



Anheuser-Busch InBev SA/NV (BUD)

Updated June 1st, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$77	5 Year CAGR Estimate:	-2.6%	Market Cap:	\$148.44B
Fair Value Price:	\$55	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/31/21
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	12/18/21
Dividend Yield:	0.7%	5 Year Price Target	\$64	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	F	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 in 2016, sold Carleton (Australian unit) in 2019, and acquired Craft Brew Alliance in 2020. AB InBev owns about 61.8% of Ambev S.A. 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 2020, revenue was ~\$46.9B. The company trades as an ADR on the NYSE.

AB InBev reported good Q1 2021 results on May 6th, 2021. Companywide revenue rose 17.2% to \$12,293M from \$11,003M as volumes rose 13.3% and revenue per hl was up 3.7%. Volumes were also up +2.8% compared to Q1 2019, before the pandemic. Volumes were up in North America (+2.9%), Middle Americas (+10.4%), South America (+12.1%), and Asia Pacific (+63.3%), but down in EMEA (-2.1%). The three global brands of Budweiser, Stella Artois, and Corona performed well with revenues increasing 29.5% globally and 46.4% outside of their home markets. Normalized earnings per share increased to \$0.51 from \$0.42 in comparable periods.

AB InBev's strategy of premiumization is being led by its three global brands. Premium brands continue to grow and are now over 30% of revenue and are more profitable per hl. A second focus is Beyond Beer, which is the intersection of beer, spirits, and wine. The category is growing at 45% CAGR and will be a \$58B market by 2024. Beyond Beer is more profitable per hl than beer. The brewer continues to focus on deleveraging, improving the debt maturity profile, and lowering financing costs. The company has stated that deleveraging is a priority for 2021 and beyond until a leverage ratio of 2X is attained, but AB InBev remains far from this goal with a current leverage ratio of 4.8X.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020	2026
EPS	\$3.63	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	\$2.17	\$4.62	\$0.70	\$3.08	\$3.57
DPS	\$1.18	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.08	\$3.30	\$2.01	\$0.57	\$0.57	\$0.57
Shares¹	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,019	1,972	1,972	1,972

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. Demand for AB InBev was negatively impacted by restaurant and nightlife closures resulting from COVID-19. Earnings per share in 2020 was lower than 2019 due in part to impairment charges of \$2.5B and lower volumes and sales. The company's dividend is paid twice a year much like many European companies, but the interim dividend was suspended due to COVID-19 and only the final dividend was paid. The company has prioritized deleveraging to reach its net debt-to-EBITDA ratio goal of 2X over dividends. Despite the now low payout ratio we view it as unlikely that the dividend will be raised until leverage is reduced.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.7	17.2	20.0	19.6	24.2	---	36.2	44.0	18.5	--	24.9	18.0
Avg. Yld.	2.1%	2.0%	3.1%	3.0%	3.3%	3.3%	3.6%	3.5%	2.4%	1.1%	0.7%	0.9%

AB InBev's stock price is up since our last report. Volumes and sales recovered in the second half of 2020 and momentum is continuing into 2021 with volumes up from pre-pandemic levels but margin pressures are rising. We have left our earnings estimate at \$3.08 per share for now. Our fair value estimate is now \$55. Our 5-year price target is \$64.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	35%	63%	58%	80%	556%	130%	152%	44%	81%	18%	16%

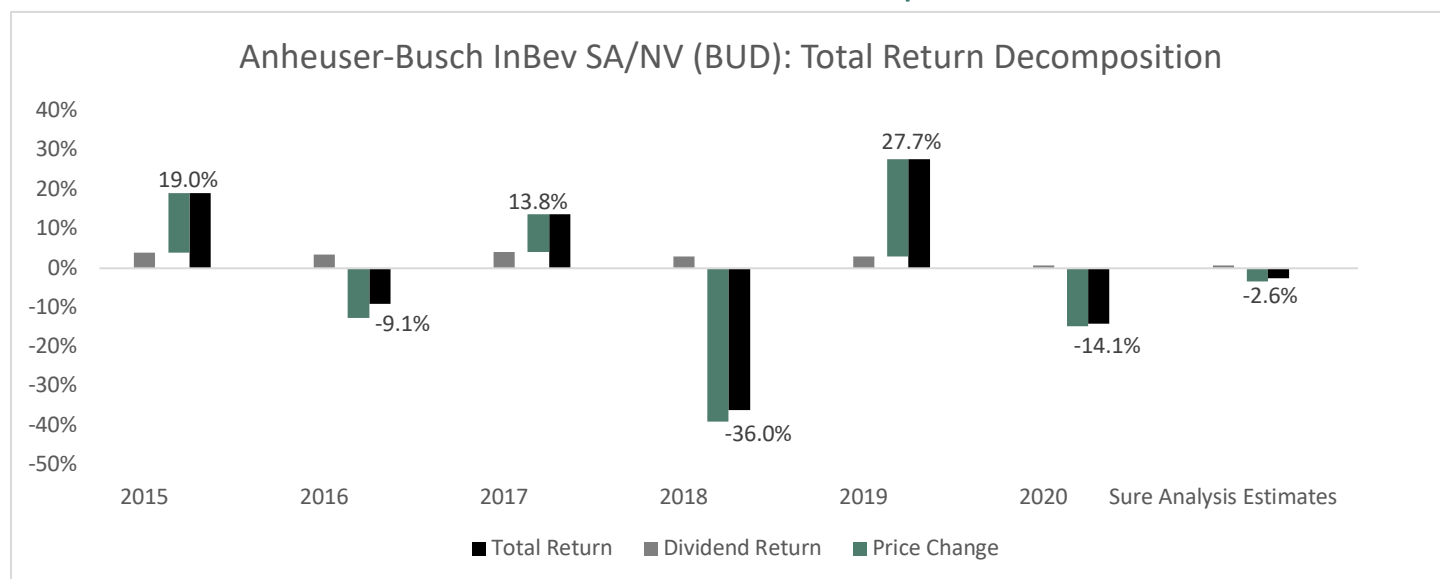
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too 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 \$82.7B at end of 2020, which is down from \$95.5B at end of 2019. The company has about \$15.3B of cash and \$9B in an undrawn credit facility. The leverage ratio is elevated at 4.8X compared to a target ratio of around 2.0X. The company has improved the debt maturity profile during COVID-19.

Final Thoughts & Recommendation

At present, we expect total annualized returns of -2.6% for the next five years. AB InBev had a difficult 2020 with lower volumes and sales due to COVID-19. But late momentum in 2020 has extended into 2021. Rising vaccination rates in the US and a global economic recovery should make 2021 a better year than 2020 despite rising margin pressures. Debt is lower after a divestment, but leverage is still high. The current yield is low, and the focus of capital allocation is growth, deleveraging, selective M&A, and then returning cash to shareholders. At the current price, we rate this stock a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	39046	39758	43195	47063	43064	45517	56444	54619	52329	46881
Gross Profit	22436	23336	25601	28307	25927	27714	35058	34260	31967	27247
Gross Margin	57.5%	58.7%	59.3%	60.1%	60.2%	60.9%	62.1%	62.7%	61.1%	58.1%
SG&A Exp.	10505	11241	12558	14385	13732	15171	18099	17118	16421	15369
D&A Exp.	2783	2747	2985	3353	3153	3477	4276	4260	4657	4829
Operating Profit	12545	12682	14124	15269	13146	13168	17591	17402	16169	12185
Op. Margin	32.1%	31.9%	32.7%	32.4%	30.5%	28.9%	31.2%	31.9%	30.9%	26.0%
Net Profit	5779	7160	14394	9218	7732	1240	7995	4370	9171	1405
Net Margin	14.8%	18.0%	33.3%	19.6%	18.0%	2.7%	14.2%	8.0%	17.5%	3.0%
Free Cash Flow	9110	10004	9995	9749	9372	5131	10689	9577	8222	7110
Income Tax	1826	1680	2016	2499	2594	1613	1920	2839	2786	1932

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	112.43	122.62	141.67	142.55	134.64	258.38	246.13	232.10	236.65	226.41
Cash & Equivalents	5320	7051	9839	8357	6923	8579	10472	7074	7238	15252
Acc. Receivable	4121	2736	2935	3363	3241	4562	4752	4412	4046	3284
Inventories	2466	2461	2872	2888	2759	3824	4018	4111	4322	4391
Goodwill/Int. (\$B)	75.12	76.14	99.26	100.68	94.74	181.10	186.81	178.14	170.57	162.50
Total Liab. (\$B)	71.37	77.17	86.36	88.29	88.92	176.96	165.91	160.20	152.10	148.06
Accounts Payable	13337	8476	9834	10913	11616	14071	15240	15512	15876	15898
LT Debt (\$B)	40.17	44.20	48.99	50.99	49.34	122.51	116.29	109.71	101.02	963.31
Total Equity	37504	41154	50365	49972	42137	71339	72585	64486	75722	68024
D/E Ratio	1.07	1.07	0.97	1.02	1.17	1.72	1.60	1.70	1.33	1.42

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.1%	6.1%	10.9%	6.5%	5.6%	0.6%	3.2%	1.8%	3.9%	0.6%
Return on Equity	15.9%	18.2%	31.5%	18.4%	16.8%	2.2%	11.1%	6.4%	13.1%	2.0%
ROIC	7.0%	8.4%	14.8%	8.8%	7.7%	0.8%	4.0%	2.3%	5.0%	0.8%
Shares Out.	1,606	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,026	2,015
Revenue/Share	24.19	24.42	26.18	28.27	25.82	25.94	28.08	27.16	25.83	23.01
FCF/Share	5.64	6.15	6.06	5.86	5.62	2.92	5.32	4.76	4.06	3.49

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

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