

Consumer, Brands & Retail

19th March 2019

AB INBEV

Consumer, Brands & Retail
Brewers

BUY

Fair Value EUR100(+41%)
Share price EUR72.36
EPS 3Y Cagr 13.3%

Mexico, Asia Pacific IPO and deleveraging

Opportunity to grow share in Mexico

When Heineken bought Femsá Cerveza in 2010, it was granted 10 years exclusivity to sell beers in Femsá's Oxxo stores. And as those store numbers grew from 8,409 in 2010 to over 17,500 in 2018, they were very instrumental in Heineken's performance in Mexico and now account for about 25% of Heineken's Mexican volumes (and 10% of the total beer market). According to a new agreement starting April 2019 and Oxxo gradually also start selling the beer brands of AB InBev, and cover the entire Mexican territory by the end of 2022. The two markets that open up in April are Guadalajara and Mexico City, which represent 15% of the Oxxo store total. Currently AB InBev's share in the Oxxo stores is 0% while ex. Oxxo, AB InBev has a 63% share of the market. With Oxxo opening up, AB InBev could potentially increase its share of the Mexican market to 63% from the current 57%. That would boost AB InBev's revenues and profitability in Mexico and put a significant dumper on growth in Heineken's largest market. Mexico is 9% of AB InBev volumes and 14% for Heineken.

Asia Pacific IPO - no comment on speculation but...

AB InBev does not comment on speculation. However, Filipe Dutra, AB InBev' CFO commented "If we ever consider such a thing, I think the merits are more in terms of creating a platform for future M&A through establishing a local champion. Yes, that could potentially help deleveraging too, but given the pace of deleveraging at the current liquidity levels, that would never be the main rationale for such a thing". AB InBev has already different separately quoted companies like Ambev in Brazil which is for 61.88% or International Breweries in Nigeria, held for 75.1%, which do help with local corporate affairs. Furthermore a separate APAC vehicle could offer Asian based families and governments a local vehicle in which they could meaningfully participate, while at the larger AB InBev level their input and interest might be diluted. At Bryan Garnier we find that over 60% of the beer revenue growth in next 20 years comes from Asia, which is already the largest beer market in terms of volumes (38%) and value (30%). AB InBev's share in Asia is only 14% whereas it is 63% in Latin America and 43% in North America. Potential acquisition targets for AB InBev include Tsingtao, Kirin, Zhujiang Beer Group, San Miguel Corporation, Habeco, Boon Rawd, etc.

Path to delivering of half a turn p.a.

Free cash flow generation after dividend payments would allow for deleveraging the company half a turn p.a. but with currency fluctuations that can go from 0.2x to 0.7x. In 2018 the company lowered its net debt/EBITDA from 4.8x to 4.6x but did not yet get the benefit of the dividend cut as the full 2017 dividend was paid. With the recent USD16.3bn refinancing, the company replaced a significant portion of its near term bond maturities with longer-dated debt, eliminating any refinancing pressure. Furthermore, the average maturity of the debt is 14 years, 96% of the debt is at fixed interest rates and carries a manageable coupon of 3.75% to 4.00%.

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Market Data

Bloomberg / Reuters	ABI BB/ABI.BR
Market Cap.	EUR122,523m
E.V.	EUR287,695m
Free Float	39.3
Avg. Daily volume (6m)	2,237
12m high / low	91.8 / 57.4
Ytd Perf.	25.4%

USDm	12/18	12/19e	12/20e	12/21e
Sales	54,619	55,121	56,861	58,840
% Change		0.9%	3.2%	3.5%
EBITDA	22,081	22,454	23,496	24,534
% Change		1.7%	4.6%	4.4%
EBIT	17,821	18,206	19,125	20,036
% Change		2.2%	5.0%	4.8%
Net Income	6,793	8,427	9,154	9,870
% Change		24.1%	8.6%	7.8%
ROE	0.11	0.13	0.13	0.14

	12/18	12/19e	12/20e	12/21e
EV/Sales	5.3x	5.2x	5.0x	4.7x
EV/EBITDA	13.2x	12.8x	12.0x	11.3x
EV/EBIT	16.3x	15.8x	14.7x	13.9x
EPS	3.38	4.19	4.55	4.91
% change		24.1%	8.6%	7.8%
P/E	24.3x	19.6x	18.0x	16.7x
Div Yield	1.9%	1.9%	1.9%	1.9%

Next Catalyst : 7 May 2019: Q1 results

Last rating Change:

[2018-3-2, Model maintenance post results](#)

Last FV Change:

[2018-10-26, Model maintenance post results](#)

Last Reports:

[2019-3-6, Battle for the Middle Kingdom](#)

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Fair Value	EUR100(+41%)
Share price	EUR72.36
Market Cap.	EUR122,523m
EPS 3Y CAGR	13.3%

Fiscal year end 31/12	2017	2018	2019e	2020e	2021e
Financial Summary					
EPS	3.98	2.17	4.12	4.48	4.83
Restated EPS	3.96	3.38	4.19	4.55	4.91
% change	43.3%	-14.8%	24.1%	8.6%	7.8%
EPS bef. GDW	3.96	3.38	4.19	4.55	4.91
BVPS	36.83	32.65	33.61	34.87	36.44
Operating cash flows	10.47	10.48	11.07	11.58	12.10
FCF	4.62	4.36	4.76	5.21	5.66
Net dividend	2.89	1.54	1.54	1.54	1.54
Average Number of shares	(2,010)	(2,011)	(2,011)	(2,011)	(2,011)
Historical EV	(368,419)	(320,174)	-	-	-
Valuation (x)					
EV/Sales	6.53	5.86	4.31x	4.08x	3.87x
EV/EBITDA	20.68	17.97	10.57x	9.88x	9.29x
EV/EBIT	20.68	17.97	13.04x	12.14x	11.37x
P/E	29.02	27.07	19.58x	18.02x	16.72x
FCF yield (%)	4.0%	4.8%	17.25x	15.75x	14.50x
Net dividend yield (%)	2.5%	1.7%	1.9%	1.9%	1.9%
Simplified Profit & Loss Account (USDm)					
Revenues	56,444	54,619	55,121	56,861	58,840
Change (%)	24.0%	-3.2%	0.9%	3.2%	3.5%
Adjusted EBITDA	22,084	22,081	22,454	23,496	24,534
EBIT	17,814	17,821	18,206	19,125	20,036
Change (%)	34.2%	0.0%	2.2%	5.0%	4.8%
Financial results	-6,507	-8,729	-5,290	-5,113	-4,932
Pre-Tax profits	11,307	9,092	12,916	14,012	15,104
Exceptionals	-662	-715	-200	-200	-200
Tax	-1,920	-2,839	-3,179	-3,453	-3,726
Profits from associates	430	153	161	169	177
Minority interests	-1,187	-1,323	-1,420	-1,524	-1,635
Net profit	7,968	4,368	8,277	9,004	9,720
Restated net profit	7,967	6,793	8,427	9,154	9,870
Change (%)	64.2%	-14.7%	24.1%	8.6%	7.8%
Cash Flow Statement (USDm)					
Operating cash flows	21,051	21,073	22,254	23,296	24,334
Change in working capital	219	512	2,360	2,677	1,144
Capex, net	-4,388	-4,821	-4,218	-4,252	-4,298
Free Cash flow	9,181	9,139	12,087	13,323	12,699
Financial investments, net	12,036	-68	0	0	0
Dividends	-9,275	-7,761	-7,946	-8,141	-8,346
Other	-7,701	-7,625	-8,309	-8,398	-8,481
Net debt	104,490	102,606	98,465	93,283	88,930
Balance Sheet (USDm)					
Tangible fixed assets	27,184	25,910	26,376	26,754	27,050
Intangibles assets	186,814	178,142	177,646	177,150	176,654
Cash & equivalents	12,009	7,308	7,308	7,308	7,308
current assets	13,618	13,134	13,139	12,701	12,849
Other assets	6,501	7,609	7,609	7,609	7,609
Total assets	246,126	232,103	232,078	231,522	231,470
L & ST Debt	116,499	109,914	105,773	100,591	96,238
Others liabilities	57,043	57,702	59,930	62,056	63,266
Minority interests	7,635	7,418	7,280	7,169	7,086
Shareholders' funds	72,584	64,487	66,375	68,875	71,965
Total Liabilities	246,126	232,103	232,078	231,522	231,470
Capital employed	200,382	197,742	191,080	188,488	186,418
Financial Ratios					
Operating margin	31.6%	32.6%	33.0%	33.6%	34.1%
Tax rate	25.8%	27.4%	25.0%	25.0%	25.0%
Net margin	14.1%	12.4%	15.3%	16.1%	16.8%
ROE (after tax)	11.0%	10.5%	12.7%	13.3%	13.7%
ROCE (after tax)	6.60%	6.54%	7.15%	7.61%	8.06%
Gearing	3%	39%	51%	55%	58%
Pay out ratio	73%	46%	37%	34%	31%

Source: Company Data; Bryan, Garnier & Co ests.



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