

Sabmiller sources of finance

Finance



SABMiller should combine those 4 sources of finance: retained profit, issuing shares, bond, debenture and bank loans. Each source of finance has its own advantages and disadvantages:

- Retained profit: When SABMiller use retained profit, it do not have to pay any brokerage fees. Retained profit is also flexible and simple. The manager can use this source of finance for different purposes. Because retained profit belong to the whole company, not any individual so there is no dilution of control. Furthermore, ' all profit from investment belong to shareholders'.

However, using retained profit could decrease the possibility to pay and paying high dividends to shareholders.

- Bank loans: As a new company enters Vietnamese market, SABMiller needs a large sum of capital to build its offices, equipments, raw material and invest in potential projects to earn more profit for its first stage of development. Therefore, borrow money from banks is a very suitable source of finance because they can provide a large amount of money. But asking for a loan from banks is so risky. When the company borrow money from banks, it must pay enough interest on time and the interest rate may be very high.

Before lending the firm money, banks would look at SABMiller's characters, ability to pay back, purpose of the loan, the amount of the loan, the repayment terms of the loan and security. If the business did not pay back the interest on time, it is nearly impossible for it to borrow money again.

- Issuing shares: It could be a long term source of finance when SABMiller is listed in stock market. If the firm has nice reputation and work well, it will motivate more shareholders to buy the shares, so SABMiller could raise a large sum of capital.

Moreover, when the company issues share, it is more difficult for SABMiller to lose ownership and have takeover risk. But as well as its advantages, issuing shares also has many limitations. If there is a reduction on in a shareholder's percentage of controlling a company, the dilution of control will appear. The cost involved may be high, such as floatation cost, brokerage fees, underwritten fees, administrative fees, legal. Furthermore, issuing shares is so adventurous and risky because if the performance of the company go down, the price of shares will decrease, even it might be very low.

The business can have bankrupt trouble when the price of share go down too much. When SABMiller cannot repay the debt to creditors, it will lead to bankruptcy. • Issuing bonds and debentures: These sources of finance could be used in long term. The company could have a less expensive loan from its creditor. However, debenture stock have to compete with gilts to draft investors. And because debenture stock has higher risk, ' company debentures must generally offer a higher rate of interest than the interest rate of gilts'. Unless the business pay their debt on time, it will lose its assets and money.