

Anheuser-Busch InBev SA/NV (BUD)

Updated August 31st, 2020 by Prakash Kolli

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	5.9%	Market Cap:	\$117.8B
Fair Value Price:	\$62	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	06/09/20
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	07/09/20
Dividend Yield:	1.8%	5 Year Price Target	\$72	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	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. Large regional brands include Aguila, Hoegaarden, Skol, and Brahma. The company has ~70% market share in Brazil and ~50% market share in the U.S. In 2019, revenue was ~\$52.3B. The company trades as an ADR on the NYSE.

AB InBev reported poor Q2 2020 results on July 30th, 2020. For the quarter, companywide revenue declined (17.7%) to \$10,294M from \$13,599M on a (17.1%) decline in own beer volume, (17.2%) drop in non-beer volumes and a decline of (15.5%) in non-beer volumes. All geographic regions exhibited lower volumes, but volumes were substantially impacted in EMEA, down (29.5%), and Middle Americas, down (40.6%), due to COVID-19. The three global brands of Budweiser, Stella Artois, and Corona declined (16.6%) globally and (12.6%) outside of their home markets. Earnings per share declined to \$0.18 from \$1.25 in comparable periods. Underlying earnings declined to \$0.40 from \$1.08 in the prior year.

The company pulled 2020 guidance due to government restrictions and restaurant and bar closures in many countries caused by COVID-19. These have eased and sales trends are improving. The company has also enhanced e-commerce initiatives and raised liquidity. 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. This has led to two dividend cuts the sale of Carlton & United Breweries to Asahi for ~\$11.3B. However, COVID-19 has interrupted the deleveraging process and the leverage ratio is now about 4.86X.

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	\$1.04	\$1.04
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. Top line growth will likely be low-to-mid single digits coming from geographic expansion of brands, premiumization, innovation, and acquisitions. The company continues to take brands that are successful in their home markets and distribute them to customers across the world. AB InBev is acquiring Craft Brew Alliance adding to its portfolio of brands. That said, the near-term will be challenging for AB InBev as demand will be impacted by restaurant and nightlife closures resulting from COVID-19. Earnings per share in 2020 will be much lower than 2019 at ~\$1.90 due in part to impairment charges of \$2.5B resulting from COVID-19. We believe that normalized earnings in 2020 is ~\$3.47 per share. 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.

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	18.5	16.8	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 is essentially flat since our last report. The brewing giant is struggling due to bar, restaurant, athletic facility, etc. closures. Earnings will take a hit in 2019 due to impairment charges and lower volumes. We believe normalized earnings are \$3.47 per share in 2020. 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%

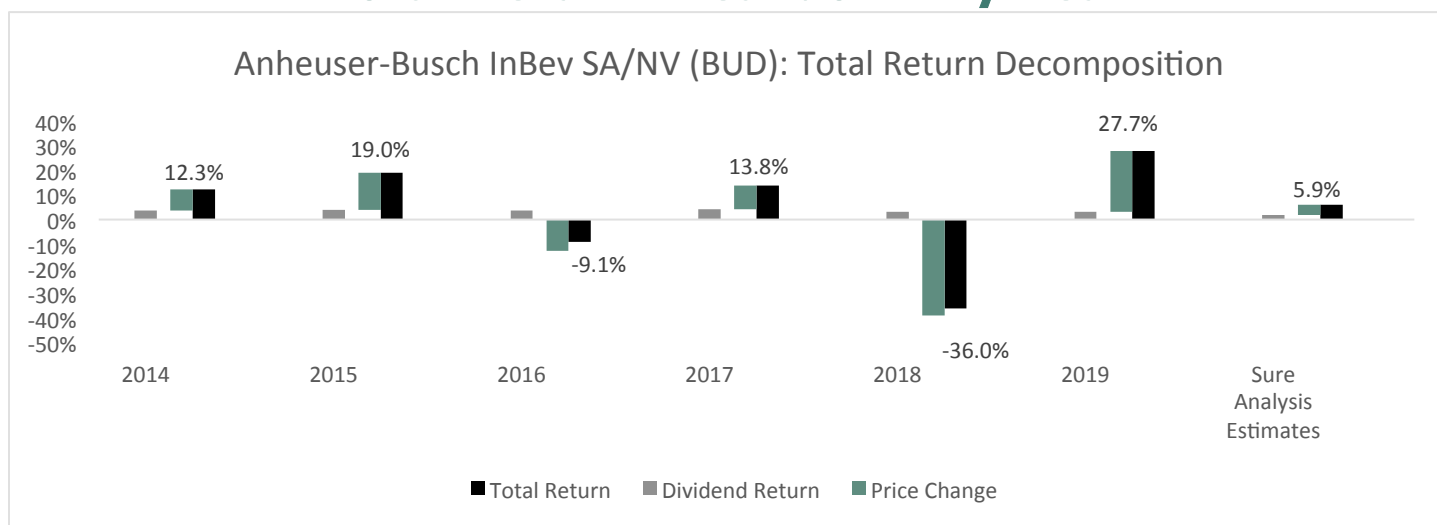
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too 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 with net debt of about \$87.4B at end of Q2 2020. The company raised liquidity to deal with the impact of COVID-19 and has about \$25.1B of cash, equivalents, and short-term investments at the moment. But this has caused the leverage ratio to spike to 4.86X at end of the quarter compared to an optimal ratio of around 2.0X.

Final Thoughts & Recommendation

At present, we expect total annualized returns going forward of 5.9%. AB InBev has scale, distribution, industry leading margins, and market leading brands. That said, too high leverage and dividend cuts have been the main focus here since the SABMiller acquisition. Further, COVID-19 has interrupted deleveraging and led to lower sales in the near-term. We remain wary about this stock. Although trends are improving, return to normal operations by the company's away-from-home customers may take longer than initially expected. 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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