

11th October 2016

Food & Beverages

## AB InBev

Price EUR115.05

Fox in the Hen House (report released today)

Fair Value EUR124 vs. EUR109 (+8%)

BUY vs. NEUTRAL

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 98.4
Market Cap (EURm)	185,028
Ev (BG Estimates) (EURm)	265,171
Avg. 6m daily volume (000)	1,420
3y EPS CAGR	6.3%

As the acquisition of SABMiller is finalised, there is already speculation on what the next target could be for AB InBev (AB InBev has an internal target to reach USD100bn in revenues by 2022). Although we believe that the case for Coca-Cola is stronger than that for PepsiCo, investors wanting to benefit from the transformation of AB InBev into a drinks company (from a brewer) are probably best to buy shares in AB InBev rather than those of any potential targets.

### ANALYSIS

- Given the obvious strengths of AB InBev in cost-cutting and distribution, and the limited remaining possibilities in beer, consolidation in soft drinks might be the next step for the company. AB InBev would become a drinks business, rather than just a brewer, delivering more self-help with the potential cost and revenue benefits of selling beer and soft drinks through the same distribution system.
- Soft drinks and beer seem to have the same profile in terms of growth (i.e. 5% p.a. over the medium term), drivers (population growth, rising incomes and middle classes) and profitability (PepsiCo Beverages and the Coca-Cola system has operating margins of respectively 14% and 16%, which compares well with any brewer). However, AB InBev does better with an operating margin of 31% in beer and has already the credentials to do the same in soft drinks (Brazil's soft drinks margin of 44%).
- We believe that the case for The Coca-Cola Company is more convincing than that for PepsiCo, as Coca-Cola is the stronger soft drinks brand and has plenty of opportunities to drive share growth in still non-alcoholic beverages. Furthermore, it offers additional prospects of buying out the bottlers (which have been separated from the main company) at much lower valuations. Integrating the entire Coca-Cola system sets AB InBev on its way to USD300bn in revenues by 2030.
- We are increasing our 2017 operating profit and EPS by about 4% to take into account the resurgence of some emerging market currencies against the USD (ytd BRL +25%, ZAR +20%, COP+15%). Our DCF-based fair value of EUR124 is computed using a risk free rate of 1.6%, a risk premium of 7.0% and a Beta of 0.95.

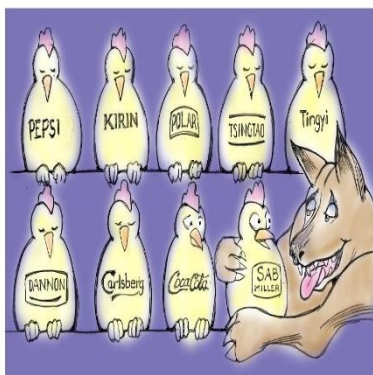
	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	-0.8%	7.7%	0.6%
Food & Bev.	-1.4%	-1.7%	2.2%	-1.8%
DJ Stoxx 600	-1.0%	4.5%	3.1%	-6.5%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	43,044	58,284	60,870
% change		-1.3%	35.4%	4.4%
EBITDA	16,921	16,643	23,847	25,688
EBIT	13,768	13,565	19,891	21,609
% change		-1.5%	46.6%	8.6%
Net income	8,513	7,532	11,123	12,210
% change		-11.5%	47.7%	9.8%

	2015	2016e	2017e	2018e
Operating margin	31.6	31.5	34.1	35.5
Net margin	19.5	17.5	19.1	20.1
ROE	20.2	17.5	12.9	13.5
ROCE	10.1	10.1	10.4	8.6
Gearing	98.7	101.7	97.0	89.5

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.52	5.58	6.12
% change		-11.5%	23.5%	9.8%
P/E	25.2x	28.4x	23.0x	21.0x
FCF yield (%)	3.6%	3.0%	5.4%	4.9%
Dividends (USD)	2.68	2.37	2.93	3.21
Div yield (%)	2.1%	1.8%	2.3%	2.5%
EV/Sales	6.7x	6.9x	5.8x	5.5x
EV/EBITDA	17.2x	17.8x	14.1x	13.0x
EV/EBIT	21.1x	21.8x	16.9x	15.4x

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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