

8th January 2016

Food & Beverages

## AB InBev

Price EUR110.60

Deteriorating earnings outlook on the back of falling EM currencies and Brazilian economy

Fair Value EUR111 vs. EUR122 (0%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	177,872
Ev (BG Estimates) (EURm)	248,479
Avg. 6m daily volume (000)	1,848
3y EPS CAGR	3.6%

We have lowered the fair value for AB InBev shares by 9% to EUR111 from EUR122, reflecting the weakness in its main emerging market currencies (Brazilian real, Mexican and Colombian peso, South African rand) and a lower outlook for beer sales in Brazil. This is also reflected in the lowering of our 2016 and 2017 EPS by 4.5% and 3.2%.

### ANALYSIS

- Since our last update (24 November) on AB InBev estimates, the USD has continued to strengthen against nearly all currencies. Over the past month and a half, the South African rand and the Russian rouble have weakened by 12%, the Brazilian real by 9%, the Mexican peso by 7%, and the Colombian peso by 6%.
- We have also updated our model to account for the deteriorating Brazilian economy and are now expecting a decline in volumes of 1% instead of a rebounding 2% growth. In the face of the squeeze on consumers, a decline of only 1% in beer volumes would still be a strong performance of the AB InBev management team. The deteriorating outlook for Brazil is also reflected in the share price of its quoted AmBev subsidiary. Its share price has dropped by 20% over the past 1 ½ month to USD4.11 from USD5.06.
- As a result of these further emerging market currency weaknesses, we have lowered our estimates for 2016 and 2017 operating profit by respectively 4.7% and 2.8% (about 100bp is from the weaker Brazilian volumes). In terms of earnings per share the impact is 4.5% and 3.2%.

### VALUATION

- However, because of the financial leverage (the SABMiller acquisition price of £44 per share is in British pounds), the impact on our DCF based fair value is slightly larger. As a result of our updated figures (and the slightly stronger EUR), we have lowered our fair value for AB InBev by 9% to EUR111 from EUR122.

### NEXT CATALYSTS

- 25 February: FY 2016 results

	1 M	3 M	6 M	31/12/14
Absolute perf.	-7.0%	12.1%	4.2%	17.8%
Food & Bev.	-6.1%	2.7%	2.8%	12.5%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

Dec. (USDm)	2014	2015e	2016e	2017e
Sales	47,063	44,386	42,865	59,594
% change		-5.7%	-3.4%	39.0%
EBITDA	18,663	17,838	17,236	24,671
EBIT	15,308	14,508	13,837	20,444
% change		-5.2%	-4.6%	47.7%
Net income	8,865	8,375	8,027	11,721
% change		-5.5%	-4.2%	46.0%

	2014	2015e	2016e	2017e
Operating margin	32.5	32.7	32.3	34.3
Net margin	18.8	18.9	18.7	19.7
ROE	17.7	16.0	14.6	12.3
ROCE	11.1	10.3	9.5	10.0
Gearing	83.5	80.7	75.6	85.0

(USD)	2014	2015e	2016e	2017e
EPS	5.32	5.06	4.85	5.91
% change	-	-5.1%	-4.2%	22.0%
P/E	22.5x	23.7x	24.7x	20.3x
FCF yield (%)	4.7%	4.9%	4.3%	6.1%
Dividends (USD)	2.64	2.65	2.54	3.10
Div yield (%)	2.2%	2.2%	2.1%	2.6%
EV/Sales	6.0x	6.1x	6.2x	5.2x
EV/EBITDA	15.0x	15.1x	15.5x	12.5x
EV/EBIT	18.3x	18.6x	19.4x	15.1x



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	FY2015e				FY2016e				FY2017e			
	Old	New	% chge	% Incr.	Old	New	% chge	% Incr.	Old	New	% chge	% Incr.
USDm												
Revenues	44,704	<b>44,386</b>	-0.7%	-5.7%	44,250	<b>42,865</b>	-3.1%	-3.4%	61,181	<b>59,594</b>	-2.6%	39.0%
North America	16,093	<b>16,093</b>	0.0%	0.0%	16,254	<b>16,254</b>	0.0%	1.0%	16,498	<b>16,498</b>	0.0%	1.5%
Latin America	16,468	<b>16,332</b>	-0.8%	-13.4%	15,460	<b>14,356</b>	-7.1%	-12.1%	15,337	<b>15,045</b>	-1.9%	4.8%
Europe	3,998	<b>3,815</b>	-4.6%	-21.6%	3,926	<b>3,645</b>	-7.2%	-4.5%	3,671	<b>3,671</b>	0.0%	0.7%
Asia Pacific	5,818	<b>5,818</b>	0.0%	15.4%	6,167	<b>6,167</b>	0.0%	6.0%	6,537	<b>6,537</b>	0.0%	6.0%
SABMiller									16,572	<b>15,277</b>	-7.8%	na
Global export and holding companies	2,327	<b>2,327</b>	0.0%	5.0%	2,443	<b>2,443</b>	0.0%	5.0%	2,565	<b>2,565</b>	0.0%	5.0%
Operating profit	14,608	<b>14,508</b>	-0.7%	-5.2%	14,516	<b>13,837</b>	-4.7%	-4.6%	21,023	<b>20,444</b>	-2.8%	47.7%
North America	6,132	<b>6,132</b>	0.0%	1.1%	6,242	<b>6,242</b>	0.0%	1.8%	6,386	<b>6,386</b>	0.0%	2.3%
Latin America	7,036	<b>6,970</b>	-0.9%	-12.3%	6,684	<b>6,058</b>	-9.4%	-13.1%	6,763	<b>6,533</b>	-3.4%	7.8%
Europe	777	<b>742</b>	-4.5%	-18.1%	794	<b>741</b>	-6.6%	-0.2%	749	<b>749</b>	0.0%	1.2%
Asia Pacific	786	<b>786</b>	0.0%	52.0%	918	<b>918</b>	0.0%	16.8%	1,012	<b>1,012</b>	0.0%	10.3%
SABMiller									6,234	<b>5,884</b>	-5.6%	na
Global export and holding companies	-123	<b>-123</b>	0.0%	-3.8%	-122	<b>-122</b>	0.0%	-1.0%	-120	<b>-120</b>	0.0%	-1.3%
Non recurring items	0	<b>0</b>	na	na	0	<b>0</b>	na	na	0	<b>0</b>	na	na
operating profit margin	32.7%	<b>32.7%</b>			32.8%	<b>32.3%</b>			34.4%	<b>34.3%</b>		
North America	38.1%	<b>38.1%</b>			38.4%	<b>38.4%</b>			38.7%	<b>38.7%</b>		
Latin America	42.7%	<b>42.7%</b>			43.2%	<b>42.2%</b>			44.1%	<b>43.4%</b>		
Europe	19.4%	<b>19.5%</b>			20.2%	<b>20.3%</b>			20.4%	<b>20.4%</b>		
Asia Pacific	13.5%	<b>13.5%</b>			14.9%	<b>14.9%</b>			15.5%	<b>15.5%</b>		
SABMiller									37.6%	<b>38.5%</b>		
Net interest	(1,144)	<b>(1,146)</b>	0.2%	-13.1%	(2,018)	<b>(2,030)</b>	0.6%	77.1%	(3,435)	<b>(3,459)</b>	0.7%	70.4%
PBT	13,464	<b>13,362</b>	-0.8%	-3.2%	12,499	<b>11,807</b>	-5.5%	-11.6%	17,588	<b>16,985</b>	-3.4%	43.9%
Tax	(2,558)	<b>(2,539)</b>	-0.8%	1.6%	(2,500)	<b>(2,361)</b>	-5.5%	-7.0%	(3,869)	<b>(3,737)</b>	-3.4%	58.2%
Minority interests	(1,790)	<b>(1,767)</b>	-1.2%	-15.3%	(1,638)	<b>(1,467)</b>	-10.5%	-17.0%	(1,652)	<b>(1,574)</b>	-4.7%	7.3%
Net profit	9,116	<b>9,056</b>	-0.7%	-1.7%	8,360	<b>7,979</b>	-4.6%	-11.9%	12,066	<b>11,674</b>	-3.3%	46.3%
Net profit - adjusted	8,435	<b>8,375</b>	-0.7%	-5.5%	8,408	<b>8,027</b>	-4.5%	-4.2%	12,113	<b>11,721</b>	-3.2%	46.0%
Number of fully diluted shares	1,657	<b>1,657</b>	0.0%	-0.5%	1,657	<b>1,657</b>	0.0%	0.0%	1,983	<b>1,983</b>	0.0%	19.7%
Diluted EPS - adjusted	5.09	<b>5.06</b>	-0.7%	-5.1%	5.08	<b>4.85</b>	-4.5%	-4.2%	6.11	<b>5.91</b>	-3.2%	22.0%
Net dividend (EUR)	2.67	<b>2.65</b>	-0.7%	0.5%	2.66	<b>2.54</b>	-4.5%	-4.2%	3.21	<b>3.10</b>	-3.2%	22.0%

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NEUTRAL ratings 33.1%

SELL ratings 8.5%

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