

EQUITY INSIGHTS

AB InBev: Revisiting the Investment Case

Issue date: 17 July 2018

COMPANY OVERVIEW

AB InBev is the world's largest brewer selling their brands in 150 countries across the world with a brand portfolio that includes Budweiser, Corona and Stella Artois. The current management team have successfully overseen a series of transformative transactions, initially combining Interbrew with Ambev to create InBev, then merging with Anheuser-Busch to become AB InBev and thereafter acquiring SABMiller. CEO Carlos Brito and his management team have earned an enviable reputation for delivery by building a long-term focused, 'ownership' culture where performance is celebrated but have a zero tolerance for unnecessary costs and underachievement. The Group focuses on using scale to drive efficiencies whilst simultaneously driving a strategy of 'premiumisation' in the global beer market.

WHAT WE LIKE ABOUT AB INBEV

The company's competitive advantage over peers is demonstrated through maintaining the highest gross margin in the world for a large global brewer, averaging 59.4% over 5 years. AB InBev is a formidable cash generator, with \$15.4 billion in cash flow from operations produced in 2017. To put this into context, the historical operating cash flow margin of 29.2%, is again the best in class globally, and compares to a sector median of 13.7%. Investors often look at return on equity (ROE) to assess the businesses productivity, although we find that operating cash flows over equity is often a better indicator of the cash flow productivity of the business. AB InBev has achieved historic ROEs of 16%, compared to a historic cash flow return on equity of 25.3%. This strong capital generation is then allocated by management to growth driving activities through maintenance capex, expansionary capex, acquisitions and to returning funds to providers of capital through dividends and de-gearing. The businesses' superior cash generation has been a key enabler of the acquisitions made over time and simultaneously enabled dividend pay-outs to shareholders of close to 100% of earnings.

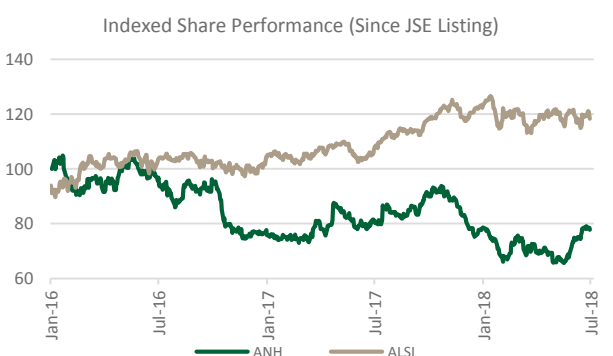
RELATIVE VALUATION SNAPSHOT

AB InBev trades at a twelve month forward price-earnings multiple of 20.3x, representing an attractive discount to its own 5 year historic forward multiple of 22.0x and a marginal discount to the global alcoholic beverage peer median multiple of 20.9x. We view AB InBev as fairly valued and therefore maintain our HOLD recommendation going into the 1H18 results which the company is due to release on 26 July 2018.

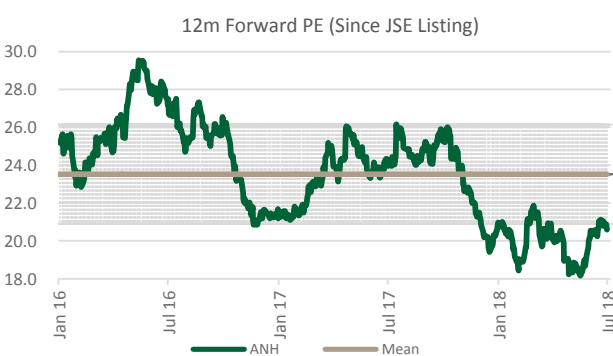
Industry	
Consumer Staples	
Industry View	
Neutral	
Current Recommendation	
HOLD	

	ANH
Market Capitalisation	R2,780 billion
Share Price	R1,382.42
Consensus Rating	Overweight
52w Low-High Range	R1,157.71 – R1,737.78
Estimated Forward PE	20.3x
Estimated Forward DY (Ordinary)	3.88%
Next Reporting Date (Period)	26 July 2018

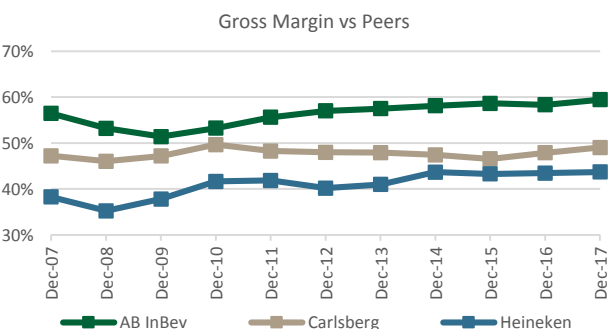
Sources: Factset



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