22nd December 2016

Food & Beverages

Heineken

Price EUR71.28

Recent trading in line with expectations

Fair Value EUR83 (+16%) **BUY**

Bloomberg	HEIA NA
Reuters	HEIN.AS
12-month High / Low (EUR)	84.4 / 68.0
Market Cap (EUR)	41,057
Ev (BG Estimates) (EUR)	54,601
Avg. 6m daily volume (000)	731.2
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	-8.6%	-11.8%	-9.5%
Food & Bev.	4.0%	-5.7%	-3.8%	-6.0%
DJ Stoxx 600	6.0%	5.3%	6.0%	-1.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	20,511	20,579	21,019	21,581
% change		*0.3%*	*2.1%*	*2.7%*
EBITDA	4,975	5,054	5,331	5,645
EBIT	3,381	3,460	3,613	3,816
% change		*2.3%*	*4.4%*	*5.6%*
Net income	2,048	2,084	2,244	2,412
% change		*1.8%*	*7.7%*	*7.5%*

	2015	2016e	2017e	2018e
Operating margin	16.5	16.8	17.2	17.7
Net margin	10.0	10.1	10.7	11.2
ROE	15.1	14.3	14.2	14.1
ROCE	8.2	8.0	8.4	8.9
Gearing	86.0	75.3	62.8	50.6

(EUR)	2015	2016e	2017e	2018e
EPS	3.57	3.64	3.92	4.21
% change	-	*1.8%*	*7.7%*	*7.5%*
P/E	19.9x	19.6x	18.2x	16.9x
FCF yield (%)	4.1%	4.0%	5.3%	6.0%
Dividends (EUR)	1.11	1.08	1.17	1.25
Div yield (%)	1.6%	1.5%	1.6%	1.8%
EV/Sales	2.7x	2.7x	2.5x	2.4x
EV/EBITDA	11.2x	10.8x	9.9x	9.1x
EV/EBIT	16.4x	15.8x	14.6x	13.4x

We believe that European operations were under slightly more pressure in Q4, but that should be offset by better African trends (easy comps), whereas the trends in both Americas and Asia Pacific remained strong. For 2016, we look for organic revenue growth of 2.3% and organic operating profit growth of 5.0%. This would be a marked slowdown on the 4.7% and 12.6% that the company delivered for H1 2016, due to tough comps in Europe in the second part of the year and increasing currency headwinds. For the full year, we look for a 40bps margin improvement to 17.2% from 16.8%.

We had a pre-close call with Heineken which, on the basis of the recent October and November figures, confirmed that for 2016 the company expects to deliver organic revenue and profit growth. Margin expansion should be in line with the medium-term margin guidance of a year-on-year improvement in operating profit margin of around 40bps. This takes into account the tough comparatives and increasing currency headwinds in the second half of the year.

ANALYSIS

- We believe that European operations were under slightly more pressure in Q4, but that should be offset by better African trends (easy comps), whereas the trends in both Americas and Asia Pacific remained strong. For 2016, we look for organic revenue growth of 2.3% and organic operating profit growth of 5.0%.
- After Heineken surprised in Q3 with a strong 0.6% organic volume growth in Europe, Q4 seems set to come in weaker (even in negative territory) with soft demand in the UK, Poland and the Netherlands. For the full year, we estimate the company can achieve organic volume growth of 1.5% and deflation pressures to balance the ongoing premiumisation delivering very weak price/mix.
- In Africa, the company enjoys easy comps, but the underlying conditions in Nigeria, DRC, and Egypt remain challenging. A price increase in Nigeria in September was immediately followed by ABI/SABMiller and Diageo who do not have the same scale as Heineken (and should be close to loss making). For 2016, we expect flattish organic revenue growth but because most of the imported costs are in USD (about 60% of COS), we look for a significant 470bps margin pressure.
- In Americas and Asia, the positive trends from first half and Q3 seem to continue. In Asia the momentum is strongly driven by Vietnam and Cambodia, with Indonesia and China a little softer. Overall we expect organic volume growth in Asia Pacific of 14% which should create leverage for operating profit growth and we look for margin expansion of 180bps. In the Americas the slightly disappointing message keeps coming 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 seems to continue at high single digit and the Heineken brand continued to grow double digit in Brazil (although total volumes declined mid-single digit). On Brazil, Heineken does warn for unseasonable cold weather on top of the tough trading conditions.

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

- 14 February 2017: full year results

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