



Anheuser-Busch InBev SA/NV (BUD)

Updated June 5th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$83	5 Year CAGR Estimate:	7.1%	Volatility Percentile:	50.8%
Fair Value Price:	\$90	5 Year Growth Estimate:	3.0%	Momentum Percentile:	29.6%
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	13.1%
Dividend Yield:	2.5%	5 Year Price Target	\$104	Valuation Percentile:	62.4%
Dividend Risk Score:	F	Retirement Suitability Score:	F	Total Return Percentile:	31.6%

Overview & Current Events

Anheuser-Busch InBev SA/NV is the largest brewer in the world. The company was formed in 2008 by the merger of InBev and Anheuser-Busch. The company is controlled, and majority owned by 3G Capital. In 2016, the company grew further through the acquisition of SABMiller. AB InBev produces, markets and sells over 500 different beer brands around the world. The company has five of the top ten beer brands and 18 brands with over \$1B in sales. Major global brands include Budweiser, Stella Artois and Corona. The company has about 70% market share in Brazil and 50% market share in the U.S. In 2018, revenue was 28.4% North America, 40% Latin America, 15.3% Europe, Middle East and Africa, and 15.5% Asia Pacific. Annual revenue was ~\$56B in 2018. The company's market capitalization is ~\$163.9B.

AB InBev reported Q1 2019 earnings on May 7, 2019. The company missed both revenue and earnings estimates. Organic revenue grew 5.9% in the quarter drive by volume growth of 1.3%. However, accounting for "scope" changes, which includes divestitures and other items, the company had lower revenue of \$12,589M in Q1 2019 compared to \$13,095M in Q1 2018, and lower volumes. Organic beer volumes increased 1.0% and non-beer volumes increased 4.9%. The company's global beer brands of Budweiser, Stella Artois and Corona grew 8.5% globally and 14.0% outside their respective home markets. The company continues to execute its premiumization and innovation strategy leading to top line growth, especially in Brazil and the U.S. Brazil led the way with double-digit growth for its beer and non-beer volumes. The company performance improved in the U.S but still suffered a -10 bps decline in market share. But still, this was the best market share trend since Q4 2012. AB InBev also saw strong growth in Nigeria, Colombia, Peru and Europe. This was offset by organic volume declines in North and Middle America and Asia Pacific.

AB InBev is still digesting the SABMiller acquisition. The company realized cost synergies of \$100M in Q1 2019. To date, synergies have reached \$3,038M out of the expected \$3.2B relative to the acquisition closing date of August 2016. AB InBev is in the middle of a de-levering. The company took on substantial debt to purchase SABMiller. The company has a target net debt-to-EBITDA ratio of 4.0X or below by 2020. The company considers an optimal capital structure to be a net debt-to-EBITDA ratio of 2.0X indicating that de-levering will take several more years. Along these lines AB InBev cut the dividend late in 2018 using the cash flow on debt reduction.

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	\$4.50	\$5.22
DPS	---	\$0.50	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.33	\$3.30	\$2.05	\$2.05
Shares	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,019	2,019

AB-InBev's earnings-per-share history is spotty given that it is a roll up and has often made acquisitions and divestitures. The company is currently in merger integration mode after the SABMiller acquisition. The company will likely continue removing costs leading to margin expansion and driving bottom line growth. Top line growth will likely be low-to-mid single digits coming from geographic expansion of brands, premiumization and innovation. 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. However, the company's organic volume growth is volatile and commodity pricing risk can negatively impact EPS. We are now forecasting 3% EPS growth on average to 2024. The company's dividend is paid twice

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a year much like many European companies. We forecast the dividend to remain at ~\$2.05 per year out to 2024 due to debt reduction. The current payout ratio is ~46% and we do not forecast any further dividend cuts in the near future.

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	18.5	20.0
Avg. Yld.	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	3.4%	2.5%	2.0%

AB InBev is currently trading at a price-to-earnings multiple of ~18.5, which is somewhat lower than its 10-year average of ~23.8. Our fair value estimate is \$90 based on expected 2019 EPS and a P/E ratio of 20.0. We use 20.0 to account for the dividend cut and volatile volume and revenue growth. Our 5-year price target is \$104.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	20%	33%	35%	63%	59%	80%	556%	130%	152%	46%	39%

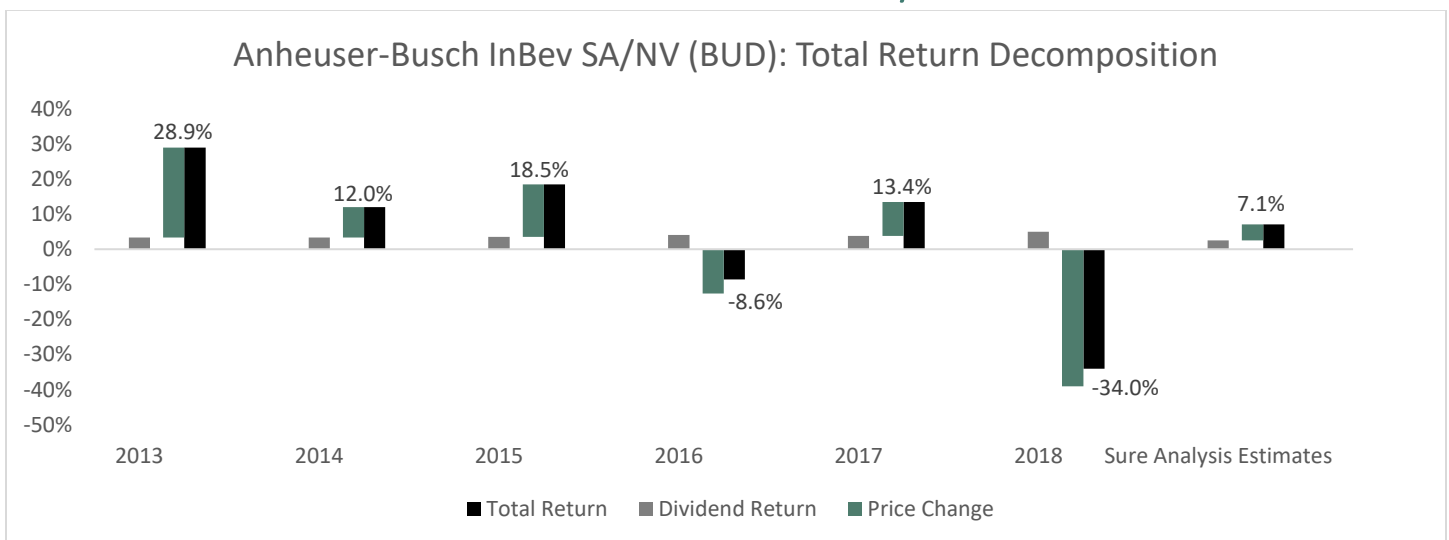
AB InBev's competitive advantages include its global brands as well as the global supply chain it enjoys; this gives it reach and capacity unlike any other brewer in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too deep cost cutting may hinder top line growth. This is a real risk as Kraft Heinz, also controlled and run by 3G Capital, has recently suffered from this. The company is not recession resistant as alcoholic beverages are largely a consumer discretionary purchases.

Of concern is the leveraged balance sheet. AB InBev carries about \$105,422M in long-term debt and \$4,288M in short-term debt. This has trended down since 2016. But still, this is a substantial amount of debt.

Final Thoughts & Recommendation

We see total annual returns going forward of 7.1%, consisting of the current 2.5% yield, 3.0% earnings-per-share growth and a 1.6% from multiple expansion. The increase in stock price after the downturn in late 2018 has removed much of the appeal here. Furthermore, the dividend was recently cut, and balance sheet is leveraged. These changes have limited the appeal for conservative income investors. But at the current price, we recommend holding this stock.

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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