

Sector View

Brewers

	1 M	3 M	6 M	31/12/15
Food & Bev.	-0.1%	-0.3%	2.4%	-4.0%
DJ Stoxx 600	-3.8%	-5.3%	-9.1%	-10.3%

*Stoxx Sector Indices

Companies covered

AB INBEV	NEUTRAL	EUR109
Last Price	EUR107.1	Market Cap. EUR172,243m
CARLSBERG	SELL	DKK500
Last Price	DKK622	Market Cap. DKK95,227m
HEINEKEN	BUY	EUR79
Last Price	EUR78.84	Market Cap. EUR45,412m
MOLSON COORS	NEUTRAL	USD97
Last Price	USD92.3	Market Cap. USD19,779m
SABMILLER	NEUTRAL	4400p
Last Price	4226.5p	Market Cap. GBP68,528m



Heineken remains a buy

Yesterday we lowered our recommendation for some of the brewers, which leaves Heineken as the only brewer that we consider worthwhile buying.

Yesterday we lowered our recommendation for SABMiller to Hold (from Buy) and for Molson Coors to Hold (from Buy); and kept our recommendation for AB InBev at Hold and for Carlsberg at Sell. Indeed on the back of the changed BG research risk free rate (1.6% vs 2.0%) and risk free rate (7% vs 6.4%), we have lowered our DCF-based fair value for AB InBev to EUR109 (vs EUR111), for Heineken to EUR79 (vs EUR83), for Carlsberg DKK500 (vs DKK520) and for Molson Coors to USD97 (vs USD101). For SABMiller the fair value of GBp4,400 is driven by the ABI offer price and remained unchanged. As a result of these fair value adjustments we have limited upside for the brewers. Indeed, AB InBev Heineken and Molson Coors are trading at fair value, SABMiller has an upside of 3% to fair value.

Although there is no upside to fair value for Heineken shares, we believe this stock is still worthwhile buying. We are summarising our buy case for the stock below.

ANALYSIS

- Organically Heineken is growing well with last year delivering organic revenue growth of 3.5% and organic profit growth of 6.9%. But on top of that Heineken is most likely to be the next brewer to make a significant acquisition. And acquisitions are the big value creator (or destructor in some cases) in the sector. AB InBev and Molson Coors will need a couple of years to digest the SABMiller and MillerCoors acquisitions, and Carlsberg is ruling itself out for big acquisitions. With deals like FEMSA Cerveza and Asia Pacific Breweries, Heineken's recent acquisition track record has been good. Furthermore we estimate a net debt/EBITDA of 2.2x by the end of 2016, the company has the capability to gear up. If external growth opportunities would not come along, we can expect at some stage, Heineken to start buying back to 20% that FEMSA has in the company. Indeed, FEMSA was mostly paid in shares when it sold FEMSA Cerveza to Heineken and has always made it clear that although it is a very happy shareholder of Heineken, the stake could be sold if an opportunity in its core retail and bottling business would arrive.
- Furthermore, Heineken has a well-balanced diversified geographic footprint with around 60% of operating profit from developing markets but it carries a low country specific operational risk with the highest contributors ranking Mexico (11%), Vietnam (10%), Nigeria (8%), France (7%) and the UK (6%).
- It has a strong innovation agenda with new products/packaging and extensions accounting for 9.2% of revenues in 2015 (up from a mere 3% in 2010), signalling that the company is adapting swiftly to the rapidly changing consumer environment.
- With brands like Heineken, Tecate, Tiger and Desperados, the company is leading in the international premium segment where growth and profitability are higher (see our note from March 2016 on high end beer). Indeed, Heineken is the brewer which has the highest exposure to high end beer with 36% of volumes and an estimated 60% of profits in that segment. Carlsberg's exposure to high end is 25% of volumes, for AB InBev it is 17%, for SABMiller it is 15% and for MolsonCoors it is 11%. Furthermore Heineken has the set-up (i.e. the geographic presence) to benefit further from the expected growth in import beers in emerging markets.
- Heineken is running programmes to improve the efficiency of its operations and has delivered on them. As a result Heineken's aim to increase operating profit margin by 40bps p.a. over the medium term (through cost savings and price/mix) is credible.
- Furthermore, as the company is reporting in euro it is benefiting from a translation impact from the stronger US dollar, British pound, Vietnamese dong and Mexican peso. However, as the company hedges the US dollar for transactions 18 months ahead, the impact of exporting Heineken from Amsterdam and the Mexican beers to the US, still has to come in 2016/2017.

VALUATION

- Heineken is trading at 19.8x 2016 and 18.3x 2017 earnings compared to 22.1x and 18.4x for ABI.

NEXT CATALYSTS

- 20 April : trading update Heineken q1 [Click here to download](#)



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BUY ratings 56.9%

NEUTRAL ratings 35%

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