

Heineken (HEIA NA)

3Q Volumes - Reassuring Quarter & Guidance Unchanged; Expect Positive Reaction

Key Takeaway

Heineken 3Q18 org vols +4.6% (cons +4.3%, Jeff +5.2%) with Heineken brand +9.2% (vs 1H18 +7.5%). No change to full year expectations (i.e., -20bps margin guidance unchanged). FX now €-175m (previous guidance €179m and cons -€186m) worth c+0.3% to earnings. With no change to guidance and robust top line, expect positive share price reaction with relief rally. Cal 2019 PE 18.2x vs staples 19.3x

What's new - 3Q18 volumes +4.6%. Co today provided a trading update with 3Q18 org vols +4.6% (cons +4.3%, Jef +5.2%) an acceleration after 1H18 +4.5%. Americas (8.1% vs cons 4.7%) was the driver of the beat although Asia (4.8% vs cons 7.0%) and Europe (2.2% vs cons 3.8%) were weaker. **See table on p2 for detail, no conference call.**

F18 guidance unchanged. Co indicates that FY expectations are unchanged. This implies FY18 EBIT margin -20bps (cons -28bp, Jef -22bp) implying stronger delivery in 2H after 1H -118bp supported by Kirin in the base, easier comps and supply chain savings in Mexico. **We do not anticipate major change to consensus.**

F18 FX guidance unchanged. On FX the co guides for €175m negative impact to EBIT (prev guidance €179m, Jeff & Cons €186m). This is worth +0.3% to street numbers.

Street estimates - Jefferies 1-2% below. Vuma consensus is looking for F18 EPS €4.10 (down from €4.20 pre-1H) still c1% ahead of Jeff at €4.06. For FY19 consensus EPS €4.46 (down from €4.61 pre 1H) is 2% ahead of Jeff at €4.36.

Valuation. Heineken trades on 18.2x CY19 PE at a 6% discount to the wider staples sector at 19.3x. CY19 FCF yield 5.5% vs staples 4.9%.

Europe (36% vols, 45% sales & 35% EBIT) - softer than expected despite good weather. 3Q org vols +2.2% (cons +3.8%, Jeff +3.5%) an acceleration from 1H -0.1% with benefit from good weather and easier comps (3Q17 -2.9%). France & Netherlands +DD boosted by good weather, UK +MSD driven by Heineken and international brands, Italy +HSD, Poland & Spain -LSD decline.

Americas (33% vols, 28% sales & 30% EBIT). +8.1% vs cons 4.7%. 3Q org vols 8.1% (cons +4.7%, Jeff +5.0%) continuing good momentum from 2Q (+5.5%), easier comps (3Q17 +2.9%). Mexico grew volumes high single digit (acceleration vs 1H18 MSD), however co points to increased promotional activity. Brazil continued at DD volumes (1H18 DD). US volumes were flat (vs 1H18 -HSD) although there was some benefit from shipment phasing between June and July - we estimate depletions running down -MSD in line with 1H.

Africa & ME (18% vols, 14% sales & 10% EBIT) - Nigeria slightly tougher, Russia & SA good momentum. 3Q org vols +3.1% (cons +2.9%, Jeff +5.0%) after 2Q +5.2% despite facing a tough comp (3Q17 +8.8%). Russia (c20% of division) vols +MSD driven by economy brands and Heineken. South Africa strong DD growth supported by increased promotional activity, Nigeria vols declined HSD a deterioration from 1H (-MSD) as competitive pressure increased (competition not following on price post excise tax increase in June). Ethiopia +HSD despite increased competition. Egypt +DD, increased tourism and more stable economic environment.

Asia Pac (12% vols, 13% sales & 25% EBIT) - 4.8% vs cons 7.0%. 3Q org vols +4.8% (cons +7.0%, Jeff +12%) after 1H +13.0% against last year's best quarter (+12.2%). Continued good growth in Vietnam +DD (after 1H +DD) supported by the Tiger brand. Indonesia grew HSD with better macro (vs 1H-MSD) however Cambodia declined -MSD (vs 1H +DD) due to intensified market competition from price promotion.

HOLD

Bloomberg NXT AM: HEIA NA

Price target €95.00

Price €78.42^

^Prior trading day's closing price unless otherwise noted.

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Exhibit 1: Heineken 3Q18 volumes Jefferies vs consensus vs Actual

	3Q18			
	Jeff	Cons	Actual	Act vs cons
Africa ME & EE	10.7	10.5	10.4	-1.0%
Americas	21.0	20.9	21.6	3.3%
Asia Pac	7.6	7.3	7.1	-2.7%
Europe	23.9	23.9	23.5	-1.7%
Total	63.2	62.6	62.6	0.0%

	3Q18			
	Jeff	Cons	Actual	Act vs cons
Africa ME & EE	5.0%	2.9%	3.1%	20bp
Americas	5.0%	4.7%	8.1%	340bp
Asia Pac	12.0%	7.0%	4.8%	-220bp
Europe	3.5%	3.8%	2.2%	-160bp
Total	5.2%	4.3%	4.6%	30bp

Source: Jefferies, company data

Company Description

Heineken

Heineken is the number one brewer in Europe and one of the top three brewers by volume in the world.

Company Valuation/Risks

Heineken

Our €95 PT is DCF-derived. Risks: 1) Brazil, Mexico & Vietnam, 2) FX & Macro, 3) FEMSA.

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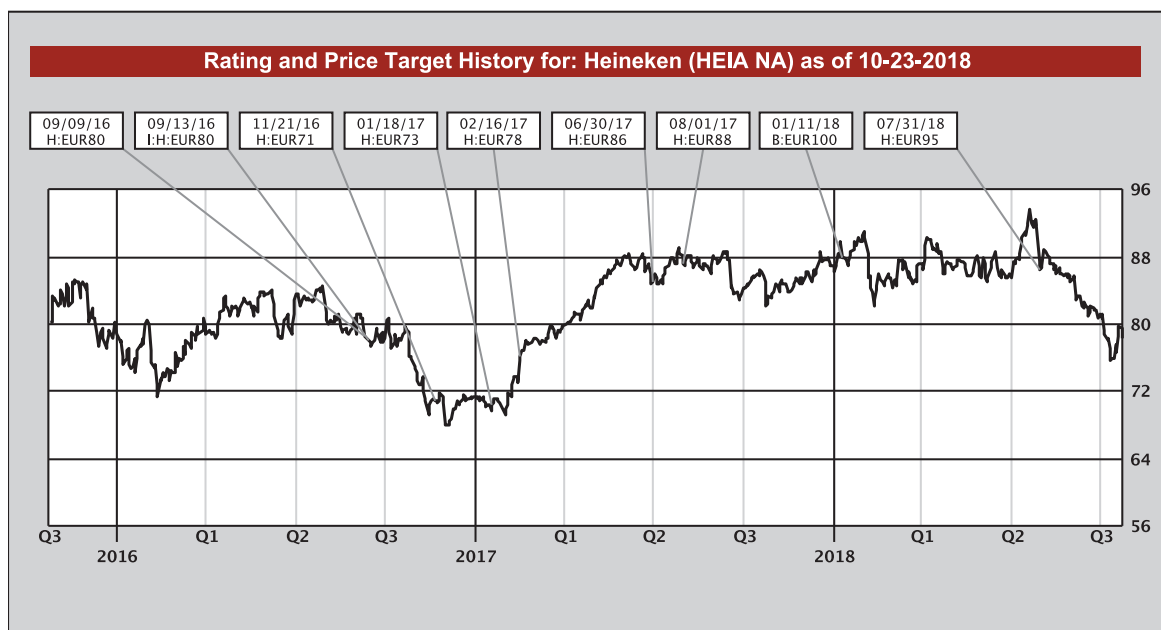
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