

20th July 2016

Food & Beverages

AB InBev

Price EUR113.45

Higher SABMiller cash bid unlikely

Fair Value EUR109 (-4%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	182,455
Ev (BG Estimates) (EURm)	260,395
Avg. 6m daily volume (000)	1,695
3y EPS CAGR	5.6%

With the partial share offer for SABMiller now worth 15% more than the cash offer (i.e. GBP50 in stead of GBP44), there is speculation that some shareholders have approached to board of SABMiller to press AB InBev for a higher cash bid. We believe that is a very unlikely outcome as it will need the approval of both Altria and Bevco (together owning 40.45% of the shares). Furthermore the financial leeway at AB InBev is limited, having covered the GBP at a much higher rate of 1.55 to the USD (current exchange rate of USD1.31).

ANALYSIS

- AB InBev made to the SABMiller shareholders a cash offer of GBP44 per share or a partial share offer of 0.483969 Restricted Shares AB InBev (i.e. can not sell them for 5 years) + GBP3.7788 in cash. (with the restriction that max 326m AB InBev shares will be issued and otherwise those who elect for the shares will be scaled back pro rata). At the time of the offer, the value of the partial share offer was GBP41.85, i.e. well below the cash offer of GBP44. However, with AB InBev shares being up and the GBP being down, the current value of the partial share offer is GBP50, which is a premium of 14%.
- Hence some shareholders (instigated by some hedge funds) are trying to push AB InBev to increase its cash offer. That is driving the shares over the GBP44 offer price. The downside risk for such hedge funds is pretty close to 0 given that on 12 august SABMiller shareholders will receive a dividend of USD cents 93.75 which is about 72 pence per share. Hence if the acquisition goes ahead shareholders opting for the cash offer will get at least GBP44.72. At the current share price of GBP44.17 that is still an upside of 1.2%. It indicates also that the shareholders concerned are not really taking on board any risk but rather are try to get something for free (for me that is indicative of their own conviction that the approach will not be succesful)
- But what will happen if things are not going as planned? 1) AB InBev's acquisition of SABMiller is currently structured as a **take-over under a UK Scheme of Arrangement**. There are different conditions attached to such a proceeding but from the shareholders' approval it needs 50% of the votes from shareholders who represent at least 75% of all shares. Once that approval is there ALL shareholders are receiving shares of the Newco and the Newco becomes the 100% shareholder of SABMiller and AB InBev than buys Newco and as such gains immediate 100% control of the SABMiller. 2) However if gaining that approval seems difficult in case the Board of SABMiller withdraws its recommendation of the transaction (which is what some of these hedgefunds are rumoured to press for) than AB InBev can switch its proposed structure to a **UK Offer**, where it will than need the approval of 50% of the shareholders present at the general meeting. The disadvantage of this structure is that it will take longer for AB InBev to gain full control of the company. It will need 75% of the shareholders to agree a delisting and 90% before it can squeeze out the minorities. In order to proceed to a UK Offer (or to increase the cash part of the transaction), AB InBev needs the blessing of Altria and Bevco who own respectively 26.5% and 13.9% of the shares and who have given irrevocable support for the AB InBev offer).

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	-1.7%	3.3%	-0.8%
Food & Bev.	6.6%	0.5%	5.7%	0.3%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,076	56,939	59,623
% change		-1.2%	32.2%	4.7%
EBITDA	16,921	16,885	23,377	25,309
EBIT	13,768	13,842	19,510	21,327
% change		0.5%	40.9%	9.3%
Net income	8,513	7,712	10,875	11,992
% change		-9.4%	41.0%	10.3%

	2015	2016e	2017e	2018e
Operating margin	31.6	32.1	34.3	35.8
Net margin	19.5	17.9	19.1	20.1
ROE	20.2	17.9	12.6	13.3
ROCE	10.1	10.3	10.2	8.5
Gearing	98.7	101.3	97.2	91.2

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.62	5.45	6.01
% change	-	-9.4%	18.0%	10.3%
P/E	24.5x	27.0x	22.9x	20.8x
FCF yield (%)	3.7%	3.2%	5.4%	5.0%
Dividends (USD)	2.68	2.43	2.86	3.16
Div yield (%)	2.1%	1.9%	2.3%	2.5%
EV/Sales	6.5x	6.7x	5.8x	5.5x
EV/EBITDA	16.9x	17.0x	14.0x	12.8x
EV/EBIT	20.7x	20.7x	16.8x	15.2x

VALUATION

- DCF based fair value of EUR109 per share using a 1.6% risk free rate, a 7% equity risk premium and a long term growth rate of 3.7%

NEXT CATALYSTS

- SABMiller AGM of 21 July 2016
- AB InBev Q2 results 29 July 2016

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Distribution of stock ratings

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