



Ambev S.A. (ABEV)

Updated March 17th, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$2.68	5 Year CAGR Estimate:	11.9%	Market Cap:	\$42.85B
Fair Value Price:	\$3.36	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/22/23 ¹
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date:	01/06/24
Dividend Yield:	5.5%	5 Year Price Target	\$3.90	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

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 the NYSE.

Ambev reported Q4 2022 and full-year results on March 2nd, 2023. For the quarter, company-wide net revenue increased 3.1% to \$4,304.19M² from \$4,174.80M and earnings per share surged +37.7% to \$0.061 from \$0.044 on a year-over-year basis. Revenues increased due to higher volumes in Brazil NAB and Beer, offset by Latin America South, Central America and Caribbean, and Canada. The top line grew due to a 1.5% volume increase and 19.7% increase in net revenue per hectoliter. Ambev is benefitting from solid global economies but is challenged by supply chain issues and higher commodity prices and a stretched consumer. Volumes were up in Brazil NAB (+6.6%) and Brazil Beer (4.0%), offset by large declines in Latin America South (-1.5%), Canada (-5.4%), and Central America and Caribbean (-13.4%) because of high inflation. Net revenue per hectoliter increased in Brazil Beer (+16.9%), Canada (+1.9%), Latin America South (+54.0%), and Brazil NAB (+25.7%) offset by a decline in Central America and Caribbean (-5.7%).

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.34	\$0.33	\$0.26	\$0.23	\$0.16	\$0.19	\$0.15	\$0.13	\$0.16	\$0.17	\$0.16	\$0.19
DPS³	\$0.06	\$0.31	\$0.21	\$0.19	\$0.17	\$0.14	\$0.12	\$0.08	\$0.11	\$0.14	\$0.15	\$0.17
Shares⁴	15,663	15,713	15,685	15,701	15,710	15,721	15,730	15,735	15,868	15,750	15,719	15,562

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 because of 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 2028. But in USD, results will likely be volatile because of foreign exchange effects. COVID-19 impacted operations, but the brewer has recovered. 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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.7	16.2	15.3	19.7	38.4	20.6	31.1	23.5	17.5	16.0	16.8	21.0
Avg. Yld.	1.0%	5.8%	5.3%	4.2%	2.8%	3.6%	2.6%	3.1%	4.3%	5.3%	5.5%	4.4%

Ambev's stock price is down significantly since our last report. Volumes and sales recovery momentum at end of 2020 has continued for ten straight quarters. The global economic recovery is resulting in higher volumes for Ambev but 2023 may be challenging. We set our 2023 earnings estimate at consensus. We lowered our fair value multiple to 21X, slightly below the average in the past decade. Our fair value estimate is now \$3.36. Our 5-year price target is now \$3.90.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	58%	81%	78%	100%	74%	81%	61%	67%	85%	93%	93%

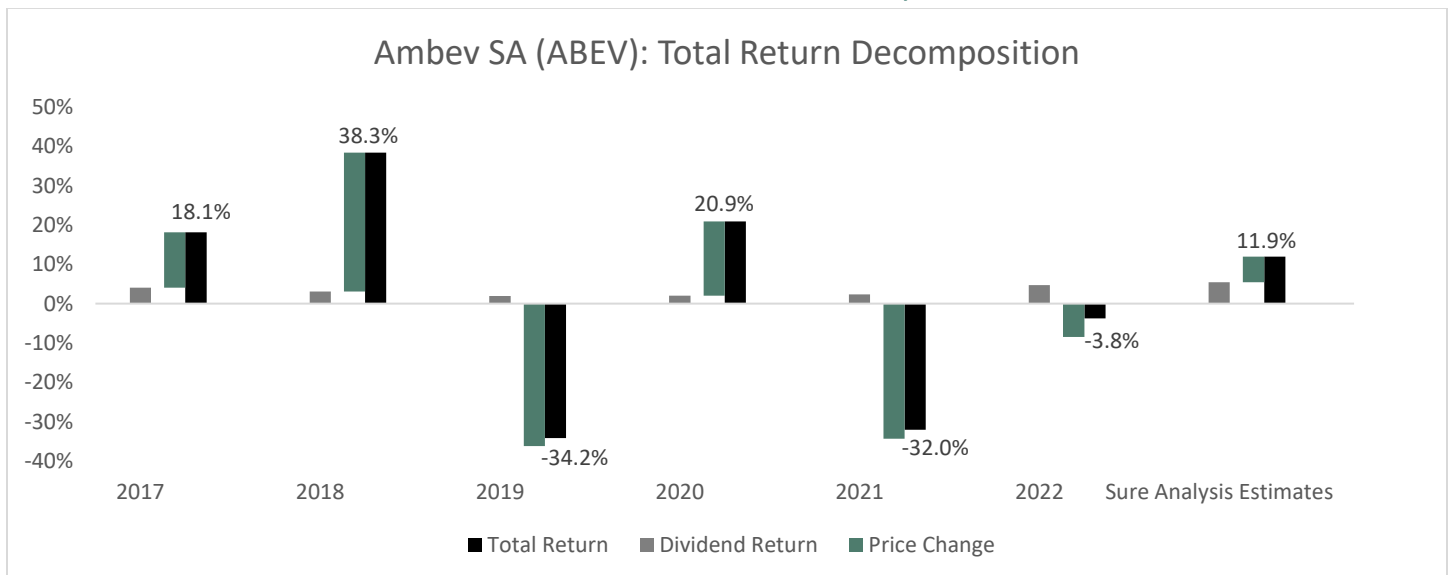
Ambev's competitive advantage is its market leadership position and well-known brands in much of Latin America, where it has a virtual monopoly. The company has an impressive production network consisting of more than 30 breweries ranging from the north to the south of Brazil. Ambev operates verticalized 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 \$588.07M at end of Q4 2022. This is offset by a large position in cash, equivalents, and securities of \$2,917.3M, giving Ambev a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 11.9% total annualized return over the next five years from a dividend yield of 5.5%, 3% EPS growth, and 4.6% P/E multiple expansion. Volumes and sales have grown for ten consecutive quarters. However, the brewer is experiencing higher commodity costs and supply chain issues that are impacting profitability. The decline in stock prices has increased the yield for those seeking income. We have changed our rating to a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	16287	16207	14270	13148	14974	13821	13342	11438	13529	15459
Gross Profit	10914	10753	9364	8339	9334	8519	7843	6135	6907	7619
Gross Margin	67.0%	66.3%	65.6%	63.4%	62.3%	61.6%	58.8%	53.6%	51.1%	49.3%
SG&A Exp.	4554	4673	4111	4087	4545	4081	3888	3442	4057	4649
D&A Exp.	977	1018	939	1013	1129	1107	1186	1012	1002	1155
Operating Profit	7167	6759	5829	4584	5141	4706	4119	2758	3192	3441
Op. Margin	44.0%	41.7%	40.8%	34.9%	34.3%	34.1%	30.9%	24.1%	23.6%	22.3%
Net Profit	4437	5135	3795	3617	2292	3033	2988	2230	2353	2804
Net Margin	27.2%	31.7%	26.6%	27.5%	15.3%	21.9%	22.4%	19.5%	17.4%	18.1%
Free Cash Flow	5341	4853	5596	2368	4586	3946	3377	2775	2827	2736
Income Tax	1152	854	1110	91	1588	492	191	345	118	-127

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	29184	27096	22763	25755	26208	24288	25281	24081	24869	26090
Cash & Equivalents	4874	3652	3438	2420	3124	2958	2957	3287	2984	2823
Acc. Receivable	1256	1138	1052	1342	1492	1259	1117	828	860	1012
Inventories	1146	1226	1035	1263	1240	1394	1404	1463	1974	2444
Goodwill & Int.	12774	11740	9099	10984	10886	10352	10266	9156	9169	9421
Total Liabilities	10502	10704	10057	11424	11729	9439	9737	9626	9794	10331
Accounts Payable	3383	3092	2804	3008	3144	3625	3744	3720	4500	4601
Long-Term Debt	1219	1014	901	1645	761	625	227	922	88	727
Total Equity	18162	15858	12200	13770	13883	14538	15226	14198	14829	15499
LTD/E Ratio	0.07	0.06	0.07	0.12	0.05	0.04	0.01	0.04	0.01	0.05

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.9%	18.2%	15.2%	14.9%	8.8%	12.0%	12.0%	9.0%	9.6%	11.0%
Return on Equity	29.1%	30.2%	27.0%	27.9%	16.6%	21.3%	20.1%	15.2%	16.2%	18.5%
ROIC	22.3%	27.5%	24.5%	24.5%	14.7%	19.8%	19.1%	14.3%	15.6%	17.7%
Shares Out.	12,820	15,820	15,820	15,820	15,840	15,856	15,730	15,735	15,860	15,849
Revenue/Share	1.27	1.02	0.90	0.83	0.95	0.87	0.84	0.72	0.85	0.98
FCF/Share	0.42	0.31	0.35	0.15	0.29	0.25	0.21	0.17	0.18	0.17

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

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