

# Anheuser-Busch InBev SA/NV (BUD)

Updated June 8<sup>th</sup>, 2020 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$57	<b>5 Year CAGR Estimate:</b>	6.3%	<b>Market Cap:</b>	\$112.0B
<b>Fair Value Price:</b>	\$62	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	06/09/20
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	1.8%	<b>Dividend Payment Date:</b>	07/09/20
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$72	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	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 Q1 2020 results on May 7<sup>th</sup>, 2020. For the quarter, companywide revenue declined (5.8%) to \$11,003M from \$12,224M on (10.5%) decrease in own beer volume, (0.2%) drop in non-beer volumes and a decline of (9.2%) in third party products. All geographic regions exhibited lower volumes, but volumes were materially impacted in AsiaPacific and were down (42.3%) due to COVID-19. The three global brands of Budweiser, Stella Artois, and Corona declined (11.0%) globally and (17.5%) outside of their home markets. Earnings per share declined to (\$1.13) from \$1.80 in comparable periods. Underlying earnings declined to \$0.51 from \$0.73 in the prior year.

The company pulled 2020 guidance due to COVID-19. In many countries restaurants and bars are closed. Brewery operations in Mexico, South Africa, and Peru have been severely restricted or shutdown.

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 also divested Carlton & United Breweries to Asahi for ~\$11.3B. Proceeds will be used to pay down debt. The company also successfully listed Budweiser APAC. However, COVID-19 interrupted the deleveraging process. The company issued about \$11B in debt to enhance liquidity.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.50	\$3.63	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	\$2.17	\$4.62	<b>\$3.47</b>	<b>\$4.02</b>
<b>DPS</b>	\$0.50	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.08	\$3.30	\$2.01	<b>\$1.04</b>	<b>\$1.04</b>
<b>Shares<sup>1</sup></b>	1,605	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,015	<b>2,015</b>	<b>2,015</b>

AB InBev's earnings per share history is volatile given that it has often made acquisitions and divestures. The company completed its merger integration after the SABMiller acquisition. 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. The dividend was cut again, this time by 50% due to COVID-19. The company has prioritized deleveraging to reach its net debt-to-EBITDA ratio goal over dividends. Hence, we are not expecting the dividend to be raised in the near future despite the low payout ratio.

<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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## 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	16.5	18.0
Avg. Yld.	0.9%	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.6%	3.5%	2.4%	1.8%	1.4%

AB InBev's stock price has recovered after the decline due to COVID-19. The stock is trading at an earnings multiple of 16.5. This is below our multiple of 18X for the long haul. Note that the dividend was cut again in response to COVID-19 and additional debt was issued. Our fair value estimate is \$62. Our 5-year price target is \$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%	556%	130%	152%	44%	58%	30%	26%

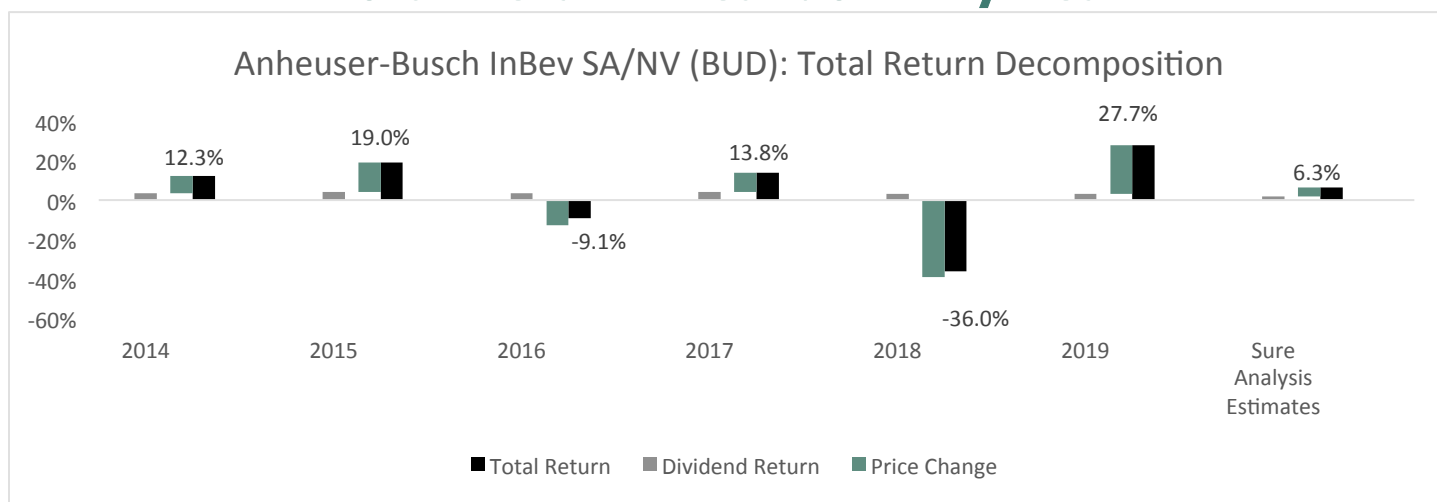
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too 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 and achieved a leverage ratio of 4.0X. But AB InBev issued another \$11B in debt to enhance its liquidity position in response to COVID-19.

## Final Thoughts & Recommendation

We see total annualized returns going forward of 6.3%. AB InBev has scale, distribution, industry leading margins, and market leading brands. However, the company is focused on reducing leverage. The dividend was cut twice in the past couple of years to focus on reducing debt. Additionally, COVID-19 will have a material impact on results this year. We remain wary about this stock, and the dividend cuts have lowered interest for those seeking income. At the current price, we rate this stock a hold.

## 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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