

4th May 2016

Food & Beverages

AB InBev

Price EUR108.15

Q1 2016 disappoints

Fair Value EUR109 (+1%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	173,931
Ev (BG Estimates) (EURm)	240,343
Avg. 6m daily volume (000)	1,704
3y EPS CAGR	3.6%

AB InBev has reported disappointing first quarter results with revenues down 10% and EBITDA down 13%. Figures fell short of consensus expectations by 4% and 5% respectively.

InBev reported Q1 2016 results this morning

ANALYSIS

- Reported figures were down double digit: Revenue down 10.1%, EBITDA down 12.7% and EBIT down 16.2%. The figures were well below the consensus, which was looking for a decline in revenue of 6% and EBITDA by 8%. So a big miss.
- The weak performance was partly explained by weak emerging market currencies. Organic revenue growth was still a decent 3.1% and EBITDA organic growth is 2.5%. But of course these more positive figures were helped by the high level of inflation stemming from the currency declines. As such, its probably best to look for organic volume growth as a measure of performance, especially for emerging markets business. For the company as a whole, volumes were down organically by 1.7%, which is pretty poor compared to the 7% organic volume growth that Heineken reported last month (20/4).
- The weakest regions were Latin-America North (mainly Brazil) and Latin-America South (mainly Argentina) with reported revenues down 26% and 18% respectively and volumes down 7.3% and 5.3% in organic terms, respectively. Clearly the weak performance was due to beer consumption finally reflecting the challenging macroeconomic environment and Brazil beer volumes fell 10%. However in China volumes also fell 1.1% for AB InBev in a market down 4%. Although this was still a decent relative performance, price/mix seemed only to have increased by 2% which is a far cry from the 9.4% that the company delivered in 2015. Maybe this indicates that the strong outperformance that AB InBev enjoyed in the past thanks to premium Budweiser is slowing down.
- The good news was that Mexico is benefiting from an improved macro in the US. A favourable consumer environment and an early Easter drove volumes 13% higher and organic revenue growth was 16.3%, although reported growth was still down 4% (because of currency weakness). However with more marketing costs this year going into Q1, organic EBITDA was up only 10.3% and down 11% in reported terms.
- News from the US business was still mixed. The company continued to underperform the market (ABI sales to retailers down 0.3% in a market up 0.7%) but the decline in market share of 45bps was better than it was in 2015 (-65bps). The core Bud Light and Budweiser brands are still the ones causing the damage, with Bud Light down "just over 1%" and Budweiser down "low single digits".

VALUATION

- Our DCF based Fair Value of USD109 is based on a risk free rate of 1.7%, a risk premium of 7% and a terminal growth rate of 3.7%.
- Valued at 25.7x 2016 earnings including expectations that the SABMiller deal will be strongly earnings enhancing.

NEXT CATALYSTS

- Conference call at 3pm (Paris time) this afternoon

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	-3.7%	-0.4%	-5.5%
Food & Bev.	-0.7%	-3.4%	-5.7%	-5.0%
DJ Stoxx 600	0.7%	1.9%	-11.3%	-8.3%

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	23.4x	24.6x	25.7x	21.1x
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%	2.0%	2.5%
EV/Sales	6.1x	6.2x	6.4x	5.3x
EV/EBITDA	15.4x	15.5x	16.0x	12.8x
EV/EBIT	18.8x	19.1x	19.9x	15.5x



Q1 results by region				
	Q1 15	Q1 16	Reported	Organic
Revenues				
North America	3601	3532	-2%	0.3%
Mexico	893	854	-4%	16.3%
Latam North	2489	1845	-26%	-1.9%
Latam South	918	749	-18%	17.2%
Europe	775	740	-5%	4.6%
Apac	1294	1258	-3%	1.9%
GEMC	483	422	-13%	-0.5%
Group	10453	9400	-10%	3.1%
EBITDA				
North America	1381	1384	0%	2.1%
Mexico	417	371	-11%	10.3%
Latam North	1267	916	-28%	-3.4%
Latam South	417	364	-13%	24.2%
Europe	154	134	-13%	-4.7%
Apac	340	338	-1%	3.3%
GEMC	-10	-46	360%	na
Group	3966	3461	-13%	2.5%

Source: AB InBev

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