



# Anheuser-Busch InBev SA/NV (BUD)

Updated August 30<sup>th</sup>, 2023 by Prakash Kolli

## Key Metrics

|                             |      |  |      |                                  |                       |
|-----------------------------|------|--|------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$58 | <b>5 Year CAGR Estimate:</b>               | 4.9% | <b>Market Cap:</b>               | \$114.25B             |
| <b>Fair Value Price:</b>    | \$61 | <b>5 Year Growth Estimate:</b>             | 3.0% | <b>Ex-Dividend Date:</b>         | 05/03/24 <sup>1</sup> |
| <b>% Fair Value:</b>        | 95%  | <b>5 Year Valuation Multiple Estimate:</b> | 1.1% | <b>Dividend Payment Date:</b>    | 06/14/24              |
| <b>Dividend Yield:</b>      | 0.9% | <b>5 Year Price Target</b>                 | \$71 | <b>Years Of Dividend Growth:</b> | N/A                   |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | F    | <b>Rating:</b>                   | Hold                  |

## 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 seven 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 2022, revenue was ~\$57.8B. The company trades as an ADR on the NYSE.

AB InBev reported Q2 2023 results on August 3<sup>rd</sup>, 2023. Companywide revenue rose 7.2% to \$15,120M from \$14,793M as total volumes fell (-1.4%) and revenue per hl was up 9.0%. Total volumes fell (-1.4%) with own beer volumes down (-1.8%) and non-beer volumes grew +0.5%. Volumes were up in the Middle Americas (+0.3%) and Asia Pacific (+9.5%), but declined in EMEA (-0.1%), South America (-1.9%), and North America (-14.1%). Outside of their home markets, the three global brands performed well with combined revenues increasing 18.4%. Normalized earnings per share decreased to \$0.17 from \$0.79 in comparable periods, while underlying EPS fell to \$0.72 from \$0.73 (accounting for adjustments).

Currently, the firm is facing difficulties from a customer boycott of its Bud Light brand in the United States in response to a marketing campaign. Volumes declined dramatically but have stabilized. Bud Light was the number one brand in the United States but was passed by Modelo. As a result, total market share, revenue, and EBITDA are now lower.

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.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$4.81 | \$5.54 | \$4.96 | \$0.72 | \$3.15 | \$2.17 | \$4.62 | \$0.70 | \$2.33 | \$2.97 | <b>\$3.06</b> | <b>\$3.55</b> |
| <b>DPS</b>                | \$3.03 | \$3.24 | \$3.95 | \$4.00 | \$4.08 | \$3.30 | \$2.01 | \$0.57 | \$0.60 | \$0.53 | <b>\$0.53</b> | <b>\$0.53</b> |
| <b>Shares<sup>2</sup></b> | 1,608  | 1,608  | 1,608  | 2,019  | 2,019  | 2,019  | 2,019  | 1,972  | 1,975  | 1,975  | <b>1,975</b>  | <b>1,975</b>  |

AB InBev's earnings per share history is volatile given that it often made acquisitions and divestures. Top line growth will likely be low-to-mid single-digits coming from geographic expansion of brands, premiumization, innovation, acquisitions, and direct-to-consumer solutions. The company continues to take brands that are successful in their home markets and distribute them to customers across the world. Demand was negatively impacted during COVID-19 and EPS in 2020 was affected by impairment charges of \$2.5B and lower volumes. However, volumes recovered. But AB InBev is now facing challenges with its important Bud Light brand because of a negative reaction to a marketing campaign. The company's dividend is now paid once per year. The company has prioritized reaching its net debt-to-EBITDA ratio goal over dividend payments. Despite the low payout ratio, we view it as unlikely that the dividend will be raised until leverage is reduced.

<sup>1</sup> Anheuser-InBev has not yet announced the next dividend. This is estimated based in prior history.

<sup>2</sup> 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  | 20.0 | 19.6 | 24.2 | ---  | 36.2 | 44.0 | 18.5 | --   | 27.8 | 20.3 | 18.9 | 20.0 |
| Avg. Yld. | 3.1% | 3.0% | 3.3% | 3.3% | 3.6% | 3.5% | 2.4% | 1.1% | 0.9% | 0.7% | 0.9% | 0.7% |

AB InBev's stock price is up slightly since our last report. Sales and earnings are rising. We again lowered our earnings estimate to consensus for 2023. Our estimated fair value multiple is 20X, accounting for global economic uncertainty, inflation, and foreign exchange headwinds. Our fair value estimate is \$61. Our 5-year price target is \$71.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 63%  | 58%  | 80%  | 55%  | 130% | 152% | 44%  | 81%  | 26%  | 18%  | 17%  | 15%  |

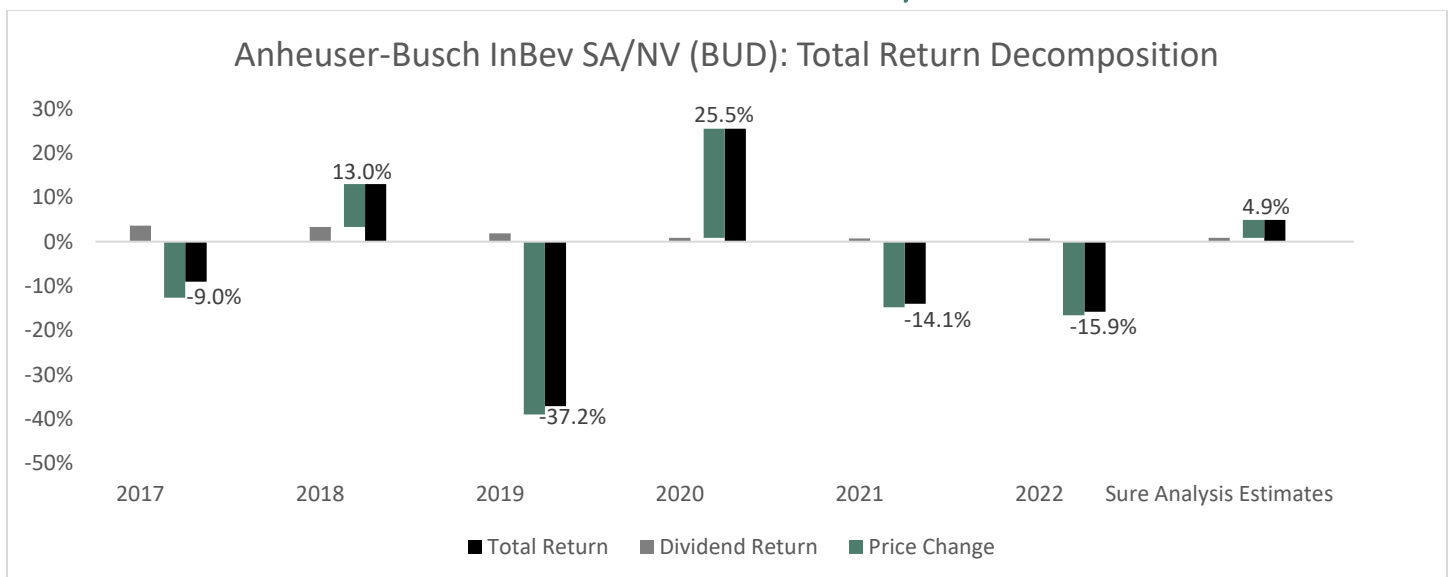
AB InBev's competitive advantages are its global brands and supply chain that gives the company unmatched reach and capacity in the world. The brewer owns seven of the top 10 most valuable beer brands. AB InBev is also successfully leveraging its direct-to-consumer technology platforms to transition to digital solutions. The company faces risks in commodity pricing, adverse reactions to marketing, and foreign exchange due to its global footprint. The company is not recession resistant as alcoholic beverages are largely a consumer discretionary purchase.

AB InBev is leveraged with net debt of about \$73.8B at end of Q2 2023, down from \$122.6B at end of 2016. The company has about \$6.8B of cash. The leverage ratio is elevated at ~4.1X compared to a target of 2.0X. However, the company's deleveraging progress is being recognized and the credit agencies have raised their ratings.

## Final Thoughts & Recommendation

At present, we expect total annualized returns of 4.9% for the next five years from a dividend yield of 0.9%, 3.0% EPS growth, and 1.1% P/E multiple expansion. AB InBev's momentum has slowed as consumers step back from discretionary purchases. Also, inflation is affecting commodity and supply chain costs. The firm is now experiencing lower volumes for leading brands because of negative perception around a marketing campaign. The focus of capital allocation is growth, deleveraging, selective M&A, and then returning of capital. At the current price, we rate this stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 43195 | 47063 | 43064 | 45517 | 56444 | 54619 | 52329 | 46881 | 54304 | 57786 |
| <b>Gross Profit</b>     | 25601 | 28307 | 25927 | 27714 | 35058 | 34260 | 31967 | 27247 | 31207 | 31481 |
| <b>Gross Margin</b>     | 59.3% | 60.1% | 60.2% | 60.9% | 62.1% | 62.7% | 61.1% | 58.1% | 57.5% | 54.5% |
| <b>SG&amp;A Exp.</b>    | 12558 | 14385 | 13732 | 15171 | 18099 | 17118 | 16421 | 15369 | 17575 | 17555 |
| <b>D&amp;A Exp.</b>     | 2985  | 3353  | 3153  | 3477  | 4276  | 4260  | 4657  | 4829  | 5052  | 5078  |
| <b>Operating Profit</b> | 14124 | 15269 | 13146 | 13168 | 17591 | 17402 | 16169 | 12185 | 14146 | 14264 |
| <b>Op. Margin</b>       | 32.7% | 32.4% | 30.5% | 28.9% | 31.2% | 31.9% | 30.9% | 26.0% | 26.0% | 24.7% |
| <b>Net Profit</b>       | 14394 | 9218  | 7732  | 1240  | 7995  | 4370  | 9171  | 1405  | 4670  | 5969  |
| <b>Net Margin</b>       | 33.3% | 19.6% | 18.0% | 2.7%  | 14.2% | 8.0%  | 17.5% | 3.0%  | 8.6%  | 10.3% |
| <b>Free Cash Flow</b>   | 9995  | 9749  | 9372  | 5131  | 10689 | 9577  | 8222  | 7110  | 9159  | 8138  |
| <b>Income Tax</b>       | 2016  | 2499  | 2594  | 1613  | 1920  | 2839  | 2786  | 1932  | 2350  | 1928  |

## Balance Sheet Metrics

| Year                          | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets (\$B)</b>     | 141.67 | 142.55 | 134.64 | 258.38 | 246.13 | 232.10 | 236.65 | 226.41 | 217.63 | 212.94 |
| <b>Cash &amp; Equivalents</b> | 9839   | 8357   | 6923   | 8579   | 10472  | 7074   | 7238   | 15252  | 12019  | 9973   |
| <b>Acc. Receivable</b>        | 2935   | 3363   | 3241   | 4562   | 4752   | 4412   | 4046   | 3284   | 3465   | 3637   |
| <b>Inventories</b>            | 2872   | 2888   | 2759   | 3824   | 4018   | 4111   | 4322   | 4391   | 5284   | 6525   |
| <b>Goodwill/Int. (\$B)</b>    | 99.26  | 100.68 | 94.74  | 181.10 | 186.81 | 178.14 | 170.57 | 162.50 | 156.23 | 153.22 |
| <b>Total Liab. (\$B)</b>      | 86.36  | 88.29  | 88.92  | 176.96 | 165.91 | 160.20 | 152.10 | 148.06 | 138.29 | 128.67 |
| <b>Accounts Payable</b>       | 9834   | 10913  | 11616  | 14071  | 15240  | 15512  | 15876  | 15898  | 17810  | 18589  |
| <b>LT Debt (\$B)</b>          | 48.99  | 50.99  | 49.34  | 122.51 | 116.29 | 109.71 | 101.02 | 96.33  | 86.50  | 77.50  |
| <b>Total Equity</b>           | 50365  | 49972  | 42137  | 71339  | 72585  | 64486  | 75722  | 68024  | 68669  | 73398  |
| <b>LTD/E Ratio</b>            | 0.97   | 1.02   | 1.17   | 1.72   | 1.60   | 1.70   | 1.33   | 1.42   | 1.26   | 1.06   |

## Profitability & Per Share Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 10.9% | 6.5%  | 5.6%  | 0.6%  | 3.2%  | 1.8%  | 3.9%  | 0.6%  | 2.1%  | 2.8%  |
| <b>Return on Equity</b> | 31.5% | 18.4% | 16.8% | 2.2%  | 11.1% | 6.4%  | 13.1% | 2.0%  | 6.8%  | 8.4%  |
| <b>ROIC</b>             | 14.8% | 8.8%  | 7.7%  | 0.8%  | 4.0%  | 2.3%  | 5.0%  | 0.8%  | 2.7%  | 3.6%  |
| <b>Shares Out.</b>      | 1,608 | 1,608 | 1,608 | 2,019 | 2,019 | 2,019 | 2,026 | 2,037 | 2,045 | 2,050 |
| <b>Revenue/Share</b>    | 26.18 | 28.27 | 25.82 | 25.94 | 28.08 | 27.16 | 25.83 | 23.01 | 26.55 | 28.19 |
| <b>FCF/Share</b>        | 6.06  | 5.86  | 5.62  | 2.92  | 5.32  | 4.76  | 4.06  | 3.49  | 4.48  | 3.97  |

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

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