14th December 2016

Food & Beverages

AB InBev

Price EUR99.08

Currencies continue to drag earnings estimates down

Fair Value EUR107 vs. EUR109 (+8%) **BUY**

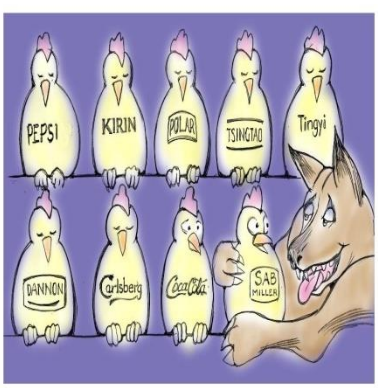
Bloomberg	ABI BB
Reuters	ABI.BR
12-month High / Low (EUR)	118.8 / 93.8
Market Cap (EUR)	167,766
Ev (BG Estimates) (EUR)	248,287
Avg. 6m daily volume (000)	1 705
3y EPS CAGR	3.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	-9.3%	-9.7%	-13.4%
Food & Bev.	4.1%	-4.3%	-0.9%	-6.1%
DJ Stoxx 600	5.9%	5.5%	9.4%	-2.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	43,604	41,960	55,279	57,526
% change		*-3.8%*	*31.7%*	*4.1%*
EBITDA	16,921	15,616	21,871	24,273
EBIT	13,768	12,538	17,920	20,200
% change		*-8.9%*	*42.9%*	*12.7%*
Net income	8,513	6,933	9,785	11,313
% change		*-18.6%*	*41.1%*	*15.6%*

	2015	2016e	2017e	2018e
Operating margin	31.6	29.9	32.4	35.1
Net margin	19.5	16.5	17.7	19.7
ROE	20.2	16.6	11.5	12.8
ROCE	10.1	9.4	9.4	8.1
Gearing	98.7	109.1	101.9	96.3

(USD)	2015	2016e	2017e	2018e
EPS	5.10	4.16	4.91	5.67
% change	-	*-18.6%*	*18.1%*	*15.6%*
P/E	20.7x	25.4x	21.5x	18.6x
FCF yield (%)	4.4%	3.2%	5.8%	5.4%
Dividends (USD)	2.68	2.68	2.58	2.98
Div yield (%)	2.5%	2.5%	2.4%	2.8%
EV/Sales	6.0x	6.3x	5.5x	5.3x
EV/EBITDA	15.5x	16.9x	14.0x	12.5x
EV/EBIT	19.1x	21.1x	17.1x	15.0x



As the company's Q3 results suffered from the 35% lower BRL in Q3 2015 (hedged one year out), Q4 should suffer to the same extent. This was not properly reflected in our earnings forecasts (nor the consensus) and we have therefore lowered Q4 estimates by 8% and FY 2016 figures by 2%. We have also lowered our DCF based Fair Value by 2% to EUR107.

Last week we went on a reverse roadshow and visited amongst others AB InBev. The company highlighted the fact that Q4 numbers will be negatively impacted by hedges on BRL (currency hedged one year out), which already caused the earnings miss in Q3. But for the rest we found a lot of optimisme around the Trump election (good for construction workers drinking beer) and the opportunities for beer consumption growth in Africa.

ANALYSIS

- Q4 consensus too optimistic: The Q3 earnings miss (EBITDA came in at USD4.03bn vs. consensus of USD4.43bn (9% miss) was for 80% due to underestimates of the transactional impact of the BRL devaluation. Because AmBev (the Brazilian subsidiary) hedges their USD input costs (40% of the total cost base) 12 months in advance, the margin pressure came from the 35% decline in the BRL in Q3 2015 and not from the 9% increase in the BRL in Q3 2016. As the BRL declined by a similar 35% in Q4 2015, the margin pressure will continue into Q4 2016 and consensus forecasts do not seem to take this into account. We have updated our model to properly include this margin pressure and as a consequence have downgraded Q4 group operating profit by 8% and full year figures by 2%. Our Q4 2016 figures including SABMiller is now USD5,040m which is 6.5% below IBES consensus USD5,394m.
- Bud Light is the biggest challenge in the US. Donald Trump's win could spell good news for US beer consumption as, according to the company, there is a strong link with jobs in the construction sector. With AB InBev well-positioned in the premium segment and gaining share (Stella Artois and the craft beer portfolio), and in the value segment, all market share losses that the company is suffering come from Budweiser and Bud Light's positions in the mainstream. With Budweiser's decline in market share now down to 20 bps, Bud Light remains the challenge. The company will try another new positioning of Bud Light, associating it with edgy humour, sport, music and heritage. By the end of 2017, one could hope for the first results.
- Diverse sources of growth: There is still decades of growth in Africa left. In Africa, 80 percent of alcohol consumption is illicit alcohol, so as the market formalises and becomes more brand driven, there is plenty of growth that can come from switching from illicit to branded beer (x5). Other volume opportunities are in Latin America (beer consumption in San Paolo is 100l per head but only 40l in the north of Brazil), in Asia (still volume opportunity in China, although price opportunity is bigger – an additional 1 l consumption from the current 3l pcc would add 1 bn litres of beer). In mature markets, the company is looking to enhance its portfolio of alcohol-free or low alcohol beers (less than 3.5degr.), which currently are 6% of the portfolio but could increase to 20% by 2025.
- Selling assets at 22x EBITDA: Yesterday, AB InBev announced it is selling the Central and Eastern European businesses (Poland, the Czech Republic, Slovakia, Hungary and Romania) formerly owned by SABMiller to Asahi. The agreed price of USD7.76bn is an estimated 22x trailing EBITDA which is fully in line with the multiple that Asahi paid for the PMG (Pernoni, Meantime and Grolsch) business also from SABMiller.

VALUATION

- Our Fair Value is based on a DCF using a risk free rate of 1.6% and a risk premium of 7%.

NEXT CATALYSTS

- In the coming days we expect the company to publish a new reference base including SABMiller.

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