

Heineken

Price EUR84.44

A superbe H1, but warning that H2 will be softer

Fair Value EUR90 vs. EUR83 (+7%)

BUY

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 67.9
Market Cap (EURm)	48,638
Ev (BG Estimates) (EURm)	63,024
Avg. 6m daily volume (000)	659.2
3y EPS CAGR	9.6%

Heineken deliver 4.7% organic revenue growth and 12.6% organic operating profit growth in H1. That implies a margin expansion of 124bps. Nevertheless the company is holding its full year forecast of 40bps margin expansion which is indicative of tougher comparables and currency headwinds. However, because of the strong first half figures we are increasing our fair price for the stock to EUR90 from EUR83.

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.9%	3.2%	5.5%	7.2%
Food & Bev.	3.7%	6.3%	2.2%	1.5%
DJ Stoxx 600	4.7%	0.1%	-0.1%	-6.5%

Heineken published this morning first half figures, delivering net revenues of EUR10,094m which was up 2% and organic 4.7%. It made an operating profit of EUR1,705m which was an increase of 10.1% compared to last year (organic growth of 12.6%).

ANALYSIS

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	21,053	21,891	22,572
% change		2.6%	4.0%	3.1%
EBITDA	4,975	5,184	5,587	5,979
EBIT	3,381	3,590	3,869	4,146
% change		6.2%	7.8%	7.2%
Net income	2,048	2,248	2,470	2,698
% change		9.8%	9.9%	9.2%

- The figures were a little weak on revenue (-2%) given a consensus forecast of EUR10,297 but much better on operating profits beating by 2.6% (consensus was EUR1,661m). However, they were significantly better than the ones that AB InBev published last week (organic revenue growth of 3.6% and organic EVIT growth of 1.2% and published figures of respectively -6% and -10.3%)
- Compared to the consensus expectations on revenue, the two regions that did not meet expectations was America and Europe, falling short by about 2-3% but Asia Pacific over delivered by about 5% (and Africa being more or less in line).
- Indeed Asia Pacific with 11.6% organic revenue growth and 30.9% organic operating profit growth was the strongest area for Heineken in the first half. The underlying momentum continued to be strong in Vietnam, Cambodia and China and in Indonesia, Heineken was up against weak comps as last year was adversely impacted by the minimart regulation change (no alcohol sale in minimarts).
- The weakest region was Africa Middle East and Eastern Europe (organic revenue growth of 1% and operating profit growth of -14.3%) were weak macro-economics (Nigeria, DRC, Russia) and tourism (Egypt) impact beer consumption.
- In the Americas organic revenue growth of 7.3% and operating profit growth of 20% were driven by high single digit volume growth in Mexico but also in the US depletions were positive (slightly for Heineken and Dos Equis but double digit for Tecate Light). US operating profit benefited from the lower import costs of the Mexican and Dutch brands.
- In Europe organic revenue growth was 2.4%, with revenue per hectolitre up 0.8%, following a strong innovation and premiumisation agenda. However, deflationary pressure and off trade pricing pressure resulted in limited pricing for the region. With higher priced innovation and premium products coupled with strong cost discipline resulted in an operating profit growth of 15.7%.
- For the full year 2016 Heineken confirms its expectation to deliver further organic revenue and profit growth, with margin expansion in line with the medium term margin guidance of a year on year improvement in operating profit (beia) margin of around 40bps. Given that margin expanded by 124bps in the first half, this does take into account that comparatives in the second half will get tougher and that currency headwinds will increase.

	2015	2016e	2017e	2018e
Operating margin	16.5	17.1	17.7	18.4
Net margin	10.0	10.7	11.3	12.0
ROE	15.1	15.3	15.4	15.4
ROCE	8.2	8.6	9.2	9.8
Gearing	86.0	73.7	60.3	47.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.92	4.31	4.71
% change	-	9.8%	9.9%	9.2%
P/E	23.6x	21.5x	19.6x	17.9x
FCF yield (%)	3.5%	3.9%	5.0%	5.6%
Dividends (EUR)	1.11	1.17	1.28	1.40
Div yield (%)	1.3%	1.4%	1.5%	1.7%
EV/Sales	3.1x	3.0x	2.8x	2.6x
EV/EBITDA	12.7x	12.2x	11.0x	9.9x
EV/EBIT	18.7x	17.6x	15.9x	14.3x



VALUATION

- Our fair value of EUR90 is based on a risk free rate of 1.6% and an equity risk premium of 7%.

NEXT CATALYSTS

- 26 October 2016: trading update Q3



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