

# AB InBev (ABI BB)

## TAP Read-across: Market Negativity Overdone

### Key Takeaway

**The -3.5% sell off in the ABI share price, as a reaction to TAP's 1Q, is overdone in our view. Whilst we expect a soft 1Q in the US, we are comfortable with our vol estimate of -3.8% for ABI vs TAP's -6.7%. We see growth accelerating at ABI from 2Q as EM recovery (60% sales) becomes more visible. Current valuation (2019 FCF yield 6.1% vs staples 5.3%) represents an attractive entry point.**

**What's new?** Molson Coors (not covered, ticker TAP, #2 in US beer) reported a soft 1Q with stock down -13% and ABI -3.5%. US accounts for c.74% of profits for TAP vs <30% for ABI. Whilst we anticipate a weak 1Q for ABI, the negative reaction for ABI is overdone in our view.

**US - softer than anticipated start to the year.** TAP's US performance was impacted by two factors: (a) industry softness (b) undershipping in the quarter.

**(a) Overall industry softness - weather dampened overall industry demand.** On the 1Q18 conf call, TAP indicated that 1Q18 weather "very poor" vs tough comps (Feb 2017 second hottest February on record). Note, where the weather has been more comparable (e.g. Florida) the trends have been better. TAP are not unduly concerned by short term trends from an industry demand perspective; co expects the balance of the year to be more in line with historical medium term trends, which we would interpret as down 1-2%. Co sees industry down -2.3% in 1Q with market share unchanged (depletions -3.8%).

**What does this mean for ABI?** We model ABI 1Q18 US volumes -3.8%. The US Beer Institute has already reported domestic tax paid shipments of -4% for 1Q. With TAP (c.25% of industry) STWs down -6.7%, we are comfortable with our ABI N.America STW estimate -3.8% (ABI is c.45% of the industry).

**(b) Undershipping.** STWs were -6.7% with the company undershipping by 450k hl (worth -2.9%) with lower than expected distributor inventories, compounded by launch of new ordering system at Golden. There have been some out-of-stocks in some regions.

**What does this mean for ABI?** For ABI, we believe that the company has also been impacted by lower distributor inventories however the impact to ordering systems is specific to TAP and we do not believe ABI has been hampered by similar route-to-market issues.

**Any silver linings? Revenue per hl robust:** TAP revenue per hl in the quarter was robust +1.4% (on a comparable basis) as a result of higher net pricing, partially offset by -0.9% negative sales mix (package mix with success of Keystone 15 packs). This points to underlying robust revenue per hl +2.3% with co reiterating that it is not looking to regain volume "at any cost".

**What does this mean for ABI?** For ABI, we expect pricing to remain robust (med-term 1-2%) and do not expect the company to use price to drive volumes. This rational pricing environment should provide some protection to profits.

**Costs - aluminum and shipping.** TAP US COGS per hl grew +3.5% in 1Q driven by volume deleverage, as well as aluminum inflation and higher freight and fuel costs.

**What does this mean for ABI?** COGS is 37% of US sales; we estimate the cost of aluminum is c.10% of US sales. Assuming a 10% increase in aluminum pricing, this would require incremental pricing 100bps.

**Consensus - market under-estimating A&P spending ahead of the World Cup.** Into 1Q, we model org sales/ebitda +3.6%/3.0% vs consensus +3.6%/4.7%. We are lower than the street given A&P ahead of the World Cup. While there is some risk of volatility around reporting, the current valuation (2019 FCF yield 6.1% vs staples 5.3%) represents an attractive entry point.

**BUY**

Bloomberg BXS: ABI BB  
Price target €100.00  
Price €82.72^

**BUY**

Bloomberg NYSE: BUD  
ADR Price target \$122.00  
ADR Price \$97.59^

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

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

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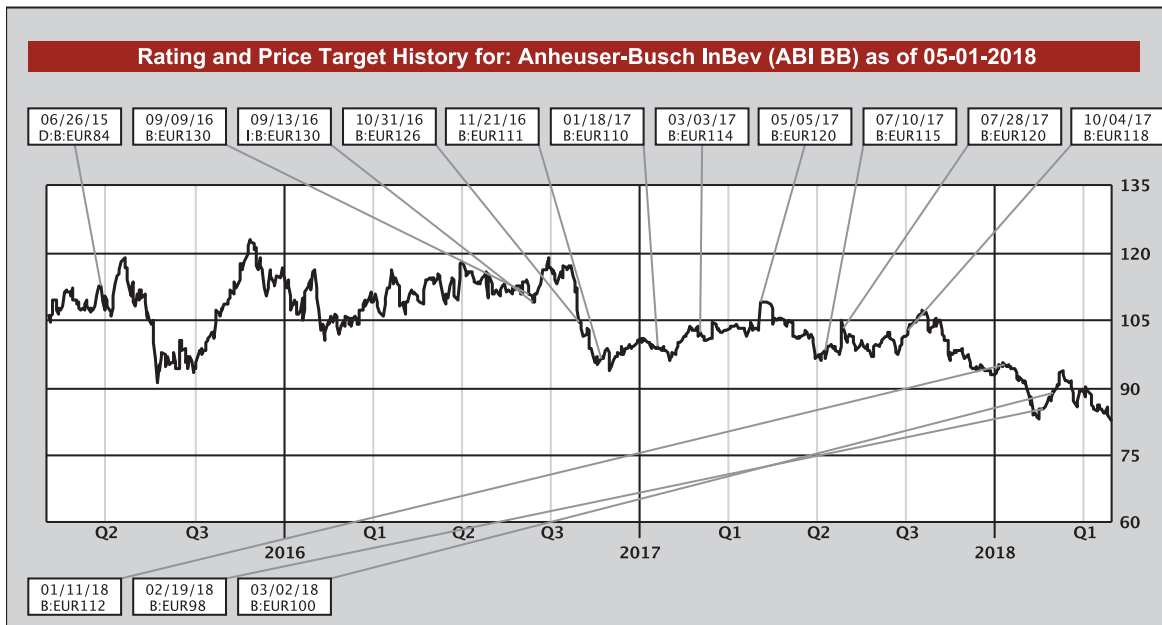
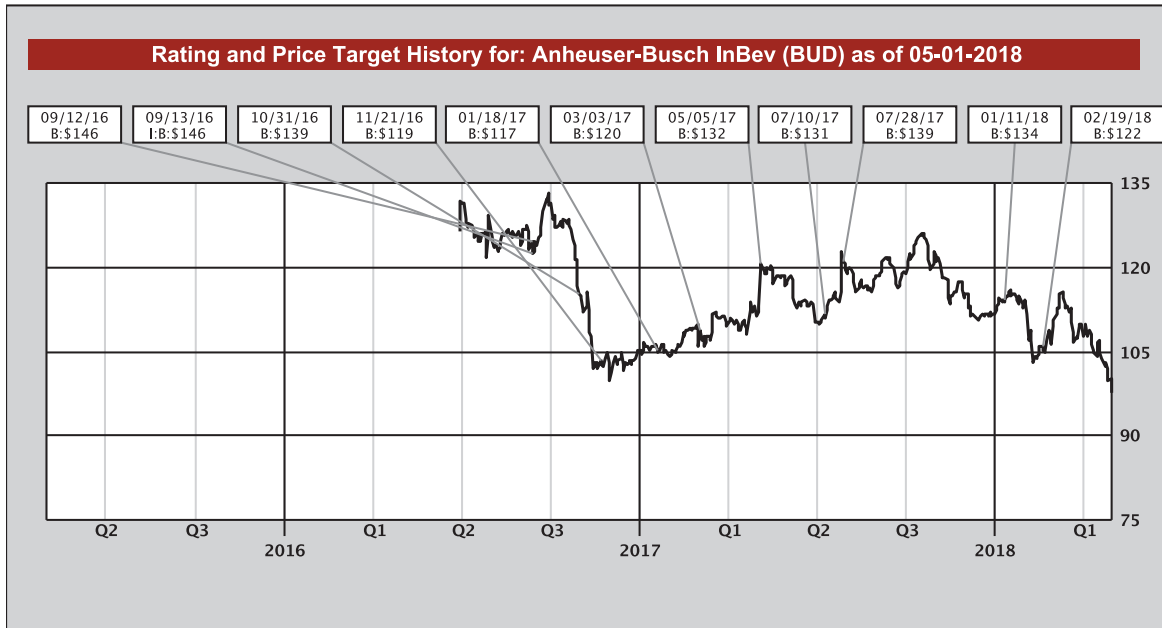
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