Anheuser-Busch InBev NV (BUD)

Updated August 3rd, 2018 by Josh Arnold

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	7.7%	**Volatility Percentile:**	38.7%
Fair Value Price:	$85	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	12.1%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Valuation Percentile:**	34.4%
Dividend Yield:	4.4%	**5 Year Price Target**	$117	**Total Return Percentile:**	52.5%

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 it reach and scale unlike any other brewer in the world and today, the company enjoys $56 billion in annual revenue and a market cap of $199 billion.

AB-InBev reported Q2 earnings on 7/26/18 and results disappointed the market. Total revenue was up 4.7% as pricing contributed virtually all of the company's top line growth. Volume was up less than 1% but Global Brands continue to post very strong growth rates outside of their home markets, a key initiative for AB-InBev. EBITDA margin expanded 85bps to 39.7% and adjusted earnings-per-share rose 16%. AB-InBev said it is consolidating its geographic regions from the current nine down to six in a move to save money, which should help margins a bit more. Overall, the company's Q2 showed strong pricing, but volume remains weak; we've slightly lowered our 2018 estimates as a result.

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	***$4.45***	***$6.10***
DPS	--	--	$0.50	$1.18	$1.56	$3.03	$3.24	$3.95	$4.00	$4.33	***$4.40***	***$5.20***

AB-InBev'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 profitability. Prior to that, the company 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 $3 billion annually by management so there is still significant opportunity for continued margin expansion. Therefore, we continue to expect 6.5% average annual earnings-per-share growth going forward.

AB-InBev will achieve this result via a low single digit tailwind to revenue as well as the cost synergies mentioned above. The company 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 Q2, its global beer brands produced 17% revenue growth outside of their home markets. This is a core competitive advantage AB-InBev has because no other beer distributor has comparable supply chain capabilities. 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 has not been increased in a linear fashion. We forecast $4.40 in dividends this year with increases to more than $5 by 2023 as AB-InBev continues to pay out most of its earnings to shareholders. These estimates are subject to significant variability given the 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	***22.5***	***19.1***
Avg. Yld.	---	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	***4.4%***	***4.4%***

AB-InBev's price-to-earnings multiple has moved around quite a bit since the merger and today, it sits at 22.5. We see fair value as closer to its normalized historical average of 19.1 and thus, we think the stock will experience a modest

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3.2% headwind to total returns as its price-to-earnings multiple moderates over time. We see the dividend yield remaining about where it is today at 4.4%, keeping AB-InBev firmly in the income stock category.

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%	***99%***	***85%***
Std. Dev.	--	--	20.9%	18.1%	19.0%	14.9%	15.2%	19.9%	20.9%	15.0%	***16.0%***	***18.0%***

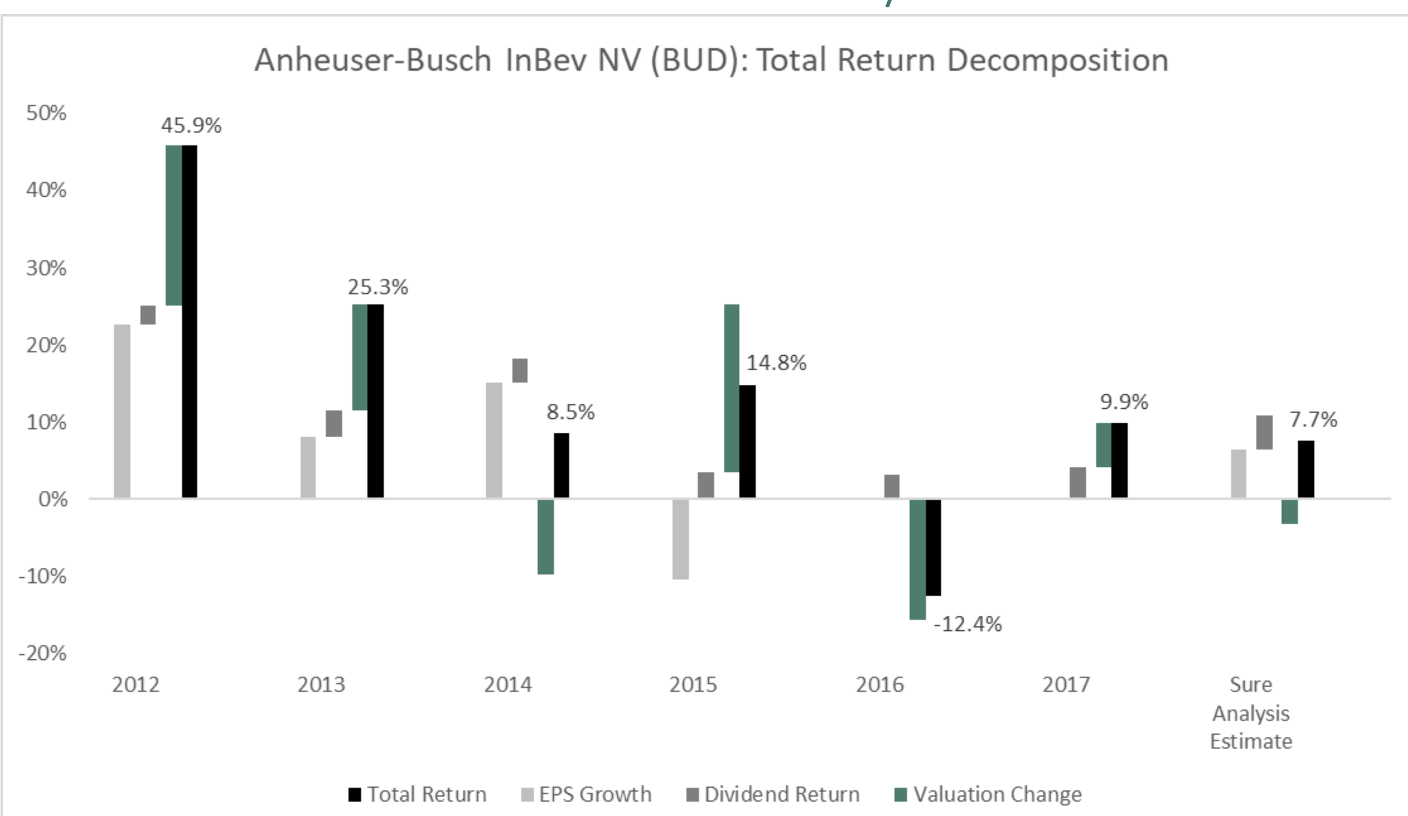
AB-InBev's quality metrics have moved around some over time but overall, it is in strong shape financially. Gross margins have been roughly flat for years and we do not see that changing, although operating margins should improve due to cost synergies. Debt is reasonable at two-thirds of assets and that should come down slightly over time given that the company recently increased its debt total and thus, should not 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.

AB-InBev's competitive advantages include its world-class suite of brands as well as the global supply chain it enjoys; this gives it 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

AB-InBev 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 7.7%, consisting of the current 4.4% yield, 6.5% earnings-per-share growth and a 3.2% headwind from the normalizing valuation. We rate AB-InBev a hold today as the stock offers a high current yield, but shares are trading in excess of fair value today. Investors looking to initiate a position should wait for a lower price.

Total Return Breakdown by Year



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