

AB InBev

Price EUR112.10

Poor Q3 and full year outlook lowered

Fair Value EUR120 vs. EUR124 (+7%)

BUY

Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	123.3 / 100.6
Market Cap (EURm)	189,812
Ev (BG Estimates) (EURm)	271,706
Avg. 6m daily volume (000)	1 450
3y EPS CAGR	6.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-0.9%	-0.9%	-2.0%
Food & Bev.	-4.0%	-3.9%	-0.8%	-3.5%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

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	24.0x	27.1x	21.9x	20.0x
FCF yield (%)	3.8%	3.2%	5.7%	5.2%
Dividends (USD)	2.68	2.37	2.93	3.21
Div yield (%)	2.2%	1.9%	2.4%	2.6%
EV/Sales	6.7x	6.9x	5.8x	5.5x
EV/EBITDA	17.2x	17.8x	14.2x	13.0x
EV/EBIT	21.2x	21.9x	17.0x	15.4x

AB InBev published this morning underwhelming quarterly figures with organic volume decline of 0.9%, revenue growth of 2.8% and a 2% decline in EBITDA. The area of particular weakness is Brazil for which also the full year outlook has been lowered. Our initial reaction is that it will impact our earnings forecasts by about 3%, which will also be reflected in our fair price that we provisional lower to EUR120 from EUR124.

Organic volume decline for AB InBev at 0.9% in Q3 is well below the 2% growth that Heineken managed. Furthermore the SABMiller business that was retained (not yet consolidated) suffered a 3% organic volume decline.

ANALYSIS

- The area of particular weakness for AB InBev was Brazil where volumes fell organic by 5.1% in the quarter (in a market down 3%). The biggest disappointment here was that net revenue declined by 6.8% in the quarter, with net revenue per hl down 1.2% as the company is more price competitive to attract consumers (and to counter competitive price pressures). Also the move to returnable bottles (now 25% of volumes in supermarkets) did put additional pressure on revenue per hl although it is accretive for both EBITDA and margin. For the full year AB InBev do no longer expect to achieve flat net revenue in Brazil for the full year, given the environment of soft industry volumes and tough 4Q15 net revenue per hl comparable (i.e. 10.7%!).
- Furthermore, also the US market is an area of disappointment with organic volume decline of 2.5% in the quarter. AB InBev's sales to retailers were down 1.9% in the first 9 months compared to an industry decline of 0.8%. However pricing was healthy with US beer-only revenue per hl growing by 2.3% in the quarter and by 1.8% in 9M16. Despite the slight decline in overall revenue, EBITDA margin was up by 48 bps to 40.6% in 3Q16 and by 76 bps to 40.6% in 9M16, driven by favorable commodity prices and brewery efficiencies.
- In the other 3 areas (Europe, Asia and Mexico) operational performance was ok but not enough to offset the negative messages from Brazil and US. In Europe organic volume declined by 3.2%, but with very strong price/mix of 6.3% delivering organic growth in EBITDA of 2.5%. In Asia organic volumes were up 1.2% and with further price/mix increase of 3.8%, organic EBITDA growth was 16.8%. In Mexico organic volume growth was 9.6% in the quarter, and revenue per hl growth of 2.2%. This partially offset the increased A&P spend, and unfavorable foreign exchange transactional hedges affecting cost of sales. As a result EBITDA margin declined by 263 bps to 43.9%.
- For SABMiller, organic volumes declined by 3% in the quarter with Asia (Australia) down 5%, Africa down 3% (mainly because of South Africa and Mozambique whereas Nigeria, Tanzania and Zambia delivered growth), Latam down 1% (earthquake in Ecuador and transport strike in Colombia).

VALUATION

- Our DCF based fair valuation of AB InBev is based on a risk free rate of 1.6% and equity risk premium of 7%. This result in a fair price of EUR124 which we lowered today to EUR120 anticipating that we will have to lower our earnings forecasts given the persistent weakness in Brazil.

NEXT CATALYSTS

- 28 October 15.00 CET: Q3 call
- End of February: full year results

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