



Anheuser-Busch InBev SA/NV (BUD)

Updated March 23rd, 2020 by Prakash Kolli

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------|
| Current Price: | \$40 | 5 Year CAGR Estimate: | 15.7% | Market Cap: | \$78,316M |
| Fair Value Price: | \$62 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 11/19/19 |
| % Fair Value: | 64% | 5 Year Valuation Multiple Estimate: | 9.5% | Dividend Payment Date: | 12/18/19 |
| Dividend Yield: | 5.1% | 5 Year Price Target | \$72 | Years Of Dividend Growth: | N/A |
| Dividend Risk Score: | D | Retirement Suitability Score: | D | Last Dividend Increase: | 0% |

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 2019, revenue was ~\$52.3B.

AB InBev reported Q4 2019 and full year results on February 27th, 2020. For the quarter, the company's top line declined to \$13,334M from \$13,792M on 0.8% growth in own beer volume, 8% increase in non-beer volumes offset by a drop of (4.0%) in third party products. The three global brands of Budweiser, Stella Artois, and Corona continue to grow from the premiumization strategy and geographic expansion outside of their home markets. However, earnings per share declined to \$0.06 from \$0.23 in comparable periods after accounting to mark-to-market gains and losses, Underlying earnings declined to \$0.87 from \$1.17 in the prior year. The company saw growth in most regions except North America and Asia Pacific, which were impacted by loss of market share and softness in nightlife in China, respectively. For the year, revenue declined to \$52,329M from \$53,041M in the prior year and underlying earnings per share declined to \$3.63 from \$4.10 in the prior year. Growth continues to be led by the three global brands, which grew revenue by 5.2% and 8.0% outside of home markets. Budweiser grew 3.3% outside of the U.S., Stella Artois grew 6.5% outside of Belgium, and Corona grew 21.0% outside of Mexico. Non-alcoholic beverages grew volumes 5.3% and is now 10% of total volume.

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 divested Carlton & United Breweries to Asahi for ~\$11.3B. Proceeds were used to pay down debt. The company also successfully listed Budweiser APAC.

Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.50 | \$3.63 | \$4.45 | \$4.81 | \$5.54 | \$4.96 | \$0.72 | \$3.15 | \$2.17 | \$4.62 | \$3.47 | \$4.02 |
| DPS | \$0.50 | \$1.18 | \$1.56 | \$3.03 | \$3.24 | \$3.95 | \$4.00 | \$4.08 | \$3.30 | \$2.01 | \$2.01 | \$2.01 |
| Shares¹ | 1,605 | 1,606 | 1,607 | 1,608 | 1,608 | 1,608 | 2,019 | 2,019 | 2,019 | 2,015 | 2,015 | 2,015 |

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 and selling assets leading to margin expansion and debt reduction. 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. The near-term will be challenging for AB InBev as demand will be impacted by restaurant and nightlife closures resulting from covid-19. We are modeling a 25% reduction in earnings per share for 2020 and then 3% EPS growth on average to 2025. The company's dividend is paid twice a year much like many European companies. We forecast the dividend to remain at ~\$2.01 per year for now.

¹ 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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Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 21.3 | 15.7 | 17.2 | 20.0 | 19.6 | 24.2 | --- | 36.2 | 44.0 | 15.9 | 11.4 | 18.0 |
| Avg. Yld. | 0.9% | 2.1% | 2.0% | 3.1% | 3.0% | 3.3% | 3.3% | 3.6% | 3.5% | 2.4% | 5.1% | 2.8% |

AB InBev stock price has dropped along with the rest of the market due to covid-19, oil price wars, and transportation restrictions. The stock is trading at a low valuation of 11.4 based on our updated 2020 earnings per share expectations after accounting for covid-19 and the recent divestment. We have also adjusted our fair value multiple down to 18.0. Our fair value estimate is now \$62. Our 5-year price target is now \$72.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 33% | 35% | 63% | 58% | 80% | 55% | 130% | 152% | 44% | 58% | 58% | 50% |

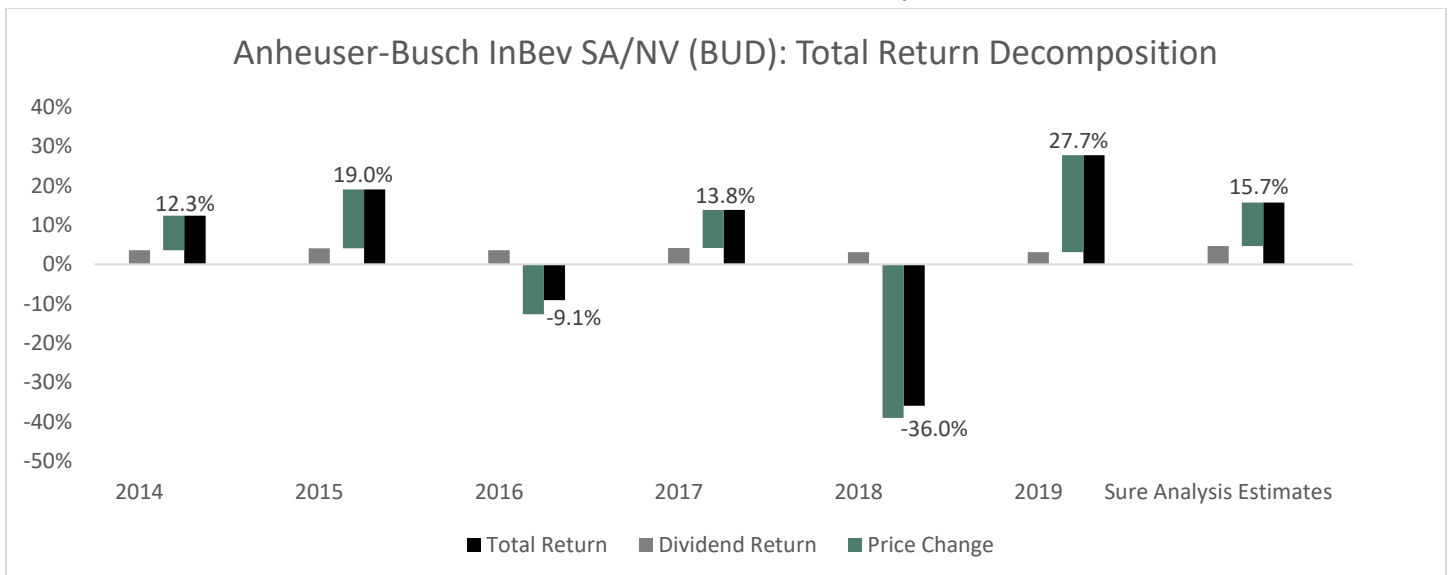
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too 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 \$97,564M in long-term debt and \$5,410M in short-term debt offset by \$7,330M in cash at end of fiscal 2019. This has trended down since 2016. But still, this is a substantial amount of debt. AB InBev attained a leverage ratio of 4.0X at end of 2019 with a long-term goal of 2.0X.

Final Thoughts & Recommendation

We see total annual returns going forward of 15.7% due largely to the recent decline in stock price. The company is the market leader and is growing the three global brands. However, the dividend was recently cut, the balance sheet is leveraged, and covid-19 will impact sales and earnings. The stock price is trading at a low valuation based on our present estimates. At the current price, we rate this stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 36297 | 39046 | 39758 | 43195 | 47063 | 43064 | 45517 | 56444 | 54619 | 52329 |
| Gross Profit | 20146 | 22436 | 23336 | 25601 | 28307 | 25927 | 27714 | 35058 | 34260 | 31967 |
| Gross Margin | 55.5% | 57.5% | 58.7% | 59.3% | 60.1% | 60.2% | 60.9% | 62.1% | 62.7% | 61.1% |
| SG&A Exp. | 9585 | 10505 | 11241 | 12558 | 14385 | 13732 | 15171 | 18099 | 17118 | 16421 |
| D&A Exp. | 2788 | 2783 | 2747 | 2985 | 3353 | 3153 | 3477 | 4276 | 4260 | 4657 |
| Operating Profit | 11016 | 12545 | 12682 | 14124 | 15269 | 13146 | 13168 | 17591 | 17402 | 16169 |
| Op. Margin | 30.3% | 32.1% | 31.9% | 32.7% | 32.4% | 30.5% | 28.9% | 31.2% | 31.9% | 30.9% |
| Net Profit | 4026 | 5779 | 7160 | 14394 | 9218 | 7732 | 1240 | 7995 | 4370 | 9171 |
| Net Margin | 11.1% | 14.8% | 18.0% | 33.3% | 19.6% | 18.0% | 2.7% | 14.2% | 8.0% | 17.5% |
| Free Cash Flow | 7561 | 9110 | 10004 | 9995 | 9749 | 9372 | 5131 | 10689 | 9577 | 8222 |
| Income Tax | 1920 | 1826 | 1680 | 2016 | 2499 | 2594 | 1613 | 1920 | 2839 | 2786 |

Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (\$B) | 114.34 | 112.43 | 122.62 | 141.67 | 142.55 | 134.64 | 258.38 | 246.13 | 232.10 | 236.65 |
| Cash & Equivalents | 4511 | 5320 | 7051 | 9839 | 8357 | 6923 | 8579 | 10472 | 7074 | 7238 |
| Acc. Receivable | 4638 | 4121 | 2736 | 2935 | 3363 | 3241 | 4562 | 4752 | 4412 | 4046 |
| Inventories | 2409 | 2466 | 2461 | 2872 | 2888 | 2759 | 3824 | 4018 | 4111 | 4322 |
| Goodwill/Int. (\$B) | 75.86 | 75.12 | 76.14 | 99.26 | 100.68 | 94.74 | 181.10 | 186.81 | 178.14 | 170.57 |
| Total Liab. (\$B) | 75.54 | 71.37 | 77.17 | 86.36 | 88.29 | 88.92 | 176.96 | 165.91 | 160.20 | 152.10 |
| Accounts Payable | 12071 | 13337 | 8476 | 9834 | 10913 | 11616 | 14071 | 15240 | 15512 | 15876 |
| LT Debt (\$B) | 44.89 | 40.17 | 44.20 | 48.99 | 50.99 | 49.34 | 122.51 | 116.29 | 109.71 | 101.02 |
| Total Equity | 35259 | 37504 | 41154 | 50365 | 49972 | 42137 | 71339 | 72585 | 64486 | 75722 |
| D/E Ratio | 1.27 | 1.07 | 1.07 | 0.97 | 1.02 | 1.17 | 1.72 | 1.60 | 1.70 | 1.33 |

Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 3.5% | 5.1% | 6.1% | 10.9% | 6.5% | 5.6% | 0.6% | 3.2% | 1.8% | 3.9% |
| Return on Equity | 12.3% | 15.9% | 18.2% | 31.5% | 18.4% | 16.8% | 2.2% | 11.1% | 6.4% | 13.1% |
| ROIC | 4.8% | 7.0% | 8.4% | 14.8% | 8.8% | 7.7% | 0.8% | 4.0% | 2.3% | 5.0% |
| Shares Out. | 1,605 | 1,606 | 1,607 | 1,608 | 1,608 | 1,608 | 2,019 | 2,019 | 2,019 | 2,026 |
| Revenue/Share | 22.53 | 24.19 | 24.42 | 26.18 | 28.27 | 25.82 | 25.94 | 28.08 | 27.16 | 25.83 |
| FCF/Share | 4.69 | 5.64 | 6.15 | 6.06 | 5.86 | 5.62 | 2.92 | 5.32 | 4.76 | 4.06 |

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

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