

AB InBev (ABI BB)

3Q First Take - Soft Quarter and Dividend Cut

HOLD

Bloomberg BRU: ABI BB

Price target €80.00

Price €72.36[^][^]Prior trading day's closing price unless otherwise noted.**Key Takeaway**

Weak 3Q18, org vols/sales/EBITDA 0.2%/4.5%/7.5% vs cons 2.0%/6.2%/9.9% (Jef 1.3%/5.3%/6.8%). 3Q18 EPS \$0.82 vs cons \$1.02 (Jef \$0.86). Interim dividend €0.80 (Jef €1.00, 1H17 €1.60) and FY18 divi €1.80 (Jef €2.00, cons €3.60). Whilst we see a consumer pull mindset evolving at ABI, given lack of visibility on depth/duration of current EM volatility we struggle to identify the drivers of a near term rebound.

Summary 3Q results. Org vols +0.2% (cons +2.0%, Jef +1.3%), revenue +4.5% (cons +6.2%, Jef +5.3%). Org EBITDA +7.5% to \$5,358m (cons +9.9% to \$5,742m, Jef +6.8% to \$5,565m) with strong cost discipline, phasing of A&P although offset by commodity price increases. EPS \$0.82, 20% below cons \$1.02 (Jef \$0.86). **Refer to p.2 for detailed results vs consensus.**

F18 guidance unchanged. (1) Revenue per hl growth ahead of inflation based on premiumisation and revenue management initiatives, while keeping costs below inflation. (2) Growth to accelerate for the balance of the year. (3) Coupon 3.7%, pension expenses \$30m per quarter, accretion expenses \$100m per quarter. (4) Tax rate 24%-26%. (5) Capex \$4bn-\$4.5bn.

What's to like?

(1) Clarity on dividend: whilst there will likely be some initial negative reaction around the dividend cut (€3.60 to €1.80) with risk of shareholder churn, the overhang risk has now been removed. We estimate that the pace of deleveraging should accelerate. The cut to the dividend will increase funds available for deleveraging (vs street expectations) by \$4bn pa. We look for net debt to EBITDA by 2020 3.8x.

(2) Global brands still seeing healthy growth: 3Q global brands org sales +7.7% growing ahead of group +4.5% (2Q +10.1% and 1Q +7.9%). Global Bud sales +6.4% (2Q +4.1%, 1Q -1.3%), Stella +5.7% (2Q +9.1%, 1Q +12.3%), Corona 10.6% (+21.9%, 25.1%).

(3) US underlying volumes. N America 3Q vols/sales/EBITDA -0.5%/+1.4%/-2.2% (Jef 0%/+2.0%/-2.0%, cons -0.1%/+1.9%/+0.1%). STRs were good -1.5% (vs 2Q -3.1%) and STWs -0.5% (2Q -5.1%). Market share -50bp (2Q -35bp) with 90bps share for Michelob Ultra. Revenue per hl +2.0% (2Q +2.1%).

What's not to like?

(1) USA (c25% of profits) - higher commodity pressures: US EBITDA margins contracted -144bps given commodity pressures and higher SG&A. There will be questions on the call as to when US margins move more positive.

(2) Interest cost. 3Q interest cost higher at \$1,787 (cons \$1,720, Jef \$1,805) mainly driven by other financial expenses \$759m (cons \$607m, Jef \$750m). Note, the loss on the hedging of share based payments (\$616m) is non-cash.

(3) EMEA profits miss - EMEA EBITDA -0.9% vs cons +12.5%. We believe negative mix (S.Africa), negative geographic mix (Nigeria).

Conference call: 2pm UK /9am ET. Register www.ab-inbev.com

Valuation: The company trades on cal 2019E PE 17.9x at a 8% discount to the staples average 19.4x and FCF yield 6.0% vs staples 4.9%. Our PT of €80 implies shares trade on 20x cal 2019 PE.

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Exhibit 1: ABI – 3Q18 Actual vs Company Compiled Consensus vs Jefferies

	2017		3Q18			2018E			2019E		
	Actual	Jeff	Cons	Actual	Act vs cons	Jeff	Cons	Diff	Jeff	Cons	Diff
Volumes (thousand hl)	612,571	149,110	149,512	146,187	-2.2%	573,628	575,315	-0.3%	574,515	581,440	-1.2%
% organic growth	0.2%	1.3%	2.0%	0.2%		0.7%	1.0%		0.6%	1.4%	
Revenue	56,444	13,744	13,972	13,282	-4.9%	54,766	54,995	-0.4%	54,719	55,628	-1.6%
% organic growth	5.1%	5.3%	6.2%	4.5%		5.0%	5.3%		5.0%	5.1%	
Normalized EBITDA	22,084	5,565	5,742	5,358	-6.7%	22,124	22,541	-1.8%	22,338	23,292	-4.1%
% organic growth	13.4%	6.8%	9.9%	7.5%		6.9%	8.6%		6.3%	7.2%	
Normalized EBIT	17,814	4,559	4,762	4,308	-9.5%	17,932	18,314	-2.1%	18,144	19,124	-5.1%
% organic growth	16.5%	6.8%	10.5%	7.1%		7.6%	9.5%		6.5%	7.5%	
Non-recurring items above EBIT	(662)	(80)	(75)	(55)		(300)	(346)		(200)	(150)	
Net Finance Costs	(5,814)	(1,805)	(1,720)	(1,787)	3.9%	(5,868)	(5,619)	4.4%	(4,312)	(4,368)	-1.3%
Non-Recurring Finance Costs	(693)	(20)	(225)	(595)		(450)	(795)		-	-	
Share of Results of Associates	430	90	90	32		321	404		372	424	
Normalised Tax Expense	(2,748)	(771)	(775)	(650)	-16.2%	(3,137)	(3,156)	-0.6%	(3,320)	(3,530)	-6.0%
Normalized Effective Tax Rate	22.9%	28.0%	24.6%	25.3%		26.0%	25.5%		24.0%	24.2%	
Profit for the period	9,183	2,001	2,021	1,254		8,523	8,891		10,596	11,374	
* attributable to equity holders of ABI	7,996	1,618	1,667	956		6,831	7,366	-7.3%	8,965	9,900	-9.4%
* attributable to NCI	1,187	383	354	299		1,692	1,462	15.7%	1,630	1,523	7.1%
Normalized Profit to ABI Holders	7,967	1,690	2,020	1,614	-20.1%	7,556	8,450	-10.6%	9,254	10,048	-7.9%
Weighted Average # of Shares	1,971	1,974	1,975	1,975		1,974	1,974		1,974	1,975	
Normalized EPS	4.04	0.86	1.02	0.82	-20.3%	3.83	4.25	-10.0%	4.69	5.10	-8.1%
Dividends Per Share (in EUR)	3.60					2.00	3.60		2.00	3.60	
Net Debt	104,390					100,121	103,004		95,151	99,974	
Net Debt/EBITDA	4.7x					4.5x	4.6x		4.3x	4.2x	

	2017		3Q18			2018E			2019E		
	Actual	Jeff	Cons	Actual	Act vs cons	Jeff	Cons	Diff	Jeff	Cons	Diff
Volume(thousand hl)											
North America	113,496	30,109	30,109	29,985	-0.4%	110,659	110,540	0.1%	108,445	108,548	-0.1%
% organic growth	-3.3%	0.0%	-0.1%	-0.5%		-2.5%	-2.7%		-2.0%	-2.0%	
Latin America West	110,625	28,712	28,852	28,462	-1.4%	115,603	116,157	-0.5%	120,227	119,834	0.3%
% organic growth	1.6%	2.5%	3.0%	1.6%		4.5%	4.9%		4.0%	3.0%	
Latin America North	119,374	27,664	28,363	27,204	-4.1%	116,987	117,879	-0.8%	115,817	119,717	-3.3%
% organic growth	-0.3%	-1.0%	1.5%	-2.5%		-2.0%	-1.1%		-1.0%	2.0%	
Latin America South	34,062	7,811	7,967	7,444	-6.6%	34,914	35,274	-1.0%	35,263	35,957	-1.9%
% organic growth	5.9%	0.0%	2.0%	-5.1%		2.5%	3.5%		1.0%	1.0%	
EMEA	131,692	22,853	22,689	21,803	-3.9%	90,238	89,698	0.6%	88,992	89,849	-1.0%
% organic growth	0.9%	3.0%	2.9%	4.1%		1.3%	1.2%		1.5%	2.0%	
Asia Pacific	101,986	31,658	31,813	31,290	-1.6%	104,026	104,556	-0.5%	104,546	106,618	-1.9%
% organic growth	0.5%	2.0%	2.5%	0.8%		2.0%	2.5%		0.5%	2.0%	
GEHC	1,336	304	306	-	-100.0%	1,202	1,184	1.6%	1,225	1,229	-0.3%
AB InBev	612,571	149,110	149,512	146,187	-2.2%	573,628	575,315	-0.3%	574,515	581,440	-1.2%
% organic growth	0.2%	1.3%	2.0%	0.2%		0.7%	1.0%		0.6%	1.4%	
Revenue											
North America	15,588	4,182	4,186	4,162	-0.6%	15,523	15,510	0.1%	15,503	15,521	-0.1%
% organic growth	-1.8%	2.0%	1.9%	1.4%		-0.5%	-0.7%		0.0%	0.1%	
Latin America West	9,238	2,511	2,509	2,472	-1.5%	10,135	10,098	0.4%	10,795	10,685	1.0%
% organic growth	7.5%	7.5%	7.5%	6.3%		9.5%	9.5%		8.0%	7.0%	
Latin America North	9,775	1,921	1,974	1,960	-0.7%	9,030	9,119	-1.0%	8,792	9,338	-5.8%
% organic growth	6.1%	3.0%	7.5%	3.7%		4.5%	5.8%		6.0%	6.6%	
Latin America South	3,363	613	616	175	-71.6%	2,884	3,032	-4.9%	2,679	3,045	-12.0%
% organic growth	26.1%	23.0%	23.0%	13.8%		24.0%	22.9%		20.0%	19.5%	
EMEA	10,344	2,153	2,231	2,095	-6.1%	8,532	8,532	0.0%	8,281	8,592	-3.6%
% organic growth	6.3%	4.0%	5.7%	4.8%		2.8%	4.2%		5.0%	6.0%	
Asia Pacific	7,804	2,279	2,292	2,310	0.8%	8,318	8,396	-0.9%	8,309	8,545	-2.8%
% organic growth	7.5%	5.5%	6.0%	5.2%		5.0%	6.0%		4.5%	6.0%	
GEHC	332	84	83	107	28.9%	346	355	-2.7%	359	365	-1.8%
AB InBev	56,444	13,744	13,972	13,282	-4.9%	54,766	54,995	-0.4%	54,719	55,628	-1.6%
% organic growth	5.1%	5.3%	6.2%	4.5%		5.0%	5.3%		5.0%	5.1%	
Normalized EBITDA											
North America	6,329	1,681	1,715	1,671	-2.6%	6,077	6,145	-1.1%	6,069	6,173	-1.7%
% organic growth	1.3%	-2.0%	0.1%	-2.2%		-4.0%	-2.8%		0.0%	0.7%	
Latin America West	4,512	1,235	1,273	1,303	2.4%	5,086	5,134	-0.9%	5,485	5,573	-1.6%
% organic growth	16.0%	11.5%	14.3%	17.6%		12.6%	13.7%		9.3%	9.3%	
Latin America North	4,180	801	859	841	-2.1%	4,044	4,095	-1.2%	3,938	4,129	-4.6%
% organic growth	4.5%	7.0%	13.4%	11.6%		9.5%	11.4%		6.0%	7.0%	
Latin America South	1,595	313	313	72	-77.0%	1,420	1,437	-1.2%	1,320	1,312	0.6%
% organic growth	20.1%	30.0%	29.4%	14.4%		30.0%	30.0%		20.0%	17.5%	
EMEA	3,349	844	891	786	-11.8%	3,117	3,249	-4.1%	3,087	3,351	-7.9%
% organic growth	17.9%	4.7%	12.5%	-0.9%		3.5%	7.2%		6.1%	7.7%	
Asia Pacific	2,695	809	845	849	0.4%	2,968	3,030	-2.0%	3,033	3,181	-4.6%
% organic growth	31.2%	10.1%	14.5%	14.6%		8.2%	10.6%		6.8%	8.4%	
GEHC	(577)	(122)	(118)	(164)	39.0%	(589)	(618)	-4.8%	(594)	(611)	-2.7%
AB InBev	22,084	5,565	5,742	5,358	-6.7%	22,124	22,541	-1.8%	22,338	23,292	-4.1%
% organic growth	13.4%	6.8%	9.9%	7.5%		6.9%	8.6%		6.3%	7.2%	

Source: Jefferies estimates, company consensus

Company Description

AB InBev

ABI-InBev is the leading global brewer and one of the world's top five consumer product companies.

Company Valuation/Risks

AB InBev

Our €80 PT is DCF derived. Risks: 1) FX / macro, 2) regulation, 3) US & Brazil.

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(Article 3(1)e and Article 7 of MAR)

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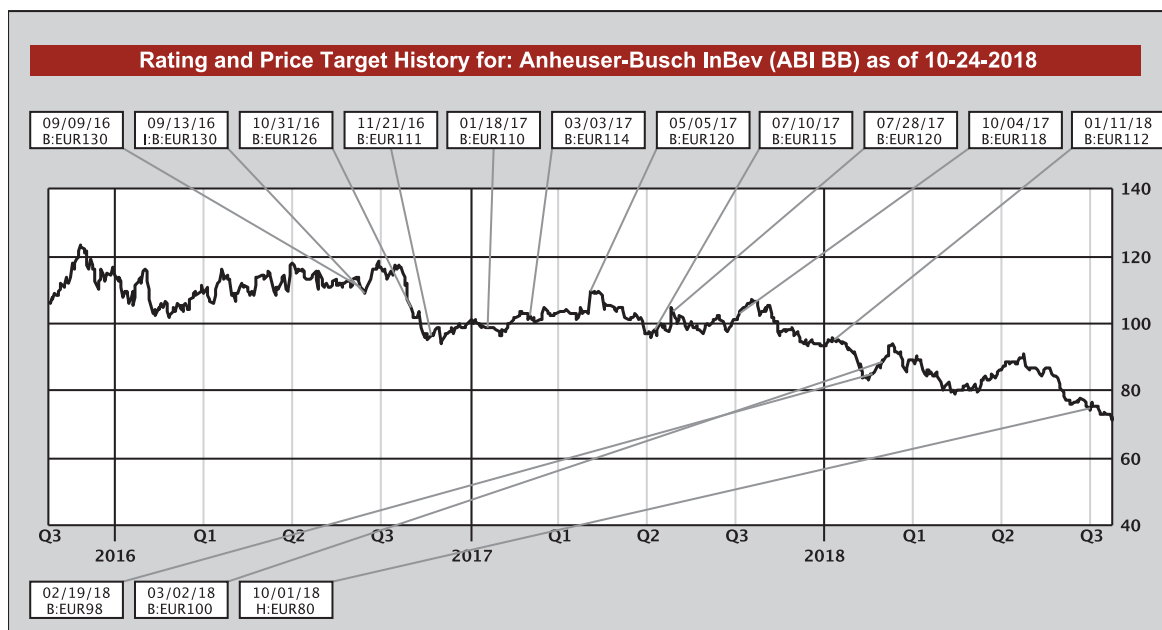
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