

# AB InBev (ABI BB)

## Asia IPO Would Unlock Value and Increase Strategic Optionality

### Key Takeaway

**An IPO of the Asia division (1) helps to accelerate the deleveraging process (2) unlocks value at this point in the cycle (3) provides financial flexibility for deals (Castel c\$30bn), without loss of control of Asia. Whilst ABI's Asia business is a highly attractive asset, an implied 23x EBITDA looks rich vs CR Beer 15x. Stock is beaten up and does not need much good news to perform. Valuation 16.1x cal 2019 PE, EV EBITDA 12.1x**

**What's new?** Bloomberg report ABI is considering an IPO of its Asian operations to unlock value. Per Bloomberg, the deal would value the Asian business at c\$70bn and raise over \$5bn. Shares are up +6% on the news.

**Asia - an important growth engine.** Asia accounts for 18% of vols, 15% sales and 14% EBITDA. It has grown EBITDA 15% p.a. F16-18 and we model for F19-21E +6.5% p.a. with less benefit from synergies. Key markets include China at 72% of volumes, Korea 11%, Australia 8% and India 5%.

**Not an implausible idea.** From a financial engineering standpoint, ABI have shown flexibility in the past around divesting assets - in 2009, ABI sold its Korean asset to KKR 11x EBITDA before buying it back for 13x. An IPO would allow the company to keep control of the Asian asset, similar to Latam where the company has a 62% stake in listed subsidiary Ambev.

**\$70bn valuation - quite rich.** We estimate Asia F18 EBITDA \$3.0bn and F19 \$3.07. This implies EV/EBITDA 23x (assuming no debt), which is towards the upper end of EM beer valuations. Thaibev's paid 45x for Sabeco, Heineken paid 17.1x for APB.

**CR Beer valuation would imply \$45bn.** CR Beer, largest Chinese beer co, trades on 15x EV/EBITDA, which would value ABI's Asian business at \$45bn.

**\$60-70bn more reasonable.** We see a c20x valuation more reasonable. There's a lot to like about the Asia business: ABI is market leader in premium in China (Bud China vols > US); Asia EBITDA growth 2016-18 15% p.a.; co has successfully turned around the Australia business; option value with India from a growth standpoint; attractive returns with Asia margins 36%. On the other hand, competition may intensify in China premium following Heineken's tie-up with CR Beer; EBITDA growth is likely to normalise post synergies; some question marks around China slowdown. Therefore, 20x EBITDA could be a more reasonable multiple at this point in the cycle.

**What would this do to leverage?** We estimate 2018 ND/EBITDA 4.5x dropping to 4.2x 2019. Assuming a \$70bn valuation (Bloomberg), 2019E ND/EBITDA drops to 4.1x with a 7% (\$5bn) free float, 3.2x (\$27bn) with a 32% free float (similar to Ambev where co has a 62% stake) and 2.9x (\$34bn) with a 49% free float.

**What's the positive read?** (1) Reducing leverage helps de-risk the investment case (2) Strategically, is this a way to reduce debt ahead of a potential buyout of Castel (value c \$30bn) (3) Local Chinese stakeholders help to protect the cost of doing business in China (4) Local listing provides an opportunity for a further consolidation roll-up story in Asia.

**What's the negative read?** (1) Is life going to become more difficult in China post CR Beer's tie up with Heineken (2) Is EBITDA growth post synergies more normalised than historically (3) The debt pile remains material and Asia IPO is the quickest way to delever

**Read for other brewers - negative.** Given ABI's stretched balance sheet, company is limited in the number of deals it is able to pursue in Asia. A better capitalised Asian subsidiary, with the ability to raise local equity, would enable ABI to participate in Asia M&A. This would either lead to higher asset prices or greater competition in existing attractive profit pools.

**HOLD**

Bloomberg BRU: ABI BB

Price target €72.00

Price €61.22^

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

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## ABI – potential Asia IPO

### Exhibit 1: Potential IPO of ABI's Asia business – the math's behind the article

	Bloomberg	China resources	
	23.3x	20x	15.2x
Estimated value of entity	70,000	60,136	45,703
Multiple	23.3x	20.0x	15.2x
Asia F19 EBITDA	3,007	3,007	3,007
Free float	49%	49%	49%
Value	34,300	29,466	22,394

#### Current F19 Net debt / EBITDA

Net debt	94,148	94,148	94,148
EBITDA	22,157	22,157	22,157
<b>Net debt / EBITDA</b>	<b>4.2x</b>	<b>4.2x</b>	<b>4.2x</b>

#### Implied Net debt / EBITDA

Net debt	59,848	64,682	71,754
EBITDA	20,684	20,684	20,684
<b>Net debt / EBITDA</b>	<b>2.9x</b>	<b>3.1x</b>	<b>3.5x</b>

Source: Jefferies estimates, company data

### Exhibit 2: Free float sensitivity range from 7% to 49% reaching implied ND / EBITDA from 4.1x to 2.9x

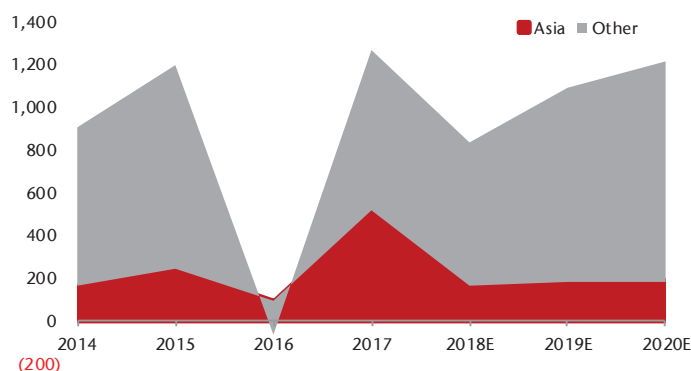
	Free float sensitivity				
	49%	38%	20%	10%	7%
Estimated value of entity	70,000	70,000	70,000	70,000	70,000
Multiple	23.3x	23.3x	23.3x	23.3x	23.3x
Asia F19 EBITDA	3,007	3,007	3,007	3,007	3,007
Free float	49%	38%	20%	10%	7%
Value	34,300	26,600	14,000	7,000	4,900

#### Implied Net debt / EBITDA

Net debt	59,848	67,548	80,148	87,148	89,248
EBITDA	20,684	21,014	21,556	21,856	21,947
<b>Net debt / EBITDA</b>	<b>2.9x</b>	<b>3.2x</b>	<b>3.7x</b>	<b>4.0x</b>	<b>4.1x</b>

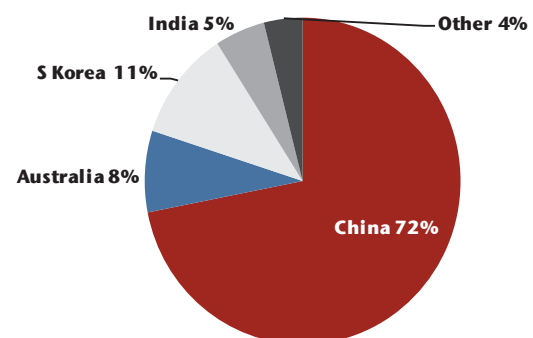
Source: Jefferies estimates, company data

### Exhibit 3: Asia contribution to group org EBITDA growth We model Asia c17% of group org EBITDA F18-20



Source: Jefferies estimates, company data

### Exhibit 4: Estimate China accounts for 72% of Asia volume



Source: Jefferies estimates, company data

## Company Description

### AB InBev

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

## Company Valuation/Risks

### AB InBev

Our €72 PT is DCF derived. Risks: 1) FX / macro, 2) regulation, 3) US & Brazil.

### Heineken

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

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

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- Anheuser-Busch InBev (ABI BB: €61.22, HOLD)
- Heineken (HEIA NA: €77.12, HOLD)

Rating and Price Target History for: Anheuser-Busch InBev (ABI BB) as of 01-10-2019



Rating and Price Target History for: Heineken (HEIA NA) as of 01-10-2019



**Notes:** Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

**Legend:**

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H: Hold

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			Count	Percent	Count	Percent
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<b>HOLD</b>	787	37.89%	14	1.78%	1	0.13%
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