

21st July 2016

Food & Beverages

AB InBev

Price EUR112.95

DoJ gives clearance for the SABMiller acquisition

Fair Value EUR109 (-3%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	181,651
Ev (BG Estimates) (EURm)	259,605
Avg. 6m daily volume (000)	1,684
3y EPS CAGR	5.6%

The closing of the SABMiller acquisition is approaching now that the US has joined Europe and South Africa in approving the deal. The companies are still awaiting the clearance from China, although believe that condition could be waived by the SABMiller board.

Overnight, the U.S. Department of Justice approved the acquisition by AB InBev of SABMiller. The deal has now obtained approval in 21 jurisdictions. Clearance decisions, with or without conditions, have now been obtained: in North America (US and Canada); Asia-Pacific (Australia, India, and South Korea); in Africa (Botswana, Kenya, Namibia, Swaziland, Zambia, Zimbabwe, and South Africa); in Europe (the EU, Albania, Moldova, Turkey and Ukraine); and in Latin America (Chile, Colombia, Mexico and Uruguay). Approval in Ecuador is subject to certain conditions.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.2%	-2.7%	7.3%	-1.3%
Food & Bev.	4.3%	1.0%	8.8%	0.8%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

ANALYSIS

- Because the acquisition was conditional on gaining approval from Europe, South Africa, the US and China, the companies are waiting for China to approve it although a proposed sale of SABMiller's stake in CR Snow was expected to lead to clearance. I believe that the SABMiller board is ready to wave the condition of gaining Chinese approval, although in early July a China Resources Beer executive said the country's regulator was set to approve the deal.
- There are three main conditions on the DoJ approval. The first is that AB InBev has to sell the 58% stake in MillerCoors. This condition is already met as the company has agreed to sell that to Molson Coors for USD12bn. The second condition is that the company need to curb its use of incentive programmes for the independent beer distributors (not the exclusive AB InBev distributors) as not to limit competition (so that small brewers can rely on their independent distributor partners to access the market). Thirdly, AB InBev will also be required to secure the DOJ's approval before acquiring any beer distributors or craft beer brands (luckily it amassed a 20% craft beer market share over the past two years as it was looking to benefit from a rapidly growing niche market in the slowing beer industry and curb its continuous loss in market share).

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

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%

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.62	5.45	6.01
% change		-9.4%	18.0%	10.3%
P/E	24.4x	26.9x	22.8x	20.7x
FCF yield (%)	3.7%	3.2%	5.5%	5.0%
Dividends (USD)	2.68	2.43	2.86	3.16
Div yield (%)	2.2%	2.0%	2.3%	2.5%
EV/Sales	6.5x	6.6x	5.7x	5.4x
EV/EBITDA	16.8x	16.9x	14.0x	12.8x
EV/EBIT	20.7x	20.6x	16.8x	15.2x

NEXT CATALYSTS

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- AB InBev Q2 results 29 July 2016

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Distribution of stock ratings

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