

15th April 2016

Food & Beverages

AB InBev

Price EUR110.15

Agreement with South African government

Fair Value EUR109 (-1%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	177,148
Ev (BG Estimates) (EURm)	245,060
Avg. 6m daily volume (000)	1,707
3y EPS CAGR	3.6%

AB InBev's acquisition of SABMiller came one step closer as the company reached an agreement with the South African government on issues like employment, localisation of production and inputs used. The South African Government will now recommend the acquisition to the Competition Commission and Competition Tribunal.

AB InBev has reached an agreement with the South African Government which will now recommend the Competition Commission and Competition Tribunal to approve AB InBev buying SABMiller.

ANALYSIS

- With the agreement and the recommendation of the South African Government, it is likely that the Competition Commission will have no objection, removing an important obstacle to the acquisition.
- According to the agreement, AB InBev has committed on issues of employment, localisation of production and inputs used in the production of beer and cider, empowerment in the company, long-term commitments to South Africa and participation of small beer brewers in the local market. AB InBev has promised that there will be no involuntary job losses in South Africa as a result of the transaction. In addition, the company has committed to maintaining its total permanent employment levels in South Africa as at the date of closing, for a period of five years.
- The company also agreed to invest ZAR1bn (EUR61.1m) to support small-holder farmers as well as to promote enterprise development; local manufacturing, exports and jobs; the reduction of the harmful use of alcohol (including making available locally produced low and no-alcohol choices for consumers) and green and water-saving technologies. The agreement also includes commitments by AB InBev to support the participation of small craft-beer producers in local markets.

VALUATION

- The stock is trading at 25.6x 2016e earnings which is the highest the stock has ever traded (in terms of PE), reflecting the potential income and cost synergies associated with the SABMiller acquisition.
- We derive a EUR109 fair value based on a DCF using a risk-free rate of 1.7% and a 7% risk premium.

NEXT CATALYSTS

- More news on the regulatory front with the South African competition authorities likely to approve before the recently extended deadline of May 5. The European Commission has said it would decide by May 24.
- 4 May Q1 results

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	1 M	3 M	6 M	31/12/15
Absolute perf.	4.1%	3.7%	9.4%	-3.7%
Food & Bev.	0.8%	2.8%	2.5%	-2.6%
DJ Stoxx 600	-0.2%	1.3%	-3.3%	-6.0%

YEnd 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	23.3x	24.5x	25.6x	21.0x
FCF yield (%)	4.5%	4.8%	4.1%	5.8%
Dividends (USD)	2.64	2.65	2.54	3.10
Div yield (%)	2.1%	2.1%	2.1%	2.5%
EV/Sales	6.1x	6.2x	6.4x	5.3x
EV/EBITDA	15.4x	15.5x	15.9x	12.8x
EV/EBIT	18.8x	19.0x	19.9x	15.4x



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Distribution of stock ratings

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