



Anheuser-Busch InBev NV (BUD)

Updated March 3rd, 2019 by Josh Arnold

Key Metrics

Current Price:	\$82	5 Year CAGR Estimate:	7.2%	Volatility Percentile:	46.4%
Fair Value Price:	\$81	5 Year Growth Estimate:	5.0%	Momentum Percentile:	11.7%
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Growth Percentile:	35.1%
Dividend Yield:	2.5%	5 Year Price Target	\$103	Valuation Percentile:	46.6%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	45.4%

Overview & Current Events

Anheuser-Busch InBev traces its roots back to the mid-1800's when Eberhard Anheuser bought a brewery in St. Louis. The Busch family joined Anheuser in the business shortly thereafter 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 capitalization of \$162 billion.

AB-InBev reported Q4 earnings on 2/28/19 and results were better than expectations, sending the share price higher following the report. Revenue in Q4 was up 5.3% as the company saw revenue per hectoliter rise 4.9% while volumes rose just 0.3%. Beer volume was up slightly while non-beer volumes fell 4.9%, offsetting gains in the core business. AB-InBev has continued to struggle in recent reporting periods with volumes, but 2018 showed it still has some pricing power. While this has salvaged a measure of revenue growth, we are concerned about the company's ability to perpetually push through pricing increases, and would prefer to see some volume expansion to accompany it. On the bright side, the company's three global brands, *Budweiser*, *Stella Artois*, and *Corona*, produced a combined 9.8% top line gain in Q4 and a 12.6% gain outside of their respective home markets.

Cost of sales increased 6.5% in Q4 and 6.0% on a per-hectoliter basis. However, merger synergies helped keep the bottom line move higher as the EBITDA margin moved up 118bps to 40.4% of revenue. Adjusted earnings-per-share rose slightly from \$1.24 to \$1.26 in Q4 after accounting for a higher tax rate than the comparable period.

Management guided for revenue and EBITDA growth in 2019 ahead of inflation, while keeping costs low. The company cited cost of sales rises from currency and commodity headwinds in the mid-single digits, but this is expected to be offset by cost management initiatives. Given this guidance, our initial estimate for 2019 is \$4.75 in earnings-per-share, which would represent roughly 8% growth year-over-year.

AB-InBev cut its dividend late in 2018 thanks to its efforts to spend extra cash on debt reduction instead of a sizable dividend. We are forecasting a total payout of €1.80 per share for this year, which equates to ~\$2.05. The company's unusual dividend policy makes it somewhat challenging to accurately forecast its payouts. However, management did say they are committed to boosting the dividend over time, but that in the near-term, debt reduction takes priority.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.90	\$2.50	\$3.63	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	\$4.38	\$4.75	\$6.06
DPS	---	\$0.50	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.33	\$3.30	\$2.05	\$2.50
Shares	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,020	2,020

AB-InBev's earnings-per-share history is spotty given that it has been in merger integration mode for the past couple of years. Prior to that, the company was a respectable growth story and we believe that is how it will perform again.

Merger synergies are pegged at \$3 billion annually by management so there is still significant opportunity for margin expansion, as we saw in Q4. However, given volume weakness, we are cutting our growth forecast from 6.5% to 5%.

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

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distribute them to customers across the world. 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 main driver of earnings-per-share growth going forward as SABMiller becomes fully integrated in the coming years. However, a key risk remains in commodity inflation as AB-InBev suffered from this during Q4. This is another factor in our growth rate reduction.

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 \$2.05 in dividends this year with increases to \$2.50 by 2024 as AB-InBev focuses on debt reduction in lieu of an unsustainable dividend policy. These estimates are subject to significant variability given the unusual dividend policy.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.8	21.3	15.7	17.2	20.0	19.6	24.2	---	36.2	21.9	17.3	17.0
Avg. Yld.	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	3.4%	2.5%	2.4%

AB-InBev's price-to-earnings multiple has moved around quite a bit since the merger and today, it sits at 17.3. We have moved our estimate of fair value down slightly to 17 times earnings given the recent cut dividend as well as what we see as additional growth challenges, as mentioned above.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	48%	53%	50%	79%	80%	96%	---	137%	75%	43%	41%

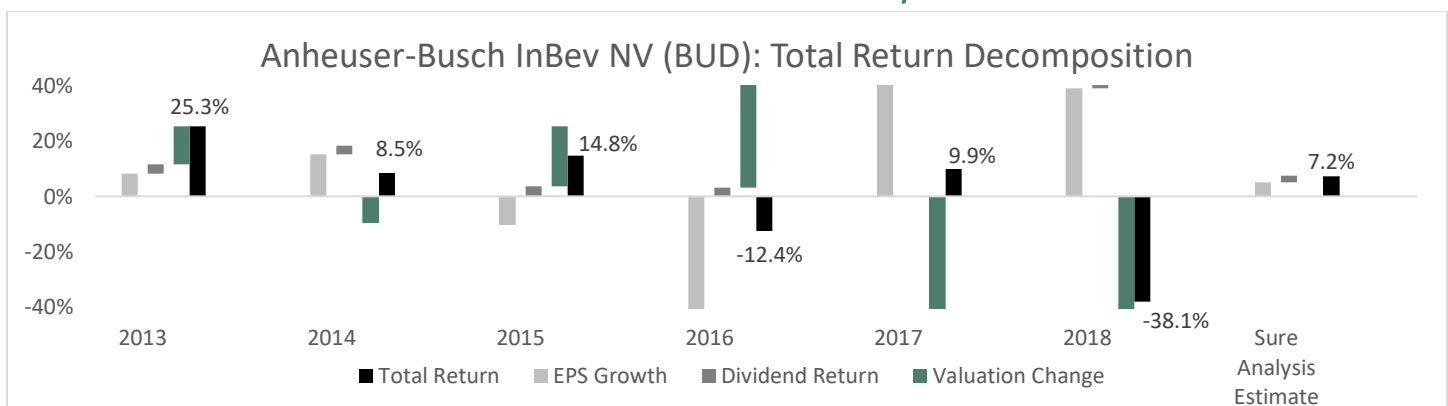
The payout ratio is in the low-40s after the dividend cut, and we don't see a lot of movement coming on that front. Management made it clear the priority is to reduce debt so dividend raises will likely be small for some time.

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 could be a buying opportunity.

Final Thoughts & Recommendation

We see total annual returns going forward of 7.2%, consisting of the current 2.5% yield, 5% earnings-per-share growth and a 0.3% headwind from the valuation. This is less than half of expected returns from our last report, but a lot has changed since then. The dividend was cut significantly, and our growth outlook has moderated. We are therefore moving AB-InBev to a hold from buy given the much lower expected returns and its greatly reduced current yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	36758	36297	39046	39758	43195	47063	43064	45517	56444	54619
Gross Profit	19560	20146	22436	23336	25601	28307	25927	27714	35058	34260
Gross Margin	53.2%	55.5%	57.5%	58.7%	59.3%	60.1%	60.2%	60.9%	62.1%	62.7%
SG&A Exp.	9973	9585	10505	11241	12558	14385	13732	15171	18099	17118
D&A Exp.	N/A	2788	2783	2747	2985	3353	3153	3477	4276	4260
Operating Profit	11722	11016	12545	12682	14124	15269	13146	13168	17591	17402
Op. Margin	31.9%	30.3%	32.1%	31.9%	32.7%	32.4%	30.5%	28.9%	31.2%	31.9%
Net Profit	4613	4026	5779	7160	14394	9218	7732	1240	7995	4370
Net Margin	12.5%	11.1%	14.8%	18.0%	33.3%	19.6%	18.0%	2.7%	14.2%	8.0%
Free Cash Flow	7411	7561	9110	10004	9995	9749	9372	5131	10689	9577
Income Tax	1786	1920	1826	1680	2016	2499	2594	1613	1920	2839

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	112.53	114.34	112.43	122.62	141.67	142.55	134.64	258.38	246.13	232.10
Cash & Equivalents	3689	4511	5320	7051	9839	8357	6923	8579	10472	7074
Acc. Receivable	4099	4638	4121	2736	2935	3363	3241	4562	4752	4412
Inventories	2354	2409	2466	2461	2872	2888	2759	3824	4018	4111
Goodwill/Int. (\$B)	75.29	75.86	75.12	76.14	99.26	100.68	94.74	181.10	186.81	178.14
Total Liab. (\$B)	79.35	75.54	71.37	77.17	86.36	88.29	88.92	176.96	165.91	160.20
Accounts Payable	11377	12071	13337	8476	9834	10913	11616	14071	15240	15512
LT Debt (\$B)	51.07	44.89	40.17	44.20	48.99	50.99	49.34	122.51	116.29	109.71
Total Equity	30318	35259	37504	41154	50365	49972	42137	71339	72585	64486
D/E Ratio	1.68	1.27	1.07	1.07	0.97	1.02	1.17	1.72	1.60	1.70

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.1%	3.5%	5.1%	6.1%	10.9%	6.5%	5.6%	0.6%	3.2%	1.8%
Return on Equity	17.5%	12.3%	15.9%	18.2%	31.5%	18.4%	16.8%	2.2%	11.1%	6.4%
ROIC	5.4%	4.8%	7.0%	8.4%	14.8%	8.8%	7.7%	0.8%	4.0%	2.3%
Shares Out.	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019
Revenue/Share	23.07	22.53	24.19	24.42	26.18	28.27	25.82	25.94	28.08	27.16
FCF/Share	4.65	4.69	5.64	6.15	6.06	5.86	5.62	2.92	5.32	4.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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