

10th February 2016

Food & Beverages

Heineken

Price EUR75.18

Strong 2015 and positive outlook

Fair Value EUR83 vs. 80 (+10%)

BUY vs. NEUTRAL

On the back of strong 2015 results and the positive 2016 outlook, we are increasing the company's Fair Value to EUR83 from EUR80. With 10% upside to Fair Value we have upgraded our recommendation to Buy from Neutral.

Bloomberg	HEIA.NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 64.6
Market Cap (EUR)	43,304
Ev (BG Estimates) (EUR)	54,391
Avg. 6m daily volume (000)	842.8
3y EPS CAGR	12.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	-8.5%	-1.5%	-4.6%
Food & Bev.	-2.0%	-7.5%	-4.5%	-6.9%
DJ Stoxx 600	-9.4%	-17.7%	-22.1%	-15.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	19,257	20,361	20,984	21,712
% change		5.7%	3.1%	3.5%
EBITDA	4,566	4,852	5,152	5,509
EBIT	3,129	3,415	3,659	3,917
% change		9.1%	7.2%	7.0%
Net income	1,758	2,083	2,287	2,487
% change		18.5%	9.8%	8.8%

	2014	2015e	2016e	2017e
Operating margin	16.2	16.8	17.4	18.0
Net margin	9.1	10.2	10.9	11.5
ROE	14.2	15.1	15.3	15.3
ROCE	7.7	9.0	9.6	10.3
Gearing	89.3	66.8	54.0	41.5

(EUR)	2014	2015e	2016e	2017e
EPS	3.05	3.62	3.97	4.32
% change	-	18.5%	9.8%	8.8%
P/E	24.6x	20.8x	18.9x	17.4x
FCF yield (%)	3.6%	5.7%	4.9%	5.5%
Dividends (EUR)	0.94	1.11	1.18	1.28
Div yield (%)	1.2%	1.5%	1.6%	1.7%
EV/Sales	2.9x	2.7x	2.6x	2.4x
EV/EBITDA	12.2x	11.2x	10.4x	9.5x
EV/EBIT	17.8x	15.9x	14.6x	13.3x

Heineken has published 2015 results this morning, ahead of the consensus for both revenue and operating profit. Organic growth in net revenue was 3.5% (2.8% consensus) to EUR20,511 (consensus 20,190, beat by 1.6%) while that in operating profit was 6.9% (consensus 5.1%) to EUR3,381 (consensus 3,330, beat by 1.5%). In terms of outlook, the company sounded positive with the CEO stating "Whilst we expect further volatility in emerging markets and deflationary pressures in 2016, we are confident that we will again deliver top and bottom line growth, as well as margin expansion in line with our guidance."

ANALYSIS

- The area that surprised most positively was AsiaPac where revenue grew 4.1% in organic terms driving organic operating profit growth of 9.7% as a strong performance in Vietnam and Singapore offset weaker results in China and Indonesia.
- The negative surprise came from Africa, the Middle East and Russia where operating profit fell 11% organically as macro-economic conditions in Nigeria and DRC weighed on the performance, although this was partly offset by strong profits in Russia and Ethiopia.
- The strongest performance came from the Americas region (although less of a surprise) as organic revenue growth of 8.5% was driven by total volume growth of 5.2% and higher revenue per hectolitre of 3.1%. Both the improved brand mix and effective revenue management contributed to top line growth. Despite headwinds from emerging market currencies, forex positively impacted revenue by €109 million largely due to the US dollar strength. Operating profit grew 15% organically with Mexico and Brazil being the main drivers.
- But also Europe delivered more than decent figures as revenue increased by 1.4% organically, with revenue per hectolitre flat. Positive organic volume growth of 1.4% was helped by the strong performance in Q3, aided by better weather. Deflationary pressure combined with off-trade pricing pressure resulted in limited pricing, which adversely impacted revenue per hectolitre. Operating profit was up 7.3% organically driven by disciplined cost management, a continued focus on innovation and the successful premiumisation strategy. Higher profits were seen in Poland, Spain, UK and France offsetting lower profits in Greece and Croatia.

VALUATION

- After the recent drop in the share price, the stock is now trading at 18.9x 2016 EPS which is in the five year historic range of 14-20x and a five-year average of 17.0x (the average for 2015 was 19.6x)
- Our Fair Value of EUR83 per share is DCF-based and takes into account a long term growth rate of 3.3%

NEXT CATALYSTS

- Results call at 10 a.m.CET



2015 results

	2014	2015	2015	2015 Growth Beat (+)/		
	actual	Consensus BG	Actual	Miss (-)		
Consolidated Revenue (beia)						
Africa Middle East & Eastern Europe	3189	3,250	3,221	3263	2.3%	0.4%
Americas	4631	5,040	5,071	5159	11.4%	2.4%
Asia Pacific	2088	2,460	2,437	2483	18.9%	0.9%
Europe	9760	10,010	10,297	10227	4.8%	2.2%
Head Office and Eliminations	-411	-570	-665	-621	51.1%	8.9%
Total Consolidated Revenue	19257	20,190	20,361	20511	6.5%	1.6%
Organic Consolidated Revenue (beia) Growth		2.8%		3.5%		
Operating profit (beia)						
Africa Middle East & Eastern Europe	671	679	689	579	-13.7%	-14.7%
Americas	780	868	899	904	15.9%	4.1%
Asia Pacific	550	658	658	702	27.6%	6.7%
Europe	1109	1,150	1,240	1196	7.8%	4.0%
Head Office and Eliminations	19	-25	-71	0		
Total Consolidated Revenue	3129	3,330	3,415	3381	8.1%	1.5%
Organic Consolidated Revenue (beia) Growth		5.1%		6.9%		

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BUY ratings 61.2%

NEUTRAL ratings 29.9%

SELL ratings 9%

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