

20th April 2016

Food & Beverages

**Heineken**

Price EUR83.16

**Q1 organic volume growth of 7%**

**Fair Value EUR79 (-5%)**

**BUY**

Bloomberg	HEIA.NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 67.2
Market Cap (EURm)	47,900
Ev (BG Estimates) (EURm)	58,987
Avg. 6m daily volume (000)	715.8
3y EPS CAGR	12.3%

**Heineken has reported very strong Q1 organic volume growth of 7% (and 11% in total), well ahead of the consensus figure of 2.3%, and setting up the company for potential upgrades to earnings estimates and price targets (consensus is Buy but with a price target of only EUR81.5). We will also be reassessing our estimates. The beat was in all zones but the 23% organic volume growth in Asia was definitely the highlight.**

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.2%	9.7%	5.8%	5.6%
Food & Bev.	3.4%	5.2%	3.3%	-0.3%
DJ Stoxx 600	2.2%	4.9%	-4.1%	-4.5%

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	27.2x	23.0x	20.9x	19.3x
FCF yield (%)	3.3%	5.1%	4.4%	5.0%
Dividends (EUR)	0.94	1.11	1.18	1.28
Div yield (%)	1.1%	1.3%	1.4%	1.5%
EV/Sales	3.1x	2.9x	2.8x	2.6x
EV/EBITDA	13.2x	12.2x	11.3x	10.3x
EV/EBIT	19.3x	17.3x	15.9x	14.5x

- After a somewhat slower Q4 2015 (organic volume growth of 1.2% compared to 2.2% for the full year), organic volume growth in the first quarter of 2016 accelerated to 7% helped by ongoing strength in the Americas (+8.2% in Q1 vs +7.2% in Q4, 5.1% in 2015) with Heineken underlying its solid performance in both Mexico, Brazil. In Mexico, volume was up double digit and benefited from the earlier timing of Easter, as well as the positive economic backdrop. Tecate Light and Dos Equis continued to perform strongly. In Brazil, volume grew mid-single digit, with strong double digit Heineken brand volume growth. But also in the US both sales and depletions were positive, outperforming the overall market
- However, Asia was probably the outstanding surprise delivering a solid performance of 23% organic volume growth (+2.8% in Q4 2015 and 6.3% in 2015) with double digit volume growth in Vietnam, Indonesia and Cambodia. In Vietnam strong volume growth reflected the successful Vietnamese New Year campaign and the continued momentum of the Tiger brand. In China higher sales around the Chinese New Year resulted in volume growth. And in Indonesia volume was up double digit, flattered by the low comparable last year when the market destocked heavily ahead of the minimart regulation change. Indeed, last year volumes in Indonesia were down double digit on the back of destocking ahead of the implementation of new regulations banning the sale of alcohol in minimarts (convenience stores).
- The European business also delivered solid growth of 2.3% (after -0.7% in Q4 2015 and +1.3% for 2015) as warmer weather, earlier Easter and Carlsberg's retreat from Tesco in the UK helped volumes.
- There was even a rebound in Africa Middle East & Eastern Europe with organic volume growth of 4.6% (-3.8% in Q4 2015 and -2.0% for 2015), which was driven by growth in Nigeria and Ethiopia. Elsewhere in the region, volume was challenging and remains weak, with both affordability and lower tourism continuing to impact performance. Heineken stipulates that excluding Nigeria, volume would have been down organically for the region. In Nigeria volume was flattered by an easy comparative given the election in the same period last year and the company warns that cycling the forthcoming quarters will be more difficult (weaker consumer environment, due to the low global oil price, continues to drive negative brand mix). In Russia the market remains under pressure, with Heineken's volume down mid-single digit on easy comps.

**VALUATION**

- With the stock trading at 20.9x our expected 2016 earnings, there is no upside potential on our DCF based fair value of EUR79. Nevertheless, there is a slight valuation discount to the Stoxx 600 Food & Beverages according to Bloomberg trades at 21.1x. And on the back of the very strong Q1 we will be reassessing our earnings estimates.
- Also the consensus price target of EUR81.5 leaves no upside probably indicating that we could see some downgrading (currently 14 are buy, 16 hold, 3 sell)

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- Heineken's 2016 Financial Markets Conference taking place in Ho Chi Minh City on Wednesday 11th and Thursday 12th May



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