Anheuser-Busch InBev NV (BUD)

Updated June 15th, 2018 by Josh Arnold

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	8.4%	**Quality Percentile:**	N/A
Fair Value Price:	$89	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	N/A
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Total Return Percentile:**	N/A
Dividend Yield:	4.1%	**5 Year Price Target**	$123	**Valuation Percentile:**	N/A

Overview & Current Events

Anheuser-Busch InBev traces its roots all the way back to the mid-1800's when Eberhard Anheuser bought a brewery in St. Louis. The Busch family shortly thereafter joined Anheuser in the business and the sprawling beverage conglomerate we know today was born. The company's merger with InBev nearly a decade ago gave BUD reach and scale unlike any other brewer in the world and today, the company enjoys $56B in annual revenue and a market cap of $189B.

The company's recent Q1 report showed some familiar characteristics for BUD. Revenue was up but it continues to struggle with volumes. Pricing and mix have been strong points for BUD and that remains the case, but as its flagship Budweiser and Bud Light brands continue to lose market share, it is seeking growth from its smaller brands. However, the still-fresh acquisition of SABMiller should help BUD grow in the coming years as it continues to expand its brands outside of their home markets. In addition, operating synergies helped profit margins grow in Q1, although normalized earnings-per-share were off by 1% YoY. BUD has been in a state of transition since the SABMiller purchase but green shoots are appearing that would suggest it is on the cusp of meaningful earnings-per-share growth.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	--	$2.90	$2.50	$3.63	$4.45	$4.81	$5.54	$4.96	$0.72	$3.15	***$4.70***	***$6.45***
DPS	--	--	$0.50	$1.18	$1.56	$3.03	$3.24	$3.95	$4.00	$4.33	***$4.05***	***$5.20***

BUD's earnings-per-share history is spotty given that it has been in merger integration mode for the past two years, which has taken its toll on its earnings. Prior to that, BUD proved itself as a respectable growth story and we believe that is how it will perform going forward. The company's synergies from the SABMiller acquisition are pegged at better than $3B annually by management so there is still significant opportunity for margin expansion after BUD was forced to divest assets related to the purchase. Therefore, we expect 6.5% average annual earnings-per-share growth going forward.

BUD will achieve this result via a low single digit tailwind to revenue as well as the cost synergies mentioned above. BUD continues to use its enormous, global reach to take brands that are successful in their home markets and distribute them to customers across the world. Indeed, in Q1, its global beer brands produced 12% revenue growth outside of their home markets. Corona was up 40% outside of Mexico and Stella Artois was up 13% outside of Belgium, for example. This is a core competitive advantage BUD has because no other beer distributor has the supply chain capabilities of BUD. We also see margin expansion as a key driver of earnings-per-share growth going forward as SABMiller becomes fully integrated in the coming years.

The company's dividend is irregular in that it is paid twice a year and isn't increased in a linear fashion. We see just over $4 in dividends this year with that total rising to more than $5 by 2023 as BUD continues to pay out most of its earnings to shareholders, although these estimates are subject to significant variability given BUD's unusual dividend policy.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	---	15.8	21.3	15.7	17.2	20.0	19.6	24.2	---	36.2	***21.3***	***19.1***
Avg. Yld.	---	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	***4.1%***	***4.2%***

BUD's price-to-earnings multiple has moved around quite a bit since the merger and today, it sits at 21.3. We see fair value as closer to its normalized historical average of 19.1 and thus, we think BUD will experience a modest 2.2% headwind to total returns as its price-to-earnings multiple moderates over time. We see the dividend yield growing slightly over time to 4.2% from today's 4.1% as the payout grows with earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	62.1%	60.9%	59.5%	60.1%	59.3%	58.7%	57.5%	55.5%	53.2%	56.0%	***56.0%***	***56.0%***
Debt/A	79%	71%	66%	63%	63%	61%	62%	68%	68%	67%	***67%***	***65%***
Int. Cov.	3.6	2.8	2.9	4.0	6.4	9.6	7.7	6.0	1.2	3.1	***3.3***	***4.0***
Payout	--	--	48%	53%	50%	79%	80%	96%	--	137%	***86%***	***81%***
Std. Dev.	--	--	20.9%	18.1%	19.0%	14.9%	15.2%	19.9%	20.9%	15.0%	***16.0%***	***18.0%***

BUD's quality metrics have moved around some over time but overall, it is in strong shape financially. Gross margins have been roughly flat for years and we don't see that changing, although operating margins should improve due to the mentioned cost synergies. Debt is reasonable at two-thirds of assets and that should come down slightly over time given that BUD very recently increased its debt total and thus, shouldn't need to do so again for some time. We see the payout ratio as remaining in excess of 80% longer term as management continues to make the dividend a top priority.

BUD's competitive advantages include its world-class suite of brands as well as the global supply chain it enjoys; this gives BUD reach and capacity unlike any other brewer in the world. It is also fairly recession-resistant, so shareholders need not fear an economic downturn. Indeed, any such event would likely be a strong buying chance.

Final Thoughts & Recommendation

BUD looks to be on the cusp of meaningful earnings-per-share growth in the coming years thanks to the fact that it is done divesting assets per regulatory concerns and that it is beginning to realize some cost synergies. We see total annual returns going forward of 8.4%, consisting of the current 4.1% yield, 6.5% earnings-per-share growth and a 2.2% headwind from the normalizing valuation. BUD is therefore very suitable hold for income investors seeking a high yield that is safe, but would be inappropriate for those seeking value as the stock is trading in excess of fair value.

Total Return Breakdown by Year