

26th October 2016

Food & Beverages

# Heineken

Price EUR79.00

**Strong delivery in Q3**

**Fair Value EUR88 (+11%)**

**BUY**

**Heineken reported this morning organic volume growth of 2% (5.4% reported), which was well ahead of our expectation of 0.1% and Bloomberg consensus that seems to have ticked up in the last couple of days to 1.6% (helped by positive reports on the weather in Europe in September). The recent stock underperformance mostly due to concerns over tough y/y comps, especially in Europe and the weakness in Nigeria are in our view overdone and miss the strong geographic diversification and gearing towards the higher growth premium beer category (about 60% of operating profit).**

In Q3, the positive momentum continued in Mexico and Vietnam while the warm weather September helped the performance in Western Europe in the quarter (despite +7% volume growth comps in Q3 2015).

### ANALYSIS

- The region with the strongest growth was Asia Pacific with 15.1% (Q3 consensus of 11.6% vs 19.4% in H1 and 16% in Q2) organic volume growth as the underlying momentum continued to be strong in Vietnam, Cambodia, China and in Indonesia (comps were weaker in H1 when the impact of the minimart regulation change (no alcohol sale in minimarts) was bigger).
- The weakest region was Africa Middle East and Eastern Europe with organic volume decline of 3.6% (Q3 consensus of -2.7% vs -1.2% in H1 and -5.9% in Q2) where weak macro-economics (Nigeria, DRC, Russia) and tourism (Egypt) continue to impact beer consumption.
- In the Americas organic volume growth of 3% (Q3 consensus of 3.4% vs 4.7% in H1 and 1.6% in Q2) 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). The Heineken brand continues to do grow double digit in Brazil (although total volumes declined mid-single digit).
- In Europe organic volume growth of 0.6%, (Q3 consensus of -0.4% vs 2.3% in H1 and 2.4% in Q2) was much better than I anticipated (-5%) as good September weather and improved macro economics (tourism) in Spain and Italy mitigated the high comparables of Q3 2015 (+7%). For me the biggest surprise was the flat volumes in Poland which seem to indicate that market is turning the corner.
- Despite its good performance figures over the past 3 quarters, Heineken leaves its 2016 outlook unchanged, which is that it expects 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. However, already in H1, Heineken delivered 4.7% organic revenue growth (4.1% organic volume growth) and 12.6% organic operating profit growth. That was implying a margin expansion of 124bps. Nevertheless the company is holding its full year forecast of 40bps margin expansion which was indicative of tougher comparables and currency headwinds.

### VALUATION

- Our fair value of EUR90 is based on a risk free rate of 1.6% and an equity risk premium of 7%. In our model we have for the full year 2.1% organic revenue growth (of which 1.5% volume growth) and 5.8% organic operating profit growth, which might seem conservative given the YTD 3.3% organic volume growth. The company updated the negative currency impact for the full year to EUR215m, which is close to our estimate of EUR198m

### NEXT CATALYSTS

- 25 November: seminar
- 14 February: full year results

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Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 71.1
Market Cap (EURm)	45,504
Ev (BG Estimates) (EURm)	59,355
Avg. 6m daily volume (000)	641.3
3y EPS CAGR	8.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	-6.0%	-2.7%	0.3%
Food & Bev.	-3.8%	-4.5%	-1.1%	-3.5%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	20,530	21,033	21,595
% change		0.1%	2.4%	2.7%
EBITDA	4,975	5,080	5,412	5,760
EBIT	3,381	3,486	3,694	3,932
% change		3.1%	6.0%	6.4%
Net income	2,048	2,158	2,385	2,586
% change		5.4%	10.5%	8.4%

	2015	2016e	2017e	2018e
Operating margin	16.5	17.0	17.6	18.2
Net margin	10.0	10.5	11.3	12.0
ROE	15.1	14.7	15.0	14.9
ROCE	8.2	8.3	8.8	9.4
Gearing	86.0	74.8	61.9	49.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.77	4.16	4.51
% change	-	5.4%	10.5%	8.4%
P/E	22.1x	21.0x	19.0x	17.5x
FCF yield (%)	3.7%	3.8%	5.1%	5.8%
Dividends (EUR)	1.11	1.12	1.24	1.34
Div yield (%)	1.4%	1.4%	1.6%	1.7%
EV/Sales	2.9x	2.9x	2.7x	2.6x
EV/EBITDA	12.1x	11.7x	10.6x	9.7x
EV/EBIT	17.7x	17.0x	15.5x	14.2x



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## Distribution of stock ratings

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