

26th July 2016

Food & Beverages

AB InBev

Price EUR114.80

Hike in offer price for SABMiller

Fair Value EUR109 (-5%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EURm)	184,626
Ev (BG Estimates) (EURm)	262,833
Avg. 6m daily volume (000)	1,648
3y EPS CAGR	5.6%

AB InBev announced this morning that it is increasing its offer price for SABMiller to GBP45. We suspect this move was driven by the company's increased insight into cost savings and revenue synergies from the SABMiller acquisition.

This morning Anheuser-Busch InBev announced that it had increased its offer for SABMiller with additional cash of GBP1 per share. SABMiller shareholders will now receive GBP45 per share (instead of GBP44) and can elect to receive GBP4.6588 in cash for each SABMiller share (previously GBP3.6588) and 0.483969 restricted shares.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.0%	0.4%	2.0%	0.3%
Food & Bev.	6.0%	3.6%	4.9%	1.1%
DJ Stoxx 600	5.9%	-1.7%	1.4%	-6.8%

ANALYSIS

- Since the beginning of the battle for SABMiller, we have always maintained that AB InBev would be determined to get this deal done. Nevertheless, it seems surprising how easily (apparently) they have let go of the very strong European assets of SABMiller. Today, it is even more amazing to see how easily AB InBev's management is giving in to the handful of funds that have been trying to squeeze out some additional cash (withouth taking any risk on their part).
- This prompts questions as to what AB InBev's management knows that we don't. Only time will tell but different options are possible: is the Brazilian business so awful that it desperately needs some diversification? (we'll know by the end of this week how bad Brazil is). Is this the last deal that AB InBev is intending to make so it does not care about accretion? (unlikely, as both Coke and Pepsi are rumoured to be the next targets). Or does the company see far more opportunities for cost savings than it claims (USD 1.9bn) or we expect (USD3bn). This is probably the more likely explanation and consistent with past experiences. But only time will tell.

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	24.7x	27.2x	23.1x	20.9x
FCF yield (%)	3.7%	3.2%	5.4%	4.9%
Dividends (USD)	2.68	2.43	2.86	3.16
Div yield (%)	2.1%	1.9%	2.3%	2.5%
EV/Sales	6.6x	6.7x	5.8x	5.5x
EV/EBITDA	17.0x	17.1x	14.1x	12.9x
EV/EBIT	20.9x	20.8x	16.9x	15.3x

NEXT CATALYSTS

- SABMiller AGM on 21st July 2016
- AB InBev Q2 results on 29th July 2016

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Distribution of stock ratings

BUY ratings 72%

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