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EQUITY MANAGEMENT (SOUTH AFRICA)

EQUITY INSIGHTS

Anheuser-Busch InBev: A frank review shows good quality at an attractive price

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REVIEWING THE BUSINESSES PERFORMANCE & PROFILE

AB InBev has faced a number of challenges in recent years as reflected in the fortunes of the stock price. US Dollar discretionary spending in Latin America was affected by recession, high inflation and currency devaluation. In the US, mainstream volumes are being ceded to craft beer, wine and Constellation Brands, but being offset by price increases and premium market share gains. Europe has been weak in volume and pricing whilst Asia Pacific has been a strong growth driver. The business arguably over-paid for SAB, leaving debt levels uncomfortable in a moderate growth environment and increasing the risk profile. The dividend payout ratio has been reduced to 50% in favor of de-gearing, in line with historic practice post acquisitions. Management has delivered on SAB synergies, expanded gross margins, grown global brand volumes and demonstrated strong premiumisation. Working capital has consistently improved to support cash flows.

Impressive business strength based on a scale-driven low-cost moat:

- The business leads in scale, brewing 25% of the world's beer, 612m hectolitres vs 218m for Heineken in second place.
- Superior brand equity has been built over years of investment in advertising & promotion, driving growth in revenue per hectoliter (hl) across regions & amongst global brands Corona, Budweiser and Stella Artois. The group owns 5 of the top 10 global beer brands.
- Combined leading scale, efficiency and margins in the world's largest beer profit pools results in $35 of EBITDA per hl vs $26 for Heineken.
- Cash flow conversion is 27% of Revenue & 140% of Earnings. $15.4 billion cash flow from operations (FY'17) gives the group a strong ability to grow organically, de-gear and payout some profits.
- Post the SAB acquisition, the group has greater diversification into faster growing regions including Mexico, Africa, Asia Pacific and parts of South America. Emerging Market Revenue exposure is now 70%.

MANAGEMENT STEWARDSHIP UNDER OBSERVATION

Management's reputation has been somewhat impaired on mixed interim delivery, seemingly expensive SAB deal, and the resultant over-leveraged position. As operators, management remain well regarded given best in class operating efficiencies and value enhancing system. Credit must be given for synergy gains and the long-term foresight to position AB InBev in higher growth emerging markets.

PREMIUMISATION-DRIVEN GROWTH

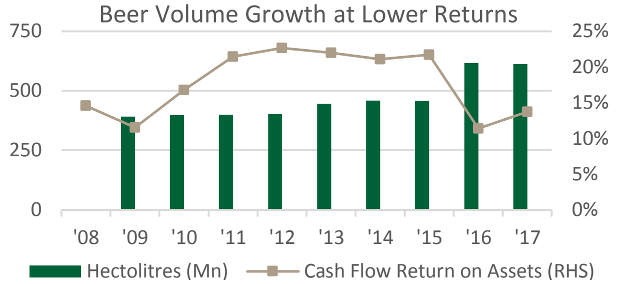
Long-term, moderate organic growth is expected amidst both drivers and detractors. Declining mainstream volumes in key US and Brazilian markets detract, whilst premiumisation drives price growth worldwide. Tailwinds in Latin America are expected from recovering US Dollar discretionary spend. Higher growth markets include Mexico, China and Africa (ex-SA). Operating margin gains and de-gearing will be earnings accretive.

SUMMARY

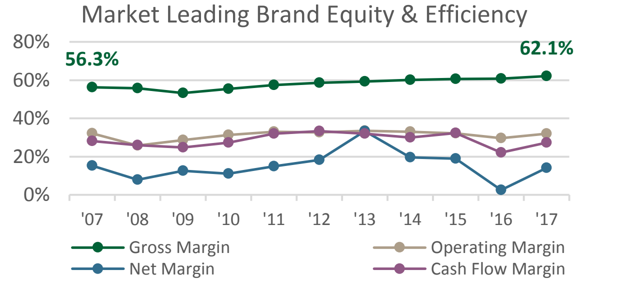
AB InBev appears attractively valued. Organic earnings growth and dividends are expected to drive pleasing long-term returns for shareholders. In summary, AB InBev remains a core holding in client portfolios.

	Anheuser-Busch InBev SA/NV
Market Cap	R 1761bn
Current Share Price	R 1,039.09
52w High-Low Range	R 930.01 - R 1487.14
Forward PE	16.0x
Forward DY	2.67%
Financial Year End	31 December 2017

Sources: FactSet, February 2019



Sources: Company Filings & FactSet, February 2019



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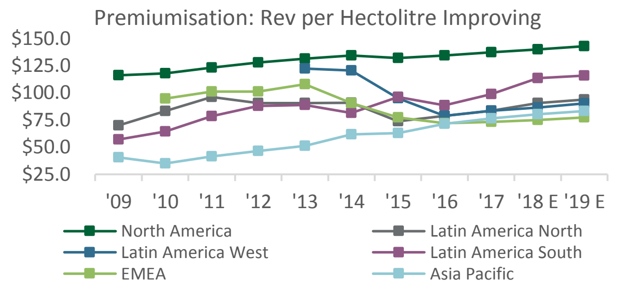

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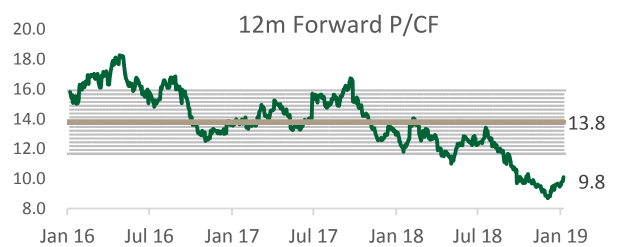

Sources: FactSet, February 2019

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