

5th March 2019

HEINEKEN

Consumer, Brands & Retail
Brewers

BUY

Fair Value EUR100 vs. EUR95 (+12%)
Share price EUR89.16
EPS 3Y Cagr NM

Model maintenance

Model maintenance: increasing 2019 OP expectation by 5.2%

Whereas 2018 revenues were in line with our expectations, operating profit came in 3% better driven by a better level of profitability in the Africa and European units. Adjusting the 2018 base in these two zones, together with an improved currency mix impact (now estimated to be positive by up to EUR60m), drives our increased 5.2% operating profit expectations for 2019 and 3.9% for 2020. The figures also include faster top-line growth (1.8% in 2019 and 2.1% in 2020) mainly driven by the Americas zone. In Brazil, 2018 beer volumes grew double digit but only low-single digit in the last quarter as supply chain constraints and a back-office systems migration impacted operations. This issue should be solved and sets the company up for another strong performance in Brazil and the Americas region.

Management incentives geared towards top-line growth

Management's short term incentives were 25% weighted each in 2017: organic sales growth, organic net profit, free cash flow and individual leadership measures. For 2018 that changed to a 35% weighting for organic sales growth and 15% for organic net profit growth. And what is maybe even more interesting is that with organic sales growth of 6.1%, management scored "only" between target and maximum, indicating that the board is even more ambitious on top-line growth.

The bad news: gradual loss of exclusivity at Oxxo

In Mexico, Heineken distributes beer in exclusivity through the Oxxo chain (owned by Femsa) and the chain represents 25% of its Mexican volumes. This exclusivity will be faded out over the next five years as Oxxo will gradually start stocking other beer brands. From April 2019, the large metropolitan area of Mexico City will already open up and AB InBev is very excited to enter that region. AB InBev has a 57% share of the Mexican market compared to 41% for Heineken. Undoubtedly the opening up of the Oxxo stores will lead to a loss of market share for Heineken and we calculate that the swing could be as big as 6% potentially leading to AB InBev with a market share of 64% and Heineken of 35%.

Market Data

Market Data	HEIA NA/HEIN.AS
Bloomberg / Reuters	HEIA NA/HEIN.AS
Market Cap.	EUR51,356m
E.V.	EUR51,356m
Free Float	41.4
Avg. Daily volume (6m)	729.8
12m high / low	93.5 / 75.1
Ytd Perf.	15.5%

EURM	12/18	12/19e	12/20e	12/21e
Sales	23,676	24,545	25,452	NM
% Change		3.7%	3.7%	-100.0%
EBITDA	5,841	6,195	6,584	NM
% Change		6.1%	6.3%	-100.0%
EBIT	4,161	4,458	4,773	NM
% Change		7.2%	7.0%	-100.0%
Net Income	2,619	2,858	3,111	NM
% Change		9.1%	8.9%	-100.0%
ROE	0.17	0.17	0.17	NM

	12/18	12/19e	12/20e	12/21e
EV/Sales	2.7x	2.5x	2.4x	
EV/EBITDA	10.9x	10.1x	9.2x	
EV/EBIT	15.4x	14.0x	12.7x	
EPS	4.59	5.01	5.45	NM
% change		9.1%	8.9%	-100.0%
P/E	19.4x	17.8x	16.4x	NS
Div Yield	1.7%	1.8%	2.0%	

Next Catalyst: 24th April 2019: Q1 trading update

Last rating Change:

2016-2-10, Strong 2015 and positive outlook Last FV Change:

2018-7-30, Strong H1 topline but disappointing operating profit

Last Reports:

2019-2-13, Heineken results in line

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Recap: 2018 delivered strong revenue growth, but no operating leverage

In 2018, Heineken showed a strong top-line performance with robust volume growth throughout the year (4.4% in H1 and 3.7% in H2), and net revenue accelerating in the second half (6.5% in H2 vs 5.6% in H1) driven by price mix. Full year organic revenue growth was 6.1% of which 4.2% volume growth. There was no operating leverage for Heineken in 2018 with EBIT margin of 17.2% declining 17bps. Indeed, operating profit (beia) increased 6.4% organically, at a faster rate in the second half of the year (H2 2018: 11.1%) than in the first (H1 2018: 1.3%) driven by higher revenue growth and overall slower growth of expenses despite continued pressure from higher input and logistics costs. Including consolidation, currency, and exceptional items, most notably an impairment in the Congo in 2018 and exceptional gains and benefits in 2017 (due to the sale of non-beer and cider wholesale operations in the Netherlands), operating profit declined 6.4% to EUR3,868m which was also in line with the consensus of EUR3.84bn.

2019 outlook: mid-single digit operating profit growth

For 2019, Heineken expects operating profit (beia) to grow mid-single digit on an organic basis, assuming “superior” top-line growth driven by volume, price and premiumisation, a mid-single digit increase in input and logistic costs per hectolitre on an organic basis and continued cost management and productivity initiatives. We are expecting organic revenue growth of 4% in 2019 and an EBIT margin of 17.3%.

HEINEKEN

BUY

Fair Value	EUR100 vs. EUR95 (+12%)
Share price	EUR89.16
Market Cap.	EUR51,356m
EPS 3Y CAGR	NM

Simplified Profit & Loss Account (EURm)	2017	2018	2019e	2020e	2021e
Revenues	21,888	22,471	23,676	24,545	25,452
Change (%)	5.3%	2.7%	5.4%	3.7%	3.7%
Adjusted EBITDA	5,346	5,561	5,841	6,195	6,584
EBIT	3,759	3,868	4,161	4,458	4,773
Change (%)	6.2%	2.9%	7.6%	7.2%	7.0%
Financial results	-519	-495	-485	-444	-400
Pre-Tax profits	3,240	3,373	3,676	4,014	4,373
Exceptionals	-407	-731	-384	-380	-376
Tax	-755	-757	-889	-981	-1,079
Profits from associates	75	210	185	200	216
Minority interests	-218	-192	-250	-273	-297
Net profit	1,935	1,903	2,338	2,580	2,837
Restated net profit	2,247	2,424	2,619	2,858	3,111
Change (%)	7.1%	7.9%	8.0%	9.1%	8.9%
Cash Flow Statement (EURm)					
Operating cash flows	4,827	4,855	5,642	6,015	6,424
Change in working capital	69	713	125	90	94
Capex, net	-1,851	-2,142	-2,012	-2,086	-2,163
Financial investments, net	-1,114	-213	0	0	0
Dividends	-1,011	-1,090	-1,181	-1,281	-1,387
Other	-1,210	-1,153	-1,374	-1,426	-1,479
Net debt	13,040	11,682	10,482	9,170	7,682
Free Cash flow	1,835	2,273	2,381	2,593	2,875
Balance Sheet (EURm)					
Tangible fixed assets	11,117	11,359	11,951	12,561	13,173
Intangibles assets	17,670	17,459	17,199	16,939	16,679
Cash & equivalents	2,473	3,304	3,304	3,304	3,304
current assets	5,773	5,766	6,075	6,298	6,531
Other assets	3,999	4,068	4,068	4,068	4,068
Total assets	41,032	41,956	42,598	43,170	43,755
L & ST Debt	15,513	14,986	13,786	12,474	10,986
Others liabilities	12,198	12,612	13,109	13,499	13,916
Shareholders' funds	13,321	14,358	15,702	17,198	18,853
Total Liabilities	41,032	41,956	42,598	43,170	43,755
Capital employed	31,625	30,560	30,768	31,027	31,286
Ratios					
Operating margin	17.2%	17.2%	17.6%	18.2%	18.8%
Tax rate	26.7%	28.7%	27.0%	27.0%	27.0%
Net margin	10.3%	10.8%	11.1%	11.6%	12.2%
ROE (after tax)	16.9%	16.9%	16.7%	16.6%	16.5%
ROCE (after tax)	8.7%	9.0%	9.9%	10.5%	11.1%
Gearing	63%	62%	62%	62%	62%
Pay out ratio	36.8%	40.8%	36.2%	35.8%	35.4%
Number of shares, diluted	571	571	571	571	571
Data per Share (EUR)					
EPS	3.39	3.33	4.10	4.52	4.97
Restated EPS	3.94	4.25	4.59	5.01	5.45
% change	7.0%	7.9%	8.0%	9.1%	8.9%
EPS bef. GDW	3.94	4.25	4.59	5.01	5.45
BVPS	23.37	25.18	27.54	30.16	33.07
Operating cash flows	8.46	8.51	9.89	10.54	11.26
FCF	3.49	3.98	4.17	4.54	5.04
Net dividend	1.25	1.36	1.48	1.62	1.76

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

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