectations and prompted us to upgrade our EBITDA, net income and respective margin estimates. In our view, the improvement in profitability can be directly ascribed to the synergetic effect of Sun InBev's reorganization.

Sun InBev forecast revisions

	2007E		2008E	
SUNI	Old	**New**	Old	**New**
Sales	508.7	508.7	595.1	595.1
EBITDA	115.8	132.7	141.5	161.2
Net Income	51.6	64.4	68.2	86.8
EBITDA margin	*22.8%*	*26.1%*	*23.8%*	*27.1%*
Net margin	*10.1%*	*12.6%*	*11.5%*	*14.6%*

Source: Company data, Concorde Capital estimates

Slavutych

Based on the company's reported market share of 14.2% in 9M07, and available interim financials, we upgrade our 2007 sales forecast for the company by 15%. We correct slightly downward our expected EBITDA margin, as the effect of lowered gross margin will likely not be overridden by evident savings at the SG&A level. At the same time, we expect the net margin to be higher than we previously projected due to lower interest expenses.

Slavutych reported financials

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	**22.6**	**46.2**	**52.7**	**28.7**	**29.5**	**64.9**
Change y-o-y	*23.9%*	*33.3%*	*21.8%*	*11.7%*	*30.7%*	*40.5%*
EBITDA	**2.8**	**11.3**	**14.8**	**(0.6)**	**3.8**	**17.0**
margin, %	*12.3%*	*24.4%*	*28.0%*	*-72.8%*	*12.9%*	*26.1%*
Net Income	**(2.2)**	**6.4**	**8.5**	**(8.3)**	**(2.1)**	**10.5**
Net Margin, %	*-9.9%*	*13.9%*	*16.1%*	*27.5%*	*-7.1%*	*16.2%*

Slavutych forecast revisions

	2007E		2008E	
SLAV	Old	**New**	Old	**New**
Sales	216.2	249.5	281.1	319.4
EBITDA	49.4	54.9	67.9	76.7
Net Income	13.3	18.9	23.2	26.7
EBITDA mgn	*22.8%*	*22.0%*	*24.1%*	*24.0%*
Net mgn	*6.1%*	*7.6%*	*8.2%*	*8.4%*

Source: Company data, Concorde Capital estimates

Peer comparison

	MCap, *USD mln*	EV/S		EV/EBITDA		P/E		EV/Output, *USD/hl*
		2007E	*2008E*	*2007E*	*2008E*	*2007E*	*2008E*	
Sun InBev	1,426.6	3.0	2.5	11.6	9.3	22.2	16.4	162.5
Slavutych	495.7	2.2	1.8	10.2	7.4	26.2	18.6	182.6
International peers								
Companhia De Bebidas	49,945.8	5.1*	4.7*	11.8	10.6	28.0	22.1	n/a
Grupo Modelo	16,857.1	2.3	1.9	6.9	5.9	17.2	15.7	n/a
Baltika	8,313.0	3.4	3.0	10.9	9.5	18.2	16.2	218.4
Anadolu Efes	5,483.4	2.6	2.3	11.1	9.5	21.1	18.4	292.9
Tsingtao Brewery	5,741.8	3.1	2.5	28.7	23.1	74.8*	57.1*	n/a
Compania Cervecerias	2,614.7	2.3	2.1	9.7	8.8	18.7	16.5	n/a
Grupa Zywiec	2,792.9	n/a	n/a	n/a	n/a	n/a	n/a	274.8
Beijing Yanjing	2,449.1	2.7	2.3	17.3	14.6	49.3*	40.7*	n/a
Guinness Anchor	535.8	1.5	1.4	8.6	8.2	14.9	14.1	n/a
Average		2.5	2.2	13.1	11.3	19.7	17.2	262.0
Implied price, USD								
Slavutych undiluted		1.15	**1.28**	1.32	**1.60**	0.91	**0.92**	**1.49**
Slavutych diluted		0.76	**0.83**	0.78	**1.00**	0.50	**0.59**	**0.96**
Sun InBev		0.12	**0.13**	0.17	**0.18**	0.16	**0.16**	**0.25**

* *Outliers excluded from our calculation of average*

Sun InBev's financials

INCOME STATEMENT SUMMARY*, USD mln

	2003	2004	2005	2006	2007E	2008E
Net Revenues	**38.9**	**59.7**	**80.5**	**373.9**	**508.7**	**595.1**
Change y-o-y	-	*53.6%*	*34.8%*	*364.3%*	*36%*	*17%*
Gross Profit	37.6	55.1	86.7	229.8	295.1	357.0
EBITDA	**(1.7)**	**12.3**	**13.5**	**85.4**	**132.7**	**161.2**
margin, %	*-4.4%*	*20.6%*	*16.8%*	*22.9%*	*26.1%*	*27.1%*
Depreciation	(2.2)	(4.3)	(6.9)	(26.2)	(34.2)	(37.5)
EBIT	**(3.9)**	**8.1**	**6.6**	**59.3**	**98.5**	**123.7**
margin, %	*-10.0%*	*13.5%*	*8.2%*	*15.9%*	*19.4%*	*20.8%*
Interest Expense	(0.9)	(1.4)	(1.0)	(8.6)	(12.7)	(8.0)
Other income/(expense)	(0.4)	(0.6)	0.8	(1.9)	-	-
PBT	**(5.2)**	**6.0**	**6.4**	**48.7**	**85.8**	**115.7**
Tax	(0.5)	(1.8)	(2.1)	(0.0)	(21.5)	(28.9)
Effective tax rate	*-10.5%*	*30.8%*	*32.6%*	*0.0%*	*25.0%*	*25.0%*
Net Income	**(5.7)**	**4.1**	**4.3**	**32.3**	**64.4**	**86.8**
Net Margin, %	*-14.8%*	*6.9%*	*5.4%*	*8.6%*	*12.6%*	*14.6%*

BALANCE SHEET SUMMARY*, USD mln

	2003	2004	2005	2006	2007E	2008E
Current Assets	**15.3**	**26.1**	**19.5**	**91.6**	**120.6**	**141.4**
Cash & Equivalents	0.6	3.9	1.1	2.3	6.5	7.6
Trade Receivables	9.1	14.0	9.7	3.3	2.8	3.6
Inventories	1.9	2.6	2.7	73.8	87.9	102.8
Other	3.7	5.5	5.9	12.2	23.5	27.5
Fixed Assets	**12.6**	**20.0**	**28.2**	**214.2**	**279.9**	**306.9**
PP&E, net	8.7	14.3	22.7	170.3	269.9	296.9
Other	3.9	5.6	5.5	44.0	10.0	10.0
Total Assets	**27.9**	**46.1**	**47.7**	**305.9**	**400.5**	**448.3**
Shareholders' Equity	**(2.7)**	**1.5**	**17.8**	**151.3**	**215.6**	**302.4**
Share Capital	1.0	1.0	13.1	41.5	41.5	41.5
Reserves and Other	(3.7)	0.5	4.7	100.7	9.1	9.1
Retained Earnings	-	-	-	9.1	165.0	251.8
Current Liabilities	**30.6**	**44.6**	**29.9**	**154.5**	**184.8**	**145.9**
ST Interest Bearing Debt	16.1	27.0	5.4	83.6	123.2	77.4
Trade Payables	11.9	14.1	16.9	53.5	37.7	42.0
Other	2.5	3.5	7.6	17.5	23.9	26.5
LT Liabilities	**-**	**-**	**-**	**0.1**	**0.1**	**-**
LT Interest Bearing Debt	-	-	-	-	-	-
Other	-	-	-	0.1	0.1	-
Total Liabilities & Equity	**27.9**	**46.1**	**47.7**	**305.9**	**400.5**	**448.3**

** Financial statements for 2003-2005 are for Sun Interbrew Ltd (distribution company with three production units) and are presented as reported by the company, not consolidated. The company's shareholders made a decision on consolidation of production units with the distribution company on March 3, 2006, and starting from 1H07 the company reports consolidated financials. Projections for 2007 and 2008 are prepared as for the consolidated company.*

Slavutych's financials

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	**69.5**	**70.8**	**93.1**	**121.8**	**150.1**	**249.5**	**319.4**
Change y-o-y	-	*1.8%*	*31.6%*	*30.8%*	*23.3%*	*66.2%*	*28.0%*
Gross Profit	40.7	41.2	51.9	73.0	91.1	142.2	185.3
EBITDA	**16.8**	**14.4**	**18.6**	**21.5**	**28.2**	**54.9**	**76.7**
margin, %	*24.2%*	*20.3%*	*20.0%*	*17.6%*	*18.8%*	*22.0%*	*24.0%*
Depreciation	(5.6)	(6.2)	(8.7)	(13.5)	(14.3)	(21.9)	(32.3)
EBIT	**11.2**	**8.2**	**9.9**	**8.0**	**13.9**	**33.0**	**44.3**
margin, %	*16.1%*	*11.5%*	*10.6%*	*6.6%*	*9.3%*	13.2%	13.9%
Interest Expense	(1.1)	(1.3)	(2.5)	(3.4)	(5.0)	(7.7)	(8.7)
Other income/(expense)	(0.3)	(0.3)	5.5	2.7	(0.6)	-	-
PBT	**9.8**	**6.6**	**12.9**	**7.2**	**8.3**	**25.2**	**35.6**
Tax	(3.6)	(3.7)	(3.8)	(4.1)	-	(6.3)	(8.9)
Effective tax rate	*36.7%*	*56.0%*	*29.1%*	*56.0%*	*0.0%*	*25.0%*	*25.0%*
Net Income	**6.2**	**2.9**	**9.1**	**3.2**	**4.4**	**18.9**	**26.7**
Net Margin, %	*8.9%*	*4.1%*	*9.8%*	*2.6%*	*2.9%*	*7.6%*	*8.4%*

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	**17.7**	**22.9**	**31.4**	**40.3**	**56.3**	**74.3**	**92.2**
Cash & Equivalents	0.7	0.7	3.0	0.3	0.3	0.4	0.4
Trade Receivables	5.7	5.7	6.2	12.5	13.0	21.6	27.6
Inventories	9.4	11.1	17.7	19.5	22.0	36.6	46.9
Other	1.9	5.5	4.5	8.1	21.0	15.8	17.3
Fixed Assets	**35.5**	**78.7**	**100.6**	**112.9**	**123.6**	**189.9**	**279.9**
PP&E, net	32.9	34.1	95.7	104.0	108.4	174.7	264.7
Other	2.6	44.6	4.9	8.9	15.2	15.2	15.2
Total Assets	**53.2**	**101.6**	**132.0**	**153.3**	**180.0**	**264.2**	**372.1**
Shareholders' Equity	**22.2**	**50.0**	**62.3**	**68.7**	**73.1**	**151.2**	**246.6**
Share Capital	9.2	34.1	37.3	39.1	39.1	98.2	166.5
Reserves and Other	12.9	15.9	25.1	29.5	30.2	3.9	4.3
Retained Earnings					3.7	49.1	75.8
Current Liabilities	**14.0**	**29.5**	**33.3**	**54.0**	**83.9**	**54.5**	**58.8**
ST Interest Bearing Debt	4.3	15.9	6.1	14.8	47.7	9.1	8.2
Trade Payables	6.7	4.7	4.0	11.5	10.7	19.5	24.3
Other	3.1	8.9	23.2	27.7	25.4	26.0	26.3
LT Liabilities	**17.1**	**22.1**	**36.4**	**30.6**	**23.0**	**58.5**	**66.6**
LT Interest Bearing Debt	17.1	22.1	33.8	27.8	19.3	55.4	64.6
Other	-	-	2.6	2.7	3.8	3.1	2.0
Total Liabilities & Equity	**53.2**	**101.6**	**132.0**	**153.3**	**180.0**	**264.2**	**372.1**

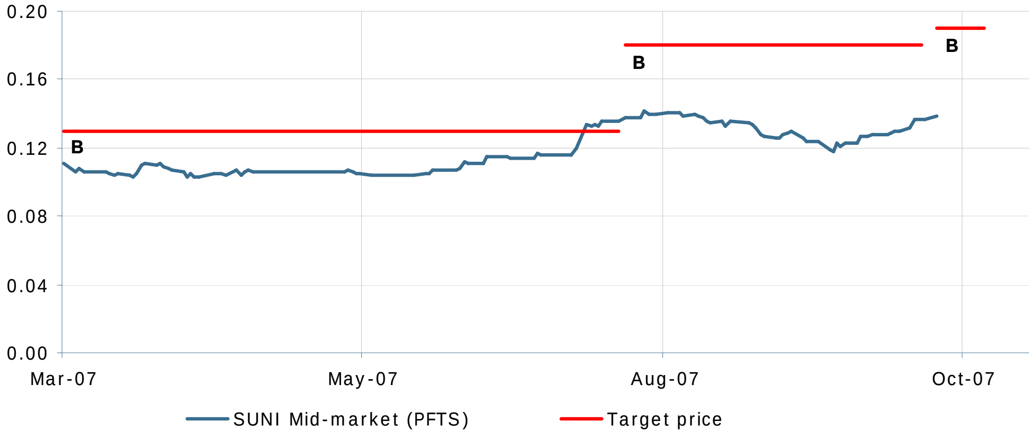
Analyst Certification

We, Olga Pankiv and Anna Dudchenko, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Sun InBev

Date	Target price, USD	Market Price, USD	Recommendation	Action
02-Mar-07	0.13	0.13	BUY	Initiating
27-Jul-07	0.18	0.14	BUY	Maintain
16-Oct-07	0.19	0.14	BUY	Maintain

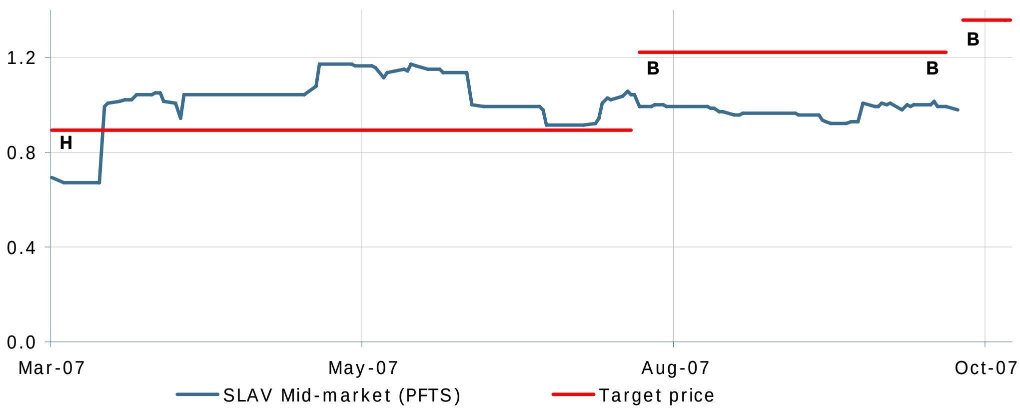
SUNI Recommendation history, USD



Slavutych

Date	Target price, USD	Market Price, USD	Recommendation	Action
02-Mar-07	0.86	0.79	HOLD	Initiating
27-Jul-07	1.22	1.00	BUY	Upgrade
08-Oct-07	1.22	1.00	BUY	Maintain
16-Oct-07	1.36	0.98	BUY	Maintain

SLAV Recommendation history, USD



Concorde Capital rating universe

BUY	39	50%
HOLD	19	24%
SELL	5	6%
U/R	15	19%
Total	78	100%

Investment banking clients

BUY	8	80%
HOLD	2	20%
SELL	0	0%
U/R	0	0%
Total	10	100%

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