

21st April 2016

Food & Beverages

Heineken

Price EUR83.24

Increase in earnings estimates after strong Q1

Fair Value EUR83 vs. EUR79 (0%)

BUY

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 67.2
Market Cap (EUR)	47,946
Ev (BG Estimates) (EUR)	62,099
Avg. 6m daily volume (000)	720.9
3y EPS CAGR	10.6%

On the back of yesterday's strong 7% organic volume growth, we are increasing our earnings forecasts for Heineken. We have raised our EBIT forecasts by 1% for 2016 and 2% for 2017. The ensuing 5% higher level of free cash flow prompts us to revise our Fair Value for Heineken upwards to EUR83 (from EUR79).

ANALYSIS

- We are increasing our 2016 and 2017 EBIT forecasts to EUR3,673 (from EUR3,659) and to EUR3,961 (from EUR3,917). We guess that we will remain at the upper end of the consensus, which before yesterday's announcement was expecting between EUR3,444 and EUR3,659 for 2016 and between EUR3,629 and 3,917 for 2017. We remain buyers of the stock as we believe that Heineken will be the next player capable of undertaking significant M&A, which tends to create value. In the meantime organically, the company continues to deliver healthy growth and we believe that results for 2016 will come out at the higher end of consensus forecasts.
- 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 continue to perform strongly. In Brazil volume grew mid-single digit, with strong double digit Heineken brand volume growth. But also in the 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). But also the European business delivered solid 2.3% growth (after -0.7% in Q4 2015 and +1.3% for 2015) as warmer weather, early 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.
- The strong growth in the Vietnamese business on the back of the premium Tiger brand should bode well for margins in the Apac region and we have increased our margin outlook in Apac to 29% (from 28.7% and compared to 28.3% in 2015). The other area were we have changed our margin outlook is western Europe, where the premium portfolio of Heineken (Heineken, Desperados, Strongbow) should be able to deliver some kind of volume in a declining market. We are also adjusting our forecasts to take into account a negative EUR80m currency impact (compared to EUR60m previously).

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	12.2%	5.5%	5.7%
Food & Bev.	3.3%	7.7%	3.4%	-0.3%
DJ Stoxx 600	2.6%	8.8%	-3.3%	-4.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	21,712	22,600	23,317
% change		5.9%	4.1%	3.2%
EBITDA	4,975	5,267	5,679	6,082
EBIT	3,381	3,673	3,961	4,245
% change		8.6%	7.8%	7.2%
Net income	2,048	2,310	2,540	2,772
% change		12.8%	9.9%	9.1%

	2015	2016e	2017e	2018e
Operating margin	16.5	16.9	17.5	18.2
Net margin	10.0	10.6	11.2	11.9
ROE	15.1	15.7	15.8	15.7
ROCE	8.2	8.8	9.4	10.1
Gearing	86.0	73.1	59.6	46.7

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	4.03	4.43	4.84
% change	-	12.8%	9.9%	9.1%
P/E	23.3x	20.6x	18.8x	17.2x
FCF yield (%)	3.5%	4.1%	5.1%	5.7%
Dividends (EUR)	1.11	1.20	1.32	1.44
Div yield (%)	1.3%	1.4%	1.6%	1.7%
EV/Sales	3.0x	2.9x	2.7x	2.5x
EV/EBITDA	12.5x	11.8x	10.6x	9.6x
EV/EBIT	18.5x	16.9x	15.3x	13.8x



VALUATION

- Our DCF based Fair Value stands at EUR83 using a risk free rate of 1.6% and a risk premium of 7%.
- At 20.6x 2016 earnings the stock is trading at a slight discount to the 21.1x for the Stoxx 600 Food & Beverages

NEXT CATALYSTS

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

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