

7th June 2016

Food & Beverages

AB InBev

Price EUR114.40

Already Gone (full report released today)

Fair Value EUR109 (-5%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	183,983
Ev (BG Estimates) (EURm)	259,489
Avg. 6m daily volume (000)	1,702
3y EPS CAGR	6.9%

Despite tumbling earnings forecasts (-20% over 12 months), AB InBev shares have held up very well as the acquisition of SABMiller is expected to balance the decline with a 19% accretion of earnings. As a result investors should not expect an additional share price boost from the acquisition but instead should brace themselves for increased share price volatility linked with emerging market currency movements.

ANALYSIS

- AB InBev 2017 standalone earnings expectations have tumbled by 27% since the start of 2015 to USD5.0 from USD6.9 and by 20% over the past 12 months. This has come on the back of emerging market currency weakness which impacts not only the translation of profits but also operating margins as the price of some cost of goods (eg packaging, wheat, transport) is linked with the USD. Indeed the Brazilian real has come down by 23% since the start of 2015 and the Argentinean peso by 34%. The Mexican peso and the euro limited the decline to 9%.
- The approach for SABMiller has been very timely as the acquisition is expected to enhance earnings significantly. We calculate that the acquisition is accretive to the tune of 19% by 2020 (originally it was 25% but also SABMiller earnings projections have suffered from the emerging market currency weakness). Our assumption is that AB InBev will save USD3.0bn by 2020 (including the remaining USD0.5bn from the existing SABMiller plan). This is 25% of the expected SABMiller revenues from those assets that AB InBev is keeping (Africa, Latin America, Asia outside the Chinese business).
- These are realistic, but punchy savings targets to justify the current share price. The consequence is that investors should not expect a lot of cost cutting surprise above these projections. As a result the shares risk to become more linked to emerging market exchange rates (which of course can play both ways). Indeed, over the past couple of months the stronger Brazilian real, Argentinian and Columbian peso and South African rand have started to improve the outlook and earnings projections for AB InBev and SABMiller have stabilised.

VALUATION

- Using a risk free rate of 1.6% and a risk premium of 7%, we derive for AB InBev a fair price of EUR109 per share assuming a long term growth rate of 3.7%

NEXT CATALYSTS

- 29th July Q2 216 Earnings release.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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