



Anheuser-Busch InBev SA/NV (BUD)

Updated March 3rd, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	6.0%	Market Cap:	\$116.81B
Fair Value Price:	\$65	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/04/22
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	06/03/22
Dividend Yield:	1.0%	5 Year Price Target	\$75	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. 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 2021, revenue was ~\$54.3B. The company trades as an ADR on the NYSE.

AB InBev reported excellent Q4 2021 results on February 24th, 2022. Companywide revenue rose 12.1% to \$14,198M from \$12,767M as total volumes rose 3.6% and revenue per hl was up 8.1%. Own beer volumes were up +3.4% and non-beer volumes grew +3.8%. Volumes were up in Middle Americas (+3.8%), South America (+0.4%), EMEA (+8.4%), Asia Pacific (+8.9%), and North America (+1.0%). The three global brands of Budweiser (+15.2%), Stella Artois (+19.3%), and Corona (+42.4%) performed well with revenues increasing in the double-digits outside of their home markets. Normalized earnings per share decreased to \$0.74 from \$0.81 in comparable periods.

AB InBev's strategy of premiumization is being led by its three global brands. Premium brands continue to grow 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 company is focused on health & wellness innovation. The company is rolling out digital platforms of BEES app for B2B and Ze Delivery app for direct-to-customer. 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 ~4.0X.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.45	\$4.81	\$5.54	\$4.96	\$0.72	\$3.15	\$2.17	\$4.62	\$0.70	\$2.33	\$3.23	\$3.74
DPS	\$1.56	\$3.03	\$3.24	\$3.95	\$4.00	\$4.08	\$3.30	\$2.01	\$0.57	\$0.60	\$0.60	\$0.60
Shares¹	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,019	1,972	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 caused by COVID-19. Earnings per share in 2020 was lower than in 2019 due in part to impairment charges of \$2.5B and lower volumes and sales but has recovered since then. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.2	20.0	19.6	24.2	---	36.2	44.0	18.5	--	25.0	18.0	20.0
Avg. Yld.	2.0%	3.1%	3.0%	3.3%	3.3%	3.6%	3.5%	2.4%	1.1%	0.9%	1.0%	0.8%

AB InBev's stock price is up slightly since our last report. Sales are rising, and the company's volumes are higher than pre-pandemic levels. Our earnings estimate at \$3.23 per share for 2022. Our estimated fair value multiple is 20X accounting for the uncertainty. Our fair value estimate is \$65. Our 5-year price target is \$75.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	63%	58%	80%	55%	130%	152%	44%	81%	26%	19%	16%

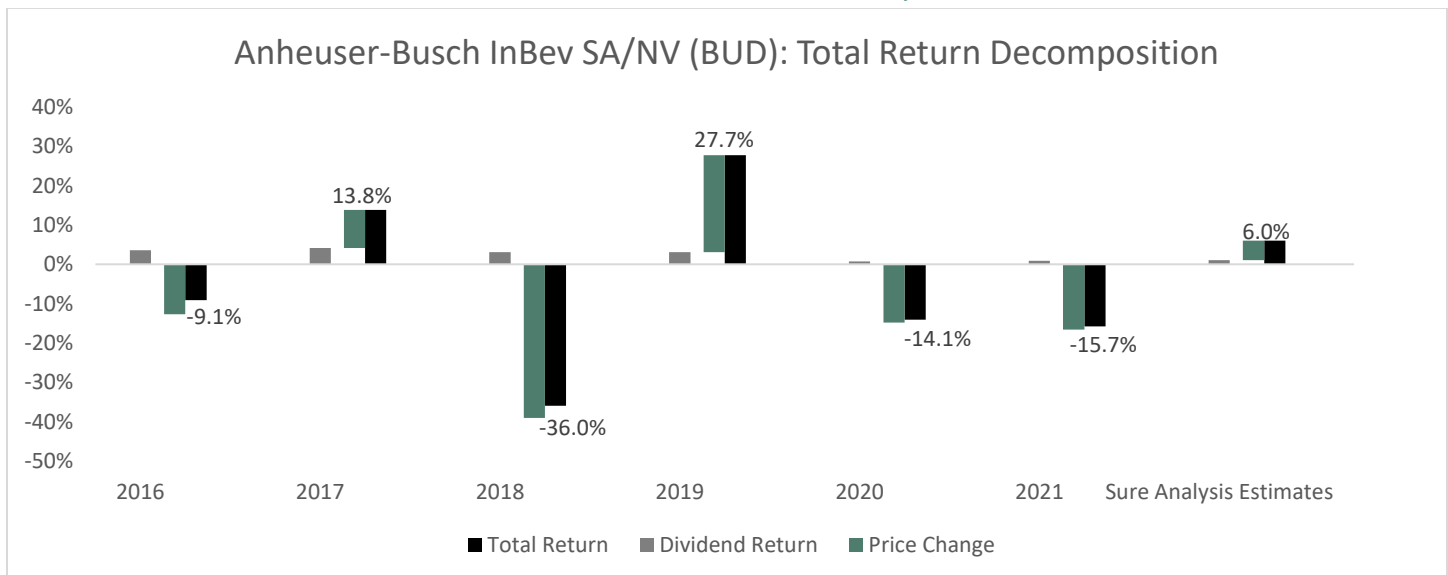
AB InBev's competitive advantages are its global brands and global supply chain that gives the company unmatched reach and capacity in the world. The company does face risks in commodity pricing and foreign exchange due to its global footprint. AB InBev also faces merger integration risk in that too deep cost cutting may hinder top line growth. This is a real risk as Kraft Heinz, also controlled and run by 3G Capital, has 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 \$76.2B at end of Q4 2021, which is down from \$95.5B at end of 2019. The company has about \$12.1B of cash and \$10.1B in an undrawn credit facility. The leverage ratio is elevated at 4.0X 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 6.0% for the next five years. AB InBev's momentum from the second half of 2021 is continuing due to pent up demand resulting in rising volumes and sales. The company's volumes are at a record and the three global brands continue to grow due to premiumization. Debt is lower each year, but leverage is still very 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 hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	39758	43195	47063	43064	45517	56444	54619	52329	46881	54304
Gross Profit	23336	25601	28307	25927	27714	35058	34260	31967	27247	31207
Gross Margin	58.7%	59.3%	60.1%	60.2%	60.9%	62.1%	62.7%	61.1%	58.1%	57.5%
SG&A Exp.	11241	12558	14385	13732	15171	18099	17118	16421	15369	17575
D&A Exp.	2747	2985	3353	3153	3477	4276	4260	4657	4829	5052
Operating Profit	12682	14124	15269	13146	13168	17591	17402	16169	12185	14146
Op. Margin	31.9%	32.7%	32.4%	30.5%	28.9%	31.2%	31.9%	30.9%	26.0%	26.0%
Net Profit	7160	14394	9218	7732	1240	7995	4370	9171	1405	4670
Net Margin	18.0%	33.3%	19.6%	18.0%	2.7%	14.2%	8.0%	17.5%	3.0%	8.6%
Free Cash Flow	10004	9995	9749	9372	5131	10689	9577	8222	7110	9159
Income Tax	1680	2016	2499	2594	1613	1920	2839	2786	1932	2350

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	122.62	141.67	142.55	134.64	258.38	246.13	232.10	236.65	226.41	217.63
Cash & Equivalents	7051	9839	8357	6923	8579	10472	7074	7238	15252	12019
Acc. Receivable	2736	2935	3363	3241	4562	4752	4412	4046	3284	3465
Inventories	2461	2872	2888	2759	3824	4018	4111	4322	4391	5284
Goodwill/Int. (\$B)	76.14	99.26	100.68	94.74	181.10	186.81	178.14	170.57	162.50	156.23
Total Liab. (\$B)	77.17	86.36	88.29	88.92	176.96	165.91	160.20	152.10	148.06	138.29
Accounts Payable	8476	9834	10913	11616	14071	15240	15512	15876	15898	17810
LT Debt (\$B)	44.20	48.99	50.99	49.34	122.51	116.29	109.71	101.02	96.33	86.5
Total Equity	41154	50365	49972	42137	71339	72585	64486	75722	68024	68669
LTD/E Ratio	1.07	0.97	1.02	1.17	1.72	1.60	1.70	1.33	1.42	1.26

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.1%	10.9%	6.5%	5.6%	0.6%	3.2%	1.8%	3.9%	0.6%	2.1%
Return on Equity	18.2%	31.5%	18.4%	16.8%	2.2%	11.1%	6.4%	13.1%	2.0%	6.8%
ROIC	8.4%	14.8%	8.8%	7.7%	0.8%	4.0%	2.3%	5.0%	0.8%	2.7%
Shares Out.	1,607	1,608	1,608	1,608	2,019	2,019	2,019	2,026	2,037	2,045
Revenue/Share	24.42	26.18	28.27	25.82	25.94	28.08	27.16	25.83	23.01	26.55
FCF/Share	6.15	6.06	5.86	5.62	2.92	5.32	4.76	4.06	3.49	4.48

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

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