



Ambev S.A. (ABEV)

Updated November 30th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$2.82	5 Year CAGR Estimate:	7.3%	Market Cap:	\$46.84B
Fair Value Price:	\$3.08	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/22/21 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	01/14/22
Dividend Yield:	2.9%	5 Year Price Target	\$3.57	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	N/A%

Overview & Current Events

Ambev S.A. is the successor of two of the oldest brewers in Brazil, Companhia Cervejaria Brahma and Companhia Antarctica Paulista Indústria Brasileira de Bebidas. Today, Ambev operates as a producer and distributor of alcoholic and non-alcoholic beverages. Its main business is beer, with brands including Skol, Brahma, Antarctica, Quilmes, Labatt, Presidente, and more. The company also has a licensing agreement to produce and distribute Budweiser, Stella Artois, and Corona. It also has businesses in soft drinks (as one of the largest independent Pepsi bottlers) and other non-alcoholic beverages, including Guarana Antarctica. Currently, Ambev has operations in 16 countries. The company has a virtual monopoly in several countries with 68% market share in Brazil, 81% in Argentina, 96% in Bolivia, 90% in Paraguay and 95% in Uruguay. Ambev is 61.8% owned by Anheuser-Busch Inbev, 10.2% owned by FAHZ and the remainder is traded on the Brazilian and NYSE exchanges. The stock trades as an ADR on NYSE.

Ambev reported excellent Q3 2021 results on October 28th, 2021. Company-wide net revenue increased 20.8% to \$3,287.9M² from \$2,774.4M and earnings per share rose 56.1% to \$0.041 from \$0.025 on a year-over-year basis. The top line grew due to a 7.7% volume increase and 12.1% increase in net revenue per hectoliter. Ambev is benefitting from recovery in global economies and less restrictions in most markets. Volumes were up in Brazil (+8.0%) and Central America and Caribbean (+8.9%), Latin America South (+11.7%), offset by a decline in Canada (-6.6%). Net revenue per hectoliter increased in Brazil (+17.1%), Central America and Caribbean (+20.4%), and Latin America South (+54.5%), and declined in Canada (-2.4%). Rising vaccination rates, gradual lifting of restrictions, and pent-up demand are driving sales. Ambev is also expanding its direct-to-consumer distribution through technology initiatives and urban distribution centers. The company continues to innovate in its large brand portfolio and focus on selling premium brands.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	\$0.34	\$0.33	\$0.26	\$0.23	\$0.16	\$0.19	\$0.15	\$0.13	\$0.14	\$0.16
DPS³	---	---	\$0.06	\$0.31	\$0.21	\$0.19	\$0.17	\$0.14	\$0.12	\$0.08	\$0.08	\$0.09
Shares⁴	---	---	15,663	15,713	15,685	15,701	15,710	15,721	15,730	15,735	15,767	15,920

Earnings per share have declined since 2013, but in many years the decline was due to unfavorable currency exchange. The core business continues to perform well, with high profitability. Ambev has a positive long-term growth outlook, due largely to its focus on Latin America and expansion in Central America and Caribbean. The middle class continues to expand in many countries, due to high growth rates in these markets. In turn, consumption of Ambev's products is expected to increase. We are expecting 3% growth in the bottom line out to 2026. But in USD, results will likely be volatile because of foreign exchange effects. COVID-19 impacted operations, but the brewer has seemingly recovered finishing 2020 strong. The company's policy is to pay a minimum of 40% of adjusted annual net income as a dividend.

¹ Estimated based on prior years.

² Ambev reports in Brazilian Real. The results were converted to USD at the prevailing rate on the date of the report.

³ For US investors, there is no dividend withholding tax for companies headquartered in Brazil. There is a 15% withholding of interest on shareholder equity that cash paid by Ambev each year has been subject to. DPS lists only the dividend.

⁴ 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	---	---	17.7	16.2	15.3	19.7	38.4	20.6	31.1	23.5	20.1	22.0
Avg. Yld.	---	---	1.0%	5.8%	5.3%	4.2%	2.8%	3.6%	2.6%	3.1%	2.9%	2.6%

Ambev's stock price has declined since our last report. Volumes and sales recovery momentum at end of 2020 has continued into 2021. Higher vaccination rates and global economic recovery are resulting in higher volumes for Ambev. We have upped earnings estimate to match the consensus. The stock is now trading below our fair volume multiple of 22X, near the average in the past decade. Our fair value estimate is now \$3.08. Our 5-year price target is still \$3.57.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020	2026
Payout	---	---	18%	58%	81%	78%	100%	74%	81%	61%	58%	58%

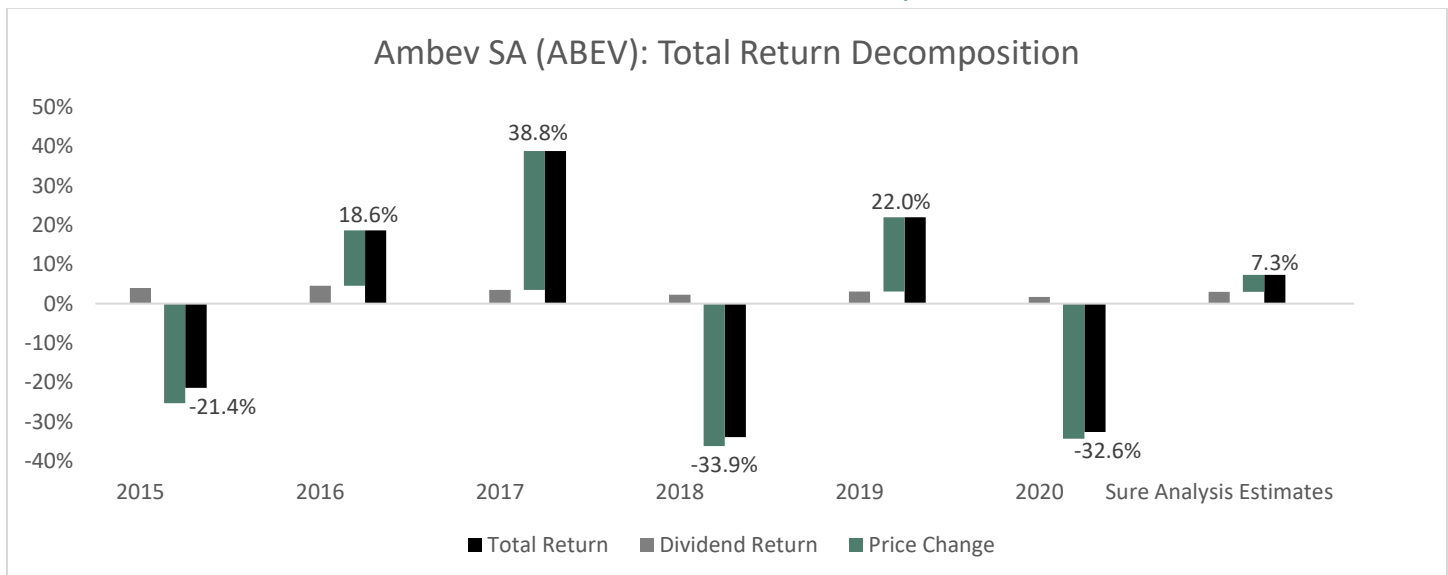
Ambev's competitive advantage is its market leadership position and well-known brands in much of Latin America, where it has a virtual monopoly. The company has an impressive production network consisting of more than 30 breweries ranging from the north to the south of Brazil. Ambev operates verticalized breweries, which helps keep production and distribution costs low. In addition, the company has a license to sell Stella Artois, Corona, and Budweiser in its markets. Ambev is not recession resistant as alcoholic beverages are mostly a consumer discretionary purchase. COVID-19 severely impacted volumes and sales during Q1 and Q2 2020 due to government restrictions.

The balance sheet is very conservative. Ambev has reasonable total debt of \$538.31M at end of Q3 2021. This is offset by a large position in cash, equivalents, and securities of \$3,556.1M, giving Ambev a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 7.3% total annualized return over the next five years. Volumes and sales are growing now in nine out of ten of Ambev's markets as the brewer experiences robust demand in beer volumes and sales from the depths of the pandemic. In fact, the company's rolling 12-month volumes are at an all-time high going back the past decade. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16198	16642	16287	16207	14270	13148	14974	13821	13342	11438
Gross Profit	10825	11207	10914	10753	9364	8339	9334	8519	7843	6135
Gross Margin	66.8%	67.3%	67.0%	66.3%	65.6%	63.4%	62.3%	61.6%	58.8%	53.6%
SG&A Exp.	4473	4608	4554	4673	4111	4087	4545	4081	3888	3442
D&A Exp.	992	1001	977	1018	939	1013	1129	1107	1186	1012
Operating Profit	6802	7021	7167	6759	5829	4584	5141	4706	4119	2758
Op. Margin	42.0%	42.2%	44.0%	41.7%	40.8%	34.9%	34.3%	34.1%	30.9%	24.1%
Net Profit	3073	3252	4437	5135	3795	3617	2292	3033	2988	2230
Net Margin	19.0%	19.5%	27.2%	31.7%	26.6%	27.5%	15.3%	21.9%	22.4%	19.5%
Free Cash Flow	5654	5790	5341	4853	5596	2368	4586	3946	3377	2775
Income Tax	1459	1199	1152	854	1110	91	1588	492	191	345

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	28843	30314	29184	27096	22763	25755	26208	24288	25281	24081
Cash & Equivalents	4365	4511	4874	3652	3438	2420	3124	2958	2957	3287
Acc. Receivable	2234	1201	1256	1138	1052	1342	1492	1259	1117	828
Inventories	1200	1221	1146	1226	1035	1263	1240	1394	1404	1463
Goodwill & Int.	13786	14414	12774	11740	9099	10984	10886	10352	10266	9156
Total Liabilities	11093	12032	10502	10704	10057	11424	11729	9439	9737	9626
Accounts Payable	6056	3257	3383	3092	2804	3008	3144	3625	3744	3720
Long-Term Debt	2205	1537	1219	1014	901	1645	761	625	227	922
Total Equity	12372	12374	18162	15858	12200	13770	13883	14538	15226	14198
D/E Ratio	0.18	0.12	0.07	0.06	0.07	0.12	0.05	0.04	0.01	0.06

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.4%	11.0%	14.9%	18.2%	15.2%	14.9%	8.8%	12.0%	12.0%	9.0%
Return on Equity	23.0%	26.3%	29.1%	30.2%	27.0%	27.9%	16.6%	21.3%	20.1%	15.2%
ROIC	16.0%	16.4%	22.3%	27.5%	24.5%	24.5%	14.7%	19.8%	19.1%	14.3%
Shares Out.	---	---	12,820	15,820	15,820	15,820	15,840	15,856	15,730	15,735
Revenue/Share	1.65	1.69	1.27	1.02	0.90	0.83	0.95	0.87	0.84	0.72
FCF/Share	0.57	0.59	0.42	0.31	0.35	0.15	0.29	0.25	0.21	0.17

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

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