

Heineken

Price EUR76.27

Buy recommendation confirmed**Fair Value EUR88 (+15%)****BUY**

Bloomberg	HEIA.NA
Reuters	HEIN.AS
12-month High / Low (EUR)	85.2 / 71.1
Market Cap (EUR)	43,932
Ev (BG Estimates) (EUR)	58,247
Avg. 6m daily volume (000)	654.3
3y EPS CAGR	6.8%

Despite a good trading update for Q3 2016, the shares fell by nearly 4%, which we believe is unjustified. The shares are now roughly unchanged over the past 12 months despite positive surprises on the 2015 numbers, Q1 2016 trading update, H1 2016 results and Q3 2016 trading update.

Disappointment on an unchanged outlook of operating margin expansion of 40bps (after 124bps margin growth at the half year and good volume growth in Q3), caused some weakness in the Heineken shares after the Q3 trading statement. The shares are now roughly unchanged over the past 12 months despite positive surprises on the 2015 numbers, Q1 2016 trading update, H1 2016 results and Q3 2016 trading update.

ANALYSIS

- We believe that the drop in the shares after the Q3 trading statement is unjustified. Organic volume growth of 2% (5.4% reported), was well ahead of our expectation of 0.1% and Bloomberg consensus which 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 regions that showed the strongest growth were Asia-Pacific with 15.1% and the Americas with 3%. In Asia-Pacific, the underlying momentum remained 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). In the Americas, the slightly disappointing message came from the US where volumes were down as the growth in Tecate did not offset the decline in Heineken Light volumes. But in Mexico volume growth was in the high single digits and the Heineken brand continued to enjoy double-digit growth in Brazil (although total volumes declined mid-single digits).
- Probably the most surprising number was from Europe where volume of 0.6% came on top of high comparables of 7% in Q3 2015, driven by good September weather and an improved macro environment (tourism) in Spain and Italy mitigated declines in Romania, Austria and the UK. In Africa, Middle East and Eastern Europe, organic consolidated beer volume declined 3.6% as weak volume trends in Russia, Egypt and the DRC, more than offset growth in Nigeria, Ethiopia and Algeria.
- Following on from the company's Q3 number, we leave our revenue and operating profit expectations unchanged and look for organic revenue growth of 2.1% (of which organic volume growth of 1.5%) and organic operating profit growth of 5.8%. We believe these numbers to be conservative in the light of the year to date organic volume growth of 3.3%. Below the operating profit line, we are lowering financial expenses but increasing the tax rate that we apply to 28% from 27%. The net result is a 2% lower adjusted EPS at EUR3.67 to EUR3.77.

VALUATION

- We leave our DCF based fair value of EUR88 unchanged and base it on a risk free rate of 1.6% and a risk premium of 7%.

NEXT CATALYSTS

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

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-9.0%	-6.7%	-3.2%
Food & Bev.	-4.0%	-3.9%	-0.8%	-3.5%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

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	2,103	2,302	2,494
% change		2.7%	9.5%	8.4%

	2015	2016e	2017e	2018e
Operating margin	16.5	17.0	17.6	18.2
Net margin	10.0	10.2	10.9	11.6
ROE	15.1	14.4	14.5	14.5
ROCE	8.2	8.1	8.6	9.1
Gearing	86.0	75.2	62.6	50.4

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.67	4.02	4.35
% change	-	2.7%	9.5%	8.4%
P/E	21.3x	20.8x	19.0x	17.5x
FCF yield (%)	3.9%	3.8%	5.1%	5.8%
Dividends (EUR)	1.11	1.09	1.20	1.30
Div yield (%)	1.4%	1.4%	1.6%	1.7%
EV/Sales	2.8x	2.8x	2.7x	2.5x
EV/EBITDA	11.7x	11.5x	10.4x	9.5x
EV/EBIT	17.3x	16.7x	15.3x	13.9x



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Distribution of stock ratings

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SELL ratings 11.5%

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