



# Anheuser-Busch InBev SA/NV (BUD)

Updated October 28<sup>th</sup>, 2019 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$81	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Volatility Percentile:</b>	51.2%
<b>Fair Value Price:</b>	\$92	<b>5 Year Growth Estimate:</b>	3.0%	<b>Momentum Percentile:</b>	47.3%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Growth Percentile:</b>	17.6%
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$107	<b>Valuation Percentile:</b>	82.3%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	55.6%

## 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 and is majority owned by 3G Capital. In 2016, the company acquired SABMiller. Today, 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 ~70% market share in Brazil and ~50% market share in the U.S. In 2018, revenue was ~\$56B. The company's market capitalization is currently ~\$160B.

AB InBev reported mixed Q3 2019 results on October 25<sup>th</sup>, 2019. The company missed on revenue but met earnings per share estimates. The company's top line grew 2.7% to \$13,172M from \$12,916M on 3.0% growth in revenue per hectoliter offset by (0.5%) decline in volumes. Own beer volumes were down by (0.9%) while non-beer volumes increased 4.0%. On a regional basis, the company saw growth in Mexico, South Africa, and Columbia. But this was more than offset by declines in China and the U.S. Growth was led by the three major global brands that grew 4.1%. Corona continues to expand rapidly with 21.1% growth outside of Mexico and a double-digit growth rate in more than 30 countries. However, Budweiser had a decline of (0.1%) outside of the U.S. due to difficulties in China. Stella Artois also declined (0.1%) outside of Belgium due to shipment phasing impact in the U.S. EBITDA margins contracted (107 bps) to 40.2% due to higher costs and marketing investments. Earnings per share declined (\$0.17) to \$0.94 from \$1.11 in comparable periods. AB InBev is now expecting slower growth for Q4 2019 due to continuing commodity and currency headwinds.

AB InBev is in the middle of a deleveraging. The company took on substantial debt to purchase SABMiller. The company considers an optimal capital structure to be a net debt-to-EBITDA ratio of 2.0X. Along these lines AB InBev cut the dividend late in 2018 using the cash flow for debt reduction. AB InBev has agreed to divest Carlton & United Breweries to Asahi for ~\$11.3B. Proceeds will be used to pay down debt. The company also successfully listed Budweiser APAC. AB InBev is now forecasting a ratio of 4.0X by 2019, one year earlier than planned.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.90	\$2.50	\$3.63	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	\$2.17	<b>\$4.61</b>	<b>\$5.34</b>
<b>DPS</b>	---	\$0.50	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.08	\$3.30	<b>\$2.05</b>	<b>\$2.05</b>
<b>Shares<sup>1</sup></b>	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	<b>2,019</b>	<b>2,019</b>

AB InBev's earnings per share history is volatile given that it has often made acquisitions and divestures. The company is currently in merger integration mode after the SABMiller acquisition, and will likely continue cutting costs leading to margin expansion driving bottom line growth. The company will divest its Australian operations and has listed Budweiser APAC. Top line growth will likely be low-to-mid single digits coming from geographic expansion of brands, premiumization, and innovation. The company continues to take brands that are successful in their home markets and distribute them to customers across the world. However, 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

<sup>1</sup> Share count in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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 ~42% and we do not forecast any further dividend cuts.

## 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	44.0	17.6	20.0
Avg. Yld.	---	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.8%	2.1%	2.5%	1.9%

AB InBev is currently trading at a price-to-earnings multiple of ~17.6, which is lower than its 10-year average of ~23.8. Our fair value estimate is now \$92 after updating our 2019 EPS estimate and using a P/E ratio of 20.0 due to slower growth and a leverage balance sheet. Our 5-year price target is now \$107.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	20%	33%	35%	63%	58%	80%	556%	130%	152%	44%	38%

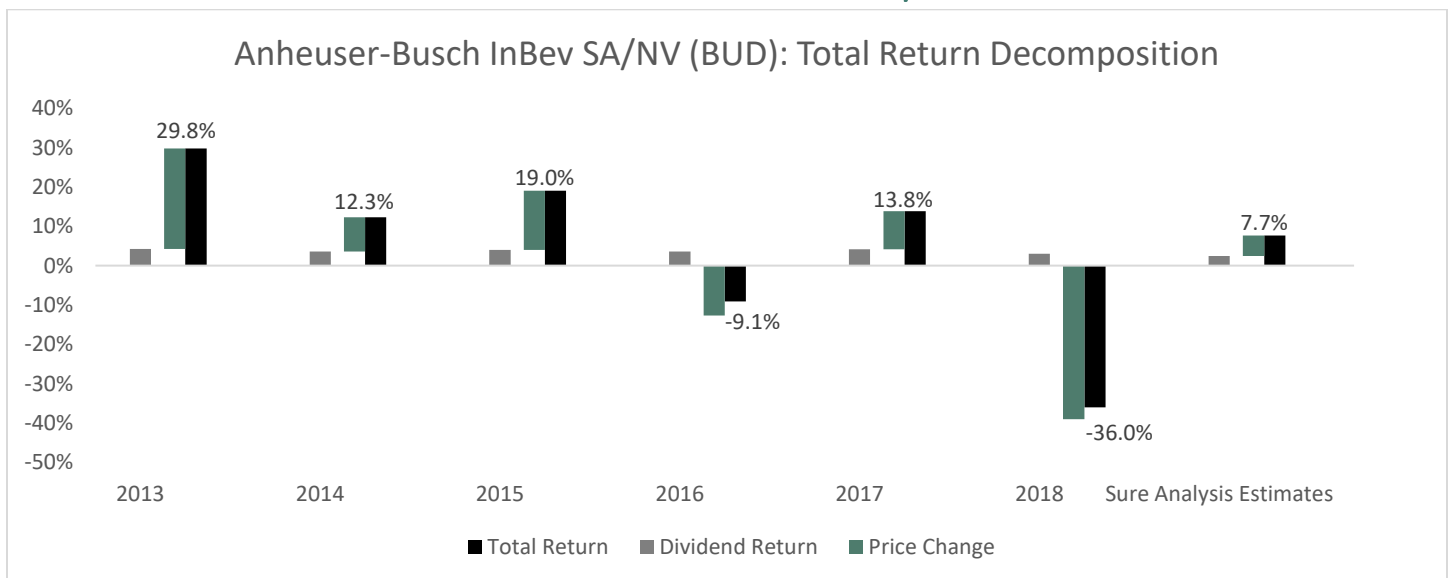
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too 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 purchase.

AB InBev is highly leveraged carrying about \$101,672M in long-term debt and \$10,964M in short-term debt offset by \$8,179M in cash at end of Q2 2019. This has trended down since 2016. But still, this is a substantial amount of debt.

## Final Thoughts & Recommendation

We see total annualized returns going forward of 7.7% due to a decline in stock price. The company is the market leader and is growing the three global brands. However, the dividend was recently cut, and the balance sheet is leveraged limiting 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
<b>Revenue</b>	36758	36297	39046	39758	43195	47063	43064	45517	56444	54619
<b>Gross Profit</b>	19560	20146	22436	23336	25601	28307	25927	27714	35058	34260
<b>Gross Margin</b>	53.2%	55.5%	57.5%	58.7%	59.3%	60.1%	60.2%	60.9%	62.1%	62.7%
<b>SG&amp;A Exp.</b>	9973	9585	10505	11241	12558	14385	13732	15171	18099	17118
<b>D&amp;A Exp.</b>	N/A	2788	2783	2747	2985	3353	3153	3477	4276	4260
<b>Operating Profit</b>	11722	11016	12545	12682	14124	15269	13146	13168	17591	17402
<b>Op. Margin</b>	31.9%	30.3%	32.1%	31.9%	32.7%	32.4%	30.5%	28.9%	31.2%	31.9%
<b>Net Profit</b>	4613	4026	5779	7160	14394	9218	7732	1240	7995	4370
<b>Net Margin</b>	12.5%	11.1%	14.8%	18.0%	33.3%	19.6%	18.0%	2.7%	14.2%	8.0%
<b>Free Cash Flow</b>	7411	7561	9110	10004	9995	9749	9372	5131	10689	9577
<b>Income Tax</b>	1786	1920	1826	1680	2016	2499	2594	1613	1920	2839

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	112.53	114.34	112.43	122.62	141.67	142.55	134.64	258.38	246.13	232.10
<b>Cash &amp; Equivalents</b>	3689	4511	5320	7051	9839	8357	6923	8579	10472	7074
<b>Acc. Receivable</b>	4099	4638	4121	2736	2935	3363	3241	4562	4752	4412
<b>Inventories</b>	2354	2409	2466	2461	2872	2888	2759	3824	4018	4111
<b>Goodwill/Int. (\$B)</b>	75.29	75.86	75.12	76.14	99.26	100.68	94.74	181.10	186.81	178.14
<b>Total Liab. (\$B)</b>	79.35	75.54	71.37	77.17	86.36	88.29	88.92	176.96	165.91	160.20
<b>Accounts Payable</b>	11377	12071	13337	8476	9834	10913	11616	14071	15240	15512
<b>LT Debt (\$B)</b>	51.07	44.89	40.17	44.20	48.99	50.99	49.34	122.51	116.29	109.71
<b>Total Equity</b>	30318	35259	37504	41154	50365	49972	42137	71339	72585	64486
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	4.1%	3.5%	5.1%	6.1%	10.9%	6.5%	5.6%	0.6%	3.2%	1.8%
<b>Return on Equity</b>	17.5%	12.3%	15.9%	18.2%	31.5%	18.4%	16.8%	2.2%	11.1%	6.4%
<b>ROIC</b>	5.4%	4.8%	7.0%	8.4%	14.8%	8.8%	7.7%	0.8%	4.0%	2.3%
<b>Shares Out.</b>	1,604	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019
<b>Revenue/Share</b>	23.07	22.53	24.19	24.42	26.18	28.27	25.82	25.94	28.08	27.16
<b>FCF/Share</b>	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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