

29th July 2016

Food & Beverages

## AB InBev

Price EUR110.25

A small profit warning on Brazil

Fair Value EUR109 (-1%)

NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 91.3
Market Cap (EUR)	177,309
Ev (BG Estimates) (EUR)	254,686
Avg. 6m daily volume (000)	1,642
3y EPS CAGR	4.8%

AB InBev has published slightly disappointing revenue and profit figures this morning, with organic revenue growth of 4% below consensus of 5.7% as both Brazil and Argentina continued to weigh on the group's performance. AB InBev also sharply revised downwards its guidance for organic revenue growth in Brazil from mid/high single digit to flat. As a result, we are lowering our forecasts for EBIT and EPS for this and next year by about 2%. On the positive side, the challenge for some shareholders to obtain a higher cash offer came to an end overnight after AB InBev agreed to pay GBP45 compared with GBP44 before.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	-2.1%	-1.6%	-3.6%
Food & Bev.	4.8%	3.0%	3.4%	0.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

AB InBev has published a mixed bag of Q2 2016 figures this morning although the overriding impression is of a miss compared to consensus. Furthermore, the group implemented a downward revision to 2016 revenue expectations in Brazil.

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,637	57,450	60,128
% change		0.1%	31.7%	4.7%
EBITDA	16,921	16,654	23,048	24,900
EBIT	13,768	13,575	19,148	20,886
% change		-1.4%	41.1%	9.1%
Net income	8,513	7,577	10,667	11,729
% change		-11.0%	40.8%	10.0%

### ANALYSIS

- The big negative was continued weakness in Brazil due to macro-economic and political uncertainties with volumes down 4.5% in organic terms and net revenues up 2.0%. Both figures were an improvement on Q1 2016 (volumes -8.5% and revenue -4%), but not at all to the extent that AB InBev was hoping for. As a consequence, the company has slashed its FY 2016 organic net revenue guidance from mid/high single digit growth to flat. This will definitively lead to a significant downward revision for Latin America but also for the group (with Brazil still accounting for 20% of group revenues). Also in Argentina, business remained weak with volumes declining high single digit.
- The big positive was again Mexico, which benefited from a spill-over from the strong US economy. Organic revenue growth was 9.5% in the country with volumes increasing 7.2%. In the US itself, AB InBev continued to lose share (90 bp in Q2) due to its under-representation in the strong growing high-end segment. However, the company has started gaining share in the high-end segment and volumes of Michelob ULTRA were up 20%. In mainstream brands, Bud Light lost 40bp market share and Budweiser 15bp, although both continued their trend improvement (albeit still down).
- Other areas were more or less in line with recent trends, with China down 2.3% in volumes in a market down 8%. In Canada, volumes fell low single digit, while Europe was flat but with net revenue growth of 4.6% (!!!) driven by growth in premium.
- The challenge from some shareholders wanting AB InBev to up its offer for SABMiller came to an end overnight. Some of these challengers including Allan Gray, Davidson Kempner Capital Management and Elliott Management Corp are among those prepared to back the revised offer for GBP45 per share (compared to GBP44 before).

	2015	2016e	2017e	2018e
Operating margin	31.6	31.1	33.3	34.7
Net margin	19.5	17.4	18.6	19.5
ROE	20.2	17.6	12.4	13.0
ROCE	10.1	10.1	10.0	8.3
Gearing	98.7	101.4	97.7	91.7

### 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

- News on regulatory approval in China and progress of the SABMiller offer

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NEUTRAL ratings 34.2%

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